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Tax Amnesty Proposal Is A Good One, But Provision to Nearly Double Taxpayer Interest Rates Is Unfair

The House Committee on Finance and Taxation approved a proposed committee bill (PCB FT 03-05) on Friday to create a Tax Amnesty Program. While this is good idea, and a longstanding recommendation of Florida TaxWatch, the bill contains a provision dealing with interest rates on delinquent taxes that would unfairly raise these rates too high.

Interest Rates Should Be Fair To Taxpayers While Encouraging Timely Payments

Currently, the interest rate charged on tax payment deficiencies is the adjusted prime rate charged by banks. This rate took effect in 2000 and was the result of a long effort to change the previous interest rate that was fixed at a statutory rate of 12% (except for corporate income tax which used the adjusted prime rate).

Interest charged on delinquent taxes should approximate the time value of money lost by the state. It should sufficiently cover that cost and not provide an incentive for taxpayers to not timely remit taxes. However, it should not be an added penalty on the taxpayer. The state also charges significant penalties on delinquent taxes. A fixed rate could--over time--produce both of those scenarios. In the 2000 General Session, the interest rate on all taxes was changed to the variable rate used for corporate taxes in order to adjust to changing market conditions.

The new legislation would add four percentage points to the current adjusted prime rate. Because commercial lending rates are higher than prime, the current interest rate may be high enough to encourage delinquent taxpayers to pay up. However, four additional percentage points or four hundred basis points is just too high. Again, the state had penalties to serve as the “stick” for getting taxpayers to pay their taxes. The interest rate should not serve as an additional penalty, and this excessive rate does serve as a double penalty.

With the current prime rate at 4.25%, the new legislation would almost double the interest rate that taxpayers are charged to 8.25%-- plus subject taxpayers to penalties of as much as another 50%.

In addition, the new legislation would not change the interest the state must pay to taxpayers on late payments of tax overpayments, which would stay at the adjusted prime rate. This creates an inequity between taxpayers and the state.

Tax Amnesty

The legislation would create a Tax Amnesty program that would be a one-time opportunity for noncompliant taxpayers to satisfy their tax liabilities and avoid criminal prosecution, penalties and some interest. Interest owed would be reduced by 25% to 50%, depending on whether the taxpayers is already under audit or review by the Department of Revenue (DOR). Taxpayers under criminal investigation are not eligible. The amnesty program would run for six

months, from July 1 to December 31, 2003. It is expected to cost \$385,000 to implement and bring in \$75.3 million (\$66.7 in general revenue) in additional revenue during FY 2003-04.

Florida has run successful tax amnesties before. Although it is important that taxpayers believe amnesties are “one-time” opportunities to pay up, the time since the last general tax amnesty (1987) is sufficient. Florida TaxWatch has been a catalyst for past tax amnesties and concludes that the time and circumstances are right for the state to undertake another one. In fact, Florida TaxWatch has recently recommended that the state charge one to two percentage points over the prime lending rate in *Joint Report of the Florida TaxWatch Cost Savings Task Force and the Center for a Competitive Florida Task Force on Tax System Modernization*, (Tax Compliance #4, page 9), March 2003.

Amnesties should be undertaken with the promise of some type of enhanced tax compliance and enforcement measures when the amnesty period is over. DOR has implemented an integrated tax-administration information system (SUNTAX) that gives it enhanced capabilities to discover unregistered and noncompliant taxpayers. It gives DOR the ability to make better audit selections and better target taxpayers.

Many taxpayers who are not in compliance with tax laws may be unaware of all their obligations. This program—along with a public education campaign—gives these taxpayers a chance to come into voluntary compliance before the state takes steps to identify them.

Improving voluntary taxpayer compliance is important because it is costly to pursue taxes not paid voluntarily. About 98% of all taxes are remitted voluntarily, and 70% of the Florida Department of Revenue’s General Tax Administration staff are employed to collect the other 2%.

Conclusion

The Tax Amnesty proposal developed in the House is sound and offers taxpayers a chance to settle tax issues with the state before enhanced enforcement measures kick in. The \$66.7 million in estimated additional general revenue will also help the House and Senate in their contentious deliberations on the state budget.

However, the provision increasing the interest rate on delinquent taxes should be scaled back to no more than 1-2 percentage points over the adjusted prime rate so that taxpayers are treated fairly while not unduly encouraged to delay tax payments legally owed to the state.

This *Briefings* was researched and written by Kurt R. Wenner, Senior Research Analyst, under the direction of Keith G. Baker, Ph.D., Senior Vice President and Chief Operating Officer. Steven L. Evans, Chairman; Dominic M. Calabro, President, Publisher and Editor.

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About Florida TaxWatch

Florida TaxWatch is the only statewide organization entirely devoted to protecting and promoting the political and economic freedoms of Floridians as well as the economic prosperity of our state. Since its inception in 1979, Florida TaxWatch has become widely recognized as the watchdog of citizens' hard-earned tax dollars. The nationally distributed *City and State* magazine (now *Governing* magazine) published a poll of the nation's statewide taxpayer research centers. Based on this poll, the publication cited Florida TaxWatch as one of the six most influential and respected government watchdogs and taxpayer research institutes in the nation.

In recent years, news stories about Florida TaxWatch have run in all Florida newspapers, *The Wall Street Journal*, *The New York Times* and *The Washington Post* and *Fortune* magazine. In addition, Florida TaxWatch has been featured on the prestigious *MacNeil/Lehrer Newshour*.

Florida TaxWatch is a private, non-profit, non-partisan research institute supported by voluntary, tax-deductible membership contributions and philanthropic foundation grants. Membership is open to any organization or individual interested in helping to make Florida competitive, healthy and economically prosperous by supporting a credible research effort that promotes constructive taxpayer improvements. Members, through their loyal support, help Florida TaxWatch to bring about a more effective, responsive government that is accountable to the citizens it serves.

Florida TaxWatch is supported by all types of taxpayers -- homeowners, small businesses, corporations, professional firms, labor unions, associations, individuals and philanthropic foundations -- representing a wide spectrum of Florida's citizens.

Florida TaxWatch's empirically sound research products recommend productivity enhancements and explain statewide impact of economic and tax and spend policies and practices. Without lobbying, Florida TaxWatch has worked diligently and effectively to build government efficiency and promote responsible, cost-effective improvements that add value and benefit taxpayers. This diligence has yielded impressive results: through the years, three-fourths of TaxWatch's cost-saving recommendations have been implemented, saving taxpayers over \$6.2 billion (according to an independent assessment by Florida State University). That translates to approximately \$1,067 in added value for every Florida family.

With your help, we will continue our diligence to make certain your tax investments are fair and beneficial to you, the taxpaying customer who supports Florida's government. Florida TaxWatch is ever present to ensure that taxes are equitable, not excessive, that their public benefits and costs are weighed, and that government agencies are more responsive and productive in the use of your hard-earned tax dollars.

The Florida TaxWatch Board of Trustees is responsible for the general direction and oversight of the research institute and safeguarding the independence of the organization's work. In his capacity as chief executive officer, the president is responsible for formulating and coordinating policies, projects, publications and selecting the professional staff. As an independent research institute and taxpayer watchdog, the research findings, conclusions and recommendations of Florida TaxWatch do not necessarily reflect the view of its members, staff or distinguished Board of Trustees.



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