

**DEPARTMENT OF TAXATION  
2024 Fiscal Impact Statement**

1. **Patron** Joseph P. McNamara

3. **Committee** House Finance

4. **Title** Taxation; Rate of Interest

2. **Bill Number** HB 89

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:**

This bill would make Virginia’s interest rate on omitted taxes and assessments the same as the federal underpayment rate. Similarly, this bill would make the interest rate on refunds the same as the federal overpayment rate for noncorporate taxpayers.

Under current law, Virginia’s interest rate is equal to:

- For omitted taxes and assessments, the federal underpayment rate plus two percent and
- For refunds, federal overpayment rate for noncorporate taxpayers plus two percent.

If enacted during the 2024 regular session of the General Assembly, this bill would become effective July 1, 2024.

**6. Budget amendment necessary:** Yes.

Item(s): Page 1, Revenue Estimates

**7. Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

**7b. Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2024-25	(\$10.2 million)	GF
2025-26	(\$10.2 million)	GF
2026-27	(\$10.2 million)	GF
2027-28	(\$10.2 million)	GF
2028-29	(\$10.2 million)	GF
2029-30	(\$10.2 million)	GF

**8. Fiscal implications:**

Administrative Costs

The Department of Taxation (“the Department”) considers implementation of this bill to be routine and does not require additional funding.

## Revenue Impact

This bill would have an estimated average negative General Fund revenue impact of \$10.2 million annually beginning in Fiscal Year 2025. However, such impact could vary greatly from year to year due to changes in the prevailing federal interest rates. This estimate represents the net impact of:

- A \$16.0 million average annual revenue loss associated with lowering the interest rate earned on omitted taxes and assessment, and
- A \$5.8 million average annual revenue gain associated with lowering the interest rate paid on refunds.

### **9. Specific agency or political subdivisions affected:**

Department of Taxation

**10. Technical amendment necessary:** Yes. The Department understands that this bill is intended to make the interest rate under *Va. Code* § 58.1-15 the same as the applicable federal rate. Subsection B and C of § 58.1-15 extend the use of prior quarter's interest rate to the due date of the return, so that taxpayers do not need to use a separate interest rate for the month in which a return is due to compute any addition to tax under *Va. Code* § 58.1-492 in the case of individuals and *Va. Code* § 58.1-504 in the case of corporations. As drafted these subsections still reference the "Underpayment Rate plus two percent" as applying to this period. The Department suggests the following technical amendment:

Lines 21, 24, and 27, after "Underpayment Rate"  
Strike: plus two percent

### **11. Other comments:**

#### Federal Interest Rates

The Internal Revenue Service ("IRS") uses the federal short-term rate based on daily compounding interest to calculate the interest that it charges and pays. Different interest rates apply to underpayments and overpayments, depending on whether the taxpayer is an individual or a corporation. The interest rate that applies to underpayments is the federal short-term rate plus three percent. The interest rate that applies to overpayments is the federal short-term rate plus three percent for noncorporate taxpayers and the federal short-term rate plus two percent for corporate taxpayers. The underpayment and noncorporate overpayment rates are together referred to as the standard interest rate.

The interest rate for corporate overpayments exceeding \$10,000 is the federal short-term rate plus .5 percent and the interest rate for large corporate underpayments exceeding \$100,000 is the federal short-term rate plus five percent.

The IRS updates its interest rates quarterly and publishes them on its website. Changes to the rate do not affect the interest rate charged for prior quarters or years.

The following table shows the various federal interest rate over the past two years:

Interest Category	2022				2023				2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Federal Short-term rate	0%	1%	2%	3%	4%	4%	4%	5%	5%
Underpayment (corp. and non-corporate)	3%	4%	5%	6%	7%	7%	7%	8%	8%
Noncorporate Overpayment	3%	4%	5%	6%	7%	7%	7%	8%	8%
Corporate Overpayment	2%	3%	4%	5%	6%	6%	6%	7%	7%
Corporate Overpayment over \$10,000	.5%	1.5%	2.5%	3.5%	4.5%	4.5%	4.5%	5.5%	5.5%
Large Corporate Underpayments over \$100,000	5%	6%	7%	8%	9%	9%	9%	10%	10%

Virginia Interest Rates

Prior to 1991, the Virginia interest rate on omitted taxes and assessments and the interest rate on refunds were equal to the federal underpayment and overpayment rates, respectively.

During the 1991 session of the General Assembly, legislation was enacted that increased the Virginia interest rate on omitted taxes and assessments from the federal underpayment rate to the underpayment rate plus two percent.

During the 1999 session of the General Assembly, legislation was enacted that increased the Virginia interest rate on refunds from the federal overpayment rate for noncorporate taxpayers to the overpayment rate for noncorporate taxpayers plus two percent. As the federal underpayment rate and federal overpayment rate for noncorporate taxpayers are the same, the Virginia interest rate on refunds has been equal to the Virginia interest rate on omitted taxes and assessments since that time.

Proposed Legislation

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- For refunds, federal overpayment rate for noncorporate taxpayers plus two percent.

If enacted during the 2024 regular session of the General Assembly, this bill would become effective July 1, 2024.

cc : Secretary of Finance

Date: 1/14/2024 JLOF  
HB89F161