



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:

Form	Recordkeeping	Learning about the law or the form	Preparing and sending the form to the IRS
2220	24 hr., 9 min.	35 min.	1 hr., 1 min.
Worksheet, Pt. I	11 hr., 43 min.	12 min.	24 min.
Worksheet, Pt. II	24 hr., 23 min.	---	24 min.
Worksheet, Pt. III	5 hr., 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.

A Change To Note

The Revenue Reconciliation Act of 1993 (Act) 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 the instructions for line 13 under **Waiver of Penalty** on page 2.

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 Pay the Underpayment Penalty

If the corporation did not pay enough estimated tax by any of the due dates, 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 smaller of 97% of its tax liability for 1993, or 100% of its tax liability for 1992 (if it filed a 1992 return that showed a liability for at least some amount of tax and the return covered a full 12 months). However, a large corporation (see the instructions for line 6(b)) 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

Generally, the corporation does not have to file this form 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 if:

1. The annualized income installment method and/or the adjusted seasonal installment method is used (see the instructions for line 6(a)),
2. The corporation is a large corporation computing its first required installment based on the prior year's tax, or
3. The corporation is claiming a waiver of the penalty as discussed in the instructions for line 13 under **Waiver of Penalty**.

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, 1120-L, 1120S, etc.).

Part I. Figuring the Underpayment

Complete lines 1 through 14 of Part I.

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).

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

Line 2c.—Enter the amount 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 1992 tax in the same manner as the amount on line 3 of this form was determined, using the taxes and credits from its 1992 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 1992 that showed a liability for at least some amount of tax; or

2. The corporation had a 1992 tax year of less than 12 months.

S corporations.—Enter on line 4b the sum of: (a) 97% 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 1993 tax year, and (b) 100% of any excess net passive income tax shown on the S corporation's return for the 1992 tax year. If the 1992 tax year was less than 12 months, do not complete line 4b. Instead, enter the amount from line 4a on line 4c.

Line 6a. 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 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. This will reduce or eliminate 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 amount 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.

Line 6b. 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 in accordance with rules similar to those in section 1561.

If the annualized income installment method or the 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 smaller than line 4b.—Enter 25% of line 4a in columns (a) through (d) of line 6.

If line 4b is smaller than line 4a.—Enter 25% of line 4b in column (a) of line 6. In column (b), determine the amount to enter as follows:

1. Subtract line 4b from line 4a,
2. Add the result to the amount on line 4a, and
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 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 1992 return that was credited to the corporation's 1993 estimated tax.

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

Waiver of Penalty.—If the corporation has an underpayment on line 13 for any installment due date before March 15, 1994, no penalty will be imposed on any underpayment of estimated tax attributable to changes made by the Act for any period before March 16, 1994. Accordingly, if a corporation has an underpayment on line 13 that is due only to

changes made by the Act, the penalty for that underpayment will be waived for the period from the installment due date to March 15, 1994.

To claim the waiver, affected corporations should write the word "WAIVER" in the bottom margin of page 1. Compute the penalty by refiguring Form 2220 through line 27 on the basis of the law in effect before the changes were made. Subtract the total of columns (a) through (d) of line 27 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 28, write "Amount waived" and the amount. Subtract the waiver amount from the total of columns (a) through (d), line 27, to arrive at the amount to enter on line 28. Attach a statement showing the computation of the amount of the penalty to be waived (with references to the changes in the law that justify the waiver).

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 using the underpayment rate determined under section 6621(a)(2). For underpayments paid after March 31, 1994, see the instructions below 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 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.

Lines 23 through 26.—For underpayments paid after March 31, 1994, 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 toll-free 1-800-829-1040 to get rate information.

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 or interest due under the look-back method of section 460(b)(2) for completed long-term contracts.

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 6 consecutive months of the tax year equals or exceeds 70%. 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 1993, it must figure its taxable income for the period May through October in each of the years: 1990, 1991, and 1992. 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 1990, .74 for May through October 1991, and .67 for May through October 1992. Since the average of .69, .74, and .67 is equal to .70, the base period percentage for May through October 1993 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 or interest due under the look-back method of section 460(b)(2) for completed long-term contracts.

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 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 Installment Method and/or the Adjusted Seasonal Installment Method Under Section 6655(e)

Form 1120S filers: For 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 6 months	First 9 months	
1	Enter taxable income for each period.	1				
2	Annualization amounts.	2	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 the 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 2c (see instructions).	11				
12	Total tax after credits. Subtract line 11 from line 10. If zero or less, enter -0-.	12				
13	Applicable percentage.	13	24.25%	48.5%	72.75%	97%
14	Multiply line 12 by line 13.	14				
15	Add the amounts in all preceding columns of line 14 (see instructions).	15				
16	Subtract line 15 from line 14. If zero or less, enter -0-.	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 1990	17a			
b	Tax year beginning in 1991	17b			
c	Tax year beginning in 1992	17c			
18	Enter taxable income for each period for the tax year beginning in 1993.	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 1990	19a				
b Tax year beginning in 1991	19b				
c Tax year beginning in 1992	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 Divide line 23 by 3.	24				
25 Divide line 18 by line 24.	25				
26 Figure the 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 Divide line 30 by 3.	31				
32 Multiply the amount in columns (a) through (c) of line 26 by the amount 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 2c (see instructions).	35				
36 Total tax after credits. Subtract line 35 from line 34. If zero or less, enter -0-.	36				
37 Multiply line 36 by 97%.	37				
38 Add the amounts in all preceding columns of line 45 (see instructions).	38				
39 Subtract line 38 from line 37. If zero or less, enter -0-.	39				

Part III Required Installments

		1st installment	2nd installment	3rd installment	4th installment
		40 If only one of the above parts is completed, enter the amounts in each column from line 16 or line 39. If both parts are completed, enter the smaller 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 the instructions for line 6(b) on page 2 for the amount to enter.)	41				
42 Enter the amount from line 44 of the preceding column.	42				
43 Add lines 41 and 42.	43				
44 If line 43 is more than line 40, subtract line 40 from line 43. Otherwise, enter -0-.	44				
45 Required installments. Enter the smaller of line 40 or line 43 here and on Form 2220, line 6.	45				