SB 93

Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 93 (Chairman, Budget and Taxation Committee)
(By Request – Departmental – Comptroller)

Budget and Taxation Ways and Means

Income Tax - Electronic Filing and Payment

This departmental bill extends the date when State personal income tax payments are due if the individual files income taxes electronically and pays the amount due electronically to the later of April 30 or to the date an electronic return is due for federal income tax purposes.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: General fund revenues could increase by a net amount of approximately $397,700 in FY 2007; which reflects a $750,000 one-time increase in income tax payments and $352,300 decrease in interest earnings. Future years reflect estimated decrease in interest earnings. General fund expenditures could decrease by approximately $90,900 beginning in FY 2007 due to decreased income tax return processing expenses at the Comptroller's Office.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	$397,700	($381,300)	($381,300)	($381,300)	($381,300)
GF Expenditure	(90,900)	(93,500)	(95,900)	(98,200)	(100,400)
Net Effect	$488,600	($287,800)	($285,400)	($283,100)	($280,900)

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

Local Effect: Local government revenues could increase by a total of approximately $360,600 in FY 2007, of which $300,000 is due to a one-time increase in the accelerated collection of income tax revenues and $60,600 is due to decreased income tax processing expenses. Local government revenues could increase by approximately $62,300 in FY

2008 due to decreased income tax processing expenses and revenues would increase by approximately 2% thereafter.

Small Business Effect: The Comptroller's Office has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Current Law: Individuals required to pay the personal income tax must complete and file with the Comptroller's Office an income tax return by April 15 of the next tax year. Payment of the tax is required when the return is filed. If the taxes are calculated on a fiscal year basis, the return is due by the fifteenth day four months after the end of the fiscal year. If the due date for a federal tax return filed electronically is later than April 15 of the next tax year, an individual can complete and file a tax return with the Comptroller on the date of the federal deadline provided the individual electronically files and pays any balance due.

Background: Individuals can submit tax returns electronically, with a paper form, or through telefile. In 2005, the Comptroller's Office processed approximately 1.5 million paper returns, 1.1 million electronic returns, and 31,645 telefiled returns. Of the approximately 142,000 electronic returns with a payment due, 57,600 paid with a paper payment. Electronic filing decreases processing time, is more accurate, less expensive to process, and provides opportunities for improved taxpayer service. The Comptroller's Office estimates that processing costs for each type of return are: paper ($1.95), electronic filing with paper payment ($0.83), and fully electronic ($0.38). Approximately 60% of these costs are paid by the State while local government revenues distributed by the Comptroller are reduced by the remaining amount of processing expenses.

The federal government and states have adopted policies to encourage the electronic filing of tax returns. As of June 1, 2005, 13 states had some form of mandate requiring the electronic filing of income taxes. The mandates typically require tax preparers who process over a specified number of tax returns to file these returns electronically. Taxpayers can often "opt out" and request that a paper return be filed. Of the surrounding states, only Virginia mandates electronic filing. Any Virginia tax preparer who prepares 100 or more returns in a tax year is required to electronically file returns or use software that generates specified barcodes. The Virginia Tax Commissioner can extend this requirement for tax preparers if it is determined that the requirement presents an undue hardship on the preparer.

State Revenues: General fund revenues could increase by a net amount of approximately $397,700 in fiscal 2007 due to accelerated collection of income tax payments and decrease in State interest earnings. **Exhibit 1** details the fiscal impact of the bill in each fiscal year.

Exhibit 1
Net Impact of SB 93
Fiscal 2007-2011

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenue:					
Net Impact on Interest Earnings	($352,318)	($381,340)	($381,340)	($381,340)	($381,340)
Accelerated Collection of Final Payments from Paper Returns	750,000	0	0	0	0
Revenues Total	**397,682**	**(381,340)**	**(381,340)**	**(381,340)**	**(381,340)**
Expenditures:					
Decreased Income Tax Processing Expenses	**(90,870)**	**(93,469)**	**(95,936)**	**(98,172)**	**(100,381)**
Net Effect	**$488,552**	**($287,871)**	**(285,403)**	**(283,168)**	**(280,959)**

The State would lose interest earnings by allowing individuals who pay electronically to submit any payment due by April 30 of each year both from individuals who would switch to filing a fully electronic return and from individuals who already file an electronic return but would elect to submit payments later than April 15. Legislative Services estimates that 40,000 tax returns filed electronically but with a paper payment and 85,000 paper returns would switch to a fully electronic return if the bill were to pass. Legislative Services also estimates that 22,000 taxpayers who currently file electronically and pay electronically would opt to pay on April 30. The estimated loss in State interest earnings is based on the Congressional Budget Office's forecasted Three-Month Treasury bill interest rate and historic correlation between the State's interest earnings and Three-Month Treasury bill interest rates.

The Comptroller's Office processes approximately 15,000 returns per day with either a paper return or payment during peak tax filing season. The removal of 125,000 returns with either a paper return or payment would result in the Comptroller's Office processing income tax returns by an estimated eight business days earlier each year. This would affect State interest earnings by accelerating refunds and payments generated from paper returns or returns with paper payments. It would also allow the Comptroller's Office to initiate tax enforcement activities on paper tax returns with outstanding balances earlier by approximately eight business days. In July 2005, the State received approximately $19.1 million in final payments, which are payments associated with a tax return. Payments can be from late filers from the current or prior tax year, a payment plan, or from returns where the taxpayer did not remit the total amount of taxes due. The Comptroller's Office estimates that the accelerated processing of paper returns would result in additional collection activities in fiscal 2007 that would result in an additional $1.2 million in final payments being collected in fiscal 2007. Legislative Services estimates that a total of approximately $750,000 in additional final payments from paper returns with insufficient payments would be collected in fiscal 2007.

State Expenditures: Exhibit 1 lists the estimated decrease in general fund expenditures at the Comptroller's Office based on the estimated number of taxpayers who would switch to a fully electronic tax return and estimated rate of inflation in each year.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Congressional Budget Office, Federation of Tax Administrators, Virginia Department of Taxation, Department of Legislative Services

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