DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF
CHIEF COUNSEL

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The Honorable Mike Thompson
U.S. House of Representatives
Washington, D.C. 20515

Attention: David Flanders

Dear Mr. Thompson:

This letter is in response to your inquiry dated April 27, 2000, on behalf of one of your constituents, who questions why estimated tax installments are not due at regular quarterly intervals. Your constituent is concerned about the June 15 due date for the second estimated tax installment. He feels the June 15 due date requires early payment of tax on money earned through June 30 and thus creates a cash flow problem. As explained below, the statutory estimated tax installments are based on annual estimates of tax.

Statutory Installment Due Dates

Estimated tax installment due dates are set by statute, the Internal Revenue Code (the Code). Therefore, a legislative change to section 6654(c) of the Code would be necessary to change the due date of an installment.

The June 15 installment date has been in the Code since the estimated tax provisions were enacted in 1943. At that time, individual income tax returns were due on March 15. The four estimated tax installments were originally set at quarterly intervals beginning with the March 15 return due date: the installments were due on March 15, June 15, September 15, and December 15. In 1944, the Congress changed the due date for the fourth installment to January 15 of the following year. In 1954, the Congress changed the individual tax return due date to April 15 and the due date for the first installment of estimated tax to April 15. The second and third installments still retain their original due dates.

Annual Estimates of Tax

Your constituent's June 15 installment of estimated tax is not based on income earned through June 30. An estimated tax installment is based on the taxpayer's required annual payment of estimated tax. The amount of a required installment is 25 percent of the required annual payment. The required annual payment is, generally, the lesser of (1) an amount equal to 90 percent of the tax shown on the taxpayer's return for the year, or (2) 100 percent of the tax shown on the return for the previous year. Therefore, the amount due for each installment is the same, regardless of the due date of the installment or the amount of income earned in a particular month or quarter. See section 6654(d)(1) of the Code.

An Alternative Installment Method: Annualized Income

A taxpayer whose income varies during the year can also use the annualized income method, which may result in lower required installments of estimated tax. See section 6654(d)(2) of the Code. Under this method, the four installments of estimated tax must be paid by the due dates in section 6654(c), but the amount due for each installment may vary. The amount due is a percentage of the yearly tax based on the taxpayer's income, as annualized, for the months in the taxable year ending before the due date of the installment. For the installment due June 15, income earned from January 1 through May 31 is annualized, and the estimated tax due would be 45 percent of the yearly tax due on that annualized income. A taxpayer who uses the annualized income method must attach Form 2210 showing the computation of the required estimated tax installments to his or her income tax return.

You also asked whether the Internal Revenue Service would support a legislative change to the estimated tax installment due dates. The Office of the Assistant Secretary (Tax Policy) of the Department of Treasury coordinates changes to the tax laws. You may wish to contact that office about any proposal to change the statutory due dates for estimated tax payments.

I hope this information is helpful. If you need further assistance, please call me or Nancy Rose (ID #50-06240) at (202) 622-4910.

Sincerely,

George J. Blaine
Chief, Branch 1
Income Tax & Accounting Division