

## Potential Agency Request Legislation:

### Assessment of Interest When Return Due Dates Are Extended

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**From** Brenton Madison, ITA

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**Overview of Issue** When the Department extends a return due date for a taxpayer, current law does not authorize the Department to assess interest against that taxpayer if it files and pays the return on or before the extended due date. The Department is considering whether to propose legislation requiring the imposition of interest (but not penalties) when a taxpayer's return is extended and paid after the statutory due date, except in cases where the extension is due to a weekend, holiday, or a state of emergency declared by the governor.

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**How is interest currently calculated?** RCW 82.32.050(1) requires the Department to impose interest when tax is paid less than that properly due on a return. The Department interprets "properly due" to mean paid on or before the return's due date, which includes extensions due to a weekend, holiday, or the Department's authority to extend due dates for any other reason.

Therefore, the Department imposes interest only when a taxpayer does not pay all tax due on a return by the statutory or extended due date, as applicable.

The Department does not impose interest in the following circumstances:

- The taxpayer pays all tax due on a return on or before the statutory due date in RCW 82.32.045.
- The taxpayer pays all tax due on a return on or before the first business day following the statutory due date when the statutory due date falls on a weekend or holiday.
- The taxpayer pays all tax due on a return on or before an extended due date granted by the Department for any other reason.

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**Reasons for Change** The Department's assessment or refunding of interest is not meant to penalize or reward the actions of taxpayers, but rather to compensate the state or taxpayer for the lost time value of money. When the Department grants an extended due date for reasons other than an emergency, the State loses that time value of money between the statutory due date and the extended due date. The Department believes interest should be imposed in these cases to avoid effectively giving taxpayers interest-free loans, and to align interest provisions for tax returns with interest provisions for tax assessments. Not imposing interest in these cases also creates an unfair situation

compared to taxpayers who either register through the Voluntary Disclosure Program and are assessed a penalty (but not interest), or do not receive an extended due date, but file and pay their taxes on the same date as those receiving an extension, as taxpayers without an extension are subject to delinquent return penalty and interest on any unpaid tax.

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**What is the Department potentially proposing?**

The Department is considering whether to propose legislation requiring the Department to impose interest when a taxpayer pays all tax due on a return after the statutory return due date, but on or before an extended due date. However, the Department would not impose interest when the taxpayer pays all tax due on a return on or before an extended due date resulting from a weekend, holiday, or state of emergency declared by the governor. Proposed legislation would likely include amended language specifying that, for interest calculation, “properly due” means paying all tax due before the statutory due date, except in cases where the due date falls on a weekend or holiday, or when the due date is extended due to a governor declared emergency. o