

Fiscal Estimate Narratives

DOR 3/23/2005

LRB Number	05-2180/1	Introduction Number	SB-117	Estimate Type	Original
Subject					
Late payments of property tax installments					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, property taxes are due by January 31 but taxpayers have the option of paying the tax in installments, at no interest. However, if an installment is late, the entire unpaid balance is subject to interest from February 1, regardless of the date the installment was due. Interest is charged on unpaid taxes at 1% per month or fraction of a month from the preceding February 1. Counties can, by ordinance, impose a penalty on delinquent property taxes of up to 0.5% per month or fraction thereof, also calculated from the preceding February 1.

Under the bill, the late payment of a property tax installment does not render the entire property tax delinquent. Only the installment that is due is treated as delinquent. Thus, a taxpayer could retain the option to pay his or her taxes in installments. Also, the interest and penalties on a delinquent installment is charged from the day the installment is due. Thus, delinquent second installment would result in interest and penalty charges from August 1, rather than the preceding February 1.

The bill does not apply to the City of Milwaukee.

The bill would result in a loss of interest and penalty revenue for counties and some municipalities. Under the bill, annual revenues from interest and penalties on delinquent taxes would decline by approximately \$8.85 million.

The discussion of the fiscal effect is divided between the revenue loss attributable to the first installment and the revenue loss attributable to the second installment. The analysis treats municipalities that allow multiple installments as if only two installments were allowed.

First installment. Total effective taxes for all property in the state excluding the City of Milwaukee were \$5.97 billion in 2003/04. According to 2003/04 Tax District Settlement Forms filed with the department, approximately 22% of payable taxes are postponed, i.e., paid in later installments, and 4% are delinquent. Thus, \$1.31 billion were postponed until July 31, 2004 (\$5.97 billion x 22%) and \$233 million were delinquent (\$5.97 billion x 4%). Assuming the delinquencies are paid three months after the January 31 due date, interest charges under current law would be approximately \$6.99 million (\$233 million x 1% x 3 months) for these late payments. Assuming that 75% of the late payments are subject to a 0.5% county penalty, the penalties would amount to approximately \$2.62 million (\$233 million x 75% x 0.5% x 3 months). Thus, under current law, total interest and penalties imposed on payments made three months after the January 31 due date is estimated to be \$9.61 million (\$6.99 million + \$2.62 million).

Under the bill, payment of the first installment three months after the January 31 due date would result in interest charges only on the amount corresponding to the first installment. It is assumed that one-half the \$233 million in delinquent taxes (\$116 million) is attributable to late first installment payments and that this amount is paid three months after the January 31 due date. Interest on these payments would amount to \$3.49 million (\$116 million x 1% x 3 months); penalties on these payments would amount to \$1.31 million (\$116 million x 75% x 0.5% x 3 months). Thus, total interest and penalties on the late first installment would amount to \$4.80 million under the bill.

Thus, the bill would result in a loss of approximately \$4.81 million (\$9.61 million - \$4.80 million) in interest and penalties associated with payment of delinquent first installments.

Second installment. Using data from the 2003/04 Tax District Settlement forms, it is estimated that 4% of the postponed taxes that are due on July 31, or \$51.18 million, would be delinquent as of August 1, 2004. Assuming these delinquencies are paid three months after the July 31 due date, interest charges on these payments would be \$4.61 million (\$51.18 million x 1% x 9 months), and penalties would be \$1.73 (\$51.18

million x 75% x 0.5% x 9 months). Thus, under current law, total interest and penalties for second installment payments made three months after the July 31 due date would be \$6.34 million (\$4.61 million + \$1.73 million).

Under the bill, slightly more taxes would be postponed for later payment since taxpayers would not lose the installment option if they are delinquent on the first installment. It is estimated that 4% of the postponed taxes, or \$55.72 million, would be delinquent as of August 1, 2004. Assuming these taxes are paid three months after the July 31 due date, total interest charges under the bill would equal \$1.67 million (\$55.72 million x 1% x 3 months). Penalty charges would amount to \$0.63 million (\$55.72 million x 75% x 0.5% x 3 months). Total interest and penalties charged on delinquent second installments would amount to \$2.30 million under the bill (\$1.67 million + \$0.63 million).

Thus, the bill would result in a decrease in interest and penalties of \$4.04 million (\$6.34 million - \$2.30 million) associated with second installment payments made within three months after the July 31 due date.

The bill would result in a total loss in county revenues associated with lost interest and penalties from all delinquent installments of \$8.85 million (\$4.81 million + \$4.04 million).

The bill would require minor revision in the property tax bill and training materials, the costs of which the Department would absorb.

There would be no state fiscal effect under the bill.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Subject			
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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$	
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category		\$	\$
B. State Costs by Source of Funds			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$	\$-8.85 million
Agency/Prepared By		Authorized Signature	Date
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