

Estimated Tax Payment Annualized Income Method

The Annualized Income Method Is Now Available for Computing Quarterly Estimated Payments

Public Chapter 194 (2017) establishes an alternative method to calculate quarterly estimated tax installments that may benefit taxpayers with income earned unevenly during the year. Effective for tax years beginning on or after January 1, 2017, taxpayers may calculate their estimated tax installment by using the annualized income method.

Required Quarterly Estimated Tax Payment

This legislation does not change who must make installments, when the installments are due, or the standard method in calculating the quarterly installments. Under the standard method, the amount of each quarterly installment is the same.

However, the new alternative annualized income method usually results in quarterly installments that differ from quarter to quarter. This method recognizes that sometimes a disproportionate amount of income is earned later in a year, and it permits the payment of estimates to be made in a manner that more closely correlates to when the income was earned.

Payments under the Annualized Income Method

The annualized income method computes the franchise and excise components separately. Taxpayers calculate the excise tax component of each installment in the manner the Internal Revenue Code Section 6655(e)(2) provides. The

franchise tax component of each installment is the lesser of 25 percent of the franchise tax shown on the tax return for the preceding tax year (annualized if less than 12 months) or 25 percent of 80 percent of the current year's liability.

Worksheet for the Calculation of Quarterly Estimated Tax Payments

Taxpayers may continue to compute their installments using the standard method, or they may elect to use the new annualized income method. A [worksheet](#) for calculating quarterly estimates under both is available on the department's website.

Election

The election to use the alternative annualized income method is an annual election made on the franchise, excise tax return FAE 170 or FAE 174. All quarterly installments for a tax period must be computed using the same method.

For More Information

Visit www.tn.gov/revenue. Click on Revenue Help to search for answers or to submit an information request to one of our agents.

References

Tenn. Code Ann. § 67-4-2015; Public Chapter 194 (2017)