

PSTAP Supports Our Members

The following issue was brought to our attention by a member after she had persistently spent several months trying to get to the right person at the PA DOR to communicate this system error to the calculation of the estimated underpayment penalty. PSTAP stepped in to assist and was able to facilitate the communication she needed to get this calculation adjustment - a win for all practitioners! Persistence pays off and so does leveraging your power through membership in the PSTAP.

Estimated Underpayment Penalty Calculation

ISSUE: Some taxpayers have received notices for Underpayment of Estimated Tax Penalties for periods after which an underpayment no longer exists. Since these penalty amounts tend to be small, some taxpayers resort to paying them rather than spending the time to try to resolve or go through the appeals process.

TAXPAYER SCENARIO: Taxpayer underpaid estimated tax payments for 1st, 2nd and 3rd Quarters of 2023 but then caught up with the 4th quarter payment made on January 15, 2024.

EXAMPLE: Taxpayer received an underpayment penalty notice for interest on estimated taxes that were due for Quarters 1, 2 and 3 of 2023 based on the following estimated tax amounts:

Quarter 1 - \$2,971 (\$5,777 required pmt - \$2,806 overpmt applied from prior year)

Quarter 2 - \$977 (\$5,777 required pmt - \$4,800 paid June 15th)

Quarter 3 - \$5,777 (\$5,777 required pmt not made)

Quarter 4 – Taxpayer makes a \$16,000 payment on January 15, 2024, which more than covers the remaining underpayments from the first three quarters as well as the full required pmt for the 4th quarter. Total estimated tax for all 4 qtrs = $\$5,777 \times 4 = \$23,108 - \$23,606 \text{ pmts} = (\$498)$ overpaid as of 1/15/24.

Taxpayer agrees that they rightfully should have been charged interest for Quarters 1-3 up to January 15, 2024, when the payment was made. The January payment more than covered the remaining underpayments from the prior three quarters plus what was owed for the 4th quarter.

As of January 16th, client no longer had an underpayment for any quarter, yet interest continued to be calculated through April 15, 2024, an additional 3 months of interest for Quarters 1-3.

OUTCOME: It appears that their system was not taking the excess payment from one quarter and applying it back to any balances still owed from prior quarters even though their instructions (REV-1630) indicate that is how it should be handled.

The Department agrees that interest should have stopped when the January 15, 2024 payment was made and has since corrected this calculation in their system to ensure this will not occur in the future. This correction was completed on December 30, 2024.