

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

Senate Bill 640 (Senator Lawlah, *et al.*)
 (Joint Committee on the Management of Public Funds)

Budget and Taxation Ways and Means

Revenue Collection - Offsets

This bill authorizes the Comptroller to establish a reciprocal agreement with the federal government whereby the State intercepts the tax refunds and vendor payments of individuals who have delinquent federal nontax liabilities and the federal government intercepts federal payments of individuals who have unpaid State debts.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: Potential significant increase in State revenues in FY 2007 and beyond to the extent that the Comptroller enters into a viable reciprocal agreement with the federal government for the interception of delinquent liabilities. General fund expenditures could increase by approximately \$80,700 in FY 2007 due to computer programming expenses and the hiring of an additional accountant to process additional interception requests. Future years reflect personnel costs.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF/SF Rev.	-	-	-	-	-
GF Expenditure	80,700	56,000	59,300	62,800	66,600
Net Effect	(\$80,700)	(\$56,000)	(\$59,300)	(\$62,800)	(\$66,600)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local government revenues could increase due to increased income tax and admissions and amusement tax collections.

Small Business Effect: None.

Analysis

Bill Summary: The bill authorizes the Comptroller to enter into a reciprocal agreement that provides for the interception of vendor payments and tax refunds of individuals who have unpaid federal and State liabilities. The bill provides that the Comptroller must honor vendor payment requests in the same manner as provided under current law for tax refund intercepts, and that refund requests resulting from the provisions of this bill are not honored until all of the other requests under current law are honored. Expense reimbursements payable to State or local employees are subject to interception but salaries, wages, or pension income are not subject to interception. If an individual files a joint return and both parties are not liable for the federal nontax liability, the Comptroller may only withhold the amount of refund that is attributable to the person owing the debt.

Current Law: The Comptroller's Office operates a variety of tax refund and vendor payment interception programs as discussed below.

Background: Upon notification from the Central Collection Unit in the Department of Budget and Management that a taxpayer has an unpaid debt to a State agency, the Comptroller's Office is authorized to withhold the tax refund of the individual. Debts include unpaid court-ordered restitution. The debt to the State must not have been discharged in bankruptcy or otherwise disposed of by a court and cannot be legitimately in dispute as determined by the Attorney General's Office. In addition, the Comptroller's Office is required to intercept the tax refund of any individual whom the Child Support Enforcement Administration (CSEA) certifies to the Comptroller's Office as being more than \$150 in arrears in making child support payments.

Chapter 19 of 1998 authorized the Comptroller's Office to establish reciprocal agreements with other states for the interception of tax refunds of individuals who have delinquent tax liabilities in the other state. Since all of the surrounding states and the District of Columbia have income tax reciprocity agreements with the State whereby individuals who reside in one state and work in another are generally taxed only by the state in which they reside, the Comptroller's Office currently has a reciprocal agreement with Delaware for the interception of tax refunds.

The Budget Reconciliation and Financing Act (BRFA) of 2005, Chapter 444, authorized the Comptroller to establish reciprocal agreements with local governments that intercepts the tax refunds of individuals and State and local government payments to vendors who have unpaid State or local tax liabilities. It was estimated that this program would

increase revenues by \$500,000 in fiscal 2006. The Comptroller's Office advises, however, that due to cost concerns, no local governments have entered into reciprocal agreements to date and are unlikely to in the future.

Chapter 287 of 2005 expanded the State's interception of tax refunds due to child support debtors by intercepting any State vendor payments (as also defined by Chapter 444 of 2005) due to any individual child support obligor who is \$150 or more in arrears in making child support payments. Maryland also participates in a similar program at the federal level. The federal Office of Child Support Enforcement operates the Administrative Offset Program, which withholds the federal retirement, vendor expense reimbursement, travel, and other miscellaneous payments from noncustodial parents who owe child support.

The Comptroller's Office is required to honor refund interception requests in the following order:

1. collection of unpaid State, county, or municipal taxes;
2. collection of child support payments in arrears;
3. collection of insurer payments for child health services due to the Medicaid program;
4. any other refund request made by the State, county, or other local government; and
5. collection of unpaid tax liabilities to other states which have entered into a reciprocal agreement with the Comptroller's Office.

Exhibit 1 lists the amount of intercepted State income tax refunds in fiscal 2005.

Exhibit 1
State Income Tax Refund Intercepts
Fiscal 2005

<u>Type of Interception</u>	<u>Amount Intercepted (\$ in Millions)</u>
Child Support	\$6.4
Central Collections	36.6
State Compliance – Business	0.4
State Compliance – Individual	19.8
Delaware Tax Liabilities	0.1
Federal Tax Liabilities	<u>2.1</u>

Total

\$65.4

In addition, the State's existing vendor payment interception program intercepted vendor payments of approximately \$8.3 million to satisfy outstanding State, local, and federal lien liabilities. The federal government intercepted approximately \$22.4 million in tax year 2004 refunds of individuals who had Maryland State income tax liabilities.

State Revenues: State revenues could increase significantly in fiscal 2007 and beyond to the extent that the Comptroller enters into a viable reciprocal agreement with the federal government for the interception of delinquent liabilities. Revenue increases in fiscal 2007 are likely to be less than those in future years due to implementation delays. The Comptroller's Office advises that it has been working with developing a viable program with the federal government and that the federal government has indicated its willingness to enter into the program. Limited testing has already begun, but significant problems (that the Comptroller's Office expects will be resolved) remain with the configuration of the vendor name required to match State and federal databases.

State Expenditures: General fund expenditures could increase by approximately \$80,700 in fiscal 2007 due to computer programming and personnel expenditures at the Comptroller's Office. The Comptroller's Office has determined that it would incur approximately \$37,000 in computer programming expenses and that one full-time accountant would be required to process the additional interceptions. If a viable reciprocal agreement is established, personnel expenditures could increase by approximately \$43,700, which reflects the cost of hiring one full-time accountant. It includes a salary, benefits, one-time start-up costs, and ongoing operating expenses. This estimate also assumes a 90-day delay in implementing the program.

Salary and Fringe Benefits	\$40,500
Equipment	2,825
Operating Expenses	<u>340</u>
Total FY 2007 Personnel Expenditures	\$43,665

Future years reflect ongoing personnel costs.

Additional Information

Prior Introductions: None.

Cross File: HB 448 (Delegate Heller, *et al.*) (Joint Committee on the Management of Public Funds) – Ways and Means.

Information Source(s): Comptroller's Office, Department of Budget and Management, Department of Legislative Services

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