

The sales tax is the second largest source of revenue for the State general fund, with an estimated \$1.2 billion to be collected in Fiscal Year 1987. It is estimated that for Fiscal Year 1987 there will be 2,500 refund claims paid for a total of \$7 million.

The Comptroller cites several problems which would result from this bill. Although some State taxes provide for the payment of interest on tax refunds, they consistently preclude the payment of interest when the claim results from taxpayer error. The failure of this bill to preclude interest based on taxpayer error creates an incentive for taxpayers not to claim exemptions from vendors at the time of purchase. In addition, a shorter time frame (30 days) for payment of a sales tax refund is provided in the bill than is applicable for income tax refunds (45 days).

Another problem with this legislation relates to the State's right to recover overpayment of refunds. In the case of the income tax, if a refund is paid in error, the State may recover overpayments for a period of 3 years. However, Senate Bill 291 provides that in the case of the sales tax the payment of a refund is a final action. As a consequence, if the Comptroller authorizes a sales tax refund, the State may not thereafter recover a subsequently discovered overpayment.

I am sympathetic with the purpose of this bill, which is to establish a system of interest on sales tax refunds. However, this system should be created in a manner which will not harm the administration of that tax. Therefore, the Comptroller has agreed to work with the sponsor of the vetoed bill and draft departmental legislation for introduction in the 1987 Session of the General Assembly which will provide interest on sales tax refunds on a basis parallel to that of the income tax.

Therefore, for the above reasons, I have decided to veto Senate Bill 291

Sincerely,
Harry Hughes
Governor

Senate Bill No. 291

AN ACT concerning

Retail Sales and Use Taxes - Refunds - Interest

FOR the purpose of requiring the Comptroller to pay interest at a certain rate on documented claims for refunds due under the Retail Sales and Use Tax Acts; and generally relating to the computation of interest due on refunds under the Retail Sales and Use Tax.