

Background

Oregon Department of Revenue pays interest on overpayments of taxes paid. Oregon law specifies how the interest is calculated and how it accrues.

Problem

In Senate Bill 33 (2017), the department proposed legislative changes to the calculation of interest on overpayments of taxes in Oregon law, from a monthly to daily calculation. The changes aligned the department with generally accepted accounting practices in other industries and its new computer system. In the process, a single word (“on”) was added to the law that made a significant difference in the calculation of interest on the overpayment of taxes.

Currently, the law requires the interest to begin accruing 45 days from the due date of the return, or on the date the taxpayer paid the tax, whichever is later. The word “on” in the law creates the challenge. Below is an example of how this works:

A personal income taxpayer who pays their tax on February 20 that is due on April 15 would not receive interest if the department issued a refund of the overpaid tax paid by May 30 (45 days after the due date). However, a taxpayer that pays tax on April 30 (15 days after the due date) would receive interest on the overpayment starting on April 30 (the day the tax was paid).

In this example, the taxpayer who paid taxes late would receive interest on the overpayment, and the taxpayer who paid their taxes on time would not receive interest.

Senate Bill 33 (2017) was intended to change the way interest is calculated - from monthly to daily - but not to change when the interest would start to accrue.

Proposed Solution

Senate Bill 120 removes the word “on” from the statute. While small, this change is significant in that it clarifies interest begins to accrue on overpayments of the later of 45 days after the due date or 45 days after the date the tax was paid. This change allows the department 45 days to process the refund before interest begins to accrue, regardless of when the overpayment of tax was made.

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