



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date: July 5, 2005
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TO: Vancouver City Council

FROM: Estelle Lo - General Manager of Corporate Services / Director of Finance

SUBJECT: Tax Instalment Prepayment Plan (TIPP) Interest

RECOMMENDATION

THAT Council set an annual interest rate of 1.25% for 2006 real property tax payments paid in advance through the City's Tax Instalment Prepayment Plan (TIPP program) to be effective for the period August 1, 2005 to July 31, 2006.

CITY MANAGER'S COMMENTS

The City Manager RECOMMENDS the foregoing.

COUNCIL POLICY

In March 1998, Council approved the establishment of a voluntary monthly instalment plan for the prepayment of property taxes through pre-authorized charges to the taxpayer's bank account. TIPP was implemented on August 1, 1998.

In January 2001, Council approved that effective August 1, 2001 interest be paid on prepayments at an interest rate to be set annually at August 1 based on the interest rate paid on savings accounts by the City's corporate banker as at June 30.

PURPOSE

The purpose of this report is to recommend an interest rate to be applied to 2006 real property taxes paid in advance through the City's TIPP program.

DISCUSSION

Section 412 of the *Vancouver Charter* allows Council to accept prepayments from property owners that can be applied to property taxes billed at a later date. In March 1998, Council approved the implementation of a prepayment plan that became effective August 1, 1998. In January 2001, Council amended the plan to include payment of interest and automatic withdrawal of advance and final billing balances.

The following chart shows the growth of enrolment in TIPP since inception of the plan.

Tax Year	Plan Enrolment	% Change	Amount	% of Property Accounts
1999	350	N/A	\$ 108,600	0.2%
2000	1,626	365%	\$ 384,958	1.1%
2001	2,823	74%	\$ 814,511	1.8%
2002	4,483	59%	\$1,267,802	2.8%
2003	6,016	34%	\$1,925,194	3.7%
2004	6,800	13%	\$2,255,205	4.1%
2005	7,491	10%	\$2,698,028	4.5%

Council policy is to set the interest rate paid on balances held on behalf of taxpayers based on the rate paid by the City's corporate banker on savings accounts as at June 30. The Bank of Montreal currently offers a premium savings account paying interest of 2.00% per annum. However, this account also charges service fees for deposits and withdrawal transactions, reducing the effective annual rate. After allowing transaction fees for 10 deposits and 2 withdrawals - typical of the transactions that would occur on a TIPP account - the effective rate on this benchmark account would be approximately 0.5%. Other savings accounts are offering interest rates of 0% to 0.5% on similar balances.

The objective of offering interest on prepayments of taxes is to provide an incentive for participation in the program. At the same time, the spread between interest paid to taxpayers and earned by the City should be sufficient to cover the costs of administration of the program, ensuring that taxpayers that choose not to participate in the program are not subsidizing those who do.

For the 2006 tax year, it is recommended the City adopt a rate of 1.25% per annum for the period August 1, 2005 to July 31, 2006, unchanged from the rate paid in 2004 and 2005 tax

years. The recommended rate reflects a premium over the interest paid on regular savings accounts and over the net effective rate on the benchmark premium savings account. The recommended rate will therefore provide some encouragement for taxpayers to utilize the program. It will also maintain a margin between rates earned on the balances held by the City and rates paid to taxpayers using the program that is sufficient to cover the direct costs of administration of TIPP.

CONCLUSION

TIPP is a convenient option available to taxpayers for paying taxes. Participation in the program continues to increase with maturity of the program and user acceptance, albeit at a lower rate of increase than in the initial years of the program.

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