

BILL SUMMARY
2nd Session of the 57th Legislature

Bill No.:	HB 3945
Version:	INT
Request Number:	10134
Author:	Rep. Townley
Date:	3/3/2020
Impact:	Tax Commission:

Revenue Decrease:
FY-21: (\$8,192,000)
FY-22: (\$18,204,000)

Administrative Cost:
\$100,000

Research Analysis

HB3945, as introduced modifies the statutory interest rate used by the Oklahoma Tax Commission (OTC) for assessing interest on delinquent taxes and underpayment of taxes. Currently, the interest rate is fixed at 1.25% per month (15% annualized) and is not tied to any interest rate index. The measure provides that the rate will be updated annually based on the prime lending rate published by the Wall Street Journal.

The measure also removes obsolete language requiring the OTC to pay interest to taxpayers for untimely payment of state income tax refunds on tax returns filed between January 1, 2004 and January 2, 2010.

Prepared By: Quyen Do

Fiscal Analysis

Analysis provided by the Tax Commission:

This measure proposes to change the monthly interest rate:

- Assessed on delinquent taxes to equal the Prime Lending Rate as published in the Wall Street Journal on the first business day of December for the following calendar year.
- Assessed on tax deficiencies to equal the Prime Lending Rate as published in the Wall Street Journal on the first business day of December, plus two percentage points, for the following calendar year.
- Paid by the Tax Commission on income tax refunds to equal the Prime Lending Rate as published in the Wall Street Journal on the first business day of December for the following calendar year.

To determine the potential revenue effect of this proposal, the prime lending rate of 4.75%.², as published in the Wall Street Journal on January 1, 2020, was used for interest assessed on tax delinquencies and interest paid on income tax refunds; 6.75% (prime plus 2%) was used for interest assessed on tax deficiencies³. Interest paid on income tax refunds and interest received on tax delinquencies and deficiencies for FY 16 through FY 19 was analyzed and compared to the proposed interest rate structure⁴. Based on this analysis, an average decrease in revenue of \$18,204,000 per FY is projected. An estimated decrease of \$8,192,000⁵ should occur in FY21, with the full decrease in collections of \$18,204,000 occurring in FY22. A one-time administrative cost of approximately \$100,000 is anticipated for programming changes.

¹ Tax deficiencies are determined under 68 O.S. § 221. The distinction between tax delinquencies and tax deficiencies is that delinquent taxes are for taxes reported on a tax return that are filed but paid late. Tax deficiencies are for taxes assessed by the OTC after audit.

² <https://www.bankrate.com/rates/interest-rates/wall-street-prime-rate.aspx>

³ This measure is effective November 1, 2020. The interest rate published December 1, 2020 will be in effect for calendar year 2021.

⁴ The current tax processing system does not distinguish between interest received via delinquent taxes versus tax deficiencies. For purposes of this analysis, a conservative approach was used and the lower rate for delinquent taxes was used to estimate the revenue impact of this proposal. An estimate applying 6.75% interest rate to all delinquent taxes or tax deficiencies results in an estimated \$14,506,000 decrease in revenue. This measure also does not account for any potential increase in delinquent taxes or deficiencies as a result of lower interest rates.

⁵ From FY16 through FY19; approximately 45% of the net interest was realized from January through June.

Prepared By: Mark Tygret

Other Considerations

None.