FISCAL NOTE

Bill #: SB 352

Title: Grace period for property tax payment

Primary Sponsor: Ric Holden

Status: Introduced

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Sponsor signature Date

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Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	FY2003 Difference
Expenditures:		
General Fund	($455,606)	($457,830)
Net Impact on General Fund Balance:	**($455,606)**	**($457,830)**

Yes	No		Yes	No	
x		Significant Local Gov. Impact	x		Technical Concerns
	x	Included in the Executive Budget	x		Significant Long-Term Impacts
	x	Dedicated Revenue Form Attached		x	Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

1. The proposal provides a grace period to exclude penalty and interest on delinquent real property taxes and personal property taxes on mobile homes. If the delinquent tax is paid during this 20-day grace period, no penalty and interest will be charged to the property owner. All property tax payments are effected by the proposal, with the exception of personal property that is not considered a mobile home, mine net proceeds, and gross proceeds of metal mines, and rail car tax payments.
2. Considering that there is no effective date listed on the proposal, it is assumed that it is effective October 1, 2001.
3. Under current law, counties collect property taxes throughout each month. The county treasurer remits to the state treasurer the state's portion of property tax. The remittance is made within twenty days of the end of each month. For example, state property taxes collected in November are remitted to the state by December 20. Generally, property taxes are made in two equal payments. The first half-payment is due November 30 and the second half-payment is due May 31. In effect, the proposal shifts the due dates from November 30 to December 20, and from May 31 to June 20. As a result, the remittance to the state treasurer is one month later than under current law.

4. Total property taxes paid in Montana are estimated at $724,298,291 for fiscal year 2001. For purposes of this analysis, total statewide revenue growth from property taxes is projected to be 2.69% in FY02, and 3.68% in FY03. Applying the aforementioned growth rates of 2.69% for FY '02 and 3.68% in FY03, estimated total statewide revenues from property taxes is $743,803,644 ($724,298,291 x 1.0269) for FY02, and $771,160,742 ($743,803,644 x 1.0368) for FY03.
5. The amount of property taxes paid that are affected by the proposal are estimated at $668,897,187 in FY01. Applying the aforementioned projected growth rates, effected property taxes paid are estimated at $686,907,813 ($668,897,187 x 1.0269) in FY02 and $712,173,753 ($686,907,813 x 1.0368) in FY03. Each half-payment due May 31 or 20 days thereafter, and November 30 or 20 days thereafter will be $343,453,906 ($686,907,813/2) in FY02, and $356,086,877 ($712,173,754/2) in FY03.
6. For purposes of this fiscal note, it is assumed that 50% of qualifying property tax payers will apply and use the proposed 20-day grace period. If 50% of qualifying taxpayers use the proposed 20-day grace period each year, that means in FY '02 estimated half-payments are $171,726,953 ($343,453,906 x 0.5) revenues will be paid 20 days later than under current law, in FY '03 an estimated $178,043,438 ($356,086,877 x 0.5) will be paid 20 days later each half-payment.
7. This proposal will affect interest earnings to both state and local governments. When state and local governments receive tax payments, the payments are deposited into accounts that earn short-term interest. It is estimated that short-term investment programs will have average annual interest rates of 6.5% or a monthly rate 0.54% in FY02, and an annual rate of 6.4%, or a monthly rate of 0.53% in FY03. Interest earnings lost per year is the amount of estimated interest earnings that would have been collected on the payments made 20 days later than if had they been collected under current law on November 30 and May 31. For this analysis, time lost on interest earnings is estimated to be 1 month on the amount of payments paid 20 days late for each half-payment. Using the abovementioned assumptions, total interest earnings lost during 1 month in FY02 is estimated to be $1,860,375 ($171,726,953 x 1 month x 2 half-payments x 0.0054) in FY02, and $1,869,456 ($178,043,438 x 1 month x 2 half-payments x 0.0053) in FY '03.
8. It is estimated that the proportion of property taxes levied for state government purposes is 24.49%, and the remaining 75.51% is levied for local government purposes.
9. Under this proposal, losses associated with interest earnings to the state general fund in FY02 are estimated at $455,606 ($1,860,375 x 0.2449), and $457,830 ($1,869, 456 x 0.2449) in FY03.
10. Under this proposal, losses associated with interest earnings to local governments are projected using 20 days, or 2/3 of a month. If county governments lose 20 days, or 2/3 of a months interest per half-payment it is estimated that they will lose interest earnings of $936,560 ($1,860,375 x 0.7551 x 0.6667) in FY02, and $941,131 ($1,869,456 x 0.7551 x 0.6667) in FY03.
11. There will be some revenue loss from current law due to the proposal. The revenue loss would derive from those taxpayers that pay late taxes, but within the 20-day grace period. Under current law, there would be penalty and interest added to those payments. Under the proposal, that penalty and interest is lost. The amount of penalty and interest lost is not quantifiable, but expected to be small.

FISCAL IMPACT:

	FY2002 Difference	FY2003 Difference
Revenues:		
General Fund (01)	($455,606)	($457,830)
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	($455,606)	($457,830)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
Under this proposal, losses associated with interest earnings to local governments are projected using 20 days, or 2/3 of a month. If county governments lose 20 days, or 2/3 of a months interest per half-payment it is estimated that they will lose interest earnings of $936,560 ($1,860,375 x 0.7551 x 0.6667) in FY02, and $941,131 ($1,869,456 x 0.7551 x 0.6667) in FY03.

TECHNICAL NOTES:
1. The fiscal year ends June 30, if property tax revenues have a grace period of 20 days from May 31, it would only allow 10 days for governments to close out each fiscal year revenue accounts.
2. Under current law, the SB417 personal property reimbursement program (15-1-112, MCA) is administered by counties withholding state property tax remittance to fund the reimbursement to local governments. Currently, there is enough property tax collected to withhold and cover the reimbursement amounts. Under the proposal, there may not be enough property tax collections in November and May to withhold and cover the reimbursement amounts. The proposal does not have a remedy for this.

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