

DEPARTMENT OF TAXATION

2008 Fiscal Impact Statement

1. **Patron** Jeffrey M. Frederick

2. **Bill Number** HB 1023

3. **Committee** House General Laws & Technology

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Collection of Debts Owed the
Commonwealth

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would expand the Commonwealth of Virginia's current participation in the U.S. Department of Treasury Offset Program ("TOP") to include the offset of non-tax payments to collect debts.

The effective date of this bill is not specified.

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

7. **Budget amendment necessary:** Yes.

ITEM(S): 258, Department of Accounts
270 C 3, Department of Taxation

The Department of Taxation is authorized to retain, as special revenue, its reasonable share of any form of state debt assigned to the Department to reimburse the Department for any ongoing operational collection expenses as a result of participation in the Treasury Offset Program.

8. **Fiscal implications:**

Administrative Impact

The Department of Accounts would require an additional position to handle the volume of contacts generated by offsets attributable to TOP.

TAX would incur costs to make the necessary changes to its systems and would also need additional employees to handle the additional volume of setoffs generated by participation in TOP. These costs are expected to be fully recovered through the fees charged against amounts collected. A budget amendment is suggested to ensure that participation in TOP would be self-funding.

Revenue Impact

This bill would result in an increase to state revenues. While the proposal would generate additional collections of the Commonwealth's existing accounts receivable, no estimates of the actual revenue gain are possible.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Accounts

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.

Federal non-tax payments may also be offset to collect debts owed to states. In order to participate, states must enact legislation authorizing the offset of state payments to collect debts owed to the federal government. Many of the basic requirements of this legislation are already contained in the administrative setoff section of Title 58.1 of the *Code of Virginia*.

Department of Accounts

The Department of Accounts ("DOA") would be the facilitators of communication between the TAX and the federal government. As it is assumed that this proposal would increase the volume of contacts regarding the collection of debts, DOA would require an additional position. Also, DOA may need to modify the distributions of payments to other agencies in the Commonwealth depending on the setup used by the federal government. Currently, a list of debtors is already provided to decentralized agencies of the Commonwealth on a biweekly basis, however, this list may have to be updated more frequently if it is provided to the federal government.

DOA is also concerned that if the federal government asked us to collect a debt owed to it, that the debt may be significantly higher than the payments traditionally made to vendors of the Commonwealth, and might strain relationships with the vendor.

Proposed Change

This bill would expand the Commonwealth of Virginia's current participation in the U.S. Department of Treasury Offset Program to include the offset of non-tax payments to collect debts owed to the Commonwealth.

Similar Legislation

House Bill 868 and **House Bill 620** would allow local governments to collect delinquent local tax bills through setoff of the debtor's federal income tax refund.

cc : Secretary of Finance

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