



TO: General Committee

CC: Andy Taylor, Chief Administrative Officer,
Trinela Cane, Commissioner of Corporate Services,
Joel Lustig, Treasurer

FROM: Shane Manson, Senior Manager, Revenues & Property Taxation

DATE: Wednesday, November 04, 2015

Re: Memo on: "Penalty to be Charged on the 4th Day after the Tax Instalment Due Date"

At the November 4th, 2015 Budget Committee meeting, staff presented options to reduce the proposed 2016 tax rate increase which included the application of a 1% penalty on the 4th day after instalment due dates. Committee moved that Staff report back to General Committee on November 9th, 2016 with further information on the following;

1. Implementation of the penalty application charge effective;
 - a) July 1st, 2016 as recommended by staff; or
 - b) January 1st, 2016

Background

1) Implementation of the penalty application charge

The *Municipal Act* provides municipalities with the authority to impose late payment charges for the non-payment of property taxes or any instalment by the due date. The *Municipal Act* allows two for separate late payment charges as follows;

- Penalty Charge - not to exceed 1.25 per cent of the amount of taxes due and unpaid, may be imposed as a penalty for the non-payment of taxes on the first day of default;
- Interest Charge - not to exceed 1.25 per cent each month of the amount of taxes due and unpaid is charged the first day of the following month.

The City of Markham issues property tax bills twice per year (interim and final) and provides owners with two property tax payments methods;

- Pre-authorized tax payment plan (automatic withdrawal)
- Regular property tax payment plan (4 instalments per year)
 - Interim Tax Bill - (Residential and Non-residential): February and March
 - Final Tax Bill - (Residential only): July and August
 - Final Tax Bill - (Non-Residential only): October and November

Current Process - Penalty and Interest

In the event that the property tax instalment amount is not paid by the due date, Interest is charged at 1.25 per cent the following month. Therefore no penalty charge currently applies within the instalment month.

Penalty would not apply to property tax accounts utilizing the Pre-Authorized Tax Payment Plan as these are direct withdrawals from the property owner's financial institution.

1. Proposed Process - Penalty and Interest

To ensure equality and fairness amongst the two payment methods, staff recommends the following penalty and interest application charge;

- In the event that the taxes are not paid by the due date, a penalty will be charged at a rate of 1.00 per cent on the fourth day of default on the amount of taxes due;
- Interest at a rate of 1.25 per cent will continue to be added the first day of the following month if any taxes remain unpaid;

The recommended penalty application charge is estimated to generate an additional \$300k in revenue annually, as illustrated in the table below;

Financial Implications	(\$ in 000s)
Estimated annual penalty revenue at 1%	\$400
Estimated annual penalty revenue reduced by 25% (behaviour change)	(\$100)
Net annual penalty revenue	\$300

- The staff recommendation is to implement the penalty application charge for the final tax bill in July 2016, which requires approval prior to the finalization of the 2016 budget scheduled for December 15th, 2016. This option would generate \$165k of penalty revenue in 2016, requiring \$135k to be funded from the ramp-up reserve in 2016, if required.

In addition, this option allows for an opportunity to communicate the implementation of the penalty application charge to property owners.

b) The Budget Committee requested further information on the steps required to implement the penalty application rule change effective January of 2016, which are as follows:

- Inclusion and approval of the new penalty application charge within the 2016 Interim Tax Levy By-Law, currently on the November 9th, 2015 General Committee agenda;
- Inclusion of the new penalty application charge on the 2016 tax bills and statements;
- Inclusion of the new penalty application charge within the 2016 Interim Tax Brochure and City website;

If Council resolves that the penalty application charge be implemented effective January 1st, 2016, there will be penalty revenue estimated \$300k for 2016.