Part III – Administrative, Procedural, and Miscellaneous

Relief from Additions to Tax under Sections 6654 and 6655 for Underpayment of Estimated Income Tax by Taxpayers Making an Election under Section 1062

Notice 2026-3

SECTION 1. OVERVIEW

This notice provides relief from the additions to tax under sections 6654 and 6655 of the Internal Revenue Code (Code)[1] for underpayment of estimated income tax by a taxpayer that makes a valid election under section 1062(a) (section 1062 election).

SECTION 2. SCOPE

The relief provided in this notice applies for the purpose of calculating any installment of estimated income tax of a taxpayer that makes a valid section 1062 election, with respect to the taxable year of the sale or exchange of qualified farmland property that is the subject of the section 1062 election. The amount of the relief depends on the amount of income tax for which payment is deferred by the section 1062 election.

SECTION 3. BACKGROUND

.01 Section 1062.

(1) Generally. Section 70437 of Public Law 119-21, 139 Stat. 72 (2025),

[1] Unless otherwise specified, all "section" references are to sections of the Code.

commonly known as the One, Big, Beautiful Bill Act (OBBBA), redesignated pre-OBBBA section 1062 as section 1063 and inserted a new section 1062. Section 1062(a) now allows a taxpayer who has gain from the sale or exchange of qualified farmland property to a qualified farmer (qualified sale or exchange) to elect (by making a section 1062 election) to pay the applicable net tax liability determined under section 1062(d)(1)(A) in four equal installments. Section 1062(b)(1) provides that, if a section 1062 election is made, the first installment must be paid on the due date (determined without regard to any extension of time for filing the return) for the return of tax for the taxable year in which the qualified sale or exchange occurs, and each succeeding installment must be paid on the due date (determined without regard to any extension of time for filing the return) for the return of tax for the taxable year following the taxable year with respect to which the preceding installment was made.

(2) Applicable net tax liability. Section 1062(d)(1)(A) defines "applicable net tax liability" with respect to a qualified sale or exchange as the excess (if any) of (i) such taxpayer's net income tax for the taxable year, over (ii) such taxpayer's net income tax for such taxable year determined without regard to any gain recognized from the qualified sale or exchange. Section 1062(d)(1)(A) defines "net income tax" for these purposes to mean the regular tax liability (as defined in section 26(b)) reduced by the credits allowed under subparts A, B, and D of part IV of subchapter A of chapter 1 of the Code.

(3) Qualified farmland property. Section 1062(d)(2)(A) defines the term "qualified farmland property" as real property located in the United States that

(i) during substantially all of the 10-year period ending on the date of the qualified sale or exchange has been used by the taxpayer either as a farm for farming purposes or leased by the taxpayer to a qualified farmer for farming purposes, and (ii) is subject to a covenant or other legally enforceable restriction which prohibits the use of such property other than as a farm for farming purposes for 10 years after the date of the qualified sale or exchange. Section 1062(d)(2)(A) further provides that property that is used or leased by a partnership or S corporation is treated as used or leased by each person who holds a direct or indirect interest in such entity. Section 1062(d)(2)(B) provides that the terms "farm" and "farming purposes" have the respective meanings given such terms under section 2032A(e). *See* section 2032A(e)(4) and (5).

(4) Qualified farmer. Section 1062(d)(3) defines the term "qualified farmer" as any individual who is actively engaged in farming (within the meaning of 7 U.S.C. §§ 1308-1(b) and (c)).

(5) Acceleration of payment. Section 1062(b)(2)(A) provides that if there is an addition to tax for failure to timely pay any installment required under section 1062, then the unpaid portion of all remaining installments is due on the date of such failure. Additional circumstances, described in section 1062(b)(2)(B) and (C), may also accelerate the due date of unpaid installments.

(6) Election procedures. Section 1062(e) requires that a taxpayer making a section 1062 election include with the return for the taxable year of the qualified sale or exchange a copy of the covenant or other legally enforceable restriction described in section 1062(d)(2)(A)(ii). Forthcoming guidance will provide further instructions on

how a taxpayer may properly make a section 1062 election.

.02 Section 6654.

(1) Estimated income tax and liability for addition to tax. Generally, the Code requires taxpayers to pay Federal income taxes as they earn income. To the extent these taxes are not withheld from wages or other income, a taxpayer normally must pay estimated income tax. Individual taxpayers who fail to make a sufficient or timely payment of estimated income tax are liable for an addition to tax under section 6654(a). With some exceptions, section 6654(l)(2) provides that the provisions of section 6654 generally apply to certain estates and trusts.

(2) Quarterly payments of estimated income tax for most individual taxpayers. Section 6654 provides that, in the case of an individual, estimated income tax is generally required to be paid in four installments, each in the amount of 25 percent of the required annual payment. Generally, under section 6654(d)(1)(B), the required annual payment is the lesser of (i) 90 percent of the tax shown on the return for the taxable year; or (ii) 100 percent of the tax shown on the return of the individual for the preceding taxable year (110 percent if the individual's adjusted gross income on the previous year's return exceeded $150,000), provided that the preceding taxable year was 12 months in duration and the individual filed a return for that year. An individual taxpayer whose income varies during the taxable year may be able to use the annualized income installment method described in section 6654(d)(2) to determine estimated income tax liability as their income accumulates, rather than dividing the required annual payment by four as if the income were earned equally throughout the year. Generally, section 6654(d)(2)(B) allows an individual taxpayer to reduce the

amount of estimated income tax installments that are due earlier in the year and increase the amount of estimated income tax installments that are due later in the year.

(3) Due dates for installments of estimated income tax. Pursuant to section 6654(c)(2), estimated income tax installments for an individual calendar-year taxpayer generally are due on April 15, June 15, and September 15 of the taxable year, and on January 15 of the following year. Pursuant to section 6654(k)(1), for an individual fiscal-year taxpayer, the due dates of installments of estimated income tax are determined by substituting corresponding months. Section 6654(h), (i), and (j) provides special rules regarding installment amounts and due dates for taxpayers described therein.

(4) One annual payment of estimated income tax for qualifying farmers or fishermen. Special rules apply in the case of an individual taxpayer who is a farmer or fisherman and satisfies the requirements of section 6654(i) for a taxable year (qualifying farmer or fisherman). Under section 6654(i)(1), a qualifying farmer or fisherman has only one required installment payment (instead of four quarterly payments) due on January 15 of the year following the taxable year if at least two-thirds of the taxpayer's total gross income was from farming or fishing in either that taxable year or the preceding taxable year. For a qualifying farmer or fisherman who does not make the required estimated income tax installment payment by January 15 of the year following the taxable year, section 6654(i)(1)(D) provides that the taxpayer is not subject to an addition to tax for failing to pay estimated income tax if the taxpayer files the return for the taxable year and pays the full amount of tax reported on the return by March 1 of the year following the taxable year. The definition of "qualified farmer" under

section 1062(d)(3) differs from the definition of “farmer or fisherman” under section 6654(i)(2). For purposes of section 6654, section 6654(i)(2) provides that an individual is a farmer or fisherman for any taxable year if (A) the individual’s gross income from farming or fishing (including oyster farming) for the taxable year is at least 66 and 2/3 percent of the total gross income from all sources for the taxable year, or (B) the individual’s gross income from farming or fishing (including oyster farming) shown on the return of the individual for the preceding taxable year is at least 66 and 2/3 percent of the total gross income from all sources shown on such return.

(5) Exceptions to the addition to tax. An individual taxpayer will not be subject to the addition to tax under section 6654(a) if an exception applies. Under section 6654(e)(1), no addition to tax will be imposed on an individual taxpayer if the taxpayer owes less than $1,000 in tax, after subtracting tax withheld on wages. Under section 6654(e)(2), an individual will not be subject to an addition to tax if (i) the individual did not have any tax liability for the previous taxable year, (ii) the preceding taxable year was 12 months, and (iii) the individual was a citizen or resident of the United States throughout the preceding taxable year. Under section 6654(e)(3)(A), the addition to tax will not be imposed with respect to any underpayment to the extent the Secretary of the Treasury or the Secretary’s delegate (Secretary) “determines that by reason of casualty, disaster, or other unusual circumstances the imposition of such addition to tax would be against equity and good conscience.”

.03 Section 6655.

(1) Estimated income tax and liability for addition to tax. Section 6655(a) imposes an addition to tax for failure by a corporation to make a sufficient and timely payment of

estimated income tax. Section 6655(c) and (d)(1)(A) generally provides that, in the case of a corporation, estimated income tax is required to be paid in four installments and the amount of any required installment is 25 percent of the required annual payment. Generally, under section 6655(d)(1)(B), the required annual payment is the lesser of two amounts described in section 6655(d)(1)(B)(i) and (ii). The amount described in section 6655(d)(1)(B)(i) is 100 percent of the tax shown on the return for the taxable year. The amount described in section 6655(d)(1)(B)(ii) is 100 percent of the tax shown on the taxpayer's return for the preceding taxable year, so long as the preceding taxable year was twelve months long and the return for such year showed a liability for tax. However, pursuant to section 6655(d)(2), in the case of a large corporation (as defined under section 6655(g)(2)), the amount described in section 6655(d)(1)(B)(ii) may not be used to reduce the amount of an installment payment other than the first installment payment for the taxable year. A taxpayer that is a corporation with income that varies during the taxable year may be able to use the annualized income installment method or the adjusted seasonal installment method described in section 6655(e) to lower the amount of one or more required estimated income tax installments.

(2) Due dates for installments of estimated income tax. Pursuant to section 6655(c)(2), estimated income tax installments of a corporation that uses the calendar-year for its taxable year generally are due on April 15, June 15, September 15, and December 15 of the taxable year. Pursuant to section 6655(i), for a corporation that uses a fiscal year for its taxable year, the due dates of installments of estimated income tax are determined by substituting corresponding months. In special

circumstances, other rules specified in section 6655 or elsewhere may also apply.

SECTION 4. LIMITED WAIVER OF ADDITION TO TAX

.01 Reasons for waiver. The Department of the Treasury (Treasury Department) and the Internal Revenue Service (IRS) are aware that taxpayers may be concerned that, in order to avoid the addition to tax under section 6654 or 6655 for failure to make a sufficient and timely payment of estimated income tax, they must pay the full amount of applicable net tax liability, or a substantial portion of it, as estimated income tax for the taxable year of the qualified sale or exchange. Doing so would be contrary to the purpose of the section 1062 election, which is to allow payment of the liability in installments over four years. Without a limited waiver of the addition to tax, a taxpayer making a section 1062 election might be deprived of the full benefit of the provision.

.02 Limited Waiver.

In the interest of sound tax administration, the IRS will waive a portion of the addition to tax under sections 6654 and 6655 attributable to the qualified sale or exchange for which the section 1062 election is made for taxpayers who both qualify to make a section 1062 election and properly make a section 1062 election. The limited waiver applies with respect to the applicable net tax liability the payment of which is deferred by the section 1062 election. Accordingly, a taxpayer may exclude 75 percent of the applicable net tax liability (with respect to the qualified sale or exchange as to which the taxpayer has properly made the section 1062 election) from the calculation of the required annual payment for purposes of determining estimated income tax installment amounts for the taxable year of the qualified sale or exchange for which the section 1062 election is made. In determining the required annual payment for the taxable year of the qualified sale or exchange, the taxpayer must include the portion of the applicable net tax liability that is required to be paid on the due date of the income tax return for the taxable year of the qualified sale or exchange (25 percent of the applicable net tax liability with respect to the qualified sale or exchange as to which the taxpayer has properly made the section 1062 election).

A proper section 1062 election is a prerequisite to receiving the relief provided in this notice, but an acceleration of installment due dates under section 1062(b)(2) will not affect this waiver. The waiver will apply automatically to any taxpayer who qualifies for the waiver and does not self-report an addition to tax under section 6654 or 6655 on their income tax return for the taxable year of the qualified sale or exchange. A taxpayer who otherwise satisfies the criteria for relief under this notice, but who has already filed an income tax return reporting an addition to tax under section 6654 or 6655, may request an abatement of the addition to tax by filing Form 843, *Claim for Refund and Request for Abatement* and noting “Abatement requested pursuant to Notice 2026-3” at the top of the claim. A taxpayer that satisfies the criteria for relief under this notice but receives a penalty notice from the IRS should also request an abatement of the addition to tax by filing Form 843.

.03 Form instructions to be modified. The instructions to forms relevant to estimated income tax requirements, including Form 1040-ES, *Estimated Tax for Individuals*, Form 1041-ES, *Estimated Income Tax for Estates and Trusts*, Form 2210, *Underpayment of Estimated Tax by Individuals, Estates, and Trusts*, Form 2210-F, *Underpayment of Estimated Tax by Farmers and Fishermen*, Form 2220, *Underpayment of Estimated Tax by Corporations*, will be modified, as necessary, to reflect the relief granted by this notice. If necessary, the modified instructions will be posted on https://www.irs.gov.

SECTION 5. DRAFTING AND CONTACT INFORMATION

The principal author of this notice is Alexander Wu of the Office of the Associate Chief Counsel (Procedure and Administration). Other personnel from the Treasury Department and the IRS participated in its development. For further information, please contact Alexander Wu at (202) 317-6845 (not a toll-free number).