

## Subject 603

### Penalty for Underpayment of Estimated Tax

The State of Arkansas Tax system is based on a pay-as-you-go plan. You must pay tax as you earn or receive your income during the year by paying withholding tax and/or estimated tax.

If you do not pay enough tax through withholding or estimated tax payments, you may owe a penalty for underpayment of estimated tax. If you owe at least \$1,000 of tax when you file your tax return and the amount of tax you owe is more than 10% of the tax shown on your return, you may owe a penalty.

There are certain cases when no underpayment penalty will be assessed. The penalty may be waived if:

1. Your income from farming can reasonably be expected to amount to at least two-thirds of your total gross income from all sources for the income year. You must file a declaration and pay the estimated tax by the fifteenth day of the second month after the close of the income year **or** you must file an income tax return and pay the tax by the fifteenth day of the third month after the close of the income year.
2. The estimated tax paid is as much as was due on your return for the preceding income tax year.
3. You filed an income tax return and paid the tax by January 31<sup>st</sup>, or on the last day of the first month after the close of the income year.
4. The preceding tax year was a tax year of twelve months, **and** you did not have a tax liability for the preceding tax year, **and** you were a resident of Arkansas throughout the preceding tax year.
5. The Commissioner of Revenues determines that because of casualty, disaster, or other unusual circumstances the imposition of such penalty would be against equity and good conscience.
6. The Commissioner determines that:
  - a. You retired after having turned age 62, or became disabled in the tax year for which the estimated payments were required to be made or in the tax year preceding that tax year, **and**
  - b. Underpayment was due to reasonable cause and not to willful neglect.

Complete **Form AR2210, Underpayment of Estimated Tax by Individuals**, to determine if you must pay a penalty.

If you have one quarter during the year when the majority of income was earned, completing **Form AR2210A, Annualized Penalty for Underpayment of Estimated Income by Individuals**, may also reduce or eliminate your penalty.