

Fiscal Estimate Narratives

DOR 3/6/2014

LRB Number	13-2643/1	Introduction Number	SB-618	Estimate Type	Original
Description Payment of property taxes in multiple installments for low income taxpayers					

Assumptions Used in Arriving at Fiscal Estimate

CURRENT LAW

Current law requires, in general, a taxpayer to pay his/her property taxes in one of the following ways: 1) in full on or before January 31; or 2) in two equal installments, with the first payment by January 31 and the second payment by July 31. The governing body of any taxation district, other than the first class city, may, by ordinance, allow a taxpayer to pay in three or more installments, if the last installment is due no later than July 31. A first class city may adopt an ordinance that allows a taxpayer to pay property taxes in seven or ten equal installments.

PROPOSED LAW

Under this bill, each taxation district and county, except for a first class city, shall, by ordinance or resolution, allow a taxpayer to pay his or her property taxes in 12 equal installments, if the taxpayer provides evidence to the county or taxation district that the his/her adjusted gross income is less than 50 percent of the median family income, as determined annually by the U.S. Department of Housing and Urban Development, for the county in which the taxpayer's property is located. If a second installment is not paid on the due date, the entire unpaid balance is considered delinquent and would be returned to the county treasurer for collection. If the final installment is not paid by the end of the month following the due date, the delinquent unpaid balance would be collected with interest and penalty.

Based on the Department of Revenue's (DOR) database of information contained in state income tax returns, the total state-wide property tax revenue from taxpayers earning less than 50 percent of the county median family income (calculated based on the DOR data) amounted to approximately \$361.7 million in 2012 (excluding Milwaukee county), or approximately 8.7 percent of the total state-wide property tax revenue (\$4,945 million tallied based on tax returns) for the same year. However, the DOR database on tax returns is not inclusive of all properties that are relevant to this bill and thus underestimates property tax revenue. The actual state-wide property tax revenue from residential properties was \$7,283 million in 2012. Using the percentage calculated above, the total property tax revenue from taxpayers earning less than 50 percent of the county median income can be estimated to be approximately \$634.8 million ($\$7,283 \text{ million} \times 8.7 \text{ percent}$), which would be subject to the installment option under the bill. Assuming 100 percent participation by eligible taxpayers, \$634.8 million state-wide will be paid over a 12-month period (\$52.9 million per month).

As mentioned above, a taxpayer is currently allowed to pay either one lump-sum payment in January or in two installments (one in January and another in July). Based on information provided by all municipalities in Wisconsin, approximately 75.8 percent of the total property tax for the municipalities that allowed only one or two installments was received in January, and approximately 20.2 percent in July (approximately 3.9 percent was considered delinquent). Under the bill, assuming all eligible taxpayers choose the 12 installment option, the municipality would receive approximately 70.0 percent ($((100 \text{ percent} - 8.7 \text{ percent}) \times 75.8 \text{ percent} + 8.7 \text{ percent}/12)$) of the municipality's total property tax levy in January and approximately 19.2 percent in July ($((100 \text{ percent} - 8.7 \text{ percent}) \times 20.2 \text{ percent} + 8.7 \text{ percent}/12)$), in addition to approximately 0.7 percent ($8.7 \text{ percent}/12$) each other month during the year.

However, it is possible that only a small percentage of the taxpayers who would qualify for the program would actually participate, partly due to the requirement that a taxpayer present acceptable evidence in a timely manner to qualify. In particular, depending on the timeline determined by each municipality/county for document submission, it could be challenging for many taxpayers to produce appropriate income evidence for the installment option that starts in the following month of January. As such, DOR anticipates much less than \$634.8 million state-wide would be paid in 12 installments under the bill.

The impact of the bill on cash inflows may be less for those municipalities that are already allowing three or

more installment payments. DOR is aware of 63 municipalities, excluding Milwaukee, that currently allow three or more installments (three installments in 46 municipalities, four installments in 15 municipalities, and six and seven installments in one municipality each). Property tax levies from those municipalities accounted for approximately 28.2 percent of the state-wide property tax revenue in 2013. Of those 63 municipalities, 59 municipalities receive at least 25 percent of their property tax revenue as a first installment payment in January (17 of them receive 50 percent or more as a first installment payment).

The bill would incur administrative costs to local taxation districts for processing applications and instituting installment payments. DOR will be able to absorb an increase in its administrative costs within its budgetary resources.

Long-Range Fiscal Implications