

DEPARTMENT OF TAXATION 2025 Fiscal Impact Statement

1. **Patron** Nadarius E. Clark

3. **Committee** House Finance

4. **Title** Individual income taxes: Creation of
Currently Not Collectible Status

2. **Bill Number** HB 2549

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would direct the Department of Taxation to create a program through which taxpayers may file for currently not collectible (CNC) status. The Department would be permitted to place an applicant in this status upon a finding that the collection of income taxes would create or exacerbate an undue hardship for the applicant. The bill would require applicants to renew their status annually and limit eligibility to a maximum of five years for any single tax assessment from the date of original application approval. This bill would also suspend the statute of limitations on tax collection by the Department during the period of time a taxpayer is in CNC status.

If enacted during the regular session of the 2025 General Assembly, this bill would become effective July 1, 2025.

6. **Budget amendment necessary:** Yes.
Item(s): 258 and 260, Department of Taxation

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

7a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2025-26	\$569,573	6	GF
2026-27	\$560,323	6	GF
2027-28	\$572,023	6	GF
2028-29	\$583,724	6	GF
2029-30	\$596,178	6	GF
2030-31	\$608,618	6	GF

8. Fiscal implications:

Administrative Costs

Due to system and form changes required by this bill and the resources already committed to implementing legislation enacted during earlier General Assembly sessions, the Department would be unable to implement this legislation by the effective date specified by this bill. As a result, the Department requests a delayed effective date of July 1, 2026. This would allow time to hire the necessary staff and make the operational changes outlined below.

The Department would incur estimated expenditures, as shown on Line 7a. Such costs would primarily consist of hiring six full-time employees and collections operational cost inherent in the creation of a new program.

Revenue Impact

This bill would have an unknown negative impact on General Fund revenues to the extent that taxpayers who would otherwise pay cease to do so during the CNC period. However, in many cases, this would simply be a deferral of payment until a later year. The number of taxpayers who would apply for hardship status and the value of their unpaid taxes cannot be readily estimated. Research into the use of the CNC hardship status at the federal level or among other states did not provide information to develop a reliable estimate for Virginia.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

Line 184, end of line

Insert: "2. That the provisions of this bill shall become effective July 1, 2026."

11. Other comments:

Background

When facing federal tax liabilities, taxpayers have several options for resolution, including installment agreements, offers in compromise (OIC), currently not collectible (CNC) status, and relief from penalties and interest charges. Installment agreements allow for the repayment of delinquent taxes through structured monthly installments. OIC enable the settlement of the tax liability for an amount less than the full balance owed, provided the taxpayer can demonstrate an inability to pay the full amount. Taxpayers who are currently unable to make any payments toward their tax liability may be eligible for CNC status, which temporarily suspends collection activities by the IRS. In certain circumstances, taxpayers may be eligible for relief from penalties or interest charges upon demonstrating reasonable cause for the delayed payment.

While federal law offers a range of resolution options for taxpayers facing tax liabilities, the availability and implementation of these avenues may vary at the state level. Notably, the concept of CNC status, which allows for the temporary suspension of collection activities, may not be extensively developed or utilized in state-level tax collection efforts compared to the federal system. While the IRS uses the term CNC status, states may have similar concepts but employ different terminology.

Proposal

This bill would direct the Department of Taxation to create a program through which taxpayers may file for currently not collectible (CNC) status. The Department would be permitted to place an applicant in this status upon a finding that the collection of income taxes would create or exacerbate an undue hardship for the applicant. This bill would require applicants to renew their status annually and limit eligibility to a maximum of five years for any single tax assessment from the date of original application approval. This bill would also suspend the statute of limitations on tax collection by the Department during the period of time a taxpayer is in CNC status.

This bill would also require the Tax Commissioner to establish guidelines for determining whether an actual undue hardship exists and what constitutes an undue hardship, taking into consideration those factors outlined in the IRS procedures for CNC status. The Tax Commissioner would be permitted to presume that any taxpayer qualifying for CNC status with the IRS meets the criteria for CNC status with the Department.

To qualify for CNC status, a taxpayer would be required to:

1. Apply for such status on a form created by the Department;
2. Promise to remain domiciled within the Commonwealth for the duration such status is in effect;
3. File any past due tax returns and continue to timely file tax returns for the duration such status is in effect; and
4. Provide financial information as requested by the Department.

A taxpayer placed in CNC status would be required to immediately notify the Department of any change in the taxpayer's circumstances related to the undue hardship for which CNC status was granted. This includes changes in income, assets, expenses, address, federal CNC status, or relationships with debtors or creditors, or any other information deemed relevant by the Department.

If enacted during the regular session of the 2025 General Assembly, this bill would become effective July 1, 2025.

Similar Legislation

HB 2667 is identical to this bill.

cc : Secretary of Finance

Date: 01/21/2025 SJH
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