

Internal Revenue Code Section 6654(d)(1)

Failure by individual to pay estimated income tax

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(d) Amount of required installments.

For purposes of this section -

(1) Amount.

(A) In general. Except as provided in paragraph (2) , the amount of any required installment shall be 25 percent of the required annual payment.

(B) Required annual payment. For purposes of subparagraph (A) , the term "required annual payment" means the lesser of-

(i) 90 percent of the tax shown on the return for the taxable year (or, if no return is filed, 90 percent of the tax for such year), or

(ii) 100 percent of the tax shown on the return of the individual for the preceding taxable year.

Clause (ii) shall not apply if the preceding taxable year was not a taxable year of 12 months or if the individual did not file a return for such preceding taxable year.

(C) Limitation on use of preceding year's tax.

(i) In general. If the adjusted gross income shown on the return of the individual for the preceding taxable year beginning in any calendar year exceeds \$150,000, clause (ii) of subparagraph (B) shall be applied by substituting "110 percent" for "100 percent".

(ii) Separate returns. In the case of a married individual (within the meaning of section 7703) who files a separate return for the taxable year for which the amount of the installment is being determined, clause (i) shall be applied by substituting "\$75,000" for "\$150,000".

(iii) Special rule. In the case of an estate or trust, adjusted gross income shall be determined as provided in section 67(e) .

(D) Repealed.

(2) Lower required installment where annualized income installment is less than amount determined under paragraph (1) .



(A) In general. In the case of any required installment, if the individual establishes that the annualized income installment is less than the amount determined under paragraph (1) -

(i) the amount of such required installment shall be the annualized income installment, and

(ii) any reduction in a required installment resulting from the application of this subparagraph shall be recaptured by increasing the amount of the next required installment determined under paragraph (1) by the amount of such reduction (and by increasing subsequent required installments to the extent that the reduction has not previously been recaptured under this clause).

(B) Determination of annualized income installment. In the case of any required installment, the annualized income installment is the excess (if any) of-

(i) an amount equal to the applicable percentage of the tax for the taxable year computed by placing on an annualized basis the taxable income, alternative minimum taxable income, and adjusted self-employment income for months in the taxable year ending before the due date for the installment, over

(ii) the aggregate amount of any prior required installments for the taxable year.

(C) Special rules. For purposes of this paragraph -

(i) Annualization. The taxable income, alternative minimum taxable income, and adjusted self-employment income shall be placed on an annualized basis under regulations prescribed by the Secretary.

(ii) Applicable percentage.

In the case of the following required installments: The applicable percentage is:

1st	22.5
2nd	45
3rd	67.5
4th	90.

(iii) Adjusted self-employment income. The term "adjusted self-employment income" means self-employment income (as defined in section 1402(b)); except that section 1402(b) shall be applied by placing wages (within the meaning of section 1402(b)) for months in the taxable year ending before the due date for the installment on an annualized basis consistent with clause (i) .

(D) Treatment of subpart F income.

(i) In general. Any amounts required to be included in gross income under 951(a) (and credits properly allocable thereto) shall be taken into account in computing any annualized income installment under subparagraph (B) in a manner similar to the manner under which partnership income inclusions (and credits properly allocable thereto) are taken into account.

(ii) Prior year safe harbor. If a taxpayer elects to have this clause apply to any taxable year-

(I) clause (i) shall not apply, and

(II) for purposes of computing any annualized income installment for such taxable year, the taxpayer shall be treated as having received ratably during such taxable year items of income and credit described in clause (i) in an amount equal to 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).

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