

**Department of Legislative Services**  
 Maryland General Assembly  
 2007 Session

**FISCAL AND POLICY NOTE**

Senate Bill 867 (Senator Kasemeyer)  
 Budget and Taxation

**Interest Rate on Tax Deficiencies and Refunds**

This bill alters the calculation of the annual interest rate that the Comptroller sets for tax deficiencies and refunds by requiring the rate to be 2 percentage points above the average investment yield on State money for the State’s previous fiscal year, as published in the Treasurer’s annual report.

The bill takes effect July 1, 2007.

**Fiscal Summary**

**State Effect:** General fund revenues could decrease by \$2.5 million in FY 2008 and \$53.7 million by FY 2011 due to the estimated change in interest rates set by the Comptroller. Future years reflect a constant amount of interest collected, refunds paid, and forecasted interest rates. Expenditures would not be affected.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	(\$2.5)	(\$8.2)	(\$33.0)	(\$53.7)	(\$53.7)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$2.5)	(\$8.2)	(\$33.0)	(\$53.7)	(\$53.7)

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

**Local Effect:** None.

**Small Business Effect:** Potential meaningful. Small business could realize reduced interest charges to the extent they are making late tax payments.

## Analysis

**Current Law:** By October 1 of each year, the Comptroller's Office must set the annual interest rate for tax refunds and monies owed to the State for the next calendar year at a rate equal to the greater of 13% or 3 percentage points above the average prime rate of interest in the previous fiscal year, based on information from the Federal Reserve Bank.

**Background:** Exhibit 1 lists the annual State interest rates for fiscal 2000 through 2006 compared to the three-month Treasury bill rate for the same period as listed in the *State Treasurer's Annual Report* for fiscal 2006.

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### Exhibit 1 Average Annual State Interest Rates Fiscal 2000-2006

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Three-month Treasury Bill Rate</u>
2000	5.61%	5.38%
2001	5.93%	5.27%
2002	2.92%	2.18%
2003	1.94%	1.32%
2004	1.28%	0.97%
2005	2.26%	2.26%
2006	4.06%	4.17%

Source: Department of Legislative Services

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**State Fiscal Effect:** The bill alters the State interest rate for late payment of taxes and tax refunds. Based on the amount of current interest collected on late taxes, interest paid on tax refunds, and projected interest rates, general fund revenues could decrease by \$2.5 million in fiscal 2008 and by \$53.7 million in fiscal 2012.

In fiscal 2006, the Comptroller's Office collected the following amounts of interest: \$68.6 million from the individual income tax; \$20.2 million from the corporate income tax; \$7.0 million from income tax withholding; and \$3.5 million from sales tax returns. A further amount is collected from interest on sales tax assessments; in fiscal 2005 the amount was \$8.6 million, and it is expected to remain the same in fiscal 2006. In

addition, the Comptroller's Office paid out close to \$200,000 in interest on income and sales tax returns in fiscal 2006.

The estimated change in interest and interest payments shown in **Exhibits 2** and **3** are based on the difference in interest rates that would be applied by the Comptroller's Office compared to estimated effective interest rates under current law in each tax year. It is assumed that the amount of interest from late payments (\$107.9 million) and interest payments for tax refunds (\$200,000) remains constant.

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**Exhibit 2**  
**Effect on General Fund Revenue from Interest Rate Changes**  
**Interest on Late Payments**

<u>Fiscal Year</u>	<u>Effective Interest Rates</u>		<u>Revenue Decrease</u>
	<u>Current Law</u>	<u>SB 867</u>	
2008	13%	12.7%	\$2,575,400
2009	13%	12.0%	\$8,307,700
2010	13%	9.0%	\$33,230,800
2011	13%	6.5%	\$54,000,000
2012	13%	6.5%	\$54,000,000

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**Exhibit 3**  
**Effect on General Fund Revenue from Interest Rate Changes**  
**Interest on Refunds**

<u>Fiscal Year</u>	<u>Effective Interest Rates</u>		<u>Revenue Increase</u>
	<u>Current Law</u>	<u>SB 867</u>	
2008	7%	6.0%	\$50,000
2009	9%	7.0%	\$100,000
2010	12%	7.0%	\$250,000
2011	13%	6.5%	\$325,000
2012	13%	6.5%	\$325,000

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## **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1345 (Delegate Rosenberg) – Ways and Means.

**Information Source(s):** Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - March 19, 2007  
mll/hlb

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