

## Tax Instalment Payment Plan (TIPP) Recalculation

### Recommendation

Direct Administration to use the relevant tax rate reflecting the Council approved budget to forecast the January to June Tax Instalment Payment Plan (TIPP) Recalculations and bring back a proposed change to Bylaw 9M2002 no later than 2022 December 20 to enable 10 days notification of change to TIPP participants.

### Introduction

The City of Calgary has over thirty years' experience supporting Calgary property owners with the most successful Tax Instalment Payment Plan (TIPP) in Canada that has 60% participation. Administration is continually working to understand the needs of taxpayers and ensure this successful and popular program remains relevant and useful to taxpayers. This understanding is informed by thousands of direct customer interactions annually and, more recently, by a third-party survey of taxpayer perceptions and experiences. Satisfaction with the TIPP program is high, with 100 per cent of survey participants responding they were very satisfied or somewhat satisfied with the program. Administration is committed to ensuring program satisfaction remains high. Nevertheless, we are always looking to improve and one possible area that property owners and Council have identified is the perceived volatility of TIPP payments.

In order to promote greater transparency and understanding of the TIPP program, and specifically how TIPP instalments are recalculated twice annually, Administration is recommending that Council be engaged as part of this process.

Administration has developed a mechanism and process to adjust TIPP payments for the period January to June of a given year for the potential tax rate change that may occur in that year. This will mitigate variability in TIPP payments for the entire year by allocating any change in a property's total tax over twelve months instead of the last six months of the year. This process change was introduced for 2018 January. The process includes a decision by the Director of Finance on the change in rate to use.

Administration is proposing a change to the year-end TIPP recalculation process and the property owner notification period to facilitate the use of the relevant tax rate reflecting the Council-approved budget for the Tax Instalment Payment Plan (TIPP) recalculation for January to June of each year.

January	March/April	May	June	July	October	November
Monthly TIPP payments effective from Jan - Jun are based on prior year's tax levy divided by 12 months.	Provincial budget released.  Property Tax Bylaw approved by Council. The approved tax rate informs the calculation of the property tax levy for the current year.	Annual property tax levy calculated for individual properties and applied to property tax accounts.  Monthly TIPP payments for Jul - Dec are reviewed and recalculated based on current year's tax levy to ensure account is paid in full by year-end.  Property tax bills and TIPP notices prepared, printed and mailed to property owners.	Property tax bills due June 30 for those accounts not on TIPP.	Monthly TIPP payments effective for Jul - Dec are based on current year's tax levy to ensure account is paid in full by year-end.	Monthly TIPP payments effective for Jan - Jun of upcoming year are reviewed and recalculated using current year's tax levy.	TIPP participants who will see a change in their TIPP payment for Jan - Jun of the upcoming year are notified. This is done with sufficient time to ensure payment industry standards are met and participants have time to prepare for a change in payment.

The use of a relevant tax rate reflecting the Council-approved budget for recalculations does not create or eliminate property tax value. It simply allocates the existing property tax levy in a less variable distribution. **It is important to highlight that the risk associated with this proposal, and the use of relevant tax rate reflecting the Council-approved budget for this purpose is low. Through the TIPP process, payments will be adjusted a second time, at the time of the annual billing. This true-up mechanism ensures that a property owner pays no more or no less for the year than their actual tax levy.**

### **Administration's Recommendation**

Administration does not recommend changing the current TIPP recalculation schedule of January and July for the following reasons:

- the TIPP program in its current form is highly successful and the timing of payment changes has not been identified by participants as an issue requiring modification.
- the analysis included in this document illustrates that the current recalculation schedule of January and July contributes to the least variability in adjustments to TIPP payments over the long run.
- potential exists for significant customer confusion if changes are made given the widespread familiarity and satisfaction with the current TIPP recalculation schedule of January and July.
- the benefits to TIPP participants of alternate schedules are unknown and not quantifiable.

**Administration does recommend the adoption of a more consistent approach to the recalculation of TIPP payments based on the relevant tax rate reflecting the Council-approved budget, and a change to the notice period given to TIPP participants of a change to their TIPP amount,** for the following reasons:

- the process and timing of the calculation can be communicated to property owners to set an expectation of consistency.
- Administration can develop processes and timing to ensure that the relevant tax rate reflecting the Council-approved budget can be consistently incorporated into the recalculation process.
- Council's public discussion and approval of the tax rate ensures transparency.

### **Background**

The Tax Instalment Payment Plan (TIPP) is a convenient and voluntary option that allows property owners to pay their property tax monthly. To ensure that property owners pay no more or no less than their annual tax amount, payments are subject to adjustment twice a year – once in July (associated with the May annual billing) for the current calendar year and again at the end of the year in anticipation of the coming year.

Administration has developed a mechanism and process to adjust TIPP payments for the period January to June of a given year for the potential tax rate change that may occur in that year. This will mitigate variability in TIPP payments for the entire year by allocating any change in a property's total tax over twelve months instead of the last six months of the year. This process change was introduced for 2018 January. The process includes a decision by the Director of Finance on the change in rate to use.

The TIPP program is informed by several considerations including the Tax Instalment Payment Plan Bylaw 9M2002, the terms and conditions to which a property owner agrees when they request to join the program, and Payments Canada Rule H1 governing pre-authorized debits. This Rule requires that participants in a pre-authorized debit plan, such as TIPP, be given at least 10 days' notice of a change to their payment amount. The City has strived to provide property owners with at least 30 days' notice to allow them to better plan for changes in their budget. This is why year-end TIPP recalculation letters have been mailed at the end of November in anticipation of a January 1 change. Because budget deliberations typically occur the last full week in November each year, it was not possible to use the Council approved budget change identified through deliberations, make the underlying system and data changes to each individual account, and provide 30 days' notice of the TIPP amount change to property owners.

**In order to align the TIPP forecast rate with the relevant tax rate reflecting the Council approved budget, Administration is recommending reducing the customary notice period of a change in TIPP payment from 30 days to the Payments Canada mandated minimum of 10 days.** This will allow the use of the Council-approved rate in the recalculation of TIPP payments for the period January to June of an approaching year, allow Administration to perform the necessary system and data processes, and also allow Administration to notify property owners consistent with the standards established by the body overseeing pre-authorized payment standards within Canada. This change will require a minor amendment to the TIPP Bylaw 9M2002.

It is important to note that TIPP is a payment plan which distributes an annual tax levy into smaller payments to be paid over a calendar year, while ensuring the participant will not incur any late payment penalties. The program itself does not result in more or less tax, it portions out property tax bills into monthly installments. It is also important to note that 40 percent of taxpayers do not participate in this program and will therefore see changes in their tax obligation only once per year when the annual tax bills are distributed in May of each year.

#### **Potential changes to timing of the recalculation**

The current TIPP recalculation schedule is twice per year – once in January for payments made in the first half of the year and again in July for payments made in the second half of the year. Alternate recalculation dates have been considered.

Using a property at the residential assessed median value, Administration has prepared an analysis that demonstrates the impact to TIPP payments over six years of four different TIPP recalculation schedules.

The schedules considered are:

1. Current state – recalculation performed in January and July
2. January recalculation only
3. July recalculation only
4. February and July recalculation

A summary of the resulting TIPP payments under each of these scenarios is included in the table below. These calculations are based on the median assessed value for a residential property for each individual year. Between 2017 and 2022 this value has been between a range of \$445,000 to \$485,000 in any given year:

<b>2018</b>	Jan & Jul Recalc - Current State	Diff	January Recalc Only	Diff	July Recalc Only	Diff	Feb & Jul Recalc	Diff
Jan Recalc Amount	-250.00		-250.00					
Feb Recalc Amount							-284.00	
Jul Recalc Amount	-259.00	9.00			-259.00		-231.00	-53.00
<b>2019</b>								
Jan Recalc Amount	-259.00	0.00	-259.00	9.00				
Feb Recalc Amount							-275.00	44.00
Jul Recalc Amount	-268.00	9.00			-268.00	9.00	-260.00	-15.00
<b>2020</b>								
Jan Recalc Amount	-268.00	0.00	-268.00	9.00				
Feb Recalc Amount							-276.00	16.00
Jul Recalc Amount	-303.00	35.00			-303.00	35.00	-298.00	22.00
<b>2021</b>								
Jan Recalc Amount	-286.00	-17.00	-303.00	35.00				
Feb Recalc Amount							-305.00	7.00
Jul Recalc Amount	-264.00	-22.00			-247.00	-56.00	-246.00	-59.00
<b>2022</b>								
Jan Recalc Amount	-275.00	11.00	-275.00	-28.00				
Feb Recalc Amount							-327.00	81.00
Jul Recalc Amount	-296.00	21.00			-324.00	77.00	-258.00	-69.00
<b>2022 Forecasting</b>								
Jan Recalc Amount	-286.00	22.00	-296.00	-7.00				
Feb Recalc Amount							-340.00	94.00
Jul Recalc Amount	-288.00	2.00			-327.00	80.00	-247.00	-93.00

*Note: The “Jan Recalc Amount” amounts under the “2022 Forecasting” scenario include a tax rate increase of 3.87 per cent based on Council’s approval of 2022 budget adjustments in 2021 November. This tax rate increase is applied to all scenarios except “July Recalc Only”. The ability to incorporate the relevant tax rate reflecting the Council approved budget (forecast factor) exists within the property tax system but has not yet been utilized. This is discussed more fully in the “Tax rate volatility and forecast factors” section below.*

It is important to remember that not all accounts that are on TIPP will see the same magnitude and direction of dollar impacts from adjustments as identified above. Tax accounts and TIPP instalments are influenced by many factors, including:

- Tax rate changes
- Changes in assessed values
- When during the year a participant joins the program
- Missed payments
- Late payment penalties
- Overpayments
- Sundry charges applied to the account (e.g., bylaw charges, local improvements)
- Changes in ownership

Several considerations for each of these recalculation scenarios are included below. While they are listed as “advantages” and “disadvantages” additional weight should be given to those considerations that have a direct impact on the customer experience. **Calgary has the most successful TIPP program in Canada with 60% participation.** Calgarians have expressed high levels of satisfaction with the program and third-party data supporting the favorable taxpayer experience is included later in this document.

1. Current state – recalculation performed in January and July

Advantages

- Schedule is familiar to taxpayers.
- Internal process is established and proven – no system changes required.
- Mitigates variability in the TIPP payment over the long term.
- Functionality exists to include a tax rate increase to recalculated TIPP payments for January to June.
- With the proposed reduced property owner notification period, this does allow time for a relevant tax rate reflecting the Council approved budget change approved during November deliberations to be used in revised TIPP payments for the coming year.

Disadvantages

- Does not allow time for the impacts of provincial requisition to be forecast in revised TIPP payments for upcoming year.
- Mailing of TIPP recalculation letters in December results in approximately \$200K in postage charges each year.
- Change management and communication will be required to promote awareness of the relevant tax rate reflecting the Council-approved budget and change in notice period.
- A minor amendment to the TIPP Bylaw will be required to change the customer notification period from 30 days to 10 days.

2. January recalculation only

Advantages

- Reduces frequency of recalculation.
- Potentially reduces number of TIPP-related inquiries received by Administration at time of annual billing in May and June.

Disadvantages

- Does not allow time for the impacts of provincial requisition to be forecast in revised TIPP payments for upcoming year.
- Reduced frequency of recalculation can contribute to greater magnitude of variability when adjustments are made.
- TIPP payment will always be based on prior year's tax levy.
- Potentially increases number of TIPP related inquiries received in December and January and would require consideration of the staffing strategy to ensure resources exist in Tax Advisory to address increased inquiry volumes.
- Property tax accounts will often not be fully paid by year-end. Unpaid balances would need to be rolled over to the following year. A TIPP Bylaw change would be required to accommodate this change. Balances carried over could potentially attract penalties without amendments to existing Bylaws and program terms and conditions.
- Significant communication and change management initiatives would be required with customers.
- Change in cash flow distribution received by The City.

3. July recalculation only

Advantages

- Reduces frequency of recalculation.
- Year-end recalculation letters would not need to be sent in December potentially saving The City approximately \$200,000 annually.
- Recalculated amount includes Council-approved tax rate change (including provincial requisition).

Disadvantages

- Reduced frequency of recalculation can contribute to greater magnitude of variability when adjustments are made.
- Potentially increases number of TIPP related inquiries received by Administration in May and June.
- Significant communication and change management initiatives would be required with customers.
- Change in cash flow distribution received by The City.

4. February and July recalculation – incorporates the relevant tax rate reflecting the Council-approved budget increase from budget deliberations in previous November

Advantages

- Allows time for the relevant tax rate reflecting the Council-approved budget change approved during November deliberations to be incorporated in revised TIPP payments for February to June.
- Does not require change to customary 30-day notice period of a change in TIPP payments.

Disadvantages

- Introduces the greatest variability in adjustments to TIPP payments.
- Does not allow for the impacts of the provincial requisition to be included. A true up to the tax rate approved in the Property Tax Bylaw will still be required at the time of annual billing.
- Potentially increases number of TIPP related inquiries received in December and January and would require consideration of the staffing strategy to ensure resources exist in Tax Advisory to address increased inquiry volumes.
- Significant communication and change management initiatives would be required with customers.
- Change in cash flow distribution received by The City.

**Tax rate volatility and forecast factors**

Since 2018 the TIPP recalculation process has included the ability to include a forecast factor to be applied to payments as a proxy for potential tax rate increases. The process includes a decision by the Director of Finance on the change in rate to use. The timeline for this decision is before final decisions are made for the next year's budget. Administration is proposing that the use of this functionality in the year-end TIPP recalculation process to mitigate variability in TIPP instalments. This variability has been identified as a concern by some taxpayers and Councillors.

The following table presents a continuity of tax rates by year from the indicative tax rates proposed early in the year through to the final tax rates reflecting the Council-approved budget in the Property Tax Bylaw for the years 2019 to 2022.

Year	2018	2019	2020	2021
<b>Year for which rate is being approved</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
One Calgary Indicative Rates (April 2018)	2.65% - 3.45%	2.5% - 3%	2.5% - 3%	2.5% - 3%
One Calgary 2019-2022 Recommended Rates (Nov 2018)	3.45	3.03	3.03	3.03
One Calgary 2019-2022 Approved Rates (Nov 2018)	2.45	3.03	3.03	3.03
2020 Adjustments Indicative Rate Scenarios (July 2019)		0%/1.5%		
Mid Cycle Indicative Rates			0.00	
2022 Adjustments Indicative ("Striving") Rates (May 2020)				0.00
2022 Adjustments Recommended Rates (November 2021)				0.64% - 0.99%
<b>Final Council-approved Rates</b>	<b>2.45</b>	<b>1.50</b>	<b>-1.77</b>	<b>3.87</b>

The table highlights that there can be considerable variability in the range of potential tax rates even in the space of several months and further highlights the challenges associated with choosing the amount and timing of an appropriate forecast factor. **While a forecast factor can be included, a true up to the actual approved tax rate in the Property Tax Bylaw (including Provincial Requisition) would still be required at the time of annual billing.**

If the Council-approved tax rate is used to calculate TIPP payments, the process to do so, and the application of the rate, should be applied consistently on an annual basis. While the number may change from year to year, including some years when it will potentially be zero or negative, the process and the approach to communication should be predictable for customers and for staff. This will create an expectation with customers that will facilitate more effective communication with them by The City. Customers will know that the inclusion of the relevant tax rate reflecting the Council-approved budget is an integral part of the recalculation process. Consistency will also support greater efficiency and less likelihood of rework for Administration.

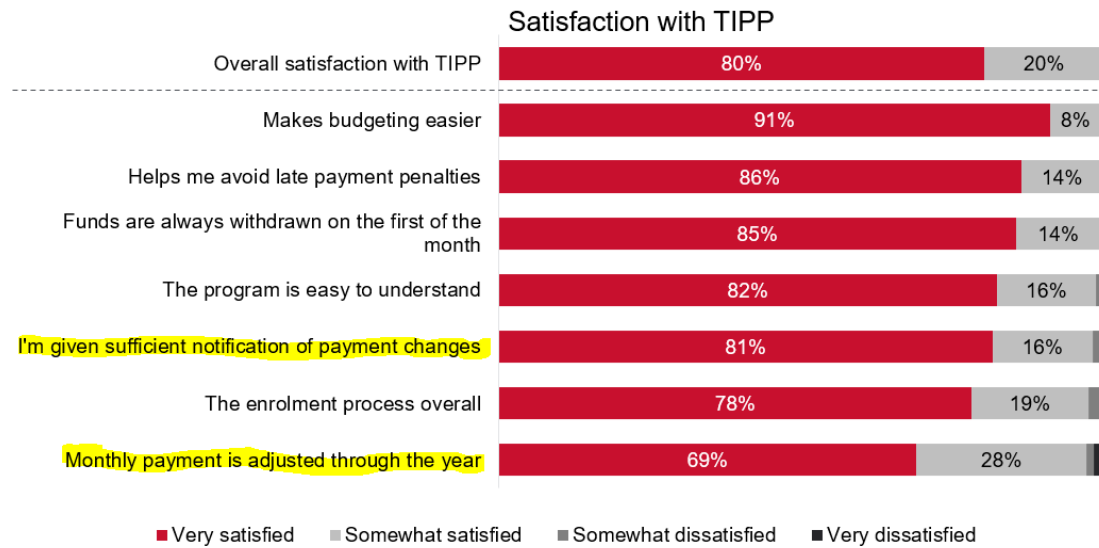
It is recommended that the relevant tax rate reflecting the Council-approved budget be included in TIPP payment adjustments and that it be set with sufficient time to adequately communicate with taxpayers.

### Taxpayer experience with TIPP

The Taxation Service recently commissioned an independent third-party survey of approximately 500 Calgary property owners to assess their perceptions of, and experience with, the Tax Instalment Payment Plan. This survey confirmed Calgarians' satisfaction with the program with 100 per cent of current TIPP participants surveyed saying that they were "Very Satisfied" (80 per cent) or "Somewhat Satisfied" (20 per cent) with the program. "Somewhat dissatisfied" and "Very dissatisfied" were available as choices to survey participants, however, there were no recorded instances in either of these categories.



Participants in the program also reported very high levels of satisfaction with the amount of notice they were given for payment changes and the monthly payment adjustment cycle through the year, with 97 per cent of respondents either “Very Satisfied” or “Somewhat Satisfied” with both drivers of satisfaction. A summary of drivers of satisfaction with the TIPP program can be found in the table below:



**Conclusion**

Administration is continually working to understand the needs of taxpayers and ensure this successful and popular program remains relevant and useful to taxpayers. This understanding is informed by thousands of direct customer interactions annually and, more recently, by a third-party survey of taxpayer perceptions and experiences. Satisfaction with the TIPP program is high and Administration is committed to ensuring it remains so. The recommendations presented will contribute to the continued success of the program.