Annualized income installment method form

I'm not robot!

2004

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.

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:

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

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 the amount on line 6, Part II, on page 1 is $500 or more and any of the following apply.

line of any other income tax return the corporation is required to file (for example, Form 990-C, 1120-L, 1120S, the instructions for Part I, line 3, on page 2) figuring its first required installment based on the prior year's tax.

Who Must Pay the Underpayment Penalty

Generally, a corporation is subject to the penalty if it did not timely pay at least the smaller of:

(if it filed a 2003 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.

TIP *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 However, the corporation 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.

Exception to the Penalty

A corporation will not have to pay a penalty if the tax shown on the corporation's 2004 return is less than $500. To determine whether the tax is less than $500, complete lines 4–6, Part II.

How To Use Form 2220

- Complete lines 4–6 of Part II to determine the line 6
- Check one or more boxes in Part I if the corporation uses the adjusted seasonal installment method, the annualized income installment method, or if the corporation is a large corporation.

If the corporation checked a box in Part I, and line 6, Part II, is $500 or more, 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

- If line 6, Part II, is $500 or more, complete the rest of Part II to determine the underpayment for any of the installment due dates.
- If there is an underpayment on line 17, Part II (column (a), (b), (c), (d) or (e)), go to Part III to figure the penalty.
- Complete Schedule A if the corporation uses the adjusted seasonal installment method and/or the annualized income installment method.

Specific Instructions

Part I. Reasons for Filing

Lines 1 and 2. Adjusted seasonal installment method and/or annualized income 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 adjusted seasonal installment method and/or the annualized income installment method.

Example. A ski shop, which receives most of its income during the winter months, may benefit from using installments. The annualized income installment or

Cat. No. 64293P

Form **1120-W** (WORKSHEET)
Department of the Treasury
Internal Revenue Service

Estimated Tax for Corporations

For calendar year 2014, or tax year beginning ________, 2014, and ending ________, 20____

▶ Information about Form 1120-W and its separate instructions is at www.irs.gov/form1120.
(Keep for the corporation's records—Do *not* send to the Internal Revenue Service.)

OMB No. 1545-0975

2014

Estimated Tax Computation

1	Taxable income expected for the tax year	1			
	Qualified personal service corporations (defined in the instructions), skip lines 2 through 13 and go to line 14. Members of a controlled group, see instructions.				
2	Enter the **smaller** of line 1 or $50,000	2			
3	Multiply line 2 by 15%			3	
4	Subtract line 2 from line 1	4			
5	Enter the **smaller** of line 4 or $25,000	5			
6	Multiply line 5 by 25%			6	
7	Subtract line 5 from line 4	7			
8	Enter the **smaller** of line 7 or $9,925,000	8			
9	Multiply line 8 by 34%			9	
10	Subtract line 8 from line 7	10			
11	Multiply line 10 by 35%			11	
12	If line 1 is greater than $100,000, enter the **smaller** of **(a)** 5% of the excess over $100,000 or **(b)** $11,750. Otherwise, enter -0-			12	
13	If line 1 is greater than $15 million, enter the **smaller** of **(a)** 3% of the excess over $15 million or **(b)** $100,000. Otherwise, enter -0-			13	
14	Add lines 3, 6, 9, and 11 through 13. (Qualified personal service corporations, multiply line 1 by 35%.)			14	
15	Alternative minimum tax (see instructions)			15	
16	**Total.** Add lines 14 and 15			16	
17	Tax credits (see instructions)			17	
18	Subtract line 17 from line 16			18	
19	Other taxes (see instructions)			19	
20	**Total tax.** Add lines 18 and 19			20	
21	Credit for federal tax paid on fuels and other refundable credits (see instructions)			21	
22	Subtract line 21 from line 20. **Note:** *If the result is less than $500, the corporation is not required to make estimated tax payments*			22	
23a	Enter the tax shown on the corporation's 2013 tax return (see instructions). **Caution:** *If the tax is zero or the tax year was for less than 12 months, skip this line and enter the amount from line 22 on line 23b*			23a	
b	Enter the **smaller** of line 22 or line 23a. If the corporation is required to skip line 23a, enter the amount from line 22			23b	

			(a)	(b)	(c)	(d)
24	**Installment due dates** (see instructions) ▶	24				
25	**Required installments.** Enter 25% of line 23b in columns **(a)** through **(d).** If the corporation uses the annualized income installment method or adjusted seasonal installment method or is a "large corporation," see the instructions for the amount to enter	25				

For Paperwork Reduction Act Notice, see instructions. Cat. No. 11525G Form **1120-W** (2014)

Reset Form Print Form

Iowa Department of Revenue

2011 IA 2210 Schedule AI

Annualized Income Installment Method

NAME Social Security Number

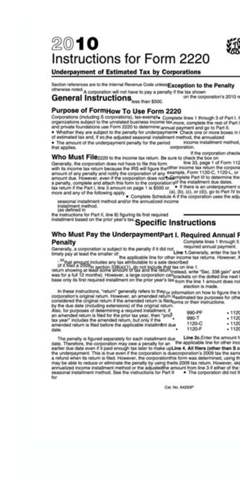
	1/1/11-3/31/11	1/1/11-5/31/11	1/1/11-8/31/11	1/1/11-12/31/11
1. Enter your net income (line 26, IA 1040) for each period. 1.				
2. Annualization amounts 2.	4	2.4	1.51	
3. Annualized income. Multiply line 1 by line 2. 3.				
4. Enter your federal tax payments for each period, net of any refund. Use a negative number if the net amount is a refund. 4.				
5. Annualization amounts 5.	4	2.4	1.51	
6. Multiply line 4 by line 5. 6.				
7. Enter your Iowa itemized deductions for each period 7.				
8. Annualization amounts 8.	4	2.4	1.51	
9. Multiply line 7 by line 8. 9.				
10. Standard deduction. Enter full-year amount in each period... 10.				
11. Enter the **larger** of line 9 or line 10. 11.				
12. Subtract lines 6 and 11 from line 3. 12.				
13. Figure your tax on the amount on line 12. See instructions. 13.				
14. Enter any Iowa lump-sum tax and Iowa minimum tax for each period. See instructions. 14.				
15. Total tax. Add lines 13 and 14. 15.				
16. Enter your exemption credits for the year (dollar amount). 16.				
17. For each period enter your credits from form IA 1040, lines 48, 51, and 53. See instructions. 17.				
18. For each period enter your credits from form IA 1040, lines 62, 63, 64, 65, and 66. See instructions. ... 18.				
19. Balance. Subtract lines 16, 17, and 18 from line 15. ... 19.				
20. Applicable percentage 20.	22.5%	45%	67.5%	90%
21. Multiply line 19 by line 20. **Note:** Complete lines 22-28 of one column before going to the next column. 21.				
22. Add the amounts in all preceding columns of line 28. 22.				
23. Subtract line 22 from line 21. If zero or less, enter -0-. 23.				
24. Enter 1/4 of line 10 of form IA 2210 in each column... 24.				
25. Enter amount from line 27 of the preceding column. ... 25.				
26. Add lines 24 and 25 and enter the total. 26.				
27. Subtract line 23 from line 26. If zero or less, enter -0-. 27.				
28. Enter the **smaller** of line 23 or line 26 here and on line 12 form IA 2210. 28.				

45-011a (06/22/11)

Impact of Finance Act 2017 on ITRs

- **Section 56(2)(x) : Income form Other Source**
  - ✓ The scope of Section 56(2)(vii) was applicable to an individual or HUF but the scope of the said section has been extended by Section 56(2)(x) which covers all taxpayers within its ambit.
  - ✓ **Applicable to ITR 2, 3, 5, 6 and 7.**
  - ✓ In the **Schedule OS** (Income from other sources) following have been added:
    Income of nature referred in section 56(2)(x) which chargeable to tax :
    a) Aggregate value of money received without considerations.
    b) Immovable property without consideration - stamp duty value
    c) Immovable property for inadequate consideration - stamp duty value of in excess of such consideration
    d) Any other property without considerations - FMV of such property.
    e) Any other property for inadequate considerations – FMV in excess of consideration.

ashish.kapoor@asija.in


2010 Instructions for Form 2220

Annualized income installment method example. Form 2220 annualized income installment method. Federal annualized income installment method. Irs annualized income installment method. How do you calculate annualized installment income. Annualized income installment method form 2210. Ca annualized income installment method.

(a) In general. In the case of any required installment, if the corporation establishes that the annualized income installment determined under this section, or the adjusted seasonal installment determined under § 1.6655-3, is less than the amount determined under § 1.6655-1 - (1) The amount of such required installment is the annualized income installment (or, if less, the adjusted seasonal installment); and (2) Any reduction in a required installment resulting from the application of this section will be recaptured by increasing the amount of the next required installment determined under § 1.6655-1 by the amount of such reduction (and, if the next required installment is similarly reduced, by increasing subsequent required installments to the extent that the reduction has not previously been recaptured). (b) Determination of annualized income installment - in general. In the case of any required installment, the annualized income installment is the excess (if any) of - (1) The product of the applicable percentage and the tax (after reducing the annualized tax by the amount of any allowable credits) for the taxable year computed by annualizing the taxable income and alternative minimum taxable income - (i) For the first 3 months of the taxable year, in the case of the first required installment; (ii) For the first 3 months of the taxable year, in the case of the second required installment; (iii) For the first 6 months of the taxable year, in the case of the third required installment; and (iv) For the first 9 months of the taxable year, in the case of the fourth required installment; over (2) The aggregate amount of any prior required installments for the taxable year. (c) Special rules - (1) Applicable percentage. Except as otherwise provided in § 1.6655-5(d) with respect to short taxable years - In the case of the following required installments The applicable percentage is 1st 25 2nd 50 3rd 75 4th 100 (2) Partial month. Except as otherwise provided, for purposes of paragraph (b) of this section a partial month is treated as a month. (3) Annualization period not a short taxable year. An annualization period is not treated as a short taxable year for purposes of determining the taxable income of an annualization period. (d) Election of different annualization periods. (1) If the taxpayer timely files Form 8842, "Election to Use Different Annualization Periods for Corporate Estimated Tax," in accordance with section 6655(e)(2)(C)(iii), and elects Option 1 - (i) Paragraph (b)(1)(i) of this section will be applied by using the language "2 months" instead of "3 months"; (ii) Paragraph (b)(1)(ii) of this section will be applied by using the language "4 months" instead of "3 months"; (iii) Paragraph (b)(1)(iii) of this section will be applied by using the language "7 months" instead of "6 months"; and (iv) Paragraph (b)(1)(iv) of this section will be applied by using the language "10 months" instead of "9 months". (2) If the taxpayer timely files Form 8842, in accordance with section 6655(e)(2)(C)(iii), and elects Option 2 - (i) Paragraph (b)(1)(i) of this section will be applied by using the language "5 months" instead of "3 months"; (ii) Paragraph (b)(1)(ii) of this section will be applied by using the language "8 months" instead of "3 months"; and (iii) Paragraph (b)(1)(iv) of this section will be applied by using the language "11 months" instead of "9 months". (3) The application of the annualized income installment method is illustrated by the following example: Example. (i) ABC, a calendar year corporation, had a taxable year of less than twelve months for tax year 2008 and no credits against tax for tax year 2009. ABC made an estimated tax payment of $15,000 on the installment dates of April 15, 2009, June 15, 2009, September 15, 2009, and December 15, 2009, respectively. Assume that, under paragraph (d)(1) of this section, ABC elected Option 1 by timely filing Form 8842, in accordance with section 6655(e)(2)(C)(iii), and determined that its taxable income for the first 2, 4, 7 and 10 months was $25,000, $64,000, $125,000, and $175,000 respectively. The income for each period is annualized as follows: $25,000 × 12/2 = $150,000 $64,000 × 12/4 = $192,000 $125,000 × 12/7 = $214,286 $175,000 × 12/10 = $210,000 (ii) (A) To determine whether the installment payment made on April 15, 2009, equals or exceeds the amount that would have been required to have been paid if the estimated tax were equal to 100 percent of the tax computed on the annualized income for the 2-month period, the following computation is necessary: (1) Annualized income for the 2 month period = $150,000 (2) Tax on this paragraph (d)(3), Example (ii)(A)(1) = $41,750 (3) 100% of this paragraph (d)(3), Example (ii)(A)(2) = $41,750 (4) 25% of this paragraph (d)(3), Example (ii)(A)(3) = $10,438 (B) Because the total amount of estimated tax that was timely paid on or before the first installment date ($15,000) exceeds the amount required to be paid on or before that date if the estimated tax were 100 percent of the tax determined by placing on an annualized basis the taxable income for the first 2-month period ($10,438), the exception described in paragraphs (a) and (b) of this section applies, and no addition to tax will be imposed for the installment due on April 15, 2009. (iii) (A) To determine whether the installment payments made on or before June 15, 2009, equal or exceed the amount that would have been required to have been paid if the estimated tax were equal to 100 percent of the tax computed on the annualized income for the 4-month period, the following computation is necessary: (1) Annualized income for the 4 month period = $192,000 (2) Tax on this paragraph (d)(3), Example (iii)(A)(1) = $58,130 (3) 100% of this paragraph (d)(3), Example (iii)(A)(2) = $58,130 (4) 50% of this paragraph (d)(3), Example (iii)(A)(3) less $10,438 (amount due with the first installment) = $18,627 (B) Because the total amount of estimated tax actually paid on or before the second installment date ($19,562 ($15,000 second required installment payment plus $4,562 overpayment of first required installment)) exceeds the amount required to be paid on or before that date if the estimated tax were 100 percent of the tax determined by placing on an annualized basis the taxable income for the first 4-month period ($18,627), the exception described in paragraphs (a) and (b) of this section applies and no addition to tax will be imposed for the installment due on June 15, 2009. (iv) (A) To determine whether the installment payments made on or before September 15, 2009, equal or exceed the amount that would have been required to have been paid if the estimated tax were equal to 100 percent of the tax computed on the annualized income for the 7-month period, the following computation is necessary: (1) Annualized income for the 7 month period = $214,286 (2) Tax on this paragraph (d)(3), Example (iv)(A)(1) = $66,821 (3) 100% of this paragraph (d)(3), Example (iv)(A)(2) = $66,821 (4) 75% of this paragraph (d)(3), Example (iv)(A)(3) less $29,065 (amount due with the first and second installment) = $21,051 (B) Because the total amount of estimated tax actually paid on or before the third installment date ($15,935 ($15,000 third required installment payment plus $935 overpayment of second required installment)) does not equal or exceed the amount required to be paid on or before that date if the estimated tax were 100 percent of the tax determined by placing on an annualized basis the taxable income for the first 7-month period ($21,051), the exception described in paragraphs (a) and (b) of this section does not apply, and an addition to tax will be imposed with respect to the underpayment of the September 15, 2009, installment unless another exception applies to this installment payment. (v) (A) To determine whether the installment payments made on or before December 15, 2009, equal or exceed the amount that would have been required to have been paid if the estimated tax were equal to 100 percent of the tax computed on the annualized income for the 10-month period, the following computation is necessary: (1) Annualized income for the 10 month period = $210,000 (2) Tax on this paragraph (d)(3), Example (v)(A)(1) = $65,150 (3) 100% of this paragraph (d)(3), Example (v)(A)(2) = $65,150 (4) 100% of this paragraph (d)(3), Example (v)(A)(3) less $50,116 (amount due with the first, second and third installment) = $15,034 (B) Because the total amount of estimated tax payments made on or before the fourth installment date ($9,884 ($15,000 fourth required installment payment less $5,116 underpayment for the third installment of estimated tax ($21,051 third installment of estimated tax due less $15,935 payments available to be applied to the third installment of estimated tax))) does not equal or exceed the amount required to be paid on or before that date if the estimated tax were 100 percent of the tax determined by placing on an annualized basis the taxable income for the first 10-month period ($15,034), the exception described in paragraphs (a) and (b) of this section does not apply, and an addition to tax will be imposed with respect to the underpayment of the December 15, 2009, installment unless another exception applies to this installment payment. (vi) Assuming that no other exceptions apply and the addition to tax is computed under section 6621(a)(2) at the rate of 8 percent per annum for the applicable periods of underpayment, the amount of the addition to tax is as follows: (A) First installment underpayment = $0 (B) Second installment underpayment = $0 (C) Third installment underpayment period 9-16-09 through 12-15-09), computed as 91/365 × $5,116 × 8% = $102 (D) Fourth installment underpayment period 12-16-09 through 3-15-10), computed as 90/365 × $5,150 × 8% = $102 (E) Total of this paragraph (d)(3), Example (vi)(A) through (D) = $204 (e) 52-53 week taxable year. (1) Generally, except as provided in the alternative rule in paragraph (e)(4) of this section, in the case of a taxpayer whose taxable year constitutes 52 or 53 weeks in accordance with section 441(f), the rules prescribed by § 1.441-2 are applicable in determining - (i) Whether a taxable year is a taxable year of 12 months; and (ii) When the 2-, 3-, 4-, 5-, 6-, 7-, 8-, 9-, 10-, or 11-month period (whichever is applicable) commences and ends for purposes of paragraphs (b)(1), (d)(1) and (d)(2) of this section. (2) If a taxpayer employs four 13-week periods, or thirteen 4-week accounting periods and the end of any accounting period employed by the taxpayer does not correspond to the end of the 2-, 3-, 4-, 5-, 6-, 7-, 8-, 9-, 10-, or 11-month period (whichever is applicable), then, provided the taxpayer has at least one full 4-week or 13-week accounting period, as appropriate, within the applicable period, annualized taxable income for the applicable period is - (i) [(x/y*13)*z], in the case of a taxpayer using four 13-week periods, if - (A) x = Taxable income for the number of full 13-week periods in the applicable period; (B) y = The number of full 13-week periods in the applicable period; and (C) z = The number of weeks in the taxable year; or (ii) [(x/(y*4))*z], in the case of a taxpayer using thirteen 4-week periods, if - (A) x = Taxable income for the number of full 4-week periods in the applicable period; (B) y = The number of full 4-week periods in the applicable period; and (C) z = the number of weeks in the taxable year. (3) If a taxpayer employs 13-week periods and the taxpayer does not have at least one 13-week period within the applicable 2-, 3-, 4-, 5-, 6-, 7-, 8-, 9-, 10-, or 11-month period, the taxpayer is permitted to determine annualized taxable income for the applicable period based upon - (i) The taxable income for the number of weeks in the applicable period; or (ii) The taxable income for the full 13-week periods that end before the due date of the required installment. (4) As an alternative to using the 52/53 week taxable year rules provided in paragraphs (e)(1), (e)(2), and (e)(3) of this section, a taxpayer whose taxable year constitutes 52 or 53 weeks in accordance with section 441(f) may base its annualization period on the month that ends closest to the end of its applicable 4-week or 13-week period that ends within the applicable annualization period. This alternative may only be used if it is used for determining annualization periods for all required installments for the taxable year. (5) The following examples illustrate the rules of this paragraph (e): Example 1. Corporation ABC, an accrual method taxpayer, uses a 52/53 week year ending on the last Friday in December and uses four thirteen-week periods. For its year beginning December 28, 2007, ABC uses the annualized income installment method under section 6655(e)(2)(A)(i) to calculate all of its required installments. For purposes of computing its first and second required installments, the first 3 months of A's taxable year under paragraph (b)(1)(i) of this section will end on March 28th, the thirteenth Friday of ABC's taxable year. For purposes of its third required installment, the first 6 months of ABC's taxable year will end on June 27th, the twenty-sixth Friday of ABC's taxable year. For purposes of its fourth required installment, the first 9 months of ABC's taxable year will end on September 26th, the thirty-ninth Friday of ABC's taxable year. Example 2. Same facts as Example 1 except that ABC uses thirteen four-week periods and there are 52 weeks during ABC's taxable year beginning December 28, 2007, and ending December 26, 2008. For purposes of computing ABC's first and second required installments, ABC's annualized taxable income for the first three months will be the taxable income for the first three four-week periods of ABC's taxable year (December 28, 2007, through March 21, 2008) divided by 12 (number of full four-week periods in the first three months (3) multiplied by 4) and multiplied by 52 (the number of weeks in the taxable year). For purposes of computing ABC's third required installment, ABC's annualized taxable income for the first six months will be the taxable income for the first six four-week periods of ABC's taxable year (December 28, 2007, through June 13, 2008) divided by 24 (number of full four-week periods in the first six months (6) multiplied by 4) and multiplied by 52. For purposes of computing ABC's fourth required installment, ABC's annualized taxable income for the first nine months will be the taxable income for the first nine four-week periods of ABC's taxable year (December 28, 2007, through September 5, 2008) divided by 36 (number of full four-week periods in the first nine months (9) multiplied by 4) and multiplied by 52. Example 3. Same facts as Example 1 except that ABC uses the alternative method provided under paragraph (e)(4) of this section for computing its required installments for 2008. For purposes of computing its first and second required installments, the first three months of ABC's taxable year under paragraph (b)(1)(i) of this section will end on March 31, 2008, the month that ends closest to the end of ABC's applicable thirteen-week period for the first and second required installments. For purposes of ABC's third required installment, the first six months of ABC's taxable year will end on June 30, 2008, the month that ends closest to the end of ABC's applicable thirteen-week period for the third required installment. For purposes of ABC's fourth required installment, the first nine months of ABC's taxable year will end on September 30, 2008, the month that ends closest to the end of ABC's applicable thirteen-week period for the fourth required installment. (f) Determination of taxable income for an annualization period - (1) In general. This paragraph (f) applies for purposes of determining the applicability of the exception described in paragraphs (a) and (b) of this section (relating to the annualization of income) and the exception described in § 1.6655-3 (relating to annualization of income with seasonal income). An item of income, deduction, gain or loss is to be taken into account in determining the taxable income and alternative minimum taxable income (and applicable tax and alternative minimum tax) for an annualization period in the manner provided in this paragraph (f). An item may not be taken into account in determining taxable income for any annualization period unless the item is properly taken into account by the last day of the annualization period and the item is properly taken into account in determining the taxpayer's taxable income and alternative minimum taxable income (and applicable tax and alternative minimum tax) for the taxable year that includes the annualization period. (i) Items of income. An item of income is taken into account in the annualization period in which the item is properly includible under the method of accounting employed by the taxpayer with respect to the item and in accordance with the appropriate provision of the Internal Revenue Code (for example, section 451 for accrual method taxpayers, section 453 for installment sales or section 460 for long-term contracts). (ii) Items of deduction. An item of deduction is taken into account in the annualization period in which the item is properly deductible under the method of accounting employed by the taxpayer with respect to the item and in accordance with the appropriate provision of the Internal Revenue Code (for example, under the cash receipts and disbursements method of accounting, the deduction must be paid under § 1.461-1(a)(1) and be otherwise deductible in computing taxable income; under an accrual method of accounting, the deduction must be incurred under § 1.461-1(a)(2) and be otherwise deductible in computing taxable income). Section 170(a)(2) and § 1.170A-11(b) (charitable contributions by accrual method corporations) and § 1.461-5 (recurring item exception) may not be taken into consideration by an accrual method taxpayer in any annualization period in determining whether an item of deduction has been incurred under § 1.461-1(a)(2) during that annualization period. (iii) Losses. An item of loss is to be taken into account during the annualization period in which events have occurred that permit the loss to be taken into account under the appropriate provision of the Internal Revenue Code. (2) Certain deductions required to be allocated in a reasonably accurate manner - (i) In general. The following deductions allowed for a taxable year must be allocated throughout the taxable year in a reasonably accurate manner (as defined in paragraph (f)(2)(iii) of this section), regardless of the annualization period in which the item is paid or incurred: (A) Real property tax liabilities. (B) Employee and independent contractor bonus compensation deductions (including the employer's share of employment taxes related to such compensation). (C) Deductions under sections 404 (deferred compensation) and 419 (welfare benefit funds). (D) Items allowed as a deduction for the taxable year by reason of section 170(a)(2) and § 1.170A-11(b) (certain charitable contributions by accrual method corporations) and § 1.461-5 (recurring item exception). (E) Items of deduction designated by the Secretary by publication in the Internal Revenue Bulletin (see § 601.601(d)(2)(ii)(b) of this chapter). (ii) Application of the reasonably accurate manner requirement to certain charitable contributions, recurring items, and 12-month rule items. For purposes of paragraph (f)(2)(i)(D) of this section, the total amount of the item deducted in the computation of taxable income for the taxable year must be allocated in a reasonably accurate manner, notwithstanding the fact that section 170(a)(2) and § 1.170A-11(b), § 1.461-5, or § 1.263(a)-4(f) applies to only a portion of the total amount of the item deducted for the taxable year. For example, if a portion of a taxpayer's rebate liabilities are deducted in the computation of taxable income under the recurring item exception, all rebate liabilities deducted in the computation of taxable income for the taxable year must be allocated in a reasonably accurate manner. (iii) Reasonably accurate manner defined. (A) An item is allocated throughout the taxable year in a reasonably accurate manner if the item is allocated ratably throughout the taxable year or if the allocation of the item provides a reasonably accurate estimate of taxable income for the taxable year based upon the facts known as of the last day of the annualization period. In determining that an allocation of an item provides a reasonably accurate estimate of taxable income, relevant considerations include - (1) The extent to which the allocation is consistent with the taxpayer's accounting for the item on its non-tax books and records; (2) The extent to which the allocable portion of the item bears a relationship to the income to which it relates; and (3) The extent to which the allocation, if compared to the ratable allocation of the item, results in a better matching of the item to the time of deduction to revenue, earnings, the use of property or the provision of services occurring during the annualization period. (B) None of the relevant considerations above override the general requirement that the allocation must be done in a reasonably accurate manner based upon the facts known as of the end of the annualization period. For example, the fact that a liability for an annual expense becomes fixed and determinable during an annualization period will not establish that allocating all of the expense to that annualization period has been done in a reasonably accurate manner if the facts known as of the end of the annualization period indicate otherwise. (iv) Special rule for certain real property tax liabilities. Notwithstanding paragraph (f)(2)(iii) of this section, real property tax liabilities for which an election under section 461(c) is in effect must be allocated ratably throughout the taxable year for purposes of this section. (v) Examples. Unless otherwise stated, the following examples assume that the taxpayer uses the 3-3-6-9 annualization period. Example 1. (i) Corporation ABC, a calendar year taxpayer, uses an accrual method of accounting and the annualized income installment method under section 6655(e)(2)(A)(i) to calculate all of its required installment payments for its 2008 taxable year. ABC has adopted a plan under which ABC pays an annual bonus to its employees. As of March 31, 2008, ABC estimates that it will pay a year-end bonus of $500,000 to its employees if earnings remain constant throughout the tax year. ABC does not pay any of the estimated bonus liability as of March 31, 2008. On October 31, 2008, ABC declares a $600,000 bonus to its employees which is paid out on November 15, 2008, and properly deducted in ABC's December 31, 2008, tax year. No other bonus liabilities are incurred by ABC during the tax year. (ii) Under the general rule provided in paragraph (f)(2)(i) of this section, ABC is required to allocate its employee bonus liability in a reasonably accurate manner for annualization purposes. Under paragraph (f)(2)(iii) of this section, ABC's employee bonus liability will be deemed to be allocated in a reasonably accurate manner if the item is allocated ratably throughout the taxable year. Therefore, ABC is permitted to recognize a $150,000 bonus deduction (one quarter of the $600,000 bonus liability properly recognized by ABC in the tax year ending December 31, 2008) in the first annualization period ending March 31, 2008. Example 2. (i) Corporation ABC, a calendar year taxpayer, uses an accrual method of accounting and the annualized income installment method under section 6655(e)(2)(A)(i) to calculate all of its required installment payments for its 2008 taxable year. ABC has adopted a plan under which ABC pays an annual bonus to its employees. ABC's bonus program generally calls for an annual bonus equal to 2% of earnings. A bonus reserve for this amount is reported each quarter in ABC's non-tax books and records. ABC's quarterly revenues throughout the year are $10,000,000; $6,000,000; $7,000,000; and $7,000,000 respectively. As of March 31, 2008, ABC estimates that it will pay a year-end bonus of $800,000 ($10,000,000 × 4 × 2%) to its employees if earnings remain constant throughout the year. ABC does not pay any of the estimated bonus payment as of March 31, 2008. On December 31, 2008, ABC declares a $600,000 bonus to its employees which is paid out on January 15, 2009, and properly deducted in ABC's December 31, 2008, tax year. (ii) Under the general rule provided in paragraph (f)(2)(i) of this section, ABC must allocate its employee bonus liability in a reasonably accurate manner for annualization purposes. Under paragraph (f)(2)(iii) of this section, ABC's employee bonus liability will be deemed to be allocated in a reasonably accurate manner if the allocation provides a reasonably accurate estimate of taxable income for the taxable year based upon the facts known as of the end of the annualization period. Based upon its earnings activities and other information available as of March 31, 2008, ABC estimated that its total deduction for employee bonuses for the taxable year ending December 31, 2008, would be $800,000 ($10,000,000 × 4 × 2%). Allocating $200,000 ($10,000,000 × 2%) of ABC's annual bonus liability of $600,000 to ABC's first quarter based upon earnings during the quarter represents a better matching of ABC's bonus expense to earnings in the quarter as compared to allocating $150,000 to ABC's first quarter under a ratable accrual method and is consistent with the allocation provided in ABC's non-tax books and records. Accordingly, allocating ABC's employee bonus deductions based upon ABC's earnings will be considered allocated in a reasonably accurate manner. Example 3. (i) Corporation ABC, a calendar year taxpayer, uses an accrual method of accounting and the annualized income installment method under section 6655(e)(2)(A)(i) to calculate all of its required installment payments for its 2008 taxable year. ABC has adopted a plan under which ABC pays a bonus to its employees each quarter based upon earnings for that quarter. On March 31, 2008, ABC pays $2,000,000 to its employees as a quarterly bonus based on earnings for ABC for the period January 1, 2008, through March 31, 2008. The $2,000,000 bonus is recognized as an expense on ABC's audited financial statements in the quarter ending March 31, 2008. As of March 31, 2008, ABC anticipates that its earnings will continue throughout the year resulting in future quarterly bonus payments in 2008 similar to the $2,000,000 first quarter payment. (ii) Under the general rule provided in paragraph (f)(2)(i) of this section, ABC is required to allocate its employee bonus liability in a reasonably accurate manner for annualization purposes. Under paragraph (f)(2)(iii) of this section, ABC's employee bonus liability will be deemed to be allocated in a reasonably accurate manner if the item is allocated ratably throughout the taxable year. Therefore, ABC may recognize a $500,000 bonus deduction (one quarter of the $2,000,000 bonus liability properly recognized by ABC in the tax year ending December 31, 2008) in the first annualization period ending March 31, 2008 (as well as one quarter of any additional bonus liability properly recognized by ABC in the tax year ending December 31, 2008). (iii) In addition, paragraph (f)(2)(iii) of this section provides that an allocation will be considered reasonable if the allocation provides an accurate estimate of taxable income for the taxable year based upon the facts known as of the end of the annualization period. Based upon its earnings activities and other information available as of March 31, 2008, ABC estimates that its total deduction for employee bonuses for the taxable year ending December 31, 2008, would be $8,000,000. In addition, the $2,000,000 bonus liability became fixed and determinable during the first quarter. Allocating $2,000,000 to ABC's first quarter earnings is also consistent with ABC's non-tax books and records and represents a better matching of ABC's bonus expense to earnings in the quarter as compared to a ratable accrual. Accordingly, allocating ABC's bonus liability based upon earnings will be considered a reasonably accurate manner for estimated tax purposes. Example 4. (i) Corporation ABC, a calendar year taxpayer, uses an accrual method of accounting with the recurring item exception and the annualized income installment method under section 6655(e)(2)(A)(i) to calculate all of its required installment payments for its 2009 taxable year. ABC regularly incurs rebate obligations related to the sale of its products. Rebate coupons that are received and validated by ABC are generally paid in the following month. During the tax year ending December 31, 2009, ABC received, validated and paid $400,000 in rebates. In addition, as of the end of December 31, 2009, ABC had received and validated $100,000 in rebate claims that were paid in January of 2010 and deducted in ABC's December 31, 2009, tax year under the recurring item exception. Therefore, ABC properly recognized a $500,000 rebate liability deduction on ABC's December 31, 2009, tax return. (ii) Under the rule provided in paragraph (f)(2)(ii) of this section, an item must be allocated in a reasonably accurate manner if any portion of the item is deducted under the recurring item exception. Therefore, ABC will be required to allocate its entire $500,000 rebate liability deduction in a reasonably accurate manner as defined in paragraph (f)(2)(iii) of this section. (3) Special rules - (i) Advance payments under Rev. Proc. 2004-34. An advance payment for which the taxpayer uses the Deferral Method provided in section 5.02 of Rev. Proc. 2004-34 (2004-1 CB 991), (see § 601.601(d)(2)(ii)(b) of this chapter) is includible in computing taxable income for an annualization period in accordance with that method of accounting, except that any amount not included in computing taxable income by the end of the taxable year succeeding the taxable year of receipt is includible in computing taxable income on the last day of such succeeding taxable year. (ii) Extraordinary items - (A) In general. In general, extraordinary items must be taken into account after annualizing the taxable income for the annualization period. For purposes of the preceding sentence an extraordinary item is any item identified in § 1.1502-76(b)(2)(ii)(C)(1), (2), (3), (4), (7), and (8), a net operating loss carryover, a section 481(a) adjustment, net gain or loss from the disposition of 25 percent or more of the fair market value of a taxpayer's business assets during a taxable year, and any other item designated by the Secretary by publication in the Internal Revenue Bulletin (see § 601.601(d)(2)(ii)(b) of this chapter). (B) De minimis extraordinary items. A taxpayer may treat any de minimis extraordinary item, other than a net operating loss carryover or section 481(a) adjustment, as an item under the general rule of paragraph (f)(1) of this section rather than an extraordinary item as provided for in paragraph (f)(3)(ii) of this section. A de minimis extraordinary item is any item identified in paragraph (f)(3)(ii)(A) of this section resulting from a transaction in which the total extraordinary items resulting from such transaction is less than $1,000,000. (C) Special rule for net operating loss deductions and section 481(a) adjustments. For purposes of paragraph (f)(3)(ii) of this section, a taxpayer must treat a net operating loss deduction and section 481(a) adjustment as extraordinary items arising on the first day of the tax year in which the item is taken into account in determining taxable income. Notwithstanding the preceding sentence, a taxpayer may choose to treat the portion of a section 481(a) adjustment recognized during the tax year of the accounting method change as an extraordinary item arising on the date the Form 3115, "Application for Change in Accounting Method," requesting the change was filed with the national office of the Internal Revenue Service. (iii) Credits - (A) Current year credits. With respect to a current year credit, the items upon which the credit is computed are annualized, the amount of the credit is computed based on the annualized items, and the amount of the credit is deducted from the annualized tax. For example, for an annualization period consisting of three months in a full 12-month taxable year, the items upon which the credit is based that are taken into account for the three month period are multiplied by four, the credit is determined based on the annualized amount of the items, and the credit reduces the annualized tax. (B) Credit carryovers. Any credit carryover to the current taxable year is taken into account in computing an annualized income installment only after annualizing the taxable income for the annualization period and computing the applicable tax, and before applying the applicable percentage. (iv) Depreciation and amortization - (A) Estimated annual depreciation and amortization. In general, in determining taxable income for any annualization period, a proportionate amount of the taxpayer's estimated annual depreciation and amortization (depreciation) expense may be taken into account. For purposes of the preceding sentence, estimated annual depreciation expense is the estimated depreciation expense to be properly taken into account in determining the taxpayer's taxable income for the taxable year. In determining the estimated annual depreciation expense, a taxpayer may take into account purchases, sales or other dispositions, changes in use, additional first-year depreciation and expense deductions and section 179 or any similar provision, and other events that, based on all the relevant information available as of the last day of the annualization period (such as capital spending budgets, financial statement data and projections, or similar reports that provide evidence of the taxpayer's capital spending plans for the current taxable year), are reasonably expected to occur or apply during the taxable year. (B) Safe harbors - (1) Proportionate depreciation allowance. In determining taxable income for any annualization period, in lieu of the rule provided in paragraph (f)(3)(iv)(A) of this section a taxpayer may take into account a proportionate amount of the depreciation and amortization (depreciation) expense, including special depreciation and expense deductions such as those provided for in section 168(k) and section 179 or any similar provision, allowed for the taxable year from - (i) Assets that were in service on the last day of the prior taxable year, are in service on the first day of the current taxable year, and that have not been disposed of during the annualization period; (ii) Assets placed in service during the annualization period and have not been disposed of during that period; and (iii) Assets that were in service on the last day of the prior taxable year and that are disposed of during the annualization period. (2) 90 percent of preceding year's depreciation. In determining taxable income for any annualization period, in lieu of the general rule provided in paragraph (f)(3)(iv)(A) of this section, a proportionate amount of 90 percent of the amount of depreciation and amortization (depreciation) expense taken on the taxpayer's Federal income tax return for the preceding taxable year may be taken into account. If the taxpayer's preceding taxable year is less than 12 months (a short taxable year), the amount of depreciation expense taken into account is annualized by multiplying the depreciation and amortization for the short taxable year by 12, and dividing the result by the number of months in the short taxable year. (3) Safe harbor operational rules. If a taxpayer selects one of the two safe harbors provided in paragraph (f)(3)(iv)(B)(1) or paragraph (f)(3)(iv)(B)(2) of this section, the taxpayer must use that safe harbor for all depreciation expenses within the annualization period for the annualized income installment. However, a taxpayer may use either the method provided for in paragraph (f)(3)(iv)(A) of this section or a method provided for in this paragraph (f)(3)(iv)(B) of this section for each annualized income installment during the taxable year. For example, a taxpayer may use the safe harbor provided in paragraph (f)(3)(iv)(B)(1) of this section for its first annualized income installment and may use the general rule provided in paragraph (f)(3)(iv)(A) of this section for its second annualized income installment. (C) Short taxable years. If the taxable year is, or will be, a short taxable year (based on all relevant information available as of the last day of the annualization period), annual depreciation expense is computed using the rules applicable for computing depreciation during a short taxable year for purposes of determining the annual depreciation expense to be allocated to an annualization period. For this purpose, the rules applicable for computing depreciation during a short taxable year are applied on the basis of the date the taxable year is expected to end based on all relevant information available as of the last day of the annualization period. See Rev. Proc. 89-15 (1989-1 CB 816) for computing depreciation expense under section 168 (see § 601.601(d)(2)(ii)(b) of this chapter). An annualization period is not treated as a short taxable year for purposes of determining the depreciation expense for an annualization period. See paragraph (c)(3) of this section. (v) Distributive share of items - (A) Member of partnership. In determining a partner's distributive share of partnership items that must be taken into account during an annualization period, the rules set forth in § 1.6654-2(d)(2) are applicable. (B) Treatment of subpart F income and income under section 936(h) - (1) General rule. Any amounts required to be included in gross income under section 936(h) or section 951(a), and credits properly allocable thereto, are taken into account in computing any annualized income installment in a manner similar to the manner under which partnership inclusions, and credits properly allocable thereto, are taken into account in accordance with paragraph (f)(3)(v)(A) of this section. (2) Prior year safe harbor - (i) General rule. If a taxpayer elects to have the safe harbor in this paragraph (f)(3)(v)(B)(2) apply for any taxable year, then paragraph (f)(3)(v)(B)(1) of this section does not apply; and, for purposes of computing any annualized income installment for the taxable year, the taxpayer is treated as having received ratably during the taxable year items of income and credit described in paragraph (f)(3)(v)(B)(1) of this section in an amount equal to 115 percent of the amount of such items shown on the return of the taxpayer for the preceding taxable year (the second preceding taxable year in the case of the first and second required installments for such taxable year). (ii) Special rule for noncontrolling shareholder. If a taxpayer making the election under paragraph (f)(3)(v)(B)(2)(i) of this section is a noncontrolling shareholder of a corporation, paragraph (f)(3)(v)(B)(2)(i) of this section is applied with respect to items of such corporation by substituting "100 percent" for "115 percent". For purposes of paragraph (f)(3)(v)(B)(2)(ii) of this section, the term noncontrolling shareholder means, with respect to any corporation, a shareholder that, as of the beginning of the taxable year for which the installment is being made, does not own within the meaning of section 958(a), and is not treated as owning within the meaning of section 958(b), more than 50 percent by vote or value of the stock in the corporation. (C) Dividends from closely held real estate investment trust - (1) General rule. Any dividend received from a closely held real estate investment trust by any person that owns, after the application of section 856(d)(5), 10 percent or more by vote or value of the stock or beneficial interests in the trust is taken into account in computing annualized income installments in a manner similar to the manner under which partnership income inclusions are taken into account. (2) Closely held real estate investment trust. For purposes of paragraph (f)(3)(v)(C)(1) of this section, the term closely held real estate investment trust means a real estate investment trust with respect to which 5 or fewer persons own, after the application of section 856(d)(5), 50 percent or more by vote or value of the stock or beneficial interests in the trust. (D) Other passthrough entities. A taxpayer's distributive share of items from a passthrough entity, other than those described in paragraphs (f)(3)(v)(A) and (f)(3)(v)(C) of this section, is taken into account in computing any annualized income installment in a manner similar to the manner under which partnership items are taken into account under paragraph (f)(3)(v)(A) of this section. (vi) Alternative minimum taxable income exemption amount. The alternative minimum taxable income exemption amount provided by section 55(d)(2) is applied after the alternative minimum taxable income for the annualization period is annualized. (vii) Examples. The provisions of this paragraph (f) are illustrated by the following examples. Unless otherwise stated, the following examples assume that the taxpayer uses the 3-3-6-9 annualization period. Example 1. Expense paid or incurred in the installment period. Corporation ABC, a calendar year taxpayer, uses an accrual method of accounting and the annualized income installment method under section 6655(e)(2)(A)(i) to calculate all of its required installment payments for its 2008 taxable year. ABC has licensed technology from Corporation XYZ. Pursuant to the license agreement, ABC pays a license fee to XYZ equal to $.01 for every dollar of gross receipts earned by ABC. For 2008, ABC projects gross receipts of $200,000,000, of which $100,000,000 is earned by March 31, 2008. Pursuant to paragraph (f)(1) of this section, a license fee expense of $1,000,000 ($100,000,000 × $.01) is incurred by March 31, 2008, and may be taken into account for purposes of determining the taxable income to be annualized in computing ABC's first annualized income installment. Example 2. Expense not paid or incurred in the installment period. Same facts as Example 1 except that ABC does not earn any gross receipts by March 31, 2008. In accordance with paragraph (f)(1) of this section, because the license fee expense was not incurred under § 1.461-1(a)(2) by the last day of the annualization period, no license fee expense is taken into account for purposes of determining the taxable income to be annualized in computing ABC's first annualized income installment, which is based on the income and deductions from the first three months of the taxable year. Example 3. Bad debt expense. Corporation ABC, a calendar year taxpayer, uses an accrual method of accounting and the annualized income installment method under section 6655(e)(2)(A)(i) to calculate all of its required installment payments for its 2008 taxable year. As of December 31, 2007, ABC had a $100,000 account receivable due from XYZ related to the sale of goods from ABC to XYZ during 2007. On March 30, 2008, ABC determined that its receivable from XYZ was worthless under section 166 and the regulations. No other receivables were determined to be worthless between January 1, 2008, and March 31, 2008. In accordance with paragraph (f)(1) of this section, a $100,000 bad debt write-off is taken into account for purposes of determining the taxable income to be annualized in computing ABC's first annualized income installment. Example 4. Bad debt expense. Same facts as Example 3 except that ABC determines that the receivable from XYZ was worthless under section 166 and the regulations on April 10, 2008. As of March 31, 2008, ABC had not determined that any receivables were worthless under section 166 and the regulations. In accordance with paragraph (f)(1) of this section, the $100,000 bad debt expense attributable to the receivable from XYZ is not taken into account for purposes of determining the taxable income to be annualized in computing ABC's first annualized income installment, which is based on the income and deductions from the first three months of the taxable year, because the receivable from XYZ became worthless after the last day of the annualization period. Example 5. Employer deductions under section 404 and 419. (i) Corporation ABC, a calendar year taxpayer, uses an accrual method of accounting and uses the annualized income installment method under section 6655(e)(2)(A)(i) to calculate all of its required installment payments for its 2008 taxable year. On March 1, 2008, the board of directors of ABC makes a binding, irrevocable commitment to fund a minimum contribution of $10,000,000 to ABC's qualified retirement plan by March 14, 2009. ABC remits a $1,000,000 payment to the retirement plan on March 1, 2008, and a $9,000,000 payment on March 3, 2009. ABC does not incur any other related retirement plan deductions during its 2008 taxable year. (ii) Under the rule provided in paragraph (f)(2)(i) of this section, ABC's employer deduction for payment made to the qualified plan must be allocated throughout the tax year for estimated tax purposes in a reasonably accurate manner. Therefore, ABC will not be permitted to allocate the $10,000,000 deduction to its first installment period. Under paragraph (f)(2)(iii) of this section, ABC's qualified plan deduction will be deemed to be allocated in a reasonably accurate manner if the item is allocated ratably throughout the taxable year. Therefore, ABC will be permitted to allocate $2,500,000 of its qualified plan deduction in its first installment period. Example 6. Prepaid expense. (i) Corporation ABC, a calendar year taxpayer, uses an accrual method of accounting and does not capitalize qualifying costs under the exception provided for in § 1.263(a)-4(f). ABC uses the annualized income installment method under section 6655(e)(2)(A)(i) to calculate all of its required installment payments for its 2008 taxable year. On July 1, 2008, ABC purchases an annual business license from State X which permits ABC to operate its business in State X from July 1, 2008, through June 30, 2009. An annual payment of $12,000 is due on July 1, 2008, and ABC pays the fee on this date. ABC has not elected out of the 12-month rule provided by § 1.263(a)-4(f) and therefore ABC is not required to capitalize any amount paid for the license and will recognize a $12,000 deduction for the tax year ending December 31, 2008, with respect to this license. (ii) Under the rule provided in paragraph (f)(2)(ii) of this section, ABC's $12,000 business license expense must be allocated in a reasonably accurate manner because ABC utilizes the 12-month rule exception provided for in the § 1.263(a)-4(f). Under paragraph (f)(2)(iii) of this section, ABC's deduction will be deemed to be allocated in a reasonably accurate manner if the item is allocated ratably throughout the taxable year. Therefore, ABC will be permitted to allocate $3,000 of its business license deduction in its first installment period. Example 7. Real property tax liability. (i) Corporation ABC, a calendar year taxpayer, uses an accrual method of accounting and the annualized income installment method under section 6655(e)(2)(A)(i) to calculate all of its required installment payments for its 2008 taxable year. ABC owns real property in State Y and uses the real property in its trade or business. ABC incurs a $400,000 deduction for State Y real estate taxes during ABC's December 31, 2008, taxable year. ABC has elected to recognize its real property taxes ratably under section 461(c). (ii) Under the rule provided in paragraph (f)(2)(i) of this section, ABC's $400,000 real property tax liabilities must be allocated in a reasonably accurate manner. However, paragraph (f)(2)(iv) of this section provides that with respect to real property taxes for which an election has been made under section 461(c), ratable accrual is the only method which will be considered a reasonably accurate method. Therefore, ABC will be required to allocate its $400,000 real property taxes ratably for estimated tax purposes and thus $100,000 will be allocated to the ABC's first annualized income installment. Example 8. NOL (Net Operating Loss) deduction. Corporation ABC, a calendar year taxpayer, uses an accrual method of accounting and the annualized income installment method under section 6655(e)(2)(A)(i) to calculate all of its required installment payments for its 2008 taxable year. ABC has a net operating loss carryover to 2008 of $2,000,000. ABC's taxable income from January 1, 2008, through March 31, 2008, without regard to any net operating loss deduction, is $1,500,000 (pre-NOL taxable income). Under the special rule for net operating loss deductions provided in paragraph (f)(3)(ii) of this section, the NOL deduction is treated as an extraordinary item incurred on the first day of ABC's December 31, 2008, tax year. Therefore, the NOL deduction is taken into account after annualization for purposes of determining ABC's first annualized income installment. Example 9. Advance payment. (i) Corporation ABC, a calendar year taxpayer, uses an accrual method of accounting and the annualized income installment method under section 6655(e)(2)(A)(i) to calculate all of its required installment payments for its 2008 and 2009 taxable years. ABC is in the business of giving dancing lessons and receives advance payments. For Federal income tax purposes, ABC uses the Deferral Method provided in section 5.02 of Rev. Proc. 2004-34 for the advance payments it receives for dance lessons. On November 1, 2008, ABC receives an advance payment of $2,400 for a 2-year contract commencing on November 1, 2008, and providing for up to 24 individual, 1-hour lessons. ABC provides 2 lessons in 2008, 12 lessons in 2009, and 10 lessons in 2010. ABC recognizes $200 in revenues in its financial statements for the last quarter of 2008. ABC recognizes $300 in revenues in its financial statements for each quarter of 2009 for a total of $1,200 in 2009. ABC recognizes the remaining $1,000 in revenues in its financial statements during 2010. For tax purposes, ABC recognizes $200 into revenue in 2008 and $2,200 into revenue in 2009 under Rev. Proc. 2004-34. See § 601.601(d)(2)(ii)(b). (ii) Pursuant to paragraph (f)(3)(i)(B) of this section, ABC is not required to take into account any of the advance payment for purposes of computing any required installment payment for ABC's 2008 taxable year because no part of the $2,400 advance payment was recognized as income in ABC's financial statements during the first nine months of ABC's 2008 taxable year. In 2009, ABC must take into account $300 of revenue for purposes of computing its first and second required installment payments, $600 of revenue for purposes of computing its third required installment payment and $900 for purposes of computing its fourth required installment payment. Pursuant to paragraph (f)(3)(i)(B) of this section, the remaining deferred revenue is recognized on December 31, 2009, for purposes of computing ABC's annualized income installments for 2009. Example 10. Section 481(a) adjustment. Corporation ABC, a calendar year taxpayer, uses an accrual method of accounting and the annualized income installment method under section 6655(e)(2)(A)(i) to calculate all of its required installment payments for its 2008 taxable year. On December 20, 2008, ABC files a Form 3115 requesting permission to change its method of accounting. The requested change results in a negative section 481(a) adjustment of $80,000. ABC subsequently receives the consent of the Commissioner to make the change and therefore, the negative $80,000 section 481(a) adjustment is properly recognized in ABC's tax return for the year ending December 31, 2008. Under paragraph (f)(3)(ii) of this section ABC is permitted to recognize the negative $80,000 section 481(a) adjustment as an extraordinary item occurring on January 1, 2008 (the first day of ABC's December 31, 2008, tax year), or December 20, 2008 (the date ABC filed the Form 3115). ABC chooses to recognize the negative $80,000 section 481(a) adjustment as an extraordinary item occurring in January 1, 2008. Accordingly, $80,000 of the negative section 481(a) adjustment is taken into account after annualization for purposes of determining ABC's first annualized income installment. In addition, under § 1.6655-6(b), ABC is required to use its new method of accounting as of January 1, 2008 for estimated tax purposes, consistent with the recognition of the section 481(a) adjustment for estimated tax purposes. Therefore, ABC will be required to use the new method of accounting in determining taxable income to be annualized in computing ABC's first annualized income installment. Example 11. Section 481(a) adjustment. Corporation ABC, a calendar year taxpayer, uses an accrual method of accounting and uses the annualized income installment method under section 6655(e)(2)(A)(i) to calculate all of its required installment payments for its 2008 taxable year. On June 15, 2008, ABC files a Form 3115 requesting permission to change its method of accounting. The requested change results in a positive section 481(a) adjustment of $240,000. ABC subsequently receives the consent of the Commissioner to make the change and therefore, $60,000 of the section 481(a) adjustment (one quarter of the positive $240,000 section 481(a) adjustment) is properly recognized in ABC's tax return for the year ending December 31, 2008. Under paragraph (f)(3)(ii) of this section, ABC is permitted to recognize the positive $60,000 section 481(a) adjustment as an extraordinary item occurring on January 1, 2008 (the first day of ABC's December 31, 2008, tax year), or June 15, 2008 (the date ABC filed the Form 3115). ABC chooses to recognize the positive $60,000 section 481(a) adjustment as an extraordinary item occurring on June 15, 2008. Accordingly, the $60,000 positive section 481(a) adjustment is not taken into account for purposes of determining ABC's first annualized income installment. However, in all futures years any portion of the section 481(a) adjustment related to this change in method of accounting will be treated as an extraordinary item occurring on the first day of the tax year under paragraph (f)(3)(ii) of this section. In addition, under § 1.6655-6(b), ABC is required to use its new method of accounting as of June 15, 2008 for estimated tax purposes, consistent with the recognition of the section 481(a) adjustment for estimated tax purposes. Therefore, ABC will be required to use the new method of accounting (as of the beginning of the tax year) for purposes of determining taxable income to be annualized in computing ABC's third and fourth annualized income installments (which are based upon annualization periods that include June 15, 2008.) Example 12. Extraordinary item. Corporation ABC, a calendar year taxpayer, uses an accrual method of accounting and the annualized income installment method under section 6655(e)(2)(A)(i) to calculate all of its required installment payments for its 2008 taxable year. On May 10, 2008, ABC reaches a settlement agreement with XYZ over a tort action filed by ABC. As a result, ABC receives a payment of $10,000,000 on June 15, 2006, that is recognized as income by ABC. The settlement of a tort action is an extraordinary item defined in paragraph (f)(3)(ii)(A) of this section. Accordingly, the $10,000,000 of income will be taken into account by ABC on May 10, 2008, for purposes of computing ABC's annualized income installments for 2008. Therefore, the $10,000,000 settlement will only be taken into account in computing ABC's third and fourth annualized income installments (which are based upon annualization periods that include May 10, 2008). In addition, the $10,000,000 settlement income will be taken into account as an extraordinary item of income after annualization for purposes of determining ABC's third and fourth annualized installment payments. Example 13. Credit carryover. Corporation ABC, a calendar year taxpayer, uses an accrual method of accounting and the annualized income installment method under section 6655(e)(2)(A)(i) to calculate all of its required installment payments for its 2008 taxable year. ABC projects its annualized tax for its 2008 taxable year, based on annualizing ABC's taxable income for its first annualization period from January 1, 2008, through March 31, 2008, to be $1,500,000 before reduction for any credits. ABC has an unused section 38 credit from 2007 for increasing research activities from 2007 of $500,000 that is carried over to 2008. For purposes of determining ABC's first annualized income installment, ABC's annualized tax for 2008 is $1,000,000, determined as the tax for the taxable year computed by placing on an annualized basis ABC's taxable income from its first annualization period from January 1, 2008, through March 31, 2008 ($1,500,000) reduced by the $500,000 credit carryover from 2007. Therefore, ABC's first required installment payment for 2008 is $250,000 ($1,000,000 × 25%). Example 14. Current year credit. Corporation ABC, a calendar year taxpayer, uses an accrual method of accounting and the annualized income installment method under section 6655(e)(2)(A)(i) to calculate all of its required installment payments for its 2008 taxable year. ABC projects its annualized tax for its 2008 taxable year, based on annualizing ABC's taxable income for its first annualization period from January 1, 2008, through March 31, 2008, to be $2,000,000 before reduction for any credits. ABC has historically earned a section 41 credit for increasing research activities and, for 2008, ABC estimates that it will earn a credit for increasing research activities under section 41 of $1,200,000. However, pursuant to paragraph (f)(3)(iii) of this section, if ABC were to annualize all components involved in computing the current year credit based on ABC's activity from January 1, 2008, through March 31, 2008, ABC would generate a credit of $1,600,000 for 2008. For purposes of determining ABC's first annualized income installment, ABC's annualized tax for 2008 is $400,000, determined as the tax for the 2008 taxable year ($2,000,000) computed by placing on an annualized basis ABC's taxable income from its first annualization period January 1, 2008, through March 31, 2008, reduced by a $1,600,000 current year section 41 credit from increasing research activities. Therefore, ABC's first required installment payment for 2008 is $100,000 ($400,000 × 25%). Example 15. Current year credit. Same facts as Example 14 except that ABC does not begin any research activities until April 3, 2008, and will not incur any research expenses described in paragraph (f)(1)(ii) of this section. As a result, if ABC were to annualize all components involved in computing the current year credit based on ABC's activity from January 1, 2008, through March 31, 2008, ABC would generate no section 41 research credit for purposes of determining its first annualized income installment. Pursuant to paragraph (f)(3)(iii) of this section, ABC cannot take into account any credit for its first annualization period because ABC did not incur any qualified research expenses by the last day of the first annualization period. Accordingly, for purposes of determining ABC's first annualized income installment, ABC's annualized tax for its first annualization period January 1, 2008, through March 31, 2008, is $2,000,000. Therefore, ABC's first required installment payment for 2008 is $500,000 ($2,000,000 × 25%). Example 16. Depreciation and amortization expense. Corporation ABC, a calendar year taxpayer that began business on January 2, 2007, adopted an accrual method of accounting and will use the annualized income installment method under section 6655(e)(2)(A)(i) to calculate all of its required installment payments for its 2008 taxable year. On January 2, 2007, ABC purchased and placed in service a tangible depreciable asset that costs $50,000 and is 5-year property under section 168(e). ABC depreciates its 5-year property placed in service in 2007 under the general depreciation system using the 200-percent declining balance method, a 5-year recovery period, and the half year convention. On January 2, 2008, ABC purchased and placed in service qualified Gulf Opportunity Zone property (GO Zone property) that costs $30,000 and is 5-year property under section 168(e). ABC will depreciate its 5-year property placed in service in 2008 under the general depreciation system using the 200-percent declining balance method, a 5-year recovery period, and the half-year convention. ABC will deduct the 50% additional first year depreciation deduction under section 1400N(d) with respect to the GO Zone property. For tax year 2007, ABC takes a depreciation deduction under section 168 of $10,000 ($50,000 × 20% = $10,000). ABC does not anticipate being subject to the mid-quarter convention for the 2008 taxable year, does not anticipate making any depreciation elections for any class of property, does not anticipate making a section 179 election, does not anticipate any sales or other dispositions of depreciable property, and no events have occurred, nor does ABC know, based on all relevant information available as of the due date of ABC's first required installment for 2008, of any event that will occur to cause ABC's 2008 taxable year to be a short taxable year. The optional amounts of depreciation expense ABC may take into account for its first annualized income installment for its 2008 taxable year are determined as follows: (i) General rule - Estimated annual depreciation. In accordance with the general rule provided in paragraph (f)(3)(iv)(A) of this section, ABC may take a depreciation expense of $8,500 ($34,000 × 3/12 = $8,500) into account in computing ABC's January 1, 2008, through March 31, 2008, taxable income. ABC's estimated annual depreciation expense for 2008 of $34,000 is computed as follows: $15,000 for the 50% additional first year depreciation deduction under section 1400N(d) ($30,000 × 50% = $15,000) plus annual depreciation of $16,000 ($40,000 × 40% = $16,000) and $3,000 ($15,000 × 20% = $3,000). Under paragraphs (c)(3) and (f)(3)(iv)(C) of this section, ABC may not consider its first annualization period to be a short taxable year for purposes of determining the depreciation allowance for such annualization period. (ii) Safe Harbor - Proportionate depreciation allowance. In accordance with the safe harbor provided in paragraph (f)(3)(iv)(B)(1) of this section, ABC may take a depreciation expense of $8,500 ($34,000 × 3/12 = $8,500) into account in computing ABC's January 1, 2008, through March 31, 2008, taxable income based on annual depreciation expense for 2008 of $34,000, computed as follows: $15,000 for the 50% additional first year depreciation deduction under section 1400N(d) ($30,000 × 50% = $15,000) plus annual depreciation of $16,000 ($40,000 × 40% = $16,000) and $3,000 ($15,000 × 20% = $3,000). Under paragraphs (c)(3) and (f)(3)(iv)(C) of this section, ABC may not consider its first annualization period to be a short taxable year for purposes of determining the depreciation allowance for such annualization period. (iii) Safe Harbor - 90 percent of preceding year's depreciation. In accordance with the safe harbor in paragraph (f)(3)(iv)(B)(2) of this section, ABC may take a depreciation expense of $2,250 ($10,000 prior year's depreciation × 90% = $9,000 × 3/12 = $2,250) into account in computing ABC's January 1, 2008, through March 31, 2008, taxable income. Under paragraphs (c)(3) and (f)(3)(iv)(C) of this section, ABC may not consider its first annualization period to be a short taxable year for purposes of determining the depreciation allowance for such annualization period. (g) Items that substantially affect taxable income but cannot be determined accurately by the installment due date - (1) In general. In determining the applicability of the annualization exceptions described in paragraphs (a) and (b) of this section and § 1.6655-3, reasonable estimates may be made from existing data for items that substantially affect income if the amount of such items cannot be determined accurately by the installment due date. This paragraph (g) applies only to the inflation index for taxpayers using the dollar-value LIFO (last-in, first-out) inventory method, adjustments required under section 263A, the computation of a taxpayer's section 199 deduction, intercompany adjustments for taxpayers that file consolidated returns, the liquidation of a LIFO layer at the installment date that the taxpayer reasonably believes will be replaced at the end of the year, deferred gain on a qualifying conversion or exchange of property under sections 1031 and 1033 that the taxpayer reasonably believes will be replaced with qualifying replacement property, and any other item designated by the Secretary by publication in the Internal Revenue Bulletin (see § 601.601(d)(2)(ii)(b) of this chapter). (2) Example. The following example illustrates the rules of this paragraph (g): Example. Section 199 deduction. Corporation ABC, a calendar year taxpayer, uses an accrual method of accounting and the annualized income installment method under section 6655(e)(2)(A)(i) to calculate all of its required installment payments for its 2008 taxable year. ABC engages in production activities that generate qualified production activities income (QPAI), as defined in § 1.199-1(c), and projects taxable income of $50,000 for its first annualization period from January 1, 2008, through March 31, 2008, without taking into account the section 199 deduction. During its first annualization period from January 1, 2008, through March 31, 2008, ABC incurs W-2 wages allocable to domestic production gross receipts pursuant to section 199(b)(2) of $10,000. Pursuant to paragraph (g)(1) of this section, ABC is permitted to take into account its estimated section 199 deduction before annualizing taxable income based on the lesser of its estimated QPAI or taxable income and W-2 wages for its first installment period for 2008. For the first installment period in 2008, ABC is permitted to recognize a deduction under section 199 of $3,000 ($50,000 × .06 = $3,000) subject to the wage limitation of $5,000 (50 percent of $10,000 of W-2 wages incurred during the first installment period). Accordingly, ABC's annualized income for the first installment for 2008 is $188,000 (($50,000-$3,000) × 1 2/3 = $188,000). The tax on $188,000 is $56,570 and ABC's first required installment for 2008 is $14,143 ($56,570 × .25 = $14,143). (h) Effective/applicability date. This section applies to taxable years beginning after September 6, 2007. [T.D. 9347, 72 FR 44349, Aug. 7, 2007; 72 FR 53684, Sept. 20, 2007; 72 FR 54350, Sept. 25, 2007, as amended by T.D. 9870, 84 FR 33692, July 15, 2019] Page 2 § 55.6061-1 Signing of returns and other documents. Any return required to be made by a real estate investment trust or a regulated investment company with respect to the tax imposed by Chapter 44 shall be signed by a person authorized by section 6062 of the Code to sign the income tax return of the real estate investment trust or the regulated investment company. Any statement or other document required to be made with respect to the tax imposed by Chapter 44 shall be signed by the person required or duly authorized to sign in accordance with the regulations, forms, or instructions prescribed with respect to such statement or document. An individual's signature on a return, statement, or other document made by or for the real estate investment trust or the regulated investment company shall be prima facie evidence that the individual is authorized to sign the return, statement, or other document. [T.D. 8180, 53 FR 6148, Mar. 1, 1988] The following state regulations pages link to this page.