

Credit and/or Debit Card Payment Method -Taxes

(City Council on August 1, 2 and 3, 2000, adopted this Clause, without amendment.)

The Policy and Finance Committee again recommends the adoption of the Recommendation of the Assessment and Tax Policy Task Force embodied in the communication (January 31, 2000) from the City Clerk.

The Policy and Finance Committee reports, for the information of Council, having received the report (July 7, 2000) from the Chief Financial Officer and Treasurer addressing additional issues raised by Councillors in response to her previous report respecting Credit and/or Debit Card Payment Methods.

The Policy and Finance Committee submits the following communication (March 9, 2000) from the City Clerk:

City Council, at its meeting held on February 29, March 1 and 2, 2000, had before it, the attached Clause No. 14 contained in Report No. 3 of The Policy and Finance Committee, headed "Credit and/or Debit Card Payment Method - Taxes".

Council directed that the aforementioned Clause be struck out and referred back to the Policy and Finance Committee further consideration.

(Clause No. 14 of Report No. 3 of the Policy and Finance Committee)

(City Council on February 29, March 1 and 2, 2000, struck out and referred this Clause back to the Policy and Finance Committee for further consideration.)

The Policy and Finance Committee recommends the adoption of the Recommendation of the Assessment and Tax Policy Task Force embodied in the following communication (January 31, 2000) from the City Clerk:

Recommendation:

The Assessment and Tax Policy Task Force recommends the adoption of the report (January 24, 2000) from the Chief Financial Officer and Treasurer.

The Assessment and Tax Policy Task Force reports, for the information of the Policy and Finance Committee having requested the Chief Financial Officer and Treasurer to report to the Task Force on:

- (1) opportunities for the City to use e-commerce technology for the payment of taxes; and
- (2) how opportunities can be created for the City to collect taxes that are in arrears, in a more expeditious manner.

Background:

The Assessment and Tax Policy Task Force, on January 25, 2000, had before it a report (January 24, 2000) from the Chief Financial Officer and Treasurer Credit And/Or Debit Card Payment Method - Taxes, and recommending that:

- “(1) the City of Toronto continue to encourage payment of property taxes by debit cards, the pre-authorized tax payment plan and electronic fund transfers; and
- (2) the City of Toronto not approve payments of property taxes by credit cards because of the extra expenditure of \$3.3 million to \$6.7 million that would be created by the fees of credit card companies.”

(Report dated January 24, 2000, addressed to the
Assessment and Tax Policy Task Force from the
Chief Financial Officer and Treasurer)

Purpose:

The purpose of this report is to outline the implications if taxpayers were permitted to pay their property taxes by credit and/or debit cards.

Funding Sources, Financial Implications and Impact Statement:

There are no financial implications from this report since the report does not recommend that property taxes be paid by credit cards due to cost considerations. However, if the City were to allow residential taxpayers to use credit cards, the additional expenditures would be between \$3.3 million to \$6.7 million gross based on a 15 percent to 30 percent ‘take up’ by residential taxpayers. Extending the programme to commercial accounts would further increase the expenditure. No funds are currently budgeted for these expenditures.

Recommendations:

It is recommended that:

- (1) the City of Toronto continue to encourage payment of property taxes by debit cards, the pre-authorized tax payment plan and electronic fund transfers; and
- (2) the City of Toronto not approve payments of property taxes by credit cards because of the extra expenditure of \$3.3 million to \$6.7 million that would be created by the fees of credit card companies.

Background/History:

The Assessment and Tax Policy Task Force at its meeting held on February 5, 1999 requested the Chief Financial Officer and Treasurer to report to the Task Force on the implications of permitting taxpayers to pay their property taxes by credit and/or debit cards.

Discussion:

(1) Credit Cards:

The former Borough of East York was the only municipality in Metropolitan Toronto that permitted taxes to be paid by credit cards. About 26 percent of its residential tax bills were collected through this method. The Borough incurred an annual cost of approximately \$50,000.00 for its 6,500 residential accounts which were paid by credit cards. A survey of other municipalities (Ajax, Brampton, Burlington, Hamilton, Markham, Mississauga, Oakville, Oshawa, Ottawa, Pickering, Richmond Hill, and Vaughan) found that none of them provided a credit card option.

One would have expected that besides potential convenience for taxpayers, a gain for the municipality would have been a reduction in arrears. There would therefore be a savings on the collection side since in effect the bad debts would be transferred from the municipality to the credit card company. However, the East York experience indicates that the permission to use credit cards was not successful in reducing arrears.

The Royal Bank of Canada was contacted regarding the use of credit cards and indicated that the discounting rate for credit cards could be 1.71 percent based on an average residential tax bill of \$2,794.00 (approximately \$47.00) and assuming that 25 percent of the residential taxpayers would use the service. In addition, there would be an additional rental cost for terminals (\$30/month). There are two alternatives available to the City to recover these costs. The credit card service charge could be included as a general operating expenditure and then effectively paid for by all taxpayers. This is inequitable to taxpayers. Commercial and residential taxpayers who pay their taxes through mortgage companies, or by cash, direct deposits and postdated cheques, that is, those who choose not to use the credit cards, would pay the cost to the City of the use of credit cards by others. Alternatively, if costs were to be recovered from the users of this service, the costs would be significant (\$47.00 approximately per taxpayer). The convenience (and other incentives like points) are unlikely to offset the additional cost in the minds of those residential taxpayers who might otherwise be interested. Given the rules in a standard commercial agreement, it is not clear whether the City could charge for the privilege of allowing credit card payments.

The total residential property taxes (excluding multi-residential) of the City for 1999 including the education portion are \$1,498 million of which \$951 million or 63 percent relate to the City's share. The City has 536,000 residential properties (excluding 4,000 multi-residential properties). Of this number, approximately 71,000 of the residential taxpayers pay through mortgage companies and thus would not use credit cards. This

analysis is, therefore, based on the balance of 465,000 residential taxpayers who are potential users of credit cards. Since non-residential taxpayers do not normally use credit cards, they are excluded from this analysis.

Based on the above assumptions, the total costs to the City are expected to be between \$3.3 million to \$6.7 million annually. (Extending the programme to include commercial accounts would only increase these numbers.) If the Province agrees to bear the charges relating to the education portion of the taxes, \$1.4 million to \$2.8 million of the expenditure could be recovered, leaving the balance to be borne by the City of between \$1.9 million to \$3.8 million. In any event, the amount, even for the City's portion, is a significant fiscal pressure on the City's limited resources.

Taxpayers paying by credit card would receive additional benefits, such as, points, air miles, additional privileges, etc. and they will also enjoy interest free credit for a brief period. In effect these benefits would be subsidized by the City if the costs were to be recovered across all taxpayers.

In view of the significant cost to the City if the charge is added to the City's expenditures or the significant processing fee (\$47.00) if it could be charged to the user, the option with respect to credit cards is not recommended.

(2) Debit Cards/Other Payment Types:

The City currently accepts debit cards as a payment option. Compared to credit cards, debit cards are encouraged since there are minimal costs involved. The customer's presence at the City's office to use the debit cards is necessary as the code has to be keyed in. The cost to the City for the use of debit card facility is \$0.08 per transaction and \$30.00 per month per terminal.

Electronic Funds Transfers are also encouraged since the presence of the taxpayers at the City's offices to pay bills is not necessary and payments can be received by the City on a timely basis. The City also encourages the Pre-authorized Tax Payment Plan. There are two pre-authorized payment plans available: a six-installment plan and an eleven-month payment plan. Under the six-installment plan, tax payments are withdrawn on each of the six regular due dates. Under the eleven-month plan, tax payments are withdrawn over eleven months – February to June for the interim and July to December for the final tax bill.

Conclusion:

The City does not currently permit payment of taxes by credit cards. Based on the analysis above, payments of tax bills by credit cards is not recommended because of the significant additional costs to the City with no other financial advantage. There is no evidence that arrears are reduced where credit card payments have been permitted. However, payments by debit cards, a Pre-authorized Tax Payment Plan and/or electronic funds transfers are recommended and taxpayers should be encouraged to use these options.

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The Policy and Finance Committee also submits the following report (July 7, 2000) from the Chief Financial Officer and Treasurer:

Purpose:

The purpose of this report is to address additional issues raised by Councillors in response to a previous report on the same matter.

Funding Sources, Financial Implications and Impact Statement:

There are no financial implications from this report.

Recommendation:

It is recommended that this report be received for information and be considered with the previous report from the Chief Financial Officer and Treasurer dated January 24, 2000.

Background/History:

City Council at its meeting of February 29, March 1 and 2, 2000, struck out and referred back to the Policy and Finance Committee for further consideration Clause No. 14 contained in Report No. 3 of the Policy and Finance Committee, entitled "Credit and/or Debit Card Payment Method, Taxes". The Policy and Finance Committee at its meeting of March 28, 2000 deferred consideration of the report and requested that the Chief Financial Officer and Treasurer submit a further report thereon to the aforementioned committee meeting.

Discussion:

It is understood that there are three concerns with respect to the Treasurer's previous report:

- (1) Cost per account;
- (2) Potential offsetting savings from savings in the collections function; and
- (3) Relationship between level of arrears and credit card use.

(1) Cost per account:

It is understood that the cost to the former Borough of East York of processing credit card payments to the card services was \$1.75 per \$100.00 charged for VISA and similarly \$1.85 for Mastercard transactions. The City's current charge is \$1.68 (Parking Tags).

Further analysis of the East York accounts indicates that card payments were accepted for both tax and water bills. Approximately 2 percent of households used credit cards to pay their property taxes at a cost to the Borough of approximately \$36.00 per household. The difference between this figure and the \$45.00 (revised from the previous report) that I am estimating that it would cost the City in respect to the average residential property owner in Toronto is due to the assessed values being higher on average in the City as a whole versus East York.

(2) Savings Offsets:

If we assume that the take up by property taxpayers paying their tax bills by credit card will be between 2 percent and 5 percent and, since the Province will not pay its share of the costs (34 percent) for the education portion of the tax bill, the cost to the City's residential property taxpayers will be between \$450,000.00 and \$1,000,000.00 annually. Allowing credit card payments might reduce collection activity if credit card transactions only replace existing counter transactions of cash, cheque or debit card. However, if we allow credit card payments over the phone, or, if rewards of paying by credit card to the user are seen as significant enough, then there will be additional pressure on the counter staff which might lead to additional costs. On sum, there is likely to be at most modest savings to offset these additional costs.

(3) Arrears:

Staff reviewed 1997 tax arrears data from information filed with the Province by the former municipalities as part of the annual financial return. It would appear that there is no correlation to better payment rates where credit card payments are accepted (see table below). In fact, the only former municipality that used credit cards as a payment option, East York, had the highest tax arrears situation for 1997. There are many factors that determine the level of arrears, such as business failures and municipal practice, but there is no indication that credit card usage reduces arrears.

1997 Tax Arrears for Each Former Municipality*

Municipality	Arrears (%)
Etobicoke	4.17
East York	4.29
North York	3.18
Toronto	3.62
Scarborough	2.20
York	3.81
All Municipalities Combined	3.40

* from respective 1997 financial information returns – current year taxes versus current year arrears.

In total, actual tax write offs for the City are quite low. Since 1998, commercial collections have become much less of an issue because there is no longer a business tax. For realty taxes, the City can still sell the property to recover all tax arrears should the arrears be outstanding for more than 2 years for unimproved property (vacant land) and 3 years for improved property (with a building).

In terms of costs to the taxpayer for outstanding debts, it is cheaper from an interest on outstanding debt perspective, to owe the City than most credit card companies since most credit card providers charge a higher interest rate than the City for outstanding balances.

Payments:

The City currently accepts debit cards as a payment option. Compared to credit cards, debit cards are encouraged since there are minimal costs involved. The customer's presence at the City's office to use the debit cards is necessary as the code has to be keyed in. The cost to the City for the use of debit card facility is \$0.48 per household per annum (assuming 6 installment payments) and \$30.00 per month per terminal (approximately \$3,000.00 in total per year).

Electronic Funds Transfers are also encouraged since the presence of the taxpayers at the City's offices to pay bills is not necessary and payments can be received by the City on a timely basis. The City also encourages the Pre-authorized Tax Payment Plan. There are two pre-authorized payment plans available: a six-installment plan and an eleven-month payment plan. Under the six-installment plan, tax payments are withdrawn on each of the six regular due dates. Under the eleven-month plan, tax payments are withdrawn over eleven months – February to June for the interim and July to December for the final tax bill.

Conclusion:

The City does not currently permit payment of taxes by credit cards. Based on the analysis, and further research requested by Councillors, payments of tax bills by credit cards is not recommended because of the significant additional costs to the City with no other financial

advantage. There is no evidence that arrears are reduced where credit card payments have been permitted. However, payments by debit cards, a Pre-authorized Tax Payment Plan and/or electronic funds transfers are recommended and taxpayers should be encouraged to use these options.

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Councillor Michael Prue, East York, appeared before the Policy and Finance Committee in connection with the foregoing matter.