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**Gov Agency:** General Fund Taxes—Tax Administration—Delinquent Tax  
Collection Funding

**Recommendations:**

**Paper No. 131**      Alternative 1 (No action necessary)

**Comments:** This alternative would fund increased infotech costs associated with the Delinquent Tax System at DOR. Over the past few years, expenditures in this appropriation have consistently exceeded revenues. DOR appointed a working group to address this issue, and they came up with several alternatives to address the funding problem (outlined in points 6, 7, and 8).

All of the alternatives proposed by DOR seem unworkable for a variety of reasons outlined in the LFB analysis. Best to go with the governor here, and let DOR think some more about how they can handle this in future biennia.

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## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #131

### **Delinquent Tax Collection Funding (General Fund Taxes -- Tax Administration)**

[LFB 1999-01 Budget Summary: Page 534, #13]

#### **CURRENT LAW**

The Department of Revenue's (DOR) delinquent tax collection activities are primarily funded from the delinquent tax collection fees program revenue appropriation. The source of revenue for the appropriation is a delinquent tax fee that is annually assessed to each new delinquent account. The fee is the greater of \$35 or 6.5% of delinquent tax liability. In addition, a one-time fee equal to 5% of the delinquent balance has been imposed on delinquent taxpayers who did not participate in the tax amnesty program. (The fee was not imposed on taxpayers who had entered into installment agreements with DOR.) The delinquent tax collection fees appropriation has base level funding of \$10,586,700 PR and 174.0 PR positions. As of May 18, 1999, the aggregate delinquent account balance was \$764.0 million with 90,000 accounts.

#### **GOVERNOR**

Provide \$152,000 PR annually to fund increased InfoTech costs and development tool software maintenance costs for the Delinquent Tax System (DTS).

#### **DISCUSSION POINTS**

1. The Department's delinquent tax collection activities were first converted to program revenue funding in the 1991-93 biennial budget (1991 Wisconsin Act 39). However, only a portion of the Department's activities (\$6,454,700 GPR and 135.65 positions) were converted from GPR to PR, beginning in 1992-93. Funding for the appropriation was provided by a fee equal to the greater of \$25 or 4.5% of the amount of delinquent taxes applied to all existing accounts, beginning on July 1, 1992. The 1993-95 budget (1993 Wisconsin Act 16) expanded budget and position authority to

\$7,450,900 PR in 1993-94 and \$7,636,600 PR in 1994-95 and 141.5 PR positions. Under 1995 Wisconsin Act 27 (the 1995-97 biennial budget), the appropriation and position authority was increased again to \$8,299,000 PR and 140.5 PR positions in 1995-96 and \$9,352,900 PR and 165.9 PR positions in 1996-97. In addition, the current fee of \$35 or 6.5% of the delinquent balance was imposed effective on December 31, 1995. The 1997-99 budget (1997 Wisconsin Act 27) provided \$9,968,500 PR in 1997-98 and \$9,970,100 PR in 1998-99 and 174.0 PR positions each year. AB 133 would increase the appropriation to \$10,833,300 PR and 174.0 PR positions in each year, including the \$152,00 PR in additional annual expenditure authority for information technology costs and software maintenance.

2. DOR has had difficulty in estimating annual revenues for the delinquent tax collection fees appropriation. The Department has used two methods of estimation. Staff developed a model based on historical collection patterns of assessments and collections and made projections based on these patterns and the estimated growth in delinquent accounts. Another method was based on the pattern of monthly collections in past years. However, under either method, estimated revenues and actual collections varied considerably from year to year. The table below compares estimated delinquent fee collections with actual revenues for fiscal years 1992-93 through 1997-98.

**TABLE 1**

**Estimated Delinquent Fee Collections and Actual Annual Revenues**

	<u>1992-93</u>	<u>1993-94</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>
Estimate	\$9,850,800	\$7,146,200	\$7,849,500	\$8,070,900	\$9,261,100	\$10,183,200
Actual Revenue	<u>7,587,300</u>	<u>6,451,700</u>	<u>6,353,100</u>	<u>8,847,800</u>	<u>9,496,500</u>	<u>9,449,300</u>
Difference	-\$2,263,500	-\$694,500	-\$1,496,400	\$776,900	\$235,400	-\$733,900

3. Since the creation of the delinquent tax collection appropriation, the Department has undertaken a number of actions to increase delinquent tax collections and fee revenues including: (a) increased use of administrative levy to seize assets; (b) creation of the Central Collection Section to use less expensive office collection methods on reasonably collectible accounts; (c) development of the automated delinquent tax system for initiating and tracking collection actions; (d) use of private collection agencies for certain delinquent accounts; (e) establishing and expanding a program to deny occupational licenses to delinquent taxpayers; (f) increasing the delinquent tax fee and imposing the one-time post-amnesty fee; and (g) enacting a number of post-amnesty enhanced collection measures, such as reducing the threshold for the vendor offset program.

4. However, annual expenditures from the delinquent tax appropriation have frequently exceeded revenues. Table 2 shows the estimated revenues, expenditures and beginning and ending balances for the appropriation under current law for the 1999-01 biennium. The table shows that the appropriation will have an estimated deficit of almost \$2.4 million at the end of the 1999-01 biennium. More significantly, DOR estimates that the deficit will increase to \$29.4 million in 2010. The cost of developing the automated delinquent tax system has contributed to this situation. The

implementation and operation costs have been higher than base funding. As result, DOR requested and AB 133 includes an additional \$152,000 PR in expenditure authority for delinquent tax collection InfoTech costs.

**TABLE 2**

**Estimated Current Law Revenues, Expenditures and Balances -- Delinquent Tax Collection Appropriation**

	<u>1999-2000</u>	<u>2000-01</u>
Beginning Balance	-\$1,439,800	-\$887,400
Revenues	12,430,600	10,576,700
Expenditures	<u>11,878,200</u>	<u>12,048,100</u>
Ending Balance	-\$887,400	-\$2,358,800

5. In response to the current and projected funding shortfall in the delinquent tax appropriation, the Secretary of Revenue appointed a working group to develop a long-term solution to the funding problem. The group considered a number of different ideas and methods for funding the appropriation. A survey of other states was also conducted to determine how they funded delinquent tax collection activities. The group issued its final report on May 21, which included a number of alternative methods for addressing the funding problem.

6. One alternative considered by the group would be to reduce expenditure authority by \$1,568,900 PR and eliminate 29.7 PR positions in each year. This would bring the appropriation into balance during the current biennium. However, the Department indicates that it would be forced to eliminate field agent and administrative positions. As a result, program revenues would be reduced by an estimated \$326,700 and GPR revenues would be reduced by \$2.8 million annually. Moreover, ongoing expenditures would continue to exceed ongoing revenues so that the appropriation would be in deficit in the next biennium and GPR revenue collections would be reduced.

7. A second alternative would be to increase the delinquent tax fee applied to new accounts from the current level to the greater of \$35 or 8.5% of the delinquent account effective July 1, 2000. The Department estimates that this would increase revenues by \$2,966,000 PR in 2000-01 and thereafter. The fee increase could be viewed as an incentive to prevent delinquencies. However, the increased fee would make it more difficult for many taxpayers to pay amounts due. Moreover, even with the fee increase, ongoing expenditures would exceed ongoing revenues by over \$500,000 in 2010.

8. A third alternative considered by the group would be to convert the costs of delinquent tax collection information systems operations from program revenue to GPR. This would require an annual decrease of \$1,010,700 PR and 7.0 PR positions and a corresponding annual

increase of \$1,010,700 GPR and 7.0 GPR positions. The working group also recommended that four revenue enhancing provisions be enacted:

Outbound Calling System. Provide \$50,000 GPR in 1999-00 and \$209,600 GPR in 2000-01 for the Department to purchase predictive dialer technology to facilitate outbound revenue agent calls to taxpayers and increase the effectiveness of the Department's Central Collection Section. Based on the experiences of other states, DOR estimates that an additional \$712,000 GPR revenue and \$88,000 PR revenue would be generated in 2000-01.

Revenue Producing Positions. Provide \$468,600 GPR in 1999-00 and \$499,700 GPR in 2000-01 and 5.0 GPR revenue agent positions each year. DOR estimates that these additional positions would generate \$8,232,500 GPR and \$1,017,500 PR fee revenues in 2000-01.

Assuming that each revenue agent position would generate additional revenue raises a significant budget issue. The Department's estimates assume that each new agent would generate the average amount of revenue currently estimated for each existing revenue agent. However, at some level of staffing, the average amount of revenue that could be raised by each agent would begin to decline until, eventually, the cost of each agent would exceed the revenue the revenue agent could generate. Thus, at a certain number of revenue agents, each additional agent would raise less revenues until the amount raised would be less than the cost of the revenue agent position.

Delinquent Taxpayer Court Costs. Charge delinquent taxpayers for costs incurred for court actions, such as court commissioner and property execution fees, that are related to collection of delinquent taxes. The Department indicates that this provision would require \$20,000 GPR for programming costs and generate \$308,000 in PR fees beginning in 2000-01.

Installment Fee. Authorize the Department to charge a \$20 fee for installment agreements with delinquent taxpayers. This provision would require \$10,000 GPR for programming and generate \$200,000 in PR fees in 2000-01.

Assuming that each field auditor position would generate additional revenue raises a significant budget issue. As noted, under the bill, each agent is estimated to generate the average amount of revenue currently estimated for each revenue agent. However, at some level of staffing, the average amount of revenue that could be raised by each auditor would begin to decline until, eventually, the cost of each auditor would exceed the revenue the auditor could generate. Thus, at a certain number of auditors, each additional auditor would raise less revenues until the amount raised would be less than the cost of the auditor position.

In total, the provisions would increase GPR expenditures by \$1,529,300 in 1999-00, \$1,750,000 in 2000-01 and 12.0 GPR positions each year and decrease PR expenditure authority by \$1,017,700 and 7.0 PR positions annually. In addition, GPR revenues would increase by an estimated \$8,944,500 in 2000-01 and program revenues would increase by \$1,613,500 in 2000-01.

The Department indicates that even though this alternative would generate substantial program revenue, it estimates that the delinquent tax appropriation would have a deficit of \$464,500

in 2010.

9. The working group's recommended alternative would be to convert the delinquent tax collection appropriation funding and positions to GPR and adopt the four revenue enhancing measures outlined above. Under this alternative, the delinquent tax collection fee would continue to be collected, but would be placed in the general fund as GPR-Earned. In total, this alternative would delete \$10,833,300 PR and 174.0 PR positions annually and provide \$13,571,700 GPR in 1999-00, \$11,942,600 GPR in 2000-01 and 174.0 GPR positions each year. In addition, GPR-Earned would increase by an estimate \$12,430,600 in 1999-00 and \$12,190,200 in 2000-01; GPR tax revenues would increase by an estimated \$8,944,500 in 2000-01.

The working group believes that converting all delinquent tax collection activities to GPR is the most viable long-term solution to the funding problem. The group notes that neither the federal Internal Revenue Service nor any other state uses a delinquent tax collection fee as a funding source for collection activities. Since the delinquent tax collection activities generate additional general fund revenues, GPR is an appropriate funding source.

However, this alternative involves a significant increase in GPR expenditures for the Department. DOR's total GPR expenditures in 2000-01 would increase 17.5% from \$68.3 million to \$80.2 million. This would be partially offset by projected revenues from fees and additional delinquent tax collections.

## ALTERNATIVES

#1 (1) Approve the Governor's recommendation to provide \$152,000 PR annually to fund increased InfoTech costs and development tool software maintenance costs for the Delinquent Tax System (DTS).

No. 2. Approve the Governor's recommendation. In addition, annually reduce expenditure authority by \$1,568,900 PR and eliminate 29.7 PR positions.

<u>Alternative 2</u>	<u>GPR</u>	<u>PR</u>	<u>TOTAL</u>
1999-01 REVENUE (Change to Bill)	-\$5,600,000	-\$653,400	-\$6,253,400
1999-01 FUNDING (Change to Bill)		-\$3,137,800	-\$3,137,800
2000-01 POSITIONS (Change to Bill)		-29.70	-29.70

No. 3. Approve the Governor's recommendation. In addition, increase the delinquent tax fee applied to new accounts from the current level to the greater of \$35 or 8.5% of the delinquent account, effective July 1, 2000.

<u>Alternative 3</u>	<u>PR</u>
1999-01 REVENUE (Change to Bill)	\$2,966,000

No. 4. Approve the Governor's recommendation. In addition, delete \$1,010,700 PR and 7.0 PR positions annually and provide \$1,010,700 GPR and 7.0 GPR positions annually. Also: (a) provide \$50,000 GPR in 1999-00 and \$209,600 GPR in 2000-01 for the Department to purchase predictive dialer technology; (b) provide \$468,600 GPR in 1999-00 and \$499,700 GPR in 2000-01 and 5.0 revenue agent positions each year; (c) provide \$20,000 GPR in 2000-01 and charge delinquent taxpayers for costs incurred for court actions that are related to collection of delinquent taxes; and (d) provide \$10,000 GPR in 2000-01 and authorize the Department to charge a \$20 fee for installment agreements with delinquent taxpayers.

<u>Alternative 4</u>	<u>GPR</u>	<u>PR</u>	<u>TOTAL</u>
1999-01 REVENUE (Change to Bill)	\$8,944,500	\$1,613,500	\$10,558,000
1999-01 FUNDING (Change to Bill)	\$3,279,300	- \$2,021,400	\$1,257,900
2000-01 POSITIONS (Change to Bill)	12.00	- 7.00	5.00

No. 5. Approve the Governor's recommendation. In addition, delete \$10,833,300 PR and 174.0 PR positions annually and provide \$13,053,100 GPR in 1999-00, \$11,203,300 GPR in 2000-01 and 174.0 GPR positions. Provide that delinquent tax collection fees be placed in the general fund as GPR-Earned. In addition, (a) provide \$50,000 GPR in 1999-00 and \$209,600 GPR in 2000-01 for the Department to purchase predictive dialer technology; (b) provide \$468,600 GPR in 2000-01 in 1999-00 and \$499,700 GPR in 2000-01 and 5.0 revenue agent positions each year; (c) provide \$20,000 GPR in 2000-01 and charge delinquent taxpayers for costs incurred for court actions that are related to collection of delinquent taxes; and (d) provide \$10,000 GPR in 2000-01 and authorize the Department to charge a \$20 fee for installment agreements with delinquent taxpayers.

<u>Alternative 5</u>	<u>GPR</u>	<u>PR</u>	<u>TOTAL</u>
1999-01 REVENUE (Change to Bill)	\$33,565,300	\$0	\$33,565,300
1999-01 FUNDING (Change to Bill)	\$25,514,300	- \$21,666,600	\$3,847,700
2000-01 POSITIONS (Change to Bill)	174.00	- 174.00	0.00

No. 6. Maintain current law.

<u>Alternative 6</u>	<u>PR</u>
1999-01 FUNDING (Change to Bill)	- \$304,000

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