

Staff Report



To	Committee of the Whole
Service Area	Corporate Services
Date	Monday, March 1, 2021
Subject	Property Tax Relief and Deferral Program Options

Recommendation

That the City of Guelph does not implement any property tax deferral programs other than those legislatively required.

Executive Summary

Purpose of Report

This report has been prepared in response to City Council, at its meeting on December 1, 2020, making an amendment to the 2021 City of Guelph Budget main motion as follows:

Moved by Councillor Goller, seconded by Councillor O'Rourke. That an amount up to \$25,000 be allocated from the Tax Operating Contingency Reserve to fund the investigation and preparation of property tax deferral program options, to be brought back to Council for consideration as part of 2021 property tax policy decisions. Carried (13 to 0).

Key Findings

Property tax relief measures currently offered, in the form of tax deferrals, are not well received by property owners. Overwhelming, property owners would rather settle their obligation through their own means, rather than defer paying to a later date. Deferring any tax amounts thereby creates a debt required to be settled at a future date, and in some cases a lien on title to property, of which are negating factors.

At the end of 2020, collections remain strong with a lower overall percentage of properties in arrears at the end of 2020 then at the end of 2019. For a variety of reasons, property owners continue to maintain their property tax obligation at a level pre-pandemic. This would support that COVID-19 specific relief at this time may not be warranted.

City staff routinely advise of the benefits of monthly pre-authorized payments, whereby the annual tax levy can be divided amongst nine, eleven or twelve months. Staff work with those property owners facing difficulty to find a solution, by developing a payment plan that fits the property owner's fiscal reality while also conforming to the City's Tax Billing and Collection Policy. That policy does allow for deferral of property tax payments of up to two years before tax sale proceedings would commence. During this time though, penalty and interest does accrue.

Having the difficult conversation sooner ensures the amount of arrears are more manageable, therefore allowing for a more affordable payment plan.

The upper levels of government offer general and property tax specific assistance programs for those financially impacted on a temporary or permanent basis. One of these provincial programs is focused on property tax and energy costs for businesses that were required to close or significantly restrict services as a result of the provincial lockdown or restrictions.

Financial Implications

Expansion of any deferral programs, without an accompanying source of revenue, would put further strain on the City's tax supported budget, as the revenue expected to be received by the municipality is not guaranteed until a later, unknown date.

The work associated with a deferral program would be a service level enhancement, and would require resources not available within the current staff compliment. A deferral program would also require programming changes to our tax billing software for this purpose. All costs associated with the deferral program would form part of the City's tax supported operating budget, therefore funded by all taxpayers and not just those who participate in the deferral program.

Deferred tax amounts would be recorded as outstanding until collected, thereby increasing the overall amount of tax arrears, which may negatively impact the City's credit rating.

Report

City Council, at its meeting on December 1, 2020, made an amendment to the 2021 City of Guelph Budget main motion as follows:

Moved by Councillor Goller, seconded by Councillor O'Rourke. That an amount up to \$25,000 be allocated from the Tax Operating Contingency Reserve to fund the investigation and preparation of property tax deferral program options, to be brought back to Council for consideration as part of 2021 property tax policy decisions. Carried (13 to 0).

The consultant report prepared in response to this motion is Attachment-1 Municipal Tax Relief Programs COVID-19 Specific and General: What are municipalities doing?

General tax relief

The key points of the report regarding general tax relief are as follows:

- Municipalities have limited policy options when it comes to implementing tax relief programs.
- Deferral programs offered outside of those legislatively required can be controversial, create precedent, and be challenging and expensive to administer.
- Adoption rates for deferral programs are low due to the debt created by deferring taxes that must be settled at a later date.

- Property owners with mortgages may not be able to utilize a property tax deferral program as this would be a debt connected to the property and sit before that of the mortgage.
- If taxes for one demographic or group are deferred, the remaining taxpayers will have to fund the administrative costs associated with that deferral.
- Deferrals increase risk as the revenue expected to be received by the municipality is not guaranteed until a later, unknown date, and the total tax burden would be significantly higher than without the deferral.
- Municipalities are better served maintaining and managing the overall tax burden amongst all property classes through appropriate budget and tax policy setting.
- Collections policies are in place and practiced that allow for and encourage communication with property owners and staff related to tax arrears and deferral requirements.
- The upper levels of government offer targeted property tax relief through the income tax process for varying demographics and businesses that have been determined in need of assistance.

As of the date this report was authored, there are no properties currently enrolled in the legislatively required deferral programs Guelph offers. Staff have found that interest in the current deferral programs subsides when property owners determine that their taxes will not be waived but instead deferred to a later date, of which the City secures collection of the deferral by placing a lien on title.

It is not recommended that any tax deferral be provided other than what is legislatively necessary. Any expansion to the current deferral programs would create inequity amongst property owners, with some individual property owners potentially qualifying for a deferral benefit with the tax base as a whole responsible for funding the administrative costs associated with any such deferral.

Mortgage companies, whom through their lending agreement are responsible for paying taxes to the City on behalf of their client the property owner, would be unlikely to seek deferral due to the interest the deferral creates in favor of the City that supersedes their own interest. Further, a common mortgage condition for property owners who pay taxes on their own is to keep the property taxes current. Again, creating an interest in favor of the City that supersedes the lenders interest may have negative consequences for the borrower.

Expanding tax deferral programs also may not support tenants. The City cannot require or hold property owners accountable to flow through to tenants any benefits that a tax deferral may provide.

The goal of property tax policy as a whole is to provide and ensure fair and equitable treatment for all taxpayers. Providing relief through a tax deferral to a select demographic of taxpayers does not meet this goal.

COVID-19 specific relief

The key points in the report regarding COVID-19 specific relief are:

- Four out of five, or 80 per cent, of municipalities surveyed in preparation of the report offered tax relief during 2020.

- Relief was overwhelmingly offered to all property classes in the form of not charging or waiving penalty and interest, as Guelph did in 2020.
- The majority of municipalities have not yet determined if they will offer relief in 2021.
- The upper levels of government offer targeted relief for individuals, families and businesses impacted by COVID-19 some of these are directly dedicated to property tax relief.

As reported in the annual [Property Tax Receivables and Collections information report](#), collections remain strong with a lower overall percentage of properties in arrears at the end of 2020 then at the end of 2019. For a variety of reasons, property owners continue to maintain their property tax obligation at a level pre-pandemic. For this reason, COVID-19 specific relief at this time may not be warranted.

To assist with recovery efforts, the City's Economic Development and Tourism department with funding totaling over \$1 million in 2020 and 2021 to offer a variety of recovery specific programming directly or through partnerships with other community organizations, aimed at helping those businesses in need.

Current approach to arrears collection and property owners facing difficulty meeting their obligation

Property owners facing difficulty meeting their property tax obligations are encouraged at any time to contact the Tax Office to discuss their situation. City staff on a routine basis work with those facing difficulty to find a solution. Staff work to develop a payment plan that fits the property owners fiscal reality while also conforming to the City's Tax Billing and Collection Policy.

Further, in some situations if a payment plan has not been worked out, enforcing collection efforts through the Municipal Act is beneficial for the property owner and the City. Municipalities are now able to initiate tax sale registration when a property is two years in arrears instead of three years in arrears that historically had been in place. This change to the Municipal Act and corresponding move by the City has yielded positive results. The overall collection experience shows that many property owners are reluctant to seek assistance until being forced to, which is usually when the City advises them that their arrears are approaching tax sale eligibility. Having the difficult conversation when faced with two years of tax arrears is a much different conversation then when faced with three years or more of tax arrears – the amount of arrears is thus more manageable, therefore allowing for a more affordable payment plan.

For those property owners not in arrears but nonetheless still having difficulty meeting their four annual tax instalments, City staff routinely advise of the benefits of monthly pre-authorized payments, whereby the annual tax levy can be divided amongst nine, eleven or twelve months. This provides for a more manageable and predictable monthly expense while ensuring the annual tax levy is paid in full in the same calendar year it was billed.

Financial Implications

Expansion of any deferral programs, without an accompanying source of revenue, would put further strain on the City's tax supported budget, as the revenue

expected to be received by the municipality is not guaranteed until a later, unknown date.

The work associated with implementing, monitoring and eventually collecting deferred taxes, would be a service level enhancement, and would require resources not available within the current staff compliment. The nature of the work associated, is entirely dependent on the deferral program uptake, and would require annual ongoing support, as any tax deferral application would need to be vetted on an annual basis to ensure compliance to the deferral program conditions. A deferral program would also require programming changes to our tax billing software for this purpose. These changes would be necessary to ensure deferred amounts are not charged the regular penalty and interest, and can be clearly delineated on the interim and final tax bills, as well as monthly arrears notices, final collection notices and provide the appropriate details on tax certificates. All costs associated with the deferral program would form part of the City's tax supported operating budget, therefore funded by all taxpayers and not just those who participate in the deferral program.

Deferred tax amounts would be recorded as outstanding tax receivables until collected, thereby increasing the overall amount of tax arrears, which may negatively impact the City's credit rating.

Consultations

Economic Development and Tourism

Strategic Plan Alignment

This report aligns with Strategic Plan priority Working Together for our Future, running an effective, fiscally responsibly and trusted local government.

Attachments

Attachment-1 Municipal Tax Relief & Deferral Programs COVID-19 Specific and General: What are municipalities doing?

Departmental Approval

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