

THE REALTAX REPORT

The Long-Term Effects
of Municipalities Not
Collecting Taxes in Arrears

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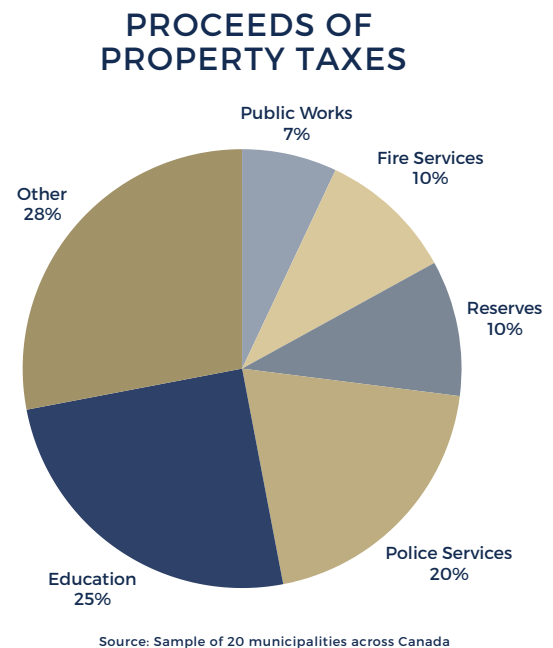
Introduction

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 \$1.8 billion in tax arrears in 2022.**

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.

This report explores the significant and often underestimated impact of municipalities not addressing tax arrears and why proactive collection strategies are crucial for long-term municipal sustainability.



Impact #1: The Financial Ripple Effect

Uncollected taxes may seem like a short-term issue, but their long-term financial impact can be profound. Property taxes represent a steady revenue stream, and when municipalities fail to collect arrears, they must fill the gap from other sources or cut essential services.

Decreased Service Quality: Municipalities rely on taxes to fund day-to-day operations such as road repairs, waste management, public libraries, and emergency services. When tax revenue decreases due to uncollected arrears, municipalities are often forced to reduce services, delay necessary infrastructure projects, or increase fees for other services. This reduction in service quality directly affects residents' quality of life and can make a municipality less attractive for new businesses and families.

Case Study

In 2021, rural municipalities in Alberta reported over \$245 million in unpaid taxes, primarily from oil and gas companies. This shortfall led to significant budgetary constraints, forcing municipalities to cut back on essential services such as infrastructure maintenance, road repairs, and public safety. Many rural areas had to delay critical projects and reduce services like waste collection, which directly impacted the quality of life for residents.

Increased Financial Pressure on Compliant Taxpayers: When some property owners fail to pay their taxes, municipalities may shift the burden to those who are compliant by increasing their tax rates. This may create undue frustration among taxpayers, who may feel penalized for the inaction of others. Over time, this can lead to a higher rate of delinquency, as more residents become disincentivized to pay taxes promptly.

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 have not 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 laws 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.

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 sales 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.