Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE
Revised

House Bill 159 (Chairman, Ways and Means Committee)
(Departmental - Comptroller)

Ways and Means Referred to Budget and Taxation

Taxes - Procedure - Payment of Taxes in Immediately Available Funds

This enrolled departmental bill authorizes the Comptroller of the Treasury to require third party payors of tax payments on the behalf of employers to make such payments in immediately available funds to the State if the aggregate payments total $20,000 or more for any pay period.

Any amounts for which a third party payor or agent does not receive timely payment from an employer shall be excluded for purposes of determining whether the total amount of payments to be made by the payor or agent exceeds $20,000 in the aggregate and may not be required to be paid in immediately available funds. In addition, any interest or penalty assessed due to a third party payor or agent's failure to make payment in immediately available funds shall be paid by the third party payor or agent.

This bill is effective July 1, 1997.

Fiscal Summary

State Effect: General fund revenues could increase by $28,400 in FY 1998 based on current interest rates. Future year increases would change with fluctuations in the interest rate. General fund expenditures would decrease by $34,600 in FY 1998 and in future years.

Local Effect: None.

Small Business Effect: The Comptroller of the Treasury has determined that this bill has minimal or no economic impact on small businesses (attached). Fiscal Services concurs with this assessment as discussed below. (The attached assessment does not reflect amendments to the bill.)

Fiscal Analysis

Background: Under current law, the Comptroller may not require that an unpaid tax liability of less than $20,000 incurred in connection with a tax return, report, or other document be paid in immediately available funds. Many employers use the services of agents or third party payors to collect and make payments on their behalf. A large number of these employers do not have any payments of $20,000 or more due at any one time, but agents of these employers may deal with many employers and the payments to be made by a particular agent on behalf of employers may be more than $20,000 in the aggregate.

For example, an agent may represent 1,000 employers with each employer having a tax liability of $5,000, with the liability in the aggregate for these employers totaling $5 million. Instead of sending one check that covers the total aggregate liability, the agent will send a separate check for each employer's tax liability. Each check is sent to a bank (a lockbox contractor) that the Comptroller contracts with to process and forward payments. As a result, an agent will receive the interest from the three-day float time on each check before it is actually received by the Comptroller for payment.

State Revenues: This bill requires agents of employers to make aggregate payments electronically in immediately available funds; if a payment is due on the 15th day of the month, then the Comptroller would receive payment on that day. This allows the Comptroller to receive additional interest earnings due to the receipt of payments three days earlier in the process. The Comptroller estimates that there are approximately 187,200 of these payments processed annually by payroll agents with a median payment amount of $350 for a total estimated annual payment amount of $65.5 million. Assuming a 5.28% rate of interest earned (based on the May 1996 average interest earned on State invested funds), the Comptroller expects to receive $28,400 in additional interest revenues for fiscal 1998. Future year revenue estimates assume the constant 5.28% rate of interest earned; revenues could increase or decrease depending upon fluctuations in the rate.

State Expenditures: Under this bill, the Comptroller would no longer need the services of the bank used to process and forward payments. The fee paid by the Comptroller for this service is 18.5 cents per document. Assuming 187,200 payment documents per year, processing of these tax payments via electronic transfers will reduce expenditures for the Comptroller by $34,600 in fiscal 1998 and future years.

Small Business Effect: Under this bill, any agents or third party payors that are small businesses would lose the interest income currently earned while payments are in transit. The amount of interest income lost by small businesses cannot be reliably estimated at this time.

Information Source(s): Comptroller of the Treasury, Department of Fiscal Services

Fiscal Note History: First Reader - January 20, 1997

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