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DEFER PROPERTY TAXES

House Bill 4001
Sponsor: Rep. Ilona Varga
Committee: Taxation

Complete to 2-4-93

A SUMMARY OF HOUSE BILL 4001 AS INTRODUCED 2-2-93

The bill would amend the General Property Tax Act to permit certain low-income property owners to defer paying the property taxes on their homes. The delinquent taxes on the homesteads of those who qualify would be withheld from the annual tax lien sale upon request. If taxes had already been sold to a private buyer or had been bid off to the state, the property would not be subject to the usual subsequent proceedings. Local units would be reimbursed by the state for lost revenue. Deferred taxes on a homestead would be limited to 180 percent of the owner's equity. Overall, deferred taxes in a county could not exceed two percent of the delinquent taxes in all taxing units in the county in that year.

(Note: Property taxes not paid by March 1 of the year after they are levied are declared delinquent, and most are turned over to county treasurers for collection. County revolving funds can be established to disburse money to cover revenue lost by local governments due to tax delinquencies. If taxes remain delinquent after three years, they are put up for "sale" in May, at which time tax lien investors can pay the taxes, along with fees and interest, and gain the right to collect a premium from property owners who want to reclaim or "redeem" their property. For example, taxes due in 1990 and returned as delinquent in March of 1991 would be put up for "sale" in May of 1993.)

House Bill 4001 would apply to anyone with a household income in the immediately preceding calendar year under 187.5 percent of the federal poverty level for two persons or for the number of persons in the household, whichever is greater. (Tax specialists have said 187.5 percent of poverty is equivalent to $17,232 currently, and is the maximum income for which publicly funded legal services are available.) It would also apply to an adult in need of protective services. To qualify, a person must have applied for and assigned to the state all homestead property tax credits claimable during the period taxes are deferred. Under the bill, a "homestead" would be defined as a dwelling or unit in a multiple-unit dwelling subject to property taxes that is owned and occupied as a principal residence by the owner of the dwelling unit, including all unoccupied contiguous property not classified as commercial, industrial, residential, or timber cutover.

The application for the withholding of property from sale would be made upon a state-approved form to the county treasurer, who would forward it to the state treasurer for a determination of eligibility. The state treasurer would notify the county treasurer if an applicant was qualified and, if so, the county treasurer would withhold the property from the sale. In the event taxes had already been sold or bid off, an owner would have to apply to the treasury department to halt any subsequent proceedings. If the applicant qualified, the department would notify the county treasurer and any holder of a tax sale certificate or tax deed of its finding. (Tax purchasers would be "conclusively presumed" to know without notice that any purchase was made subject to the provisions of this bill. However, if taxes were deferred, a purchaser could redeem the tax sale certificate or tax deed from the state treasurer for the purchase price.) If property of a qualified owner had been conveyed to the state, the state treasurer would issue a certificate canceling the deed and record the certificate with the county register of deeds. In such cases, taxes and special assessments that otherwise would have been canceled would not be canceled or omitted from the tax roll.

Taxes would be deferred without penalty and would bear interest of three-quarters of one percent per month (that is, nine percent annually). Only taxes that had been advertised for sale could be deferred; the deferral of subsequent taxes would require additional applications. A deferment would end when a person no longer qualified; one year after a qualified owner's death, subject to further orders by the probate court; or when any part of a homestead was conveyed or transferred or the owner entered a contract to sell the homestead. The treasury department would be required to verify annually that a person remained qualified and still lived in the property, and would be required to secure assignments to the state of homestead property tax credits and the proceeds from property and casualty insurance on the property sufficient to pay the amount of the lien. The state would have to pay for insurance if the property owner did not and add that amount to the lien. Taxes so deferred would be a lien against the property and take precedence over other liens to the same extent as if the taxes were not deferred.

To the extent a local taxing unit had not otherwise been reimbursed by the state (e.g., through the school aid system), the state treasurer would be required to reimburse the county treasurer or the delinquent tax revolving fund where applicable for any deferred taxes within 120 days of the approval of an application.

The bill would not apply to taxes returned delinquent before March 1, 1992, or after February 28, 1997. For taxes returned delinquent before March 1, 1994, however, an application for deferment could not be made unless the redemption period had expired or the taxes had been paid (by someone other than the owner) through the issuance of a certificate of sale or a tax deed.

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