



Memorandum

Date: April 6, 1993

To: District Directors
Income Security

From: Bryan McTaggart/Gerry Schmidt
Directors of Field Operations

Telephone:

Subject: **Property Taxes**

This directive rescinds Directive 92-08 (February 14, 1992) on the subject of property taxes. The updated policy and procedures regarding payment of property taxes, arrears and penalties are provided.

I. POLICY ON PROPERTY TAXES

This section details policy regarding: provision of net property taxes as a basic need, tax arrears, tax penalties, savings from pre-payment of taxes and reconciliation of taxes at case closure.

A. NET PROPERTY TAXES AS A BASIC NEED

Shelter costs for clients who are home owners are provided under Schedule A, Section 2(c) of the Social Allowances Regulations which state that:

c) home upkeep in lieu of rent for recipients who own or who are purchasing their own home may be paid as follows:

- i. The total cost of current taxes and insurance on the home and principal and interest on a mortgage or agreement for sale, up to the maximum amount that would otherwise be allowed for rent under clause (a), or an amount up to the total actual cost of taxes, insurance, principal and interest, at the discretion of the Minister or any person authorized by the Minister in accordance with terms and conditions that may be prescribed by the Minister.

Therefore, the Social Allowance Program will consider net property taxes as part of the monthly shelter need for clients as follows:

1. at all times for clients whose taxes are included in the mortgage payment (i.e. principal, interest, taxes).
2. only when taxes are determined to be a need for clients whose taxes are not included in the mortgage payment (i.e. principal, interest only). Need is determined to be effective:
 - a) the date of enrollment on assistance, if taxes have not been paid by the applicant for that calendar year; or
 - b) January 1 of the year following enrollment, if taxes have been paid for the year of enrollment.

3. property taxes are not to be included as a shelter need in the Director's assessment of an applicant's requirement for emergency assistance as per Section 7(1) and (2) of *The Social Allowances Act*.

Note: Municipalities assess property taxes based on the calendar year. The due date for taxes varies with the individual municipalities.

B. TAX ARREARS

1. Definition of Arrears

The Municipal Act does not provide an actual definition of "tax arrears". Section 803(1) states that any unpaid taxes are given the status of tax arrears and that the property can be sold for arrears when:

all or a portion of the property taxes imposed in any year remains due and unpaid on the expiration of the *year next following December 31 of the year in which the taxes were imposed*.

For the purpose of the Social Allowances Program, this definition also applies when considering the disbursement of funds to clients for tax arrears. For example, if a client has not paid the 1992 net taxes, the property could be listed for tax sale after January 1, 1994.

2. Payment of Arrears

Payment of tax arrears should only be considered when payment will protect the social allowances client from losing his/her shelter and if it is considered to be practical to retain the shelter (e.g. shelter is of value or does not require extensive repairs).

The District Office must verify the final notice of tax sale of the property with the municipality, prior to requesting authorization from the Minister or Minister's designate to pay tax arrears.

Accrued tax arrears on property owned by social allowances clients may only be paid in a lump sum on authorization of the Minister or the Minister's designate under Regulation 5(2). If granted, the total amount shall be secured for recovery by lien in accordance with Schedule A, Section 2(d) of the Regulations.

C. TAX PENALTIES

With the exception of payment of tax arrears as described above, penalties incurred by the client prior to application or while enrolled on Social Allowances are the responsibility of the client.

D. SAVINGS INCURRED FROM PRE-PAYMENT OF TAXES

When net taxes are disbursed on a monthly basis as a budgeted item, the client is entitled to benefits equal to 1/12 of the annual net tax amount for each month of enrollment. Some municipalities may allow credits for early payment of taxes. These credits may be used to offset any existing tax penalties incurred by the client. Any savings incurred as a result of the client's prepayment of the taxes are a benefit to the client.

E. RECONCILE TAXES ANNUALLY AND AT CASE CLOSURE

Net taxes must be reconciled once a year (i.e. at the due date or in December) and at case closure. As part of the Annual Review, the method and amount of property taxes disbursed must be examined to ensure that proper reconciliation has occurred.

Reconciliation must ensure that property taxes are disbursed on a monthly basis when determined to be a need. The monthly benefit is equal to 1/12 of the annual net property tax amount for the period of enrollment, excluding any pre-payment credits or late payment penalties.

At reconciliation, if it is found that the budgeted amount of net taxes is insufficient, a deficit payment may be issued as a non-continuous need. The adjusted monthly net tax amount would then be re-entered.

II. PROCEDURES FOR PAYMENT OF PROPERTY TAXES

These procedures outline the method of payment for property taxes which are not included or included in the mortgage payment.

A. PROPERTY TAXES NOT INCLUDED IN MORTGAGE PAYMENT:

Subject to the provisions in Section I(A) of this directive, net property taxes are to be pro-rated commencing the first day of the month in which taxes are determined to be a need (1/12 of the net taxes allocated to each month).

Taxes are to be disbursed on a monthly basis as a budgeted item either directly to the client or to the municipality for clients unable to manage their own affairs.

1. Monthly Payment to Client

By entering the monthly tax amount in the tax amount field and not entering a disbursement method, the monthly net property tax amount will be disbursed as part of the client's monthly benefit.

Clients should be advised that the budgeted portion of the net taxes may be paid monthly at the local municipality office.

2. Monthly Payment to Municipality

In situations where it is necessary to administer payments on behalf of the client, net property taxes may be paid directly to the municipality instead of to the client by identifying the municipality as a third party (LL).

B. PROPERTY TAXES INCLUDED IN MORTGAGE PAYMENT (PIT PAYMENT):

When the property tax amount is included with the mortgage payment, the PIT amount must be entered. Only 1/12 of the net tax amount is to be allowed in the PIT payment.

Lending institutions/mortgagees (e.g. banks, trust companies) use various methods to determine the tax portion of the PIT payment. For example, the mortgagee may determine the tax payment based on gross taxes for the first year and based on the net tax amount for subsequent years. The lending institution may place any balance (gross minus net taxes) in the client's/mortgagor's tax account.

Staff must ensure that the lending institution/mortgagee uses the amount accumulated in the tax account towards taxes for the next year and not towards payment of the principal and interest:

1. Upon enrollment, verify with the applicant/mortgagor whether the mortgage payment consists of PIT.
2. If taxes are included in the payment, determine how the applicant/mortgagor calculates the amount of taxes (i.e. whether based on net or gross taxes) and advise the client that the net property taxes will be allowed as a shelter need.
3. At enrollment and on a yearly basis, obtain a copy of the most recent property tax statement and a copy of the lending institution's/mortgagee's statement to the client/mortgagor. The latter statement will detail the monthly portion of principal, interest and taxes, plus any other amounts (e.g. insurance).

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