



Instructions for Form 2220

Underpayment of Estimated Tax by Corporations

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

A Change To Note

Public Law 105-206 made changes in the tax law that may affect the corporation's tax liability. The IRS will waive all or part of the estimated tax penalty to the extent the underpayment is attributable to changes made by the new law. See **Waiver of penalty** under the instructions for line 17 on page 2.

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 the following:

- 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,

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 2.*

Who Must Pay the Underpayment Penalty

Generally, a corporation is subject to the penalty if the tax shown on its 1998 return is \$500 or more and it did not timely pay at least the **smaller** of:

1. The tax shown on its 1998 return, or
2. The tax shown on its 1997 return (if it filed a 1997 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.
- A corporation, however, 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 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.
- 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.

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: **(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)).

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 its 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.

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 1997 tax the same way the amount on line 6 of this form was determined, using the taxes and credits from its 1997 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 1997 that showed a liability for at least some amount of tax; or**
2. **The corporation had a 1997 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 1998 tax year, and **(b)** any excess net

passive income tax shown on the S corporation's return for the 1997 tax year. If the 1997 tax year was less than 12 months, do not complete line 7. Instead, enter the amount from line 6 on line 8.

Line 10—Large corporations.

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 completing the remainder of the lines in Part III of Schedule A.

Line 11. Enter the estimated tax payments deposited by the corporation for its tax year, as indicated below:

Column (a): Payments made by the 15th day of the 4th month. Private foundations enter payments made by the 15th day of the 5th month.

Column (b): Payments made after the 15th day of the 4th month through the 15th day of the 6th month. Private foundations enter payments made after the 15th day of the 5th month through the 15th day of the 6th month.

Column (c): Payments made after the 15th day of the 6th month through the 15th day of the 9th month.

Column (d): Payments made after the 15th day of the 9th month through the 15th day of the 12th month.

Include in the estimated tax payments any **overpayment** of tax from the corporation's 1997 return that was credited to the corporation's 1998 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 attributable to any installment due to be paid on or before August 21, 1998, will be waived if the IRS determines that the underpayment was attributable to changes made by Public Law 105-206.

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

- Write "WAIVER" in the bottom margin of page 1 of Form 2220.
- Compute the penalty by refiguring Form 2220 through line 33 on the basis of the law in effect before the changes were made. Subtract the total of columns (a) through (d) of line 33 on the refigured Form 2220 from the total of those columns on Form 2220 based on the changes made by the new law. On the dotted line to the left of line 34, write "Amount waived" and the amount. Subtract the waiver amount from the total of columns (a) through (d), line 33, to arrive at the amount to enter on line 34.
- 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 34 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, 1999, 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 which installment the payment pertains to.

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 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
Standard option	3	3	6	9
Option 1 . . .	2	4	7	10
Option 2 . . .	3	5	8	11

Tax-exempt Organizations and Private Foundations				
	1st Installment	2nd Installment	3rd Installment	4th Installment
Standard option	2	3	6	9
Option 1 . . .	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
Standard option	4	4	2	1.33333
Option 1 . . .	6	3	1.71429	1.2
Option 2 . . .	4	2.4	1.5	1.09091

Tax-exempt Organizations and Private Foundations				
	1st Installment	2nd Installment	3rd Installment	4th Installment
Standard option	6	4	2	1.33333
Option 1 . . .	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 for completed long-term contracts under section 460(b)(2).

Alternative minimum tax. Compute the alternative minimum tax on Form 4626, Alternative Minimum Tax—Corporations, if applicable. 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 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 1998 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 1995, 1996, and 1997. 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 1995, 74% (.74) for May-October 1996, and 67% (.67) for May-October 1997. Because the average of 69%, 74%, and 67% is 70%, the base period percentage for May through October 1998 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).

Alternative minimum tax. Compute the alternative minimum tax on Form 4626, if applicable. 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).

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., 1 min.	1 hr.	1 hr., 29 min.
2220, Schedule A, Part I	11 hr., 14 min.	12 min.	23 min.
2220, Schedule A, Part II	23 hr., 26 min.	- - -	23 min.
2220, Schedule A, Part 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. See the instructions for the tax return with which this form is filed.