Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2003 Session

☐ Original ☐ Updated ☐ Corrected ☒ Supplemental

LRB Number **03s0069/2**	Introduction Number **ASA1-AB133**

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. ☒ 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

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

DOR 12/15/2003

LRB Number 03s0069/2	Introduction Number ASA1-AB133	Estimate Type Supplemental
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.

Under the bill, the late payment of a property tax instalment does not render the entire property tax delinquent. Only the instalment that is due is treated as delinquent. Thus, a taxpayer could retain the option to pay his or her taxes in instalments. Also, the interest and penalties on a delinquent instalment is charged from the day the instalment is due. Thus, a delinquent second instalment would result in interest and penalty charges from August 1, rather than the preceding February 1.

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, annual revenues from interest and penalties on delinquent taxes would decline by approximately $9.64 million.

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 one month late, the entire $2,000 would be due with $30 interest and penalties ($2,000 x 1.5% x 1 month). Under the bill, a late payment of one instalment results in interest and penalties charged only on the late instalment. Thus, the taxpayer making a late payment on the first instalment would pay $15 in interest and penalties ($1,000 x 1.5% x 1 month).

Under current law, if the taxpayer paid the second instalment one month 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 one month after the July 31 due date, he or she would owe interest and penalty accrued from August 1 or $15 ($1,000 x 1.5% x 1 month).

Thus, under the bill, the taxpayer would pay $15 less in interest and penalties for a late first instalment ($30 - $15) and $90 less for a late second instalment ($105 - $15).

Calculation of Effect

Total effective taxes for all property in the state excluding the City of Milwaukee were $6.35 billion in 2002/03. According to 2002/03 Tax District Settlement Forms filed with the department, approximately 22% of payable taxes are postponed, i.e., paid in later instalments, and 4% are delinquent. Thus, $1.39 billion were postponed until July 31, 2003 ($6.35 billion x 22%) and $254 million were delinquent ($6.35 billion x 4%). Assuming the delinquencies are paid three months after the January 31 due date, interest charges under current law would be approximately $7.62 million ($254 million x 1% x 3 months) for these late payments. Assuming that 75% of the late payments are subject to a 0.5% county penalty, the penalties would amount to approximately $2.86 million ($254 million x 75% x 0.5% x 3 months). Thus, under current law, total interest and penalties imposed on payments made three months after the January 31 due date is estimated to be $10.48 million ($7.62 million + $2.86 million).

Under the bill, payment of the first instalment three months after the January 31 due date would result in interest charges only on the amount corresponding to the first instalment. It is assumed that one-half the $254 million in delinquent taxes ($127 million) is attributable to late first instalment payments and that this amount is paid three months after after the January 31 due date. Interest on these payments would amount to $3.81 million ($127 million x 1% x 3 months); penalties on these payments would amount to $1.43 million ($127 million x 75% x 0.5% x 3 months). Thus, total interest and penalties on the late first instalment would amount to $5.24 million under the bill.

Thus, the bill would result in a loss of approximately $5.24 million ($10.48 million - $5.24 million) in interest and penalties associated with payment of delinquent first instalments.

Using data from the 2002/03 Tax District Settlement forms, it is estimated that 4% of the postponed taxes that are due on July 31, or $55.9 million, would be delinquent as of August 1, 2002. Assuming these delinquencies are paid three months after the July 31 due date, interest charges on these payments would be $5.03 million ($55.9 million x 1% x 9 months), and penalties would be $1.89 ($55.9 million x 75% x 0.5% x 9 months). Thus, under current law, total interest and penalties for second instalment payments made three months after the July 31 due date would be $6.92 million ($5.03 million + $1.89 million).

Under the bill, slightly more taxes would be postponed for later payment since taxpayers would not lose the instalment option if they are delinquent on the first instalment. It is estimated that 4% of the postponed taxes, or $61 million, would be delinquent as of August 1, 2002. Assuming these taxes are paid three months after the July 31 due date, total interest charges under the bill would equal $1.83 million ($61 million x 1% x 3 months). Penalty charges would amount to $0.69 million ($61 million x 75% x 0.5% x 3 months). Total interest and penalties charged on delinquent second instalments would amount to $2.52 million under the bill ($1.83 million + $0.69 million).

Thus, the bill would result in a decrease in interest and penalties of $4.4 million ($6.92 million - $2.52 million) associated with second instalment payments made within three months after the July 31 due date.

The bill would result in a total loss in county revenues associated with lost interest and penalties from all delinquent instalments of $9.64 million ($5.24 million + $4.4 million).

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

There would be no state fiscal effect under the bill.

Long-Range Fiscal Implications

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Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

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LRB Number **03s0069/2**		Introduction Number **ASA1-AB133**	
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		$	$-$9.64 million

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