

# Legislative Analysis



## ADDITIONAL INTEREST RATE ON LATE CORPORATE INCOME TAX REFUNDS

Mary Ann Cleary, Director  
Phone: (517) 373-8080  
<http://www.house.mi.gov/hfa>

### House Bill 4760

Sponsor: Rep. Vicki Barnett

Committee: Tax Policy

Complete to 9-17-13

### A SUMMARY OF HOUSE BILL 4760 AS INTRODUCED 5-22-13

The bill would amend the Revenue Act, 1941 PA 122, to impose additional interest on the late payment of refunds owed to taxpayers by the Department of Treasury under Part Two (Corporate Income Tax) of the Income Tax Act (1967 PA 281).

The additional interest, beyond the interest already required on late refunds, would apply if a refund is not paid within 90 days after the claim is filed or 90 days after the date established by law for filing the return, whichever is later. In that case, under House Bill 4760, the department would have to pay an additional monthly interest rate of 3% per annum.

Under current law, if a taxpayer is owed a refund, the Department of Treasury must pay interest on the amount of 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.<sup>1</sup> (This applies to refunds for the overpayment of taxes; the overpayment of taxes, penalties, and interest erroneously assessed and collected; or the overpayment of taxes, penalties, and interest unjustly assessed, excessive in amount, or wrongfully collected.)

The current interest rate is determined under Section 23 of the Revenue Act (MCL 205.23) as one percentage point above the average predominant prime rate quoted by not less than three commercial banks to large businesses (the "adjusted prime rate"). Under this calculation, Treasury currently pays a daily interest rate of 0.0001164 based on an adjusted annual rate of 4.25%.<sup>2</sup> [Treasury sets the interest rate on July 1st (for July 1 - December 31) and January 1st (for January 1 - June 30).]

### FISCAL IMPACT:

As written, the bill would reduce state revenue by an unknown amount, with the reduction affecting the General Fund. Since the bill applies only to Part 2 of 1967 PA 281, only corporate income tax returns are potentially affected. According to the

<sup>1</sup> See, Revenue Administrative Bulletin 1996-4, *Credit or Refund of Overpayment of Taxes or Credits in Excess of Tax Due and Applicable Interest*, May 13, 1996, [http://www.michigan.gov/documents/96-4\\_114735\\_7.pdf](http://www.michigan.gov/documents/96-4_114735_7.pdf)

<sup>2</sup> See, Revenue Administrative Bulletin 2013-5, *Interest Rate*, April 4, 2013  
[http://www.michigan.gov/documents/treasury/RAB2013-5\\_416649\\_7.pdf](http://www.michigan.gov/documents/treasury/RAB2013-5_416649_7.pdf).

Department of Treasury, almost all error-free returns are processed within six weeks of being filed. As such, any revenue impact is likely to be small.

Legislative Analyst: Mark Wolf  
Fiscal Analyst: Adam Desrosiers  
Jim Stansell

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.