

Revenue Information Bulletin No. 03-007

June 4, 2003

Individual Income Tax

Underpayment of Individual Income Tax Penalty Computation

For tax years beginning January 1, 2001, and after, residents and nonresidents must make a declaration of estimated tax if their estimated Louisiana income tax after credits and taxes withheld can reasonably be expected to exceed \$1,000 for an individual, or \$2,000 in the case of a joint declaration of husband and wife.

The department imposes a penalty for underpayment of any installment of estimated tax at the rate of 12 percent per year for the period of underpayment on the difference between the installment payment made and 90 percent of the installment due on the basis of the tax for the year.

The estimated payment penalty may be self-assessed and paid with the 2002 tax return when the tax return payment exceeds the \$1,000/\$2,000 thresholds. If the taxpayer self-assesses the penalty, the taxpayer will not receive a bill from the Department. If a taxpayer who owes the penalty does not self-assess the penalty, the taxpayer will receive a bill from the Department. Such bills are usually issued within a year; however, if the underpayment is not identified within that time the penalty could be assessed as late as December 31, 2006.

Since the calculation of the penalty is complicated and 2002 tax software packages do not contain the calculation, a simple calculation will be allowed for the 2002 taxable year. The method prescribed by the statute can be used instead of the simple method if the taxpayer prefers.

The following is the simple calculation that can be used to determine the individual income tax underpayment penalty:

2002 Resident Filers (IT-540 Return)

If on the tax return Line 13A less Line 14C is greater than \$1,000 for Single, Married filing Separately, and Head of Household filers or \$2,000 for Married filing Jointly and Widow(er) filers then, continue; otherwise, no penalty is due.

- A. Your Louisiana Income Tax Amount (Line 11) _____
- B. Less:
 - Nonrefundable Credits (Schedule A – Part 1 – Line 6) _____
 - Refundable Credits (Schedule A – Part 2 – Lines 2 and 3) _____
 - Total Nonrefundable and Refundable Credits _____
- C. Balance Due (Subtract Line B from Line A.) _____

Exception to avoid the penalty:

- D. Enter 90 percent of Balance Due (Multiply Line C above by .90). _____
- E. Withholding and Other Payments (Add Lines 14A and Line 1 of Schedule A – Part 2.) _____

If Line E is **Equal to or Greater than** Line D, **STOP** no penalty is due.
 If Line E is **Less than** Line D, continue to compute penalty.

- F. Amount Subject to Penalty (Subtract Line E from Line D.) _____
- G. Penalty Rate (6%) _____.06
- H. Penalty Due (Multiply Amount Subject to Penalty by the Penalty Rate. Enter here and include in the total appearing on **Line 3** of the **Interest and Penalty Calculation Worksheet**.) _____

2002 Nonresident and Part-Year Resident Filers (IT-540B Return)

If on the tax return Line 14A less Line 15E is greater than \$1,000 for Single, Married filing Separate, and Head of Household filers or \$2,000 for Married filing Jointly and Widow(er) filers, then continue; otherwise, no penalty is due.

- A. Your Louisiana Income Tax Amount (Line 12) _____
- B. Less:
 - Nonrefundable Credits (Line 13) _____
 - Refundable Credits (Add Lines 15C and 15D.) _____
 - Total Nonrefundable and Refundable Credits _____
- C. Balance Due (Subtract Line B from Line A.) _____

Exception to avoid the penalty:

- D. Enter 90 percent of Balance Due (Multiply Line C above by .90). _____
- E. Withholding and Other Payments (Add Lines 15A and 15B.) _____

If Line E is **Equal to or Greater than** Line D, **STOP** no penalty is due.
 If Line E is **Less than** Line D, continue to compute penalty.

- F. Amount Subject to Penalty (Subtract Line E from Line D.) _____
- G. Penalty Rate (6%) _____.06
- H. Penalty Due (Multiply Amount Subject to Penalty by the Penalty Rate. Enter here and include on the **Total Penalty and Interest line** in the **Interest and Penalty Calculation Worksheet** on page 10 of the instruction booklet.) _____

Examples

The following are examples of when a penalty should be assessed for underpayment of individual income tax and also when the penalty should not be assessed:

Example 1: A married couple files a joint return having a balance due Louisiana (less consumer use tax) of \$2,200. The taxpayer does not meet the criteria for exception to the penalty.

A.	Your Louisiana Income Tax Amount	\$5,200
B.	Less: Nonrefundable and Refundable Credits	<u>\$1,000</u>
C.	Balance Due	<u>\$4,200</u>

Exception to avoid the penalty:

D.	Enter 90% of Balance Due	\$3,780
E.	Withholding	\$2,000

Since withholding is less than 90 percent of the balance due and the balance due less withholding is more than \$2,000, the penalty is due, and is calculated as follows:

F.	Amount Subject to Penalty	\$1,780
G.	Penalty Rate (6%)	<u>.06</u>
H.	Penalty Due	<u>\$107</u>

Example 2: A married couple files a joint return having a balance due Louisiana (less consumer use tax) of \$2,200. The taxpayer meets the exception criteria to the penalty.

A.	Your Louisiana Income Tax Amount	\$24,000
B.	Less: Nonrefundable and Refundable Credits	<u>\$1,000</u>
C.	Balance Due	<u>\$23,000</u>

Exception to avoid the penalty:

D.	Enter 90% of Balance Due	\$20,700
E.	Withholding	\$20,800

Since withholding exceeded 90 percent of the balance due, no penalty is due.

Example 3: A single individual files a return having a balance due Louisiana (less consumer use tax) of \$1,050. The taxpayer does not meet the exception criteria to the penalty.

A.	Your Louisiana Income Tax Amount	\$1,500
B.	Less: Nonrefundable and Refundable Credits	<u>\$0</u>
C.	Balance Due	<u>\$1,500</u>

Exception to avoid the penalty:

D.	Enter 90% of Balance Due	\$1,350
E.	Withholding	\$450

Since withholding is less than 90 percent of the balance due and the balance due less withholding is more than \$1,000, the penalty is due, and is calculated as follows:

F.	Amount Subject to Penalty	\$900
G.	Penalty Rate	<u>.06</u>
H.	Penalty Due	<u>\$54</u>

Example 4: A single individual files a return having a balance due Louisiana (less consumer use tax) of \$1,050. The taxpayer meets the exception criteria to the penalty.

A.	Your Louisiana Income Tax Amount	\$11,000
B.	Less: Nonrefundable and Refundable Credits	<u>\$0</u>
C.	Balance Due	<u>\$11,000</u>

Exception to avoid the penalty:

D.	Enter 90% of Balance Due	\$9,900
E.	Withholding	\$9,950

Since withholding exceeded 90 percent of the balance due, no penalty is due.

The following two pages are forms that can be used to compute the penalty for underpayment of individual income tax and attached to the return. One is for resident filers and one is to be used by nonresident and part-year resident filers.

Interested parties may contact the Collection Division at (225) 219-7448.

Historical Note: Originally issued February 18, 2003. Revised and reissued June 3, 2003. The revision allows the “simple calculation” to be used by all taxpayers in computing the penalty for underpayment of 2002 estimated tax.

2002
Louisiana
Underpayment of Estimated Tax by Residents — Simple Method
 (Attach this form to Form IT-540 if penalty is due,
DO NOT ATTACH IF NO PENALTY IS DUE)

NAME(S) AS SHOWN ON FORM IT-540	SOCIAL SECURITY OR I.D. NUMBER
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Resident Filers (IT-540 Return)

If on the tax return Line 13A less Line 14C is greater than \$1,000 for Single, Married filing Separately, and Head of Household filers or \$2,000 for Married filing Jointly and Widow(er) filers, then continue; otherwise, no penalty is due.

- A. Your Louisiana Income Tax Amount (Line 11) _____
- B. Less:
 - Nonrefundable Credits (Schedule A – Part 1 – Line 6) _____
 - Refundable Credits (Schedule A – Part 2 – Lines 2 and 3) _____
 - Total Nonrefundable and Refundable Credits _____
- C. Balance Due (Subtract Line B from Line A.) =====

Exception to avoid the penalty:

- D. Enter 90 percent of Balance Due (Multiply Line C above by .90). _____
- E. Withholding and Other Payments (Add Lines 14A and Line 1 of Schedule A – Part 2.) _____

If Line E is Equal to or Greater than Line D, STOP no penalty is due.
If Line E is Less than Line D, continue to compute the penalty.

- F. Amount Subject to Penalty (Subtract Line E from Line D.) _____
- G. Penalty Rate (6%) _____ .06
- H. Penalty Due (Multiply Amount Subject to Penalty by the Penalty Rate. Enter here and include in the total appearing on **Line 3** of the **Interest and Penalty Calculation Worksheet**.) =====

OR

- I. If the statutory method is used, enter the penalty amount here and include in the total appearing on **Line 3** of the **Interest and Penalty Calculation Worksheet**. **Attach Schedule of Penalty Calculation.** =====

2002
Louisiana
Underpayment of Estimated Tax by Nonresidents — Simple Method
 (Attach this form to Form IT-540B if penalty is due,
DO NOT ATTACH IF NO PENALTY IS DUE)

NAME(S) AS SHOWN ON FORM IT-540B	SOCIAL SECURITY OR I.D. NUMBER
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Nonresident and Part-Year Resident Filers (IT-540B Return)

If on the tax return Line 14A less Line 15E is greater than \$1,000 for Single, Married filing Separately, and Head of Household filers or \$2,000 for Married filing Jointly and Widow(er) filers, then continue; otherwise, no penalty is due.

- A. Your Louisiana Income Tax Amount (Line 12) _____
- B. Less:
 - Nonrefundable Credits (Line 13) _____
 - Refundable Credits (Add Lines 15C and 15D.) _____
 - Total Nonrefundable and Refundable Credits _____
- C. Balance Due (Subtract Line from Line A.) =====

Exception to avoid the penalty:

- D. Enter 90% of Balance Due (Multiply Line C above by .90). _____
- E. Withholding and Other Payments (Add Lines 15A and 15B.) _____

If Line E is **Equal to or Greater than** Line D, **STOP** no penalty is due.
 If Line E is **Less than** Line D, continue to compute the penalty.

- F. Amount Subject to Penalty (Subtract Line E from Line D.) _____
- G. Penalty Rate (6%) _____ .06
- H. Penalty Due (Multiply Amount Subject to Penalty by the Penalty Rate. Enter here and include on the **Total Penalty and Interest line** in the **Interest and Penalty Calculation Worksheet** on page 10 of the instruction booklet.) =====

OR

- I. If the statutory method is used, enter the penalty amount here and include on the **Total Penalty and Interest line** in the **Interest and Penalty Calculation Worksheet** on page 10 of the instruction booklet.) **Attach Schedule of Penalty Calculation.** =====