

Appendix C: Property Tax Sub-classes

Executive Summary

The creation of property sub-classes is one tool available for Council to use in distributing levies amongst properties. Council has the authority to create or revise property tax classes and sub-classes. Implementing a new class or sub-class requires the passing of a bylaw to define the class. Differentiating tax rates by class or sub-class can be useful for determining the share of taxes paid by each property type to help achieve strategic goals and policy objectives such as economic development, tax stability and equity.

Currently, the City has five property classes (residential, multi-residential, commercial/industrial, agricultural and railway or pipeline) and one sub-class (golf courses). A jurisdictional scan shows that sub-classes are used by other municipalities across Canada. However, comparing use across provinces is complicated by the fact that provincially legislated property classes vary across regions.

It is possible to create sub-classes for specific initiatives, such as to disincentivize underutilized land or to incentivize renewable energy. While this report explores the impacts of hypothetically implementing sub-classes, it makes no recommendations as to whether the City should implement sub-classes. Creating a sub-class to advance specific initiatives is just one tool available to municipalities in accomplishing these goals. The use of a sub-class should be explored in relation to each specific objectives and initiatives through engagement and extensive research to ensure the use of a sub-class will accomplish the goals identified or whether other tools, such as grants, or property tax exemptions would be better suited for accomplishing the goal.

This paper is structured as follows:

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Property Tax Sub-classes

Section 254 of *The Cities Act* grants Council the authority to establish property classes and sub-classes for the purposes of establishing tax rates. Differentiating tax rates by class or sub-class can be used to achieve goals such as economic development, equity, etc. .

A jurisdictional scan of 35 municipalities in British Columbia, Alberta, Saskatchewan, Ontario, New Brunswick, Nova Scotia, and Newfoundland identified 18 municipalities, all in Alberta, Saskatchewan and Ontario, that use property sub-classes. Table 1: Property Sub-Classes in Other Municipalities summarizes the sub-classes in use in other municipalities. A more extensive jurisdictional scan can be found in Appendix F: Tax Tools & Sub-Classes Jurisdictional Scan.

Table 1: Property Sub-Classes in Other Municipalities

Municipality	Sub-Classes
Saskatoon	Condominiums, Multi-residential, Privately-owned Light Aircraft Hangars
Estevan	Multi-residential properties by number of units, Condominiums, Motels, Malls, Pipelines
Humboldt	Motels/Hotels and Malls, Commercial and Industrial Workshops, Railway, Vacant and improved Categories for Residential and Commercial properties
Moose Jaw	Golf Courses, Resources, Condominium
North Battleford	Resources, Condominium
Prince Albert	Country Residential, Condominium, Seasonal Residence, Hotel/Motel, Vacant Commercial Land, Commercial and Industrial by assessed value
Yorkton	High-density Multi-residential, Church Halls/Non-profit Halls, Large Commercial and Industrial, Heavy Industrial, Warehouse, Large Enclosed Mall, Residential Vacant Land, High-density Multi-family Vacant Land, Commercial Land
Weyburn	Accommodations, Elevator, Mall, Multi-family
Mississauga	Shopping Centres, Industrial, Large Industrial, Parking Lots, Office Buildings
Brampton	Office Buildings, Shopping Centres, Parking Lots, Industrial, Large Industrial
Hamilton	Office Buildings, Shopping Centres, Parking Lots, Industrial, Large Industrial
Kitchener	Office Buildings, Shopping Centres, Parking Lots, Industrial, Large Industrial
Burlington	Commercial, Commercial Excess/Vacant Land, Commercial Farmland Awaiting Development, Commercial on Farm Small Business
Waterloo	Office Buildings, Shopping Centres, Parking Lots, Industrial, Large Industrial
Vaughn	Office Buildings, Shopping Centres, Parking Lots, Industrial, Large Industrial
Edmonton	Other Residential
Lethbridge	Multi-residential
Medicine Hat	Multi-residential

Comparing sub-class use across provinces is complex as legislatively defined classes vary by province. For example, the Government of Saskatchewan defines multi-residential as a property class, while the Government of Alberta does not and therefore some cities in Alberta have a multi-residential sub-class.

Current State

The Government of Saskatchewan defines eight property classes, shown in Table 2: Provincial and City of Regina Property Classes and Sub-Classes, and specifies the percentage of value for each class. Municipalities then apply mill rates and mill rate factors to determine the amount of tax paid by each property. Not all of the provincially defined property classes are relevant for the City which defines five property classes. The five classes and 2021 mill rate factors for these classes are shown in Table 2. There is currently only one defined sub-class, golf courses. Property classes and sub-classes are created by Council with the passing of the annual *Regina Property Tax Bylaw*.

Table 2: Provincial and City of Regina Property Classes and Sub-Classes

Provincial Classes/ Sub-classes	Taxable Percentage	City Classes/ Sub-classes	2021 Mill Rate Factor
Residential	80%	Residential (Single Family)	0.91034
Multi-Residential	80%	Multi-Residential	0.91034
Seasonal Residential	80%	-	-
Commercial and Industrial	85%	Commercial and Industrial	1.24950
		Golf Courses (Commercial sub-class)	0.81197
Elevators	85%	-	-
Railway Rights of Way and Pipeline	85%	Railway Rights of Way and Pipeline	1.24950
Non-Arable (Range) Land	45%	-	-
Other Agricultural	55%	Other Agriculture	1.24950

- Indicates where Regina has not adopted the class as there are no relevant properties in the City.

In 2001, Council established the golf course sub-class for tax relief purposes to offset the direct competition with municipal golf courses that are exempt from property taxes. There are currently two privately owned golf courses in this class, one of which is partially in the City with the majority of the course, including clubhouse, in the RM of Sherwood. The mill rate factor for the golf course sub-class is set to 65 per cent of that of the commercial sub-class. The 35 per cent of levy not billed to the golf class, approximately \$20,000 is made up by the remaining properties in the commercial property class. Table 3: Impact of Golf Course Sub-Class shows the impacts of the existing golf course sub-class on the two taxable golf courses and other sample commercial properties. Residential properties are unaffected by this sub-class and so are not considered.

Table 3: Impact of Golf Course Sub-Class

Sample Property	Current Mill Rate Factor	Mill Rate Factor with no Golf Sub-class	Current Tax	Tax with no Sub- class	Change	% Change
Golf Course A	0.81197	1.2492	\$5,432	\$8,358	\$2,926	53.9%
Golf Course B	0.81197	1.2492	\$31,930	\$49,125	\$17,195	53.9%
Standalone Retail	1.2495	1.2492	\$18,468	\$18,464	-\$4	-0.02%
Strip Mall	1.2495	1.2492	\$46,466	\$46,457	-\$10	-0.02%
Restaurant	1.2495	1.2492	\$18,664	\$18,664	-\$4	-0.02%
Hotel	1.2495	1.2492	\$136,792	\$136,764	-\$28	-0.02%
Shopping Mall	1.2495	1.2492	\$561,408	\$561,293	-\$116	-0.02%

Creating a Sub-class to Accomplish Specific Initiatives

The creation of a sub-class does not inherently increase the total levy collected as total levies are set independently of sub-classes. Rather, it changes the distribution of the levy paid by a group of properties. Sub-classes can be used to increase or decrease the levy paid by a group of properties and can be a useful tool in accomplishing specific objectives. The jurisdictional scan shows that other municipalities use sub-classes as part of policies that address land use or development goals.

In implementing a sub-class, a property assessor must be able to determine if a property fits into the class. The most used characteristics in creating a sub-class are property use and assessed value. For assessment purposes, property use is the overall use of a property (retail, restaurant, residential etc.) and does not refer to the business operations of property tenants. In other words, a locally owned retail store has the same property use as a large retail franchise. It is possible to create a sub-class based on assessed value but this is not the same as differentiating by a property's income, or the income of its tenants. By its nature, an *ad valorem* tax system already differentiates by assessed value, to a degree, and properties with higher assessed values pay more in property tax than those with lower value. One way to differentiate based on a specific characteristic or use is to create a property class which requires property owners to identify that characteristic or use through an application process. This would allow for differentiation on factors not normally collected for assessment purposes. However, this approach is administratively cumbersome and costly, and only effective where the class is seeing a reduction in taxes as a property owner is unlikely to apply for a property class status that would increase their taxes.

The following tables provide examples of the impact of two non-residential sub-class scenarios:

- Sub-class A that increases the municipal taxes paid by a set of properties by 100 per cent; and
- Sub-class B reduces the municipal taxes paid by a set of properties by 50 per cent.

It is important to note that using sub-classes to shift tax burden between property classes has larger tax policy implications. A full discussion on the impacts of changing the relative share of tax is included as Appendix A: Share of Taxes.

Sub-Class A

Following is an analysis on creating non-residential Sub-class A to double the total municipal taxes paid by properties in the sub-class. While sub-classes are typically used to shift taxes within a property class, this analysis includes two scenarios:

- 1) Increasing taxes paid by Sub-class A while reducing tax burden on remaining properties in the commercial class.
- 2) Increasing taxes paid by Sub-class A while reducing tax burden on properties in the residential class

Table 4: Total Tax Change - Sub-class A (Reduce Other Non-Residential Taxes) shows the changes to mill rate factors and total municipal taxes paid by different property classes when non-residential taxes are reduced to offset the increase in Sub-class A. Table 5: Impact of Sub-class A (Reduce Other Non-Residential Taxes) shows the impact of the Sub-class A on several sample properties. Implementing the sub-class results in moderate savings for non-residential properties but significant tax increases for Sub-class A properties.

Table 4: Total Tax Change - Sub-class A (Reduce Other Non-Residential Taxes)

Class	Current Mill Rate Factor	Current Total Municipal Tax	Mill Rate Factor with Sub-class	Total Municipal Tax with Sub-Class	Change	% Change
Residential	0.91034	\$173,756,765	0.94130	\$173,756,765	\$0	0.0%
Commercial	1.24950	\$96,345,146	1.23534	\$95,253,876	-\$1,091,269	-1.1%
Golf	0.81197	\$37,361	0.81201	\$36,947	-\$414	-1.1%
Sub-class A	1.24950	\$1,091,683	2.49900	\$2,183,367	\$1,091,684	100.0%

Table 5: Impact of Sub-class A (Reduce Other Non-Residential Taxes)

Sample Property	Assessed Value	Current Municipal Tax	Municipal Tax with Sub-class	Change	% Change
Standalone retail	\$1,839,800	\$18,468	\$18,258	-\$209	-1.1%
Strip Mall	\$4,629,100	\$46,466	\$45,940	-\$526	-1.1%
Restaurant	\$1,859,400	\$18,664	\$18,452	-\$211	-1.1%
Hotel	\$13,627,500	\$136,792	\$135,242	-\$1,549	-1.1%
Shopping Mall	\$55,928,400	\$561,408	\$555,049	-\$6,359	-1.1%
Residential	\$250,000	\$1,721	\$1,721	\$0	0.0%
Residential (Average)	\$315,000	\$2,168	\$2,168	\$0	0.0%
Residential	\$500,000	\$3,442	\$3,442	\$0	0.0%
Multi-residential (170 Unit)	\$21,578,600	\$148,527	\$148,527	\$0	0.0%
Sub-class A (Large)	\$1,371,100	\$13,763	\$27,525	\$13,763	100.0%
Sub-class A (Average)	\$684,000	\$6,866	\$13,732	\$6,866	100.0%
Sub-class A (Small)	\$344,400	\$3,457	\$6,913	\$3,457	100.0%

Table 6: Total Tax Change - Sub-class A (Reduce Residential Taxes) shows the changes to mill rate factors and total municipal taxes paid by different property classes when the change is made in residential property taxes rather than non-residential. Table 7: Impact of Sub-class A (Reduce Residential Taxes) shows the impact of this on several sample properties. Implementing the sub-class results in minor savings for residential properties but significant tax increases for Sub-class A properties.

Table 7

Table 6: Total Tax Change - Sub-class A (Reduce Residential Taxes)

Class	Current Mill Rate Factor	Current Total Municipal Tax	Mill Rate Factor with Sub-class	Total Municipal Tax with Sub-Class	Change	% Change
Residential	0.91034	\$173,756,765	0.90462	\$172,664,987	-\$1,091,778	-0.6%
Commercial	1.24950	\$96,345,146	1.24950	\$96,345,146	\$0	0.0%
Golf	0.81197	\$37,361	0.81197	\$37,361	\$0	0.0%
Sub-class A	1.24950	\$1,091,683	2.49900	\$2,183,367	\$1,091,684	100.0%

Table 7: Impact of Sub-class A (Reduce Residential Taxes)

Sample Property	Assessed Value	Current Municipal Tax	Municipal Tax with Sub-class	Change	% Change
Standalone retail	\$1,839,800	\$18,468	\$18,468	\$0	0.0%
Strip Mall	\$4,629,100	\$46,466	\$46,466	\$0	0.0%
Restaurant	\$1,859,400	\$18,664	\$18,664	\$0	0.0%
Hotel	\$13,627,500	\$136,792	\$136,792	\$0	0.0%
Shopping Mall	\$55,928,400	\$561,408	\$561,408	\$0	0.0%
Residential	\$250,000	\$1,721	\$1,710	-\$11	-0.6%
Residential (Average)	\$315,000	\$2,168	\$2,155	-\$14	-0.6%
Residential	\$500,000	\$3,442	\$3,420	-\$22	-0.6%
Multi-residential (170 Unit)	\$21,578,600	\$148,527	\$147,594	-\$933	-0.6%
Sub-class A (Large)	\$1,371,100	\$13,763	\$27,525	\$13,763	100.0%
Sub-class A (Average)	\$684,000	\$6,866	\$13,732	\$6,866	100.0%
Sub-class A (Small)	\$344,400	\$3,457	\$6,913	\$3,457	100.0%

Sub-Class B

Following is an analysis on creating non-residential Sub-class B to reduce the total municipal taxes paid by properties in the sub-class by 50 per cent. Table 8: Total Tax Changes with Sub-class B shows the changes to mill rate factors and total municipal taxes paid by different property classes when Sub-class B is introduced. The residential mill rate factor and taxes are left unchanged.

Table 9: Impact of Sub-class B shows the impact of Sub-class B on several sample properties. There is a increase in the taxes paid by other non-residential properties to compensate for the reduction in Sub-class B.

Table 8: Total Tax Changes with Sub-class B

Class	Current Mill Rate Factor	Current Total Municipal Tax	Mill Rate Factor with Sub-class	Total Municipal Tax with Sub-Class	Change	% Change
Residential	0.91034	\$173,756,765	0.91034	\$173,756,765	\$0	0.0%
Commercial	1.24950	\$94,124,760	1.27147	\$95,780,128	\$1,655,368	1.8%
Golf	0.81197	\$37,361	0.82646	\$38,028	\$667	1.8%
Sub-class B	1.24950	\$3,312,069	0.62475	\$1,656,034	\$1,656,035	-50.0%

Table 9: Impact of Sub-class B

Sample Property	Assessed Value	Current Municipal Tax	Municipal Tax with Sub-class	Change	% Change
Standalone retail	\$1,839,800	\$18,468	\$18,792	\$325	1.8%
Strip Mall	\$4,629,100	\$46,466	\$47,284	\$817	1.8%
Restaurant	\$1,859,400	\$18,664	\$18,992	\$328	1.8%
Shopping Mall	\$55,928,400	\$561,408	\$139,198	\$2,406	1.8%
Residential	\$250,000	\$1,721	\$571,282	\$9,873	1.8%
Residential (Average)	\$315,000	\$2,168	\$1,721	\$0	0.0%
Residential	\$500,000	\$3,442	\$2,168	\$0	0.0%
Multi-residential (170 Unit)	\$21,578,600	\$148,527	\$3,442	\$0	0.0%
Sub-class B (Large)	\$23,124,400	\$232,122	\$148,527	\$0	0.0%
Sub-class B (Average)	\$11,329,100	\$113,721	\$116,061	-\$116,061	-50.0%
Sub-class B (Small)	\$5,672,700	\$56,941	\$56,860	-\$56,860	-50.0%

The examples analyzed here are extreme examples used to illustrate that the impacts of sub-classes depend the sub-classes' share of the total assessed value relative to the share of the property class that is offsetting the changes. For example, residential properties have a high share of total assessed value relative to Sub-class A properties, so the impacts are relatively small for residential properties when they are used to offset the increased taxation on Sub-class A properties. So long as the sub-class is relatively small compared to the class that offsets the changes, sub-classing can create significant impacts on the targeted properties with minor or negligible changes on the larger property class.