

Fiscal Estimate - 2015 Session

Original Updated Corrected Supplemental

LRB Number 15-2060/2		Introduction Number AB-0226	
Description Audits and interest rates on past due amounts			
Fiscal Effect			
State:			
<input type="checkbox"/> No State Fiscal Effect			
<input type="checkbox"/> Indeterminate			
<input type="checkbox"/> Increase Existing Appropriations		<input type="checkbox"/> Increase Existing Revenues	
<input type="checkbox"/> Decrease Existing Appropriations		<input checked="" type="checkbox"/> Decrease Existing Revenues	
<input type="checkbox"/> Create New Appropriations		<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget	
		<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
		<input type="checkbox"/> Decrease Costs	
Local:			
<input type="checkbox"/> No Local Government Costs			
<input type="checkbox"/> Indeterminate			
1. <input type="checkbox"/> Increase Costs		3. <input type="checkbox"/> Increase Revenue	
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory		<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	
2. <input type="checkbox"/> Decrease Costs		4. <input type="checkbox"/> Decrease Revenue	
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory		<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	
5. Types of Local Government Units Affected			
<input type="checkbox"/> Towns		<input type="checkbox"/> Village	
<input type="checkbox"/> Counties		<input type="checkbox"/> Cities	
<input type="checkbox"/> School Districts		<input type="checkbox"/> WTCS Districts	
Fund Sources Affected		Affected Ch. 20 Appropriations	
<input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS			
Agency/Prepared By		Authorized Signature	Date
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Fiscal Estimate Narratives

DOR 5/22/2015

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Description					
Audits and interest rates on past due amounts					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, Wisconsin charges taxpayers a fixed statutory annual interest rate of 12 percent on non-delinquent tax liability and an 18 percent rate on delinquent tax liability. The Department of Revenue (DOR) is also required to pay 3 percent interest on refunds of overpayments after a certain period of time.

This bill requires DOR to reduce the non-delinquent interest rate by 0.5 percent each year until the rate equals 1 percent plus the prime rate (currently 3.25 percent), as reported by the Federal Reserve Board.

The bill also provides that interest on income or sales tax liabilities does not accrue during an audit. Moreover audits of a person with adjusted gross income of less than \$5 million may not last longer than 240 days, and DOR may not assess interest or penalties on first time audits of such persons, except in the case of fraud or willful evasion.

During FY13 and FY14, DOR audits assessed an average of approximately \$67.8 million in interest and \$8.1 million in penalties. If interest does not accrue during an audit, the only interest amount that would accrue under the bill would be for the 90 day period after the assessment was issued and before the amount became delinquent, resulting in an interest reduction of \$64.4 million. The share of foregone interest and penalties due to first time audits of taxpayers with less than \$5 million of adjusted gross income is unknown, but estimated to be approximately 25 percent, for a further interest and penalty reduction of \$2.9 million (25% x \$8.1 million in penalties plus 25% x \$3.4 million of collectible interest).

During FY13 and FY14, DOR collected an annual average of \$110.5 million in non-delinquent interest (42.7 million excluding 67.8 million from audit assessments). Excluding the amount attributable to audit assessments and assuming the remaining \$42.7 million is subject to a reduction from 12 percent annual interest to 11.5 percent annual interest would reduce revenue by approximately \$1.8 million.

The provision limiting the duration of audits will reduce the accuracy of audit assessments. In some cases DOR will need to issue estimated assessments based on the best available information in the shortened time period. To the extent that these estimated assessments will be appealed, the result of limiting audit periods will be more common, longer, and more costly appeals. It is not clear how much the reduced audit accuracy and extended appeal process will impact the amount of assessments that are collected. DOR estimates that approximately \$42 million in audit assessments will be directly affected by the provision.

The combined interest and penalty reduction from these provisions is approximately, \$69.1 million (\$64.4 million + 2.9 million + 1.8 million) using the prescribed 11.5 percent interest rate for 2016. Accounting for the additional revenue loss from shortened audit periods increases the total fiscal effect to \$111.1 million.

Annual interest rate reductions will continue to increase the fiscal effect of the bill. Using the FY13 and FY14 data, an interest rate of 4.25 percent, the prime rate plus 1 percent, would reduce revenue by an additional \$27.8 million.

DOR has a number of technical concerns; the resolution of which may affect the estimated fiscal impact of the bill. Additionally, current law interest payments and the proposed interest rate tend to fluctuate from year to year, so the impact of the bill will also fluctuate from year to year.

This estimate has not taken into account behavioral changes that could occur as a result of reduced interest rates, audit period restrictions, and first time audit interest and penalty exemptions. These provisions could have a significant effect on timeliness of payments to DOR, taxpayer cooperation with DOR auditors, and tax compliance in general. To the extent that these behavioral changes occur, the fiscal impact of the bill could be significantly higher than described above.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2015 Session

Detailed Estimate of Annual Fiscal Effect

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Description Audits and interest rates on past due amounts			
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, etc.)			
	Increased Rev	Decreased Rev	
GPR Taxes	\$	\$-111,100,000	
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues	\$	\$-111,100,000	
NET ANNUALIZED FISCAL IMPACT			
	<u>State</u>	<u>Local</u>	
NET CHANGE IN COSTS	\$	\$	
NET CHANGE IN REVENUE	\$-111,100,000	\$	
Agency/Prepared By		Authorized Signature	Date
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