

1994



Department of the Treasury Internal Revenue Service

Instructions for Forms 1120 and 1120-A

Section references are to the Internal Revenue Code unless otherwise noted.

Paperwork Reduction Act Notice

We ask for the information on these forms to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file the following forms will vary depending on individual circumstances. The estimated average times are:

Table with 5 columns: Form, Recordkeeping, Learning about the law or the form, Preparing the form, Copying, assembling, and sending the form to the IRS. Rows include 1120, 1120-A, Sch. D (1120), Sch. H (1120), and Sch. PH (1120).

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms simpler, we would be happy to hear from you. You can write to both the Internal Revenue Service, Attention: Tax Forms Committee, PC:FP, Washington, DC 20224; and the Office of Management and Budget, Paperwork Reduction Project (1545-0123), Washington, DC 20503. DO NOT send the tax form to either of these offices. Instead, see Where To File.

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Table listing sections and page numbers: Schedule M-1 (18), Codes for Principal Business Activity (19), Index (20).

Changes To Note

- Some corporations are required to use a new method of depositing taxes for taxes due after 1994. Generally, the requirement applies to corporations whose total deposits of certain taxes during calendar year 1993 exceeded \$78 million. Other corporations may use the new method voluntarily. For details, see Depository Method of Tax Payment on page 4.
Final regulations under section 263A have been adopted. These regulations, which require the capitalization and inclusion in inventory of certain costs, generally are effective for tax years beginning after 1993. Changes in accounting methods may be necessary as a result of the issuance of the final regulations. These changes must be made under Rev. Proc. 94-49, 1994-30 I.R.B. 31.
The Revenue Reconciliation Act of 1993 (the Act) made changes to the tax law for corporations. Some of the changes are highlighted below.
Corporations that are located in an area designated by the Federal government as an "empowerment zone" may be able to claim the credit figured on Form 8844,

Empowerment Zone Employment Credit. See page 16.

- The deductible portion of business meals and entertainment expenses has been reduced from 80% to 50%. See page 10.
Generally, a publicly held corporation cannot deduct compensation paid to certain "covered employees" to the extent the compensation exceeds \$1 million. For details and exceptions, see the instructions for line 12.

Fast Filing of Form 1120-A

The IRS is testing a new method of filing for corporations that use Form 1120-A. Form 1120-A filers can use an "answer sheet" return called Form 1120-A/PC. Form 1120-A/PC can be created only by using a personal computer. Using IRS-accepted software, your PC, and any type of printer, you will be able to print your Form 1120-A in a special answer sheet format, printing only the taxpayer line entries. This will reduce your paperwork and speed processing of the return. Contact your software developer to get the IRS-accepted version of the Form 1120-A/PC software. All Form 1120-A/PC returns must be filed at the IRS Brookhaven Service Center, Holtsville, NY 00501. For more information, get Pub. 1802, 1120-A/PC, The Keys to a Quick Return, or call the IRS Alternative Ways of Filing 1120-A/PC Analyst at 202-283-0260.

Voluntary Contributions To Reduce the Public Debt

A corporation may make a contribution to reduce the public debt. To do so, enclose with the tax return a check made payable to "Bureau of the Public Debt." Voluntary contributions to reduce the public debt are deductible subject to the rules and limitations for charitable contributions.

Avoid Common Mistakes

To speed the processing of the return, be sure to do the following:

- If the corporation does not use a calendar tax year, enter the beginning and ending dates of its fiscal year in the space at the top of the form.
Unless the corporation changed its name since it last filed, enter the name the way it appeared on the last filed return.
Enter the correct employer identification number (EIN) in item B if you are not using the label.
Enter total assets in item D.
If this is a consolidated return, check box A1.
If you attach additional sheets, show the totals from the attachments on the original form or schedule.
Complete line 32d (line 28d, Form 1120-A).
If the corporation is a qualified personal service corporation, check the box on Schedule J, line 3 (Part I, line 1, Form 1120-A).

9. Enter the corporation's business activity code number on Schedule K, line 2a (Part II, line 1a, Form 1120-A).

10. To avoid interest and penalties, file the return on time and pay any tax when due. See page 4.

## General Instructions

**Note:** In addition to the publications listed in these instructions, taxpayers may wish to get: **Pub. 534, Depreciation; Pub. 535, Business Expenses; Pub. 542, Tax Information on Corporations; and Pub. 946, How To Begin Depreciating Your Property.**

You can get these publications and other publications referred to in the instructions at most IRS offices. To order publications and forms, call our toll-free number 1-800-TAX-FORM (1-800-829-3676).

## Purpose of Form

**Form 1120**, U.S. Corporation Income Tax Return, and **Form 1120-A**, U.S. Corporation Short-Form Income Tax Return, are used by corporations to report income, gains, losses, deductions, credits, and to figure their income tax liability.

## Who Must File

Unless exempt under section 501, all domestic corporations (including corporations in bankruptcy) must file whether or not they have taxable income. Domestic corporations must file Form 1120, or, if they qualify, Form 1120-A, unless they are required to file a special return (see **Special Returns for Certain Organizations** below).

**Note:** If an organization resembles a corporation more than it resembles a partnership or trust, it will be considered an association taxed as a corporation.

**Limited liability companies.**—If an entity was formed as a limited liability company under state law and is treated as a partnership for Federal income tax purposes, it should not file Form 1120 or 1120-A. Instead, it should file **Form 1065**, U.S. Partnership Return of Income. For the definition of a limited liability company, see the Instructions for Form 1065.

## Who May File Form 1120-A

A corporation may file Form 1120-A if it meets **all** of the following requirements:

- Its gross receipts (line 1a, page 1) are under \$500,000.
- Its total income (line 11, page 1) is under \$500,000.
- Its total assets (line 12, column (b), Part III on page 2) are under \$500,000.
- It does not have any ownership in a foreign corporation.
- It does not have foreign shareholders who own, directly or indirectly, 50% or more of its stock.
- It is not a member of a controlled group of corporations (sections 1561 and 1563).
- It is not a personal holding company (sections 541 through 547).

- It is not a consolidated corporate return filer.
- It is not a corporation undergoing a dissolution or liquidation.
- It is not filing its final tax return.
- Its only dividend income (none of which represents debt-financed securities) is from domestic corporations, and those dividends qualify for the 70% deduction.
- It has no nonrefundable tax credits other than the general business credit and the credit for prior year minimum tax.
- It is not subject to environmental tax under section 59A.
- It has no liability for interest under section 453(l)(3) or 453A(c) (relating to certain installment sales) or installment payments of tax under section 1363(d).
- It has no liability for interest due under the look-back method of section 460(b)(2).
- It is not required to file **Form 8621**, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund.
- It has no liability for tax under section 7518 on a nonqualified withdrawal from a capital construction fund.
- It is not making an election under section 172(b)(3) to forego the carryback period of an NOL.
- It is not electing to pay tax on the gain from the sale of an intangible as described in section 197(f)(9)(B)(i).
- It is not required to file one of the special tax returns listed below.

## Special Returns for Certain Organizations

Certain organizations, as shown below, have to file special returns.

If the organization is a	File Form
Farmers' cooperative (sec. 1381)	990-C
Exempt organization with unrelated trade or business income	990-T
Entity formed as a limited liability company under state law and treated as a partnership for Federal income tax purposes	1065
Religious or apostolic organization exempt under section 501(d)	1065
Entity that elects to be treated as real estate mortgage investment conduit (REMIC) under sec. 860D	1066
Settlement fund (sec. 468B)	1120-SF
Interest charge domestic international sales corporation (sec. 992)	1120-IC-DISC
Foreign corporation (other than life and property and casualty insurance company filing Form 1120-L or 1120-PC)	1120-F
Foreign sales corporation (sec. 922)	1120-FSC

Condominium management association or residential real estate management association that elects to be treated as a homeowners association under sec. 528	1120-H
Life insurance company (sec. 801)	1120-L
Fund set up to pay for nuclear decommissioning costs (sec. 468A)	1120-ND
Property and casualty insurance company (sec. 831)	1120-PC
Political organization (sec. 527)	1120-POL
Real estate investment trust (sec. 856)	1120-REIT
Regulated investment company (sec. 851)	1120-RIC
S corporation (sec. 1361)	1120S

## When To File

In general, a corporation must file its income tax return by the 15th day of the 3rd month after the end of the tax year. A new corporation filing a short-period return must generally file by the 15th day of the 3rd month after the short period ends. A corporation that has dissolved must generally file by the 15th day of the 3rd month after the date it dissolved.

If the due date falls on a Saturday, Sunday, or legal holiday, the corporation may file on the next business day.

**Extension.**—File **Form 7004**, Application for Automatic Extension of Time To File Corporation Income Tax Return, to request a 6-month extension of time to file.

## Where To File

Use the preaddressed envelope. If you do not use the envelope, file your return at the applicable IRS address listed below.

If the corporation's principal business, office, or agency is located in	Use the following Internal Revenue Service Center address
New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Florida, Georgia, South Carolina	Atlanta, GA 39901
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, New Mexico, Oklahoma, Texas	Austin, TX 73301

Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming

Ogden, UT 84201

California (all other counties), Hawaii

Fresno, CA 93888

Illinois, Iowa, Minnesota, Missouri, Wisconsin

Kansas City, MO 64999

Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee

Memphis, TN 37501

Delaware, District of Columbia, Maryland, Pennsylvania, Virginia

Philadelphia, PA 19255

Corporations having their principal place of business outside the United States or claiming a possessions tax credit (section 936) must file with the Internal Revenue Service Center, Philadelphia, PA 19255.

A group of corporations located in several service center regions will often keep all the books and records at the principal office of the managing corporation. If this is the case, the income tax returns of the corporations may be filed with the service center region in which this principal office is located.

## Who Must Sign

The return must be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or any other corporate officer (such as tax officer) authorized to sign. Receivers, trustees, or assignees must also sign and date any return filed on behalf of a corporation.

If a corporate officer completes Form 1120 or Form 1120-A, the Paid Preparer's space should remain blank. Anyone who prepares Form 1120 or Form 1120-A but does not charge the corporation should not sign the return. Generally, anyone who is paid to prepare the return must sign it and fill in the Paid Preparer's Use Only area.

The paid preparer must complete the required preparer information and:

- Sign the return, by hand, in the space provided for the preparer's signature (signature stamps and labels are not acceptable).
- Give a copy of the return to the taxpayer.

## Accounting Methods

Taxable income must be computed using the method of accounting regularly used in keeping the corporation's books and records. Generally, permissible methods

include the cash, accrual, or any other method authorized by the Internal Revenue Code. In all cases, the method used must clearly show taxable income.

Generally, a corporation (other than a qualified personal service corporation) must use the accrual method of accounting if its average annual gross receipts exceed \$5 million. See section 448(c). A corporation engaged in farming operations must also use the accrual method. For exceptions, see section 447.

Under the accrual method, an amount is includible in income when all the events have occurred that fix the right to receive the income and the amount can be determined with reasonable accuracy. See Regulations section 1.451-1(a) for details.

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year in which all events that determine the liability have occurred, the amount of the liability can be figured with reasonable accuracy, and economic performance takes place with respect to the expense. There are exceptions to the economic performance rule for certain items, including recurring expenses. See section 461(h) and the related regulations for the rules for determining when economic performance takes place.

Long-term contracts (except for certain real property construction contracts) must generally be accounted for using the percentage of completion method described in section 460. See section 460 for general rules on long-term contracts.

Generally, the corporation may change the method of accounting used to report taxable income (for income as a whole or for any material item) only by getting consent on **Form 3115**, Application for Change in Accounting Method. For more information, get **Pub. 538**, Accounting Periods and Methods.

**Mark-to-market accounting method for dealers in securities.**—Dealers in securities must use the "mark-to-market" accounting method described in section 475 for tax years ending on or after December 31, 1993. Under the new rules, any security that is inventory to the dealer must be included in inventory at its fair market value. Any security held by a dealer that is not inventory and that is held at the close of the tax year is treated as sold at its fair market value on the last business day of the tax year, and any gain or loss must be taken into account in determining gross income. The gain or loss taken into account is generally treated as ordinary gain or loss.

Dealers required to change their accounting method to comply with the new law are treated as having initiated the change in accounting method and as having received the consent of the IRS to the change. Generally, the net amount of the section 481(a) adjustment (reported on line 10, page 1) is taken into account ratably over 5 tax years, beginning with the first tax year ending on or after December 31, 1993. For details, including exceptions, see section 475, the related temporary regulations, and Rev. Rul. 94-7, 1994-3 I.R.B. 6.

## Change in Accounting Period

Generally, before changing an accounting period, the Commissioner's approval must be obtained (Regulations section 1.442-1) by filing **Form 1128**, Application To Adopt, Change, or Retain a Tax Year. Also see Pub. 538.

Personal service corporations, as defined in Temporary Regulations section 1.441-4T (see the instructions for Item A on page 6), must use a calendar year unless:

- The corporation can establish to the satisfaction of the Commissioner that there is a business purpose for having a different tax year, or
- The corporation elects under section 444 to have a tax year other than a calendar year.

Personal service corporations that wish to establish a business purpose for having a different tax year should see Rev. Rul. 87-57, 1987-2 C.B. 117, for more information. Also see Rev. Proc. 87-32, 1987-2 C.B. 396, for procedures to use in adopting, retaining, or changing the corporation's tax year. Personal service corporations that wish to adopt or retain a noncalendar tax year must file requests to do so on Form 1128 using the procedures outlined in Rev. Proc. 87-32.

Personal service corporations that wish to elect under section 444 to have a tax year other than a calendar year must file **Form 8716**, Election To Have a Tax Year Other Than a Required Tax Year. Generally, Form 8716 must be filed by the earlier of:

- The 15th day of the 5th month following the month that includes the 1st day of the tax year for which the election will be effective, or
- The due date (not including extensions) of the income tax return resulting from the section 444 election.

Electing corporations are subject to minimum distribution requirements under section 280H(c) for each year the election is in effect. If the corporation fails to make the required minimum distributions, the deduction allowable for certain amounts paid to employee-owners is limited to a maximum deductible amount under section 280H(d). Amounts not allowed as a deduction for the tax year are carried over to the following tax year. Complete **Schedule H (Form 1120)**, Section 280H Limitations for a Personal Service Corporation (PSC), to figure the required minimum distributions and the maximum deductible amount, if applicable.

If a section 444 election is terminated and the termination results in a short tax year, type or print at the top of the first page of Form 1120 or 1120-A for the short tax year "SECTION 444 ELECTION TERMINATED." See Temporary Regulations section 1.444-1T (a)(5) for more information.

## Rounding Off to Whole Dollars

The corporation may show amounts on the return and accompanying schedules as whole dollars. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

## Recordkeeping

The corporation's records should be kept for as long as they may be needed for the administration of any provision of the Internal Revenue Code. Usually, records that support an item of income, deduction, or credit on the return must be kept for 3 years from the date the return is due or filed, whichever is later. Keep records that verify the corporation's basis in property for as long as they are needed to figure the basis of the original or replacement property.

The corporation should also keep copies of any returns it has filed. They help in preparing future returns and in making computations when filing an amended return.

## Depository Method of Tax Payment

The corporation must pay the tax due in full no later than the 15th day of the 3rd month after the end of the tax year. Deposit corporation income tax payments (and estimated tax payments) with **Form 8109**, Federal Tax Deposit Coupon. Do not send deposits directly to an IRS office. Mail or deliver the completed Form 8109 with the payment to a qualified depository for Federal taxes or to the Federal Reserve bank (FRB) servicing the corporation's geographic area. Make checks or money orders payable to that depository or FRB.

To help ensure proper crediting, write the corporation's EIN, the tax period to which the deposit applies, and "Form 1120" on the check or money order. Be sure to darken the "1120" box on the coupon. Records of these deposits will be sent to the IRS.

A penalty may be imposed if the deposits are mailed or delivered to an IRS office rather than to an authorized depository or FRB.

For more information on deposits, see the instructions in the coupon booklet (Form 8109) and **Pub. 583**, Taxpayers Starting a Business.

**Caution:** *If the corporation owes tax when it files Form 1120 or Form 1120-A, do not include the payment with the tax return. Instead, mail or deliver the payment with Form 8109 to a qualified depository or FRB.*

Generally, corporations whose total deposits of withheld income, social security, and Medicare taxes during calendar year 1993 exceeded \$78 million are required to deposit all depository taxes due after 1994 by electronic funds transfer (EFT). TAXLINK, an electronic remittance processing system, must be used to make deposits by EFT. Corporations who are not

required to make deposits by EFT may voluntarily participate in TAXLINK. For more details on TAXLINK, see Rev. Proc. 94-48, 1994-29 I.R.B. 31. You may also call the toll-free TAXLINK HELPLINE at 1-800-829-5469.

## Estimated Tax Payments

Generally, a corporation must make installment payments of estimated tax if it expects its estimated tax (income tax minus credits) to be \$500 or more. For a calendar or fiscal year corporation, the installments are due by the 15th day of the 4th, 6th, 9th, and 12th months of the tax year. If any date falls on a Saturday, Sunday, or legal holiday, the installment is due on the next regular business day. Use **Form 1120-W**, Estimated Tax for Corporations, as a worksheet to compute estimated tax. Use the deposit coupons (Forms 8109) to make deposits of estimated tax. For more information on estimated tax payments, including penalties that apply if the corporation fails to make required payments, see the instructions for line 33.

If the corporation overpaid estimated tax, it may be able to get a quick refund by filing **Form 4466**, Corporation Application for Quick Refund of Overpayment of Estimated Tax. The overpayment must be at least 10% of the expected income tax liability and at least \$500. To apply for a quick refund, file Form 4466 before the 16th day of the 3rd month after the end of the tax year, but before the corporation files its income tax return. Do not file Form 4466 before the end of the corporation's tax year.

## Interest and Penalties

**Interest.**—Interest is charged on taxes not paid by the due date even if an extension of time to file is granted. Interest is also charged on penalties imposed for failure to file, negligence, fraud, gross valuation overstatements, and substantial understatements of tax from the due date (including extensions) to the date of payment. The interest charge is figured at a rate determined under section 6621.

**Late filing of return.**—A corporation that does not file its tax return by the due date, including extensions, may have to pay a penalty of 5% of the unpaid tax for each month or part of a month the return is late, up to a maximum of 25% of the unpaid tax. The minimum penalty for a return that is more than 60 days late is the smaller of the tax due or \$100. The penalty will not be imposed if the corporation can show that the failure to file on time was due to reasonable cause. Corporations that file late must attach a statement explaining the reasonable cause.

**Late payment of tax.**—A corporation that does not pay the tax when due may have to pay a penalty of 1/2 of 1% of the unpaid tax for each month or part of a month the tax is not paid, up to a maximum of 25% of the unpaid tax. This penalty may also apply to any additional tax not paid within 10 days of the date of the notice and demand for payment. The penalty will not be imposed if the corporation can show

that the failure to pay on time was due to reasonable cause.

**Other penalties.**—Other penalties can be imposed for negligence, substantial understatement of tax, and fraud. See sections 6662 and 6663.

## Unresolved Tax Problems

The IRS has a Problem Resolution Program for taxpayers who have been unable to resolve their problems with the IRS. If the corporation has a tax problem it has been unable to resolve through normal channels, write to the corporation's local IRS district director or call the corporation's local IRS office and ask for Problem Resolution Assistance. Hearing-impaired persons who have access to TDD equipment may call 1-800-829-4059 to ask for help. The Problem Resolution office will ensure that your problem receives proper attention. Although the office cannot change the tax law or make technical decisions, it can help clear up problems that resulted from previous contacts.

## Other Forms, Returns, and Statements That May Be Required

### Forms

The corporation may have to file the following:

**Form W-2**, Wage and Tax Statement, and **Form W-3**, Transmittal of Income and Tax Statements.

**Form 720**, Quarterly Federal Excise Tax Return. Use Form 720 to report the luxury tax on passenger vehicles, environmental excise taxes, communications and air transportation taxes, fuel taxes, manufacturers taxes, ship passenger tax, and certain other excise taxes.

**Caution:** *The trust fund recovery penalty may apply if certain excise taxes that must be collected are not collected or are not paid to the IRS. The penalty is equal to the unpaid trust fund tax. The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to be responsible for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so. See the Instructions for Form 720 for more details, including the definition of responsible person.*

**Form 926**, Return by a U.S. Transferor of Property to a Foreign Corporation, Foreign Estate or Trust, or Foreign Partnership. Use this form to report transfers of property to a foreign corporation, foreign estate or trust, foreign partnership, to pay any excise tax due under section 1491, and to report information required under section 6038B (Notice of Certain Transfers to Foreign Persons). For details, see Form 926.

**Form 940 or Form 940-EZ**, Employer's Annual Federal Unemployment (FUTA) Tax Return. The corporation may be liable for FUTA tax and may have to file Form 940 or 940-EZ if it paid wages of \$1,500 or more in any calendar quarter during the calendar

year (or the preceding calendar year) or one or more employees worked for the corporation for some part of a day in any 20 different weeks during the calendar year (or the preceding calendar year).

**Form 941**, Employer's Quarterly Federal Tax Return. Employers must file this form quarterly to report income tax withheld and employer and employee social security and Medicare taxes. Agricultural employers must file **Form 943**, Employer's Annual Tax Return for Agricultural Employees, instead of Form 941, to report income tax withheld and employer and employee social security and Medicare taxes for farmworkers.

**Caution:** *The trust fund recovery penalty may apply if income, social security, and Medicare taxes that must be withheld are not withheld or are not paid to the IRS. The penalty is equal to the unpaid trust fund tax. The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to be responsible for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so. See **Circular E**, Employer's Tax Guide (or **Circular A**, Agricultural Employer's Tax Guide), for details, including the definition of responsible person.*

**Form 945**, Annual Return of Withheld Federal Income Tax. Form 945 is used to report income tax withholding from nonpayroll distributions or payments. Nonpayroll payments include pensions, annuities, IRAs, military retirement, gambling winnings, and backup withholding.

**Form 966**, Corporate Dissolution or Liquidation.

**Form 1042**, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, and **Form 1042-S**, Foreign Person's U.S. Source Income Subject to Withholding. Use these forms to report and transmit withheld tax on payments or distributions made to nonresident alien individuals, foreign partnerships, or foreign corporations, to the extent such payments or distributions constitute gross income from sources within the United States (see sections 861 through 865). For more information, see sections 1441 and 1442, and **Pub. 515**, Withholding of Tax on Nonresident Aliens and Foreign Corporations.

**Form 1096**, Annual Summary and Transmittal of U.S. Information Returns.

**Form 1098**, Mortgage Interest Statement. This form is used to report the receipt from any individual of \$600 or more of mortgage interest and points in the course of the corporation's trade or business for any calendar year.

**Forms 1099-A, B, C, DIV, INT, MISC, OID, PATR, R, and S.** These information returns are for reporting abandonments, acquisitions through foreclosure, proceeds from broker and barter exchange transactions, discharges of indebtedness, certain dividends and distributions, interest payments, payments for certain fishing boat crew members, medical and dental health care payments, direct sales of consumer goods for resale, miscellaneous income payments, nonemployee compensation, original issue discount,

patronage dividends, distributions from profit-sharing plans, retirement plans, individual retirement arrangements, insurance contracts, etc., and proceeds from real estate transactions. Also use these returns to report amounts that were received as a nominee on behalf of another person.

For more information, see the Instructions for Forms 1099, 1098, 5498, and W-2G and **Pub. 937**, Employment Taxes.

**Note:** *Every corporation must file Form 1099-MISC if, in the course of its trade or business, it makes payments of rents, commissions, or other fixed or determinable income (see section 6041) totaling \$600 or more to any one person during the calendar year.*

**Form 5452**, Corporate Report of Nondividend Distributions.

**Form 5498**, Individual Retirement Arrangement Information. Use this form to report contributions (including rollover contributions) to an individual retirement arrangement (IRA) and the value of an IRA or simplified employee pension (SEP) account.

**Form 5713**, International Boycott Report, for persons having operations in or related to "boycotting" countries. Also, persons who participate in or cooperate with an international boycott may have to complete Schedule A or Schedule B and Schedule C of Form 5713 to compute their loss of the following items: the foreign tax credit, the deferral of earnings of a controlled foreign corporation, IC-DISC benefits, and FSC benefits.

**Form 8264**, Application for Registration of a Tax Shelter. It is used by tax shelter organizers to register tax shelters with the IRS, for the purpose of receiving a tax shelter registration number.

**Form 8271**, Investor Reporting of Tax Shelter Registration Number. Taxpayers who have acquired an interest in a tax shelter which is required to be registered use this form to report the tax shelter's registration number. Form 8271 must be attached to any tax return (including an application for tentative refund (Form 1139) and an amended return (Form 1120X)) on which a deduction, credit, loss, or other tax benefit attributable to a tax shelter is taken or any income attributable to a tax shelter is reported.

**Form 8275**, Disclosure Statement. Form 8275 is used by taxpayers and income tax return preparers to disclose items or positions (except those contrary to a regulation—see **Form 8275-R** below) that are not otherwise adequately disclosed on a tax return. The disclosure is made to avoid parts of the accuracy-related penalty imposed for disregard of rules or substantial understatement of tax. Form 8275 is also used for disclosures relating to preparer penalties for understatements due to unrealistic positions or for willful or reckless conduct.

**Form 8275-R**, Regulation Disclosure Statement, is used to disclose any item on a tax return for which a position has been taken that is contrary to Treasury regulations.

**Form 8281**, Information Return for Publicly Offered Original Issue Discount Instruments. This form is generally required to be filed by issuers of public offerings of debt instruments within 30 days of the issuance of the debt instrument.

**Form 8300**, Report of Cash Payments Over \$10,000 Received in a Trade or Business. Generally, this form is used to report the receipt of more than \$10,000 in cash or foreign currency in one transaction or in a series of related transactions.

Cashier's checks, bank drafts, and money orders with face amounts of \$10,000 or less are considered cash under certain circumstances. For more information, see Form 8300 and Regulations section 1.60501-1(c).

**Form 8594**, Asset Acquisition Statement under Section 1060, must be filed by both the purchaser and seller of a group of assets constituting a trade or business if goodwill or a going concern value attaches, or could attach, to such assets and if the purchaser's basis in the assets is determined only by the amount paid for the assets.

**Form 8621**, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund. A corporation that was a shareholder in a passive foreign investment company (as defined in section 1296) at any time during the tax year must complete and attach this form to its return.

**Form 8697**, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts. Use this form to figure the interest due or to be refunded under the look-back method of section 460(b)(2) on certain long-term contracts that are accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method.

**Form 8810**, Corporate Passive Activity Loss and Credit Limitations. Closely held corporations and personal service corporations that are subject to the passive activity limitations of section 469 use this form to compute their allowable passive activity loss and credit.

**Form 8817**, Allocation of Patronage and Nonpatronage Income and Deductions. Taxable cooperatives with gross receipts of \$10 million or more that have both patronage and nonpatronage source income and deductions must complete and attach this form to the return.

**Form 8842**, Election To Use Different Annualization Periods for Corporate Estimated Tax. Corporations use Form 8842 for each year they want to elect one of the annualization periods in section 6655(e)(2)(C) for figuring estimated tax payments under the annualized income installment method.

## Consolidated Return

The parent corporation of an affiliated group of corporations must attach **Form 851**, Affiliations Schedule, to the consolidated return. For the first year a consolidated return is filed, each subsidiary must attach **Form 1122**, Authorization and Consent of Subsidiary Corporation to be

Included in a Consolidated Income Tax Return.

File supporting statements for each corporation included in the consolidated return. Do not use Form 1120 as a supporting statement. On the supporting statement, use columns to show the following, both before and after adjustments:

- Items of gross income and deductions.
- A computation of taxable income.
- Balance sheets as of the beginning and end of the tax year.
- A reconciliation of income per books with income per return.
- A reconciliation of retained earnings.

Enter the totals for the consolidated group on Form 1120. Attach consolidated balance sheets and a reconciliation of consolidated retained earnings.

### Amended Return

Use **Form 1120X**, Amended U.S. Corporation Income Tax Return, to correct any error in a previously filed Form 1120 or Form 1120-A.

### Statements

**Stock ownership in foreign corporations.**—Attach the statement required by section 551(c) if (a) the corporation owned 5% or more in value of the outstanding stock of a foreign personal holding company and (b) the corporation was required to include in its gross income any undistributed foreign personal holding company income from a foreign personal holding company.

A corporation may have to file **Form 5471**, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, if any of the following applies:

1. It controls a foreign corporation.
2. It acquires, disposes of, or owns 5% or more in value of the outstanding stock of a foreign corporation.
3. It owns stock in a foreign corporation that is a controlled foreign corporation for an uninterrupted period of 30 days or more during the tax year of the foreign corporation that ends with or within its tax year, and it owned that stock on the last day of the foreign corporation's tax year.

**Foreign ownership in a domestic corporation.**—A domestic corporation that is 25% or more foreign-owned may have to file **Form 5472**, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. See the instructions on page 18 for more information.

**Transfers to a corporation controlled by the transferor.**—If a person receives stock of a corporation in exchange for property, and no gain or loss is recognized under section 351, the person (transferor) and the transferee must each attach to their tax returns the information required by Regulations section 1.351-3.

### Attachments

Attach **Form 4136**, Credit for Federal Tax Paid on Fuels, after page 4, Form 1120, or **Page 6**

page 2, Form 1120-A. Attach schedules in alphabetical order and other forms in numerical order after Form 4136.

To assist us in processing the return, complete every applicable entry space on Form 1120 or Form 1120-A. Do not write "See attached" instead of completing the entry spaces. If you need more space on the forms or schedules, attach separate sheets. Use the same size and format as on the printed forms. But show your totals on the printed forms. Attach these separate sheets after all the schedules and forms. Be sure to put the corporation's name and EIN on each sheet.

## Specific Instructions

### Period Covered

File the 1994 return for calendar year 1994 and fiscal years that begin in 1994 and end in 1995. For a fiscal year, fill in the tax year space at the top of the form.

**Note:** *The 1994 Form 1120 may also be used if (1) the corporation has a tax year of less than 12 months that begins and ends in 1995 and (2) the 1995 Form 1120 is not available at the time the corporation is required to file its return. However, the corporation must show its 1995 tax year on the 1994 Form 1120 and incorporate any tax law changes that are effective for tax years beginning after December 31, 1994.*

### Name, Address, and Employer Identification Number (EIN)

Use the label on the package that was mailed to the corporation. Cross out any errors and print the correct information on the label. If the corporation doesn't have a label, print or type the corporation's true name (as set forth in the charter or other legal document creating it), address, and EIN on the appropriate lines.

**Address.**—Include the suite, room, or other unit number after the street address. If a preaddressed label is used, include this information on the label.

If the Post Office does not deliver mail to the street address and the corporation has a P.O. box, show the box number instead of the street address.

**Note:** *If a change in address occurs after the return is filed, use **Form 8822**, Change of Address, to notify the IRS of the new address.*

**Employer identification number (EIN).**—Show the correct EIN in item B on page 1 of Form 1120 or Form 1120-A. If the corporation does not have an EIN, it should apply for one on **Form SS-4**, Application for Employer Identification Number. Form SS-4 can be obtained at most IRS or Social Security Administration (SSA) offices. If the corporation has not received its EIN by the time the return is due, write "Applied for" in the space for the EIN. See Pub. 583 for more information.

### Item A—Personal Service Corporation

The term "personal service corporation" means a corporation whose principal

activity during the testing period for the tax year is the performance of personal services that are substantially performed by employee-owners who own more than 10% of the fair market value of the corporation's outstanding stock as of the last day of the testing period for the tax year.

The testing period for a tax year is the tax year preceding the tax year. The testing period for a new corporation in its first tax year is the period beginning on the first day of its first tax year and ending on the earlier of the last day of its first tax year or the last day of the calendar year in which the first tax year began.

Activities that are treated as the performance of personal services are those that involve the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting (as such fields are defined in Temporary Regulations section 1.448-1T(e)).

Personal services are substantially performed by employee-owners if more than 20% of the corporation's compensation cost for the testing period attributable to the performance of personal services is attributable to personal services performed by employee-owners.

A person is considered to be an employee-owner if the person is an employee of the corporation on any day of the testing period and the person owns any outstanding stock of the corporation on any day of the testing period. Stock ownership is determined under the attribution rules of section 318 (except that "any" is substituted for "50%" in section 318(a)(2)(C)).

For details, see Temporary Regulations section 1.441-4T.

### Item D—Total Assets

Enter the corporation's total assets (as determined by the accounting method regularly used in keeping the corporation's books and records) at the end of the tax year. If there are no assets at the end of the tax year, enter the total assets as of the beginning of the tax year.

### Item E—Initial Return, Final Return, or Change of Address

If this is the corporation's first return, check the "Initial return" box. If the corporation ceases to exist, file Form 1120 and check the "Final return" box. Do not file Form 1120-A.

If the corporation has changed its address since it last filed a return, check the box for "Change of address."

## Income

**Note:** *Generally, income from all sources, whether U.S. or foreign, must be included.*

### Line 1

#### Gross Receipts

Enter gross receipts or sales from all business operations except those that must be reported on lines 4 through 10. For reporting advance payments, see

Regulations section 1.451-5. To report income from long-term contracts, see section 460.

Generally, the installment method cannot be used for dealer dispositions of property. A "dealer disposition" means any disposition of personal property by a person who regularly sells or otherwise disposes of property of the same type on the installment plan. The disposition of property used or produced in the farming business is not included as a dealer disposition. See section 453(l) for details and exceptions.

Enter on line 1 (and carry to line 3), the gross profit on collections from installment sales for any of the following:

- Dealer dispositions of property before March 1, 1986.
- Dispositions of property used or produced in the trade or business of farming.
- Certain dispositions of timeshares and residential lots reported under the installment method.

Attach a schedule showing the following information for the current and the 3 preceding years: (a) gross sales, (b) cost of goods sold, (c) gross profits, (d) percentage of gross profits to gross sales, (e) amount collected, and (f) gross profit on the amount collected.

For sales of timeshares and residential lots reported under the installment method, the corporation's income tax is increased by the interest payable under section 453(l)(3). To report this addition to the tax, see the instructions for line 10, Schedule J, Form 1120.

Accrual method taxpayers need not accrue certain amounts to be received from the performance of services that, on the basis of their experience, will not be collected (section 448(d)(5)). This provision does not apply to any amount if interest is required to be paid on the amount or if there is any penalty for failure to timely pay the amount. Corporations that fall under this provision should attach a schedule showing total gross receipts, the amount not accrued as a result of the application of section 448(d)(5), and the net amount accrued. Enter the net amount on line 1a. For more information and guidelines on this "non-accrual experience method," see Temporary Regulations section 1.448-2T.

## Line 2

### Cost of Goods Sold

Enter the cost of goods sold on line 2, page 1, of Form 1120 or Form 1120-A. Before making this entry, a Form 1120 filer must complete Schedule A on page 2 of Form 1120. Form 1120-A filers may use the worksheet on page 12 to figure the amount to enter on line 2. Both Form 1120 and Form 1120-A filers should see the instructions for Schedule A and the worksheet.

## Line 4

### Dividends

**Form 1120 filers.**—See the instructions for Schedule C. Then, complete Schedule C

and enter on line 4 the amount from Schedule C, line 19.

**Form 1120-A filers.**—Enter the total dividends received (that are not from debt-financed stock) from domestic corporations that qualify for the 70% dividends-received deduction.

## Line 5

### Interest

Enter taxable interest on U.S. obligations and on loans, notes, mortgages, bonds, bank deposits, corporate bonds, tax refunds, etc.

Do not offset interest expense against interest income.

Special rules apply to interest income from certain below-market-rate loans. See section 7872 for more information.

## Line 6

### Gross Rents

Enter the gross amount received for the rent of property. Deduct expenses such as repairs, interest, taxes, and depreciation on the proper lines for deductions. A rental activity held by a closely held corporation or a personal service corporation may be subject to the passive activity loss rules. See Form 8810 and the related instructions.

## Line 8

### Capital Gain Net Income

Every sale or exchange of a capital asset must be reported in detail on **Schedule D (Form 1120)**, Capital Gains and Losses, even though no gain or loss is indicated.

## Line 9

### Net Gain or (Loss)

Enter the net gain or (loss) from line 20, Part II, **Form 4797**, Sales of Business Property.

## Line 10

### Other Income

Enter any other taxable income not reported on lines 1 through 9. List the type and amount of income on an attached schedule. If the corporation has only one item of other income, describe it in parentheses on line 10. Examples of other income to report on line 10 are:

- Any adjustment under section 481(a) required to be included in income during the current tax year due to a change in a method of accounting.
- Recoveries of bad debts deducted in prior years under the specific charge-off method.
- The amount of credit for alcohol used as fuel (determined without regard to the limitation based on tax) that was entered on **Form 6478**, Credit for Alcohol Used as Fuel.
- Refunds of taxes deducted in prior years to the extent they reduced income subject to tax in the year deducted (see section 111). Do not offset current year taxes against tax refunds.

- The amount of any deduction previously taken under section 179A that is subject to recapture. The corporation must recapture the benefit of any allowable deduction for clean-fuel vehicle property (or clean-fuel vehicle refueling property), if, within 3 years of the date the property was placed in service, the property ceases to qualify. See Pub. 535 for details, including how to figure the recapture.

## Deductions

### Limitations on Deductions

**Section 263A uniform capitalization rules.**—These rules require corporations to capitalize or include in inventory certain costs incurred in connection with the production of real and tangible personal property held in inventory or held for sale in the ordinary course of business. Tangible personal property produced by a corporation includes a film, sound recording, videotape, book, or similar property. The rules also apply to personal property (tangible and intangible) acquired for resale. Corporations subject to the rules are required to capitalize not only direct costs but an allocable portion of most indirect costs (including taxes) that relate to the assets produced or acquired for resale. Interest expense paid or incurred during the production period of certain property must be capitalized and is governed by special rules. For more information, see Notice 88-99, 1988-2 C.B. 422. The uniform capitalization rules also apply to the production of property constructed or improved by a taxpayer for use in its trade or business or in an activity engaged in for profit.

Section 263A does not apply to personal property acquired for resale if the taxpayer's annual average gross receipts for the 3 prior tax years are \$10 million or less. It does not apply to timber or to most property produced under a long-term contract. Special rules apply for farmers. The rules do not apply to property that is produced for use by the corporation if substantial construction occurred before March 1, 1986.

In the case of inventory, some of the indirect costs that must be capitalized are administration expenses; taxes; depreciation; insurance; compensation paid to officers attributable to services; rework labor; and contributions to pension, stock bonus, and certain profit-sharing, annuity, or deferred compensation plans.

The costs that must be capitalized under section 263A are not deductible until the property to which the costs relate is sold, used, or otherwise disposed of by the corporation.

Current deductions may still be claimed for reasonable research and experimental costs under section 174, intangible drilling costs for oil and gas and geothermal property, and mining and exploration and development costs. Regulations section 1.263A-1(e)(3) specifies other indirect costs that may be currently deducted and those that must be capitalized with respect to production or resale activities. For more information, see Regulations sections 1.263A-1 through 1.263A-3.

**Transactions between related taxpayers.**—Generally, an accrual basis taxpayer may only deduct business expenses and interest owed to a related party in the year the payment is included in the income of the related party. See sections 163(e)(3), 163(j), and 267 for limitations on deductions for unpaid interest and expenses.

**Section 291 limitations.**—Corporations may be required to adjust deductions for depletion of iron ore and coal, intangible drilling and exploration and development costs, certain deductions for financial institutions, and the amortizable basis of pollution control facilities. See section 291 to determine the amount of adjustment. Also see section 43.

**Golden parachute payments.**—A portion of the payments made by a corporation to key personnel that exceeds their usual compensation may not be deductible. This occurs when the corporation has an agreement (golden parachute) with these key employees to pay them these excessive amounts if control of the corporation changes. See section 280G.

**Business startup expenses.**—Business startup expenses are required to be capitalized unless an election is made to amortize them over a period of 60 months. See section 195.

**Passive activity limitations.**—Limitations on passive activity losses and credits under section 469 apply to personal service corporations as defined in Temporary Regulations section 1.441-4T (see **Item A—Personal Service Corporation** on page 6) and closely held corporations.

For this purpose, a corporation is a closely held corporation if at any time during the last half of the tax year more than 50% in value of its outstanding stock is owned, directly or indirectly, by or for not more than five individuals, and the corporation is not a personal service corporation. Certain organizations are treated as individuals for purposes of this test. (See section 542(a)(2).) For rules of determining stock ownership, see section 544 (as modified by section 465(a)(3)).

Generally, there are two kinds of passive activities: trade or business activities in which the corporation did not materially participate (see Temporary Regulations section 1.469-1T(g)(3)) for the tax year, and rental activities regardless of its participation. For exceptions, see Form 8810. An activity is a trade or business activity if the activity involves the conduct of a trade or business (i.e., deductions from the activity would be allowable under section 162 if other limitations, such as the passive loss rules, did not apply), or the activity involves research and experimental costs that are deductible under section 174 (or would be deductible if the corporation chose to deduct rather than capitalize them), and the activity is not a rental activity.

Corporations subject to the passive activity limitations must complete Form 8810 to compute their allowable passive activity loss and credit. Before completing Form 8810, see Temporary Regulations section 1.163-8T, which provides rules for

allocating interest expense among activities. If a passive activity is also subject to the at-risk rules of section 465, the at-risk rules apply before the passive loss rules. For more information, see section 469, the related regulations, and **Pub. 925, Passive Activity and At-Risk Rules**.

**Reducing certain expenses for which credits are allowable.**—For each of the credits listed below, the corporation must reduce the otherwise allowable deductions for expenses used to figure the credit by the amount of the current year credit:

1. The orphan drug credit.
2. The credit for increasing research activities.
3. The enhanced oil recovery credit.
4. The disabled access credit.
5. The jobs credit.
6. The employer credit for social security and Medicare taxes paid on tips.
7. The empowerment zone employment credit.
8. The Indian employment credit.

If the corporation has any of these credits, be sure to figure each current year credit before figuring the deduction for expenses on which the credit is based.

## Line 12

### Compensation of Officers

Enter deductible officers' compensation on line 12. Before entering an amount on line 12, Form 1120 filers must complete Schedule E on page 2 if their total receipts (line 1a, plus lines 4 through 10, of page 1, Form 1120) are \$500,000 or more. Do not include compensation deductible elsewhere on the return, such as amounts included in cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement.

Include only the deductible part of officers' compensation on Schedule E. (See **Disallowance of deduction for employee compensation in excess of \$1 million**, below.) Complete Schedule E, line 1, columns (a) through (f), for all officers. The corporation determines who is an officer under the laws of the state where incorporated.

If a consolidated return is filed, each member of an affiliated group must furnish this information.

**Disallowance of deduction for employee compensation in excess of \$1 million.**—Publicly-held corporations may not deduct compensation to a "covered employee" to the extent that the compensation exceeds \$1 million. Generally, a covered employee is:

- The chief executive officer of the corporation (or an individual acting in that capacity) as of the end of the tax year, or
- An employee whose total compensation must be reported to shareholders under the Securities Exchange Act of 1934 because the employee is among the four highest compensated officers for that tax year (other than the chief executive officer).

For this purpose, compensation does not include the following:

- Income from certain employee trusts, annuity plans, or pensions;
- Any benefit paid to an employee that is excluded from the employee's income.

The deduction limit does not apply to:

- Commissions based on individual performance;
- Qualified performance-based compensation; and,
- Income payable under a written, binding contract in effect on February 17, 1993.

The \$1 million limit is reduced by amounts that are disallowed as excess parachute payments under section 280G.

For details, see section 162(m) and Notice 94-68, 1994-26 I.R.B. 12.

## Line 13

### Salaries and Wages

Enter the amount of salaries and wages paid for the tax year, less the amount of any jobs credit from Form 5884, empowerment zone employment credit from Form 8844, and Indian employment credit from Form 8845. See the instructions for these forms for more information. Do not include salaries and wages deductible elsewhere on the return, such as amounts included in cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement.

**Caution:** If the corporation provided taxable fringe benefits to its employees, such as personal use of a car, do not deduct as wages the amount allocated for depreciation and other expenses claimed on lines 20 and 26, Form 1120, or lines 20 and 22, Form 1120-A.

## Line 14

### Repairs and Maintenance

Enter the cost of incidental repairs and maintenance not claimed elsewhere on the return, such as labor and supplies, that do not add to the value of the property or appreciably prolong its life. New buildings, machinery, or permanent improvements that increase the value of the property are not deductible. They must be depreciated or amortized.

## Line 15

### Bad Debts

Enter the total debts that became worthless in whole or in part during the tax year. A small bank or thrift institution using the reserve method should attach a schedule showing how it arrived at the current year's provision.

**Caution:** A cash basis taxpayer may not claim a bad debt deduction unless the amount was previously included in income.

## Line 16

### Rents

If the corporation rented or leased a vehicle, enter the total annual rent or lease



expense paid or incurred during the year. Also complete Part V of **Form 4562**, Depreciation and Amortization. If the corporation leased a vehicle for a term of 30 days or more, the deduction for vehicle lease expense may have to be reduced by an amount called the **inclusion amount**. The corporation may have an inclusion amount if:

The lease term began:	And the vehicle's fair market value on the first day of the lease exceeded:
After 12/31/93 . . . . .	\$14,900
After 12/31/92 but before 1/1/94 . . . . .	\$14,300
After 12/31/91 but before 1/1/93 . . . . .	\$13,700
After 12/31/90 but before 1/1/92 . . . . .	\$13,400
After 12/31/86 but before 1/1/91 . . . . .	\$12,800

If the lease term began after June 18, 1984, but before January 1, 1987, see **Pub. 917**, Business Use of a Car, to find out if the corporation has an inclusion amount. Also see Pub. 917 for instructions on figuring the inclusion amount.

## Line 17

### Taxes and Licenses

Enter taxes paid or accrued during the tax year, but do not include the following:

- Federal income taxes (except the environmental tax under section 59A);
- Foreign or U.S. possession income taxes if a tax credit is claimed (however, see the Instructions for Form 5735 for special rules for possession income taxes);
- Taxes not imposed on the corporation;
- Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (these taxes must be treated as a part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition);
- Taxes assessed against local benefits that increase the value of the property assessed (such as for paving, etc.); or
- Taxes deducted elsewhere on the return, such as those reflected in cost of goods sold.

See section 164(d) for apportionment of taxes on real property between seller and purchaser.

If the corporation is liable for the environmental tax under section 59A, see **Form 4626**, Alternative Minimum Tax—Corporations, for computation of the environmental tax deduction.

## Line 18

### Interest

If the proceeds of a loan were used for more than one purpose (e.g., to purchase a portfolio investment and to acquire an interest in a passive activity), an interest allocation must be made. See Temporary Regulations section 1.163-8T for the interest allocation rules.

Do not include interest on indebtedness incurred or continued to purchase or carry obligations if the interest is wholly exempt

from income tax. For exceptions, see section 265(b).

Mutual savings banks, building and loan associations, and cooperative banks can deduct the amounts paid or credited to the accounts of depositors as dividends, interest, or earnings. See section 591.

Generally, a cash basis taxpayer cannot deduct prepaid interest allocable to years following the current tax year. For example, a cash basis calendar year taxpayer who in 1994 prepaid interest allocable to any period after 1994 can deduct only the amount allocable to 1994.

Generally, the interest and carrying charges on straddles cannot be deducted and must be capitalized. See section 263(g).

See section 163(e)(5) for special rules for the disqualified portion of original issue discount on a high yield discount obligation.

Certain interest paid or accrued by the corporation (directly or indirectly) to a related person may be limited if no tax is imposed on that interest. See section 163(j) for more detailed information.

Do not deduct interest on debt allocable to the production of qualified property. Interest that is allocable to property produced by a corporation for its own use or for sale must be capitalized. A corporation must also capitalize any interest on debt allocable to an asset used to produce the above property. See section 263A and Notice 88-99 for definitions and more information.

See section 7872 for special rules on the deductibility of foregone interest on certain below-market-rate loans.

## Line 19

### Charitable Contributions

Enter contributions or gifts actually paid within the tax year to or for the use of charitable and governmental organizations described in section 170(c) and any unused contributions carried over from prior years.

The total amount claimed may not be more than 10% of taxable income (line 30, Form 1120, or line 26, Form 1120-A) computed without regard to the following:

- Any deduction for contributions,
- The special deductions on line 29b, Form 1120 (line 25b, Form 1120-A),
- The deduction allowed under section 249,
- Any net operating loss (NOL) carryback to the tax year under section 172, and
- Any capital loss carryback to the tax year under section 1212(a)(1).

Charitable contributions over the 10% limitation may not be deducted for the tax year but may be carried over to the next 5 tax years.

Special rules apply if the corporation has an NOL carryover to the tax year. In figuring the charitable contributions deduction for the tax year, the 10% limit is applied using the taxable income after taking into account any deduction for the NOL.

To figure the amount of any remaining NOL carryover to later years, taxable income must be modified (see section 172(b)). To the extent that contributions are used to reduce taxable income for this purpose and increase an NOL carryover, a contributions carryover is not allowed. See section 170(d)(2)(B).

Corporations on the accrual basis may elect to deduct contributions paid by the 15th day of the 3rd month after the end of the tax year if the contributions are authorized by the board of directors during the tax year. Attach a declaration to the return, signed by an officer, stating that the resolution authorizing the contributions was adopted by the board of directors during the tax year. Also attach a copy of the resolution.

**Substantiation requirements.**—New substantiation rules apply for contributions of \$250 or more. Generally, no deduction is allowed for any contribution of \$250 or more unless the corporation obtains a written acknowledgment from the donee organization that shows the amount of cash contributed, describes any property contributed, and gives an estimate of the value of any goods or services provided in return for the contribution. The acknowledgment must be obtained by the due date (including extensions) of the corporation's return, or, if earlier, the date the return is filed. Do not attach the acknowledgment to the tax return, but keep it with the corporation's records. These rules apply in addition to the filing requirements for Form 8283 described below.

For more information on substantiation and recordkeeping requirements, see the regulations under section 170 and **Pub. 526**, Charitable Contributions.

**Contributions of property other than cash.**—If a corporation (other than a closely held or personal service corporation) contributes property other than cash and the deduction claimed for the property exceeds \$500, the corporation must attach a schedule to the return describing the kind of property contributed and the method used to determine its fair market value. Closely held corporations and personal service corporations must complete **Form 8283**, Noncash Charitable Contributions, and attach it to their returns. All other corporations generally must complete and attach Form 8283 to their returns for contributions of property other than money if the total claimed deduction for all property contributed was more than \$5,000.

If the corporation made a "qualified conservation contribution" under section 170(h), also include the fair market value of the underlying property before and after the donation, as well as the type of legal interest contributed, and describe the conservation purpose benefited by the donation. If a contribution carryover is included, show the amount and how it was determined.

**Special rule for contributions of certain property.**—For a charitable contribution of property, the corporation must reduce the contribution by the sum of:

- The ordinary income, short-term capital gain that would have resulted if the property were sold at its fair market value, and

- For certain contributions, all of the long-term capital gain that would have resulted if the property were sold at its fair market value.

The reduction for the long-term capital gain applies to:

- Contributions of tangible personal property for use by an exempt organization for a purpose or function unrelated to the basis for its exemption, and
- Contributions of any property (except stock for which market quotations are readily available—see section 170(e)(5)) to or for the use of certain private foundations. See section 170(e) and Regulations section 1.170A-4.

For special rules for contributions of inventory and other property to certain organizations, see section 170(e)(3) and Regulations section 1.170A-4A.

**Charitable contributions of scientific property used for research.**—A corporation (other than a personal holding company or a service organization) can receive a larger deduction for contributing scientific property used for research to an institution of higher education. For more details, see section 170(e).

**Contributions to organizations conducting lobbying activities.**—

Contributions made to an organization that conducts lobbying activities are not deductible if:

- The lobbying activities relate to matters of direct financial interest to the donor's trade or business, and
- The principal purpose of the contribution was to avoid Federal income tax by obtaining a deduction for activities that would have been nondeductible under the lobbying expense rules if conducted directly by the donor.

## Line 20

### Depreciation

Besides depreciation, include on line 20 the part of the cost that the corporation elected to expense under section 179 for certain tangible property placed in service during tax year 1994 or carried over from 1993. See **Form 4562**, Depreciation and Amortization, and its instructions.

## Line 22 (Form 1120 only)

### Depletion

See sections 613 and 613A for percentage depletion rates applicable to natural deposits. Also, see section 291 for the limitation on the depletion deduction for iron ore and coal (including lignite).

Foreign intangible drilling costs and foreign exploration and development costs must either be added to the corporation's basis for cost depletion purposes or be deducted ratably over a 10-year period. See sections 263(i), 616, and 617 for details.

Attach **Form T (Timber)**, Forest Industries Schedules, if a deduction for depletion of timber is taken.

## Line 24 (Form 1120 only)

### Pension, Profit-Sharing, etc., Plans

Enter the deduction for contributions to qualified pension, profit-sharing, or other funded deferred compensation plans. Employers who maintain such a plan generally must file one of the forms listed below, even if the plan is not a qualified plan under the Internal Revenue Code. The filing requirement applies even if the corporation does not claim a deduction for the current tax year. There are penalties for failure to file these forms on time and for overstating the pension plan deduction. See sections 6652(e) and 6662(f).

**Form 5500.**—Complete this form for each plan with 100 or more participants.

**Form 5500-C/R.**—Complete this form for each plan with fewer than 100 participants.

**Form 5500-EZ.**—Complete this form for a one-participant plan. The term "one-participant plan" also means a plan that covers the owner and his or her spouse, or a plan that covers partners in a business partnership (or the partners and their spouses).

## Line 25 (Form 1120 only)

### Employee Benefit Programs

Enter contributions to employee benefit programs not claimed elsewhere on the return (e.g., insurance, health and welfare programs) that are not an incidental part of a pension, profit-sharing, etc., plan included on line 24.

## Line 26, Form 1120 (Line 22, Form 1120-A)

### Other Deductions

**Note:** Do not deduct fines or penalties paid to a government for violating any law.

Attach a schedule, listing by type and amount, all allowable deductions that are not deductible elsewhere on Form 1120 or Form 1120-A. Form 1120-A filers should include amounts described in the instructions above for lines 22, 24, and 25 of Form 1120. Enter the total on line 26, Form 1120 (line 22, Form 1120-A).

Include on this line the deduction for amortization of pollution control facilities, organization expenses, etc. See Form 4562.

A corporation may deduct dividends it pays in cash on stock held by an employee stock ownership plan. However, a deduction may only be taken if, according to the plan, the dividends are:

- Paid in cash directly to the plan participants or beneficiaries;
- Paid to the plan, which distributes them in cash to the plan participants or their beneficiaries no later than 90 days after the end of the plan year in which the dividends are paid; or
- Used to make payments on a loan described in section 404(a)(9).

See section 404(k) for more details and the limitation on certain dividends.

Generally, a deduction may not be taken for any amount that is allocable to a class of exempt income. See section 265(b) for exceptions.

### Meals, travel, and entertainment.

Generally, the corporation can deduct only 50% of the amount otherwise allowable for meals and entertainment expenses paid or incurred in its trade or business. Also, meals must not be lavish or extravagant; a bona fide business discussion must occur during, immediately before, or immediately after the meal; and an employee of the corporation must be present at the meal. See section 274(k)(2) for exceptions. If the corporation claims a deduction for unallowable meal expenses, it may have to pay a penalty.

Additional limitations apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets. For details, see section 274 and **Pub. 463**, Travel, Entertainment, and Gift Expenses.

No deduction is allowed for dues paid or incurred for membership in any club organized for business, pleasure, recreation, or other social purpose. This rule applies to all types of clubs, including business, social, athletic, luncheon, sporting, airline, and hotel clubs.

Also, no deduction is allowed for travel expenses paid or incurred for a spouse, dependent, or other individual accompanying an officer or employee of the corporation on business travel, unless that spouse, dependent, or other individual is an employee of the corporation and the travel is for a bona fide business purpose and would otherwise be deductible by that person.

Generally, a corporation can deduct all other ordinary and necessary travel and entertainment expenses paid or incurred in its trade or business. However, it cannot deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) that is used for an activity that is usually considered entertainment, amusement, or recreation.

**Note:** The corporation may be able to deduct otherwise nondeductible meals, travel, and entertainment expenses if the amounts are treated as compensation and reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.

**Deduction for clean-fuel vehicles and certain refueling property.**—Section 179A allows a deduction for part of the cost of qualified clean-fuel vehicle property and qualified clean-fuel vehicle refueling property placed in service after June 30, 1993. For more information, see Pub. 535.

**Lobbying expenses.**—Generally, lobbying expenses are not deductible. These expenses include amounts paid or incurred in connection with influencing Federal or state legislation (but not local legislation), or amounts paid or incurred in connection with any communication with certain Federal executive branch officials in an attempt to influence the official actions or positions of the officials. However, if

certain in-house expenditures do not exceed \$2,000, they are deductible. Dues and other similar amounts paid to certain tax-exempt organizations may not be deductible. See section 162(e) and Temporary Regulations section 1.162-20T(d). For information on contributions to charitable organizations that conduct lobbying activities, see the instructions for line 19. For more information on lobbying expenses, see section 162(e).

## Line 28, Form 1120 (Line 24, Form 1120-A)

### Taxable Income Before NOL Deduction and Special Deductions

**At-risk rules.**—Special at-risk rules under section 465 generally apply to closely held corporations (see **Passive activity limitations** on page 8) engaged in any activity as a trade or business or for the production of income. These corporations may have to adjust the amount on line 28, Form 1120, or line 24, Form 1120-A. (See below.) But the at-risk rules do not apply to the following:

- Holding real property placed in service by the taxpayer before 1987;
- Equipment leasing under sections 465(c)(4), (5), and (6); and
- Any qualifying business of a qualified corporation under section 465(c)(7).

However, the at-risk rules do apply to the holding of mineral property.

If the at-risk rules apply, adjust the amount on this line for any section 465(d) losses. These losses are limited to the amount for which the corporation is at risk for each separate activity at the close of the tax year. If the corporation is involved in one or more activities, any of which incurs a loss for the year, report the losses for each activity separately. Attach **Form 6198**, At-Risk Limitations, showing the amount at risk and gross income and deductions for the activities with the losses.

If the corporation sells or otherwise disposes of an asset or its interest (either total or partial) in an activity to which the at-risk rules apply, determine the net profit or loss from the activity by combining the gain or loss on the sale or disposition with the profit or loss from the activity. If the corporation has a net loss, it may be limited because of the at-risk rules.

Treat any loss from an activity not allowed for the tax year as a deduction allocable to the activity in the next tax year.

## Line 29a, Form 1120 (Line 25a, Form 1120-A)

### Net Operating Loss Deduction

A net operating loss (NOL) incurred by a corporation in one tax year may be used to reduce the corporation's taxable income in another year. Generally, a corporation may carry an NOL back to each of the 3 years preceding the year of the loss and then carry any remaining amount over to each of the 15 years following the year of the loss (but see **Exceptions to carryback**

**rules** below). Enter on line 29a (line 25a, Form 1120-A), the total NOL carryovers from prior tax years, but do not enter more than the corporation's taxable income (after special deductions). An NOL deduction cannot be taken in a year in which the corporation has a negative taxable income. Attach a schedule showing the computation of the NOL deduction. Form 1120 filers must also complete question 15 on Schedule K.

For more information about NOLs and the NOL deduction, get **Pub. 536**, Net Operating Losses.

### Carryback and carryover rules.—

Generally, an NOL first must be carried back to the third tax year preceding the year of the loss. To carry back the loss and obtain a quick refund of taxes, use **Form 1139**, Corporation Application for Tentative Refund. Form 1139 must be filed within 12 months after the close of the tax year of the loss. See section 6411 for details. Do not attach Form 1139 to the corporation's income tax return. Mail it in a separate envelope to the service center where the corporation files its income tax return.

For carryback claims filed later than 12 months after the close of the tax year of the loss, file **Form 1120X**, Amended U.S. Corporation Income Tax Return, instead of Form 1139.

After the corporation has applied the NOL to the first tax year to which it may be carried, the taxable income of that year is modified (as described in section 172(b)) to determine how much of the remaining loss may be carried to other years. See section 172(b) and the related regulations for details.

Special rules apply when an ownership change occurs (i.e., for any tax year ending after a post-1986 ownership change, the amount of the taxable income of a loss corporation that can be offset by pre-change NOL carryovers is limited). See section 382 and the related regulations. Also see Temporary Regulations section 1.382-2T(a)(2)(ii), which requires that a loss corporation file an information statement with its income tax return for each tax year that it is a loss corporation and certain shifts in ownership occurred. Also see Regulations section 1.382-6(b) for details on how to make the closing-of-the-books election.

See section 384 for the limitation on the use of preacquisition losses of one corporation to offset recognized built-in gains of another corporation.

**Exceptions to carryback rules.**—A corporation may make an irrevocable election to forego the carryback period and instead carry the NOL over to each of the 15 years following the year of the loss. To make this election, check the box in question 14 on Schedule K. The return must be timely filed (including extensions).

Different carryback periods apply for certain losses. The part of an NOL that is attributable to a specified liability loss, including a product liability loss, may be carried back 10 years (section 172(b)(1)(C)). See Regulations section 1.172-13(c) for the statement that must be attached to Form 1120 if the corporation is claiming the

10-year carryback period for a product liability loss.

Special rules apply to the carryback of losses that are attributable to interest paid in connection with corporate equity reduction transactions (CERTs). The rules apply if a corporation has a corporate equity reduction interest loss in a loss limitation year ending after August 2, 1989. See section 172(b)(1)(E).

Personal service corporations may not carry back an NOL to or from any tax year to which a section 444 election applies.

## Line 29b, Form 1120 (Line 25b, Form 1120-A)

### Special Deductions

**Form 1120 filers.**—See the Instructions for Schedule C.

**Form 1120-A filers.**—Generally, enter 70% of line 4, page 1, on line 25b. However, this deduction may not be more than 70% of line 24, page 1. Compute line 24 without regard to any adjustment under section 1059 and without regard to any capital loss carryback to the tax year under section 1212(a)(1).

In a year in which an NOL occurs, this 70% limitation does not apply even if the loss is created by the dividends-received deduction. See sections 172(d) and 246(b).

## Line 30, Form 1120 (Line 26, Form 1120-A)

### Taxable Income

**Capital construction fund.**—To take a deduction for amounts contributed to a capital construction fund, reduce the amount that would otherwise be entered on line 30 (line 26, Form 1120-A) by the amount of the deduction. On the dotted line next to the entry space, write "CCF" and the amount of the deduction. For more information, get **Pub. 595**, Tax Guide for Commercial Fishermen.

## Line 32b, Form 1120 (Line 28b, Form 1120-A)

### Estimated Tax Payments

Enter any estimated tax payments the corporation made for the tax year.

**Beneficiaries of trusts.**—If the corporation is the beneficiary of a trust, and the trust makes a section 643(g) election to credit its estimated tax payments to its beneficiaries, include the corporation's share of the estimated tax payment in the total amount entered on line 32b, Form 1120 (line 28b, Form 1120-A). Write "T" and the amount of the payment on the dotted line next to the entry space.

**Special estimated tax payments for certain life insurance companies.**—If the corporation is required to make or apply special estimated tax payments (SETP) under section 847 in addition to its regular estimated tax payments, enter on line 32b (line 28b, Form 1120-A), the corporation's total estimated tax payments. On the dotted line next to the entry space, write "SETP" and the amount. Attach a schedule showing your computation of estimated tax payments. See section 847(2) and **Form**

**8816**, Special Loss Discount Account and Special Estimated Tax Payments for Insurance Companies, for more information.

**Line 32g, Form 1120  
(Line 28g, Form 1120-A)**

**Credit for Federal Tax on Fuels**

Complete Form 4136 if the corporation qualifies to take this credit. Attach Form 4136 after page 4, Form 1120, or page 2, Form 1120-A.

**Credit for ozone-depleting chemicals.—** Include on line 32g (line 28g, Form 1120-A) any credit the corporation is claiming under section 4682(g)(4) for tax on ozone-depleting chemicals. Write "ODC" to the left of the entry space.

**Line 32h, Form 1120  
(Line 28h, Form 1120-A)**

**Total Payments**

On Form 1120, add the amounts on lines 32d through 32g and enter the total on line 32h. On Form 1120-A, add the amounts on lines 28d through 28g and enter the total on line 28h.

**Backup withholding.—**If the corporation had income tax withheld from any payments it received, because, for example, it failed to give the payer its correct EIN, include the amount withheld in the total for line 32h, Form 1120 (line 28h, Form 1120-A). This type of withholding is called backup withholding. On Form 1120, show the amount withheld in the blank space in the right-hand column between lines 31 and 32h, and write "backup withholding." On Form 1120-A, show the amount withheld on the dotted line to the left of line 28h, and write "backup withholding."

**Line 33, Form 1120  
(Line 29, Form 1120-A)**

**Estimated Tax Penalty**

A corporation that does not make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. Generally, a corporation is subject to the penalty if its tax liability is \$500 or more, and it did not timely pay the smaller of (a) 100% of its tax liability for 1994, or (b) 100% of its prior year's tax. See section 6655 for details and exceptions, including special rules for large corporations.

**Form 2220**, Underpayment of Estimated Tax by Corporations, is used to see if the corporation owes a penalty and to figure the amount of the penalty. Generally, the corporation does not have to file this form because the IRS can figure the amount of any penalty and bill the corporation for it. However, you must complete and attach Form 2220 even if the corporation does not owe the penalty if any of the following apply:

- The annualized income or adjusted seasonal installment method is used.
- The corporation is a large corporation computing its first required installment based on the prior year's tax. (See the

Form 2220 instructions for the definition of a large corporation.)

If you attach Form 2220, check the box on line 33, Form 1120 (line 29, Form 1120-A), and enter the amount of any penalty on this line.

**Schedule A, Form 1120  
(Worksheet, Form 1120-A)**

**Cost of Goods Sold**

All filers should see **Section 263A uniform capitalization rules** on page 7 before completing Schedule A or the worksheet below. The instructions for lines 4 through 7 below apply to both Schedule A and the worksheet.

**Note:** *If inventories are not an income-determining factor, enter zero on lines 1 and 7 of Schedule A, Form 1120, or the worksheet.*

**Line 4**

**Additional Section 263A Costs**

An entry is required on this line only for corporations that have elected a simplified method of accounting.

For corporations that have elected the simplified production method, additional section 263A costs are generally those costs, other than interest, that were not capitalized under the corporation's method of accounting immediately prior to the effective date of section 263A that are now required to be capitalized under section 263A. For more details, see Regulations section 1.263A-2(b).

For corporations that have elected the simplified resale method, additional section 263A costs are generally those costs incurred with respect to the following categories: off-site storage or warehousing; purchasing; handling, processing, assembly, and repackaging; and general and administrative costs (mixed service costs). For more details, see Regulations section 1.263A-3(d).

Enter on line 4 the balance of section 263A costs paid or incurred during the tax year not included on lines 2, 3, and 5.

**Line 5**

**Other Costs**

Enter on line 5 any costs paid or incurred during the tax year not entered on lines 2 through 4.

**Line 7**

**Inventory at End of Year**

See Regulations section 1.263A-1 through 1.263A-3 for details on figuring the amount of additional section 263A costs to be included in ending inventory.

**Lines 9a through 9e (Schedule A)**

**Inventory Valuation Methods**

Inventories can be valued at:

- Cost;
- Cost or market value (whichever is lower); or
- Any other method approved by the IRS that conforms to the provisions of the applicable regulations cited below.

Corporations that use erroneous valuation methods must change to a method permitted for Federal income tax purposes. To make this change, use Form 3115.

On line 9a, check the method(s) used for valuing inventories. Under lower of cost or market, the term "market" generally refers to normal market conditions where there is a current bid price prevailing at the date the inventory is valued. When no regular open market exists or when quotations are nominal because of inactive market conditions, use fair market prices from the most reliable sales or purchase transactions that occurred near the date the inventory is valued.

Inventory may be valued below cost when the merchandise is unsaleable at normal prices or unusable in the normal way because the goods are subnormal due to damage, imperfections, shopwear, etc., within the meaning of Regulations section 1.471-2(c). The goods may be valued at the current bona fide selling price, minus direct cost of disposition (but not less than scrap value) if such a price can be established.

**Cost of Goods Sold Worksheet**

**Form 1120-A**  
(keep for your records)

1. Inventory at start of year. Enter here and in Part III, line 3, column (a), Form 1120-A . . . . .	1. _____
2. Purchases. Enter here and in Part II, line 5a(1), Form 1120-A . . . . .	2. _____
3. Cost of labor. Enter here and include in total in Part II, line 5a(3), Form 1120-A . . . . .	3. _____
4. Additional section 263A costs. Enter here and in Part II, line 5a(2), Form 1120-A (see instructions), . . . . .	4. _____
5. Other costs. Enter here and include in Part II, line 5a(3), Form 1120-A . . . . .	5. _____
6. Total. Add lines 1 through 5, . . . . .	6. _____
7. Inventory at end of year. Enter here and in Part III, line 3, column (b), Form 1120-A . . . . .	7. _____
8. Cost of goods sold. Subtract line 7 from line 6. Enter the result here and on page 1, line 2, Form 1120-A. . . . .	8. _____

If this is the first year the Last-in, First-out (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method provided in section 472, attach **Form 970**, Application To Use LIFO Inventory Method, or a statement with the information required by Form 970. Also check the LIFO box on line 9b. On line 9c, enter the amount or the percent of total closing inventories covered under section 472. Estimates are acceptable.

If the corporation changed or extended its inventory method to LIFO and had to write up the opening inventory to cost in the year of election, report the effect of the writeup as income (line 10, page 1), proportionately over a 3-year period that begins with the year of the LIFO election (section 472(d)).

**Note:** A corporation that has made an S corporation election and uses the LIFO method for its last tax year as a C corporation may be subject to an additional tax attributable to the LIFO recapture amount. For information on how to figure the LIFO recapture amount and the tax attributable to it, see the instructions for line 10, Schedule J.

For more information on inventory valuation methods, get **Pub. 538**, Accounting Periods and Methods.

## Schedule C (Form 1120 Only)

### Dividends and Special Deductions

For purposes of the 20% ownership test on lines 1 through 7, the percentage of stock owned by the corporation is based on voting power and value of the stock. Preferred stock described in section 1504(a)(4) is not taken into account. Corporations filing a consolidated return should see Regulations sections 1.1502-14, 1.1502-26, and 1.1502-27 before completing Schedule C.

#### Line 1, Column (a)

Enter dividends (except those received on debt-financed stock acquired after July 18, 1984—see section 246A) that are received from less-than-20%-owned domestic corporations subject to income tax and that are subject to the 70% deduction under section 243(a)(1). Include on this line taxable distributions from an IC-DISC or former DISC that are designated as eligible for the 70% deduction and certain dividends of Federal Home Loan Banks. See section 246(a)(2).

Also include on line 1 dividends (except those received on debt-financed stock acquired after July 18, 1984) from a regulated investment company (RIC). The amount of dividends eligible for the dividends-received deduction under section 243 is limited by section 854(b). The corporation should receive a notice from the RIC specifying the amount of dividends that qualify for the deduction.

Report so-called dividends or earnings received from mutual savings banks, etc., as interest. Do not treat them as dividends.

#### Line 2, Column (a)

Enter dividends (except those received on debt-financed stock acquired after July 18, 1984) that are received from 20%-or-more-owned domestic corporations subject to income tax and that are subject to the 80% deduction under section 243(c). Include on this line taxable distributions from an IC-DISC or former DISC that are considered eligible for the 80% deduction.

#### Line 3, Column (a)

Enter dividends on debt-financed stock acquired after July 18, 1984, that are received from domestic and foreign corporations subject to income tax and that would otherwise be subject to the dividends-received deduction under section 243(a)(1), 243(c), or 245(a). Generally, debt-financed stock is stock that the corporation acquired by incurring a debt (e.g., it borrowed money to buy the stock).

Include on line 3 dividends received from a regulated investment company (RIC) on debt-financed stock. The amount of dividends eligible for the dividends-received deduction is limited by section 854(b). The corporation should receive a notice from the RIC specifying the amount of dividends that qualify for the deduction.

#### Line 3, Columns (b) and (c)

Dividends received on debt-financed stock acquired after July 18, 1984, are not entitled to the full 70% or 80% dividends-received deduction. The 70% or 80% deduction is reduced by a percentage that is related to the amount of debt incurred to acquire the stock. See section 246A. Also see section 245(a) before making this computation for an additional limitation that applies to dividends received from foreign corporations. Attach a schedule to Form 1120 showing how the amount on line 3, column (c), was figured.

#### Line 4, Column (a)

Enter dividends received on the preferred stock of a less-than-20%-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

#### Line 5, Column (a)

Enter dividends received on preferred stock of a 20%-or-more-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

#### Line 6, Column (a)

Enter the U.S.-source portion of dividends that are received from less-than-20%-owned foreign corporations and that qualify for the 70% deduction under section 245(a). To qualify for the 70% deduction, the corporation must own at least 10% of the stock of the foreign corporation by vote and value. Also include dividends received from a less-than-20%-owned FSC that are attributable to income treated as effectively

connected with the conduct of a trade or business within the United States (excluding foreign trade income) and that qualify for the 70% deduction provided in section 245(c)(1)(B).

#### Line 7, Column (a)

Enter the U.S.-source portion of dividends that are received from 20%-or-more-owned foreign corporations and that qualify for the 80% deduction under section 245(a). Also include dividends received from a 20%-or-more-owned FSC that are attributable to income treated as effectively connected with the conduct of a trade or business within the United States (excluding foreign trade income) and qualify for the 80% deduction provided in section 245(c)(1)(B).

#### Line 8, Column (a)

Enter dividends received from wholly owned foreign subsidiaries that are eligible for the 100% deduction provided in section 245(b).

In general, the deduction under section 245(b) applies to dividends paid out of the earnings and profits of a foreign corporation for a tax year during which:

- All of its outstanding stock is owned (directly or indirectly) by the domestic corporation receiving the dividends, and
- All of its gross income from all sources is effectively connected with the conduct of a trade or business within the United States.

#### Line 9, Column (c)

##### Limitation on Dividends-Received Deduction

Generally, line 9, column (c) may not exceed the amount from the worksheet on page 14. However, in a year in which an NOL occurs, this limitation does not apply even if the loss is created by the dividends-received deduction. See sections 172(d) and 246(b). Certain financial institutions to which section 593(a) applies should see section 596 for the special limitation on the dividends-received deduction.

#### Line 10, Columns (a) and (c)

Small business investment companies operating under the Small Business Investment Act of 1958 (15 U.S.C. 661 and following) must enter dividends that are received from domestic corporations subject to income tax even though a deduction is allowed for the entire amount of those dividends. To claim the 100% deduction on line 10, column (c), the company must file with its return a statement that it was a Federal licensee under the Small Business Investment Act of 1958 at the time it received the dividends.

#### Line 11, Column (a)

Enter dividends from FSCs that are attributable to foreign trade income and that are eligible for the 100% deduction provided in section 245(c)(1)(A).

**Worksheet for Schedule C, line 9**  
(keep for your records)

1. Refigure line 28, page 1, Form 1120, without any adjustment under section 1059 and without any capital loss carryback to the tax year under section 1212(a)(1) . . . . . 1. \_\_\_\_\_
2. Complete lines 10, 11, and 12, column (c), and enter the total here . . . . . 2. \_\_\_\_\_
3. Subtract line 2 from line 1 . . . . . 3. \_\_\_\_\_
4. Multiply line 3 by 80% . . . . . 4. \_\_\_\_\_
5. Add lines 2, 5, 7, and 8, column (c), and the part of the deduction on line 3, column (c), that is attributable to dividends from 20%-or-more-owned corporations . . . . . 5. \_\_\_\_\_
6. Enter the smaller of line 4 or 5. If line 5 is greater than line 4, stop here; enter the amount from line 6 on line 9, column (c), and do not complete the rest of this worksheet . . . . . 6. \_\_\_\_\_
7. Enter the total amount of dividends from 20%-or-more-owned corporations that are included on lines 2, 3, 5, 7, and 8, column (a) . . . . . 7. \_\_\_\_\_
8. Subtract line 7 from line 3 . . . . . 8. \_\_\_\_\_
9. Multiply line 8 by 70% . . . . . 9. \_\_\_\_\_
10. Subtract line 5 above from line 9, column (c) . . . . . 10. \_\_\_\_\_
11. Enter the smaller of line 9 or line 10 . . . . . 11. \_\_\_\_\_
12. Dividends-received deduction after limitation (sec. 246(b)). Add lines 6 and 11. Enter the result on line 9, column (c) . . . . . 12. \_\_\_\_\_

**Line 12, Columns (a) and (c)**

Enter only those dividends that qualify under section 243(b) for the 100% dividends-received deduction described in section 243(a)(3). Corporations taking this deduction are subject to the provisions of section 1561.

**Note:** *The 100% deduction does not apply to affiliated group members that are joining in the filing of a consolidated return.*

**Line 13, Column (a)**

Enter foreign dividends not reportable on lines 3, 6, 7, 8, or 11 of column (a). Include on line 13 the corporation's share of the ordinary earnings of a qualified electing fund from Form 8621, line 6c, or the amount of any excess distribution from a passive foreign investment company from Form 8621, line 11b. Exclude distributions of amounts constructively taxed in the current year or in prior years under subpart F (sections 951 through 964).

**Line 14, Column (a)**

Include income constructively received from controlled foreign corporations under subpart F. This amount should equal the total Subpart F income reported on Schedule I, Form 5471.

**Line 15, Column (a)**

Include gross-up for taxes deemed paid under sections 902 and 960.

**Line 16, Column (a)**

Enter taxable distributions from an IC-DISC or former DISC that are designated as not eligible for a dividends-received deduction.

No deduction is allowed under section 243 for a dividend from an IC-DISC or former DISC (as defined in section 992(a)) to the extent the dividend:

1. Is paid out of the corporation's accumulated IC-DISC income or previously taxed income, or
2. Is a deemed distribution under section 995(b)(1).

**Line 17, Column (a)**

Include the following:

1. Dividends (other than capital gain dividends and exempt-interest dividends) that are received from regulated investment companies and that are not subject to the 70% deduction.

2. Dividends from tax-exempt organizations.

3. Dividends (other than capital gain dividends) received from a real estate investment trust that, for the tax year of the trust in which the dividends are paid, qualifies under sections 856 through 860.

4. Dividends not eligible for a dividends-received deduction because of the holding period of the stock or an obligation to make corresponding payments with respect to similar stock.

Two situations in which the dividends-received deduction will not be allowed on any share of stock are:

- If the corporation held it 45 days or less (see section 246(c)(1)(A)), or
- To the extent the corporation is under an obligation to make related payments for substantially similar or related property.

5. Any other taxable dividend income not properly reported above (including distributions under section 936(h)(4)).

If patronage dividends or per-unit retain allocations are included on line 17, identify the total of these amounts in a schedule attached to Form 1120.

**Line 18, Column (c)**

Section 247 allows public utilities a deduction of 40% of the smaller of:

- Dividends paid on their preferred stock during the tax year, or
- Taxable income computed without regard to this deduction.

In a year in which an NOL occurs, compute the deduction without regard to section 247(a)(1)(B). See section 172(d).

**Schedule J, Form 1120**  
**(Part I, Form 1120-A)**

**Tax Computation**

**Line 3, Form 1120**  
**(Line 1, Form 1120-A)**

Most corporations figure their tax by using the Tax Rate Schedule below. Exceptions apply to members of a controlled group and qualified personal service corporations. See the instructions below for more information.

**Tax Rate Schedule**

If taxable income (line 30, Form 1120, or line 26, Form 1120-A) on page 1 is:

Over—	But not over—	Tax is:	Of the amount over—
\$0	\$50,000	15%	\$0
50,000	75,000	<b>\$7,500 + 25%</b>	50,000
75,000	100,000	<b>13,750 + 34%</b>	75,000
100,000	335,000	<b>22,250 + 39%</b>	100,000
335,000	10,000,000	<b>113,900 + 34%</b>	335,000
10,000,000	15,000,000	<b>3,400,000 + 35%</b>	10,000,000
15,000,000	18,333,333	<b>5,150,000 + 38%</b>	15,000,000
18,333,333	- - - - -	<b>35%</b>	0

**Qualified personal service corporation.—**

A qualified personal service corporation is taxed at a flat rate of 35% on taxable income. A corporation is a qualified personal service corporation if it meets **BOTH** of the following tests:

- Substantially all of the corporation's activities involve the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting, and
- At least 95% of the corporation's stock, by value, is owned, directly or indirectly, by (1) employees performing the services, (2) retired employees who had performed the services listed above, (3) any estate of the employee or retiree described above, or (4) any person who acquired the stock of the corporation as a result of the death of an employee or retiree (but only for the 2-year period beginning on the date of the employee's or retiree's death). See Temporary Regulations section 1.448-1T(e) for details.

**Note:** *If the corporation meets these tests, check the box on line 3, Schedule J, Form 1120 (line 1, Part I, Form 1120-A).*

**Members of a controlled group (Form 1120 only).—**A member of a controlled group, as defined in section 1563, must check the box on line 1 and complete lines 2a and 2b of Schedule J, Form 1120.

Members of a controlled group are entitled to one \$50,000, one \$25,000, and one \$9,925,000 taxable income bracket amount (in that order) on line 2a.

When a controlled group adopts or later amends an apportionment plan, each member must attach to its tax return a copy of its consent to this plan. The copy (or an attached statement) must show the

**Worksheet for Members of a Controlled Group**  
(keep for your records)

**Note:** Each member of a controlled group (except a qualified personal service corporation) must compute the tax using the worksheet below.

1. Enter taxable income (line 30, page 1, Form 1120) . . . . .	1. _____
2. Enter line 1 or the corporation's share of the \$50,000 taxable income bracket, whichever is less . . . . .	2. _____
3. Subtract line 2 from line 1 . . . . .	3. _____
4. Enter line 3 or the corporation's share of the \$25,000 taxable income bracket, whichever is less . . . . .	4. _____
5. Subtract line 4 from line 3 . . . . .	5. _____
6. Enter line 5 or the corporation's share of the \$9,925,000 taxable income bracket, whichever is less . . . . .	6. _____
7. Subtract line 6 from line 5 . . . . .	7. _____
8. Multiply line 2 by 15% . . . . .	8. _____
9. Multiply line 4 by 25% . . . . .	9. _____
10. Multiply line 6 by 34% . . . . .	10. _____
11. Multiply line 7 by 35% . . . . .	11. _____
12. If the taxable income of the controlled group exceeds \$100,000, enter this member's share of the smaller of: 5% of the taxable income in excess of \$100,000, or \$11,750 (See <b>Additional 5% tax</b> , below.) . . . . .	12. _____
13. If the taxable income of the controlled group exceeds \$15,000,000, enter this member's share of the smaller of: 3% of the taxable income in excess of \$15 million, or \$100,000 (See <b>Additional 3% tax</b> , below.) . . . . .	13. _____
14. Add lines 8 through 13. Enter here and on line 3, Schedule J, Form 1120 . . . . .	14. _____

part of the amount in each taxable income bracket apportioned to that member. See Regulations section 1.1561-3(b) for other requirements and for the time and manner of making the consent.

**Equal apportionment plan.**—If no apportionment plan is adopted, members of a controlled group must divide the amount in each taxable income bracket equally among themselves. For example, Controlled Group AB consists of Corporation A and Corporation B. They do not elect an apportionment plan. Therefore, Corporation A and Corporation B are each entitled to:

- \$25,000 (one-half of \$50,000) in the \$50,000 taxable income bracket on line 2a(1),
- \$12,500 (one-half of \$25,000) in the \$25,000 taxable income bracket on line 2a(2), and
- \$4,962,500 (one-half of \$9,925,000) in the \$9,925,000 taxable income bracket on line 2a(3).

**Unequal apportionment plan.**—Members of a controlled group may elect an unequal apportionment plan and divide the taxable income brackets as they wish. There is no need for consistency among taxable income brackets. Any member of the controlled group may be entitled to all, some, or none of the taxable income bracket. However, the total amount for all members of the controlled group cannot be more than the total amount in each taxable income bracket.

**Additional 5% tax.**—Members of a controlled group are treated as one corporation for purposes of figuring the additional 5% tax that must be paid by corporations with taxable income in excess of \$100,000. If the additional tax applies, each member of the controlled group will pay that tax based on the part of the amount that is used in each taxable income bracket to reduce that member's tax. See section 1561(a). Each member of the group must enter its share of the

additional 5% tax on line 2b(1) and attach to its tax return a schedule that shows the taxable income of the entire group as well as how its share of the additional 5% tax was figured.

**Additional 3% tax.**—Members of a controlled group are treated as one corporation for purposes of figuring the additional 3% tax that must be paid by corporations with taxable income in excess of \$15 million. If the additional tax applies, each member of the controlled group will pay that tax based on the part of the amount that is used in each taxable income bracket to reduce that member's tax. See section 1561(a). Each member of the group must enter its share of the additional 3% tax on line 2b(2) and attach to its tax return a schedule that shows the taxable income of the entire group as well as how its share of the additional 3% tax was figured.

**Mutual savings bank conducting life insurance business.**—The tax under section 594 consists of the sum of (a) a partial tax computed on Form 1120 on the taxable income of the bank determined without regard to income or deductions allocable to the life insurance department, and (b) a partial tax on the taxable income computed on Form 1120-L of the life insurance department. Enter the combined tax on line 3 of Schedule J, Form 1120. Attach Form 1120-L as a schedule and identify it as such.

**Deferred tax amount of a shareholder in a passive foreign investment company (section 1291).**—If the corporation was a shareholder in a passive foreign investment company (PFIC), and the corporation received an excess distribution or disposed of its investment in the PFIC during the year, it must include the aggregate increases in taxes due under section 1291(c)(2) in the amount entered on line 3, Schedule J, Form 1120. On the dotted line next to line 3, Schedule J, write "Section 1291" and the amount.

Do not include on line 3 any interest due under section 1291(c)(3). Instead, show the amount of interest owed in the bottom margin of page 1, Form 1120, and write "Section 1291 interest." For details, see **Form 8621**, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund.

**Additional tax under section 197(f).**—A corporation that elects to pay tax on the gain from the sale of an intangible under the related person exception to the anti-churning rules, should include any additional tax due under section 197(f)(9)(B) in the amount entered on line 3. On the dotted line next to line 3, write "Section 197" and the amount. For more information, see **Pub. 535**, Business Expenses.

**Line 4a (Form 1120 only)**

**Foreign Tax Credit**

To find out when a corporation can take the credit for payment of income tax to a foreign country or U.S. possession, see **Form 1118**, Foreign Tax Credit—Corporations.

**Line 4b (Form 1120 only)**

**Possessions Tax Credit**

For rules on how to elect to claim the possessions tax credit (section 936), see **Form 5712**, Election To Be Treated as a Possessions Corporation Under Section 936. Figure the credit on **Form 5735**, Possessions Corporation Tax Credit Allowed Under Section 936.

**Line 4c (Form 1120 only)**

**Orphan Drug Credit**

To find out when a corporation can take this credit and how it is figured, see section 28 and **Form 6765**, Credit for Increasing Research Activities (or for claiming the orphan drug credit).

**Line 4d (Form 1120 only)**

Complete line 4d if the corporation can take either of the following credits. Be sure to check the appropriate box.

**Nonconventional source fuel credit.**—A credit is allowed for the sale of qualified fuels produced from a nonconventional source. Section 29 contains a definition of qualified fuels, provisions for figuring the credit, and other special rules. Attach a separate schedule to the return showing the computation of the credit.

Also see **Form 8827** if any of the 1993 credit was disallowed solely because of the tentative minimum tax limitation. See section 53(d).

**Qualified electric vehicle credit.**—Include on line 4d any credit from **Form 8834**, Qualified Electric Vehicle Credit. Vehicles that qualify for this credit are not eligible for the deduction for clean-fuel vehicles under section 179A.

## Line 4e, Form 1120 (Line 2a, Form 1120-A)

### General Business Credit

Complete this line if the corporation can take any of the following credits. Complete **Form 3800**, General Business Credit, if the corporation has two or more of these credits, a credit carryforward or carryback (including an ESOP credit), or a passive activity credit. Enter the amount of the general business credit on line 4e (line 2a, Form 1120-A), and check the box for Form 3800. If the corporation has only one credit, enter on line 4e (line 2a, Form 1120-A), the amount of the credit from the form. Also be sure to check the appropriate box for that form.

**Investment credit.** This credit was generally repealed for property placed in service after 1985. See **Form 3468**, Investment Credit, for exceptions.

**Jobs credit.** The corporation may qualify to take this credit if it hired members of special targeted groups during the tax year. See **Form 5884**, Jobs Credit, for more information.

**Credit for alcohol used as fuel.** A corporation may be able to take a credit for alcohol used as fuel. Use **Form 6478**, Credit for Alcohol Used as Fuel, to figure the credit.

**Credit for increasing research activities.** See **Form 6765**, Credit for Increasing Research Activities, and section 41.

**Low-income housing credit.** See **Form 8586**, Low-Income Housing Credit, and section 42.

**Enhanced oil recovery credit.** A corporation may claim a credit for 15% of its qualified enhanced oil recovery costs. Use **Form 8830**, Enhanced Oil Recovery Credit, to figure the credit.

**Disabled access credit.** A corporation may be able to take a credit for certain expenditures paid or incurred to assist individuals with disabilities. See **Form 8826**, Disabled Access Credit, and section 44.

**Renewable electricity production credit.** A corporation may be able to take a credit for electricity produced by the corporation using closed-loop biomass or wind and sold to an unrelated person. See **Form 8835**, Renewable Electricity Production Credit, for details.

**Indian employment credit.** A corporation may be able to claim a credit of 20% of a limited amount of the wages and health insurance costs paid or incurred by the corporation for qualified employees. A qualified employee is a member of an enrolled Indian tribe (or their spouse), who also meets certain other qualifications. See **Form 8845**, Indian Employment Credit, and section 45A.

**Credit for employer social security and Medicare taxes paid on certain employee tips.** Food and beverage establishments may claim a credit equal to the employer's social security and Medicare obligations attributable to tips in excess of those treated as wages for purposes of the minimum wage laws. See **Form 8846**, Credit for Employer Social

Security and Medicare Taxes Paid on Certain Employee Tips, and section 45B.

**Credit for contributions to certain community development corporations.** Corporations may claim a credit of 5% of qualified cash contributions to certain community development corporations (CDCs) selected by the Secretary of Housing and Urban Development. See **Form 8847**, Credit for Contributions to Selected Community Development Corporations.

**Note:** *The empowerment zone employment credit (described below) is a component of the general business credit, but is figured separately and is not carried to Form 3800.*

**Empowerment zone employment credit.** A corporation that has employees that live and work for the corporation in an area designated by the Federal government as an "empowerment zone" may be able to take a credit for wages paid to certain employees. The credit is equal to 20% of the first \$15,000 of qualified wages and is limited to \$3,000 per year per employee. See **Form 8844**, Empowerment Zone Employment Credit, and section 1396.

## Line 4f, Form 1120 (Line 2b, Form 1120-A)

### Credit for Prior Year Minimum Tax

To figure the minimum tax credit and any carryforward of that credit, use **Form 8827**, Credit for Prior Year Minimum Tax—Corporations.

## Line 7 (Form 1120 only)

### Personal Holding Company Tax

A corporation is taxed as a personal holding company under section 542 if:

- At least 60% of its adjusted ordinary gross income for the tax year is personal holding company income, and
- At any time during the last half of the tax year more than 50% in value of its outstanding stock is owned, directly or indirectly, by five or fewer individuals.

See section 543(a) for the definition of personal holding company income and section 543(b)(2) for the definition of adjusted ordinary gross income.

To figure this tax, use **Schedule PH (Form 1120)**, U.S. Personal Holding Company Tax.

## Line 8, Form 1120 (Line 5, Form 1120-A)

### Recapture Taxes

**Recapture of investment credit.** If the corporation disposed of investment credit property or changed its use before the end of its useful life or recovery period, it may owe a tax. See **Form 4255**, Recapture of Investment Credit, for details.

**Recapture of low-income housing credit.** If the corporation disposed of property (or there was a reduction in the qualified basis of the property) on which it took the low-income housing credit, it may owe a tax. See **Form 8611**, Recapture of Low-Income Housing Credit, and section 42(j) for details.

**Recapture of qualified electric vehicle (QEV) credit.** The corporation must recapture part of the QEV credit it claimed in a prior year, if, within 3 years of the date the vehicle was placed in service, it ceases to qualify for the credit. Get Pub. 535 to see how to figure the recapture. Include the amount of the recapture in the total for line 8, Schedule J, Form 1120 (line 5, Part I, Form 1120-A). On the dotted line next to the entry space, write "QEV recapture" and the amount.

**Recapture of Indian employment credit.** Generally, if an employer terminates the employment of a qualified employee less than 1 year after the date of initial employment, any Indian employment credit allowed for a prior tax year by reason of wages paid or incurred to that employee must be recaptured. For details, see **Form 8845**, Indian Employment Credit, and section 45A. Include the amount of the recapture in the total for line 8, Schedule J, Form 1120 (line 5, Form 1120-A). On the dotted line next to the entry space, write "IEC recapture" and the amount.

## Line 9a, Form 1120 (Line 6, Form 1120-A)

### Alternative Minimum Tax

The corporation may owe the alternative minimum tax if it has any of the adjustments and tax preference items listed on **Form 4626**, Alternative Minimum Tax—Corporations. The corporation must file Form 4626 if its taxable income (loss) combined with these adjustments and tax preference items is more than the smaller of:

- \$40,000, or
- The corporation's allowable exemption amount (from Form 4626).

For this purpose, taxable income does not include the NOL deduction. Get Form 4626 for details.

Reduce alternative minimum tax by any amount on Form 3800, Schedule A, line 34, (or Form 8844, line 20). On the dotted line next to line 9a (line 6, Form 1120-A), write "Section 38(c)(3)" (or "EZE") and the amounts.

## Line 9b (Form 1120 only)

### Environmental Tax

The corporation may be liable for the environmental tax if the modified alternative minimum taxable income of the corporation exceeds \$2 million. See Form 4626 for details.

## Line 10 (Form 1120 only)

**Interest on tax attributable to payments received on installment sales of certain timeshares and residential lots.** If the corporation elected to pay interest on the amount of tax attributable to payments received on installment obligations arising from the disposition of certain timeshares and residential lots under section 453(l)(3), it must include the interest due in the amount to be entered on line 10, Schedule J, Form 1120. On the dotted line to the left of line 10, Schedule J, write "Section



453(l)(3) interest" and the amount. Attach a schedule showing the computation.

**Interest on tax deferred under the installment method for certain nondealer installment obligations.** If an obligation arising from the disposition of property to which section 453A applies is outstanding at the close of the tax year, the corporation must include the interest due under section 453A(c) in the amount on line 10, Schedule J, Form 1120. Write on the dotted line to the left of line 10, Schedule J, "Section 453A(c) interest" and the amount. Attach a schedule showing the computation.

**Interest under the look-back method for completed long-term contracts.** Include the interest due under the look-back method of section 460(b)(2) on line 10 of Schedule J. On the dotted line to the left of the entry space, write "From Form 8697" and the amount of interest due.

**Deferred tax and interest on undistributed earnings of a qualified electing fund under section 1294.** Complete Form 8621 to determine the corporation's share of tax attributable to the undistributed earnings of a qualified electing fund, or the deferred tax due, if any, as a result of the termination of a section 1294 election. See the instructions for Form 8621 to figure the amount of tax to include in, or subtract from the total on line 10. Form 8621 also explains how to report any interest due under section 1294 on the deferred tax.

**Installment payment of tax attributable to LIFO recapture by corporations making an S corporation election.** A corporation making an S corporation election using the LIFO inventory pricing method for its last tax year as a C corporation must include a LIFO recapture amount in income for its last year as a C corporation. The corporation's LIFO recapture amount is equal to the excess of the inventory amount using the FIFO method over the inventory amount using the LIFO method at the close of the corporation's last tax year as a C corporation.

The additional tax resulting from inclusion of the LIFO recapture amount in income is payable in four equal installments. The first installment is due with the return for the electing corporation's last tax year as a C corporation and must be paid by the due date (excluding extensions of time to file).

To determine the additional tax due to LIFO recapture, the corporation must complete lines 1 through 9b of Schedule J based on income that includes the LIFO recapture amount. On a separate worksheet, using the Schedule J format, complete the entire worksheet (lines 1 through 10) based on taxable income not including the LIFO recapture amount. Compare the total of lines 1 through 9b of Schedule J to line 10 of the worksheet.

The difference is the additional tax due to LIFO recapture.

Since the total of lines 1 through 9b of Schedule J will include all the additional tax due to LIFO recapture, the amount that may be deferred ( $\frac{3}{4}$  of the additional tax) must first be subtracted to arrive at line 10 total tax. On the dotted line to the left of line 10, Schedule J, write "Section 1363(d) deferral" and the amount. Attach a schedule showing the computation.

**Note:** *The remaining three installments of deferred tax must be paid by the due date of Form 1120S for the next 3 tax years. No interest is payable on the deferred tax if paid on time.*

**Tax on a nonqualified withdrawal from a capital construction fund.** If the corporation owes tax under section 7518 on a nonqualified withdrawal from a capital construction fund, include the tax and the interest in the total for line 10. On the dotted line next to line 10, write "CCF" and the amounts of tax and interest. For more information, see **Pub. 595**, Tax Guide for Commercial Fishermen.

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## Schedule K, Form 1120 (Part II, Form 1120-A)

### Other Information

The following instructions apply to questions 1 through 15 on Form 1120, page 3, Schedule K, or questions 1 through 6 on Form 1120-A, page 2, Part II. Be sure to answer all of the questions that apply to the corporation.

#### Question 4 (Form 1120 only)

Check the "Yes" box for question 4 if either 1 or 2 below applies to the corporation:

1. The corporation is a subsidiary in an affiliated group (defined below), but is not filing a consolidated return for the tax year with that group.
2. The corporation is a subsidiary in a parent-subsidiary controlled group (defined below).

Any corporation that meets either of the requirements above should check the "Yes" box. This applies even if the corporation is a subsidiary member of one group and the parent corporation of another.

**Note:** *If the corporation is an "excluded member" of a controlled group (see section 1563(b)(2)), it is still considered a member of a controlled group for this purpose.*

**Affiliated group.**—The term "affiliated group" means one or more chains of includible corporations (section 1504(a)) connected through stock ownership with a common parent corporation. The common parent must be an includible corporation

and the following requirements must be met:

1. The common parent must own directly stock that represents at least 80% of the total voting power and at least 80% of the total value of the stock of at least one of the other includible corporations.

2. Stock that represents at least 80% of the total voting power, and at least 80% of the total value of the stock of each of the other corporations (except for the common parent) must be owned directly by at least one of the other includible corporations.

For this purpose, the term "stock" generally does not include any stock that (a) is nonvoting, (b) is nonconvertible, (c) is limited and preferred as to dividends and does not participate significantly in corporate growth, and (d) has redemption and liquidation rights that do not exceed the issue price of the stock (except for a reasonable redemption or liquidation premium). See section 1504(a)(4).

**Parent-subsidiary controlled group.**—The term "parent-subsidiary controlled group" means one or more chains of corporations connected through stock ownership (section 1563(a)(1)). Both of the following requirements must be met:

1. 80% of the total combined voting power of all classes of stock entitled to vote or at least 80% of the total value of all classes of stock of each corporation in the group (except the parent) must be owned by one or more of the other corporations in the group.

2. The common parent must own at least 80% of the total combined voting power of all classes of stock entitled to vote or at least 80% of the total value of all classes of stock of at least one of the other corporations in the group. Stock owned directly by other members of the group is not counted when computing the voting power or value.

See section 1563(d)(1) for the definition of "stock" for purposes of determining stock ownership above.

#### Question 8, Form 1120 (Question 6, Form 1120-A)

**Foreign financial accounts.**—Check the "Yes" box if either 1 or 2 below applies to the corporation. Otherwise, check the "No" box:

1. At any time during the 1994 calendar year the corporation had an interest in or signature or other authority over a bank, securities, or other financial account in a foreign country; and

- The combined value of the accounts was more than \$10,000 at any time during the calendar year, and
- The account was NOT with a U.S. military banking facility operated by a U.S. financial institution.

2. The corporation owns more than 50% of the stock in any corporation that would answer "Yes" to item 1 above.

Get **Form TD F 90-22.1**, Report of Foreign Bank and Financial Accounts, to see if the corporation is considered to have an interest in or signature or other authority over a financial account in a foreign country.

If "Yes" is checked for this question, file Form TD F 90-22.1 by June 30, 1995, with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return, so do not file it with Form 1120.

You can get Form TD F 90-22.1 from an IRS Distribution Center or by calling our toll-free number 1-800-TAX-FORM (1-800-829-3676).

Also, if "Yes" is checked for this question, write the name of the foreign country or countries. Attach a separate sheet if more space is needed.

### Question 10 (Form 1120 only)

Check the "Yes" box if one foreign person owned at least 25% of (a) the total voting power of all classes of stock of the corporation entitled to vote or (b) the total value of all classes of stock of the corporation.

The constructive ownership rules of section 318 apply in determining if a corporation is foreign owned. See section 6038A(c)(5) and the related regulations.

Enter on line 10a the percentage owned by the foreign person specified in question 10. On line 10b, write the name of the owner's country.

**Note:** *If there is more than one 25%-or-more foreign owner, complete lines 10a and 10b for the foreign person with the highest percentage of ownership.*

**Foreign person.**—The term "foreign person" means:

- A foreign citizen or nonresident alien,
- An individual who is a citizen of a U.S. possession (but who is not a U.S. citizen or resident),
- A foreign partnership,
- A foreign corporation,
- Any foreign estate or trust within the meaning of section 7701(a)(31), or
- A foreign government (or one of its agencies or instrumentalities) to the extent that it is engaged in the conduct of a commercial activity as described in section 892.

**Owner's country.**—For individuals, the term "owner's country" means the country of residence. For all others, it is the country where incorporated, organized, created, or administered.

**Requirement to file Form 5472.**—If the corporation checked "Yes" to Question 10, it may have to file **Form 5472**, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Generally, a 25% foreign-owned corporation that had a reportable transaction with a foreign or domestic related party during the tax year must file Form 5472. Form 5472 must be filed by the due date of the corporation's income tax return (including extensions). Attach Form 5472 to the tax return and file a copy of Form 5472 with the Internal Revenue Service Center, Philadelphia, PA 19255.

If the corporation's tax return is not filed when due, Form 5472 must nevertheless be timely filed at the service center where the tax return is due (with a copy to Philadelphia). When the tax return is filed, attach a copy of the previously filed Form 5472.

**Penalties for failure to file Form 5472.**—If a corporation doesn't file Form 5472 as described above, a \$10,000 penalty applies. The penalty also applies for failure to maintain records as required by Regulations section 1.6038A-3. For details, see Form 5472.

### Question 12, Form 1120 (Question 3, Form 1120-A)

Show any tax-exempt interest received or accrued. Include any exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company.

### Question 14 (Form 1120 only)

Check the box on line 14 if the corporation elects under section 172(b)(3) to forego the carryback period for an NOL. If you check this box, do not attach the statement described in Temporary Regulations section 301.9100-12T(d).

### Question 15 (Form 1120 only)

Enter the amount of the net operating loss (NOL) carryover to the tax year from prior years, regardless of whether any of the loss is used to offset income on this return. The amount to enter is the total of all NOLs generated in prior years but not used to offset income (either as a carryback or carryover) to a tax year prior to 1994. Do not reduce the amount by any NOL deduction reported on line 29a.

Pub. 536 has a worksheet for figuring a corporation's NOL carryover.

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## Schedule L, Form 1120 (Part III, Form 1120-A)

### Balance Sheets

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#### Line 5

##### Tax-Exempt Securities

Include on this line:

1. State and local government obligations, the interest on which is excludable from gross income under section 103(a), and
2. Stock in a mutual fund or other regulated investment company that distributed exempt-interest dividends during the tax year of the corporation.

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## Schedule M-1, Form 1120 (Part IV, Form 1120-A)

### Reconciliation of Income (Loss) per Books With Income per Return

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#### Line 5c, Form 1120 (Line 5, Form 1120-A)

##### Travel and Entertainment

Include on line 5c (line 5, Form 1120-A) any of the following:

- 50% of the meals and entertainment not allowed under section 274(n).
  - Expenses for the use of an entertainment facility.
  - The part of business gifts over \$25.
  - Expenses of an individual in excess of \$2,000, which are allocable to conventions on cruise ships.
  - Employee achievement awards over \$400.
  - The cost of entertainment tickets over face value (also subject to 50% disallowance under section 274(n)).
  - The cost of skyboxes over the face value of nonluxury box seat tickets.
  - The part of luxury water travel not allowed under section 274(m).
  - Expenses for travel as a form of education.
  - Other travel and entertainment expenses not allowed as a deduction.
- For more information, see Pub. 542.

#### Line 7, Form 1120 (Line 6, Form 1120-A)

##### Tax-Exempt Interest

Include as interest on line 7 (line 6, Form 1120-A), any exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company.

## Codes for Principal Business Activity

These codes for the Principal Business Activity are designed to classify enterprises by the type of activity in which they are engaged to facilitate the administration of the Internal Revenue Code. Though similar in format and structure to the Standard Industrial Classification (SIC) codes, they should not be used as SIC codes.

Using the list below, enter on Form 1120, Schedule K, line 2a (Form 1120-A, Part II, line 1a) the code number for the specific industry group from which the largest percentage of "total receipts" is derived. "Total receipts" means gross receipts (line 1a, page 1) plus all other income (lines 4 through 10, page 1).

On Form 1120, Schedule K, lines 2b and 2c (Form 1120-A, Part II, lines 1b and 1c), state the principal business activity and principal product or service that account for the largest percentage of total receipts. For example, if the principal business activity is "Grain mill products," the principal product or service may be "Cereal preparations."

If, as its principal business activity, the corporation: (1) purchases raw materials, (2) subcontracts out for labor to make a finished product from the raw materials, and (3) retains title to the goods, the corporation is considered to be a manufacturer and must enter one of the codes (2010-3998) under "Manufacturing."

### Agriculture, Forestry, and Fishing

**Code**  
0400 Agricultural production  
0600 Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping

### Mining

**Metal mining**  
1010 Iron ores  
1070 Copper, lead and zinc, gold and silver ores  
1098 Other metal mining  
1150 Coal mining  
**Oil and gas extraction**  
1330 Crude petroleum, natural gas, and natural gas liquids  
1380 Oil and gas field services  
**Nonmetallic minerals, except fuels**  
1430 Dimension, crushed and broken stone; sand and gravel  
1498 Other nonmetallic minerals, except fuels

### Construction

**General building contractors and operative builders**  
1510 General building contractors  
1531 Operative builders  
**1600 Heavy construction contractors**  
**Special trade contractors**  
1711 Plumbing, heating, and air conditioning  
1731 Electrical work  
1798 Other special trade contractors

### Manufacturing

**Food and kindred products**  
2010 Meat products  
2020 Dairy products  
2030 Preserved fruits and vegetables  
2040 Grain mill products  
2050 Bakery products  
2060 Sugar and confectionary products  
2081 Malt liquors and malt  
2088 Alcoholic beverages, except malt liquors and malt  
2089 Bottled soft drinks, and flavorings  
2096 Other food and kindred products  
**2100 Tobacco manufacturers**  
**Textile mill products**  
2228 Weaving mills and textile finishing  
2250 Knitting mills  
2298 Other textile mill products  
**Apparel and other textile products**  
2315 Men's and boys' clothing  
2345 Women's and children's clothing  
2388 Other apparel and accessories  
2390 Miscellaneous fabricated textile products  
**Lumber and wood products**  
2415 Logging, sawmills, and planing mills  
2430 Millwork, plywood, and related products  
2498 Other wood products, including wood buildings and mobile homes  
**2500 Furniture and fixtures**

### Code

**Paper and allied products**  
2625 Pulp, paper, and board mills  
2699 Other paper products  
**Printing and publishing**  
2710 Newspapers  
2720 Periodicals  
2735 Books, greeting cards, and miscellaneous publishing  
2799 Commercial and other printing, and printing trade services  
**Chemicals and allied products**  
2815 Industrial chemicals, plastics materials, and synthetics  
2830 Drugs  
2840 Soap, cleaners, and toilet goods  
2850 Paints and allied products  
2898 Agricultural and other chemical products  
**Petroleum refining and related industries (including those integrated with extraction)**  
2910 Petroleum refining (including integrated)  
2998 Other petroleum and coal products  
**Rubber and misc. plastics products**  
3050 Rubber products, plastics footwear, hose and belting  
3070 Misc. plastics products  
**Leather and leather products**  
3140 Footwear, except rubber  
3198 Other leather and leather products  
**Stone, clay, and glass products**  
3225 Glass products  
3240 Cement, hydraulic  
3270 Concrete, gypsum, and plaster products  
3298 Other nonmetallic mineral products  
**Primary metal industries**  
3370 Ferrous metal industries; misc. primary metal products  
3380 Nonferrous metal industries  
**Fabricated metal products**  
3410 Metal cans and shipping containers  
3428 Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products  
3430 Plumbing and heating, except electric and warm air  
3440 Fabricated structural metal products  
3460 Metal forgings and stampings  
3470 Coating, engraving, and allied services  
3480 Ordnance and accessories, except vehicles and guided missiles  
3490 Misc. fabricated metal products  
**Machinery, except electrical**  
3520 Farm machinery  
3530 Construction and related machinery  
3540 Metalworking machinery  
3550 Special industry machinery  
3560 General industrial machinery  
3570 Office, computing, and accounting machines  
3598 Other machinery except electrical

### Code

**Electrical and electronic equipment**  
3630 Household appliances  
3665 Radio, television, and communication equipment  
3670 Electronic components and accessories  
3698 Other electrical equipment  
**3710 Motor vehicles and equipment**  
**Transportation equipment, except motor vehicles**  
3725 Aircraft, guided missiles and parts  
3730 Ship and boat building and repairing  
3798 Other transportation equipment, except motor vehicles  
**Instruments and related products**  
3815 Scientific instruments and measuring devices; watches and clocks  
3845 Optical, medical, and ophthalmic goods  
3860 Photographic equipment and supplies  
**3998 Other manufacturing products**

### Transportation and Public Utilities

**Transportation**  
4000 Railroad transportation  
4100 Local and interurban passenger transit  
4200 Trucking and warehousing  
4400 Water transportation  
4500 Transportation by air  
4600 Pipe lines, except natural gas  
4700 Miscellaneous transportation services  
**Communication**  
4825 Telephone, telegraph, and other communication services  
4830 Radio and television broadcasting  
**Electric, gas, and sanitary services**  
4910 Electric services  
4920 Gas production and distribution  
4930 Combination utility services  
4990 Water supply and other sanitary services

### Wholesale Trade

**Durable**  
5008 Machinery, equipment, and supplies  
5010 Motor vehicles and automotive equipment  
5020 Furniture and home furnishings  
5030 Lumber and construction materials  
5040 Sporting, recreational, photographic, and hobby goods, toys and supplies  
5050 Metals and minerals, except petroleum and scrap  
5060 Electrical goods  
5070 Hardware, plumbing and heating equipment and supplies  
5098 Other durable goods  
**Nondurable**  
5110 Paper and paper products  
5129 Drugs, drug proprietaries, and druggists' sundries  
5130 Apparel, piece goods, and notions  
5140 Groceries and related products  
5150 Farm-product raw materials  
5160 Chemicals and allied products  
5170 Petroleum and petroleum products  
5180 Alcoholic beverages  
5190 Misc. nondurable goods

### Retail Trade

**Building materials, garden supplies, and mobile home dealers**  
5220 Building materials dealers  
5251 Hardware stores  
5265 Garden supplies and mobile home dealers  
**5300 General merchandise stores**  
**Food stores**  
5410 Grocery stores  
5490 Other food stores  
**Automotive dealers and service stations**  
5515 Motor vehicle dealers  
5541 Gasoline service stations  
5598 Other automotive dealers  
**5600 Apparel and accessory stores**  
**5700 Furniture and home furnishings stores**

### Code

**5800 Eating and drinking places**  
**Misc. retail stores**  
5912 Drug stores and proprietary stores  
5921 Liquor stores  
5995 Other retail stores  
**Finance, Insurance, and Real Estate**  
**Banking**  
6030 Mutual savings banks  
6060 Bank holding companies  
6090 Banks, except mutual savings banks and bank holding companies  
**Credit agencies other than banks**  
6120 Savings and loan associations  
6140 Personal credit institutions  
6150 Business credit institutions  
6199 Other credit agencies  
**Security, commodity brokers and services**  
6210 Security brokers, dealers, and flotation companies  
6299 Commodity contracts brokers and dealers; security and commodity exchanges; and allied services  
**Insurance**  
6355 Life insurance  
6356 Mutual insurance, except life or marine and certain fire or flood insurance companies  
6359 Other insurance companies  
6411 Insurance agents, brokers, and service  
**Real estate**  
6511 Real estate operators and lessors of buildings  
6516 Lessors of mining, oil, and similar property  
6518 Lessors of railroad property and other real property  
6530 Condominium management and cooperative housing associations  
6550 Subdividers and developers  
6599 Other real estate  
**Holding and other investment companies, except bank holding companies**  
6744 Small business investment companies  
6749 Other holding and investment companies except bank holding companies  
**Services**  
**7000 Hotels and other lodging places**  
**7200 Personal services**  
**Business services**  
7310 Advertising  
7389 Business services, except advertising  
**Auto repair; misc. repair services**  
7500 Auto repair and services  
7600 Misc. repair services  
**Amusement and recreation services**  
7812 Motion picture production, distribution, and services  
7830 Motion picture theaters  
7900 Amusement and recreation services, except motion pictures  
**Other services**  
8015 Offices of physicians, including osteopathic physicians  
8021 Offices of dentists  
8040 Offices of other health practitioners  
8050 Nursing and personal care facilities  
8060 Hospitals  
8071 Medical laboratories  
8099 Other medical services  
8111 Legal services  
8200 Educational services  
8300 Social services  
8600 Membership organizations  
8911 Architectural and engineering services  
8930 Accounting, auditing, and bookkeeping  
8980 Miscellaneous services (including veterinarians)

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