



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 this form to carry out the Internal Revenue laws of the United States. You are required to give us this 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), and Sch. PH (1120).

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms more simple, we would be happy to hear from you. You can write to both the Internal Revenue Service, Washington, DC 20224, Attention: IRS Reports Clearance Officer, T:FP; 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.

Voluntary Contributions To Reduce the Public Debt

A corporation may make a contribution to reduce the public debt. If the corporation wishes 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.

Table listing various forms and schedules with their corresponding page numbers: Schedule A and Cost of Goods Sold Worksheet (11), Schedule C (11), Schedule J (13), Schedule K (15), Schedule L (15), Schedule M-1 (15), Codes for Principal Business Activity (17), Index (18).

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Avoid Common Mistakes

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

- 1. 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.
2. Unless the corporation changed its name since it last filed, enter the name the way it appeared on the last filed return.
3. Enter the correct employer identification number (EIN) in item B if you are not using the label.
4. Enter total assets in item D.
5. If you are reporting gross receipts or sales on line 1, complete lines 1a, 1b, and 1c.

6. If you are reporting salaries and wages on line 13, complete lines 13a, 13b, and 13c.

7. Complete line 32d (line 28d, Form 1120-A).

8. 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 your business activity code number on Schedule K, line 2a (Part II, line 1a, Form 1120-A).

10. To avoid interest and penalties, file your return on time and pay any tax when due. See pages 3 and 4.

Important Change

Enhanced Oil Recovery Credit.—Corporations may take a credit on Form 8830, Enhanced Oil Recovery Credit, for 15% of qualified enhanced oil recovery costs paid or incurred in tax years beginning after 1990. These costs generally include amounts paid or incurred in connection with a qualified enhanced oil recovery project for:

- Certain tangible property for which the corporation can claim a deduction for depreciation or amortization,
• Intangible drilling and development costs eligible for the election under section 263(c) or required to be capitalized under section 291(b)(1), and
• Qualified tertiary injectant expenses for which a deduction is allowed under section 193.

If a corporation takes this credit, limitations apply to amounts otherwise deductible (or required to be capitalized and recovered through depreciation, depletion, or amortization), that were used in figuring the credit. For more information, see section 43 and Form 8830.

General Instructions

Note: In addition to the publications listed throughout these instructions, taxpayers may wish to get: Pub. 534, Depreciation; Pub. 535, Business Expenses; and Pub. 542, Tax Information on Corporations.

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.

Filing Requirements

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 more nearly resembles a corporation than a partnership or trust, it will be considered an association taxed as a corporation.*

### Who May File Form 1120-A

Form 1120-A may be filed by a corporation if it meets **all** of the following requirements:

- Its gross receipts (line 1a, page 1) must be under \$500,000.
- Its total income (line 11, page 1) must be under \$500,000.
- Its total assets (line 12, column (b), Part III on page 2) must be 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 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
Foreign corporation (other than life and property and casualty insurance company filing Form 1120L or 1120-PC)	<b>1120F</b>
Foreign sales corporation (sec. 922)	<b>1120-FSC</b>
Life insurance company (sec. 801)	<b>1120L</b>
Property and casualty insurance company (sec. 831)	<b>1120-PC</b>
Farmers' cooperative (sec. 1381)	<b>990-C</b>
Exempt organization with unrelated trade or business income	<b>990-T</b>
S corporation (sec. 1361)	<b>1120S</b>
Interest charge domestic international sales corporation (sec. 992)	<b>1120-IC-DISC</b>
Political organization (sec. 527)	<b>1120-POL</b>
Condominium management association or residential real estate management association that elects to be treated as a homeowners association under sec. 528	<b>1120-H</b>
Fund set up to pay for nuclear decommissioning costs (sec. 468A)	<b>1120-ND</b>
Designated settlement fund (sec. 468B)	<b>1120-DF</b>
Real estate investment trust (sec. 856)	<b>1120-REIT</b>
Entity that elects to be treated as real estate mortgage investment conduit (REMIC) under sec. 860D	<b>1066</b>
Regulated investment company (sec. 851)	<b>1120-RIC</b>

### 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.

**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.

If the principal office of the managing corporation of a group of corporations located in several service center regions keeps all the books and records, the income tax returns of the corporations may be filed with the service center for the 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. A receiver, trustee, or assignee must sign and date any return required to be filed on behalf of a corporation.

If a corporate officer filled in the corporate tax return, the Paid Preparer's space under "Signature of officer" should remain blank. If someone prepares the tax return and does not charge the corporation, that person should not sign the return. Certain others who prepare the tax return should not sign. For example, a regular, full-time employee of the corporation, such as a clerk, secretary, etc., should not sign.

Generally, anyone who is paid to prepare the tax return must sign it and fill in the other blanks in the Paid Preparer's Use Only area of the return.

The preparer required to sign the return **must** complete the required preparer information and:

- Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps or labels are not acceptable.)
- Give a copy of the tax return to the taxpayer in addition to the copy filed with the IRS.

## Figuring and Paying the Tax

### Accounting Information

**Accounting methods.**—Taxable income must be computed using the method of accounting regularly used in keeping the corporation's books and records. In all cases, the method adopted must clearly reflect taxable income. See section 446.

Generally, corporations engaged in farming operations must use the accrual method of accounting. See section 447 for exceptions.

Generally, corporations (other than qualified personal service corporations) are required to use the accrual method of accounting if their average annual gross receipts are more than \$5 million. See section 448(c). A corporation changing to the accrual method because of this provision must complete **Form 3115**, Application for Change in Accounting Method, and attach it to Form 1120 for the year of change. The corporation must also show on a statement accompanying Form 3115 the period over which the section 481(a) adjustment will be taken into account and the basis for that conclusion. See section 448 and Temporary Regulations sections 1.448-1T(g) and 1.448-1T(h) for more information. Include the amount reportable as income in 1991 under section 481(a) on line 10, page 1.

Unless the law specifically permits otherwise, the corporation may change the method of accounting used to report taxable income in earlier years (for income as a whole or for any material item) only by first getting consent on Form 3115. Also see **Pub. 538**, Accounting Periods and Methods.

The percentage of completion method, including the look-back method under section 460(b), is generally the only permissible method of accounting for

long-term contracts entered into after July 10, 1989.

Certain contracts, including real property construction contracts, may continue to be accounted for under the permissible methods of accounting for long-term contracts under prior law. However, an election can be made not to recognize income under a long-term contract and not to take into account any costs allocable to the long-term contract if less than 10% of the estimated total contract costs have been incurred as of the end of the tax year. See section 460(b)(5) for more details. An election to use the 10% method will apply to all long-term contracts entered into during the tax year the election is made and to any later tax year.

See section 460; Notice 87-61, 1987-2 C.B. 370; Notice 88-66, 1988-1 C.B. 552; and Notice 89-15, 1989-1 C.B. 634 for more information.

### 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 adopt 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 in accordance with 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 8716)**, Section 280H Limitations for a Personal Service Corporation (PSC), to figure the required minimum distributions and the maximum deductible amount, if applicable.

**Timing change in deducting accrued expenses.**—Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year that **(1)** all events have occurred that determine the liability and **(2)** the amount of the liability can be figured with reasonable accuracy. However, the events that establish liability for the amount are generally treated as occurring only when economic performance takes place. There are exceptions for recurring items. See section 461(h).

**Rule of 78's.**—Taxpayers are reminded that, generally, the Rule of 78's is not an acceptable method for computing interest income and expense. Anyone using the Rule of 78's should see Rev. Procs. 84-27, 84-28, 84-29, and 84-30 (1984-1 C.B.) to change their method.

### Rounding Off to Whole-Dollars

The corporation may show the money items on the return and accompanying schedules as whole-dollar amounts. 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.

### Depository Method of Tax Payment

The corporation must pay the tax due in full when the return is filed but 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 a Federal Tax Deposit Coupon (**Form 8109**). Do not submit deposits directly to an IRS office. Mail or deliver the completed Federal Tax Deposit Coupon (Form 8109) and the payment to a qualified depository for Federal taxes or to the Federal Reserve bank (FRB) servicing your geographic area. Make checks or money orders payable to that depository or FRB. To help ensure proper crediting to your account, write your employer identification number, "Form 1120," and the tax period to which the deposit applies on your check or money order. Be sure to darken the "1120" box on the coupon. Records of deposits will be sent to the IRS for crediting to the corporation's account.

A penalty may be imposed for failure to deposit the required amount of tax. See section 6656. This penalty may also apply if you mail or deliver deposits to IRS offices rather than to authorized depositories or FRBs.

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

### Backup Withholding

If the corporation has had income tax withheld from any payments it received because, for example, it failed to give the payer its correct employer identification number, it may claim a credit on Form 1120 (or 1120-A) for the total amount withheld. 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, page 1, and label the amount as "backup withholding." Also include the amount in the total for line 32h. On Form 1120-A, show the amount withheld on the dotted line to the left of line 28h, page 1, and label the amount as "backup withholding." Also include the amount in the total for line 28h.

### 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, substitute the next regular workday. Use **Form 1120-W**, Corporation Estimated Tax, as a worksheet to compute estimated tax. Use the deposit coupons (Forms 8109) to make deposits of estimated tax.

If a 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.

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 the 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 fails to file its return when due (including extensions of time for filing) may be subject to 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 taxpayer can show that failure to file a timely return is due to reasonable cause. Those filing late (after the due date, including extensions), must attach a statement to the return explaining the reasonable cause.

**Late payment of tax.**—The penalty for late payment of taxes is usually 1/2 of 1% of the unpaid tax for each month or part of a month the tax is unpaid. The penalty cannot exceed 25% of the amount due. This penalty may also apply to any additional tax not paid within 10 days of the date of the notice and demand for payment.

**Estimated tax penalty.**—A corporation that fails to make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. In general, to avoid the estimated tax penalty, the corporation must make estimated tax payments of at least the smaller of 90% of the tax shown on the return or 100% of its prior year's tax. See section 6655 for details and exceptions.

**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:

- The annualized income or adjusted seasonal installment method is used, or
- The corporation is a "large corporation" computing its first required installment based on the prior year's tax. (See the instructions for Form 2220 for the definition of a "large corporation.")

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

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

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

### Forms

The corporation may have to file any of the following:

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

**Form 720**, Quarterly Federal Excise Tax Return. Use Form 720 to report a 10% excise tax that applies to the first retail sale of the following items sold after December 31, 1990, to the extent the sales price exceeds the amounts shown: (1) passenger vehicles, \$30,000; (2) boats and yachts, \$100,000; (3) aircraft, \$250,000; and (4) jewelry and furs, \$10,000. Form 720 is also used to report environmental excise taxes, communications and air transportation taxes, fuel taxes, manufacturers taxes, ship passenger tax, and certain other excise taxes.

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

**Forms 1042 and 1042S**, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, and 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, DIV, INT, MISC, OID, PATR, R, and S**. Information returns for reporting abandonments, acquisitions through foreclosure, proceeds from broker and barter exchange transactions, 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 Form 1099 and **Pub. 937**, Business Reporting.

**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 account.

**Form 5713**, International Boycott Report, for persons having operations in or related to "boycotting" countries. In addition, 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 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.

**Form 8594**, Asset Acquisition Statement, is to 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 entered into after February 28, 1986, that are accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method.

The look-back method also applies to the new 10% method for long-term contracts entered into after July 10, 1989, and accounted for under the percentage of completion method. Attach Form 8697 to the tax return if the corporation owes interest but not if interest is to be refunded. See the instructions for Form 8697.

**Form 8810**, Corporate Passive Activity Loss and Credit Limitations. Closely held corporations and personal service corporations, which 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.

## 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. 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.

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 required statement to Form 1120 if the corporation owned 5% or more in value of the outstanding stock of a foreign personal holding company and the corporation was required to include in its gross income any undistributed foreign personal holding company income from a foreign personal holding company. See section 551(c).

A corporation that controls a foreign corporation, or that is a 10%-or-more shareholder of a controlled foreign corporation, or acquires, disposes of, or owns 5% or more ownership in the outstanding stock of a foreign corporation, may have to file **Form 5471**, Information Return of U.S. Persons With Respect to Certain Foreign Corporations.

A domestic corporation controlled by a foreign person or a foreign corporation that is engaged in a trade or business in the United States may have to file **Form 5472**, Information Return of a Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business.

**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 attach to their respective tax returns the information required by Regulations section 1.351-3.

## Attachments

Attach **Form 4136**, Credit for Federal Tax on Fuels, after page 4, Form 1120, or page 2, Form 1120-A. Attach schedules in alphabetical order and other forms in numerical order after the Form 4136.

Please complete every applicable entry space on Form 1120. Do not attach statements and write "See attached" instead of completing the entry spaces.

If more space is needed on the forms or schedules, attach separate sheets showing at the top of each attachment the form number or schedule letter of

the form or schedule being continued. Also, show the information called for on the form in the same order as on the printed forms. **Be sure to show totals on the printed forms.** Please use sheets that are the same size as the forms and schedules. Attach these separate sheets after all the schedules and forms. Also, put the corporation's name and employer identification number (EIN) on each sheet.

## Specific Instructions

**Period covered.**—File the 1991 return for calendar year 1991 and fiscal years that begin in 1991 and end in 1992. For a fiscal year, fill in the tax year space at the top of the form.

**Note:** *The 1991 Form 1120 may also be used if: (1) the corporation has a tax year of less than 12 months that begins and ends in 1992; and (2) the 1992 Form 1120 is not available by the time the corporation is required to file its return. However, the corporation must show its 1992 tax year on the 1991 Form 1120 and incorporate any tax law changes that are effective for tax years beginning after December 31, 1991.*

**Address.**—Include the suite, room, or other unit number after the street address. If a preaddressed label is used, please 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 P.O. box number instead of the street address.

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

**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, except for a new corporation (a corporation in its first tax year). The testing period for a new corporation 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 of the taxpayer that are treated as the performance of personal services are limited to activities of the taxpayer 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 B—Employer identification number.**—If the employer identification number (EIN) on the label is wrong or if the corporation did not receive a label, enter the correct number at the top of the return.

A corporation that does not have an EIN should apply for one on **Form SS-4**, Application for Employer Identification Number. This form may be obtained from most IRS and Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center to which Form 1120 or Form 1120-A is mailed. If the EIN has not been received by the filing time for the corporation return, write "Applied for" in the space for the EIN.

For more information concerning an EIN, see Pub. 583.

**Item D—Total assets.**—Enter the total assets of the corporation. 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 in 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 in 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. See section 453(l) for details and exceptions. For dealer dispositions of property before March 1, 1986, dispositions of property used or produced in the trade or business of farming, and certain dispositions of timeshares and residential lots reported under the installment method, enter on line 1 the gross profit on collections from installment sales and carry the same amount to line 3. Attach a schedule showing the following for the current year 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 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 basis 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 first complete Schedule A on page 2 of Form 1120. Form 1120-A filers may use the worksheet on page 11 to figure the amount to enter on line 2. Both Form 1120 and Form 1120-A filers should see the instructions on page 11.

### Line 4

#### Dividends

**Form 1120 filers.**—Complete Schedule C and enter 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 18, Part II, **Form 4797**, Sales of Business Property.

## Line 10 Other Income

Enter any other taxable income not listed above, and explain its nature on an attached schedule. Examples of other income 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; and 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's taxes with tax refunds.

If "other income" consists of only one item, describe it in parentheses on line 10.

# Deductions

## Limitations on Deductions

**Section 263A uniform capitalization rules.**—The uniform capitalization rules of section 263A require corporations to capitalize or include in inventory certain costs incurred in connection with the production of real and personal tangible property held in inventory or held for sale in the ordinary course of business. Tangible personal property produced by a taxpayer includes a film, sound recording, videotape, book, or similar property. The rules also apply to personal property (tangible and intangible) acquired for resale. Taxpayers 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 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 taxpayer 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. Temporary Regulations section 1.263A-1T 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 Temporary Regulations section 1.263A-1T.

**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(j) and 267 for limitation on deductions for unpaid expenses and interest.

**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 closely held corporations (defined below) and personal service corporations as defined in Temporary Regulations section 1.441-4T (see **Item A—Personal service corporation**, on page 6.) A corporation is a closely held corporation for this purpose 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)).

There are two kinds of passive activities: trade or business activities in which the corporation did not materially participate for the tax year, and rental activities regardless of its participation. 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 or experimental expenditures 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. Temporary Regulations section 1.469-1T(g)(3) defines material participation of corporations.

Corporations subject to the passive activity limitations must complete **Form 8810**, Corporate Passive Activity Loss and Credit Limitations, 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 temporary regulations thereunder, and **Pub. 925**, Passive Activity and At-Risk Rules.

## Line 12

### Compensation of Officers

Besides entering officers' compensation on line 12, filers of Form 1120 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.

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.

## Line 13

### Salaries and Wages

Enter the amount of total salaries and wages paid or incurred for the tax year. 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 that you claimed on lines 20 and 26, Form 1120, or lines 20 and 22, Form 1120-A.*

Enter on line 13b the amount of jobs credit from **Form 5884**, Jobs Credit.

## Line 14

### Repairs

Enter the cost of incidental repairs 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.

## 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**. You 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 12/31/90 . . . . .		\$13,400
After 12/31/86 but before 1/1/91 . . . . .		\$12,800
After 4/2/85 but before 1/1/87 . . . . .		\$28,000
After 6/18/84 but before 4/3/85 . . . . .		\$40,500

See **Pub. 917**, Business Use of a Car, for instructions on how to figure the inclusion amount.

## Line 17

### Taxes

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

1. Federal income taxes (except the environmental tax under section 59A);
2. Foreign or U.S. possession income taxes if a tax credit is claimed;
3. Taxes not imposed on the corporation; or
4. 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).

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 1991 prepaid interest allocable to any period after 1991 can deduct only the amount allocable to 1991.

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

See section 163(e)(5), which provides 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 regarding the deductibility of foregone interest on certain below-market rate loans.

## Line 19

### 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.

Taxable income is modified in order to determine the amount of an NOL used in an intervening year (i.e., a year to which an NOL is carried but not fully absorbed). For this purpose, taxable income is computed by determining the NOL deduction for the year without regard to the NOL for the loss year or any later year. See section 172(b)(2). To the extent charitable 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 to the return a declaration, 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.

If a contribution is in property other than money and the total claimed deduction of all such property contributed exceeds \$500, corporations (except closely held and personal service corporations) must attach a schedule 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.

Also, a corporation must keep records, as required by the regulations for section 170, for all of its charitable contributions.

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 furthered 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 further information, see section 170(e).

## Line 20 Depreciation

Besides depreciation, include on line 20 the part of the cost (up to \$10,000) that the corporation elected to expense for certain tangible property placed in service during tax year 1991 or carried over from 1990. See the instructions for **Form 4562**, Depreciation and Amortization.

## 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 more information.

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 pension, profit-sharing, or other funded deferred compensation plans. Employers who maintain such a plan generally are required to 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 no deduction is claimed 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 5500EZ.**—Complete this form for a one-participant plan.

## Line 25 (Form 1120 only) Employee Benefit Programs

Enter the amount of 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

Attach a separate sheet listing 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 taken 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:

1. Paid in cash directly to the plan participants or beneficiaries;
2. 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
3. Used to make payments on a loan described in section 404(a)(9).

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

Generally, a deduction may not be taken for the amount of any item or part thereof allocable to a class of exempt income. See section 265(b) for exceptions.

Generally, the corporation can deduct only 80% of the amount otherwise allowable for meals and entertainment expenses paid or incurred in its trade or business. In addition, 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. See section 274 and **Pub. 463**, Travel, Entertainment, and Gift Expenses, for details.

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 the expense if the amount is treated as compensation and reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.*

**Note:** *Do not deduct penalties such as those listed under **Interest and Penalties** on page 4.*

### **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 (defined under **Passive activity limitations** on page 7) engaged in any activity as a trade or business or for the production of income. Such 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 (1) holding real property placed in service by the taxpayer before 1987; (2) equipment leasing under sections 465(c)(4), (5), and (6); and (3) 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, one or more 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**

The "net operating loss deduction" is the amount of the net operating loss (NOL) carryovers and carrybacks that can be deducted in the tax year. See section 172(a). If this deduction is taken, explain its computation on an attached schedule.

Generally, a corporation may carry an NOL back to each of the 3 years preceding the year of the loss and carry it over to each of the 15 years following the year of the loss. Personal service corporations are not permitted to carry back an NOL to or from any tax year to which a section 444 election applies.

A corporation may carry back 10 years the part of the NOL attributable to a product liability loss (section 172(b)(1)(C)). See Regulations section 1.172-13(c) for the required statement that must be attached to Form 1120 when claiming the 10-year carryback on product liability losses.

There is also an available election to carry an NOL over to just each of the 15 years following the year of the loss. The election may be made by attaching a statement to a return that is filed on time (including extensions). The election is irrevocable. Section 172(b)(1) describes types of losses for which the 15-year carryover period does not apply. Also see section 172(b)(1)(E) for special rules for a corporation with an excess interest loss if the corporation had an equity reduction interest loss for any loss limitation year ending after August 2, 1989.

After applying the NOL to the first tax year to which it may be carried, the

portion of the loss the corporation may carry to each of the remaining tax years is the excess, if any, of the loss over the sum of the modified taxable income for each of the prior tax years to which the corporation may carry the loss. See section 172(b).

If there is a carryback of an NOL, net capital loss, or an unused credit, file **Form 1139**, Corporation Application for Tentative Refund, within 12 months after the close of the tax year for a "quick refund" of taxes. See section 6411.

**Caution:** *Do not attach Form 1139 to the corporation's income tax return. Mail it in a separate envelope and file it with the service center where the corporation files its income tax return.*

For carryback claims filed later than 12 months after the end of the tax year, file Form 1120X instead of Form 1139.

See section 172 for special rules, limitations, and definitions pertaining to NOL carrybacks and carryovers. Also see **Pub. 536**, Net Operating Losses.

See section 382 for the limitation on the amount of taxable income of a loss corporation for any tax year ending after a post-1986 ownership change that may be offset by pre-change NOL carryovers. 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.

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

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

#### **Special Deductions**

**Form 1120 filers.**—See the Instructions for Schedule C on page 11.

**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. For this purpose, 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 32g, Form 1120 (Line 28g, Form 1120-A)**

Include on line 32g (line 28g, Form 1120-A) any credit the corporation is claiming under section 4682(g)(3) for ozone-depleting chemicals used in the manufacture of rigid foam insulation. Write "ODC" to the left of the entry space.

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

If the corporation has backup withholding, read **Backup Withholding** on page 4 to see how to report this amount. Include any backup withholding in the total for line 32h, Form 1120 (line 28h, Form 1120-A).

**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 on this page. The instructions for lines 4a through 6 below apply to both Schedule A and the worksheet.

**Inventory valuation methods.—**

Inventories can be valued at (1) cost; (2) cost or market value (whichever is lower); or (3) any other method that is approved by the Commissioner, and that conforms to the provisions of the applicable regulations cited below.

Taxpayers using erroneous valuation methods must change to a method permitted for Federal income tax purposes. Make the change by filing Form 3115. For more information about the change, see Regulations section 1.446-1(e)(3) and Rev. Proc. 84-74, 1984-2 C.B. 736 as modified by Rev. Proc. 88-15, 1988-1 C.B. 683.

On line 8a of Schedule A (Form 1120 only), check the method(s) used for valuing inventories. Under "lower of cost or market," the term *market* generally applies 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.

For more requirements, see Regulations section 1.471-4.

Inventory may be valued below cost when the merchandise is: (1) unusable at normal prices, or (2) unusable in the normal way because the goods are "subnormal" (i.e., because of damage, imperfections, shop wear, etc.) within the meaning of Regulations section 1.471-2(c). The goods may be valued at a current bona fide selling price, minus direct cost of disposition (but not less than scrap value) if such a price can be established. See Regulations section 1.471-2(c) for more requirements.

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 8b of Schedule A (Form 1120 only). Enter the amount or percent of total closing inventories covered under section 472 on line 8c. Estimates are acceptable.

If the corporation changed or extended its inventory method to LIFO and had to "write up" its opening inventory to cost in the year of election, report the effect of this 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:** *If inventories are not an income-determining factor, enter -0- on lines 1 and 6 of Schedule A or the worksheet below.*

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

**Line 4a.**—An entry is required on this line only for corporations that have elected a simplified method of accounting. In the case of taxpayers that have elected the simplified production method, additional section 263A costs are generally those costs, other than interest, that were not capitalized or included in the inventory costs under the taxpayer's method of accounting immediately prior to the effective date in Temporary Regulations section 1.263A-1T, but that are now required to be capitalized under section 263A. In the case of taxpayers that have elected a 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). Enter on line 4a the balance of section 263A costs paid or incurred during the tax year not included on lines 2 and 3. See Temporary Regulations section 1.263A-1T for more information.

**Line 4b.**—Enter on line 4b any costs paid or incurred during the tax year not entered on lines 2 through 4a.

**Line 6.**—See Temporary Regulations section 1.263A-1T for more information on computing the amount of additional section 263A costs to be capitalized and added to ending inventory.

**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 being eligible for the 70% deduction and certain dividends of Federal Home Loan Banks. See section 246(a)(2).

For dividends received from a regulated investment company, see section 854 for the amount subject to the 70% deduction.

So-called dividends or earnings received from mutual savings banks, etc., are really 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 designated as being 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).

**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 that 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:

- 1. All of its outstanding stock is owned (directly or indirectly) by the domestic corporation receiving the dividends, and
- 2. 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 of column (c) may not exceed the amount from the worksheet below. 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.

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

- 1. Refigure line 28, page 1, Form 1120, 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) . . . . .
- 2. Complete lines 10, 11, and 12 of column (c) and enter the sum of those lines . . . . .
- 3. Subtract line 2 from line 1 . . . . .
- 4. Multiply the amount on line 3 by 80% . . . . .
- 5. Enter the sum of the amounts on lines 2, 5, 7, and 8 of column (c) and the portion of the deduction on line 3 of column (c) that is attributable to dividends received from 20%-or-more-owned corporations . . . . .
- 6. Enter the smaller of line 4 or line 5. (Do not complete the rest of this worksheet if line 5 is greater than line 4. Instead, enter the amount from line 6 on line 9 of column (c).) . . . . .
- 7. Enter the total amount of dividends received from 20%-or-more-owned corporations and included on lines 2, 3, 5, 7, and 8 of column (a) . . . . .
- 8. Subtract line 7 from line 3 . . . . .
- 9. Multiply line 8 by 70% . . . . .
- 10. Subtract line 5 above from line 9 of column (c) . . . . .
- 11. Enter the smaller of line 9 or line 10, . . . . .
- 12. Dividends-received deduction after limitation (sec. 246(b)). Add lines 6 and 11 and enter the result on line 9, column (c) . . . . .

**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).

**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.

**Line 13, Column (a)**

Enter foreign dividends not reportable on lines 3, 6, 7, 8, or 11 of column (a). 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 of amounts reported on Schedule I of 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 being 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) 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:

(a) if the corporation held it 45 days or less (see section 246(c)(1)(A)), or

(b) 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 41.176% of the lesser of:

1. Dividends paid on their preferred stock during the tax year, or
2. 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)**

Members of a controlled group should use the **Worksheet for Members of a Controlled Group** on this page to figure their tax. Qualified personal service corporations should see the instructions below the **Tax Rate Schedule** to figure their tax.

All other corporations should figure the tax to enter on line 3 (line 1, Form 1120-A) using the tax rate schedule below.

**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	- - - -	<b>34%</b>	0

**Qualified personal service corporations.**—A qualified personal service corporation is taxed at a flat rate of 34% on taxable income. For this purpose, a qualified personal service corporation is any corporation (a) substantially all of the activities of which involve the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting, and (b) at least 95% of the stock of which is owned by employees performing the services, retired employees who had performed the services listed above, any estate of an employee or retiree described above, or any person who acquired the stock of the corporation as a result of the death of an employee or retiree described above, if the acquisition occurred within 2 years of death. See Temporary Regulations section 1.448-1T(e) for details.

**Note:** If the corporation is a qualified personal service corporation, be sure to 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 and one \$25,000 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 part of the amount in each taxable income bracket apportioned to that member. There are other requirements as well. See Regulations section 1.1561-3(b) for the requirements and for the time and manner of making the consent.

**Equal apportionment plan.** If no apportionment plan is adopted, the members of the 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, both Corporation A and Corporation B are entitled to \$25,000 (one-half of \$50,000) in the \$50,000 taxable income bracket on line 2a(i) and to \$12,500 (one-half of \$25,000) in the \$25,000 taxable income bracket on line 2a(ii).

**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 between 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.

**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) . . . . . \_\_\_\_\_
2. Enter line 1 or the corporation's share of the \$50,000 taxable income bracket, whichever is less . . . . . \_\_\_\_\_
3. Subtract line 2 from line 1 . . . . . \_\_\_\_\_
4. Enter line 3 or the corporation's share of the \$25,000 taxable income bracket, whichever is less . . . . . \_\_\_\_\_
5. Subtract line 4 from line 3 . . . . . \_\_\_\_\_
6. Enter 15% of line 2 . . . . . \_\_\_\_\_
7. Enter 25% of line 4 . . . . . \_\_\_\_\_
8. Enter 34% of line 5 . . . . . \_\_\_\_\_
9. If the taxable income of the controlled group exceeds \$100,000, enter this member's share of the **smaller** of:  
(a) 5% of the excess over \$100,000, or  
(b) \$11,750.  
(See instructions for additional 5% tax, below.) . . . . . \_\_\_\_\_
10. Total of lines 6 through 9. Enter this amount on line 3, Schedule J, Form 1120. . . . . \_\_\_\_\_

**Additional 5% tax.** Members of a controlled group are treated as one corporation for purposes of figuring the applicability of 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 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 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 1120L of the life insurance department. Enter the combined tax on line 3 of Schedule J, Form 1120. Attach Form 1120L 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—\$(amount)."

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

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

##### **Foreign Tax Credit**

See **Form 1118**, Foreign Tax Credit—Corporations, for an explanation of when a corporation can take this credit for payment of income tax to a foreign country or U.S. possession.

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

##### **Possessions Tax Credit**

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

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

##### **Orphan Drug Credit**

See section 28 and **Form 6765**, Credit for Increasing Research Activities (or for claiming the orphan drug credit), for an explanation of when a corporation can take this credit, as well as how it is figured. Generally, the corporation must reduce its deduction for qualified research or basic research expenses by the amount of any research credit determined under section 41(a). However, this rule does not apply if the corporation elects to take the reduced credit under section 280C(c). See that section for more information.

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

##### **Credit for Fuel Produced From a Nonconventional Source.**

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 1990 credit was disallowed solely because of the tentative minimum tax limitation. See section 53(d).

#### **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. If the corporation has two or more of these credits, a credit carryforward or carryback (including an ESOP credit), or a passive activity credit, Form 3800 must also be completed. 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.

**Note:** *The corporation may not take an expense deduction for the part of the wages or salaries paid or incurred that is equal to the amount of the jobs credit (determined without regard to the limitation based on tax (section 38(c)).*

**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 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.

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

##### **Credit for Prior Year Minimum Tax**

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

#### **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 not more than five 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.

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

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

##### **Recapture Taxes**

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

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

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

##### **Alternative Minimum Tax**

File **Form 4626**, Alternative Minimum Tax—Corporations, if taxable income or (loss) before the NOL deduction when combined with adjustment items and tax preference items (including the adjusted current earnings adjustment) is more than the smaller of (a) \$40,000, or (b) the corporation's allowable exemption amount. See **Form 4626** for details.

Reduce alternative minimum tax by any amount on Form 3800, Schedule A, line 34. On the dotted line next to line 9a (line 6, Form 1120-A), write "Section 38(c)(2)—\$(amount)."

#### **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. Write on the dotted line to the left of line 10, Schedule J, "Section 453(l)(3) interest—\$(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 year, the corporation must include the interest due under section 453A(c) in the amount to be entered on line 10, Schedule J, Form 1120. Write on the dotted line to the left of line 10, Schedule J, "Section 453A(c) interest—\$(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. Write on the dotted line to the left of the entry space, "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. Follow 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, the corporation must then complete the entire worksheet (lines 1 through 10) based on taxable income not including the LIFO recapture amount. The total of lines 1 through 9b must then be compared 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 (% of the additional tax) must first be subtracted to arrive at line 10 total tax. Write this deferral amount in parentheses on the dotted line to the left of line 10, Schedule J, as "Section 1363(d) deferral—\$(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.*

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

### Other Information

The following instructions apply to questions 1 through 12 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.

#### Question 5 (Form 1120 only)

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

- A foreign citizen or nonresident alien;
- A foreign partnership;
- A foreign corporation; or
- Any foreign estate or trust within the meaning of section 7701(a)(31).

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

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

**Foreign financial accounts.**—Check the "Yes" box if either **a** or **b** below applies to the corporation; otherwise, check the "No" box:

**a.** At any time during the year the corporation had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account); AND

- The combined value of the accounts was more than \$10,000 at any time during the year; AND

- The account was NOT with a U.S. military banking facility operated by a U.S. financial institution.

**b.** The corporation owns more than 50% of the stock in any corporation that would answer "Yes" to item **a** 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 (such as a bank account, securities account, or other financial account).

If "Yes" is checked for this question, file Form TD F 90-22.1 by June 30, 1992, 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.

Form TD F 90-22.1 may be obtained from IRS Forms Distribution Centers.

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.

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## Question 11, Form 1120 (Question 3, Form 1120-A)

In the space provided, 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.

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

### Balance Sheets

#### 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 per Books With Income per Return

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

##### Travel and Entertainment

Include on line 5c (line 5, Form 1120-A) 20% of the meals and entertainment not allowed under section 274(n); expenses for the use of an entertainment facility;

the part of business gifts in excess of \$25; expenses of an individual allocable to conventions on cruise ships in excess of \$2,000; employee achievement awards in excess of \$400; the cost of

entertainment tickets in excess of face value (also subject to 20% disallowance); the cost of skyboxes in excess of the face value of non-luxury box seat tickets; the part of the cost of

luxury water travel not allowed under section 274(m); expenses for travel as a form of education; and other travel and entertainment expenses not allowed as a deduction.

## 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)

