

DEPARTMENT OF TAXATION

2013 Fiscal Impact Statement

1. **Patron** Betsy B. Carr

2. **Bill Number** HB 2307

3. **Committee** House Finance

House of Origin:

 X Introduced

 Substitute

 Engrossed

4. **Title** Individual Income Tax; Refund Checks

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would allow an individual requesting an income tax refund to elect on his individual income tax return to have his refund check mailed to the address provided on the return. **This bill is in conflict with provisions of the 2012-2014 Appropriations Act.** Accordingly, it would have no impact unless the existing budget language is amended.

Because some taxpayers will be preparing their individual income tax returns while the General Assembly is in session, **this bill contains an emergency clause** which states that it would be in force from its passage.

6. **Budget amendment necessary:** Yes.

ITEM(S): 273, Department of Taxation

277, Department of Treasury

7. **Fiscal Impact Is: Preliminary** (See Line 8.)

7a. Expenditure Impact:

Department of Taxation

| <i>Fiscal Year</i> | <i>Dollars</i> | <i>Positions</i> | <i>Fund</i> |
|--------------------|----------------|------------------|-------------|
| 2012-13 | \$1,023,155 | 0 | GF |
| 2013-14 | \$316,579 | 0 | GF |
| 2014-15 | \$0 | 0 | GF |
| 2015-16 | \$0 | 0 | GF |
| 2016-17 | \$0 | 0 | GF |
| 2017-18 | \$0 | 0 | GF |
| 2018-19 | \$0 | 0 | GF |

Department of Treasury

| <i>Fiscal Year</i> | <i>Dollars</i> | <i>Positions</i> | <i>Fund</i> |
|--------------------|----------------|------------------|-------------|
| 2012-13 | \$200,000 | 0 | GF |
| 2013-14 | \$200,000 | 0 | GF |

| | | | |
|---------|-----------|---|----|
| 2014-15 | \$200,000 | 0 | GF |
| 2015-16 | \$200,000 | 0 | GF |
| 2016-17 | \$200,000 | 0 | GF |
| 2017-18 | \$200,000 | 0 | GF |
| 2018-19 | \$200,000 | 0 | GF |

8. Fiscal implications:

Administrative Costs – Department of Taxation

Even if passed, this bill would have no impact on existing law because Item 466C of the 2012-2014 Appropriations Act requires the Department to issue individual income tax refunds through either direct deposit or debit cards. If the existing budget language is amended to allow the provisions of this bill to apply, then the Department of Taxation (“the Department”) would incur administrative costs of approximately \$1,023,155 in Fiscal Year 2013 and \$316,579 in Fiscal Year 2014. This estimate assumes that 60 percent of taxpayers projected to receive debit cards during Taxable Year 2012 would elect to continue receiving refunds by paper check. Depending on the number of taxpayers actually electing to receive a paper check under the provisions of this bill, these costs could be even greater. Based on the results of the U.S. Department of Treasury’s pilot program and Georgia’s voluntary debit card program, which generated only 0.25 percent and 0.52 percent participation in the debit card option, respectively, these estimates could be even higher.

This estimate also assumes that this bill would be effective on March 1, 2013, and that only taxpayers who file after March 1, 2013, would be eligible to request refund checks.

The Department’s administrative costs would be significant because this bill would change established law in the middle of the income tax filing season. The Department has already released its Taxable Year 2012 individual income tax forms and instructions, which were developed based on existing law, including the mandate in the 2012-2014 Appropriations Act that required the Department to issue all individual income tax refunds via direct deposit or debit card. The forms and instructions that have already been downloaded by or distributed to numerous taxpayers and tax practitioners cannot be recalled. The Department’s automated system for processing returns was also developed based on the mandate in the 2012-2014 Appropriations Act and, as a result, was not designed to accept or process returns that contain elections for refund checks.

In order to conform to the provisions of this bill, the Department would need to institute a manual process to allow taxpayers to request refund checks for Taxable Year 2012. All of the commercial software programs that are used by the public and tax preparers have been programmed with only two refund options: direct deposit and debit cards. Therefore, taxpayers who prefer refund checks would be required to file paper returns and to write “paper check requested” at the top of their returns and to mail their returns to the Department. Taxpayers would not be able to request refund checks on e-Filed returns. All paper returns would bypass the Department’s automated processes and would be processed manually.

The manual processing of such returns would require the Department to hire an unknown number of additional staff during the filing season to examine each paper return carefully to determine whether a paper check has been requested. This manual processing would delay the processing of refunds for all taxpayers filing paper returns, regardless of which refund method is selected. Local commissioners of the revenue would not be able to process accelerated refunds for paper checks when entering returns filed with them into the system. Such delays would increase the number of phone calls to the Department. The Department would need to hire additional staff to respond to the increased number of phone calls from taxpayers.

The one-time administrative costs of implementing the provisions of this bill for taxable years subsequent to Taxable Year 2012 would be approximately \$150,000. This would include the Department's expenditures for updating its systems and processes to allow taxpayers three refund options (direct deposit, debit card, or paper check).

Administrative Costs - Department of Treasury

As part of the Department of Treasury's ("Treasury's") Budget Savings Strategy for 2012-2014, Treasury's budget was reduced by \$200,000 each year to recover savings from the Commonwealth's switch to issuing refunds only through direct deposit or debit cards. If this bill passes and taxpayers are again given the option of receiving refund checks, Treasury would need to have the \$200,000 budget reduction restored.

Treasury negotiated a contract with a vendor to process and administer the debit card program for refunds. The vendor's pricing was based on the acceptance of debit cards by taxpayers being mandatory with the resulting expected volume of cards. The vendor has already ordered a large number of cards that are not reusable because they are customized for Virginia tax refunds and as a result, they have already invested a significant amount of sunk costs. If this bill passes, the contract would have to be renegotiated and the vendor would have to be reimbursed for such costs.

Revenue Impact

This bill would have no impact on General Fund revenue.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Treasury

10. Technical amendment necessary: No.

11. Other comments:

Federal Optional Prepaid Debit Card Pilot Program

In 2011, the Treasury Department introduced a pilot program that was designed to analyze the effectiveness of providing taxpayers the option to receive their refunds through prepaid debit cards. Of the 800,000 individuals who were given the option to

receive their refunds through a prepaid debit card, only 1,967 (0.25 percent) elected to do so.

Georgia's Optional Debit Card Program

In 2012, Georgia reported the results of providing taxpayers the option to receive their refunds through prepaid debit cards. Of the 1.8 million refunds issued in Georgia through March 30, 2012, only 9,456 taxpayers (0.52 percent) chose to have their refund issued to them through a prepaid debit card.

Current Law

Beginning on January 1, 2013, the Virginia Department of Treasury stopped issuing individual income tax refunds through checks. Item 466C of the 2012-2014 Appropriations Act allows the State Comptroller only to issue refunds through debit cards, direct deposits, or other electronic means, unless the Tax Commissioner determines that a check is more appropriate for a transaction or a class of transactions. Taxpayers no longer have the option to elect on their returns to receive their refunds via checks. This measure was part of a cost-savings initiative and is expected to save the Commonwealth approximately \$200,000 per year.

Proposed Legislation

This bill would allow an individual requesting an income tax refund to elect on his individual income tax return to have his refund check mailed to the address provided on the return. **This bill is in conflict with provisions of the 2012-2014 Appropriations Act.** Accordingly, it would have no impact unless the existing budget language is amended.

Because some taxpayers will be preparing their individual income tax returns while the General Assembly is in session, **this bill contains an emergency clause** which states that it would be in force from its passage.

cc : Secretary of Finance

Date: 1/23/2013 MTH
HB2307F161