

§ 1.6655-2T

26 CFR Ch. I (4-1-04 Edition)

month period, the following computation is necessary:

	3 months	5 months
(1) Annualized income ..	\$350,000.00	\$372,000.00
(2) Tax on item (1) reduced by \$100,000 ....	61,500.00	72,060.00
(3) 70 percent of item (2) .....	43,050.00	50,442.00
(4) 8 percent of item (3) .....	3,444.00	4,035.36

To determine whether the installment payments made on or before September 15, 1965, equal or exceed the amount which would have been required to be paid if the estimated tax were equal to 70 percent of the tax computed on the annualized income for either the 6- or 8-month period, the following computation is necessary:

	6 months	8 months
(1) Annualized income ..	\$370,000.00	\$369,000.00
(2) Tax on item (1) reduced by \$100,000 ....	71,100.00	70,620.00
(3) 70 percent of item (2) .....	49,770.00	49,434.00
(4) 33 percent of item (3) .....	16,424.10	16,313.22

To determine whether the installment payments made on or before December 15, 1965, equal or exceed the amount which would have been required to be paid if the estimated tax were equal to 70 percent of the tax computed on the annualized income for either the 9- or 11-month period, the following computation is necessary:

	9 months	11 months
(1) Annualized income ..	\$384,000.00	\$372,000.00
(2) Tax on item (1) reduced by \$100,000 ....	77,820.00	72,060.00
(3) 70 percent of item (2) .....	54,474.00	50,442.00
(4) 58 percent of item (3) .....	31,594.92	29,256.36

The total amounts of all payments of estimated tax actually paid on or before the installment dates of April 15, 1965, June 15, 1965, September 15, 1965, and December 15, 1965, are \$1,884, \$3,768, \$15,543, and \$27,318, respectively. Since the total amounts of estimated tax actually paid on the first and second installment dates (April 15, 1965, and June 15, 1965) exceed the amounts required to be paid on such dates if the estimated tax were 70 percent of the tax determined by placing on an annualized basis the taxable income for the first 3 months of the taxable year, the exception described in paragraph (a)(3) of this section applies and no addition to tax will be imposed for the installments paid on April 15, 1965, and June 15, 1965. However, since the total amount of all payments of estimated tax actually paid on or before the third and fourth installment dates (Sep-

tember 15, 1965, and December 15, 1965) does not equal or exceed the applicable alternative amounts, the addition to the tax with respect to the underpayment of the September 15, 1965, and December 15, 1965, installments must be imposed.

(d) *Determination of taxable income for portion of taxable year.* In determining the applicability of the exception described in paragraph (a)(3) of this section, there must be an accurate determination of the amount of income and deductions for the appropriate period, that is, for the first 3, 5, 6, 8, 9, or 11 months of the taxable year. See paragraph (d)(1) of §1.6654-2 for a description of a similar requirement with respect to individuals.

[T.D. 6500, 25 FR 12151, Nov. 26, 1960, as amended by T.D. 6768, 29 FR 14926, Nov. 4, 1964; T.D. 8996, 67 FR 35012, May 17, 2002]

**§ 1.6655-2T Safe harbor for certain installments of tax due before July 1, 1987 (temporary).**

(a) *Applicability—(1) Safe harbor.* The safe harbor provided by paragraph (b) of this section applies only to installment payments of corporate estimated tax required to be made before July 1, 1987, for taxable years beginning in 1987.

(2) *Subsequent payment.* The requirement that a corporation using the safe harbor provided by this section make a timely subsequent installment payment in accordance with paragraph (c) of this section applies with respect to the corporation's first installment payment ("the subsequent installment payment") of estimated tax required to be made after the last payment computed under the safe harbor rule.

(3) *Section inapplicable to new corporation.* This section shall not apply in the case of any corporation whose first taxable year began after December 31, 1986.

(b) *Safe harbor for use of annualization exception—(1) In general.* A corporation computing an installment payment of estimated tax using the annualization exception provided in section 6655(d)(3) will not be subject to an addition to tax under section 6655 with respect to an installment payment of estimated tax that satisfies the requirements of this paragraph (b), except as provided

in paragraph (c) of this section. For purposes of this paragraph (b)—

(i) A corporation shall assume that its annualized taxable income for the current year equals or exceeds 120 percent of the taxable income shown on its return for the preceding taxable year, and

(ii) The term “tax” as used in section 6655(d)(3) shall be defined by reference to section 6655(f) without regard to section 6655(f)(1)(B) and (C) (that is, without regard to the alternative minimum tax imposed by section 55 or the environmental tax imposed by section 59A).

(2) *Special rules for determining taxable income for preceding year.* For purposes of paragraph (b)(1)(i) of this section, the taxable income shown on the return of the corporation for its preceding taxable year shall be—

(i) Adjusted to eliminate any net operating loss deduction taken into account in that preceding year, and

(ii) Annualized, if that preceding year was of less than 12 months.

(3) *Credits taken into account—(i) In general.* In computing the amount of an installment payment under paragraph (b)(1) of this section, the corporation may take into account any credits against tax that are permitted to be taken into account under section 6655(d)(3) for the current taxable year.

(ii) *Foreign tax credit.* For purposes of paragraph (b)(3)(i) of this section, the amount of foreign tax credit that is permitted to be taken into account for the current taxable year is equal to the foreign tax credit allowed for the preceding taxable year multiplied by the fraction specified in the following sentence. The numerator of the fraction is the highest tax rate applicable for the taxable year under section 11, as adjusted under section 15, and the denominator is 46 percent. This alternative computation of the foreign tax credit is applicable only for purposes of computing a safe harbor installment payment under paragraph (b) of this section and cannot be applied for other estimated tax purposes.

(4) *Net operating loss carryover.* A corporation that has a net operating loss carryover as of the first day of the taxable year for which the estimated tax is being paid may use that carryover to reduce the annualized taxable income

referred to in paragraph (b)(1)(i) of this section. For example, if a corporation with a net operating loss carryover of \$3,000 had taxable income of \$10,000 in 1986, it may use the carryover to reduce its annualized taxable income to \$9,000,  $((\$10,000 \times 120\%) - 3,000)$ .

(c) *Corporation must bring aggregate payments to required level through timely subsequent installment—(1) In general.* A corporation using the safe harbor provided by paragraph (b) of this section shall make a timely subsequent installment payment of estimated tax in an amount sufficient to satisfy the requirements of either paragraph (c)(3) or paragraph (c)(4) of this section.

(2) *Applicable percentage.* For purposes of this paragraph (c), the applicable percentage is—

(i) 45 percent (50 percent  $\times$  90 percent), if the subsequent installment payment is the second installment payment for the taxable year, or

(ii) 67.5 percent (75 percent  $\times$  90 percent), if the subsequent installment payment is the third installment payment for the taxable year.

(3) *Annualization exception.* The subsequent installment payment of a corporation satisfies the requirements of this paragraph (c)(3) if the amount of the payment is sufficient to satisfy the requirements of section 6655(d)(3) with respect to all applicable taxes specified in section 6655(f). Thus, the corporation must determine its annualized taxable income under section 6655(d)(3)(A) (ii) or (iii), whichever is applicable, and compute the resulting tax. The resulting tax shall include the alternative minimum tax under section 55 and the environmental tax under section 59A and may take credits into account to the extent permitted under section 6655(d)(3). The sum of this subsequent installment payment and the earlier installment payment or payments of the corporation must equal or exceed the applicable percentage of the tax so computed. In determining whether the corporation has satisfied the requirements of section 6655(d)(3)(A) (ii) or (iii) with respect to the subsequent installment, the safe harbor provided in paragraph (b)(1) of this section shall not apply.

(4) *Installment payments equal to applicable percentage of tax shown on return.*

The subsequent installment payment of a corporation satisfies the requirement of this paragraph (c)(4) if the sum of that payment and the earlier installment payment or payments of the corporation equals or exceeds the applicable percentage of the tax shown on the return of the corporation for the taxable year to which the installment payments relate. The tax shown on the return includes all taxes specified in section 6655(f).

(5) *Consequence of corporation's failure to satisfy requirements for subsequent installment—(i) In general.* If a corporation fails to satisfy the requirements set out in this paragraph (c), the corporation shall lose the benefit of the safe harbor provided by paragraph (b)(1) of this section.

(ii) *Limit on penalty.* The aggregate underpayment penalty with respect to any installment payment or payments for which a corporation loses the benefit of the safe harbor under paragraph (c)(5)(i) of this section shall be limited to the "shortfall penalty amount." The shortfall penalty amount is the penalty that would be imposed under section 6655(a) if there were an underpayment of the subsequent installment payment equal to the excess of—

(A) The amount required to be paid, as determined under this paragraph (c), on or before the due date of the subsequent installment payment, over

(B) The amount actually paid on or before such date with respect to the subsequent installment payment.

For purposes of this determination, the period of the underpayment shall run from the due date of the subsequent installment payment until the earlier of the dates specified in section 6655(c) (1) or (2).

(iii) *Example.* The provisions of this paragraph (c)(5) may be illustrated by the following example:

*Example.* Corporation M, which uses the calendar year as its taxable year, relies on the safe harbor provided by paragraph (b) of this section for its first two installment payments of estimated tax for 1987. M is required by this paragraph (c) to make a timely subsequent installment payment of \$1,000,000 by September 15, 1987, but M's actual installment payment by that date is only \$990,000. Because of this shortfall, M loses the benefit of the safe harbor and is subject to underpayment penalties with re-

spect to the first two installments. The aggregate penalties with respect to those two installments, however, cannot exceed the amount of the underpayment penalty to which M would be subject if there were an underpayment of \$10,000 with respect to the September 15, 1987, installment payment. Such penalties are independent of any penalty that may apply with respect to M's third installment payment under the normal rules of section 6655.

(d) *Example.* The provisions of this section may be illustrated by the following example:

*Example.* (i) Corporation X (which is not a life insurance company) uses as its taxable year a fiscal year ending on January 31 and is required to pay an installment of estimated income tax by May 15, 1987, for its taxable year beginning on February 1, 1987. On its return for the taxable year ending January 31, 1987, which was a year of 12 months, X reported taxable income of \$10,000,000 (\$9,000,000 of which was ordinary income and \$1,000,000 of which was net capital gain) and did not claim any net operating loss deduction. As of February 1, 1987, X has no net operating loss carryforwards and no credit carryforwards. X has no credits against tax that are permitted to be taken into account under section 6655(d)(3) for 1987. If X uses the safe harbor provided in paragraph (b)(1) of this section, X must make by May 15, 1987, an installment payment of estimated tax of at least \$1,037,836, computed as follows:

(1) Taxable income shown on return for taxable year ending on January 31, 1987 .....	\$10,000,000
(2) Annualized taxable income for taxable year ending January 31, 1988, determined pursuant to paragraph (b)(1) of this section (Item (1)x120%) .....	\$12,000,000
(Note: 120%xordinary income of \$9,000,000=\$10,800,000;	
120%xnet capital gain of \$1,000,000=\$1,200,000)	
(3) Tax on annualized taxable income (Item 2) using rates under section 11 and 1201, taking into account section 15, applicable to the taxable year ending January 31, 1988	\$4,612,603
(4) Amount described in section 6655(d)(3)(A)(i) (Item (3)x22.5%) .....	\$1,037,836

(ii) To preclude imposition of an addition to tax under section 6655 with respect to its May 15, 1987, installment payment, X must make by July 15, 1987, a second installment payment of estimated tax sufficient to bring

**Internal Revenue Service, Treasury**

**§ 1.6655-5**

its aggregate payments to the minimum level required under paragraph (c) of this section.

(iii) X may satisfy the requirements of paragraph (c)(3) of this section by making a second installment payment sufficient to bring X within the exception provided in section 6655(d)(3). Thus, if X determines under that section that the aggregate of X's installment payments of estimated tax by July 15, 1987, must equal at least \$3,000,000, X may obtain the benefit of the safe harbor provided in paragraph (b)(1) of this section with respect to the May 15, 1987, installment payment by making a timely second installment payment of \$1,962,164 (\$3,000,000—\$1,037,836).

(iv) Even if X fails to satisfy the requirements of paragraph (c)(3) of this section, X may obtain the benefit of the safe harbor for the May 15, 1987, installment payment, when aggregated with the first payment, equals at least 45 percent of the tax (including the alternative minimum tax under section 55 and the environmental tax under section 59A) shown on X's return for X's taxable year beginning on February 1, 1987. Thus, if the tax shown on that return is \$6,000,000, X's second installment payment under paragraph (c)(4) of this section must be at least \$1,662,164, computed as follows:

45 percent of \$6,000,000 .....	\$2,700,000
less first payment .....	1,037,836
Minimum second installment	\$1,662,164

[T.D. 8132, 52 FR 10051, Mar. 30, 1987]

**§ 1.6655-3 Short taxable years in the case of corporations.**

(a) *In general.* The provisions of section 6655, with certain modifications relating to the application of subsection (d) thereof, which are explained in paragraph (b) of this section, are applicable in the case of a short taxable year for which a declaration is required to be filed. (See § 1.6016-4 for requirement of declaration for short taxable year.)

(b) *Rules as to application of section 6655(d).* In any case in which the taxable year for which an underpayment of estimated tax exists is a short taxable year due to a change in annual accounting periods, in determining the tax:

(1) Shown on the return for the preceding taxable year (for purposes of section 6655(d)(1));

(2) Based on the current year's rates but otherwise on the basis of the facts shown on the return for the preceding

taxable year and the law applicable to such year (for purposes of section 6655(d)(2)); or

(3) Computed by placing taxable income for a portion of the current year on an annual basis under section 6655(d)(3);

the tax will be reduced by multiplying it by the number of months in the short taxable year and dividing the resulting amount by 12. The application of the exception provided in section 6655(d)(3) shall be determined as if the estimated tax were 70 percent of the tax so reduced.

(c) *Preceding taxable year a short taxable year.* If "the preceding taxable year" referred to in section 6655(d)(2) was a short taxable year, the tax computed on the basis of the facts shown on the return for such preceding year, for purposes of determining the applicability of the exception described in section 6655(d)(2), shall be the tax computed on the annual basis in the manner described in section 443(b)(1) (prior to its reduction in the manner described in the last sentence thereof). If the tax rates for the taxable year with respect to which the underpayment occurs differ from the rates applicable to the preceding taxable year, the tax determined in accordance with the preceding sentence shall be recomputed using the rates applicable to the year with respect to which the underpayment occurs.

[T.D. 6500, 25 FR 12152, Nov. 26, 1960]

**§ 1.6655-5 Addition to tax on account of excessive adjustment under section 6425.**

(a) *In general.* (1) Section 6655(g) imposes an addition to the tax under chapter 1 of the Code in the case of any excessive amount (as defined in subparagraph (3) of this paragraph) of an adjustment under section 6425 which is made before the 15th day of the third month following the close of a taxable year beginning after December 31, 1967. This addition to tax is imposed whether or not there was reasonable cause for an excessive adjustment.

(2) If the amount of an adjustment under section 6425 is excessive, there shall be added to the tax under chapter 1 for the taxable year an amount determined at the annual rate referred to in