Coates' Canons Blog: Budgets and the Tax Collection Percentage

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It’s budget time for local governments, and the fun should not be reserved just for finance and budget staffers. Tax officials need to play an important role in the process, too.

The Local Government Budget and Fiscal Control Act prohibits a local government from assuming a higher property tax collection percentage for next year than the percentage it experienced this year. In other words, the budget may not be overly optimistic about how much of next year’s tax levy will result in actual dollars in the bank.

Tax officials need to be involved in this process to ensure that the numbers used reflect reality. So, grab your calculators and follow along as I hit the highlights of the tax collection percentage calculation.

Focus on the tax collections for the *current* fiscal year. When budgeting for 2012-2013, a local government may not assume a collection percentage higher than that experienced by that local government for 2011-2012. This process will of course require an estimate of the current fiscal year’s collection percentage, because the 2011-2012 fiscal year has several months yet to run.

Rather than relying on this estimate, many local governments interpret NCGS 159-13(b)(6) as requiring or permitting use of the collection percentage from the *prior* fiscal year. These governments look to the final collection percentage for 2010-2011 as the effective collection percentage when budgeting for 2012-2013. This approach may be easier to implement, but it just ain’t legal.

Admittedly, NCGS 159-13 uses confusing language when creating the budgeting requirement. The statute requires the local government to rely on the tax collection percentage from the “preceding fiscal year.” That term refers to the fiscal year preceding the “budget year.” The budget year is the coming fiscal year. If in April 2012 you are budgeting for the 2012-2013 fiscal year, then 2012-2013 is the “budget year” and 2011-2012 is the “preceding fiscal year.” You may not look back to the collection percentage for 2010-2011.

But how can we calculate the collection percentage for a fiscal year is not yet complete? Obviously this process requires us to estimate (guess?) how many dollars we will collect between the date when we do the budget calculation and June 30, the end of the fiscal year. I think the best approach is to base that estimate on collections received during this same time period in prior years.

Pretend you are the tax administrator for Carolina County and are helping prepare the county’s 2012-2013 budget on April 1. As of that date, you have collected $98 million in property taxes levied for the 2011-2012 fiscal year. (We’ll discuss how you calculate the total tax levy in a minute, but for now let’s just focus on the collections figure.)

To estimate how much more you will collect on this year's levy in the four months remaining in the 2011-2012 fiscal year, look to your experience during this same time period in recent years.

Assume that on average for the past three completed fiscal years you have collected 5% of your total collections in the final three months of each fiscal year. Or, put another way, you usually collect 95% of your total collections for a given fiscal year in the first nine months of that fiscal year.

I think you can safely assume that you will also collect 5% of your total 2011-2012 collections in the final three months of this year. If so, then the $98 million you've collected through April 1 will represent 95% of your total collections for the fiscal year. Divide $98 million by .95 and you get $103.15 million, which is your estimated total collections for 2011-2012.

We need to divide that figure by your total tax levy for this fiscal year to come up with the estimated tax collection percentage that will be used for the 2012-2013 budget. The tax levy should be the total amount of property taxes billed for the current fiscal year. When calculating total billings, some items deserve special attention:

Discoveries: all discoveries made on or before December 31 should be included in the current year's tax levy. Discoveries made on January 1 or later are included in next year's tax base and therefore should not affect this year's collection percentage.

Releases: any adjustments to property values or billings for the current fiscal year should be reflected in this year's tax base. Releases lower the tax base and therefore reduce the tax levy.

Discounts: any discounts provided to taxpayers for payment prior to September 1 should be reflected in the tax levy. Discounts reduce the tax levy.

Appeals and bankruptcies: despite the fact that no collection actions can be taken on these taxes, they must be included in the tax levy for the current year because the property values at issue remain part of the tax levy.

Interest, discovery/"late listing" penalties, service fees, advertising fees, and other fees/costs: because none of these is a principal tax, they all should be excluded from the collection percentage calculation. The amount billed for these items should not be included in the levy and the amount collected for these items should not be included in the estimated total collections.

Registered Motor Vehicle Taxes: due to the lag in billing RMV taxes, NCGS 59-13(b)(6) permits local governments to count 12 months of RMV collections in the total collections but only 9 months of RMV billings in the total levy. Therefore budget calculation for 2012-2013 will include RMV billings from July 2011 through March 2012 and RMV collections from July 2011 through June 2012.

Pre-payments for 2012-2013 taxes: because these payments relate to next year's tax levy, they should not be included in the this year's collections.

Let's return to the Carolina County example. Assume that the total property tax billings for fiscal 2011-2012 is $110 million. We need to subtract from that figure the following items: interest, fees, discovery penalties, bad check penalties, and releases. Billings that are under appeal or bankruptcy filings must remain in that figure. The figure should not include discoveries made after December 31 nor motor vehicle billings from April, May, or June 2012.

Assume after all of those adjustments the total tax levy for 2011-2012 is reduced to $108 million. One more step and we're done: divide the estimated 2011-2012 collections by the 2011-2012 tax levy: $103.15 million divided by $108 million equals 95.5 %. And that is the maximum property tax collection percentage that Carolina County may use when budgeting for fiscal year 2012-2013.

Simple, right? Okay, maybe not.

For more insight, take a look at the collection percentage discussion in my new tax collection book. Or come to our panel discussion on this topic at next month's tax collectors' conference in Winston-Salem.

Most importantly, remember that you are not the only one struggling with this calculation. Be sure to reach out to me, to the Local Government Commission, or to your colleagues for help.

Links

- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/ByArticle/Chapter_159/Article_3.html
- www.ncga.state.nc.us/gascripts/statutes/statutelookup.pl?statute=159-13
- www.sog.unc.edu/publications/books/fundamentals-property-tax-collection-law-north-carolina