

## TAX NOTICE FORMAT - EDUCATION TAX INFORMATION

### RECOMMENDATION

That the February 16, 2022, Financial and Corporate Services report FCS00601, be received for information.

#### Report Purpose

##### Information only.

Council is being informed of the potential options to distinguish between provincial and municipal taxes on City of Edmonton tax notices (Managing the Corporation).

### Previous Council/Committee Action

At the April 19, 2021, City Council meeting, the following motion passed:

That Administration provide a report on the benefits and challenges of clearly separating out the Provincial education tax requisition in the City of Edmonton tax notices.

### Executive Summary

- Edmonton is required to collect education property tax on behalf of the Province, but has no control over the education tax levy.
- This can lead to confusion among taxpayers about amounts payable to which order of government.
- Fully separating and mailing the municipal and provincial property tax notices would incur about \$362,000 in direct costs to the City, and would have potentially significant legal implications. It would also likely increase resources required for tax collection and responding to inquiries, and increase compliance costs for taxpayers.
- Another option is to enhance the existing tax notice to draw greater attention to the distinction between municipal and provincial property taxes.

## **Tax Notice Format - Education Tax Information**

### **REPORT**

Municipalities in Alberta, including the City of Edmonton, are responsible for collecting education property taxes on behalf of the provincial government. This arrangement is systemically efficient because it avoids duplication of administrative infrastructure between the City and the Province. However, it can cause confusion about which order of government is responsible for which tax amount. For example, public communication about the 2022 municipal property tax levy increasing by 1.9 per cent may appear misleading if a taxpayer's bill increases by more due to changes in the education tax levy. City Council is only able to control and influence the municipal levy.

The current tax notice design presents municipal and provincial property taxes as separate line items with separate subtotals, and indicates that education taxes are collected on behalf of the province (Attachment 1). Further information is provided on the back of the notice to describe how municipal and provincial taxes are set. All of the information required for property owners to accurately evaluate the relative impact of provincial and municipal taxes is provided, and further information is available through included links and options to contact the City. It is possible for property owners to miss this distinction, but the consistency of the tax notice over the past several years supports taxpayers' comprehension of their property tax liabilities. This, in turn, has minimized the need to respond to questions related to differing tax rates and taxing jurisdictions.

The City generally does not receive large numbers of public inquiries related to distinctions between provincial and municipal property taxes. Questions more commonly relate to the relationship between assessment and the resulting tax amount.

### **Options**

This report identifies two options to ensure that property tax notices appropriately inform owners about which order of government is responsible for decisions that impact their property taxes.

1. Enhance information elements of the tax notice to further explain how the provincial and municipal levies impact tax amounts, without changing data elements.
2. Send separate tax bills for municipal and provincial property taxes.

The first option is to add information on the notice to emphasize the separation between municipal and provincial taxes. This would impact information that is common to all tax notices, but not the information that is specific to a given property. Administration would identify opportunities to more clearly delineate between provincial and municipal taxes, including reformatting existing content and enhancing visual cues to highlight information. There is limited space to add additional information and very little that can be removed due to legislative requirements.

Alternatively, the City could add a separate insert in the tax notice envelope to provide further information. Adding inserts to the 2022 tax notice mailout would cost approximately \$21,000 for printing, assuming the same insert is used for all notices.

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The second option is to prepare and send separate tax bills for municipal and provincial property taxes. If the two bills were sent in a single envelope this would be considered a single notice, but if the bills were sent in separate envelopes these would very likely be considered separate notices. This is an important legal distinction described in more detail below. This option would distinguish the accountabilities of the two orders of government, but comes with increased costs for both the City and taxpayers as well as additional legal considerations. The complexity of redesigning the tax notices and database linkages means that this option would be implemented for the 2023 tax year and the 2022 tax notices sent in May would remain status quo.

Sending both bills in a single envelope will incur additional printing costs, and postage costs will also increase as more envelopes will be too heavy to qualify for standard postage rates. The total direct cost is estimated at \$62,000. Additionally, the increase in page counts will necessitate an increase in manual insertion, requiring increased resource time. Sending the two bills separately is estimated to cost \$362,000, and would not align with the requirements of the *Municipal Government Act*.

Option two would also likely increase the number of taxpayer inquiries through 311, Councillors' offices and other channels. Taxpayers will have two bills to manage, which will require additional effort and incur additional compliance costs for them and their financial institutions. A survey conducted in 2008 by the Fraser Institute found that on average, Canadians incur less than \$7 in expenses to pay a single property tax bill, and about \$13 to pay two property tax bills.

It will also incur additional City resources to process tax payments and manage collection activities. There will be printing and postage costs to sending separate reminder letters for delinquent accounts, as well as an increased risk that some taxpayers may pay one bill and not the other (by choice or mistake) and incur penalties. Even though the *Municipal Government Act* requires that tax notices include education property taxes as a separate line item, they still become a debt owing to the City similar to municipal property taxes. Separate provincial and municipal notices may lead citizens to believe that if they choose to not pay the provincial tax that collections enforcement is with the province. As well, in the event that partial payments are made, it is unclear how they would be apportioned between the municipal and provincial components. For these reasons, Administration does not recommend sending separate notices.

### Legal Implications

The *Municipal Government Act* sets out specific requirements for the contents of tax notices. The municipal levy and the education property tax levy are considered a single tax under the *Municipal Government Act*, and only one notice can be issued for each tax. The province would likely interpret sending separate bills in one envelope as a single notice, but might consider separate envelopes to be separate notices and therefore in contravention of the *Municipal Government Act*. The legal implications of sending separate notices are not clear, and as such constitute a risk to the City. Outcomes of these risks are difficult to measure and may be significant. It is possible that a judicial decision would render separate notices invalid and, depending on timing, it may not be possible to send a subsequent valid tax notice. In this case the property tax levy for any notices subject to the decision could be in jeopardy.

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### Budget/Financial Implications

The following table estimates the direct costs incurred by each of the options presented in this report. Indirect costs, such as Administrative time or managing public inquiries, are not included in the estimates below.

Option		Estimated Direct Cost (postage and printing)	Indirect Costs and Staff Resources
1. Enhanced communication elements	Tax notice only	\$0	Content review and design
	Tax notice plus insert	\$21,000	Content review and design
2. Separate tax notices	Single envelope	\$62,000	Additional manual envelope insertion, inquiries, payments, and tax collection effort
	Separate envelopes	\$362,000	Additional manual envelope insertion, reminder mailouts, inquiries, payments, and tax collection effort  Legal and financial risk

### COMMUNITY INSIGHT

The City recognizes that the taxation process is complex, and is committed to making it as easy to understand and navigate as possible. Though no public engagement was undertaken for this report, feedback from the community is received through 311, conversations with Assessment and Taxation staff, and other channels. Notices and other communications are reviewed and updated regularly to ensure they provide appropriate levels of detail and reference other sources of information (e.g., edmonton.ca) so that residents can easily find answers to their questions.

### GBA+

Since this issue is limited to the format of property tax notices, it only directly impacts the residents who receive one (i.e., property owners). However, though there is no direct impact on other residents who do not own property (i.e., renters), they will still indirectly contribute to any costs associated with implementing changes to the property tax bills as multi-family property owners pass down tax costs within their rent.

In addition, proceeding with multiple bills could create confusion and increase barriers for property owners who do not use electronic billing or payment systems. Multiple transactions, especially if there is a fee associated per transaction, may present a further obstacle to payment.

### ATTACHMENT

1. Sample 2021 Tax Notice