

#32 APPLY ONE INTEREST RATE PER ESTIMATED TAX UNDERPAYMENT PERIOD FOR INDIVIDUALS, ESTATES, AND TRUSTS

Present Law

Under IRC § 6654, taxpayers who make estimated tax payments must submit those payments on April 15, June 15, September 15, and January 15 of the following tax year. Failure to do so results in a penalty that is determined by the underpayment rate, the amount of the underpayment, and the period of the underpayment. The underpayment rate is established by IRC § 6621(a)(2) to be 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 January 1, April 1, July 1, and October 1.

Reasons for Change

Under existing law, more than one interest rate may apply for a single estimated tax underpayment period. 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, while another interest rate would apply for any continued delinquency from July 1 through September 15. The application of more than one interest rate for a single underpayment period causes unnecessary complexity and burden for taxpayers and the IRS alike. This complexity and burden would be reduced if a single interest rate was applied for each period.

Recommendation

Amend IRC § 6654 to provide that the underpayment rate for any day during an estimated tax underpayment period shall be the underpayment rate established by IRC § 6621 for the first day of the calendar quarter in which the underpayment period begins.¹¹⁸

¹¹⁸ H.R. 1528, 108th Cong. § 101 (2003), passed in the House, and § 201 of the Senate amendment, and S. 1793, 115th Cong. § 305 (2017), contain language that is consistent with this recommendation. See also H.R. REP. NO. 108-61, at 25 (2003).