Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2003 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **03-3341/4**	Introduction Number **SB-278**

Subject

Property tax credits, income tax credit for seniors, refinancing of public debt, transfer from patients compensation fund, school aids, and health care coverage for non-state public employees

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. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☒ Increase Revenue ☐ Permissive ☐ Mandatory
4. ☒ Decrease Revenue ☒ Permissive ☐ Mandatory
5. Types of Local Government Units Affected
☒ Towns ☒ Village ☒ Cities
☐ Counties ☐ Others
☒ School Districts ☐ WTCS Districts

Fund Sources Affected

☒ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

20.255 (2)(ac); 20.566 (1)(a); 20.835 (2)(c), (dm) and (e) and (3)(c)

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

DOR 11/26/2003

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Assumptions Used in Arriving at Fiscal Estimate

SCHOOL AID AND LEVIES

Under the bill, the appropriation for general equalization aid is increased by $100 million for the 2003-04 and 2004-05 school years. Assuming the aid increase would cause an equal decrease in school property tax levies, then school property tax levies in both years would be $100 million lower than under current law. Based on projected levies for 2002-03 of about $3.3 billion, the bill would reduce school tax levies by about 3%.

MUNICIPAL AID AND LEVIES

The bill creates a municipal purpose levy credit that would be paid in March 2005, and shown on December 2004 property tax bills. The amount of the credit paid to a municipality would depend on its own-purpose tax levy, excluding any incremental levies for tax incremental financing districts, for 2003 and 2004. The Department interprets "levy for 2003" to mean the levy billed in December 2002 due for payment in 2003 and "levy for 2004" to mean the levy billed in December 2003 due for payment in 2004. If the municipality's levy for 2004 were the same as the levy for 2003, the credit would equal 25% of the 2004 levy. If the municipality's levy for 2004 increases over the levy for 2003 by less than 2%, the credit would equal 12.5% of the 2004 levy. Any credit payments would be allocated to individual taxpayers based on the ratio of their property's assessed value to the total assessed value in the municipality.

The total municipal-purpose property tax levy in 2002/03 levy year, excluding incremental levies for tax incremental districts, was about $1,796 million. Assuming that every municipality freezes its 2003/04 levy at the previous year's level in order to maximize its credit, the credit payment would be $449 million ($1,796 million X 25%). Assuming that every municipality increases its 2003/04 levy by not more than 2%, the credit payment would be $229 million ($1,796 million X 1.02 X 12.5%). If half of the municipalities freeze their levy and the other half increase their levy by less than 2%, then the total credit payment would be the average of the two payments, or $339 million.

The Department of Revenue is unable to project property tax levies for individual municipalities. Thus, it is not possible to accurately project the total credit payment that would be made under the bill in 2005. However, due to the size of the proposed credit, it is likely that municipalities will make a diligent effort to qualify for the credit. Thus, based on the discussion in the paragraph above, the $350 million appropriation for the credit included in the bill appears reasonable.

Assuming that half of the municipalities freeze their 2003/04 levy at the 2002/03 level and half of the municipalities increase their levy by 2%, and based on historic growth trends for total municipal levies, the statewide total municipal-purpose tax levy for 2004 would be about $80 million, or about 4%, lower than under current law.

TOTAL PROPERTY TAXES

For 2003/04, the bill would reduce property taxes as follows: (1) $100 million for schools, (2) $80 million for municipalities, and (3) due to the lower school and municipal tax rates, $15 million for tax incremental districts. The total levy reduction is about $195 million. The statewide total net tax levy, based on projected total net levies using historic growth trends under current law, is about $7,300 million. The bill would therefore reduce net property tax levies by about 2.7%.

For 2004/05, the bill would reduce property taxes as follows: (1) $100 million for schools, (2) due to the lower school tax rate, $6 million for tax incremental districts, and (3) $350 million for the municipal levy tax credit. The total levy reduction is therefore about $456 million. The statewide total net tax levy, based on projected total net levies using historic growth trends under current law, is about $7,700 million. The bill would therefore reduce net property tax levies by about 5.9%.

SENIOR CITIZEN TAX CREDIT

This bill would provide a refundable income tax credit of $120 to individuals who have household income of $45,000 or less, are at least 65 years old and who reside in and own their principal dwelling which is located in the state. If two individuals of a household are eligible for the credit, they must determine between the two of them who will claim the credit. The amount of the credit phases-out at a rate of 0.3% for those with income greater than $45,000 but less than $85,000. For part-year residents, the credit must be multiplied by the share of the claimant's Wisconsin adjusted gross income to his or her federal adjusted gross income. Nonresidents are not eligible for this credit. The credit is available only for taxable years beginning after December 31, 2002 and before January 1, 2004.

Based on a simulation run on the 2001 Individual Income Tax model, about 270,600 elderly homeowners would receive the senior citizen tax credit. The credit would be $28.1 million.

DEFINITION OF HOUSEHOLD INCOME UNDER HOMESTEAD TAX CREDIT

For taxable year 2004, this bill would exclude from household income, for purposes of the Homestead Tax Credit, nontaxable unemployment insurance and up to $2,500 of social security. Under current law, all unemployment compensation and all social security payments are included in household income. Under the bill, only taxable unemployment compensation and only amounts of social security payments in excess of $2,500, if the payments account for at least 50% of a claimant's Wisconsin adjusted gross income, would be included in household income. Both provisions would affect only claimants with household income in excess of $8,000 where phase-out of the maximum credit begins. Filers with household income less than or equal to $8,000 are already receiving the maximum credit and therefore would not see an increase in their credit.

About 12,000 filers claiming the Homestead Tax Credit have unemployment compensation and household income over $8,000. The amount of the Homestead Tax Credit would increase an estimated $1.9 million for these claimants.

About 92,700 claimants of the Homestead Tax Credit have social security income comprising at least half of their Wisconsin adjusted gross income and household income greater than $8,000. The amount of the Homestead Tax Credit would increase by $14.2 million for these claimants.

The total increase in the Homestead Tax Credit resulting from the proposed change in the definition of household income is $16.1 million ($1.9 million + $14.2 million).

HOMESTEAD TAX CREDIT INCREASE

This bill would allow a claimant to claim an amount of Homestead Tax Credit equal to 120% of the current credit for claims filed in 2005, based on property taxes accrued or rent constituting property taxes accrued during 2004.

The credit for claims filed in 2005, including credit increases resulting from the changes in the definition of household income described in the preceding section, is estimated to be $117 million. Increasing the credit to 120% of the current amount would increase GPR-expenditures by $23 million (0.2 x $117 million).

INCOME TAX

Current individual income tax law allows a nonrefundable school property tax credit against income tax liability equal to 12% of property taxes or rent constituting property taxes up to $2,500; the maximum credit is $300. Based on a simulation on the 2001 Individual Income Tax model, a 2.7% decline in property taxes in 2003/2004 and a 5.9% decline in property taxes in 2004/2005 would decrease the amount of the credit on property taxes, and increase state income taxes, by about $2 million in FY04 and $5 million in FY05, respectively. It is assumed that the property tax reduction has no immediate impact on rent and thus no immediate impact on school property tax credit claims by renters.

CURRENT REFUNDABLE TAX CREDITS

Homestead Credit:
Under the Homestead Credit, certain low-income households receive a payment from the state to help offset

part of their property taxes or rents. The 2.7% decline in property taxes in 2003/2004 engendered by this bill would make about 150 currently eligible property owners ineligible for the Homestead Tax Credit and reduce credit amounts for other claimants. The reduction in credit expenditures is estimated to be $0.7 million in FY04. The 5.9% decline in property taxes in 2004/2005 would make 400 currently eligible property tax owners ineligible for the credit and reduce credit amounts for other claimants. The reduction in credit expenditures in FY05 is estimated to be $1.3 million. It is assumed that the property tax reduction has no immediate impact on rent and thus no immediate impact on Homestead credit claims by renters.

Farmland Preservation Credit:
The farmland preservation credit equals a percentage of property taxes for owners of farm property with 35 or more acres of farmland who meet certain zoning or land use and conservation requirements. The maximum credit is $4,200. The 2.7% estimated reduction in 2003/04 net property taxes under the bill would reduce FY04 farmland preservation credits by an estimated $0.4 million GPR. The 5.9% estimated reduction in 2004/05 net property taxes would reduce FY05 farmland preservation credits by an estimated $1.0 million GPR.

DEPARTMENT COSTS

The Department would incur one-time processing costs of $495,000 including salaries for project employees for a period of one year. The project employees would be responsible for data capture, error review, and adjustment review for the proposed senior citizen tax credit.

SUMMARY

The fiscal effects of this bill are not ongoing, but affect only state FY04 and FY05 and local property tax levy years 2003/04 and 2004/05. These effects, summarized on the attachment, are: state FY04, an expenditure increase of $127.5 million and revenue increase of $2 million for a net budgetary impact (i.e., change in closing balance equal to revenues minus expenditures) of -$125.5 million; state FY05, an expenditure increase of $486.8 million and revenue increase of $5 million for a net budgetary impact of -$481.8 million; for levy year 2003/04, a decrease in local revenues of $95 million; for levy year 2004/05, a decrease in local revenues of $6 million.

Long-Range Fiscal Implications

SB 278: Summary Table

Fiscal Effect	FY04*	FY05*
State expenditures		
State operations - other costs (processing senior citizen tax credit & auditing schedule H returns)	0.5	
General equalization aid	100.0	100.0
Municipal purpose levy credit		350.0
Senior citizen tax credit	28.1	
Homestead credit: exclusions		16.1
Homestead credit: 120% credit		23.0
Homestead credit: property tax reduction	(0.7)	(1.3)
Farmland preservation credit: property tax reduction	(0.4)	(1.0)
Total change in state expenditures	127.5	486.8
State revenues		
School property tax credit: property tax reduction	2.0	5.0
Net budgetary impact: revenues - expenditures	(125.5)	(481.8)
Local revenues		
General equalization aid	100.0	100.0
Municipal purpose levy credit		350.0
Property tax levy	(195.0)	(456.0)
Total change in local revenues	(95.0)	(6.0)

* For local revenues, the 2003/04 and 2004/05 levy years

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Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

One-time increase in state expenditures of $127.5 million, including Department costs of $495,000 for increased processing workload, in FY04 and $486.8 million in FY05; one-time increase in state tax revenues of $2 million in FY04 and $5 million in FY05. One-time decrease in local revenues of $95 million in 2003/04 and $6 million in 2004/05.

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	$	$
NET CHANGE IN REVENUE	$	$

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