Delinquent Tax: Interest and Penalty Changes
June 22, 2016

Resources

Sales and Use Tax Policy Bulletin SUT-2016-02 (PDF)
DOR Interest and Penalties Examples (PDF)

Due to the passage of House Bill 960 during the 2016 legislative session, calculation of penalties on property taxes and interest on most categories of taxes will change beginning July 1, 2016. These changes will apply regardless of whether your city directly provides tax billing or this function is handled externally. These changes DO NOT impact interest or penalties applied to proprietary fund billing or an occupation tax.* A summary of the changes is outlined below.

Interest Calculations

The interest provision of HB960 applies to most taxes owed to local governments and by local governments. These include real and personal property taxes, alcoholic beverage taxes, hotel motel tax, and sales and use tax and refunds. Current law allows 1% per month (12% annually) to be collected on delinquent taxes. HB960 changes this interest calculation to .542% per-month, based on an annual calculation of the Federal Prime Rate (3.5%) plus 3%. This annual interest rate will change when the Federal Reserve announces the new bank prime loan rate each January.

Penalty Fees – Ad Valorem Taxes

Penalty fees on delinquent property taxes change July 1st as well. Current law dictates that a penalty fee of 10% of the principle is assessed after 90 days. HB960 changes this penalty to 5% after 120 days with an additional 5% assessed after each successive 120 days to a maximum of 20% of the principle amount due. See reverse for billing examples with the new interest rate and penalty.

For cities that contract with their county tax commissioner to handle property tax billing and collection, a substantive change occurred in HB960 which may impact future contracts with the county. Under current law, when city property taxes are collected by a tax commissioner, penalty revenue is paid into the county treasury. In contrast, HB960 will require penalties on delinquent property taxes be disbursed by tax commissioners on a pro rata basis to the county and each city which is owed taxes. This statutory change will likely result in a loss of revenue to counties since penalty money will no longer go to county coffers when collected by tax commissioners. GMA anticipates that some county governments and tax commissioners will want to renegotiate property tax collection costs with cities as a result of this statutory change to make up for their
decreased revenues.

Other Provisions – Sales Tax Refunds

The bill made other substantial changes to the law regarding information related to large sales tax refunds. “Refunds of local significance” are defined as a sales tax refund that equals 10% or more of a local government’s annual sales tax distributions (taken from the previous three years average). The Department of Revenue (DOR) will give notice to a local government designee if a refund of local significance is expected.

*Occupation tax penalties and interest is governed by O.C.G.A. 48-13-21, which calls for a 10% penalty after 90 days and authorizes local governments to set a rate of interest not to exceed 1.5% per month.

- See more at: http://www.gmanet.com/Advice-Knowledge/Articles-and-Resources/Delinquent-Tax-Interest-and-Penalty-Changes.aspx#sthash.mCAwE0oU.dpuf