



## STAFF REPORT ACTION REQUIRED

### Personal Vehicle Tax – Refund Policy

<b>Date:</b>	May 5, 2010
<b>To:</b>	Executive Committee
<b>From:</b>	City Manager Deputy City Manager and Chief Financial Officer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2010\Internal Services\Cf\Ec10025cf (AFS #9844)

#### **SUMMARY**

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The purpose of this report is to respond to the Executive Committee direction to the Deputy City Manager and Chief Financial Officer and the City Solicitor for a report on Personal Vehicle Tax (PVT) refunds, and to report on the Executive Committee's referral to the Mayor's Office of a letter from the Chair of the Licensing and Standards Committee for necessary action to address the inequity between Ambassador and Fleet Taxis.

The tax was designed in accordance with the City's legislative authority at the time, and provides refunds where a person has paid an amount of tax that is not payable under the by-law, i.e. only where the tax is collected in error, upon receipt of satisfactory evidence and such determination by the City's Chief Financial Officer. It does not provide for refunds due to changing circumstances such as plate cancellation or relocation outside Toronto. This contrasts with the Provincial registration fee system, and has resulted in criticism.

Staff have examined scenarios with regard to providing refunds more in line with the Provincial registration system. Taking into account fairness, feasibility, and cost, it is recommended that PVT be refunded when ownership and address changes occur prior to the onset of a whole year(s) validation renewal period. More comprehensive (monthly) refund administration would take years to implement and is not recommended.

In addition, staff have examined the feasibility of refunding PVT paid by individually owned Ambassador Class and Standard Class taxicabs. It is recommended that both classes be subject to a full refund of taxes paid, starting September 1, 2010.

This report was developed in consultation with the City Solicitor.

## **RECOMMENDATIONS**

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

1. City Council approve a new refund in respect of the City's Personal Vehicle Tax (the "PVT") of the following:
  - a. the full amount of the PVT paid prior to the date by which the validation must be renewed (the "Renewal Date"), if prior to the Renewal Date, the taxpayer returned the plates for the vehicle for which the PVT was paid to the Ministry of Transportation ("MTO") or moved out of the City of Toronto; and
  - b. one-half of the full amount of PVT paid, if, within the first-year of the two-year validation, the taxpayer returned the plates for the vehicle for which the PVT was paid to MTO or moved out of Toronto.
2. The refund recommended in Recommendation 1:
  - a. be made retroactive to the commencement date of the PVT, September 1, 2008; and
  - b. be administered by the Deputy City Manager and Chief Financial Officer (the "CFO") through receipt of applications for refunds to the CFO, made by the taxpayers, along with evidence to the satisfaction of the CFO as to the applicants' eligibility for the refund.
3. City Council approve a new refund in respect of the PVT paid in respect of a taxicab licensed by the City, of the following:
  - a. the full amount of PVT paid for a validation period commencing after September 1, 2010; and
  - b. one-half the full amount of PVT paid for a two-year validation if the second year of the validation commences on or after September 1, 2010.
4. Municipal Code Chapter 765, Taxation, Personal Vehicle Tax be amended to give effect to Recommendations 1, 2 and 3.
5. City Council approve two new positions in Revenue Services to administer the new PVT refunds in 2010 at a part-year cost of \$95,000 gross (\$0 net), funded from PVT revenues included in the Non-Program Revenue Budget.
6. City Council approve an increase of \$95,000 gross (\$0 net) in the 2010 Non-Program Personal Vehicle Tax Revenue Budget to fund the two positions of Recommendation 5.

7. The City Solicitor be authorized to introduce the necessary bills to give effect to the required amendments to the relevant by-law and the appropriate officials be authorized and directed to take necessary actions to give effect thereto.

### **Implementation Points**

The refund policy set out in recommendations 1 and 2 would be administered by the Revenue Services Division on an application basis. It would not be expected to require changes to the provincial vehicle registration system, although it may require somewhat more frequent contact with Provincial officials to confirm refund eligibility. Based on anticipated volumes, the related functions can be carried out with two additional staff at Revenue Services Division and no material impact on Provincial cost recovery charges. Refund processing arising out of the recommendations 1 and 2 could begin following adoption of the amended by-law. For fairness reasons the PVT refund eligibility should be made retroactive to the effective PVT implementation date of September 1, 2008.

The refund for taxicab ownership can be administered by the City without application, via cross referencing lists of taxes paid and current licences on a monthly basis. It is recommended that the new policy take effect September 1, 2010, on the two year anniversary of the implementation of the tax to allow for an orderly roll out of the refund process.

An appropriate communication plan in accordance with the proposed amendments to the by-law would be implemented to amend the City's website and Provincial communication channels, including the vehicle registration notice insert currently mailed out to each registrant prior to renewal date.

### **Financial Impact**

The recommended refund policy changes are expected to cost the City approximately \$1,000,000 on an annualized basis, comprised of \$870,000 for PVT refund payments (\$120,000 for taxis and \$750,000 for other recommended changes) and \$130,000 for the administration cost for two staff at the Revenue Services Division (excluding cost of living increases for staffing costs and applicable increments).

The preliminary estimate for 2010 is \$760,000 based on mid-year (July 7 for refunds, September 1 for taxicabs) 2010 implementation of PVT refunds is comprised of:

- current new PVT refunds of \$375,000 plus \$40,000 to Ambassador Class and Standard Class taxicab owners;
- PVT refunds retroactive to September 1, 2008 of \$250,000; and
- \$95,000 in Revenue Services Operating Budget for refund administration (salaries and benefits for two staff: \$65,000; new work station set up: \$30,000).

Based on up to date projections of PVT revenue it is anticipated that revenues will be sufficient to cover the cost of the recommended refunds in 2010. Beyond 2010,

annualized costs of \$1,000,000 will reduce net revenue commensurately. The annualized costs (i.e. revenue reduction) represent approximately 2.0% of the annual PVT revenues.

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

## **DECISION HISTORY**

City Council, at its meeting on January 27 and 28, 2009, referred Motion 30.8 to the Executive Committee (Council Member Motion 30.8 was about pro-rated PVT refund for returning licence plates before the end of the renewal period).

The Executive Committee at its meeting on April 7, 2009 considered EX 31.34, the Motion referred by City Council to amend Section 13 of Municipal Code Chapter 765 “Taxation, Personal Vehicle Tax”, to add that the City shall refund the pro-rated portion of the PVT to those who surrender their licence plates before the end of the renewal period. The Motion was referred to the Deputy City Manager and Chief Financial Officer and the City Solicitor for a report to the Executive Committee.

The Executive Committee at its meeting on January 5, 2009 (Item EX28.11), referred the letter (November 3, 2008) from the Chair of the Licensing and Standards Committee, entitled “Personal Vehicle Tax” (requesting consideration of tax refunds or exemptions for the licensed taxicabs), to the Office of the Mayor for consideration and any action deemed necessary to address the inequity between Ambassador and Fleet Taxis.

Council at its meeting of April 15, 2010 adopted a motion directing staff to develop an exemption from the Personal Vehicle Tax for residents who are over the age of 65 and/or disabled, and who have a gross income of less than \$50,000 and report on an implementation for the 2011 budget process.

## **ISSUE BACKGROUND**

City of Toronto Council adopted the administrative design features of the PVT at its meeting on April 28 and 29, 2008. The by-law number 625-2008 (“To adopt a new Municipal Code Chapter 765, Taxation, Personal Vehicle Tax”) was enacted by Council on June 24, 2008. The PVT was made effective September 1, 2008.

The City’s PVT differs from the Provincial vehicle registration system, for legislative and other reasons, in a number of significant ways. The differences with the registration fee system have in some cases led to complaints about the fairness of the City’s refund policy, to City staff, Councillor’s offices and the City Ombudsman.

With the amendment to section 45 of the *City of Toronto Act, 2006* (by Bill 212, *Good Government Act, 2009*, which received Royal Assent on December 15, 2009), the City has increased flexibility to amend the PVT by-law to implement changes to its PVT refund and collection activities.

Ministry of Transportation officials notified City staff in December of 2009 and confirmed by a letter dated January 8, 2010 that the Province has recently embarked on a multi-year program to modernize the computer system for vehicle registrations, and has implemented restrictive protocols for programming changes during this period which must also be taken into account. It is considered unlikely that the Province would or could agree to significant discretionary system change requests impacting the modernization project at this time. Even if changes are technically feasible, City staff understand that they would be unusually costly and time consuming to implement during the modernization project.

## **COMMENTS**

### **City PVT versus the Provincial vehicle registration system**

The City's PVT differs from the Provincial vehicle registration fee, for legislative and other reasons, in a number of significant ways. First, the City charge is a tax, not a fee for service. Other characteristics specific to the City tax include the tax incidence (Toronto residents only, commercial exemption), the rates, and the nature of the tax (e.g. annual flat rate vs. Provincial vehicle registration fee with monthly assessment and refund capacity, and related transaction fees).

The differences from the Provincial registration fee system have led to some complaints from the public about the City's PVT refund policy. For example, over the month of September 2009 City staff received a total of 73 PVT-related incoming telephone calls of which 39 were refund-related (see Appendix 'A'), representing 0.06% of 67,878 PVT transactions that month. The number of complaints has been observed to be declining since the inception of the tax.

People who terminate their vehicle licence plates may apply for a pro-rata refund from the Province on the balance of the paid up registration period, while the City provides no refund. Likewise, when they purchase new plates, they must pay the Province a registration fee proportionate to the months before their next renewal date, while the City applies no tax on this transaction since PVT applies only upon plate validation renewal. In this way the Provincial registration fee can be proportional to the months the car is registered while the PVT is a flat-rate tax for the term of the renewal. In cases where plates are terminated and subsequently replaced with new plates (such as when a new car is purchased), the City's approach is fair and simple.

However, the no refund policy results in taxpayers' concerns about the fairness in some other cases such as when a new replacement plate is not purchased after a cancellation, and especially when a refund is sought before the registration period has been even begun, as may occur in case of advance renewals.

### **Potential Changes to the Refund Policy**

Staff reviewed the current refund policy in respect of changes in residency and ownership status, giving consideration to fairness, technical and legislative feasibility, and costs.

The simplest adjustment that would deal with the most serious fairness concerns without requiring Provincial system changes is for the City to approve applications for refunds in whole year increments in cases where the tax eligibility changes before the year period has commenced. This situation occurs when an advance registration is purchased and circumstances change before the registration period has even begun, and when circumstances change before the commencement of the second year of a two year registration.

### Summary of PVT Refund Scenarios

Scenario	Technical Feasibility	Fairness	Cost
Refunds (whole year) only, for changes prior to renewal year	No new taxable situations Modest volumes(10,000/year) No Provincial registration system changes and/or approvals required Application based City – administered program is feasible	Deals with most serious fairness concerns.	Depends on incidence and application rate; best estimate is \$880,000 per year including administration of \$130,000 (2 positions)
Tax and refund like Provincial registration system (for changes prior to and during renewal period)	High transaction volumes expected (>200,000/year) Significant Provincial system modification would entail protracted implementation at high cost Volumes too high (and individual values too small) to justify costly City manual administration	Part year refunds would be matched by part year taxation  Would unfairly tax/refund moves into/out of Province but not into/out of City within Ontario	High admin cost (system implementation and per transaction fees) but new tax revenue should offset cost, refund payments.
Tax and refund like Provincial registration system and tax /refund moves into/out of City within Ontario	High transaction volumes expected (>250,000/year). Significant Provincial system modification would entail protracted implementation at high cost Requires new procedures to deal with transactions and enforcement of tax/refunds for moves within Ontario. May adversely impact address update compliance.	Part year refunds would be matched by part year taxation  New residents would face tax upon arrival  Fairness eroded by those not registering address changes	Very high admin cost (system implementation, transaction fees, new invoicing, collection and enforcement procedures) but new tax revenue should offset cost, refund payments.

Only the first scenario has the desired outcome of improving the fairness of the City’s Personal Vehicle Tax without creating new fairness issues. It is also the only technically feasible option to implement at present, because it does not require changes to the

Provincial vehicle renewal system that is currently being modernized. The estimated net impact on revenues is approximately \$1 million per year, or about 2% of total net PVT revenues.

### **Personal Vehicle Tax and the Taxicab Industry**

On September 24, 2008 in a letter to the Chair of Licensing & Standards Committee, the Toronto Taxicab Industry Association (TTIA) stated that their expectation of a commercial exemption for all of their members was not met. Many taxicabs are registered to individual owners who reside in Toronto and are therefore taxed, while corporately owned taxis are not. The Association asserted that it was unfair to owner-operated taxis, especially when the City requires individual ownership for any new licensing of operation of a taxicab. Based on 2008 data considered at the time, there were 2,091 individual taxicab owners registered to City of Toronto residents, of which 1,403 were Ambassador Class and 688 Standard Class.

Ambassador Class vehicles must be driven by their respective owners whereas the Standard Class vehicles can be driven by any licensed driver anytime and any number of days. Owners of both classes of vehicles are not permitted to incorporate, and therefore as individuals their vehicle plates are subject to PVT. The primary issue raised by the taxicab association is equitable tax treatment for all licensees. Taxicab services also help provide an alternative to individual vehicle ownership to the general public.

Refunding the PVT charged to the Ambassador Class and Standard Class vehicle owners would cost the City approximately \$120,000 per year in lost revenues, plus administration costs. Incremental administration costs would be mitigated if done in conjunction with the recommended refund policies in this report.

From the standpoint of equitable treatment for the two classes of taxicabs, it is recommended that both Ambassador Class and Standard Class receive refunds on PVT paid in respect of renewals on and after September 1, 2010, the two year anniversary of the implementation of the tax, to allow for an orderly roll out of the refund process.

It is further recommended that one-half of the full amount of PVT paid for a two-year validation be refunded if the second year of the validation commenced on or after September 1, 2010.

## **Low Income Seniors and/or Disabled Persons**

Council directed staff to develop an exemption for low income seniors and/or disabled persons. Exemptions are distinct from refunds in that they would normally apply at the time the tax is collected on licence plate renewal, to eliminate imposition of the tax, based on the circumstances at that time. Staff have begun to investigate options for administering this exemption and will be reporting back as directed.

## **CONTACT**

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## **SIGNATURE**

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Joseph P. Pennachetti  
City Manager

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Cam Weldon  
Deputy City Manager and Chief  
Financial Officer

## **ATTACHMENT:**

Appendix A -

Survey of PVT Taxpayers' Complaints and PVT-Data: September 1, 2008 to August 31, 2009



## APPENDIX A

### Survey of PVT Taxpayers' Complaints

To understand the nature and extent of the PVT-related complaints, City staff maintained a log of incoming telephone calls on PVT matters over the month of September 2009. There were a total of 73 PVT-related calls during the month (compared to a monthly average of approximately 60,000 PVT transactions), summarized as follows:

	Number of Calls	Percentage of Total Calls
Refund Request		
• moved out of Toronto	13	18%
• cancelled plate/bought new plate	26	35%
Advance renewal prior to Sept. 1/08 (for renewal date on or after Sept. 1/08). "Why retro PVT charge?"	8	11%
Live outside Toronto. "Why PVT charge?" (likely MTO database not updated at renewal)	2	3%
How PVT revenues are used?	7	10%
General opinion (e.g. "PVT is wrong", "No tax")	17	23%
Total	73	100%

### PVT - Data: September 1, 2008 to August 31, 2009

#### From the Ministry of Transportation

On staff request, the Ministry of Transportation has provided data pertaining to Toronto-based personal vehicle plates returned to Province for Provincial registration fee refund during the twelve month period between September 1, 2008 to August 31, 2009, which are indicative of the nature and extent of refund requests that the City might be getting, depending on the City's refund policy, as follows:

- 693,830 taxable transactions (payments)
- 137,233 registrants purchased new plates
- 4,000 of these new plates previously received refunds for the remaining time on their old plates
- 31,000 additional refunds were processed for registration cancellations
- 57,644 registrants changed their address to a location outside Toronto
- 31,735 registrants changed their address to a location in Toronto