Report "A" – Executive Policy Committee – December 8, 2004

Item No. 4 Discount(s) to be Allowed for the Prepayment of 2005 Realty, Personal Property and Business Tax
File FL-2.1

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On December 8, 2004, the Executive Policy Committee concurred in the administrative recommendation and submits the following to Council:

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 2005 Realty, Personal Property and Business Taxes.

2. That the prepayment discounts be allowed on payments received by the Taxation and Revenue Division during the months of January and February, 2005 at the following discount rates:

Realty & Personal Property Tax - Payable at par up to June 30	Face Value Discount Rate	Equivalent Annual Discount Rate
January	0.71%	1.75%
February	0.58%	1.75%
Business Tax – Payable at par up to May 31		
January	0.57%	1.75%
February	0.44%	1.75%

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

Report "A" – Executive Policy Committee – December 8, 2004

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On December 8, 2004, the Executive Policy Committee concurred in the administrative recommendation and submitted the matter to Council.

ADMINISTRATIVE REPORT

RE: DISCOUNT(S) TO BE ALLOWED FOR THE PREPAYMENT OF 2005 REALTY, PERSONAL PROPERTY AND BUSINESS TAXES

FOR SUBMISSION TO: Executive Policy Committee

ORIGINAL REPORT SIGNED BY: Chief Financial Officer

REPORT DATE: November 30, 2004

RECOMMENDATION(S):

3. 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 2005 Realty, Personal Property and Business Taxes.

4. That the prepayment discounts be allowed on payments received by the Taxation & Revenue Division during the months of January and February, 2005 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	0.71%	1.75%
February	0.58%	1.75%
Business Tax – Payable at par up to May 31st		
January	0.57%	1.75%
February	0.44%	1.75%

5. That the proper officers of the City be authorized to do all things necessary to effect the intent of the foregoing.

REPORT SUMMARY:

Key Issue(s):

- Council annually approves a discount rate for the taxpayers who pay their 2005 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.

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):

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 approximately $32,600.

REASON FOR THE REPORT:

1096

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 2.7% as the City's projected annual return on investment. The current annual deposit rate available to taxpayers is approximately 1%. A discount rate of approximately 1.75% 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 2004 accelerated cash flow generated by the prepayments of realty, personal property and business taxes was:

2004 Prepayments	$10,559,943
Less: 2004 Actual Discount	84,127
Cost to administer	10,000
	$10,465,816

Using the 2004 actual prepayment information, with the City's 2005 expected short term investment interest rate of 2.7%, the following represents the interest income that could be expected in 2005 from depositing the tax prepayments:

2005 Projected Investment Income from Prepayments @ 2.7%

	Estimated Prepayments (Based on 2004)	# of months invested	2005 Projected Investment Income
January			
Realty and Personal Property Tax	$9,547,589	5	$107,410
Business Tax	622,495	4	5,602
February			
Realty and Personal Property Tax	385,606	4	3,471
Business Tax	4,253	3	29
2005 Projected gross income	$10,559,943		116,512
Less: Discount			73,894
Cost to administer			10,000
2005 Projected Net Income			**$32,618**

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, 2005 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	0.71%	1.75%
February	0.58%	1.75%
Business Tax – Payable at par up to May 31st		
January	0.57%	1.75%
February	0.44%	1.75%

FINANCIAL IMPACT STATEMENT:

Project Name: Discount for 2005 Prepayment of Realty, Personal Property and Business Taxes
Date: November 26, 2004 First Year of Program **2005**

	2005	2006	2007	2008	2009
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	$ 83,894				
Less: Incremental Revenue/Recovery	116,512				
Net Cost/(Benefit)	$ (32,618)	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts					
Net Budget Adjustment Required		$ -	$ -	$ -	$ -

Additional Comments: Using the 2004 actual prepayment information, with the City's 2005 expected short term investment interest rate of 2.7%, the interest income that could be expected in 2005 from depositing the tax prepayments is approximately $116,512. However, after applying the projected tax discount of $73,894 and an administrative cost of $10,000, the projected net income is $32,618.

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

IN PREPARING THIS REPORT, THERE WAS CONSULTATION WITH AND CONCURRENCE BY:

THIS REPORT SUBMITTED BY:

Department: Corporate Finance Department
Division: Taxation Revenue
Prepared by: Robert Weselowski, Manager of Taxation & Revenue
V:\Admin\FILES\BOBW\Bob's\REPORTS\Prepayment Discounts\PrepaymentDiscount2005_2.doc