

2023 Underpayment of Estimated Tax by Individuals for Forms 140-SBI, 140PY-SBI and 140NR-SBI

Arizona Form 221-SBI

For information or help, call one of the numbers listed:

Phoenix (602) 255-3381
From area codes 520 and 928, toll-free (800) 352-4090

Tax forms, instructions, and other tax information

If you need tax forms, instructions, and other tax information, go to the department's website at www.azdor.gov.

Income Tax Procedures and Rulings

These instructions may refer to the department's income tax procedures and rulings for more information. To view or print these, go to our website select the *About* tab on the home page and select *Legal Research* from the drop-down menu and then click on *Procedures* or *Rulings* from the drop-down menu. Using the Category box, select the tax type and then scroll down to find the *Document ID* or use the *Search Keyword* function to locate the document.

Publications

To view or print the department's publications, go to our website select the *About* tab on the home page and select *Legal Research* from the drop-down menu and then click on *Publications* from the drop-down menu.

Purpose of Form

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

Use Arizona Form 221-SBI to figure if you paid enough Arizona estimated income tax for Form 140-SBI, 140PY-SBI or 140NR-SBI. Also, use this form to see if you are subject to penalty for any late or underpaid payment.

Am I Subject to the Penalty?

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

You must have made estimated payments during 2023 if the following apply:		
Your filing status is:	AND Your Arizona gross income for 2022 was greater than:	AND Your Arizona gross income for 2023 is greater than:
Single	\$75,000	\$75,000
Married Filing Joint	\$150,000	\$150,000
Married Filing Separate	\$75,000	\$75,000
Head of Household	\$75,000	\$75,000

What is my Arizona small business gross income for estimated payment purposes?

If you are a:	Your Arizona gross small business income is:
Full year Arizona resident	This amount is found on line 10 of your 2022 and 2023 Arizona Form 140-SBI.
Part year Arizona resident	This amount is found on line 10 of your 2022 and 2023 Arizona Form 140PY-SBI.
Arizona nonresident	This amount is found on line 10 of your 2022 and 2023 Arizona Form 140NR-SBI.

If your Arizona gross income was less than the prescribed thresholds for either 2022 or 2023, you are not subject to the penalty. The threshold amounts were amended for tax year 2023. For the threshold amount effective for 2022, see the instructions for the form filed for 2022. For 2023, see the instructions for the form you are filing for 2023.

Should I Complete This Form?

If you had to make Arizona estimated payments during 2023, you must complete this form unless one of the following applies.

- Your 2023 Arizona small business income tax liability is less than \$1,000. This is the amount of tax shown on your return reduced by any allowable tax credits that you are claiming on your small business income tax return.
- 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, 2024.
 - 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 the items above apply to you, you do not have to complete Form 221-SBI. Otherwise, complete this form to see if you are subject to the penalty. If you have to complete Form 221-SBI, you must include the completed Form 221-SBI with your Arizona Form 140-SBI, 140PY-SBI, or 140NR-SBI.

If you had to make estimated payments, your payments must total either 90% of the tax due for 2023, or 100% of the tax due for 2022.

You can use your 2022 tax to figure the amount of payments that you must have made during 2023 only if you filed a 2022 Arizona Small Business Income tax return.

Part A - Calculation of Underpayment

If you file an amended return, *Arizona Form 140X-SBI*, 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 the department's ruling, ITR 02-4, *Amended Return's Effect on the Estimated Tax Payment Underpayment Penalty*.

Line 1

Complete line 1 if you are claiming an exception from the penalty because you qualified for federal relief under Internal Revenue Code § 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 item below applies.

- You had no federal tax liability for 2022. You were also a U.S. citizen or resident of the U.S. for the entire year and your 2022 tax return was (or would have been had you been required to file) for a full 12 months.
- The total tax shown on your 2023 federal income tax return minus your federal withholding is less than \$1,000.

To request a penalty exception because either item above applies, do the following:

- Check the box on line 1;
- Do not** complete the rest of Form 221-SBI.
- Include Form 221-SBI with Arizona Form 140-SBI, Form 140PY-SBI, or Form 140NR-SBI.

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 item below applies:

- The underpayment was due to a casualty, disaster, or other unusual circumstances, and it would be inequitable to impose the penalty.
- In 2022 or 2023, 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 item above, do the following.

- Check the box on line 1.
- Complete Form 221-SBI through line 27 without regard to the waiver.
- Add line 27, columns (a) through (d) and enter the total on line 28, box 28a.
 - Enter the amount you want waived on line 28, box 28b.
 - Subtract the amount in box 28b from the total penalty you figured without regard to the waiver (box 28a).
 - Enter the result on line 28, box 28c.

- Include Form 221-SBI and a statement with 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 condition, include documentation such as copies of police and insurance company reports.

If you are asking for a penalty waiver due to retirement or disability, include documentation that shows your retirement date (and your age on that date) or the date you became disabled.

Lines 2 through 15

Complete lines 2 through 15 to see if you underpaid your 2023 estimated income tax payments.

Line 2

Enter your 2023 small business income tax liability from Arizona Form 140-SBI, line 54, or Form 140PY-SBI, line 54, or Form 140NR-SBI, line 52.

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 tax credits claimed on your 2023 Arizona small business income tax return.

Line 4

Subtract line 3 from line 2. If less than \$1,000, stop here. You do not owe the penalty. Do not file Form 221-SBI.

Line 5

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

Line 6

Enter the immediately preceding year's small business income tax liability (after tax credits). Only enter an amount on line 6 if you filed an Arizona small business income tax return for 2022. **If you did not file an Arizona small business income tax return for 2022, skip this line.**

Line 7

If you completed line 6, enter the smaller of line 5 or line 6. If you did not complete line 6, enter the amount from line 5.

Line 8

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 9

Divide the amount on line 7 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.

- **The annualized income installment method.** If you use the annualized income installment method, complete the worksheet on Form 221-SBI, page 2. Also, enter the amount from line 15 of that worksheet in each column of line 9. If you use the annualized income installment method, you must check the box on line 9.
- **File and pay by January 31, 2024.** If you file your Arizona return by January 31, 2024 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.
- **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, 2024.
- 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, 2024 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.
- **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 15, 2023, September 15, 2023 and January 15, 2024. The first installment must have equaled 50% of the total required payments.

Line 10 - 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, 2023 that were for the 2023 tax year.

In column (b), enter payments you made after April 15, 2023 through June 15, 2023.

In column (c), enter payments you made after June 15, 2023 through September 15, 2023.

In column (d), enter payments you made after September 15, 2023 through January 15, 2024.

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

1. Include $\frac{1}{4}$ (25%) of your Arizona income tax withheld in each column. The department considers you to have paid $\frac{1}{4}$ (25%) of Arizona income tax withheld on each payment due date unless you can show otherwise.
2. Include in your estimated tax payments any Arizona overpayment of tax from your 2022 return that you elected to apply to your Arizona 2023 estimated tax. You should report this amount in column (a).

3. If you file your return and pay the tax due by January 31, 2024, 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 31, 2024.

NOTE: *If line 10 equals or is more than line 9 in all columns, you do not owe a penalty. Do not complete the rest of this form. You must include a copy of this form with your return.*

Lines 11 through 13 - Overpayments or Underpayments

To determine if you have an overpayment or underpayment for each payment period:

1. you must complete lines 11 through 13 for one payment period before you go to line 11 of the next period, and
2. you must complete lines 11 through 13 for all columns before completing Part B, lines 14 through 28.

If you have an overpayment on line 13 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 13. You may then carry the remainder of the overpayment forward to line 11 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 11 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% of the underpayment. Calculate this penalty like interest.

Do not round penalty amounts calculated in Part B, lines 16, 19, 22, and 25 to the nearest whole dollar.

The penalty rates are established at various times during the year. The rate for the first quarter of 2024 (January 1, 2024 through March 31, 2024) was not established by the time the department printed this form.

To get the interest rate that applies from January 1, 2024 to April 15, 2024, call one of the numbers listed on page 1 of these instructions.

NOTE: *If you have not paid the underpayment by December 31, 2023 the outstanding penalty that relates to that underpayment will compound on January 1, 2024.*

Use lines 14 through 27 to compute the penalty for each rate period. On the following tables (1 through 4), list your payments to figure the penalty applicable to these installments. 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, 2024.

TABLE 1	
Payments after 4/15/2023 through 6/30/2023	
Date	Payment

TABLE 2	
Payments after 6/30/2023 through 9/30/2023	
Date	Payment

TABLE 3	
Payments after 9/30/2023 through 12/31/2023	
Date	Payment

TABLE 4	
Payments after 12/31/2023 through 4/15/2024	
Date	Payment

If You Listed a Payment in Table 1

On a separate sheet of paper, apply the payment to the underpayment shown on line 13. The underpayment for the computation on line 16 is the amount of the payment applied to the line 13 underpayment. If the payment is more than the underpayment, apply only an amount equal to the underpayment and use that amount for the line 16 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 13.
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 18, 19, 21, 22, 24, and 25.
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 18, 19, 21, 22, 24, and 25 to calculate the penalty on the underpayment balance that remained unpaid for the entire rate period. In this case, enter another number in the space for lines 15 and 16, as follows:

On line 15, enter "76." This is the total number of days in the first rate period (see the chart).

On line 16, 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

Lines 17 through 25

If an underpayment balance remains after applying any payments in Table 1, compute the penalty attributable to that balance on lines 18 and 19, then if necessary, on lines 21 and 22 and 24 and 25.

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 15, columns (a) and (b), line 18, columns (a), (b), and (c), line 21, columns (a), (b), and (c), and line 24 columns (a), (b), (c), and (d).

Rate Period	(a)	(b)	(c)	(d)
1 (line 15)	76	15		
2 (line 18)	92	92	15	
3 (line 21)	92	92	92	
4 (line 24)	106	106	106	91

For example, if you have an underpayment on line 13, column (a), but show no payments, you would enter "76" on line 15.

Rate Period 1

Lines 14 through 16

Enter on line 15, column (a) the number of days from 4/15/2023 to the date of the first payment listed in Table 1. If no payments are listed, enter "76."

Use the same steps as explained under the section, *Rate Period 1*, but use the date and penalty rate shown on lines 18 and 19, or lines 21 and 22, or lines 24 and 25.

1. When figuring the penalty for rate period 2, be sure to use only the payments listed in Table 2.
2. When figuring the penalty for rate period 3, be sure to use only the payments listed in Table 3.
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.*

Lines 26 and 27

For amounts to enter on line 26, columns (a) through (d), and line 27, follow the instructions on the form.

Line 28 (Boxes a, b, and c) - Total Penalty

Box 28a: Add line 27, columns (a) through (d) and enter the total.

Box 28b: If you are requesting a waiver of any penalty amount, check the box and enter that amount in box 28b.

Box 28c: Subtract box 28b from box 28a and enter the difference.

Also, enter the amount in box 28c on Arizona Form 140-SBI, line 64, or Form 140PY-SBI, line 64, or Form 140NR-SBI, line 62.

NOTE: *You **must** round the total penalty amount (box 28c) to the nearest whole dollar.*

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 on page 2 of Form 221-SBI, to figure the amounts to enter on line 9 of Form 221-SBI.

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 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 Publication 505.