

Legislative Recommendation #30**Apply a Single Interest Rate to Underpayments of Estimated Tax in the Periods Between Each Installment Due Date****SUMMARY**

- *Problem:* The due dates for estimated tax payments do not align with the dates on which the interest rate for estimated tax underpayments is adjusted. As a result, more than one interest rate may apply to an underpayment during the period between each estimated tax installment due date, causing unnecessary complexity and burden for taxpayers.
- *Solution:* Apply the same interest rate to underpayments of estimated tax for the entire period between each installment due date.

PRESENT LAW

IRC § 6654(c) provides that individual taxpayers who make estimated tax payments must submit those payments on or before April 15, June 15, September 15, and January 15 of the following taxable year.¹ Similarly, IRC § 6655(c) provides that corporations required to make installment payments must submit those payments on or before April 15, June 15, September 15, and December 15.² Failure to make required estimated tax payments results in a penalty that is determined by the underpayment rate, the amount of the underpayment, and the period of the underpayment.

Under IRC § 6621(a)(2), the underpayment rate is equal to the federal short-term interest rate, plus three percentage points. Under IRC § 6621(b)(1), the federal short-term interest rate is determined quarterly by the Secretary of the Treasury. If the Secretary determines a change in the federal short-term interest rate, the change is effective on January 1, April 1, July 1, or October 1.³ For individual estimated tax underpayments, IRC § 6621(b)(2)(B) delays the timing of the April 1 rate change to April 15, partially aligning the timing of the interest rate changes with the requirements of IRC § 6654.

REASONS FOR CHANGE

Under current law, more than one interest rate may apply to an underpayment in the period between each estimated tax installment due date. For example, if a taxpayer fails to make an estimated tax payment due June 15 and the Secretary determines a change in the federal short-term interest rate effective July 1, one interest rate would apply for the period from June 16 through June 30, and another rate would apply beginning July 1. A change in interest rate just 15 days after the estimated tax installment due date causes unnecessary complexity and burden for taxpayers. This complexity and burden would be reduced if the same interest rate applied to the entire period between required installments.

1 To make compliance easier, the National Taxpayer Advocate separately recommends that Congress set the estimated tax payment deadlines 15 days after the end of each calendar quarter (April 15, July 15, October 15, and January 15). See *Adjust Individual Estimated Tax Payment Deadlines to Occur Quarterly*, *supra*.

2 The dates referenced in the text apply to calendar-year taxpayers. Fiscal-year taxpayers will have estimated tax due dates in different months at similar intervals. Thus, they face the same problem as calendar-year taxpayers with interest rate adjustments that do not align with estimated tax installment due dates. See IRC §§ 6654(k), 6655(i).

3 IRC § 6621(b)(2)(A) (“[T]he Federal short-term rate determined under [§ 6621(b)(1)] for any month shall apply during the first calendar quarter beginning after such month.”).

RECOMMENDATION

- Amend IRC §§ 6654 and 6655 to provide that the rate applied to an estimated tax underpayment shall be set as of the due date for each required estimated tax installment and shall be the underpayment rate established by IRC § 6621 for the calendar quarter of the due date of that required installment.⁴

⁴ For legislative language generally consistent with this recommendation, see Taxpayer Bill of Rights Enhancement Act of 2017, S. 1793, 115th Cong. § 305 (2017). If this proposal is adopted, repeal of IRC § 6621(b)(2)(B) may be required. See also H.R. REP. NO. 108-61, at 25 (2003); Taxpayer Protection and IRS Accountability Act, H.R. 1528, 108th Cong. § 101 (2003).