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:

<table>
<thead>
<tr>
<th>Form 2220</th>
<th>Recordkeeping</th>
<th>Preparing and sending the form to the IRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2220</td>
<td>27 hr., 16 min.</td>
<td>35 min.</td>
</tr>
<tr>
<td>Sch. A., Pt. I</td>
<td>11 hr., 14 min.</td>
<td>12 min.</td>
</tr>
<tr>
<td>Sch. A., Pt. II</td>
<td>23 hr., 26 min.</td>
<td>23 min.</td>
</tr>
<tr>
<td>Sch. A., Pt. III</td>
<td>5 hr., 16 min.</td>
<td>5 min.</td>
</tr>
</tbody>
</table>

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. See the instructions for the tax return with which this form is filed.

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 with its income tax return 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 the corporation’s tax return if:
1. The annualized income installment method is used.
2. The corporation had a 1994 tax year of less than 12 months.
3. The corporation uses the annualized income installment method and/or the adjusted seasonal installment method.

Who Must Pay the Underpayment Penalty
Generally, a corporation is subject to the penalty if the tax shown on its 1995 return is $500 or more and it did not timely pay at least the smaller of:
1. The tax shown on its 1995 return, or
2. The tax shown on its 1994 return showing at least some amount of tax and the return was for a full 12 months.

However, a large corporation (as defined in the instructions for Part I, line 3) may base only its first required installment on the prior year’s tax. Note: In these instructions, “return” refers to the corporation’s original return. However, an amended return is considered the original return if the amended return is filed by the due date (including extensions) of the original return.

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 using the adjusted seasonal installment method. See the Part I instructions for details.

How To Use Form 2220
1. The corporation did not file a tax return for 1994 that showed a liability for at least some amount of tax; or
2. The corporation had a 1994 tax year of less than 12 months.

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 check the box on line 1 of Part I and complete Parts I and II of Schedule A. If it is using only the adjusted seasonal installment method, it must check the box on line 2 of Part I and complete Parts II and III of Schedule A. If the corporation is using both methods, it must check the boxes on lines 1 and 2 of Part II and complete all three parts of the schedule. In each column on line 10 of Form 2220, enter the amount from the corresponding column of line 41, Part III of Schedule A.

Line 3. 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 under rules similar to those in section 1561. A large corporation includes a large organization as defined in the instructions for Form 990-W.

Part II—Figuring the Underpayment
Complete lines 4 through 18 of Part II.

Lines 1 and 2. Annualized income installment method and/or adjusted seasonal installment method.—If the corporation’s income varied during the year, it operated its business on a seasonal basis, or the 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 under rules similar to those in section 1561. A large corporation includes a large organization as defined in the instructions for Form 990-W.

Specific Instructions
Part I—Reasons For Filing
Lines 1 and 2. Annualized income installment method and/or adjusted seasonal installment method.—If the corporation’s income varied during the year, it operated its business on a seasonal basis, or the 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 under rules similar to those in section 1561. A large corporation includes a large organization as defined in the instructions for Form 990-W.

Line 4.—Enter the tax from line 33, Form 1120; line 27, Form 1120-A; or the applicable line for other income tax returns (except as noted below).

Filings 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 5c.—Enter the amount from line 32g, Form 1120; line 28g, Form 1120-A; or the applicable line for other income tax returns.

Line 7. All filers other than S corporations.—Figure the corporation’s 1994 tax the same way the amount on line 6 of this form was determined, using the taxes and credits from its 1994 tax return.

Skip line 7 and enter the amount from line 6 on line 8 if either of the following apply:
1. The corporation did not file a tax return for 1994 that showed a liability for at least some amount of tax; or
2. The corporation had a 1994 tax year of less than 12 months.
S corporations.—Enter on line 7 the sum of: (a) the total 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 1995 tax year, and (b) any excess net passive income tax shown on the S corporation’s return for the 1994 tax year. If the 1994 tax year was less than 12 months, do not complete line 7. Instead, enter the amount from line 6 on line 8.

Line 10.—If the box on line 3 (but not 1 or 2) is checked and line 6 is smaller than line 7, enter 25% of line 6 in columns (a) through (d) of line 10.

If the box on line 3 (but not 1 or 2) is checked and line 7 is smaller than line 6, enter 25% of line 7 in column (a) of line 10. In column (b), figure the amount to enter as follows:

1. Subtract line 7 from line 6,
2. Add the result to the amount on line 6,
3. Multiply the total in 2 above by 25%, and
center the result in column (b).

In columns (c) and (d), enter 25% of line 6.

If the box on line 3 and the box on line 1 or 2 is checked, follow the above instruction by substituting line 6 of Schedule A for line 10.

Line 11—Column (a).—Enter the estimated tax payments deposited by the 15th day of the 4th month of the corporation’s tax year.

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.

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.

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 1994 return that was credited to the corporation’s 1995 estimated tax.

Line 17.—If any of the columns in line 17 shows an underpayment, complete Part III to figure the penalty.

Part III—Figuring the Penalty

Complete lines 19 through 36 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, 1996, see the instructions below for lines 28, 30, 32, and 34.

Line 19.—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 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 required installments, attach a separate computation for each payment.

Lines 28, 30, 32, and 34.—For underpayments paid after March 31, 1996, 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, column (a) (through d), respectively, the annualization periods for the option used. The options are listed below.

Caution: Use Option 1 or Option 2 only if the corporation elected to do so by filing Form 8842, Election To Use Different Annualization Periods for Corporate Estimated Tax, on or before the due date of the first required installment payment. Once made, the election is irrevocable for the particular tax year.

Standard option for corporations.—Enter “3” in column (a), “4” 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 any other taxes the corporation owed for the months shown in each column on line 1. Include the same taxes used to figure line 4, Part II 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.

Compute 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 for the months shown in 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 under section 55(d) and section 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 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

The corporation may use the adjusted seasonal installment method only if 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 1995, it must figure its taxable income for the period May through October in each of the years: 1992, 1993, and 1994. 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 percentages: 69% (.69) for May through October 1992, 74% (.74) for May through October 1993, and 67% (.67) for May through October 1994. Because the average of 69%, 74%, and 67% is 70%, the base period percentage for May through October 1995 is 70%. Therefore, the amusement park qualifies for the adjusted seasonal installment method.

Line 30.—Enter any other taxes the corporation owed for the months shown in each column above line 14. Include the same taxes used to figure line 4, Part II 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.

Compute 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 for 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 under section 55(d) and section 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).