

SENATE BILL REPORT

SHB 1342

As Reported By Senate Committee On:
Ways & Means, April 2, 1997

Title: An act relating to interest and penalty administration of the department of revenue.

Brief Description: Revising interest and penalty administration of the department of revenue.

Sponsors: House Committee on Finance (originally sponsored by Representatives B. Thomas, Dunshee and Wensman; by request of Department of Revenue).

Brief History:

Committee Activity: Ways & Means: 3/31/97, 4/2/97 [DP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators West, Chair; Deccio, Vice Chair; Strannigan, Vice Chair; Bauer, Brown, Fraser, Hochstatter, Kohl, Long, Loveland, McDonald, Rossi, Schow, Sheldon, Snyder, Swecker, Thibaudeau, Winsley and Zarelli.

Staff: David Schumacher (786-7474)

Background: The Department of Revenue (DOR) administers a variety of tax programs. Each program provides for the application of interest and penalties when a taxpayer does not satisfy his or her reporting or tax obligations in a timely manner, or when a taxpayer overpays the amount of tax due. The interest rates and penalties applied are not uniform across all tax programs. There are general administrative rules that apply in the absence of specific provisions for a particular tax.

Interest Computation - Tax Liabilities - Generally. Interest is computed on a tax liability from the last day of the year in which a deficiency is incurred until the date of payment.

Interest Rate - Tax Liabilities - Generally. A taxpayer who does not pay the entire amount of a tax obligation on the due date must pay interest on the amount of the remaining tax liability. If the liability arose prior to January 1, 1992, interest is charged at an annual rate of 9 percent. If the tax liability is incurred on or after January 1, 1992, the interest rate equals an annualized average of the federal short-term rate plus two percentage points. This rate is calculated by taking an arithmetical average of the federal short-term rate, compounded annually, for the months of January, April, July, and October of the preceding calendar year. The federal short-term rate plus two percentage points currently equals 8 percent. While most outstanding tax balances are for tax obligations incurred since 1992, there are still some taxpayers who owe back taxes for periods prior to 1992. Therefore, some tax accounts are assessed at the older 9 percent tax rate.

Interest Rate - Tax Refunds - Generally. A taxpayer who pays taxes, penalties, or interest in excess of the amount due is entitled to a refund of the overpayment and interest on the amount of the overpayment. The annual interest rate, applicable to refunds on amounts overpaid before January 1, 1992, is 3 percent. The interest rate, applicable to refunds on amounts overpaid on or after January 1, 1992, equals an annualized average of the federal short-term rate plus one percentage point. The federal short-term rate plus one percentage point currently equals 7 percent.

Normally, refunds may only be claimed for amounts overpaid in the preceding four years. However, in some cases, such as a court judgment in a taxpayer's favor, refunds may be owed for periods prior to 1992. For these older cases, the Department of Revenue is obligated to use the lower 3 percent interest rate in computing tax refunds.

Interest Computation and Rate - Tax Warrants. Interest is computed on the amount of a warrant. A warrant amount includes taxes owed *plus* penalties and interest already assessed. The Department of Revenue computes interest on warrants every 30 days at a rate of 1 percent on the outstanding balance of the warrant amount.

Interest Rate - Real Estate Excise Taxes. Real estate excise tax must be paid within one month of the sale of the property. If payment is not made within 30 days of the sale, then interest is assessed. The interest is charged at a rate of 1 percent per month.

Estate Taxes - Penalties and Interest. The person responsible for filing a federal estate tax return must also file a Washington estate tax return. The deadline for filing the Washington return is the same as the federal deadline. If a person fails to file a Washington estate tax return on time, the Department of Revenue assesses a penalty. The penalty equals 5 percent of the tax due for each month intervening between the date that the tax was first due and the date that the return is actually filed.

Interest on estate tax delinquencies is paid at a variable rate equaling an annualized average of the federal short-term rate plus two percentage points. Interest on estate tax refunds is paid at a variable rate equaling an annualized average of the federal short-term rate plus one percentage point.

Summary of Bill: Interest Computation - Tax Liabilities - Generally. The date that interest begins to accrue changes. Instead of accruing interest from the last day of the year when a tax liability is incurred, interest starts to accrue from the last day of the month following the month when taxes were due. For example, an annual taxpayer must file a return for the tax period ending on December 31, by no later than January 31. If the taxpayer fails to file and pay taxes due on January 31, then interest on the unpaid taxes begins to accrue on February 1. Similarly, a quarterly taxpayer must file a return for the tax period ending on March 31 by no later than April 30. If the quarterly taxpayer fails to file and pay taxes due by April 30, then interest on the unpaid taxes begins to accrue on May 1. This change in interest computation practices particularly affects taxpayers who file monthly or quarterly, as opposed to annual, tax returns.

Interest Rate - Tax Liabilities - Generally. Starting January 1, 1999, all taxpayer accounts are assessed interest at the same variable rate. The age of the account does not affect the interest rate used. Specifically, interest on a tax liability arising before 1992 is treated no

differently than interest on a tax liability arising during or after 1992. The variable rate equals an annualized average of the federal short-term rate plus two percentage points.

Interest Rate - Tax Refunds - Generally. Starting January 1, 1999, all taxpayer refunds are assessed interest at the same variable rate. The tax period, when taxes were overpaid, no longer affects the interest rate used. Specifically, interest owed on taxes overpaid prior to 1992 is computed the same as interest owed on taxes overpaid during or after 1992. The variable rate for refunds equals an annualized average of the federal short-term rate plus two percentage points.

Interest Computation and Rate - Tax Warrants. Starting January 1, 1999, interest is only assessed on the portion of the warrant amount representing taxes due. Additional interest is not assessed on penalties and interest included within the total warrant amount.

The Department of Revenue also starts assessing interest on tax warrant amounts using a variable rate on January 1, 1999. The variable rate equals an annualized average of the federal short-term rate plus two percentage points.

Interest Rate - Real Estate Excise Taxes. Starting January 1, 1999, interest on delinquent real estate excise taxes is assessed using a variable rate. The variable rate equals an annualized average of the federal short-term rate plus two percentage points.

The Department of Revenue is responsible for notifying county treasurers of the variable rate to be used for each calendar year.

Estate Taxes - Interest and Penalties. The practice of automatically assessing estate tax penalties when a return is not filed on time is eliminated. The Department of Revenue may waive or cancel estate tax penalties, if the late filing of a return is due to circumstances beyond the control of the person responsible for filing it.

Beginning on January 1, 1999, interest on estate tax liabilities and tax refunds is assessed at a variable rate equaling the federal short-term rate plus two percentage points.

Appropriation: None.

Fiscal Note: Available.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: The Department of Revenue feels that interest and penalty administration should be equitable across all programs and that interest should be charged in the year in which a taxpayer is delinquent.

Testimony Against: None.

Testified: Alan Lynn, Department of Revenue (pro).