



**UNDERPAYMENT OF
ESTIMATED TAX BY
INDIVIDUALS AND
FIDUCIARIES**

2004

INSTRUCTIONS

PURPOSE & USE: Under the Pennsylvania Personal Income Tax, any individual or fiduciary who reasonably expects their income, which is not subject to PA withholding, to exceed \$8,000 must declare and pay estimated tax.

An Estimated Underpayment Penalty (EUP) is charged under the following conditions:

Taxpayer must have at least \$8,000 of income not subject to withholding (current PA tax liability minus current withholding and credits is at least \$246).

Taxpayer's current year's withholding, timely estimated payments, and allowable credits are less than the smaller of:

- 90% of the tax liability on their current return; or
- the product of multiplying the PA taxable income of the prior year's return by the current year's tax rate.

If these conditions apply, then there is an underpayment of estimated tax.

Use this form to see if you paid enough estimated tax in each of the four payment periods (Part I). If you did not pay enough, use the form to see if any exceptions apply (Part II). If no exceptions apply, use the form to figure the interest due (Part III). This form must be filed even if one of the exceptions applies. A different exception may apply for each quarter.

PLEASE NOTE: If you are using this form to calculate your penalty on your 2004 return, enclose a copy of this form (including applicable worksheet) with the PA-40/PA-41.

FARMERS - In order to qualify for the farming exemption, you must cultivate, operate, or manage a farm for profit or gain. A farm is a tract of land devoted to agriculture, pasturage, stock raising, or some allied industry. It includes dairy, stock, and poultry farms.

If you meet both of the following tests, you do not owe interest for underpaying estimated tax:

- 1) Your gross income from farming for the taxable year is at least 2/3 of your gross income from all sources for the taxable year; and
- 2) **You filed your tax return and paid the entire amount due by March 1 of the following year or you paid all of your estimated tax by January 18, 2005.**

If you meet these tests, please complete the part entitled "Exception 3 Worksheet For Farming" on page 3.

WHO MUST PAY INTEREST FOR UNDERPAYMENT OF ESTIMATED TAXES:

If you did not pay any estimated tax or did not pay the correct estimated tax by any due date for payment of estimated tax, or pay the entire 2004 estimated tax in one payment on or before April 15, 2004, you may be charged interest on that payment. This is true even if you are due a refund when you file your PA income tax return. Interest is figured separately for each due date. Therefore, you owe interest for an earlier payment due date, even if you paid enough tax later to make up for the underpayment.

IMPORTANT: If you were a Pennsylvania resident working in a reciprocal state and your employer was not withholding PA Personal Income Tax, you were also subject to making estimated payments.

WHEN INTEREST IS APPLIED: In general, you owe interest if, except as explained in "Farmers", your 2004 prepayments were not:

- 90% of the tax shown on your 2004 tax return, or
- 100% of the product of multiplying the taxable income shown on line 11 of the 2003 PA-40 (fiduciaries use Line 9 of the 2003 PA-41) by 3.07% (.0307). Does not apply if you did not file a prior year's return or you filed your prior year's return as a part-year resident.

CAUTION: You can only use your prior year's tax liabilities as a safe harbor if the rates for the prior year and the current year are the same. When the tax rate changes, use the prior year's income times the current year rate to calculate the safe harbor.

The total estimated tax and credits for tax year 2004 must be equal to or greater than the 2003 tax year liability per installment period.

PART I. FIGURING YOUR UNDERPAYMENT

Line 1a. Insert the tax liability figure from Line 12 of your 2004 PA-40 tax return (fiduciaries use Line 10 of the PA-41).

Line 1b. Calculate 90% of Line 1a by multiplying Line 1a by .90.

Line 2. The credits allowed to reduce the tax due are also used to reduce your tax liability for this calculation. Individuals add together the following lines from the PA-40: Line 13 (Total PA Tax Withheld), Line 17 (Nonresident Tax Withheld), Line 21 (TAX BACK/Tax Forgiveness Credit), Line 22 (Resident Credit), and Line 23 (Total Other Credits). Fiduciaries add Line 12 (Total Credit for Taxes Paid by PA Resident Estates or Trusts to Other States or Countries) and Line 13 (Total Other Credits) from the PA-41.

Line 3. Subtract Line 2 from Line 1a. If the amount is \$246 or more, complete Lines 4 through 10. If less than \$246, you did not owe estimated income tax and do not have to complete this form.

Line 4. Subtract Line 2 from Line 1b. This amount is used to determine if you have an underpayment. If you have an underpayment, the penalty is calculated on this amount.

Line 5. Divide the amount on Line 4 by four and enter the amount in each of the four columns.

Fiscal year filers. For column (a) use 15th day of the fourth month of the tax year, for (b) use 15th day of the sixth month of the tax year, for (c) use 15th day of the ninth month of the tax year, for (d) use the 15th day of the first month following the close of the tax year.

Line 6. Line 6 represents the timely payments credited to your account for each of the four payment due dates. Each column will indicate a total of your estimated payments for the period. To calculate the amounts to be inserted on Line 6, use the following steps and insert the total result for each column in the appropriate column. Do not include any credits from Line 2.

In column (a) enter the amount of 2004 estimated tax payment(s) made on or before April 15. Include in your estimated tax payments in column (a) any overpayment of tax from your prior year's return that you elected to apply to this year's tax. In column (b), enter the amount of 2004 estimated payments made after April 15 and on or before June 15. In column (c), enter the amount of 2004 estimated payments made after June 15 and on or before September 15. In column (d), enter the amount of 2004 estimated payments you made after September 15 and on or before January 18, 2005.

Farmers only: If you filed your return and paid the tax due by March 1, include on Line 6 (column d), the amount of tax you paid with your tax return. In this case, it is considered your January 18th payment.

If you filed a final return and paid the total tax due by January 31, 2005, enter the amount paid with your return as the fourth installment.

IMPORTANT: Complete Lines 7 through 10 for one payment period before you go to the next payment period.

Line 7. If you have an overpayment on Line 10 for the prior payment period, enter that amount. This does not apply to the April 15 payment period (column a).

Line 8. Add Lines 6 and 7 to determine the total payments applied to the payment period. This figure will be used to determine if you have an underpayment.

(Instructions continued on back cover.)



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF REVENUE
BUREAU OF INDIVIDUAL TAXES

**UNDERPAYMENT OF
ESTIMATED TAX BY
INDIVIDUALS AND FIDUCIARIES**

2004

Name as shown on PA-40 for individuals (PA-41 for fiduciaries) _____ Social Security Number (Employer Identification Number – Fiduciaries) _____

Street Address _____

City or Post Office _____ State _____ ZIP Code _____

PART I FIGURING YOUR UNDERPAYMENT

1a. 2004 Tax Liability from Line 12 of the PA-40 (Line 10 of PA-41)	1a.	
1b. Multiply the amount on Line 1a by .90.	1b.	
2. Add the amounts reported on Lines 13, 17, 21, 22, and 23 of the PA-40 (Lines 12 and 13 of the PA-41)	2.	
3. Subtract Line 2 from Line 1a. (If result is less than \$246, stop here.)	3.	
4. Subtract Line 2 from Line 1b.	4.	

ESTIMATED PAYMENT DUE DATES - If due date falls on a weekend or holiday, use the next business day. Fiscal filers see instructions.

	(a) April 15, 2004	(b) June 15, 2004	(c) Sept. 15, 2004	(d) Jan. 15, 2005
5. Divide amount on Line 4 by the number of payments required for the year (usually four). Enter the result in the appropriate columns. (Fiscal filers see instructions.)	5.			
6. Estimated tax paid including carryover credit from previous tax year. See instructions.....	6.			
7. Overpayment (from Line 10) from a previous period (see instructions)	7.			
8. Add Lines 6 and 7.....	8.			
9. Underpayment (subtract Line 8 from Line 5). If columns (a) through (d) are all zero, STOP HERE. No penalty is due.....	9.			
10. Overpayment (subtract Line 5 from Line 8). If columns (a) through (d) all show an overpayment, STOP HERE. No penalty is due.....	10.			

PART II EXCEPTIONS TO INTEREST (FARMERS SEE INSTRUCTIONS)

You will not have to pay interest on the underpayment if: (1) the tax payments that you made as shown in Part II, Line 11, were paid on time and the amount shown on Part II, Line 11, is equal to or more than the amount in Part II, Line 12 or Line 13, for the same payment period. This exception does not apply if you did not file a return for the prior year or if the prior year's return was filed as a part-year resident.

EXCEPTION 1 WORKSHEET – Part II, Line 11 Calculation

- A. Divide the amount reported in Part I, Line 2 by four. Enter the amount in each of the four columns.
- B. Enter the estimated payments reported in Part I, Line 6. Enter the payments under the installment period in which they were paid.
- C. Add Lines A and B under each column.

	(a) April 15, 2004	(b) June 15, 2004	(c) Sept. 15, 2004	(d) Jan. 15, 2005

This exception does not apply if you did not file a return for the prior year or if the prior year's return was filed as a part-year resident.

11. Enter the amounts listed on Exception 1 Worksheet, Line C. For column (a) this is the amount from Line C above. For column (b) add the amounts of columns (a) and (b) from Line C, for column (c) add the amounts from columns (a), (b), and (c), and for column (d) add the amounts from columns (a), (b), (c), and (d).	11.			
12. Exception 1 – Tax on 2003 income using 2004 tax rate. (See instructions.)	12.			

If the amount on line 11 is equal to or greater than line 12, you do not owe penalty for that quarter and you should place an X in the applicable line 14a or 14b for that quarter.

EXCEPTION 2 WORKSHEET – Use this worksheet if your income was earned unevenly throughout 2004 and your 2004 estimated tax payments, tax withholdings, and credits equal at least 90% of the tax on your actual taxable income for the periods.

EXCEPTION 2 WORKSHEET – Part II, Line 13 Calculation

- A. Enter your actual taxable income for the period.
- B. Multiply Line A by 3.07% (.0307). This is the tax due.....

	01/01/04 - 03/31/04	01/01/04 - 05/31/04	01/01/04 - 08/31/04	01/01/04 - 12/31/04

13. Exception 2 - tax on 2004 income over 3, 5, 8, and 12 month periods. Enter 90% of Exception 2 Line B.	13.	Enter 90%	Enter 90%	Enter 90%	Enter 90%
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If the amount on line 11 is equal to or greater than line 13, you do not owe penalty for that quarter and you should place an X in the applicable line 14a or 14b for that quarter.

PART III FIGURING THE INTEREST. COMPLETE LINES 15 THROUGH 16, IF NONE OF THE EXCEPTIONS APPLY. (SEE INSTRUCTIONS AND EXAMPLE AT BOTTOM OF THIS PAGE.)

14a. Number of days after due date of estimated payment to and including date of annual payment or December 31, 2004, whichever is earlier. If December 31 is earlier, enter 259, 199, and 105 respectively.....	14a.				
14b. Number of days after due date of estimated payment to and including date of annual payment or April 15, 2005, whichever is earlier. If April 15 is earlier, enter 89.....	14b.				
14c. Number of days after December 31, 2004 to and including date of annual payment or April 15, 2005, whichever is earlier. If April 15 is earlier, enter 105 in each column.....	14c.				
15a. Number of days on Line 14a times .000110 times underpayment on Line 9.....	15a.	\$	\$	\$	
15b. Number of days on Line 14b times .000137 times underpayment on Line 9.....	15b.				\$
15c. Number of days on Line 14c times .000137 times underpayment on Line 9.....	15c.	\$	\$	\$	
16. Interest (add amounts on Lines 15a, b, and c). Make check payable to PA Department of Revenue.....	16.				\$

EXCEPTION 3 WORKSHEET FOR FARMING

To see if you qualify for this exception, you will need to know your total gross income for the year and your gross income from farming. Gross income from farming is only that income reported on Schedule C and Schedule F that relates to farming. Income from the sale or disposition of farming equipment or livestock reported on Schedule D is not farming income.

Farmers who do not qualify for this exception should calculate the interest penalty from January 15 of the year following the close of the taxable year to April 15. To see if the farming exception applies, complete Exception 3 Worksheet.

**EXCEPTION 3 WORKSHEET
PART (A)**

A. Total Gross Income from all sources including Schedules C, F, and K-1.....	
B. Enter 66.67% of Line A. Multiply Line A by .6667.....	
C. Gross income from farming (exclude Schedule D income). If Line C is less than Line B, you do not qualify for the Farming Exception. If none of the other exceptions apply, you must pay interest on the underpayment of estimated taxes. If Line C is greater than Line B, continue on to Part B.....	

PART (B)

D. Date PA-40 was filed.....	
E. Amount of tax due on 2004 PA-40 (Line 25).....	
F. Amount of tax paid with 2004 PA-40. If Line F is greater than or equal to Line E and your total estimated payments were made by January 18, 2005, or the return was filed and the total tax due was paid before March 1 , you do not owe an underpayment penalty.....	

EXAMPLE OF INTEREST CALCULATION

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Underpayment		\$473.75	\$473.75	\$473.75	\$473.75
14a. Days late through 12-31-04 (1st, 2nd & 3rd Qtrs.).....	14a.	259	199	105	
14b. Days late 1-15-05 through 4-15-05 (4th Qtr.).....	14b.				89
14c. Days late 01-01-05 to 4-15-05 (1st, 2nd & 3rd Qtrs.).....	14c.	105	105	105	
15a. Days on line 14a times .000110 (2004 daily interest rate) times underpayment of \$473.75.....	15a.	\$13.50	\$10.37	\$5.47	
15b. Days on line 14b times .000137 (2005 daily interest rate) times underpayment of \$473.75.....	15b.				\$5.78
15c. Days on line 14c times .000137 (2005 daily interest rate) times underpayment of \$473.75.....	15c.	\$6.81	\$6.81	\$6.81	
16. Total lines 15a, 15b, and 15c to determine penalty	16.				\$55.55

Line 9. If Line 5 is greater than Line 8, calculate the amount of the underpayment for the payment period by subtracting Line 8 from Line 5. If not, go to Line 10 after entering 0 on Line 9. If all columns 9(a) through 9(d) are zero, STOP HERE. You do not owe the penalty. If there are underpayments but not in every quarter, place an X in the applicable lines 14a or 14b for each quarter where no underpayment exists.

Line 10. Calculate the amount of the overpayment for the payment period. Enter this amount on Line 7 of the next payment period. If you have an overpayment in the January 15th payment period, do not carry it to any other space on the form.

If Line 9 is zero for all payment periods, you do not owe any interest. If you have an underpayment on Line 9 in any payment period, continue on to Part II, Exception 1 Worksheet.

PART II. CALCULATING YOUR EXCEPTIONS

Line 11. Enter the result of Exception 1 Worksheet, Line C.

Line 12. (Exception 1). Exception 1 applies if your 2004 estimated tax payments and credits equal the tax that would have been due on your 2003 income if you figured using the current rate. Does not apply if you did not file a return for the prior year or if the prior year's return was filed as a part-year resident.

To calculate, multiply your Pennsylvania taxable income from your 2003 return by 3.07% (.0307). Enter 25% of this amount in column (a), 50% in column (b), 75% in column (c), and 100% in column (d). **If the amount on Line 11 is greater than the amount on Line 12 in any of the columns, you do not owe interest for that payment period and you should place an X in the applicable line 14a or 14b for that quarter.** If the amount on Line 11 is less than the amount on Line 12 for any payment period, continue on to exception 2 for those periods.

Line 13. (Exception 2). Exception 2 applies if your 2004 estimated tax payments and credits equal at least 90% of the tax on your actual taxable income for the periods from January 1 to March 31, May 31, August 31, and December 31. Enter 90% of Exception 2 Worksheet, Line B. **If Line 11 is greater than Line 13, the exception applies for that quarter and you should place an X in the applicable line 14a or 14b for that quarter.**

PART III. FIGURING THE INTEREST

Use this part of the form to calculate the amount of interest due. If one of the exceptions applies for any of the periods, place an "X" in the boxes under the column for that period. You only have to complete Lines 14 and 15 for the periods in which interest is due. The amount of the underpayment is the amount on Line 9 for the appropriate payment period.

Lines 14a, 14b, and 14c.

Line 14a. Applies to first, second, and third quarters for calendar year filers and any fiscal filer payments that were due on or before December 31. If no estimated payments were made during the year, use the number of days after the due date of the estimated payment to and including the date of the annual payment or December 31, whichever is earlier. If December 31 is earlier, enter 259 in column (a), 199 in column (b), and 105 in column (c). Fiscal filers adjust according to estimated payment due dates.

Line 14b. If no estimated payment was made for the fourth quarter, use the number of days after due date of estimated payment to and including date of annual payment or April 15, 2005, whichever is earlier. If April 15 is earlier, enter 89 in column (d). Fiscal filers adjust according to due date of annual return.

14c. Applies to first, second, and third quarters for calendar year filers and any fiscal filer payments that were due after December 31. If no estimated payments were made, use the number of days after December 31, 2004 to and including date of annual payment or April 15, 2005, whichever is earlier. If April 15 is earlier, enter 105 in each column. Fiscal filers adjust according to due date of annual return.

If a taxpayer fully pays an underpayment after a required due date but prior to or on the next due date, then "the number of days after due date of estimated payment" in Lines 14a, or 14b, or 14c will need to be

adjusted. To make the adjustment, count the days from the due date to the date of payment.

If the taxpayer partially pays an underpayment after a required due date but prior to or on the next due date, that partial payment is deemed to be a reduction, on the payment date, to the oldest quarter's underpayment. For such situation, the taxpayer will need to adjust this part accordingly.

Lines 15a, 15b, 15c, and 16. Self-explanatory.

EXAMPLE OF WHEN ESTIMATED UNDERPAYMENT APPLIES:

Tax liability for current tax year	\$3,599.00
Less current tax year's withholding & credits	<u>1,344.00</u>
	\$2,255.00

Current withholding and credits must be less than the smaller of the following to be penalized for estimated underpayment:

- \$3,239.00 (90% of the tax liability on the current return), or
- \$3,502.00 (PA taxable income on prior year's return multiplied by the current year's tax rate).

In this case, \$1,344 is less than both safe harbors.

Since the current PA tax liability minus current withholding and credits is at least \$246 (actually \$2,255) and the current year withholding and allowable credits (\$1,344) are less than \$3,239, the taxpayer should fill out the REV-1630 to see if there is an underpayment of estimated tax.

DETERMINING IF THERE IS AN UNDERPAYMENT AND HOW THE DEPARTMENT DETERMINES THE DECLARATION

A taxpayer makes an underpayment of quarterly estimated tax liability whenever he fails to pay all of the amount that he declares to be his quarterly estimated payment. The Department will use the smaller dollar amount of 90% of the current year's liability minus withholding and credits or the prior year's income times the current year's rate minus current year's withholding and credits as the declaration.

DETERMINING THE UNDERPAYMENT AMOUNT UPON WHICH THE ADDITION OF INTEREST MAY BE ASSESSED

The amount to be considered is the amount that the taxpayer should have paid in quarterly estimated taxes if the taxpayer could have used the PA Tax Liability (line 13) as shown on his PA-40 tax return or line 10 of the PA-41 return.

The Underpayment Amount is the difference between the tax liability times 90% minus any credits for the applicable quarter [calculated by dividing 90% of the PA Tax Liability (line 13 of the PA-40 or line 10 of the PA-41) minus any credits, by the number of estimated payment quarters] and the estimated payments actually paid on time for that quarter.

For PA-40 filers only, the total PA Tax Withholding (line 14) should be deducted from the 90% PA Tax Liability (line 13) along with other credits.

BILLING THE ADDITION OF INTEREST.

The interest to be added to the taxpayer's tax liability for an underpayment is to be billed per quarter. The interest to be added is based upon the amount of the underpayment per quarter.

Interest is assessed upon the underpayment amount until the taxpayer has made payments for the applicable quarter that equal the amount of the declared quarterly estimated payment liability. However, interest may not be imposed beyond the 15th day of the fourth month of the close of the taxpayer's taxable year (typically this will be April 15th) for any quarter.

If a taxpayer makes a late payment for a quarter in which an underpayment exists and his total payments for that quarter are less than the amount of the declared estimated tax liability or the required estimated amount, interest is billed upon the underpayment amount. However, as soon as a taxpayer makes a late payment for a quarter in which an underpayment exists, the underpayment is reduced by the late payment amount even if the total payment amount is less than the amount of the taxpayer's declared estimated tax liability.

When the taxpayer has made payments for the underpayment quarter equal to his declared quarterly estimated tax liability, the Department stops imposing interest for that quarter.