
City of Kelowna
MEMORANDUM

DATE: January 29, 2001
File No: 1970-05

TO: City Manager

FROM: Deputy Director of Finance

RE: **CHANGE IN PROPERTY TAX PENALTY DATES**

Prepared by: Revenue Manager

RECOMMENDATION:

THAT Council authorize staff to prepare a bylaw, under section 367 of the Local Government Act, establishing an alternative municipal tax collection scheme;

AND THAT a second penalty date for payment of City of Kelowna property taxes be established as midnight on the first working day after the August Civic holiday;

AND THAT the current 10% penalty be split evenly at 5% of the current outstanding levy for both the first and second penalty dates;

AND FURTHER THAT a review and evaluation of the tax penalty change be conducted in the fall of 2001 to determine the impact on customers, corporate revenues, and resources and a report be provided to Council prior to 2002 budget discussions.

BACKGROUND:

The City of Kelowna, in keeping with section 366 of the Local Government Act of the Province of British Columbia, currently adds a penalty equal to 10% of the current, unpaid balance to property tax accounts where that current balance is not paid by the due date. That single due date is midnight on the first working day after the Canada Day holiday in July of each year.

Every year, there are a number of taxpayers who do not have their property tax payments, and/or their Provincial Home Owner Grant (PHOG) applications forwarded to the City by the due date, and have a penalty attached to their property tax account as a result. City staff and Councillors have heard concerns over the years, from some of those taxpayers who are assessed the penalty, that it is excessive.

The Local Government Act itself does not have any provision for waiving the property tax penalty. Generally, the tax penalty is canceled or waived only in those cases where it can be demonstrated that the City tax department erred in processing the taxpayers tax notice, or payment. There are very few penalties that can be legitimately waived.

ASSUMPTIONS AND CONSIDERATIONS:

The total tax penalty percentage will remain at 10%.

A reasonable split of the 10% penalty is a 5% penalty charge at the first penalty date and a 5% penalty charge at the second penalty date.

A warning or notification will be required between the levy of the first penalty and the due date of the second penalty. This notification will be mailed within ten (10) working days of the initial, July penalty date.

There is no requirement for the City to space a second penalty date so that this date is the same number of days from the first penalty date, as that first penalty date is from the initial tax notice mailing.

General revenue from late payment of property taxes will be reduced on an annual basis. While it is difficult to determine the extent that a change in the timing of the application of the total penalty amount will have on tax penalty revenue, a reduction of approximately \$100,000 per year is not an unreasonable expectation.

Staffing and processing costs will increase to handle the additional effort required by a second penalty date. The estimated cost for this is \$4,000.00. A one-time internal cost to cover the programming efforts to make the necessary system changes is estimated at \$10,000.00.

The intent of a second penalty date is to provide an opportunity for taxpayers, who would, under their own personal, regular, normal and usual circumstances, pay on time. There is no need or requirement to extend a second penalty date several weeks or months later than the first penalty date to allow for external factors that may impact separate industries or individuals (tourist season, harvest time, etc).

Penalty Revenue History:

1988	211,231	1994	305,321
1989	191,901	1995	361,906
1990	227,807	1996	392,218
1991	233,424	1997	387,376
1992	240,494	1998	402,626
1993	331,222	1999	451,220
		2000	489,905

For the 2001, the City has budgeted tax penalty revenue of \$440,000.

Appendix 1 lists the penalty dates of various municipalities within the province. All municipalities listed use a 5% initial penalty and a 5% subsequent penalty. There are three municipalities, not included in Appendix 1, that use penalty percentages other than a 5% - 5% split. According to a UBCM survey, Invermere uses a 1.5% and 8.5% split, Kent uses a 1% and 9% split and Tofino uses a 2% and 8% split.

OTHER OPTIONS CONSIDERED:

1. Retain the Status Quo of a 10% penalty applied on current balances that remain outstanding after midnight on the first working day after the Canada Day holiday in July. This option is not recommended because it would not resolve the issue that has been presented to City staff and Councillors over the years. Often, taxpayers who have been charged the 10% penalty believe it to be excessive considering their intentions, their past history, and the challenges they faced in returning their payment and/or grant application by the due date.
2. Establish an initial penalty charge of 5%, to be applied on current balances that remain outstanding after midnight on the first working day after the Canada Day holiday in July, and establish a second penalty charge of 5%, to be applied on current balances that remain outstanding after midnight on October 31st of each year. This option is consistent with the penalty rates and amounts established for Regional Districts within British Columbia, including the Central Okanagan Regional District. This option is not recommended as it puts the City in the position of being a lender over a 4 month period, whereas the intent of the change is to relieve the substantial cost to property owners who simply miss the due date by a short period of time.
3. Establish an initial penalty charge of 2%, to be applied on current balances that remain outstanding after midnight on the first working day after the Canada Day holiday in July, and establish a second penalty charge of 8%, to be applied on current balances that remain outstanding after midnight on the first working day after the August Civic holiday. This option is not recommended because of the potential risk that taxpayers, who have historically paid by the July due date, will make a financial decision that the initial penalty is low enough that they will choose to retain their funds for that additional month. The City currently receives approximately 95% of property tax funds, from approximately 92% of tax rolls, by the first penalty date. A significant reduction in these percentages would entail higher annual staffing and resource costs than the estimated \$4,000.00 expected with a 5% and 5% split, where it is assumed that the percentages paid by the initial due date would remain close to 95% of funds from 92% of the tax rolls.

A summary of the tax penalty charges associated with each of the options considered in this report is included in Appendix 2 for a typical single family dwelling in the City.

Paul Macklem

cc: Director of Finance & Corporate Services
Revenue Manager
Financial Planning & Systems Manager