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January 19, 2023

Representative Steve Eliason, Chair  
Representative Bridger Bolinder, Vice Chair  
House Revenue and Taxation Committee  
Utah State Legislature

*Via E-mail*

## Re: COST's Opposition to H.B. 89, Income Tax Refund Interest Rate Disparity

Dear Chair Eliason, Vice Chair Bolinder, and Members of the Committee:

On behalf of the Council On State Taxation (COST), I am writing in opposition to H.B. 89, which would create disparity between Utah's application of interest rates to income tax assessments and refund claims. Utah currently provides equalized interest rates on assessments and refunds. Interest is meant to compensate for the lost time-value of money and should apply equally to both taxpayers and the State. Barring interest on an income tax refund, regardless of whether the Commission issues a refund within a certain timeframe, serves as a penalty, and undermines the perception of fairness of Utah's tax system.

### About COST

COST is a nonprofit trade association consisting of approximately 500 multistate corporations engaged in interstate and international business. COST's objective is to preserve and promote equitable and nondiscriminatory state and local taxation of multijurisdictional business entities. COST has a significant number of members that own property, employ workers, make substantial sales, and are incorporated in Utah.

### 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 equalized interest rates:

*Interest rates are meant to compensate for the time value of money and should apply equally to both assessments 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.<sup>1</sup>*

Interest should apply equally to both tax assessments and refund claims. Interest rates are not meant to serve as a penalty against taxpayers. They serve to compensate for the lost time-value of money and should apply equally to both parties. Interest should also not be denied for refunds based on taxpayer error unless there is an intentional overpayment.

COST has also long monitored and commented on state tax administrative practices, such as interest rate parity. Part of that effort has resulted in the regular publication of a scorecard, “The Best and Worst of State Tax Administration,” ranking the states.<sup>2</sup> The Scorecard includes an objective evaluation of states’ treatment of selected procedural elements that impact taxpayer fairness and efficiency, one of which is equalized interest rates. In our December 2023 Scorecard, Utah’s current tax administration system is graded as a B- (ranked 16<sup>th</sup>). Should Utah adopt H.B. 89, Utah will join a very small minority of states that deny interest on income tax refunds (New Jersey, West Virginia, Wisconsin), and Utah’s overall grade would also drop to a C+ (ranked 26<sup>th</sup>).

### Conclusion

Taxpayers will more fully comply with a tax system they believe is fair and efficient. If interest on refunds is barred, regardless of the Commission’s timeliness to issue a refund, then the State is issuing a hidden penalty that reflects poorly on state tax policy and detracts from the perception of fairness of the State’s tax system. We strongly oppose H.B. 89 and urge the Committee to reject this proposal.

Respectfully,



Stephanie T. Do

cc: COST Board of Directors  
Douglas L. Lindholm, COST President & Executive Director

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<sup>1</sup> COST’s policy position on this issue is available at: <https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-policy-positions/fair-efficient-and-customer-focused-tax-administration---revised-april-2023---final.pdf>.

<sup>2</sup> COST’s Scorecard is available at: <https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/cost-2023-admin-scorecard---final-draft-combined.pdf>.