

1990


 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 unless otherwise noted.)

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 this 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 the form	Copying, assembling, and sending the form to IRS
2220	18 hrs., 11 min.	1 hr., 32 min.	3 hrs., 46 min.	32 min.
Worksheet, Pt. I	11 hrs., 43 min.	6 min.	17 min.	---
Worksheet, Pt. II	24 hrs., 23 min.	---	24 min.	---
Worksheet, Pt. III	5 hrs., 16 min.	---	5 min.	---

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both 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. **DO NOT** send the tax form to either of these offices. Instead, see the instructions in your income tax return for information on where to file.

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 whether they are subject to the penalty for underpayment of estimated tax and, if so, the amount of the penalty.

Who Must Pay the Underpayment Penalty

If the corporation did not pay enough estimated tax by any due date for paying estimated tax, it may be charged a penalty. This is true even if the corporation is due a refund when its return is filed. The penalty is figured separately for each installment due date. Therefore, the corporation may owe a penalty for an earlier installment due date, even if it paid enough tax later to make up the underpayment.

Generally, a corporation is subject to the penalty if its tax liability is \$500 or more and it did not timely pay the lesser of 90% of its tax liability for 1990, or 100% of its tax liability for 1989 (if it filed a 1989 return showing at least some amount of tax and the return covered a full 12 months).

However, a "large corporation" (defined in the instructions for line 6b) may base only its first required installment on 100% of the prior year's tax liability. A corporation may be able to reduce or eliminate the penalty by using the annualized income installment method or the adjusted seasonal installment method.

IRS May Be Able To Figure the Penalty for the Corporation

Generally, the corporation does not have to file this form because IRS can figure the amount of any penalty and bill the

corporation. However, complete and attach this form if:

a. The annualized income installment method and/or the adjusted seasonal installment method is used (see the instructions for line 6),

b. The corporation is a "large corporation" computing its first required installment based on the prior year's tax, or

c. An insurance company requests a waiver of the penalty as discussed in the instructions for line 13 under **Waiver of Penalty for Insurance Companies**.

How To Use This Form

Complete Part I of Form 2220 to determine the underpayment for any of the four installment due dates. If there is an underpayment on line 13 (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, 1120L, 1120S, etc.).

Part I. Figuring The Underpayment

Complete lines 1 through 14 in Part I. Follow the instructions below.

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

Interest due under the look-back method for completed long-term contracts is not treated as an increase in tax for purposes of computing the estimated tax penalty. Do not include on line 1 any interest due under the look-back method included in tax on the

corporation's income tax return. Instead, write on the dotted line to the left of the entry space, "From Form 8697" and the amount of interest due in brackets.

Filers of Forms 990-PF, 990-T, 1120L, 1120-PC, 1120-REIT, 1120-RIC, and 1120S: See the instructions for the appropriate tax return for the definition of tax for purposes of the estimated tax provisions.

Line 2b.—Enter the amount of the credit(s) from line 32g, Form 1120; line 28g, Form 1120-A; or the comparable line for other income tax returns.

Line 4b.—All filers other than S corporations.—Figure the corporation's 1989 tax in the same manner as the amount on line 3 of this form was determined, using the taxes and credits from its 1989 tax return. Skip line 4b and enter the amount from line 4a on line 4c if either of the following apply: (1) the corporation did not file a tax return for 1989 that showed at least some amount of tax; or (2) the corporation had a 1989 tax year of less than 12 months.

S corporations.—Enter on line 4b the sum of: (i) 90% 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 1990 tax year, and (ii) 100% of any excess net passive income tax shown on the S corporation's return for the 1989 tax year. If the 1989 tax year was for less than 12 months, do not complete this line. Instead, enter the amount from line 4a on line 4c.

Line 6.—(a) Annualized Income Installment Method 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 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, thereby reducing or eliminating the penalty for those due dates.

To use one or both of these methods to figure one or more required installments, use the worksheet on pages 3 and 4 of these instructions. If the worksheet 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, the worksheet 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 the worksheet. If it is using only the adjusted seasonal installment method, it must complete Parts II and III of the worksheet. If

the corporation is using both methods, it must complete the entire worksheet. Enter in each column on line 6 of Form 2220 the amounts from the corresponding column of line 45 of the worksheet. Also attach a copy of the worksheet to Form 2220 and check the box on line 6a.

(b) "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 tax year involved. 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.

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 6. Also check the box on line 6b. (If the corporation is using the annualized income installment method and/or the adjusted seasonal installment method, these instructions apply to line 41 of the worksheet.)

If line 4a is less than line 4b: Enter 25% of line 4a in columns (a) through (d) on line 6. *If line 4b is less than line 4a:* Enter 25% of line 4b in column (a) on line 6. In column (b), determine the amount to enter by: (i) subtracting line 4b from line 4a, (ii) adding the result to the amount on line 4a, and (iii) multiplying the total by 25%. In columns (c) and (d), enter 25% of line 4a.

Line 7.—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; and, 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 1989 return that was credited to the corporation's 1990 estimated tax.

Line 13.—If line 13 shows an underpayment, complete Part II to figure the penalty.

Waiver of Penalty for Insurance Companies.—The Revenue Reconciliation Act of 1990 (Act) changed the way an insurance company handles the amortization of policy acquisition expenses and the treatment of salvage. No penalty will be imposed on any underpayment of estimated tax attributable to the changes made by the Act to IRC sections 807(e), 832(b)(4), 832(b)(5), and 848, for any period before March 16, 1991. Accordingly, for any installment due date before March 16, 1991, if an insurance company has an underpayment on line 13 which is due to changes made by the Act, the penalty for that underpayment will be waived.

To claim the waiver, affected companies should compute the penalty by refiguring Form 2220 through line 27 on the basis of the law in effect before the changes were made and write the word "WAIVER" on the

bottom margin of page 1. Also write "Waiver-\$(amount)" on the dotted line to the left of line 28. Subtract the waiver amount from the total of columns (a) through (d), line 27, to arrive at the amount to be entered on line 28. Attach an explanation showing your computation of the amount of the penalty to be waived.

Part II. Figuring The Penalty

Complete lines 15 through 28 to determine the amount of the penalty. The penalty is figured for the period of underpayment determined under section 6655 at a rate determined under section 6621. For underpayments paid after March 31, 1991, see the instructions for lines 23 through 26.

Line 15.—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 underpayment for 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.

Line 23.—For underpayments paid after March 31, 1991, and before July 1, 1991, use the interest rate that the IRS will determine in January 1991.

Line 24.—For underpayments paid after June 30, 1991, and before October 1, 1991, use the interest rate that the IRS will determine in April 1991.

Line 25.—For underpayments paid after September 30, 1991, and before January 1, 1992, use the interest rate that the IRS will determine in July 1991.

Line 26.—For underpayments paid after December 31, 1991, use the interest rate that the IRS will determine in October 1991.

Instructions for Worksheet

Part I—Annualized Income Installment Method

Line 4.—*Filers of Forms 990-PF and 990-T:* The period to be used to figure taxable income for each column is as follows: Column (a), first 2 months; column (b), first 4 months; column (c), first 7 months; and column (d), first 10 months.

Line 5.—*Filers of Forms 990-PF and 990-T:* The annualization amount to be used in each column is as follows: Column (a), 6; column (b), 3; column (c), 1.71429; and column (d), 1.2.

Line 9.—Enter the taxes the corporation owed because of events that occurred during the months shown in the column headings used to figure annualized taxable income. Include the same taxes used to figure line 1 of Form 2220, but do not include the personal holding company tax.

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 used to figure annualized taxable income (on line 2 or line 5) before subtracting the exemption amounts (see sections 55(d) and 59A(a)(2)).

Line 11.—Enter the credits allowed due to events that occurred during the months shown in the column headings used to figure annualized taxable income.

Line 15.—Before completing line 15 in columns (b) through (d), complete line 16; Part II (if applicable); and lines 40 through 45, in each of the preceding columns. For example, complete line 16, lines 17 through 39 (if using the adjusted seasonal installment method), and lines 40 through 45, in column (a) before completing line 15 in column (b).

Part II—Adjusted Seasonal Installment Method

Do **not** complete this part unless the corporation's base period percentage for any six consecutive months of the tax year equals or exceeds 70%. The term "base period percentage" for any period of six consecutive months is the average of the three percentages figured by dividing the taxable income for the corresponding six 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 six-month period from May through October. To compute its base period percentage for the period May through October 1990, it must figure its taxable income for the period May through October in each of the years: 1987, 1988, and 1989. 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 1987, .74 for May through October 1988, and .67 for May through October 1989. Since the average of .69, .74, and .67 is equal to .70, the base period percentage for May through October 1990 is 70%. Therefore, the amusement park qualifies for the adjusted seasonal installment method.

Line 33.—Enter the taxes the corporation owed because of events that occurred during the months shown in the column headings above line 17. Include the same taxes used to figure line 1 of Form 2220, but do not include the personal holding company tax.

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 17. Divide the alternative minimum taxable income and modified alternative minimum taxable

income by the amounts shown on line 24 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 so determined by the amounts shown on line 31.

Line 35.—Enter the credits allowed due to events that occurred during the months shown in the column headings above line 17.

Line 38.—Before completing line 38 in columns (b) through (d), complete lines 39 through 45 in each of the preceding columns. For example, complete lines 39 through 45 in column (a) before completing line 38 in column (b).

Worksheet to Figure Required Installments Using the Annualized Income or Adjusted Seasonal Installment Methods Under Section 6655(e)

Note to Form 1120S filers.—For purposes of lines 1, 4, 17, 18, and 19, below, “taxable income” refers to excess net passive income or the amount on which tax is imposed under section 1374(a) (or the corresponding provisions of prior law), whichever applies.

Part I Annualized Income Installment Method		(a)	(b)	(c)	(d)
		Period			
		First 3 months	First 3 months	First 6 months	First 9 months
(1) Enter taxable income for each period.	1				
(2) Annualization amounts.	2	4	4	2	1.33333
(3) Multiply line 1 by line 2.	3				
Form 990-PF and Form 990-T filers: Do not use the periods shown directly above line 4 or the annualization amounts shown on line 5 when figuring lines 4 and 6. Instead, see the Instructions for Worksheet lines 4 and 5.		Period			
		First 3 months	First 5 months	First 8 months	First 11 months
(4) Enter taxable income for each period.	4				
(5) Annualization amounts.	5	4	2.4	1.5	1.09091
(6) Multiply line 4 by line 5.	6				
(7) Annualized taxable income. In column (a), enter the amount from line 6, column (a). In columns (b), (c), and (d), enter the smaller of the amounts in each column on line 3 or line 6.	7				
(8) Figure tax on the amount in each column on line 7 using the Instructions for Form 1120, Schedule J, line 3 (or the comparable line of the tax return).	8				
(9) Enter other taxes for each payment period (see Instructions).	9				
(10) Total tax. Add lines 8 and 9.	10				
(11) For each period, enter the same type of credits as allowed on Form 2220, lines 1 and 2b (see Instructions).	11				
(12) Total tax after credits. Subtract line 11 from line 10. If less than zero, enter zero.	12				
(13) Applicable percentage.	13	22.5%	45%	67.5%	90%
(14) Multiply line 12 by line 13.	14				
(15) Enter the combined amounts of line 45 from all preceding columns (see Instructions).	15				
(16) Subtract line 15 from line 14. If less than zero, enter zero.	16				
Part II Adjusted Seasonal Installment Method (Caution: Use this method only if the base period percentage for any 6 consecutive months is at least 70%. See the Instructions for more information.)		(a)	(b)	(c)	(d)
		Period			
		First 3 months	First 5 months	First 8 months	First 11 months
(17) Enter taxable income for the following periods:					
a Tax year beginning in 1987	17a				
b Tax year beginning in 1988	17b				
c Tax year beginning in 1989	17c				
(18) Enter taxable income for each period for the tax year beginning in 1990.	18				

		(a)	(b)	(c)	(d)
		Period			
		First 4 months	First 6 months	First 9 months	Entire year
(19) Enter taxable income for the following periods: a Tax year beginning in 1987	19a				
b Tax year beginning in 1988	19b				
c Tax year beginning in 1989	19c				
(20) Divide the amount in each column on line 17a by the amount in column (d) on line 19a.	20				
(21) Divide the amount in each column on line 17b by the amount in column (d) on line 19b.	21				
(22) Divide the amount in each column on line 17c by the amount in column (d) on line 19c.	22				
(23) Add lines 20 through 22.	23				
(24) Base period percentage for months before filing month. Divide line 23 by 3.	24				
(25) Divide line 18 by line 24.	25				
(26) Figure tax on the amount on line 25 using the Instructions for Form 1120, Schedule J, line 3 (or the comparable line of the return).	26				
(27) Divide the amount in columns (a) through (c) on line 19a by the amount in column (d) on line 19a.	27				
(28) Divide the amount in columns (a) through (c) on line 19b by the amount in column (d) on line 19b.	28				
(29) Divide the amount in columns (a) through (c) on line 19c by the amount in column (d) on line 19c.	29				
(30) Add lines 27 through 29.	30				
(31) Base period percentage for months through and including the filing month. Divide line 30 by 3.	31				
(32) Multiply the amount in columns (a) through (c) of line 26 by the percentage in the corresponding column of line 31. In column (d), enter the amount from line 26, column (d).	32				
(33) Enter other taxes for each payment period (see Instructions).	33				
(34) Total tax. Add lines 32 and 33.	34				
(35) For each period, enter the same type of credits as allowed on Form 2220, lines 1 and 2b (see Instructions).	35				
(36) Total tax after credits. Subtract line 35 from line 34. If less than zero, enter zero.	36				
(37) Multiply line 36 by 90%.	37				
(38) Enter the total of amounts in all preceding columns of line 45.	38				
(39) Subtract line 38 from line 37. If less than zero, enter zero.	39				

Part III Required Installments

		1st installment	2nd installment	3rd installment	4th installment
		(40) If only one of the above parts was completed, enter the amounts in each column from line 16 or line 39. (If both parts were completed, enter the lesser of the amounts in each column from line 16 or line 39.)	40		
(41) Divide line 4c, Form 2220, by 4 and enter the result in each column. (Note: "large corporations" see line 6(b) Instructions on page 2 for the amount to enter.)	41				
(42) Enter the amount from line 44 for the preceding column.	42				
(43) Add lines 41 and 42 and enter the total.	43				
(44) If line 43 is more than line 40, subtract line 40 from line 43. Otherwise, enter zero.	44				
(45) Required installments.—Enter the lesser of line 40 or line 43 here and on Form 2220, line 6.	45				