



TRANSMITTAL

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FCCM Notice/CH 7

1. **SUBJECT**: Revision of the Worksheets in Appendix 7A for Calculating Interest on Back Pay.
2. **PURPOSE**: To update the table of interest rates on back pay based on the Internal Revenue Service's underpayment formula.
3. **BACKGROUND**: Appendix 7A to Chapter 7 provides the IRS underpayment rates used to calculate interest on back pay. This Appendix was last revised in July 2011 (reference Transmittal #297) to update those rates. This Notice provides a new update on the IRS underpayment rate.
4. **INSTRUCTIONS**: From Manual Chapter 7, remove and discard Appendix 7A page 7A-1/7A-2 and insert in its place the attached revision of that Appendix (page 7A-1/7A-2).
5. **OBSOLETE DATA**: Page 7A-1/7A-2 of Appendix 7A.
6. **ATTACHMENT**: Revised page 7A-1/7A-2.
7. **DISTRIBUTION**: A, B (both hard copy and electronically); C (hard copy only).
8. **EXPIRATION DATE**: This Notice is periodically updated to reflect changes in the interest rate. Staff calculating interest for a time period after the date of this Notice should verify the current interest rate on the IRS web page at www.irs.gov.



PATRICIA A. SHIU

Director

Office of Federal Contract

Compliance Programs

9/13/2011
DATE

APPENDIX 7A: INTEREST RATES ON BACK PAY

OFCCP's policy is that interest on back pay is calculated at the same percentage rate as the Internal Revenue Service's underpayment formula on interest -- from the first date that is covered by the back pay award.

Interest rates for back pay calculations based on IRS calculations since 1989 are as follows:

<u>Time Period</u>	(A) Annual	(Q) Quarterly
October 1, 1989 - March 31, 1991	11%	2.75%
April 1, 1991 - December 31, 1991	10%	2.5%
January 1, 1992 - March 31, 1992	9%	2.25%
April 1, 1992 - September 30, 1992	8%	2%
October 1, 1992 - June 30, 1994	7%	1.75%
July 1, 1994 - September 30, 1994	8%	2%
October 1, 1994 - March 31, 1995	9%	2.25%
April 1, 1995 - June 30, 1995	10%	2.5%
July 1, 1995 - March 31, 1996	9%	2.25%
April 1, 1996 - June 30, 1996	8%	2%
July 1, 1996 - March 30, 1998	9%	2.25%
April 1, 1998 - December 31, 1998	8%	2%
January 1, 1999 - March 31, 1999	7%	1.75%
April 1, 1999 - March 31, 2000	8%	2%
April 1, 2000 - March 31, 2001	9%	2.25%
April 1, 2001 - June 30, 2001	8%	2%
July 1, 2001 - December 31, 2001	7%	1.75%
January 1, 2002 - December 31, 2002	6%	1.5%
January 1, 2003 - September 30, 2003	5%	1.25%
October 1, 2003 - March 31, 2004	4%	1%
April 1, 2004 - June 30, 2004	5%	1.25%
July 1, 2004 - September 30, 2004	4%	1%
October 1, 2004 - March 31, 2005	5%	1.25%
April 1, 2005 - September 30, 2005	6%	1.5%
October 1, 2005 - June 30, 2006	7%	1.75%
July 1, 2006 - December 31, 2007	8%	2%
January 1, 2008 - March 31, 2008	7%	1.75%
April 1, 2008 - June 30, 2008	6%	1.5%
July 1, 2008 - September 30, 2008	5%	1.25%
October 1, 2008 - December 31, 2008	6%	1.5%
January 1, 2009 - March 31, 2009	5%	1.25%
April 1, 2009 - December 31, 2010	4%	1%
January 1, 2011 - March 31, 2011	3%	0.75%
April 1, 2011 - September 30, 2011	4%	1%
October 1, 2011 - Present*	3%	0.75%

*To at least the date of this revision.

Periodically the IRS issues press releases giving updated information on updates to interest rates. To access recent press releases on this subject go to www.irs.gov. Go to "Search" at the upper right hand corner of the IRS home page and type "interest rates for underpayment" and click the "Search" button. The list of the most recent press releases on changes in IRS interest rates will then display.

To receive updates on underpayment interest rates automatically, go to www.irs.gov. Then click on the hyperlink "IRS New Media" on the right side of the home page, near the bottom. Next, click on the hyperlink "e-News Subscriptions" on the left side of the page, near the top of the screen, and then on the hyperlink "Subscribe to IRS Newswire," at the bottom of the screen. Then click on the hyperlink "subscribe/unsubscribe." Type in your e-mail address in the space provided and click on "submit."

METHOD OF CALCULATING COMPOUND INTEREST ON BACK PAY

In a compound interest calculation, the interest due on back pay (or any other debt) for a one time period is included in the money on which interest is figured for the next time period--i.e., you pay "interest on your interest." In a simple interest calculation, on the other hand, the interest due on back pay (or any other debt) for a one time period is not included in the money on which interest is figured for the next time period--i.e., you don't pay "interest on your interest."

Title 41 CFR 60-1.26(a)(2) requires that interest on back pay be compounded quarterly in Executive Order cases. Similarly, 41 CFR 60-250.65(a)(1) and 60-300.65(a)(1) require that interest on back pay be compounded quarterly in VEVRAA cases. Further, 41 CFR 60-741.65(a)(1) requires that interest on back pay be compounded quarterly in Section 503 cases. Therefore, in determining the amount of back pay due, first determine the amount of back pay due for each quarter. Then use column Q on the previous page to find the interest rate applicable to each quarter. For example, if the back pay period were 12/4/97 through 5/25/98 and \$12,000 back pay were due, distribute back pay by quarter as follows:

<u>Year</u>	<u>Quarter</u>	<u>Back Pay Due for Quarter</u>	<u>IRS Quarterly Interest Rate</u>
1997	10/1-12/31	\$2,000	2.25%
1998	1/1-3/31	6,000	2.25%
1998	4/1-6/30	4,000	2.00%

Quarterly compound interest is applied to the average amount of back pay due during each quarter. This average is the total amount of back pay plus interest due at the beginning of each quarter, plus half the amount of back pay due for the quarter itself, plus the interest accrued during the previous quarter. The following worksheet displays the result for the above example: