

DEPARTMENT OF TAXATION

2007 Fiscal Impact Statement

1. **Patron** Mary Margaret Whipple

3. **Committee** House Finance

4. **Title** Setoff Debt Collection Act

2. **Bill Number** SB 1021

House of Origin:

 Introduced

 Substitute

 Engrossed

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would allow local governments to collect past due local taxes from federal income tax returns. TAX would assist the local governments in the collection.

This bill would not be effective unless Congress passes legislation that allows local governments to collect delinquent local tax debts using offsets from federal refunds.

6. **No Fiscal Impact** (See Line 8.)

7. **Budget amendment necessary:** Yes. Item 265 C Department of Taxation

3. The Department of Taxation is authorized to request and receive a treasury loan to fund the necessary start-up costs associated with the implementation of a federal debt setoff program for local taxes. The Department shall not incur such costs unless Congress enacts legislation that allows local governments, with the assistance of their state government, to collect delinquent local tax debts using offsets from federal income tax refunds. The treasury loan shall be repaid for these costs from the funds collected for localities through the federal debt setoff program.

4. The Department of Taxation is authorized to retain, as special revenue, its reasonable share of any funds collected for localities through a federal debt setoff program to reimburse the Department for any ongoing operational expenses to include local taxes in the federal debt setoff program.

8. **Fiscal implications:**

Administrative Impact

TAX would incur costs to make changes to its systems that would be required in order to implement this bill. The amount of the costs is dependent on the requirements imposed by the federal law if and when it is enacted. Similarly, the timing of these costs is dependant on when the federal law is enacted. TAX suggests that a budget amendment

add language authorizing a treasury loan to fund the startup cost of this program when Congress passes related legislation, and authorizing TAX to retain the startup and operational costs from the local tax revenue collected through the program.

Revenue Impact

This bill would have no impact on general fund revenue.

9. Specific agency or political subdivisions affected:

Department of Taxation
All Localities

10. Technical amendment necessary: No.

11. Other comments:

Current Law

Offset is the process of reducing a taxpayer's state or federal tax refund by the amount of a debt owed to another government entity. Virginia first introduced debt setoff in 1950. The current law requires TAX to check for outstanding debts with agencies of the Commonwealth, Virginia local governments, the Virginia court system and the Internal Revenue Service before issuing any refunds to taxpayers. If TAX discovers any such debt, all or part of the debtor taxpayer's refund may be withheld to help satisfy the debt. In addition, TAX submits state income tax debts to the U.S. Department of Treasury Offset Program (TOP). When a debt is submitted, the TOP will reduce the amount of a taxpayer's federal income tax refund by the amount of the debt.

Proposed Change

This bill would allow local governments to collect delinquent local tax bills through setoff of the debtor's federal income tax refund. The bill contemplates incorporating this authority into the existing debt setoff program managed by TAX. The bill would not be effective unless Congress passes federal legislation that allows local governments to collect delinquent local tax bills using offsets from such refunds. No such legislation has been introduced in Congress, but there was a bill in the last session.

cc : Secretary of Finance

Date: 2/6/2007 JOC
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