DEPARTMENT OF TAXATION
2022 Fiscal Impact Statement

1. Patron Carrie E. Coyner

2. Bill Number HB 222

House of Origin:
_____ **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
X **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. Committee Senate Finance and Appropriations

4. Title Installment agreements for payment.

5. Summary/Purpose:

This bill would require the Department to offer installment agreements to individual income taxpayers in which the taxpayer may satisfy his or her entire tax liability over a term of up to five years. This bill would not affect installment agreements for any other tax.

The bill also repeals the Department's authority to modify or terminate the installment agreement if the financial condition of the taxpayer has significantly changed or fails to provide a financial condition update upon request.

If this bill is enacted during the 2022 Regular Session of the General Assembly, it would become effective July 1, 2022.

6. Budget amendment necessary: No.

7. Fiscal Impact is: Unknown (See Line 8.)

8. Fiscal implications:

Administrative Costs

The Department of Taxation ("the Department") considers implementation of this bill as routine, and does not require additional funding.

Revenue Impact

This bill would have an unknown impact on revenues. While extending the maximum term of an individual income tax installment agreement to five years could reduce annual collections, such reduction could be fully or partially offset by allowing additional individuals to qualify for an installment agreement in cases where they would not otherwise make payments. The Department would generally not be allowed to modify or terminate an installment agreement upon learning of a change in financial condition, which could impact the timing of when payments are made by certain taxpayers. However, the Department would retain the ability to do so after an installment payment is missed, the taxpayer becomes delinquent in other tax liabilities, or the taxpayer fails to file any required tax or informational return during the period in which such agreement is in effect.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Installment Agreements

The Department routinely enters into installment agreements with taxpayers when taxpayers are unable to pay the full amount owed, but may do so over a period of time. The Department has the authority to modify or terminate any installment agreement for several reasons, such as a change in financial condition, failure to update financial condition upon request, failure to pay any installment when due, failure to pay other tax liabilities when due, or the taxpayer fails to file any required tax or informational return during the period in which such agreement is in effect.

Virginia law does not currently set forth maximum or minimum terms with respect to installment agreements. However, the Department has developed internal procedures to ensure fair and consistent review of requests for installment agreements. Such rules include considerations such as the amount owed, the taxpayer's financial situation and other hardship considerations, and whether the taxpayer routinely enters into and/or defaults on such installment agreements.

The Department historically has maintained a general policy of limiting the maximum term of installment agreements to a maximum of two years for individuals, but no limit was applied to corporations. However, during the COVID-19 pandemic, the Department has extended this general standard by allowing installment agreements of up to four years in certain circumstances where a taxpayer has a significant amount of outstanding tax liability and has not previously required an installment agreement and/or has not previously defaulted due to non-payment of taxes owed.

Proposed Legislation

This bill would require the Department to offer installment agreements to individual income taxpayers in which the taxpayer may satisfy his or her entire tax liability over a term of up to five years. This bill would not affect installment agreements for any other tax.

The bill also repeals the Department's authority to modify or terminate the installment agreement if the financial condition of the taxpayer has significantly changed or fails to provide a financial condition update upon request. A significant change in financial circumstances or the failure to update their financial circumstances upon request would no longer be grounds for modifying or terminating the installment agreement. However, the Department would retain the ability to modify or terminate and installment agreement if the taxpayer fails to pay any installment when due, any other tax liabilities when due, or file any required tax or informational return during the period in which such agreement is in effect.

Pursuant to recent legislation, the statute of limitations for collecting delinquent taxes was reduced to a period of seven years. This statute of limitations would be extended in cases where the taxpayer enters into an installment agreement. As a result, taxpayers who enter into installment agreements under this bill would be subject to collection action for an extended period of time of up to 12 years.

If this bill is enacted during the 2022 Regular Session of the General Assembly, it would become effective July 1, 2022.

cc : Secretary of Finance

Date: 2/15/2022 JPJ
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