

THE REALTAX REPORT

The State of Property
Tax Arrears in Ontario

2024 Edition

January 2025

Introduction

Municipalities rely heavily on property taxes to provide essential services like infrastructure maintenance, waste management, public safety, and community development.

These taxes form the backbone of local government budgets, ensuring communities can thrive and grow. Yet, across Canada, many municipalities face a growing challenge—taxes in arrears. **In Ontario, a Realtax study of the financial statements of the top 200 municipalities (by population size) reported over \$1.9 billion in tax arrears in 2023.**



When municipalities fail to collect taxes in arrears, the consequences extend far beyond immediate cash flow issues, creating long-term financial instability and undermining community development.

Uncollected taxes may seem like a short-term issue, but academic studies¹ have shown their long-term financial impact can lead to:

- Decreased service quality
- Increased financial pressure on compliant taxpayers
- Higher borrowing costs
- Delays in long-term planning
- Delays in infrastructure projects
- Impact on public trust and confidence

This report explores and benchmarks the level of tax arrears across the province of Ontario in fiscal year 2023.

1 - Young Anderson LLP, 2020; Province of Alberta, 2022

Methodology

Realtax set out to evaluate the performance of the tax arrears market but encountered the challenge of limited publicly available data.

To address this, Realtax analyzed audited financial statements from the top 200 municipalities by population, covering the years 2018 to 2023. This process involved reviewing over 1,000 sets of financial statements. For municipalities that had not yet released their 2023 financial reports, Realtax applied statistical measures to forecast the missing data, ensuring the analysis was both thorough and up-to-date.

The focus of the analysis was on a select number of financial metrics:

1. Net Taxes Receivable: taxes that are due but have not been received.
2. Property Tax Revenue: total amount of recognized property tax revenue.
3. Net Taxes Receivable as a Percentage of Taxes Levied, which equaled Taxes Receivable divided by Property Tax Revenue

Statistics - Top 200 Municipalities

Largest municipality:

Population = 2,794,356

Area = 631.1 km squared

Population per km squared: 4,427.80



96%

Total Population in Ontario

Smallest municipality:

Population = 7,036

Area = 244.6 km squared

Population per km squared: 29



65%

Total Land Area in Ontario

48%

Municipalities in Ontario

Impact #1: The Financial Ripple Effect

Higher Borrowing Costs: Municipalities sometimes resort to borrowing to cover budget shortfalls caused by unpaid taxes. However, relying on debt is not a sustainable long-term solution. Borrowing to offset the loss in tax revenue increases the municipality's debt burden and often leads to higher interest payments, straining future budgets. In some cases, municipalities may face a downgrade in their credit ratings, making borrowing even more expensive in the long run.

Case Study

A 2019 study by the Federation of Canadian Municipalities (FCM) discussed how a municipality in Ontario experienced financial challenges where rapidly increasing costs for essential services like transit and social assistance had outpaced revenue growth.

This issue was compounded by the fact that this municipality relied heavily on property taxes which limited their flexibility to manage rising expenses. The municipality had higher than normal levels of tax arrears and could not run an operating deficit, which constrained their ability to respond to financial pressures.

This scenario essentially created a situation of over-leveraging, where the municipality's financial commitments exceeded its revenue-generating capacity, raising concerns about its long-term fiscal sustainability. Had the municipality better managed its tax arrears process, it may not have experienced this hardship.

Impact #2: Long-Term Planning and Infrastructure

Effective long-term planning requires stable revenue streams, but when a significant portion of property taxes goes uncollected, municipalities face uncertainty in their budgeting and planning processes.

Municipalities are tasked with planning for future growth, maintaining aging infrastructure, and addressing new challenges like climate change. Infrastructure is the foundation of any community—good roads, reliable water supply, and efficient waste management all depend on tax funding.

When municipalities lack the revenue to maintain and upgrade their infrastructure, it can lead to significant delays in necessary projects. Poor infrastructure impacts local economic growth, discourages businesses from investing, and can harm the overall attractiveness of the municipality.

In addition, municipalities must plan for population growth and shifting demographics, ensuring that schools, transportation, and healthcare services are adequate. However, tax arrears often force municipalities to focus on short-term financial survival, leaving little room for forward-looking investments.

This lack of planning can lead to overcrowded schools, inadequate healthcare facilities, and poorly maintained public spaces—all of which reduce a community's competitiveness and desirability.

Impact #3: Impacts on Public Trust and Confidence

Beyond the financial and infrastructural consequences, municipalities risk negatively impacting public trust when they fail to act decisively on tax arrears.

Municipal governance relies on the social contract between residents and the government—residents pay taxes with the expectation that their municipality will provide essential services in return.

Case Study

After the economic downturn in 2008, several municipalities in Canada faced severe budget shortfalls due to widespread tax delinquency. This forced many local governments to raise taxes on compliant homeowners to make up the difference. The result was a report of growing frustration among the compliant taxpayers, who felt unfairly burdened by the increased rates.

If taxpayers believe the municipality is not enforcing tax collection fairly and consistently, it can lead to a perception of inequity. Some property owners may feel frustrated if they believe others are not held accountable for their tax debts, and this perception may create trust issues in local government. Over time, the sense of unfairness can lead to wider tax delinquency, as residents lose confidence in the system.

The Cost of Inaction: Why Proactive Solutions Matter

Addressing taxes in arrears is not simply about recovering lost revenue; it's about preserving the financial health, social equity, and future viability of the community.

Many municipalities may hesitate to adopt aggressive collection strategies, fearing the potential fallout from property owners, but the cost of inaction is far greater.



REVENUE RECOVERY AND PREVENTION:

By taking a proactive stance on tax arrears, municipalities can recover significant revenue that would otherwise be lost. This revenue can be reinvested into essential services, improving infrastructure, and future-proofing the municipality. Additionally, establishing clear consequences for delinquent taxpayers can prevent future arrears, ensuring that all property owners contribute their fair share.



STRENGTHENING MUNICIPAL RESILIENCE:

A proactive approach to tax collection strengthens municipal resilience in the face of economic downturns or unexpected crises. Studies show that municipalities that effectively manage tax arrears are better positioned to weather financial storms, maintain essential services, and adapt to changing community needs.



BUILDING PUBLIC TRUST:

Proactive tax collection is also about fairness. By enforcing tax legislation consistently, municipalities can demonstrate that they are committed to serving all residents equitably. This can help maintain public trust, encouraging greater civic engagement and fostering a sense of community ownership.

Level of Tax Arrears in Ontario (2018-2023)

Tax arrears in Ontario have been growing by approximately 7% year-over-year. Is the growth being driven by the increasing population base in that period?...not quite.

Realtax used accounts receivable as the proxy for tax arrears across municipalities in Ontario.

Data was pulled from each municipality's published financial statements for the year-ended 2023.

STATS

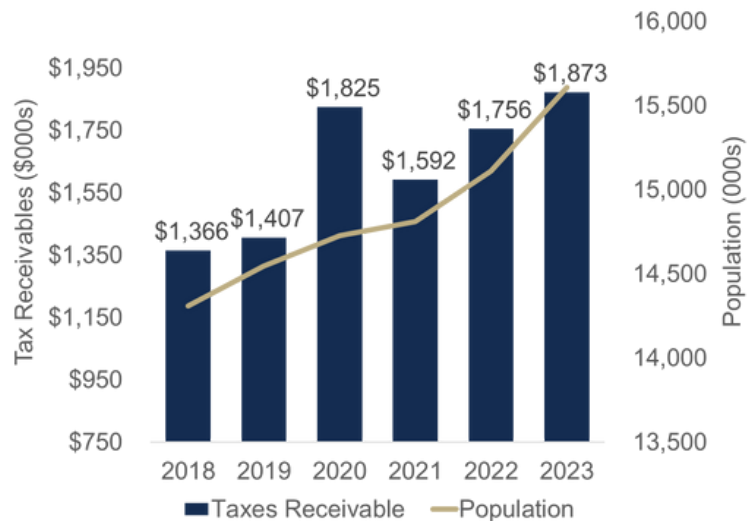
Taxes receivable increased from \$1.37B in 2018 to \$1.87B in 2023. **7%** CAGR

Population in Ontario grew 14.3M to 15.6M. **2%** CAGR

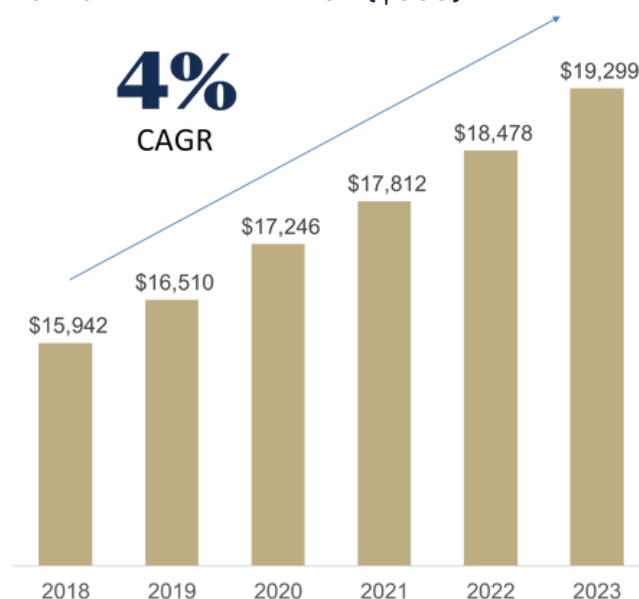
Taxes receivable increased by an average of approximately 7% year-over-year (YoY), which was faster than the 2% population growth witnessed in the same period.

Tax revenue has increased by 4% YoY from \$15.9B in 2018 to \$19.3B in 2023. However, the 7% growth in tax arrears is still outpacing the growth in tax revenue.

TAXES RECEIVABLE VS. POPULATION GROWTH



MUNICIPAL TAX REVENUE (\$000)



Why Are Tax Receivables Outpacing Revenue Growth?

5 reasons property tax receivables are outpacing population growth and tax revenue...

1

Increase in Property Tax Arrears

Higher inflation and difficult macroeconomic trends have led to property owners falling behind on tax payments.

2

Delayed or Inadequate Tax Collection

Many municipalities have yet to return to 100% of the arrears collection activity from pre-Covid days.

3

Growth in High-Value Properties

With high-value properties, even a small increase in arrears can lead to significant growth in receivables. Ontario has seen an influx of such properties due to development and increasing property values.

4

Economic and Demographic Pressures

Economic factors like job market volatility, rising costs of living, and stagnant wages can put financial strain on residents, making it more difficult to keep up with property tax payments.

5

Higher Municipal Tax Rates

Some municipalities have increased tax rates to meet budgetary needs, which can lead to higher bills for residents. This increase may outpace the rate at which residents' incomes grow, leading to greater arrears (9.5% increase in Toronto vs. wage growth of 4%).

Understanding the Math

In order to benchmark the level of tax arrears throughout Ontario, Realtax calculated the net taxes receivable as a % of taxes levied, and applied a statistical distribution to the data.

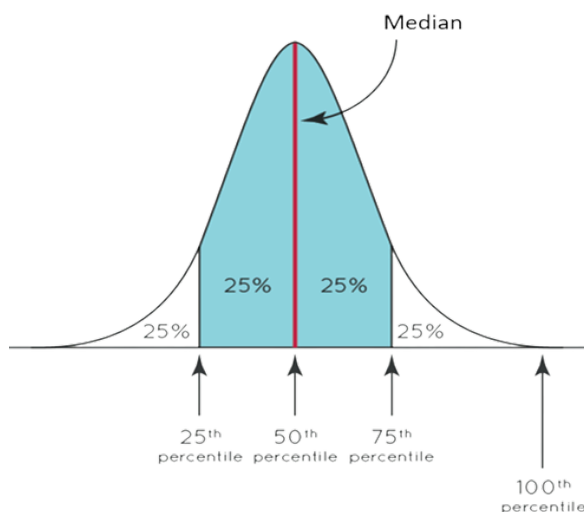
What are Taxes Receivable?

- Taxes Receivable is the amount of outstanding property taxes owed to the municipality (also known as tax arrears).
- The ratio represents the portion of property taxes that are uncollected at year end.
- This is a lower-tier/single-tier measure only (upper tier-taxes are collected by lower-tiers).
- Note that while some municipalities disclosed the amount of Allowance For Doubtful Accounts, but many simply used a net taxes receivable figure.

NET TAXES RECEIVABLE AS A
% OF TAXES LEVIED

$$= \frac{\text{TAXES RECEIVABLE}}{\text{PROPERTY TAX REVENUE}}$$

SAMPLE DISTRIBUTION



What are Statistical Distributions?

- A statistical distribution measures the spread of values above and below the median by dividing the distribution into four groups.
 - They are grouped into four sections of 25% of the data, with the second and third groups representing the interquartile range.
- The middle is the median or average = 50th percentile.
 - Quartile 1 = 0-25% (LOW)
 - Quartile 2 = 26-50% (BELOW AVG)
 - Quartile 3 = 51-75% (ABOVE AVG)
 - Quartile 4 = 76-100% (GREAT)

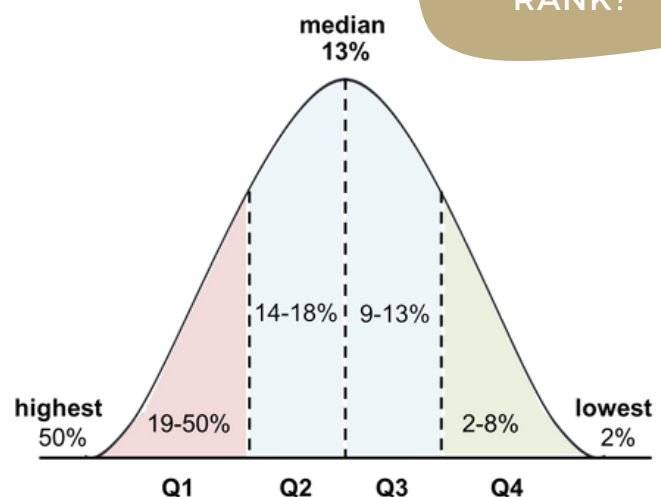
Key Findings

After benchmarking the tax receivables of Ontario municipalities, the average percentage of taxes levied was 13%, and has been worsening over the last five years.

What would happen if we looked at the Net Taxes Receivable as a % of Taxes Levied across the top 200 Ontario municipalities?

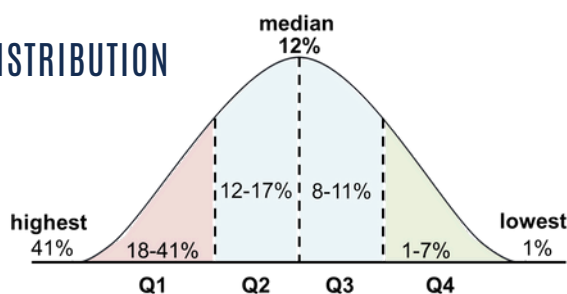
- The median percentage was 13%, with a high of 50% and a low of 2%.
- Half of the municipalities had between 9-18% of receivables as a % of taxes levied.

2023 DISTRIBUTION

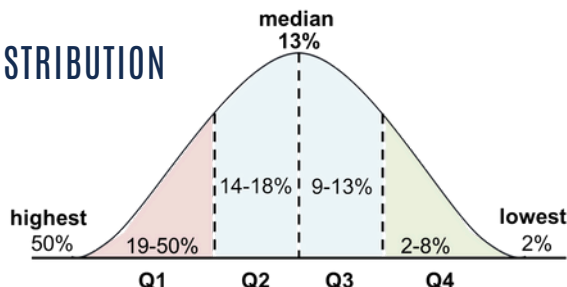


HOW DOES YOUR MUNICIPALITY RANK?

2018 DISTRIBUTION



2023 DISTRIBUTION



How has the distribution of Net Taxes Receivable as a % of Taxes Levied trended over the last five years?

- Tax Receivables have marginally worsened, illustrated by lower performance and wider ranges across quartiles.
 - Median from 12 to 13%
 - Max from 41% to 50%

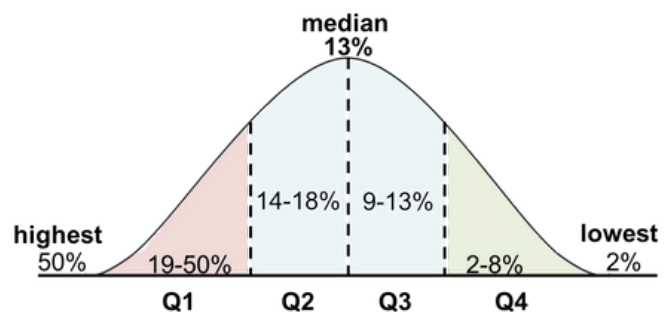
The Realtax Advantage

Realtax looked at the tax receivables of its customer base and asked the question, “How well are Realtax clients managing their tax arrears relative to the Ontario average?”

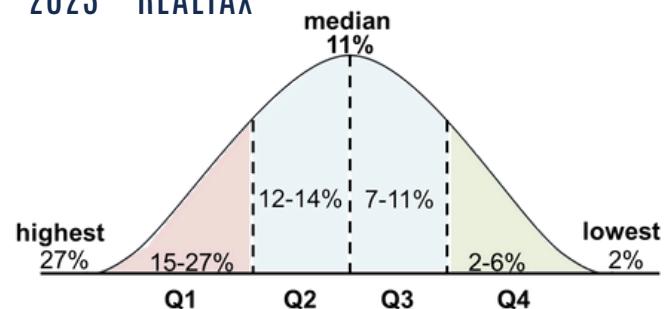
What if we compared Realtax’s municipalities (our clients) to the average in Ontario?

- Realtax analyzed the 225+ active Ontario municipal clients relative to the Ontario averages.
- In general, Realtax customers tended to have a healthier percentage of taxes receivable compared to the Ontario average.
 - Median is 11% vs. 13%
 - Max is 27% vs. 50%

2023 - ONTARIO



2023 - REALTAX



Testimonials

“Working with Realtax has made registering arrears certificate and holding tax sales a breeze. We feel comfortable knowing we are working within provincial legislation with Realtax at the helm.”

- Tax Collections and Appeals Officer, City of Niagara Falls

“It has been a wonderful experience working with Realtax for more than 15 years...their expertise in tax collection has assisted us in recovering thousands of dollars in outstanding taxes.”

- Clerk-Treasurer, Municipality of Killarney

It's Time to Change the Narrative

The long-term effects of not collecting taxes in arrears are far-reaching and complex, affecting municipal finances, infrastructure, and public trust. Municipalities that fail to address this issue risk falling into a cycle of reduced services, increased financial burdens, and diminished community engagement.

To ensure their long-term viability, municipalities must adopt proactive tax collection strategies that prioritize fairness, financial stability, and community development. By doing so, they can safeguard their future and continue to provide the essential services that make communities thrive.

Proactive collection is not only a financial necessity but a pathway to building stronger, more resilient communities for the future.

Realtax, as the leader in Ontario for tax registration and tax sale services, can assist municipalities in navigating these challenges, providing the expertise and tools needed to tackle tax arrears efficiently.

Getting started with Realtax is a simple three step process – contact Realtax at info@realtax.ca for more information.

Thank you for your continued support .

Contact Us

www.realtax.ca
info@realtax.ca



For over 28 years, Realtax has been the leader in tax registration and tax sale services across Ontario.

Find out why over 50% of Ontario municipalities trust Realtax for their tax arrear needs.



Why

CHOOSE REALTAX?



UNRIVALED EXPERIENCE

Utilized by over half the municipalities in Ontario, Realtax has successfully recovered tax arrears on over 35,000 properties, actively partnering with more than 225 municipalities.



POWERED BY REALTAX'S REGDB SOFTWARE

Realtax's comprehensive, proprietary software solution for processing tax arrears has shown to significantly reduce time expenditures for processing tax arrears.



LEADING CUSTOMER EXPERIENCE

We invite all inquiries about municipal tax arrears management, offering complimentary consultations with our expert team.