

**INSTRUCTIONS**

**IMPORTANT:** With the passage of Act 85 of 2012, taxpayers who qualified for 100 percent Tax Forgiveness in the previous tax year are not subject to the estimated underpayment penalty in the subsequent tax year. Taxpayers who qualified for less than 100 percent Tax Forgiveness may take into account the Tax Forgiveness Credit in the calculation of Exception 1 in determining if they are subject to the penalty. See the instruction for Line 12.

**PURPOSE & USE:** Under Pennsylvania personal income tax law, any individual who reasonably expects annual income for the tax year to exceed \$8,000, disregarding income subject to PA withholding, must declare and pay estimated tax.

Use this form to determine if you paid enough estimated tax in each of the four payment periods (Part I). If you did not pay enough tax in any payment period, then there is an underpayment for that period and a corresponding interest penalty imposed. Use this form to determine if any exceptions to the interest penalty apply (Part II). If an exception does not apply, use this form to calculate the interest due (Part III). This form must be filed even if one of the exceptions applies. A different exception may apply for each payment period.

**NOTE:** If you are using this form to calculate penalty on your 2013 return, enclose a copy of this form (including applicable worksheet) with Form PA-40.

**FARMERS** - There are special estimated tax payment rules that apply to farmers. These rules apply to those who 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 Jan. 15, 2014.

If you meet these tests, please complete REV-1630A, Underpayment of Estimated Tax by Individual Farmers. If you do not meet both tests, you are not considered a farmer for PA tax purposes. Please complete this form to see if you qualify for any other exceptions to the interest penalty.

**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 or if you did not pay the entire 2014 estimated tax in one payment on or before April 15, 2014, you may be charged an interest penalty. This is true even if you are due a refund when you file your PA income tax return. Interest is calculated 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 are a Pennsylvania resident working in Indiana, Maryland, New Jersey, Ohio, Virginia or West Virginia and your employer does not withhold PA personal income tax, you are required to make estimated payments.

**WHEN INTEREST IS APPLIED:** In general and unless you qualify for the farming exemption, there is an underpayment if your 2014 prepayments were not:

- 90 percent of the estimated tax due for the payment period; or
- 100 percent of the estimated tax due for the payment period calculated by multiplying the taxable income on Line 11 of 2013 Form PA-40 by 3.07 percent (0.0307). This provision does not apply if you did not file a prior year's return or if 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. If the tax rate changes, use the prior year's income multiplied by the current year's rate to calculate the safe harbor.

The total estimated tax and credits for tax year 2014 must be equal to or greater than the 2013 tax year liability per installment period.

**PART I. CALCULATING YOUR UNDERPAYMENT**

**Line 1a.** Insert the tax liability figure from Line 12 of your 2014 PA-40 tax return.

**Line 1b.** Calculate 90 percent of Line 1a by multiplying Line 1a by 0.90.

**Line 2.** The credits allowed to reduce the tax due are also used to reduce your tax liability for this calculation. Add together the following lines from Form PA-40: Line 13 (Total PA Tax Withheld), Line 17 (Nonresident Tax Withheld), Line 21 (Tax Forgiveness Credit), Line 22 (Resident Credit) and Line 23 (Total Other Credits). If Line 2 is more than Line 1b, you do not owe a penalty and do not need to complete this form.

**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 Line 4 by 4 and enter the amount in each of the four Columns a through d.

**Fiscal year filers.** For Column a use the 15th day of the fourth month of the tax year, for Column b use the 15th day of the sixth month of the tax year, for Column c use the 15th day of the ninth month of the tax year and for Column 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. If you made a payment after the due date, do not include that amount on Line 6. Each column will indicate a total of your estimated payments for the period. To calculate the amounts to be entered 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 2014 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 2014 estimated payments made after April 15 and on or before June 15. In Column c, enter the amount of 2014 estimated payments made after June 17 and on or before Sept. 16. In Column d, enter the amount of 2014 estimated payments made after Sept. 16 and on or before Jan. 15, 2015.

If you filed a final return and paid the total tax due by Jan. 31, 2015, 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 15th payment period (Column a).

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

**Line 9.** If Line 5 is greater than Line 8 for any column, calculate the amount of the underpayment for the payment period by subtracting Line 8 from Line 5. If Line 8 is greater than Line 5 for any column, subtract Line 5 from Line 8 and enter it in the appropriate column and on Line 7 of the next payment period. If Line 5 is not greater than Line 8 for any of the Columns a through d, enter zero on Line 9. If all Columns 9a through 9d are zero, stop here. You do not owe the interest penalty. If there are overpayments but not in every quarter, go to the applicable columns for Lines 14a and 14b and place an X in each column where an overpayment 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

(Instructions continued on back cover.)



BUREAU OF INDIVIDUAL TAXES

# UNDERPAYMENT OF ESTIMATED TAX BY INDIVIDUALS

# 2014

Name as shown on PA-40	Social Security Number
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Street Address \_\_\_\_\_

City or Post Office	State	ZIP Code
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**BEFORE YOU BEGIN:** Did you qualify for 100 percent tax forgiveness in 2013? If yes, stop here. You do not owe an estimated underpayment penalty and are not required to complete this form or include it with your return. If no, continue to see if you qualify for any of the exceptions.

**PART I CALCULATING YOUR UNDERPAYMENT**

1a. 2014 Tax Liability from Line 12 of Form PA-40. . . . .	1a.	
1b. Multiply the amount on Line 1a by 0.90. . . . .	1b.	
2. Add the amounts reported on Lines 13, 17, 21, 22 and 23 of Form PA-40. . . . .	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 - Fiscal filers see instructions.**

	a April 15, 2014	b June 16, 2014	c Sept. 15, 2014	d Jan. 15, 2015
5. Divide Line 4 by the number of payments required for the year (usually four). Enter the result in the appropriate columns. . . . .	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**

**You will not have to pay interest on the underpayment if the tax payments 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 4. 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, 2014	b June 16, 2014	c Sept. 15, 2014	d Jan. 15, 2015
A.				
B.				
C.				

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. <b>Exception 1</b> - Tax on 2013 income using 2014 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 box on Line 14a or 14b for that quarter.

**EXCEPTION 2 WORKSHEET** - Use this worksheet if your income was earned unevenly throughout 2014 and your 2014 estimated tax payments, tax withholdings and credits equal at least 90 percent of the tax on your 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 percent (0.0307). This is the tax due. . . . .

	01/01/14 - 03/31/14	01/01/14 - 05/31/14	01/01/14 - 08/31/14	01/01/14 - 12/31/14
A.				
B.				

13. <b>Exception 2</b> - Tax on 2014 income over three, five, eight . . . . . and 12 month periods. Enter 90 percent 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 payment period and you should place an X in the applicable box on Line 14a or 14b for that quarter.

**PART III CALCULATING INTEREST. COMPLETE LINES 15 THROUGH 16 IF NONE OF THE EXCEPTIONS APPLY. (SEE INSTRUCTIONS AND EXAMPLE AT BOTTOM OF THIS PAGE.) DO NOT USE FEDERAL CALCULATIONS.**

9. Enter the amounts from Part I, Line 9. . . . .	9.				
14a. Number of days after due date of estimated payment to and including date of annual payment or Dec. 31, 2014, whichever is earlier. If Dec. 31 is earlier, enter 260, 198 and 107 respectively. . . . .	14a.				
14b. Number of days after due date of estimated payment to and including date of annual payment or April 15, 2015, whichever is earlier. If April 15 is earlier, enter 90. . . . .	14b.				
14c. Number of days after Dec. 31, 2014 to and including date of annual payment or April 15, 2015, whichever is earlier. If April 15 is earlier, enter 105 in each column. . . . .	14c.				
15a. Number of days on Line 14a times 0.000082 times underpayment on Line 9. . . . .	15a.	\$	\$	\$	
15b. Number of days on Line 14b times 0.000082 times underpayment on Line 9. . . . .	15b.				\$
15c. Number of days on Line 14c times 0.000082 times underpayment on Line 9. . . . .	15c.	\$	\$	\$	
16. Interest. Add amounts on Lines 15a, b and c. Include on Line 27 of Form PA-40. . . . .	16.				\$

**SPECIAL EXCEPTION INFORMATION**

Please enter the following information to verify the correct application of the special exceptions rule:

- A. Enter the amount of your 2013 PA Tax Liability (Line 12 from your 2013 PA-40 tax return), less the amounts from Lines 13, 17, 22 and 23 from your 2013 PA-40 tax return. . . . . \_\_\_\_\_
- B. Did you make estimated payments beginning in the period in which it became known that your income not subject to tax exceeded \$8,000? Yes  No

If the amount for Line A is \$246 or greater, or if you answer "No" to Line B, you do not qualify for the special exception. To be eligible for the special exception, you must also make estimated payments beginning in the period in which it becomes known that income not subject to withholding will exceed \$8,000. See the instructions for "DETERMINING THE UNDERPAYMENT AMOUNT ON WHICH THE ADDITION OF INTEREST MAY BE ASSESSED" on Page 4 for additional information.

**FILING TIPS**

The department calculates the following using two decimal places:

- Line 1b and Lines 4 through 10 of Part I;
- Lines A, B, C and 11 of Exception 1 of Part II;
- Line 13 of Exception 2 of Part II; and
- Lines 14a through 16 of Part III

Rounding to whole dollars is utilized only on the following:

- Lines 1a, 2 and 3 of Part 1;
- Line 12 of Exception 1 of Part II; and
- Lines A and B of Exception 2 of Part II.

**EXAMPLE OF INTEREST CALCULATION**

		1st Estimated Payment Due Date	2nd Estimated Payment Due Date	3rd Estimated Payment Due Date	4th Estimated Payment Due Date
9. Underpayment . . . . .		\$473.75	\$473.75	\$473.75	\$473.75
14a. Days late through 12/31/14 (1st, 2nd and 3rd estimated payment due dates). . . . .	14a.	260	198	107	
14b. Days late 01/15/15 through 04/15/15 (4th estimated payment due date) . . . . .	14b.				90
14c. Days late 01/01/14 to 04/15/14 (1st, 2nd and 3rd estimated payment due dates). . . . .	14c.	105	105	105	
15a. Days on Line 14a times 0.000082 (2014 daily interest rate) times underpayment of \$473.75 . . . . .	15a.	\$10.10	\$7.69	\$4.16	
15b. Days on Line 14b times 0.000082 (2015 daily interest rate) times underpayment of \$473.75 . . . . .	15b.				\$3.50
15c. Days on Line 14c times 0.000082 (2015 daily interest rate) times underpayment of \$473.75 . . . . .	15c.	\$4.08	\$4.08	\$4.08	
16. Total Lines 15a, 15b and 15c to determine penalty . . . . .	16.				\$37.69

overpayment in the Jan. 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 interest penalty. If you have an underpayment on Line 9 in any payment period, continue on to Part II, Exception 1 Worksheet.

**NOTE:** If there are columns with underpayments, you must complete the rest of this form.

## PART II. CALCULATING YOUR EXCEPTIONS

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

**Line 12.** Exception 1 applies if your 2014 estimated tax payments and credits equal the tax that would have been due on your 2013 income using the current rate. 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.

To calculate, multiply Pennsylvania taxable income from your 2013 return by 3.07 percent (0.0307). From this amount, subtract the amount of the Tax Forgiveness Credit on Line 21 of your 2013 return and enter the amount in Column d. Enter 25 percent of the Column d amount in Column a, 50 percent of the Column d amount in Column b and 75 percent of the Column d amount in Column c. If the amount on Line 11 is equal to or 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 payment period. 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 applies if your 2014 estimated tax payments and credits equal at least 90 percent of the tax on your actual taxable income for the periods from Jan. 1 to March 31; Jan. 1 to May 31; Jan. 1 to August 31; and Jan. 1 to Dec. 31. Enter 90 percent of Exception 2 Worksheet, Line B. If Line 11 is equal to or greater than Line 13, the exception applies for that payment period and you should place an X in the applicable line 14a or 14b for that payment period.

## PART III. CALCULATING INTEREST

Use this part of the form to calculate the amount of the interest penalty 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 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 payment periods for calendar year filers and any fiscal filer payments that were due on or before Dec. 31. If no estimated payments were made during the year, use the number of days after the estimated payment due date to and including the date of the annual payment or Dec. 31, whichever is earlier. If Dec. 31 is earlier, enter 260 in Column a, 198 in Column b and 107 in Column c. Fiscal filers adjust according to estimated payment due dates.

**Line 14b.** If no estimated payment was made for the fourth payment period, use the number of days after the estimated payment due date to and including date of annual payment or April 15, 2015, whichever is earlier. If April 15 is earlier, enter 90 in Column d. Fiscal filers adjust according to due date of annual return.

**14c.** Applies to first, second and third payment periods for calendar year filers and any fiscal filer payments that were due after Dec. 31. If no estimated payments were made, use the number of days after Dec. 31, 2014 to and including date of annual payment or April 15, 2015, 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, 14b or 14c must 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 considered a reduction, on the payment date, to the oldest payment period's underpayment. For such situation, the taxpayer will need to adjust this part accordingly.

### EXAMPLE OF WHEN ESTIMATED UNDERPAYMENT APPLIES:

Tax liability for current tax year	\$3,599
Less current tax year's withholding and credits	<u>1,344</u>
	\$2,255

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

- \$3,239 (90 percent of the tax liability on the current return); or

- \$3,502 (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, and since the current year withholding and allowable credits are less than \$3,239, the taxpayer should fill out Form REV-1630 to determine if there is an underpayment of estimated tax. Please see the department's website for additional examples of when the underpayment of estimated tax penalty is applicable and when the exceptions apply.

### 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 declare and pay all or any part of the amount declared as the quarterly estimated payment on a timely basis.

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

The amount to be considered is that the taxpayer should have paid in estimated taxes if the taxpayer could have used the PA Tax Liability (Line 12) as shown on his PA-40 tax return.

The underpayment is the difference between the tax liability times 90 percent, minus any credits for the applicable payment period (calculated by dividing 90 percent of Line 12 of Form PA-40 minus any withholding and credits, by the number of estimated payment periods) and the estimated payments paid on time for that payment period.

**IMPORTANT:** The amounts calculated in each of the columns on Lines 12 and 13 for Exceptions 1 and 2 cannot be used to determine the underpayment penalty. You must use Line 9 in this calculation. However, if you had no estimated tax payment requirements for a previous tax year due to the tax liability being below the threshold required for estimated tax payments to be made, or because you were eligible for 100 percent Tax Forgiveness, special exceptions apply and you may not owe penalties for the payment periods prior to meeting the estimated payment requirements.

Special exceptions only apply if a taxpayer files an original or amended PA-40ESR(1), Declaration of Estimated or Estimated Withholding Income, and makes the full estimated tax payment due in the first period in which it is determined the estimated payment requirements were met for a year following a year in which no estimated payments were due or required to be made.

If the PA-40ESR is not filed in the correct payment period, or if the full amount of the estimated tax payment is not made in that period, the special exception does not apply for any payment periods, and the estimated underpayment penalty will apply for all payment periods in which the estimated tax underpayment exists.

In situations where conditions exist for the exception to apply, complete the Exception 2 worksheet to indicate the quarters in which the income (Line A) was earned and the tax liability (Line B) for those periods. Place an X in the applicable box on Line 14a to indicate that you do not owe a penalty for each payment period the special exception applies. You must also complete the "SPECIAL EXCEPTION INFORMATION" section in PART III by entering the information requested for Lines A and B.

### 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 payment period.

Interest is assessed upon the underpayment amount until the taxpayer has made payments for the applicable payment period that equal the amount of the declared 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 April 15th) for any quarter.

If a taxpayer makes a late payment for a payment period in which an underpayment exists and his total payments for that period 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 payment period 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 period equal to his declared estimated tax liability, the department does not impose interest for that payment period.