

3. Appellants submitted a payment in full and later filed a claim for refund requesting waiver of the estimated tax penalty. FTB denied appellants' claim for refund.
4. This timely appeal followed.
5. On appeal, FTB indicates that it will reduce the estimated tax penalty from \$859 to \$832 and refund appellants the difference of \$27, plus applicable interest, after FTB corrected a calculation error.

DISCUSSION

California generally conforms to Internal Revenue Code (IRC) section 6654 by imposing an estimated tax penalty for the failure to make timely estimated income tax payments. (R&TC, § 19136(a).) The estimated tax penalty is similar to an interest charge, and it applies from the due date of the estimated tax payment until the date it is paid or April 15 of the following year, whichever comes first. (IRC, § 6654(b)(2); *Appeal of Johnson*, 2018-OTA-119P.) Appellants do not dispute the estimated tax penalty was properly imposed. Rather, they request that the penalty be waived.

There is no general reasonable cause exception for the estimated tax penalty. (*Appeal of Johnson, supra.*) There are only two situations where the estimated tax penalty may be waived. The first situation applies only where the underpayment of estimated taxes was caused by a casualty, disaster, or other unusual circumstances, such that imposition of the penalty would be against equity and good conscience. (IRC, § 6654(e)(3)(A).) The second situation applies only to newly retired or disabled individuals: the penalty may be waived if the taxpayer either retired after having attained age 62 or became disabled in the tax year for which estimated payments were required to be made or in the tax year preceding such tax year, but only if the underpayment of estimated taxes was due to reasonable cause and not willful neglect. (IRC, § 6654(e)(3)(B).) The taxpayer bears the burden of proving that waiver of the penalty is warranted. (*Appeal of Saltzman*, 2019-OTA-070P.)

Appellants argue that their late estimated tax payments should be waived because of the acquisition and equity liquidation of their employer, resulting in an unexpected one-time income increase. However, a one-time income increase generally does not constitute a casualty, disaster, or other unusual circumstances, such that imposition of the penalty would be against equity and

good conscience. (See IRC, § 6654(e)(3)(A); *Appeal of Johnson, supra* [substantial income is not an unexpected hardship or loss for purposes of waiving the estimated tax penalty].)

Appellants also present reasonable cause arguments such as time constraints and a family emergency, which caused them to be unable to make sufficient estimated tax payments due to the one-time income increase. However, as indicated above, there is no general reasonable cause exception to imposition of the estimated tax penalty. (*Appeal of Johnson, supra.*) Furthermore, appellants' reasonable cause arguments are not relevant, as appellants neither retired after having attained age 62 nor provided evidence of any disability during the 2020 or 2021 tax year. (See IRC, § 6654(e)(3)(B).) Therefore, appellants have not shown that they are entitled to a waiver of the estimated tax penalty.

HOLDING

Appellants are not entitled to a waiver of the estimated tax penalty.

DISPOSITION

FTB's action is modified to reflect its concession to reduce the estimated tax penalty from \$859 to \$832 and refund appellants the difference of \$27, plus applicable interest. Otherwise, FTB's action in denying appellants' claim for refund is sustained.

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Eddy Y.H. Lam
Administrative Law Judge

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