

# 2003 Underpayment of Estimated Tax by Individuals

# Arizona Form 221

## Phone Numbers

If you have questions, please call one of the following numbers:

Phoenix	(602) 255-3381
From area codes 520 & 928 toll-free	(800) 352-4090
Form orders	(602) 542-4260
Forms by Fax	(602) 542-3756
Recorded Tax Information	
Phoenix	(602) 542-1991
From area codes 520 & 928 toll-free	(800) 845-8192
Hearing impaired TDD user	
Phoenix	(602) 542-4021
From area codes 520 & 928 toll-free	(800) 397-0256

You may also visit our web site at: [www.revenue.state.az.us](http://www.revenue.state.az.us)

## Purpose of Form

Certain people must make estimated income tax payments. The department will charge a penalty if a person fails to make any required payment.

Use Form 221 to figure if you paid enough estimated tax. Also use this form to see if you are subject to penalty for any late or underpaid payment.

## Are You Subject to the Penalty?

You are subject to the penalty if you had to make estimated payments, but did not pay the right amount or made a payment late.

You must have made estimated payments during 2003 if the following apply.		
Your filing status is:	<b>AND</b> Your Arizona gross income for 2002 was greater than:	<b>AND</b> Your Arizona gross income for 2003 exceeded:
Married Filing Joint	\$150,000	\$150,000
Single	\$75,000	\$75,000
Head of Household	\$75,000	\$75,000
Married Filing Separately	\$75,000	\$75,000

What is My Arizona Gross Income For Estimated Payment Purposes?	
If you are a:	Your Arizona gross income is:
Full year Arizona resident	Your federal adjusted gross income. This amount is found on line 12 of your 2002 and 2003 Arizona Form 140.
Part year Arizona resident	That part of your federal adjusted gross income that you must report to Arizona. This amount is found on line 15 of your 2002 and 2003 Arizona Form 140PY.
Arizona nonresident	That part of your federal adjusted gross income derived from Arizona sources. This amount is found on line 15 of your 2002 and 2003 Arizona Form 140NR.

If your Arizona gross income was less than the prescribed thresholds (\$75,000 or \$150,000 if married filing jointly) for either 2002 or 2003, you are not subject to the penalty.

## Should You Complete This Form?

If you had to make estimated payments during 2003, you must complete this form unless one of the following applies.

- Your 2003 Arizona tax liability is less than \$1,000. This is the amount of tax shown on your return reduced by any Arizona income tax withheld during the taxable year and any allowable tax credits that you are claiming.
- The amount of Arizona tax withheld from your wages or withheld from other payments during 2003 is equal to, or is more than, your required annual payment (Form 221, line 9).
- You report as a farmer or fisherman for federal purposes and you are a calendar year filer **and**:
  - You file your Arizona return by March 1, 2004.
  - You pay in full the amount stated as payable on the return.
- You report as a farmer or fisherman for federal purposes and you are a fiscal year filer **and**:
  - You file your Arizona return on or before the first day of the third month after the end of the fiscal year.
  - You pay in full the amount stated as payable on the return.

If any of items 1 through 4 above apply to you, you do not have to complete Form 221. Otherwise, complete this form to see if you are subject to the penalty. If you have to complete Form 221, you must attach the completed Form 221 to your Arizona Form 140, Form 140PY, or Form 140NR.

If you had to make estimated payments, your payments, when added to your Arizona withholding, must total either 90% of the tax due for 2003, or 100% of the tax due for 2002.

You can use your 2002 tax to figure the amount of payments that you must have made during 2003 only if you were required to file and did file a 2002 Arizona income tax return.

## Part A - Calculation of Underpayment

If you file an amended return by the due date of your original return, use the amounts shown on your amended return to figure your underpayment. If you file an amended return after the due date, use the amounts shown on your original return. For more information, see Arizona Department of Revenue Individual Income Tax Ruling ITR 02-4.

### Line 1 -

Complete line 1 if you are claiming an exception from the penalty because you qualified for federal relief under IRC § 6654. You may claim either an exception from the penalty, or you may claim a penalty waiver.

## Penalty Exceptions

You will not have to pay the penalty if either 1 or 2 below applies.

1. You had no federal tax liability for 2002. You were also a U.S. citizen or resident of the U.S. for the entire year and your 2002 tax return was (or would have been had you been required to file) for a full 12 months.
2. The total tax shown on your 2003 federal income tax return minus your federal withholding is less than \$1000.

To request a penalty exception because either 1 or 2 above apply, do the following.

- Check the box on line 1.
- **Do not** complete the rest of Form 221.
- Attach Form 221 to Form 140, 140PY, or 140NR.

## Penalty Waivers

If you have an underpayment on line 15, the department will waive all or part of the penalty for that underpayment if the department determines that either 1 or 2 below applies.

1. The underpayment was due to a casualty, disaster, or other unusual circumstances, and it would be inequitable to impose the penalty.
2. In 2002 or 2003, you retired after age 62 or became disabled, and your underpayment was due to reasonable cause.

To request a waiver for an underpayment described in either 1 or 2 above, do the following.

- Check the box on line 1.
- Complete Form 221 through line 30 without regard to the waiver. Write the amount you want waived in parentheses in the shaded area next to line 30. Subtract this amount from the total penalty you figured without regard to waiver, and enter the result on line 30.
- Attach Form 221 and a statement to your return explaining why you could not meet the estimated tax requirements. Also show the time period for which you are requesting a waiver.
- If you are asking for a penalty waiver due to a casualty, disaster, or other unusual conditions, attach documentation such as copies of police and insurance company reports.
- If you are asking for a penalty waiver due to retirement or disability, attach documentation that shows your retirement date (and your age on that date) or the date you became disabled.

## Lines 2 - 15

Complete lines 2 through 15 to see if you underpaid your 2003 estimated income tax payments.

### Line 2 -

Enter your 2003 income tax liability from Form 140, page 1, line 26, or Form 140PY, page 1, line 29, or Form 140NR, page 1, line 29.

**NOTE:** *If you compute your tax liability under the claim of right provisions enter the net tax liability as computed under the claim of right provisions.*

### Line 3 -

Enter any tax credits claimed on your 2003 income tax return.

### Line 4 -

Subtract line 3 from line 2.

### Line 5 -

Enter the Arizona income tax withheld shown on the Form(s) W-2 from your employer. Also enter the Arizona income tax withheld shown on your Form(s) 1099-R (distributions from pensions, annuities, etc.). Do not include any income tax withheld for another state.

### Line 6 -

Subtract line 5 from line 4. If less than \$1,000, you do not owe the penalty, stop here and do not file Form 221.

### Line 7 -

Multiply the amount on line 4 by 90% (.9). Enter the result.

### Line 8 -

Enter your 2002 tax liability (after tax credits). Only enter an amount on line 8 if you were required to file and did file an Arizona personal income tax return for 2002. **If you were not required to file or did not file an Arizona personal income tax return for 2002, skip this line.**

### Line 9 -

If you entered an amount on line 8, enter the lesser of line 7 or line 8. If you did not enter an amount on line 8, enter the amount from line 7.

### Line 10 -

In columns (a) through (d), enter the due dates for your federal estimated income tax payments. Enter a date here only if these dates are different from the preprinted dates.

### Line 11 -

Divide the amount on line 9 by four (4). Enter the result in each column. In some cases you did not have to make your payments in four equal installments. If you did not have to make your payments in four equal installments, check the box and enter the amount of your required payment(s) in the proper column. You did not have to make payments in four equal installments if you made your payments under any of the following methods.

1. **The annualized income installment method.** If you use the annualized income installment method, complete the worksheet on Form 221, page 2. Also enter the amount from line 23 of that worksheet in each column of line 11. If you use the annualized income installment method, you must check the box on line 11.

2. **File and pay by February 2, 2004.** If you file your Arizona return by February 2, 2004, and pay in full the amount stated on the return as payable, you do not have to

make the fourth estimated tax payment. Fiscal year filers must file and pay by the last day of the month following the close of the fiscal year.

**3. Farmer or fisherman.** If you report as a farmer or fisherman for federal purposes, you only have to make one installment for a taxable year. The due date for this installment for a calendar year filer was January 15, 2004. The due date for a fiscal year filer is the 15th day of the first month after the end of the fiscal year. You do not have to make this payment if you file your Arizona return on or before March 1, 2004, and pay in full the amount stated on the return as payable. Fiscal year filers must file and pay on or before the first day of the third month after the end of the fiscal year.

**4. Nonresident alien.** If you are an individual who elects to be treated as a nonresident alien on the federal income tax return, you may make three estimated payments. The due dates for these installments were June 16, 2003, September 15, 2003 and January 15, 2004. The first installment must have equaled 50 percent of the total required payments.

**Line 12 - Estimated Tax Paid and Withheld**

Enter the estimated tax payments you made plus any Arizona income tax withheld for that quarter.

In column (a), enter the tax payments you made by April 15, 2003, that were for the 2003 tax year. In column (b), enter payments you made after April 15 through June 16, 2003. In column (c), enter payments you made after June 16, 2003, through September 15, 2003. In column (d), enter payments you made after September 15, 2003, through January 15, 2004.

When figuring your payment dates and the amounts to enter on line 12 of each column, apply the following rules.

1. Include 1/4 of your Arizona income tax withheld in each column. The department considers you to have paid 1/4 of Arizona income tax withheld on each payment due date unless you can show otherwise.
2. Include in your estimated tax payments any overpayment of tax from your 2002 return that you elected to apply to your 2003 estimated tax. You should report this amount in column (a).
3. If you file your return and pay the tax due by February 2, 2004, include on line 12, column (d), the amount of tax you pay with your return. In this case, you will not owe a penalty for the payment due by January 15, 2004.

**NOTE:** If line 12 equals or is more than line 11 in all columns, you do not owe a penalty. Do not complete the rest of this form. You must attach a copy of this form to your return.

**Lines 13 through 15 - Overpayments or Underpayments**

Complete lines 13 through 15 for one payment period **before** you go to the next period.

If you have an overpayment on line 15 for the period, you may apply it to a prior period underpayment to stop the accrual of penalty on that underpayment. If you apply an overpayment in this manner, use the date the overpayment was paid when you figure the penalty on the underpayment on line 15. You may then carry the remainder of the overpayment forward to line 13 of the next period. If you do

not choose to stop the accrual of penalty on a prior underpayment, you may carry the entire overpayment forward to line 13 of the next period.

**Part B - Underpayment of Estimated Tax Penalty**

Compute the penalty by applying the applicable rate to each underpayment. Compute the penalty for the number of days that the underpayment remained unpaid.

The penalty is equal to the interest that would accrue on the underpayment. The penalty cannot be more than 10 percent of the underpayment. Calculate this penalty like interest.

The penalty rates are established at various times during the year. The rate for the first quarter of 2004 (January 1, 2004, through March 31, 2004) was not established by the time the department printed this form. To get the interest rate that applies from January 1, 2004, to April 15, 2004, call one of the numbers listed on page 1 of these instructions.

**NOTE:** If you have not paid the underpayment by December 31, 2003, the outstanding penalty that relates to that underpayment will compound on January 1, 2004.

Use lines 16 through 29 to compute the penalty for each rate period.

List your payments to figure the penalty applicable to these installments.

<b>TABLE 1</b>	
Payments after 4/15/03 through 6/30/03	
(a) Date	(b) Payments

<b>TABLE 2</b>	
Payments after 6/30/03 through 9/30/03	
(a) Date	(b) Payments

<b>TABLE 3</b>	
Payments after 9/30/03 through 12/31/03	
(a) Date	(b) Payments

<b>TABLE 4</b>	
Payments after 12/31/03 through 4/15/04	
(a) Date	(b) Payments

List only the payments made during the dates shown in the table heading. Apply the following rules.

1. If you have any withheld Arizona income tax, the department considers you to have paid  $\frac{1}{4}$  of these amounts on each payment due date. You may treat these amounts paid on a different due date if you can show otherwise.

For example, if you had \$4,000 of Arizona income tax withheld during 2003, list \$1,000 as being paid on June 16, 2003, September 15, 2003, and January 15, 2004, in the proper table. Do not list the withholding attributable to the first payment due date April 15, 2003.

2. List any amount that you pay with your tax return as a payment. Use the date you file your return as the payment date, unless you file late. In that case, use April 15, 2004.

### Chart of Total Days per Period

If an underpayment remained unpaid for an entire period, use the chart below to determine the number of days to enter on line 17, columns (a) and (b), line 20, columns (a), (b), and (c), line 23, columns (a), (b), and (c), and line 26 columns (a), (b), (c), and (d).

Rate Period	(a)	(b)	(c)	(d)
1 (line 17)	76	14		
2 (line 20)	92	92	15	
3 (line 23)	92	92	92	
4 (line 26)	106	106	106	91

For example, if you have an underpayment on line 15, column (a), but show no payments, you would enter "76" on line 17.

### Rate Period 1

Enter on line 17 the number of days from 4/15/03 to the date of the first payment listed in Table 1. If no payments are listed, enter "76".

#### If You Listed a Payment in Table 1

On a separate sheet of paper apply the payment to the underpayment shown on line 15. The underpayment for the computation on line 18 is the amount of the payment applied to the line 15 underpayment. If the payment is more than the underpayment, apply only an amount equal to the underpayment and use that amount for the line 18 computation.

#### If You Did Not List Any Payments in Table 1

The underpayment is the whole underpayment balance since the entire underpayment was unpaid for the whole rate period.

#### Determine if You Need To Make More Computations

Use the following information to see if you need to make more computations.

1. The payment listed in the table reduced the underpayment to zero. You do not need to make any further computations for column (a). Calculate the

penalty for any other underpayments shown in columns (b) through (d) of line 15.

2. You did not list any payments in the table. You will need to calculate the penalty for rate periods 2, 3, and 4. To do this, complete column (a) of lines 20, 21, 23, 24, 26, and 27.
3. The payment listed in the table did not reduce the underpayment to zero, and no other payments are listed. Make another computation on lines 20, 21, 23, 24, 26, and 27 to calculate the penalty on the underpayment balance that remained unpaid for the entire rate period. In this case, enter another number in the entry space for lines 17 and 18, as follows:

On line 17, enter "76". This is the total number of days in the first rate period (see the chart).

On line 18, make the computation and enter the result. The "underpayment" in this computation is the balance of the underpayment remaining in the period.

4. Other payments are listed in the table and the first payment was not enough to reduce the underpayment to zero. Make a separate computation for each payment listed until the underpayment is reduced to zero. If there is still an underpayment balance after applying all of the payments, you will need to calculate the penalty on the balance of the underpayment in the same manner as explained in number 2 above.

### Rate Periods 2, 3, and 4

If an underpayment balance remains after applying any payments in Table 1, compute the penalty attributable to that balance on lines 20 and 21, then if necessary, on lines 23 and 24 and 26 and 27. Use the same steps as explained under Rate Period 1 above, but use the date and penalty rate shown on lines 20 and 21, or lines 23 and 24, or lines 26 and 27. **When figuring the penalty for rate period 2, be sure to use only the payments listed in Table 2. When figuring the penalty for rate period 3, be sure to use only the payments listed in Table 3. When figuring the penalty for rate period 4, be sure to use only the payments listed in Table 4.**

**NOTE:** Penalty compounds annually on January 1 of each year. Add any penalty outstanding on that date to the principal amount of the tax (installment underpayment/late payment). The amount added to the principal becomes a part of the principal and accrues penalty until paid.

### Line 30 –

Total penalty on underpaid or late paid estimated payments.

Add the amounts in columns (a), (b), (c), and (d), line 29. Enter the result. Also enter this amount on Form 140, page 1, line 52, or Form 140PY, page 1, line 54, or Form 140NR, Page 1, line 52.

### Annualized Income Installment Worksheet

If your income varied during the year because, for example, you operated your business on a seasonal basis, you may be

able to lower or eliminate the amount of one or more required installments by using the annualized income installment method. Use the Annualized Income Installment Worksheet to figure the amounts to enter on line 11 of Form 221.

If you use the Annualized Income Installment Worksheet for any payment due date, you must use it for all payment due dates. To figure the amount of each required installment, the Annualized Income Installment Worksheet automatically

selects the smaller of the annualized income installment or the regular installment (increased by the amount saved by using the annualized income installment method in figuring any earlier installments).

For more information about the annualized income installment method, see federal Pub. 505.