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## Hot Topic: Interest Rate Set at 7.25 Percent Effective July 1, 2010, on Delinquent Taxes Collected or Administered by the State of Tennessee

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*Municipal Technical Advisory Service*

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June 30, 2010

## INTEREST RATE SET AT 7.25 PERCENT EFFECTIVE JULY 1, 2010, 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, 2010, through June 30, 2011, has been set at 7.25 percent. Municipalities will recognize that this rate is the same as for the current year (FY 2010).

### DELINQUENT BUSINESS TAXES

Municipalities that levy and collect any local business tax should use the 7.25 percent rate of interest to calculate any interest due from taxpayers who file delinquent business tax returns for periods prior to January 1, 2010. 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 adopted a measure that the Department of Revenue will collect all local option business taxes levied in accordance with T.C.A. §§ 67-4-701 *et seq.* The commissioner of revenue has broad discretion to transition the administration of the program. Municipalities will continue to have some local jurisdiction over the business tax program. They will be responsible for issuing new business licenses, issuing renewal licenses upon notification from the state that the tax has been paid, and also be responsible for the collection of delinquent business taxes. Should a municipality choose to turn delinquent collection of business license tax over to the Department of Revenue the full amount collected would revert to the Department of Revenue.

### 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

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used for delinquent accounts and make the necessary adjustments to comply with the 7.25 percent rate effective July 1, 2010.

“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.

**HISTORICAL INTEREST RATES**

The following table, from the Tennessee Department of Revenue, is a historical presentation of the

**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%	7/1/1996	-	6/30/1997	12.25%
10/1/1974	-	7/31/1980	8.00%	7/1/1997	-	6/30/1998	12.50%
8/1/1980	-	6/30/1983	10.00%	7/1/1998	-	6/30/1999	12.50%
7/1/1983	-	6/30/1984	14.50%	7/1/1999	-	6/30/2000	11.75%
7/1/1984	-	6/30/1985	16.00%	7/1/2000	-	6/30/2001	13.50%
7/1/1985	-	6/30/1986	14.50%	7/1/2001	-	6/30/2002	11.00%
7/1/1986	-	6/30/1987	14.50%	7/1/2002	-	6/30/2003	8.75%
7/1/1987	-	6/30/1988	12.25%	7/1/2003	-	6/30/2004	8.25%
7/1/1988	-	6/30/1989	13.00%	7/1/2004	-	6/30/2005	8.00%
7/1/1989	-	6/30/1990	15.50%	7/1/2005	-	6/30/2006	10.00%
7/1/1990	-	6/30/1991	14.00%	7/1/2006	-	6/30/2007	12.00%
7/1/1991	-	6/30/1992	12.50%	7/1/2007	-	6/30/2008	12.25%
7/1/1992	-	6/30/1993	10.50%	7/1/2008	-	6/30/2009	9.00%
7/1/1993	-	6/30/1994	10.00%	7/1/2009	-	6/30/2010	7.25%
7/1/1994	-	6/30/1995	11.25%	7/1/2010	-	6/30/2011	7.25%
7/1/1995	-	6/30/1996	13.00%				

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**OTHER ASSISTANCE**

Contact your MTAS municipal management 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](http://www.mtas.tennessee.edu) or the Department of Revenue Web site at [www.state.tn.us/revenue/](http://www.state.tn.us/revenue/)

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