

ARIZONA INDIVIDUAL ESTIMATED INCOME TAX PAYMENTS

This publication is designed to provide general information with respect to the Arizona individual income tax estimated payment requirements. For complete details, refer to the Arizona Revised Statutes. In case of inconsistency or omission in this publication, the Arizona Revised Statutes will prevail.

Who Must Make Estimated Payments

Q1. Who must make estimated income tax payments?

You must make estimated payments for Arizona income tax purposes if your Arizona gross income for both the prior year and the current taxable year exceeds \$75,000 (\$150,000 for married taxpayers filing a joint return).

For example: John, a single individual was an Arizona full year resident during both 2011 and 2012. During 2011 John's Arizona gross income was \$80,000 and during 2012, John's Arizona gross income was \$78,000. John should have made estimated income tax payments during 2012 because John's Arizona gross income for both 2011 and 2012 was more than \$75,000.

Q2. How do I know if I will meet the income threshold for the current year when the year is not yet over?

If you met the income threshold for the prior year, you must make estimated payments during the current year unless you are sure you will not meet the income threshold for the current year.

Q3. What is my Arizona Gross income for the purpose of estimated income tax payments?

If you are a full year resident, your Arizona gross income is your federal adjusted gross income.

If you are a part-year resident, your Arizona gross income is that part of your federal adjusted gross income that you must report to Arizona.

If you are a nonresident, your Arizona gross income is that part of your federal adjusted gross income derived from Arizona sources.

Q4. Can I make estimated payments if I do not have to?

Yes, you may make Arizona estimated income tax payments even if you do not have to. If you choose to make voluntary estimated income tax payments, you will not

be subject to the underpayment penalty for those payments.

Amount Required To Be Paid

Q5. How much should my estimated payments total?

If you have to make estimated payments, your payments, when added to your Arizona withholding, must total either 90% of the tax due for current year, or 100% of the tax due for the prior year.

Q6. If my Arizona withholding for the current year equals or exceeds either 90% of the tax due for the current year, or 100% of the tax due for the prior year, do I still need to make estimated payments?

No. If your Arizona withholding for the current year equals or exceeds either 90% of the tax due for the current year, or 100% of the tax due for prior year, you will not have to actually make any estimated payments since the amount withheld would equal or exceed the amount required to be paid as estimated tax.

Q7. Can I base my estimated payments using 100% of my Arizona tax due for the prior year if I did not file a return for the prior year?

No. You must have been required to file an individual income tax return for the prior year and you must have filed that return in order to base the amount of your required estimated payments for the current taxable year on 100% of the Arizona tax liability shown on the return for the preceding taxable year.

Q8. How should I figure my preceding year's tax for purposes of the 100% safe harbor when I filed a joint return for the preceding year, but I am filing a separate return for the current year?

If you are filing separate returns for the current year but filed a joint return for the preceding year, you must each determine your share of the tax due on the joint return filed for the preceding year. To determine each share of tax due on the joint return filed for the preceding year, you each must calculate the tax that you would have paid had you filed a separate return for that preceding year. Once you figure what the tax for each of you would have been had you filed separate returns for the preceding

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year, you must then multiply the tax on the joint return by the following fraction:

Husband's or wife's separate tax liability

Both spouses' separate tax liabilities

Q9. How should I figure my preceding year's tax for purposes of the 100% safe harbor when I filed a separate return for the preceding year, but I am filing a joint return for the current year?

If you are filing a joint return for the current year but filed separate returns for the preceding year, you should combine the tax due on your separate returns filed for the prior year.

How To Make Estimated Payments?

Q10. How do I make estimated payments?

There are two different methods you can use to make your estimated payments. You can make your payment by filing Arizona Form 140ES and remitting your payment with that form. You can also remit your payment electronically. If you make your payment electronically, you do not need to file Form 140ES.

Q11. How can I make my estimated payment electronically?

To make an electronic payment, go to www.aztaxes.gov and click on the "Make a Payment" link. You will be able to make the payment using an electronic check or a credit card. If you make your payment electronically, you do not need to file Form 140ES.

Q12. If I do not make my payment electronically, where can I get Form 140ES?

You can get Form 140ES by logging onto our website at www.azdor.gov, then click on Forms and then click on Individual and find Form 140ES. You will be able to complete the Form 140ES online, and you will be able to save it to your computer and also print it out. Once you complete the form, you will need to print it and mail it to the department. Mail Form 140ES, by the due date for the payment you are making, to the address noted on the form. Make sure you include your payment.

Q12. Can I elect to apply a refund from my income tax return as an estimated payment for the next tax year?

Yes. You may elect to apply a refund as an estimated payment for the next taxable year, providing you file the return generating the

refund, prior to the original due date of the return to which you want to apply the refund. The election is irrevocable.

Q13. If I owe back taxes or money for child support or money to another state agency or the court, can I apply my current year refund to my next year's estimated tax before I pay those liabilities?

No. You may elect to apply the overpayment as an estimated payment for the next taxable year. However, if you owe back taxes or money for child support or money to another state agency or the court, the department will apply your overpayment to those outstanding liabilities first. If the overpayment is more than those liabilities, the remainder can apply to your next year's estimated tax.

When To Make Estimated Payments?

Q14. When are my estimated payments due?

For the most part, you must make your payments in four equal installments. If you are a calendar year filer, the payments are due on April 15th, June 15th, and September 15th of the current year and on January 15th of the next year. For fiscal years, the payments are due on the 15th day of the fourth, sixth and ninth months of the current fiscal year, and the first month of the next fiscal year. If the due date falls on a Saturday, Sunday or legal holiday, you may file by midnight on the next business day following that day.

Q15. Are there times when I do not have to make my payments in 4 equal installments?

Yes. You do not have to make your payments in 4 equal installments if any of the following apply.

- ✓ **File and pay by January 31 of the following year.** If you file your Arizona return by January 31 of the following year, 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 the taxable year. The due date for this installment for a calendar year filer is

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January 15th of the next year. The due date for a fiscal year filer is the 15th day of the first month after the end of a fiscal year.

There is no requirement to make this payment if you file your Arizona return on or before March 1st of the following year, 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 are June 15th and September 15th of the current year, and January 15th of the following year. The first installment must equal 50% of your total required payments.

Individual Estimated Payment Underpayment Penalty

Q16. When am I subject to the estimated payment underpayment penalty?

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

Q17. How will I know if I owe a penalty?

If you had to make estimated payments during the year, you must complete Arizona Form 221 to see if you owe a penalty. However, you do not have to complete Arizona Form 221 if one of the following applies.

- ✓ Your Arizona tax liability for that year 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 that year is equal to, or is more than, your required annual payment.
- ✓ You report as a farmer or fisherman for federal purposes **and**:
 - ✓ You file your Arizona return on or before the first day of the third month after the end of the taxable year.

- ✓ You pay in full the amount stated as payable on the return.

Q18. How is the penalty calculated?

The penalty is equal to the interest that would accrue on the underpayment. The penalty cannot be more than 10% of the underpayment. The penalty is charged from the due date of the payment, until the payment is made. However, the estimated payment penalty will cease to accrue on the due date (excluding extensions) of the return for the taxable year for which the payment was required. This penalty compounds annually on January 1 of each year.

Q19. How do I compound the penalty?

To compound the penalty, you must add any penalty outstanding on January 1 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.

Q20. Are there any exceptions to the penalty?

Yes. There are two exceptions to the penalty.

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

You must use Arizona Form 221 to indicate that you are eligible for a penalty exception. See Form 221 instructions for directions on how to request a penalty exception.

Q21. Are there any penalty waivers?

Yes. If you have an underpayment, the department will waive all or part of the penalty for that underpayment if the department determines that either: (1) The underpayment was due to a casualty, disaster, or other unusual circumstances, and it would be inequitable to impose the penalty, or (2) In either the immediately preceding year or the current year, you retired after age 62 or became disabled, and your underpayment was due to reasonable cause. See Form 221 instructions for directions on how to request a penalty waiver.

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Q22. If I do not qualify for a penalty exception or a penalty waiver, can I request penalty abatement for reasonable cause?

Yes. If the department computes the penalty on the original return, you may still be eligible for penalty abatement if the underpayment was due to reasonable cause and not due to willful neglect. To see what qualifies as reasonable cause, see the department's general tax ruling GTR 04-2.

Q23. Can I annualize my income to lower or eliminate one or more of my payments to minimize the penalty?

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 Form 221 to figure the annualized amounts.

Q24. How does an amended return affect the estimated payment underpayment penalty?

If you file an amended return by the due date of your original return, you should 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.

How to Claim Estimated Payments

Q26. How do I claim my estimated payments?

Once you make an estimated payment, you must file a tax return for that year in order to claim the estimated payment.

Q27. If I make estimated payments and then find out later that I owe taxes for a prior year, can I use those estimated payments to pay those prior year taxes?

No. Once you make an estimated payment, that payment cannot be used to pay taxes owed for another year. You will have to file the return for the year for which you made the estimated payment and claim that estimated payment on that return.

Q28. If I elect to apply my refund as an estimated payment to the next year, and then find out

later that I owe additional tax for that refund year, can I use that estimated payment to pay that additional tax?

No. Once you make an estimated payment, that payment cannot be used to pay taxes owed for another year. Therefore, if you applied an overpayment from your current year as an estimated payment to next year, you will have to file the return for the next year and apply that payment to the return filed for that year. Once you have elected to use that overpayment as an estimated payment for the next tax year, you cannot rescind that election and apply that overpayment to a subsequent audit for the refund year.

Q29. On what date is an estimated payment considered to have been made when the estimated payment was made by designating the previous year's overpayment as an estimated payment?

When a taxpayer elects to apply an overpayment to the next year's estimated taxes, the estimated payment will be deemed to have been made on the due date of the return from which the overpayment arose, excluding any extension. The department will not distinguish between an estimated payment made by an overpayment designated from a return filed timely or timely under an extension and an overpayment designated from a late filed return.

Q30. How should joint estimated payments be allocated when the spouses subsequently file separate returns?

When spouses make estimated tax payments jointly and later file separate income tax returns, the spouses may allocate the estimated tax payments between their returns in whatever manner they agree by claiming the payments on their respective returns. However, if the spouses cannot agree on the allocation, the taxpayers must use the following formula to determine the amount of estimated tax allocated to each spouse without regard to community property.

tax imposed on husband's
OR wife's return X the estimated
total tax imposed on payment
both returns

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For example: H and W made joint estimated payments of \$19,500 for the taxable year. The amount of tax shown on H's return is \$12,000. The amount of tax shown on W's return is \$8,000. Based on the foregoing formula, H would be allowed estimated payments of \$11,700 ($\$12,000/\$20,000 \times \$19,500$) and W would be allowed estimated payments of \$7,800 ($\$8,000/\$20,000 \times \$19,500$).

For Additional Information, call:

Phoenix (602) 255-3381
Toll free from area codes
520 & 928 (800) 352-4090

Or Write to:

Arizona Department of Revenue
Taxpayer Information & Assistance
1600 W Monroe
Phoenix AZ 85007

For Related Tax Information:

Internet www.azdor.gov
..... www.aztaxes.gov

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