

(ii) The amount, if any, of the installment paid on or before the last day prescribed for such payment.

(2) The amount of the addition is determined at the annual rate referred to in the regulations under section 6621 upon the underpayment of any installment of estimated tax for the period from the date such installment is required to be paid until the 15th day of the third month following the close of the taxable year, or the date such underpayment is paid, whichever is earlier. For purposes of determining the period of the underpayment (i) the date prescribed for payment of any installment of estimated tax shall be determined without regard to any extension of time, and (ii) a payment of estimated tax on any installment date, to the extent that it exceeds the amount of the installment determined under subparagraph (1)(i) of this paragraph for such date, shall be considered a payment of the previous underpayment, if any.

(3) The term *tax* as used in subparagraph (1)(i) of this paragraph means the excess of the tax imposed by section 11 or 1201(a), or subchapter L, chapter 1 of the Code, whichever is applicable, over the sum of \$100,000 and the credits against tax provided by sections 32, 33, and 38. However, for the rule with respect to the limitation upon the \$100,000 exemption for members of certain electing affiliated groups, see section 243(b)(3)(C)(v) and the regulations thereunder.

(4) For special rules relating to the determination of the amount of the underpayment in the case of a corporation whose income is included in a consolidated return, see § 1.1502-5(b).

(b) *Statement relating to underpayment.* If there has been an underpayment of estimated tax as of the installment date prescribed for its payment and the taxpayer believes that one or more of the exceptions described in § 1.6655-2 precludes the assertion of the addition to the tax under section 6655, it should attach to its income tax return for the taxable year a Form 2220 showing the applicability of any exception upon which the taxpayer relies.

(c) *Example.* The method prescribed in paragraph (a) of this section of com-

puting the addition to the tax may be illustrated by the following example:

Example. A corporation using the calendar year basis reported on its declaration for 1955, estimated tax in the amount of \$50,000. It made payments of \$2,500 each on September 15, 1955, and December 15, 1955. On March 15, 1956, it filed its final income tax return showing a tax liability of \$200,000. Since the amount of each of the two installments paid by the last date prescribed for payment thereof was less than 5 percent of 70 percent of the tax shown on the return, the addition to the tax under section 6655(a) is applicable and is computed as follows:

(1) Tax as defined in paragraph (a) of this section (\$200,000—\$100,000 (no credits allowable under sections 32 and 33))	\$100,000
(2) 70% of item (1)	70,000
(3) Amount of estimated tax required to be paid on each installment date (5% of \$70,000)	3,500
(4) Deduct amount paid on each installment date	2,500
(5) Amount of underpayment for each installment date (item (3) minus item (4))	1,000
(6) Addition to the tax:	
First installment—period 9-15-55 to 3-15-56	30
Second installment—period 12-15-55 to 3-15-56	15
Total	45

[T.D. 6500, 25 FR 12150, Nov. 26, 1960, as amended by T.D. 6768, 29 FR 14926, Nov. 4, 1964; T.D. 7244, 37 FR 28897, Dec. 30, 1972; T.D. 7384, 40 FR 49322, Oct. 22, 1975]

§ 1.6655-2 Exceptions to imposition of the addition to the tax in the case of corporations.

(a) *In general.* The addition to the tax under section 6655 will not be imposed for any underpayment of any installment of estimated tax if, on or before the date prescribed for payment of the installment, the total amount of all payments of estimated tax made equals or exceeds the amount which would have been required to be paid on or before such date if the estimated tax were the least of the following amounts:

(1) The tax shown on the return for the preceding taxable year, provided that the preceding taxable year was a year of 12 months and a return showing a liability for tax was filed for such year;

(2) An amount equal to a tax determined on the basis of the tax rates for the taxable year but otherwise on the

basis of the facts shown on the return for the preceding taxable year and the law applicable to such year, in the case of a corporation required to file a return for such preceding taxable year; or

(3) An amount equal to 70 percent of the tax determined by placing on an annual basis the taxable income for:

(i) The first 3 months of the taxable year, in the case of the installment required to be paid in the 4th month,

(ii) Either the first 3 months or the first 5 months of the taxable year (whichever results in no addition being imposed), in the case of the installment required to be paid in the 6th month,

(iii) Either the first 6 months or the first 8 months of the taxable year (whichever results in no addition being imposed), in the case of the installment required to be paid in the 9th month, and

(iv) Either the first 9 months or the first 11 months of the taxable year (whichever results in no addition being imposed), in the case of the installment required to be paid in the 12th month.

The taxable income so determined shall be placed on an annual basis by first multiplying it by 12, and then dividing the resulting amount by the number of months in the taxable year for which the taxable income was so determined.

(4) In the case of a taxpayer whose taxable year consists of 52 or 53 weeks in accordance with section 441(f), the rules prescribed by paragraph (b) of § 1.441-2 shall be applicable in determining, for purposes of subparagraph (1) of this paragraph, whether a taxable year was a year of 12 months and in determining, for purposes of subparagraph (3) of this paragraph, the commencement of the 3-month period, or the 3- or 5-month period, or the 6- or 8-month period, or the 9- or 11-month period, whichever is applicable. For example, if a taxable year begins on December 26, 1956, taxable income for the first 6 months of such year, for purposes of subparagraph (3) of this paragraph, shall be taxable income for the period beginning on December 26, 1956, and ending on June 30, 1957, since such

taxable year is deemed to commence on January 1, 1957, under section 441(f).

(5) If the end of any accounting period employed by the taxpayer (e.g., any of either thirteen 4-week periods or four 13-week periods) does not correspond to the termination date of the applicable 3-month, or 3- or 5-month, or 6- or 8-month, or 9- or 11-month, period, taxable income shall be determined from the beginning of the taxable year to the close of the accounting period ending immediately before the termination date of the applicable 3-month, or 3- or 5-month, or 6- or 8-month, or 9- or 11-month, period and to the close of the accounting period within which such termination date falls. There shall be determined that portion of the difference between the two amounts of taxable income so determined which bears the same ratio to the total difference between such amounts as the number of days from the close of the first such accounting period to the close of such applicable 3-month, or 3- or 5-month, or 6- or 8-month, or 9- or 11-month, period bears to the total number of days between the termination dates of such two accounting periods. The portion of the difference between such amounts so determined shall then be added to (or subtracted from) taxable income determined to the close of the first such accounting period to determine taxable income for such applicable 3-month, or 3- or 5-month, or 6- or 8-month, or 9- or 11-month, period. For example, a taxpayer whose taxable year consists of 52 or 53 weeks in accordance with section 441(f) has a taxable year beginning on December 26, 1956, and thirteen 4-week accounting periods are employed in determining taxable income. Taxable income from December 26, 1956, to the close of the 4-week accounting period ending on June 11, 1957, is \$200,000, and taxable income from December 26, 1956, to the close of the 4-week accounting period ending on July 9, 1957, is \$228,000. Taxable income for the 6-month period ending on June 30, 1957, is \$219,000 ($\$200,000 + (19 \times 28,000 \div 28)$).

(b) *Meaning of terms.* (1) For the purpose of the exceptions described in paragraph (a) of this section, the term

tax means the excess of the tax imposed by section 11 or 1201(a), or subchapter L, chapter 1 of the Code, whichever is applicable, over the sum of \$100,000 plus the credits against tax allowed by sections 32, 33, and 38.

(2) The credits against the tax allowed by sections 32, 33, and 38, are:

(i) In the case of the exception described in paragraph (a)(1) of this section, such credits shown on the return for the preceding taxable year,

(ii) In the case of the exception described in paragraph (a)(2) of this section, such credits shown on the return for the preceding taxable year, except that if the amount of any such credits would be affected by any change in rates, the credits shall be determined by reference to the rates applicable to the current taxable year, and

(iii) In the case of the exception described in paragraph (a)(3) of this section, such credits computed under the law and rates applicable to the current taxable year.

The provisions of subdivision (ii) of this subparagraph may be illustrated by the following example:

Example. Assume that during the taxable year within which the normal tax rate in section 11 changes from 30 percent to 25 percent, Corporation X has an underpayment of estimated tax. One-fourth of the taxable income of Corporation X for the taxable year preceding that in which such underpayment occurs was from sources within foreign country Y. The return of Corporation X for such preceding year shows taxable income of \$325,000 and a tax, without regard to any credits, of \$163,500. The credit allowed by section 33 on account of taxes paid to foreign country Y may not exceed one-fourth of such amount, or \$40,875, under section 904. The tax for the preceding year, computed by using the rates applicable to the year during which the underpayment occurs, would be reduced to \$147,250 and the limitation under section 904 on the credit allowed under section 33 for taxes paid to foreign country Y would be reduced to \$36,812.50, for purposes of determining the applicability of the exception described in paragraph (a)(2) of this section. Therefore, the exception described in paragraph (a)(2) of this section will be applicable if, on or before the date prescribed for such payment, the total amount paid by Corporation X equals or exceeds the amount which would have been required to be paid by such date if the estimated tax were \$10,437.50 (\$147,250 less (\$100,000+\$36,812.50)).

(3) For the purpose of the exceptions described in paragraphs (a) (1) and (2) of this section, the term "return for the preceding taxable year" means the income tax return for such year which is required by section 6012(a)(2).

(c) *Examples.* The application of the exceptions to the imposition of the addition to tax may be illustrated by examples employing the following statement of facts:

STATEMENT OF FACTS

Y, a corporation reporting on a calendar year basis, filed a declaration on April 15, 1965, showing an estimated tax of \$47,100 for its taxable year ending December 31, 1965. The first installment of 4 percent of the estimated tax or \$1,884 was paid with the filing of the declaration, the second installment in the same amount was paid on June 15, 1965, and the third and fourth installments of \$11,775 (25 percent of the estimated tax) each were paid on September 15, 1965, and December 15, 1965, respectively. Y reported a tax liability of \$175,900 on its return due March 15, 1966. There was an underpayment in the amount of \$241.20 on each of the first and second installment dates and \$1,507.50 on each of the third and fourth installment dates determined as follows:

(1) Tax as defined in paragraph (b) of this section (\$175,900 - \$100,000)	\$75,900.00
(2) 70% of item (1)	53,130.00
(3) 4% of item (2)	2,125.20
(4) Deduct amount paid on each of the first and second installment dates	1,884.00
(5) Amount of underpayment at each of the first and second installment dates (item (3) minus item (4))	241.20
(6) 25% of item (2)	13,282.50
(7) Deduct amount paid on each of the last two installment dates	11,775.00
(8) Amount of underpayment at each of the third and fourth installment dates (item (6) minus item (7))	1,507.50

The application of each exception described in paragraph (a) of this section is determined as follows:

(1) Assume Y reported a liability of \$158,000 on its return for the taxable year ending December 31, 1964. If the estimated tax were \$158,000 reduced by \$100,000, or \$58,000, the amount which would have been required to be paid on or before each of the first and second installment dates would be 4 percent of \$58,000, or \$2,320. The amount which would have been required to be paid on or before each of the third and fourth installment dates would be 25 percent of \$58,000, or \$14,500. Since these amounts exceed the corresponding amounts actually paid on each

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installment date (\$1,884 and \$11,775, respectively), the exception described in paragraph (a) (1) of this section does not apply.

(2) As the corporation tax rates under section 11 are different for the taxable years ending December 31, 1964, and December 31, 1965, the amount of tax determined under paragraph (a)(2) of this section and the amounts required to be paid on or before each installment date must be determined. The tax liability determined on the basis of the calendar year 1965 rates but on the basis of the calendar year 1964 return is \$151,900 and the estimated tax is \$151,900 less \$100,000, or \$51,900. The amount which would have been required to be paid on or before each of the first and second installment dates would be 4 percent of \$51,900, or \$2,076, and the amount which would have been required to be paid on or before each of the third and fourth installment dates would be 25 percent of \$51,900, or \$12,975. Since these amounts exceed the corresponding amounts actually paid on each installment date (\$1,884 and \$11,775, respectively), the exception described in paragraph (a)(2) of this section does not apply.

(3) Y determined that its taxable income for the first 3, 5, 6, 8, 9, and 11 months was \$87,500, \$155,000, \$185,000, \$246,000, \$288,000, and \$341,000, respectively. The income for each period is annualized as follows:

$\$87,500 \times 12 \div 3 = \$350,000$
 $\$155,000 \times 12 \div 5 = \$372,000$
 $\$185,000 \times 12 \div 6 = \$370,000$
 $\$246,000 \times 12 \div 8 = \$369,000$
 $\$288,000 \times 12 \div 9 = \$384,000$
 $\$341,000 \times 12 \div 11 = \$372,000$

To determine whether the installment payment made on April 15, 1965, equals or exceeds 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 the 3-month period, the following computation is necessary:

3 months

(1) Annualized income	\$350,000
(2) Tax on item (1) reduced by \$100,000	61,500
(3) 70 percent of item (2)	43,050
(4) 4 percent of item (3)	1,722

To determine whether the installment payments made on or before June 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 3- or 5-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

	3 months	5 months
(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 (September 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]

§ 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