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ADMINISTRATIVE REPORT

Report Date: July 9, 2009
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Meeting Date: July 21, 2009

TO: Vancouver City Council
FROM: General Manager of Financial Services / Director of Finance
SUBJECT: Tax Instalment Prepayment Plan (TIPP) Interest

RECOMMENDATION

- A. THAT Council approve the interest rate for real property tax payments paid in advance through the City's Tax Instalment Prepayment Plan (TIPP program) to be the Bank of Canada prime rate less 3% (with a minimum of 0.25%) on January 31 and July 31 of each year, commencing July 31, 2009, and,
- B. FURTHER THAT the Director of Legal Services be instructed to prepare the applicable by-law for enactment by Council.

CITY MANAGER'S COMMENTS

The City Manager *RECOMMENDS* approval of 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 Council adopt a policy that sets the interest rate for the City's TIPP program twice each year (on January 31 and July 31) equal to the Bank of Canada prime rate less 3% (with a minimum of 0.25%). The use of the prime rate as a basis is more consistent with other municipalities and is better understood by the general public and allows the TIPP interest rate to be set on a regular basis without requiring annual Council approval.

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 objective of offering interest on prepayments of taxes is to provide an additional 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. As of May 2009, there were 9,716 TIPP accounts.

Council policy is to set the interest rate annually based on the rate paid by the City's corporate banker on savings accounts as at June 30 each year. Over the years, the City's corporate banker, the Bank of Montreal (BMO), similar to all other major Canadian banks, have offered a variety of savings accounts which change frequently to meet customer needs. As well, some of the savings accounts also charge service fees for deposits and withdrawal transactions, reducing the effective annual rate. Therefore, since 2001, Council has annually approved a rate based on minor adjustments to the BMO's premium savings account.

In an effort to streamline the rate setting process, it is proposed that Council adopt a new policy as follows:

- Interest rate to be the Bank of Canada prime rate less 3% (with a minimum of 0.25%).
- Interest rate to be automatically set twice annually: on January 31 and July 31 of each year.

It is proposed that the rate be set twice a year in line with the City's tax due dates. The July 31 rate will be for the instalments collected starting in August to be applied to the February advance tax due date. The January 31 rate will be for the installments collected from February to May to be applied to the main tax notice due early July.

Subject to Council's approval, the Tax Prepayment By-law will be amended to reflect these changes. Starting with the 2010 tax installments, interest will be set at the Bank of Canada prime rate less 3% (with a minimum of 0.25%) on July 31, 2009.

CONCLUSION

TIPP is a convenient option available to taxpayers for paying taxes. Taxpayers choose the TIPP program for convenience and budgeting purposes, as well as being able to earn interest on their prepayment of taxes.

The recommended changes to the Tax Prepayment By-law provides for a more streamlined administrative process for setting the interest rate each year. Basing the rate on the Bank of Canada prime rate less 3% (with a minimum of 0.25%) and adjusting the rate twice annually provides enhanced incentive for increased participation in the TIPP program.

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