1995 Department of the Treasury **Internal Revenue Service**

Instructions for Form 1120-IC-DISC

Interest Charge Domestic International Sales Corporation Return

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 the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

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

Form	Recordkeeping	Learning about the law or the form	Preparing the form	Copying, assembling, and sending the form to the IRS
1120-IC-DISC	95 hr., 54 min.	19 hr., 56 min.	29 hr., 49 min.	2 hr., 9 min.
Schedule K	4 hr., 4 min.	47 min.	54 min.	------
Schedule P	12 hr., 55 min.	1 hr., 17 min.	1 hr., 34 min.	------

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **DO NOT** send these tax forms to this office. Instead, see **Where To File** on page 2.

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Voluntary Contributions To Reduce the Public Debt

A corporation may make a contribution to reduce the public debt. To do so, enclose a check with Form 1120-IC-DISC made payable to "Bureau of the Public Debt." Voluntary contributions to reduce the public debt are tax-deductible, subject to the rules and limitations for charitable contributions.

General Instructions

Purpose of Form

Form 1120-IC-DISC is an information return filed by interest charge domestic international sales corporations (IC-DISCs), former DISCs, and former IC-DISCs.

What Is an IC-DISC?

An IC-DISC is a domestic corporation that has elected to be an IC-DISC and its election is still in effect. The IC-DISC election is made by filing **Form 4876-A,** Election To Be Treated as an Interest Charge DISC.

Generally, an IC-DISC is not taxed on its income. Shareholders of an IC-DISC are taxed on its income when the income is actually or deemed distributed. In addition, section 995(f) imposes an interest charge on shareholders for their share of DISC-related deferred tax liability. See **Form 8404,** Interest Charge on DISC-Related Deferred Tax Liability, for details.

To be an IC-DISC, a corporation must be organized under the laws of a state or the District of Columbia and meet the following tests:

- At least 95% of its gross receipts during the tax year are qualified export receipts.
- At the end of the tax year, the adjusted basis of its qualified export assets is at least 95% of the sum of the adjusted basis of all its assets.
- It has only one class of stock, and its outstanding stock has a par or stated value of at least $2,500 on each day of the tax year (or for a new corporation on the last day to elect IC-DISC status for the year and on each later day).
- It maintains separate books and records for the tax year.
- It is not a member of any controlled group of which a foreign sales corporation (FSC) is a member.
- Its tax year must conform to the tax year of the principal shareholder who at the beginning of the tax year has the highest percentage of voting power. If two or more shareholders have the highest percentage of voting power, the IC-DISC must elect a tax year that conforms to that of any one of the principal shareholders. See section 441(h) and its regulations for more information.
- Its election to be treated as an IC-DISC is in effect for the tax year.

See **Definitions** on page 4 and section 992 and related regulations for details.

Distribution to meet qualification requirements.—An IC-DISC that does not meet the gross receipts test or qualified export asset test during the tax year will still be considered to have met them if, after the tax year ends, the IC-DISC makes a pro rata property distribution to its shareholders and specifies at the time that this is a distribution to meet the qualification requirements.

If the IC-DISC did not meet the gross receipts test, the distribution equals the part of its taxable income attributable to gross receipts that are not qualified export gross receipts. If it did not meet the qualified export asset test, the distribution equals the fair market value of the assets that are not qualified export assets on the last day of the tax year. If the IC-DISC did not meet either test, the distribution equals the sum of both amounts. Regulations section 1.992-3 explains how to figure the distribution.

Interest on late distribution.—If the IC-DISC makes a distribution after Form 1120-IC-DISC is due, interest must be paid to the Internal Revenue Service. The charge is 4½% of the distribution times the number of tax years that begin after the tax year to which the distribution relates until the date the IC-DISC made the distribution.

If the IC-DISC must pay this interest, send the payment to the Internal Revenue Service Center where you filed Form 1120-IC-DISC within 30 days of making the distribution. On the payment, write the IC-DISC's name, address, and employer identification number; the tax year involved; and a statement that the payment represents the interest charge under Regulations section 1.992-3(c)(4).

Who Must File

The corporation must file Form 1120-IC-DISC if it elected, by filing Form 4876-A, to be treated as an IC-DISC and its election is in effect for the tax year.

If the corporation is a former DISC or former IC-DISC, it must file Form 1120-IC-DISC in addition to any other return required. A former DISC is a corporation that was a DISC on or before December 31, 1984, but failed to qualify as a DISC sometime prior to December 31, 1984, or did not elect to be an IC-DISC after 1984; and at the beginning of the year, it had undistributed income that was previously taxed or accumulated DISC income. A former IC-DISC is a corporation that was an IC-DISC in an earlier year but did not qualify as an IC-DISC at the end of its 1994 tax year; and at the beginning of the year, it had undistributed income that was previously taxed or accumulated IC-DISC income. (See section 992 and related regulations.)

A former DISC or former IC-DISC need not complete lines 1 through 8 on page 1 and the Schedules for figuring taxable income, but must complete Schedules J, L, and M of Form 1120-IC-DISC and Schedule K (Form 1120-IC-DISC). Write "Former DISC" or "Former IC-DISC" across the top of the return.

When To File

File Form 1120-IC-DISC by the 15th day of the 9th month after the tax year ends. No extensions are allowed. If the due date falls on a Saturday, Sunday, or a legal holiday, file on the next business day.

Where To File

If the main 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

If the IC-DISC is one of a group of IC-DISCs controlled by a common parent, file with the service center where the common parent files.

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

Who Must Sign

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

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

The paid preparer must complete the required preparer information and—

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

Accounting Methods

Figure taxable income using the accounting method regularly used in keeping the IC-DISC's books and records. Permissible methods include the cash, accrual, or any other method authorized by the Internal Revenue Code. In all cases, the method used must clearly reflect taxable income.

A member of a controlled group cannot use an accounting method that would distort any group member's income, including its own. For example, an IC-DISC acts as a commission agent for property sales by a related corporation that uses the accrual method and pays the IC-DISC its commission more than 2 months after the sale. In this case, the IC-DISC should not use the cash method of accounting, because it materially distorts the income of the IC-DISC.

Unless the law specifically permits otherwise, the IC-DISC must get consent on **Form 3115,** Application for Change in Accounting Method, to change from the accounting method it used to report taxable income in earlier years (for income as a whole or for any material item).

Rounding 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.

Unresolved Tax Problems

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

Other Forms, Returns, and Statements That May Be Required

Forms

The IC-DISC may have to file any of the following forms.

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

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

Caution: *See **Trust fund recovery penalty** on page 5.*

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

Form 940 or **Form 940-EZ,** Employer's Annual Federal Unemployment (FUTA) Tax Return. The corporation may be liable for FUTA tax and may have to file Form 940 or 940-EZ if it paid wages of $1,500 or more in any calendar quarter during the calendar year (or the preceding calendar year) or one or more employees worked for the corporation for some part of a day in any 20 different weeks during the calendar year (or the preceding calendar year).

Form 941, Employer's Quarterly Federal Tax Return. Employers must file this form quarterly to report income tax withheld and employer and employee social security and Medicare taxes.

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

Caution: *See **Trust fund recovery penalty** on page 5.*

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

Caution: *See **Trust fund recovery penalty** on page 5.*

Form 966, Corporate Dissolution or Liquidation.

Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, and **Form 1042-S,** Foreign Person's U.S. Source Income Subject to Withholding. Use these forms to report and transmit withheld tax on payments or distributions made to nonresident alien individuals, foreign partnerships, or foreign corporations, to the extent the 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.

Please inform shareholders who are nonresident alien individuals or foreign corporations, trusts, or estates that if they have gains from disposal of stock in the IC-DISC, former DISC, or former IC-DISC, or distributions from accumulated IC-DISC income, including deemed distributions, they must treat these amounts as effectively connected with the conduct of a trade or business conducted through a permanent establishment in the United States and derived from sources within the United States.

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

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

Forms 1099-A, B, C, DIV, INT, MISC, OID, R, and **S.** Use these information returns to report abandonments or acquisitions through foreclosure; proceeds from broker and barter exchange transactions; discharges of indebtedness; certain dividends and distributions; interest payments; payments for certain fishing boat crew members, medical and dental health care payments, direct sales of consumer goods for resale, miscellaneous income payments, and nonemployee compensation; original issue discount; distributions from profit-sharing plans, retirement plans, individual retirement arrangements, insurance contracts, etc.; and proceeds from real estate transactions. Also use these returns to report amounts that were received as a nominee on behalf of another person.

For more information, see the instructions for Forms 1099, 1098, 5498, and W-2G.

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

Form 5452, Corporate Report of Nondividend Distributions.

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

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

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

Form 8271, Investor Reporting of Tax Shelter Registration Number. Taxpayers who have acquired an interest in a tax shelter that 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 Form 1120-IC-DISC) on which a deduction, credit, loss, or other tax benefit attributable to a tax shelter is taken or any income attributable to a tax shelter is reported.

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

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

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

Cashier's checks, bank drafts, and money orders with face amounts of $10,000 or less are considered cash under certain circumstances. For more information, see Form 8300 and Regulations section 1.6050I-1(c).

Form 8594, Asset Acquisition Statement Under Section 1060, must be filed by both the purchaser and seller of a group of assets constituting a trade or business if section 197 intangibles attach, or could attach, to such assets and if the purchaser's basis in the assets is determined only by the amount paid for the assets.

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

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

Form 8849, Claim for Refund of Excise Taxes. Use this form in the first three quarters of the year to claim a refund of excise taxes paid on Form 720, **Form 730,** Tax on Wagering, or **Form 2290,** Heavy Vehicle Use Tax. See the instructions to Form 8849 and **Pub. 378,** Fuel Tax Credit and Refunds, for more information.

Statements

Financial statements.—The balance sheets should agree with your books and records. Attach a statement explaining any differences.

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

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

1. It controls a foreign corporation.

2. It acquires, disposes of, or owns 5% or more in value of the outstanding stock of a foreign corporation.

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

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

Attachments

Attach **Form 4136,** Credit for Federal Tax Paid on Fuels, after page 6, Form 1120-IC-DISC. Attach schedules in alphabetical order and other forms in numerical order after Form 4136.

Definitions

The following definitions are based on sections 993, 994, and 994(c).

1. Section 993

Qualified export receipts are any of the following:

a. Gross receipts from selling, exchanging, or otherwise disposing of export property.

b. Gross receipts from renting export property that the lessee uses outside the United States.

c. Gross receipts from supporting services related to any qualified sale, exchange, rental, or other disposition of export property by the corporation.

d. Gross receipts, if there is a gain, from selling, exchanging, or otherwise disposing of qualified export assets that are not export property.

e. Dividends or amounts includible in gross income regarding stock of a related foreign export corporation and under section 951 (relating to amounts included in the gross income of U.S. shareholders of controlled foreign corporations).

f. Interest on any obligation that is a qualified export asset.

g. Gross receipts for engineering or architectural services on construction projects outside the United States.

h. Gross receipts for managerial services performed for an unrelated IC-DISC.

For more information, see Regulations section 1.993-1.

Qualified export assets are any of the following:

a. Export property.

b. Assets used mainly in performing the engineering or architectural services listed under qualified export receipts, item **g** above, or managerial services that further the production of qualified export receipts, items **a, b, c,** and **g** above; or assets used mainly in assembling, servicing, handling, selling, leasing, packaging, transporting, or storing of export property.

c. Accounts receivable produced by transactions listed under **Qualified export receipts,** items **a–d, g,** or **h** above.

d. Temporary investments, such as money and bank deposits, in an amount reasonable to meet the corporation's needs for working capital.

e. Obligations related to a producer's loan.

f. A related foreign export corporation's stock or securities that the IC-DISC holds.

g. Certain obligations that are issued or insured by the U.S. Export-Import Bank or the Foreign Credit Insurance Association and that the IC-DISC acquires from the bank, the association, or the person who sold or bought the goods from which the obligations arose.

h. Certain obligations held by the IC-DISC that were issued by a domestic corporation organized to finance export property sales under an agreement with the Export-Import Bank, by which the corporation makes export loans that the bank guarantees.

i. Other deposits in the United States used to acquire qualified export assets within the time provided by Regulations section 1.993-2(j).

See Regulations section 1.993-2 for more information.

Export property must be:

a. Made, grown, or extracted in the United States by someone other than an IC-DISC.

b. Neither excluded under section 993(c)(2) nor declared in short supply under section 993(c)(3).

c. Held mainly for sale or rent in the ordinary course of trade or business, by or to an IC-DISC for direct use, consumption, or disposition outside the United States.

d. Property not more than 50% of the fair market value of which is attributable to articles imported into the United States.

e. Neither sold nor leased by or to another IC-DISC that, immediately before or after the transaction, either belongs to the same controlled group (defined in section 993(a)(3)) as your IC-DISC or is related to your IC-DISC in a way that would result in losses being denied under section 267.

See Regulations section 1.993-3 for details.

A producer's loan must meet all the following terms:

a. Satisfy sections 993(d)(2) and (3) limiting loans the IC-DISC makes to any one borrower.

b. Not raise the unpaid balance due the IC-DISC on all its producer's loans above the level of accumulated IC-DISC income it had at the start of the month in which it made the loan.

c. Be indicated by written evidence of debt, such as a note, that has a stated maturity date no more than 5 years after the date of the loan.

d. Be made to a person in the United States in the trade or business of making, growing, or extracting export property.

e. Be designated as a producer's loan when made.

For more information, see **Schedule Q (Form 1120-IC-DISC),** Borrower's Certificate of Compliance With the Rules for Producer's Loans, and Regulations section 1.993-4.

A related foreign export corporation of any of the following kinds can pay dividends and interest to the IC-DISC without loss of IC-DISC status. The IC-DISC's investment must be related to exports from the United States.

a. A *foreign international sales corporation* is a related foreign export corporation if:

(1) The IC-DISC directly owns more than 50% of the total voting power of the foreign corporation's stock;

(2) For the tax year that ends with your IC-DISC's tax year or ends within it, at least 95% of the foreign corporation's gross receipts consists of the qualified export receipts described in items **a–d** of **Qualified export receipts** and interest on the qualified export assets listed in items **c** and **d** of **Qualified export assets;** and

(3) The adjusted basis of the qualified export assets in items **a–d** of **Qualified export assets** that the foreign corporation held at the end of the tax year is at least 95% of the adjusted basis of all assets it held then.

b. A *real property holding company* is a related foreign export corporation if:

(1) The IC-DISC directly owns more than 50% of the total voting power of the foreign corporation's stock, and

(2) Applicable foreign law forbids the IC-DISC to hold title to real property; the foreign corporation's sole function is to hold the title; and only the IC-DISC uses the property, under lease or otherwise.

c. An *associated foreign corporation* is a related foreign export corporation if:

(1) The IC-DISC or a controlled group of corporations to which the IC-DISC belongs owns less than 10% of the total voting power of the foreign corporation's stock (section 1563 defines a controlled group in this sense, and sections 1563(d) and (e) define ownership), and

(2) The IC-DISC's ownership of the foreign corporation's stock or securities reasonably furthers transactions that lead to qualified export receipts for the IC-DISC.

See Regulations section 1.993-5 for more information about related foreign export corporations.

Gross receipts are the IC-DISC's total receipts from selling or renting property that the corporation holds for sale or rent in the course of its trade or business and from all other sources. For commissions on selling or renting property, include gross receipts from selling or renting the property on which the commissions arose. See Regulations section 1.993-6 for more information.

United States, as used in these instructions, includes Puerto Rico and U.S. possessions, as well as the 50 states and the District of Columbia.

2. Section 994, Intercompany Pricing Rules

If a related person described in section 482 sells export property to the IC-DISC, use the intercompany pricing rules to figure taxable income for the IC-DISC and the seller. These rules generally do not permit the related person to price at a loss. Under intercompany pricing, the IC-DISC's taxable income from the sale (regardless of the price actually charged) may not exceed the greatest of:

a. 4% of qualified export receipts on the IC-DISC's sale of the property plus 10% of the IC-DISC's export promotion expenses attributable to the receipts,

b. 50% of the IC-DISC's and the seller's combined taxable income from qualified export receipts on the property, derived from the IC-DISC's sale of the property plus 10% of the IC-DISC's export promotion expenses attributable to the receipts, or

c. Taxable income based on the sale price actually charged, provided that under section 482 the price actually charged clearly reflects the taxable income of the IC-DISC and the related person.

Schedule P (Form 1120-IC-DISC), Intercompany Transfer Price or Commission, explains the intercompany pricing rules in more detail.

3. Section 994(c), Export Promotion Expenses

These expenses are incurred to help distribute or sell export property for use or distribution outside the United States. These expenses do not include income tax, but do include 50% of the cost of shipping the export property on U.S.-owned and U.S.-operated aircraft or ships if U.S. law or regulations do not require that it be shipped on them.

Penalties

The IC-DISC may have to pay the following penalties unless it can show that it had reasonable cause for not providing information or not filing a return:

- $100 for each instance of not providing required information, up to $25,000 during the calendar year.
- $1,000 for not filing a return.

If the return is filed late and the failure to file timely is due to reasonable cause, please explain. See section 6686 for other details.

Trust fund recovery penalty.—This penalty may apply if certain excise, income, social security, and Medicare taxes that must be collected or withheld are not collected or withheld, or these taxes are not paid to the IRS. These taxes are generally reported on Forms 720, 941, 943, or 945. The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to have been **responsible** for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so. The penalty is equal to the unpaid trust fund tax. See the Instructions for Form 720, **Pub. 15 (Circular E),** Employer's Tax Guide, or **Pub. 51 (Circular A),** Agricultural Employer's Tax Guide, for details, including the definition of responsible persons.

Specific Instructions

File a Complete Return

To help us in processing the return, please complete every applicable entry space on Form 1120-IC-DISC. Do not attach statements and write "See attached" instead of completing the entry spaces on Form 1120-IC-DISC.

Period Covered

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

Address

Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and the IC-DISC has a

P.O. box, show the box number instead of the street address.

Item C—Employer Identification Number

Enter the IC-DISC's employer identification number (EIN). If the IC-DISC does not have an EIN, it should apply for one on **Form SS-4,** Application for Employer Identification Number. You can get this form at most IRS or Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center to which you send Form 1120-IC-DISC. If the IC-DISC has not received its EIN by the time the return is due, write "Applied for" in the space for the EIN. See **Pub. 583,** Starting a Business and Keeping Records, for more information.

Item E—Total Assets

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

Item F—Initial Return, Final Return, Change in Address, or Amended Return

If this is the IC-DISC's initial return or final return, check the applicable box in item F at the top of the form.

If the IC-DISC has changed its address since it last filed a return, check the box for Change in Address. **Form 8822,** Change of Address, should be filed to notify the IRS of a change of address that occurs after the return is filed.

To correct an error in a Form 1120-IC-DISC already filed, file an amended Form 1120-IC-DISC and check the Amended return box in item F. If the amended return changes the income or distributions of income to shareholders, an amended Schedule K (Form 1120-IC-DISC) must be filed with the amended Form 1120-IC-DISC and given to each shareholder. Write "AMENDED" across the top of the corrected Schedule K you give to each shareholder.

Question G(1)

For rules of stock attribution, see section 267(c). If the owner of the voting stock of the IC-DISC was an alien individual or a foreign corporation, partnership, trust, or estate, check the "Yes" box in the "Foreign owner" column and enter the name of the owner's country, in parentheses, in the address column. "Owner's country" for individuals is their country of residence; for other foreign entities, it is the country in which organized or otherwise created, or in which administered.

Income

An IC-DISC must figure its taxable income although it does not pay most taxes. Generally, an IC-DISC is subject only to the tax imposed by sections 1491 through 1494 on certain transfers to avoid tax. An IC-DISC is exempt from the corporate income tax, alternative minimum tax, and accumulated earnings tax.

An IC-DISC and its shareholders are not entitled to the possessions corporation tax credit (section 936). An IC-DISC cannot claim the general business credit or the credit for fuel produced from a nonconventional source. In addition, these credits cannot be passed through to shareholders of the corporation.

Line 6a

Net Operating Loss Deduction

The net operating loss deduction is the amount of the net operating loss carryovers and carrybacks that can be deducted in the tax year. See section 172 and **Pub. 536,** Net Operating Losses, for details.

A deficit in earnings and profits is chargeable in the following order:

1. First, to any earnings and profits other than accumulated IC-DISC income or previously taxed income.

2. Second, to any accumulated IC-DISC income.

3. Third, to previously taxed income.

Do not apply any deficit in earnings and profits against accumulated IC-DISC income that, as a result of the corporation's revoking its election to be treated as an IC-DISC (or other disqualification), is deemed distributed to the shareholders. See section 995(b)(2)(A).

Line 6b

Dividends-Received Deduction

See the instructions under **Schedule C, Line 9, Column (c)** on page 9 for details.

Line 7

Taxable Income

If the corporation uses either the gross receipts method or combined taxable income method to compute the IC-DISC's taxable income attributable to any transactions involving products or product lines, attach Schedule P (Form 1120-IC-DISC). Show in detail the IC-DISC's taxable income attributable to each such transaction or group of transactions.

Line 8

Refundable Credit for Federal Tax Paid on Fuels

Enter the credit from Form 4136.

Schedule A

Cost of Goods Sold

If the corporation uses intercompany pricing rules, reflect in Schedule A actual purchases from a related supplier. See **2. Section 994, Intercompany Pricing Rules** on page 5 and use the transfer price figured in Part II of Schedule P (Form 1120-IC-DISC).

If the IC-DISC acts as another person's commission agent on a sale, do not enter any amount in Schedule A for the sale. See Schedule P (Form 1120-IC-DISC).

Section 263A Uniform Capitalization Rules

These rules are discussed in general in **Limitations on Deductions** under **Schedule E** on page 9. See those instructions before completing Schedule A.

Line 4

Additional Section 263A Costs

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

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

For corporations that have elected the simplified resale method, additional section 263A costs are generally those costs incurred for the following categories: off-site storage or warehousing; purchasing; handling, processing, assembly, and repackaging; and general and administrative costs (mixed service costs). For details, see Regulations section 1.263A-3(d). Enter on line 4 the balance of section 263A costs paid or incurred during the tax year not included on lines 2 and 3.

Line 5

Other Costs

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

Line 7

Inventory at End of Year

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

Lines 9a Through 9e

Inventory Valuation Methods

Inventories can be valued at:

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

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

On line 9a, check the method(s) used for valuing inventories. Under lower of cost or market, the term *market* (for normal goods) means the current bid price prevailing on the inventory valuation date for the particular merchandise in the volume usually purchased by the taxpayer. If section 263A applies to the taxpayer, the basic elements of cost must reflect the current bid price of all direct costs and all indirect costs properly allocable to goods on hand at the inventory date.

Check the box on line 9a(iii) if you used a method of inventory valuation other than those described in 9a(i) and (ii). Attach a statement describing the method used.

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

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 in line 9c. On line 9d, enter the amount or the percent of total closing inventories covered under section 472. Estimates are acceptable.

If the IC-DISC 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 write up as income (line 3f, Schedule B) proportionately over the 3-year period that begins in the tax year the corporation made its LIFO election (see section 472(d)).

Schedule B

Gross Income

If an income item falls into two or more categories, report each part on the applicable line. For example, if interest income consists of qualified interest from a foreign international sales corporation and nonqualified interest from a domestic obligation, enter the qualified interest on an attached schedule for line 2g and the nonqualified interest on an attached schedule for line 3f.

For gain from selling qualified export assets, attach a separate schedule in addition to the forms required for lines 2h and 2i.

Accrual basis taxpayers need not accrue certain amounts to be received from the performance of services which, 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 such amount or if there is any penalty for failure to pay timely such amount. Corporations that fall under this provision should attach a schedule showing total gross receipts, amount not accrued as a result of the application of section 448(d)(5), and the net amount accrued. The net amount should be entered on the applicable line of Schedule B. For more information and guidelines on this non-accrual experience method, see Temporary Regulations section 1.448-2T.

Commissions: Special Rule

If the IC-DISC received commissions on selling or renting property or furnishing services, list in column (b) the gross receipts from the sales, rentals, or services on which the commissions arose, and in column (c), list the commissions earned. In column (d) report receipts from noncommissioned sales or rentals of property or furnishing of services, as well as all other receipts.

For purposes of completing line 1a and line 1b, related purchasers are members of the same controlled group (as defined in section 993(a)(3)) as the IC-DISC. All other purchasers are unrelated.

A qualified export sale or lease must meet a **use test** and a **destination test** in order to qualify.

The **use test** applies at the time of the sale or lease. If the property is used predominantly outside the United States, and the sale or lease is not for ultimate use in the United States, it is a qualified export sale or lease. Otherwise, if a reasonable person would believe that the property will be used in the United States, the sale or lease is not a qualified export sale or lease. For example, if property is sold to a foreign wholesaler and it is known in trade circles that the wholesaler, to a substantial extent, supplies the U.S. retail market, the sale would not be a qualified export sale, and the receipts would not be qualified export receipts.

Regardless of where title or risk of loss shifts from the seller or lessor, the property must be delivered under one of the following conditions to meet the **destination test:**

1. Within the United States to a carrier or freight forwarder for ultimate delivery outside the United States to a buyer or lessee.

2. Within the United States to a buyer or lessee who, within 1 year of the sale or lease, delivers it outside the United States or delivers it to another person for ultimate delivery outside the United States.

3. Within or outside the United States to an IC-DISC that is not a member of the same controlled group (as defined in section 993(a)(3)) as the IC-DISC that is making the sale or lease.

4. Outside the United States by means of the seller’s delivery vehicle (ship, plane, etc.).

5. Outside the United States to a buyer or lessee at a storage or assembly site if the property was previously shipped from the United States by the IC-DISC.

6. Outside the United States to a purchaser or lessee if the property was previously shipped by the seller or lessor from the United States and if the property is located outside the United States pursuant to a prior lease by the seller or lessor, and either (a) the prior lease terminated at the expiration of its term (or by the action of the prior lessee acting alone), (b) the sale occurred or the term of the subsequent lease began after the time at which the term of the prior lease would have expired, or (c) the lessee under the subsequent lease is not a related person (a member of the same controlled group as defined in section 993(a)(3) or a relationship that would result in a disallowance of losses under section 267 or section 707(b)) immediately before or after the lease with respect to the lessor, and the prior lease was terminated by the action of the lessor (acting alone or together with the lessee).

Line-by-Line Instructions

Line 1.—Qualified export receipts in line 1 are received from the sale of property, such as inventory, that is produced in the United States for direct use, consumption, or disposition outside the United States. These sales are qualified export sales.

The sale of any unprocessed log, cant, or similar form of timber that is softwood after August 10, 1993, produces nonqualified export receipts that are reported on line 3 of Schedule B.

Line 1a. Enter the IC-DISC's qualified export receipts from export property sold to foreign, unrelated buyers for delivery outside the United States. Do not include amounts entered on line 1b.

Line 1b. Enter the IC-DISC's qualified export receipts from export property sold for delivery outside the United States to a related foreign entity for resale to a foreign, unrelated buyer, or an unrelated buyer when a related foreign entity acts as commission agent.

Line 2a. Enter the gross amount received from leasing or subleasing export property to unrelated persons for use outside the United States.

Receipts from leasing export property may qualify in some years and not in others, depending on where the lessee uses the property. Enter only receipts that qualify during the tax year. (Use Schedule E to deduct expenses such as repairs, interest, taxes, and depreciation.)

Line 2b. A service connected to a sale or lease is related to it if the service is usually furnished with that type of sale or lease in the trade or business where it took place. A service is subsidiary if it is less important than the sale or lease.

Line 2c. Include receipts from engineering or architectural services on foreign construction projects abroad or proposed for location abroad. These services include feasibility studies, design and engineering, and general supervision of construction, but do not include services connected with mineral exploration.

Line 2d. Include receipts for export management services provided to unrelated IC-DISCs.

Line 2f. Include interest received on any loan that qualifies as a producer's loan.

Line 2g. Enter interest on any qualified export asset other than interest on producer's loans. For example, include interest on accounts receivable from sales in which the IC-DISC acted as a principal or agent and interest on certain obligations issued, guaranteed, or insured by the Export-Import Bank or the Foreign Credit Insurance Association.

Line 2h. On **Schedule D (Form 1120),** Capital Gains and Losses, report in detail every sale or exchange of a capital asset, even if there is no gain or loss.

In addition to Schedule D (Form 1120), attach a separate schedule computing gain from the sale of qualified export assets.

Line 2i. Enter the net gain or loss from line 20, Part II, **Form 4797,** Sales of Business Property.

In addition to Form 4797, attach a separate schedule computing gain from the sale of qualified export assets.

Line 2j. Enter any other qualified export receipts for the tax year not reported on lines 2a through 2i. Such receipts include the IC-DISC's allocable portion of an adjustment to income required under section 481(a) because of a change in accounting method. For example, section 481(a) income must be reported as a result of the repeal of the installment method of reporting income if the IC-DISC reported income under the installment method for prior tax years.

Line 3b. Enter receipts from selling products subsidized under a U.S. program if they have been designated as excluded receipts.

Line 3c. Enter receipts from selling or leasing property or services for use by any part of the U.S. Government if law or regulations require U.S. products or services to be used.

Line 3d. Enter receipts from any IC-DISC that belongs to the same controlled group (as defined in section 993(a)(3)).

Line 3f. Include in an attached schedule any nonqualified gross receipts not reported on lines 3a through 3e. Do not offset an income item against a similar expense item.

Schedule C

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.

Line 1, Column (a)

Enter dividends (except those received on debt-financed stock acquired after July 18, 1984—see section 246A and line 2, column (a)) that are received from less-than-20%-owned domestic corporations subject to income tax and that are eligible for the 70% deduction under section 243(a)(1). Include 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).

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

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

Line 2, Column (a)

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

Line 3, Column (a)

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

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

Line 3, Columns (b) and (c)

Dividends received on debt-financed stock acquired after July 18, 1984, are not entitled to the full 70% or 80% dividends-received deduction. The 70% or 80% deduction is reduced by a percentage that is related to the amount of debt incurred to acquire the stock. See section 246A. Before making this computation, see section 245(a) for an additional limitation that applies to dividends received from foreign corporations. Attach a schedule to Form 1120-IC-DISC 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 under 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 under 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 under 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 under section 245(c)(1)(B).

Line 8, Column (a)

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

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

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

Line 9, Column (c)

Limitation on Dividends-Received Deduction

Generally, line 9, column (c), may not exceed the amount from the worksheet below. However, in a year in which a net operating loss occurs, this limitation does not apply even if the loss is created by the dividends-received deduction. See sections 172(d) and 246(b).

Line 9, Column (c) Worksheet

1. Refigure line 5, page 1, Form 1120-IC-DISC, without any adjustment under section 1059 and without any capital loss carryback to the tax year under section 1212(a)(1) . . . ______

2. Multiply line 1 by 80% (.80) . . . ______

3. Add lines 2, 5, 7, and 8, column (c), and the part of the deduction on line 3, column (c), attributable to dividends received from 20%-or-more-owned corporations . . . . ______

4. Enter the smaller of line 2 or line 3. If line 3 is larger than line 2, do not complete the rest of this worksheet. Instead, enter the amount from line 4 in the margin next to line 9 of Schedule C and on line 6b, page 1, Form 1120-IC-DISC . . . . . . ______

5. Enter the amount of dividends received from 20%-or-more-owned corporations included on lines 2, 3, 5, 7, and 8 of column (a) . . . ______

6. Subtract line 5 from line 1 . . . ______

7. Multiply line 6 by 70% (.70) . . . ______

8. Subtract line 3 above from column (c) of line 9 . . . . ______

9. Enter the smaller of line 7 or line 8 . ______

10. Dividends-received deduction after limitation. Add lines 4 and 9. (If this is less than line 9 of Schedule C, enter the smaller amount on line 6b, page 1, Form 1120-IC-DISC, and in the margin next to line 9 of Schedule C.) . . ______

Line 15, Column (a)

Qualified dividends are dividends that qualify as qualified export receipts. They include all dividends includible in gross income that are attributable to stock of related foreign export corporations and amounts includible in income under section 951 (relating to amounts included in the gross income of U.S. shareholders of controlled foreign corporations). See item **f** under **Qualified export receipts** on page 4 and **A related foreign export corporation** on page 5 for more details.

Schedule E

Deductions

Limitations on Deductions

Section 263A uniform capitalization rules.—These rules require corporations to capitalize or include in inventory certain costs incurred in connection with the production of real and tangible personal property held in inventory or held for sale in the ordinary course of business. Tangible personal property produced by a corporation includes a film, sound recording, videotape, book, or similar property. The rules also apply to personal property (tangible and intangible) acquired for resale. Corporations subject to the rules are required to capitalize not only direct costs but an allocable portion of most indirect costs (including taxes) that relate to the assets produced or acquired for resale. Interest expense paid or incurred during the production period of certain property must be capitalized and is governed by special rules. For more information, see Regulations sections 1.263A-8 through 1.263A-15. The uniform capitalization rules also apply to the production of property constructed or improved by a taxpayer for use in its trade or business or in an activity engaged in for profit.

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

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

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

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

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

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.—These must be capitalized unless an election is made to amortize them over a period of 60 months. See section 195.

Line 1

Export Promotion Expenses

Enter export promotion expenses on lines 1a through 1m. Export promotion expenses are an IC-DISC's ordinary and necessary expenses paid or incurred to obtain qualified export receipts. Do not include income taxes. Enter on lines 2a through 2g any part of an expense not incurred to obtain qualified export receipts.

Line 1c

Depreciation

Attach **Form 4562,** Depreciation and Amortization, if you claim a deduction for depreciation or amortization, make the section 179 election to expense certain tangible property, or provide information on the business use of an automobile or other listed property. Enter on line 1c the depreciation and section 179 expense not claimed on Schedule A or elsewhere on the return.

Enter any amortization expense on line 1m. See Form 4562 and its instructions for details.

Line 1h

Freight

Enter 50% of the freight expenses (except insurance) for shipping export property aboard U.S. flagships and U.S.-owned and U.S.-operated aircraft, unless you are required to use U.S. ships or aircraft by law or regulations.

Line 1i

Compensation of Officers

Attach a schedule showing the name, social security number, and amount of compensation paid to all officers. Do not include compensation deductible elsewhere on the return, such as amounts included in cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement.

Include only the deductible part of officers' compensation on line 1i. (See **Disallowance of deduction for employee compensation in excess of $1 million,** below.)

An officer is a person, such as a regular officer or chairman of the board, who is elected or appointed to office or is designated as an officer in the corporation's charter or bylaws.

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

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

For this purpose, compensation does not include the following:

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

The deduction limit does not apply to:

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

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

For details, see section 162(m) and Notice 94-68, 1994-1 C.B. 376.

Line 1j

Repairs and Maintenance

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

Line 1k

Pension, Profit-Sharing, etc., Plans

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

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

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

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

Line 1l

Employee Benefit Programs

Enter contributions not claimed elsewhere on the return (e.g., insurance, health and welfare programs) to employee benefit programs, that are not an incidental part of a pension, profit-sharing, etc., plan included on line 1k.

Line 1m

Other

Enter any other allowable deduction not claimed elsewhere on the return. Include amortization expense from Part VI, Form 4562.

Note: *Do not deduct penalties imposed on the corporation.*

Line 2a

Bad Debts

The IC-DISC must use the specific chargeoff method of accounting for bad debts and deduct business bad debts when they become wholly or partially worthless.

Line 2b

Taxes and Licenses

Enter taxes paid or accrued during the tax year.

Do not include state or local sales taxes paid or incurred in connection with an acquisition or disposition of property. Such 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.

Line 2c

Interest

Do not deduct interest on debts incurred or continued to buy or carry obligations on which the interest is wholly exempt from income tax. See section 265.

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.

Section 267 limits deductions for unpaid expenses and interest in transactions between related taxpayers. Section 461(g) limits a cash basis taxpayer's deduction for prepaid interest.

Line 2d

Charitable Contributions

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

The IC-DISC may claim not more than 10% of modified adjusted taxable income as contributions. The limit is 10% of the amount on line 7, page 1, figured without regard to the deduction for contributions, and before taking the dividends-received deduction (line 6b, page 1), or premiums paid on bond repurchases (section 249); and before figuring carrybacks to the 1995 tax year for a net operating loss (section 172) or a capital loss (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.

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

If a contribution is made in property other than money, attach a schedule describing the kind contributed and what method was used to determine the fair market value.

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

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

Special rules 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.

Contributions to organizations conducting lobbying activities.— Contributions made to an organization that conducts lobbying activities are not deductible if:

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

Line 2e

Freight

Enter freight expense not deducted on line 1h as export promotion expense.

Line 2g

Other

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

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

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

No deduction is allowed for dues paid or incurred for membership in any club organized for business, pleasure, recreation, or other social purpose. This includes country clubs, golf and athletic clubs, airline and hotel clubs, and clubs operated to provide meals under conditions favorable to business discussion. But it does not include civic or public service organizations, professional organizations (such as bar and medical associations), business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards, unless a principal purpose of the organization is to entertain, or provide entertainment facilities for, members or their guests.

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

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

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

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

Lobbying expenses.—Generally, lobbying expenses are not deductible. These expenses include amounts paid or incurred in connection with influencing Federal or state legislation (but not local legislation), or amounts paid or incurred in connection with any communication with certain Federal executive branch officials in an attempt to influence the official actions or positions of the officials. However, if certain in-house expenditures do not exceed $2,000, they are deductible. Dues and other similar amounts paid to certain tax-exempt organizations may not be deductible. See section 162(e) and Temporary Regulations section 1.162-20T(d). For information on contributions to charitable organizations that conduct lobbying activities, see the instructions for line 2d. For more information on lobbying expenses, see section 162(e).

Enter any other allowable deduction not claimed on line 1 or lines 2a through 2f. Do not deduct any amount allocable to exempt income. Items directly attributable to wholly exempt income must be allocated to that income, and items directly attributable to any class of taxable income must be allocated to that income. If an item is indirectly attributable to both taxable and exempt income, allocate a reasonable portion to each.

Attach a statement showing the amount of each class of exempt income and the amount of expense items allocated to each class. Show apportioned amounts separately.

Schedule J

Deemed and Actual Distributions and Deferred DISC Income

Part I—Deemed Distributions Under Section 995(b)(1)

Line 1

Gross Interest

Enter gross interest derived during the tax year from producer's loans (section 995(b)(1)(A)).

Line 2

Recognized Gain on Section 995(b)(1)(B) Property

Enter gain recognized during the tax year on the sale or exchange of property, which in the hands of the IC-DISC was not a qualified export asset and which was previously transferred to the IC-DISC in a transaction in which the transferor realized gain but did not recognize the gain in whole or part. See section 995(b)(1)(B). Show the computation of the gain on a separate schedule. Include no more of the IC-DISC's gain than the amount of gain the transferor did not recognize on the earlier transfer.

Line 3

Recognized Gain on Section 995(b)(1)(C) Property

Enter gain recognized on the sale or exchange of property described in section 995(b)(1)(C). Show the computation of the gain on a separate schedule. Do not include any gain included in the computation of line 2. Include only the amount of the IC-DISC's gain that the transferor did not recognize on the earlier transfer and that would have been treated as ordinary income if the property had been sold or exchanged rather than transferred to the IC-DISC. Do not include gain on sale or exchange of IC-DISC stock-in-trade or other property that either would be included in inventory if on hand at the end of the tax year or is held primarily for sale in the normal course of business.

Line 4

Income Attributable to Military Property

Enter 50% of taxable income attributable to military property (section 995(b)(1)(D)). Show the computation of this income. To figure taxable income attributable to military property, use the gross income attributable to military property for the year and the deductions properly allocated to that income. See Regulations section 1.995-6.

Line 9

Deemed Distributions to C Corporations

Line 9 provides for the computation of the one-seventeenth deemed distribution of section 995(b)(1)(F)(i). Line 9 only applies to shareholders of the IC-DISC that are C corporations.

Line 10

International Boycott Income

An IC-DISC is deemed to distribute any income that resulted from cooperating with an international boycott (section 995(b)(1)(F)(ii)). See Form 5713 to figure this deemed distribution and for reporting requirements for any IC-DISC with operations related to a boycotting country.

Line 11

Illegal Bribes, etc.

An IC-DISC is deemed to distribute the amount of any illegal payments, such as bribes or kickbacks, that it pays, directly or indirectly, to government officials, employees, or agents (section 995(b)(1)(F)(iii)).

Line 14

Earnings and Profits

Attach a computation showing the earnings and profits for the tax year.

See section 312 for rules on figuring earnings and profits for the purpose of the section 995(b)(1) limitation.

Line 17

Foreign Investment Attributable to Producer Loans

Line 17a—For shareholders other than C corporations.—To figure the amount for line 17a, attach a computation showing (1) the IC-DISC's foreign investment in producer's loans during the tax year; (2) accumulated earnings and profits (including earnings and profits for the 1995 tax year) minus the amount on line 15, Part I; and (3) accumulated IC-DISC income. Enter the smallest of these amounts (but not less than zero) on line 17a.

Line 17b—For C corporation shareholders.—To figure the amount for line 17b, attach a computation showing (1) the IC-DISC's foreign investment in producer's loans during the tax year; (2) accumulated earnings and profits (including earnings and profits for the 1995 tax year) minus the amount on line 16, Part I; and (3) accumulated IC-DISC income. Enter the smallest of these amounts (but not less than zero) on line 17b.

For purposes of lines 17a and 17b, foreign investment in producer's loans is the smallest of (1) the net increase in foreign assets by members of the controlled group (defined in section 993(a)(3)) to which the IC-DISC belongs; (2) the actual foreign investment by the group's domestic members; and (3) the IC-DISC's outstanding producer's loans to members of the controlled group.

Net increase in foreign assets and actual foreign investment are defined in sections 995(d)(2) and (3).

See Regulations section 1.995-5 for additional information on computing foreign investment attributable to producer's loans.

Lines 20 and 21. The percentages on lines 20 and 21 must add up to 100%.

Lines 22 and 23. Allocate the line 22 amount to shareholders that are individuals, partnerships, S corporations, trusts, and estates. Allocate the line 23 amount to shareholders that are C corporations.

Part II—Section 995(b)(1)(E) Taxable Income

Generally, any taxable income of the IC-DISC attributable to qualified export receipts that exceed $10 million will be deemed distributed.

Line 1

Export Receipts

If there were no commission sales, leases, rentals, or services for the tax year, enter on line 1, Part II, the total of lines 1c and 2k, column (e), Schedule B.

If there were commission sales, leases, rentals, or services for the tax year, the total qualified export receipts to be entered on line 1, Part II, are figured as follows (section 993(f)):

1.	Add lines 1c and 2k, column (b), Schedule B	______
2.	Add lines 1c and 2k, column (d), Schedule B	______
3.	Add lines 1 and 2. Enter on line 1, Part II, Schedule J	______

Line 3

Controlled Group Allocation

If the IC-DISC is a member of a controlled group (as defined in section 993(a)(3)) that includes more than one IC-DISC, only one $10 million limit is allowed to the group. If an allocation is required, a statement showing each member's portion of the $10 million limit must be attached to Form 1120-IC-DISC. See Proposed Regulations section 1.995-8(f) for details.

Lines 4 and 5

Proration of $10 Million Limit

The $10 million limit (or the controlled group member's share) is prorated on a daily basis. Thus, for example, if for its 1995 tax year an IC-DISC has a short tax year of 73 days, and it is not a member of a controlled group, the limit that would be entered on line 5 of Part II is $2 million (73/365 times $10 million).

Line 7

Taxable Income

Enter the taxable income attributable to line 6 qualified export receipts. The IC-DISC may select the qualified export receipts to which the line 5 limitation is allocated.

See Proposed Regulations section 1.995-8 for details on determining the IC-DISC's taxable income attributable to qualified export receipts in excess of the $10 million amount. Special rules are provided for allocating the taxable income attributable to any related and subsidiary services, and for the ratable allocation of the taxable income attributable to the first transaction selected by the IC-DISC that exceeds the $10 million amount. Deductions must be allocated and apportioned according to the rules of Regulations section 1.861-8. The selection of the excess receipts by the IC-DISC is intended to permit the IC-DISC to allocate the $10 million limitation to the qualified export receipts of those transactions occurring during the tax year that permit the greatest amount of taxable income to be allocated to the IC-DISC under the intercompany pricing rules of section 994.

To avoid double counting of the deemed distribution, if an amount of taxable income for the tax year attributable to excess qualified export receipts is also deemed distributed under either line 1, 2, 3, or 4 of Part I, such amount of taxable income is only includible on that line of Part I, and must be subtracted from the amount otherwise reportable on line 7 of Part II and carried to line 5 of Part I. See Proposed Regulations section 1.995-8(d).

After filing the IC-DISC's 1995 tax return, the allocation of the $10 million limitation and the computation of the line 7 deemed distribution may be changed by filing an amended Form 1120-IC-DISC only under the conditions specified in Proposed Regulations section 1.995-8(b)(1).

Part III—Deemed Distributions Under Section 995(b)(2)

If the corporation is a former DISC or a former IC-DISC that revoked IC-DISC status or lost IC-DISC status for failure to satisfy one or more of the conditions specified in section 992(a)(1) for 1995, each shareholder is deemed to have received a distribution taxable as a dividend on the last day of the 1995 tax year. The deemed distribution equals the shareholder's prorated share of the DISC's or IC-DISC's income accumulated during the years just before DISC or IC-DISC status ended. The shareholder will be deemed to receive the distribution in equal parts on the last day of each of the 10 tax years of the corporation following the year of the termination or disqualification of the IC-DISC (but in no case over more than twice the number of years the corporation was a DISC or IC-DISC).

Part IV—Actual Distributions

Line 1

Distributions to Meet Section 992(c)(2)(B)

If the corporation is required to pay interest under section 992(c)(2)(B) on the amount of a distribution to meet the qualification requirements of section 992(c), report this interest on line 2c, Schedule E. Also include the amount on line 1, Part IV of Schedule J and show the computation of the interest on an attached schedule.

Line 4a

Previously Taxed Income

Report on line 4a all actual distributions of previously taxed income. Also, include any distributions of pre-1985 accumulated DISC income that are nontaxable. In the space to the left of the line 4a amount, enter the dollar amount of the distribution and identify it as nontaxable pre-1985 DISC income. Do not include distributions of pre-1985 DISC income that are made under section 995(b)(2) because of prior year revocations or disqualifications.

Part V—Deferred DISC Income

In general, deferred DISC income is:

1. Accumulated IC-DISC income (for periods after 1984) of the IC-DISC as of the close of the computation year, over

2. The amount of distributions-in-excess-of-income for the tax year of the IC-DISC following the computation year.

For purposes of item **2** above, distributions-in-excess-of-income means the excess (if any) of:

a. Actual distributions to shareholders out of accumulated IC-DISC income, over

b. The amount of IC-DISC income (as defined in section 996(f)(1)) for the tax year following the computation year.

For purposes of items 1 and 2 above, see section 995(f) and Proposed Regulations section 1.995(f)-1 for a definition of computation year, examples, and other details on figuring deferred DISC income.

The amount on line 3, Part V, is allocated to each shareholder on line 2, Part III, of Schedule K (Form 1120-IC-DISC).

Shareholders of an IC-DISC must file **Form 8404,** Interest Charge on DISC-Related Deferred Tax Liability, if the IC-DISC reports deferred DISC income on line 2, Part III of Schedule K.

Schedule K

Shareholder's Statement of IC-DISC Distributions

Attach a separate Copy A, Schedule K (Form 1120-IC-DISC), to Form 1120-IC-DISC for each shareholder who received an actual or deemed distribution during the tax year or to whom the corporation reported deferred DISC income for the tax year.

Schedule L

Balance Sheets

The balance sheet should agree with the IC-DISC's books and records. Include certificates of deposits as cash on line 1.

Line 12

Accumulated Pre-1985 DISC Income

If the corporation was a qualified DISC as of December 31, 1984, the accumulated pre-1985 DISC income will generally be treated as previously taxed income (exempt from tax) when distributed to DISC shareholders after December 31, 1984.

Exception: *The exemption does not apply to distributions of accumulated pre-1985 DISC income of an IC-DISC or former DISC that was made taxable under section 995(b)(2) because of a prior revocation of the DISC election or disqualification of the DISC. For more details on these distributions, see Temporary Regulations section 1.921-1T(a)(7).*

Line 13

Accumulated IC-DISC Income

Accumulated IC-DISC income (for periods after 1984) is accounted for on line 13 of Schedule L. The balance of this account is used in figuring deferred DISC income in Part V of Schedule J.

Schedule N

Export Gross Receipts of the IC-DISC and Related U.S. Persons

Line 1

Product Code and Percentage

Enter in line 1a the code number and percentage of total receipts for the product or service that accounts for the largest portion of the IC-DISC's gross receipts. The product codes are on page 16 of these instructions. On line 1b enter the same information for the IC-DISC's next largest product or service.

Example: An IC-DISC has export gross receipts of $10 million; selling agricultural chemicals accounts for $4.5 million (45%) of that amount, which is the IC-DISC's largest product or service. The IC-DISC should enter "287" (the product code for agricultural chemicals) and "45%" in line 1a.

Selling industrial chemicals accounts for $2 million (20% of the $10 million total), and is the IC-DISC's second largest product or service. The IC-DISC should enter "281" (the product code for industrial chemicals) and "20%" in line 1b.

Line 2

Definitions

Export gross receipts are receipts from any of the following:

a. Selling for direct use, consumption, or disposition outside the United States, property (such as inventory) produced in the United States.

b. Renting this property to unrelated persons for use outside the United States.

c. Providing services involved in such a sale or rental.

d. Providing engineering or architectural services for construction projects located outside the United States.

e. Providing export management services.

For commission sales, export gross receipts include the total receipts on which the IC-DISC earned the commission.

For purposes of line 2, Schedule N only, no reduction is to be made for receipts attributable to military property. Therefore, an IC-DISC's export gross receipts for purposes of line 2 is the total of the amounts from page 2, Schedule B, columns (b) and (d), lines 1c, 2a, 2b, 2c, and 2d.

Related persons are—

a. An individual, partnership, estate, or trust that controls the IC-DISC.

b. A corporation that controls the IC-DISC or is controlled by it.

c. A corporation controlled by the same person or persons who control the IC-DISC.

Control means direct or indirect ownership of more than 50% of the total voting power of all classes of stock entitled to vote. See section 993(a)(3).

U.S. person is—

a. A citizen or resident of the United States, which includes the Commonwealth of Puerto Rico and possessions of the United States.

b. A domestic corporation or partnership.

c. An estate or trust (other than a foreign estate or trust as defined in section 7701(a)(31)).

Export Gross Receipts for 1995

Column (a).—All IC-DISCs should complete column (a) in line 2. If two or more IC-DISCs are related persons, only the IC-DISC with the largest export gross receipts should complete columns (b) and (c). If an IC-DISC acts as a commission agent for a related person, attribute the total amount of the transaction to the IC-DISC.

Complete column (a) to report the IC-DISC's export gross receipts from all sources (including the United States) for the 1995 tax year.

Column (b)—Export gross receipts of related IC-DISCs.—Complete column (b) to report related IC-DISCs' export gross receipts from all sources (including the United States).

Column (c)—Export gross receipts of all other related U.S. persons.— Complete column (c) to report other related U.S. persons' export gross receipts from all sources except the United States.

Line 3—Related U.S. persons.—Report the name, address, and identifying number of related U.S. persons in your controlled group.

If lines 2(b) and 2(c) are completed, show first in line 3(b) the name, address, and identifying number of the IC-DISC that completed lines 2(b) and 2(c).

Schedule O

Other Information

Question 7—Foreign financial account.—Check the "Yes" box, and enter the name of the foreign country if either **a** or **b** applies.

a. At any time during the 1995 calendar year the IC-DISC 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 IC-DISC owns more than 50% of the stock in any corporation that would answer the question "Yes" based on 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 bank account, securities account, or other financial account in a foreign country.

If "Yes" is checked for question 7, file Form TD F 90-22.1 by June 30, 1996, 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-IC-DISC.**

You can get Form TD F 90-22.1 from IRS Forms Distribution Centers or by calling 1-800-TAX-FORM (1-800-829-3676).

Question 8—Foreign trust.—If the answer to question 8 is "Yes," the IC-DISC may have to file **Form 3520,** United States Information Return—Creation of or Transfers to Certain Foreign Trusts; **Form 3520A,** Annual Return of Foreign Trust With U.S. Beneficiaries; or **Form 926,** Return by a U.S. Transferor of Property to a Foreign Corporation, Foreign Estate or Trust, or Foreign Partnership.

Question 9—Boycott of Israel.—File Form 5713 if the IC-DISC or any member of its controlled group (defined in section 993(a)(3)) has operations in or related to a boycotting country or with the government, a company, or a national of that country. An IC-DISC that cooperates with an international boycott is also deemed to distribute part of its income. See Form 5713 for more information.

Question 10—Tax-exempt interest.— 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.

Schedule P (Form 1120-IC-DISC)

Intercompany Transfer Price or Commission

Complete and attach a separate Schedule P (Form 1120-IC-DISC) for each transaction or group of transactions to which you apply the intercompany pricing rules of section 994(a)(1) and (2). See **2. Section 994, Intercompany Pricing Rules** on page 5.

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 Codes (SIC), they should not be used for SIC codes. Also, certain activities such as manufacturing do not apply to an IC-DISC.

Using the list below, enter on page 1, under B, the code number for the specific industry group from which the largest percentage of total receipts is derived. Total receipts means all income (line 1, page 1).

On page 6, Schedule O, line 1, 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 "Wholesale trade: Machinery, equipment, and supplies," the principal product or service may be "Engines and turbines."

TRANSPORTATION, COMMUNICATION, ELECTRIC, GAS, AND SANITARY SERVICES

Code

Transportation

4400 Water transportation
4700 Other transportation services

Electric, gas, and sanitary services

4910 Electric services
4920 Gas production and distribution
4930 Combination utility 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
5098 Other durable goods

Code

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 Miscellaneous nondurable goods

RETAIL TRADE

Building materials, hardware, garden supply, mobile home dealers, general merchandise, and food stores

5220 Building materials dealers
5251 Hardware stores
5265 Garden supplies and mobile home dealers
5300 General merchandise 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
5800 Eating and drinking places

Code

Miscellaneous retail stores

5912 Drug stores and proprietary stores
5921 Liquor stores
5995 Other miscellaneous retail stores

FINANCE, INSURANCE, AND REAL ESTATE

Credit agencies other than banks

6199 Other credit agencies

SERVICES

Business services

7389 Export management services

Auto repair and services; miscellaneous repair services

7500 Lease or rental of motor vehicles

Amusement and recreation services

7812 Motion picture production, distribution, and services

Other services

8911 Architectural and engineering services
8930 Accounting, auditing, and bookkeeping
8980 Miscellaneous services

Product Code System for Schedule N

(These codes are used only with Schedule N, page 6, Form 1120-IC-DISC.)

Using the list below, enter on line 1 of Schedule N the product code number and percent of export gross receipts as explained in the **Specific Instructions.**

This product code system is divided into two categories—nonmanufactured product groups and services and manufactured product groups.

NONMANUFACTURED PRODUCT GROUPS AND SERVICES

Code

011 Grains and soybeans
013 Cotton
019 Crops, except cotton, grains, and soybeans
021 Livestock and livestock products
070 Agricultural services
090 Fishery products and services
100 Metal mining, except iron ores, products and services
101 Iron ores
110 Coal mining (anthracite, bituminous, and lignite) products and services
130 Crude petroleum and natural gas products and services
147 Chemical and fertilizer mineral products and services
149 Other nonmetallic mineral products and services
400 Transportation services (land, air, and water)
490 Electric, gas, and sanitary services
600 Finance, insurance, and real estate services
730 Export management services
780 Motion picture distribution
850 Engineering and architectural services
990 Miscellaneous nonmanufactured products and services

MANUFACTURED PRODUCT GROUPS

Ordnance and accessories

191 Guns, howitzers, mortars, and related equipment
192 Ammunition, except for small arms
193 Tanks and tank components
194 Sighting and fire control equipment
195 Small arms
196 Small arms ammunition
199 Ordnance and accessories, not elsewhere classified

Food and kindred products

201 Meat products
202 Dairy products
203 Canned and preserved fruits, vegetables, and seafoods
204 Grain mill products
205 Bakery products
206 Sugar
207 Confectionery and related products
208 Beverages
209 Miscellaneous food preparations and kindred products

Tobacco manufactures

211 Cigarettes
212 Cigars
213 Tobacco (chewing and smoking) and snuff
214 Tobacco stemming and redrying

Textile mill products

221 Broad woven fabric mills, cotton
222 Broad woven fabric mills, synthetic fiber and silk
223 Broad woven fabric mills, wool (including dyeing and finishing)
224 Narrow fabrics and other smallwares mills: cotton, wool, silk, and synthetic fiber
225 Knitting mills
226 Dyeing and finishing textiles, except wool fabrics and knit goods
227 Floor covering mills
228 Yarn and thread mills
229 Miscellaneous textile goods

Apparel and other finished products made from fabrics and similar materials

231 Men's, youths', and boys' suits, coats, and overcoats
232 Men's, youths', and boys' furnishings, work clothing, and allied garments
233 Women's, misses', and juniors' outerwear
234 Women's, misses', children's, and infants' undergarments
235 Hats, caps, and millinery

Code

236 Girls', children's, and infants' outerwear
237 Fur goods
238 Miscellaneous apparel and accessories
239 Miscellaneous fabricated textile products

Lumber and wood products, except furniture

241 Logging camps and logging contractors
242 Sawmills and planing mills
243 Millwork, veneer, plywood, and prefabricated structural wood products
244 Wooden containers
249 Miscellaneous wood products

Furniture and fixtures

251 Household furniture
252 Office furniture
253 Public building and related furniture
254 Partitions, shelving, lockers, and office and store fixtures
259 Miscellaneous furniture and fixtures

Paper and allied products

261 Pulp mills
262 Paper mills, except building paper mills
263 Paperboard mills
264 Converted paper and paperboard products, except containers and boxes
265 Paperboard containers and boxes
266 Building paper and building board mills

Printing, publishing, and allied products

271 Newspapers: publishing, publishing and printing
272 Periodicals: publishing, publishing and printing
273 Books
274 Miscellaneous publishing
275 Commercial printing
276 Manifold business forms
277 Greeting card publishing
278 Blankbooks, looseleaf binders, and bookbinding and related work
279 Service industries for the printing trade

Chemicals and allied products

281 Industrial inorganic and organic chemicals
282 Plastics materials and synthetic resins, synthetic rubber, and synthetic fibers, except glass
283 Drugs
284 Soap, detergents, and cleaning preparations, perfumes, cosmetics, and other toilet preparations
285 Paints, varnishes, lacquers, enamels, and allied products
286 Gum and wood chemicals
287 Agricultural chemicals
289 Miscellaneous chemical products

Petroleum refining and related products

291 Petroleum refining
295 Paving and roofing materials
299 Miscellaneous products of petroleum and coal

Rubber and miscellaneous plastics products

301 Tires and inner tubes
302 Rubber footwear
303 Reclaimed rubber
306 Fabricated rubber products, not elsewhere classified
307 Miscellaneous plastics products

Leather and leather products

311 Leather tanning and finishing
312 Industrial leather belting and packing
313 Boot and shoe cut stock and findings
314 Footwear, except rubber
315 Leather gloves and mittens
316 Luggage
317 Handbags and other personal leather goods
319 Leather goods, not elsewhere classified

Stone, clay, glass, and concrete products

321 Flat glass
322 Glass and glassware, pressed or blown
323 Glass products, made or purchased glass
324 Cement, hydraulic

Code

325 Structural clay products
326 Pottery and related products
327 Concrete, gypsum, and plaster products
328 Cut stone and stone products
329 Abrasive, asbestos, and miscellaneous nonmetallic mineral products

Primary metal products

331 Blast furnaces, steel works, and rolling and finishing mills
332 Iron and steel foundries
333 Primary smelting and refining of nonferrous metals
334 Secondary smelting and refining of nonferrous metals
335 Rolling, drawing, and extruding of nonferrous metals
336 Nonferrous foundries
339 Miscellaneous primary metal products

Fabricated metal products, other than ordnance, machinery, and transportation equipment

341 Metal cans
342 Cutlery, hand tools, and general hardware
343 Heating apparatus (except electric) and plumbing fixtures
344 Fabricated structural metal products
345 Screw machine products and bolts, nuts, screws, rivets, and washers
346 Metal stampings
347 Coating, engraving, and allied services
348 Miscellaneous fabricated wire products
349 Miscellaneous fabricated metal products

Machinery other than electrical

351 Engines and turbines
352 Farm machinery and equipment
353 Construction, mining, and materials handling machinery and equipment
354 Metalworking machinery and equipment
355 Special industry machinery, except metalworking machinery
356 General industrial machinery and equipment
357 Office, computing, and accounting machines
358 Service industry machines
359 Miscellaneous machinery, except electrical

Electrical machinery, equipment, and supplies

361 Electric transmission and distribution equipment
362 Electrical industrial apparatus
363 Household appliances
364 Electric lighting and wiring equipment
365 Radio and television receiving sets, except communication types
366 Communication equipment
367 Electronic components and accessories
369 Miscellaneous electrical machinery, equipment, and supplies

Transportation equipment

371 Motor vehicles and motor vehicle equipment
372 Aircraft and parts
373 Ship and boat building and repairing
374 Railroad equipment
375 Motorcycles, bicycles, and parts
379 Miscellaneous transportation equipment

Professional, scientific, and controlling instruments; photographic and optical goods; watches and clocks

381 Engineering, laboratory, and scientific and research instruments and associated equipment
382 Instruments for measuring, controlling, and indicating physical characteristics
383 Optical instruments and lenses
384 Surgical, medical, and dental instruments and supplies
385 Ophthalmic goods
386 Photographic equipment and supplies
387 Watches and clocks

Miscellaneous manufactured products

391 Jewelry, silverware, and plated ware
393 Musical instruments
394 Toys, amusement, sporting and athletic goods
395 Pens, pencils, and other office and artists' materials
396 Costume jewelry, costume novelties, buttons, and miscellaneous notions, except precious metal
399 Miscellaneous manufactured products