

Legislative Analysis



MODIFY TIMELINE FOR PENALTY INTEREST ON INDIVIDUAL INCOME TAX REFUNDS

Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 4461 (reported from committee as H-1)
Sponsor: Rep. Michael D. McCready

Analysis available at
<http://www.legislature.mi.gov>

House Bill 4462 (reported without amendment)
Sponsor: Rep. Paul Clemente

Committee: Tax Policy
Complete to 10-5-15

SUMMARY:

House Bills 4461 and 4462 would amend the Revenue Act and City Income Tax Act, respectively, to change the manner in which interest is applied to individual and city income tax refunds issued by the Department of Treasury. Under current law, the Department of Treasury has 45 days to issue a refund for individual income taxes, starting from the date the return is filed or the deadline for filing that return, whichever is later. After that time, interest is added to the refund at the rate established for delinquent payments in Section 23 of the act (MCL 205.30).

House Bill 4461 would continue to require the department to issue refunds within 45 days, but starting in tax year 2017, the penalty interest would be calculated starting from the date the original return was due (regardless of extensions or the date of overpayment) "until a date preceding the date of the refund by not more than 7 days." For example, under current law, a refund issued after 46 days would have one day's worth of interest added. Under the proposed changes in HB 4461, a refund issued after 46 days would have at least 39 days' worth of interest added.

House Bill 4462 would make a complementary amendment to the City Income Tax Act, and is tie-barred to HB 4461.

FISCAL IMPACT:

As written, the bill should have little to no effect on state or local revenues. According to the Department of Treasury, the vast majority of individual refunds are already issued within the 45-day window, so the number of returns receiving additional penalty interest should be quite small. If this bill results in Treasury paying additional penalty interest, it is likely to be the result of an error or a legal dispute resulting in a refund. Businesses that file individual income tax returns (all legal forms of organization, except for C corporations) would be the primary recipients of the additional penalty interest in those scenarios.

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