

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: SB 86
 (S) Publish Date: 3/26/03

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Interest on Delinquent Taxes BRU Revenue Operations
 Component Tax Division
 Sponsor Senate Finance Committee
 Requester Senate Labor and Commerce Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	**	**	**	**	**	**
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

** See Page 2 for discussion.

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 Division Tax Division Date/Time 3/17/03 12:54 PM
 Approved by: Larry Persily, Deputy Commissioner Date 3/17/2003
 Agency Department of Revenue

FISCAL NOTE #1

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BILL NO. SB 86

ANALYSIS CONTINUATION

When a taxpayer pays delinquent taxes, or receives a refund for certain overpaid taxes, interest is calculated from the date the tax should have been paid through the date when the tax is actually paid (or refunded). For the past decade the interest rate pertinent to payment of delinquent taxes or refunds has been set statutorily at the higher of a market-based value (Federal Reserve rate plus 5%) or 11%. However, except for a short period right after the legislation was passed, the 11% rate has prevailed.

The market rate is currently 7.25%. This legislation would eliminate the 11% floor. The Department of Revenue supports this legislation to allow the interest rate to float with market conditions.

There is no additional administration cost after reprogramming our computers, which we can absorb.

To estimate the revenue effect of this change it is of course necessary to estimate future interest rates, thus we have declined to fill in a specific number. But, whatever the interest rate, this change will have minimal effect on the general fund. Existing cases will be charged the 11% rate until the effective date of this act, and any debts will then convert to the new rate. Therefore, the "cost" to the general fund of receiving a lower rate on delinquent taxes will be less in early years and grow in time as old cases are settled and new cases are based entirely on the lower rate. The estimated cost, therefore, in the first years could be less than \$100,000 a year, growing to several hundred thousand dollars in time, depending on the floating interest rate and the amount of tax cases.

It also is important to note that while the state will receive a lower interest rate on delinquent taxes, the state will save by paying out a lower interest rate on refunds. While it is not possible to accurately predict the savings, they will at least partially offset the cost of the lower rate paid by taxpayers.

The effect on the Constitutional Budget Reserve Fund (CBRF) will be more pronounced. Examination of recent oil and gas tax and royalty settlements suggests that interest represents about one-third of the deposits into the CBRF. If the interest rate were to drop from 11% to 9%, for example, that could make a difference of close to a million dollars a year in the amount going into the CBRF. However, it could take several years to attain that annual level. Cases now working their way through the system that will lead to settlements over the next several years will use the 11% rate up until this law becomes effective.