

## ARIZONA INDIVIDUAL INCOME TAX RULING

ITR 01-3

(Effective for Taxable Years Beginning From and After December 31, 2001)

This substantive policy statement is advisory only. A substantive policy statement does not include internal procedural documents that only affect the internal procedures of the agency and does not impose additional requirements or penalties on regulated parties or include confidential information or rules made in accordance with the Arizona administrative procedure act. If you believe that this substantive policy statement does impose additional requirements or penalties on regulated parties you may petition the agency under Arizona Revised Statutes § 41-1033 for a review of the statement.

ISSUE:

What does the term "Arizona income tax liability due on the taxpayer's return" mean for purposes of Arizona Revised Statutes § 43-581(D) (Payment of estimated tax)?

APPLICABLE LAW:

Arizona Revised Statutes (A.R.S.) § 42-1125(P) provides a civil penalty if a taxpayer fails to pay the full amount of estimated tax required by A.R.S. § 43-581.

A.R.S. § 43-581(A) provides that taxpayers whose Arizona gross income exceeds \$75,000 (\$150,000 if a joint return is filed) and whose Arizona gross income was greater than \$75,000 in the preceding taxable year (\$150,000 if a joint return is filed) shall make payments of estimated tax during the individual's tax year.

A.R.S. § 43-581(D) provides that no penalties will be assessed for failure to make estimated payments if the taxpayer's Arizona income tax liability due on the taxpayer's return is less than \$1,000.

DISCUSSION:

The purpose of this tax ruling is to provide assistance to taxpayers with respect to the meaning of the term "Arizona income tax liability due on the taxpayer's return".

For taxable years beginning from and after December 31, 2001, A.R.S. § 43-581(D) provides that if the taxpayer does not pay the estimated tax required by A.R.S. § 43-581(A) on or before the prescribed due dates, there is assessed, and the department shall collect, a penalty upon the unpaid amount as prescribed by A.R.S. § 42-1125(P). However, the statute provides an exception that no penalties will be assessed if the taxpayer's Arizona income tax liability due on the taxpayer's return is less than \$1,000.

For purposes of this exception, the term "Arizona income tax liability due on the taxpayer's return" means the amount of tax shown on the return reduced by any amounts not received by the department directly from the taxpayer. Amounts not received directly from the taxpayer consist of Arizona income tax withheld during the taxable year and any credits claimed by the taxpayer. The amount of tax shown on the return is not reduced by any direct payment from the taxpayer such as an estimated tax payment or payment with a filing extension application.

### Example 1:

Mary is a single Arizona taxpayer. In 2001, Mary had Arizona gross income of \$160,000. In 2002, Mary has Arizona gross income of \$145,000. Mary does not make any Arizona estimated tax payments in 2002. On her 2002 individual income tax return, Mary claims a standard deduction. Mary also shows Arizona income tax withholding of \$4,500 and claims a credit of \$500 for contributions to a school tuition organization. To determine whether she is subject to penalty, Mary calculates her Arizona income tax liability due on her return as follows:

Arizona gross income		\$145,000
Less Personal exemption	\$2,100	
Standard deduction	<u>4,050</u>	
		<u>6,150</u>
Taxable income		
138,850		
Tax shown on return		
\$ 5,896		
Less Arizona tax withheld	\$4,500	
Credit for contribution		
to school tuition organization	<u>500</u>	

\$ 5,000

Arizona tax liability due on return  
\$ 896

Since Mary's Arizona tax liability due on her return is less than \$1,000 she is not obligated to make estimated tax payments and is not subject to penalty for failure to make estimated tax payments.

Example 2:

Jerry is a single Arizona taxpayer. In 2001, Jerry had Arizona gross income of \$160,000. In 2002 Jerry has Arizona gross income of \$145,000. Jerry does not make any Arizona estimated tax payments in 2002. On his 2002 individual income tax return, Jerry claims a standard deduction. Jerry also shows a payment with a timely filed extension request of \$4,500 and claims a credit of \$500 for contributions made to a school tuition organization. To determine whether he is subject to penalty, Jerry calculates his Arizona income tax liability due on his return as follows.

Arizona gross income		\$145,000
Less Personal exemption	\$2,100	
Standard deduction	<u>4,050</u>	
	<u>6,150</u>	
Taxable income		138,850
Tax shown on return		\$ 5,896
Less Credit for contribution to school tuition organization	<u>500</u>	
	\$ 500	
Arizona tax liability due on return		\$ 5,396

Since Jerry's Arizona income tax liability due on his return is greater than \$1,000, he is obligated to make estimated tax payments and is subject to penalty for failure to make estimated tax payments.

RULING:

For purposes of A.R.S. § 43-581(D), the term "Arizona income tax liability due on the taxpayer's return" means the amount of tax shown on the return reduced by Arizona income tax withheld during the taxable year and any allowable credits claimed by the taxpayer.

Mark W. Killian, Director

Signed: December 19, 2001

Explanatory Notice

The purpose of a tax ruling is to provide interpretive guidance to the general public and to department personnel. A tax ruling is intended to encompass issues of law that are not adequately covered in statute, case law or administrative rules. A tax ruling is a position statement that provides interpretation, detail, or supplementary information concerning application of the law. Relevant statute, case law, or administrative rules, as well as a subsequent ruling, may modify or negate any or all of the provisions of any tax ruling. See GTP 96-1 for more detailed information regarding documents issued by the Department of Revenue.