



**STAFF REPORT
ACTION REQUIRED
With Confidential Attachment**

Personal Vehicle Tax – Administrative Design Features and Implementation Authorities

Date:	April 1, 2008
To:	Executive Committee
From:	City Manager Deputy City Manager and Chief Financial Officer
Wards:	All
Reason for Confidential Information:	Security of the City’s Property
Reference Number:	P:\2008\Internal Services\CF\Ec08009Cf – et (AFS #6521)

SUMMARY

The purpose of this report is to seek all necessary authorities to implement a Personal Vehicle Tax (PVT) effective September 1, 2008, including approval of the administrative design features for the tax, and authority to enter into a PVT administration and collection agreement with the Province of Ontario.

This report is submitted in accordance with the decisions of Council from its meetings of October 22-23, 2007 in regard to report EX 10.1 (entitled “New Taxation Measures – City of Toronto Act, 2006”) and November 19-20, 2007 in regard to report EX 13.7 (entitled New Taxation Measures – Design Features and Implementation Authorities”).

RECOMMENDATIONS

The City Manager and the Deputy City Manager and Chief Financial Officer recommend that:

1. Council approve the administrative design features for the Personal Vehicle Tax (PVT) to be effective September 1, 2008, as set out in Appendix A.

2. Council request the Province to take necessary actions to implement the PVT effective September 1, 2008 , including:
 - (a) amend the relevant legislation or regulations to allow for refusal to renew vehicle permits for failure to pay the PVT, and to allow the Province to provide collection services to the City in respect of the PVT;
 - (b) make any other legislative or regulatory amendments as may be necessary to implement the PVT as recommended by this report.
3. Council authorize and direct appropriate City officials to enter into all necessary agreements with the Province, pursuant to which:
 - i) the Province would be named the City's collection agent of the PVT,
 - ii) the Province will develop systems to collect the PVT in accordance with the design features in Recommendation 1, and
 - iii) appropriate authority for information sharing between the two levels of government is provided,

all in accordance with the terms and conditions set out in Confidential Attachment 1 and in a form acceptable to the City Solicitor (the "Provincial Agreement") and with costs to be funded from proceeds of the tax.
4. The Deputy City Manager and Chief Financial Officer be granted authority to recruit and hire the necessary staff required for the on-going administration of the PVT by the City as described herein at an estimated annualized cost of \$350,000 (\$275,000 in 2008) to be funded from the proceeds of the tax.
5. Council delegate the hearing of any PVT appeals to the Government Management Committee and designate the Government Management Committee as the City's appeal and dispute resolution body under the PVT by-law.
6. The City Solicitor be authorized to introduce the necessary bills to give effect to the PVT and to amend the City's procedural by-law to delegate the hearing of PVT appeals to the Government Management Committee, and the appropriate City officials be authorized and directed to take necessary actions to give effect thereto.

Implementation Points

The *City of Toronto Act, 2006* (COTA) requires that Council enact a tax by-law for any new tax implemented under COTA's Part X taxation provisions, which by-law is required to contain a description of the subject of the tax, the applicable rates, and the manner of collection of the tax, including the identification of any agent responsible for collection.

Collection of the PVT by the Province will require administration and collection service agreements between the Province and the City. This report recommends that the City enter into such agreements in accordance with the terms in Confidential Attachment 1.

Financial Impact

The projected revenue for the PVT included in the recommended 2008 Operating Budget is \$20 million, net of collection / administration / enforcement costs. This budget was set before specific design parameters, the precise implementation date, and the collection agreement terms and costs estimates had been finalized. Also, because the PVT tax is new, staff have relied on estimates of the net revenues that may be obtained based on the best data available. Actual revenues will be closely monitored and reported to Council as part of the year-end variance process.

Furthermore, it must be noted that any material change to the recommended tax design of the PVT or to the terms of the collection agreement with the Province would very likely affect the proposed September 1, 2008 implementation date and lead to increases in system development costs payable to the Province.

The City is incurring costs for the development of PVT for outside legal services related to tax design and drafting the bylaw, and will also incur communication costs related to providing public notice of the PVT. These costs are expected to total \$150,000 and will be funded from within operating budget allocations.

Additionally, the administrative programs required for PVT (e.g. call centre customer services, PVT revenue accounting/reporting and corporate IT support) would cost Revenue Services Division an estimated \$275,000 in 2008 and \$350,000 annually thereafter, and are recommended to be funded from the proceeds of the PVT. The estimated costs incorporate recruiting and hiring of four FTE (full time equivalent) support staff. It is recommended that the Deputy City Manager and Chief Financial Officer be granted authority to recruit and hire the necessary staff required for the implementation and on-going administration of the PVT.

DECISION HISTORY

City Council, at its meetings of October 22-23, 2007 in regard to report EX 10.1 (entitled “New Taxation Measures – *City of Toronto Act, 2006*”) and November 19-20, 2007 in regard to report EX 13.7 (entitled “New Taxation Measures – Design Features and Implementation Authorities”) adopted the following recommendations/motions regarding the PVT:

EX 10.1

Council adopt a new Personal Vehicle Ownership Tax within the City of Toronto, as detailed further in this Item, and the Deputy City Manager and Chief Financial Officer be requested to report to Council, through the Executive Committee, no less than three months prior to the implementation of the Personal Vehicle Ownership

Tax, on how to implement this tax so that the administration, collection and enforcement is in conjunction with the Provincial Government Vehicle Ownership Tax;

EX 13.7

Council request the Province to make any necessary legislative or regulatory amendments to allow the Minister to refuse the issuance and validation of personal vehicle permits unless the City's PVT is paid in full;

The Deputy City Manager and Chief Financial Officer report back to Council in early 2008 on the progress of discussions with the Province on an agreement to collect and administer the PVT.

COMMENTS

The purpose of this report is to seek all necessary authorities to implement the PVT effective September 1, 2008, including approval of the administrative design features for the tax, and authority to enter into a PVT administration and collection agreement with the Province of Ontario.

A. PVT Design Considerations

On October 22-23, 2007 Council approved the PVT, its tax categories and flat rates, as follows:

- i. \$60 per personal vehicle per year;
- ii. \$30 per personal motorcycle or moped per year;
- iii. \$0 for personal motorized snow vehicles and historic vehicles.

Tax Categories

The City's PVT classifications noted above are based on the provincial categories for motor vehicle permits, in order to facilitate collection by the Province through its existing systems. These categories and rates are more fully described in Appendix 'A'.

As previously approved by Council, PVT will not apply to commercially registered vehicles (i.e. only apply where a permit holder is an individual). Leased vehicles registered to an individual are therefore subject to PVT, whereas rental vehicles, typically not registered to individuals, will not. Historic vehicles are a specific class under the Provincial registration system with a special plate designation that restricts their use to specific events. These vehicles therefore are on City roads only in very limited circumstances, and are not subject to the PVT.

Exemptions will be provided to all individuals who are listed in section 268 of COTA, which provides that the Crown and various provincially affiliated entities cannot be taxed

by the City. Exemptions will also be provided to all individuals who are exempt from the Provincial vehicle permit fees under the *Highway Traffic Act*.

Tax Features

City staff have worked with Provincial officials to set the design parameters of the City tax so as to be able to implement a new City vehicle tax as efficiently and expeditiously as possible. Accordingly, it is recommended that the implementation date of the PVT be September 1, 2008, with the tax revenues collected through the Provincial vehicle permit renewal system, on the assumption that the requisite Provincial authorities are in place.

The recommended PVT design is for the tax to be assessed at the time of vehicle permit renewal for registrants with a Toronto address at the time of the renewal, regardless of where the registration occurs. The renewal date for personal vehicle permits typically coincides with the registrant's birthday. A renewal for one year would attract a flat tax amount; the optional two year renewal would attract double the amount. Vehicle registration activities between renewals (such as moving in or out of the City, the purchase of new plates, the transfer of plates to a new vehicle, etc.), would not trigger PVT. Accordingly, the City would in effect be taxing the decision by a Toronto resident to renew a vehicle permit, and the tax would only be assessed at the full amount (no pro-rated amounts).

A more sophisticated PVT design, calculating and imposing the tax for partial year periods, and imposing the tax on events such as a move into the City, or the purchase of new plates, could be considered in the future if deemed appropriate. However, due to the characteristics of the Province's system, design changes of that nature at this time would raise costs and more importantly jeopardize the targeted implementation date and related revenues for the 2008 budget year.

Because the City would be using the Provincial tax collection system, Toronto residents would be able to pay the tax through four channels - mail, internet, kiosk, or over the counter – at any Ontario location where vehicle registration is administered. Currently the Province has 20 automated service kiosks and six over the counter registration sites in Toronto, operated by private individuals and companies pursuant to agreements with the Province through ServiceOntario, a division of the Ministry of Government and Consumer Services.

In addition to collection through the Province, the City would reserve the ability to assess PVT and any applicable penalties payable and notify the taxpayer of such an assessment, to allow for collection in situations of Provincial system failures or tax avoidance by taxpayers.

The recommended PVT is applicable to all permit renewals with a validation renewal date on or after September 1, 2008 (the "Effective Date"). For permit renewals subject to PVT where the renewal transaction occurs prior to the Effective Date, PVT will be

collected at the next permit renewal transaction, along with any PVT payable in respect of the subsequent renewal, if the subsequent renewal is also subject to PVT.

B. Agreement with the Province to Collect the Tax

Section 271 of COTA provides that the City may enter into agreements with another person or entity, including the Crown, to provide for the collection of taxes imposed under section 267 of COTA and administration and enforcement of the by-law imposing the taxes.

Unlike the Municipal Land Transfer Tax (MLTT), there is no existing regime for a vehicle tax. There is, however, a Provincial system of permits and fees for vehicle ownership and operation. This system, within certain constraints, can be modified to also impose and collect a vehicle tax on behalf of the City. The key advantages of working within the Provincial system are: efficiency – the ability to use an existing collection and processing network; customer convenience – the ability to create a one stop transaction at the time of periodic vehicle registration permitting; and compliance/enforcement – the capacity of the Province to refuse to issue a vehicle permit unless the tax is paid, pending a regulatory change by the Province. This latter advantage is similar to the method of enforcing compliance with the Drive Clean¹ system, and not unlike the enforcement system for collection of unpaid parking tags.

As directed by Council, City staff have had extensive discussions with provincial staff over the past several months on administration, collection and enforcement issues pertaining to PVT implementation. The City's objectives within these discussions have been to design a tax that is compatible with the Provincial permit system, is fair to all taxpayers, and can be implemented as soon as possible so as to meet City revenue expectations for 2008.

Provincial staff have assisted City staff with the development of a tax design, and have commenced work, as requested by City staff, to facilitate implementation as soon as practicable in 2008, subject to certain Provincial objectives and conditions as described below.

The Province has stipulated that any agreement to collect the taxes on behalf of the City must meet four tests. These are (i) transparency - the clear identification of the tax as a City of Toronto initiative; (ii) full reimbursement of Provincial costs for the administration and implementation of the tax; (iii) primacy of existing Provincial services and operations – no deleterious impact on these caused by the City requirements; and (iv) signed agreements incorporating the various terms and commitments. Provincial costs will be comprised of all reasonable system development and process administration costs determined in accordance with the directives of the Office of the Provincial Controller.

¹ Drive Clean is a Provincial program requiring periodic emission testing for licensed vehicles.

Aspects of the PVT design developed after the Province indicated its preliminary agreement to assist with the implementation of the tax in December remain subject to Provincial review in terms of their objectives for transparency and maintenance of provincial customer service levels.

Subject to these requirements, Provincial staff have been very helpful and cooperative with City officials to work toward a 2008 implementation of a new vehicle tax. The basic terms of the Provincial Agreement, including costs, data sharing requirements etc., are included in Confidential Attachment 1 for approval by Council.

It must be noted that any material change to the recommended tax design of the PVT as set out in Appendix A, or to the recommended terms of the Provincial Agreement as set out in Confidential Attachment 1 will very likely affect the proposed September 1, 2008 implementation date, increase system development costs payable to the Province, and reduce the revenue to the City in 2008.

C. Requisite Provincial Authority

In order to collect and implement the PVT as recommended by this report, regulatory or legislative change is required to allow the Province to refuse to renew vehicle permits for failure to pay PVT, and to allow the Province to provide collection services to the City in respect of the PVT. Without these changes the PVT as recommended cannot be implemented.

D. Other Administrative Matters

Compliance Measures

All questions, disputes, complaints and appeals regarding the PVT will be addressed directly by the City.

It is unlikely that numerous enforcement issues would arise due to the proposed enforcement by the Province through refusal to renew permits for failure to pay the PVT. A vehicle permit would not be issued unless the amount of tax owing is paid in full, allowing collection costs to be kept at a minimum.

However, some minimal collection and enforcement measures may be required in situations where Provincial collection systems fail or taxpayers successfully avoid payment through the Provincial system. The Deputy City Manager and Chief Financial Officer (CFO) will, in such cases, assess the tax payable and notify the taxpayer of such assessment. Interest will apply on overdue payments at rates equal to those charged on overdue property taxes, i.e. 15% per annum or 1.25% per month.

If payment is not received, Revenue Services staff will work with the Legal Services Division to determine the appropriate collection mechanisms. These may include the following:

- The imposition of penalties by the Deputy City Manager and Chief Financial Officer, as set out in Appendix A
- Assessment of interest on overdue amounts payable
- Commencement of court action to collect
- Referral of the outstanding receivable to a bailiff or collection agency to collect

Furthermore, the PVT by-law will create offences in respect of the PVT. These offences and their corresponding fines are set out in Appendix A.

Appeals

It is recommended that the City establish an appeal and dispute resolution mechanism under the PVT by-law, and designate its Government Management Committee to serve as the City's appeal dispute resolution body for the PVT. This appeal mechanism would only apply to appeals specific to the PVT.

Communications

Appropriate notice of the effective date and other aspects of the PVT is planned through a variety of mechanisms, including direct mailings and advertisements.

Internal Administration

The City is incurring costs for the development of PVT for outside legal services related to tax design and drafting the bylaw, and will also incur communication costs related to providing public notice of the PVT. These costs are expected to total \$150,000 and will be funded from within operating budget allocations.

Additionally, the administrative programs required for the PVT (e.g. call centre customer services, PVT revenue accounting/reporting and corporate IT support) would cost Revenue Services Division an estimated \$275,000 in 2008 and \$350,000 annually thereafter, to be funded from the proceeds of PVT. The estimated costs incorporate recruiting and hiring of four FTE (full time equivalent) support staff. It is recommended that the Deputy City Manager and Chief Financial Officer be granted authority to recruit and hire the necessary staff required for the implementation and on-going administration of PVT.

CONCLUSION:

This report follows up on the resolutions in the Oct 22 - 23, 2007 Council Executive Committee Report EX 10.1 (entitled "New Taxation Measures – *City of Toronto Act, 2006*") and November 19 – 20, 2007 Council Executive Committee Report EX 13.7 entitled "New Taxation Measures – Design Features and Implementation Authorities) as directed, describing the administrative design features for the personal vehicle tax (PVT) in Appendix A, including an effective date of September 1, 2008, and the designation of

the Province as the City's agent for the collection and administration of PVT, for incorporation into a City tax by-law.

The implementation of PVT requires the support of the Province to make certain legislative or regulatory amendments, which Provincial staff have undertaken to seek, once the administrative design features have been reviewed.

This report also seeks approval for staff to enter into agreements with the Province regarding the tax collection and administration function, under the terms described in the Confidential Attachment 1.

CONTACT

Len Brittain, Director, Corporate Finance
Tel: (416) 392-5380; Fax: (416) 397-4555
E-mail: lbrittai@toronto.ca

SIGNATURES

Shirley Hoy
City Manager

Joseph P. Pennachetti
Deputy City Manager and
Chief Financial Officer

ATTACHMENTS

Appendix A – PVT Administrative Design Features
Attachment 1 – Confidential Information: Personal Vehicle Tax – Administrative Design Features and Implementation Authorities