

BILL SUMMARY
2nd Session of the 58th Legislature

Bill No.:	HB 3136
Version:	FULLPCS1
Request Number:	10514
Author:	Rep. Kendrix
Date:	3/1/2022
Impact:	Tax Commission:

Decrease in Revenue:

FY-23: (\$14,400,000)

FY-24: \$22,500,000)

Administrative Costs:

Estimated \$62,500

Research Analysis

The proposed committee substitute for HB3136 modifies the interest rate assessed on delinquent taxes, tax deficiencies and underpayment of estimated tax payments. The new rate will be equal to the federal prime rate as of January 1 of the applicable year, rounded up (if 0.5 or more) or down (if .49 or less) to the nearest percentage point.

Currently, the interest rate for delinquent taxes and tax deficiencies is 1.25 percent per month or 15 percent annualized. The current underpayment interest rate is 20 percent annualized.

The modified interest rates would be applicable to new and existing delinquencies as of November 1, 2022.

Prepared By: Quyen Do

Fiscal Analysis

Analysis provided by the Tax Commission:

The Proposed Committee Substitute for HB 3136 proposes to amend 68 O.S. §§ 217 and 2385.13, which relate to interest assessed on delinquent state tax and on underpayments of estimated tax, respectively. The proposal amends the interest rates to equal the annual rate calculated using the federal prime rate,¹ as of January 1 of that year, rounded down to the nearest whole percentage point if .49 or less and rounded up to the nearest whole percentage point if .5 or more. This interest rate applies to all delinquencies in existence or occurring on or after November 1, 2022.

On January 1, 2022, the U.S. bank prime loan rate was 3.25%,² rounded to 3% under this proposal. Currently, interest is assessed at 1.25% per month (15% annualized) for delinquent state tax and at 20% per year for underpayments of estimated tax for the period of underpayment. Using Oklahoma Tax Commission (OTC) records, the decrease in income tax revenue as a result of this proposal is estimated as follows:

Interest Assessed For:	FY 21 Interest Collected	Estimated Collection at Proposed Rates	Estimated Impact (Decrease)
Delinquent Interest	\$ 22,538,000	\$ 4,508,000	\$ (18,030,000)
Underpayment Penalty	\$ 5,284,000	\$ 793,000	\$ (4,491,000)
Total			<u>\$ (22,521,000)</u>

Based on these estimates, the potential revenue impact of the proposal is a decrease in revenue of approximately \$22.5 million per year.³ A partial impact of approximately \$14.4 million in reduced revenue is expected for FY 23,⁴ and the full impact of \$22.5 million in reduced revenue is expected for FY 24.

¹ The prime rate is an interest rate determined by individual banks. It is often used as a reference rate (also called the base rate) for many types of loans, including loans to small businesses and credit card loans. On its H.15 statistical release, "[Selected Interest Rates](#)," the Board reports the prime rate posted by the majority of the largest twenty-five banks. Although the Federal Reserve has no direct role in setting the prime rate, many banks choose to set their prime rates based partly on the target level of the federal funds rate--the rate that banks charge each other for short-term loans--established by the Federal Open Market Committee.

² See https://ycharts.com/indicators/us_bank_prime_loan_rate.

³ This impact does not factor any potential increase in delinquent taxes or deficiencies as a result of lower interest rates.

⁴ Given the November 1, 2022, effective date of the proposal, a partial impact is expected for FY 23.

Prepared By: Mark Tygret

Other Considerations

In addition, estimated administrative costs of \$62,500 to the OTC are expected for annual programming and reporting changes to the income tax remittance system.