

Department of Legislative Services  
 Maryland General Assembly  
 2011 Session

**FISCAL AND POLICY NOTE**

Senate Bill 31 (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 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, 2011.

**Fiscal Summary**

**State Effect:** General fund and Transportation Trust Fund revenues decrease by \$69.7 million in FY 2012 and by \$82.6 million in FY 2016. State expenditures decrease by \$322,700 in FY 2012 and by \$383,500 in FY 2016. Future years reflect a constant amount of interest collected, refunds paid, and forecasted interest rates.

(\$ in millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
GF/SF Rev.	(\$69.7)	(\$131.6)	(\$104.5)	(\$83.9)	(\$82.6)
GF/SF Exp.	(\$.3)	(\$.6)	(\$.5)	(\$.4)	(\$.4)
Net Effect	(\$69.3)	(\$131.0)	(\$104.0)	(\$83.5)	(\$82.2)

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

**Local Effect:** None.

**Small Business Effect:** Potential meaningful. Small businesses may 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 2009 compared to the three-month Treasury bill rate for the same period as listed in the *State Treasurer's Annual Report* for fiscal 2009.

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### Exhibit 1 Average Annual State Interest Rates Fiscal 2000-2009

<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%
2009	3.39%	0.56%

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, the combined effect on State revenues and expenditures is a net loss of \$69.3 million in fiscal 2012 and \$82.2 million in fiscal 2016.

In fiscal 2010, the Comptroller's Office collected \$145.4 million in interest, including \$86.1 million from the individual income tax; \$39.5 million from the corporate income tax; \$5.7 million from income tax withholding; and \$10.2 million from sales tax returns. In addition, the Comptroller's Office paid out close to \$700,000 in interest in fiscal 2010.

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 (estimated at \$167.7 million for fiscal 2012) and interest payments for tax refunds (estimated at \$776,800 for fiscal 2012) remain constant.

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

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**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 31</u>	
2012	13%	2.2%	(\$69,666,400)
2013	13%	2.8%	(131,592,100)
2014	13%	4.9%	(104,499,600)
2015	13%	6.5%	(83,857,700)
2016	13%	6.6%	(82,567,600)

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**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 31</u>	
2012	13%	2.2%	(\$322,700)
2013	13%	2.8%	(609,500)
2014	13%	4.9%	(484,000)
2015	13%	6.5%	(388,400)
2016	13%	6.6%	(383,500)

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## **Additional Information**

**Prior Introductions:** This bill was introduced as SB 227 in the 2008 session and as SB 867 and HB 1345 in the 2007 session. The Senate Budget and Taxation Committee and the House Ways and Means Committee 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 - January 31, 2011  
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