

The required installment of estimated tax that a corporation must pay to avoid a penalty is the lowest amount determined under each of the following four alternative methods: the current year method, the preceding year method, the annualized income method, or the seasonal income method.

(1) Under the "current year method," a corporation can avoid the estimated tax underpayment penalty by paying 25% of the tax shown on the current tax year's return (or, if no return is filed, 25% of the tax for the current year) by each of four installment due dates.

(2) Under the "preceding year method," a corporation can avoid the estimated tax underpayment penalty by paying 25% of the tax shown on the return for the preceding tax year by each of four installment due dates.

(3) Under the "annualized income method," a corporation can avoid the estimated tax underpayment penalty if it pays its "annualized tax" in quarterly installments. The annualized tax is computed on the basis of the corporation's taxable income for the months in the tax year ending before the due date of the installment and assuming income will be received at the same rate over the full year.

(4) Under the "seasonal income method," corporations with recurring seasonal patterns of taxable income can annualize income by assuming income earned in the current year is earned in the same pattern as in preceding years. There's a somewhat complicated mathematical test that corporations must pass in order to establish that their income is earned seasonally and that they therefore qualify to use this method.

Also note that a corporation can switch among the four methods during a given tax year.