

**DEPARTMENT OF TAXATION
2025 Fiscal Impact Statement**

1. **Patron** T. Travis Hackworth
3. **Committee** Senate Finance and Appropriations
4. **Title** Taxation; Rate of Interest

2. **Bill Number** SB 1423
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, including estimated taxes, 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, including estimated taxes, the federal underpayment rate plus two percent; and
- For refunds, federal overpayment rate for noncorporate taxpayers plus two percent.

This bill includes an enactment clause specifying that its amended provisions would apply for interest rates applicable to the third quarter of the calendar year 2025 and thereafter.

6. Budget amendment necessary: No.

7. No Fiscal Impact (See Line 8.)

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.

This bill may have an unknown impact on local administrative costs.

Revenue Impact

This bill would reduce General Fund revenues by \$10 million annually beginning in Fiscal Year 2026. No budget amendment is needed because the revenue impact of this bill is assumed in the Introduced Executive Budget.

This bill may have an unknown impact on local revenues.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Interest Rates

The Internal Revenue Service (“IRS”) uses the federal short-term rate to calculate the interest that it charges and pays. The interest rate that generally applies to underpayments is the federal short-term rate plus three percent. The interest rate that generally applies to overpayments is the federal short-term rate plus three percent. These underpayment and overpayment rates are together referred to as the standard interest rate.

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

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

Interest Category	2023				2024				2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Federal Short-Term Rate	4%	4%	4%	5%	5%	5%	5%	5%	4%
Standard Interest Rate	7%	7%	7%	8%	8%	8%	8%	8%	7%

In addition to the above, there are special rates for certain corporate overpayments and underpayments.

A Brief History of Virginia’s Interest Rates

Prior to 1991, Virginia’s interest rate on omitted taxes and assessments and the interest rate on refunds were equal to the federal underpayment and overpayment rates, respectively. At that time, the federal overpayment rate was one percent less than the federal underpayment rate.

During the 1991 session of the General Assembly, House Bill 1830 (Chapter 331) and Senate Bill 739 (Chapter 316) increased the Virginia interest rate on omitted taxes and assessments to the federal underpayment plus two percent.

In 1998, Congress equalized the federal rates for noncorporate taxpayers but left the one percent differential applicable to corporations.

During the 1999 session of the General Assembly, House Bill 1678 (Chapter 180) and Senate Bill 868 (Chapter 146) increased the Virginia interest rate on refunds to the federal overpayment rate for noncorporate taxpayers plus two percent. This legislation equalized Virginia’s interest rate on omitted taxes and assessments with its interest rate on refunds. Virginia’s interest rates have remained two percent higher than the federal interest rates since then.

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

The following table shows the various Virginia interest rates over the past two years:

Interest Category	2023				2024				2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Underpayment (Assessment)	9%	9%	9%	10%	10%	10%	10%	10%	9%
Overpayment (Refund)	9%	9%	9%	10%	10%	10%	10%	10%	9%
Reduced Rate (Federal Short-Term Rate)	4%	4%	4%	5%	5%	5%	5%	5%	4%

Proposal

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Similar Legislation

HB 1550 is substantially similar to this bill.

cc : Secretary of Finance

Date: 01/22/2025 SJH
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