

1999 SENATE FINANCE AND TAXATION

SB 2102

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 2102

Senate Finance and Taxation Committee

Conference Committee

Hearing Date 01/11/99

Tape Number	Side A	Side B	Meter #
1	x		0-820
1		x	0-1340
Committee Clerk Signature <i>Shila Wald</i>			

Minutes:

Senator Urlacher-Opened the hearing on SB 2102, A BILL RELATING TO THE PAYMENT OF INTEREST ON INCOME TAX REFUNDS; AND TO PROVIDE FOR RETROACTIVE APPLICATION.

JOSEPH BECKER-AUDITOR, ND STATE TAX COMMISSION, SUBMITTED TESTIMONY. TESTIMONY ATTACHED.

Senator Urlacher- Asked for any question, or discussion? Have you had any discussion with MDU?

Joseph Becker-Another item of concern and will work out the details with MDU and may have to amend the bill and address it.

Senator Kinnoin- I have a question on the retro active date? Would like to know if it is necessary.

Joseph Becker-The purpose of that is so we can go back and negate what the 97 Legislature

Page 2

Senate Finance and Taxation Committee

Bill/Resolution Number SB 2102

Hearing Date 01/11/99

requires us to do, and put it into place.

Dennis Boyd- MDU, has not testimony but Joseph Becker has adequately identified the situation that arose this am. I have talked with our tax manager and he will prepare, in writing that will be presented to you and to keep the record open, this problem will be resolved.

Senator Stenejhem-Will we get a revised fiscal note?

Joseph Becker-The numbers relate back to the 97 Legislation, did not know the numbers of the refunds, etc. Raising refunds could have potential, cost to the State. The interest side is more controlled. No numbers to work with as of now.

Senator Stenejhem-I would like the cost of difference of 10-12%, what will you save in administrative costs?

Joseph Becker-I will take it to the Dept. and see what we can do.

Senator Urlacher-Any more questions? If not we will hold it open for Amend.

Closed for discussion.

DISCUSSION-1/13/99 ACTION ON AMENDMENT WAS MOVED BY SEN. STENEJHEM AND SECONDED BY SENATOR SCHOBINGER. MOTION CARRIED 7 YEAS, 0 NAY, 0 ABSENT OR NOT VOTING. DO PASS ACTION WAS MOVED BY SEN. CHRISTMANN, AND SECONDED BY SEN. KINNOIN. CARRIER WILL BE SEN. SCHOBINGER.

FISCAL NOTE

Return original and 14 copies)

Bill/Resolution No.: _____

Amendment to: SB 2102A

Requested by Legislative Council

Date of Request: 1/15/99

1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts. Please provide breakdowns, if appropriate, showing salaries and wages, operating expenses, equipment, or other details to assist in the budget process. In a word processing format, add lines or space as needed or attach a supplemental sheet to adequately address the fiscal impact of the measure.

Narrative: SB 2102 equates the interest rate on refunds with the interest rate on tax assessments. If enacted, SB 2102 will repeal certain provisions of 1997 session's HB 1332, which would have required complex tracking on the history of refunds and assessments. Because of the Department's costs for administering the tracking provisions of HB 1332, which would be eliminated with this bill, it is difficult to determine the net fiscal impact of SB 2102. It is likely that the additional cost to the state of a potentially higher rate of interest on refunds is offset by the reduction in administrative costs associated with the more streamlined provisions of SB 2102.

2. State fiscal effect in dollar amounts:

	1997-99 Biennium		1999-2001 Biennium		2001-03 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						

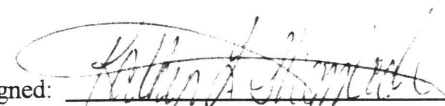
What, if any, is the effect of this measure on the budget for your agency or department:

- a. For rest of 1997-99 biennium: _____
 (Indicate the portion of this amount included in the 1999-2001 executive budget:)
- b. For the 1999-2001 biennium: _____
 (Indicate the portion of this amount included in the 1999-2001 executive budget:)
- c. For the 2001-03 biennium: _____

4. County, city, and school district fiscal effect in dollar amounts:

1997-99 Biennium			1999-2001 Biennium			2001-03 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

If additional space is needed
attach a supplemental sheet.

Signed: 

Typed Name: Kathryn L. Strombeck

Department: Tax

Date Prepared: January 18, 1999

Phone Number: 328-3402

FISCAL NOTE

(Return original and 14 copies)

Bill/Resolution No.: SB 2102

Amendment to: _____

Requested by Legislative Council

Date of Request: 12/30/99

1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts. Please provide breakdowns, if appropriate, showing salaries and wages, operating expenses, equipment, or other details to assist in the budget process. In a word processing format, add lines or space as needed or attach a supplemental sheet to adequately address the fiscal impact of the measure.

Narrative: SB 2102 equates the interest rate on refunds with the interest rate on tax assessments. If enacted, SB 2102 will repeal certain provisions of 1997 Session's HB 1332, which would have required complex tracking of the history of refunds and assessments. Because of the Department's costs for administering the tracking provisions of HB 1332, which would be eliminated with this bill, it is difficult to determine the net fiscal impact of SB 2102. It is likely that the any additional cost to the state of a potentially higher rate of interest on refunds is offset by the reduction in administrative costs associated with the more streamlined provisions of SB 2102.

2. **State** fiscal effect in dollar amounts:

	1997-99 Biennium		1999-2001 Biennium		2001-03 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						

What, if any, is the effect of this measure on the budget for your agency or department:

- a. For rest of 1997-99 biennium: _____
(Indicate the portion of this amount included in the 1999-2001 executive budget:)
- b. For the 1999-2001 biennium: _____
(Indicate the portion of this amount included in the 1999-2001 executive budget:)
- c. For the 2001-03 biennium: _____

4. **County, city, and school district** fiscal effect in dollar amounts:

1997-99 Biennium			1999-2001 Biennium			2001-03 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

If additional space is needed
attach a supplemental sheet.

Signed: 

Typed Name: Kathryn L. Strombeck

Department: Tax

Date Prepared: January 8, 1999

Phone Number: 328-3402

Date 1-13-99

Roll call vote # 1

Please type or use black pen to complete

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. 2102

Senate Finance & Tax Committee

Subcommittee on _____ (Identify or

Conference Committee _____ (check where appropriate

Legislative Council Amendment Number _____

Action Taken Adopt amendment

Motion Made By Sen. B. Stenehjem Seconded By Sen. Schobinger

Senators	Yes	No	Senators	Yes	No
<u>SENATOR URLACHER</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
<u>SENATOR CHRISTMANN</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
<u>SENATOR SCHOBINGER</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
<u>SENATOR STENEHJEM</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
<u>SENATOR WARDNER</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
<u>SENATOR KINNOIN</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
<u>SENATOR KROEPLIN</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

Total 7 0
(Yes) (No)

Absent 0

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

DO NOT USE HIGHLIGHTER ON ANY FORMS

Date 1-13-99

Roll call vote # 2

Please type or use black pen to complete

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. 2102

Senate Sen + Jap Committee _____

Subcommittee on _____ (Identify or

(check where

Conference Committee _____ (appropriate

Legislative Council Amendment Number _____

Action Taken Do Pass - as amended

Motion Made By Sen. Christmann Seconded By Sen. Kinnoin

Senators	Yes	No	Senators	Yes	No
SENATOR URLACHER	✓				
SENATOR CHRISTMANN	✓				
SENATOR SCHOBINGER	✓				
SENATOR STENEHJEM	✓				
SENATOR WARDNER	✓				
SENATOR KINNOIN	✓				
SENATOR KROEPLIN	✓				

Total 7 0
(Yes) (No)

Absent 0

Floor Assignment Sen. Schobinger

If the vote is on an amendment, briefly indicate intent:

DO NOT USE HIGHLIGHTER ON ANY FORMS

REPORT OF STANDING COMMITTEE

SB 2102: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2102 was placed on the Sixth order on the calendar.

Page 3, after line 27, insert:

"f. If a deficiency is determined for a tax period for which there was an overpayment of estimated tax that was refunded, interest accrues, with respect to the amount of the deficiency which is equal to or less than the amount of the overpayment of estimated tax refunded, from the date of payment of the refund."

Renumber accordingly

1999 HOUSE FINANCE AND TAXATION

SB 2102

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2102

House Finance and Taxation Committee

Conference Committee

Hearing Date March 1, 1999

Tape Number	Side A	Side B	Meter #
1		x	5.4
Committee Clerk Signature <i>Janice Stein</i>			

Minutes:

REP. BELTER Opened the hearing.

JOSEPH BECKER, Auditor, NORTH DAKOTA OFFICE OF STATE TAX COMMISSIONER

Testified in support of the bill, see written testimony.

With no further testimony, the hearing was closed.

COMMITTEE ACTION 3-1-99, Tape #2, Side A, Meter 3

REP. WINRICH Made a motion for a DO PASS

REP. NICHOLAS Second the motion. MOTION CARRIED.

14 Yes 0 No 1 Absent

REP. WINRICH Was given the floor assignment.

Please type or use black pen to complete

Date 3-1-99

Roll call vote # 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. SB 2102

House HOUSE FINANCE & TAX Committee

Subcommittee on _____

Conference Committee

} Identify or check where appropriate

Legislative Council Amendment Number _____

Action Taken Do Pass

Motion Made By Rep. Winrich Seconded By Rep. Nicholas

Representatives	Yes	No	Representatives	Yes	No
BELTER	✓		WINRICH	✓	
RENNERFELDT	✓				
CLARK	✓				
FROELICH	✓				
GRANDE	✓				
GROSZ	✓				
HERBEL	✓				
KROEBER	✓				
MICKELSON	✓				
NICHOLAS	✓				
RENNER	✓				
SCHMIDT	✓				
WARNER	✓				
WIKENHEISER	✓				

Total 14 0
(Yes) (No)

Absent 1

Floor Assignment Rep Winrich

If the vote is on an amendment, briefly indicate intent:

DO NOT USE HIGHLIGHTER ON ANY FORMS

REPORT OF STANDING COMMITTEE (410)
March 1, 1999 3:22 p.m.

Module No: HR-36-3806
Carrier: Winrich
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2102, as engrossed: Finance and Taxation Committee (Rep. Belter, Chairman)
recommends **DO PASS** (14 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING).
Engrossed SB 2102 was placed on the Fourteenth order on the calendar.

1999 TESTIMONY

SB 2102

SECTION 3. Amendment to Section 57-38-45:

- f. If a deficiency is determined for a tax period for which there was an overpayment of estimated tax that was refunded, interest accrues with respect to the amount of the deficiency that is equal to or less than the amount of the overpayment of estimated tax refunded from the date of payment of the refund.

John Walstad
Comper w/ TK Dept
Cleared with them -

Dennis Boyd
MDU RESOURCES GROUP, INC.
Bismarck, ND, 58102



Director of Tax Equalization
 New Rockford, North Dakota 58356

Elder Daugherty

January 12, 1999

Senator Herb Urlocker:

Dear Sir:

I wanted to be at the hearing on Cap Rate this morning, but the weather held me at home.

I support this cap rate at 10 and a high of 11.

The Assessor has a higher market value on some sales of Agricultural land then what is sold for.

The increase of Agricultural land going up 3 or 4% every year because the cap rate is going done has to stop.

Please support this bill.

Elder Daugherty
 Tax Director for Eddy and Foster Counties

Elder Daugherty

Eddy County		<u>Sold</u>	<u>Assessor</u>
11-3-98	320 acres	\$69,000	72,800
11-17-98	320 acres	\$75,000	80,400
Foster County			
10-24-98	160 acres	\$46,000	43,420
11-24-98	160 acres	\$55,000	52,600

MEMO

To: Senator Bob Stenehjem
Senate Finance and Taxation Committee

From: Joseph J. Becker
Office of State Tax Commissioner

Subject: Senate Bill 2102

Date: January 12, 1999

You requested that our office make an attempt to provide an estimate of the fiscal impact of Senate Bill 2102.

It is important to point out the difficulty of coming up with a fiscal impact, and we cannot provide any assurances as to how close our estimates are, as set forth in this memo. We estimate that the increase in the interest rate on refunds to match the interest rate on assessments, an increase of 2% a year, would increase the amount of interest paid on refunds by about \$150,000 a year, or \$300,000 for a biennium.

However, we also estimate that the administrative costs that would be avoided by not having to implement the legislation passed in 1997 (House Bill 1332) would amount to about \$176,500 a year, or \$353,000 for a biennium. On a biennium basis, this estimate includes personnel costs of \$66,800, on-going computer costs of \$20,000, and opportunity costs of \$267,200. The opportunity costs represent the tax dollars that are not assessed due to the necessity to dedicate additional personnel hours to the processing of transactions involving interest calculations.

The additional administrative costs noted do not account for one-time computer programming costs that would be required in the initial year of implementation of the 1997 legislation. This could amount to about \$150,000+, depending on the number of systems that would be affected.

To reiterate, these estimates are sensitive to many variables, some of which we can't predict. Therefore, the figures in this memo are very rough estimates at best, and we endeavored to be conservative in making them.

If you or the Committee have additional questions, we would be happy to address them as best we can. Thank you.

Testimony before the Senate Finance and Taxation Committee

Senate Bill 2102

January 11, 1999

Prepared by Joseph Becker, Auditor III/Research Specialist
North Dakota Office of State Tax Commissioner

Mr. Chairman, and Members of the Senate Finance and Taxation Committee, my name is Joseph Becker. I'm an individual income tax auditor with the North Dakota Office of State Tax Commissioner (Tax Department). I am here today on behalf of the Tax Commissioner to testify in support of Senate Bill 2102 which was introduced at the Tax Commissioner's request.

This is an income tax bill relating to the State's payment of interest on income tax refunds. Currently, the State charges 12% on assessments and pays 10% on refunds. The purpose of this bill is to equalize the rates of interest on assessments and refunds by increasing the rate of interest on refunds to match the rate of interest on assessments.

Background: Enactment of House Bill 1332 by 1997 Legislature

A summary of the background to this bill is necessary to understanding the purpose and reasons for its introduction. This bill revisits legislation passed by the 1997 Legislature—namely, House Bill 1332, which was introduced at the request of Montana Dakota Utilities (MDU) to address an inequity for taxpayers caused by the difference in rates of interest on assessments and refunds.¹ The inequity occurs whenever a time period over which interest is calculated on an assessment overlaps a time period over which interest is calculated on a refund (or vice versa)—in other words, there is a time period in which both the taxpayer and the State owe each other money. During this overlapping time period, the State receives 12% while the taxpayer receives 10% on the money owed. 338

The Tax Commissioner took no position on the bill introduced in 1997, but did have concerns about the complexity and cost of administering its provisions. The 1997 legislation will require the Tax Department to track each taxpayer's history of assessments and refunds and make numerous calculations whenever interest is required to be calculated. Implementation of that legislation will require extensive computer programming, revisions to forms, and changes to compliance and audit processes. 338

¹S.L. 1997, ch. 493.

The Tax Department worked closely with MDU representatives on the 1997 legislation. While a number of the Tax Department's initial concerns with that legislation were resolved, the administrative concerns remain. However, agreement was reached to set an effective date that allowed the Tax Department to delay implementation of the 1997 legislation until 1999. The purpose of the delay was to give the Tax Department time to see how this same issue played out at the federal level,² to develop alternative solutions, and to give the Tax Department time to implement the legislation, if necessary. The delayed implementation also offered an opportunity to approach the 1999 Legislature with alternative legislation. 439

Explanation of Senate Bill 2102

The bill before you today, Senate Bill 2102, is offered by the Tax Commissioner as an alternative to the legislation passed in 1997. The Tax Department provided a copy of its draft of this bill to MDU for its review, and the Tax Department made changes to the draft in response to MDU's comments.

Senate Bill 2102 has four sections. **Sections 1 and 3** amend those law provisions covering the calculation of interest on refunds and assessments to remove the language added in 1997 that requires the special calculations that are the source of the administrative concerns. In lieu of the special calculations, **Section 1** also amends the law to increase the interest rate on refunds from 10% per year to 1% per month (or a fraction of a month). **Section 2**⁵¹⁰ adds language to another section of law containing refund provisions to prevent conflict between it and the law covering interest on refunds. The last section, **Section 4**, makes all of the changes retroactive to tax years beginning after December 31, 1997. 537

Conclusion

Equalizing the rates of interest on assessments and refunds is a simple way to address both the equity concern and the administrative concerns. Further, increasing the refund rate will have a lesser fiscal impact than decreasing the assessment rate—not only are there more assessment

²Different rates of interest on assessments and refunds under federal income tax law also has sparked debate at the federal level. The concerns on either side of the issue at the federal level are identical to those at the state level. At the time that House Bill 1332 was being addressed in 1997, there were developments at the federal level indicating that Congress may act on the issue.

transactions than refund transactions on which interest is calculated, but the majority of the Department's computer programs, forms and other processes would have to be changed to incorporate a change in the assessment rate. Finally, an increase in cost to the State of a higher rate of interest on refunds is offset by the administrative costs that are avoided by not having to implement the 1997 legislation. 594

For the Committee's information, Congress recently took similar action by equalizing the interest rates on assessments and refunds for individuals by increasing the interest rate on refunds to match the interest rate on assessments.³

The Tax Commissioner asks for the Committee's favorable consideration of Senate Bill 2102. If the Committee has any questions, I would be happy to respond to them. 629

³See Section 3302(a) of the Internal Revenue Service Restructuring and Reform Act of 1998, which amended I.R.C. § 6621(a)(1)(B).

With respect to other taxpayers, such as corporations, Congress (in the same legislation) provided for the equalization of the interest rates in cases where an underpayment period and an overpayment period overlap by establishing a 0% interest rate for the overlapping period. It is apparent from this action that Congress recognized IRS's concern over administering the 0% for overlapping periods in the case of individuals, the largest taxpayer group.

Testimony before the House Finance and Taxation Committee Senate Bill 2102 (First Engrossment)

March 1, 1999

Prepared by Joseph Becker, Auditor III/Research Specialist
North Dakota Office of State Tax Commissioner

Mr. Chairman, and Members of the House Finance and Taxation Committee, my name is Joseph Becker. I'm an individual income tax auditor with the North Dakota Office of State Tax Commissioner (Tax Department). I am here today on behalf of the Tax Commissioner to testify in support of Senate Bill 2102 which was introduced at the Tax Commissioner's request.

This is an income tax bill relating to the State's payment of interest on income tax refunds. Currently, the State charges 12% on assessments and pays 10% on refunds. The purpose of this bill is to equalize the rates of interest on assessments and refunds by increasing the rate of interest on refunds to match the rate of interest on assessments.

Background: Enactment of House Bill 1332 by 1997 Legislature

A summary of the background to this bill is necessary to understanding the purpose and reasons for its introduction. This bill revisits legislation passed by the 1997 Legislature—namely, House Bill 1332, which was introduced at the request of Montana Dakota Utilities (MDU) to address an inequity for taxpayers caused by the difference in rates of interest on assessments and refunds.¹ The inequity occurs whenever a time period over which interest is calculated on an assessment overlaps a time period over which interest is calculated on a refund (or vice versa)—in other words, there is a time period in which both the taxpayer and the State owe each other money. During this overlapping time period, the State receives 12% while the taxpayer receives 10% on the money owed.

The Tax Commissioner took no position on the bill introduced in 1997, but did have concerns about the complexity and cost of administering its provisions. The 1997 legislation will require the Tax Department to create a database that tracks the history of assessment and refund calculations for every taxpayer, and will require involved interest calculations whenever the special interest calculations must be made. Implementation of that legislation will require

¹S.L. 1997, ch. 493.

extensive computer programming, revisions to forms to explain complex interest calculations, and changes to compliance and audit processes.

The Tax Department worked closely with MDU representatives on the 1997 legislation. While a number of the Tax Department's initial concerns with that legislation were resolved, the administrative concerns remain. However, agreement was reached to set an effective date that allowed the Tax Department to delay implementation of the 1997 legislation until 1999. The purpose of the delay was to give the Tax Department time to see how this same issue played out at the federal level,² to develop alternative solutions, and to give the Tax Department time to implement the legislation, if necessary. The delayed implementation also offered an opportunity to approach the 1999 Legislature with alternative legislation.

Explanation of Senate Bill 2102

The bill before you today, Senate Bill 2102, is offered by the Tax Commissioner as an alternative to the legislation passed in 1997. The Tax Department provided a copy of its draft of this bill to MDU for its review, and the Tax Department made changes to the draft in response to MDU's comments. The amendment of this bill by the Senate was made to incorporate a last-minute change desired by MDU which the Tax Department had no objection to.

Senate Bill 2102 has four sections. **Sections 1 and 3** amend current law covering the calculation of interest on refunds and assessments to remove the language added in 1997 that is the source of the Tax Department's concerns. In lieu of that language, **Section 1** amends current law to change the interest rate on refunds to equal the rate of interest on assessments. The rate of interest on assessments is 1% per month or a fraction of a month. **Section 2** makes a technical change to prevent conflict between the changes made by this bill and other existing provisions in the Code. The last section, **Section 4**, makes all of the changes retroactive to 1998, the first tax year that is affected by the 1997 legislation.

²Different rates of interest on assessments and refunds under federal income tax law also has sparked debate at the federal level. The concerns on either side of the issue at the federal level are identical to those at the state level. At the time that House Bill 1332 was being addressed in 1997, there were developments at the federal level indicating that Congress may act on the issue.

Conclusion

Equalizing the rates of interest on assessments and refunds is, in the Department's estimation, the least costly alternative to addressing the concerns of both taxpayers' and the Department.³ For the Committee's information, Congress recently took similar action by equalizing the interest rates on assessments and refunds for individuals by increasing the interest rate on refunds to match the interest rate on assessments.⁴

The Tax Commissioner asks for the Committee's favorable consideration of Senate Bill 2102. If the Committee has any questions, I would be happy to respond to them.

³Another alternative is to decrease the rate of interest on assessments to match the interest rate on refunds; however, this alternative is significantly more costly to the State because there are far more assessment transactions than refund transactions on which interest is calculated, and a change in the rate of interest on assessments would impact almost all of the Department's computer programs, forms and other processes.

The cost of implementing the alternative contained in the 1997 legislation is estimated to be more than increasing the rate of interest on refunds. At the request of Senator Bob Stenehjem, Senate Finance and Taxation, the Department provided its best guess at the administrative costs of implementing the 1997 legislation—\$176,500 a year (\$353,000 per biennium). The annual cost consists of \$33,400 in personnel costs, on-going computer costs of \$10,000, and opportunity costs of \$133,600. The opportunity costs represent the tax dollars that are not assessed due to the necessity to dedicate personnel hours to the processing of transactions involving interest calculations. In addition to the aforementioned on-going annual costs, one-time computer programming costs in the initial year of implementation could amount to approximately \$150,000. The annual cost to the State of an increase in the rate of interest on refunds is estimated to be \$150,000 (\$300,000 per biennium).

⁴See Section 3302(a) of the Internal Revenue Service Restructuring and Reform Act of 1998, which amended I.R.C. § 6621(a)(1)(B).

With respect to other taxpayers, such as corporations, Congress (in the same legislation) provided for the equalization of the interest rates in cases where an underpayment period and an overpayment period overlap by establishing a 0% interest rate for the overlapping period. It is apparent from this action that Congress recognized IRS's concern over administering the special 0% rules in the case of individuals, the largest taxpayer group.