Coates' Canons Blog: How Interim Budgets Might Impact Tax Collections

By Chris McLaughlin

Article: https://canons.sog.unc.edu/how-interim-budgets-might-impact-tax-collections/

This entry was posted on May 14, 2020 and is filed under Budeting & Appropriations, Featured Posts Related To COVID-19, Finance & Tax, Property Taxes

Interim budgets may provide breathing room for local governments wary of setting their 2020-2021 property tax before they know the full extent of how the COVID-19 pandemic will affect the state and local economies. But interim budgets are not without consequences.

I described some of the concerns involved with this approach in this blog post. Today I provide more detail about the tax collection consequences that could result from an interim budget so that managers and boards considering this approach are better informed about how it might affect this important revenue stream. These potential negative consequences include late tax bills, conflicts between counties and towns about when to bill, and miscalculation of taxes on registered motor vehicles.

Why Adopt an Interim Budget?

Once the property tax rate is set in the annual budget ordinance, that rate is essentially fixed. It can be changed only if circumstances change dramatically after the budget ordinance is adopted and cannot be changed at all after January 1. (See this post from Kara Millonzi for more details on these limitations.)

Given this economic uncertainty, local governments may choose to first adopt an interim budget in anticipation of the new fiscal year beginning on July 1. As Kara writes here, this approach is more accurately described as an interim *appropriation* ; it authorizes spending for basic local government operations but does not create an actual budget or set a property tax rate for the coming fiscal year. I'll refer to this approach as an interim budget simply because that is the more common term.

Late Billing = No Discounts & Late Revenues

Most tax offices mail their property tax bills in July or August. But this can't happen unless the government has set its tax rate for the 2020-21 fiscal year. If those tax bills are delayed due to the adoption of an interim budget, taxpayers may lose the benefit of being able to pay their bills with a discount.

Not all jurisdictions offer discounts, which are optional, but all discounts that are offered must end by the statutorily required deadline of September 1. (Read this post for more on discounts.) Many taxpayers across the state make it a practice to pay before September 1 to take advantage of their local governments' discount (usually 1 or 2%); these taxpayers may be aggravated if they don't get their bills in time to take advantage of this benefit.

Of course, taxpayers are always permitted to pre-pay their estimated property taxes before bills are issued. These pre-payments must receive the discount if they are made before September 1. However, pre-payments create uncertainty for both the tax office and the taxpayer because no one knows whether the correct amount has been paid until the tax rate is finally adopted. The resulting refunds or additional collections required if the tax rate changes from that used to calculate the estimated pre-payments will require additional staff time and potential headaches for all involved.

Delaying tax bills also means delaying tax payments from the many taxpayers who pay shortly after receiving their bills. This delay could have negative consequences for the local government's revenue stream and might create a cash crunch depending on how long the delay lasts.

Billing Conflicts Between Counties and Towns

Copyright © 2009 to present School of Government at the University of North Carolina. All rights reserved.

In the many counties that collect property taxes for one or more towns, conflicts could arise if one of those jurisdictions adopts an interim budget.

What happens if the county adopts an interim budget and needs to delay its bills? Does that also delay the bills for all of the towns for which the county bills, even if those towns have adopted their final budget ordinances and are ready to bill? Or should the county mail town-only bills for certain taxpayers and later mail county-only bills when the county adopts its final budget?

What if the reverse occurs and the county adopts a final budget and is ready to bill but one of the towns for which it bills adopts an interim budget? Should the county wait to send its bills until all of its towns have set their rates? Or should the county send county-only bills to all taxpayers and then later send town-only bills for certain taxpayers once the town rates are set?

In either scenario, may the county charge the towns for the extra town-only bills? These costs may be significant. Wake County mails over 450,000 bills annually, Guilford over 215,000, and Forsyth over 150,000. Assuming a bulk-postage rate and materials cost of around 50 cents per bill, the total cost for town-only bills could easily rise into the mid-five figures.

Ideally, these issues would be directly addressed in the interlocal agreements between counties and municipalities for property tax collection. (See this post for more on interlocal agreements.) For example, Guilford County's agreements with its cities partially addresses the issue of late tax rates in this provision:

9. <u>Adoption of Tax Rates</u>. The CITY will make every effort to adopt its tax rate not l
July 1 of any fiscal year. However, in the event it is necessary to adopt an interim budget, t
will adopt its tax rate not later than August of that fiscal year pursuant to N.C.G.S. §105-347.

Note this provision does not state what happens if a city fails to meet the August deadline for adopting a tax rate. Presumably the county could view this as a breach of contract by the city and refuse to bill the city's taxes unless the city pays the cost of the separate city-only bill.

At least Guilford County's agreements attempt to address this potential conflict. Feedback from other county tax collectors suggest that many (most?) interlocal agreements are completely silent on the issue of the failure to adopt a tax rate in time to mail bills in August. See for example this agreement or this one. Such contractual ambiguity could lead to legal conflicts between counties and cities.

RMV Taxation Confusion

The Department of Revenue ("DOR") expects all local governments to report their new property tax rates for the 2020-21 fiscal year by July 24 so that the Division of Motor Vehicles ("DMV") can include those rates on the "invitations to renew" (aka property tax bills) for motor vehicle registrations that expire at the end of October. (The renewal notices go out roughly 90 days before the registrations expire). Remember that the property tax rate for registered motor vehicles ("RMVs") must be same as that for all other property in a jurisdiction; local governments are not permitted to adopt different tax rates for different types of property.

If a county or city were to miss the July 24 deadline, then the July renewal notices for October expirations would include the "old" 2019-20 property tax rate. If the new rate were not reported by late August, then the renewal notices for November expirations would also include the old rate. And so on, and so on, until the county or town finally adopts its

Copyright © 2009 to present School of Government at the University of North Carolina. All rights reserved.

2020-21 tax rate and reports it to the DOR. The rate will then be changed for all subsequent renewal notices.

That new rate will also affect unpaid RMV taxes for the 2020-21 for which renewal notices were calculated using the *old* tax rate. If the new tax rate differs from the old rate, taxpayer confusion and anger may arise.

Assume the new rate is higher than the old rate. A taxpayer who mails a renewal check that is received by the DMV after the new rate is entered will have her payment rejected because the new RMV bill amount exceeds the old bill amount listed on the renewal notice. The DMV will deposit the check and eventually send a refund, but until the taxpayer sends a new check in the correct amount the taxpayer will not receive a registration renewal and risks interest and penalties on her late registration and tax payment. And the taxpayer will at least temporarily have to pay twice, once with the original check that was in the wrong amount and once with the second check in the correct amount. The taxpayer is guaranteed to be furious.

If the new rate is lower than the old rate, the DMV will accept the payment and process the renewal. Overpayments of over $5 will be refunded by the DMV; overpayments of under $5 are not refunded but instead “donated” to the state highway fund.

Similar confusion will arise for taxpayers who attempt to pay on line or in person at a DMV office after the town or county tax rate changes, because the amount demanded by the DMV may not match the amount on taxpayer’s renewal notice. Taxpayers who pay in person at a license plate agency (“LPA”) operated by a third-party may wind up paying the old bill amount, because LPA’s usually don’t check the RMV taxation system to update billing records prior to accepting payment. If that occurs, counties will have to refund any overpayments but will not be able to recoup any underpayments due to the fact that all local government collection remedies for RMV taxes were eliminated as part of the Tag & Tax Together system.

The Bottom Line

Local governments need to know that interim budgets may have negative impacts on the tax collection process. Armed with this knowledge, elected leaders and managers can better decide whether those impacts outweigh the benefit of delaying a final decision on the 2020-21 tax rate.

Links

- www.durhamnc.gov/agendas_new/2012/cws20120618/8558_AGREEMENT_INTERLOCAL_PROPERTY_TAX_309486_454838.docx.PDF

This blog post is published and posted online by the School of Government to address issues of interest to government officials. This blog post is for educational and informational use and may be used for those purposes without permission by providing acknowledgment of its source. Use of this blog post for commercial purposes is prohibited.

To browse a complete catalog of School of Government publications, please visit the School’s website at www.sog.unc.edu or contact the Bookstore, School of Government, CB# 3330 Knapp-Sanders Building, UNC Chapel Hill, Chapel Hill, NC 27599-3330; e-mail sales@sog.unc.edu; telephone 919.966.4119; or fax 919.962.2707.