IRM PROCEDURAL UPDATE

DATE: 08/25/2017

NUMBER: sbse-20-0817-1272

SUBJECT: Prior Year Amended Return and Corporate Estimated Tax Penalty

AFFECTED IRM(s)/SUBSECTION(s): 20.1.3.3.1.1.12

CHANGE(s):

IRM 20.1.3.3.1.1.12 Added subsection for Prior Year Amended Return and Corporate Estimated Tax Penalty.

1. In general, the term “tax shown on the return for the preceding year” in IRM 20.1.3.3.1.1 refers to the tax shown on the original return, or on a superseding return filed before the original return due date without regard to extensions. However, for periods beginning after 09/06/2007 there is an exception.
2. 26 CFR 1.6655-1(g)(2)(iv) provides that if an amended return has been filed before the due date of an installment, then, with respect to installments due after that date, the return for the preceding year is the amended return.
    - For installments due on or before the date the amended return is filed, the original (or superseding) return for the preceding year is used to determine the amount of the required installment.
    - For installments due after the amended return is filed, the amended return for the preceding year is used to determine the amount of the required installment.
3. Because only the first installment may be based on prior year tax for a large corporation, large C corporations are not impacted by this provision for tax years beginning after 12/31/2015, unless the corporation’s taxable year ends in June. (The prior year amended return would be a superseding return if it was filed on or before the due date of the first installment.)
4. Before IRC 6072 was amended by the 2015 Surface Transportation and Veterans Health Care Improvement Act of 2015, P.L. 114-41, tax returns of corporations on a calendar year had to be filed on or before March 15 of the year following the close of the taxable year; fiscal-year returns had to be filed by the 15th day of the third month following the close of the taxable year.
5. P.L. 114-41 amended section 6072 by making the due date for calendar-year C corporate returns April 15 following the close of the calendar year, and the due date for fiscal-year C corporate returns the 15th day of the fourth month following the close of the taxable year, effective for taxable years beginning after 12/31/2015. Under these amendments, the April 15th due date for a large C corporation’s original calendar-year return is also the due date of the

first required installment. IRC 6655(c). Thus, it is not possible for a calendar-year C corporation to file an amended return for the prior taxable year before the due date of its first required installment, as required by section 1.6655-1(g)(2)(iv).

6. P.L. 114-41 was affective for tax periods beginning after 12/31/2015 with respect to all corporations except those with a tax period that ends in June. For taxable years ending in June, the changes are not effective until the first taxable year that begins after 12/31/2025. This means that a large corporation with a taxable year ending in June could file an amended return before the due date of the first installment without that amended return being a superseding return.
7. The following examples show how to apply the rules in paragraphs (1) through (2) above for amended returns filed for the previous taxable year:

   EXAMPLE: Corporation *X* (not a large corporation) filed an original 2015 calendar-year return showing zero tax. On June 6, 2016, *X* filed an amended 2015 return that showed $2,000.00 total tax. On April 15, 2017, *X* filed its 2016 return showing $5,000.00 total tax. Because the original 2015 return showed zero tax, under 26CFR 1.655-1(d)(2), the required amount of the first installment for the 2016 taxable year will be 25% of $5,000, the tax shown on the 2016 return. IRM 20.1.3.3.1.1 paragraph (2) (the required annual payment cannot be based on the prior tax year if the return for such year showed zero tax liability). The $2,000 tax shown on the amended 2015 return (filed before the due date of the second installment) will be the prior year return amount to determine the amount due for the remaining installments. If the corporation does not annualize or use the adjusted seasonal method for calculating the amount of each required installment, then the required amount of each installment is determined as follows:
   (1) $5,000 x 25% = $1,250;
   (2) $2,000 x 25% = $500;
   (3) $2,000 x 25% = $500;
   (4) $2,000 x 25% = $500.

   EXAMPLE: Corporation *Y* (not a large corporation) filed an original 2015 calendar year return showing $12,000 tax. On June 26, 2016, *Y* filed an amended 2015 return that showed $8,000.00 total tax. On April 15, 2017, *Y* filed its 2016 return showing $10,000.00 total tax. Because the tax shown on the original 2016 return is less than that shown on the original 2015 return, the required amount of the first two installments will each be 25% of the tax shown on the original 2016 return. The tax shown on the amended 2015 return (filed before the due date of the third installment) will be used to determine the amount due for the remaining installments, because the tax shown on the amended 2015 return is less than that shown on the original 2016 return. If the corporation does not annualize or use the adjusted seasonal method for calculating the amount of each required installment, then the required amount of each installment is determined as follows:
   (1) $10,000 x 25% = $2,500;
   (2) $10,000 x 25% = $2,500;

(3) $8,000 x 25% = $2,000;
(4) $8,000 x 25% = $2,000.

EXAMPLE: Corporation *Z* (not a large corporation) filed an original 2015 calendar year return showing $12,000 tax. On October 1, 2016, *Z* filed an amended return that showed $24,000.00 total tax. On April 15, 2017, *Z* filed its 2016 return showing $20,000.00 total tax. Because the tax shown on the original 2015 return is less than that shown on the original 2016 return, the required annual payment used to determine the amount of the first three installments will each be 25% of the tax shown on the original 2015 return. The tax shown on the original 2016 return will be the used to determine the amount due for the remaining installment because it is less than the tax shown on the amended 2015 return (filed before the due date of the fourth installment). If the corporation does not annualize or use the adjusted seasonal method for calculating the amount of each required installment, then the required amount of each installment is determined as follows:
(1) $12,000 x 25% = $3,000;
(2) $12,000 x 25% = $3,000;
(3) $12,000 x 25% = $3,000;
(4) $20,000 x 25% = $5,000.

EXAMPLE: Corporation *U* (not a large corporation) filed an original 2015 calendar year return showing $22,000 tax. On December 21, 2016, *U* filed an amended 2015 return that showed $200.00 total tax. On April 15, 2017, *U* filed its 2016 return showing $28,000.00 total tax. Because the tax shown on the original 2015 return is less than that shown on the original 2016 return, the required amount of all four installments will be 25% of the tax shown on the original 2015 return. The tax shown on the amended 2015 return has no impact on any installment because the amended 2015 return was not filed before the due date of any installment. If the corporation does not annualize or use the adjusted seasonal method for calculating the amount of each required installment, then the required amount of each installment is determined as follows:
(1) $22,000 x 25% = $5,500;
(2) $22,000 x 25% = $5,500;
(3) $22,000 x 25% = $5,500;
(4) $22,000 x 25% = $5,500.

EXAMPLE: Corporation *W* (a large corporation) filed its original fiscal year return for the period that ended June 30, 2016, due September 15, 2016, that showed $650,000 total tax. On October 10, 2016, *W* filed an amended return for that period that showed $400,000 total tax. On September 15, 2017, *W* filed its original return for the period that ended June 30, 2017, showing $500,000 total tax. Because the amended return for the period that ended June 30, 2016, was filed by the due date of the first installment (October 15, 2016), the tax shown on the amended return can be used to determine the amount due for the first installment. If the corporation does not annualize or use the adjusted seasonal method for calculating the amount of each required installment, then the required amount of each installment is

determined as follows:
(1) $400,000 x 25% = $100,000;
(2) ($500,000 x 50%) - $100,000 = $250,000 - $100,000 = $150,000;
(3) $500,000 x 25% = $125,000;
(4) $500,000 x 25% = $125,000.