

# CALIFORNIA FRANCHISE TAX BOARD

Legal Ruling No. 356

February 27, 1973

## INTEREST ALLOWABLE ON OVERPAYMENTS OF ESTIMATED TAX

Syllabus:

Advice has been requested as to how to compute the allowable interest on the overpayments of estimated tax found in the following examples:

### Example 1

A Inc., a calendar year taxpayer, made the following timely estimate payments for income year 1972:

April 15	\$1,000
June 15	1,000
September 15	1,000
December 15	1,000

On March 13, 1973, the 1972 return was mailed showing a self-assessed tax of \$2,500 and requesting that the overpayment (\$1,500) be credited over to its 1973 estimate. The return was received on March 14 and processed by EDP on April 20, which processing automatically posted the assessment information to the taxpayer's account and performed the credit-over as of that date (April 20).

### Example 2

B Corp., a calendar year taxpayer, made the same timely estimate payments as A. It obtained a three-month extension of time to file its return, which was filed on June 14 showing a self-assessed tax of \$2,500.

B requested that the overpayment be credited over to its 1973 estimated tax. B's account shows that it paid \$750 on April 15 as estimated tax. This return was processed by EDP on August 30 and the transfer-over was made on that date.

### Example 3

The same as Example 2 except the taxpayer in this case did not make an estimate payment on April 15.

### Example 4

The same as Example 2 except the taxpayer, on its return, requested that the

overpayment be credited over to its estimate due September 15.

Questions:

1. What is the date of the overpayment in the case of an overpaid estimate?
2. To what date is interest allowed on the credit-over of an overpayment due to an overpaid estimate?
3. What is the date of the allowance of the credit in the case of a credit-over?

Discussion and Decision:

California Revenue and Taxation Code Section 26081 states in part:

26081. Overpayments of estimated tax. Credits or refunds of overpayments of estimated tax shall be made by the Franchise Tax Board as provided in this article as respects overpayments of tax.

Interest shall be allowed and paid upon the amount of estimated tax paid for a taxable year in excess of the amount of tax due for that year at the rate of 6 percent per annum as follows:

(a) In the case of a credit, from the due date of the estimated tax or the date of payment of the estimated tax, whichever is the later, to the date of the allowance of the credit...

From the above quoted section interest is allowed on the credit-over of an overpayment due to an overpaid estimate to the date of the allowance of the credit.

It has been held in the cases of Atlantic Refining Co. v. United States, 44 Fed.2d 101 (1930), Moore Shipbuilding Co. v. United States, 50 Fed. 2d 288 (1931) and Alliance Mach. Co. v. United States, 54 Fed.2d 99 (1931), that a taxpayer is entitled to interest on an overpayment of tax from the date of payment to the due date of the tax installment for a subsequent year against which the overpayment was credited. Therefore, it appears from the above cases that the date of the allowance of the credit should be the due date of the tax liability which is satisfied by application of the overpayment.

Applying the above principles to Example 1, one has the following: The \$1,500 overpayment occurred September 15, 1972 in the amount of \$500 and December 15, 1972 in the amount of \$1,000. Interest should accrue from these dates, therefore, and end with the date of the allowance of the credit; i.e., the due date of the tax liability to which the overpayment is applied. In Example 1, the date of the tax liability to which the overpayment is applied is

April 15, 1973, the date when the taxpayer's first estimate payment is due.

For Example 2, the answer is: Interest should accrue from the same dates as in Example 1 above. However, as B Corp. made an April 15, 1973 estimated tax payment, the date of the allowance of the credit; i.e., the due date of the tax liability which is satisfied by application of the overpayment, would be June 15, 1973, absent any specific instruction from B Corp. regarding the application of the overpayment. Consequently, B Corp. would be entitled to interest on (a) \$500 from September 15, 1972 to June 15, 1973, and (b) \$1,000 from December 15, 1972 to June 15, 1973. If B Corp. had directed that the overpayment be applied to a particular estimate payment due date(s), the date(s) of the allowance of the credit would be treated as in Example 4, below.

In Example 3, interest should accrue from the same dates as in Example 1 above; furthermore, the date of the allowance of the credit would be April 15, 1973, since B Corp. did not make an estimated tax payment on April 15, 1973. Therefore, B Corp. would be entitled to interest on (a) \$500 from September 15, 1972 to April 15, 1973, and (b) \$1,000 from December 15, 1972 to April 15, 1973.

In Example 4, interest should accrue from the same dates as in Example 1. However, Federal Regulation § 301.6611-1(h)(2)(iii) provides that if a taxpayer agrees to the crediting of an overpayment against tax or an installment of tax and the schedule of allowance is signed prior to the date on which such tax or installment would otherwise become due, then the due date of such tax or installment shall be the date on which such schedule is signed. Therefore, B Corp. would be entitled to interest on (a) \$500 from September 15, 1972 to August 30, 1973, and (b) \$1,000 from December 15, 1972 to August 30, 1973.