

COMMITTEE OF THE WHOLE - NOVEMBER 18, 2002

PENALTY AND INTEREST BY-LAW

Recommendation

The Director of Finance in consultation with the Manager of Property Tax & Assessment recommends:

That a by-law to establish the penalty and interest rate for taxes overdue, at the same rates as last year, 1.25% per month, be approved for 2003.

Purpose

The purpose of this report is get Council's approval for the rates of penalty and interest to be charged on property tax arrears for 2003.

Background - Analysis and Options

The new Municipal Act, which takes effect January 1, 2003 requires Council to pass a by-law to establish a percentage charge for penalty and interest, not to exceed 1 ¼% per month. This is the City's current rate. This rate is applied to all taxes that are in arrears. Penalty and interest is applied consistently to all property owners in arrears and is not compounded.

Penalty and interest rates are set at the maximum level so that municipalities are not considered an alternative to conventional lending institutions. A ratepayer's first choice in borrowing funds should be a financial lending institution such as a bank. Lowering the rate may encourage property owners to put their property at risk by financing their tax arrears through the municipality thereby eroding the equity in their property. Additionally this action would place the property at risk for a tax sale once the balance outstanding reached three (3) years.

Conclusion

This item is being brought forward at this time in order to establish the percentage to be charged, as this is needed for January 1, 2003. There are however other provisions in the new Act relating to the application of penalty and the paying of interest in certain circumstances. These sections pertaining to penalty and interest are subject to possible amendment in Bill 177, and staff will report back to Council if and when Bill 177 receives Royal Assent.

The City's current rate of 15% per annum has not changed over the past several years. Our understanding is that the Town of Richmond Hill and the Town of Markham do not plan to lower their rates for 2003. Penalty and interest generates significant revenue to the City and therefore any reduction in the rate would have an impact on the Operating Budget.

Attachments

None

Report prepared by:

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Respectfully submitted,

Barry E. Jackson, CGA

Director of Finance