



# MANUAL TRANSMITTAL

Department of the Treasury  
Internal Revenue Service

20.1.3

OCTOBER 13, 2022

## EFFECTIVE DATE

(10-13-2022)

## PURPOSE

- (1) This transmits revised IRM 20.1.3, Penalty Handbook, Estimated Tax Penalties.

## MATERIAL CHANGES

- (1) Significant changes to this IRM section are listed in the following table:

Reference	Description of Change
IRM 20.1.3.2.7.2.4	New subsection Notice 2020-23 Relief for Taxpayers Affected by Ongoing Coronavirus Disease 2019 Pandemic to reflect new guidance for TY 2020
IRM 20.1.3.2.7.2.5	New subsection CARES Act Section 2302, Delay of Payment of Employer Payroll Taxes to reflect new guidance for TY 2020
IRM 20.1.3.2.7.2.6	New subsection Notice 2021-8 Relief from Addition to Tax for Underpayment of Estimated Income Tax by Individuals Affected by Amendment to Section 461(l)(1)(B)
IRM 20.1.3.2.7.2.7	New subsection Unemployment Income Tax Relief to reflect specific guidance for TY 2020-2021

- (2) Minor editorial changes have been made throughout this IRM. Website addresses, form references, and IRM references and titles were reviewed, added, and updated as necessary.

## EFFECT ON OTHER DOCUMENTS

This material supersedes IRM 20.1.3, dated 07/23/2020. , IPU 21U0383 Requests for Waivers and Abatements in General, has been incorporated into this IRM.

## AUDIENCE

All employees that work with penalty for underpayment of estimated tax.

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20.1.3  
Estimated Tax Penalties

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20.1.3.1  
(07-24-2018)  
**Program Scope and Objectives**

- (1) **Purpose:** This IRM discusses the estimated (ES) tax penalties outlined in the Internal Revenue Code (IRC) for both individual taxpayers (IRC 6654) and corporate taxpayers (IRC 6655). It is the authoritative source of information regarding **servicewide** policy and procedure with respect to these penalties. Additional procedural requirements beyond those in this IRM may exist within specific functional areas to meet that area’s needs, as long as those requirements do not conflict with servicewide policy or required procedure.
- (2) **Audience:** All operating division employees who address estimated tax penalties.
- (3) **Policy Owner:** The Business Support Office (BSO) is under Operations Support (OS). SB/SE is responsible for overseeing civil penalties, including the estimated tax penalties.
- (4) **Program Owner:** The Office of Servicewide Penalties (OSP) is responsible for estimated tax penalty policy.
- (5) **Contact Information:** To recommend changes or any suggestions to this IRM section, e-mail OSP at \*Servicewide Penalties Team. Also see IRM 1.11.6.6, Providing Feedback About an IRM Section - Out of Clearance.

20.1.3.1.1  
(07-24-2018)  
**Background**

- (1) Taxpayers are generally required to pay income tax as income is earned. This is accomplished via withholding from income or via estimated tax payments. Taxpayers who do not have sufficient amounts withheld and who fail to make estimated tax payments as required by law may be assessed a penalty for underpayment of estimated tax.
- (2) The purpose of the estimated tax penalties is not so much to penalize the taxpayer as it is to compensate the United States for the use of money that should have been paid over to the US Treasury.

20.1.3.1.2  
(07-24-2018)  
**Authority**

- (1) IRC 6654 provides a penalty for failure to prepay tax as required via withholding or estimated tax payments.
- (2) IRC 6655 provides a penalty for failure to make estimated tax payments as required.

20.1.3.1.3  
(07-24-2018)  
**Responsibilities**

- (1) The Director, Business Support, is the director responsible for the servicewide civil penalty program.
- (2) Overall responsibility for civil penalty programs is assigned to OSP. OSP is a matrix organization residing in the Business Support (Small Business/Self Employed) Function. OSP is charged with coordinating policy and procedures concerning the administration of civil penalty programs, ensuring consistency with the penalty policy statement, reviewing and analyzing penalty information, researching penalty effectiveness on compliance trends, and determining appropriate action necessary to promote voluntary compliance.
- (3) Each IRS organization is responsible for establishing an internal process for managing their procedures based upon these Servicewide policies and may develop additional guidance or reference materials for their specific functional administrative needs. However, such reference material must receive approval from OSP prior to distribution and must remain consistent with the policies and

general procedural requirements set forth in this IRM, Policy Statement 20-1 (Penalty Policy Statement) in IRM 1.2.1.12.1, and any other guidance relating to civil penalties.

- (4) All employees should keep the following objectives in mind when handling each penalty case:
- a. Similar cases and similarly-situated taxpayers should be treated alike.
  - b. Each taxpayer should have the opportunity to have his or her interests heard and considered.
  - c. Strive to make a good decision in the first instance. A wrong decision, even though eventually corrected, has a negative impact on voluntary compliance.
  - d. Provide adequate opportunity for incorrect decisions to be corrected.
  - e. Treat each case in an impartial and honest way (i.e., approach the job, not from the government's or the taxpayer's perspective, but in the interest of fair and impartial enforcement of the tax laws).
  - f. Use each penalty case as an opportunity to educate the taxpayer, help the taxpayer understand his or her legal obligations and rights, assist the taxpayer in understanding his or her appeal rights, and in all cases, observe the Taxpayer Bill of Rights.
  - g. Endeavor to promptly process and resolve each taxpayer's case.
  - h. Resolve each penalty case in a manner which promotes voluntary compliance.

20.1.3.1.4  
(07-24-2018)  
**Program Management  
and Review**

- (1) Every function in the IRS has a role in proper penalty administration. It is essential that each function conduct its operations with an emphasis on promoting voluntary compliance. Appropriate reviews should be conducted to ensure consistency with the penalty policy statement (Policy Statement 20-1) and philosophy.

20.1.3.1.5  
(07-24-2018)  
**Terms, Definitions and  
Acronyms**

- (1) The following is a list of terms, definitions, and acronyms used throughout this IRM:
- BMF - Business Master File - Database that contains business tax return and account information.
  - CFR - Code of Federal Regulations.
  - Command Code - Text-based commands used in the IDRS environment to access and enter data.
  - CP - Computer Paragraph - Refers to computer generated internal and external notices.
  - CRN - Credit Reference Number - Identifies the type of refundable credit recorded in an account.
  - DLN - Document Locator Number - A control number made up of multiple parts that is used in transaction identification and also to file supporting documentation for the transaction. The DLN is broken down into its individual parts in Document 6209 section 4.
  - Doc Code - A two digit code in positions 4 - 5 within a DLN that aids in identifying the data source of transactions that have been recorded.
  - EO - Exempt Organizations.
  - ES penalty - Estimated tax penalty under either IRC 6654 or IRC 6655.
  - HC - Hold Code - Code included with an input transaction to communicate to the computer system whether notices and/or refunds should be held or released.

- IDRS - Integrated Data Retrieval System - System used by IRS employees to access taxpayer account information, and to enter information that is to be recorded.
- IMF - Individual Master File - Database that contains individual tax return and account information.
- IRC - Internal Revenue Code - Title 26 of the United States Code.
- IRM - Internal Revenue Manual
- PC - Priority Code - Code included with an input transaction to signify that specific conditions have been taken into account in the decision to record a given transaction.
- PRC - Penalty Reason Code - Code included with a penalty removal transaction that identifies the reason for removing the penalty. Used for statistical and reporting purposes.
- RC - Reason Code - Code included with an input transaction to insert specific paragraphs in taxpayer notices that explain the reason for an adjustment.
- SFR - Substitute for Return prepared by IRS for a taxpayer under authority of IRC 6020(b), if the taxpayer has not filed a return.
- TC - Transaction Code - A three digit numeric code used to identify what type of transaction has been recorded in a taxpayer's account.

20.1.3.1.6  
(07-23-2020)

**Related Resources**

(1) The following is a list of related resources.

- IRM 3.11.6.10.3.2.1, Estimated Tax Penalty.
- IRM 3.14.1.6.18.2, CP 30 - Estimated Tax (ES) Penalty Notice
- IRM 3.14.1.6.18.3, CP 30A - Estimated Tax (ES) Penalty Recomputation Notice
- IRM 3.14.1.6.21.4.8, ES Penalty Computation.
- IRM 3.14.1.6.21.4.9, ES Penalty Command Codes.
- IRM 3.14.1.7.7.1, Penalty Recomputations Caused by Credit Transfers.
- IRM 3.14.2.7.16, CP 173 - ES Penalty.
- IRM 4.13.5.4.5, Recalculating SFR Penalties.
- IRM 4.19.3.18.3, Estimated Tax (ES) Penalty.
- IRM 21.3.1.5.22, CP 30 Estimated Tax Penalty Notice.
- IRM 21.3.1.5.23, CP 30A Estimated Tax Penalty Recompute Notice.
- IRM 21.3.8.10.3.5, Estimated Tax (ES) Penalty - Transaction Code (TC) 176/TC 170).
- IRM 21.6.3.4.2.2.1, Withholding Adjustments.
- IRM 21.6.3.4.2.3, ES Penalty.
- IRM 21.7.4.4.1.1.4, Form 1041-QFT , U.S. Income Tax Return for Qualified Funeral Trusts.
- IRM 21.7.4.4.2.1.1, Form 1120 Short Period Final Returns with Tax Period Beginning After December 31, 2015.
- IRM 21.7.4.4.4.14, Form 4466 Transcripts (Form 1120 ).
- IRM 21.7.7.4.23.2, Estimated Tax Penalty [EO].
- IRM 21.7.7.4.23.2.2, EO CP 234.
- IRM 21.7.7.4.23.2.3, Proxy Tax.
- IRM 21.7.11.4.8, CP 234 - Processing Potential ES Penalty Notices.
- IRM 21.7.12.5.8.2, From 8697 With Additional Interest Due or if No Interest is Due to be Refunded.
- IRM 21.8.2.14.2, Form 8804 Estimated Tax Penalty.

20.1.3.2  
(07-24-2018)  
**ES Penalty - General  
Procedure and Policy**

- (1) The ES penalty is imposed under two different sections of the IRC: IRC 6654 and IRC 6655. Those two sections have a lot in common, which results in certain procedures and policies with respect to the ES penalty regardless of the IRC section under which the penalty is imposed. This subsection contains the policy and procedure that applies to the ES penalty regardless of IRC section.

20.1.3.2.1  
(12-10-2013)  
**Penalty Transaction  
Codes**

- (1) ES penalty transaction codes are as follows:
- TC 176—Computer generated assessment of an ES penalty,
  - TC 177—Computer generated abatement of an ES penalty,
  - TC 170—Manual assessment of an ES penalty by IRS, or self-assessment via Form 2210, Underpayment of Estimated Tax by Individuals, Estates and Trusts, Form 2210-F, Underpayment of Estimated Tax by Farmers and Fishermen, or Form 2220, Underpayment of Estimated Tax by Corporations, as applicable. Self-assessed ES penalty will have the same DLN as the TC 150 return.
  - TC 171—Manual abatement of an ES penalty by IRS.

20.1.3.2.2  
(07-24-2018)  
**Manual Penalty  
Adjustments**

- (1) Manual adjustments are determined by area or campus employees and are input through IDRS or pipeline processing. Employees who cannot directly input the penalty assessment to IDRS need to follow functional guidelines to request the input of an assessment.
- (2) Manual assessments can be posted alone or along with tax adjustments, credit transfers (Doc Code 24), or payments (Doc Code 17 and 18).

**Note:** Assessment of the ES penalty at the time of payment of estimated tax does not apply for tax periods beginning after 12/31/1984.

- (3) Manual abatements can also be posted alone or along with tax adjustments or credit transfers (Doc Code 24 and 48).

**Note:** The Doc Codes referenced above indicate the source of the transaction:

Doc Code	Definition
17	Payment (and penalty if applicable) input by the campus.
18	Payment (and penalty if applicable) input by the area.
24	Credit transferred (and penalty adjusted if applicable) via Form 2424 or via IDRS command code DRT24.
48	Credit transferred (and penalty abated if applicable) via IDRS command code DRT48.

- (4) Computer generated assessments and abatements happen when an original return posts or when timely estimated tax credits (including withholding) are adjusted.
- (5) A module is restricted from generating ES penalty adjustments if a previous manual IRS ES penalty adjustment is posted in the module (does not include

self-assessment TC 170), or if the return in the module contained computer condition code “P” (IMF), or either “A” or “8” (BMF).

- (6) ES penalty **must** be manually addressed when any of the following conditions exist:
  - a. You are adjusting timely estimated tax credits or withholding, and the module is restricted from generating ES penalty adjustments.
  - b. You are adjusting tax because TC 150 posted in the module is not the taxpayer’s original return. Sample instances include SFR or IRC 6020(b) returns and mixed entity or mixed period cases where the wrong return posted first.
  - c. You are adjusting tax or credits due to a superseding return filed prior to return due date, including extensions.
  - d. You are adjusting tax because the taxpayer filed a joint return after one or both spouses previously filed separately. See IRM 20.1.3.3.1.1.2, “Joint Return After Filing Separate Return(s)”.
  - e. TC 150 posted in the previous tax year’s module is not the taxpayer’s original return, and the required annual payment was based on prior year’s tax. This includes cases where the previous year was adjusted because the taxpayer filed a joint return after originally filing separately for that year.
  - f. You are adjusting timely estimated tax credits or withholding, and the taxpayer filed jointly for one taxable year, but not for both the current and the preceding taxable year. This applies even if the module is not restricted from generating ES penalty adjustments.
  - g. The current or previous taxable year is a short taxable year covering less

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**Caution:** Do not unnecessarily restrict the ES penalty by input of TC 170 for zero amount when it is not necessary. This action cannot be undone.

- (7) Manual penalty abatements (TC 171) require a penalty reason code (PRC) to be present in the fourth reason code position of the ADJ54 adjustment input screen. For cases received prior to 10/1/2010, the PRC was to have been used as outlined in the table below.

PRC	Reason for abatement
045	Used if the original penalty was <b>IRS assessed</b> (TC 176), and either of the following applied: <ul style="list-style-type: none"> <li>• The penalty was adjusted because of a superseding return.</li> <li>• The taxpayer provided a Form 2210 or Form 2220 reflecting a lower penalty (or no penalty) because the taxpayer used a different method for computing the penalty (e.g., annualized income installment method; adjusted seasonal method; or withholding reported when actually withheld).</li> </ul>

PRC	Reason for abatement
044	Used if all or part of the penalty was abated because either of the following applied: <ul style="list-style-type: none"> <li>The taxpayer qualified for a specific waiver listed in the Form 2210 or Form 2220 instructions.</li> <li>All or part of the penalty was abated because the penalty resulted from the taxpayer's reliance on erroneous written IRS advice.</li> </ul>
016	Used if the original penalty was <b>self-assessed</b> (TC 170 posted with return), and the penalty was adjusted because either of the following applied: <ul style="list-style-type: none"> <li>The taxpayer or IRS is providing a corrected computation.</li> <li>The taxpayer filed a superseding return.</li> </ul>

- (8) Beginning with adjustments resulting from cases (correspondence, amended returns, etc.) **received after 9/30/2010**, use the appropriate PRC based on the following table:

PRC	Reason for abatement
045	Use when correcting any <b>IRS computational error</b> in the ES penalty computation, whether or not the penalty was originally assessed with TC 176 or with TC 170.
044	Use if all or part of the penalty is abated because either of the following applies: <ul style="list-style-type: none"> <li>The taxpayer qualifies for a specific <b>waiver</b> listed in the Form 2210 or Form 2220 instructions.</li> <li>All or part of the penalty is being abated because the penalty resulted from the taxpayer's reliance on erroneous written IRS advice.</li> </ul>
016	Use if the original penalty was self-assessed ( <b>TC 170 posted with return</b> ), and the penalty is being adjusted because the taxpayer or IRS is providing a <b>corrected computation</b> . For example, if IRS is adjusting withholding or ES payments, and IRS is manually correcting the penalty.
013	Use if the original penalty was <b>IRS assessed (TC 176)</b> , and the penalty is being adjusted due to either of the following: <ul style="list-style-type: none"> <li>The taxpayer filed a <b>superseding return</b>.</li> <li>The <b>taxpayer provided his own penalty computation</b>. (Do not manually adjust for changes in withholding or ES payments unless the taxpayer provided the computation.)</li> </ul>
010	Use if the original penalty was <b>self-assessed (TC 170 posted with return)</b> , and the penalty is being adjusted based on a <b>superseding return</b> . Use regardless whether the IRS or the taxpayer provides the computation for the new penalty.

20.1.3.2.2.1  
(12-10-2013)  
**Computing the Penalty  
Using IDRS**

- (1) IDRS command code COMPA with definer "S" (COMPAS) is available for computing the estimated tax penalty under both IRC 6654 and IRC 6655. The basic command code syntax information can be found in IRM 2.3.29, Command Codes INTST, ICOMP, and COMPA, and in the Job Aid Book on SERP under the IRM Supplements Tab.
- (2) There are two methods for computing the estimated tax penalty using command code COMPAS. Both methods will arrive at the same penalty.
  - Cumulative liability or running balance method

- Separate liability method

- (3) Under either method payments and credits are applied first to the earliest unpaid liability.
- (4) Under the cumulative liability or running balance method, a running balance is computed beginning with the earliest payment or liability date and ending with the return due date. COMPAS is used to compute a penalty for each period during the running balance where the balance is debit.
- (5) Under the separate liability method, a separate running balance is computed for each liability beginning with the liability with the earliest due date. The running balances are computed to the earlier of the return due date or the date the particular liability is paid in full.
- (6) For an example using both of the above referenced methods, see Exhibit 20.1.3-5.
- (7) Command code COMPA with definer “E” (COMPAE) may be used to pre-populate the due dates for command code COMPAS. However, it generally should only be used if the taxpayer either made no estimated tax payments, or all of the taxpayer’s estimated tax payments were on time and not early.
- (8) Command code PIEST may be used in some instances to see how IRS computed the penalty when the penalty is not restricted.
- (9) Command code PINEX may be used to request an explanation of the IRS’s penalty computation for the taxpayer. However, do not use command code PINEX if the penalty is restricted, or if the command code PIEST result does not match the posted penalty amount.

20.1.3.2.2.2  
(12-10-2013)  
**Computing the Penalty  
Using Accounts  
Management Services  
(AMS) Worksheet**

- (1) A Form 2210 worksheet is available for Individual Master File (IMF), IRC 6654, accounts on AMS for calendar year 2009 and subsequent calendar years.
- (2) The examiner enters the following:
  - a. Current and prior year tax information from Form 2210.
  - b. All estimated tax payments.
  - c. Income information, if Schedule A1, Annualized Income Installment Method, is used.

20.1.3.2.2.3  
(12-10-2013)  
**Computing the Penalty  
Using Other Programs**

- (1) Other software may be available to employees for the purpose of computing the ES penalty. However, while this software is authorized for use in explaining our penalty computation, it should **not** be used for the official computation of the penalty.
- (2) The prohibition on use applies to all programs not specifically authorized for computation of the ES penalty, regardless of whether the program was developed in-house, or whether it is commercial “off-the-shelf” (COTS) software.
- (3) Although the interest program developed by Decision Modeling, Inc. (DMI) is approved for interest computations, it is not approved for official ES penalty computations except as indicated in paragraph (1) above.

20.1.3.2.3  
(12-10-2013)  
**Return Posted to Wrong  
TIN or Period**

- (1) At times a tax return posts with Transaction Code (TC) 150 to a module under the wrong TIN or tax period. This may happen as a result of taxpayer error, Service error, or (increasingly so) as a result of identity theft.
- (2) Because the computer bases the estimated tax penalty on the tax shown on the return that posts with TC 150, it is **nearly always** necessary to manually compute and adjust the estimated tax penalty when correcting an account where the wrong return posted with TC 150.
- (3) If the correct return has been received or has posted in the module with TC 976 or 977, follow mixed period or mixed entity procedures as outlined in IRM 21, Customer Account Services. Manually compute and adjust the ES penalty based on the lesser of the following—
  - a. Tax shown on the correct return, or
  - b. Tax as corrected on the correct return.
- (4) If the correct return has not yet been filed, or if a return is not required, manually abate any existing ES penalty. Input TC 170 for zero amount if there is no existing ES penalty. This will prevent the computer from assessing an ES penalty when erroneously reported withholding and/or other credit amounts are removed from the module.

20.1.3.2.4  
(03-31-2010)  
**Superseding Returns**

- (1) In most cases the estimated tax penalty is computed based on the tax shown on the taxpayer's original return. However, if the taxpayer files a superseding return, the penalty is computed on the tax shown on that superseding return.
- (2) A superseding return is defined as a second (or subsequent) return filed before the due date for filing, including extensions. Please note that the superseding return is determined based on the order in which the returns were filed. It is not based on which return was processed first.
- (3) The estimated tax penalty **MUST** be manually computed and adjusted unless either of the following applies:
  - a. The tax on the original and the superseding return is the same, or
  - b. The superseding return posted as TC 150 in the module.

The manual adjustment requirement applies even if there is no penalty due or if the penalty does not change. The manual adjustment will prevent an incorrect computer generated adjustment if withholding or ES payments are changed.

20.1.3.2.5  
(07-23-2020)  
**Form 8621, Information  
Return by a Shareholder  
of a Passive Foreign  
Investment Company or  
Qualified Electing Fund**

- (1) IRC 1294 allows taxpayers to make an election to defer payment of tax with respect to undistributed income from a passive foreign investment company or qualifying electing fund. The tax for which payment is to be deferred is entered as a negative amount on the applicable line of the income tax return, and subtracted from total tax. The election is made in Part III of Form 8621, Return by a Shareholder of a Passive Foreign Investment Co. or Qualified Electing Fund.
- (2) Each year following the election the taxpayer must then report on the status of any outstanding election, and tax and interest must be paid for any tax with respect to which the election was terminated during the year. The tax and interest to be paid are calculated in Part VI of Form 8621, and are included in total tax on the taxpayer's return.

- (3) The tax attributable to the terminated election is includible in “tax shown on the return” for ES penalty purposes, but the interest from Form 8621 line 24 is not. This applies both to individual and corporate income tax returns.

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20.1.3.2.6  
(07-23-2020)  
**Form 8697, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts**

- (1) IRC 460(b)(1) provides that any interest payable by the taxpayer under the look-back method for completed long-term contracts is includable in total tax; however, it is not to be included in total tax for the purpose of computing the estimated tax penalty. Look-back interest is computed using Form 8697, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts.

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- (3) Whenever a return with an estimated tax penalty and Form 8697 attached is identified (i.e., through CP 234 processing or through taxpayer contact), the estimated tax penalty should be manually verified and adjusted based on total tax without Form 8697 interest.

**Note:** When Form 8697 reflects interest to be refunded, Form 8697 is supposed to be filed separate from the tax return. If a return has posted in the module, the refundable interest is recorded as a refundable credit (TC 766 with credit reference number 251) on the module where the return posted. If a return has not posted, the refundable interest is recorded as a refundable credit on non-Master File MFT 69. See IRM 21.7.12.5.8.3, Processing Form 8697 Claim for Refund, No TC 150 Posted on Master File (MF).

20.1.3.2.7  
(03-31-2010)  
**Requests for Waivers and Abatements—In General**

- (1) Waivers are sometimes granted by legislation, regulation, or administrative pronouncements to provide relief from estimated tax penalties created by the retroactive application of a change in statute or Service position.
- (2) If the taxpayer establishes that the waiver criteria are met, take the necessary action to suppress or adjust the penalty as appropriate.
- (3) When a determination is made to cancel an estimated tax penalty because the individual is entitled to a waiver, the appropriate penalty reason code must be entered either on the case file or the input document for entry to the Master File via the appropriate data entry method.

20.1.3.2.7.1  
(12-10-2013)  
**Estimated Tax Penalty and Reasonable Cause**

- (1) The penalty for underpayment of estimated tax cannot be removed or waived for reasonable cause alone.

- (2) The penalty for underpayment of estimated tax generally is not waived as a result of disaster. However, in the case of a federally declared disaster area, a significant fire, or a terroristic or military action “the Secretary may specify a period of up to one year that may be disregarded” in determining whether estimated tax payments were paid on time. In these cases the IRS will issue a memo with specific instructions regarding the payment of estimated tax in the affected area.
- (3) Master File programming generally takes all special disaster area rules into consideration when computing the penalty for underpayment of estimated tax. Even when the taxpayer’s books and records are kept within the disaster area, while the taxpayer’s official address of record is not, manual adjustment of the penalty should not be required for taxpayers affected by a widespread disaster. See IRM 20.1.3.2.7.2.1, Federally Declared Disaster Area.

20.1.3.2.7.2  
(03-31-2010)  
**Waivers**

- (1) The criteria for available waivers (if any), as well as instructions for requesting a waiver, are contained in the instructions for the applicable penalty computation form (Form 2210, Form 2210-F, or Form 2220) for the given period.
- (2) For specific waiver criteria please refer to the form specific instructions. Also see IRC 6654 for Form 2210 and Form 2210-F, and IRC 6655 (including annotations) for Form 2220.

**Note:** The estimated tax penalty for corporations generally does not qualify for a waiver, with very specific exceptions. The last time such an exception applied was 2001, when part of the penalty could be waived for corporations affected by the terrorist attacks.

20.1.3.2.7.2.1  
(07-23-2020)  
**Federally Declared  
Disaster Area**

- (1) If the Secretary of the Treasury determines that a taxpayer was affected by a federally declared disaster area, IRC 7508A(d) provides for a mandatory and automatic 60 day period that shall be disregarded both in determining whether a required action was performed in a timely manner and in determining the amount of penalty or interest to be charged. In addition to the automatic 60 day period, IRC 7508A(a) provides that the Secretary may specify a period of up to one year that may be disregarded.
- (2) When the Secretary determines that taxpayers are affected by a federally declared disaster, the IRS publishes public guidance and/or news releases specifying both the taxpayers determined to be affected and the length of the period to be disregarded. The information can be found on the IRS website using search key “disaster tax relief.” IRS employees can research this information on-line at <http://www.icce.irs.gov/fema/>, and at <http://serp.enterprise.irs.gov/databases/irm-sup.dr/disaster/disaster.html>.
- (3) IRS computer systems automatically identify taxpayers located in the covered disaster area and apply automatic filing and payment relief.
- (4) The following taxpayers also qualify for penalty relief due to federally declared disaster areas and may call the IRS disaster hotline at 1-866-562-5227 to request that relief:
  - a. Taxpayers whose books, records, or responsible tax professional are located within a disaster area, while the taxpayer’s business (or principal residence in the case of individuals) is not.

- b. Relief workers affiliated with a recognized government or charitable organization assisting in the relief activities in a covered disaster area.
  - c. Any individual visiting the covered disaster area who was killed or injured as a result of the disaster.
  - d. Any other person determined by the IRS to be affected by the disaster.
- (5) If a taxpayer claims that a penalty should not have been charged due to the disaster, follow the instructions below.

If	And	Then
TC 971 with Action Code 086, 087 or 688 <b>is</b> posted in the entity	The transaction date of the TC 971 is prior to the return due date, and the secondary date of the TC 971 is after the due date of the first installment,	Explain that the disaster area was taken into consideration when we computed the penalty. Provide a copy of our computation.
TC 971 with Action Code 086, 087 or 688 is <b>not</b> posted in the entity <b>or</b> none of the period between the due date of the first installment and the return due date falls within the period between the TC 971 transaction date and the secondary date	The ZIP code of the location where the taxpayer maintains its records and books (i.e., the responsible tax professional's address) is <b>not</b> specifically included in the IRS bulletin,	Explain that the taxpayer's address, or the area where the taxpayer's books and records were kept is not within the area identified by the Secretary (or his designee) as affected by the disaster, and that the penalty is correct.
TC 971 with Action Code 086, 087 or 688 is <b>not</b> posted in the entity, but part or all of the period between the first installment due date and the return due date falls within the published disaster period	The taxpayer qualifies for relief under IRM 20.1.3.2.7.2.1 (4).	Follow the instructions for your functional IRM for input of TC 971 with Action Code 688 in the taxpayer's entity. If you are unable to locate the instructions, contact the disaster staff for assistance. Contact information is available on the MySB/SE web site.

**Note:** When applicable, the disaster period is excluded in the computation by setting the penalty rate between the disaster start date and end date equal to zero.

- (6) For major disasters declared after November 15, 2021, for which individual assistance is being provided under section 408 of the Stafford Act, IRC 7508A(d) provides for a mandatory and automatic 60 day period that the IRS must disregard in determining whether "qualified taxpayers" performed certain

required acts in a timely manner. The 60 day postponement applies to the filing and payment of any income, estate, gift, employment or excise tax. For a full list of acts to which the automatic postponement applies, see IRC 7508(a)(1)(A)-(F) .

- (7) In addition to the automatic 60 day period, the Secretary may, under IRC 7508A(a), specify a period of up to one year that may be disregarded in determining the timely performance of:
- a. Certain acts to be performed by the taxpayer, such as filing tax returns and paying tax liabilities (see IRC 7508(a)(1) );
  - b. The amount of any interest, penalty, and additional amount or addition to the tax for periods after such date; and
  - c. The amount of any credit or refund.

20.1.3.2.7.2.2  
(07-23-2020)

**Notice 2018-26,  
Additional Guidance  
Under Section 965**

- (1) The repeal of IRC 958(b)(4) and amendment of IRC 965 effective 12/22/2017, has resulted in significant additional tax due.
- (2) Notice 2018-26 section 6.01 provides that “IRS will waive underpayment penalties under sections 6654 and 6655 with respect to a taxpayer’s net tax liability under section 965 for those taxpayers that make an election under section 965(h)” and “for those taxpayers who do not elect to pay their net tax liability under section 965 in installments.” Accordingly, a taxpayer’s required installments of estimated tax need not include amounts attributable to its net tax liability under section 965 to prevent the imposition of penalties under sections 6654(a) or 6655(a).
- (3) At this time IRS computers have not been programmed to provide these waivers automatically, and the current and prior year ES tax base amounts (as displayed on IMFOLR or BMFOLR) will not exclude the net tax liability under section 965 in order to provide this waiver. This means that taxpayers may be charged an estimated tax penalty under IRC 6654 or IRC 6655 unless the taxpayer attaches Form 2210 or Form 2220 to their return with the waiver taken into account in the computation on the form.
- (4) If a taxpayer contacts IRS with respect to an assessed ES penalty, and a review of the account information shows that the penalty could be attributable at least in part to tax reportable because of IRC 965, then the ES penalty will need to be re-computed by calculating the required installment amounts without regard to the IRC 965 tax. During return processing the total IRC 965 tax reported on a return should have been recorded in the MISC field of Transaction Code (TC) 971 with Action Code (AC) 114. The portion of the tax for which payment has been deferred should be shown in the module as TC 766 with Credit Reference Number (CRN) 263. Both the amount in the MISC field of TC 971 AC 114 and any TC 766 CRN 263 amount must be excluded when calculating the required installment amounts.

**Note:** The amount in the MISC field of TC 971 AC 114 is included in the TC 150 amount. In order to exclude the amount when calculating the required installment amounts it must be deducted from the TC 150 amount or from the total tax per taxpayer amount, as applicable.

- (5) Notice 2018-26 section 6.02 provides that the IRS has determined that, for 2017, “if the amendment to section 965 or the amendment to section 958(b) ... causes an underpayment related to a required installment of estimated tax due

on or before January 15, 2018, the estimated tax penalty under section 6654 or section 6655 will not apply to that underpayment.”

- (6) If a taxpayer contacts the IRS with respect to an assessed ES penalty for return for a tax period within the range 201712 through 201809, review the correspondence to determine if the taxpayer is claiming that the penalty is a result of amendments to IRC 965 or IRC 958(b). If so, review the taxpayer’s account and correspondence and abate the ES penalty for any installment that was underpaid as a result of an increase in tax because of the amendments to IRC 965 and IRC 958(b).
- (7) In the case where a taxpayer has made an election to have an overpayment applied to estimated tax for the next succeeding tax period, and IRS instead applies the overpayment to the next installment of IRC 965 tax due under an election under IRC 965(h), then for the purpose of computing any penalty for underpayment of estimated tax, IRS will consider the overpayment to have been applied to the estimated tax of the next succeeding year as elected by the taxpayer.

**Example:** Taxpayer A filed a return reflecting an overpayment of \$10,000 with an election to apply that overpayment to pay estimated tax toward the next succeeding taxable year. Instead of applying the overpayment as elected, IRS applies the overpayment toward the unpaid installment of IRC 965 tax that will become due on the due date of the return for the next succeeding taxable year. Even though IRS has not applied the overpayment to estimated tax as elected, IRS will not charge a penalty with respect to the amount of that overpayment.

20.1.3.2.7.2.3  
(07-23-2020)  
**Notice 2019-11 and  
Notice 2019-25, Relief  
from Addition to Tax for  
Underpayment of  
Estimated Income Tax  
by an Individual**

- (1) This waiver as modified by Notice 2019-25 supersedes the guidance in Notice 2019-11 and provides a waiver of the IRC 6654 Estimated Tax (ES) penalty to IMF taxpayers for taxable year 2018. This waiver is limited to individuals whose total withholding and estimated tax payments, made on or before January 15, 2019, equal or exceed 80% of the tax shown on the return for the 2018 taxable year.
- (2) To request this waiver of Estimated Tax (ES) penalty applicable under Notice 2019-25 an individual must file Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts with his or her 2018 income tax return. Taxpayers should complete Part I of Form 2210 and the worksheet included in the form instructions to determine if the waiver in this notice applies. If the waiver applies, the taxpayer should check the waiver box (Part II, Box A) and include the statement “80% Waiver” with the return.

**Example:** Taxpayer K had a tax liability of \$40,000 for tax year 2017 and \$38,000 for tax year 2018. The taxpayer’s employer withheld \$2,400 plus the taxpayer made an estimated tax payment of \$28,000 on January 15, 2019. Because the taxpayer paid 80% of his 2018 tax on or before January 15, 2019 and meets the requirement of the waiver the taxpayer should check the waiver 4 box (Part II, Box A) on the Form 2210 and include the statement “80% Waiver” with the return.

- (3) If the taxpayer did not file a Form 2210 with the original return and subsequently requests relief from the ES penalty and meets waiver criteria, the penalty can be removed. The request does not need to be in writing.

**Example:** Taxpayer J was assessed an ES penalty of \$190 for an underpayment of \$19,000 on their TY 2018 individual return. The taxpayer had a tax liability of \$100,000 with \$81,000 paid through withholding. The taxpayer calls the Service and requests the waiver provided in Notice 2019-25. The IRS employee verifies the taxpayer paid 81% of the tax shown on the return through withholding. Under this waiver, the employee can abate the penalty since 81% of the tax liability was paid on or before January 15, 2019. The employee abates the assessed penalty without a written request because they independently verified that the provisions in this waiver had been met.

- (4) In accordance with Notice 2019-25 Section 3, this waiver is applied pursuant to the authority of IRC 6654(e)(3)(a). If the waiver criteria are met, remove or suppress the penalty with Penalty Reason Code (PRC) 044 Reason Code (RC) 065.
- (5) Taxpayers who qualify for relief under Notice 2019-25 may have already paid additions to tax under IRC 6654 for tax year 2018. If the waiver under this notice applies to a taxpayer and the taxpayer has already paid additions to tax for the 2018 tax year, to claim a refund, the taxpayer should file Form 843, Claim for Refund and Request for Abatement. Taxpayers should complete the form and include the statement “80% Waiver of estimated tax penalty” on Line 7.

20.1.3.2.7.2.4  
(10-13-2022)

**Notice 2020-23 Relief for Taxpayers Affected by Ongoing Coronavirus Disease 2019 Pandemic**

- (1) Notice 2020-23 provides relief under IRC 7508A(a) postponing federal estimated tax payments normally due on April 15, 2020, May 15, 2020, or June 15, 2020 until July 15, 2020. The relief is automatic; taxpayers do not have to call the IRS or file any extension forms or send letters or other documents to receive this relief.

**Example:** A calendar year filer has first quarter 2020 estimated income tax payments due April 15, 2020, and second quarter 2020 estimated income tax payments due June 15, 2020, which have both been postponed to July 15, 2020. The taxpayer may make a single payment to cover both the first and second quarter estimated tax payments on or before July 15, 2020.

**Example:** A fiscal year filer has a fiscal year ending October 2020 with second quarter 2020 estimated income tax payments due April 15, 2020, which has been postponed to July 15, 2020. The taxpayer may make a single payment to cover both the second and third quarter estimated tax payments on or before July 15, 2020.

- (2) If a taxpayer contacts the IRS with respect to an assessed ES penalty, and review of the account information shows that the penalty could be attributable at least in part to late payment that qualified for relief under Notice 2020-23, then the ES penalty will need to be re-computed by calculating the period of underpayment with regard to the postponed due date of July 15, 2020.

20.1.3.2.7.2.5  
(10-13-2022)  
**CARES Act Section 2302, Delay of Payment of Employer Payroll Taxes**

- (1) Coronavirus Aid, Relief and Economic Security Act (CARES Act), section 2302 Delay of Payment of Employer Payroll Taxes, defers payment of part of the employer's portion of Social Security tax beyond the due date of the return. Under section 2302(b)(2) of the CARES Act, half of the IRC 1401(a) self-employment tax imposed on net earning from self-employment attributable to the period from March 27, 2020, through December 31, 2020, is disregarded in calculating the section 6654 estimated tax penalty. IRC 3510 generally treats Schedule H household employment taxes as self-employment taxes of the employer for purposes of IRC section 6654 estimated tax penalty. This means that the employer's portion of Social Security tax imposed on wages paid during the period from March 27, 2020 through December 31, 2020, reportable on Schedule H is excludible from the ES tax base for the taxable year qualifying for the deferral. Returns subject to ES penalty generally do not report Social Security tax, with two exceptions: Form 1040 and 1041 (MFT 30, 31 & MFT 05) can include Social Security tax from Schedule H for household employees.
- (2) The ES tax base for tax periods ending December 31, 2020 through December 31, 2021 is reduced by the amount transcribed on the posted return (50% of Social Security tax, the sum of Schedule H or ES (Social Security tax is 12.4% of total reported Social Security wages.))

**Example:** Normal ES tax base is \$10,000.00 and return reports \$6,000 as the Maximum Deferral Amount.  $\$10,000 - \$6,000 = \$4,000$ . Adjusted ES tax base is \$4,000.

- (3) During processing IRS computer systems automatically identify taxpayers who qualify and automatically reduce the Estimated Tax base by the CARES Act 2302(b)(2) tax deferral amount.
- (4) If a taxpayer contacts the IRS with respect to an assessed ES penalty, and review of the account information shows that the penalty could be attributable at least in part to the deferred Social Security tax, then the penalty will need to be re-computed by calculating the required installment amounts with regard to the CARES Act 2302(b)(2) tax deferral amount.

20.1.3.2.7.2.6  
(10-13-2022)  
**Notice 2021-8 Relief from Addition to Tax for Underpayment of Estimated Income Tax by Individuals Affected by Amendment to Section 461(I)(1)(B)**

- (1) Notice 2021-8 provides a waiver of the addition to tax under IRC 6654 for underpayment of estimated income tax by individual taxpayers, where the underpayment is attributable to the amendment to IRC 461(I)(1)(B) made by the CARES Act. The amendment eliminated the limit on an excess business loss for 2018, requiring the loss to be applied against non-business income in the year of the loss instead of being carried forward to the next taxable year.
- (2) The relief, which is not automatic, applies only for the purpose of calculating installments of estimated income tax of an affected individual taxpayer that were due on or before July 15, 2020, with respect to the taxable year that began during 2019.
- (3) To qualify for the waiver, an individual taxpayer must satisfy all of the following requirements:
  - The individual taxpayer must have a 12-month taxable year for the taxable year that began in 2019.

- The individual taxpayer must have timely filed an original income tax return for the taxable year that began during 2018 that reported an excess business loss on Form 461, Limitation on Business Losses.
- (4) To request this waiver of ES penalty applicable under Notice 2021-8 an individual must have timely filed an original tax year 2019 income tax return, correctly accounting for the CARES Act amendment to IRC 461(l)(1)(B) on the original return. The individual also must file Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts, or Form 2210-F, Underpayment of Estimated Tax by Farmers and Fishermen, as applicable, reflecting the revised estimated tax penalty computation utilizing the Taxable Income Reduction Amount (as defined in Section 4.03(1) of Notice 2021-8) for the affected taxable year that began during 2019. The taxpayer must include “Notice 2021-8” on the top of the Form 2210 or Form 2210-F and attach the following documentation:
- The Form 461 filed as part of the timely filed original income tax return for the taxable year that began in 2018;
  - The Form 461 filed as part of the most recent amended income tax return filed before March 27, 2020, for the taxable year that began in 2018, if an amended income tax return for that taxable year was filed before March 27, 2020; and
  - A statement detailing how the taxpayer determined its Taxable Income Reduction Amount.
- (5) If a taxpayer claims that they had an excess business loss that was to be carried forward, but that was now either used to offset non-business income in the year of the loss, or that was carried back, then verify the taxpayers computation as follows:
- Use CC RTVUE or TRDBV to verify that the amount from the original 2018 Form 461 line 16 was included on the original 2018 Schedule 1 line 21.
  - Use CC RTVUE or TRDBV to validate the amounts used in the determination of the Taxable Income Reduction Amount.
  - Validate the decrease in total 2019 tax used to re-calculate the ES penalty (may use rate schedule on Form 1040-ES to estimate)

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20.1.3.2.7.2.7  
(10-13-2022)  
**Unemployment Income  
Tax Relief**

- (1) Section 9042 of the American Rescue Plan Act (ARPA) authorizes qualified individuals who received unemployment compensation during calendar year 2020 to exclude up to \$10,200 (\$20,400 if filing MFJ) from their Adjusted Gross Income (AGI).
- (2) To qualify for the exclusion of unemployment income, the taxpayer(s) must:
- Have a valid SSN or ITIN,
  - Have received unemployment compensation during calendar year 2020 and

- Meet the threshold of \$150,000 or less, regardless of filing status.

**Note:** The Modified Adjusted Gross Income (MAGI) is calculated to determine if the \$150,000 threshold is met by subtracting the total amount of all unemployment compensation from the AGI.

- (3) The Exclusion of Unemployment Compensation Recovery Effort (EUCRE) is a systemic relief process used to correct certain accounts for taxpayers who filed their tax year 2020 return prior to the enactment of ARPA. Accounts are identified by a TC 971 AC 123 with MISC "UCERECOVERY03112021" after being adjusted through the systemic recovery process. This indicator will be reversed with a TC 972 AC 123 when the systemic recovery process has been completed.
- (4) Any changes made to returns via the EUCRE are treated as changes made on a timely filed superseding return. See IRM 20.1.3.2.4, Superseding Returns.
- (5) At this time IRS computers have not been programmed to compute the ES penalty with the modified AGI as the prior year. Taxpayers should complete Form 2210, Underpayment of Estimated Tax by Individuals, Estates and Trusts, and use the amount as adjusted by any EUCRE changes to the 2020 return when completing Form 2210 for the 2021 tax year.
- (6) If a taxpayer contacts IRS with respect to an assessed ES penalty for tax year 2021 and a review of the account information shows the penalty could be attributable at least in part to a EUCRE adjustment in 2020, then the ES penalty will need to be re-computed using the amount as adjusted by any EUCRE.

20.1.3.2.7.3  
(03-31-2010)  
**Bankruptcy**

- (1) IRC 6658 prohibits the assertion of the estimated tax penalty on liabilities during the time during which a bankruptcy proceeding is pending against the taxpayer:
  - a. If the tax was incurred by the bankruptcy estate and the failure occurred pursuant to an order of the court finding probable lack of funds of the estate to pay administrative expenses; or
  - b. If the tax was incurred by the debtor before the earlier of the order for relief, or (in the case of an involuntary bankruptcy) the appointment of a trustee, and either the bankruptcy petition was filed before the return due date (including extensions), or the date for making the penalty assessment occurs on or after the day on which the petition was filed.

20.1.3.2.7.4  
(12-10-2013)  
**Request for Abatement  
Due to an Erroneous  
Refund of Estimated Tax  
Credits**

- (1) If the taxpayer claims that an overpayment (credit elect) was refunded in error or if an estimated tax payment was erroneously refunded by the Service, the taxpayer may be entitled to have a portion of the penalty abated. Verify the taxpayer's statement by requesting the prior year return and reviewing account information.

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**Example:** (2) Same facts as above, except that the pass-through entity's taxable year ended June 30, 2009. The taxpayer is required to include in annualized income his distributive share of income from the pass-through entity for the following periods:

For annualization period ended	Income included from the pass-through entity for the period beginning	Through
3/31/2009	7/1/2008	3/31/2009
5/31/2009	7/1/2008	5/31/2009
8/31/2009	7/1/2008	6/30/2009

- (4) The failure of a pass-through entity to provide the distributive share of income as of the end of each annualization period does not permit the taxpayer to simply allocate the entire amount to the final annualization period.
- (5) For more information see 26 CFR 1.6654-2(d)(2) and 26 CFR 1.6655-2(f)(3)(v).

20.1.3.2.8  
(07-24-2018)  
**Denying the Request for a Waiver**

- (1) If the waiver is denied, send an 854C letter, Penalty Waiver or Abatement Disallowed/Appeals Procedure Explained, using the appropriate paragraph(s) informing the taxpayer of the reason for denial and explaining his or her appeal rights. Input TC 290 for zero with Blocking Series 98 (without the original return) or with Blocking Series 99 (with the original return). Also use Reason Code 065, as applicable, when denying a waiver of an IMF penalty.

**Note:** If the original return was electronically filed, do not use Blocking Series 98 unless the controlling DLN doc code is 47, 51 or 54. Instead, use Blocking Series 99 and attach the appropriate printed transcript (IMFOLR, BMFOLR, TRDBV, RTVUE or BRTVU), or graphic print for modernized e-file returns.

20.1.3.2.9  
(12-10-2013)  
**Appealing the Penalty**

- (1) For a complete discussion of penalty appeals, refer to IRM 20.1.1.4, Methods of Appealing Penalties.

20.1.3.2.10  
(12-10-2013)  
**Timely Payments**

- (1) IRC 7502 provides that a payment received after the due date is to be considered made on the due date for that payment if the payment was mailed on or before the due date using either the U.S. Postal Service, or a designated

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- (2) IRC 7503 provides that a payment is considered made on the payment due date if the payment due date falls on a Saturday, Sunday, or legal holiday, and the payment is mailed on the first day following the payment due date that is

not a Saturday, Sunday, or legal holiday. (For the purpose of this section, *legal holiday* means any legal holiday in the District of Columbia.) Accordingly, any postmark or mail receipt offered as proof of timely payment under this rule should be accepted as evidence of timely payment, and any payment date changed as necessary.

**Note:** IRC 7503 does not change the installment due date for the purpose of computing a penalty; it merely provides for timely treatment of qualifying

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20.1.3.3  
(03-31-2010)  
**IRC 6654 - Individual  
Taxpayers and  
Fiduciaries**

- (1) IRC 6654 provides for a penalty when individuals, estates, and trusts (other than charitable trusts) underpay any required installment(s) of estimated income tax liabilities reportable on Form 1040, U.S. Individual Income Tax Return, and Form 1041, U.S. Income Tax Return for Estates and Trusts.
- (2) For taxable years beginning January 1, 1998, taxpayers are required to make estimated tax payments if the tax that will be shown on their return (or, if no return is filed, their tax liability), minus tax amounts withheld from wages during the year, is \$1,000 or more. (Prior to January 1, 1998, the threshold was \$500.)
- (3) "Tax shown on the return" is defined in the instructions for Form 2210 or Form 2210-F. In Master File terms, it is the ES tax base amount reflected in the module. This amount should be equal to tax per taxpayer reduced by any amounts reflected with TC 768 and TC 766 carrying the same DLN as the return.

20.1.3.3.1  
(12-10-2013)  
**Assertion Criteria**

- (1) Taxpayers make quarterly estimated tax payments to pay for income tax liabilities not paid through withholding.
- (2) Taxpayers will not be charged a penalty for underpayment of estimated tax if they pay, generally in four equal installments, an amount at least equal to the required annual payment of estimated tax. Each installment consists of estimated tax paid by the due date for that installment, plus 25% of withheld tax. An individual may use the amount actually withheld by the installment due date instead of 25% of withheld tax, if the individual establishes the dates of actual withholding. (Fewer than four installments may be required if the taxable year is a short taxable year. See IRM 20.1.3.3.1.1.9, Short Taxable Years.)
- (3) If taxpayers fail to pay estimated tax as required, a penalty for underpayment of estimated tax is generally assessed. However, see IRM 20.1.3.3.1.1.7, "Annualized Income Installment Method", and IRM 20.1.3.3.1.4, "Application of Estimated Tax Payments, Credits, and Withholding", for exceptions to the "equal installments" rule in (2) above.
- (4) Under IRC 6654(e)(2), no estimated tax penalty will be imposed on taxpayers if for any tax year:
  - a. They had NO tax liability for the preceding taxable year, and
  - b. They were a citizen or resident of the United States throughout the preceding tax year, and
  - c. Their preceding taxable year was a 12 month year.

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- (5) For the purpose of sub-paragraph (4) a) above, the taxpayer had no tax liability for the preceding taxable year if the total tax required to be shown for the preceding taxable year was zero or less. *Total tax required to be shown* is net tax reduced by net refundable credits listed for line 3 of Form 2210.

**Example:** Taxpayer “A” files a 2008 return reporting \$1,000 self-employment tax, but no credits. Subsequent to filing the return, taxpayer “A” files a claim for \$1,300 earned income credit. The claim is examined and allowed. Total tax required to be shown for 2008 now is -\$300.00, or less than zero. For the purpose of paragraph (4) a) above, the taxpayer has no tax liability for 2008.

- (6) The exception in paragraph (4) above is available for individuals, estates, and trusts even if the prior year return originally *showed* a liability for tax.
- (7) Master File cannot determine whether the taxpayer qualifies for the exception in (4) above after the original return is filed. Therefore, care should be taken to review the tax module for the succeeding year (if present) whenever tax for another year is reduced to zero. If a penalty was charged against the succeeding taxable year, and the taxpayer now qualifies for the exception under (4) above, the penalty should be manually abated and the taxpayer notified of the action.

20.1.3.3.1.1  
(07-23-2020)  
**Determining the  
Required Annual  
Payment**

- (1) Taxpayers must pay the lesser of 90% of tax shown on the current year’s return, or the specified percentage of the tax shown on the preceding taxable year’s return as their required annual payment.
- (2) For taxpayers whose adjusted gross income in the preceding taxable year was \$150,000 or less (\$75,000 if married filing separately) the specified percentage is 100%.
- (3) For taxpayers whose adjusted gross income in the preceding taxable year was in excess of \$150,000 (\$75,000 if married filing separate) the specified percentage is 110%.
- (4) In the case of an estate or trust, adjusted gross income is determined as provided in IRC 67(e). See instructions for line 15a, Form 1041, “U.S. Income Tax Returns for Estates and Trusts”.
- (5) Preceding taxable year’s tax refers to the tax shown on the taxpayer’s original return, or shown on an amended return for the previous year if filed prior to the due date for that year, including extensions.

**Note:** Different rules applied to periods beginning prior to 1995. See Exhibit 20.1.3-3. See the specific Form 2210 instructions for rules specific to taxable years that began prior to 1987.

20.1.3.3.1.1.1  
(07-23-2020)

**Special Rule for Tax  
Periods Beginning in  
2009**

- (1) Former IRC 6654(d)(1)(D) provided for a lower required annual payment for certain small business taxpayers with tax periods beginning in 2009. See 26 CFR 1.6654-2(a)(1)(ii). The Tax Technical Corrections Act of 2018, P.L. 115-141, repealed this provision effective March 23, 2018. However, the repeal does not affect the treatment of:
  1. any transaction occurring before the date of enactment
  2. any property acquired before the date of enactment
  3. any item of income, loss, deduction, or credit taken into account before the date of the enactment for purposes of determining the tax liability after the date of enactment. See P.L. 115-141, §401(e), Div. U.
- (2) Under former IRC 6654(d)(1)(D), certain individuals with income from a small business were required to pay only 90% (in lieu of 100% or 110%) of the preceding taxable year's tax if the following qualifications are met:
  1. The taxpayer's adjusted gross income for the taxable year beginning in 2008 was less than \$500,000 (\$250,000 if married filing separately for the year beginning in 2009).
  2. The taxpayer certifies that more than 50% of the gross income shown on the return for the year beginning in 2008 was income from a small business, defined as a bona fide trade or business in which the taxpayer was an owner in calendar year 2009, and that averaged fewer than 500 employees for 2008.
- (3) The taxpayer certifies that the qualification under (2) above has been met by checking box F on Form 2210, or box C on Form 2210-F. Form 2210 or Form 2210-F with the appropriate box checked should be filed with the return. If Form 2210 or Form 2210-F is filed separately, it should be accompanied by a signed statement that the information on the form is true and correct.
- (4) This rule expired for tax periods beginning after December 31, 2009.

20.1.3.3.1.1.2  
(03-31-2010)

**Joint Return After Filing  
Separate Return(s)**

- (1) IRC 6013(b) provides that taxpayers may file a joint return even after either spouse (or both spouses) has already filed a separate return. When a joint return is filed after separate returns, the computer generally cannot compute the ES penalty.
- (2) This section explains the rules for computing the penalty. The procedures for processing a separate-to-joint amended return are found in IRM 21.6.1.5.3, "Processing Married Filing Separate to Married Filing Joint Adjustments".
- (3) The tax shown on the joint return becomes the "tax shown on the return" for that tax period when determining the required annual payment for that year or the next succeeding year. Any previously filed separate returns are disregarded. Tax is computed using all amounts listed on lines 1 – 3 of Form 2210.
- (4) The payments, withholding credits, and credit elect amounts paid by either spouse must be used in determining the underpayment (if any) for any installment.
- (5) Any adjustment involving a joint return after separate returns will require a manual estimated tax penalty computation and adjustment, even if there is no change to the penalty (TC 170 for zero amount).

- (6) If either spouse previously filed a return for the next succeeding year, research the account to determine if the penalty (or lack thereof) was based on the tax shown on the return for the year being adjusted. If it was, recompute the penalty for the next succeeding year (if possible) based on the revised joint tax and adjust as necessary.

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- (7) Whenever the IRS computed penalty differs from the taxpayer's computed penalty, an explanation of the penalty computation must be sent to the taxpayer with the appropriate letter.

20.1.3.3.1.1.3  
(03-31-2010)  
**Limitation on Using  
Preceding Taxable  
Year's Tax**

- (1) Taxpayers may not use the preceding taxable year's tax if either
  - a. The preceding taxable year was not a taxable year of 12 months, or
  - b. The taxpayer did not file a return for the preceding taxable year, even though required to do so.

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20.1.3.3.1.1.3.1  
(03-31-2010)  
**Changes in Filing Status**

- (1) Taxpayers filing jointly in one of two successive years, but separately in the other, cannot, without modification, use the preceding year's tax when determining the lesser of current or prior year tax:
  - a. Taxpayers filing jointly, who filed separately in the preceding taxable year, are to add the two separate tax liabilities in the preceding year for the purpose of computing their required annual payment.
  - b. Taxpayers filing separately, who filed jointly in the preceding taxable year, are to compute their required annual payment by redetermining their separate share of the joint liability for the preceding year using each spouse's separate income and deductions based on the current year's filing status. For more information, see Publication 505, Chapter 2, "Married Taxpayers"
- (2) Taxpayers filing separately, who filed jointly in the preceding taxable year, are instructed to file Form 2210 with their return. If Form 2210 is not attached to the return, IRS will compute the penalty under the presumption that 100% of the preceding taxable year's tax was attributable to the income of that taxpayer.

20.1.3.3.1.1.3.2  
(03-31-2010)  
**Short Taxable Year  
Following a 12 month  
Year**

- (1) Taxpayers who are filing a short taxable year return for the current year, and who filed a return for a full 12 months for the prior year, may modify their prior year tax before using it to compute their required annual payment. The modification consists of dividing the prior year tax by 12, and multiplying the result by the number of months in the short taxable year.

- (2) For the purpose of computing modified prior year tax, a partial month in the short taxable year is considered to be a full month.

**Example:** Taxpayer “U” filed a full 12 month return for calendar year 2007, and will be filing a final short taxable year return for the taxable year ending 08/12/2008. The 2007 tax was \$18,000. The modified prior year tax, for use in computing the required annual payment for the short taxable year, is \$12,000:  
 $\$18,000 \div 12 = \$1,500.$   
 $\$1,500 \times 8 = \$12,000.$

20.1.3.3.1.1.4  
(03-31-2010)

**Nonresident Aliens**

- (1) For the purpose of the estimated tax penalty, a nonresident alien is an individual taxpayer who meets both of the following requirements:
- He or she is not a citizen or resident of the United States.
  - His or her wages are not subject to federal income tax withholding.
- (2) Nonresident aliens (as defined above) are required to make only three installments of estimated tax.
- (3) Nonresident aliens who do not meet the above criteria are required to pay estimated tax the same as U.S. residents and citizens.
- (4) Unless the nonresident alien taxpayer elects to annualize his income, the amount due with the first installment is 50% of the required annual payment. The amounts due each with the second and third installment is 25% of the required annual payment.
- (5) If the taxpayer annualizes his income, the amount due with each installment is to be based on his income and deductions as of the end of the month preceding the month containing the due date of the installment.
- (6) In general, in the case of a calendar year individual, the installment requirements are as follows:

Due Dates	Amount Due
June 15	50% of required annual payment
September 15	25% of required annual payment
January 15 of following year	25% of required annual payment

- (7) Nonresident alien taxpayers are subject to the same rules governing the use of prior year tax (in determining their required annual payment) as outlined in IRM 20.1.3.3.1.1 and IRM 20.1.3.3.1.1.1.

20.1.3.3.1.1.5  
(03-31-2010)

**Deceased Taxpayers**

- (1) A penalty for underpayment of estimated tax by a decedent is charged only for installments due prior to the date of death. The penalty is computed on any underpayment from the installment due date to the earlier of the date paid, or the date of death.
- (2) A joint return is not considered to be the return of a decedent unless both spouses are deceased. If both spouses are deceased, the date of death for the purpose of computing the penalty is the later of the two dates of death.

20.1.3.3.1.1.6  
(03-31-2010)  
**Fiduciaries of Estates or Trusts**

(1) All estates and most trusts are required to make estimated tax payments in the same manner as individuals.

**Exception:** Charitable trusts and any private foundation organized as a trust, will be subject to the corporate estimated tax provisions under IRC 6655, rather than IRC 6654.

(2) Generally, an estate or trust is required to pay estimated tax if it expects to owe, after credit for withholding, \$1,000 or more (\$500 for tax years beginning before 1998). For details and exceptions, see Form 1041-ES, "Estimated Income Tax for Estates and Trusts". Use Form 2210, "Underpayment of Estimated Tax by Individuals, Estates, and Trusts", to figure any penalty.

(3) The following are exempt from paying estimated tax for tax years that end earlier than two years after the date of death:

- a. Decedents' estates.
- b. Grantor trusts that receive the residual of a probate estate under the decedent's will.
- c. For tax years beginning after December 31, 1986, if there is no will to probate, a trust that is primarily responsible for paying taxes, debts and expenses of administration.

(4) Fiduciaries may elect to treat any portion of estimated tax payments made by the trust or estate as payments made by a beneficiary. Such an amount is treated as a payment of the estimated tax made by the beneficiary on January 15 following the close of the taxable year. Fiduciaries must make these elections on Form 1041-T, "Transmittal of Estimated Taxes Credited to Beneficiaries". These elections **must** be filed on or before the 65th day after the close of the trust's taxable year. See IRC 643(g).

20.1.3.3.1.1.6.1  
(12-10-2013)  
**Qualified Funeral Trust**

(1) Generally, a qualified funeral trust (QFT) must pay estimated income tax if it expects to owe, after subtracting withholding and credits, at least \$1,000 in tax. However, the estimated tax liability is figured for the individual QFT, and not for a composite return as a whole.

**Example:** Trustee "X" files a composite Form 1041-QFT, "U.S. Income Tax Return for Qualified Funeral Trusts", reporting \$4,500 in total tax. The tax is allocated to three individual QFTs in the amounts of \$800, \$900 and \$2,800. As such, only one individual QFT has an estimated tax liability, which is the lesser of 90% of its current year liability (90% of \$2,800) and 100% of its prior year liability (if applicable). The estimated tax penalty for the composite return would be based on the estimated tax liability of the one individual QFT.

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20.1.3.3.1.1.7  
(03-31-2010)

**Annualized Income  
Installment Method**

- (1) Taxpayers who do not receive income evenly throughout the year (for example, taxpayers involved in seasonal businesses) may use the annualized income installment method for determining estimated tax payments. This method allows estimated payments that actually reflect the income earned in the period immediately before the installment due date.
- (2) Form 2210 includes Schedule AI, which is used to determine the required installments using the annualized income installment method. The amount due by each installment due date is computed by placing on an annualized basis the income for months in the taxable year ending on the last day of the month before the due date for the installment. For a calendar year taxpayer, this means the income will be annualized from the first of January for each installment period:

Installment	Due On	Income and Deductions Annualized From	To
1	April 15	Jan. 1	March 31
2	June 15	Jan. 1	May 31
3	Sept. 15	Jan. 1	August 31
4	next Jan. 15	Jan. 1	Dec. 31

- (3) Estates and trusts electing to use the annualized income installment method have the same estimated tax payment due dates as individuals. However, the installment is computed by placing on an annualized basis the income for months in the taxable year ending the second month preceding the month that contains the due date for the installment. This means that for a calendar year taxpayer income is annualized as follows:

Installment	Due On	Income and Deductions Annualized From	To
1	April 15	Jan. 1	Feb. 28 or 29
2	June 15	Jan. 1	April 30
3	Sept. 15	Jan. 1	July 31
4	next Jan. 15	Jan. 1	Nov. 30

**Note:** Because income received in December is not included in annualized income of an estate or trust, the required annual payment of an estate or trust can be less than both 90% of current year tax and 100% of prior year tax. This will be the case when the taxpayer chooses to annualize, and taxable income received through November 30th is less than  $\frac{11}{12}$  of total taxable income for the year.

- (4) If the annualized income installment method is used for one installment and the regular method is used for the next installment, any reduced amount realized under the annualized installment versus the regular method installment, must be made up in the following regular method installment. (The annualized worksheet included in the "Instructions for Form 2210" package, as well as Schedule AI, Form 2210, recaptures any shortfall.)
- (5) For tax years 1992 and later, taxpayers must complete Form 2210, including Schedule AI, and attach them to their return if they used the annualized income installment method to compute their required installment amounts.

20.1.3.3.1.1.8  
(12-10-2013)  
**Farmers and Fishermen**

- (1) Taxpayers with at least two-thirds of their gross income derived from farming or fishing in the current or preceding taxable year are required to either:
  - a. Make a lump sum estimated tax payment by the 15th day of the month following the close of the tax year (January 15 for calendar year returns); or
  - b. File their return and pay the total tax due by the first day of the third month following the close of the tax year (March 1 for calendar year returns).
- (2) See Publication 225, "Farmer's Tax Guide", and Publication 595, "Capital Construction for Commercial Fishermen", for the definition of gross income.
- (3) See Exhibit 20.1.3-4. This exhibit contains specific instructions for computing 2/3 of gross income, as well as a list of income items that qualify as income from farming or fishing.
- (4) For qualifying farmers and fishermen, the required annual payment is the smaller of the following:
  - a. 66 2/3 percent of the current year's tax; or
  - b. 100 percent of the total tax shown on the preceding year's return (assuming the return covered a full 12 months).

**Note:** Farmers and fishermen may be eligible for a waiver of all or part of the estimated tax penalty in certain situations. See Form 2210, "Underpayment of Estimated Tax by Farmers and Fishermen", instructions and IRM 20.1.3.3.1.7.1.

- (5) For joint returns, the spouse's income must be considered in determining if the taxpayer meets the two-thirds of gross income from farming or fishing requirement.
- (6) If a taxpayer qualifies as a farmer or fisherman, an indicator is generally placed on the taxpayer's file. The indicator will be shown on IDRS response screens for command codes TXMOD, PIEST, and IMFOL. See IRM 2.3.11, "Command Codes TXMOD and SUMRY", IRM 2.3.41, "Command Code PIEST", and IRM 2.3.51, "Command Code IMFOL".

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- a. Care must be taken when computing total gross income from all sources to make sure that net farm rental income or net income from farm partnerships, S-corporations, or estates or trusts, is not included twice: Once as part of gross income from farming (Schedule E, line 42), and again from net farm rental income (Schedule E, line 40), and or any of the other income lines (Schedule E, lines 30 and 35).
- b. Do not duplicate income from Form 4797, "Sales of Business Property", that may also be included on Schedule D.

20.1.3.3.1.1.9  
(03-31-2010)

**Short Taxable Years**

- (1) Individual taxpayers may file a short period return due to a change in accounting period or due to a change in accounting methods. Two short period returns may also be filed during a single taxable year if the taxpayer enters bankruptcy during the taxable year.
- (2) A return filed for an individual who was born during the taxable year and a return filed for an individual who died during the taxable year (an early filed decedent return) are not short taxable year returns. They are considered to be for a full taxable year of twelve months. However, special rules apply to decedent returns. See IRM 20.1.3.3.1.1.5.
- (3) Trusts and estates may file an initial short taxable year return or a final short termination year return. Prior to 1987 a trust might also have filed a short year return due to a change in accounting periods.
- (4) A bankruptcy estate may also elect to end its taxable year early in order to determine its tax liability prior to closing of the bankruptcy.
- (5) Taxpayers filing a short year return generally are required to make estimated tax payments.
- (6) The amount of each required installment may be determined using the annualized income installment method.
- (7) If the annualized income installment method is **not** used, the required annual payment generally must be paid in equal installments. The fraction due with each equal installment is determined by dividing the required annual payment by the number of installments due:

Installments	Amount Due Each Installment
4	1/4 or 25%
3	1/3 or 33.33%
2	1/2 or 50%
1	All or 100%

**Exception:** Nonresident alien taxpayers who are not subject to withholding have different estimated tax requirements. They are not required to make their first installment until the 15th day of the 6th month of their taxable year. However, unless they are required to make only one payment, the amount paid with their first installment must be twice the amount of each of the other installments:

Installments	Amount due 1st Installment	Subsequent Installment(s)
3	1/2 or 50%	1/4 or 25%
2	2/3 or 66.67%	1/3 or 33.33%
1	All or 100%	N/A

- (8) For the annualized income installment method, the multipliers for lines 2 and 5 of Schedule AI are determined by dividing the number of months in the tax period by the number of months that precede the due date of the given installment.

**Example:** For a short taxable year beginning January 1st and ending September 30th, the multipliers are as follows:

Due Date	Multiplier
4/15	9/3 = 3
6/15	9/5 = 1.8
9/15	9/8 = 1.125

- (9) An exception applies to estates and trusts using the annualized method. The multipliers for lines 2 and 5 of Schedule AI are determined by dividing the number of months in the tax period by the number of months that precede the due date of the given installment by one month or more.

**Example:** For a short taxable year beginning January 1st and ending September 30th, the multipliers are as follows:

Due Date	Multiplier
4/15	9/2 = 4.5
6/15	9/4 = 2.25
10/15*	9/8 = 1.125

\*See IRM 20.1.3.3.1.1.9.1.

**Reminder:** A penalty involving short taxable years must **always** be computed and adjusted manually.

20.1.3.3.1.1.9.1  
(03-31-2010)  
**Short Year Installment Due Dates**

- (1) Notice 87-32 provides that a trust or estate that has a short taxable year (a period of less than 12 months) must pay installments of estimated tax on or before the following:
- a. The fifteenth day of the fourth month of such taxable year,
  - b. The fifteenth day of the sixth month of such taxable year,
  - c. The fifteenth day of the ninth month of such taxable year, and

d. The fifteenth day of the first month of the succeeding taxable year.

The payments due in the fourth, sixth and/or ninth month of the short taxable year (but not the payment due on the fifteenth day of the first month of the succeeding taxable year) are not required to be paid if the short taxable year ended during or prior to such fourth, sixth and/or ninth months. See Exhibit 20.1.3-1, Tables 2 and 3.

- (2) For a short taxable year in which a trust or estate subject to IRC 6654 terminates, installments of estimated tax must be paid for any installment due before the last day of the short taxable year and a final installment must be paid by the fifteenth day of the first month following the month in which the short taxable year ends. See Exhibit 20.1.3-1, Table 3.
- (3) The guidance in Notice 87-32 may not be inferred to apply to entities other than trusts and estates.
- (4) Individuals in general are required to pay their estimated tax on or before the 15th day of the fourth, sixth, and ninth month of the taxable year, and on or before the 15th day of the first month of the succeeding taxable year. In the case of a short taxable year, a penalty will not be charged if the taxpayer paid at least the required annual payment in a manner that is consistent with published guidelines.
- (5) If a taxpayer has paid less than the required annual payment, then (unless the taxpayer has established other reasonable due dates via payment of estimated tax) the penalty shall be computed using due dates based on the ending month of the taxpayer's fiscal or calendar year in effect for the year in question.

**Example:** (1) Mr. "A" has been a fiscal year filer with a fiscal year ending June 30. However, he is electing to change his accounting period to a calendar year in order to be able to file jointly with Mrs. "A," a calendar year filer. Mr. "A's" final fiscal return is for a short taxable year ending on December 31, 2008. However, because it is the final fiscal year return, the installment due dates will be based on the fiscal year ending June 30, for all months falling within the short taxable period, plus the 15th day of the first month following the close of the short taxable year:

Due Date by Rule	Computed Due Date
15th day of the 4th month	October 15, 2008
15th day of the 6th month	December 15, 2008
15th day of the first month following the close of the taxable year	January 15, 2009

**Example:** (2) Mr. "B," a calendar year filer, files for bankruptcy protection on June 20, 2008. Because his business, "C Notes and More," is turned over to a bankruptcy trustee, Mr. "B" elects under IRC 1398(d) to end his year early, splitting his taxable calendar year into two short taxable years: The first short year beginning January 1, 2008, and ending on June 19, 2008; and the second short year beginning on June 20, 2008, and ending December 31, 2008. The estimated tax installment due dates for

the first short year are those due dates that fall within the short year, plus the 15th day of the first month following the close of the short year:

Due Date by Rule	Computed Due Date
15th day of the 4th month	April 15, 2008
15th day of the 6th month	June 15, 2008
15th day of the first month following the close of the taxable year	July 15, 2008

The estimated tax installment due dates for the second short year are those calendar year due dates that are after the first month in that short taxable year:

Due Date by Rule	Computed Due Date
15th day of the 9th month	September 15, 2008
15th day of the first month following the close of the taxable year	January 15, 2009

Please note, however, that an estimated tax penalty generally is not charged for the first short taxable year in this situation. See IRM 20.1.3.2.7.3.

20.1.3.3.1.1.10  
(07-24-2018)

**Registered Domestic Partners in Community Property States**

- (1) Registered domestic partners (RDP) in California, Nevada, and Washington must follow state community property laws and report half of the combined community income of the individual and his or her RDP.
- (2) These rules apply to RDPs in California, Nevada, and Washington because they have full community property rights in 2010. California RDPs attained these rights as of January 1, 2007. Nevada RDPs attained these rights as of October 1, 2009, and Washington RDPs attained these rights as of June 12, 2008. For years prior to 2010, RDPs who reported income without regard to the community property laws may file amended returns to report half of the community income for the applicable periods, but are not required to do so.
- (3) There is no specific waiver of the estimated tax penalty for RDPs. Please see IRM 20.1.3.3.2.1.2 (1). Determining whether imposing the penalty is against equity and good conscience must be done on a case by case basis. For amended returns, consider whether original returns received a penalty and whether a penalty would be assessed if the original returns were filed correctly. If there are sufficient facts to determine that imposing the penalty is against equity and good conscience, input TC 170 .00.

20.1.3.3.1.2  
(03-31-2010)

**Period(s) of Underpayment**

- (1) If a taxpayer fails to pay as much estimated tax as required for any installment, an underpayment exists. The underpayment period for that installment begins on the due date of the underpaid installment, and ends on the earlier of the following:
  - a. The date the installment is paid; or

b. The 15th day of the 4th month following the end of the taxable year.

- (2) In determining underpaid installments, the earliest liability must be paid in full before payments may be applied to later installments. See IRC 6654(b)(3).
- (3) Timely mailing equals timely paying. See IRM 20.1.3.2.10, Timely Payments, for more information.
- (4) The period of underpayment must be computed separately for each installment, beginning with the first installment. See Exhibit 20.1.3-5 for an example of how the period of underpayment is computed.
- (5) The perpetual or leap year julian date calendars may be used to compute the number of days in each underpayment period.

20.1.3.3.1.3  
(03-31-2010)  
**Payment Due Dates**

- (1) Installments of estimated tax (other than for nonresident aliens and qualifying farmers and fishermen) are due on the 15th day of the 4th, 6th, and 9th month of the current taxable year (as applicable), and on the 15th day of the 1st month of the following taxable year. For a calendar year filer, the due dates are April 15, June 15, September 15, and January 15 of the following year.
- (2) Taxpayers are not required to make their final estimated tax installment if they file their return and pay their tax on or before the last day of the first month

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- (3) Taxpayers who qualify as farmers or fishermen (see IRM 20.1.3.3.1.1.8) are required to make only one estimated tax payment due on the 15th day of the first month following the close of the taxable year.
- (4) Farmers and fishermen are not required to make any estimated tax payments if they file their return and pay their tax on or before the first day of the third

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- (5) See IRM 20.1.3.2.10 paragraph (2) for rules that apply when the payment due date falls on a Saturday, Sunday, or legal holiday in the District of Columbia.
- (6) See IRM 20.1.3.3.1.1.4 for due dates for nonresident aliens.
- (7) See IRM 20.1.3.3.1.1.9.1 for due dates for short taxable years.

20.1.3.3.1.4  
(03-31-2010)  
**Application of Estimated Tax Payments, Credits, and Withholding**

- (1) Payments and credits are applied to liabilities in the order they are received (credit availability date), beginning with the earliest liability. See IRC 6654(b)(3).
- (2) Credit for withheld income tax and excess social security tax is divided equally among the required installments.

**Exception:** At the taxpayer's election, withholding may be applied to the liability that corresponds to the period during which the tax was actually withheld.

See IRC 6654(g). This election may be applied separately to each item of income subject to withholding.

**Example:** John has withholding from wages and from a distribution from a pension plan. John may elect to treat the withholding from the pension as paid when it was actually withheld, while spreading the withholding from wages equally over all four installments.

**Note:** Tax withheld at the source on income received by nonresident aliens is used in the computation of tax shown on the return. It is not to be treated as a payment also. See IRM 20.1.3.3.1.7 (5) and IRC 6654(f).

(3) Taxpayers electing to allocate their withholding in accordance with paragraph (2) are required to complete Form 2210 and attach it to their return.

20.1.3.3.1.5  
(03-31-2010)  
**Determining Amount of Underpayment**

- (1) The underpayment of an installment is the amount by which the required installment exceeds credits and payments available for that installment on the due date of the installment.
- (2) There is more than one correct method for computing the amount of the underpayment for a given period. See IRM 20.1.3.2.2.1

20.1.3.3.1.6  
(07-23-2020)  
**Penalty Rate**

- (1) Although the estimated tax penalty is not interest, it is computed in the same manner as interest, except it is **NOT compounded daily**. Use the underpayment interest rate in effect for the appropriate time period to compute the penalty for a given installment.
- (2) The rate which applies during the 3rd month following the close of the taxable period also applies for the first 15 days of the 4<sup>th</sup> month. For example, for tax year ending December 31, 2009, the underpayment interest rate in effect during the first quarter of 2010 will also be used for the period April 1, 2010 through April 15, 2010, regardless of whether the interest rate changes for the second quarter of 2010.
- (3) The underpayment interest rate is determined for the first month of each calendar quarter in accordance with IRC 6621, and is applied to each month within that quarter.
- (4) Interest rates can be found in the Internal Revenue Bulletin (IRB), News Releases, TAX NEWS, Servicewide Electronic Research Program (SERP) and Notice 746, Information About Your Notice, Penalty and Interest.

20.1.3.3.1.7  
(07-23-2020)  
**Determining the Penalty Amount**

- (1) The penalty is computed by applying the underpayment rate established under IRC 6621 to the amount of the underpayment for the period of the underpayment. In effect, the penalty is the sum of the penalties for each day during which an underpayment exists. The penalty for each day is computed by multiplying the daily rate by the underpayment amount. The daily rate is the rate determined under IRC 6621 divided by the number of days in the calendar year.
- (2) IDRS command code COMPA with definer "S" (COMPAS) has been provided to aid in the computation of the penalty. See IRM 20.1.3.2.2.1.

- (3) The Account Management Services (AMS) includes a Form 2210 worksheet for calendar years 2009 and subsequent years to compute the penalty.
- (4) The penalty is always computed based on the tax shown on the original return, or on a superseding return (including extensions) filed on or before the due date for filing. Master File is only able to automatically compute the estimated tax penalty based on the first posted return in a tax module. Therefore, the penalty must be manually computed and adjusted when a superseding return is processed after the original return has posted, or when the first return posted in the module posted there in error.
- (5) Tax shown on the return is defined as total tax *per taxpayer* reduced by total refundable credits *per taxpayer*, with the following exceptions:
- Tax attributable to Form 8828, Recapture of Federal Mortgage Subsidy, is excluded from total tax. See IRC 6654(f)(1).
  - Tax attributable to Form 8866, Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method, is excluded from total tax. See IRC 167(g)(5)(D).
  - Tax attributable to Form 8697, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, is excluded from total tax. See IRC 460(b)(1).
  - Credit for tax withheld from wages (including credit for excess social security tax withheld), and backup withholding is excluded from total refundable credits. Please note that tax withheld at the source from the income of nonresident aliens (Form 1042) is not excluded. See IRC 6654(f)(4).
- See Form 2210 instructions for details. (Credit for withheld income tax is treated as payment of estimated tax. See IRM 20.1.3.3.1.4.)
- (6) For tax years beginning after December 31, 2012, the Health Care and Education Reconciliation Act of 2010 (*P.L. 111-152*) added IRC 1411 in Chapter 2A, Unearned Income Medicare Contributions. IRC 1411 provides for an additional tax of 3.8% on certain income. That tax is included in the definition of *total tax per taxpayer*, above. See IRC 6654(a) and IRC 6654(f). This new law also provides that, to the extent it is not withheld from wages, the new 0.9 percent medicare tax provided for under IRC 3101(b)(2) is also includible in total tax per taxpayer. See IRC 6654(m).
- (7) Credit elect, estimated tax payments and other payments, special tax rebates and refunds (including the credit for telephone excise tax in 2006), and credit for withheld tax, are not included when computing “tax shown on the return.”

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**Note:** Per IRC 6013(b)(1), a valid joint return, filed after either spouse has filed a separate return, is the original return of both spouses for the purpose of determining the penalty. All payments and credits with respect to the separate



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#20.1.3.3.1.7.1  
(12-10-2013)**Form 2210 or 2210-F**

- (1) Taxpayers may file Form 2210 or Form 2210–F to compute their penalty, depending on which form they qualify to use. The forms may be filed with a return, or after the IRS has notified the taxpayer of a penalty assessment.
- (2) Taxpayers are required to file Form 2210 with their return if they—
  - a. Request a waiver of the penalty;
  - b. Used the annualized income installment method to figure the required amounts of their installments;
  - c. Report income tax withholding when it was actually withheld, instead of dividing it equally among required installments;
  - d. Filed jointly in either the current or prior taxable year, but not in both; and
  - e. Certify that they are a qualifying small business taxpayer (for taxable years beginning in 2009 only).

Only page 1 is required to be filed in the case of d) and e) above.
- (3) Forms filed with the taxpayer’s return will be processed in accordance with the applicable IRM.
- (4) Loose forms, and forms received with an amended or superseding return, must be manually verified before the taxpayer’s figures are accepted. See IRM 20.1.3.3.1.7 for specific instructions.
- (5) When verifying Form 2210–F, care should be taken to ensure that the taxpayer is a qualifying farmer or fisherman. See IRM 20.1.3.3.1.1.8.
- (6) When verifying either Form 2210 or Form 2210–F, compare the tax shown on the original returns (or superseding return(s), if applicable) with the amounts used in the taxpayer’s computation. Remember, the penalty is computed based on original tax.

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- (7) Tax (for the purpose of computing the estimated tax penalty) is figured using the tax and credits as outlined in the Form 2210 instructions.
- (8) Special rules apply for figuring “tax shown on prior return” if the taxpayer filed jointly in one year but not both. See IRM 20.1.3.3.1.1.3.1, Changes in Filing Status.
- (9) If the taxpayer provides Form 2210 with his return in response to an SFR assessment (or proposed assessment), verify the taxpayer’s computation. If the figures on the taxpayer’s Form 2210 indicate that he had a tax liability for the previous year but failed to file a return (see Form 2210 line 8 instructions),

accept the taxpayer's figures even if IRS otherwise presumed no tax liability for the prior year. See IRM 20.1.3.3.1 (4).

- (10) IRS employees may use Form 2210 or Form 2210–F as a worksheet when computing the penalty for underpayment of estimated tax. Accounts Management Services (AMS) includes Form 2210 worksheets for calendar years beginning with 2009.

20.1.3.3.1.7.1.1  
(12-10-2013)  
**Verifying Credits on  
Master File**

- (1) Credits claimed by the taxpayer in his computation should be verified. This can be done using the appropriate CFOL or IDRS command codes (i.e., IMFOL, BMFOL or TXMOD). Review both the dollar amounts and the received dates of any payments. Do not use the taxpayer's figures if they do not match posted data.
- (2) IRC 7503 provides that when the last day for performing an act falls on a Saturday, Sunday, or legal holiday, the act is timely if it is performed on the next succeeding business day. If a taxpayer provides proof of timely mailing of an estimated tax payment, treat the payment as paid on the installment due date, regardless of when it was actually received. An installment that is mailed on or before its due date is considered paid on the earlier of the date it is

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**Note:** The term “timely mailing” requires that the payment must be postmarked on or before the installment due date, properly addressed, and with sufficient postage paid. The postmark may be by the U.S. Postal Service or by any private delivery service that qualifies as a “designated delivery service” under IRC 7502(f)(2). For a list of private delivery services designated by IRS, see the instructions for Form 1040, Form 1040A, U.S. Individual Income Tax Return, Form 1040EZ, Income Tax Return for Single and Joint Filers With No Dependents or Form 1041. Since payment envelopes are not retained by IRS, the postmark must be recorded by the taxpayer in the form of a certified mail receipt, or in the form of an electronic record of receipt maintained by the delivery service or U.S. Postal Service.

- (3) The net amount of all TC 80X transactions in a module reflects the total credit for withheld income tax posted in the module. The taxpayer's penalty computation may differ from our computation if we adjusted withholding credits on the taxpayer's return, and the taxpayer's Form 2210 does not reflect that change. To test for this condition compare the amount on line 6 of Form 2210 with the net amount of TC 80X credit allowed in the module. If the two amounts do not match, IRS has made an adjustment to withholding that is not reflected on the taxpayer's Form 2210.
- (4) Unreversed TC 716 and 710 transactions in a module reflect credit elect from other periods posted in the module. (TC 712 reverses TC 710 and 716 in whole or in part.)
- (5) Unreversed TC 430 and 660 transactions reflect estimated tax payments made with Form 1040–ES, Estimated Tax For Individuals, or Form 1041–ES, payment vouchers.



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20.1.3.3.1.7.2  
(03-31-2010)  
**Substitute For Return**

- (1) When a taxpayer fails to file a return for any year for which he is required to file, the Secretary is authorized to file a substitute for return (SFR) on the taxpayer's behalf under IRC 6020(b). For income tax returns, the assessment of tax determined to be due on such a substitute return is made after the Service has issued a notice of deficiency which explains the taxpayer's appeal rights.
- (2) When a taxpayer has not filed a return, then the estimated tax penalty to be included in such notice of deficiency is based on the lesser of the following:
  - a. 90% of the tax for the current year (rather than tax *shown* on the return for the current year), or
  - b. 100% of the tax *shown* on the previous year's return. (This does not apply if the taxpayer has not filed a return for the previous year, or if the return for the previous year was not for 12 months.)

**Note:** The percentage of prior year tax may be higher for certain high income taxpayers. See Form 2210 instructions and IRM 20.1.3.3.1.1.

**Reminder:** The penalty does *not* apply if the conditions in IRC 6654(e)(2) are met. See IRM 20.1.3.3.1 (4).

- (3) Taxpayers who disagree with an SFR assessment often will file their own return showing a lesser amount of tax. The IRS is not obligated to consider such a return unless that taxpayer has previously paid the SFR assessment. However, in the interest of customer service and burden reduction, the IRS will generally consider on its merit any return filed by the taxpayer.
- (4) When an SFR assessment is adjusted (increase or decrease) after an SFR assessment (including if based on the taxpayer's own return), the estimated tax penalty may be required to be manually adjusted based on the revised tax for the year.
  - a. If tax is adjusted without the taxpayer having filed a return, recompute the penalty per (2) above.
  - b. If tax is adjusted after the taxpayer filed a return in response to the SFR assessment, recompute the penalty based on the tax shown on the taxpayer's own return.

**Exception:** Do not use tax shown on the return to recompute the penalty if the taxpayer's return is not accepted as filed (math error corrections excepted). Instead, recompute the penalty per (2) above.

20.1.3.3.1.7.3  
(07-23-2020)

**Household Employment Taxes and Estimated Tax Penalty**

- (1) Household employment taxes, Schedule H, are includible in tax shown on the return unless both of the following apply:
  - a. The taxpayer has no credit for withheld income tax, and
  - b. The total tax shown on the return (excluding Schedule H tax) is less than \$1,000.
- (2) IRC 3510(b)(2) provides that household employers who are not subject to income tax withholding, and who are not otherwise required to make estimated tax payments, will not be subject to the estimated tax penalty solely by reason of having to include household employment tax on their return.

20.1.3.3.2  
(03-31-2010)

**Adjustments after Penalty Assessment**

- (1) With the exception of SFR assessments, the estimated tax penalty is based on tax shown on the original return (or shown on a superseding return filed prior to the return due date). Therefore, most adjustments after penalty assessment are based on taxpayer requests for abatement.
- (2) This section will discuss the procedures and criteria for abatement or waiver of estimated tax penalties.
- (3) See IRM 20.1.3.3.1.7.2 for rules for adjusting the penalty after SFR assessments.
- (4) See IRM 20.1.3.3.1.1.2 for rules for adjusting the penalty when two taxpayers file a joint return if either spouse previously filed separately for that year.

20.1.3.3.2.1  
(03-31-2010)

**Evaluating Claims for Abatement or Waiver of Estimated Tax**

- (1) Specific waiver provisions of the estimated tax penalty were adopted under IRC 6654(e).
- (2) Waivers are sometimes granted by legislation, regulation, or administrative pronouncements to provide relief from estimated tax penalties created by the retroactive application or a change in statute or Service position.
- (3) All penalty abatement or waiver requests must be in writing, and if not part of the return, must be signed by the taxpayer.
- (4) If the taxpayer qualifies under the waiver criteria, take the necessary action to suppress or adjust the penalty as appropriate.
- (5) When a determination is made to cancel an estimated tax penalty because the individual is entitled to a waiver, the appropriate penalty reason code must be entered either on the case file or the input document and entered into the Master File. See IRM 20.1.3.2.2.
- (6) Requests to verify the accuracy of a penalty computation do not need to be in writing, even if they result in the abatement of all or part of the penalty.

**Example:** A taxpayer contacts IRS because his tax preparation program computed a penalty of \$70 after he entered an incorrect amount for prior year tax. In verifying the taxpayer's figures, the IRS contact representative determines that no penalty is due. The contact representative can abate the incorrectly assessed penalty without a written claim because he is able to verify independently that the penalty is incorrect.

20.1.3.3.2.1.1  
(03-31-2010)  
**Waiver of the Estimated Tax Penalty Due to Retroactive Law Change**

- (1) Occasionally a law is enacted that has retroactive tax consequences. When this happens, the law often includes a provision under which the estimated tax penalty may be waived to the extent that the penalty is a direct result of the change in the law.
- (2) To claim a waiver based on a change to the tax law, the affected taxpayers should do the following:
  - a. Compute the penalty (by completing Form 2210 or Form 2210–F) on the basis of the law in effect before the changes were made, and on the basis of the law in effect after the changes were made. The penalty amount eligible for the waiver is the difference between the two computations.
  - b. If Form 2210 or Form 2210–F is being filed because a waiver for only part of the penalty is requested, follow the instructions for completing the form with a partial waiver request.
  - c. The taxpayer should attach an explanation showing his or her computation, the amount of penalty to be waived, and what caused the tax increase and related underpayment of estimated tax.

20.1.3.3.2.1.2  
(07-23-2020)  
**Waiver Criteria Under IRC 6654(e)(3)(A)**

- (1) IRC 6654(e)(3)(A) provides that the estimated tax penalty may be waived if the failure to make the estimated tax payment is due to casualty, disaster, or other unusual circumstances such that the imposition of the penalty would be against equity and good conscience.
- (2) The waiver provisions of IRC 6654(e)(3)(A) are **not** equivalent to reasonable cause. For example, reliance on the advice of a competent tax advisor may constitute reasonable cause that would warrant relief from other penalties, but it does not provide a basis for a waiver of the estimated tax penalty under IRC 6654(e)(3)(A).
- (3) In order for the waiver to be available, both of the following conditions must be met:
  - a. The taxpayer’s failure to comply with the estimated tax requirements was due to casualty, disaster or other unusual circumstances, and not due to any other reason.
  - b. Given all the facts, it would be against equity and good conscience to apply the penalty.

**Reminder:** A recurring circumstance is not an unusual circumstance.

- (4) The following are examples of situations where the waiver may be granted **if** it is determined that imposition of the penalty would be against equity and good conscience:
  - a. The taxpayer’s records are destroyed by fire or flood or other natural disaster. Please note, however, that in most instances of natural disaster, area wide guidance on conditions for waivers are issued, and waivers are automatically implemented via programming without taxpayer intervention. See IRM 20.1.3.2.7.2.1.
  - b. The taxpayer becomes seriously ill or is seriously injured and is unable to manage his affairs.
  - c. The taxpayer designates that an overpayment of tax shown on a prior return is to be credited against estimated tax, but the overpayment is

offset for either past-due child support or non-tax federal debt under IRC 6402(c), and the taxpayer is not notified of the offset before the due date of the estimated tax installment.

- d. Taxpayers file a joint original return, then they file separate “amended” returns based on community property laws and the amended returns incorrectly suggest that one taxpayer was under-withheld.

**Example:** Tim and Tom are California registered domestic partners. Tim is a “stay at home” partner with no taxable income. Tom’s original return reflected \$15,000 tax and \$16,000 withholding. Tim and Tom are filing virtually identical “amended” returns (based on community property laws) reflecting \$6,800 tax and \$8,000 withholding. Tim’s amended return (which is also his original) reflects a refund of \$1,200. Tom’s amended return reflects a refund of \$200 in addition to the \$1,000 refund already received. Based on original tax of \$15,000 and amended withholding of \$8,000 Tom could be assessed a penalty of \$146.29.

**Note:** This list of examples is not all-inclusive. There may be other examples where the provisions in paragraph (3) above have been met.

- (5) The waiver may **not** be granted if the failure is due to any of the following:
  - a. Reliance on the advice of a competent tax advisor.
  - b. Retroactive application of a statute or regulation unless the statute or regulation specifically grants a waiver of the estimated tax penalty or the Service announces in the Internal Revenue Bulletin that such a waiver has been granted.
  - c. Erroneous advice from the IRS unless such advice falls within the provisions of Treas Reg. 301.6404-3, and or within the provisions of IRC 6404(f), Abatement of Any Penalty or Addition to Tax Attributable to Erroneous Written Advice by the Internal Revenue Service.
  - d. Lack of funds or when the lack of estimated tax payments points toward a lack of making any attempt to estimate the tax liability.
- (6) The waiver also may **not** be granted if (based on the facts of the case) it would **not** be against equity and good conscience to assess the penalty. Generally speaking, it would not be against equity and good conscience to impose the penalty if either of the following apply:
  - a. The circumstance that prevented compliance was reasonably foreseeable, or
  - b. The taxpayer’s actions (or lack thereof) after the circumstance are evidence that the taxpayer is not making a reasonable effort to comply with the estimated tax requirements.

The following are some examples that may demonstrate these types of case when all relevant facts are considered:

- a. *Scheduled* surgery might be considered a “serious illness” for the purpose of requesting a waiver. However, the fact that the surgery is scheduled, and that any associated recovery time is also foreseeable, means that the taxpayer could have made arrangements prior to surgery to pay the estimated tax on time.
- b. A taxpayer whose house burned down and whose funds had to be used to cover basic additional living expenses while waiting for an insurance settlement normally would qualify for a waiver. However, if the taxpayer’s

funds were used to replace non-essential (luxury) items, then his actions demonstrate that he is not making a reasonable effort to comply with the estimated tax requirements.

- c. Same situation as in b) above, except that in this case the taxpayer fails to make up for missed estimated tax payments after he receives his insurance settlement. This would, again, demonstrate that he is not making a reasonable effort to comply with the estimated tax requirements.

**Example:** Joe and Jim are California registered domestic partners. Joe is self-employed with total tax of \$8,000 and zero withholding reflected on his original return. Joe was assessed a \$191.54 ES penalty based on his original return. Jim is a wage earner with total tax of \$12,000 and \$10,800 withholding reflected on his original return. Joe’s amended return reflects \$11,500 total tax and \$5,400 withholding. ES penalty would recompute to \$0 (below tolerance) as a result of the withholding. Jim’s amended return reflects total tax of \$8,500 and \$5,400 withholding. ES penalty of \$143.67 will be charged based on original tax of \$12,000 and adjusted withholding of \$5,400. Asserting the penalty against Jim is not against equity and good conscience because he would have been subject to an ES penalty if he had filed correctly from the beginning, while Joe’s penalty is reduced because of the withholding he was correctly entitled to on the original return.

- (7) Requests for a waiver of the estimated tax penalty under IRC 6654(e)(3)(A) must be submitted in writing and signed by the taxpayer. Waivers may not be granted based on an oral request from the taxpayer. Waiver of the penalty must be specifically approved by a manager or designee with delegated authority.

20.1.3.3.2.1.2.1  
(12-10-2013)  
**Making Work Pay (MWP)  
Credit**

- (1) Advance payment to taxpayers of the MWP credit was implemented in March 2009 by adjusting the federal income tax withholding tables. The amount withheld from wages and pensions was reduced so that a single taxpayer would have \$400 less withheld during the year, while a married taxpayer would have \$600 less withheld during the year.
- (2) While, in general, no taxpayer should be assessed an estimated tax penalty as a result of this change, there is a theoretical possibility that taxpayers working multiple jobs concurrently will become subject to the penalty as a result of the withholding table changes. For the purpose of waiver requests, this *may* constitute an “unusual circumstance” for periods beginning or ending in 2009 or 2010.

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- (5) If the waiver request is allowed after the penalty was assessed, adjust the penalty to the “after waiver” amount with TC 171, Reason Code 065, Penalty Reason Code 043.
- (6) If the waiver request is denied after the penalty was assessed, file the request with TC 290 for zero amount, Blocking Series 98 (without return) or Blocking Series 99 (with return). Inform the taxpayer of the reason for the denial and his appeal rights via letter 854C. Attach a copy of letter 854C to the request.

**Note:** If the original return was electronically filed, do not use Blocking Series 98 unless the controlling DLN Doc Code is 47, 51 or 54. Instead, use Blocking Series 99 and attach the appropriate printed transcript (IMFOLR, BMFOLR, TRDBV, RTVUE or BRTVU), or graphic print for modernized e-file returns.

- (7) Requests identified during pipeline processing of the original return will be processed according to the instructions in IRM 3.11.3.14.3.5, Line 24—Estimated Tax Penalty (Form 2210 or Form 2210F) and IRM 3.12.3.31.1.3, Correction Procedures (EC 364).

20.1.3.3.2.1.3  
(12-10-2013)  
**Waiver Criteria Under  
IRC 6654(e)(3)(B)**

- (1) A taxpayer may be eligible for a waiver of the penalty under IRC 6654(e)(3)(B) if **both** of the following apply:

- a. During the current or preceding taxable year the taxpayer retired after having attained age 62, or became disabled, **and**
- b. The underpayment is due to reasonable cause and not willful neglect.

Reasonable cause, as it applies to the estimated tax penalty for an individual, is considered only when the individual meets the conditions in both a) and b) above, and then only to determine if the taxpayer is eligible for the statutory waiver of the penalty. See IRM 20.1.1.3, Criteria for Relief from Penalties.

- (2) If an individual qualifies for this statutory waiver, the estimated tax penalty should be abated using Reason Code 065, with Penalty Reason Code 044 to identify the abatement.
- (3) If the individual does not meet the waiver conditions in both a) and b) above, send an 854C letter using the appropriate paragraph(s) informing the taxpayer of the reason for denial and explaining his or her appeal rights. Input TC 290 for zero with Blocking Series 98 (without return) or 99 (with return) and Reason Code 065.

**Note:** If the original return was electronically filed, do not use Blocking Series 98 unless the controlling DLN doc code is 47, 51, or 54. Instead, use Blocking Series 99 and attach the appropriate printed transcript (IMFOLR, BMFOLR, TRDBV, RTVUE, or BRTVU), or graphic print for modernized e-file returns.

20.1.3.3.2.1.4  
(03-31-2010)  
**Individual Retirement Account (IRA Rollovers Into Roth IRAs)**

- (1) A taxpayer may convert a traditional IRA into a Roth IRA. If a taxpayer converts a traditional IRA to a Roth IRA the amount converted into a Roth IRA should be divided equally between all four quarters.

20.1.3.4  
(03-31-2010)  
**IRC 6655—Corporations and Others Not Covered by IRC 6654**

- (1) IRC 6655 imposes an addition to tax when a corporation (C or S), private foundation, private foundation organized as a trust, or tax exempt organization makes an underpayment of estimated tax. IRC 6655 also applies to qualified settlement funds described in 26 CFR 1.468B-1.

20.1.3.4.1  
(07-23-2020)  
**Assertion Criteria**

- (1) A corporation (or other entity subject to IRC 6655) must make estimated tax payments if its tax shown on the return (income tax minus credits) is \$500 or more.
- (2) If no return is filed, the corporation must make estimated tax payments if its tax for the taxable year is \$500 or more.

20.1.3.4.1.1  
(03-31-2010)  
**Determining the Required Payment Amount**

- (1) For tax periods that begin after 12/31/1993, corporations, certain tax exempt organizations with unrelated business taxable income, and private foundations with certain excise tax or tax on investment income, are required to prepay the lesser of the following:
  - a. 100 percent of the tax shown on the return for the taxable year, or
  - b. 100 percent of the tax shown on the return for the preceding taxable year.

**Note:** See Exhibit 20.1.3-3 for the required annual payment for periods that begin before 1/1/1994 but after 12/31/1987. See the specific instructions for Form 2220 for tax periods that begin prior to 1/1/1988.

- (2) The required annual payment amount may **not** be based on prior year tax if the return for the prior year showed a tax liability of zero.

**Example:** Corporation “A” (not a large corporation; see IRM 20.1.3.4.1.1.7) reported a loss and zero tax on its 2006 return. Rev. Rul. 92-54, 1992-2 C.B. 320, states that IRC 6655(d)(1)(B)(ii) (which allows a taxpayer to base required installment payments of estimated tax on the tax shown on the return for the preceding taxable year) does not apply if the return for the preceding taxable year showed \$0 tax liability. Therefore, corporation “A” may not use the 2006 tax to determine the required amount of tax year 2007 ES payments. The required annual estimated tax payment is 100% of 2007 tax.

- (3) The required annual payment amount also may **not** be based on prior year tax if the prior tax year was not for a full 12 month period.

**Example:** Corporation “B” was organized in February of 2006 and filed a short period initial return for the period ending 12/31/2006, reflecting total tax of \$2,000. Because the corporation’s tax year ending 12/31/2006 is for a period of less than 12 months, the corporation may not use the 2006 tax to determine the required amount of tax year 2007 ES payments. The required annual estimated tax payment is 100% of the 2007 tax.

- (4) Corporations may use Form 1120–W, Corporation Estimated Tax Worksheet, to determine the amount of the required payment for either the regular, annualized income installment, or the adjusted seasonal installment method. Tax exempt organizations may use Form 990–W, Estimated Tax on Unrelated Business Taxable Income for Tax-Exempt Organizations. These forms are designed to assist the corporation and should not be filed with the Internal Revenue Service.
- (5) Corporations may choose to use the annualized income installment method to compute their required annual payment. The annualized income installment method can result in a lower required annual payment if a disproportionately large fraction of the taxpayer’s tax liability is incurred *after* the final annualization period: Under the annualized income installment method, the required annual payment is determined by annualizing the tax liability for the first 9 to 11 months of the taxable year, without respect to that portion of the tax liability incurred in the final 1 to 3 months. See IRM 20.1.3.4.1.1.10.
- (6) If a corporation wants to use certain annualization periods for estimated tax purposes, it must make an election on Form 8842, Election to Use Different Annualization Periods for Corporate Estimated Tax, by the due date of the first estimated tax installment (the 15th day of the 4th month of the year for which the election is being made).

20.1.3.4.1.1.1  
(03-31-2010)

**Annual Payment  
Requirement Where the  
Tax is Small**

- (1) A corporation is not required to make estimated tax payments if the tax shown on the return (or, if no return is filed, the tax) is less than \$500.

20.1.3.4.1.1.2  
(03-31-2010)

**Short Taxable Years**

- (1) Corporations (and other taxpayers subject to IRC 6655) file short period returns for various reasons. Estimated tax payments are still required unless they are otherwise exempt:
  - a. A corporation is not required to make estimated tax payments if the tax shown on the return (or, if no return is filed, the tax) is less than \$500.
  - b. If sufficient income to meet the estimated payment requirements is not earned until the last month of a short taxable period, the corporation is not required to make estimated tax payments prior to the last month. However, the corporation is required to file a Form 2220, with supporting worksheet, showing the annualization of the income. Additionally, it must pay all estimated tax on or before the 15th day of the last month of the short taxable year.
- (2) In the case of a short taxable year, the installment due dates are determined by the number of months in the taxable year and by the type of taxable year the taxpayer has chosen. For the purpose of determining the due date of any required installment for a short taxable year, a partial month is treated as a full month.
  - a. In the case of a calendar year filer, the due dates are the 15th day of April, June, September and December.
  - b. In the case of a fiscal year filer, the due dates are the 15th day of the 4th, 6th, 9th and 12th month of the taxable year, as determined by the last month of the chosen fiscal year, and not by the first month of the short taxable year.

- c. The due dates for private foundations and charitable organizations taxed at the corporate rate are the same as for corporations, except that the due date of the first installment is the 15th day of the 5th month.
- d. If the first required installment determined under a) or b) above is earlier than the 15th day of the 4th month of the short taxable year, the first required installment shall be the next required installment determined above.

**Example:** Corporation "A" files its initial return for the period beginning February 19, 2008. It has elected to use a calendar year. Normally the due dates for a calendar year filer are the 15th day of April, June, September and December. However, because April 15, 2008, is earlier than the 15th day of the fourth month in this short taxable year, the first required installment is due June 15, 2008.

- e. If a taxable year ends early (for example, as a result of an acquisition, or a change in taxable year), the due date for the final required installment is the date that would have been the due date for the next required installment if the event that gave rise to the short taxable year had not occurred. However, if this date is within 30 days of the last day of the short taxable year, the due date for the final required installment is the 15th day of the 2nd month following the month that includes the last day of the short taxable year.

**Example:** 1) Corporation "B," a calendar year filer, was acquired by corporation "C" on July 29, 2008. The installment due dates are April 15, 2008, June 15, 2008, and September 15, 2008.

**Example:** 2) Same as in example above, except that the acquisition date now is August 29, 2008. The installment due dates now are April 15, 2008, June 15, 2008, and October 15, 2008. Because September 15, 2008, is within 30 days of the last day of the short taxable year (August 29, 2008), the due date of the final installment is now the 15th day of the second month following the month that includes the last day of the short taxable year.

- (3) If a taxpayer filing a short period return wishes to use tax from the prior year to determine the required annual payment, the tax for the prior period must be adjusted by dividing the tax by 12 and multiplying the result by the number of months in the short period.
- (4) Taxpayers may elect to use the annualized income or the adjusted seasonal income installment method for computing the amount required to be paid with each installment. If neither of these methods is used, the corporation must pay a percentage of the required annual payment with each installment, with the percentage determined by the number of required installments:
  - a. If four installments are required, the percentage is 25%.
  - b. If three installments are required, the percentage is 33.33%.
  - c. If two installments are required, the percentage is 50%.
  - d. If one installment is required, the percentage is 100%.

**Exception:** If the taxpayer does not reasonably expect that the taxable year will be an early termination year, then the required installment percentage is

25% of the expected required annual payment, with the balance of the actual required annual payment to be paid with the last installment.

**Note:** It is important to note that following the exception above (when computing the penalty) does not provide an advantage to the taxpayer, as shown in the following example.

**Example:** Corporation “Q” is acquired unexpectedly on July 31, 2008 by Corporation “R.” Corporation “Q,” not a “large” corporation, had *expected* to pay its estimated tax based on the tax shown on the previous year’s return, which was \$90,000. Under paragraph (3) above, the required annual payment is \$90,000 divided by 12 times 7, which is \$52,500. The due dates for payment of estimated tax are April 15, 2008, June 15, 2008, and September 15, 2008. Based on an expected required annual payment of \$90,000, the taxpayer would have paid \$22,500 each on April 15 and June 15, with the balance of \$7,500 due September 15. As you can see, these installments would result in a greater penalty than using 33.33% of the required annual payment, which is \$17,500, per installment.

**Reminder:** A penalty involving a short taxable year must **always** be computed and adjusted manually.

20.1.3.4.1.1.3  
(07-23-2020)

#### Domestic Corporations

(1) Domestic corporations shall be required to make estimated tax payments based on the excess of the sum of the following tax(es) over any credit(s) allowed under IRC 27 through IRC 54:

- IRC 11—Tax Imposed on Income
- IRC 1201(a)—Tax on Base Erosion Payments of Taxpayers with Substantial Gross Receipts
- *Subchapter L of Chapter 1 of the Internal Revenue Code*—Insurance Companies
- IRC 55—Alternative Minimum Tax Imposed
- IRC 59A—Antiabuse Tax Credit
- IRC 887—Imposition of Tax on Gross Transportation Income of Nonresident Aliens and Foreign Corporations

**Note:** In the case of a foreign corporation subject to taxation under IRC 11, IRC 1201(a), and subchapter L of Chapter 1, the tax imposed by IRC 881 is to be treated as a tax imposed by IRC 11. See IRM 20.1.3.4.1.1.4.

**Note:** For taxable years beginning after 12/31/2017, neither IRC 1201(a) - Alternative Tax for Corporations, nor IRC 55 - Alternative Minimum Tax Imposed are counted when identifying the amount of required estimated tax payments.

**Caution:** Care should be taken to ensure that any additional tax assessed by reason of IRC 1363(d), Recapture of LIFO Benefits, is not included in the estimated tax penalty computation. Per 26 CFR 1.6655-1(g)(2)(iii), a recapture tax is not considered to be a tax imposed by IRC 11.

20.1.3.4.1.1.3.1  
(07-23-2020)  
**IRC 847 Deduction**

- (1) In the case of taxable years beginning after December 31, 1987, until taxable years beginning after December 31, 2017 of an insurance company required to discount unpaid losses, an additional deduction may be allowed under IRC 847 paragraph (1). If the deduction is taken, the ES penalty must be computed after recomputing tax without taking into account that deduction.

20.1.3.4.1.1.4  
(07-23-2020)  
**Foreign Corporations**

- (1) A foreign corporation must make estimated tax payments in the same manner, and on the same taxes, as a domestic corporation described in IRM 20.1.3.4.1.1.3 above with certain modifications.
- (2) A foreign corporation subject to tax under IRC 11, 1201(a), or subchapter L of Chapter 1 must treat the tax imposed under IRC 881, Tax on Income of Foreign Corporations not Connected with United States Business, as a tax imposed by IRC 11 on which estimated tax payments also must be made. A foreign corporation not subject to tax under IRC 11, 1201(a), or subchapter L of Chapter 1 is not required to make estimated tax payments on taxes imposed under IRC 881.

**Note:** For taxable years beginning after 12/31/2017, neither IRC 1201(a) - Alternative Tax for Corporations, nor IRC 55 - Alternative Minimum Tax Imposed are counted when identifying the amount of required estimated tax payments.

- (3) For taxable years beginning after December 31, 1994, taxpayers using the annualization method to compute estimated tax payments must take into account income under IRC 951(a) in a manner specified in IRC 6655(e)(4). For more information, see Rev. Proc. 95-23.
- (4) Only tax listed above is includible in total tax for the purpose of determining the required annual payment amount for a foreign corporation. For example, branch profits tax is not includible. See 26 CFR 1.884-1(a) and IRM 21.8.2.9.3 (3), Payment of Tax Due-Form 1120-F.

20.1.3.4.1.1.5  
(03-31-2010)  
**Tax Exempt Organizations and Private Foundations**

- (1) IRC 6655(g)(3) requires the payment of estimated tax for tax on unrelated business income of tax exempt organizations and private foundations. Private foundations are also required to pay estimated tax for all tax on their other taxable income and for any excise tax based on investment income.

20.1.3.4.1.1.5.1  
(12-10-2013)  
**Form 990-T, Exempt Organization Business Income Tax Return, Redetermination**

- (1) When it is determined that a Form 990-T filer should have filed Form 1120 instead, the estimated tax penalty for Form 1120 must be manually adjusted. For the purpose of the estimated tax penalty, the tax shown on the original Form 990-T is deemed to be the tax shown on the corporation's return for that year.

**Exception:** If the corporation files a superseding return prior to the due date for filing, the tax shown on the superseding return is the tax shown on the return for that year.

- (2) Any ES penalty initially assessed based on the Form 990-T filing may be left on the Form 990-T account, or it may be abated and re-assessed on the Form 1120 account. If an ES penalty was not assessable when Form 990-T was first processed, a penalty also should not be assessed against Form 1120:

- a. Enter CCC "8" on Form 1120 prior to processing if the ES penalty is to remain on the Form 990-T account, or if an ES penalty should not be assessed. Also remember to input TC 170 for zero amount on the Form 990-T account when moving payments from Form 990-T to Form 1120.
- b. Enter the Form 990-T ES penalty amount on the ES penalty line on Form 1120 prior to processing if an ES penalty should be assessed, and the penalty has been abated on the Form 990-T account.
- c. If Form 1120 will not be sent through normal return processing, and the ES penalty has been abated on the Form 990-T account, then manually adjust the ES penalty on the Form 1120 account to the Form 990-T ES penalty amount.
- d. When computing the ES penalty, all ES payments made for Form 990-T must be taken into consideration.
- e. If the corporation filed Form 990-T for the preceding year, any tax shown on that return is the tax shown on the return for the preceding year for the purpose of determining the required annual payment. See IRM 20.1.3.4.1.1.

20.1.3.4.1.1.6  
(03-31-2010)  
**Sub-chapter  
S-Corporations**

- (1) Effective for taxable years beginning after December 31, 1989, IRC 6655(g)(4) requires that certain taxes shall be treated as taxes imposed by IRC 11. Estimated tax payments are required by S-corporations based on the following taxes:
  - a. IRC 1371(d)(2), recapture of investment credit taken before the corporation was a S-corporation.
  - b. IRC 1374(a), tax imposed on certain built-in gains.
  - c. IRC 1375(a), tax imposed when passive investment income of corporation having accumulated earnings and profits exceeds 25 percent of gross receipts.
- (2) The required annual payment for S-corporations is the lesser of the following:
  - a. Total tax shown on the return for the current year, or
  - b. The sum of tax shown on the current return due to a) and b) in paragraph (1) above, plus the tax shown on the return for the previous year due to c) in paragraph (1) above.

20.1.3.4.1.1.7  
(07-23-2020)  
**Large Corporations**

- (1) Large corporations, for tax years beginning after December 31, 1993, are required to pay 100 percent of the current year's tax.
  - a. A large corporation may use 100 percent of prior year tax liability to determine the estimated tax payment required for only the first installment of any tax year (IRC 6655(d)(2)(B)). The prior year tax liability may not be used if the tax was zero. See IRM 20.1.3.4.1.1 (2).
  - b. When the first estimated tax payment is based on 100 percent of the prior year's tax liability, and that payment is less than the applicable percentage for the current year's tax liability, the difference must be added to what would otherwise be the required payment (applicable percentage for the current year's tax liability) for the second quarter installment.

**Example:** A large corporation with \$400,000 tax in 2016 and \$600,000 tax in 2017 must make \$600,000 in estimated tax payments during the year. If the corporation pays the minimum required amount of \$100,000 as its first installment, the difference between that amount and the amount that would otherwise be due must be made up with the second payment.

This means (unless the taxpayer uses the annualized or adjusted seasonal method for figuring required installment amounts) the taxpayer's second estimated tax payment would need to be \$200,000:  $(\$150,000 - \$100,000) + \$150,000$ .

- (2) A large corporation is defined as a corporation (or its predecessor) having taxable income of \$1,000,000 or more during any of the 3 years preceding the taxable year.
- (3) If any of the three preceding years of a corporation were less than a full year, the corporation must multiply the taxable income for the short year by 12 and divide the resulting amount by the number of months in the short year to determine if it meets the \$1,000,000 criterion for a large corporation.
- (4) For corporations that are members of a controlled group, the \$1,000,000 amount specified shall be equally divided among the members of the controlled group, unless all members agree to an unequal allocation of the amount. *Schedule O* (Form 1120), Consent Plan and Apportionment Schedule for a Controlled Group, Part IV, column (e), is used to report the allocation of the amount.

**Note:** Large corporations are supposed to file Form 2220 with their return and check the appropriate box on that form (box 8 on the 2011 Form 2220) if the first installment is based on the prior year tax liability. Reserve Code "4" (shown on page R1 of command code BRTVU) signifies that the "large corporation" box was checked.

- (5) Large corporation taxable income is determined without regard to any net operating loss or capital loss carried forward or back to the taxable year under IRC 172 or IRC 1212(a).

20.1.3.4.1.1.8  
(07-23-2020)  
**Tax Withheld by  
Partnerships Under IRC  
1446**

- (1) Partnerships with foreign partners are required to withhold income tax on all effectively connected taxable income (ECTI) allocable to its foreign partner(s) under IRC 704. The partnership reports the total tax due on Form 8804, Annual Return for Partnership Withholding Tax (Section 1446).
- (2) Tax due on Form 8804 is required to be paid as estimated tax following essentially the same rules as those existing for corporations, except as modified by 26 CFR 1.1446-3(b).
- (3) For specifics regarding the estimated tax requirements, and regarding the computation of the penalty, see the *instructions for Schedule A* (Form 8804).

- (5) The following are the requirements a partnership must have met in order to qualify for the prior year safe harbor:
  - a. The partnership information return Form 1065, U.S. Return of Partnership Income, for the prior year must have been filed on time (including extensions).

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- b. The prior taxable year must have been a full year comprising 12 months.
- c. The ECTI for the prior year must have been at least 50% of ECTI for the current year.
- d. The average of the total of estimated tax installments paid by the due date of any installment must be at least 25% of prior year tax computed without regard to the adjustments allowed under 26 CFR 1.1446-6.

**Example:** If the prior year ended 12/31/2009, prior year tax would be computed by finding the sum of the following on Form 8804:

- Line 4a times the percentage on line 5a
- Line 4e times the percentage on line 5b
- Line 4i times the percentage on line 5c
- Line 4m times the percentage on line 5d
- Line 4q times the percentage on line 5e

- (6) The partnership may elect to use the annualized income installment method or the adjusted seasonal method, in lieu of the safe harbor method. If the taxpayer elects to use the safe harbor method, that method must be used for all installments, with one exception: If, in an installment period following the first installment, the partnership determines that current year ECTI will exceed twice prior year ECTI, then the partnership may elect to change the installment method at that time to the annualized income installment method. The election to make this change must be disclosed in a statement attached to the Form 8804 the partnership files for the taxable year and must include information to allow the IRS to determine whether the change was appropriate.
- (7) A partnership may claim credit on its return for the following:
  - a. Tax withheld and paid under IRC 1446 by another partnership in which it was a partner.
  - b. Tax withheld and paid under IRC 1445(a) or under IRC 1445(e)(1)(B).
  - c. Tax withheld and paid under IRC 1446(f)

Unlike tax withheld for individual income tax, there is no provision in the law or in regulations that provides for the equal distribution of this credit among installment due dates. The credit should be used in the penalty computation effective with the date(s) of the payment(s) it represents.

- (8) Tax withheld is credited with TC 766 and removed with TC 767, using the appropriate credit reference number:
  - Credit Reference Number 331 is used for IRC 1446 withholding.
  - Credit Reference Number 332 is used for IRC 1445 withholding.

When adjusting withholding credit, the estimated tax penalty must be manually recomputed (and adjusted, if applicable).

20.1.3.4.1.1.9  
(03-31-2010)

#### Equal Installments

- (1) Unless the taxpayer elects to use the annualized or adjusted seasonal method to determine its required installment amounts, the taxpayer is required to pay the total required annual payment in equal installments paid on each installment due date. The amount of each installment is determined by dividing the required annual payment by the number of installments due.
- (2) Exceptions to the equal installment rule:

- a. If a taxpayer's taxable year is an unexpected short termination year, the amount due for each installment except the last is computed by dividing the required annual payment by the number of expected installments. The amount due for the last installment is computed by subtracting the total previous installments from the required annual payment amount.
- b. Large corporations may base the amount of their first installment on the previous year's liability. If this amount is less than what would otherwise have been due, the difference must be made up with the second installment.

20.1.3.4.1.1.10  
(07-23-2020)  
**Annualized or Adjusted Seasonal Method of Determining the Required Payment**

- (1) A corporation may be able to lower one or more of its required deposits if its income is expected to vary during the year. In general, if a corporation establishes that either the annualized or adjusted seasonal method can reduce its required installment from what it would be if the regular method were used, the corporation may pay the lesser amount.
- (2) The corporation must attach a completed Form 2220 to its return if the annualized or adjusted seasonal method of determining the payment is used.
- (3) A corporation that reduces any required installment by annualizing its income, then switches to another method to determine a required deposit, must recapture 100 percent of any prior reduction in the next installment using the other method.
- (4) The annualized income installment for a corporation is the excess of—
  - a. For the first 3 months (2 months in the case of exempt organizations) of the taxable year, in the case of the first required installment,
  - b. For the first 3 months of the taxable year, in the case of the second required installment,
  - c. For the first 6 months of the taxable year, in the case of the third required installment, and
  - d. For the first 9 months of the taxable year, in the case of the fourth required installment

over the aggregate amount of any prior required installments for the taxable year.
- (5) A corporation may elect to use different annualization periods. To make this election, the corporation must complete Form 8842, Election to use Different Annualization Periods for Corporate Estimated Tax, and file it by the due date of the first installment (by the 15th day of the 4th month of the year for which the election is being made).
- (6) It should be noted that the required annual payment under the annualized method does not take into consideration any tax liability incurred in the final 1 to 3 months. This means that when a disproportionately large fraction of a taxpayer's tax liability is incurred *after* the final annualization period, the required annual payment can be less than it would be if the annualized income installment method is not used.

20.1.3.4.1.1.11  
(03-31-2010)  
**Special Estimated Tax  
Payment Requirements**

- (7) The amount of a required installment under the adjusted seasonal method is based on the average rate income is received during the preceding three taxable years. For the specific computation, see Form 2220 Schedule A Part I.
- (8) Form 2220 Schedule A must be completed and attached to the return if the taxpayer chooses to compute the required installment amount using the adjusted seasonal installment method or using the annualized income installment method.
- (1) The Economic Growth and Tax Relief Act postponed the due date of any estimated tax installment normally due on September 15, 2001, until October 1, 2001.
- (2) The Jobs and Growth Tax Relief Reconciliation Act postponed the due date of 25% of the estimated tax installment normally due on September 15, 2003, until October 1, 2003.
- (3) The Tax Increase Prevention and Reconciliation Act of 2005 increased the amount of the installment due in July, August, or September of 2006 to 105% of the amount that would otherwise be due, with the required amount of the succeeding installment being reduced accordingly. This special provision applies to corporations with assets of not less than one billion dollars.
- (4) The Amendment to African Growth & Opportunity Act of 2012 increased the amount of the installment due in July, August, or September of 2017 to 100.25% of the amount that would otherwise be due, with the required amount of the succeeding installment being reduced accordingly. This special provision applies to corporations with assets of not less than one billion dollars.

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20.1.3.4.1.1.12  
(08-25-2017)  
**Amended Prior Year  
Return**

- (1) In general, the term “tax shown on the return for the preceding year” in IRM 20.1.3.4.1.1 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 effective 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 total tax. On April 15, 2017, X filed its 2016 return showing \$5,000 total tax. Because the original 2015 return showed zero tax, under 26 CFR 1.6655-1(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 20.1.3.4.1.1 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)  $\$5,000 \times 25\% = \$1,250$ ;
- (2)  $\$2,000 \times 25\% = \$500$ ;
- (3)  $\$2,000 \times 25\% = \$500$ ;
- (4)  $\$2,000 \times 25\% = \$500$ .

**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 total tax. On April 15, 2017, Y filed its 2016 return showing \$10,000 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)  $\$10,000 \times 25\% = \$2,500$ ;
- (2)  $\$10,000 \times 25\% = \$2,500$ ;
- (3)  $\$8,000 \times 25\% = \$2,000$ ;
- (4)  $\$8,000 \times 25\% = \$2,000$ .

**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 total tax. On April 15, 2017, Z filed its 2016 return showing \$20,000 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 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)  $\$12,000 \times 25\% = \$3,000$ ;
- (2)  $\$12,000 \times 25\% = \$3,000$ ;
- (3)  $\$12,000 \times 25\% = \$3,000$ ;
- (4)  $\$20,000 \times 25\% = \$5,000$ .

**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 total tax. On April 15, 2017, U filed its 2016 return showing \$28,000 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)  $\$22,000 \times 25\% = \$5,500$ ;
- (2)  $\$22,000 \times 25\% = \$5,500$ ;
- (3)  $\$22,000 \times 25\% = \$5,500$ ;
- (4)  $\$22,000 \times 25\% = \$5,500$ .

**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)  $\$400,000 \times 25\% = \$100,000$ ;
- (2)  $(\$500,000 \times 50\%) - \$100,000 = \$250,000 - \$100,000 = \$150,000$ ;
- (3)  $\$500,000 \times 25\% = \$125,000$ ;
- (4)  $\$500,000 \times 25\% = \$125,000$ .

20.1.3.4.1.2  
(07-23-2020)  
**Period of Underpayment**

(1) For corporations, the underpayment period is determined by the number of days from the payment due date to the earliest of the following:

- a. The 15<sup>th</sup> day of the 4<sup>th</sup> month following the end of the tax period; or
- b. the date of payment of the required installment, or

**Note:** For periods ending on June 30<sup>th</sup>, substitute 3<sup>rd</sup> month for 4<sup>th</sup> month in a) above.

(2) To determine the number of days, see either the perpetual or leap year julian date calendars.

(3) Timely mailing equals timely paying. See IRC 7502. The following rules apply:

a. A payment that is mailed on or before its due date is considered made

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b. A payment that is mailed after its due date is considered made on the date it is received by IRS.

(4) If a payment due date falls on a weekend or legal holiday, payments that are postmarked by the next business day are considered paid on the due date. IRC 7503 provides that when a due date falls on a Saturday, Sunday, or legal holiday, an installment is timely if it is made the next day that is not a Saturday, Sunday, or legal holiday. This provision does not extend the installment due date! If a payment is late, the underpayment period begins on the original due

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(5) The period of underpayment must be computed separately for each installment, beginning with the first installment. See Exhibit 20.1.3-5 for an example of how the period of underpayment is computed.

20.1.3.4.1.2.1  
(07-23-2020)  
**Tax Exempt Organizations**

(1) For certain tax exempt organizations with unrelated business income, the underpayment period shall be from the date the payment is due to the earlier of either:

- a. The date the payment or partial payment is received, or
- b. The 15th day of the 5th month following the close of the taxable year.

- 20.1.3.4.1.2.2  
(07-23-2020)  
**Private Foundations**
- (1) For private foundations and private foundations organized as a trust or corporation, the underpayment period is determined by the number of days from the payment due date to the earlier of either:
- The date the payment or partial payment is received, or
  - The 15th day of the 5th month after the close of the taxable year.
- 20.1.3.4.1.2.3  
(07-23-2020)  
**Excessive Adjustment**
- (1) IRC 6425 allows for an adjustment to an overpayment of corporate estimated income tax. Form 4466, Corporation Application for Quick Refund of Overpayment of Estimated Tax, shall be filed after the last day of the taxable year, and
- On or before the 15th day of the 4th month after the close of the taxable year, and
  - Before the day on which the corporation files its return.
- (2) In the event of an *excessive* adjustment, IRC 6655(h) imposes a penalty. An excessive adjustment exists if the tax liability shown on the return for the taxable year is greater than the estimated tax paid after the reduction for the adjustment. The amount subject to penalty is the lesser of the following:
- The amount of the adjustment, or
  - The amount by which the income tax liability shown on the return for the taxable year exceeds the estimated income tax paid reduced by the amount of the adjustment.
- (3) The penalty rate is the rate that applies during the underpayment period. See IRM 20.1.3.4.1.6.
- (4) The underpayment period, as it relates to an excessive adjustment under IRC 6425 is as follows:
- From the date that the credit is allowed or the refund is paid, or
  - To the 15th day of the 4th month following the close of the taxable year.
- 20.1.3.4.1.3  
(03-31-2010)  
**Payment Due Dates**
- (1) Generally speaking, the due dates for payment of estimated tax by a corporation are the 15th day of the 4th, 6th, 9th, and 12th month of the taxable year. In the case of a calendar year filer that would be April 15th, June 15th, September 15th, and December 15th.
- (2) In the case of a private foundation or other exempt organization subject to the tax on unrelated business income the due dates are the same, except that the due date of the first installment is the 15th day of the 5th month of the taxable year. In the case of a calendar year filer the first due date would be May 15th.
- (3) See IRM 20.1.3.4.1.1.2 for information regarding short period returns.
- 20.1.3.4.1.4  
(03-31-2010)  
**Application of Estimated Tax Payments and Credits**
- (1) Estimated tax payments and credits are applied in received date order to estimated tax liabilities in the order in which they arise. When one liability is satisfied, any remaining payment or credit is applied to the next succeeding liability. There are no exceptions to this rule.

20.1.3.4.1.5  
(03-31-2010)  
**Determining the Amount of the Underpayment**

- (1) The amount of the underpayment is the required installment amount reduced by the available amount (if any) paid or credited on or before the due date of the installment.

**Reminder:** If the due date of the installment falls on a Saturday, Sunday, or legal holiday, the payment is considered made on the due date if it was made on the next business day. Payments mailed on or before the due date are considered made on the due date, if received after the due date.

20.1.3.4.1.6  
(03-31-2010)  
**Penalty Rate**

- (1) The estimated tax penalty rate is the underpayment interest rate as described in IRC 6621 (federal short-term interest rate plus three percentage points). The underpayment interest rate is determined quarterly. This means that the penalty on a \$1,000 underpayment for one quarterly tax period may be different from the penalty on a \$1,000 underpayment for a different quarterly tax period.
- (2) The underpayment interest rate or the estimated tax penalty rate can be obtained from the Internal Revenue Bulletin, News Releases, TAX NEWS, Servicewide Electronic Research Program (SERP), and Notice 746, Information About Your Notice, Penalty and Interest.
- (3) The estimated tax penalty rate is NOT compounded daily.

20.1.3.4.1.7  
(03-31-2010)  
**Determining the Penalty Amount**

- (1) For each installment, the penalty is determined by multiplying the following:
  - a. The amount of the underpayment, by
  - b. The number of days the payment is late, by
  - c. The applicable percentage rate.
- (2) Estimated tax penalties are computed on the amount of tax reported on the original return.

**Note:** A second (superseding) return filed on or before the due date for filing is considered the original return.

- a. If an adjustment is made to the tax of an original return *before* the due date (including extensions), the penalty amount may be adjusted based on the new tax amount.
- b. If an adjustment is made to the tax of an original return *after* the return due date including extensions, as a result of either an audit or the taxpayer filing an amended return (unless the amended return is a superseding return), the penalty amount cannot be adjusted.
- (3) If a corporation did not timely make its required payments, Master File will compute the penalty unless the tax module is restricted (prior TC 170/171 or computer condition code).
- (4) IRS employees with access to IDRS may use the following command codes:
  - a. COMPA with definer "S" is used to compute the estimated tax penalty.
  - b. PINEX (PIEST) is used to explain a computer generated estimated tax penalty computation to the taxpayer.

Specific instructions regarding the input of both the COMPA and PINEX command codes are contained on SERP under the IRM Supplements tab, by first clicking on Job Aid Book, and then on IDRS Command Code Job Aid. The job aids also contain links to IRM 2.3.29, Command Codes INTST, ICOMP, and COMPA, IRM 2.3.41, Command Code PIEST, and IRM 2.4.43, Command Code PINEX, which contain detailed information regarding the use of these command codes.

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20.1.3.4.1.7.1  
(03-31-2010)  
**Form 2220,  
Underpayment of  
Estimated Tax by  
Corporations**

- (1) Corporations may complete Form 2220 to compute, reduce or eliminate an estimated tax penalty. A corporation is required to file Form 2220 with its return if any of the following apply:
  - a. The adjusted seasonal installment method is used; or
  - b. The annualized income installment method is used; or
  - c. The taxpayer is a large corporation, and is figuring its first required installment based on the prior year's tax.

See Instructions for Form 2220 for more information.
- (2) Since the 2005 version, Form 2220 has been broken down as follows:
  - a. Part I of Form 2220 is used to determine the amount of the required annual payment.
  - b. Part II is used to list the reason for filing Form 2220. Generally, one of the three reasons listed in paragraph (1) above is listed.
  - c. Part III is used (in conjunction with Schedule A, as applicable) to determine the amount of any underpayment for each of the four installment periods.

d. Part IV is used to compute any applicable penalty.

Please note that Form 2220 provides the formula for computing the penalty, but it does not list the applicable penalty rates. The taxpayer may obtain the applicable rates from the IRS web site ([www.irs.gov](http://www.irs.gov)), or by calling 1 (800) 829-4933. IRS employees may obtain the appropriate rates from Notice 746, Information About Your Notice, Penalty and Interest.

(3) If a corporation's income varies during the tax year, it may use the Annualized Income Installment Worksheet or the Adjusted Seasonal Installment Worksheet included as Schedule A with the Form 2220.

20.1.3.4.1.7.2  
(03-31-2010)  
**Penalty for Underpayment of Estimated Section 1446 Tax by Partnerships**

(1) Partnerships that are required to withhold income tax on effectively connected income from their foreign partners use *Schedule A* (Form 8804), Penalty for Underpayment of Estimated Section 1446 Tax by Partnerships, to compute their estimated tax penalty, a partnership is required to file Schedule A (Form 8804) if Part II line 1, total section 1446 tax shown on Form 8804, line 5f, is \$500 or more and either of the following applies:

- a. The adjusted seasonal installment method, or
- b. The annualized income installment method is used.

*Schedule A* (Form 8804) is not required unless the taxpayer completed either Part IV or Part V, or both. See the instructions for more information.

(2) Since the 2006 version, *Schedule A* (Form 8804) has been broken down as follows:

- a. Part I is used to list the reason for filing *Schedule A* (Form 8804). Generally, one of the two reasons in paragraph (1) above is listed.
- b. Part II is used to determine the current year and prior year safe harbors.
- c. Part III is used (in conjunction with Part IV and/or V, as applicable) to determine the amount of any underpayment for each of the four installment periods.
- d. Part IV is used to determine the tax attributable to each installment period using the adjusted seasonal installment method.
- e. Part V is used to determine the tax attributable to each installment period using the annualized income installment method.
- f. Part VI is used to determine the amount of each required installment when either or both Part IV and V were used.
- g. Part VII is used to compute any applicable penalty.

Please note that *Schedule A* (Form 8804) provides the formula for computing the penalty, but it does not list the applicable penalty rates.

20.1.3.4.1.7.3  
(12-10-2013)  
**Verifying Credits on Master File**

- (1) Credits claimed by a taxpayer on Form 2220 or on *Schedule A* (Form 8804) should be verified. This can be done by checking the appropriate CFOL or IDRS command codes.
- (2) Compare both the dollar amounts and the received dates of payments posted in the module against payments claimed on Form 2220 or on *Schedule A* (Form 8804).
- (3) TC 710 or TC 716 credit is a "credit elect" of an overpayment received from a prior tax period. The transaction date of the credit elect reflects the credit availability date. This date may differ from the date the taxpayer used in its





- (3) There is no provision in IRC 6655 that allows for removal of the penalty for reasonable cause, nor in the case of unusual circumstance. This applies even if assertion of the penalty under the circumstance seems inequitable and against good conscience.
- (4) Penalty abatement requests generally must be in writing. However, requests to verify the accuracy of a penalty computation do not need to be in writing, even if they result in the abatement of all or part of the penalty.

**Example:** A taxpayer contacts IRS because his tax preparation program computed a penalty of \$70 after he entered an incorrect amount for prior year tax. In verifying the taxpayer's figures, the IRS contact representative determines that no penalty is due. The contact representative can abate the incorrectly assessed penalty without a written claim because he is able to verify independently that the penalty is incorrect.

- (5) See IRM 20.1.3.2.7.2.1 in the case of federally declared disaster areas.

20.1.3.4.2.1  
(03-31-2010)

**Evaluating Claims for  
Abatement or Waiver of  
Estimated Tax Penalties**

- (1) If the taxpayer provides evidence that the penalty was computed incorrectly, verify the penalty computed by the taxpayer and adjust as necessary. Evidence to be considered may include Form 2220 Schedule A or a copy of a timely filed bankruptcy petition. See IRM 20.1.3.2.7.3.
- (2) Unless the module is restricted from computing the penalty automatically, the computer will automatically recompute the penalty if the payment information in the module changes. If the module *is* restricted, the computer will generate CP 234 if the penalty per computer will vary from the posted penalty by \$100 or more after the payment information change has posted.
- (3) If the taxpayer files a superseding return, the penalty always must be manually computed and adjusted.

**Note:** See IRM 20.1.3.4.1.7 (5).

- (4) For some tax periods the taxpayer may claim a waiver of the penalty. If so, the taxpayer must specify the legislative or administrative provision under which the waiver applies. The instructions for Form 2220 for the tax year in question generally would list any legislative and administrative waivers available to the taxpayer. A waiver generally only applies to a portion of the overall penalty. Care must be taken to review the instructions for computing the amount eligible before the waiver is granted.

**Note:** Waivers pertaining to federally declared disaster areas are built into IRS programming for generated penalties, but must be considered separately when the penalty is manually computed. See IRM 20.1.3.2.7.2.1. Provisions for a waiver were last available for taxable years that included September 11, 2001.

- (5) See IRM 20.1.3.4.2 (2) if the penalty is the result of a misapplied payment or refunded credit.

**Exhibit 20.1.3-1 (07-23-2020)**

**Installment Due Dates for Individuals, Estates and Trusts Subject to IRC 6654**

(1) The tables below reflect due dates for installments of estimated tax for individuals, estates and trusts. However, these tables do not apply to qualifying farmers or fishermen. See IRM 20.1.3.3.1.1.8.

**Caution:** The information for short taxable years for individuals (paragraphs 3 and 4) are for computing a penalty only if it has been determined that a penalty applies, and no other installment due dates have been established for the short taxable year. See IRM 20.1.3.3.1.1.9.1.

(2) Please note that a penalty for any underpayment of the final required installment of estimated tax is not due if the following two conditions are met:

- a. The taxpayer files the return for the taxable year on or before the last day of the first month following the month that includes the last day of the taxable year, and
- b. The taxpayer pays in full the tax shown as due on that return.

**Table 1—Installment Due Dates for Fiscal or Calendar Year Ending in for Estates, Trusts and Individuals Full 12 Month Tax Years**

Fiscal or Calendar Year Ending in	1st payment due	2nd payment due	3rd payment due	4th payment due
Jan.	May 15	Jul. 15	Oct. 15	Feb. 15*
Feb.	Jun. 15	Aug. 15	Nov. 15	Mar. 15*
Mar.	Jul. 15	Sep. 15	Dec. 15	Apr. 15*
Apr.	Aug. 15	Oct. 15	Jan. 15*	May 15*
May	Sep. 15	Nov. 15	Feb. 15*	Jun. 15*
Jun.	Oct. 15	Dec. 15	Mar. 15*	Jul. 15*
Jul.	Nov. 15	Jan. 15*	Apr. 15*	Aug. 15*
Aug.	Dec. 15	Feb. 15*	May 15*	Sep. 15*
Sep.	Jan. 15	Mar. 15	Jun. 15	Oct. 15
Oct.	Feb. 15	Apr. 15	Jul. 15	Nov. 15
Nov.	Mar. 15	May 15	Aug. 15	Dec. 15
Dec.	Apr. 15	Jun. 15	Sep. 15	Jan. 15*

**Note:** \* Of the next calendar year.

(3) For individuals, if the taxpayer elects under IRC 1398(d) to close the taxable year early, then two short taxable years are created: one short year ending the day before the bankruptcy petition is filed, and the other beginning on the day of the petition. The installment due dates for the two short taxable years are based on the taxpayer’s usual fiscal or calendar accounting period:

- a. The installment due dates for the first short taxable year are those due dates that fall within the taxable year, plus the 15th day of the first month following the close of the short taxable year.
- b. The installment due dates for the second short taxable year are those due dates that fall in a month after the first month in that short taxable year.

**Exhibit 20.1.3-1 (Cont. 1) (07-23-2020)****Installment Due Dates for Individuals, Estates and Trusts Subject to IRC 6654**

(4) For individuals, if the taxpayer's taxable year is terminated early due to a change in accounting periods, the installment due dates remain the same as for the previous full period, except that the final installment is due on the 15th day of the first month following the close of the taxable year.

(5) The Revenue Reform Act of 1986 added IRC 645 (later renumbered as IRC 644) which required all trusts subject to IRC 6654 to use the calendar year as their accounting period. As a result, numerous trusts were required to file returns for short taxable years in 1987 to change their accounting period.

(6) Notice 87-32 was issued by IRS to provide guidance for the payment of estimated tax for trusts with a short taxable year as a result of the required change in accounting period.

- a. Table 2 provides the estimated tax installment due dates for estates and trusts (other than charitable trusts) with an initial short taxable year.
- b. Table 3 provides the due dates for estates and trusts (other than charitable trusts) with a short taxable year as a result of early termination.

**Table 2—Estates and Trusts—Short Initial Year**

Short taxable year beginning in	1st payment due	2nd payment due	3rd payment due	Final payment due
Jan.	Apr. 15	Jun. 15	Sep. 15	Jan. 15*
Feb.	May. 15	Jul. 15	Oct. 15	Jan. 15*
Mar.	Jun. 15	Aug. 15	Nov. 15	Jan. 15*
Apr.	Jul. 15	Sep. 15	Dec. 15	Jan. 15*
May	Aug. 15	Oct. 15	N/A	Jan. 15*
Jun.	Sep. 15	Nov. 15	N/A	Jan. 15*
Jul.	Oct. 15	Dec. 15	N/A	Jan. 15*
Aug.	Nov. 15	N/A	N/A	Jan. 15*
Sep.	Dec. 15	N/A	N/A	Jan. 15*
Oct.	N/A	N/A	N/A	Jan. 15*
Nov.	N/A	N/A	N/A	Jan. 15*
Dec.	N/A	N/A	N/A	Jan. 15*

**Note:** \*Of the next calendar year.

**Table 3—Estates and Trusts—Short Final Year**

Short taxable year ending in	1st payment due	2nd payment due	3rd payment due	Final payment due
Jan.	N/A	N/A	N/A	Feb. 15
Feb.	N/A	N/A	N/A	Mar. 15
Mar.	N/A	N/A	N/A	Apr. 15

Exhibit 20.1.3-1 (Cont. 2) (07-23-2020)

Installment Due Dates for Individuals, Estates and Trusts Subject to IRC 6654

Short taxable year ending in	1st payment due	2nd payment due	3rd payment due	Final payment due
Apr.	Apr. 15	N/A	N/A	May 15
May	Apr. 15	N/A	N/A	Jun. 15
Jun.	Apr. 15	Jun. 15	N/A	Jul. 15
Jul.	Apr. 15	Jun. 15	N/A	Aug. 15
Aug.	Apr. 15	Jun. 15	N/A	Sep. 15
Sep.	Apr. 15	Jun. 15	Sep. 15	Oct. 15
Oct.	Apr. 15	Jun. 15	Sep. 15	Nov. 15
Nov.	Apr. 15	Jun. 15	Sep. 15	Dec. 15
Dec.	Apr. 15	Jun. 15	Sep. 15	Jan. 15*

**Note:** \*Of the next calendar year.

**Exhibit 20.1.3-2 (03-31-2010)****Installment Due dates for Corporations, Private Foundations and Charitable Trusts**

**Note:** The tables below reflect the due dates for corporations. To apply the tables to private foundations and charitable trusts, increase the due date of the applicable first installment by one month.

(1) Table 1 on the following pages contains the due dates for fiscal year returns, calendar year returns, and for initial short year returns. To find the due dates for a given tax year, find the row for the month in which the taxable year begins, and move across to the column for the month at the end of which the taxable year ends.

- a. The due dates for installments for fiscal year returns, calendar year returns, and initial short year returns are based on the taxable year ending month, and not on the month in which the year begins. However, see paragraph (2) below for an exception to this rule.
- b. If [based on the rule above in a) above] the first installment due date for the taxable year is earlier than the 15th day of the 4th month in the taxable year, then the taxpayer's first required installment is due on the first due date for the taxable year, as determined under a) above, that is on or after the 15th day of the 4th month of the taxable year.

**Table 1 Due Dates for Fiscal and Calendar Year Returns, and Initial Short Year Returns**

Short or other year beginning in	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Jan	None	None	None	4/15*	5/15	6/15	4/15 7/15	5/15 8/15	6/15 9/15	4/15 7/15 10/15	5/15 8/15 11/15	4/15 6/15 9/15 12/15
Feb	5/15 7/15 10/15 1/15	None	None	None	5/15*	6/15	7/15	5/15 8/15	6/15 9/15	7/15 10/15	5/15 8/15 11/15	6/15 9/15 12/15
Mar	7/15 10/15 1/15	6/15 8/15 11/15 2/15	None	None	None	6/15*	7/15	8/15	6/15 9/15	7/15 10/15	8/15 11/15	6/15 9/15 12/15
Apr	7/15 10/15 1/15	8/15 11/15 2/15	7/15 9/15 12/15 3/15	None	None	None	7/15*	8/15	9/15	7/15 10/15	8/15 11/15	9/15 12/15
May	10/15 1/15	8/15 11/15 2/15	9/15 12/15 3/15	8/15 10/15 1/15 4/15	None	None	None	8/15*	9/15	10/15	8/15 11/15	9/15 12/15
Jun	10/15 1/15	11/15 2/15	9/15 12/15 3/15	10/15 1/15 4/15	9/15 11/15 2/15 5/15	None	None	None	9/15*	10/15	11/15	9/15 12/15
Jul	10/15 1/15	11/15 2/15	12/15 3/15	10/15 1/15 4/15	11/15 2/15 5/15	10/15 12/15 3/15 6/15	None	None	None	10/15*	11/15	12/15
Aug	1/15	11/15 2/15	12/15 3/15	1/15 4/15	11/15 2/15 5/15	12/15 3/15 6/15	11/15 1/15 4/15 7/15	None	None	None	11/15*	12/15

**Exhibit 20.1.3-2 (Cont. 1) (03-31-2010)**

**Installment Due dates for Corporations, Private Foundations and Charitable Trusts**

Short or other year beginning in	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Sep</b>	1/15	2/15	12/15 3/15	1/15 4/15	2/15 5/15	12/15 3/15 6/15	1/15 4/15 7/15	12/15 2/15 5/15 8/15	None	None	None	12/15*
<b>Oct</b>	1/15*	2/15	3/15	1/15 4/15	2/15 5/15	3/15 6/15	1/15 4/15 7/15	2/15 5/15 8/15	1/15 3/15 6/15 9/15	None	None	None
<b>Nov</b>	None	2/15*	3/15	4/15	2/15 5/15	3/15 6/15	4/15 7/15	2/15 5/15 8/15	3/15 6/15 9/15	2/15 4/15 7/15 10/15	None	None
<b>Dec</b>	None	None	3/15*	4/15	5/15	3/15 6/15	4/15 7/15	5/15 8/15	3/15 6/15 9/15	4/15 7/15 10/15	3/15 5/15 8/15 11/15	None

**Note:** \*If the short period does not start on the first of the month, the taxable year is a period of less than four full calendar months, and no estimated tax payments are due.

(2) Table 2 on the following pages reflects the calendar year due dates for taxpayers that choose to make their estimated tax payments for their initial short taxable year using the calendar year schedule, and that then choose to end its taxable year early, based on a fiscal year ending month. A taxpayer that chooses to be a fiscal year taxpayer will not be charged an estimated tax penalty if both of the following apply:

- a. The taxpayer makes estimated tax payments as if it were a calendar year taxpayer until the date it files its return; and
- b. The return filed is an initial short taxable year return.

Accordingly, the due dates of the taxpayer’s installment(s) are the calendar year due dates that are included in the period beginning with the 15th day of the fourth month of the short taxable year, and ending on the due date for filing the return for the short taxable year. This means that the short year must end in December or earlier within the calendar year in which the short year began. (If the short year ends in December, then the taxpayer is a calendar year filer.) To find the due dates for a given short taxable year, find the row for the month in which the short taxable year begins, and move across to the column for the month at the end of which the short taxable year ends.

**Table 2 Initial Short Period Return**

Short or Other Year Beginning in	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Jan</b>	None	None	None	4/15* 6/15	4/15 7/15	4/15 6/15 9/15	4/15 6/15 9/15	4/15 6/15 9/15	4/15 6/15 10/15	4/15 6/15 9/15 12/15	4/15 6/15 9/15 1/15	4/15 6/15 9/15 12/15
<b>Feb</b>	N/A	None	None	None	7/15*	6/15 9/15	6/15 9/15	6/15 10/15	6/15 9/15 12/15	6/15 9/15 12/15	6/15 9/15 1/15	6/15 9/15 12/15

**Exhibit 20.1.3-2 (Cont. 2) (03-31-2010)**

**Installment Due dates for Corporations, Private Foundations and Charitable Trusts**

Short or Other Year Beginning in	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Mar	N/A	N/A	None	None	None	6/15* 9/15	6/15 9/15	6/15 10/15	6/15 9/15 12/15	6/15 9/15 12/15	6/15 9/15 1/15	6/15 9/15 12/15
Apr	N/A	N/A	N/A	None	None	None	9/15*	10/15	9/15 12/15	9/15 12/15	9/15 1/15	9/15 12/15
May	N/A	N/A	N/A	N/A	None	None	None	10/15*	9/15 12/15	9/15 12/15	9/15 1/15	9/15 12/15
Jun	N/A	N/A	N/A	N/A	N/A	None	None	None	9/15* 12/15	9/15 12/15	9/15 1/15	9/15 12/15
Jul	N/A	N/A	N/A	N/A	N/A	N/A	None	None	None	12/15*	1/15	12/15
Aug	N/A	N/A	N/A	N/A	N/A	N/A	N/A	None	None	None	1/15*	12/15
Sep	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	None	None	None	12/15*
Oct	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	None	None	None
Nov	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	None	None
Dec	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	None

**Note:** \*If the short period does not start on the first of the month, the taxable year is a period of less than four full calendar months, and no estimated tax payments are due.

(3) When the taxable year ends early (because of an acquisition or because of a change in accounting period), the installment due dates are the same as if the year were a full 12 month year, except that the final installment is due on the due date of the next installment after the end of the taxable year.

**Exception:** If the due date of the final installment would be within 30 days after the end of the taxable year, then the due date of the final installment shall be the 15th day of the second month following the month that includes the final day of the taxable year.

Table 3 on the following pages reflects the installment due dates for early termination short year returns. To find the due dates for a given short taxable year, find the row for the beginning month for the short taxable year, and move across to the column for month that includes the final day of the taxable year.

**Table 3 Short Early Termination Tax Year**

Fiscal Year Beginning Month:	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Jan	None	None	None	4/15 6/15*	4/15 7/15	4/15 6/15 9/15	4/15 6/15 9/15	4/15 6/15 9/15 10/15	4/15 6/15 9/15 or** 11/15	4/15 6/15 9/15 12/15	4/15 6/15 9/15 12/15 or** 1/15	4/15 6/15 9/15 12/15 or** 2/15
Feb	5/15 7/15 10/15 1/15 or** 3/15	None	None	None	5/15*	5/15 8/15	5/15 7/15 10/15	5/15 7/15 10/15	5/15 7/15 10/15 or** 11/15	5/15 7/15 10/15 or** 12/15	5/15 7/15 10/15 1/15	5/15 7/15 10/15 1/15 or** 2/15

Exhibit 20.1.3-2 (Cont. 3) (03-31-2010)

Installment Due dates for Corporations, Private Foundations and Charitable Trusts

Fiscal Year Beginning Month:	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Mar	6/15 8/15 11/15 2/15 or** 3/15	6/15 8/15 11/15 2/15 or** 4/15	None	None	None	6/15*	6/15 9/15	6/15 8/15 11/15	6/15 8/15 11/15	6/15 8/15 11/15 or** 12/15	6/15 8/15 11/15 or** 1/15	6/15 8/15 11/15 2/15
Apr	7/15 9/15 12/15 3/15	7/15 9/15 12/15 3/15 or** 4/15	7/15 9/15 12/15 3/15 or** 5/15	None	None	None	7/15*	7/15 10/15	7/15 9/15 12/15	7/15 9/15 12/15	7/15 9/15 12/15 or** 1/15	7/15 9/15 12/15 or** 2/15
May	8/15 10/15 1/15 or** 3/15	8/15 10/15 1/15 4/15	8/15 10/15 1/15 4/15 or** 5/15	8/15 10/15 1/15 4/15 or** 6/15	None	None	None	8/15*	8/15 11/15	8/15 10/15 1/15	8/15 10/15 1/15	8/15 10/15 1/15 or** 2/15
Jun	9/15 11/15 2/15 or** 3/15	9/15 11/15 2/15 or** 4/15	9/15 11/15 2/15 5/15	9/15 11/15 2/15 5/15 or** 6/15	9/15 11/15 2/15 5/15 or** 7/15	None	None	None	9/15*	9/15 12/15	9/15 11/15 2/15	9/15 11/15 2/15
Jul	10/15 12/15 3/15	10/15 12/15 3/15 or** 4/15	10/15 12/15 3/15 or** 5/15	10/15 12/15 3/15 6/15	10/15 12/15 3/15 6/15 or** 7/15	10/15 12/15 3/15 6/15 or** 8/15	None	None	None	10/15*	10/15 1/15	10/15 12/15 3/15
Aug	11/15 1/15 4/15	11/15 1/15 4/15	11/15 1/15 4/15 or** 5/15	11/15 1/15 4/15 or** 6/15	11/15 1/15 4/15 7/15	11/15 1/15 4/15 7/15 or** 8/15	11/15 1/15 4/15 7/15 or** 9/15	None	None	None	11/15*	11/15 2/15
Sep	12/15 3/15	12/15 2/15 5/15	12/15 2/15 5/15	12/15 2/15 5/15 or** 6/15	12/15 2/15 5/15 or** 7/15	12/15 2/15 5/15 8/15	12/15 2/15 5/15 8/15 or** 9/15	12/15 2/15 5/15 8/15 or** 10/15	None	None	None	12/15*
Oct	1/15*	1/15 4/15	1/15 3/15 6/15	1/15 3/15 6/15	1/15 3/15 6/15 or** 7/15	1/15 3/15 6/15 or** 8/15	1/15 3/15 6/15 9/15	1/15 3/15 6/15 9/15 or** 10/15	1/15 3/15 6/15 9/15 or** 11/15	None	None	None
Nov	None	2/15*	2/15 5/15	2/15 4/15 7/15	2/15 4/15 7/15	2/15 4/15 7/15 or** 8/15	2/15 4/15 7/15 or** 9/15	2/15 4/15 7/15 10/15	2/15 4/15 7/15 10/15 or** 11/15	2/15 4/15 7/15 10/15 or** 12/15	None	None

**Exhibit 20.1.3-2 (Cont. 4) (03-31-2010)****Installment Due dates for Corporations, Private Foundations and Charitable Trusts**

Fiscal Year Beginning Month:	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Dec</b>	None	None	3/15*	3/15 6/15	3/15 5/15 8/15	3/15 5/15 8/15	3/15 5/15 8/15 or** 9/15	3/15 5/15 8/15 or** 10/15	3/15 5/15 8/15 11/15	3/15 5/15 8/15 11/15 or** 12/15	3/15 5/15 8/15 11/15 or** 1/15	None

**Note:** \* If the short period does not start on the first of the month, the taxable year is a period of less than four full calendar months, and no estimated tax payments are due.

\*\* If the earlier of the last two due dates is either prior to the last day of the taxable year, or more than 30 days after the last day of the taxable year, then use the earlier date. Otherwise, use the later date.

**Exhibit 20.1.3-3 (07-23-2020)**  
**Required Annual Payment**

(1) The tables on the following pages list the required annual payment as a percentage of current year tax and prior year tax for tax years starting after 1986. Note the limitations to the use of prior year tax as they apply to large corporations. See IRM 20.1.3.4.1.1.7.

***CORPORATIONS, PRIVATE FOUNDATIONS AND CHARITABLE TRUSTS***

<b>Tax Years Beginning after</b>	<b>Tax Years Beginning but before</b>	<b>Percentage of Prior Year Tax</b>	<b>Percentage of Current Year Tax</b>
12/31/1986	01/01/1992	100%	90%
12/31/1991	07/01/1992	100%	93%
06/30/1992	01/01/1994	100%	97%
12/31/1993	01/01/2013	100%	100%

**Exhibit 20.1.3-4 (12-10-2013)**  
**Farmers and Fishermen**

(1) Individuals, estates and trusts (other than charitable trusts), that derive 2/3 or more of their gross income in the current or previous taxable year either from farming or from fishing, are “qualifying farmers or fishermen.”

(2) Qualifying farmers and fishermen are required to make only one installment, due January 15th of the year following the taxable year. The amount of the required installment is 2/3 of the tax for the taxable year, or 100% of the tax for the previous taxable year, whichever is less, and without regard to any high income limitation placed on the use of prior year tax.

(3) No estimated tax payment is required if the qualifying farmer or fisherman files the return, and pays the tax shown due on that return, by March 1st.

(4) The tables below lists the individual line items used in computing gross income, and gross income from farming or fishing. Please note that “gross income,” for the purpose of determining if the taxpayer is a qualifying farmer or fisherman, is not synonymous with adjusted gross income (AGI) as listed on the tax return.

(5) Perform the following computation to determine if the taxpayer is a qualifying farmer or fisherman:

1. Using the tables below, compute gross income and gross income from farming and fishing.
2. Multiply gross income by two, and divide the result by three. This is 2/3 of gross income.
3. If gross income from farming or fishing is greater than or equal to 2/3 of gross income, then the taxpayer is a qualifying farmer or fisherman.

**TABLE A—GROSS INCOME FROM ALL SOURCES**

<b>Item [Only positive amounts (gains) are considered.]</b>	<b>Form or Schedule</b>
Wages, salaries tips, etc.	1040
Interest Income	1040
Dividend Income	1040
Taxable refunds, credits, or offsets of state and local income taxes	1040
Alimony received	1040
Capital Gains (Losses are not netted against gains!)	1040
Supplemental Gains (Form 4797)	1040
Taxable IRA distributions	1040
Taxable pensions and annuities	1040
Unemployment Compensation	1040
Taxable Social Security Benefits	1040
Other income	1040
Gross receipts or sales	Schedule C
Rents received	Schedule E
Royalties received	Schedule E
Net income from estates and trusts	Schedule E
Real Estate Mortgage Investment Conduits	Schedule E

**Exhibit 20.1.3-4 (Cont. 1) (12-10-2013)**  
**Farmers and Fishermen**

<b>Item [Only positive amounts (gains) are considered.]</b>	<b>Form or Schedule</b>
Gross income from farming (Cash Method)	Schedule F
Gross income from farming (Accrual Method)	Schedule F
Gross farm rental income	Form 4835
Distributive share of gross income from partnership or LLC treated as a partnership.	Schedule K-1, Form 1065
Pro-rata share of gross income from an S-corporation	Schedule K-1, Form 1120S

**TABLE B—GROSS INCOME FROM FARMING OR FISHING**

<b>Item [Only positive amounts (gains) are considered.]</b>	<b>Form or Schedule</b>
If the principal industrial activity (PIA) code on Schedule C is one of the following: - 002246, - 0001NN, - 0002NN, or - 11NNNN where <b>N</b> is any number.	Schedule C
Gross income from farm rental, farm partnerships, farm S-corporations, and estates and trusts operating farms.	Schedule E
Gross income from own farm (cash method)	Schedule F
Gross income from own farm (accrual method)	Schedule F
Net gain from the sale of animals	Form 4797
Income for services as officer or crew member of a vessel while the vessel is engaged in fishing, and income for services normally performed in connection with fishing	Form W-2 or Form 1099-MISC

**TABLE C—COMPUTATION**

-	<b>Item</b>	<b>Amount</b>
1	Total gross income based on Table A	
2	Multiply amount on line 1 by 2	
3	Divide amount on line 2 by 3	
4	Gross farming and fishing income based on Table B	
If the amount on line 4 is greater than or equal to the amount on line 3, then the taxpayer is a qualifying farmer or fisherman.		

**Exhibit 20.1.3-5 (03-31-2010)****Using IDRS Command Code COMPA With Definer "S"**

The tables below outline how each method would work for an individual taxpayer who has quarterly liabilities of \$5,000 each, and who begins making bimonthly estimated tax payments of \$4,000 on July 1st.

**Cumulative Method:** Compute the penalty using a running balance.

Date	Liability/ (Credit)	From	To	Running Balance
04/15/2011	5,000.00	04/15/2011	06/15/2011	5,000.00
06/15/2011	5,000.00	06/15/2011	07/01/2011	10,000.00
07/01/2011	-4,000.00	07/01/2011	09/01/2011	6,000.00
09/01/2011	-4,000.00	09/01/2011	09/15/2011	2,000.00
09/15/2011	5,000.00	09/15/2011	11/01/2011	7,000.00
11/01/2011	-4,000.00	11/01/2011	01/01/2012	3,000.00
01/01/2012	-4,000.00	01/01/2012	01/15/2012	-1,000.00
01/15/2012	5,000.00	01/15/2012	03/01/2012	4,000.00
03/01/2012	-4,000.00	03/01/2012	04/15/2012	0.00



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COMPAS 30 201112
04152011 06152011 5,000.00          $33.42
06152011 07012011 10,000.00         $17.54
07012011 09012011 6,000.00          $40.77
09012011 09152011 2,000.00           $3.07
09152011 11012011 7,000.00          $29.92
11012011 01012012 3,000.00          $15.04
01152012 03012012 4,000.00          $15.08

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TOTAL ES TAX PENALTY \$154.84

**Separate Method:** Compute the penalty for each installment separately, using so much of each payment as is needed to pay that installment, and applying the remainder to the next installment.

Remarks	Date	Liability/ (Credit)	From	To	Amount
1st Installment	04/15/2011	5,000.00	04/15/2011	07/01/2011	5,000.00
Entire Payment	07/01/2011	-4,000.00	07/01/2011	09/01/2011	1,000.00

**Exhibit 20.1.3-5 (Cont. 1) (03-31-2010)  
Using IDRS Command Code COMPA With Definer "S"**

Remarks	Date	Liability/ (Credit)	From	To	Amount
Part of Payment	09/01/2011	-1,000.00	-	-	-
-	-	-	<b>From</b>	<b>To</b>	<b>Amount</b>
2nd Installment	06/15/2011	5,000.00	06/15/2011	09/01/2011	5,000.00
09/01 Remainder	09/01/2011	-3,000.00	09/01/2011	11/01/2011	2,000.00
Part of Payment	11/01/2011	-2,000.00	-	-	-
-	-	-	<b>From</b>	<b>To</b>	<b>Amount</b>
3rd Installment	09/15/2011	5,000.00	09/15/2011	11/01/2011	5,000.00
11/01 Remainder	11/01/2011	-2,000.00	11/01/2011	01/01/2012	3,000.00
Part of Payment	01/01/2012	-3,000.00	-	-	-
-	-	-	<b>From</b>	<b>To</b>	<b>Amount</b>
01/01 Remainder	01/01/2012	-1,000.00	01/01/2012	01/15/2012	-1,000.00
4th Installment	01/15/2012	5,000.00	01/15/2012	03/01/2012	4,000.00
Part of Payment	03/01/2008	-4,000.00	-	-	-



```

COMPAS 30 201112
04152011 07012011 5,000.00          $42.19
07012011 09012011 1,000.00          $6.79
06152011 09012011 5,000.00          $42.74
09012011 11012011 2,000.00          $11.62
09152011 11012011 5,000.00          $21.37
11012011 01012012 3,000.00          $15.04
01152012 03012012 4,000.00          $15.08
    
```

TOTAL ES TAX PENALTY \$154.83

