



Senate Bill 143

Property Tax – Interest on Refunds

MACo Position: **SUPPORT**

Date: February 3, 2016

To: Budget and Taxation Committee

From: Andrea E. Mansfield

The Maryland Association of Counties (MACo) **SUPPORTS** SB 143. This bill would authorize counties to set the interest rate for property tax refunds at the County's historical rate of return instead of at a rate that compounds monthly.

The interest rate that is set for overdue tax payments also applies to tax refunds. Interest rates on overdue tax payments are generally set at a punitive rate to encourage compliance and promote tax fairness. Applying these higher-than-market punitive rates to refunds penalizes county governments when, in many cases, the refund arises from data issues arising outside the county governments' control. Further, the high interest rate on refunds may create a perverse incentive for a taxpayer with new information that would trigger a tax refund to withhold that application to garner extra interest.

SB 143 would alter these provisions and tie the interest rate received by the taxpayer to that received by the government holding the funds. This also avoids any perverse incentive for a taxpayer aware of an overpayment to delay making a claim or appeal, in pursuit of the high interest rates granted on a successful appeal.

MACo urges the Committee to give SB 143 a **FAVORABLE** report to align the interest rates paid on property tax refunds with the annual rate of return earned by the county.