

Underpayment of Tax

Basics: The United States and Arizona income tax systems are pay-as-you-go tax systems, which means that you must pay income tax as you earn or receive your income during the year. You can do this either through withholding or by making estimated tax payments. If you didn't pay enough tax throughout the year, either through withholding or by making estimated tax payments, you may have to pay a penalty for underpayment of estimated tax.

Avoiding the penalty: Most taxpayers will avoid this penalty if they

- (1) owe less than \$1,000 in tax after subtracting their withholding and refundable credits, or
- (2) paid withholding and estimated tax of the *smaller of*
 - (a) at least 90% of the tax for the current year or
 - (b) 100% of the tax shown on the return for the prior year (110% if prior year AGI is over \$150,000/\$75,000), or
- (3) had no tax liability for the prior year and the prior year's return was for 12 months.

If none of these apply, you may have to pay a penalty for underpayment of estimated tax. Steps to take next:

1. Pay your current year amount due as soon as possible either by using the 1040-V Payment Voucher that AARP TaxAide will provide you or by making an online payment through www.irs.gov/payments (this address is on the 1040-V) or aztaxes.gov/Home/PaymentIndividual for Arizona payments.
2. If the IRS or AZDOR decide that you have to pay a penalty, they'll send you a letter showing the amount due.

Actions you can take in the current year:

If you know you have higher income than last year or if you've received an unexpected lump sum (for example, if you won the lottery or sold a property), come see us at our Pine Ridge Marketplace site in Prescott. We're open on Tuesdays and Thursdays from 9AM-3PM after the tax season is over (from mid-April through December). We'll be happy to help you figure out how to increase your withholding or make estimated tax payments to avoid underpayment penalty when filing your next tax return.