

# HOUSE BILL REPORT

## HB 1591

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**As Passed House:**

March 11, 2003

**Title:** An act relating to modifying excise tax interest provisions.

**Brief Description:** Modifying excise tax interest provisions.

**Sponsors:** By Representatives Gombosky, Cairnes and McIntire; by request of Department of Revenue.

**Brief History:**

**Committee Activity:**

Finance: 2/11/03, 2/25/03 [DP].

**Floor Activity:**

Passed House: 3/11/03, 93-0.

**Brief Summary of Bill**

- Changes the annual period for calculating the interest rate used by the Department of Revenue for assessments and refunds to a period that ends in July rather than October.
- Delays the starting point for interest payments on overpayments of excise taxes.
- Removes an exception to the four-year time period for requesting tax refunds that applies to federal contractors.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 9 members: Representatives Gombosky, Chair; McIntire, Vice Chair; Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern, Conway, Morris, Roach and Santos.

**Staff:** Rick Peterson (786-7150).

**Background:**

The Department of Revenue is authorized to audit taxpayer records and make an assessment if the taxpayer has failed to pay the entire amount of their tax obligation.

Interest charges are applied to these assessments. The interest rate is the annualized average of the federal short-term rate plus two percentage points. This rate is calculated by taking an average of the federal short-term rate for the months of January, April, July, and October of the preceding calendar year. For each calendar year included in the audit, interest starts in the February that follows the calendar year. If the audit period does not end in December, then interest for that period starts one month after the end of the period.

A taxpayer who pays taxes in excess of the amount due is entitled to a refund of the overpayment and interest on the amount of the overpayment. The interest rate is the same rate as charged on assessments. In cases where multi year audits discover overpayments, interest payments start in January following the calendar year in which the overpayment was made. If a taxpayer discovers that they have overpaid they may request a refund. Interest is paid on the refund from the date of overpayment.

Taxpayers may ask for refunds on overpayments of tax up to four years after the overpayment. An exception to this time period is provided for federal contractors that are required to refund or credit to the United States taxes imposed on these contractors by Washington on amounts the contractor received from the federal government.

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**Summary of Bill:**

The annual period for calculating the interest rate used by the Department of Revenue for assessments and refunds is changed to end in July rather than October.

The starting point for interest payments on overpayments of excise taxes is delayed. If the audit or refund period covers a full calendar year or multiple calendar years, then interest on any overpayment starts in the February that follows the calendar year. If the audit or refund period does not end in December, then interest for that period starts one month after the end of the period.

The exception to the four-year time period for requesting tax refunds related to federal contractors is removed.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed, except for section 2, relating to interest payments on refunds, which takes effect on January 1, 2004.

**Testimony For:** This bill simplifies the calculation of interest on late payments and refunds of taxes. It pushes the dates on which the interest rate is calculated back to July. This will make the interest rate available earlier and will allow the Department of Revenue to inform taxpayers on payment plans of the correct interest amount rather than an estimate. It makes the calculation of payment of interest on refunds the same as the calculation of interest on under payments. The bill also deletes an obsolete statute.

**Testimony Against:** None.

**Testified:** (In support) Representative Gombosky, prime sponsor; Representative Cairnes, sponsor; and Julie Sexton, Department of Revenue.