

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE
Revised

House Bill 859

(Delegates Rosenberg and Cardin)

Ways and Means

Budget and Taxation

Tax Procedure - Refunds - Interest Rate

This bill alters the calculation of the annual interest rate that the Comptroller’s Office sets for tax refunds by using the interest rate assessed for monies owed to the State as provided under current law.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: General fund revenues could decrease by approximately \$320,600 in FY 2007 due to additional tax refund payments issued by the Comptroller’s Office. Future years reflect a constant number of refunds issued and forecasted interest rates. No effect on expenditures.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	(\$320,600)	(\$278,300)	(\$252,400)	(\$238,400)	(\$235,200)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$320,600)	(\$278,300)	(\$252,400)	(\$238,400)	(\$235,200)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: The Comptroller's Office sets the annual interest rate for tax refunds and monies owed to the State for the next calendar year by October 1 of each year. For monies owed to the State, the annual interest rate is equal to the greater of 13% or 3% above the average prime rate of interest in the previous fiscal year, based on information from the Federal Reserve and rounded to the nearest whole number. The interest rate for tax refunds is equal to 2% above the average investment yield on State money for the previous fiscal year, rounded to the nearest whole number.

Background: Exhibit 1 lists the basis of calculating interest rates for tax refunds and monies owed to the State by tax year, and the interest rate applied by the Comptroller's Office in each tax year. Tax years 2000 through 2006 represent actual data while tax years 2007 through 2011 are estimates based on forecasted interest rates and the historic correlation between interest rates and State investment income.

Exhibit 1 State Interest Rates Tax Year 2000-2011

<u>Tax Year</u>	<u>State Investment Income in the Previous Fiscal Year</u>	<u>Prime Rate in the Previous Fiscal Year</u>	<u>Interest Rate for Tax Refunds</u>	<u>Interest Rate for Monies Owed</u>	<u>Difference in Comptroller's Interest Rates</u>
2000	5.2%	8.2%	7%	13%	6%
2001	5.6%	8.6%	8%	13%	5%
2002	5.9%	8.1%	8%	13%	5%
2003	2.9%	5.8%	5%	13%	8%
2004	1.9%	4.4%	4%	13%	9%
2005	1.3%	4.2%	3%	13%	10%
2006	2.3%	5.3%	4%	13%	9%
2007	3.6%	6.9%	6%	13%	7%
2008	4.4%	7.7%	6%	13%	7%
2009	4.9%	7.6%	7%	13%	6%
2010	5.1%	7.7%	7%	13%	6%
2011	5.1%	7.8%	7%	13%	6%

Source: Department of Legislative Services

For example, in tax year 2006 the annual interest assessed on a \$1,000 State debt would be \$130 while a tax refund in the same amount would be \$40. The Comptroller's Office advises that it issued \$119,392 in interest payments on tax refunds in fiscal 2005.

State Revenues: The bill provides that the State issue tax refunds based on the interest rate charged to taxpayers owing the State money beginning in tax year 2006. As a result, general fund revenues could decrease by approximately \$320,600 in fiscal 2007.

This estimate is based on the estimated difference in interest rates that would be applied by the Comptroller's Office in each tax year, as shown in Exhibit 1. It is assumed that the number of tax refunds remains constant and each fiscal year reflects the estimated impact of one-half the prior tax year and one-half the current tax year.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Congressional Budget Office, Comptroller's Office, Economy.com, Global Insight, State Treasurer's Office, Department of Legislative Services

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