Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 4461 (Substitute H-1 as passed by the House)
House Bill 4462 (as passed by the House)
Sponsor: Representative Michael D. McCready (H.B. 4461)
Representative Paul Clemente (H.B. 4462)
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 10-20-15

CONTENT

House Bill 4461 (H-1) would amend the revenue Act to revise the timeline for the calculation of interest on tax refunds issued by the Department of Treasury.

House Bill 4462 would amend the City Income Tax Act to require a city to apply interest on refunds in the manner stated in the revenue Act.

House Bill 4462 is tie-barred to House Bill 4461.

House Bill 4461 (H-1)

The revenue Act requires the Department of Treasury to credit or refund an overpayment of taxes; taxes, penalties, and interest erroneously assessed and collected; and taxes, penalties, and interest that are found unjustly assessed, excessive in amount, or wrongfully collected, with interest at the rate calculated under the Act for deficiencies in tax payments. The Department must certify a refund to the State disbursing authority, which must pay the amount out of the proceeds of the tax in accordance with State accounting laws. Interest must be added to the refund beginning 45 days after the claim is filed or 45 days after the date established by law for the filing of the return, whichever is later.

Under the bill, for refunds approved after December 31, 2016, interest would have to be added beginning from the date established by law for filing an original return, regardless of any extensions, or the date of overpayment, whichever was later, until a date preceding the date of the refund by not more than seven days. ("Date of overpayment" would mean the date that the tax payment to be refunded was received by the Department.)

No interest could be paid on any refund if the overpayment of tax were refunded within 45 days from the date the original return was filed or 45 days from the date of overpayment, whichever was later.

Under the Act, in addition to any interest added to a refund from the provisions described above, the State disbursing authority must add interest to individual income tax refunds that are not paid within one of the following dates for the applicable tax year:

-- May 1, for returns received by the Department on or before March 1 of the applicable tax year.

-- Sixty days from the date the return was received by the Department for returns received by the Department after March 1 of the applicable tax year.

The additional interest must be paid at a rate of 3% per annum, calculated from the date the original return was due under the Income Tax Act and until the refund is paid, if specified conditions are met.

The bill would require that the additional interest be paid until a date preceding the date of the refund by no more than seven days.

House Bill 4462

The City Income Tax Act permits a city to impose and collect an excise tax on individuals' income. The Act states that if a valid claim for a refund of taxes due for the taxable year is filed, interest at the rate established under Section 30(3) of the revenue Act must be added to the refund beginning 45 days after the claim is filed or 45 days after the date established under the City Income Tax Act for the filing of the return, whichever is later.

The bill would delete the requirement for the interest to be added beginning 45 days after the claim is filed or 45 days after the date established under the Act for the filing of the return. The bill instead would require that interest be added to a refund at the rate and in the manner described in Section 30(3) of the revenue Act.

(Section 30(3) contains the provisions that House Bill 4461 (H-1) would amend, for the calculation of interest on refunds approved after December 31, 2016.)

MCL 205.30 (H.B. 4461)
141.643 (H.B. 4462)

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bills would result in both administrative costs to the State and reduced revenue for the State and cities that levy a city income tax. By increasing the number of days that interest applies on some tax refunds, the bills could reduce the revenue of the State and a city that levies a local income tax. If most refunds are made within the period before interest accrues, the bills would have a minimal ongoing impact on State and local tax revenue. For the State, there is a potential for much higher refunds to businesses that receive tax credits, since those refunds usually take longer to process than a traditional individual income tax return does. There also would be one-time technology costs in the Department of Treasury associated with adjusting the tax refund calculations for the State.

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