TESTIMONY

HB 2167
An Act concerning property taxation;
relating to time for payment of real estate taxes; interest.

Whitney Damron
On behalf of the City of Topeka

House Taxation Committee
February 9, 2015

Good afternoon Chairman Kleeb and Members of the House Taxation Committee. I am Whitney Damron and I appear before you today on behalf of the City of Topeka in support of HB 2167, which would increase the interest rate charged on delinquent property taxes from its current level as proscribed in K.S.A. 79-2968, which is tied to a rate set by the IRS.

For calendar year 2015, that rate is four percent (see attached).

By way of information, in 2011, the City of Topeka proposed an increase in the interest rate for delinquent property taxes, which at that time was tracked the IRS rate cited above, plus two percent. The Legislature ultimately increased the interest rate for delinquent taxes in excess of $10,000.00 to ten percent, which we believe has had a positive impact on tax collections in our county. The problem with this approach is oftentimes a taxpayer has each delinquent property or parcel segregated in a multitude of corporate entities, keeping the delinquency for individual properties under the ten thousand dollar threshold, but in the aggregate a single taxpayer may have hundreds of thousands if not millions of dollars in delinquent property taxes due to the county.

In 2014, the Legislature reduced the interest rate on delinquent property taxes to delete the two percent add on to the IRS rate through inclusion of language in the COTA/BOTA bill, the topic of which was never held for hearings in bill form. HB 2167 before you today would re-impose a surcharge and increase the amount up to 5 percent. Under current law, that would result in a nine percent interest rate on delinquent property taxes.

The City of Topeka believes there should be some significant incentive for real property owners to pay their taxes in a timely manner. If they do not, the rest of the taxpayers are left to bear the responsibility for the costs of local government, including providing for police and fire services, infrastructure maintenance and related services that benefit the entire community, including their property. Reduction of the interest rate on delinquent property taxes last year in essence encourages property owners to use local governments as their banker. For some tax payers, not making property tax payments in a timely manner is simply a business decision – 4% interest is cheaper than a bank loan or credit card interest rate.'

The City of Topeka respectfully asks this Committee to give consideration to HB 2167 and allow for the application of an interest rate on delinquent properties that encourages payment in a timely manner. Thank you for consideration of our position on this legislation.

WBD
Attachments

The Topeka Capital-Journal
cjonline.com
Picked "Best News Website" by the KS Press Association

4,400 properties delinquent on 2013 taxes

Shawnee County collects $1.3M over expectations

Posted: January 3, 2015 - 5:14pm

By Aly Van Dyke

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More than 4,400 properties that were delinquent on their 2013 taxes in August remained delinquent as of Dec. 23, including five properties along the renovated S. Kansas Avenue.

Of the eight previously listed in The Topeka Capital-Journal, only Lisa Boyd, who owns The Merchant at 913 S. Kansas Ave., had paid back all of her delinquent 2013 taxes.

Boyd declined to comment on the story.

When The Capital-Journal's story ran on Oct. 17, more than 5,200 properties owed $6.96 million on 2013 taxes and interest as of Aug. 27. That figure represents the amount of 2013 taxes and interest owed to all taxing entities in Shawnee County.

As of Dec. 23, that figure had dropped to $5.37 million, meaning more than $1.59 million in property tax dollars were paid in three months.

For Shawnee County, that meant bringing in $1.3 million more than what it expected, said financial administrator Betty Greiner.

Shawnee County based its budget on assessing $73.8 million in property taxes. Based on the trend from previous years, Greiner originally estimated the county would bring in only $69.6 million of that.

By the end of December, the county had collected more than $70.9 million.

"I expected the delinquency rate to go down for 2014," Greiner said. "The trend has been going down."

The county is looking at a 3.85 percent delinquency rate — the third lowest rate in the six years since 2008. The county's delinquency rate in the past six years spiked to 5.25 percent in 2010.

Greiner attributed that trend to the improved economy.

The extra property tax money will go straight into the reserve balance, which, with a budgeted infusion of $3 million, was expected to increase to $12 million this year, Greiner said.

If trends through the end of November hold, the county is looking at adding another $8 million in reserves — $5 million in extra revenue, and $3 million in lower expenses, she said. Only $1.3 million comes from property taxes.

That would bump up the county's reserves to $20 million — slightly above its goal of 19 percent of its budget, Greiner said.

As of Dec. 23, 51 owners owed more than $10,000 on their 2013 taxes for a total of $2.1 million and 458 properties owed to Shawnee County taxing entities. The average amount of property taxes still owed was $1,213.28.

Twenty-eight owners owed 2013 taxes on more than 10 properties, totaling just $580,000. Many of the properties are undeveloped lots, which explains their low tax value. J&P Investments LLC, for example, owed just $1,781 for 23 properties, none of which have a street address.

Although Mars Chocolate North America technically tops the list of the most 2013 tax owed — county records indicate the new plant owes nearly $367,000 in back taxes — officials say that is because the new facility's tax exemption has yet to be approved.

The deadline for the first half of 2014 taxes was Dec. 20.

4,400 properties delinquent on 2013 taxes | CJOnline.com

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To: **County Treasurers, County Clerks and County Appraisers**

From: **Roger Hamm, Deputy Director, Division of Property Valuation**

Date: **July 3, 2014**

Subject: **Property Tax Interest Rates for Calendar Year 2015**

In 1997, the legislature adopted a new law that had two major components. First, it required counties to pay interest to taxpayers. Second, it tied the interest rate the counties pay and collect to an annually updated interest rate prescribed in the Internal Revenue Code (IRC). Various statutes provide for percentage point adjustments to the federal rate for Kansas property tax purposes.

The 2014 legislature reduced the interest rate on delinquent taxes by two percent beginning in tax year 2015 and after. Please review the rates for the 2015 calendar year.

Interest Rate Applied when a County *Collects* Interest	**2015 Calendar Year**
Taxpayer's late payment of real or personal property taxes:	**4%**
Taxpayer's late or underpayment of $10,000 or more:	**10%**
Taxpayer's late unpaid portion of advanced payments:	**4%**

Interest Rates Applied when a County *Pays* Interest on Refunds:	**2015 Calendar Year**
Payment under protests and "equalization" appeals	**2%**
Tax grievance/clerical error refunds ordered by BOTA	**2%**
Clerical error refunds ordered by the county	**6%**

You should also be aware of three Board of Tax Appeals decisions that were issued pertaining to the interest laws:

The Board ruled that when refunds are issued on or after July 1, 1997, as the result of a clerical error, interest should be paid to the taxpayer back from the date the applicant paid the taxes. (*See, e.g., In the Matter of the Application of Reynolds, Ernest and Darlene, for Relief from a Tax Grievance in Atchison County, Kansas*, Docket No. 97-3542-TG, Kansas Board of Tax Appeals Docket No. 97-3542-TG, November 6, 1997).

The Board of Tax Appeals held that interest is not paid on refunds ordered as the result of a taxpayer's request to reduce or abate personal property penalties on the basis of excusable neglect. (*See, e.g., In the Matter of the Application of Cross, Jerry/Cross Service for Relief from a Tax Grievance in Barton County, Kansas*, Board of Tax Appeals Docket No. 97-4953-TG, October 15, 1997).

The Board of Tax Appeals found that if there are delinquent taxes for the tax year at issue, no interest is to be paid on any refund for that year, even though a portion of the tax may have been paid in a timely fashion. (*See, e.g., In the Matter of the Protests Of Inspec. USA, Inc. DBA Jayhawk Fine Chemicals Corp. for Taxes Paid for 1999, 2000 and 2001 in Cherokee County, Kansas and In the Matter of the Protests of Allco Chemical Corp. for Taxes Paid for 1998, 1999, 2000, and 2001 in Cherokee County, Kansas,* Board of Tax Appeals Docket Nos. 2002-9125-PR thru 2002-9131-PR, June 18, 2003).