

# Instructions for Alaska Underpayment of Estimated Tax by Corporations

## Purpose Of The Form

A corporation uses Form 708 to determine whether it is subject to the penalty for underpayment of estimated tax and, if so, the amount of the penalty.

## Who Must Pay The Underpayment Penalty

If the corporation did not pay sufficient estimated tax by any due date for paying estimated tax, it may be charged a penalty. This is true even if the corporation is due a refund when its return is filed. The penalty is computed separately for each installment due date. Therefore, the corporation may owe a penalty for an earlier installment due date, even if it paid enough tax later to make up the underpayment.

Generally, a corporation is subject to the penalty if its tax liability is \$500 or more and it did not pay on time the lesser of: 100% of its tax liability for this tax year, or 100% of its tax liability for the previous tax year, if a return was filed showing a tax liability, and it covered a full 12 months. (A "large corporation" may base only its first required installment on 100% of the prior year's tax liability.) A corporation may be able to reduce or eliminate the penalty by using the annualized income or adjusted seasonal installment method.

Check the applicable box, if the corporation uses the annualized income installment method or the adjusted seasonal installment method, or if the corporation is a "large corporation." A large corporation is one that it or its predecessor had \$1 million or more of Alaska taxable income for any of the three tax years immediately preceding the tax year involved. For this purpose, taxable income does not include a net operating loss or capital loss carryback or carryover. Members of a controlled group, as defined in IRS Section 1563, must divide the \$1 million among themselves in accordance with IRC Section 1561.

## Part I: How To Compute The Underpayment

Complete Part I of Form 708 to determine if there is an underpayment for any of the four installment due dates. If there is an underpayment on line 13 (column A, B, C, or D), go to Part II, How to Compute the Penalty. Attach Form 708 to the income tax return (Form 611, 611SF, or 650).

Complete lines 1 through 14 in Part I. The instructions for most of these lines are on the form itself. For other lines, follow the instruction below.

**Line 1:** Enter on line 1 the net income tax from Form 611, 611SF, or 650, Schedule A, line 10 less refundable credits on Schedule A, line 12. Do not enter an amount less than zero.

**Line 4b:** Compute your previous year's tax in the same way that the amount on line 3 of this form was determined, using the taxes and credits from your previous year's tax return. If you did not file an Alaska return showing a tax liability for the previous tax year, or if that tax year was for less than 12 months, do not complete this line. Instead, enter the amount from line 4a on line 4c.

**Line 6:** If you are not using the annualized income installment method or adjusted seasonal installment method, follow the instructions below to compute the amount to enter on line 6.

If line 4a is less than line 4b, enter 25% of line 4a in columns A through D.

If line 4b is less than line 4a, in column A enter 25% of line 4b. In column B, determine the amount to enter by:

- (i) subtracting line 4b from line 4a,
- (ii) adding the result to the amount on line 4a, and
- (iii) multiplying the total by 25%

In columns C and D, enter 25% of line 4a.

Annualized income installment method or adjusted seasonal 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 the amount of one or more required installments by using the annualized income installment method or the adjusted seasonal installment method. The annualized income installment or adjusted seasonal installment may be less than the required installment under the regular method for one or more due dates, thereby reducing or eliminating the penalty for those due dates.

Large corporation: A large corporation may not base its estimated tax payments on the previous year's tax, except for the first quarter. Any reduction in that first installment must be added to the second installment, so that the total of columns A-D is equal to line 4a.

To use one or both of these methods to compute one or more required installments, use the worksheet for federal Form 2220, using Alaska figures, rates, and computations. If you use the worksheet for any payment date, you must use it for all payment due dates.

**Line 7:** In column A, enter the estimated tax payments deposited by the 15th day of the 4th month of your tax year; in column B, enter payments made after the 15th day of the 4th month through the 15th day of the 6th month of your tax year; in column C, enter payments made after the 15th day of the 6th month through the 15th day of the 9th month of your tax year; and in column D, enter payments made after the 15th day of the 9th month through the 15th day of the 12th month of your tax year.

Generally, a prior year's overpayment will be applied against the earliest installment, unless the taxpayer instructs the Department otherwise.

## Part II: How To Compute The Penalty

**Line 15:** A payment of estimated tax is applied against underpayment of required installments in the order in which such installments are required to be paid, regardless to which installment the payment pertains. If the corporation has made more than one payment for a required installment, compute the penalty separately for each payment.

**Line 17:** Use Alaska interest rates. See General Instructions for Form 611, 611SF or 650.