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.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

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</th>
<th>Recordkeeping</th>
<th>Learning about the law or the form</th>
<th>Preparing and sending the form to the IRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2220</td>
<td>28 hr., 13 min.</td>
<td>53 min.</td>
<td>1 hr., 23 min.</td>
</tr>
<tr>
<td>2220, Schedule A, Part I</td>
<td>11 hr., 14 min.</td>
<td>12 min.</td>
<td>23 min.</td>
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<tr>
<td>2220, Schedule A, Part II</td>
<td>23 hr., 26 min.</td>
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<td>23 min.</td>
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<tr>
<td>2220, Schedule A, Part III</td>
<td>5 hr., 16 min.</td>
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<td>5 min.</td>
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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.

Changes To Note

The Small Business Job Protection Act of 1996 (the “Act”) made the following changes to the law regarding the underpayment of estimated tax.

- The IRS will waive all or part of the estimated tax penalty to the extent the underpayment is attributable to changes made by the Act. However, the waiver applies only to installments due before August 20, 1996. See Waiver of penalty on page 3.
- If the corporation's tax liability is increased as a result of the Puerto Rico and possession tax credit, special rules apply to figure the underpayment on an installment due after August 20, 1996, and before October 1, 1996. For details, see Act section 1601(c)(3).
- Tax-exempt organizations subject to the unrelated business income tax and private foundations should not file Form 8842, Election To Use Different Annualization Periods for Corporate Estimated Tax. For information concerning the annualization periods applicable to tax-exempt organizations and private foundations, see Form 990-W, Estimated Tax on Unrelated Business Taxable Income for Tax-Exempt Organizations.

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 adjusted seasonal installment method is used, or
3. The corporation is a large corporation (as defined in the instructions for Part I, line 3, on page 2) figuring its first required installment based on the prior year's tax.

Note: The corporation should also complete and attach Form 2220 if it is claiming a waiver of the penalty as discussed in the instructions for line 17 on page 3.

Who Must Pay the Underpayment Penalty

Generally, a corporation is subject to the penalty if the tax shown on its 1996 return is $500 or more and it did not timely pay at least the smaller of:

1. The tax shown on its 1996 return, or
2. The tax shown on its 1995 return (if it filed a 1995 return showing at least some amount of tax and the return was for a full 12 months). However, a large corporation may base only its first required installment on the prior year's tax.

Note: In these instructions, “return” generally 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 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 the Part I instructions for details.

How To Use Form 2220

- Check one or more boxes in Part I if the corporation uses the annualized
income installment method, the adjusted seasonal installment method, or the corporation is a large corporation.

- If the corporation checked a box in Part I or is claiming a waiver of the penalty, attach Form 2220 to the income tax return. Be sure to 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.).

- Complete Part II 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 17, Part II (column (a), (b), (c), or (d)), go to Part III to figure the penalty.

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### 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 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 and/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 to figure 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. Using one or both of these methods may reduce or eliminate the penalty for those due dates.

Use Schedule A on pages 3 and 4 of Form 2220 to figure one or more required installments. 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 recaptured 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 III of Schedule A.

- If the corporation 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 I and complete all three parts 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

**Line 4.**—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).

However, if that amount includes any tax attributable to a sale described in section 338(a)(1), do not include that tax on line 4. Instead, write “Sec. 338 gain” and show the amount of tax in brackets on the dotted line next to line 4.

**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 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 below).**—Figure the corporation’s 1995 tax the same way the amount on line 6 of this form was determined, using the taxes and credits from its 1995 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 1995 that showed a liability for at least some amount of tax; or
2. The corporation had a 1995 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 1996 tax year, and (b) any excess net passive income tax shown on the S corporation’s return for the 1995 tax year. If the 1995 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 enter 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 and/or line 2 is checked, follow the above instruction by substituting line 37 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 1995 return
that was credited to the corporation's 1996 estimated tax.

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

**Waiver of penalty.**—If the corporation has an underpayment on line 17, all or part of the penalty for any installment due before August 20, 1996, will be waived if the IRS determines that the underpayment was attributable to changes made by the Act.

To claim the waiver, a corporation should do the following:

- Write the word "WAIVER" in the bottom margin of page 1 of Form 2220.
- Compute the penalty by refiguring Form 2220 through line 35 on the basis of the law in effect before the changes were made. Subtract the total of columns (a) through (d) of line 35 on the refigured Form 2220 from the total of those columns on Form 2220 based on the changes made by the Act. On the dotted line to the left of line 36, write "Amount waived" and the amount. Subtract the waiver amount from the total of columns (a) through (d), line 35, to arrive at the amount to enter on line 36.
- Attach Form 2220 and a statement to the corporation's tax return showing the computation of the penalty to be waived (with references to the changes in the law that justify the waiver).

**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, 1997, 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**

**Caution:** Use Option 1 or Option 2 only if the corporation elected to do so by filing Form 8842 on or before the due date of the first required installment payment. Once made, the election is irrevocable for the particular tax year. Tax-exempt organizations and private foundations no longer file Form 8842. See Form 990-W.

**Line 1.**—Enter 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 corporations.**—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 corporations.**—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 (including alternative minimum tax, as figured below) 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 for completed long-term contracts under section 460(b)(2).

Compute the alternative minimum tax on Form 4626, Alternative Minimum Tax—Corporations. Figure alternative minimum taxable income based on the corporation's income and deductions for the annualization period entered in each column on line 1. Multiply alternative minimum taxable income by the annualization amounts (line 3) used to figure annualized taxable income before subtracting the exemption amount under section 55(d).

**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 column (b) through (d), complete the following items in each of the preceding columns: line 13, Part I; Part II (if applicable); and Part III. For example, complete line 13, Part I; 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 with a 1996 calendar tax year receives the largest part of its taxable income during a 6-month period, May through October. To compute its base period percentage for this 6-month period, the amusement park figures its taxable income for the period May-October in 1993, 1994, and 1995. It then divides the taxable income for each May-October period by the total taxable income for that particular tax year. The resulting percentages are: 69% (.69) for May-October 1993, 74% (.74) for May-October 1994, and 67% (.67) for May-October 1995. Because the average of 69%, 74%, and 67% is 70%, the base period percentage for May through October 1996 is 70%. Therefore, the amusement park qualifies for the adjusted seasonal installment method.

Line 30.— Enter any other taxes (including alternative minimum tax, as figured below) the corporation owed for the months shown in each column directly 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 for completed long-term contracts under section 460(b)(2).

Compute the alternative minimum tax on Form 4626. Figure alternative minimum taxable income based on the corporation's income and deductions for the months shown in the column headings directly above line 14. Divide the alternative minimum taxable income by the amounts shown on line 21 before subtracting the exemption amount under section 55(d). For columns (a) through (c) only, multiply the alternative minimum 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).