THE UNIVERSITY of TENNESSEE
MUNICIPAL TECHNICAL ADVISORY SERVICE
...in cooperation with the Tennessee Municipal League

#183
HOT topic

June 18, 2009

INTEREST RATE SET AT 7.25 PERCENT EFFECTIVE JULY 1, 2009, 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 date the 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

T.C.A. § 67-1-801 provides for the rate of interest to be charged on delinquent tax payments. This rate is called the "formula rate of interest" and is determined and set annually by the Tennessee commissioner of revenue. The rate effective July 1, 2009, through June 30, 2010, has been set at 7.25 percent. Municipalities should be aware that the rate is a decrease from the current year (FY 2009).

DELINQUENT BUSINESS TAXES

Municipalities that levy and collect a local business tax should use the 7.25 percent rate of interest to calculate any interest due from taxpayers who file their business tax returns after the delinquent date. Taxes due accrue interest from the delinquent date until paid. For periods prior to the date of tax assessment, interest will accrue at the prevailing rate (7.25 percent) regardless of the taxable period involved (T.C.A. § 67-1-801(a)(2)).

Important Note: The Tennessee General Assembly currently is considering a proposal by the Department of Revenue for all local option business taxes levied in accordance with T.C.A. §§ 67-4-701 *et. seq.* to be collected by the Department of Revenue. The language of the enabling legislation would implement this proposal upon becoming law, with the commissioner of revenue having broad discretion to transition the administration of the program from July 1, 2009, through October 1, 2010. MTAS recommends that municipalities continue to administer the local business tax program, including notifying Class 3 businesses with a due date of June 30, 2009, until notified otherwise by the Department of Revenue.

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INTEREST RATE HISTORY
DELINQUENT TAXES OF ALL TYPES
T.C.A. § 67-1-801(a)(1-3)

PERIOD COVERED	RATE	PERIOD COVERED	RATE
Through 9/30/1974	6.00%	7/1/1994 - 6/30/1995	11.25%
10/1/1974 - 7/31/1980	8.00%	7/1/1995 - 6/30/1996	13.00%
8/1/1980 - 6/30/1983	10.00%	7/1/1996 - 6/30/1997	12.25%
7/1/1983 - 6/30/1984	14.50%	7/1/1997 - 6/30/1998	12.50%
7/1/1984 - 6/30/1985	16.00%	7/1/1998 - 6/30/1999	12.50%
7/1/1985 - 6/30/1986	14.50%	7/1/1999 - 6/30/2000	11.75%
7/1/1986 - 6/30/1987	14.50%	7/1/2000 - 6/30/2001	13.50%
7/1/1987 - 6/30/1988	12.25%	7/1/2001 - 6/30/2002	11.00%
7/1/1988 - 6/30/1989	13.00%	7/1/2002 - 6/30/2003	8.75%
7/1/1989 - 6/30/1990	15.50%	7/1/2003 - 6/30/2004	8.25%
7/1/1990 - 6/30/1991	14.00%	7/1/2004 - 6/30/2005	8.00%
7/1/1991 - 6/30/1992	12.50%	7/1/2005 - 6/30/2006	10.00%
7/1/1992 - 6/30/1993	10.50%	7/1/2006 - 6/30/2007	12.00%
7/1/1993 - 6/30/1994	10.00%	7/1/2007 - 6/30/2008	12.25%
7/1/2008 - 6/30/2009	9.00%	7/1/2009 - 6/30/2010	7.25%

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ACTION REQUIRED BY MUNICIPAL FINANCE STAFF

Finance directors, city recorders, and other finance office personnel responsible for collecting local business tax should review the interest rate currently used for delinquent accounts and make the necessary adjustments to comply with the 7.25 percent rate effective July 1, 2009.

HISTORICAL INTEREST RATES

The following table, from the Tennessee Department of Revenue, is a historical presentation of the "formula rate of interest" as determined by the commissioner of revenue. This information is provided as supplemental data to give finance officials a perspective of interest rates for prior years.

OTHER ASSISTANCE

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. Visit the MTAS Web site at www.mtas.tennessee.edu or the Department of Revenue Web site at www.state.tn.us/revenue/ for further information.

MUNICIPAL TECHNICAL ADVISORY SERVICE

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