

Fiscal Estimate Narratives

DOR 4/7/2021

LRB Number	21-2550/2	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 ($\$67.8M \times 25\% \times 25\%$) 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
 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 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.		
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	\$	\$
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
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		Date
		4/7/2021