



## STAFF REPORT ACTION REQUIRED

### Property Tax Credits – Increased Dollar Threshold for Transferring Credit Balances to Interim and Final Tax Bills

<b>Date:</b>	February 25, 2010
<b>To:</b>	Government Management Committee
<b>From:</b>	Treasurer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2010\Internal Services\rev\gm10004rev (AFS 11209)

#### SUMMARY

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The purpose of this report is to seek the necessary authority to amend the existing one hundred dollar (\$100) threshold for automated transfers of credit balances to property tax bills to five hundred dollars (\$500).

#### RECOMMENDATIONS

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**The Treasurer recommends that:**

1. Credit balances on all property tax accounts equal to or less than five hundred dollars (\$500) be applied as a credit to the tax account of the current assessed owner of the property, and where requested in writing or required in order to meet legislated refund timelines, credit amounts between fifteen (\$15) and \$500 be refunded directly to the current assessed owner by way of a cheque, therein updating and amending the previously approved dollar threshold of one hundred (\$100) dollars for automated refunds of credit balances; and
2. the appropriate City officials be authorized and directed to take the necessary action to give effect thereto.

#### Implementation Points

The recommended dollar threshold for automated tax credit balance transfers will be implemented upon Council's approval of this report, taking effect for the 2010 final tax bill. This new initiative does not require substantive system programming changes, and

will have minimal impact to the overall interim and final tax bill process on a go-forward basis.

An appropriate communication plan will be developed by the Revenue Services Division to identify changes regarding property tax credit balances on the Division's website and to include a notification as part of the final 2010 final tax bill.

## **FINANCIAL IMPACT**

There are no financial implications associated with this report.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

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## **DECISION HISTORY**

At its meeting held on June 22, 23 and 24, 2004, City Council adopted new recommendations/policies aimed at improving the property tax refund process (re: Clause 11 in Administration Committee Report 4 titled "Overpayment of Property Taxes"):

<http://www.toronto.ca/legdocs/2004/agendas/council/cc040622/cofa.pdf>  
<http://www.toronto.ca/legdocs/2004/agendas/committees/adm/adm040602/it013.pdf>

In a report (June 7, 2005) the Treasurer provided information on the implementation of the new tax refund processes approved by Council in June 2004 [re: Clause 32(b) in Administration Report 6, which was received for information by City Council at its meeting held on July 19, 20, 21 and 26, 2005]. This report identified that the new tax refund processes implemented in 2004 will serve to expedite the processing of credit balances and refunds, and that continual process reviews, refinements and risk assessments will be undertaken to enhance tax refund processes.

<http://www.toronto.ca/legdocs/2005/agendas/council/cc050719/cofa.pdf>  
<http://www.toronto.ca/legdocs/2005/agendas/committees/adm/adm050628/it009.pdf>

Additionally, following a review undertaken by the Auditor General, Council adopted report AU2.6: Property Tax Appeals and Refund Processing, April 23 and 24, 2007, which contained the following recommendation:

“The Director of Revenue Services ensure tax credit balances and tax refund policies, processes and related internal controls are periodically reassessed to determine continued relevance and effectiveness.”

<http://www.toronto.ca/legdocs/mmis/2007/cc/decisions/2007-04-23-cc07-dd.pdf>  
<http://www.toronto.ca/legdocs/mmis/2007/au/bgrd/backgroundfile-2689.pdf>

## **ISSUE BACKGROUND**

The Revenue Services Division administers approximately 670,00 property tax accounts (approximately 626,000 residential accounts and 44,000 multi-residential, commercial,

industrial and mixed use accounts), collecting in excess of \$5.36 billion dollars in property tax revenue annually for municipal and education purposes.

In accordance with provincial legislation, property taxes are levied against a parcel of land or property; they are not levied against an individual. Where property tax amounts remain unpaid, the outstanding taxes form a lien on the title of the property and stay with the property even when the property is sold or changes ownership. Where a credit balance has been created on a property tax account, the amount of the credit must either be refunded or may be applied as a credit to offset future tax levies.

An overpayment of property taxes or a credit balance on a property tax account may arise from various circumstances, including:

- assessment and/or tax appeals
- credits due to rebate, deferral or cancellation programs
- multiple individuals remit payment(s)
- misapplication of payment(s)
- overpayment of taxes (e.g., owners submit payment amounts in excess of the property tax amount billed).

The *City of Toronto Act, 2006* and other provincial legislation require that refunds or credits created as a result of:

- a) assessment appeals be refunded to the assessed owner of the property (i.e., the owner identified on the assessment roll at the time the credit was created); and,
- b) any other circumstance (e.g. overpayment of taxes) must be refunded to the person who made the payment.

### **Current Process for Refunding Tax Credits**

In June 2004, in an effort to streamline the tax refund process while balancing the legislative requirement to refund the person who paid the taxes and the potential financial risks associated with refunding the wrong individual/entity, Council adopted the procedures aimed at improving the property tax refund process. These procedures are summarized in Appendix A of this report.

As such, the City's current processes provide that:

- a) credit balances less than \$100 are automatically refunded to the current property owner, with the credit amounts reflected on the owner's subsequent interim or final property tax bill. An exception to this is in respect of credit balances \$100 or less that result from assessment appeals or an error of the City. The *City of Toronto Act* requires the City to pay interest on overpayments resulting from errors and changes under the *Assessment Act* (i.e. assessment appeals). Such interest begins to accrue, in the case of errors, on the day the error is corrected, and in the case of assessment appeal changes, 120 days after the City is notified of the change by the Municipal Property Assessment Corporation, the

Assessment Review Board or the court. In order to mitigate the cost of interest payable, such credits may be refunded by way of a cheque if the issuance of the tax bill falls beyond the legislated timeframe in which interest becomes payable.

- b) any overpayment or credit greater than \$100 is refunded to the individual that made the payment, and proof of such overpayment must be provided before the credit will be refunded. Staff undertake various measures and exercise due diligence to ensure that refunds of credit balances are paid only to the individual that made the overpayment, and only after satisfactory evidence is provided that establishes that the individual claiming the refund is the individual that made the overpayment or that caused the credit to be created.

Staff routinely produce reports of credit balances from the City's tax billing system, and issue letters to property owners or other individuals identifying these credit balances (credit notification letters). In attempting to ascertain who is entitled to the refund, staff will request that owners, prior owners, or their agents submit proof of payment and other supporting documentation, e.g., articles of incorporation, statement of adjustments from a property transaction, etc.

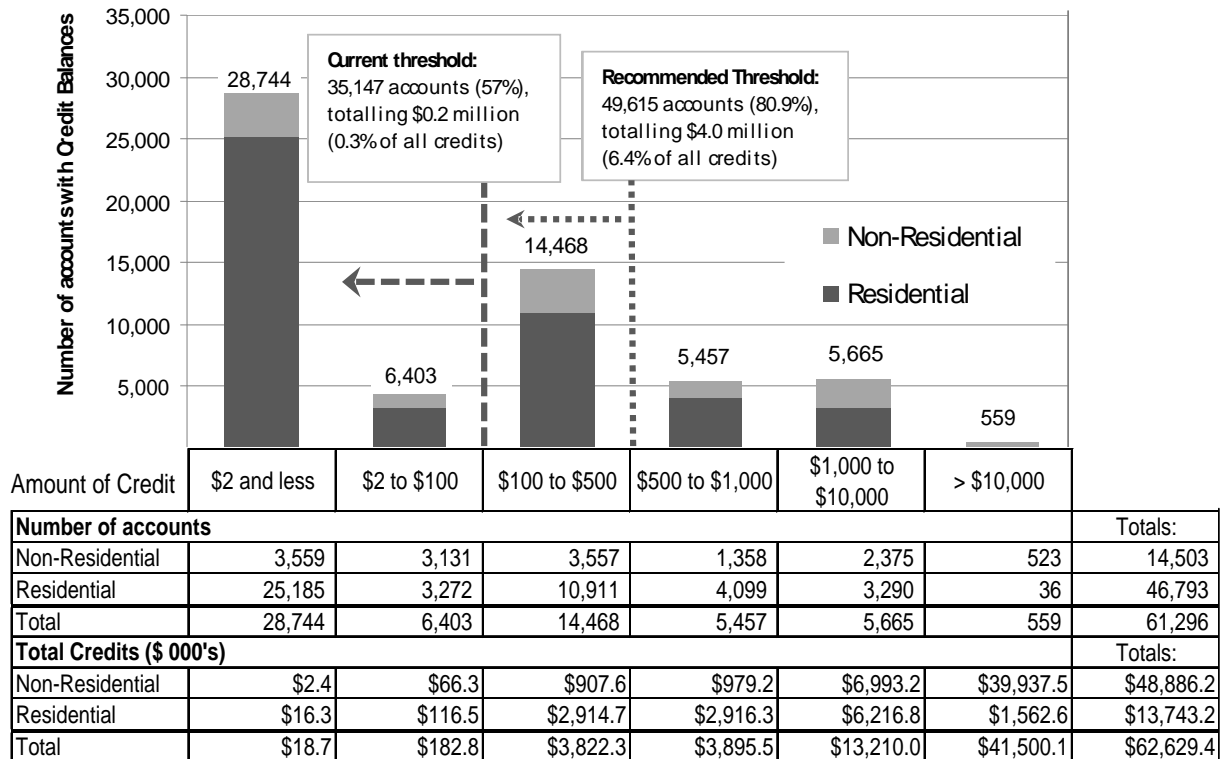
Staff also perform alpha checks against the City's tax and utility billing systems to ensure that the individual claiming the refund does not have outstanding amounts owing on other properties. Before any refund amount is provided, staff will ensure that claimants provide a signed refund request form, together with an Indemnification Agreement that protects the City against claims where refunds are paid out, and proof that the claimant made the payment for which the refund is requested.

## **COMMENTS**

### **Increasing the Threshold for Automated Refunds of Credit Balances**

In an effort to enhance customer service levels and to improve the efficiency and timeliness of the refund process, Revenue Services staff analyzed the number of tax accounts with credit balances and undertook a review and risk assessment of the current practices surrounding refunds. This review was undertaken in consultation with Internal Audit staff, and sought to achieve greater efficiencies in processing refunds while balancing the potential financial risks and liabilities of increasing the current dollar threshold for automated refunds of credit balances.

Figure 1: Current and Recommended Thresholds for Refunds of Credit Balances



From Figure 1 above, there are:

**Current Threshold:**

- 35,147 tax accounts (residential and non-residential) with credit balances of \$100 or less, comprising 57% of all outstanding accounts with credit balances, but representing only \$0.2 million in credits, or 0.3% of the total outstanding credit balance dollar amount.

Under present procedures, therefore, only 0.3% of the total credits owing are automatically credited to the current property owner – the remainder of the credit amounts are held pending a more thorough process that requires the person claiming the credit or refund amount to supply documentation that establishes their entitlement to the refund;

**Recommended Threshold:**

- 14,468 tax accounts with credit balances greater than \$100 and equal to or less than \$500. These 14,468 accounts represent credits totalling \$3.8 million, or approximately 6.1% of all credits owing. These accounts include:
  - 10,911 accounts or 23.3% of all residential tax accounts with credit balances, representing \$2.9 million dollars; and
  - 3,557 accounts or 24.5% of all non-residential tax accounts with credit balances, representing \$0.9 million dollars.

By increasing the threshold for automated refunds of credits from \$100 or less to \$500 or less, an additional 14,468 accounts or \$3.8 million in credits would be automatically refunded. This would see a total of 49,615 accounts, or 80.9% of the total number of accounts automatically refunded, representing credits of approximately \$4.0 million, or 6.4% of the total credits owing, as shown in Figure 1.

By increasing the threshold for automated refunds from \$100 to \$500, Revenue Services staff will be able to allocate more time and focus their attention on refunding the larger dollar residential accounts and the more complex non-residential credit balances that typically have larger credit balances, and may involve multiple or fractional ownerships and potentially numerous ownership changes. In these cases, staff will continue to require documentation to establish proof of entitlement to any credit.

An analysis of current refunds has identified that approximately 10% of all refunds are disbursed to someone other than the current assessed property owner. Therefore, even in increasing the threshold for automated refunds from \$100 to \$500, representing an additional \$3.8 million in amounts that would be automatically refunded, a further amount of \$380,000 could potentially be placed at risk of being refunded incorrectly. Experience to date, however, has seen few if any refunds that have been incorrectly refunded when these amounts are refunded to the current owner.

Where payable, credit balances of \$15 or less will be automatically applied as credits to the current tax account, rather than issued as refund cheques, due to the associated costs of producing and mailing a cheque. Similarly, credit balances between \$15 and \$500 will also be automatically applied as credits to the current tax account, to be displayed on the interim and final tax bills, unless an owner has requested in writing that a refund cheque be issued for a credit balance.

Based on staff's review of current procedures and consultations with Internal Audit, it is recommended that the current threshold for automated transfers of credit balances on property tax accounts be increased from \$100 to \$500, and that credit amounts be reflected on subsequent interim and/or final property tax bills. This recommendation balances the customer service perspective with a manageable financial risk from the City's perspective. On the advice of Internal Audit, Revenue staff will monitor and

review the new operational tax credit balance threshold for automated transfers, to ensure that the financial integrity of the overall process is maintained.

## **CONTACT**

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## **SIGNATURE**

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Giuliana Carbone  
Treasurer

## **ATTACHMENT**

Appendix A – Current Property Tax Refund Process

## APPENDIX A

### Current Property Tax Refund Process

[re: Administration Report 4, Clause 11, titled “Overpayment of Property Taxes”  
adopted by City Council on June 22 – 24, 2004]

- (1) all credit balances on property tax accounts resulting from assessment appeals shall be credited or refunded directly to whomever the Tribunal directs in its decision, and if no payee is named in the decision, to the current assessed owner, in accordance with section 341 of the *Municipal Act, 2001*; and where there has been a change in the assessed owner(s) since the date the decision was released by the Tribunal, the Director, Revenue Services, will require an executed Indemnification Agreement in a form satisfactory to the City Solicitor before any refund shall be made;
- (2) credit balances on all tax accounts of less than one hundred dollars (\$100) shall be applied as a credit to the tax account of the current assessed owner of said property, and, where requested in writing, credit amounts between fifteen dollars (\$15) and one hundred dollars (\$100) will be refunded directly to the current assessed owner by way of a cheque;
- (3) for residential tax accounts with credit balances over one hundred dollars (\$100), credit amounts shall be credited or refunded to the current assessed owner of the property, upon receipt by the City of a written refund request signed by the current assessed owner, together with an Indemnification Agreement in a form satisfactory to the City Solicitor (no proof of payment required);
- (4) for all other tax accounts, credit amounts shall be credited or refunded to the individual who made the overpayment, provided the City is in receipt of a written refund request signed by the claimant, together with an Indemnification Agreement in a form satisfactory to the City Solicitor, and proof in a form satisfactory to the Director, Revenue Services or a designate, that the said owner made the payment for which the refund is requested; and
- (5) in the event that the City has not received a request for a refund, or a signed Indemnification Agreement and/or proof that the said owner made the payment for which the refund is requested, and no refund is issued by the City, all credit balances shall be held in trust for one year, and will then be transferred to the City’s Tax Repayment Account (re: Account No. 215161).