



The Regional Municipality of Durham Report

To: Finance and Administration Committee
From: Commissioner of Finance and Treasurer
Report: #2023-F-21
Date: September 12, 2023

Subject:

Requesting a Share of Ontario's Harmonized Sales Tax (HST) for Ontario Municipalities

Recommendation:

That the Finance and Administration Committee recommends to Regional Council:

That the Province of Ontario be requested to provide municipalities with a share of the provincial portion of the Harmonized Sales Tax (HST) to ensure sustainable municipal revenues and sufficient financial capacity for increasingly complex programs and services.

Report:

1. Purpose

- 1.1 This report is to request the Province of Ontario provide a share of the provincial portion of the HST to ensure long-term municipal fiscal capacity and sustainability for Ontario municipalities, recognizing that Ontario's municipalities:
- a. Are an integral part of Canadian governance.
 - b. Serve the public without sustainable funding sources, relying primarily on property taxes, which are inappropriate to fund increasingly complex social and income redistribution programs, many historically funded by the province.
 - c. Increasingly face challenges given inflationary pressures, population growth, higher interest rates, strained household/taxpayer affordability and reduced property taxes available from the non-residential sector due to historic economic shifts (e.g., to a service-oriented economy and to an increasingly digitized economy).
 - d. Are an initial and primary hub for new immigrants and refugee claimants, benefitting from front-line municipal services such as emergency shelters, housing supports, recreational, cultural, transit, public health, employment programs and other social services delivered by municipalities.

- e. Are integral to resolving the housing crises in concert with provincial and federal partners, but face issues implementing bold housing plans due to lack of sustainable long-term funding.
- f. Must adjust operational and capital plans to accommodate higher service needs along with decreases in available revenues due to recent provincial legislative changes.

2. Background

- 2.1 On January 17, 2023, the following direction was received from the Finance and Administration Committee (F&A):

Whereas an increased municipal capital program generates offsetting income tax and HST revenues to upper levels of government.

Whereas recent provincial legislation has reduced development charge revenues, while increasing demand for infrastructure planning, delivery, and maintenance.

That staff be directed to report back on the feasibility and implications of municipalities receiving a 10% share of annual HST revenue from either the Federal and/or Provincial governments and to investigate the feasibility and impact of the Province providing a full rebate on the Provincial share of the HST paid by Municipal governments.

3. Previous Reports and Decisions

4. The January 17, 2023 F&A direction resulted from Durham Region Report #2023-F-8: "2023 Property Tax Study," which noted the emergence of a new E-economy and that the Finance Department continues to examine the anticipated impacts on Durham Region's non-residential property tax base resulting from structural economic changes, including increasing prevalence of online retail, remote work, new technologies and the decline in brick-and-mortar stores and office buildings, on which property taxes are historically based.
5. The report noted a collaboration with Ontario Tech and Trent Universities to complete statistical analysis and explore potential relationships between online commercial activity and relative property value assessments. Insights gained will assist in building an evidence-driven foundation to explore innovative policy solutions and additional revenue tools which may be able to address structural economic changes.

6. Calls to Dedicate a Portion of the HST to Address Increasingly Complex Social Needs

- 6.1 An increasing body of literature, from academics and municipalities argues that more sustainable revenue tools are required for municipalities to address increasingly complex and critical social issues. Also, as noted following, there are examples of private sector calls for HST/GST relief directly for home buyers.

- 6.2 It has been argued that the Province of Ontario should give due consideration to providing a share of provincial sales taxes or income taxes to municipalities as a way of ensuring adequate funding sources and fiscal capacity at the municipal level. For years, the Association of Municipalities Ontario (AMO) has argued that municipal revenues need to be diversified to ensure sustainable municipal service delivery and finance. In May 2017, AMO's "Proposed Action Plan" noted a one per cent increase in the provincial portion of the HST, if dedicated to municipalities, could generate approximately a net \$2.5 billion annually for critical municipal services post collection/administration. AMO noted, "... municipalities face an estimated shortfall of \$4.9 billion each year for the next 10 years to maintain current service levels, not improve them, and finance infrastructure needs. If higher property taxes are the only revenue option, municipal property tax bills and user fees might need to double by 2025. That represents a revenue increase of at least eight per cent each year for the next decade to bridge the \$4.9 billion annual gap."
- 6.3 More recently, on August 17, 2023, the City of Toronto released its "Toronto Long-term Financial Plan" summary report, which indicated a City funding gap of \$46.5 billion, including \$29.5 billion in unfunded capital requirements over 10 years. The report notes that "... 22 per cent or \$1.1 billion of Torontonians' annual property taxes are directly invested in three main areas of service that reduce the financial burden on other orders of government, including: housing (\$616 million); social services (\$247 million); and health services (\$256 million)." The report makes recommendations for the review of municipal options to address the funding gap commencing with the 2024 Budget process. It also puts senior governments on notice that municipalities deliver services well beyond their traditional mandate, noting that property tax revenues do not capture the benefits of economic growth and the City requires more sustainable funding sources, including the ability to impose a sales tax on City residents.
- 6.4 The June 2023 CIBC Economics publication "The Week Ahead" noted the overall trajectory is towards an even tighter and more unaffordable housing market and looked to senior governments recommending:
- "...by far, the most pragmatic step to take in the immediate future would be to waive or defer HST payments on purpose-built rental projects from first occupancy to the sale of the building, while keeping the same valuation methodology as the current regime. It's the most realistic option since it's relatively easy to implement, and Ottawa will have a willing partner in the Ontario government. Buried in page 84 of the recent Ontario budget was the following sentence, '...we call on the federal government to come to the table on potential Goods and Services Tax/Harmonized Sales Tax (GST/HST) relief, including rebates, exemptions, zero-rating or deferrals.'"
- 6.5 This approach was also noted by the PLACE Centre: Smart Prosperity Institute, which in its August 2023 "Working Together to Build 1.5 Million Homes" report notes
- "The federal government must ensure that immigration and international student

policies are aligned with housing policy, and set in collaboration with provincial and municipal governments (page 3)...Governments, particularly the federal government, can affect both the availability and cost of capital through lending rules, programs offered by the CMHC and other agencies, and changes to the tax code, such as altering capital-cost allowance provisions or removing the HST on purpose-built rental unit construction.” (page 39)

- 6.6 In July 2023, in a Toronto Sun editorial piece “BILD: Federal Government Can Help with Housing Affordability by Keeping an Old Promise,” Dave Wilkes, President and CEO of the Building Industry and Land Development Association (BILD), noted,

“...If the federal government were to keep a 32-year-old promise to adjust price thresholds for the GST/HST new housing rebate program, it would have an immediate positive impact on the affordability of new homes for all Canadians...the government pledged to adjust the rebate thresholds to reflect changes in house prices to protect housing affordability. This review was to occur at least every two years. Unfortunately, no review has taken place... In 2010, the HST was introduced on new homes, replacing the GST and the Provincial Sales Tax (PST), but the federal rebate program and its thresholds remain the same.”

- 6.7 Many municipalities have bold action plans in place to address the housing crises, but face issues implementing plans due to lack of sustainable funding. A more coordinated approach with provincial and federal partners is required, with municipalities ideally assured sufficient financial capacity for long-term implementation. Durham Region’s Housing Plan includes a 10-year vision for housing and homelessness and aims to: end homelessness in Durham, ensure affordable rent for all, along with the goals of ensuring greater housing choice and strong and vibrant neighbourhoods. Supported by Durham Region’s Master Housing Strategy and the recommendations of the Affordable and Senior’s Housing Task Force, implementation plans include commitments to develop 1,000 new affordable rental housing units by 2024, including supportive and transitional housing for vulnerable low-income residents.

- 6.8 Immigration is also a priority for many Ontario municipalities to bolster economic growth and address labour market shortages, including skilled trades across a variety of sectors. The historically high immigration levels proposed by the federal government over the next three years could exacerbate the existing housing and homelessness crisis while increasing demands for public health and safety services, including mental health, addictions, and infrastructure needs. AMO has long advocated that “...the federal government work directly with municipal governments ... to receive policy advice to explore new ways to disperse the benefits of immigration more widely throughout Ontario, including in urban, rural, northern and francophone municipalities ... and increase funding and supports to provide services to refugee claimants ...”

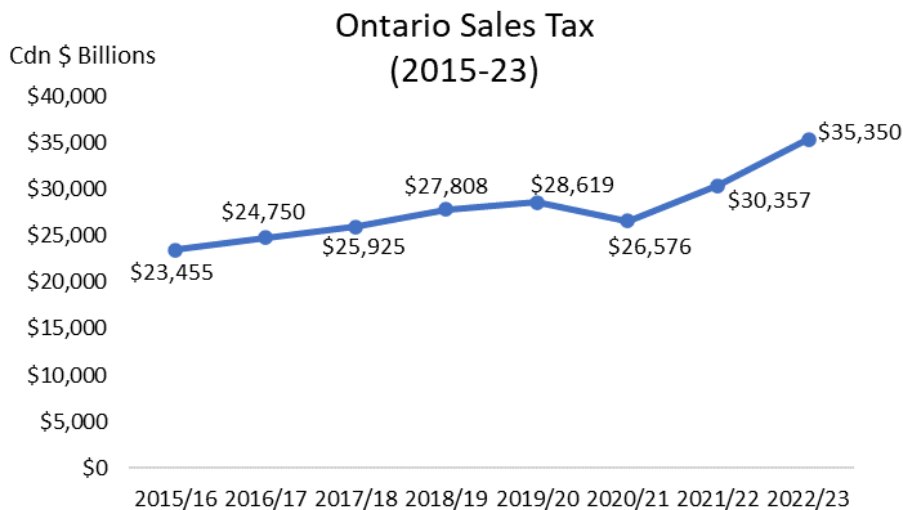
- 6.9 In July 2023, Ontario’s Big City Mayors (OBCM) collaborative, in addressing the current refugee crisis in GTA communities and beyond, noted the influx of refugees

into Canada has dramatically increased pressure on the municipal system, which is already over capacity. The OBCM stated "...the federal government has not consulted nor planned with municipalities to ensure these newcomers receive the housing and other supports they need, including for those who have come to Canada to learn. And when these needs cannot be met, it is often vulnerable and marginalized communities that are impacted the most." In a public statement, the OBCM called "... on the federal government to consult with municipalities, provinces and territories on the process of setting of immigration targets, including for international students, and on the funding and supports cities require to ensure people receive the housing and other services they need when they arrive."

- 6.10 A share of the provinces growing HST sales tax revenues would provide sustainable funding tied to economic growth and would greatly benefit Durham's significant efforts to resolve the housing crises as well as welcome, accommodate and support newcomers.

7. Ensuring Sustainable Municipal Revenue Sources

- 7.1 There is an increasing discrepancy between services provided by Ontario municipalities and the revenue sources available to fund them. Property taxes are insufficient to provide increasingly complex municipal services into the future and unlike a sales tax, property taxes do not necessarily reflect economic growth and consumption levels. Municipalities must carefully balance property tax increases needed to fund critical services with household affordability considerations. Households already struggle with affordability issues and property taxes do not necessarily reflect an ability to pay like the main tax sources available to senior governments (i.e., income tax).
- 7.2 Provision of a share of the province's existing and growing sales tax revenues to municipalities would allow municipalities to more sustainably face inflation, higher interest rates, asset management, infrastructure requirements, population growth, continuing pandemic impacts, increased demands for social, health, housing and homelessness, and long-term care services.
- 7.3 While other broader forms of taxation could also be considered (e.g., providing a share of income tax), providing a share of the province's portion of HST to Ontario municipalities would be relatively less complex, and could be implemented by the province in a timely fashion, perhaps modelled on distributions already made to municipalities under the Canada Community-Building Fund framework.
- 7.4 As the chart following demonstrates, the Province of Ontario's total sales tax, collected and remitted by the federal Canada Revenue Agency (CRA), has grown 51 per cent since 2016, from \$23.5 billion to \$35.4 billion, reflecting both economic growth/consumption and price inflation.



Source: Government of Ontario, Treasury Board Secretariat, Public Accounts Releases

8. Existing Municipal HST Rebate

- 8.1 The HST is a 13 per cent consumption point-of-sale tax paid by consumers and businesses and combines the federal goods and services tax (5 per cent) and the Ontario goods and services tax (8 per cent). The Canada Revenue Agency collects the HST from businesses (mandatory for businesses with revenues over \$30,000) and then remits Ontario's allocation to the province.
- 8.2 Generally, businesses must register to collect the Harmonized Sales Tax (HST), which allows them to claim offsetting Input Tax Credits (ITCs) on the goods and services they purchase. Currently, there is also a Municipal HST rebate that reduces the HST rate for municipalities from 13 to 1.76 per cent. In 2022, Durham Region paid HST of \$69.4 million on its expenditures. After claiming the Municipal Rebate and ITCs of \$60.4 million, Durham Region effectively incurred a net HST cost of \$8.9 million on its expenditures. Note that the net HST cost reflects the provincial portion of the tax that is not refunded (the federal portion is fully refunded).

9. Relationship to Strategic Plan

- 9.1 This report aligns with the following strategic goals and priorities in the Durham Region Strategic Plan:
- a. Goal 5: Service Excellence: To provide exceptional value to Durham taxpayers through responsive, effective, and fiscally sustainable service delivery.

10. Conclusion

10.1 This report is to request the Province of Ontario provide a share of the provincial portion of the HST to ensure long-term municipal fiscal capacity and sustainability for Ontario municipalities. This report recommends the province share an existing portion of their provincial share of the HST, as the most expedient method of ensuring Ontario's municipalities have financial capacity to address increasingly complex and pressing social and infrastructure needs, including significant requirements driven by new municipal responsibilities, legislative changes and increased service and program requirements.

Respectfully submitted,

Original Signed By

Nancy Taylor
Commissioner of Finance and Treasurer

Recommended for Presentation to Committee

Original Signed By

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