

**Department of Legislative Services**  
Maryland General Assembly  
2009 Session

**FISCAL AND POLICY NOTE**

Senate Bill 745 (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, beginning in 2014, the rate to be two percentage points above the applicable federal underpayment rate under Section 6621 (A)(2) or (C) of the Internal Revenue Code that is in effect for that month. The interest must be at least one-twelfth of: (1) 13% for 2010; (2) 11% for 2011; (3) 9% for 2012; and (4) 7% for 2013.

The bill takes effect July 1, 2009.

**Fiscal Summary**

**State Effect:** State revenues decrease by \$19.5 million in FY 2011 and by \$58.5 million in FY 2014. State expenditures decrease by \$55,100 in FY 2011 and by \$165,400 in FY 2014. Future years reflect a constant amount of interest collected, refunds paid, and forecasted interest rates.

(\$ in millions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
GF/SF Rev.	\$0	(\$19.5)	(\$39.0)	(\$58.5)	(\$58.5)
GF/SF Exp.	\$0	(\$.1)	(\$.1)	(\$.2)	(\$.2)
Net Effect	\$0	(\$19.5)	(\$38.9)	(\$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 will 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 2008 compared to the three-month Treasury bill rate for the same period as listed in the *State Treasurer's Annual Report* for fiscal 2008.

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### Exhibit 1 Average Annual State Interest Rates Fiscal 2000-2008

<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%	4.74%
2008	4.89%	1.89%

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, combined general fund and Transportation Trust Fund revenues will decrease by \$19.5 million in fiscal 2011 and by \$58.4 million in fiscal 2014. In addition, State expenditures will decrease by \$55,100 in fiscal 2011 and by \$165,400 in fiscal 2014.

In fiscal 2008, the Comptroller's Office collected the following amounts of interest: \$80.6 million from the individual income tax; \$29.2 million from the corporate income tax; \$6.5 million from income tax withholding; \$692,000 from fiduciary income tax

returns; and \$9.8 million from sales tax returns. In addition, the Comptroller's Office paid out close to \$358,300 in total interest; in fiscal 2007 this amount was \$221,700; and fiscal 2006 it was \$121,200.

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 (\$126.8 million) and interest payments for tax refunds (\$358,300) 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 745</u>	
2010	13%	13.0%	(\$0)
2011	13%	11.0%	(19,506,500)
2012	13%	9.0%	(39,012,900)
2013	13%	7.0%	(58,519,400)
2014	13%	7.0%	(58,519,400)

**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 745</u>	
2010	13.0%	13.0%	(\$0)
2011	13.0%	11.0%	(\$55,100)
2012	13.0%	9.0%	(\$110,300)
2013	13.0%	7.0%	(\$165,400)
2014	13.0%	7.0%	(\$165,400)

## **Additional Information**

**Prior Introductions:** SB 227 of 2008 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. SB 867 and HB 1345 of 2007 received a hearing in the Senate Budget and Taxation Committee and the House Ways and Means Committee, respectively, but no further action was taken on either bill.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 16, 2009  
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