

Fiscal Estimate Narratives

DOR 2/2/2016

LRB Number	15s0268/1	Introduction Number	ASA1- AB226	Estimate Type	Supplemental
Description 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 4 percent plus the federal short-term rate in effect on July 1 of the year immediately preceding the calendar year for which DOR is determining the rate.

During FY13 to FY15, DOR collected an annual average of \$111.8 million in non-delinquent interest. Based on those collections, a reduction from 12 percent annual interest to 11.5 percent annual interest would reduce revenue by approximately \$4.7 million. Subsequent incremental interest rate reductions will increase the fiscal impact of the bill by \$4.7 million each year until the interest rate equals the federal short-term rate plus 4 percent. Based on the current federal short-term rate of 1 percent, the non-delinquent interest rate would eventually reach 5 percent and produce a revenue loss of approximately \$65.2 million annually thereafter. Because current law interest payments and the federal short-term rate tend to fluctuate from year to year, the impact of the bill will also fluctuate from year to year.

The above estimate has not taken into account behavioral changes that could occur as a result of reduced interest rates. The reductions 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. For example, an individual who currently pays a \$5,100 bill, \$100 of which is interest, may delay making that payment under a lower interest rate. Similarly, an individual who currently makes timely payments may instead choose to prioritize other debts, delaying the collection of those amounts.

The bill would create non-absorbable administrative costs and disruptions for both DOR and software vendors with respect to modifying, testing, and reconciling interest calculations and form changes. DOR estimates that one-time programming costs would be approximately \$42,650.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2015 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): DOR estimates that one-time programming costs would be approximately \$42,650.		
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		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$	\$
NET CHANGE IN REVENUE	\$See Text	\$
Agency/Prepared By	Authorized Signature	Date
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