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# Designing Property Tax Deferrals

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# Table of contents

- ▶ Introduction.....3
- ▶ Which property classes should be eligible for a property tax deferral?.....3
- ▶ If the deferral is applied to non-residential properties, who should be eligible for benefits?.....4
- ▶ What mechanisms can be used to ensure that the benefits of property tax deferrals are passed on to tenants? .....4
- ▶ Should property tax deferrals be applied universally or targeted to low-income taxpayers?.....5
- ▶ Which payments should be deferred? .....5
- ▶ How much of the taxes/payments should be deferred?.....5
- ▶ How long should taxes/payments be deferred? .....6
- ▶ Should interest and late fees be waived? .....6
- ▶ What procedure should be followed to access the property tax deferral?.....6
- ▶ Who should pay for the deferral? .....6
- ▶ Appendix.....8

## Introduction

Property tax deferrals permit taxpayers to defer some or all of property taxes for a specified period of time, with the objective of relieving an immediate financial burden on eligible taxpayers. Deferrals can be applied to both residential and non-residential properties. The design will define the amounts deferred, and whether the deferral applies to all properties or targets specific recipients. In all cases, recipients will still be responsible for payment of their property taxes according to the terms of the deferral.

Deferral programs are typically of a short-term nature (i.e. within a single municipal fiscal year) but can be extended over multiple fiscal years. Long-term deferrals (e.g. Property Tax Deferment Program currently in place in British Columbia – see Appendix) may require a backstop from other orders of government.

Below are ten questions municipalities should consider when designing property tax deferral programs and highlights some considerations and implications.

Overall, there are some key considerations to take into account:

- Targeted approaches are desirable in principle but they are often difficult to design and/or enforce effectively. Targeting relief to tenants by requiring landlords to pass on the benefits of the deferral, for example, may be difficult to enforce.
- It is important to consider the effects of deferral programs on municipal revenues, especially because municipalities are required to balance their operating budgets. In particular, it is important to understand the implications when deferral programs cross over into the next fiscal year.
- Given both points above, coordination with provincial/territorial governments is advisable, both to determine whether similar relief could be provided more effectively through a provincial/territorial program and to ensure that necessary support is in place to help municipalities who face a budgetary shortfall.

## 1. Which property classes should be eligible for a property tax deferral?

- There are two main options to consider:
  - Residential
  - Non-residential (commercial and/or industrial)

Currently, many provinces/territories and municipalities have property tax deferral programs for residential properties owned by seniors (see Appendix). It is less common to see programs directed at non-residential properties.

## 2. If the deferral is applied to non-residential properties, who should be eligible for benefits?

- The deferral could be applied to all properties in the non-residential class or it could be targeted to small businesses, for example.
- If a deferral is targeted to small businesses, it will be necessary to determine what is a small business. Suggestions for making this assessment include:
  - Assessed value, in which case only properties under a certain value access the deferral.
  - Size of property, in which case only smaller properties access to the deferral.
  - Number of employees.
- No targeted approach will be perfect. Targeting based on size of property and number of employees could allow small properties owned by larger corporations (for example, bank branches) to access benefits. Targeting based on assessed value requires determining the value of a small versus a medium or large business. Doing so can be difficult and setting one cut-off point can mean relatively similar businesses end up with different access to benefits.
- It is also important to note that more targeted approaches often come with higher administrative costs and complexities, including, for instance, determining the number of employees in a business.

## 3. What mechanisms can be used to ensure that the benefits of property tax deferrals are passed on to tenants?

- Property tax deferrals benefit property owners, who in some cases may be leasing their property to a tenant (residential or commercial).
- In some cases, commercial leases pass on the cost of the property tax to tenants (through what are sometimes known as triple-net leases). Deferrals could potentially be targeted to businesses operating under these leases. Under this scenario, however, owner-occupied small businesses, such as mom-and-pop stores, could be excluded. It would also be necessary to determine which businesses operate with a triple-net lease, which can be administratively challenging.
- In the majority of cases where tenants do not directly pay the property tax bill, options for ensuring that deferrals get passed on to the tenant include:
  - Provincial/territorial legislation requiring landlords to pass any deferral down to their tenants. Under Ontario's Residential Tenancies Act, landlords that receive a more than 2.49 percent reduction in their property tax bills are required to reduce rent by a proportionate amount.
  - An application could make the deferral accessible only to owner-occupiers or landlords who will pass the deferral on to their tenants
- In all cases, enforcement will be very challenging, given the large number of landlords in any jurisdiction. It is likely for this reason that municipalities and provinces/territories have

implemented deferrals so far have “encouraged” or “urged” landlords to pass the deferrals on to tenants.

- Given enforcement issues, municipalities could consider methods other than property tax deferrals that might benefit renters more directly, such as direct short-term loans to renters, possibly in partnership with local rent banks (FCM is reviewing these considerations as part of potential recommendations to the federal government on COVID-19).

## 4. Should property tax deferrals be applied universally or targeted to low-income taxpayers?

- On average, higher-income individuals tend to live in more expensive homes, but that is not the case for some, such as seniors on fixed incomes.
- As a result, some existing residential property tax deferral programs are targeted to low-income seniors through an application process. If municipalities have these programs in place, they could potentially increase the deferral amount or time period to existing beneficiaries.
- Municipalities could set up new deferral programs that require proof of income. However, it is important to note that there would be administrative costs and potential delays in approving deferrals.
- More generally, municipalities should consider whether the property tax is the most appropriate tool to provide relief to low-income residents, or whether provincial/territorial/federal programs administered through the income tax are more effective and efficient.

## 5. Which payments should be deferred?

- Property taxes are only one payment that residents make to their municipality. Municipalities may wish to also defer utility payments, waste management fees, and other user fees. Of course, the more payments that are deferred, the greater the cost to the municipality.

## 6. How much of the taxes/payments should be deferred?

- Municipalities can choose to defer 100 percent of a property tax bill or only a portion.
- Some existing residential property tax deferral programs apply only to property tax *increases*.
- Some property tax deferral programs also set a cap for the cumulative amount of deferred and outstanding taxes so that it does not go above a certain percentage of the property’s assessed value.
- In making a decision about how much of a property tax bill to defer, municipalities will need to consider their capacity to weather a short-term loss of revenue (see questions 7 and 10).

## 7. How long should taxes/payments be deferred?

- Many municipalities are deferring property taxes in response to COVID-19 for about two months.
- Municipalities may determine that longer-term relief is needed, including extending deferrals to 6 months or more.
- Some municipalities may find it easier to extend the deferral period if they reduce the percentage of the property tax that gets deferred (see question 6).
- If the deferral period extends beyond the current fiscal year, municipalities will need to assess the effect on their operating budgets, particularly in light of legislation that prohibits operating deficits (see question 10).
- Support from the provincial and/or federal government would likely be needed to fund a long-term deferral mechanism, particularly where the amount being deferred is large and could impact services (see Question 10).

## 8. Should interest and late fees be waived?

- Municipalities will need to decide whether interest or late fees will be charged on any deferred property tax.
- Charging interest or late fees could deter applications from residents and business owners who could otherwise still afford to make payments. However, it would also mean successful applicants would incur a cost for accessing the benefit.

## 9. What procedure should be followed to access the property tax deferral?

- There are two broad options: applications or broad-based relief
- Applications allow for more targeted approaches, as discussed in question two. They can take up significant staff resources and prove onerous for applicants, however.
- Broad-based relief means applying a deferral based on pre-existing categories (for example, property classes) or data (for example, assessed value). This option limits the ability to target relief to those who need it most but it allows for relief to be implemented faster.
- Generally speaking, municipalities may want to consider broad-based relief for immediate, short-term deferral programs and application-based relief for longer-term deferrals.
- Municipalities will need to consider possible internal challenges for processing deferrals, such as limitations in their IT systems.

## 10. Who should pay for the deferral?

- As with many existing deferral programs, the property owner is ultimately responsible for all deferred taxes, generally through a lien placed on the property.
- Although it is anticipated that the property taxes will be paid at some time in the future, there will be some cost to municipalities in the short run as they will have to borrow the money or dig into

reserves. Municipalities may also lose anticipated interest that may be earned on property tax revenues before they are spent during the fiscal year, in the case of in-year deferrals. The extent to which a municipality will be affected will vary depending, for instance, on the municipality's level of reserves.

- In cases where provinces/territories levy a property tax (often an education property tax), it may be most efficient for the provincial/territorial government to first offer deferrals on that portion of the property tax.
- If municipalities implement deferral programs, it is important to consider the ultimate effect on their revenues, and the implications of shortfalls in their operating budgets.
- Municipalities are generally permitted to borrow money within a fiscal year to cover expenses until property tax revenues are collected. If deferrals remain within a fiscal year, municipalities could use this borrowing capacity to address cash flow issues, although specific borrowing limits set by provinces/territories might need to be revised.
- If budgetary shortfalls are the result of deferral programs crossing over into the next fiscal year or occur for any other reason, some options to offset them include:
  - Transfers from provincial/territorial governments to cover any shortfalls that result from these programs.
  - Commitment from the federal government to backstop some losses, potentially by assisting provincial/territorial governments, rather than transferring funds directly to municipal governments (FCM is reviewing these considerations as part of potential recommendations to the federal government on COVID-19).
  - Temporary permission to run operating deficits at the municipal level. This would require legislative changes, likely to budgetary requirements and municipal debt restrictions. In any event, it may not be advisable from a municipal fiscal sustainability perspective.

## Appendix – Examples of Deferral Programs

Compiled by the Federation of Canadian Municipalities. Please consult websites for eligibility criteria and details. Information accurate as of March 26, 2020.

### Provincial/Territorial

#### British Columbia

A long-term deferment program with two streams targeted to individuals and families with children. The province pays the municipality for an amount equivalent to the deferred residential or farm property taxes, with a lien placed on the property until all deferred taxes and associated interest and fees are fully repaid.

#### New Brunswick

Voluntary program providing property tax relief to residents aged 65 or older during the taxation year. Allows eligible residents to apply for deferral of the payment of the annual increase in property taxes on their principal residence.

#### Saskatchewan

Program providing property tax relief to residents aged 65 or older during the taxation year in the form of a repayable loan for the education property taxes on their home.

### Municipal

#### Edmonton, AB

#### Vancouver, BC

#### Montreal, QC

#### Lévis, QC

#### Paradise, NL