



## **Senate Bill 844 and House Bill 1251**

### *Interest Rate on Tax Deficiencies and Refunds*

MACo Position: **OPPOSE**

To: Senate Budget and Taxation Committee  
House Ways and Means Committee

Date: March 2, 2016

From: Andrea Mansfield

The Maryland Association of Counties (MACo) **OPPOSES** SB 844 and HB 1251. This bill would reduce the monthly interest rate set by the Comptroller for tax deficiencies and refunds to the prime rate of interest over three years.

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 844 and HB 1251 would phase-in over three years a change toward a new rate, the average prime rate of interest quoted by commercial banks to large businesses during the State's previous fiscal year, approximately 3.5%.

MACo is concerned that SB 844 and HB 1251 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.

Data provided by the Maryland Economic Development and Business Climate Commission indicates that local income tax revenues would decline by \$5 million in Fiscal 2017, increasing to \$20 million in Fiscal 2019 when the change in the interest rate is fully phased-in. This revenue effect, combined with that of other bills that have been introduced this session to reduce or adjust the income taxes paid by residents of Maryland, is simply not affordable and could present substantial budget difficulties.

For these reasons, MACo urges the Committees to give SB 844 and HB 1251 an **UNFAVORABLE** report.