

# HOUSE RESEARCH

## Bill Summary

**FILE NUMBER:** H.F. 3292

**DATE:** April 5, 2006

**Version:** As introduced

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**Subject:** Decreasing the minimum interest rate on delinquent property taxes

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### Overview

This bill lowers the minimum interest rate on delinquent property taxes, penalties, and costs from 10 percent to seven percent on property becoming delinquent on or after December 31, 2006. Effective day following final enactment.

#### Section

- 1 Delinquency interest rates.** Lowers the minimum interest rate from 10 percent to seven percent on delinquent property taxes, penalties, and costs unpaid on or after December 31, 2006. The current maximum interest rate of 14 percent is not changed in the bill.

Paragraph (b) maintains the current minimum interest rate of 10 percent on all delinquent taxes, penalties, and costs unpaid after January 1, 1991, and before January 1, 2007. Hence, this change is only on prospective delinquencies.

Under current law, the annual interest rate that is charged on delinquent real and personal property taxes is the rate determined in section 270C.40, subdivision 5, which is based on the prime rate charged by banks (i.e., the average predominant prime rate quoted by commercial banks to large businesses as determined by the Board of Governors of the Federal Reserve System). That is the interest rate that the Department of Revenue charges on delinquent state taxes (e.g., income, sales, etc). **However**, in the case of delinquent property taxes, there is a minimum rate set in statute of 10 percent. Hence, even if the prime rate falls below 10 percent, the interest rate charged on unpaid delinquent property taxes

**Section**

remains at 10 percent.

The table below lists the prime rate under section 279C.40, subdivision 5 for the past 5 years.

| Year | Section 270C.40, subdivision 5 interest rate (used by delinquent revenue for unpaid state taxes) |
|------|--|
| 2006 | 6%   |
| 2005 | 4%   |
| 2004 | 4%   |
| 2003 | 5%   |
| 2002 | 7%   |

If the minimum 10 percent interest rate on delinquent property taxes had not been in effect, the interest rate that would have been charged, are the interest rates shown above. Since H.F. 3292 sets the minimum at 7 percent, and since all of the above rates are equal to or lower than 7 percent, the 7 percent minimum would still have been imposed. If, on the other hand the above rates had been higher than 7 percent, the higher rates would have been imposed (up to the 14 percent maximum).

Effective the day following final enactment.

- 2 Composite judgment.** Provides that the minimum interest rate on amounts included in a confession of judgment entered into on or after January 1, 2007, is also 10 percent (same as the minimum rate in section 1).

Paragraphs (b), (c), and (d) have the same meaning as current law, but are rewritten and sequenced so as to make it easier to understand (i.e., what interest rate applies, depending upon when the judgment was entered into).

Effective the day following final enactment.