

**DEPARTMENT OF TAXATION
2012 Fiscal Impact Statement**

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| <p>1. Patron Emmett W. Hanger, Jr.</p> <p>3. Committee Senate Finance</p> <p>4. Title Local Taxes; Interest on Refunds and
Delinquent Taxes</p> | <p>2. Bill Number <u>SB 401</u></p> <p>House of Origin:
<u> X </u> Introduced
<u> </u> Substitute
<u> </u> Engrossed</p> <p>Second House:
<u> </u> In Committee
<u> </u> Substitute
<u> </u> Enrolled</p> |
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5. Summary/Purpose:

This bill would provide that no interest would be required to be paid by localities on a refund of local taxes if the refund is a result of errors made by the taxpayer and the locality does not collect interest on taxes that are delinquent due to errors made by the locality.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** No.
7. **Fiscal Impact Estimates are:** Not available. (See Line 8.)
8. **Fiscal implications:**

This bill would have no impact on state revenues. To the extent that a locality would not pay interest on refunds resulting from errors made by the taxpayer and would not receive interest where the taxes are delinquent due to errors by the locality, the bill would result in an unknown revenue impact to the locality.

9. Specific agency or political subdivisions affected:

All localities

10. Technical amendment necessary: No.

11. Other comments:

Interest on Local Taxes

Among their many powers, local governing bodies are authorized to provide for payment of interest on delinquent taxes. Localities that assess interest on delinquent taxes under Va. Code § 58.1-3916 may impose interest at a rate not to exceed 10% for the first year of delinquency, and at a rate not to exceed 10% or the federal underpayment rate in

effect for the applicable quarter, whichever is greater, for the second and subsequent years of delinquency. For the first quarter of 2012, the federal underpayment rate is 3%. Interest can accrue beginning no earlier than the first day following the day such taxes are due.

Under current law, a locality that provides for payment of interest on delinquent taxes must provide for interest to be paid to the taxpayer at the same rate on overpayments due to erroneously assessed taxes. However, no interest is required to be paid on such refund if i) the amount of the refund is \$10 or less, or ii) the refund is the result of prorating the personal property tax because a motor vehicle, trailer, semitrailer, or boat lost its situs within the locality after the tax day or after the day on which it acquired situs.

Proposal

This bill would provide that no interest would be required to be paid by localities on a refund of local taxes if the refund is a result of errors made by the taxpayer and the locality does not collect interest on taxes that are delinquent due to errors made by the locality.

The effective date of this bill is not specified.

Similar Legislation

House Bill 117 and **House Bill 290** (similar) would provide that no interest would be required to be paid by localities on a refund of local taxes if the refund is a result of errors made by the taxpayer. The bill would also provide that no interest would be imposed on the taxpayer for failure to file a return or pay a tax if such failure was not the fault of the taxpayer, or was the fault of the commissioner of revenue or the treasurer, as the case may be.

House Bill 461 would require that the interest rate imposed for delinquent local taxes for the first year of delinquency not exceed the rate established pursuant to § 6621 of the I.R.C. For the second and subsequent years of delinquency, the rate would be capped at an additional two percent.

cc : Secretary of Finance

Date: 1/20/2012 AM
DLAS File Name: SB401F161