

## 2004 Underpayment of Estimated Tax by Corporations

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### General Instructions

#### Purpose of Form

Taxpayers filing Forms 99T, 120, 120A, and 120S use Form 220 to determine whether they are subject to a penalty for underpayment of their Arizona estimated tax liability and, if so, the amount of the penalty.

The taxpayer's Arizona estimated tax liability is determined as follows:

- **Forms 120, 120A, and 120S** - [income tax plus tax from recapture of tax credits] less [the Clean Elections Fund tax reduction, nonrefundable tax credits, the Clean Elections Fund tax credit and refundable tax credits];
- **Form 99T** - [income tax] less [the Clean Elections Fund tax reduction and Clean Elections Fund tax credit].

#### OTHER ADJUSTMENTS:

##### **Retroactive consolidation tax payment credit (Form 120):**

*Taxpayers who made a retroactive election to file on a consolidated basis for taxable years 1986 through 1993, and who have a consolidation tax payment credit available from those taxable years, may base their required installments for taxable years beginning July 1, 1995, or later on their computed Arizona tax liability reduced by the available credit. The maximum amount of credit that can be used in any taxable year is 10 percent of the total credit or the amount of the tax liability (after the refundable tax credits), whichever is less.*

**Claim of right adjustments (Forms 120 and 120A):** A taxpayer that computes its tax liability under the claim of right provisions should base its estimated tax liability on the net tax liability computed under the claim of right provisions.

##### **Who is Subject to the Underpayment Penalty**

*If the taxpayer's Arizona tax liability (reduced by the retroactive consolidation tax payment credit and claim of right adjustments, if applicable) is less than \$1,000, the*

*taxpayer is not subject to this penalty. Arizona tax liability is Form 99T, page 1, line 7; or Form 120, page 1, line 24 less line 25 (reduced by the retroactive consolidation tax payment credit and claim of right adjustments, if applicable); or Form 120A, page 1, line 16 less line 17 (reduced by claim of right adjustments, if applicable); or Form 120S, page 1, line 20 less line 21.*

**A. Forms 99T, 120, and 120A:** Generally, the taxpayer is subject to the penalty if the tax shown on the taxpayer's 2004 Arizona tax return is \$1,000 or more and it did not timely pay at least the **smaller** of:

- Ninety percent of the tax (reduced by the retroactive consolidation tax payment credit and claim of right adjustments, if applicable) shown on its 2004 return, OR
- The tax shown on its 2003 return (reduced by the retroactive consolidation tax payment credit and claim of right adjustments, if applicable). The taxpayer must have filed a 2003 return showing at least some amount of tax and the return must have been filed for a period of 12 full months. However, a "large corporation" may base only its first required installment on the prior taxable year's tax.

**NOTE FOR FORM 120: A unitary group of corporations filing a combined return** must make its estimated tax payments on a combined basis. Therefore, a unitary group, as a single taxpayer, must compute the underpayment of estimated tax penalty *on a combined basis* if its Arizona tax liability for the taxable year is \$1,000 or more.

**NOTE FOR FORM 120: An Arizona affiliated group filing a consolidated return** pursuant to ARS § 43-947 must make its estimated tax payments on a consolidated basis. Therefore, an Arizona affiliated group, as a single taxpayer, must compute the underpayment of estimated tax penalty *on a consolidated basis* if its Arizona tax liability for the taxable year is \$1,000 or more.

**B. Form 120S:** Generally, the taxpayer is subject to the penalty if the tax shown on the taxpayer's 2004 Arizona tax return is \$1,000 or more and it did not timely pay at least the **smaller** of:

- Ninety percent of the tax shown on its 2004 return, OR
- If the taxpayer's 2003 return was filed for a period of twelve months, an amount of tax equal to the sum of:

Ninety percent of the portion of the 2004 Arizona tax liability that is attributable to built-in gains income or certain capital gains income; **plus**

One hundred percent of the portion of the 2003 Arizona tax liability that is attributable to excess net passive income.

**NOTE:** In these instructions, "return" generally refers to the corporation's original return. However, an amended return is considered the original return if the amended return is filed by the due date (including extensions) of the original return. Refer to Arizona Corporate Tax Ruling CTR 02-1 for further information.

The penalty is calculated separately for each installment due date. Therefore, the taxpayer may owe a penalty for an earlier

installment due date, even if later “catch-up” payments were made for the amount of the earlier installment due date underpayment. A taxpayer may be subject to the underpayment penalty even if the taxpayer is due a refund when its return is filed.

A taxpayer may be able to reduce or eliminate the penalty by using the annualized income installment method or the adjusted seasonal installment method.

### Who Must Complete This Form

A taxpayer DOES NOT HAVE TO COMPLETE Form 220, *Underpayment of Estimated Tax by Corporations*, if the taxpayer made its estimated tax payments based on either of the following methods:

- *All taxpayers*: An amount equal to 90 percent of the current taxable year’s tax liability (reduced by the retroactive consolidation tax payment credit and claim of right adjustments, if applicable), paid in four equal installments; or
- *Form 99T, 120, and 120A*: An amount equal to 100 percent of the taxpayer’s tax liability (reduced by the retroactive consolidation tax payment credit and claim of right adjustments, if applicable) for the prior taxable year, paid in four equal installments. A “large corporation” may not use this method.

The department will compute the estimated tax penalty based on either of these methods and notify the taxpayer of any amount due.

A taxpayer MUST COMPLETE Form 220, even though no penalty is due, if it made its estimated tax payments based on any of the following methods:

- *All taxpayers*: The annualized income installment method; **or**
- *All taxpayers*: The adjusted seasonal installment method; **or**
- *Forms 120 and 120A*: The taxpayer is a “large corporation” that computed its first required installment based on the taxpayer’s tax liability for the prior taxable year; **or**
- *Form 120S*: An amount, paid in four equal installments, that is equal to the sum of:

Ninety percent of the portion of the current taxable year’s Arizona tax liability that is attributable to built-in gains income or certain capital gains income; **plus**

One hundred percent of the portion of the prior taxable year’s Arizona tax liability that is attributable to excess net passive income.

### How to Use This Form

Check the applicable boxes in Part A. Complete Part B to determine if the taxpayer has an underpayment for any of the four installment due dates. If the taxpayer has an underpayment on line 15 (column (a), (b), (c), or (d)), go to Part C to calculate the penalty.

If the taxpayer is required to complete Form 220, attach the completed Form 220 to the taxpayer’s Arizona tax return. Check

the box on Form 99T, page 1, line 14; Form 120, page 1, line 34; Form 120A, page 1, line 25; or Form 120S, page 1, line 29.

## Specific Instructions

Complete the name and taxpayer identification number section at the top of the form. Indicate the period covered by the taxable year (in an MM/DD/YYYY format).

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). The TIN for a corporation is the corporation’s employer identification number. Taxpayers that fail to include their TIN may be subject to a penalty.

### Part A - Reasons for Filing Form 220

#### Lines 1 and 2 - Annualized Income Installment Method and/or Adjusted Seasonal Installment Method

If the taxpayer’s income varied during the taxable year because, for example, it operates its business on a seasonal basis, it may be able to lower the amount of one or more required installments by using the annualized income installment method or the adjusted seasonal installment method.

Use the Form 220 Schedule A to calculate one or more required installments. If Schedule A is used for any payment due date, it must be used for all payment due dates.

Use Schedule A to arrive at the amount of each required installment and to select the lesser of:

- the annualized income installment;
- the adjusted seasonal installment (if applicable); or
- the regular installment (25 percent of the required annual payment) increased by any reduction recaptured under IRC § 6655(e)(1)(B).

Follow the steps below to determine which parts of the Form 220 Schedule A to complete.

- If the taxpayer is using only the annualized income installment method, check the box on line 1 of Part A and complete Parts I and III of Schedule A.
- If the taxpayer is using only the seasonal installment method, check the box on line 2 of Part A and complete Parts II and III of Schedule A.
- If the taxpayer is using both methods, check the boxes on lines 1 and 2 of Part A and complete all three parts of Schedule A.
- All taxpayers: In each column on line 8, enter the amounts from the corresponding column of line 54 of Schedule A. Attach a copy of Schedule A to Form 220.

#### Line 3 - Large Corporations (Forms 120 and 120A)

“Large corporation” means a corporation or unitary group of corporations if the corporation, or a predecessor corporation, had federal taxable income of one million dollars or more for any of the immediately preceding three taxable years, excluding any federal net operating loss or capital loss carrybacks or carryovers. An Arizona affiliated group filing a consolidated return pursuant

to ARS § 43-947 is treated as a single corporation for purposes of applying the large corporation definition.

If the taxpayer is a large corporation, check the box on line 3 of Part A. In addition, if applicable, check the box(es) on line 1 and/or line 2. Complete Parts I, II, and III of Schedule A, as discussed above.

## Part B - Calculation of Underpayment

### Line 5 - Arizona Tax Liability

Enter the 2004 Arizona tax liability from Form 99T, page 1, line 7; Form 120, page 1, line 24 less line 25; or Form 120A, page 1, line 16 less line 17; or Form 120S, page 1, line 20 less line 21.

#### OTHER ADJUSTMENTS:

#### Retroactive consolidation tax payment credit (Form 120):

*Taxpayers that filed amended consolidated returns and have a retroactive consolidation tax payment credit available should use the Arizona tax liability after application of that credit for purposes of computing underpayment of estimated tax.*

#### Claim of right adjustments (Forms 120 and 120A):

Taxpayers computing the Arizona tax liability under the claim of right provisions of ARS § 43-1130.01 should use the Arizona tax liability reduced by those provisions for purposes of computing underpayment of estimated tax.

### Line 6 - Required Annual Payment

The Arizona required annual payment of estimated tax is the smaller of:

- *All taxpayers* - Ninety percent of the taxpayer's Arizona tax liability (reduced by the retroactive consolidation tax payment credit and claim of right adjustments, if applicable) for the current taxable year; **or**
- *Forms 99T, 120, and 120A* - one hundred percent of the taxpayer's Arizona tax liability (reduced by the retroactive consolidation tax payment credit and claim of right adjustments, if applicable) for the prior taxable year.

*Form 120S* - an amount equal to the sum of:

Ninety percent of the portion of the current taxable year's Arizona tax liability that is attributable to built-in-gains income or certain capital gains income; **plus**

One hundred percent of the portion of the prior taxable year's Arizona tax liability that is attributable to excess net passive income.

### Line 6a - (All Taxpayers)

Multiply line 5 by 90 percent. Enter the result on line 6a.

### Line 6b - (Forms 99T, 120, and 120A)

Determine the amount of the taxpayer's Arizona tax liability from the prior taxable year (reduced by the retroactive consolidation tax payment credit and claim of right adjustments, if applicable). Enter the net amount on line 6b.

DO NOT COMPLETE THIS LINE IF: (1) a return was not filed for the taxable year showing at least some amount of tax

liability (an amount greater than zero), OR (2) the 2003 taxable year was a period of less than twelve months. Skip line 6b and enter the amount from line 6a on line 6d.

### Line 6c - (Form 120S)

Enter an amount on line 6c that is the sum of:

- Ninety percent of the portion of the 2004 Arizona tax liability that is attributable to built-in gains income or certain capital gains income, **plus**
- One hundred percent of the portion of the 2003 Arizona tax liability that is attributable to excess net passive income.

DO NOT COMPLETE THIS LINE IF the 2003 taxable year was a period of less than twelve months. Skip line 6c and enter the amount from line 6a on line 6d.

### Line 6d - (All Taxpayers)

*Forms 99T, 120, and 120A* - Enter the smaller of line 6a or line 6b (if an amount was entered on line 6b).

*Form 120S* - Enter the smaller of line 6a or line 6c, (if an amount was entered on line 6c).

### Line 7 - Installment Due Dates

*Calendar year basis taxpayers:* Enter 4/15/2004, 6/15/2004, 9/15/2004, and 12/15/2004, respectively, in columns (a) through (d).

*Fiscal year basis taxpayers:* Enter the 15th day of the 4th, 6th, 9th, and 12th months of the taxable year in columns (a) through (d). If the installment due date falls on a weekend or legal holiday, the payment is considered timely if made on the next business day.

**Note for short period returns:** *Enter the installment due dates and the number of installments required by the Internal Revenue Service.*

### Line 8 - Required Installments

Each required installment is 25 percent of the required annual payment (line 6d) *unless* the taxpayer checked the box(es) on lines 1, 2 or 3 of Form 220, Part A.

### Instructions for "Large Corporations" – Forms 120 and 120A.

**A.** If the box on line 3 (but not the box on line 1 or line 2) is checked, follow the instructions below to compute the amount to enter on Part B, line 8.

If line **6a** is **less than** line **6b**:

- Enter 25 percent of line 6a in columns (a) through (d) of line 8.

If line **6b** is **less than** line **6a**:

- Enter 25 percent of line 6b in column (a) of line 8.
- Determine the amount to enter in column (b) of line 8 as follows:
  - Subtract line 6b from line 6a,
  - Add the result to the amount on line 6a, and
  - Multiply the total in (ii) above by 25 percent.
- Enter 25 percent of line 6a in columns (c) and (d) of line 8.

**B.** If the box on line 3 **and** the box on line 1 and/or line 2 is checked, use the following instructions to determine the amounts to enter on the Form 220 Schedule A, Part III, line 50, columns (a) through (d). Then complete the remainder of the lines in Part III of Schedule A. Enter the amounts from Schedule A, Part III, line 54, columns (a) through (d) on Form 220, Part B, line 8, columns (a) through (d).

If Form 220, Part B, line **6a** is **less than** line **6b**:

- Enter 25 percent of line 6a in columns (a) through (d) of Schedule A, Part III, line 50.

If Form 220, Part B, line **6b** is **less than** line **6a**:

- Enter 25 percent of line 6b in column (a) of Schedule A, Part III, line 50.
- Determine the amount to enter in column (b) of Schedule A, Part III, line 50 as follows:
  - Subtract line 6b from line 6a,
  - Add the result to the amount on line 6a, and
  - Multiply the total in (ii) above by 25 percent.
- Enter 25 percent of line 6a in columns (c) and (d) of Schedule A, Part III, line 50.

**Line 9 - Estimated Tax Paid or Credited**

Enter the estimated tax payments made by the taxpayer for its taxable year *as indicated below*.

The department will apply the payment of a required installment in the order in which the installments are required to be paid, regardless of the installment to which the payment pertains.

Include any overpayment of tax from the taxpayer's 2003 Arizona tax return that the taxpayer elected to apply to its 2004 Arizona estimated tax.

**Column (a).** Enter payments made by the 15th day of the fourth month.

**Column (b).** Enter payments made after the 15th day of the fourth month through the 15th day of the sixth month.

**Column (c).** Enter payments made after the 15th day of the sixth month through the 15th day of the ninth month.

**Column (d).** Enter payments made after the 15th day of the ninth month through the 15th day of the 12th month.

**Line 15 - Underpayment**

This amount (an amount greater than zero) is the underpayment of a required installment. If an amount greater than zero is entered here, the taxpayer should complete Part C to calculate the underpayment penalty.

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

The underpayment of estimated tax penalty is imposed on any required installment of estimated tax that is late or underpaid. The penalty is equal to the interest that would accrue under ARS § 42-1123 on the amount not paid for the period of nonpayment, not to exceed 10 percent of the amount not paid.

Compute the underpayment penalty for any underpayment of a required installment for the period of nonpayment on page 2, Part C, lines 17 through 37. "Underpayment" refers to a late payment or underpayment of a required installment.

Compute the penalty by applying the applicable rate to each underpayment. The penalty is computed for the number of days that the underpayment remained unpaid or until the original due date of the return, whichever is earlier.

The Arizona interest rates are established at various times during the year. Arizona interest rates are the interest rates prescribed by IRC § 6621 for each calendar quarter with the following exception. **Exception:** The Arizona rate of interest for both underpayments and overpayments *for all taxpayers* is the federal underpayment rate under IRC § 6621(a)(2) [the federal short-term rate, determined pursuant to IRC § 6621(b), plus three percentage points].

If the taxpayer has made more than one payment for a required installment, attach a separate computation for each payment.

**NOTE FOR COMPOUND PENALTY AMOUNT:** *The penalty is compounded annually (on January 1 of each year) on any underpayment of an installment outstanding as of that date. The compound penalty amount is added to the principal amount of the underpayment. The amount added to the principal accrues penalty until the underpayment is paid or until the original due date of the return, whichever is earlier.*

**Line 32 - Penalty Limitation**

The penalty for an underpayment of a required installment cannot exceed 10 percent of the amount not paid.

**Form 220 Schedule A**

**Part I - Annualized Income Installment Method**

**Line 1 - Annualization Periods**

Enter the annualization period that the taxpayer is using in the space on line 1, columns (a) through (d), respectively.

Forms 120, 120A, and 120S				
Option	1st Installment	2nd Installment	3rd Installment	4th Installment
Standard option	3	3	6	9
Option 1	2	4	7	10
Option 2	3	5	8	11

Form 99T				
Option	1st Installment	2nd Installment	3rd Installment	4th Installment
Standard option	2	3	6	9
Option 1	2	4	7	10

**Line 3 - Annualization Amounts**

Enter the annualization amounts for the option used on line 1.

Forms 120, 120A, and 120S				
Option	1st Installment	2nd Installment	3rd Installment	4th Installment
Standard option	4	4	2	1.33333
Option 1	6	3	1.71429	1.2
Option 2	4	2.4	1.5	1.09091

Form 99T				
Option	1st Installment	2nd Installment	3rd Installment	4th Installment
Standard option	6	4	2	1.33333
Option 1	6	3	1.71429	1.2

**Line 5 - Calculate the Tax**

Calculate the tax on the amount in each column using the instructions for Form 99T, line 4; or Form 120, line 16; or Form 120A, line 8; or Form 120S, line 12.

**Line 6 - Recapture of Tax Credits**

Enter the tax from the recapture of the environmental technology facility credit and/or the neighborhood electric vehicle credit. Calculate this amount using the instructions for Form 120, line 17; or Form 120A, line 9; or Form 120S, line 13. Form 99T filers, enter zero.

**Line 8 - Clean Elections Fund Tax Reduction**

Enter the amount of the Clean Elections Fund tax reduction, if applicable. Refer to the instructions for Form 99T, line 5; or Form 120, line 19; or Form 120A, line 11; or Form 120S, line 15.

**Line 9 - Nonrefundable Tax Credits**

Enter the total amount of nonrefundable tax credits to which the taxpayer is entitled because of events that occurred during the months shown in the column headings used to calculate annualized taxable income. Calculate this amount using the instructions for Form 120, line 20; or Form 120A, line 12; or Form 120S, line 16. Form 99T filers, enter zero.

**Line 11 - Clean Elections Fund Tax Credit**

Enter the amount of the Clean Elections Fund tax credit, if applicable. Refer to the instructions for Form 99T, line 6; or Form 120, line 23; or Form 120A, line 15; or Form 120S, line 19.

**Line 13 - Refundable Tax Credits**

Enter the total amount of refundable tax credits to which the taxpayer is entitled because of events that occurred during the months shown in the column headings used to calculate annualized taxable income. Calculate this amount using the instructions for Form 120, line 25; or Form 120A, line 17; or Form 120S, line 21. Form 99T filers, enter zero.

**Line 14 - Other Adjustments**

**Retroactive consolidation tax payment credit (Form 120):** Taxpayers who made a retroactive election to file on a consolidated basis for taxable years 1986 through 1993, and who have a consolidation tax payment credit available from those taxable years, may base their required installments for taxable years beginning July 1, 1995, or later on their computed Arizona tax liability reduced by the available credit. The maximum amount of credit that can be used in any taxable year is 10 percent of the total credit or the amount of the tax liability (after the refundable tax credits), whichever is less.

**Claim of right adjustments (Forms 120 and 120A):** A taxpayer that computes its tax liability under the claim of right provisions should base its estimated tax liability on the net tax liability computed under the claim of right provisions.

**Line 18 - Cumulative Installments**

Complete column (a) before completing columns (b) through (d). Before completing line 18 in columns (b) through (d), complete line 19, Part II (if applicable), and Part III, in each of the preceding columns.

EXAMPLE: Complete line 19, lines 20 through 48 (if using the adjusted seasonal installment method), and lines 49 through 54, in column (a) before completing line 18 in column (b).

**Part II - Adjusted Seasonal Installment Method**

Do not complete this part unless the taxpayer's base period percentage for any six consecutive months of the taxable year equals or exceeds 70 percent. The term "base period percentage" for any period of six consecutive months is the average of the three percentages calculated by dividing the taxable income for the corresponding six month period in each of the three preceding taxable years by the taxable income for each of their respective taxable years.

**Line 29 - Calculate the Tax**

Calculate the tax on the amount in each column using the instructions for Form 99T, line 4; or Form 120, line 16; or Form 120A, line 8; or Form 120S, line 12.

**Line 36 - Tax from Recapture of Tax Credits**

Calculate the tax from the recapture of the environmental technology facility credit and/or the neighborhood electric vehicle credit. Use the instructions for Form 120, line 17; or Form 120A, line 9; or Form 120S, line 13. Form 99T filers, enter zero.

**Line 38 - Clean Elections Fund Tax Reduction**

Enter the amount of the Clean Elections Fund tax reduction, if applicable. Refer to the instructions for Form 99T, line 5; or Form 120, line 19; or Form 120A, line 11; or Form 120S, line 15.

**Line 39 - Nonrefundable Tax Credits**

Enter the total amount of nonrefundable tax credits to which the taxpayer is entitled because of events that occurred during the months shown in the column headings above line 20. Calculate this amount using the instructions for Form 120,

line 20; or Form 120A, line 12; or Form 120S, line 16. Form 99T filers, enter zero.

**Line 41 - Clean Elections Fund Tax Credit**

Enter the amount of the Clean Elections Fund tax credit, if applicable. Refer to the instructions for Form 99T, line 6; or Form 120, line 23; or Form 120A, line 15; or Form 120S, line 19.

**Line 43 - Refundable Tax Credits**

Enter the total amount of refundable tax credits to which the taxpayer is entitled because of events that occurred during the months shown in the column headings used to calculate taxable income for the period. Calculate this amount using the instructions for Form 120, line 25; or Form 120A, line 17; or Form 120S, line 21. Form 99T filers, enter zero.

**Line 44 - Other Adjustments**

**Retroactive consolidation tax payment credit (Form 120):** Taxpayers who made a retroactive election to file on a consolidated basis for taxable years 1986 through 1993, and

*who have a consolidation tax payment credit available from those taxable years, may base their required installments for taxable years beginning July 1, 1995, or later on their computed Arizona tax liability reduced by the available credit. The maximum amount of credit that can be used in any taxable year is 10 percent of the total credit or the amount of the tax liability (after the refundable tax credits), whichever is less.*

**Claim of right adjustments (Forms 120 and 120A):** A taxpayer that computes its tax liability under the claim of right provisions should base its estimated tax liability on the net tax liability computed under the claim of right provisions.

**Line 47 - Cumulative Installments**

Complete column (a) before completing columns (b) through (d). Before completing line 47 in columns (b) through (d), complete lines 48 through 54 in each of the preceding columns.

EXAMPLE: Complete lines 48 through 54 in column (a) before completing line 47 in column (b).