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MTAS
Municipal Technical Advisory Service
In cooperation with the Tennessee Municipal League

#116
HOT topic

July 8, 2005

INTEREST RATE CURRENTLY 10 PERCENT ON DELINQUENT TAXES COLLECTED OR ADMINISTERED BY THE STATE OF TENNESSEE

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The payment of taxes to local municipalities or to the state of Tennessee generally has a due date associated with it. If a taxpayer fails to pay the tax, or a portion thereof, on or before the due date such taxes are required to be paid, interest is added to the amount of tax due. The commissioner of revenue determines the interest rate for delinquent taxes collected or administered by the state of Tennessee. Sales tax and local business tax are examples of taxes falling into this category.

FORMULA RATE OF INTEREST

Tennessee Code Annotated (T.C.A.) § 67-1-801 provides for the rate of interest to be charged on delinquent tax payments. The rate of interest as determined by the commissioner of revenue is called the "formula rate of interest" and is determined annually. The rate as determined is filed with the secretary of state on July 1 each year and is published in the *Tennessee Administrative Register*. The rate in effect for the fiscal year beginning July 1, 2005, and ending June 30, 2006, has been set at 10 percent. Municipalities should be aware that this rate is an increase from the prior year (FY 2005) rate of 8 percent.

DELINQUENT BUSINESS TAXES

Municipalities that levy and collect a local business tax should use the same rate of interest (10 percent) to calculate any interest due from taxpayers who file their business tax returns after the due date. Delinquent amounts accrue interest from the delinquent date until paid. For periods prior to the date of tax assessment, interest accrues at the prevailing rate (10 percent) regardless of the taxable period involved (T.C.A. § 67-1-801(a)(2)).

ACTION REQUIRED BY MUNICIPAL FINANCE STAFF

Finance directors, city recorders, and other finance office personnel responsible for collecting local business tax receipts should review the interest rate used to calculate interest charges. In many cases, the rate may be programmed into computer software. MTAS has determined that many cities are using an interest rate other than the "formula rate of interest." Therefore, finance personnel should make sure the interest rate used, either from manual calculations or from computer software, is 10 percent for the current fiscal year ending June 30, 2006.

OTHER ASSISTANCE

Please contact your MTAS municipal or finance consultant for further assistance in this matter. You may also call the Tennessee Department of Revenue toll free at (800) 342-1003 or (615) 253-0600.

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The Municipal Technical Advisory Service (MTAS) is a statewide agency of The University of Tennessee Institute for Public Service. MTAS operates in cooperation with the Tennessee Municipal League to provide technical assistance services to officials of Tennessee's incorporated municipalities. Assistance is offered in areas such as accounting, administration, finance, public works, ordinance codification, and wastewater management.

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