

2001 Underpayment of Estimated Tax by Individuals

Arizona Form 221

Phone Numbers

If you have questions, please call one of the following help 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

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 2001 if one of the following apply.

1. You reasonably expected your Arizona gross income to exceed \$75,000 in 2001.
2. Your Arizona gross income in 2000 was more than \$75,000.

If you could not project your 2001 Arizona gross income, you may ask for a waiver from the requirement to make one or more required payments. The department may grant a waiver for one or more payment periods. You must request a waiver in writing. If requesting a waiver, attach your request to your return when you file. Your request must explain the reason why you could not reasonably project your Arizona gross income for one or more payment periods during 2001. Be sure to explain why you could not reasonably project your Arizona gross income for one or more payment periods during 2001.

The department may grant a waiver only if all of the following apply.

1. Your Arizona gross income for 2000 was less than \$75,000.
2. Using ordinary business care and prudence, you were unable to reasonably project your 2001 Arizona gross income.

You must attach a completed Form 221 and your request to your return.

What is My Arizona Gross Income For Estimated Payment Purposes?	
If your filing status is:	Your Arizona gross income is:
Single	Your federal adjusted gross income reported on the federal return.
Head of household	Your federal adjusted gross income reported on the federal return.
Married filing separately for both Arizona and federal purposes	Your federal adjusted gross income reported on the federal return.
Married filing joint OR Married filing separate for Arizona, but Married filing joint for federal purposes	Do not use your federal adjusted gross income reported on the federal return. Each spouse must compute his or her income as if filing a separate Arizona income tax return. This calculation determines whether either spouse must make Arizona estimated income tax payments. For details, see Arizona Department of Revenue Income Tax Ruling ITR 92-1. Visit our web site or call one of the help numbers listed on this page for a copy of this ruling.

If your Arizona gross income was less than \$75,000 for both 2000 and 2001, you are not subject to the penalty.

Should You Complete This Form?

You must complete this form if your individual Arizona gross income for 2000 or 2001 was more than \$75,000. Complete this form to see if you are subject to the penalty. *You must attach the completed Form 221 to your Arizona Form 140, Form 140PY, or Form 140NR.*

If you are a calendar year filer that reports as a farmer or fisherman for federal purposes, you do not have to make estimated payments or complete Form 221 if all of the following apply.

1. You file your Arizona return by March 1, 2002.
2. You pay in full the amount stated as payable on the return.

If you are a fiscal year filer that reports as a farmer or fisherman for federal purposes, you do not have to make estimated payments or complete Form 221 if all of the following apply.

1. You file your Arizona return on or before the first day of the third month after the end of the fiscal year.
2. You pay in full the amount stated as payable on the return.

If you have to make estimated payments, your payments, when added to your Arizona withholding, must total either 90% of the tax due for 2001, or 100% of the tax due for 2000.

You can use your 2001 tax to figure the amount of payments that you must make during 2002 only if you were required to file and did file a 2001 Arizona income tax return.

Part A - Calculation of Underpayment

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 2000. You were also a U.S. citizen or resident of the U.S. for the entire year and your 2000 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 2001 federal income tax return minus your federal withholding is less than \$1000.

If either 1 or 2 above apply to you, check the box on line 1 and complete lines 2 through 13.

Penalty and Interest Waivers

If you have an underpayment on line 13, 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 2000 or 2001, 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 28 without regard to the waiver. Write the amount you want waived in parentheses on the dotted line next to line 28. Subtract this amount from the total penalty you figured without regard to waiver, and enter the result on line 28.
- 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 - 13

Complete lines 2 through 13 to see if you underpaid your 2001 estimated income tax payments.

Line 2 -

Enter your 2001 income tax liability from Form 140, page 1, line 25, or Form 140PY, page 1, line 28, or Form 140NR, page 1, line 28.

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 2001 income tax return.

Line 4 -

Subtract line 3 from line 2. This is your 2001 tax liability.

Line 5 -

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

Line 6 -

Enter your 2000 tax liability (after tax credits). Only enter an amount on line 6 if you were required to file and did file an Arizona personal income tax return for 2000. If you were not required to file or did not file an Arizona personal income tax return for 2000, skip this line.

Line 7 -

If you entered an amount on line 6, enter the lesser of line 5 or line 6. If you did not enter an amount on 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.

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 9. If you use the annualized income installment method, you must check the box on line 9.

2. File and pay by January 31, 2002. If you file your Arizona return by January 31, 2002, 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, 2002. 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, 2002, 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 15, 2001, September 17, 2001, and January 15, 2002. The first installment must have equaled 50 percent 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 16, 2001, that were for the 2001 tax year. In column (b), enter payments you made after April 16 through June 15, 2001. In column (c), enter payments you made after June 15, 2001, through September 17, 2001. In column (d), enter payments you made after September 17, 2001, through January 15, 2002.

When figuring your payment dates and the amounts to enter on line 10 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 2000 return that you elected to apply to your 2001 estimated tax. You should report this amount in column (a).
3. If you file your return and pay the tax due by January 31, 2002, include on line 10, 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, 2002.

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 attach a copy of this form to your return.*

Lines 11 through 13 - Overpayments or Underpayments

Complete lines 11 through 13 for one payment period **before** you go to the next period.

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 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 2002 (January 1, 2002, through March 31, 2002) was not established by the time the department printed this form. To get the interest rate that applies from January 1, 2002, to April 15, 2002, call one of the help numbers listed on page 1 of these instructions.

NOTE: *If you have not paid the underpayment by December 31, 2001, the outstanding penalty that relates to that underpayment will compound on January 1, 2002.*

Use lines 14 through 27 to compute the penalty for each rate period.

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

TABLE 1	
Payments after 4/16/01 through 6/30/01	
(a) Date	(b) Payments

TABLE 2	
Payments after 6/30/01 through 9/30/01	
(a) Date	(b) Payments

TABLE 3	
Payments after 9/30/01 through 12/31/01	
(a) Date	(b) Payments

TABLE 4	
Payments after 12/31/01 through 4/15/02	
(a) Date	(b) Payments

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

- 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 the 2001, list \$1,000 as being paid on June 15, 2001, September 17, 2001, and January 15, 2002, in the proper table. Do not list the withholding attributable to the first payment due date April 16, 2001.

- 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, 2002.

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)	75	15		
2 (line 18)	92	92	15	
3 (line 21)	92	92	92	
4 (line 24)	105	105	105	90

For example, if you have an underpayment on line 13, column (a), but show no payments, you would enter "75" on line 15.

Rate Period 1

Enter on line 15 the number of days from 4/16/01 to the date of the first payment listed in Table 1. If no payments are listed, enter "75".

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.

- 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.
- 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.
- 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 entry space for lines 15 and 16, as follows:

On line 15, enter "75". This is the total number of days in the first rate period (see the chart above).

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.
- 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 Period 2

If an underpayment balance remains after applying any payments in Table 1, compute the penalty attributable to that balance on lines 18 and 19. Use the same steps as explained under Rate Period 1 above, but use the date and interest rate shown on lines 18 and 19. **Be sure to use only the payments listed in Table 2.**

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 28 –

Total penalty on underpaid or late paid estimated payments.

Add the amounts in columns (a), (b), (c), and (d), line 27. 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.