



TAX EXECUTIVES INSTITUTE, INC.

State and Local Tax Policy Statement Interest Rates

Many state and local tax jurisdictions charge taxpayers a higher rate of interest on tax deficiencies than they pay on refunds. In some instances, jurisdictions pay no interest on refund claims. Moreover, many jurisdictions charge interest on deficiencies at a rate well above market interest rates.

Tax Executives Institute, Inc. ("TEI") maintains interest rates on underpayments and overpayments should be equal. Jurisdictions should set interests rate on underpayments and overpayments at a market rate.

Interest should compensate parties for the time value of money. Interest rates should not be established to generate additional revenue or to punish specific behaviors. Moreover, interest rates should not influence a taxpayer's decision to contest or litigate an issue.

Requiring taxpayers to pay a higher interest rate on deficiencies than taxing jurisdictions pay on refunds undermines the public's confidence in the fairness of the tax system. Moreover, when jurisdictions set interest at rates well over market rates, they impose a penalty on taxpayers that misunderstand or have good faith disputes regarding their tax liability. Above-market interest rates also may cause jurisdictions to delay the processing of refund claims or create the perception that such delays are intentional.

Approved: November 17, 2015