

# Legal Assistance Resource Center

## ❖ of Connecticut, Inc. ❖

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### Testimony of Raphael L. Podolsky

Planning and Development Committee public hearing -- February 19, 2016

### S.B. 91 -- Interest rate on delinquent property taxes

Recommended Committee action: APPROVAL OF THE BILL

Existing law sets a rate of 18% per year as the statutory rate of interest on delinquent municipal taxes. This bill does not lower that rate. Instead, it allows towns to choose to reduce the rate to 10%. The current 18% rate is an unfortunate anachronism from a period of high interest rates that causes particular harm to older homeowners on fixed incomes. Indeed, it does not function as compensation to the town for late payment, which is what interest on delinquent accounts is supposed to be, but rather as a penalty and even as a revenue source. **We support S.B. 91 as a step in the right direction.** In reality, however, the 18% interest rate should be reduced to no more than 10% as the maximum, not the minimum, rate that can be charged.

The harm of an 18% rate is quite real. Attorneys in the legal aid programs have represented low-income clients -- often retired seniors with very little income -- who lose their homes to municipal tax foreclosure, or must try to fight off such foreclosure actions, because of property tax bills they cannot pay. Sometimes these homes are fully paid for and are foreclosed solely or primarily for a tax arrearage. We have had cases when the debt claimed was less than \$5,000.

The unduly high tax delinquency interest rate compounds what is already a difficult problem. The rate was not always 18%. Before 1969, the rate on delinquent taxes was 6%. It went to 9% in 1969, 12% in 1975, and 18% in 1982 -- a time period when interest rates had escalated to historic highs. Although interest rates subsequently came down and are now at nearly historic lows, the 18% municipal interest rate has never been reduced to reflect these changes. For comparison, the legal rate of interest for unpaid debt is 8% (Genl. Stats. §37-1); the rate on an unpaid judgment is 10% (Genl. Stats. §37-3); and the usury rate is 12% (Genl. Stats. §36a-573).

The existing interest rate is disproportionate, harmful, and unfair. We support legislation that reduces the rate to a reasonable percentage.