

The Corporation of the Township of Gillies Administration Report

Report # 2010/05

Date: May 25, 2010

Issue: Ontario's Land Tax Incentive Programs and the Effect on Municipal Tax Revenue

Background: The Ontario Government offers three land tax incentive programs to property owners in Ontario's municipalities. Property owners can opt into these specialty tax classes to reduce the amount of municipal property tax paid subject to certain conditions on the land. These land tax incentive programs are: (1) farmland; (2) managed forest; and (3) conservation.

The land tax incentive programs offer a tax reduction to the property owner at the point of the municipal property tax bill, which decreases revenues for the municipality who must still continue to offer the same service to these lands as those in the residential class.

Discussion:

(1) Farmland

Prior to 1997, agricultural properties in Ontario were taxed at the residential rate. The Province of Ontario provided a Farm Tax Rebate Program to agricultural properties that applied for assistance.

Starting in January 1998, the Farm Tax Rebate Program was replaced by a new Farmland Taxation Policy for farm properties, administered by the Ministry of Agriculture, Food and Rural Affairs. Under the new tax policy, farm properties satisfying the eligibility requirements are identified in the Farm Property Class and are taxed at 25% of the municipal residential tax rate. The farm residence and one acre of land surrounding it continues to be taxed as part of the residential class.

In order to be eligible for the Farm Property Class all of the following criteria must be satisfied: (1) the property must be assessed as farmland as determined by the Municipal Property Assessment Corporation (MPAC); (2) the property must be used as part of a farming operation generating Gross Farm Income of at least \$7,000 as reported to Canada Revenue Agency for income tax purposes (if the Gross Farm Income is less than \$7,000, a ratepayer may still be eligible for the Farm Property Class tax rate they meet one of the income exemptions); (3) a valid and current Farm Business Registration number is required for the farm business operating on the land, unless one of the income exemption applies and is granted.

Under the *Farm Registration and Farm Organizations Funding Act*, a farm business generating Gross Farm Income of at least \$7,000 as reported to Canada Revenue Agency for income tax purposes must register annually with AGRICORP. Continued eligibility for the Farm Property Class tax rate requires the yearly renewal of the Farm Business Registration number.

Post 1997, the cost of this reduction in the tax rate was passed on to municipalities. To offset this cost to municipalities, the Province of Ontario agreed to provide compensating revenue in the form of municipal grants (Continuous Reinvestment Fund), now known as the Ontario Municipal Partnership Fund (OMPF). Since 2005, the Township has received no compensation in the OMPF funding for farmland since the weighted assessment on these properties does not exceed the 5% threshold of the municipal tax base. Currently, farmland is 2.3% of the Township's tax base.

The transition from the Farm Tax Rebate (pre-1998) is not cost neutral to all municipalities and as a result, municipalities with a total agricultural assessment of less than 5% of the total assessment have lost revenue.

(2) Managed Forest

The Ministry of Natural Resources' Managed Forest Tax Incentive Program (MFTIP) is a voluntary program that provides lower property taxes to participating landowners that agree to conserve and actively manage their forests. It is administered for the MNR by the Ontario Forestry Association and the Ontario Woodlot Association. The program is available to landowners who own four hectares or more of forest land, and who agree to prepare and follow a Managed Forest Plan for their property.

Under the MFTIP, participating landowners have their property reassessed and classified as Managed Forest and are taxed at 25% of the municipal tax rate set for residential properties.

To participate in the MFTIP, landowners must agree to certain conditions including preparing and following a managed forest plan for their forest. The plan must be approved by an individual certified by the Ministry of Natural Resources (MNR) as a Managed Forest Plan Approver. The plan improves the owner's knowledge of the forest and increases the owner's participation in managing the forest. In turn, this helps to encourage the stewardship of Ontario's private forests.

Again, as with the Farm Tax Rebate, there is no funding from the Province to offset the revenue loss to municipalities.

(3) Conservation

Ontario has a rich and varied natural heritage. Many of Ontario's most significant natural areas are privately owned. As the pressures on such areas increase, it is important to encourage private stewardship of the province's outstanding natural features.

The Conservation Land Tax Incentive Program (CLTIP) is designed to recognize, encourage and support the long-term private stewardship of Ontario's provincially significant conservation lands by providing property tax relief to those landowners who agree to protect the natural heritage values of their property. The current tax relief offered is 100% tax exemption on that eligible portion of the property.

The CLTIP is not a land acquisition program. Participating landowners retain full ownership and property rights. This program is also not associated with Conservation Authorities or Conservation Authority properties and conservation areas.

Only lands identified by the Ministry of Natural Resources as Provincially Significant are eligible for this program. These are a small subset of lands found in a natural state in Ontario. The eligible types of land are: provincially significant wetland; provincially significant area of natural and scientific interest (ANSI); habitat of endangered species; land designated as escarpment natural area in the Niagara Escarpment Plan; and community conservation lands.

The conservation land must be at least 1/5 of a hectare (1/2 acre) in size. The CLTIP does not provide tax relief for buildings or other improvements and associated land (the land associated with a structure or improvement is generally considered to be 2/5 hectares or 1 acre). Therefore, if there is a building or structure on the property, the property must be at least 1.5 acres in size.

In order for land to qualify, it must have been identified by the MNR as being, or having a component of, a provincially significant natural feature.

If an owner of eligible land identified by the MNR wishes to take part in the program, they must agree to maintain their property in its natural state and to not carry out activities that would degrade, destroy or result in the loss of the natural values of the site.

The activities and uses that are not permitted under the Program will depend on the type of conservation land.

A landowner who takes part in the CLTIP, must allow people authorized by the MNR to inspect their conservation land from time to time, if requested, to confirm that the land is being maintained as conservation land.

If a landowner receives a property tax exemption under the CLTIP, but does not maintain their land as conservation land, they will lose their exemption. For the years a landowner received an invalid exemption, the municipality can recover from the landowner those taxes not paid, up to a maximum of 5 years.

The Ministry of Natural Resources sends an application to each landowner of properties identified as eligible for the Conservation Land Tax Incentive Program during the summer prior to each new tax year. A landowner wishing to participate in the program simply completes and returns the application to the MNR.

The CLTIP is currently an annual program. Landowners must apply every year to continue participation in the program. Since 1998, the CLTIP has provided for tax relief in the form of an exemption. Landowners receive a tax reduction on their annual tax bill for the identified portion of their property; they do not receive a cheque as prior to 1998.

Options: These are provincially managed programs and there is no available option for a municipality to opt out, or to not provide the tax incentives since municipal taxes are billed based on the tax classes as provided by MPAC.

Financial Implications: Schedule 'A' attached shows the financial impact that land tax incentive programs have on the tax revenue of the municipality for 2009 and 2010.

Recommendation: This report is for information purposes.

Submitted by: Karen Caren, Clerk-Treasurer

Information for this report was researched from the following sources:

Conservation Land Tax Incentive:

<http://www.mnr.gov.on.ca/en/Business/CLTIP/index.html>

Farmland Tax Incentive:

http://www.mnr.gov.on.ca/en/Business/CLTIP/2ColumnSubPage/STEL02_167423.html

<http://www.omafra.gov.on.ca/english/policy/ftaxfaq.html>

Managed Forest Tax Incentive:

http://www.mnr.gov.on.ca/en/Business/Forests/2ColumnSubPage/STEL02_166346.html

2010 OMPF Technical Guide:

<http://www.fin.gov.on.ca/en/budget/ompf/2010/techguide.html>