1999 Session

FISCAL ESTIMATE

DOA-2048 N(R10/98)

☒ ORIGINAL ☐ UPDATED ☐ CORRECTED ☐ SUPPLEMENTAL

LRB or Bill No./Adm. Rule No.

LRB 0627/1 AB 89

Amendment No. if Applicable

Subject

Late Payment of Property Taxes Subject to Interest Only

Fiscal Effect

State: ☐ No State Fiscal Effect
Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation

☐ Increase Existing Appropriation ☐ Increase Existing Revenues
☐ Decrease Existing Appropriation ☐ Decrease Existing Revenues
☐ Create New Appropriation

☒ Increase Costs - May be Possible to Absorb Within Agency's Budget ☒ Yes ☐ No

☐ Decrease Costs

Local: ☐ No Local Government Costs

1. ☒ Increase Costs
   ☒ Permissive ☐ Mandatory
2. ☐ Decrease Costs
   ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenues
   ☐ Permissive ☐ Mandatory
4. ☒ Decrease Revenues
   ☒ Permissive ☐ Mandatory
5. Types of Local Governmental Units Affected:
   ☒ Towns ☒ Villages ☒ Cities
   ☒ Counties ☐ Others
   ☐ School Districts ☐ WTCS Districts

Fund Sources Affected

☐ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEG-S

Affected Ch. 20 Appropriations

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 assessed at 1% per month. A penalty, typically 0.5% per month, is assessed by about half the counties.

Under the bill, a county or municipality could enact an ordinance providing that if the first installment is not paid in full by the payment date, but is paid in full by the date the next installment is due, only the amount of the first installment that is unpaid would be subject to interest from February 1. The ordinance could also provide that if a subsequent installment is late, but earlier installments were paid timely, the amount of the late subsequent installment would be subject to interest from the day after the installment was due rather than from February 1 as under current law. Penalties would not be assessed against late installments.

The bill does not apply to the City of Milwaukee.

(continued on page two)

Long-Range Fiscal Implications

Agency/Prepared by: (Name & Phone No.)	Authorized Signature/Telephone No.	Date
Wisconsin Department of Revenue Blair P. Kruger, (608) 266-1310	Yeang-Eng Braun Yeang-Eng Braun (608) 266-2700	2/5/99

AB 89

The fiscal effect of the bill is due to the potential reduction in interest and penalties where such ordinances are enacted. Since counties typically collect delinquent taxes, they would bear most of the revenue loss under the bill. In addition, counties and municipalities would incur costs to revise their tax accounting systems.

For purposes of the analysis of the fiscal effect, it is assumed that all property tax collections would be subject to the ordinances authorized by the bill. The fiscal effect is the combination of the revenue loss attributable to the first installment and the revenue loss attributable to subsequent installments.

First Installments. Based on department data, about $150 million in taxes on real property is overdue as of February 1. Under current law, these are considered delinquent.

Current Law. If $20 million of the $150 million is paid each month from February through July, about $4.2 million in interest would be paid to the county or municipality over the 6-month period. Half the counties, accounting for about 75% of total property tax levies, impose a penalty on delinquent taxes, typically at 0.5% per month or half the interest rate. Assuming the base on which penalties are calculated is the same as for interest, penalties would be about $1.6 million ($4.2 million x 0.5 x 75%). Thus, based on the above assumptions, interest and penalties paid through August 1 on delinquencies as of February 1 is about $5.8 million ($4.2 + $1.6).

The Proposal. Under the bill, only the first installments--accounting for half of the $150 million or $75 million--would be subject to interest, with no penalties. Assuming $10 million of the late first installments is paid each month from February through July, interest paid to the county or municipality over the 6-month period would be about $2.1 million under the bill.

Subsequent Installments. Based on department data, an estimated $60 million in taxes on real property is overdue as of August 1.

Current Law. Regardless of the date the taxes became delinquent, interest and penalties would be calculated from February 1 under current law. If 10% or $6 million of the delinquent taxes is paid each month beginning in August, $7.0 million in interest and $2.6 million in penalties for a total of $9.6 million would be paid.

The Proposal. Under the bill, the $60 million in delinquent taxes consists of $15 million that had been delinquent since February 1 and $45 million that we assume was "late" on August 1. The $15 million would be subject to interest and penalties from February 1 as under current law and, assuming $1.5 million is paid in each of the next 10 months, $1.7 million in interest would be paid. In addition, penalties would be about $0.6 million ($1.7 x 0.5 x 75%) for a total of $2.3 million in interest and penalties on taxes that had been delinquent since February 1.

The $45 million that was "late" on August 1 is subject to interest only from August 1 rather than interest and penalties from the preceding February 1 as under current law. Assuming $4.5 million of the $45 million is paid in each of the next 10 months, about $2.5 million in interest would be paid on taxes that were late on August 1.

Summary. If counties and municipalities adopt ordinances implementing the bill, total interest and penalties could be as much as $8.5 million less under the bill than under current law.

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Interest and Penalties

	Current Law	LRB 0627/1	Difference
	(millions of dollars)		
First Installments	$5.8	$2.1	-$3.7
Subsequent Installments	$9.6	$4.8	-$4.8
TOTAL			-$8.5

Administrative Effects. If counties and municipalities elect to enact an ordinance to implement the bill, they will incur a one-time cost to reprogram their billing and collection systems.

Minor revisions would be required in the property tax bill and training materials prepared by the Department of Revenue, the costs of which can be absorbed.

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Subject

Late Payment of Property Taxes Subject to Interest Only

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 State Funds from:**	
A. State Costs by Category	**Increased Costs**	**Decreased Costs**
State Operations - Salaries and Fringe	$	$ -
(FTE Position Changes)	(FTE)	(- FTE)
State Operations-Other Costs		-
Local Assistance		-
Aids to Individuals or Organizations		-
TOTAL State Costs by Category	$	$ -
B. State Costs by Source of Funds	**Increased Costs**	**Decreased Costs**
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

	STATE	**LOCAL**
NET CHANGE IN COSTS	$	$ see text of fiscal note
NET CHANGE IN REVENUES	$	$ see text of fiscal note

Agency/Prepared by: (Name & Phone No.)	Authorized Signature/Telephone No.	Date
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