Underpayment of Estimated Tax by Corporations

(Section references are to the Internal Revenue Code.)

**Purpose of Form**
Corporations (including S corporations), tax-exempt organizations subject to the unrelated business income tax, and private foundations use Form 2220 to determine if they are subject to the penalty for underpayment of estimated tax and, if so, the amount of the penalty.

**Important Changes**
- For tax years beginning after December 31, 1991, but before July 1, 1992, the Tax Extension Act of 1991 increased the percentage of the current year’s tax liability required to be paid in installments during the tax year (the “current year percentage”) from 90% to 93%.
- For tax years beginning after June 30, 1992, the Unemployment Compensation Amendments of 1992 further increased the current year percentage from 93% to 97%.

**Note:** The increases in the current year percentage apply whether the corporation uses the regular installment method, the annualized income installment method, or the adjusted seasonal installment method. However, these changes do not affect the rules that generally allow a small corporation to base its required installments on the prior year’s tax and a large corporation to base its first installment on the prior year’s tax.

**Who Must Pay the Underpayment Penalty**
If the corporation did not pay enough estimated tax by any of the due dates, it may be charged a penalty. This is true even if the corporation is due a refund when its return is filed. The penalty is figured separately for each installment due date. Therefore, the corporation may owe a penalty for an earlier installment due date, even if it paid enough tax later to make up the underpayment.

**IRS May Be Able To Figure the Penalty**
Generally, the corporation does not have to file this form because the IRS will figure the amount of any penalty and bill the corporation. However, even if the corporation does not owe a penalty, complete and attach this form if:
1. The annualized income installment method and/or the adjusted seasonal installment method is used (see the instructions for line 6(a)), or
2. The corporation is a “large corporation” computing its first required installment based on the prior year’s tax.

**How To Use This Form**
Complete Part I of Form 2220 to determine the underpayment for any of the four installment due dates. If there is an underpayment on line 13 (column (a), (b), (c), or (d)), go to Part II to figure the penalty. Attach Form 2220 to the income tax return and check the box on line 33, page 1 of Form 1120; line 29 of Form 1120-A; or the comparable line of any other income tax return the corporation is required to file (e.g., Form 990-C, 1120L, 1120S, etc.).

**Part I. Figuring the Underpayment**
Complete lines 1 through 14 of Part I.

**Line 1.** Enter the tax from line 31, Form 1120; line 27, Form 1120-A; or the comparable line for other income tax returns (except as noted below).

**Filers of Forms 990-PF, 990-T, 1120L, 1120-PC, 1120-REIT, 1120-RIC, and 1120S.**—See the instructions for the appropriate tax return for the definition of tax for estimated tax purposes.

**Line 2c.** Enter the amount from line 32g, Form 1120; line 28g, Form 1120-A; or the comparable line for other income tax returns.

**Line 4b. All filers other than S corporations.**—Figure the corporation’s 1991 tax in the same manner as the amount on line 3 of this form was determined, using the taxes and credits from its 1991 tax return.

Skip line 4b and enter the amount from line 4a on line 4c if either of the following apply:
1. The corporation did not file a tax return for 1991 that showed a liability for at least some amount of tax; or
2. The corporation had a 1991 tax year of less than 12 months.

**S corporations.**—Enter on line 4b the sum of:
(a) 93% of the sum of the investment credit recapture tax and the built-in gains tax (or the tax on certain capital gains) shown on the return for the 1992 tax year (97% of these taxes for a tax year beginning after June 30, 1992), and (b) 100% of any excess net passive income tax shown on the S corporation’s return for the 1991 tax year. If the 1991 tax year was less than 12 months, do not complete line 4b. Instead, enter the amount from line 4a on line 4c.

**Line 6(a). Annualized Income Installment Method or Adjusted Seasonal Installment Method.**—If the corporation’s income varied during the year because, for example, it operated its business on a seasonal basis, it may be able to lower the amount of one or more required installments by using the annualized income installment method or the adjusted seasonal installment method. For example, a ski shop, which receives most of its income during the winter months, may benefit from using one or both of these methods in figuring its required installments. The annualized income...
installment or adjusted seasonal installment may be less than the required installment under the regular method for one or more due dates. This will reduce or eliminate the penalty for those due dates.

To use one or both of these methods to figure one or more required installments, use the worksheet on pages 3 and 4 of these instructions. If the worksheet is used for any payment due date, it must be used for all payment due dates. To arrive at the amount of each required installment, the worksheet automatically selects the smallest of: (a) the annualized income installment, (b) the adjusted seasonal installment (if applicable), or (c) the regular installment ($6655(d) increased by any reduction recapture under section 6655(e)(1)(B)).

If the corporation is using only the annualized income installment method, it must complete Parts I and III of the worksheet. If it is using only the adjusted seasonal installment method, it must complete Parts II and III of the worksheet. If the corporation is using both methods, it must complete the entire worksheet. Enter in each column on line 6 of Form 2220 the amount from the corresponding column of line 45 of the worksheet. Also attach a copy of the worksheet to Form 2220 and check the box on line 6a.

**Line 6(b). Large corporations.—** A “large corporation” is a corporation (other than an S corporation) that had, or its predecessor had, taxable income of $1 million or more for any of the 3 tax years immediately preceding the current tax year. For this purpose, taxable income is modified to exclude net operating loss or capital loss carrybacks or carryovers. Members of a controlled group, as defined in section 1563, must divide the $1 million amount among themselves in accordance with rules similar to those in section 1561.

If the annualized income installment method or the adjusted seasonal installment method is not used, follow the instructions below to figure the amount to enter on line 6. Also check the box on line 6b. (If the corporation is using the annualized income installment method and/or the adjusted seasonal installment method, these instructions apply to line 41 of the worksheet.)

If line 4a is smaller than line 4b.—Enter 25% of line 4a in columns (a) through (d) on line 6.

If line 4b is smaller than line 4a.—Enter 25% of line 4b in column (a) on line 6. In column (b), determine the amount to enter by:

1. Subtracting line 4b from line 4a.
2. Adding the result to the amount on line 4a.
3. Multiplying the total by 25%. In columns (c) and (d), enter 25% of line 4a.

**Line 7.** In column (a), enter the estimated tax payments deposited by the 15th day of the 4th month of the corporation’s tax year; in column (b), enter payments made after the 15th day of the 4th month through the 15th day of the 6th month of the tax year; in column (c), enter payments made after the 15th day of the 6th month through the 15th day of the 9th month of the tax year; and, in column (d), enter payments made after the 15th day of the 9th month through the 15th day of the 12th month of the tax year.

Include in the estimated tax payments any overpayment from the corporation’s 1991 return that was credited to the corporation’s 1992 estimated tax.

**Line 13.** If any of the columns in line 13 shows an underpayment, complete Part II to figure the penalty.

**Part II. Figuring the Penalty**

Complete lines 15 through 32 to determine the amount of the penalty. The penalty is figured for the period of underpayment determined under section 6655 using the underpayment rate determined under section 6621(b)(2). For underpayments paid after March 31, 1993, see the instructions below for lines 27 through 30.

**Line 15.** A payment of estimated tax is applied against underpayments of required installments in the order that installments are required to be paid, regardless of which installment the payment pertains to.

For example, a corporation has an underpayment for the April 15 installment of $1,000. The J une 15 installment requires a payment of $2,500. On June 10, the corporation deposits $2,500 to cover the J une 15 installment. However, $1,000 of this payment is considered to be for the April 15 installment. The penalty for the April 15 installment is figured to June 10 (56 days). The payment to be applied to the J une 15 installment will then be $1,500.

If the corporation has made more than one payment for a required installment, attach a separate computation for each payment.

**Lines 27 through 30.** For underpayments paid after March 31, 1993, use the penalty rate for each calendar quarter that the IRS will determine during the first month in the preceding quarter. These rates are published quarterly in the Internal Revenue Bulletin. You can also call toll-free 1-800-829-1040 to get rate information.

**Instructions for Worksheet**

**Part I—Annualized Income Installment Method**

**Line 4. Filers of Forms 990-PF and 990-T.**—The period to be used to figure taxable income for each column is as follows: Column (a), first 2 months; column (b), first 4 months; column (c), first 7 months; and column (d), first 10 months.

**Line 5. Filers of Forms 990-PF and 990-T.**—The annualization amount to be used in each column is as follows: Column (a), $1,142; column (b), 3; column (c), $7,112; and column (d), 1.2.

**Line 9.** Enter the taxes the corporation owed because of events that occurred during the months shown in the column headings used to figure annualized taxable income. Include the same taxes used to figure line 1 of Form 2220, but do not include the personal holding company tax or interest due under the look-back method of section 466(b)(2) for completed long-term contracts.

Figure the alternative minimum tax and environmental tax on Form 4626, Alternative Minimum Tax—Corporations. Figure alternative minimum taxable income and modified alternative minimum taxable income based on the corporation’s income and deductions during the months shown in the column headings used to figure annualized taxable income. Multiply the alternative minimum taxable income and modified alternative minimum taxable income by the annualization amounts used to figure annualized taxable income (on line 2 or line 5) before subtracting the exemption amounts (see sections 55(d) and 59A(a)(2)).

**Line 11.** Enter the credits allowed due to events that occurred during the months shown in the column headings used to figure annualized taxable income.

**Part II—Adjusted Seasonal Installment Method**

**Do not** complete this part unless the corporation’s base period percentage for any 6 consecutive months of the tax year equals or exceeds 70%. The term “base period percentage” for any period of 6 consecutive months is the average of the 3 percentages figured by dividing the taxable income for the corresponding 6 consecutive months by each of the 3 preceding tax years by the taxable income for each of their respective tax years.

**Example.** An amusement park that has a calendar year as its tax year receives the largest part of its taxable income during the 6-month period from May through October. To compute its base period percentage for the period May through October 1992, it must figure its taxable income for the period May through October in each of the years: 1989, 1990, and 1991. The taxable income for each May-through-October period is then divided by the total taxable income for the tax year in which the period is included, resulting in the following quotients: .69 for May through October 1989, .74 for May through October 1990, and .67 for May through October 1991. Since the average of .69, .74, and .67 is equal to .70, the base period percentage for May through October 1992 is 70%. Therefore, the amount of tax from the adjusted seasonal installment method.
Line 33.—Enter the taxes the corporation owed because of events that occurred during the months shown in the column headings above line 17. Include the same taxes used to figure line 1 of Form 2220, but do not include the personal holding company tax or interest due under the look-back method of section 460(b)(2) for completed long-term contracts. Figure the alternative minimum tax and environmental tax on Form 4626. Figure alternative minimum taxable income and modified alternative minimum taxable income based on the corporation’s income and deductions during the months shown in the column headings above line 17. Divide the alternative minimum taxable income and modified alternative minimum taxable income by the amounts shown on line 24 before subtracting the exemption amounts (see sections 55(d) and 59A(a)(2)). For columns (a) through (c) only, multiply the alternative minimum tax and environmental tax determined by the amounts shown on line 31.

Line 35.—Enter the credits allowed due to events that occurred during the months shown in the column headings above line 17.

Line 38.—Before completing line 38 in columns (b) through (d), complete lines 39 through 45 in each of the preceding columns. For example, complete lines 39 through 45 in column (a) before completing line 38 in column (b).

Worksheet to Figure Required Installments Using the Annualized Income Installment Method or the Adjusted Seasonal Installment Method Under Section 6655(e)

Form 1120S filers: For lines 1, 4, 17, 18, and 19, below, “taxable income” refers to excess net passive income or the amount on which tax is imposed under section 1374(a) (or the corresponding provisions of prior law), whichever applies.

**Part I  Annualized Income Installment Method**

<table>
<thead>
<tr>
<th>Period</th>
<th>(a)</th>
<th>(b)</th>
<th>(c)</th>
<th>(d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 3 months</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First 6 months</td>
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<tr>
<td>First 9 months</td>
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</tbody>
</table>

**Form 990-PF and Form 990-T filers: Do not use the periods shown directly above line 4 or the annualization amounts shown on line 5 when figuring lines 4 and 6. Instead, see the instructions for Worksheet lines 4 and 5.**

<table>
<thead>
<tr>
<th>Period</th>
<th>(a)</th>
<th>(b)</th>
<th>(c)</th>
<th>(d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 3 months</td>
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<tr>
<td>First 5 months</td>
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<tr>
<td>First 8 months</td>
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</tr>
<tr>
<td>First 11 months</td>
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</tbody>
</table>

**Part II  Adjusted Seasonal Installment Method (Caution: Use this method only if the base period percentage for any 6 consecutive months is at least 70%. See the instructions for more information.)**

<table>
<thead>
<tr>
<th>Period</th>
<th>(a)</th>
<th>(b)</th>
<th>(c)</th>
<th>(d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 3 months</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>First 5 months</td>
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<tr>
<td>First 8 months</td>
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<tr>
<td>First 11 months</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Line 17 Enter taxable income for the following periods:</th>
<th>17a</th>
<th>17b</th>
<th>17c</th>
</tr>
</thead>
<tbody>
<tr>
<td>a Tax year beginning in 1989</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b Tax year beginning in 1990</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c Tax year beginning in 1991</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>d Tax year beginning in 1992</td>
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<td></td>
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<tr>
<td>Period</td>
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</tr>
<tr>
<td>19a</td>
<td>First 4 months</td>
<td>First 6 months</td>
<td>First 9 months</td>
</tr>
<tr>
<td>19b</td>
<td></td>
<td></td>
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<tr>
<td>19c</td>
<td></td>
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</tbody>
</table>

Enter taxable income for the following periods:

- a Tax year beginning in 1989
- b Tax year beginning in 1990
- c Tax year beginning in 1991

20 Divide the amount in each column on line 17a by the amount in column (d) on line 19a.

21 Divide the amount in each column on line 17b by the amount in column (d) on line 19b.

22 Divide the amount in each column on line 17c by the amount in column (d) on line 19c.

23 Add lines 20 through 22.

24 Divide line 23 by 3.

25 Divide line 18 by line 24.

26 Figure the tax on the amount on line 25 using the instructions for Form 1120, Schedule J, line 3 (or the comparable line of the return).

27 Divide the amount in columns (a) through (c) on line 19a by the amount in column (d) on line 19a.

28 Divide the amount in columns (a) through (c) on line 19b by the amount in column (d) on line 19b.

29 Divide the amount in columns (a) through (c) on line 19c by the amount in column (d) on line 19c.

30 Add lines 27 through 29.

31 Divide line 30 by 3.

32 Multiply the amount in columns (a) through (c) of line 26 by the amount in the corresponding column of line 31. In column (d), enter the amount from line 26, column (d).

33 Enter other taxes for each payment period (see instructions).

34 Total tax. Add lines 32 and 33.

35 For each period, enter the same type of credits as allowed on Form 2220, lines 1 and 2c (see instructions).

36 Total tax after credits. Subtract line 35 from line 34. If zero or less, enter -0-.

37 If the corporation’s tax year began before July 1, 1992, multiply line 36 by 93%. Otherwise, multiply line 36 by 97%.

38 Add the amounts in all preceding columns of line 45 (see instructions).

39 Subtract line 38 from line 37. If zero or less, enter -0-.

**Part III Required Installments**

40 If only one of the above parts is completed, enter the amounts in each column from line 16 or line 39. If both parts are completed, enter the smaller of the amounts in each column from line 16 or line 39.

41 Divide line 4c, Form 2220, by 4 and enter the result in each column. (Note: “Large corporations” see the instructions for line 6(b) on page 2 for the amount to enter.)

42 Enter the amount from line 44 of the preceding column.

43 Add lines 41 and 42.

44 If line 43 is more than line 40, subtract line 40 from line 43. Otherwise, enter -0-.

45 **Required installments.** Enter the smaller of line 40 or line 43 here and on Form 2220, line 6.