



# Instructions for Form 2220

## Underpayment of Estimated Tax by Corporations

Section references are to the Internal Revenue Code unless otherwise noted.

### Changes To Note

- The due date for any required installment that otherwise would have been due in September 2001, is October 1, 2001.
- The due date for any required installment due after September 10, 2001, and before January 15, 2002, for a corporation directly affected by the September 11, 2001, terrorist attack was extended to January 15, 2002. Additional relief may also be available. See **September 11, 2001, Terrorist Attacks** on this page.

### General Instructions

#### Purpose of Form

Corporations (including S corporations), tax-exempt organizations subject to the unrelated business income tax (tax-exempt organizations), and private foundations use Form 2220 to determine:

- Whether they are subject to the penalty for underpayment of estimated tax and, if so,
- The amount of the underpayment 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 notify the corporation of any amount due. 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,
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.
4. The corporation is requesting relief because it was indirectly affected by the September 11, 2001, terrorist attacks (see **September 11, 2001, Terrorist Attacks** on this page), or
5. The corporation has a suspended research credit allowed for the current year (see the instructions for line 4 on page 2).

#### Who Must Pay the Underpayment Penalty

Generally, a corporation is subject to the penalty if the tax shown on its 2001 return is \$500 or more and it did not timely pay at least the **smaller** of:

1. The tax shown on its 2001 return or
2. The tax shown on its 2000 return (if it filed a 2000 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, the 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 if the corporation is a large corporation.

If the corporation checked a box in Part I, is requesting relief as an indirectly affected taxpayer, or has a suspended research credit allowed for the current year, 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.
- If there is an underpayment on line 17, Part II (column (a), (b), (c), or (d)), go to Part III to figure the penalty.
- Complete Schedule A if the corporation uses the annualized income installment method and/or the adjusted seasonal installment method.

#### September 11, 2001, Terrorist Attacks

Taxpayers affected by the September 11, 2001, terrorist attacks are eligible for relief as described below. Also see the instructions for line 9.

**Directly affected.** The due date for any required installment due after September 10, 2001, and before January 15, 2002, is January 15, 2002, for any directly affected corporation. A corporation is directly affected if its records were maintained in a covered disaster area. The covered disaster areas are The Bronx, Kings, New York (boroughs of Brooklyn and Manhattan), Queens, and Richmond counties in New York and Arlington county, Virginia.

If the corporation was directly affected, write "September 11, 2001, Terrorist Attack" in red ink at the top of the corporation's income tax return. The corporation is not required to file Form 2220 to request this relief. However, if the corporation is otherwise required to file Form 2220, write "September 11, 2001, Terrorist Attack" in red ink at the top of Form 2220 as well.

**Indirectly affected.** If the corporation was not directly affected but had difficulty in making estimated tax payments because of disruption in the transportation and delivery of documents by mail or private delivery services resulting from the terrorist attacks, the corporation qualifies for relief as an indirectly affected taxpayer. The due date for the corporation's required installments otherwise due after September 10, 2001, and before November 1, 2001, is November 15, 2001. **Do not** write "September 11, 2001, Terrorist Attack" at the top of the corporation's income tax return or Form 2220 to request relief as an indirectly affected taxpayer. Instead, file Form 2220 and follow the rules below.

- Complete Form 2220 through line 35 without regard to this relief. Write "Indirectly Affected" at the top of Form 2220 in black ink.

- Complete a second Form 2220 as a worksheet using the November 15, 2001, due date.
- Write the amount to be waived (the difference between the penalty figured with and without regard to this relief) in parentheses on the dotted line next to line 36. Subtract that amount from the total penalty figured without regard to this relief and enter that result on line 36. **Do not** attach the worksheet Form 2220 to the corporation's return.
- Attach a statement to the corporation's return requesting relief as an indirectly affected taxpayer. Explain your situation and indicate the due date of the payment that you are requesting be extended to November 15, 2001. Include the amount of the penalty figured without regard to the relief, the amount to be waived, and any remaining penalty.

## 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.

**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:

- The annualized income installment,
- The adjusted seasonal installment (if applicable), or
- The regular installment under section 6655(d) (increased by any reduction recaptured under section 6655(e)(1)(B)).

Follow the steps below to determine which parts of the form have to be completed.

- If the corporation is using only the annualized income installment method, 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, 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, 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 whose predecessor had, taxable income (defined below) of \$1 million or more for any of the 3 tax years immediately preceding the current tax year. A large corporation includes a "large organization" as defined in the instructions for Form 990-W.

**Taxable income,** for this purpose, 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.

If the corporation is a large corporation, check the box on line 3 and, if applicable, check the box(es) on line 1 and/or line 2. Also, if applicable, complete Parts I, II, and III of Schedule A, as discussed above.

## Part II—Figuring the Underpayment

**Line 4.** Generally, enter the tax from line 31, Form 1120; line 27, Form 1120-A; or the applicable line for other income tax returns. 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.

**Special instructions for calendar year corporations who have a suspended research credit.** Write "Suspended Research Credit" at the top of Form 2220. Complete lines 4 through 10 (and Schedule A, if applicable) of Form 2220 as indicated, using the amounts from the corporation's tax return (i.e., not taking into account the suspended research credit allowed for the current year). Then, complete only lines 4 through 10 (and Schedule A, if applicable) of a second Form 2220 and write "worksheet" at the top of each page. Reduce the tax on line 4 of the second Form 2220 by the suspended research credit allowed for the current year. That amount is the **smaller** of (a) Form 6765, line 43, or (b) Form 6765, line 56, or Form 3800, line 18c, whichever applies. If you are completing Schedule A, complete lines 8 and 32 for the second Form 2220 as if the credit were not suspended. Next, on the first Form 2220, include on line 11, column (d), as a deemed payment made on October 1, 2001, the excess of (a) the sum of line 10, columns (a), (b), and (c) of the first Form 2220 over (b) the sum of those amounts on the second Form 2220. Also, on the first Form 2220, include on line 11, column (d), as a deemed payment made on December 15, 2001, the excess of (a) the sum of line 10, columns (a), (b), (c), and (d) of the first Form 2220 over (b) the sum of those amounts on the second Form 2220 plus the October 1, 2001, deemed payment. Complete the rest of the first Form 2220 and attach both Forms 2220 to the corporation's tax return.

**Example.** The corporation has \$10,000 on Form 2220, line 8, and \$8,000 on line 8 of the second Form 2220. The corporation does not check box 1, 2, or 3. The corporation enters \$2,500 (1/4 of \$10,000) in each column on line 10 of the first Form 2220 and \$2,000 in each column of line 10 of the second Form 2220. The corporation includes on the first Form 2220, line 11, column (d), deemed payments of \$1,500 ((3 x \$2,500) - (3 x \$2,000)) on October 1, 2001, and \$500 (\$10,000 - \$8,000 - \$1,500) on December 15, 2001.

**Special instructions for fiscal year corporations with a required installment due before October 1, 2001, who have a suspended research credit.** Follow the instructions above, with the following modifications.

- The corporation has a deemed payment on October 1, 2001, equal to the excess of the sum of the amounts on line 10 of the first Form 2220 for columns whose due date is before October 2, 2001, over the sum of those amounts on the second Form 2220.
- For each installment due date after October 1, 2001, the corporation has a deemed payment on that due date equal to the excess of (a) the sum of the amounts on line 10 of the first Form 2220 in that column and all preceding columns over (b) the sum of those amounts on the second Form 2220 plus all prior deemed payments.

Take the deemed payment(s) into account as if they were actual payments.

**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 2000 tax the same way the amount on line 6 of this form was determined using the taxes and credits from its 2000 tax return. **But skip line 7 and enter the amount from line 6 on line 8 if:**

- The corporation did not file a tax return for 2000 that showed a liability for at least some amount of tax or
- The corporation had a 2000 tax year of less than 12 months.

**S corporations.** Enter on line 7 the sum of:

1. 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 2001 tax year and
2. Any excess net passive income tax shown on the S corporation's return for the 2000 tax year.

If the 2000 tax year was less than 12 months, skip line 7, and enter the amount from line 6 on line 8.

**Line 9.** Generally, tax installment due dates are the 15th day of the 4th, 6th, 9th, and 12th months of the corporation's tax year. (For Form 990-PF filers, the first installment due date is the 15th day of the 5th month.) However, the due date for any installment that otherwise would have been due in September 2001 is October 1, 2001.

**Affected taxpayers.** The due date for any required installment due after September 10, 2001, and before January 15, 2002, is January 15, 2002, for any corporation directly affected by the September 11, 2001 terrorist attacks. Also, the due date for any required installment otherwise due after September 10, 2001, and before November 1, 2001, is November 15, 2001, for an indirectly affected corporation. See **September 11, 2001, Terrorist Attacks** on page 1.

Enter the applicable date on line 9 instead of the original due date. If two columns have the same due date, skip lines 10 through 35 of the first of those two columns. On lines 10 and 11 for the second of those two columns, enter the sum of the amounts that would have otherwise been entered for those two columns. On lines 12 and 14, ignore the skipped column and use the amounts from the preceding column (if any).

**Line 10.** If the two columns have the same due date, see the instructions for line 9. Large corporations, follow the instructions below.

1. If the box on line 3 (but not line 1 or line 2) is checked and line 6 is smaller than line 7, enter 25% of line 6 in columns (a) through (d) of line 10.
2. If the box on line 3 (but not line 1 or line 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:
  - a. Subtract line 7 from line 6,
  - b. Add the result to the amount on line 6,
  - c. Multiply the total in item (b) above by 25%, and enter the result in column (b).

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

3. If the box on line 3 **and** the box on line 1 and/or line 2 is checked, follow the instructions in items 1 and 2 above by substituting line 37 of Schedule A for line 10 and complete the rest of Part III of Schedule A.

**Line 11.** Enter the estimated tax payments made by the corporation for its tax year as indicated below. Include any overpayment from the corporation's 2000 tax return that was credited to the corporation's 2001 estimated tax. If an installment is due on a Saturday, Sunday, or legal holiday, payments made for that installment on the next day that is not a Saturday, Sunday, or legal holiday are considered made on the due date. If two columns have the same due date, see the instructions for line 9.

- **Column (a).** Enter payments made by the date on line 9, column (a).
- **Columns (b), (c), and (d).** Enter payments made by the date on line 9 for that column and after the date on line 9 of the preceding column.

**Note:** Due to economic disruptions caused by the September 11, 2001, terrorist attack, the IRS allowed corporations to redesignate their estimated income tax payments as deposits of

employment and withheld income taxes. **Do not include any redesignated amounts on line 11.**

**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 information on obtaining the interest rate on underpayments paid after March 31, 2002, see page 2 of Form 2220.

**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 the installment to which the payment pertains.

**Example.** A corporation underpaid the April 15 installment by \$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 will be considered as 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.

## Schedule A

### Part I—Annualized Income Installment Method

**Line 1—Annualization periods.** Enter on line 1, columns (a) through (d), respectively, the annualization amounts for the option listed below. For example, if the corporation elected Option 1, enter on line 1 the annualization periods 2, 4, 7, and 10, in columns (a) through (d), respectively.



**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 Corporation 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.

Option 2 is not available to tax-exempt organizations and private foundations. See Form 990-W.

#### Corporations

	1st Installment	2nd Installment	3rd Installment	4th Installment
<b>Standard option</b>	3	3	6	9
<b>Option 1</b> . . .	2	4	7	10
<b>Option 2</b> . . .	3	5	8	11

#### Tax-Exempt Organizations and Private Foundations

	1st Installment	2nd Installment	3rd Installment	4th Installment
<b>Standard option</b>	2	3	6	9
<b>Option 1</b> . . .	2	4	7	10

**Line 2.** Enter on line 2 the taxable income (line 30, Form 1120; line 26, Form 1120-A; or the applicable line for other income tax returns) that the corporation received for the months entered for each annualization period in columns (a) through (d) on line 1.

**Line 3—Annualization amounts.** Enter on line 3, columns (a) through (d), respectively, the annualization amounts for the option used on line 1 above. For example, if the corporation elected Option 1, enter on line 3 the annualization amounts 6, 3, 1.71429, and 1.2, in columns (a) through (d), respectively.

### Corporations

	1st Installment	2nd Installment	3rd Installment	4th Installment
<b>Standard option</b>	4	4	2	1.33333
<b>Option 1 . . .</b>	6	3	1.71429	1.2
<b>Option 2 . . .</b>	4	2.4	1.5	1.09091

### Tax-Exempt Organizations and Private Foundations

	1st Installment	2nd Installment	3rd Installment	4th Installment
<b>Standard option</b>	6	4	2	1.33333
<b>Option 1 . . .</b>	6	3	1.71429	1.2

**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 of section 460(b)(2) for completed long-term contracts or section 167(g) for property depreciated under the income forecast method.

**Alternative minimum tax.** Compute the alternative minimum tax (AMT) on **Form 4626**, Alternative Minimum Tax—Corporations, if applicable. Figure alternative minimum taxable income (AMTI) based on the corporation's income and deductions for the annualization period entered in each column on line 1. Multiply AMTI 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 columns (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 2001 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 1998, 1999, and 2000. 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 1998, 74% (.74) for May-October 1999, and 67% (.67) for May-October 2000. Because the average of 69%, 74%, and 67% is 70%, the base period percentage for May through October 2001 is 70%. Therefore, the amusement park qualifies for the adjusted seasonal installment method.

**Line 30.** Enter any other taxes (including AMT, 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 of section 460(b)(2) for completed long-term contracts or section 167(g) for property depreciated under the income forecast method.

**Alternative minimum tax.** Compute the AMT on Form 4626, if applicable. Figure AMTI based on the corporation's income and deductions for the months shown in the column headings directly above line 14. Divide the AMTI by the amounts shown on line 21 before subtracting the exemption amount under section 55(d). For columns (a) through (c) only, multiply the AMT 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 40 in each of the preceding columns. For example, complete lines 35 through 40 in column (a) before completing line 34 in column (b).

**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:

Form	Recordkeeping	Learning about the law or the form	Preparing and sending the form to the IRS
2220	27 hr., 44min.	1 hr., 5 min.	1 hr., 35 min.
2220, Schedule A, Part I	11 hr., 14 min.	18 min.	29 min.
2220, Schedule A, Part II	23 hr., 26 min.	---	22 min.
2220, Schedule A, Part III	5 hr., 1 min.	---	4 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. See the instructions for the tax return with which this form is filed.