

Legislative Recommendation #29**Apply One Interest Rate Per Estimated Tax Underpayment Period****SUMMARY**

- *Problem:* The due dates for estimated tax payments and the dates on which the interest rate for estimated tax underpayments are adjusted do not align. As a result, more than one interest rate may apply for a single estimated tax underpayment period, causing unnecessary complexity and burden for taxpayers.
- *Solution:* Apply the interest rate established on the first day of a calendar quarter to any underpayment that begins during that calendar quarter.

PRESENT LAW

IRC § 6654(c) provides that 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 tax year. 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 15.¹ 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, and October 1.

REASONS FOR CHANGE

Under current law, more than one interest rate may apply for a single estimated tax underpayment period. Calculations are typically required to cover 15-day periods. 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 the rate would be subject to adjustment on July 1. A change in interest rate just 15 days after the estimated tax underpayment period begins causes unnecessary complexity and burden for taxpayers. This complexity and burden would be reduced if a single interest rate were applied for each period.

RECOMMENDATION

- Amend IRC §§ 6654 and 6655 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.²

¹ To make compliance easier, the National Taxpayer Advocate has recommended 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 National Taxpayer Advocate 2023 Purple Book 11, *Adjust Individual Estimated Tax Payment Deadlines to Occur Quarterly*, https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_PurpleBook_02_ImproveFiling_5.pdf.

² For legislative language generally consistent with this recommendation, see Taxpayer Bill of Rights Enhancement Act of 2017, S. 793, 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).