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Item No.

**HRM Grants Committee
December 1, 2014**

TO: Chair and Members of Grants Committee
Original Signed

SUBMITTED BY: _____
Greg Keefe, Director of Finance & ICT/CFO

DATE: November 24, 2014

SUBJECT: **Tax Relief for Non-Profit Organizations – Compliance Issues: Proposed
Administrative and Policy Changes**

ORIGIN

Office of the Auditor General, Corporate Grants, Contributions and Donations (2011) recommended a comprehensive review of the tax relief program.

LEGISLATIVE AUTHORITY

HRM Charter (2008) s.79 respecting discretionary grants and contributions.
Administrative Order 2014-001-ADM Tax Relief for Non-Profit Organizations.

RECOMMENDATION

It is recommended that the Grants Committee approve in principle:

1. Extension of the call for new applications to the *Tax Relief for Non-Profit Organizations* to commence April 1st of the fiscal year with a closing deadline of December 1st;
2. The renewal of tax relief status for organizations in the program be extended from September 1st to March 1st of the fiscal year;
3. Late renewals (those received after March 1st) be pro-rated to deduct one day of eligibility for each day late
4. Amend the annual application form as detailed in the Discussion section of this report to commence in fiscal year 2016.

BACKGROUND

Further to the Auditor General's review of municipal grants and contributions, a review of the *Tax Relief for Non-Profit Organizations Program* is underway. This report addresses administrative and program policy. If approved, implementation of the new processes would be phased to accommodate staff capacity and the need for assistance from Information Technology (ICT Division, Finance) and Corporate Communications. Any amendments to Administrative Order 2014-001-ADM can be consolidated and implemented concurrently at a later date with amendments approved under the proposed program re-design. In the interim, a revised renewal reporting process can commence immediately because this is primarily an internal operational change.

The proposed changes to current practice are largely internal with the aim of enhancing customer service and consistency by:

- Reducing administrative inefficiencies resulting from late, incomplete or incorrect applications to renew tax relief;
- Addressing late applications in a fair and consistent manner;
- Requiring timely notification of a property sale or conveyance, sub-leasing, or the termination or expiry of a lease agreement;
- Development of educational materials for prospective applicants, program participants, and HRM staff.

DISCUSSION

The *Tax Relief for Non-Profit Organizations Program* operates within the Municipality's fiscal year which begins April 1st and ends March 31st. Awards can be made effective in the current fiscal year back-dated to April 1st or any specified date but awards cannot be made retroactively to a prior fiscal year. An award can also be approved to commence in the following fiscal year but with the proviso "subject to budget capacity". There is a heavy draw-down on staff resources within a condensed timeframe that can contribute to a delay in preparing reports to the Grants Committee and Council. By extension, this creates further strain towards year-end for notification, billing and collection.

1. Statement of the Issue: New Applications

Presently, applications for tax relief from those in the program and new applicants are accepted over a 3-month period, September to November. A public notice is placed in the Chronicle-Herald newspaper and information is posted on the HRM web site. This timing allows for a budget request in the following fiscal year should demand and/or increased assessment values exceed the program's budget. It is necessary to solicit new applications prior to the start of HRM's budget deliberations.

Although the application deadline is fixed (November 1st) there is no practical reason why the call for applications cannot open prior to September. If approved, opening the program to new applications April 1st and posting the application form on-line for 8 months would enhance access to information and also moderate the workload.

Table 1. Before/After Comparison for New Applications				
	Open to Applications	Application Deadline	Late	Administration
Current Practice	September 1 st for following fiscal year	November 30 th for following fiscal year	Decline	3 months
Proposed Change	April 1 st for following fiscal year	December 1 st , for following fiscal year	Decline or Review after on-time applicants subject to budget capacity	8 months

Once the application deadline has passed, the on-line application form can be removed and updated.

2. Statement of the Issue: Renewals

In an effort to reduce the number of late applications, those accepted into the program (referred to as 'renewals') are mailed an application form in September that must be completed by the applicant and returned by December 1st.

- Applications are routinely received after the stated deadline. Enforcement of this deadline has been inconsistent: groups in receipt of tax relief have rarely been disqualified whereas new applicants have been declined or deferred. A lack of recourse diminishes the purpose of an application deadline and provides preferential consideration relative to new applicants. In practice, compliance is needed so as to administer the program in a fair and efficient manner: the requirement in relation to tax relief is no more arduous than that applied to cash grants or 'community interest' property sales.
- Staff and volunteer turn-over results in incomplete or inaccurate information that requires staff follow-up and verification;
- An applicant may add a new property without clearly distinguishing the request from a renewal.

To simplify and expedite processing renewals it is proposed that Grants Program staff would complete the annual renewal form on behalf of tax relief recipients. Using a digital template for records-keeping, staff can ensure that the information is accurate and complete. The form would be mailed to an organization who simply verifies that the information is correct by signing the form, affixing a copy of their prior year's financial statement, and return to HRM on or before March 1. Using this approach, HRM notifies the recipient organization of the properties eligible for tax relief by civic address and account number, the level of tax relief, and any conditions of funding. The form can also provide advance notice of ineligibility such as the expiry of a lease agreement or registration status. Although there will be a significant demand on administrative resources at the outset, once the 'master file' has been created annual updates should be expedited.

If revoking tax relief for a late submission is not acceptable to the Grants Committee or Council, consideration could be given to amending the tax relief Administrative Order by pro-rating renewal applications received after March 31st. If a renewal application is not received/post-marked by March 31st any tax relief could be pro-rated as of April 1st with a deduction for each day late

A reduction in tax relief would be calculated by:

- (i) Dividing the number of days in the calendar year by the dollar amount of the applicable tax

- relief for the full fiscal year; and
- (ii) Deducting one day of eligibility as of April 1st and thereafter for each day late.
- (iii) If an application for renewal has not been received by March 31st of the following calendar year the organization shall be automatically deemed ineligible for consideration and tax relief status revoked. The organization would have to make formal application for reinstatement in the following year's program.
- (iv) The applicant would have 12 months to conform to the program's reporting requirements and advance notification of potential ineligibility.

The procedure outlined above uses a system of progressive penalties. An educational initiative would be required prior to implementation to assist applicants in the transition to the new process but the current recourse to 'all-or-nothing' would be averted.

Table 2. Before/After Comparison for Renewals				
	Open to Applications	Application Deadline	Late	Administration
Current Practice	September 1 st for following fiscal year	December 1 st for following fiscal year	Decline	3 months
Proposed Change	September 1 st form issued by HRM for following fiscal year	March 1st for following fiscal year	Pro-rate late applications to deduct one day of tax relief for each day late, starting April 1st	6 months

3. Statement of the Issue – Notification of Substantive Change in Property Use

Tax relief is non-transferable: when an organization acquires an additional property application must be made for inclusion in the program - a 'new' application. Likewise, when an organization sells or conveys a property, or a lease expires, HRM must be notified in advance so as to remove the property from the program. Timely notification is required so as to pro-rate tax relief as of the date of a change in ownership or occupancy. Also, if there is a substantive change in use the level of tax relief might need revision. This approach avoids inadvertent over-payment to an ineligible owner/tenant and related collection proceedings.

Presently, recipients of tax relief are not providing timely notification to HRM of a change in property ownership or occupancy resulting in administrative inefficiencies and non-compliance with policy (Administrative Order, Section 6). To address this problem it is proposed that the program's application forms and guidelines (referred to in a newsletter) be revised to alert all recipients of their obligations and the penalties for non-compliance. Information should also be provided re: pre-authorized payment, tax paid through a mortgage, billing and assessment.

FINANCIAL IMPLICATIONS

None.

COMMUNITY ENGAGEMENT

All organizations in receipt of tax relief are mailed a renewal form in September and new applications are invited through an advertisement placed in the Municipal Notices section of the Chronicle-Herald newspaper.

Updated forms and educational materials are required in an effort to inform prospective applicants and current recipients of the program's policy and eligibility requirements. Educational materials (referred to as Interpretation Bulletins) should be produced with the assistance of Corporate Communications to aid understanding of the tax system and the program's policy and procedures.

ENVIRONMENTAL IMPLICATIONS

Not applicable.

ALTERNATIVES

The Grants Committee could overturn or amend a recommendation.

ATTACHMENTS

None.

A copy of this report can be obtained online at <http://www.halifax.ca/commcoun/index.php> then choose the appropriate Community Council and meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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