

**DEPARTMENT OF TAXATION
2001 Fiscal Impact Statement**

1. Patron Chichester

3. Committee Senate Finance

4. Title Administration of Taxes: Reciprocal
Agreement with the State of Maryland

2. Bill Number SB1407

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would direct the Governor to make all reasonable effort to enter into a reciprocal agreement with Maryland by July 1, 2003 for the collection of taxes. This bill would also require the Governor to provide a written statement about his progress in pursuing the agreement to the chairmen of the House Committee on Finance and the Senate Committee on Finance by the first day of the 2002 and 2003 Sessions of the General Assembly. Current law gives the Governor the power to enter into reciprocal agreements with all states and the District of Columbia for the collection of taxes.

The effective date of this bill is not specified.

6. Fiscal Impact Estimates are: Not Available. (See line 8.)

7. Budget amendment necessary: No.

8. Fiscal implications:

This bill would have an undetermined impact on State revenues. The bill does not stipulate any parameters under which an agreement would operate; therefore, it is impossible to determine the impact such an agreement might have on state revenues. The Department of Taxation would incur undeterminable administrative costs to implement and monitor any agreement that might be reached. These costs are not expected to be significant.

9. Specific agency or political subdivisions affected:

The Department of Taxation

10. Technical amendment necessary: None.

11. Other comments:

Virginia Collections

Current law authorizes the Tax Commissioner to enter into information exchange agreements with both the federal tax authorities and those of other states. As an active participant in this area of tax administration, the department has information exchange agreements with virtually every other state, either directly or through participation in the Federation of Tax Administrators Uniform Exchange of Information Agreement. The department is widely regarded as a leader in this field as other states regularly call upon the department for advice and consultation. Also, key staff members are frequently asked to serve as speakers or instructors for multi-state compliance education activities.

These agreements have enabled the department to maintain excellent relationships with our neighboring states. The department has participated in joint criminal investigations with both North Carolina and Maryland and is currently engaged with Maryland and Delaware in a project to identify fraudulent refunds filed by the same individuals in more than one state.

Maryland Agreements

Maryland currently has a reciprocal income tax refund intercept agreement with Delaware and Connecticut.

The agreement stipulates that a taxing official of either state:

- May certify to the taxing official of the intercepting state the existence of a tax debt;
- May request the taxing official of the intercepting state to withhold and forward any refund to the claimant state;
- Must require for certification a statement that all administrative remedies and appeals have been exhausted and that the assessment of the tax, interest, and penalty has become final;
- Must allow taxpayers to protest and request a hearing. Such protests will be forwarded to the claimant state; and,
- Must secure confidentiality of state information in the agreement.

Maryland's Revenue Administration Division of the Office of the Comptroller of the Treasury only recently began executing agreements with other states. While the statute

provides authority to enter into such agreements regarding any state taxes, so far, the agreements only address individual income tax refund setoffs. In 2000, Maryland received offsets of \$425,381, and Delaware received offsets of \$339,253. Maryland officials like the program primarily because it increases taxpayer compliance. They maintain that it is a low cost program, involving inserting a new field in their setoff system, and exchanging individual income tax tapes with Delaware.

cc: Secretary of Finance

Date: 1/29/01/slr

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