REVENUE DEPARTMENT

Provides for an automatic filing extension for individual income tax returns. (8/1/22)

Current law allows taxpayers to file for a 6-month extension for taxes due on May 15. With the extension, taxpayers must make an estimated payment by May 15 and file the tax return by November 15. The taxpayer will be assessed a late filing penalty of 5% of taxes due per 30 days up to 25% if an extension is not filed by May 15 or a return is not filed by November 15. The taxpayer will be assessed a late payment penalty of 5% of taxes due per 30 days (individual income tax is 0.5%) up to 25% if payment is not filed by May 15. The combined penalty for late filing and late payment cannot exceed 25% of taxes due.

Proposed law retains current law but removes the extension filing requirement for individual, partnership and fiduciary income tax by automatically applying a 6 month filing deadline extension. Corporate taxpayers who have filed a federal income tax extension form shall receive an automatic state income tax extension up to six months or the extension date received from the federal filing, whichever is later. All taxpayers are still required to make an estimated payment by May 15 and file a tax return by November 15 (or the relevant dates). Late filing penalties will no longer be assessed for these taxes prior to the extension deadline if the return is filed by the extension deadline, but the late filing penalty will be assessed back to the original deadline if the return is not filed timely. Delinquent payment penalties may still be assessed if a payment is not made by May 15. Effective TY 2022.

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure. The Department of Revenue reports expenditures of approximately $50,000 for computer system modification, tax for redesign and testing to be absorbed in the current budget. The cumulative effect of all new legislation determined at the end of session may require additional resources.

REVENUE EXPLANATION

This bill reduces penalties that currently accrue to the state general fund by allowing an automatic 6-month filing extension on income taxes. Any late filing penalties assessed on these taxes between May 16 (or the original due date) and November 15 (or the extension deadline) will no longer be available to the state general fund (late filing penalties are assessed before late payment penalties.) Corporate late payment and late filing penalties are both 5% per month so this bill will have no impact. Currently, personal income tax has a late filing penalty of 5% and a late payment penalty of 0.5% per month with late filing penalties assessed first. This bill will remove the late filing penalty during the extension period and cause the late payment penalty to be assessed in the case of a taxpayer not filing or paying.

Based on TY2018 data, LDR estimates these penalties to be about $4.8 M. However, taxpayers filing a return after the automatic extension deadline on November 15 will be assessed a late filing penalty dating back to the original filing deadline of May 15, which is estimated to increase state general fund by $2.9 M by maximizing the late filing penalty to 25% (currently, the late filing penalty would only date back to November 15). Thus, the net impact to the state general fund is a decrease of $1.9 M ($4.8 M decrease offset by a $2.9 M increase) beginning in FY 24. The annual impact will fluctuate based on actual taxpayer behavior and tax liabilities.

The bill does not impact tax liabilities and only removes the mandatory filing of an extension. All other aspects of tax filing obligations, including an estimated payment due by May 15, remain in place.