

Re: INTEREST CHARGEABLE ON ARREAR AND DELINQUENT TAXES

Following is a report from the Municipal Treasurer regarding interest chargeable on arrear and delinquent taxes.

RECOMMENDATION:

1. THAT a by-law be brought down to set the rate of interest applicable to arrear or delinquent taxes at 12% per annum.

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4 November 1976

File: T5-14

TO: MUNICIPAL MANAGER

FROM: MUNICIPAL TREASURER

RE: INTEREST CHARGEABLE ON ARREAR AND DELINQUENT TAXES

There are four Sections in the Municipal Act which relate to the enforcement of the collection of taxes. The first is Section 384 which provides that "The Collector shall, as soon as is practicable on or after the second day of July in each year, add to the unpaid taxes of the current year, in respect of each parcel of land and the improvements thereon upon the real-property tax roll, ten per centum of the amount unpaid as of the second day of July of that year." The Section goes on to provide that Council may "designate any two or more dates, the first of which is not earlier than the second day of July, and specify the percentages which may be imposed on each of such dates upon taxes unpaid on such dates; provided that the aggregate of such specified percentages shall equal ten per centum and that in no case shall any date specified be a later date than the thirtieth day of November."

In Burnaby, the following cumulative percentage additions are added to unpaid current taxes on the dates shown:

6 July	1%
4 August	2%
3 September	3%
5 October	4%

Section 370 provides that "The taxes and rates on land or improvements or both land and improvements, together with percentage additions, which are unpaid on the thirty-first day of December in the year imposed are deemed to be taxes in arrear, and bear interest from said date at the rate of eight per centum per annum."

Section 371 provides that "All taxes on land or improvements or both land and improvements remaining unpaid on the thirty-first day of December in the year next following that in which the taxes are imposed are delinquent on and after the said thirty-first day of December, and thereafter bear interest at the rate of eight per centum per annum until paid or recovered."

Section 395 provides that "On the thirtieth day of September in each year, at the Council chamber of the municipality, at the hour of ten o'clock in the forenoon, the Collector shall offer for sale by public auction each and every parcel of real property upon which any of the taxes are delinquent and may offer for sale such other improvements thereon as are taxable under this Act upon which any of the taxes are delinquent."

The rate of interest chargeable between the years 1958 and 1970 was 6%. In 1971, it was raised to 8%. In the first session of the Legislative Assembly in 1976, Sections 370 and 371 were amended to strike out the rate of eight per centum and substituted "a rate fixed by by-law not exceeding 12%".

This means that to charge any rate of interest whatever on arrear or delinquent taxes, commencing 1 January 1977 Council must pass a by-law and set a rate not to exceed 12%.

Obviously, the costs of not paying taxes are considerable. Nevertheless, the penalties and interest charges allowable under the Act are less than the going rates for the rental of money. Particularly with an 8% interest rate, a citizen or a commercial enterprise may decide that it is cheaper to borrow from the Municipality than it is from a bank. The current bank prime rate is 10 1/2% and all but the best credits have to pay more than that.

Burnaby's tax collections are at a high level. In 1974 the tax levy was \$37,481,250. To this was added \$188,726 in penalties. At the year end the amount outstanding was \$1,052,702; 97.21% of the taxes were collected. In 1975 \$46,048 in interest was collected on the amount outstanding and by the year end the arrears had been reduced to \$280,820. During 1976 a further \$3,219 in interest and upset charges was added. On 30 September 1976, 12 parcels involving \$37,345 in taxes and charges were placed in tax sale - all of them residential properties. The owners have one year in which to make redemption. Almost never do commercial and industrial properties go to tax sale, although some of them are in arrear or delinquent tax positions.

Collections of taxes in the years 1975 and 1976 are at a similar high level.

We cannot say conclusively,

- (a) that the 8% interest rate is having an adverse effect on collections of arrear and delinquent taxes
- (b) that a higher rate of interest will increase the collections of arrear and delinquent taxes.

Nevertheless, we should not create a situation in which it is cheaper to borrow from the Municipality through deferment on the payment of taxes than it is to borrow money from a bank.

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MANAGER'S REPORT NO.	71
COUNCIL MEETING	Nov. 8/76

As far as we can determine, this matter does not come within the A.I.B. rules.

RECOMMENDATION

1. THAT a by-law be brought down to set the rate of interest applicable to arrear or delinquent taxes at 12% per annum.

A. S. Mayhew
MUNICIPAL TREASURER

BM:gv