

1994



Department of the Treasury
Internal Revenue Service

Instructions for Form 2220

Underpayment of Estimated Tax by Corporations

Section references are to the Internal Revenue Code.

Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Form	Recordkeeping	Learning about the law or the form	Preparing and sending the form to the IRS
2220	27 hr., 1 min.	35 min.	1 hr., 4 min.
2220, Sch. A., Pt. I	11 hr., 14 min.	56 min.	23 min.
2220, Sch. A., Pt. II	23 hr., 26 min.	- - - -	23 min.
2220, Sch. A., Pt. III	5 hr., 16 min.	- - - -	5 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the IRS and the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

Changes To Note

- Form 2220 now includes the annualized income installment method and the adjusted seasonal installment method. These methods are referred to as Schedule A and are located on pages 3 and 4 of Form 2220. For details, see the Schedule A instructions on page 2.
- The Revenue Reconciliation Act of 1993 (the Act) made changes to the estimated tax rules for corporations. Effective for tax years beginning after 1993, some of the changes are highlighted below.

The percentage of the current year's tax liability required to be paid in installments during the tax year is increased from 97% to 100%. This change applies regardless of whether the corporation uses the regular installment method, the annualized income installment method, or the adjusted seasonal installment method. No change is made to the rule that allows a small corporation to pay 100% of last year's tax liability. In addition, a "large corporation" may continue to base its first required installment on 100% of the prior year's tax liability.

Under the annualized income installment method, a corporation now has 3 sets of periods over which it may annualize income. **Form 8842, Election To Use Different Annualization Periods for Corporate Estimated Tax**, is used to annually elect one of the annualization options. See **Part I** of Schedule A, Annualized Income Installment Method, on page 2.

General Instructions

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.

Who Must File

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 to your income tax return if:

- The annualized income installment method and/or the adjusted seasonal installment method is used (see the instructions for line 7a), or
- The corporation is a large corporation computing its first required installment based on the prior year's tax.

Who Must Pay the Underpayment Penalty

Generally, a corporation is subject to the penalty if its tax liability is \$500 or more and it did not timely pay the smaller of:

- 100% of its tax liability for 1994, or
- 100% of its tax liability for 1993 (if it filed a 1993 return that showed a liability for at least some amount of tax and the return covered a full 12 months). However, a large corporation (see the instructions for line 7b) may base only its first required installment on 100% of the prior year's tax liability.

The penalty is figured separately for each installment due date. Therefore, the corporation may owe a penalty for an earlier due date, even if it paid enough tax later to make up the underpayment. This is true even if the corporation is due a refund when its return is filed. However, a corporation may be able to reduce or eliminate the penalty by using the annualized income installment method or the adjusted seasonal installment method. See page 2 for details.

How To Use This Form

- Complete Part I of Form 2220 to determine the underpayment for any of the four installment due dates. Complete Schedule A if the corporation uses the annualized income installment method and/or the adjusted seasonal installment method.
- If there is an underpayment on line 14 (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, 1120-L, 1120S, etc.).

Specific Instructions

Part I—Figuring the Underpayment

Complete lines 1 through 15 of Part I.

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

Filers of Forms 990-PF, 990-T, 1120-F, 1120-L, 1120-ND, 1120-PC, 1120-REIT, 1120-RIC, 1120S, and 1120-SF.—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 applicable line for other income tax returns.

Line 4. All filers other than S corporations.—Figure the corporation's 1993 tax the same way the amount on line 3 of this form was determined, using the taxes and credits from its 1993 tax return.

Skip line 4 and enter the amount from line 3 on line 5 if either of the following apply:

- The corporation did not file a tax return for 1993 that showed a liability for at least some amount of tax; or
- The corporation had a 1993 tax year of less than 12 months.

S corporations.—Enter on line 4 the sum of: (a) 100% 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 1994 tax year, and (b) 100% of any excess net passive income tax shown on the S corporation's return for the 1993 tax year. If the 1993 tax year was less than 12 months, do not complete line 4. Instead, enter the amount from line 3 on line 5.

Line 7a. Annualized income installment method and/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 or eliminate 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 Schedule A on pages 3 and 4 of Form 2220. If Schedule A 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, Schedule A automatically selects the smallest of: (a) the annualized income installment, (b) the adjusted seasonal installment (if applicable), or (c) the regular installment under section 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 Schedule A. If it is using only the adjusted seasonal installment method, it must complete Parts II and III of Schedule A. If the corporation is using both methods, it must complete all three parts of the schedule. Enter in

each column on line 7 of Form 2220 the amount from the corresponding column of line 41, Part III of Schedule A. Also check the box on line 7a and attach Form 2220 to the corporation's tax return.

Line 7b. 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. A large corporation includes a large organization as defined in the instructions for **Form 990-W**.

If the annualized income installment method or adjusted seasonal installment method is not used, follow the instructions below to figure the amount to enter on line 7. Also check the box on line 7b. (If the corporation is using the annualized income installment method and/or the adjusted seasonal installment method, these instructions apply to line 37 of Schedule A.)

If line 3 is smaller than line 4.—Enter 25% of line 3 in columns (a) through (d) of line 7.

If line 4 is smaller than line 3.—Enter 25% of line 4 in column (a) of line 7. In column (b), determine the amount to enter as follows:

1. Subtract line 4 from line 3,
2. Add the result to the amount on line 3, and
3. Multiply the total in 2 above by 25% and enter the result in column (b).

In columns (c) and (d), enter 25% of line 3.

Line 8.—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.

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 of tax from the corporation's 1993 return that was credited to the corporation's 1994 estimated tax.

Line 14.—If any of the columns in line 14 shows an underpayment, complete Part II to figure the penalty.

Part II—Figuring the Penalty

Complete lines 16 through 33 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(a)(2). For underpayments paid after March 31, 1995, see the instructions below for lines 28 through 31.

Line 16.—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 June 15 installment requires a payment of \$2,500. On June 10, the corporation deposits \$2,500 to cover the June 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 June 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 28 through 31.—For underpayments paid after March 31, 1995, 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 1-800-829-1040 to get rate information.

Schedule A

Part I—Annualized Income Installment Method

Line 1.—Enter in the space on line 1, columns (a) through (d), respectively, the annualization periods for the option used. The options are listed below.

Standard option for corporations.—Enter "3" in column (a), "3" in column (b), "6" in column (c), and "9" in column (d).

Standard option for exempt organizations subject to the unrelated business income tax and private foundations.—Enter "2" in column (a), "3" in column (b), "6" in column (c), and "9" in column (d).

Option 1 for all organizations.—Enter "2" in column (a), "4" in column (b), "7" in column (c), and "10" in column (d).

Option 2 for all organizations.—Enter "3" in column (a), "5" in column (b), "8" in column (c), and "11" in column (d).

Line 3.—Enter the annualization amount, listed below, for the option used on line 1 above.

Standard option for corporations.—Enter "4" in column (a), "4" in column (b), "2" in column (c), and "1.33333" in column (d).

Standard option for exempt organizations subject to the unrelated business income tax and private foundations.—Enter "6" in column (a), "4" in column (b), "2" in column (c), and "1.33333" in column (d).

Option 1 for all organizations.—Enter "6" in column (a), "3" in column (b), "1.71429" in column (c), and "1.2" in column (d).

Option 2 for all organizations.—Enter "4" in column (a), "2.4" in column (b), "1.5" in column (c), and "1.09091" in column (d).

Line 6.—Enter the taxes the corporation owed for the months shown in each column on line 1. 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**, 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 (on line 3) used to figure annualized taxable income before subtracting the exemption amounts (see sections 55(d) and 59A(a)(2)).

Line 8.—Enter the credits the corporation is entitled to for the months shown in each column on line 1. Do not annualize any credit. However,

when figuring the credits, annualize any item of income or deduction used to figure the credit. For example, the research credit is based on qualified research expenses paid or incurred during the year. When figuring the research credit, multiply the qualified research expenses for the period shown in each column on line 1 by the annualization amount shown on line 3 for that period. For details, see Rev. Rul. 79-179, 1979-1 C.B. 436.

Line 12.—Before completing line 12 in columns (b) through (d), complete the following items in each of the preceding columns: line 13; Part II (if applicable); and Part III. For example, complete line 13; Part II (if using the adjusted seasonal installment method); and Part III, in column (a) before completing line 12 in column (b).

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 is 70% or more. The 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 month period in 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 1994, it must figure its taxable income for the period May through October in each of the years: 1991, 1992, and 1993. 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 1991, .74 for May through October 1992, and .67 for May through October 1993. Since the average of .69, .74, and .67 is equal to .70, the base period percentage for May through October 1994 is 70%. Therefore, the amusement park qualifies for the adjusted seasonal installment method.

Line 30.—Enter the taxes the corporation owed for the months shown in each column above line 14. 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 14. Divide the alternative minimum taxable income and modified alternative minimum taxable income by the amounts shown on line 21 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 28.

Line 32.—Enter the credits the corporation is entitled to for the months shown in each column above line 14.

Line 34.—Before completing line 34 in columns (b) through (d), complete lines 35 through 41 in each of the preceding columns. For example, complete lines 35 through 41 in column (a) before completing line 34 in column (b).

