

Fiscal Estimate Narratives

DOR 3/6/2003

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|--|------------------|---------------------|--------------|---------------|-----------------|
| LRB Number | 03-1042/1 | Introduction Number | AB-89 | Estimate Type | Original |
| Subject | | | | | |
| Refunds of taxes on manufacturing property | | | | | |

Assumptions Used in Arriving at Fiscal Estimate

Under current law, manufacturing property owners may contest the valuation of their property to the state board of assessors; appeal of decisions by the board of assessors are made to the tax appeals commission. Tax appeal commission decisions may be appealed to the circuit court for Dane County.

Under current law, if a reviewing authority has not completed its work with respect to a particular objection prior to the time the property tax is extended, the tax levy is based on the contested assessed value of the property. If the reviewing authority subsequently reduces the valuation of property, the taxpayer may file a claim for a refund. Interest on the refund is paid at the rate of 0.8% per month. The municipality may charge back to the other taxing jurisdictions their share of the refund but cannot charge back the interest paid.

Under the bill, the interest on manufacturing refunds is paid at the average annual discount interest rate determined by the last auction of 6-month U.S. treasury bills or 10% per year, whichever is less.

The bill would allow municipalities, except for the cities of Madison and Milwaukee, to spread the cost of sizeable manufacturing property tax refunds over five years. Under the bill, a municipality may pay the refund for manufacturing claims in five annual instalments if the following conditions are met:

- 1) The municipality's property tax levy for general obligations for the year for which the taxes are to be refunded is less than \$100 million;
- 2) The refund is at least 0.25% of the municipality's levy for its general operations; and
- 3) The refund is more than \$10,000

Each instalment, except the final one, must be equal to 20% of the sum of the refund and interest.

Under the bill, the department of administration shall refund municipalities for interest costs paid for refunds on manufacturing property due to reduced valuation by a reviewing authority accrued up to the date of the determination of the tax appeals commission.

According to the February 19, 2003 Wall Street Journal, the annual yield on a six-month U.S. treasury bill is 1.18%. Assuming a 1.2% annual rate of interest, the interest on a \$100,000 manufacturing refund paid in one year would equal \$1,200 ($\$100,000 \times 1.2\%$). The interest paid on a \$100,000 refund paid in equal instalments over five years would result in the attached payment schedule.

Thus, the total interest paid on a \$100,000 refund under the bill would be \$1,200 if paid in one year and \$3,600 if paid over five years; this compares to \$9,600 ($\$100,000 \times 0.8\% \times 12$ months) paid in one year under current law. Interest costs would rise as the discount rate for six-month treasury bills increases. For example, a discount rate of 5% on six-month U.S. treasury bills would result in total interest costs of approximately \$15,500 compared to \$9,600 under current law.

Municipalities would be reimbursed for interest on manufacturing property tax refunds accrued up to the date of the determination of the tax appeals commission. The state would not reimburse interest paid on refunds resulting from claims of unlawful tax or excessive assessment or for interest accrued after the date of the determination by the tax appeals commission. Thus, if a municipality chooses to refund manufacturing property taxes in instalments over five years, the state would reimburse the municipality for the part of the first year interest only.

Data are not available to estimate total interest costs statewide; however, the total state costs are not expected to be significant.

Long-Range Fiscal Implications

**AB 89: Payment Schedule for \$100,000 Refund
Paid in 5 Annual Instalments**

| <u>Instalment</u> | <u>Outstanding Refund</u> | <u>Annual Interest Payment</u> | <u>Instalment Amount</u> |
|--------------------------|--------------------------------------|---|-------------------------------------|
| 1 | \$100,000 | \$1,200 | \$20,725 |
| 2 | \$80,475 | \$966 | \$20,725 |
| 3 | \$60,716 | \$729 | \$20,725 |
| 4 | \$40,719 | \$489 | \$20,725 |
| 5 | \$20,483 | \$246 | \$20,725 |
| TOTAL: | | \$3,629 | \$103,625 |

Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

| | | | |
|--|--|--|-----------------|
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| Refunds of taxes on manufacturing property | | | |
| 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 | | \$See | \$See |
| NET CHANGE IN REVENUE | | \$ | \$ |
| Agency/Prepared By | | Authorized Signature | Date |
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