

Fiscal Impact
2nd Session of the 57th Legislature

Bill No.:
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Author:
Date:

SB 1643
INT
Sen. Leewright
02/24/2020

OKLAHOMA TAX COMMISSION

REVENUE IMPACT STATEMENT
SECOND REGULAR SESSION, FIFTY-SEVENTH OKLAHOMA LEGISLATURE

DATE OF IMPACT STATEMENT: February 21, 2020

BILL NUMBER: SB 1643 **STATUS AND DATE OF BILL:** Introduced 1/16/20

AUTHORS: House n/a Senate Leewright

TAX TYPE (S): Various **SUBJECT:** Administrative

PROPOSAL: Amendatory

SB 1643 proposes to amend 68 § 217 which relates to the interest rate assessed on delinquent taxes and tax deficiencies, and the interest rate paid on income tax refunds by the Tax Commission.

EFFECTIVE DATE: January 1, 2021

REVENUE IMPACT:

Insert dollar amount (plus or minus) of the expected change in state revenues due to this proposed legislation.

FY 21: Projected decrease of \$1,722,000 in revenue.

FY 22: Projected decrease of \$3,826,000 in revenue.

ADMINISTRATIVE IMPACT:

Insert the estimated cost or savings to the Tax Commission due to this proposed legislation.

FY 21: Estimated one time cost of \$100,000.

Feb. 22, 2020
DATE

Rick Miller
DIVISION DIRECTOR

mck

2/24/2020
DATE

Huan Gong
HUAN GONG, ECONOMIST

2/24/2020
DATE

[Signature]
FOR THE COMMISSION

The revenue impact provided herein is an estimate of the potential impact on the collection or apportionment of tax revenues affected by the proposed legislation. It is not intended to be an estimate of the overall fiscal impact on the state budget if the proposed legislation is enacted.

ATTACHMENT TO REVENUE IMPACT – SB 1643 [Introduced] Prepared 2/21/20

SB 1643 proposes to amend 68 O.S. § 217 which relates to the interest rate assessed on delinquent taxes and tax deficiencies,¹ and the interest paid on income tax refunds by the Tax Commission.² The interest rate is currently 1¼% per month (15% annualized) for delinquent taxes, tax deficiencies and refunds.

Effective January 1, 2021, this measure proposes to change the monthly interest rate:

- Assessed on tax deficiencies to equal the New York Federal Reserve prime rate as listed in the first edition of the Wall Street Journal published on the first business day in the immediately preceding January, plus two percentage points.
- Paid by the Tax Commission on income tax refunds to equal the New York Federal Reserve prime rate as listed in the first edition of the Wall Street Journal published on the first business day in the immediately preceding January.

The interest rate on delinquent taxes is not changed.

To determine the potential revenue effect of this proposal, an interest rate of 6.75%³ was applied to the average tax deficiencies for FY 16 through FY 19, resulting in a revenue decrease of \$4,576,940.⁴ An interest rate of 4.75% was applied to an average of the income tax refunds untimely paid by the Tax Commission for FY 16 through FY 19, resulting in a revenue increase of \$750,766.

Based on this analysis, an estimated decrease in revenue of \$3,826,000 per FY is projected. An estimated decrease of \$1,722,000⁵ should occur in FY21, with the full decrease in collections of \$3,826,000 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 tax liabilities reported on a tax return but not paid timely. Tax deficiencies are for additional taxes assessed by the OTC after audit.

² Whenever an income tax refund is not paid to the taxpayer within a certain number of days after the income tax return is filed, then the Tax Commission is required to pay interest on the refund.

³ This measure is effective January 1, 2021, so the interest rate published January 1, 2020 will be in effect for calendar year 2021. The New York Federal Reserve prime rate as listed in the first edition of the Wall Street Journal rate as of January 1, 2020 was 4.75%. <https://www.bankrate.com/rates/interest-rates/wall-street-prime-rate.aspx>

⁴ Data from the OTC processing system was analyzed to determine the actual amount of interest on delinquent taxes compared to tax deficiencies, which showed that 30% of interest is attributable to tax deficiencies. This impact 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.