Fiscal Estimate - 2021 Session

☑ Original ☐ Updated	Corrected	Supple	mental
LRB Number 21-2550/2	Introduction I	Number SB-25	8
Description an income tax deduction for an arrearage paid or	n behalf of a tenant for mu	unicipal utility service	
Fiscal Effect			
Appropriations Rever Decrease Existing Decre Appropriations Rever Create New Appropriations	ease Existing anues	ncrease Costs - May be bsorb within agency's b	
Permissive Mandatory Perm 2. Decrease Costs 4. Decre		vpes of Local Governments Affected Towns Village Counties Others School WTCS Districts Distric	e Cities
Fund Sources Affected GPR FED PRO PRS	Affe	ected Ch. 20 Appropria	ations
Agency/Prepared By	Authorized Signature	•	Date
DOR/ Bradley Caruth (608) 261-8984	Ann DeGarmo (608) 266	3-7179	4/7/2021

Fiscal Estimate Narratives DOR 4/7/2021

LRB Number 21	1-2550/2	Introduction Number	SB-258	Estimate Type	Original	
Description						
an income tax deduction for an arrearage paid on behalf of a tenant for municipal utility service						

Assumptions Used in Arriving at Fiscal Estimate

Under current law, a municipal utility may collect arrearages for utility service provided to lots or parcels of real estate by providing, on October 15, a written notice to the owner or occupant of the amount owing and in arrears. If payment is not received by November 15, the arrearage amount and late penalties become a lien on the property that is collected as a tax on the property. Additional requirements apply to a municipal utility that provides water or electric service to a tenant in a rental dwelling unit. If the owner of the unit notifies the municipal utility that the tenant has assumed responsibility for payment for the service, the municipal utility must provide additional notices regarding past due amounts to both the tenant and the owner in order to collect the arrearages through a lien. Also, current law gives the municipality a lien on the assets of each tenant who is responsible for arrears in payments for the water or electric service. If the owner pays off the arrearage, the municipality's lien on the assets transfers to the owner. Under the bill, an owner who pays off an arrearage on behalf of a tenant may deduct that amount when calculating income for state tax purposes. However, if the tenant pays the owner for all or part of the arrearage in a subsequent taxable year, the owner must add that amount to the owner's taxable income for that year.

For 2020 municipalities reported approximately \$67.8 million in delinquent utility charges on their Statement of Taxes. DOR does not have data on the share of those delinquent charges that are associated with tenants in rental dwelling units or the share of owners who pay off arrearages on behalf of their tenants, so the fiscal effect is indeterminate. However, as a clarifying example, if 25% of delinquent charges are associated with tenants in rental dwelling units and 25% of the owners pay off arrearages on behalf of the tenants, the bill would result in an aggregate income tax deduction of \$17 million (\$67.8M x 25% x 25%) in fiscal year 2022. Applying a 7.65% marginal tax rate suggests a revenue loss of \$1.3 million in fiscal year 2022. Because the deductions must be added back to income in subsequent years when the owner is repaid, the ongoing annual revenue loss will be smaller in future years. If nearly all debts are repaid the fiscal effect will become minimal in future years.

DOR anticipates incurring \$6,200 in one-time administrative costs related to training staff as well as drafting and modifying tax forms, instructions, and other published guidance. The department cannot absorb these costs with existing resources.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2021 Session

Detailed Estimate of Annual Fiscal Effect

☑ Original ☐ Updated		Corrected			Supplem	ental	
LRB Number 21-2550/2	Intr	oduction I	Vumb	er	SB-25	В	
Description	on hehalf	of a tenant for	munici	nal uti	lity service		
an income tax deduction for an arrearage paid on behalf of a tenant for municipal utility service I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in							
annualized fiscal effect):	ate and/o	i Local Gove		1 (00)	iot iliciad	e III	
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DOR anticipates incurring \$6,200 in one-time a drafting and modifying tax forms, instructions, a				aining	stan as w	eli as	
II. Annualized Costs:		Annualized Fiscal Impact on funds from:					
		Increased		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				ADA AMERICANIA CHININA	- Contract of Contract of the Contract of		
FED		· ·					
PRO/PRS							
SEG/SEG-S							
III. State Revenues - Complete this only whe		al will increa	se or d	ecrea	se state r	evenues	
(e.g., tax increase, decrease in incense ree, e	15.)	Increase	d Rev		Decr	eased Rev	
GPR Taxes		morodoo	\$	130,741, 10,000 1111111119, and	D001	\$	
GPR Earned							
FED						entrovide i i disello i se si to colo si disele successi	
PRO/PRS							
SEG/SEG-S		T		terricono betan Otto Conser de			
TOTAL State Revenues			\$			\$	
NET ANNUA	LIZED FIS	SCAL IMPAC	T	Martine Land School			
			<u>State</u>			<u>Local</u>	
NET CHANGE IN COSTS			\$	\$			
NET CHANGE IN REVENUE		\$Se	e Text			\$	
Agency/Prepared By	Authoriz	thorized Signature Date			Date		
DOR/ Bradley Caruth (608) 261-8984	Ann DeG	nn DeGarmo (608) 266-7179 4/7/2021				4/7/2021	