

DEPARTMENT OF TAXATION

2016 Fiscal Impact Statement

1. **Patron** Christopher T. Head

3. **Committee** House Finance

4. **Title** Local Taxes; Interest Payments on Refunds

2. **Bill Number** HB 469

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would provide that the rate of interest on refunds of local taxes that are due to the action or inaction of the taxpayer would be the lesser of the rate of interest on delinquent taxes or the average rate of interest earned by the locality on the overpayment prior to the refund. Such action or inaction of the taxpayer would include 1) the failure to file a license application, tax return, or any other information prior to the filing deadline; 2) the filing of erroneous returns or information; and 3) the erroneous calculation or payment of taxes owed.

Under current law, localities that elect to impose interest on delinquent taxes must also pay interest at the same rate on overpayments due to erroneously assessed taxes. Interest on delinquent taxes can accrue beginning no earlier than the first day following the day such taxes are due, and may not exceed 10 percent per year. Local governing bodies may impose interest at a rate not to exceed the rate of interest established in the Internal Revenue Code, or 10 percent annually, whichever is greater, for the second and subsequent years of delinquency.

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:

To the extent that the bill would result in localities paying less interest on refunds, the bill would result in an unknown revenue gain to localities. This bill would have no impact on state revenues.

9. Specific agency or political subdivisions affected:

All localities

10. Technical amendment necessary: No.

11. Other comments:

Interest on Delinquent Taxes

Among their many powers, local governing bodies are authorized to require payment of interest on delinquent taxes. Localities that elect to impose such interest must also pay interest at the same rate on overpayments due to erroneously assessed taxes. Localities are not required to pay interest on overpayments if 1) the amount of the refund is ten dollars or less or 2) the refund is for personal property taxes paid to a prorating locality on tangible personal property that subsequently acquired situs in another locality after tax day. Interest can accrue beginning no earlier than the first day following the day such taxes are due, and may not exceed 10 percent per year. Local governing bodies may impose interest at a rate not to exceed the rate of interest established in the Internal Revenue Code, or 10 percent annually, whichever is greater, for the second and subsequent years of delinquency. For the first quarter of 2016, the federal overpayment rate is 3 percent.

Proposal

This bill would provide that the rate of interest on refunds of local taxes that are due to the action or inaction of the taxpayer would be the lesser of the rate of interest on delinquent taxes or the average rate of interest earned by the locality on the overpayment prior to the refund. Such action or inaction of the taxpayer would include 1) the failure to file a license application, tax return, or any other information prior to the filing deadline; 2) the filing of erroneous returns or information; and 3) the erroneous calculation or payment of taxes owed.

The effective date of this bill is not specified.

Similar Legislation

House Bill 92 would authorize localities to withhold interest on refunds of local taxes that are the result of an erroneous assessment caused by the taxpayer's failure to file a license application or tax return prior to the filing deadline.

House Bill 398 and **Senate Bill 444** would prohibit a purchaser from receiving interest on a refund claim for erroneously paid Retail Sales and Use Tax for any period prior to the date the purchaser submits a complete refund claim to the Department of Taxation in situations where the purchaser held a valid exemption certificate issued by the Department at the time of purchase but failed to present it to the merchant.

cc : Secretary of Finance

Date: 1/16/2016 AM
DLAS File Name: HB469F161