

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2016 REGULAR SESSION**

MEASURE

2016 BR NUMBER **1350**

HOUSE BILL NUMBER **324**

RESOLUTION NUMBER _____

AMENDMENT NUMBER _____

SUBJECT/TITLE **An ACT relating to taxation.**

SPONSOR **Representative Jerry Miller**

NOTE SUMMARY

FISCAL ANALYSIS: IMPACT NO IMPACT INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT: STATE LOCAL FEDERAL

BUDGET UNIT(S) IMPACT: _____

FUND(S) IMPACT: GENERAL ROAD FEDERAL RESTRICTED AGENCY _____ OTHER

FISCAL SUMMARY

FISCAL ESTIMATES	2015-2016	2016-2017	2017-2018	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES	(\$8,500,000) General Fund (Minimal) Road Fund	(\$11,600,000) General Fund (Minimal) Road Fund	(\$14,900,000) General Fund (Minimal) Road Fund	
EXPENDITURES				
NET EFFECT	(\$8,500,000) General Fund (Minimal) Road Fund	(\$11,600,000) General Fund (Minimal) Road Fund	(\$14,900,000) General Fund (Minimal) Road Fund	

() indicates a decrease/negative

MEASURE'S PURPOSE: This proposal, if enacted, would make the following changes:

1. For taxable periods beginning January 1, 2016:
 - a. Reduces the penalty for failure to timely pay the quarterly estimated tax or make declaration payment from 10% to the rate that would equal the tax interest rate charged on underpayments. For 2016 the penalty rate would become 4%;
 - b. Requires the penalty assessed for failure or refusal to file a report or return to be adjusted based upon the amount of tax that is finally determined to be due. Currently, the taxpayer is required to pay a minimum of \$100 whether any tax is determined to be due on a subsequently filed return or if the subsequently filed return results in a refund; and,
 - c. Allows taxpayers whose income fluctuates during the year to annualize income for purposes of calculating and paying the quarterly estimated tax payments.

2. Reduces interest rate on underpayments of tax, and increases interest rate on overpayments of tax going forward and retroactively for all outstanding refund claims and outstanding notices of tax due.
 - Requires that the tax interest rate charged on underpayments and paid on overpayments be equal to the adjusted prime rate charged by banks rounded to the nearest full percent. For 2016 the adjusted prime rate is 4%.
 - Under current law, the tax interest rate charged on underpayments is 6% (adjusted prime rate plus 2%) and the tax interest rate paid on overpayments is 2% (adjusted prime rate minus 2%).
3. Amends the income tax statutes to update the Internal Revenue Code reference to the Internal Revenue Code in effect as of December 31, 2015.

PROVISIONS/MECHANICS: Creates new sections of KRS Chapter 141 and amend various sections of KRS Chapters 131, 141, and 154 to amend the calculation of the estimated tax penalty; clarifies that no interest is due on estimated tax payments; allows taxpayer to annualize income for calculating and paying estimated payments; amends KRS 131.183 to require an equalized interest rate for overpayments and underpayments of tax and applies the equalized rate retroactively; amends KRS 141.010 to update the Internal Revenue Code reference date to December 31, 2015.

FISCAL EXPLANATION: This proposal, if enacted, will result in a negative impact to the General Fund of approximately (\$8,500,000) in FY 2015-2016, (\$11,600,000) in FY 2016-2017, and (\$14,900,000) in FY 2017-2018. There will be a minimal negative impact to the Road Fund for FY 2015-2016 and thereafter.

Estimated Impacts:

	FY 2015-2016	FY 2016-2017	FY 2017-2018
Revisions to estimated tax payment			(\$2,800,000) Gen. Fund
IRS Code Update			
4% interest rate on overpayments and underpayments*	(\$8,500,000) Gen. Fund (minimal) Road Fund	(\$11,600,000) Gen. Fund (minimal) Road Fund	(\$12,100,000) Gen. Fund (minimal) Road Fund
Total	(\$8,500,000) Gen. Fund (minimal) Road Fund	(\$11,600,000) Gen. Fund (minimal) Road Fund	(\$14,900,000) Gen. Fund (minimal) Road Fund

*This estimate does not include any refunds of interest paid.

The retroactive effective date for applying the 4% interest rate to underpayments outstanding on the date of enactment will require the Department of Revenue to incur significant technology costs to implement, which will have to be absorbed from the department’s current operating budget.

DATA SOURCE(S): Department of Revenue, FY 2015 Accounts Receivable, and estimated tax penalty data

PREPARER: Charlotte T. Quarles **NOTE NUMBER:** 63 **REVIEW:** JRS **DATE:** 2/26/2016