MARYLAND Association of COUNTIES

Senate Bill 120

Interest Rate on Tax Deficiencies and Refunds

MACo Position: **OPPOSE**

Date: February 6, 2013

To: Budget and Taxation Committee

From: Andrea Mansfield

The Maryland Association of Counties (MACo) **OPPOSES** SB 120. This bill would reduce the monthly interest rate set by the Comptroller for tax deficiencies and refunds.

Under current law, the Comptroller sets the annual interest rate by October 1 of each year. The rate is equal to the greater of 13% or three percentage points above the average prime interest rate for the previous fiscal year. Under current law, the rate of interest would be set at 13%. SB 120 would phase in a change toward a new rate, based on federal calculations, currently 7%.

MACo is concerned that SB 120 would both compromise collections from delinquent taxpayers, and perhaps more importantly, encourage more people to similarly flout timely tax payment laws. The interest rate charged on overdue payments serves as an important reinforcement to proper tax policy and as a protection for the majority of taxpayers who file timely returns. Without an adequate reason to comply on time, some taxpayers could engage in a calculated decision to deliberately defer tax payments.

According to the fiscal note, local income tax revenues would decline by $3.4 million in Fiscal 2016 and (as the bill phases in the new interest rate) $11.1 million in Fiscal 2018. Counties have faced economy-driven fiscal challenges in recent years, with county revenue woes expected to continue as property assessments remain in decline. Reductions in State aid, cost shifts, and other funding mandates have placed additional burdens on counties. Further reductions of this magnitude would substantially affect the counties' ability to manage their budgets to provide needed services.

For these reasons, MACo urges the Committee to give SB 120 an **UNFAVORABLE** report.

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