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April 23, 2019

Sen. Dawn Buckingham

Rep. Drew Springer

Texas Legislature

VIA EMAIL

Re: COST's Support of S.B. 2360/H.B. 3443 (Interest Rate Parity)

Dear Sen. Buckingham and Rep. Springer:

On behalf of the Council On State Taxation (COST), I am writing to thank you for your efforts to achieve interest rate parity in Texas. COST supports this legislation because it would apply interest rates equally to both assessments and refund claims. Interest rates are meant to compensate for the lost time-value of money and should apply equally to both parties. A higher interest rate on assessments functions as an automatic penalty, which is against the public policy of fostering taxpayer confidence in the tax system and voluntary compliance.

About COST

COST is a nonprofit trade association based in Washington, D.C. COST was formed in 1969 as an advisory committee to the Council of State Chambers of Commerce, and today has an independent membership of approximately 550 major corporations engaged in interstate and international business representing every industry doing business in every state. COST's objective is to preserve and promote the equitable and nondiscriminatory state and local taxation of multijurisdictional business entities—a mission it has steadfastly maintained since its creation. COST members conduct substantial business in Texas, employ a substantial number of Texans, and own extensive property within the State.

COST Supports Interest Rate Parity

COST's Board of Directors has adopted a policy position on Fair, Efficient, and Customer-Focused Tax Administration, which contains the following provision regarding interest rates:

Equalized Interest Rates – Interest rates are meant to compensate for the time value of money and should apply equally to both assessment and refund claims. Failure to equalize interest rates diminishes the value of the taxpayer's remedy of recovering tax monies to which it is legally entitled. While states are entitled to penalize taxpayers who underreport tax liabilities, the punishment should be imposed through the penalty structure. Refunds and liabilities should be offset in calculating the amount due.

Other States

According to COST's scorecard, *The Best and Worst of State Tax Administration* (attached), 29 states, including three of Texas' four border states, have equal interest rates for assessments and refunds, while 20 other states and the District of Columbia do not have equalized rates (North Carolina has equalized interest rates for income taxes but not for sales/use taxes). Thus, a clear majority of states adhere to the policy of equal interest rates for overpayments and underpayments, including the majority of Texas' neighboring states.

Conclusion

COST thanks you for your efforts to achieve interest rate parity through S.B. 2360 and H.B. 3443.

Respectfully,



Patrick J. Reynolds

cc: COST Board of Directors

Douglas L. Lindholm, COST President & Executive Director