

**STATE OF MAINE
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES
MAINE REVENUE SERVICES
OFFICE OF TAX POLICY**

Date: February 20, 2013

To: Joint Standing Committee on Taxation

Subject: LD 150 – An Act To Modernize State Income Tax Refunds

Primary Sponsor: Representative Brian M. Duprey

Estimated Revenue Impact: Unknown.

Estimated Administrative Cost Impact: Unknown. It is not possible to determine administrative costs or savings without first knowing the structure of the proposed debit card program.

Background:

- MRS currently issues individual, circuitbreaker, fiduciary and corporate income tax refunds via two methods: Direct Deposit of Refund (DDR) to checking, savings or NextGen accounts – from 2012 data – 313,395 transactions (nearly 60% of all refunds) totaling \$175,548,830 at a cost of \$.04 per transaction. Paper checks – also from 2012 data – 221,061 checks (about 41% of all refunds) totaling \$166,961,874 at a cost of \$.56 per check.
- The Maine Department of Treasury issued the “Unified Payment Card Work Group” report dated January 2011 to the Joint Standing Committee on Appropriations and Financial Affairs regarding the use of a unified payment card for state expenditures. The report contains information on the various payment methods currently used by state government and a recommendation regarding the use of a unified payment card.
- Eight states currently issue income tax refund checks via debit cards: Georgia initiated its program beginning in 2011 and indicated in 2012 that it plans to phase out paper checks over the next few years. Louisiana, Connecticut, New York, Oklahoma and South Carolina started debit card programs in 2012 and Virginia and Missouri initiated programs in 2013. Louisiana, Connecticut and Oklahoma have indicated that they will continue with their debit card programs.
- In 2011, the U.S. Department of Treasury conducted a pilot prepaid card program study related to tax refund payments. The study involved 1,933 low income taxpayers whose household income was likely to be less than \$35,000 and who were likely to be unbanked or underbanked. Findings of the pilot study are summarized in the Tax Time Account Direct Mail Pilot Evaluation report dated September 2012 which can be found at www.urban.org/UploadedPDF/412623-Tax-Time-Direct-Mail-Pilot-Evaluation.pdf.

Identified Issues:

- It is not clear who (Treasury, contractor financial institution, or some other entity) will be responsible for administering the program (producing and mailing cards, card replacement and account administration, taxpayer/customer service, etc.). MRS does not have the capability to produce debit cards or to administer card balance issues; these are generally functions performed by financial institutions.

- MRS has no expertise in the proper development and implementation of a debit card program in a manner that protects both taxpayer rights and state interests. MRS suggests that others be consulted on this issue, such as the Treasurer of State and the Department of Professional and Financial Regulation, or others who participated in the study referred to above.
- The bill does not identify a fee structure and who will bear the cost of fees, except that the bill prohibits passing on fees to cardholders. With this restriction, the state would presumably bear the cost of applicable fees. Depending on the terms of a contract with a financial institution, the fees (e.g., fees for purchases, ATM withdrawals, cash advances, fund transfers, inactivity, inquiries, card replacement, etc.) could be as little as zero with respect to some or all cardholders, or could be very high. The U.S. Treasury pilot program, for example, included zero fees for some cardholders and a monthly maintenance fee of \$4.95 for other cardholders. Similarly, state debit card program fees could be zero for some or all cardholders, or very significant for others, such as South Carolina's card replacement fee of \$15.00 and cash withdrawal fee of \$10.00. Some states limit debit card amounts to limit risk to the state in the case of erroneous refunds or theft and to limit taxpayer exposure to card fees. Card limits may add costs to the program.
- The bill requires that a person 56 years of age or older be allowed to request a refund via paper check. Maine Revenue Services does not currently capture the age of the taxpayer or of anyone else included on the Maine individual income tax return. This requirement will add to the administrative complexity and cost of the bill. The bill should clarify whether the age of the taxpayer's spouse (and/or dependents) would qualify the taxpayer for a paper check regardless of the taxpayer's age.
- Another administrative cost issue is the extent to which a public education effort is needed to inform taxpayers about the program.
- The proposed debit card program presents a number of security issues that need resolution. For example, procedures are necessary to address loss of cards (either lost in the mail or lost by the taxpayer) and to ensure that the user of a card is the taxpayer to whom the card was issued. Also, amounts credited to each card should be limited so as to limit the risk to the state and the taxpayer in the case of error and misuse.
- It appears that the bill envisions a one-time debit card issued once a year to each taxpayer that qualifies for an income tax refund. Further analysis would be needed to determine if this is a cost efficient approach to a debit card program.

Similar Legislative Proposals:

None

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 Office of DAFS Commissioner
 Office of the Attorney General
 Office of Policy & Legal Analysis

State Budget Office
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