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**TAMRMS#:** B09

## **Bylaw 38-2019 Tax Penalty Bylaw (1st, 2nd and 3rd Reading)**

Presented by: Greg Dahlen, Senior Manager, Finance & Assessment Department

### **RECOMMENDATION:**

That the Community Growth & Infrastructure Standing Committee recommend to Council:

1. That Bylaw 38/2019, being Amendment 1 to Property Tax Penalty Bylaw 40/2006, be read a first time.
2. That Bylaw 38/2019 be read a second time.
3. That unanimous consent be given for consideration of third reading of Bylaw 38/2019.
4. That Bylaw 38/2019 be read a third and final time.

### **PURPOSE OF REPORT**

That Bylaw 38/2019 (Attachment 1) be updated to incorporate amendments to the penalty rate structure pertaining to property tax penalties, based on a review of tax penalty bylaws from other comparator municipalities and analysis of the revenue history associated with tax penalties specific to St. Albert.

### **ALIGNMENT TO COUNCIL STRATEGIC PRIORITY**

N/A

### **ALIGNMENT TO SERVICE DELIVERY**

Service Name:	Tax Account Administration
Service Definition:	Administration of the annual and supplementary tax levy, pre-authorized payment system, schools support declarations, property tax collection process, and land title office changes.
Service Component:	Not applicable

Current Service Level: Not applicable

## **ALIGNMENT TO COUNCIL (OR COMMITTEE) DIRECTION OR MANDATORY STATUTORY PROVISION**

N/A

## **BACKGROUND AND DISCUSSION**

Imposition of penalties for unpaid taxes is allowed as per Sections 344-345 of the *Municipal Government Act*. Penalty rates are established via bylaw. The current tax penalty Bylaw has been in place since 2006. Rates are commonly structured to apply to “current year taxes” and “taxes-in-arrears”. St. Albert’s tax penalty rates are currently as follows:

<u>Current Year Taxes</u>		<u>Taxes-in-Arrears</u>	
<u>Penalty Date</u>	<u>Penalty Rate %</u>	<u>Penalty Date</u>	<u>Penalty Rate %</u>
July 1	3%	January 1	12%
August 1	6%	July 1	6%
October 1	9%		

Imposition of penalties for the late payment of property taxes is common throughout Alberta.

**Attachment 2 - Tax Penalty Comparison**, is a compilation of the tax penalty rates imposed by other comparable Alberta cities. The range of “current year” annualized rates is generally 12% to 18%, with the average being approximately 14% per annum non-compounded. The range of “taxes-in-arrears” rates is generally 12% to 20%, with the average being approximately 17% per annum compounded. St. Albert is currently at 18% annualized for “current year”, and 18.7% annualized for “taxes-in-arrears”.

Tax penalty revenue history for St. Albert is shown below. The increasing revenue totals are a function of economic conditions and growth in the underlying annual property tax levy itself. Additionally, tax penalty revenues have risen because utility arrears are transferred to tax accounts for collection purposes, and thus become part of the outstanding taxes.

<u>Tax Year</u>	<u>Tax Penalty Revenue</u>
2018	\$914,000
2017	\$902,000
2016	\$834,000
2015	\$824,000
2014	\$806,000

The comparative rate analysis as contained with Attachment 2 suggests that slight modifications to the penalty rates and penalty dates as used within the St. Albert Bylaw may be prudent. Changes to the rate percentages, and/or the penalty dates, does influence the tax penalty revenue generated. Thus, any adjustment from the rate/date status quo will affect operating revenues, albeit by a nominal

amount.

For the purposes of this Bylaw review, three options for tax penalty rate amendments were analyzed. Emphasis was on possible rate amendments that improve fairness and equity to property owners, while maintaining stable revenue totals. This analysis is included as **Attachment 3 - Tax Penalty Options**. These options are briefly summarized below:

- Option 1: Rate & Date Revisions: Reduce current year annualized rates slightly. Leave taxes-in-arrears rates as-is, but disperse the penalties across three penalty dates as opposed to the current two dates.
- Option 2: Penalty Date Revisions: Leave penalty rates essentially unchanged, but more evenly spread out the dates at which penalties are applied.
- Option 3: Status Quo: Leave all penalty rates and penalty dates as-is within the revised bylaw.

Based on the analysis of these three options, it is recommended that **Option 1** be implemented within the revised Bylaw. This option would reduce the current year tax penalty rate from 18% to 16% (from 3%-6%-9% to 4%-6%-6%); thus, nearer to the Alberta city average, as shown in Attachment 2. Additionally, the tax-in-arrears annualized rate would remain the same, but the penalty rate would be spread out (from 12%-6% to 6%-6%-6%).

The net effect of the rate and penalty date changes would be an estimated tax penalty revenue reduction in 2020 of approximately \$30,000. Rate and date changes are offset by the fact that the tax penalty totals are inflationary in nature. Recent data illustrates that tax penalty revenue is consistently approximately 0.9% of the annual municipal tax levy total.

<u>Tax Year</u>	<u>Tax Penalty Revenue</u>	<u>Annual Municipal Tax Levy</u>	<u>Tax Penalty Revenue as % of Annual Tax Levy</u>
2018	\$914,000	\$101,826,700	0.90%
2017	\$902,000	\$97,498,100	0.93%
2016	\$834,000	\$92,999,400	0.90%
2015	\$824,000	\$90,465,300	0.91%
2014	\$806,000	\$84,979,045	0.95%

## **STAKEHOLDER COMMUNICATIONS OR ENGAGEMENT**

Any rate or date revisions to tax penalties, would take effect for the 2020 tax year. Penalty rates and dates are communicated to property owners on the backside of the annual *Property Assessment & Taxation Notice*, as well as on the city website.

## **IMPLICATIONS OF RECOMMENDATION(S)**

### Financial:

Amendments to the existing penalty rate structure can affect the revenues associated with penalties. Implementation of Option 1 (within Attachment 3) would reduce tax penalty revenues by approximately \$30,000 in 2020. However, penalty revenue totals will then continue to rise as they are correlated to any future increases in the annual property tax levy. Thus, any dip in overall tax penalty revenue, related to the recommendation associated with this bylaw review, is very short-term in nature.

It is recommended that the proposed 2020 budget for tax penalties be maintained and not reduced for this change. The 2020 proposed tax penalty budget amount has been determined to be somewhat understated based on recent Q3 2019 analysis, meaning that this change can be absorbed with no further impact to the overall tax base.

Program or Service:

Service delivery of the tax administration associated with imposition of tax penalties is enhanced, as a thorough review of tax penalty rate structure has been undertaken, by way of comparative analysis with other city municipalities.

Organizational:

There would be some minor implications to the workload involved in administering tax accounts, if rates or dates in the bylaw were amended. Logistics would involve updating applicable sections within the city website, updating the invoice templates, and re-programming penalty rate and date changes within the Taxation software system (Tempest).

## **ALTERNATIVES AND IMPLICATIONS CONSIDERED**

If Council does not wish to support the recommendation, the following alternatives could be considered:

Alternative 1:

That Council adopt penalty date revisions only, and decline adjustment to current penalty rates, (Option 2 within Attachment 3).

Alternative 2:

That Council determines that it wishes to maintain the status quo and make no rate or date changes within the revised bylaw, (Option 3 within Attachment 3).

Report Date: December 9, 2019

Author: Greg Dahlen

Department: Finance & Assessment Department

Deputy Chief Administrative Officer: Kerry Hilts

Chief Administrative Officer: Kevin Scoble

Data Source: Bylaw documents as sourced from municipal websites  
 Date: Data deemed current to September 2019  
 Author: Assessment Services



## Property Tax Penalty Comparison - Current Year Taxes

Municipality	Bylaw	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annualized Interest Rate on Current Year Taxes	Compounded Interest Rates?	Total Penalty per \$1,000 outstanding
Strathcona County	46-2011							3%	6%	9%				18.0%	No	\$180
St. Albert	40/2006							3%	6%		9%			18.0%	No	\$180
Leduc	632-2006							6%	2%	2%	2%	2%	2%	16.0%	No	\$160
Edmonton	12914							5%		5%		5%		15.0%	No	\$150
Spruce Grove	C-1086-19							2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	15.0%	No	\$150
Airdrie	B-09/2018							5%	9%					14.0%	No	\$140
Red Deer	3546/2015							7%		7%				14.0%	No	\$140
Calgary	8M2002							7%			7%			14.0%	No	\$140
Chestermere	2018-014							7%		1.5%	1.5%	1.5%	1.5%	13.6%	Yes	\$136
Grande Prairie	C-1138							6%	6%					12.0%	No	\$120
Lethbridge	6153							7%	1%	1%	1%	1%	1%	12.0%	No	\$120
Medicine Hat	4510							3.98%	0.57%	0.57%	0.57%	0.57%	0.57%	6.8%	No	\$68

## Property Tax Penalty Comparison - Taxes in Arrears

Municipality	Bylaw	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annualized Interest Rate on Taxes in Arrears	Compounded Interest Rates?	Total Penalty per \$1,000 outstanding
Spruce Grove	C-1086-19	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	31.2%	Yes	\$312
Chestermere	2018-014	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	19.6%	Yes	\$196
Grande Prairie	C-1138	6%				6%				6%				19.1%	Yes	\$191
Strathcona County	46-2011	3%	6%	9%										19.0%	Yes	\$190
Airdrie	B-09/2018	9%			9%									18.8%	Yes	\$188
St. Albert	40/2006	12%						6%						18.7%	Yes	\$187
Edmonton	12914	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	16.1%	Yes	\$161
Red Deer	3546/2015	7%						7%						14.5%	Yes	\$145
Calgary	8M2002	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	13.8%	Yes	\$138
Lethbridge	6153	Daily	Daily	Daily	Daily	Daily	Daily	Daily	Daily	Daily	Daily	Daily	Daily	12.7%	Yes	\$127
Leduc	632-2006	12%												12.0%	Yes	\$120
Medicine Hat	4510	0.56%	0.57%	0.57%	0.57%	0.57%	0.57%	0.57%	0.57%	0.57%	0.57%	0.57%	0.57%	9.0%	Yes	\$90

## TAX PENALTY REVISION OPTIONS

### Option 1 – Current Taxes from 18% to 16% & Taxes in Arrears with Penalty Dates Adjustment

Penalty Type	Penalty Date	Penalty Rate	Forecasted Penalty Revenue change in 2020
Current Year	Jul 1	4%	<i>(\$30,000)</i>
	Aug 1	6%	
	Oct 1	6%	
Taxes in Arrears	Jan 1	6%	
	Apr 1	6%	
	Jul 1	6%	

### Option 2 – Current Taxes as-is & Taxes in Arrears with Penalty Date Adjustment

Penalty Type	Penalty Date	Penalty Rate	Forecasted Penalty Revenue change in 2020
Current Year	Jul 1	3%	<i>(\$10,000)</i>
	Aug 1	6%	
	Oct 1	9%	
Taxes in Arrears	Jan 1	6%	
	Apr 1	6%	
	Jul 1	6%	

### Option 3 – Status Quo - No Changes to Existing Rates or Penalty Dates

Penalty Type	Penalty Date	Penalty Rate	Forecasted Penalty Revenue change in 2020
Current Year	Jul 1	3%	\$0
	Aug 1	6%	
	Oct 1	9%	
Taxes in Arrears	Jan 1	12%	
	Jul 1	6%	