

Staff Report



To	Committee of the Whole
Service Area	Corporate Services
Date	Tuesday, June 4, 2024
Subject	Financial Needs-based Property Tax Program

Recommendation

1. That the Financial Needs-based Property Tax Program report 2024-230, dated June 4, 2024, be received.
-

Executive Summary

Purpose of Report

This report has been prepared in response to City Council, at its meeting on November 29, 2023, amending the 2024 City of Guelph Budget main motion as follows:

Moved By Councillor Caton, Seconded By Councillor Allt

That an amount up to \$10,000 be allocated from the Tax Operating Contingency Reserve to fund further investigation of resources required, and costs associated with the creation of a financial needs-based application program for waived penalties and the suspension of interest on unpaid amounts of property taxes to reduce burdens on low-income homeowners during 2024-2027 multi-year budget cycle and to report back to council prior to the end of Q2 of 2024.

Carried (13 to 0)

Key Findings

While there are a few legislatively required tax relief programs, property taxation in Ontario is based on the core principle of equity and fairness with collection policies being the same for all property taxpayers.

In Guelph, over half of all property tax accounts are paid either through the mortgage company or directly to the city through a pre-authorized payment plan. These payment options allow property owners the ability to spread payments out through the tax year allowing for more manageable payments and budgeting.

Based on a municipal scan, staff are unaware of another municipality in Ontario that provides all low-income taxpayers with the opportunity to defer property tax or waive penalties and interest. Implementing such a program may have unintended consequences, such as increasing total taxes receivable and a higher risk of collections through the tax sale process as balances escalate.

In order to ensure prompt payment of property taxes, City staff work with taxpayers on payment plans, options, and other available resources on a daily basis.

Strategic Plan Alignment

This report aligns with the Strategic Plan. Accurate management of property tax accounts and timely collection of property taxes contributes to the establishment of a transparent, reliable, efficient, responsible, trusted, and cost-conscious local government that can deliver excellent service and good governance.

Future Guelph Theme

Foundations

Future Guelph Objectives

Foundations: Maintain the City's healthy financial position

Financial Implications

Annual program costs for a financial needs-based application program for waived penalties and the suspension of interest on unpaid amounts of property taxes are estimated at between \$100,000 and \$200,000. Additionally, such a program could lead to increased taxes receivable and therefore leading to more properties going through the tax sale process.

Report

Property taxes are the main source of revenue for municipalities across Ontario.

In Ontario, the principle of equality, rather than equity, guide home ownership and property tax billing and collection. Regardless of the valuation of the property or the income level of the property owner, the same legislative collecting tools are used for property taxes. Ensuring equal treatment for all taxpayers is the essence of property tax legislation. This goal is not achieved by offering assistance in the form of a tax deferment to a particular group of taxpayers. In Ontario, late fees for unpaid taxes and interest on overdue property taxes have been in effect for decades. Property owners are encouraged to make tax payments before the due date or as soon as possible thereafter by penalties and interest. In addition to shielding the municipality from inflationary pressures, interest also helps to bear the cost of paying the school boards for taxes levied and not collected as legislatively required. The City is required to pay the school boards regardless of tax account collection standing.

Property owners have options though when it comes to annual tax payments. The City of Guelph has 9, 11, and 12-month payment plans that spread out property tax payments through the year. These payment plans set through by-law come with no extra fees, penalties or interest associated with them. Currently over 40 per cent of all properties in Guelph are on a preauthorized payment plan.

Legislative requirements, Property tax relief

In addition to the payment plans offered by the City there are legislative requirements for property tax assistance.

Mandatory Tax Relief for Low-income Seniors and Low-income Persons with Disabilities under the Municipal Act

Municipalities are legislatively required to have a tax relief program under [Section 319 of the Municipal Act](#). This program provides qualifying low-income seniors and

low-income persons with disabilities tax relief through a deferral of property tax, should their annual assessment-related tax increase be greater than \$200. The program is set out in By-law (2015)-19988. For more information, please see the City's website for [Deferral of taxes for low-income seniors and low-income disabled persons](#).

This deferral becomes a lien on the property and is to be repaid upon sale of the property or when eligibility ceases. Eligibility requirements are defined in the by-law and application to the program must be made annually.

Some municipalities have provided a program geared to the same group of applicants allowing for the cancellation, reduction, or refund of taxes through [Section 365 of the Municipal Act](#). The utilization of Section 365 allows them to meet the demands of Section 319 and allows for the write off to be shared with the school boards, but Section 365 does not allow for the deferral of taxes.

There are no properties currently enrolled in the legislatively required deferral programs Guelph offers. When property owners determine that their taxes will not be waived but instead be deferred to a later date, interest in the deferral program ceases.

Compassionate application related to Extreme poverty or Sickness under the Municipal Act

[Section 357 of the Municipal Act](#) allows for an application where the property owner is unable to pay taxes due to sickness or extreme poverty. These applications take on significant disclosure requirements related to financial information, further the authority to review and make the decision on merit has been delegated to the Assessment Review Board. In the past 10 years there have been a few property owners that have inquired about tax relief under this Section and when the process and financial disclosure requirements were outlined no one chose to pursue the application process further.

Municipal Scan

To better understand the municipal environment in terms of what is being provided to assist low-income homeowners, staff engaged Municipal Tax Advisory Group Paralegal Professional Corporation to perform a municipal scan. Staff are unaware of any Ontario municipality that provides deferral of, or relief from, property tax, interest, or penalties for low-income property owners outside that of the legislatively required Seniors and Persons with Disabilities program under the Municipal Act. While programs are legislated for these two groups of low-income property owners, the programs can vary from rebates to deferrals with many other criteria and options, but none are as broad to include all low-income owners.

General tax relief considerations

Municipalities face constraints when implementing tax relief programs. While deferral programs beyond legislative requirements can be controversial and set precedent, they also pose administrative challenges and expenses. Property tax is not income-based and lacks a direct link to the fundamental principle of property taxation when tied to income-based rebates or deferral programs. Further adoption rates for deferral programs are low due to the eventual debt incurred by taxpayers that must be settled at a later date, typically, and unfortunately through the tax sale process.

Current contractual obligations of the property owner

Approximately 11 per cent of all properties in Guelph have taxes paid through mortgage companies. Further, property owners with lower income thresholds may be considered a greater credit risk, and as such may be more likely to have their mortgage company responsible for the collection of and payment to the City of property taxes. The property owners who have their mortgage companies, collect, and pay taxes to the City through their lending agreement are unlikely to seek any deferral due to the interest the deferral creates in favor of the City that supersedes the interest of the mortgage company. Further, a mortgage condition for all property owners who pay taxes directly to the City is to keep the property taxes current. Tax arrears and tax deferrals have priority obligations ahead of mortgage debt, and as a result, lending institutions put controls in place to limit their risk in the event of a default. Again, any tax deferral or arrears creates an interest in favor of the municipality that supersedes the lender's interest and may have negative consequences for the borrower.

Policy considerations

Based on the latest Statistics Canada information, approximately 70 per cent of low-income Guelph residents do not own their home, they rent. Expanding tax deferral programs for low-income owners will not support tenants in rental properties. If taxes for one demographic or group are deferred, the remaining taxpayers will have to fund the administrative costs associated with that deferral. Thus, a portion of the cost of any deferral program will be borne by those tenants in the rental properties.

Tax relief may have unintended consequences, potentially increasing property tax debt. Without the incentive to pay on time, property tax debt could rise. Property owners could end up prioritizing other debts with the highest interest rates, leading to more tax sales. Escaping this cycle is difficult. Tax sale administrations costs are significant and can add substantial fees to the tax account, potentially thousands of dollars over the full process.

A further consideration is that low income is not necessarily connected to low net worth, a property owner may have limited taxable income on an annual basis but may have significant net worth, either through the equity in their home or otherwise.

Municipalities are better served by maintaining and managing the overall tax burden amongst all property classes through appropriate budget and tax policy setting. 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.

While the option for tax rebates and refunds can be available for Council under [Section 365 of the Municipal Act](#), 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 qualifying for a deferral benefit with the tax base as a whole responsible for funding the administrative costs associated with any such deferral. These programs can then lead to municipalities contemplating further policy changes that incorporate income distribution which far exceeds the core abilities of a municipality and should be left to higher levels of government.

Programs through other levels of government

Upper levels of government offer targeted property tax relief through the income tax process for varying demographics. Through the Ontario Trillium Benefit and Ontario Senior Homeowners' Property Tax Grant the maximum benefit for non-seniors is \$971 for the property tax component and for seniors it is \$1,144 for the property tax component.

Other options available to assist with payment of property taxes

Property values are increasing more than property taxes have increased. This has created enhanced equity and wealth for most homeowners. Even in today's real estate market there is often equity that has built up on the home. In these situations, there may be opportunities to refinance or obtain a collateral mortgage through the security of equity in the property. Conversations with their lender may provide valuable options for payment of debt including that of property tax arrears.

Options if a new program was to be implemented

While not recommended by staff, if a new financial needs-based application program were to be implemented for waived penalties and the suspension of interest on unpaid amounts of property taxes, the following requirements would need to be included in the program.

Eligibility Criteria:

- The program would apply only to principal residences.
- Residential property assessments would be used to determine eligibility.
- It is suggested that a maximum current value assessment (CVA) of \$300,000 be utilized. This recommendation is based on the 2016 CVA.
- An income threshold level would be established, potentially using Statistics Canada Low Income cut-offs before tax.

Application Process:

- A full application process would need to be developed, including income and asset disclosure.

Forward-looking Waivers:

- The waiving of penalties and suspension of interest would only apply to future amounts, not retroactively to existing tax arrears.

Collection Practices:

- Any deferral of interest or penalties would not pause or stop normal collection practices, including reminder notices, warning letters, or tax sale registration processes.

As we are unable to gauge the number of applications and thus the overall time required to administer the program it is estimated that a 0.5 FTE would be required for program development, application review, and administration related to waiving penalties/interest. Additionally, there may be an increased workload as such a program could result in additional properties falling into default and proceeding through the tax sale process. Further there will be the loss of any reduction in interest/penalty revenue.

With the program participation unknown, it is estimated the cost to run such a program is in the range of \$100,000 to \$200,000 on an annual basis. This cost

overall would be borne by the tax base as a whole and thus those in rental housing and on the fringe of qualifying for the program would assist in the cost of funding such program.

Current approach to arrears collection and any 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 owner's 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 the 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 than 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 without penalties or interest while ensuring the annual tax levy is paid in full in the same calendar year it was billed.

Outside of working with individual property owners, staff are continually committed to increasing overall participation in tax payment plans through the recent launch of the [property tax portal](#) and a communication strategy to ensure taxpayers are aware of all tax-related programs.

Financial Implications

While application numbers and numbers of those qualifying for a program are unknown it is estimated the annual cost of a financial needs-based application program for waived penalties and the suspension of interest on unpaid amounts of property taxes would be in the range of \$100,000 to \$200,000 that includes the cost of a 0.5 FTE.

Implementing such a program may lead to further defaults and therefore collection efforts including tax sale registration as property owners may naturally pay off debt with higher interest rates first, thus neglecting property taxes where no penalties or interest were charged. Guelph consistently has one of the lower taxes receivable percentages of all the municipalities reported on in the annual BMA report. This is an indicator that current collection efforts and programs currently in place are working as intended.

Consultations and Engagement

Alex Goss, Manager, Equity and Community Investment

Attachments

None.

Departmental Approval

None.

Report Author

James Krauter, Deputy Treasurer / Manager Revenue and Treasury

This report was approved by:

Tara Baker

General Manager, Finance/City Treasurer

Corporate Services

519-822-1260 extension 2084

tara.baker@guelph.ca

This report was recommended by:

Trevor Lee

Deputy Chief Administrative Officer

Corporate Services

519-822-1260 extension 2281

trevor.lee@guelph.ca