

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 227
 Budget and Taxation

(Senator Kasemeyer)

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 two 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, 2008.

Fiscal Summary

State Effect: General fund and Transportation Trust Fund revenues could decrease \$2.8 million in FY 2009 and \$58.7 million by FY 2013; whereas, expenditures could decrease \$100,000 in FY 2010 and \$325,000 by FY 2013 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.

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF/SF Rev.	(\$2.8)	(\$9.0)	(\$36.1)	(\$58.7)	(\$58.7)
GF/SF Exp.	0	(.1)	(.2)	(.3)	(.3)
Net Effect	(\$2.8)	(\$8.9)	(\$35.9)	(\$58.4)	(\$58.4)

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 three 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 2007.

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%
2007	5.16%	5.01%

Source: Department of Legislative Services

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, combined general fund and TTF revenues could decrease by \$2.8 million in fiscal 2009 and by \$58.7 million in fiscal 2013.

In fiscal 2007, the Comptroller's Office collected the following amounts of interest: \$72.7 million from the individual income tax; \$29.5 million from the corporate income tax; \$7.0 million from income tax withholding; and \$7.5 million from sales tax returns. In addition, the Comptroller's Office paid out close to \$200,000 in interest on income and sales tax returns in fiscal 2006 (this data is not available for fiscal 2007).

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 (\$117.4 million) and interest payments for tax refunds (\$200,000) remains constant.

To the extent that large refunds are issued, expenditures for refunds and any associated interest payments could be offset significantly.

Exhibit 2
Effect on Revenues 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 227</u>	
2009	13%	12.7%	(\$2,800,600)
2010	13%	12.0%	(\$9,034,200)
2011	13%	9.0%	(\$36,136,900)
2012	13%	6.5%	(\$58,722,500)
2013	13%	6.5%	(\$58,722,500)

Exhibit 3
Effect on Expenditures from Interest Rate Changes
Interest on Refunds

<u>Fiscal Year</u>	<u>Effective Interest Rates</u>		<u>Expenditure Decrease</u>
	<u>Current Law</u>	<u>SB 227</u>	
2009	7%	6.0%	\$0
2010	9%	7.0%	(\$100,000)
2011	12%	7.0%	(\$250,000)
2012	13%	6.5%	(\$325,000)
2013	13%	6.5%	(\$325,000)

Additional Information

Prior Introductions: This bill was introduced as SB 867 and HB 1345 in the 2007 session. The Senate Budget and Taxation Committee and the House Ways and Means Committees did not take action on the bills.

Cross File: None.

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

Fiscal Note History: First Reader - February 4, 2008
ncs/hlb

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