DEPARTMENT OF TAXATION
2005 Fiscal Impact Statement

1. Patron Adam P. Ebbin

2. Bill Number HB 2635

House of Origin:
_____ **Introduced**
_____ **Substitute**
_____ **Engrossed**

3. Committee Senate Finance

Second House:
__X__ **In Committee**
_____ **Substitute**
_____ **Enrolled**

4. Title Real Property Tax; Interest on Deferred Taxes

5. Summary/Purpose:

This bill would limit the interest rate that localities charge on deferred real estate taxes to a rate that does not exceed the rate established by § 6621 of the Internal Revenue Code ("IRC") for underpayments of federal taxes.

The effective date of this bill is not specified.

6. Fiscal Impact Estimates are: Not available. (See Line 8.)

7. Budget amendment necessary: None.

8. Fiscal implications:

This bill would have no impact on state revenues. This bill would decrease local revenues to the extent that localities choose to impose a lower interest rate.

9. Specific agency or political subdivisions affected:

All localities that have enacted a deferral program for real estate taxes.

10. Technical amendment necessary: No.

11. Other comments:

Localities are authorized to adopt a program allowing taxpayers the option of deferring all or part of their real estate tax that exceeds 105 percent of their real estate tax in the previous tax year. The governing body may adopt a higher minimum percentage increase.

Under current law, localities are required to charge interest on deferred taxes. Localities must use the interest rate established by IRC § 6621. Under the Internal Revenue Code, the underpayment interest rate is recomputed every quarter. The underpayment rate is

the sum of the federal short-term rate for the period plus 3 percentage points. The current underpayment interest rate is 5%.

This bill would limit the interest rate that localities charge to a rate that does not exceed the rate established by IRC § 6621 for underpayments of federal taxes.

This bill is identical to **Senate Bill 1087**.

cc : Secretary of Finance

Date: 2/7/2005 JEM