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## FISCAL IMPACT REPORT

SPONSOR: Lujan DATE TYPED: 02/22/03 HB 846

SHORT TITLE: Reduce Tax Deficiency Interest Rate SB \_\_\_\_\_

ANALYST: Hayes

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	(\$1.0 million)	(\$1.0 million)	Recurring	Beneficiaries of TAA Suspende Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

No Written Response Received From  
Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

House Bill 846 amends the Tax Administration Act, Section 7-1-67 NMSA 1978, regarding interest on deficiencies to reduce the amount of interest due to the State of New Mexico from fifteen percent to ten percent.

The effective date of the provisions of this legislation is July 1, 2003.

#### Significant Issues

1. If a tax liability is not paid on or before the date due, interest is applied to the balance due effective the day after the tax was due. The current interest rate is 15% per year, computed on a daily basis (for amounts due on or after January 1, 2001). This legislation would reduce the rate of interest to 10%.
2. Here are some examples wherein interest is accrued to a taxpayer's unpaid balance:

- a) granting of an extension of time to pay balance due
- b) entering into an installment agreement to pay balance due
- c) granting of a partial abatement of an assessment of tax
- d) seizure of property under a levy
- e) paying tax due to the state with a bad check
- f) proper dissolution of a corporation

Interest will continue to accrue until the total tax indebtedness is paid.

- 3. The state will not impose interest on accrued interest amounts or interest on the amount of any penalty.
- 4. If a different interest rate is specified by a compact or other interstate agreement to which New Mexico is a party, the rate negotiated in the compact or interstate agreement will prevail.

### **FISCAL IMPLICATIONS**

The interest rate reduction proposed in this bill would reduce revenue to the state by reducing the accrued interest on a delinquent taxpayer's balance due. The \$1 million estimated reduction for this fiscal impact analysis is preliminary. Taxation and Revenue Department will be providing additional detail regarding how a 5% interest rate reduction may affect collections and revenue to the State of New Mexico.

### **ADMINISTRATIVE IMPLICATIONS**

Previous documentation compiled by the Audit and Compliance Division (ACD) shows that the division collects, on average, approximately \$51.2 million per year. TRD is in the process of enhancing its efforts to increase delinquent tax collections, thereby reducing its total accounts receivable. Stronger enforcement and collection efforts may compel taxpayers to be more compliant; furthermore, an interest rate reduction may also compel taxpayers to pay indebtedness more quickly because interest accrued on that balance will not be as great. This may, in fact, increase revenue to the state.

**CMH/njw**