

Fiscal Estimate Narratives

DOR 3/24/2004

LRB Number	03-4303/2	Introduction Number	AB-963	Estimate Type	Original
Subject					
Property tax exemption for leased housing					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, property that is owned by an organization exempt from property taxes and leased retains its tax exemption only if the lessee is also exempt from property taxes. In a 2003 decision (*Columbus Park Housing Corporation v. Kenosha*), the Wisconsin Supreme Court held that property owned by Columbus Park, a non-stock, non-profit corporation that buys and rehabilitates residential property and rents these properties to qualified low-income families, was not exempt from property taxation. The Court ruled that since the low-income families that rent from Columbus Park are not exempt from property taxes, Columbus Park's property was not exempt from property taxation. Previous to the decision, an organization such as Columbus Park was considered to be a benevolent association whose property was exempt under the provisions of sec. 70.11 (4) of state statutes.

Under current law, as a result of the Court decision, municipalities may be able to treat affected property as omitted property for the 2002 and 2003 assessment years, and issue tax bills for those years as if the property had been taxable. In addition, the property is to be placed on the tax rolls and treated as other taxable property beginning with the 2004 assessment.

Under the bill, the previous interpretation of the law, under which property such as that owned by Columbus Park, will remain in effect for the 2002 to 2005 assessment years.

Under the bill, beginning with the 2006 assessment year, the following types of property would continue to be exempt from property taxes: (1) A "qualified residential housing project", meaning a housing project whose bonds qualify for exemption from income taxes under section 142 (d)(1) of the Internal Revenue Code. To qualify, a housing project must either (a) rent at least 20 percent of its units to people whose income is no more than 50 percent of the area median, or (b) rent at least 40 percent of its unit to people whose income is no more than 60 per cent of the area median. (2) Property owned by an organization exempt from income taxes under section 501 (c)(3) of the Internal Revenue Code that is used as a homeless shelter, domestic violence shelter, or transitional housing facility.

Based on information from the exemption summary reports filed by municipalities with the Department of Revenue (DOR) in 2002, it is estimated that about \$862 million in housing would have become taxable under the Columbus Park decision. By making the exemption retroactive, municipalities will not be permitted to assess taxes on these properties for the 2002 and 2003 assessment years under omitted tax statutes. Assuming that the entire \$862 million would become exempt under the bill, and using the statewide average net tax rate for 2002/03 of \$20.55 per \$1,000 equalized value, this bill will shift about \$17.7 million ($\$862 \text{ million} \times 0.02055$) in property taxes to other property.

If the property affected by this bill had become taxable, renters would have qualified for the Homestead Credit, to the extent they met the income and other requirements for that credit. By exempting this housing from property taxes, the bill eliminates credits for these renters. (An exception exists for exempt housing that makes in lieu of tax payments, tenants of which can qualify for the credit.) Assuming that credit could have been claimed on the entire \$17.7 million in property taxes that would have been paid, and assuming that the credit would have equaled 45.2% of this amount (the credit as a percent of rent constituting property taxes for claims in 2003), this bill reduces the Homestead Credit by approximately \$8 million per year. This "reduction" essentially offsets unanticipated additional expenditures on Homestead Credits that resulted from the Columbus Park decision.

The State of Wisconsin imposes a tax of \$0.20 per \$1,000 of equalized value for purposes of state forestry programs. This bill will reduce the state forestation tax by \$172,400 ($\$862 \text{ million} \times 0.0002$).

The bill would cause some of the affected property to become taxable beginning with the 2006 assessment.

DOR does not have a detailed breakdown of the properties exempted under the bill, and is therefore unable to estimate the value of the housing that would go on the property tax rolls in 2006.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2003 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			-8,000,000
TOTAL State Costs by Category	\$		\$-8,000,000
B. State Costs by Source of Funds			
GPR			-8,000,000
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			-172,000
TOTAL State Revenues	\$		\$-172,000
NET ANNUALIZED FISCAL IMPACT			
	<u>State</u>	<u>Local</u>	
NET CHANGE IN COSTS	\$-8,000,000		\$
NET CHANGE IN REVENUE	\$-172,000		\$
Agency/Prepared By		Authorized Signature	Date
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