

**INSTRUCTIONS**

**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. For PA personal income tax purposes, a taxpayer is categorized as a farmer if two-thirds or more of his or her gross income is derived from farming. See Part A, Line C instructions for additional information regarding the definition of gross income from farming. If categorized as a farmer, the taxpayer must make his or her estimated tax payments by Jan. 15 of the year following the tax year or file his or her tax return for the year and make the entire payment of tax due with the return on or before March 1 (or the next business day if March 1 falls on a Saturday, Sunday or holiday) of the year following the tax year. Farmers may also make their payments in four equal payments as long as the final payment is made on or before Jan. 15 or when the return is filed on or before March 1 (or the next business day if March 1 falls on a Saturday or Sunday).

To determine if an individual qualifies as a farmer and will not owe interest for underpaying estimated tax, the following tests must be met:

- Test 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
- Test 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, 2015.

Please see the instructions for and complete the "Farming Exception Worksheet" on REV-1630A to determine if you meet the above tests.

**PURPOSE AND 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. Failure to pay estimated taxes results in an interest penalty on the tax amounts that would normally be due.

Farmers should use this form to determine if they meet both the tests for qualifying as a farmer. Farmers who meet Test 1 but fail Test 2 will calculate their underpayment penalties using this form. Individuals who fail Test 1 are not considered farmers under the exception and are required to use Form REV-1630, Underpayment of Estimated Tax By Individuals, to determine their underpayment penalties. Complete the Farming Exception Worksheet to determine if you meet the tests for qualifying as a farmer.

**NOTE:** If using the rules pertaining to farmers you determine you are exempt from the penalty or use this form to calculate the penalty on your 2014 return, enclose a copy of this form (including applicable worksheets) with your Form PA-40.

**WHO MUST PAY INTEREST FOR UNDERPAYMENT OF ESTIMATED TAXES**

Farmers who meet Test 1 but fail Test 2 must pay interest on the amount of estimated tax not paid. If a farmer fails Test 2, the farmer estimated tax rules and underpayment rules apply. If you did not pay any estimated tax, did not pay the correct estimated tax by Jan. 15, 2015, or did not file your return by March 2, 2015, and pay the amount of tax due with that return, 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.

**NOTE:** If you qualified for the Tax Forgiveness Credit for the previous tax year and you are not exempt from the interest penalty as a farmer, you should complete Form REV-1630, Underpayment of Estimated Tax by Individuals, to determine if you are exempt from the underpayment of estimated tax interest penalty.

**OTHER SITUATIONS WHEN INTEREST IS APPLIED**

Taxpayers not qualifying for the farming exemption will have an underpayment of their estimated taxes if their 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.

Taxpayers who fail Test 1 of the farming exemption must file REV-1630, Underpayment of Estimated Tax by Individuals, to determine the amount of estimated underpayment penalties/interest.

**FARMING EXCEPTION WORKSHEET**

In order to qualify for the farming exemption, individuals must derive at least two-thirds of their gross income from farming. Complete PART A of the Farming Exception Worksheet to determine if you qualify for this exception. Individuals who qualify as farmers have special rules with respect to their estimated tax payments. Complete PART B of the Farming Exception Worksheet to determine if you met the farmer specialized rules for estimated taxes.

**Part A**

**Line A.** Total gross income from all sources includes income reported on the following:

- PA-40 Lines 1a, 2, 3 and 7;
- PA-40 Line 5, with all selling expenses added back and total net losses not netted against gross income from all sources (see NOTE below for additional information);
- Lines 1 and 2 of PA Schedule E; and
- the total of the taxpayer and spouse columns from Line 3 of PA Schedule T.

It also includes gross income amounts for entities reported on PA-40 Line 4 determined as follows:

- Line 5 of PA Schedule C;
- Line 12 of PA Schedule F;
- federal form 1065 Schedule K-1, Box 14, Code B (gross farming income) and/or Box 14, Code C (gross non-farming income);
- federal form 1120S, Schedule K-1, Box 17, Code U (when entry is related to gross farming income); and/or
- income from other non-farming related partnership, limited liability company and S corporation entities.

Income from other non-farming related entities is determined by adding positive income amounts (not net losses) from the following sources:

- federal form 1120S, Page 1, Line 3, gross profit (use the shareholder's proportionate share of gross income reported only);
- PA-20S/PA-65 Schedule RK-1, Line 1 and/or 5 plus Line 12;
- PA-20S/PA-65 Schedule NRK-1, Line 1 and/or 3 plus Line 10 (use only when no entry appears in federal form 1065 Schedule K-1, Box 14 or when federal form 1120S, Page 1, Line 3 information is not available);
- federal form 1065 Schedule K-1, Boxes 1, 2 and/or 3 plus Box 4 (use only when PA-20S/PA-65 Schedules RK-1 or NRK-1 are not available); and/or
- federal form 1120S Schedule K-1, Boxes 1, 2 and/or 3 (use only when PA-20S/PA-65 Schedules RK-1 or NRK-1 or federal form 1120S, Page 1, Line 3 information is not available).

**NOTE:** When determining the amount to use from PA Schedule D (PA-40 Line 5), selling expenses must be added back in to the net gain or loss. Selling expenses include any commissions and other expenses

**(Instructions continued on Page 2.)**

incurred at the time of the sale that reduce net gains or increase net losses. After selling expenses are added back to the gain or loss, if an overall net loss still remains for Line 5, it is not permitted to be used to reduce gross income from all sources.

**IMPORTANT:** Net losses in any class of income as determined for Line 4, 5, 6 or 8 of the PA-40 cannot be used to reduce gross income from all sources.

**Line B.** Multiply Line A by 0.6667.

**Line C.** Gross income from farming is income from cultivating the soil or raising agricultural commodities. It includes income from operating a stock, dairy, poultry, bee, fruit or truck farm; income from a plantation, ranch, nursery, range, orchard or oyster bed; crop shares for the use of your land; and gains from sales of draft, breeding, dairy or sporting livestock not reported on PA Schedule D. Gross income from farming includes:

Gross income from farming includes income reported on the following:

- Line 12 of PA Schedule F;
- federal form 1065 K-1, Box 14, Code B (gross farming income);
- federal form 1120S K-1, Box 17, Code U (when entry is related to gross farming income); and/or
- federal form 4835, Line 7 reported on PA Schedule E.

Income from the sale or disposition of farm land, farming equipment or livestock reported on Schedule D is not farming income. Gross income from farming also does not include wages you receive as a farm employee or income you receive from contract grain harvesting and hauling with workers and machines you furnish.

**IMPORTANT:** If Line B is more than Line C, you do not qualify for the farming exception. You must file REV-1630, Underpayment of Estimated Tax by Individuals, to determine the amount of estimated underpayment penalty/interest.

#### **PART B**

**Line D.** Enter the date you filed your 2014 PA-40. If this date is after March 2, 2015, skip Lines E through I and continue by completing PARTS I, II and/or III to determine your underpayment and whether you have an estimated underpayment interest penalty.

**Line E.** Enter the amount of your 2014 Tax Liability from Line 12 of your PA-40.

**Line F.** Add the amounts on reported Lines 13, 17, 21, 22 and 23 of your 2014 PA-40.

**Line G.** Subtract Line F from Line E. If the result is zero or less, stop here.

**Line H.** Add the amounts on Lines 14, 15 and 26 of your 2014 PA-40 and subtract the amount from Line 25 of your 2014 PA-40 and enter the result on Line H. If the amounts appearing on Lines 15 and 26 less Line 25 were not paid on or before March 2, 2015, or you did not file your return on or before March 2, 2015, the estimated underpayment penalty may apply.

**Line I.** Subtract Line H from Line G. If the result is zero or less, stop here. You are not subject to the estimated underpayment interest penalty. Otherwise, complete PARTS I, II and III to determine your underpayment and the amount of your estimated underpayment interest penalty.

#### **PART I. CALCULATING YOUR UNDERPAYMENT**

**Line 1a.** Enter 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 1, you do not owe a penalty and do not need to complete this form.

**Line 3.** Subtract Line 2 from Line 1b. If the amount is \$246 or more, complete Lines 4 through 8. If less than \$246, you did not owe estimated income tax and do not have to complete this form.

**Line 4.** Enter the amount of estimated taxes you paid by Jan. 15, 2015, including any carryover credit applied from the previous tax year's return. Do not include any credits from Line 2.

**Line 5.** Subtract Line 4 from Line 3. If zero or less, stop here. No penalty is due. If more than zero, use this amount to calculate your underpayment interest penalty in PART III.

#### **PART II. EXCEPTION TO INTEREST**

In addition to the exception for paying your total estimated tax due by Jan. 15, 2015, or the tax due with the return by March 2, 2015, farmers who were full year residents of Pennsylvania the previous tax year are also eligible for another exception to the underpayment of estimated tax penalty. If the farmer has tax withholding, tax credits and estimated taxes paid by Jan. 15, 2015, equal to at least all of the tax due on 2013's taxable income at 2014's tax rate, he/she will be exempt from the underpayment of estimated tax interest penalty. Complete Lines 8 through 12 of REV-1630A to determine if you qualify for the exception.

**Line 6.** Enter the taxes withheld and tax credits from PART I, Line 2, above.

**Line 7.** Enter estimated taxes paid by Jan. 15, 2015, from PART I, Line 4, above.

**Line 8.** Add Lines 6 and 7.

**Line 9.** Enter your 2013 Taxable Income from Line 11 of your PA-40. You must have been a full year resident in 2013 to qualify for this exception.

**Line 10.** Multiply Line 9 by the 2014 tax rate of 0.0307 and enter the result.

Compare Lines 8 and 10. If Line 8 is greater than or equal to Line 10, no underpayment of estimated tax penalty is due and you may stop here. However, you must include a copy of this form with your return. If Line 10 is greater than Line 8, complete PART III.

#### **PART III. CALCULATING THE INTEREST PENALTY**

**Line 11.** Enter the number of days after Jan. 15, 2015, to and including the date of the payment with your tax return not filed on or by March 2, 2015 or April 15, 2015, whichever is earlier. If April 15 is earlier, enter 90.

**Line 12.** Number of days on Line 11 times 0.000082, times the underpayment on Line 5. This is your estimated underpayment interest penalty. Include this amount along with any other interest and penalties on Line 27 of your 2014 PA-40. Fill in the oval on Line 27 and include a copy of this form with your return. See the examples below for additional information.

**NOTE:** If the payment made with a return on or before March 2, 2015, is not a full payment of the taxes due, additional calculations (repeating Lines 11 and 12 for each payment date) of the estimated underpayment interest will be required. Calculate the interest penalty first using the amount on Line 5 times 0.000082, times the number of days after Jan. 15, 2015, to and including the payment date. For each additional payment, subtract the payment amount made from the underpayment calculated on Line 5, multiply the resulting amount times 0.000082 times the number of days after the date of the additional payment to and including the earlier of the date of the additional payment or April 15, 2015. Include a worksheet showing any additional calculations. See the following examples for additional information.

#### **EXAMPLES**

**Example 1.** Warren has total gross income from all sources of \$500,033, and gross income from farming is \$400,000 in 2014. Warren's wife, Michelle, has wages subject to withholding of \$70,033, from which \$2,150 of Pennsylvania income tax was withheld. They have joint interest and dividend income of \$30,000 in addition to Warren's net income from farming of \$40,000. Warren and Michelle made one estimated payment of \$1,000 on Jan. 15, 2015, and file their tax return on March 2, 2015, and include a payment of \$1,149 with that return. Warren and Michelle had Line 11 Taxable Income of \$126,059 from their 2013 PA-40. The 2013 taxable income times the 2014 tax rate was \$3,870. In 2013, Michelle had the same wages and withholding as she has in 2014. If Warren and Michele were not eligible to report as a farmer, total estimated tax payments of \$1,720 would have been required to be paid throughout 2014 to avoid the estimated underpayment penalty. Warren and Michelle will not be subject to the estimated underpayment interest penalty since they qualify as a farmer with more than two-thirds of gross income coming from farming. They also either made estimated tax payments equaling their

**(Instructions continued on Page 3.)**

tax liability or paid the remaining tax due with their return filed on or before March 2.

**Example 2.** Same facts as Example 1 except the estimated payment made on Jan. 15, 2015, was \$1,720 and that Warren and Michelle filed their tax return on March 16, 2015, along with a payment of \$429. Warren and Michelle are not subject to the estimated underpayment penalty even though they filed their return and paid the balance due after March 2, 2015, because they paid 100 percent of their 2013 tax liability by Jan. 15, 2015, and meet the EXCEPTION TO INTEREST in PART II. Warren and Michelle paid \$3,870 (\$2,150 of withholding and \$1,720 in estimated payments) by Jan. 15, 2015.

**Example 3.** Same facts as Example 2 except an estimated tax payment of \$1,000 was made late on Jan. 31, 2015, and the amount paid with their return filed on March 16, 2015, was \$1,149. Warren and Michelle are subject to the estimated underpayment interest penalty in this situation because they did not make all their estimated payments by Jan. 15, 2015, and did not file their return by March 2, 2015. The penalty is calculated on the underpayment of \$1,719 (as calculated on Line 5 of PART I: tax liability of \$4,299 times 90 percent less tax withheld of \$2,150), times the number of days the liability was unpaid. In this case, there were two payments of the liability; the late payment of the estimated tax on Jan. 31, 2015, of \$1,000 and the payment of the liability with the return on March 16, 2015, of \$1,149. Therefore, the underpayment of estimated tax interest penalty is two calculations and totals \$4.85: \$1,719 total underpayment times 16 days late, times daily rate of 0.000082 = \$2.26; \$719 remaining underpayment (total underpayment of \$1,719 less \$1,000 late estimated payment) times 44 days remaining underpayment not paid times daily interest rate of 0.000082 = \$2.59; \$2.26 plus \$2.59 = \$4.85

**Example 4.** Same facts as Example 1 except the return was filed on April 15, 2015. Warren and Michelle are subject to the estimated underpayment interest penalty in this situation because they did not make all their estimated payments by Jan. 15, 2015, did not file their return by March 2, 2015, and did not meet the EXCEPTION TO INTEREST in PART II. The penalty is calculated on an underpayment of \$719 (tax liability of \$4,299 times 90 percent less tax withheld of \$2,150 and timely estimated payments made of \$1,000) times the number of days late (90) times the daily interest rate (0.000082), which gives an underpayment of estimated tax interest penalty of \$5.31.

**Example 5.** Same facts as Example 1 except the return was filed on May 15, 2015, and an extension was filed timely with a payment of \$2,000. Warren and Michelle are subject to the estimated underpayment interest penalty in this situation because they did not make all their estimated payments by Jan. 15, 2015, did not file their return by March 2, 2015, and did not meet the EXCEPTION TO INTEREST in PART II. The penalty is calculated on an underpayment of \$719 (tax liability of \$4,299 times 90 percent, less tax withheld of \$2,150, and timely estimated payments made of \$1,000) times the number of days late (90) times the daily interest rate (0.000082), which gives an underpayment of estimated tax interest penalty of \$5.31. Even though Warren and Michelle have an overpayment of taxes and will receive a refund or carry-over credit of the overpaid taxes, they are still subject to the estimated underpayment interest penalty for not making the full amount of their estimated tax payments by Jan. 15, 2015, filing and paying the amount due with a return filed by March 2, 2015, or making their total tax payments and credits for 2014 in at least the same amount of last year's taxable income times this year's tax rate.

**Example 6.** Same facts as Example 5 except no payment was made with a timely filed extension. Warren and Michelle are subject to the estimated underpayment interest penalty in this situation because they did not make all their estimated payments by Jan. 15, 2015, did not file their return by March 2, 2015, and did not meet the EXCEPTION TO INTEREST in PART II. The penalty is calculated on an underpayment of \$719 (tax liability of \$4,299 times 90 percent, less tax withheld of \$2,150, and timely estimated payments made of \$1,000) times the number of days late (90), times the daily interest rate (0.000082), which gives an underpayment of estimated tax interest penalty of \$5.31. Warren and Michelle will also be subject to a late payment penalty of 5 percent on the amount of underpaid taxes (\$1,149), or \$57.45. Interest also accrues on the late payment at a rate of \$0.09 per day for each day the taxes are unpaid in 2015.

**Example 7.** Same facts as Example 1 except Warren's gross income from farming was \$325,000. Warren and Michelle do not qualify as farmers and must complete Form REV-1630, Underpayment of Estimated Tax by Individuals, to calculate their underpayment of estimated tax interest penalty.

**(Form on Page 4.)**



**UNDERPAYMENT OF  
ESTIMATED TAX BY  
INDIVIDUAL FARMERS**

**2014**

Name as shown on PA-40	Social Security Number
Street Address	
City or Post Office	State
ZIP Code	

**FARMING EXCEPTION WORKSHEET  
PART A**

A. Total gross income from all sources including Schedules C, F and K-1.....	A.	
B. Enter 66.67 percent of Line A. Multiply Line A by 0.6667.....	B.	
C. Gross income from farming (exclude Schedule D income). If Line C is less than Line B, you do not qualify for the farming rules and must complete REV-1630. If Line C is greater than Line B, continue on to Part B.....	C.	

**PART B**

D. Date 2014 PA-40 was filed..... <b>NOTE:</b> If the date on Line D is after March 2, 2015, skip Lines E through I and complete PARTS I, II and/or III to determine your underpayment and the amount of your estimated underpayment interest penalty.	D.	
E. 2014 Tax Liability from Line 12 of Form PA-40.....	E.	
F. Add the amounts reported on Lines 13, 17, 21, 22 and 23 of Form PA-40.....	F.	
G. Subtract Line F from Line E.....	G.	
H. Add the amounts on Lines 14, 15 and 26 of your 2014 PA-40 and subtract the amount from Line 25 of your 2014 PA-40 and enter the result here. If the amounts appearing on Lines 14 and 26 less Line 25 were not paid on or before March 2, 2015, or you did not file your return on or before March 2, 2015, the estimated underpayment penalty may apply.....	H.	
I. Subtract Line H from Line G. If the result is zero or less, stop here. Otherwise, complete Parts I, II and III to determine your underpayment and the amount of your estimated underpayment penalty.....	I.	

**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 1b. (If result is less than \$246, stop here.).....	3.	
4. Estimated taxes paid by Jan. 15, 2015, including carryover credit from previous tax year.....	4.	
5. Underpayment. Subtract Line 4 from Line 3. If zero or less, stop here. No penalty is due.....	5.	

**PART II EXCEPTION TO INTEREST**

6. Enter the amount from PART I, Line 2.....	6.	
7. Enter the amount from PART I, Line 4.....	7.	
8. Add Lines 6 and 7.....	8.	
9. Enter the Taxable Income from Line 11 of your 2013 PA-40.....	9.	
10. Multiply Line 9 times 0.0307.....	10.	

Compare Lines 8 and 10. If Line 8 is greater than or equal to Line 10, stop here. You do not owe an interest penalty. If Line 10 is greater than Line 8, complete PART III below.

**PART III CALCULATING THE INTEREST PENALTY. COMPLETE LINES 11 AND 12**

11. Number of days after Jan. 15, 2015, to and including date of annual payment or April 15, 2015, whichever is earlier. If April 15 is earlier, enter 90. See instructions.....	11.	
12. Number of days on Line 11 times 0.000082 times underpayment on Line 5. Include on Line 27 of Form PA-40.....	12.	