



COUNCIL REPORT

Report Date: August 22, 2024
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VanRIMS No.: 08-2000-20
Meeting Date: September 24, 2024
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TO: Vancouver City Council
FROM: Director of Financial Services
SUBJECT: 2025 Interest Rate on Property Tax Arrears

Recommendations

- A. THAT City Council set an interest rate of 10.70% for property tax arrears to be effective January 1, 2025.
- B. THAT the Director of Legal Services be instructed to bring forward for enactment a by-law outlined in Appendix "A" regarding the 2025 interest rate on property tax arrears, for consideration by Council on or before September 30, 2024, in accordance with the provisions of section 415 of the Vancouver Charter.

Purpose and Executive Summary

The purpose of this report is to recommend an interest rate to be applied to property tax arrears in the year 2025.

Council Authority

It has been Council practice to pass a by-law annually to set an interest rate for property tax arrears for the coming year, in accordance with section 415 (2) of the Vancouver Charter.

City Manager's Comments

The City Manager concurs with the foregoing recommendations.

Context and Background

Section 415 of the Vancouver Charter reads as follows:

"Interest

- (1) Unless otherwise provided by a by-law passed pursuant to subsection (2) hereof, interest at the rate of 8% per annum compounded annually shall be added to all real-property taxes that become delinquent on or after December 31, 1969, and to delinquent taxes and interest that remain delinquent after December 31, 1969.
- (2) Council may, from time to time, by a by-law passed not later than September 30 in any year impose interest to be compounded annually on real-property taxes which are delinquent in the calendar year following the enactment of such by-law. Such interest rate shall not be greater than 4 percentage points above the prime interest rate prevailing on July 31 of the year of its enactment as determined from the City's principal bankers."

Council, therefore, has the following options:

1. Not enact a by-law and the rate would default to 8%; or.
2. Enact a by-law to set a rate at prime plus a maximum of 4%.

It has been Council practice to set the rate on an annual basis, rather than leaving it static at 8%. Since 2000, Council has set the rate at 4% above prime resulting in rates ranging from 6.25% to 11.20%. Based on the July 31, 2024 prime rate of 6.70%, the proposed rate for 2025 would be 10.70%.

Discussion

Taxes which remain unpaid after December 31 of the year in which they were levied become tax arrears, and accrue interest effective January 1 the following year. Experience has shown that an interest rate set above what financial institutions are charging on loans encourages taxpayers to pay their outstanding taxes. An interest rate set lower than market rates provides taxpayers with an incentive to defer payment of outstanding taxes in order to finance other expenditures. This puts the city in the undesirable position of acting as a lending institution.

The bank prime rate is considered an indicator of the cost of borrowing for taxpayers. Interest rates charged by financial institutions on loans can vary depending on the nature and credit worthiness of the borrower.

Establishing a sufficient differential between the City's interest rate and the interest rates charged by financial institutions on loans (approximately 7-10% range) encourages taxpayers to pay their property taxes in a timely manner. However, the recommended rate is significantly less than rates most consumers are paying on outstanding credit card balances (approximately 20% or above). The rate charged is one tool used by the City to manage property tax arrears. Management of the arrears is not only important to safeguard the financial assets of the City, but also it is one of the factors that credit rating agencies review when assessing the credit worthiness of the City.

As in prior years, it is recommended that Council establish the arrears interest rate following the movement of prime rate as it reflects current economic conditions. The prime rate on July 31 was 6.70% and accordingly, the proposed 2025 rate would be 10.70% per annum, down from the 11.20% arrears interest rate for 2024.

Financial Implications

Interest revenue on tax arrears over the last 5 years has been approximately \$2.9M per year and varies due to the amount of outstanding taxes and interest rate. A 0.5% reduction in the interest rates has an impact of approximately \$250,000.

Legal Implications

If enacted, the Council will establish, by by-law, an interest rate of 10.70% for tax arrears in accordance with section 415 of the Vancouver Charter

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APPENDIX A

BYLAW NO.

A By-law to provide for the imposition of interest on delinquent property taxes for 2025

THE COUNCIL OF THE CITY OF VANCOUVER, in public meeting, enacts as follows:

- 1. The name of this By-law, for citation, is the "2025 Real Property Tax Interest By-law".
- 2. All real property taxes that are or become delinquent after December 31, 2024, are to bear interest at the rate of 10.70 % per annum compounded annually.
- 3. This By-law is to come into force and take effect on the date of its enactment.

ENACTED by Council this _____ day of _____, 2024

Mayor

City Clerk