Agenda – Executive Policy Committee – November 14, 2007

REPORTS

Item No. 8 Discounts to be Allowed for the Prepayment of 2008 Realty, Personal Property and Business Taxes
File FL-2.1

The Winnipeg Public Service recommends:

1. That pursuant to Subsection 334(3) of The City of Winnipeg Charter, Council adopt a by-law providing for prepayment discounts of the City's 2008 Realty, Personal Property and Business Taxes.

2. That the prepayment discounts be allowed on payments received by the Taxation & Revenue Division during the months of January and February, 2008 at the following discount rates:

Realty & Personal Property Tax - Payable at par up to June 30th	Face Value Discount Rate	Equivalent Annual Discount Rate
January	0.916%	2.25%
February	0.747%	2.25%
Business Tax – Payable at par up to May 31st		
January	0.735%	2.25%
February	0.565%	2.25%

3. That the Proper Officers of the City be authorized to do all things necessary to effect the intent of the foregoing.

RE: DISCOUNT(S) TO BE ALLOWED FOR THE PREPAYMENT OF 2008 REALTY, PERSONAL PROPERTY AND BUSINESS TAXES

FOR SUBMISSION TO: Executive Policy Committee

ORIGINAL REPORT SIGNED BY: Chief Financial Officer

REPORT DATE: October 31, 2007

RECOMMENDATION:

1. That pursuant to Subsection 334(3) of The City of Winnipeg Charter, Council adopt a by-law providing for prepayment discounts of the City's 2008 Realty, Personal Property and Business Taxes.

2. That the prepayment discounts be allowed on payments received by the Taxation & Revenue Division during the months of January and February, 2008 at the following discount rates:

Realty & Personal Property Tax - Payable at par up to June 30th	Face Value Discount Rate	Equivalent Annual Discount Rate
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Business Tax – Payable at par up to May 31st		
January	0.735%	2.25%
February	0.565%	2.25%

3. That the Proper Officers of the City be authorized to do all things necessary to effect the intent of the foregoing.

Report Summary

Key Issues:

- Council annually approves a discount rate for the taxpayers who pay their realty, personal property or business taxes in advance of the due date.
- The proposed discount rate is beneficial to both the taxpayer and the City of Winnipeg.
- The recommended rates (equivalent annual discount rates) are 0.50% higher than those approved for 2007.

Implications of the Recommendation(s):

General Implications

( ) None

(X) For the organization overall and/or for other departments

(X) For the community and/or organizations external to the City

( ) Involves a multi-year contract

Comment(s): The City receives advanced tax bill payment and in doing so, property and business owners are provided a beneficial tax payment discount rate.

Policy Implications

(X) No

( ) Yes

Comment(s):

Regulatory Implications

(X) None

( ) Eliminates or reduces regulatory impact

( ) Proposes regulatory impact

Comment(s):

Environmental Implications

(X) No

( ) Yes

Comment(s):

Human Resources Implications

(X) No

( ) Yes

Comment(s):

Financial Implications

(X) Within approved current and/or capital budget

( ) Current and/or capital budget adjustment required

Comment(s): This recommendation results in a projected net income of $84,951.

Report

REASON FOR THE REPORT:

Council may adopt a by-law prescribing the discount rates on the prepayment of realty, personal property and business taxes.

HISTORY:

Subsection 334(3) of *The City of Winnipeg Charter* permits the City to provide for the allowance of discounts when taxes are prepaid, as stated below:

> *334(3) Council may pass by-laws in respect of real and personal property taxes and business taxes*
>
> *(c) providing that, when taxes are paid other than by installments, discounts at rates prescribed in the by-law may be allowed on amounts that are prepaid on account of those taxes by dates specified in the by-law.*

Council annually adopts a by-law establishing a discount rate that will financially benefit the City and, at the same time, provide an investment opportunity for Winnipeg taxpayers.

DISCUSSION:

The proposed discount rates are based on information received from the Financial Services Division, which considers 4.85% as the City's projected annual return on investment for 2008. The 2007 estimate was 3.5%. Therefore, a discount rate of approximately 2.25% is considered to be fair to both the City and to the taxpayer.

The accelerated cash flow generated by the prepayment of realty, personal property and business taxes increases the City's short-term investment opportunities for the period January to June. The investment income earned from these early payments continues to exceed the tax discount given as well as the cost of administering the program by the Taxation & Revenue Division.

The 2007 accelerated cash flow generated by the prepayments of realty, personal property and business taxes was:

2007 Prepayments	$8,967,636
Less: 2007 Actual Discount	61,528
Cost to administer	10,000
	$8,896,108

Using the 2007 actual prepayment information, with the City's 2008 expected short term investment interest rate of 4.85%, the following represents the interest income that could be expected in 2008 from depositing the tax prepayments:

2008 Projected Investment Income from Prepayments

	Estimated Prepayments (Based on 2007)	# of months invested	2008 Projected Investment Income
January			
Realty and Personal Property Tax	$7,460,842	5	$150,772
Business Tax	314,138	4	5,078
February			
Realty and Personal Property Tax	913,647	4	14,770
Business Tax	279,009	3	3,383
2008 Projected gross income	$8,967,636		174,003
Less: Discount			79,052
Cost to administer			10,000
2008 Projected Net Income			**$84,951**

It is therefore recommended that Council adopt a by-law to provide for prepayment discounts received by the Taxation & Revenue Division during the months of January and February, 2008 at the following discount rates:

Realty & Personal Property Tax - Payable at par up to June 30th	Face Value Discount Rate	Equivalent Annual Discount Rate
January	0.916%	2.25%
February	0.747%	2.25%
Business Tax – Payable at par up to May 31st		
January	0.735%	2.25%
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FINANCIAL IMPACT STATEMENT:

Project Name: Discount for 2008 Prepayment of Realty, Personal Property and Business Taxes
Date: October 31, 2007 First Year of Program **2008**

	2008	2009	2010	2011	2012
Capital					
Capital Expenditures Required					
Less: Existing Budgeted Costs					
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal					
Debt - External					
Grants (Enter Description Here)					
Reserves, Equity, Surplus					
Other - Enter Description Here					
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ 89,052				
Less: Incremental Revenue/Recovery	174,003				
Net Cost/(Benefit)	$ (84,951)	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	(84,951)				
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: Using the 2007 actual prepayment information, with the City's 2008 expected short term investment interest rate of 4.85%, the interest income that could be expected in 2008 from depositing the tax prepayments is approximately $174,003. However, after applying the projected tax discount of $79,052 and an administrative cost of $10,000, the projected net income is $84,951.

"original signed by Carrie Erickson"
Manager of Finance and Administration

IN PREPARING THIS REPORT THERE WAS:

Internal Consultation With and Concurrence By:

External Consultation With:

THIS REPORT SUBMITTED BY:

Department: Corporate Finance Department
Division: Taxation Revenue
Prepared by: Robert Weselowski, Manager of Taxation & Revenue
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