



TO: Members, Senate Financial Institutions & Revenue Committee

FROM: E. Joe Murray, Director of Political & Governmental Affairs

DATE: May 25, 2021

RE: SB 258/AB 252 – Income Tax Deduction for an Arrearage Paid on Behalf of a Tenant for Municipal Utility Service

The Wisconsin REALTORS® Association (WRA) supports SB 258/AB 252, legislation that allows an owner who pays off an arrearage on behalf of a tenant to deduct that amount when calculating income for state tax purposes.

Background

Current law allows a municipal utility to collect arrearages for utility service provided to a landlord's property by placing the unpaid utility bill and late penalties as a tax on the property. If a municipal utility provides written notice to the landlord and tenant of the amount in arrearage plus late fees by October 15, and payment is not received by November 15, the unpaid bill is placed on the landlord's property taxes.

SB 258/AB 252

Under this bill, if an owner pays off a municipal utility bill on behalf of a tenant, the owner may deduct that amount when calculating income for state tax purposes. If the tenant pays the owner for some or all of the arrearage in a subsequent taxable year, the owner must include that amount as taxable income for that year.

In Wisconsin, 40% of rental property owners are "mom and pop" landlords. Landlords who do not qualify for rental or utility bill assistance under the Wisconsin Emergency Rental Assistance (WERA) program would be eligible to recover some of their losses through a tax deduction for paying the utility bills left behind by tenants.

If tenants are unable to pay their municipal utility bills, landlords will have to pay. This could make it more difficult for housing providers to meet their financial obligations such as mortgages, payrolls, as well as their property taxes to state and local governments that have been hardest hit by the COVID-19 pandemic. SB 258/AB 252 clarifies that when a property owner pays off an arrearage for a municipal utility bill for a tenant, this payment is a legitimate business expense that can be deducted from state income taxes.

We respectfully request your support for SB 258/AB 252.



DAN FEYEN

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To: The Senate Committee on Financial Institutions and Revenue
From: Sen. Dan Feyen
Re: Senate Bill 258

Hello, Chairman Kooyenga and committee members. Thank you for taking the time today to hear testimony on Senate Bill 258.

Landlords, like many people, faced financial hardship throughout the course of the COVID-19 pandemic. Multiple eviction moratoriums further worsened landlords' financial situations.

Currently, when a tenant is unable to pay their utility bill, the landlord suffers by having a lien put on their property in the form of an additional tax. In 2020, more renters than usual were unable to pay their utility bills, creating added financial hardship for landlords.

This bill would help lessen some of the negative financial consequences of the COVID-19 pandemic. SB 258 would allow a landlord to deduct any municipal utility service arrearage they pay on behalf of a tenant from their taxable income for that year.

This bill would only allow the landlord to deduct this expense in the taxable year. It would also protect against 'double-dipping' by requiring the landlord to add the amount to their taxable income if the tenant or a third party pays for all or part of the arrearage in a subsequent taxable year.

The amendment to this bill makes two technical changes. The first is adding "third party" after "tenant" for who may pay off the arrearage in a subsequent year. The second clarifies that the amount can only be deducted for the relevant taxable year.

This bill is supported by the Wisconsin Realtors Association, NAIOP, the Apartment Association of South Central Wisconsin, and the Apartment Association of Southeastern Wisconsin, Inc. At the time of this public hearing, no one has registered in opposition.

Thank you again for your time and consideration.



SHAE SORTWELL

STATE REPRESENTATIVE • 2nd ASSEMBLY DISTRICT

Hearing Testimony
Senate Committee on Financial Institutions and Revenue
May 25, 2021
Senate Bill 258

Senator Kooyenga and members of the Senate Committee on Financial Institutions and Revenue – thank you for giving me the opportunity to speak on SB 258, relating to an income tax deduction for an arrearage paid on behalf of a tenant for municipal utility service.

Based on current law, landlords bear the burden of a tenant not paying their utility bill(s) in the form of a lien on the property in question. This puts an unfair strain on the finances of landlords – who have been facing financial struggles due to the eviction moratoriums in 2020 and 2021.

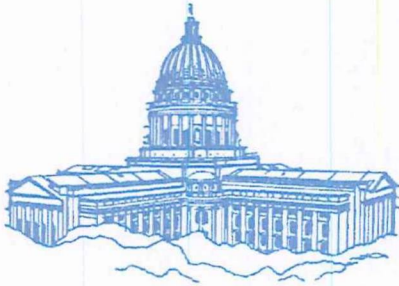
Due to the struggling economy in 2020, several tenants were unable to pay rent, which the government sought to address through eviction moratoriums. Albeit with good intentions, the financial hardship was then diverted to the landlords, rather than being completely quenched.

If it is not desirable to place the payment responsibility and penalty on the individual using the water, heat, or electricity (tenant), we should strive to mitigate that additional financial burden on a landlord. Senate Bill 258 does such by allowing a landlord to deduct any municipal utility service arrearage they must pay on behalf of a tenant when calculating income for state tax purposes.

To avoid any double benefit for the landlord if a tenant or third-party pays back any previously due payments after a tax deduction has been made, the landlord must add that dollar amount onto their income the following taxable year.

Finally, for clarification, Amendment 2 to this bill, which also incorporates Amendment 1, has been introduced for technical matters at the request of the Department of Revenue. Senator Feyen and I welcome the adoption of Amendment 2 in any future vote on SB 258.

I want to thank the committee for your time and consideration. I am happy to answer any questions members of the committee may have.



LENA C. TAYLOR

Wisconsin State Senator • 4th District

HERE TO SERVE YOU!

Senate Committee on Financial Institutions and Revenue

Public Hearing - SB 258

May 25, 2021

Chair Kooyenga, Vice-Chair Jagler and members of the Senate Committee on Financial Institutions and Revenue, thank you for today's public hearing on SB 258, regarding an income tax deduction for an arrearage paid on behalf of a tenant for municipal utility service.

COVID-19 has brought with it many challenges and opportunities. We have seen where both our strengths and weaknesses lie, in terms of services, policies and laws. There have also been unintended consequences that have demonstrated a need to rethink how we do things.

SB 258 is a clear example of the need to review and update law. The coronavirus pandemic has meant that a record number of renters are struggling to pay their monthly bills, to include their municipal utilities. While there are a number of programs to assist tenants, a number of people are going to fall through the cracks. Landlords, who own these properties, will likely have to absorb an inordinate amount of municipal utility costs as a result of unpaid tenant municipal utility bills.

While this is the cost of doing business, in terms of tax filings, it isn't always treated like any other expenses that landlords commonly encounter. SB 258 is a simple fix, that would allow owners to get credit for paying these expenses on their taxes. It further provides for a way to report, on subsequent tax filings if they expenses paid, were ever recouped by the property owner.

The current practice needed to be updated and this is an opportune time to do just that. I hope you will join us in supporting this bill. Thank you for your time.



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