January 30, 2004

Understanding Property Tax Capping and Claw-backs

Capping and claw-backs apply to properties in the Commercial, Industrial and Multi-residential classes *only (these are the non-residential property classes)*.

The Current Value Assessment (CVA) system was first introduced by the Province in 1998. In Toronto and other cities that had not been regularly reassessed over time, the implementation of full CVA would have metin significant tax impacts for many commercial, industrial and multi-residential property owners. In response to these impacts, Toronto Council adopted a system of caps and claw-backs to phase-in the tax changes resulting from the move to CVA.

Tax Caps: In each year since 1998, any non-residential property that would have faced a significant tax increase as a result of moving to CVA has been protected from large tax increases by the imposition of a tax cap that places a limit on the annual allowable tax increase. In 1998 through 2000, the annual maximum allowable tax increase limit was set at 2.4% of the previous year's taxes. Starting in 2001, a 5% cap on allowable increases has applied for all commercial, industrial and multi-residential properties. The 5% cap will continue to apply each year under the current Provincial rules.

Claw-backs: In order to make up the revenue shortfall caused by the tax caps, the *Municipal Act* provides that properties that would otherwise be entitled to tax decreases as a result of the move to CVA would have these decreases phased-in as well, such that a certain percentage of the tax decrease would be withheld, or clawed-back, in order to fund the caps. In this way, owners entitled to receive tax decreases under CVA have received a portion of the decrease in each year since 1998. The claw-back percentage for each class (the amount of the decrease that is withheld) is calculated each year in an amount sufficient to fund the costs of the caps in each of the commercial, industrial and multi-residential tax classes.

How Capping and Claw-back works:
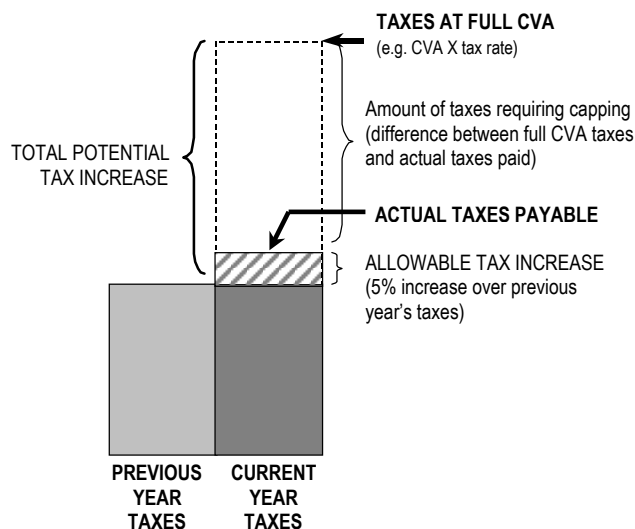
PROPERTY SUBJECT TO CAPPING
(Tax increases phased-in over time)
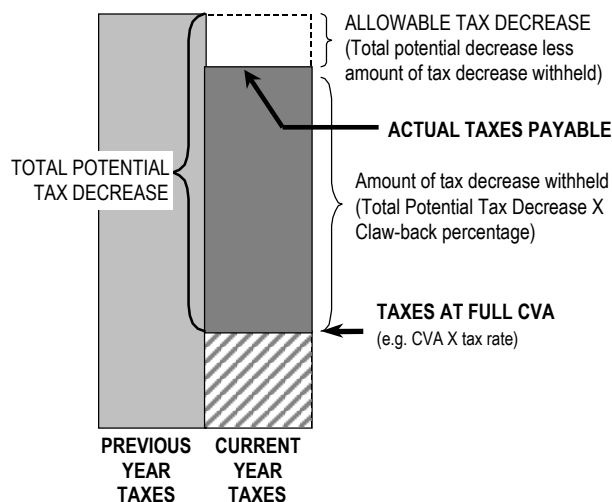
PROPERTY SUBJECT TO CLAW-BACK
(Tax decreases phased-in over time)