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FISCAL IMPACT REPORT

SPONSOR Cervantes DATE TYPED 2-4-04 HB 463

SHORT TITLE Tax Administration Interest Rates SB _____

ANALYST Reynolds-Forte

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Recurring	Fund Affected
FY 2005	FY 2006			
(1,500.0)	(3,000.0)	(7,500.0)	Recurring	State General Fund
(350.0)	(700.0)	(1,875.0)	Recurring	Local Governments
(10.0)	(20.0)	(40.0)	Recurring	State Road Fund

SOURCES OF INFORMATION

LFC Files

SUMMARY

Significant Issues

House Bill 463 makes changes to interest rates charged and paid by the Taxation and Revenue Department. These changes include:

1. The interest rate charged and paid by Taxation and Revenue Department on tax deficiencies and overpayments will be changed. The current 15 percent rate would be changed to 10 percent from January 1, 2005 through December 31, 2006. Starting January 1, 2007, the rate would be set equal to the IRS underpayment rate, a floating rate that reflects market interest rates. Exceptions to these rates are provided for in compacts or other interstate agreements stipulating other rates.

2. A new provision is added which requires Taxation and Revenue Department to pay interest on refunds or credits initially denied for failure to produce a proper nontaxable transaction certificate or not claimed by the taxpayer on a timely filed original return from the date the taxpayer produces proof the certificate has been obtained.

3. A new provision is added which requires no interest to be paid to an amount credited or refunded if the refund or credit is in settlement of a protective claim.

FISCAL IMPLICATIONS

The Taxation and Revenue Department estimates that the lower interest rates on deficiencies will reduce general fund revenues by \$1.5 million in FY 05, \$3 million in FY 06 and \$7.5 million in FY 07. They note that annual collections have been about \$14 million in recent years. The FY05 impact is half that of FY 06 because the lower rates are in effect for only half the fiscal year. In FY 07 revenues are decreased further as the rates are further reduced to the IRS rate.

Local government and the state road fund are also impacted by the proposed interest rate changes. Local government can expect to see revenues decline by \$350 thousand in FY 05, \$700 thousand in FY 06 and \$1.9 million in FY 07. Losses to the road fund are \$10 thousand in FY 05, \$20 thousand in FY 06 and \$40.0 in FY 07.

ADMINISTRATIVE IMPLICATIONS

Changes will need to be made to the Taxation and Revenue Department's computer systems.

RELATIONSHIP

House Bill 463 relates to House Bill 258 which also makes these same changes as well as additional changes to the interest rates

OTHER SUBSTANTIVE ISSUES

The Taxation and Revenue Department believes that by reducing the rate of interest on deficiencies, there is the possibility of encouraging taxpayers to delay their tax payments.

PFR/njw