Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2003 Session

[X] Original [ ] Updated [ ] Corrected [ ] Supplemental

LRB Number **03-2116/1**	Introduction Number **SB-127**

Subject

Late payment of property tax installments

Fiscal Effect

State:
- [ ] No State Fiscal Effect
- [ ] Indeterminate
  - [ ] Increase Existing Appropriations
  - [ ] Decrease Existing Appropriations
  - [ ] Create New Appropriations
  - [ ] Increase Existing Revenues
  - [ ] Decrease Existing Revenues
  - [ ] Increase Costs - May be possible to absorb within agency's budget [ ] Yes [ ] No
  - [ ] Decrease Costs

Local:
- [ ] No Local Government Costs
- [ ] Indeterminate
  1. [X] Increase Costs — [ ] Permissive [X] Mandatory
  2. [ ] Decrease Costs — [ ] Permissive [ ] Mandatory
  3. [ ] Increase Revenue — [ ] Permissive [ ] Mandatory
  4. [X] Decrease Revenue — [ ] Permissive [X] Mandatory
  5. Types of Local Government Units Affected — [X] Towns [X] Village [X] Cities [X] Counties [ ] Others [ ] School Districts [ ] WTCS Districts

Fund Sources Affected

[ ] GPR [ ] FED [ ] PRO [ ] PRS [ ] SEG [ ] SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives
DOR 4/30/2003

LRB Number **03-2116/1**	Introduction Number **SB-127**	Estimate Type **Original**
Subject Late payment of property tax installments		

Assumptions Used in Arriving at Fiscal Estimate

Under current law, if an instalment of real property taxes is not paid when due, the entire amount of unpaid taxes is delinquent. Interest is charged on unpaid taxes at 1% per month or fraction of a month from the preceding February 1. Counties can, by ordinance, impose a penalty on delinquent property taxes of up to 0.5% per month or fraction thereof, also calculated from the preceding February 1.

The bill creates a grace period before property taxes become delinquent. The bill does not apply to the City of Milwaukee. Under the bill, if an instalment is paid within five working days following the due date, it is not delinquent; however, 1% interest is charged on the instalment. No penalty would be imposed for the late instalment.

Summary of Local Fiscal Effect and Example

The bill would result in a loss of interest and penalty revenues for counties and some municipalities. Under the bill, revenues from interest and penalties on delinquent taxes would decline by approximately $129,600.

The effect of the bill can be illustrated for an individual taxpayer with a total property tax bill of $2,000 that is due in two equal instalments: $1,000 on January 31 and $1,000 on July 31. It is assumed that the county in which the property is located imposes a 0.5% penalty.

Under current law, if the first instalment is paid after the January 31 due date, the entire unpaid balance is delinquent and accrues 1.5% interest and penalties from February 1. Thus, if the taxpayer pays the taxes five working days after the January 31 due date, the entire $2,000 would be due with $30 interest and penalties ($2,000 x 1.5% x 1 month) . Under the bill, if the taxpayer pays the first instalment within five working days of the due date, the amount due would be $1,000 plus $10 in interest ($1,000 x 1% x 1 month). No penalty would be imposed and the second instalment would not be payable until July 31.

Under current law, if the taxpayer paid the second instalment five working days after the July 31 due date, he or she would owe interest and penalties accrued from the preceding February 1. Thus, the taxpayer would owe $105 in interest and penalties ($1,000 x 1.5% x 7 months) for the late second instalment. Under the bill, if the taxpayer paid the second instalment within the five-day grace period, he or she would owe interest accrued from August 1 or $10 ($1,000 x 1% x 1 month). No penalty would be imposed for the late payment.

Thus, under the bill, the taxpayer would pay $20 less in interest and penalties for a late first instalment ($30 - $10) and $95 less for a late second instalment ($105 - $10).

Calculation of Effect

Total effective taxes for all property in the state excluding the City of Milwaukee were $6,052 million in 2001/02. According to 2001/02 Tax District Settlement Forms filed with the department, approximately 23% of payable taxes are postponed, i.e. paid in later instalments, and 5.1% of the taxes that are payable on January 31 are delinquent. Thus, $1,392 million were postponed until July 31, 2002 ($6,052 million x 23%) and $4,660 million were payable January 31, 2002 ($6,052 million - $1,392 million). Of the amount payable, approximately $237.7 million are delinquent ($4,660 million x 5.1%). Assuming 2.5% of the delinquencies are paid within five working days of the January 31 due date, interest charges under current law are approximately $59,400 [rounded to nearest $100] ($237.7 million x 2.5% x 1% x 1 month) for these late payments. Assuming that 75% of the late payments are subject to a 0.5% county penalty, the penalties amount to approximately $22,300 ($237.7 million x 2.5% x 75% x 0.5% x 1 month). Thus, under current law, total interest and penalties imposed on payments made within five working days of the January 31 due date is estimated to be $81,700 ($59,400 + $22,300).

Under the bill, payment of the first instalment within the five-day grace period results in interest charges only on the amount corresponding to the first instalment. It is assumed that one-half the $237.7 million in delinquent taxes ($118.85 million) is attributable to late first instalment payments and that 2.5% of this amount is paid within five working-days. Interest on these payments would amount to around $29,700 ($118.85 million x 2.5% x 1%).

Thus, the bill would result in a loss of approximately $52,000 ($81,700 - $29,700) in interest and penalties associated with first instalment payments made within a five-day grace period.

Using data from the 2001/02 Tax District Settlement forms, it is estimated that $36 million in second instalment payments were delinquent as of August 1, 2002. Assuming 2.5% of these delinquencies are paid within five working days of the July 31 due date, interest charges on these payments would be $63,000 ($36 million x 2.5% x 1% x 7 months), and penalties would be $23,600 ($36 million x 2.5% x 75% x 0.5% x 7 months). Thus, under current law, total interest and penalties for second instalment payments made within five working days of the July 31 due date would be $86,600 ($63,000 + $23,600). Under the bill, payments made within a five-day grace period would result in interest charges of $9,000 ($36 million x 2.5% x 1% x 1 month). Thus, the bill would result in a decrease in interest and penalties of $77,600 ($86,600 - $9,000) associated with second instalment payments made within a five-day grace period.

As summarized in the attached table, the total estimated loss in interest in penalties under the bill is $129,600: $52,000 less in interest and penalties associated with late first instalment payments and $77,600 less in interest and penalties associated with late second instalment payments.

In addition, counties would incur substantial programming costs to change the treatment of property taxes paid within the grace period.

Long-Range Fiscal Implications

ATTACHMENT TO FISCAL NOTE ON AB 133

	Interest and Penalties		
	Current Law	**AB 133**	**Difference**
First Instalment Charges w/in 5-Day Grace Period	$81,700	$29,700	$52,000
Second Instalment Charges w/in 5-Day Grace Period	$86,600	$9,000	$77,600
Total	$168,300	$38,700	$129,600

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Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

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Subject Late payment of property tax installments		
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, ets.)		
	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 REVENUE	$	$-$129,600

Agency/Prepared By	**Authorized Signature**	**Date**
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