OHIO LEGISLATIVE SERVICE COMMISSION

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# Fiscal Note & Local Impact Statement

**Bill:** H.B. 441 of the 132nd G.A. **Status:** As Introduced

**Sponsor:** Reps. Lanese and Dever **Local Impact Statement Procedure Required:** No

**Subject:** Allows income tax refunds on prepaid cards to taxpayers who file electronically

## State & Local Fiscal Highlights

- The bill would permit the Department of Taxation to provide income tax refunds on prepaid cards to taxpayers who file electronically and choose to receive their refunds on such cards.
- The total cost to the state of issuing refunds on prepaid cards would depend on the share of the cards' costs paid by the state and by the taxpayers receiving the cards, on how many taxpayers participate in the program, and on how many file electronically who would otherwise have filed on paper.
- 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 taxpayers receiving refunds through prepaid cards.
- No direct fiscal effect on political subdivisions.

## Detailed Fiscal Analysis

The bill would allow the Department of Taxation to provide tax refunds through a prepaid 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. The bill does not specify whether the Department is to charge any portion or all of the cost of the prepaid card to the taxpayer. The Department is authorized by the bill to enter into agreements with issuers of such cards.

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 prepaid cards. The administrative costs would be negotiated as part of the contract with the banks. Potentially the state could realize a net gain from the program, as described below. Tax refunds are paid from Fund 4250 under current law, unchanged by the bill.

The Treasurer of State's Office said in February 2018 that a bank would issue prepaid cards for $2 per card. The Department of Taxation indicated in February 2018 that mailed refund warrants cost $0.5300 each, and direct deposited tax refunds cost around $0.02 each.

If the Department paid part or all of the card program's cost, some taxpayers who otherwise would file on paper might be induced to file electronically. Any additional electronic filing would reduce the Department's costs to process those returns. With sufficient switching from paper to electronic filing, the state might realize a net gain from the program. However, if few taxpayers would be induced to switch to electronic filing from paper, passing part or all of the cost of a prepaid card along to taxpayers electing to receive the refund on a card might save the Department money, since this would give those taxpayers an incentive to choose a lower cost way of receiving their refunds. Some taxpayers might prefer to receive refunds on prepaid cards even if they pay most or all of the cost of the program.

Taxpayers receiving refunds through prepaid cards who, in the absence of a prepaid card program, would have been paid by paper warrant would incur costs of $1.47, equal to the $2 assumed cost per prepaid card minus the savings of $0.53 on each paper warrant not mailed. This would be the cost to the state if the state paid the full $2 cost of the card. For any of these taxpayers who were induced to file electronically instead of on paper, in order to get their refunds on a prepaid card, the state would realize savings on processing costs.

Similarly, taxpayers receiving refunds through prepaid cards who, in the absence of the program, would have been paid by electronic transfer would incur costs of $1.98, equal to the $2 cost per card minus savings of $0.02 on each electronic transfer not sent. This would be the state's cost if it paid the full $2 per card. For taxpayers who filed electronically instead of on paper to get their refunds on a prepaid card, the state would realize savings on processing costs. Few taxpayers seem likely to switch from electronic refunds to prepaid cards.

A potential benefit of a prepaid card program relates to fraud. Prepaid cards may be better protected from fraud than paper warrants mailed to taxpayers' street addresses, if each taxpayer receiving a prepaid 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, though 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. If refunds are issued on prepaid 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 prepaid 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.

Prepaid cards may be reloadable or for one-time use. The prepaid 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. The $2 per card cost cited above is for one-time use cards. 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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