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Municipal Technical Advisory Service

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MTAS

**Municipal Technical
Advisory Service**

*In cooperation with the
Tennessee Municipal League*



July 2, 2004

**FORMULA RATE OF INTEREST CHANGES TO 8.00 PERCENT
ON DELINQUENT TAXES COLLECTED OR ADMINISTERED BY
THE STATE OF TENNESSEE**

Dick Phebus, Finance and Accounting Constant

Tax payments to local municipalities or to the state of Tennessee generally have a due date associated with them. If a taxpayer fails to pay the tax or a portion of it on or before the due date, 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. Examples of taxes in this category are sales tax and local business tax.

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 it is determined annually. The rate is filed with the secretary of state on July 1 each year and is then published in the *Tennessee Administrative Register*. The rate in effect for the fiscal year beginning July 1, 2004, and ending June 30, 2005, has been set at 8.00 percent. Municipalities should be aware that this rate is a decrease from the prior year’s (FY 2004) rate of 8.25 percent.

Delinquent Business Taxes

Municipalities that levy and collect a local business tax should use the same rate of interest (8.00 percent) to calculate interest due from taxpayers who file their business tax return after the due date. All 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 (8.00 percent), regardless of the tax period involved (T.C.A. 67-1-801(a)(2)).

Action Required by Municipal Finance Staff

Finance directors, city recorders, and other financial office personnel responsible for the collection of local business tax receipts should review the interest rate they are currently using to calculate interest charges. In many cases, the prior year’s rate may be programmed into computer software. Therefore, finance personnel should make sure the interest rate they use, either in manual calculations or in those generated by computer software, is 8.00 percent for the fiscal year beginning July 1, 2004.

For More Information

Please contact your MTAS municipal or finance consultant for further assistance in this matter. You may call the Tennessee Department of Revenue at (615) 253-0600 or toll-free at (800) 342-1003. Visit our Web site at www.mtas.tennessee.edu for further information and publications.

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