

Fiscal Estimate Narratives

DOR 1/25/2008

LRB Number	07-3306/1	Introduction Number	AB-0662	Estimate Type	Original
Description The charge-back of refunded or rescinded taxes and of personal property taxes and sharing certain collected taxes					

Assumptions Used in Arriving at Fiscal Estimate

CURRENT LAW

Annually, by October 1, the clerk of a taxation district (a municipality fully within one county or the portion of a multi-county municipality in one county) may submit to the Department of Revenue (DOR) a listing of all general property taxes on the district's tax roll that have been refunded or rescinded. Among the reasons a tax may be refunded or rescinded are palpable errors on the tax roll or assessment roll, reductions in assessments on delayed action of assessment review authorities, recovery of taxes illegally extended on a property, determination that part or all of a tax bill was void or illegal, and recovery of excess taxes paid on an excessive assessment. A taxation clerk may file with DOR only if one of the following conditions apply: (1) the total of all taxes so claimed for a given year is at least \$5,000 or (2) the total on a single property for any one year exceeds \$500.

When real or personal property has been omitted from the assessment roll (and hence the tax roll) in any of the prior two years, the property shall be entered on the assessment roll for each of these two years of omission. The property taxes that would have been levied on such property had it been on the tax roll, referred to as "omitted taxes", are billed to the property owner. All collections are retained by the municipality where the property is located.

Annually, between February 2 and April 1, a taxation district clerk may make a charge-back to all other entities that levied property taxes (except the state) to recover all personal property taxes that were settled in full in the prior February and which remain delinquent. These billings must be paid within 30 days of receipt. This process allows the loss created by unpaid and unrecoverable personal property taxes to be shared across all taxing jurisdictions, rather than being solely borne by the municipality.

PROPOSED LAW

Instead of being optional, the report on refunded and rescinded property taxes due to DOR by October 1 would be mandatory, assuming that the filing conditions are met. In addition, the list of taxes for which this report is to be filed is expanded to include "omitted taxes". This effectively requires taxation district clerks to share their "omitted tax" collections with their overlying taxation units.

A taxation district's charge-back for recovery of unpaid personal property taxes would only be permitted if the taxes are owed by an entity that has ceased operations or are due on property that is no longer in the taxation district. In addition, the due date for payment would be changed to no later than the first May 1 after receipt.

FISCAL EFFECT

The changes regarding the filing requirement for rescinded and refunded taxes are expected to have minimal effect on property tax collections because the vast majority of eligible filers currently file the report with DOR.

However, the change regarding how "omitted taxes" are treated will have a effect on local governments. For the 2006/07 property tax year, 173 taxation districts reported they had levied a total of about \$1,910,000 in "omitted taxes". If the bill had been in effect, payments to overlying taxation units would have been about \$776,000 to school districts, \$144,000 to technical college districts, and \$380,000 to counties. Thus, the amount retained by municipalities would have been \$610,000, or \$1,300,000 less than under current law.

By reducing the circumstances under which charge-backs for unpaid personal property taxes are allowed, the amount of such charge-backs will be reduced. Since the administration of these charge-backs is done at

the local level, DOR has no data on the amount currently charged-back and is therefore unable to reasonably estimate the reduction in charge-backs and the bill could engender.

The addition of omitted taxes to DOR's administrative procedures regarding the chargeback of certain property taxes will have a minor effect on administrative procedures with no effect on department costs.

Long-Range Fiscal Implications