



## **Strengthening Niagara's Competitive Advantage By Lowering Industrial Tax Ratios**

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## **Introduction**

Niagara has an impressive history when it comes to manufacturing. From zippers to cars to ships – and everything in between, communities across Niagara have prospered with manufacturing. Now, with a high Canadian dollar, high energy costs, and most importantly a global marketplace, Niagara's once dominant industrial sector is finding it challenging to remain in Niagara, and still remain competitive.

Although governments are not in a position to save industries, the St. Catharines – Thorold Chamber of Commerce believes that governments can play a role in creating an environment that maximizes competitive advantages for existing business. Specifically in areas such as taxation, governments can be valuable partners with businesses.

In reviewing Niagara's competitive advantage, recent independent reports continue to place Niagara in the bottom third in many areas including prosperity, income levels, and unemployment rates.<sup>1</sup> Report after report places Niagara below most other regions in Southern Ontario, and when compared on a national level, Niagara continues to slide down the rankings ladder. It is aim of the St. Catharines – Thorold Chamber to assist in reversing this trend, and position Niagara as an important economic engine in Ontario, and indeed, in Canada.

Looking specifically at tax rates in Niagara, the Chamber applauds the work that has been done over the past few years to lower the industrial tax ratio from 3.11 to 2.63. This 10 per cent reduction was a significant move that signalled to the industrial sector that the region was serious about supporting a vital part of the Niagara economy. Companies such as General Motors Canada have identified Niagara as a region that proactively aided manufacturing companies in finding ways to remain competitive. This was a strong first step in creating an environment that can be a catalyst to foster further industrial growth.

It is the opinion of the St. Catharines – Thorold Chamber of Commerce that the industrial tax rates must continue to be lowered for Niagara to be competitive. At 2.63, Niagara is the provincial threshold for industrial tax ratios in Ontario – but still well above the provincial average. The region must continue to reduce the industrial tax ratio immediately as a means remain competitive and be viewed as a place for future industrial growth.

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<sup>1</sup> Beech Monique, "Region Ranked 43<sup>rd</sup> best place to live" *The St. Catharines Standard*; May 2007, Pg A4

## Shifting Tax Rate Increases

There are essentially three tax property classes in Ontario – residential, commercial and industrial. In 1998, Ontario established *Ranges of Fairness* for each class of property across the province. Municipal tax ratios can only be moved towards or within the Ranges of Fairness with the residential property class set at 1 with all other classes set as a ratio to 1. For example, if the industrial tax ratio is 2.63 – and the assessed property of land classified as industrial is at \$1 million, the industrial rate would be 2.63 times as much as the residential ratepayer of a \$1 million dollar building.

Across the province, properties classes are taxed at different municipal rates as a result of historical differences in tax burdens that were present prior to the province wide reassessment in 1998. For the most part, different relative tax burdens continue to exist after reassessment whereby typically, businesses pay higher property taxes than residential properties.

Based on the current environment, taxing all properties at the same rate would result in massive tax shifts from business to residential properties. The province recognized that an immediate move to a position where all properties pay the same tax rate, regardless of class, would be too difficult for residential property owners to absorb. As a result, municipalities were permitted to set different tax rates on each property class, subject to provincially established ranges of fairness. Separate tax rates were established for each property class through the use of tax ratios. The ability to establish separate tax rates enabled Regional Council to prevent large tax shifts among property classes and maintain the overall tax burden for each property class.<sup>2</sup> Tax ratio reductions result in an increase in the amount of taxes to be collected from the remaining property classes.<sup>3</sup>

### **Industrial property class consists of the following:**

- Land used for or in connection with, manufacturing, producing or processing anything, and associated storage
- Research or development in connection with manufacturing, producing or processing anything,
- Vacant land principally zoned for industrial development
- Land used for mining, producing oil or gas, shipyards and dry docks, grain.<sup>4</sup>

Based on a review of industrial tax ratio across the province, Niagara is still above the provincial average. Although at 2.63, the region is now at the provincial threshold – regions like Essex, Halton, Chatham-Kent and Waterloo are below the threshold – and those regions are building their respective industrial class-bases successfully.

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<sup>2</sup> <http://www.regional.niagara.on.ca/government/budget-taxes/pdf/TaxPolicyBooklet.pdf>

<sup>3</sup> <http://www.regional.niagara.on.ca/government/budget-taxes/pdf/TaxPolicy.pdf>

<sup>4</sup> <http://www.fin.gov.on.ca/english/publications/2002/acr2002-11.html>

The following table summarizes the industrial tax ratios across Ontario in various regions<sup>5</sup>

Toronto	4.1710
Hamilton	3.4979
Waterloo	2.4500
Chatam – Kent	2.4604
<b>NIAGARA</b>	<b>2.6300</b>
Halton	2.3599
Durham	2.2598
Central Elgin	2.2251
Essex	1.9425
Peterborough County	1.5432
York	1.3737
Peel (Brampton Caledon)	1.2971
<b>Average</b>	<b>2.2731</b>
<b>Range of Fairness Maximum</b>	<b>4.1710</b>
<b>Range of Fairness Minimum</b>	<b>1.1000</b>
<b>Provincial Threshold</b>	<b>2.6300</b>

Based on the above chart, Niagara must continue to lower its industrial tax ratios if it intends to maintain its industrial base, and to potentially grow the sector.

Currently, Niagara is in an advantageous position. Unlike other regions across Ontario, the Region recently approved the 2008 Regional Budget with its modest increase of .04 per cent. Although the Chamber acknowledges the efforts by the government to keep taxation across the property classes at an almost zero per cent increase – this was largely due to the provincial uploading of services such as ODSP (Ontario Disability Support Program) and ODB (Ontario Drug Benefit) benefit costs. Beginning in 2008, the provincial government will upload ODB and then begin uploading ODSP in 2009, reducing costs to municipalities by \$935 million once fully implemented by 2011. The below chart outlines the phased in plan:

#### Four Year Upload of ODB and ODSP

	Current Provincial Cost Shares	New Provincial Cost Shares			
		2008	2009	2010	2011
Ontario Drug Benefits	80% →	<b>100%</b>	100%	100%	100%
Ontario Disability Support Program Administration Component	50% →		<b>100%</b>	100%	100%
Ontario Disability Support Program Benefits Component	80% →			<b>90%</b> →	<b>100%</b>

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<sup>5</sup> <http://www.regional.niagara.on.ca/government/budget-taxes/pdf/2006-MTS.pdf>

<sup>6</sup> <http://www.premier.gov.on.ca/news/Product.asp?ProductID=1641>

Niagara's share of the uploaded cost savings are estimated to be:<sup>7</sup>

- \$6.6 million for 2008
- \$35 million per year by 2011
- \$350 million over 10 years

Clearly, through provincial uploading and regional efforts in seeking efficiencies in spending led to the Region's ability to provide an almost zero tax increase for 2008. This has placed Niagara in a position to build its long-term competitive advantage as a means to support existing industries ensuring valuable jobs stay in Niagara.

In order to assure long-term competitiveness, the Region must further reduce the industrial tax ratio below the provincial threshold in 2008. Although this shift would mean increased residential property tax rates, the benefit of uploading and a near zero increase budget, will result in a negligible impact. Niagara needs to send a strong signal that this region is working to address the challenges facing local industry, and that Niagara is a progressive place to invest, and build a business.

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<sup>7</sup> <http://www.premier.gov.on.ca/news/Product.asp?ProductID=1641>

**Recommendations:**

**The St. Catharines – Thorold Chamber of Commerce urges the Property Assessment and Tax Reform Ad Hoc Committee of Regional Council to:**

- 1. Recommend to Regional Council the immediate reduction of the industrial tax ratio from the provincial threshold of 2.63 to 2.45.**
- 2. To request from regional staff a plan for further reduction of the industrial tax ratio to at or below the provincial average over the next five years.**