



STAFF REPORT ACTION REQUIRED

Personal Vehicle Tax – Repeal of Tax and Termination of Collection Agreement

Date:	December 3, 2010
To:	Executive Committee
From:	City Manager Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2010\Internal Services\Cf\Ec10049cf (AFS #12903)

SUMMARY

This report identifies options and sets out procedural and contractual requirements for the repeal of the Personal Vehicle Tax (PVT) and termination of the PVT Collection Agreement ("Agreement") with the Ministry of Transportation and the Ministry of Government Services (the "Province") in 2011.

Termination of the PVT in 2011 would have a direct impact on the 2011 operating budget. It would (i) reduce the PVT revenues by an average of \$4 million for each month it is no longer in effect, (ii) require certain refunds of PVT payments made prior to the effective PVT repeal date, and (iii) result in City administration costs to process refunds, and reimbursement of costs incurred by the Province for system changes to implement termination of PVT collection. The total estimated 2011 budget impact is approximately \$64 million if the tax is repealed on January 1, 2011.

RECOMMENDATIONS

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

1. Should Council decide to eliminate the Personal Vehicle Tax in 2011, that the resolution contained in Appendix 1 be adopted with the desired effective date inserted.

Implementation Points

The City's collection agreement with the Province requires that the City provide 6 months notice prior to terminating the agreement. The notice requirement provides for activities such as policy consideration, system programming changes, and notice to vehicle plate holders (normally 2 -3 months prior to renewal). However, the Ontario Minister of Transportation has committed publicly that the Province will be in a position to accommodate the repeal of the PVT as early as January 1, 2011.

Financial Impact

Should Council decide to terminate the PVT, the cost is dependent on the choice of termination date and refund policy associated with termination. There are three direct impacts on the City's Operating Budget from termination of the tax:

1. Net revenue loss of approximately \$4 million for each month the tax is not collected in 2011.
2. The cost of refunding PVT, including:
 - a. in the case of a September 1, 2011 termination, approximately \$10 million to reimburse the remaining full year of paid up taxes for those vehicle owners who purchased two year renewals;
 - b. in the case of a January 1, 2011 termination, an additional amount of approximately \$4 million, for an estimated total of \$14 million, to refund PVT collected in advance for renewal periods starting after January 1, 2011.
3. Administration costs associated primarily with the cost of issuing refunds but also the reimbursement of Provincial costs associated with terminating the tax, for a combined total estimated to be approximately \$2 million.

Estimate of Budget to Budget Impact of September 1, 2011 Termination of PVT:

	2010 Budget	2011 Forecast	Impact
Net tax collected	48	32	- 16
Refunds of PVT collected prior to Effective Date (2 nd year of 2-year renewals)	0	-10	-10
Refund Administration and Provincial Charges	0	-2	-2
TOTAL	48	20	-28

Estimate of Budget to Budget Impact of January 1, 2011 Termination of PVT:

	2010 Budget	2011 Forecast	Impact
Net tax collected	48	0	- 48
Refunds of PVT collected prior to PVT collection termination date of January 1 (2 nd year of 2-year renewals, plus advance renewals in 2010 for 2011 renewal periods)	0	-14	-14
Refund Administration and Provincial charges	0	-2	-2
TOTAL	48	-16	-64

DECISION HISTORY/ ISSUE BACKGROUND

At its meeting of April 28 and 29, 2008, City Council adopted the implementation of the Personal Vehicle Tax, a tax on the renewal of vehicle registrations in the City of Toronto, effective September 1, 2008.

At its meeting on June 24, 2008, City Council enacted By-law No. 625-2008, which enacted City of Toronto Municipal Code Chapter 765, Taxation, Personal Vehicle Tax.

Following the municipal election outcome in the City of Toronto and the election platform of the City's Mayor-elect, and the subsequent public announcement on December 1, 2010 of the Mayor's commitment to repeal the PVT, this staff report identifies financial and administrative implications of repealing the PVT and terminating the PVT Collection Agreement with the Province in 2011.

Comments

The City's PVT came into effect September 1, 2008. It applies to individual personal vehicle plate validation holders (not commercial entities) and is assessed and collected under agreement at the time of vehicle plate validation renewal by the Province of Ontario through their vehicle plate validation renewal system on a cost recovery basis. Approximately 60,000 taxable renewals are processed each month. Of these, between a fifth and a quarter have been for two year renewals.

This system keeps the cost of administering the PVT relatively low, and ensures compliance as the Province will refuse to issue a plate validation renewal unless the tax is paid.

The PVT is a flat \$60 for a personal passenger vehicle (\$30 for a motorcycle or moped) for each year a plate validation renewal is purchased. In cases where a vehicle plate validation is cancelled and the Province would reimburse (for a small fee) the vehicle registrant for the remaining whole months on the plate validation renewal period, the PVT, for reasons relating to the legislative authority that existed at the time the tax was implemented, is only reimbursed in the amount associated with whole years remaining. For example, a taxpayer who purchased a two-year vehicle plate validation renewal in

October 2010 would receive a maximum PVT refund of \$60 (one year) if they cancelled their plate validation by September 2011.

Termination Process

1. Notice to the Province

The PVT is collected on behalf of the City by the Province under the Collection Agreement dated August 27, 2008 ("Agreement"). The Agreement has a five-year term and can be automatically renewed on the same terms and conditions for successive five year periods.

ServiceOntario, a division of the Ministry of Government Services and the service provider organization of the Province, runs the Ministry of Transportation's vehicle plate validation renewal transactions through various service delivery channels including on-line, electronic kiosks, and in-person offices under contract with private service delivery contractors. ServiceOntario collects the PVT on behalf of the City upon renewal of vehicle plate validations and is authorized by Provincial regulation to deny such renewal without payment of the PVT.

The PVT Agreement provides the City with the right to terminate without cause at any time upon six-months written notice to the Province. An orderly termination of the PVT collection system requires careful consideration of potential impacts such as shifts in vehicle plate validation renewal timing or a surge in the number of complaints from approximately one million vehicle licence plate holders.

On October 28, 2010, City staff formally requested the Province to provide their best estimate of the shortest time required for an orderly termination of the collection of the PVT after a notice from the City. The Ontario Minister of Transportation recently stated publicly that the Province can accommodate a January 1, 2011 repeal date for the PVT.

2. Options for Termination Date

The PVT was implemented September 1 2008. All vehicle plate validation holders with renewal dates (birthdays) on or after September 1 of that year were required to pay the PVT.

For an orderly termination of the tax, PVT would stop being collected based on scheduled renewal date (i.e. birthday). Those with scheduled renewal dates before the termination date would pay the tax, even if they actually purchase their validation renewals after the PVT termination date. Those with scheduled renewal dates on or after the effective PVT termination date but who renewed their validation while the tax was still being collected would be fully refunded. In this way there is no incentive to delay plate validation renewal (potentially to the point of driving without a valid vehicle plate validation) in order to avoid the PVT, and all taxpayers are treated fairly regardless of when they undertake renewal transactions.

Provincial officials have indicated that it may be feasible to stop collection as soon as January 1, 2011, although they have yet to make such a commitment in writing. If Council wished to pursue this option, then in the event of a delay in the implementation of PVT termination, the City would undertake to refund all PVT collections in the interim relating to 2011 scheduled renewal dates. The PVT by-law would have to be amended to reflect such a contingency.

A termination date of September 1, 2011, on the three year anniversary of the tax, would have a variety of benefits. First, terminating on the anniversary date would have the effect of ensuring that all PVT payers paid the same amount of PVT (three years worth) over its effective period. Second, City notices that accompany the Provincial Vehicle Licence Renewal Applications sent out 2 to 3 months prior to renewal dates could be amended to explain the changes to the PVT and there would be no uncertainty or confusion around the last date of the tax. Refunds for advance renewals would be significantly reduced, minimizing cost and administrative demands. Finally, the adverse revenue impact on the operating budget would be phased in more gradually.

The table below illustrates the impact of the choice of termination date on those with a renewal date (birthday) before September 1 vs. those with renewal/birthdates in the fall. In this example, a January 1 termination date results in \$60 more PVT payable by those not having birthdays in the September to December period over the effective period of the PVT.

PVT Payable, Personal Passenger Vehicle

	January 1 Termination Date		September 1 Termination Date	
	January - August birthday	September – December birthday	January - August birthday	September – December Birthday
2008	\$0	\$60	\$0	\$60
2009	\$60	\$60	\$60	\$60
2010	\$60	\$60	\$60	\$60
2011	\$0	\$0	\$60	\$0
Total	\$120	\$180	\$180	\$180

3. Refunds

Under the City's PVT by-law a refund may be granted if a vehicle plate validation is cancelled before a complete 12 month renewal period begins. This generally means that refunds of \$60 are granted on two year renewals if the registration is cancelled in the first year.

In the event of terminating the PVT, there would be approximately 160,000 two year renewals outstanding that would qualify for a full year refund, for a total cost of approximately \$10 million in reimbursed taxes. However, this figure could fall

significantly if the incidence of two year renewals is affected by the public expectation of the termination of the tax.

These refunds would have to be processed by City staff. Rather than an application based system, termination of the tax by the City would warrant a City initiated process. The City would seek assistance from the Province (subject to privacy constraints regarding use of information from the provincial vehicle registration system) to confirm current addresses at the time of termination, in order to reduce the chance of cheques not being received.

Should Council decide to terminate the PVT effective January 1, 2011, the additional refund cost will be approximately \$4 million, relating to the full taxes paid on those renewals purchased (and taxed) in November and December 2010 relating to plate validations due for renewal in 2011. In the event of a delay in implementing the necessary system changes by January 1, 2011, additional refunds would have to be provided.

Unlike the PVT, the Provincial registration fee system grants refunds on cancellation of a vehicle plate validation for the whole months remaining of paid up fees. This may create the expectation of similar treatment from the City. However, partial year refunds of PVT would involve high cost (over \$30 million) for limited benefit, and would not be recommended.

A very clear and deliberate communication effort will be required to manage expectations and the potential volume of contacts by the public as almost one million citizens are directly affected by the termination of the PVT.

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SIGNATURE

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Appendix 1

Resolutions Required to Repeal the City of Toronto Personal Vehicle Tax and Terminate the PVT Collection Agreement

If Council were to decide to repeal the PVT, in accordance with the approach described in this report, the following resolution would require adoption, with the appropriate effective date inserted:

"It is recommended that City Council:

1.
 - a. Repeal the City's Personal Vehicle Tax for permit validation renewal periods commencing on or after [, 2011] (the "Termination Date"), and amend the City of Toronto Municipal Code Chapter 765, Taxation, Personal Vehicle Tax accordingly;
 - b. Subsection 1(a) does not apply to permit validation renewals commencing after the Termination Date for permit holders with scheduled renewal dates (birthdates) prior to the Termination Date (the "Taxable Renewals").
2. Authorize the termination of the PVT Collection Agreement, subject to any surviving arrangements as deemed appropriate by the Deputy City Manager and Chief Financial Officer, in consultation with the City Solicitor, in order to implement an orderly termination of the tax.
3. Direct the Deputy City Manager and Chief Financial Officer to provide the Ministry of Transportation and the Ministry of Government Services with written notice of Recommendations 1 and 2.
4. Approve the issuance of refunds by the Deputy City Manager and Chief Financial officer of PVT paid in the following amounts:
 - a. one half of the PVT paid if PVT was paid for a two-year permit validation period commencing prior to the Termination Date and if the second year of the two-year permit validation period commences after the Termination Date;
 - b. all PVT paid in respect of a permit validation renewal period starting on or after the Termination Date, with the exception of Taxable Renewals.
5. Direct the Deputy City Manager and Chief Financial Officer to provide details as to the plan to communicate the process for termination of the tax to the citizens of Toronto.

6. Direct that the budgetary impacts of the above actions be addressed as part of the 2011 Operating Budget review process.
7. Authorize the introduction of the necessary bills to give effect hereto."