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State and local tax services

Increased estimated tax payment reminders: California and Illinois

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States are altering estimated tax payment requirements in order to accelerate revenue and attempt to balance their budgets. For example, in 2009, California enacted budget legislation accelerating corporate and individual estimated tax payments, beginning in January 2010. Like other states undertaking such actions, California did not place a sunset on this estimated tax payment acceleration, as doing so would "give back" money from the state's current fiscal year.

Illinois, earlier this year, enacted an increased estimated tax payment requirement. In this case, rather than accelerate income into the current fiscal year, the change is intended to mirror the increase in Illinois corporate and individual tax rates that were effective January 1, 2011. Taxpayers should be aware of the rules for California and Illinois to ensure their estimated taxes are properly paid.

California

For tax years beginning on or after January 1, 2010, taxpayers required to make quarterly estimated payments must pay the following percentages of their estimated tax liability: 30 percent on the 15th day of the fourth month; 40 percent on the 15th day of sixth month; zero percent on the 15th day of the ninth month; and 30 percent on the 15th day of the 12th month. [\[A.B. X4 17\]](#), enacted 7/28/09]

There is no sunset date for this provision in the legislation, and therefore the accelerated percentages apply for 2011. Along with the first estimated payment, California franchise taxpayers are required to remit the \$800 minimum tax. Failure to pay this minimum tax may impact the automatic filing extension and the ability to claim or use reasonable cause exceptions for penalties. Individual income

taxpayers should keep in mind that, unless extended, the "supplemental tax rate" of .25% expired on December 31, 2010, and therefore does not apply to 2011 estimated taxes. Individuals should also be aware of a recent announcement by the Franchise Tax Board that, effective January 1, 2011, it will begin assessing a penalty equal to 1 percent of amounts paid by other than electronic means for tax payments subject to the "mandatory e-pay law" ([click here](#) for more).

Illinois

Illinois on January 13, 2011 enacted legislation that increased corporate and individual income tax rates, and in tandem increased estimated tax payment requirements. ([S.B. 2505](#), enacted 1/13/11) ([Click here](#) for an analysis of the legislation.)

For installments of estimated tax due before February 1, 2011, the law requires taxpayers to timely pay the lesser of 100 percent of the prior

year's tax liability or 90 percent of the current year's tax liability in order to avoid an underpayment of estimated tax late payment penalty. However, for payments due on or after February 1, 2011, and before February 1, 2012, an underpayment of estimated tax late payment penalty can be avoided by timely paying the lesser of *150 percent* of the prior year's tax liability or 90 percent of the current year's tax liability. More information on these changes is available in Illinois Information Bulletin FY-2011-09 ([click here](#)).

Estimated tax installment payments are equal to 25 percent of the required annual payment, unless the taxpayer is using the annualized payment method. The failure to pay estimated tax penalties do not apply if the taxpayer was not required to file an Illinois income tax return for the preceding taxable year or, for individuals, if the taxpayer had no tax liability for the preceding taxable year and such year was a taxable year of 12 months.

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