
FYI-320

New Mexico
Taxation and Revenue Department

FOR YOUR INFORMATION

Tax Information/Policy Office ♦ P.O. Box 630 ♦ Santa Fe, New Mexico 87504-0630

PIT-ES: PERSONAL INCOME TAX ESTIMATED PAYMENTS

This FYI sets out requirements for personal income tax estimated payments.

This information is as accurate as possible at time of publication. Subsequent legislation, new state regulations and court cases may affect its accuracy. For the latest information please check the Taxation and Revenue Department's web site at <https://www.tax.newmexico.gov>.

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INTRODUCTION

For tax years beginning on or after January 1, 2012, every individual liable for state income tax must pay estimated tax if the tax shown on the return for the year exceeds the amount withheld by \$1,000 or more.

PAYMENT

WHO IS REQUIRED TO PAY?

All full-year and part-year residents, nonresidents and persons physically present in New Mexico for 185 days during a calendar year are subject to this requirement. First-year residents of New Mexico are NOT subject to the estimated payment requirements in their first year of residency (Section 7-2-12.2(M) NMSA 1978) regardless of the date on which they become residents.

Certain estates and trusts are subject to the estimated tax provisions. Taxpayers are responsible for determining whether the federal government treats them as trusts under Subpart E, Part I, Subchapter J, Chapter 1 of the Internal Revenue Code. If so, they are required to make estimated payments to New Mexico. Check the IRS web site at www.irs.gov.

New Mexico law says individuals must make a required annual payment (RAP) through withholding and/or estimated payments if the difference between tax shown on the return and tax withheld is \$1,000 or more. To calculate the tax shown on the return, subtract total rebates and credits claimed from the net New Mexico income tax.

You may be penalized if:

The tax due for the current year, minus rebates or credits allowed and income tax withholding, is \$1,000 or more.

REQUIRED ANNUAL PAYMENT

If the difference between the tax shown on the return and withholding tax paid is \$1,000 or more, the Department will determine whether you have made your required annual payment and compute penalty on an underpayment. The required annual payment is either 90% of the current-year tax liability or 100% of the prior-year tax liability. You must have filed a full-year New Mexico personal income tax return in the previous year to be eligible for the second option.

Calculate your required annual payment using Option 1. If you filed a full-year New Mexico personal income tax return in the previous year, choose the lesser of Option 1 or Option 2:

Option 1. Your current-year New Mexico personal income tax multiplied by 90%;

Option 2. Your previous year New Mexico personal income tax multiplied by 100%.

*To determine the required annual payment, reduce the income tax liability due by rebates and credits allowed.

ESTIMATED INSTALLMENT PAYMENT AMOUNT

Generally, taxpayers make four equal installment payments on the specified due dates.

EXAMPLE: In the previous tax year, a self-employed court reporter had no withholding and owed \$5,000 when she filed her return. She estimates her current tax year liability at \$6,000. As a self-employed person who will have no withholding during the year, she must make estimated payments. She can meet her estimated tax requirement by paying the lesser of the two installment payment amounts below:

100% of prior year tax
tax liability

OR

90% of expected current-year

$\$5,000 \div 4 =$
 $\$1,250/\text{quarter}$

$\$6,000 \times 90\% =$
 $\$5,400 \div 4 = \$1,350/\text{quarter}$

DUE DATES

Estimated tax payments are generally due in four installments on or before the 15th day of the fourth, sixth and ninth months of the tax year and the first month following the tax year. The Department computes any underpayment penalty and assesses penalty due. For calendar-year taxpayers the due dates are:

April 15

June 15

September 15

January 15
(following year)

If a due date for an estimated payment is a Saturday, Sunday, state or national legal holiday, the payment is timely when the postmark bears the date of the next business day. Delivery by a private delivery service is timely if the date shown on the delivery service's records is on or before the required mailing date.

**ALTERNATIVE METHODS OF COMPUTING ESTIMATED
PERSONAL INCOME TAX**

If you qualify, you may establish that you are eligible for an alternative method of computing the timing and amount of estimated tax due by submitting Form RPD-41272, *Calculation of Estimated Personal Income Tax Underpayment Penalty* with Form PIT-1. You must also mark the indicator box on Form PIT-1 if you are using a special method for calculating the underpayment of estimated tax penalty.

FARMER/RANCHER REQUIREMENTS

Farmers and ranchers who expect to receive at least two-thirds of their *gross* income from farming or ranching during the tax year, or who did receive at least two-thirds of their *gross* income from farming or ranching in the prior year, may:

- 1) make one estimated payment on or before January 15 of the following year, OR
- 2) file and pay in full on or before March 1 of the following year.

On joint returns the farmer or rancher must count the spouse's gross income when calculating whether the couple meets the two-thirds-of-gross-income test. The provisions are identical to those in federal law.

CALCULATING BASED ON THE ACTUAL DATES ON WHICH TAX WAS WITHHELD

The Department presumes that withholding occurs ratably throughout the year, although the taxpayer may rebut this presumption by establishing the specific dates when withholding actually occurs. This provision may be applied separately to wage withholding and other withholdings and is captured by attaching Form RPD-41272, *Calculation of Estimated Personal Income Tax Underpayment Penalty*, to Form PIT-1.

ANNUALIZED INCOME

Taxpayers with seasonal or erratic incomes can use a modified annualization procedure to determine the amount and timing of their estimated payments. By calculating estimated payments based on actual taxable income received, you may be able to lower or eliminate the amount of one or more required installment payments. When a taxpayer makes a lower payment for a period, the taxpayer will have to make up later in the year for the lower installment payment. See examples beginning on page 5. On March 31, May 31, August 31 and December 31, calculate the required annual payment for each quarter based on 90% of the actual year-to-date taxable income received. Use the federal procedures for determining the annualized income by multiplying the year-to-date taxable income received, by the "annualization amount". Next calculate the percentage of cumulative estimated payments that should have been paid for that quarter according to the required annual payment. For the first quarter, 25% of the annual payment should have been paid, 50% for the second quarter, 75% for the third quarter, and 100% for the fourth quarter. Subtract from the required annual payment any payments made in previous quarters. The result is the payment for the current quarter.

In the first example on page 5, no payment is due for the first quarter because actual taxable income through March 31 is too small to require payment. The taxpayer calculates the required annual payment for the year on March 31 at zero, and the estimated installment payment to be 25% of the required annual payment, or zero. During the next quarter, the estimated installment payment of \$2,941 is 50% of the required annual payment of \$5,882. The third-quarter payment of \$5,896 includes a "catch-up" payment, and with the second-quarter payment, constitutes a cumulative 75% of the required annual payment of \$11,903 as of August 31. The fourth-quarter payment of \$957 is the difference between the required annual payment on December 31 and the amount paid in previous quarters.

EXAMPLE 1: Small Business/Retailer - Summer Tourist/Gift Shop

	Determination as of			
	<u>3/31</u>	<u>5/31</u>	<u>8/31</u>	<u>12/31</u>
Sales (less COGS)	0	75,000	250,000	325,000
Less Returns	0	0	0	0
Expenses	6,000	10,000	55,000	147,000
Taxable Income	(6,000)	65,000	195,000	178,000
Annualization Amount	4	2.4	1.5	1
Annualized Income (multiply taxable income by the annualization amount)	(24,000)	156,000	292,500	178,000
Deductions/Exemptions	16,850	16,850	16,850	16,850
Annualized Taxable Income	(40,850)	139,150	275,650	161,150
Est. Annual Liability (Based on 4.9% tax rate)	0	6,536	13,225	7,614
RAP (90%) for Year	0	5,882	11,903	7,106
Cumulative Est. Pmts. Req.	0	2,941	8,927	6,853
Net Est. Pmt. to be Made	0	2,941	5,896	957

In example 2 below, the law firm receives income in the last quarter of the tax year only. For the 1st, 2nd and 3rd quarters of the year, taxable income is zero so the estimated installment payment is zero for all three quarters. During the last quarter of the year, the firm receives income and the required annual payment is computed at \$67,799. The estimated payment due for the last quarter of the year is 100% of the required annual payment, or \$67,799.

EXAMPLE 2: Law Firm – Fee Income from One, Large, Class-Action Suit

	Determination as of			
	<u>3/31</u>	<u>5/31</u>	<u>8/31</u>	<u>12/31</u>
Sales (less COGS)	0	0	0	2,500,000
Less Returns	0	0	0	0
Expenses	210,000	350,000	725,000	940,000
Taxable Income	(210,000)	(350,000)	(725,000)	1,560,000
Annualization Amount	4	2.4	1.5	1
Annualized Income (multiply taxable income by the annualization amount)	(840,000)	(840,000)	(1,087,500)	1,560,000
Deductions/Exemptions	16,850	16,850	16,850	16,850
Annualized Taxable Income	(856,850)	(856,850)	(1,104,350)	1,543,150
Est. Annual Liability	0	0	0	75,332
RAP (90%) for Year	0	0	0	67,799
Cumulative Est. Pmts. Req.	0	0	0	67,799
Net Est. Pmt. to be Made	0	0	0	67,799

Please note: Form RPD-41272, *Calculation of Estimated Personal Income Tax Underpayment Penalty*, and its instructions are on the Department's web site at <https://www.tax.newmexico.gov>. Form RPD-41272 is specific from year to year, so it is important to verify the year at the top before completing the form.

Your local district tax office also has a supply of Form RPD-41272. Please see page 10.

For technical assistance in completing the form, call (505) 827-0827.

PENALTY

Underpayment or non-payment of estimated tax is subject to penalty on the difference between the estimated tax payment and the actual amount of estimated tax due. Penalty accumulates from the due date of the estimated tax payment until the earlier of:

- 1) the date the payment is made, or
- 2) the 15th day of the fourth month following the close of the tax year.

New Mexico calculates penalty (in the form of interest) on underpayment of estimated tax at the same rate as interest on an underpayment of tax. The penalty is computed on a daily basis at the rate established for individual income tax purposes by the U.S. Internal Revenue Code (IRC).

NOTE: The penalty for underpayment of estimated tax may exceed the maximum 20% that applies to an underpayment penalty.

The formula for calculating daily penalty is:

Estimated tax payment due x the daily interest rate x number of days late = penalty due.

The IRC rate changes quarterly. The IRC rate for each quarter is announced by the Internal Revenue Service in the last month of the previous quarter. The annual rate for the first two quarters of 2014 was 3%. The interest rate changes on a quarterly basis. Please visit the Department's web site at <https://www.tax.newmexico.gov/> for historic and current quarterly and daily interest rates.

No penalty applies to the fourth estimated payment if the taxpayer files a return and pays the full amount on or before January 31 of the next year.

If the balance due is \$1,000 or more, the Department first determines if the required annual payment was made in timely installments. If the annual payment installments were made timely, there is not penalty. If it was not, the Department calculates the underpayment penalty and issues an assessment. If you believe an assessment is in error, you can protest the assessment and provide more information.

NOTE: A special rule applies for computing the underpayment penalty for personal estimated income tax. The interest rate that applies to the 1st quarter following the tax year also applies to the 1st 15 days of the 4th month (April) following the tax year.

EXAMPLE: Taxpayer's prior-year liability was \$6,800, and his current-year liability is \$7,000. The required annual payment (RAP) is the lesser of \$6,800 (100% of the prior year) or \$6,300 (90% of the current year). The quarterly estimated payment due is \$1,575 (\$6,300 divided by 4). The following table shows assumed payments and how the penalty is calculated:

<u>Date</u>	<u>Est. Pmt. Made</u>	<u>Est. Pmt. Due</u>	<u>Pmt. Applied</u>	<u>Date Applied</u>	<u>Under-payment calculated</u>	<u>Period of Underpmt.</u>	<u>Effective Quarterly Interest Rate</u>	<u>Penalty</u>
4/15	-0-	\$1,575	\$1,575	6/15	(\$1,575)	61 days*	(Annual rate 4%) 0.010958904%***	\$10.53
6/15	\$1,700	1,575	125	6/15	(1,450)	92 days*	(Annual rate 4%) 0.010958904%***	14.62
			1,450	9/15				
9/15	1,575	1,575	125	9/15	(1,450)	122 days*	(Annual rate 4%) 0.010958904%***	19.39
			1,450	1/15				
1/15	<u>1,700</u>	<u>1,575</u>	<u>250</u>	1/15	(1,325)	93 days**	(Annual rate 4%) 0.010958904%***	13.50
	\$4,975	\$6,300	\$4,975					
								<u>\$58.04</u>

*Number of days calculated are for tax year 2010.

**The number of days runs through 4/18/2011, the due date of the 2010 tax return.

***The interest rate listed in the above table is for 2014, for current interest rates visit our web site at <https://www.tax.newmexico.gov/individuals/file-your-taxes-overview/penalty-interest-rates/>.

EXCEPTIONS TO PENALTY

The Department imposes no penalty if:

- 1) a full-year-resident individual or an individual physically present in New Mexico for 185 days had no New Mexico tax liability for the prior 12-month tax year, or
- 2) the individual made the required annual payment (either 100% of the prior-year tax liability or 90% of the current-year tax liability) through estimated payments or withholding or both, and
- 3) there is an underpayment of the **fourth estimated payment** when a calendar-year taxpayer files a return and pays the full amount due on or before January 31 of the following tax year. Of the year's four payments, the fourth estimated payment is the only exception to the underpayment penalty.

HOW TO PAY THE ESTIMATED INSTALLMENTS

To make payment through the Internet, visit the Department web site at <https://www.tax.newmexico.gov>. Click on "Online Services". You may pay by electronic check at no charge. An electronic check authorizes the Taxation and Revenue Department to debit your checking account in the amount you specify. You may also make tax payments via credit card. *A convenience fee is required to use this service.* The fee reimburses the state for fees charged by banks and credit card companies when you use your credit card.

To make an estimated installment payment by check, complete Form PIT-ES, *Estimated Income Tax Payment Voucher*. Form PIT-ES and instructions are available on the Department's web site, or you may call (505) 827-0827 or your local district office. Please see page 10 for the location nearest you. Write your social security number and the tax year of the return to which the payment applies directly on the check or money order. Make the check payable to New Mexico Taxation and Revenue Department and mail with Form PIT-ES to:

Taxation and Revenue Department
P.O. Box 8390
Santa Fe, NM 87504-8390

On Form PIT-ES you must indicate the correct social security number of the taxpayer to whom the payment is to be applied. If you are married filing jointly, write the social security numbers in the same order as you expect to file them on the return to ensure prompt application of the payment. Ensure that the PIT-ES indicates the correct tax year to which you wish to make an estimated payment. Also, write directly on the check the social security number and the year of the tax return for which you wish to make the estimated payment.

Married taxpayers can make estimated payments either separately or jointly. How they pay the estimated tax will not affect the choice to file a joint or separate return, but it may affect whether they are penalized for underpayment. The Department strongly encourages taxpayers to make estimated payments according to the income tax filing status they expect to use for the tax year.

TAXPAYER INFORMATION

General Information. FYIs and Bulletins present general information with minimum technical language. All FYIs and Bulletins are free of charge and available through all local tax offices and on the Taxation and Revenue Department's website at <https://www.tax.newmexico.gov/forms-publications/>.

Regulations. The Department establishes regulations to interpret and exemplify the various tax acts it administers. Current statutes with regulations can be located on the Department's website for free at <https://www.tax.newmexico.gov/all-nm-taxes/statutes-with-regulations/>. Specific regulations are also available at the State Records Center and Archives or on its web page at <https://www.srca.nm.gov/>.

The Taxation and Revenue Department regulation book is available for purchase from the New Mexico Compilation Commission. Order regulation books directly from the New Mexico Compilation Commission at <https://www.nmcompcomm.us/>.

Rulings. Rulings signed by the Secretary and approved by the Attorney General are written statements that apply to one or a small number of taxpayers. A taxpayer may request a ruling (at no charge) to clarify its tax liability or responsibility under specific circumstances. The Department will not issue a ruling to a taxpayer who is undergoing an audit, who has an outstanding assessment, or who is involved in a protest or litigation with the Department over the subject matter of the request. The Department's rulings are compiled and available on free of charge at <https://www.tax.newmexico.gov/all-nm-taxes/rulings/>.

The request for a ruling must be in writing, include accurate taxpayer identification and the details about the taxpayer's situation, and be addressed to the Secretary of the Taxation and Revenue Department at P.O. Box 630, Santa Fe, NM 87504-0630. The taxpayer's representative, such as an accountant or attorney, may request a ruling on behalf of the taxpayer but must disclose the name of the taxpayer. While the Department is not required to issue a ruling when requested to do so, every request is carefully considered.

The Secretary may modify or withdraw any previously issued ruling and is required to withdraw or modify any ruling when subsequent legislation, regulations, final court decisions or other rulings invalidate a ruling or portions of a ruling.

Public Decisions & Orders. All public decisions and orders issued since July 1994 are compiled and available on the Department's web page free of charge at <https://www.tax.newmexico.gov/all-nm-taxes/tax-decisions-orders/>.

This publication provides general information. It does not constitute a regulation, ruling, or decision issued by the Secretary of the New Mexico Taxation and Revenue Department. The Department is legally bound only by a regulation or a ruling [7-1-60, New Mexico Statutes Annotated, 1978]. In the event of a conflict between FYI and statute, regulation, case law or policy, the information in FYIs is overridden by statutes, regulations and case law. Taxpayers and preparers are responsible for being aware of New Mexico tax laws and rules. Consult the Department directly if you have questions or concerns about information provided in this FYI.

FOR FURTHER ASSISTANCE

Tax District Field Offices and the Department's call center can provide full service and general information about the Department's taxes, taxpayer access point, programs, classes, and forms. Information specific to your filing situation, payment plans and delinquent accounts.

TAX DISTRICT FIELD OFFICES

ALBUQUERQUE

10500 Copper Avenue NE, Suite C
Albuquerque, NM 87123

SANTA FE

Manuel Lujan Senior Building
1200 S. Saint Francis Dr
Santa Fe, NM 87505

FARMINGTON

3501 E. Main St., Suite N
Farmington, NM 87402

LAS CRUCES

2540 S. El Paseo Bldg. #2
Las Cruces, NM 88001

ROSWELL

400 Pennsylvania Ave, Suite 200
Roswell, NM 88201

For forms and instructions visit the Department's web site at <https://www.tax.newmexico.gov>.

Call Center Number:

1-866-285-2996

If faxing something to a tax district field office, please fax to:

Call Center Fax Number:

1-505-841-6327

If mailing information to a tax district field office, please mail to:

Taxation and Revenue Department
P.O. Box 8485
Albuquerque, NM 87198-8485

For additional contact information please visit the Department's website at <https://www.tax.newmexico.gov/contact-us/>.

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