

February 5, 2019

The Honourable Doug Ford
Premier of Ontario
Premier's Office, Room 281
Legislative Building, Queen's Park
Toronto, ON M7A 1A1

RE: Budget 2019 – Industrial Property Tax Reform

Dear Premier:

On behalf of Ontario's manufacturing community and the 2,500 direct members of Canadian Manufacturers & Exporters (CME), I am writing to request urgent action on a critical issue ahead of Budget 2019 affecting manufacturing investment and competitiveness in the province: industrial property tax reform.

As you have recognized and spoken passionately about on several instances, manufacturing is the cornerstone of Ontario's economy. The sector directly represents over 12 per cent of GDP and 80 per cent of exports. More importantly, the sector directly employs over three-quarters of a million Ontarians' with another 1.2 million indirectly employed in every community across the province.

CME greatly appreciates the steps that your government has taken to make Ontario *Open for Business* and to support the manufacturing sector. However, more must be done to reverse recent trends, boost manufacturing investment and grow the economy. Thus, we believe that industrial property tax reform should be a key focus in Budget 2019 to enhance Ontario's business climate and provide some investment support for the manufacturing sector.

High property tax rates can have devastating effects on manufacturing plants because it is a fixed cost of doing business and a tax on capital and investments. Additionally, the excessive rates and the uncertainty about future rates can have a chilling effect on investment when business owners are considering upgrade of existing plants, expansion or development of new plants. Industrial property tax discourages investment in the same way as capital tax had done which the province eliminated in 2009.

According to a CD Howe 2017 study "The Harmful Impact of Ontario's Business Property Tax", at the average level of business property taxation in Ontario, a \$1.00 business property tax hike costs the economy \$5.56. This is significant for Ontario's manufacturing sector and industry overall.

Based on the on the context above, CME's concerns with the current regime are as follows:

1. **Ontario's large industrial property tax rates (LT) are uncompetitive and put manufacturers at a significant disadvantage.**

The 2018 LT for Windsor, Oshawa and Cambridge are at 6.2 per cent, 4.0 per cent and 3.4 per cent respectively. In comparison, the U.S. average is 1.5 per cent, with Detroit, Michigan at 2.7 per cent, Columbus, Ohio at 1.3 per cent and Birmingham, Alabama at 1.2 per cent.

2. **Ontario manufacturers bear a disproportionate share of the property tax burden relative to other businesses.**

In Oshawa, for example, the tax rate for office building and shopping center is 2.8 per cent. Windsor's commercial rate is 4.7 per cent, which means manufacturers are paying 1.3-1.4 times in these cities. This wide variation across municipalities and across property classes is unjustifiable.

3. **Property tax policy in the United States strongly encourage investments and expansions.**

Not only are the United States rates significantly lower, more than 20 states in the United States offer property tax abatements (slashing the rate in half for 10 to 15 years) or exemptions for plant expansions, renovations or for new investments. Existing Ontario legislation does not allow for exemptions.

4. **The provincial Business Education Tax (BET) makes up 20 to 40 per cent of the property tax rate and has no bearing on school board expenditures.**

Ontario saw the issues with the BET and felt that it was a barrier to economic competitiveness. Thus, the province commenced cutting the high BET rates in Budget 2007 with a 7-year phase out schedule. Unfortunately, this was frozen in 2012.

5. **The manner in which the Municipal Property Assessment Corporation (MPAC) arrives at the value for tax is convoluted, opaque and not justifiable which has often led to unnecessary appeals and disputes that tie up valuable resources for both government and businesses.**

To this end, CME would like to thank you for eliminating the 'highest & best use' provision under *Bill 66, The Restoring Trust and Competitiveness Act*. This is a step in the right direction, however, further improvements in this area are required.

CME urges your government to act decisively in Budget 2019, particularly in light of the increasingly competitive global environment, protectionist US trade policies and the aggressive incentives offered by various states to lure investments. With this premise in mind, our recommendations are as follows:



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1. Freeze any downward revision to functional or economic obsolescence allowances in MPAC's current value assessment on all industrial properties for the next valuation cycle until the valuation methodology is clarified and revamped.
2. Provide property tax abatements in order to drive plant expansions, upgrades or new investments.
3. Resume the provincial BET reductions with a plan to fully phase out the BET on large industrial properties. This will help level the playing field relative to competition in the United states.
4. Equalize property tax rates across business classes. This would level the playing field across all business sectors in the province.
5. Undertake a full review of the property tax system, including MPAC's valuation practices such as functional and economic obsolescence, and the failure to recognize arm's length transactions, to ensure fairness and to take into account competitiveness issues and the province's growth-policy objectives.

Premier, thank you for your initial actions to make Ontario more competitive for manufacturing and open for business. Your actions to date have followed very closely with CME's manufacturing strategy entitled *Manufacturing Ontario's Future: Leveraging Ontario's Manufacturing Sector to Drive Ontario's Economic Success* which came from a detailed consultation with industry. Budget 2019 is the time to begin to mitigate much of the economic harm that has occurred and enact industrial property tax reforms to boost manufacturing investment and competitiveness.

We would be pleased to meet with you at any time to discuss this issue or any other issues to support the growth of Ontario's most important economic sector.

Sincerely,

Dennis A. Darby, P.Eng., ICD.D.
President & CEO

Cc: The Honourable Victor Fedeli, Minister of Finance
The Honourable Todd Smith, Minister of Economic Development, Job Creation and Trade
The Honourable Steve Clark, Minister of Municipal Affairs and Housing
Greg Orencsak, Deputy Minister of Finance
Giles Gherson, Deputy Minister of Red Tape and Regulatory Burden Reduction
Shirley Phillips, Deputy Minister of Economic Development, Job Creation and Trade
Laurie LeBlanc, Deputy Minister of Municipal Affairs and Housing