Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 260 of the 130th G.A.

Date: December 3, 2013

Status: As Introduced

Sponsor: Rep. Gonzales

Local Impact Statement Procedure Required: No

Contents: Allows the Department of Taxation to provide refunds on debit cards or similar devices to taxpayers who choose that option and file electronically

State Fiscal Highlights

- The bill would permit the Department of Taxation to provide refunds on debit cards or similar devices.
- The cost to the state of issuing refunds on debit cards or similar devices, to taxpayers who choose to receive their refunds in that way, would depend on how much of the cost is passed along to those taxpayers.
- The state's cost of other means of returning refunds to taxpayers is also a factor in the total net cost of such a program, since that cost would be avoided for those taxpayers electing to receive refunds through a financial transaction device.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

The bill would allow the Department of Taxation to provide tax refunds through a financial transaction device such as a debit or stored value card. To qualify to receive a refund on such a card, a taxpayer would be required to file electronically. If the Department offers such a program, it would have to provide taxpayers with information on the program including any fees charged, as well as other options for receiving refunds. However, the bill does not specify whether the Department should charge any portion or all of the cost of such a device to the taxpayer. The Department would be authorized to enter into agreements with issuers of such devices.

If the bill becomes law and the Department chooses to offer such a program, the cost to the state would depend on how the program is structured, including whether the state pays part or all of the charge from the bank or banks issuing the debit cards. The administrative costs would be negotiated as part of the contract with the banks. The Department would work through the Treasurer of State. Potentially the state could even realize a net gain from the program, as described below.

Tax refunds are paid from Fund 4250 under current law, unchanged by the bill. Creation of a new fund for this program, such as for any associated administrative costs incurred by the Department, is not anticipated.

The Treasurer of State's office indicated that $5 per card would be a good working estimate of the amount that a bank might charge for issuing debit cards and operating a debit card program. The cost might be lower with a volume discount, if enough taxpayers participated to qualify for a discount. The cost might be higher to put the taxpayer's name or names (for a joint return) on the card as an additional security measure.

Passing part or all of the cost of a debit card along to the taxpayer electing to receive the refund via debit card would provide an incentive for the taxpayer to choose a lower cost way of transmitting the refund. Conversely, participation in a tax refund debit card program would likely be higher if taxpayers paid less, or none, of the program's cost. The Department of Taxation indicated that it was given a cost of $0.521 per warrant mailed by the state printing office, and around $0.02 for direct deposit of a tax refund. If part or all of the cost per debit card ($5 more or less) is passed on to the taxpayer, the state would necessarily pay less, possibly zero. On the other hand, offering the debit card option for taxpayers who file electronically could potentially induce additional taxpayers to become electronic filers, reducing the Department of Taxation's costs to process the returns no longer filed on paper, and thus providing a rationale for the state to pay at least a portion of the cost of the debit card.

Over 25% of taxpayers who file electronically choose to be paid by paper warrant rather than by direct deposit. This may reflect in part the Department's disclaimer, in the instructions for electronic filing, of any responsibility for a lost refund if a taxpayer enters the wrong account information. Taxpayers who might choose to receive refunds through debit cards seem much more likely to be persons who, in the absence of a debit card program, are paid by paper warrant, and not those paid by direct deposit. Thus the net cost to the state, even if the state paid the full assumed $5 cost of the debit card, generally would be $4.479 per debit card refund, equal to the $5 minus the savings of $0.521 on each paper warrant not mailed. If the full cost of the debit card was borne by the taxpayer receiving the refund, the state would realize a gain, saving $0.521 for each taxpayer who chose to receive a refund via a debit card rather than a paper warrant.

Another potential cost of a debit card program relates to fraud. Debit cards may be better protected from fraud than paper warrants mailed to taxpayers' street addresses, if each taxpayer receiving a debit card has to call a designated telephone number and provide some personal information in order to activate the card. The state often loses money if someone succeeds in cashing a warrant fraudulently. A claim can be filed against the person who committed the fraud, if the fraud is discovered. If the fraud is detected soon enough, the check casher may bear the loss.

On the other hand, warrants for income tax refunds that void (are not cashed by the taxpayer to whom they are issued) represent money retained by the state. Tax refund warrants void after two years. Taxpayers have seven years to apply for reissuance of the warrants, after which the money reverts to the state, and not to unclaimed funds. In FY 2013, about 23,000 personal income tax refund warrants voided, returning over $3 million to the state. If refunds are issued on debit cards, and some of the cards are not used, for those cards the bank would retain the tax refund money paid to it by the state to fund the debit card program, unless the terms of the agreement with the bank operating the program included provision for recapture of these funds, or the program was priced to reflect this gain to the bank and loss to the state.

Debit cards may be reloadable or for one-time use. The debit cards issued for tax refunds might be of the latter type, to be used only until the tax refund of a particular tax year is spent. Alternatively, taxpayers might be encouraged to retain their cards, and efficiencies might be realized, if the card is kept and reloaded with state payments to the same taxpayer or taxpayers, such as the next tax year's income tax refund, or payments from other state programs.

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