

Instructions for Forms 1120 and 1120-A

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

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

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

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	71 hr., 30 min.	42 hr., 2 min.	72 hr., 58 min.	8 hr., 2 min.
1120-A	44 hr., 14 min.	23 hr., 33 min.	41 hr., 7 min.	4 hr., 34 min.
Sch. D (1120)	7 hr., 10 min.	4 hr., 6 min.	6 hr., 16 min.	32 min.
Sch. H (1120)	5 hr., 58 min.	35 min.	43 min.	-----
Sch. N (1120)	3 hr., 21 min.	1 hr., 7 min.	3 hr., 6 min.	32 min.
Sch. PH (1120)	15 hr., 18 min.	6 hr., 12 min.	8 hr., 35 min.	32 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form and related schedules 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 the tax form to this address. Instead, see **Where To File** on page 3.

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Changes To Note

- The FSC Repeal and Extraterritorial Income Exclusion Act of 2000 allows a new extraterritorial income exclusion for transactions after September 30, 2000. The exclusion is based on a corporation's qualifying foreign trade income. For more details and to figure the amount of the exclusion, see new **Form 8873**, Extraterritorial Income Exclusion.

- The corporation may need to mail its return to a different service center this year because the IRS has changed the filing location for several areas. If an envelope was received with the tax package, please use it. Otherwise, see **Where To File** on page 3.

- A corporation is required to attach a statement to its income tax return to disclose participation in certain transactions that have tax shelter characteristics or are structured to avoid tax. See **Corporate tax shelters** on page 5.

- Generally, if a corporation's average annual gross receipts for the 3 prior tax years are \$1 million or less, it may be eligible to adopt or change to the cash method of accounting. If the corporation makes this change, it will not be required to account for inventories. Instead, the corporation may treat inventory in the same manner as costs of materials and supplies that are not incidental. For details, see the instructions for **Cost of Goods Sold** on page 14.

- Corporations that file Form 1120 and, at any time during the tax year, had assets in or operated a business in a foreign country may have to attach new **Schedule N (Form 1120)**, Foreign Operations of U.S. Corporations, to their tax returns. See Schedule N for details.

Photographs of Missing Children

The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in instructions on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling **1-800-THE-LOST** (1-800-843-5678) if you recognize a child.

Unresolved Tax Issues

If the corporation has attempted to deal with an IRS problem unsuccessfully, it should contact the Taxpayer Advocate. The Taxpayer Advocate independently

represents the corporation's interests and concerns within the IRS by protecting its rights and resolving problems that have not been fixed through normal channels.

While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that the corporation's case is given a complete and impartial review.

The corporation's assigned personal advocate will listen to its point of view and will work with the corporation to address its concerns. The corporation can expect the advocate to provide:

- A "fresh look" at a new or on-going problem.
- Timely acknowledgment.
- The name and phone number of the individual assigned to its case.
- Updates on progress.
- Timeframes for action.
- Speedy resolution.
- Courteous service.

When contacting the Taxpayer Advocate, the corporation should provide the following information:

- The corporation's name, address, and employer identification number.
- The name and telephone number of an authorized contact person and the hours he or she can be reached.
- The type of tax return and year(s) involved.
- A detailed description of the problem.
- Previous attempts to solve the problem and the office that had been contacted.
- A description of the hardship the corporation is facing (if applicable).

The corporation may contact a Taxpayer Advocate by calling a toll-free number, **1-877-777-4778**. Persons who have access to TTY/TDD equipment may call 1-800-829-4059 and ask for Taxpayer Advocate assistance. If the corporation prefers, it may call, write, or fax the Taxpayer Advocate office in its area. See **Pub. 1546**, The Taxpayer Advocate Service of the IRS, for a list of addresses and fax numbers.

How To Make a Contribution To Reduce the Public Debt

To help reduce the public debt, send a check made payable to the: "Bureau of the Public Debt" to Bureau of the Public Debt, Department G, P.O. Box 2188, Parkersburg, WV 26106-2188. Or, enclose a check with the income tax return. Contributions to reduce the public debt are deductible subject to the rules and limitations for charitable contributions.

How To Get Forms and Publications

Personal computer. You can access the IRS Web Site 24 hours a day, 7 days a week at **www.irs.gov** to:

- Download forms, instructions, and publications.
- See answers to frequently asked tax questions.
- Search publications on-line by topic or keyword.

- Send us comments or request help by e-mail.
- Sign up to receive local and national tax news by e-mail.

You can also reach us using file transfer protocol at **ftp.irs.gov**.

CD-ROM. Order **Pub. 1796**, Federal Tax Products on CD-ROM, and get:

- Current year forms, instructions, and publications.
- Prior year forms, instructions, and publications.
- Popular tax forms that may be filled in electronically, printed out for submission, and saved for recordkeeping.
- The Internal Revenue Bulletin.

Buy the CD-ROM on the Internet at **www.irs.gov/cdorders** from the National Technical Information Service (NTIS) for \$21 (no handling fee), or call **1-877-CDFORMS** (1-877-233-6767) toll-free to buy the CD-ROM for \$21 (plus a \$5 handling fee).

By phone and in person. You can order forms and publications 24 hours a day, 7 days a week, by calling **1-800-TAX-FORM** (1-800-829-3676). You can also get most forms and publications at your local IRS office.

General Instructions

Purpose of Form

Use **Form 1120**, U.S. Corporation Income Tax Return, and **Form 1120-A**, U.S. Corporation Short-Form Income Tax Return, to report the income, gains, losses, deductions, credits, and to figure the income tax liability of a corporation. Also see **Pub. 542**, Corporations, for more information.

Who Must File

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

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

Who May File Form 1120-A

Form 1120-A may be filed by a corporation if it met **all** of the following requirements during the tax year:

- Its gross receipts (line 1a on page 1) are under \$500,000.
- Its total income (line 11 on page 1) is under \$500,000.
- Its total assets (Form 1120, Schedule L, line 15) are under \$500,000.
- Its only dividend income is from domestic corporations and those dividends **(a)** qualify for the 70%

dividends-received deduction and **(b)** are not from debt-financed securities.

- It does not have any of the "write-in" additions to tax listed on pages 18 and 19 in the Instructions for Form 1120, Schedule J, line 3 or line 11.
- It has no nonrefundable tax credits (other than the general business credit or the credit for prior year minimum tax).
- It is not: **(a)** a member of a controlled group, **(b)** a personal holding company, **(c)** filing a consolidated return, **(d)** filing its final return, **(e)** dissolving or liquidating, **(f)** electing to forego the carryback period of an NOL, or **(g)** required to file one of the returns listed under **Special Returns for Certain Organizations** below.
- It does not have: **(a)** any ownership in a foreign corporation or foreign partnership, **(b)** foreign shareholders that directly or indirectly own 25% or more of its stock, or **(c)** any ownership in, or transactions with, a foreign trust.

Special Returns for Certain Organizations

Instead of filing Form 1120 or Form 1120-A, certain organizations, as shown below, have to file special returns.

If the organization is a	File Form
Farmers' cooperative (sec. 1381)	990-C
Exempt organization with unrelated trade or business income	990-T
Religious or apostolic organization exempt under section 501(d)	1065
Entity formed as a limited liability company under state law and treated as a partnership for Federal income tax purposes	1065
Entity that elects to be treated as a real estate mortgage investment conduit (REMIC) under sec. 860D	1066
Interest charge domestic international sales corporation (sec. 992)	1120-IC-DISC
Foreign corporation (other than life and property and casualty insurance company filing Form 1120-L or Form 1120-PC)	1120-F
Foreign sales corporation (sec. 922)	1120-FSC
Condominium management association or residential real estate management association that elects to be treated as a homeowners association under sec. 528	1120-H
Life insurance company (sec. 801)	1120-L
Fund set up to pay for nuclear decommissioning costs (sec. 468A)	1120-ND
Property and casualty insurance company (sec. 831)	1120-PC
Political organization (sec. 527)	1120-POL
Real estate investment trust (sec. 856)	1120-REIT
Regulated investment company (sec. 851)	1120-RIC
S corporation (sec. 1361)	1120S
Settlement fund (sec. 468B)	1120-SF

Ownership Interest in a FASIT

If a corporation holds an ownership interest in a **financial asset securitization investment trust (FASIT)**, it must report all items of income, gain,

deductions, losses, and credits on the corporation's income tax return (except as provided in section 860H). Show a breakdown of the items on an attached schedule. For more information, see sections 860H and 860L.

When To File

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

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

Private delivery services. You can use certain private delivery services designated by the IRS to meet the "timely mailing as timely filing/paying" rule for tax returns and payments. The most recent list of designated private delivery services was published by the IRS in August 1999.

The list includes only the following:

- Airborne Express (Airborne): Overnight Air Express Service, Next Afternoon Service, Second Day Service.
- DHL Worldwide Express (DHL): DHL "Same Day" Service, DHL USA Overnight.
- Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2 Day.
- United Parcel Service (UPS): UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, UPS 2nd Day Air A.M.

The private delivery service can tell you how to get written proof of the mailing date.

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

Who Must Sign

The return must be signed and dated by:

- The president, vice president, treasurer, assistant treasurer, chief accounting officer or
- Any other corporate officer (such as tax officer) authorized to sign.

Receivers, trustees, or assignees must also sign and date any return filed on behalf of a corporation.

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

The **paid preparer** must complete the required preparer information and—

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

Where To File

File your return at the applicable IRS address listed below.

If the corporation's principal business, office, or agency is located in	Use the following Internal Revenue Service Center address
Florida, Georgia	Atlanta, GA 39901-0012
Kansas, New Mexico, Oklahoma	Austin, TX 73301-0012
Delaware, District of Columbia, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, South Carolina, West Virginia, Wisconsin	Cincinnati, OH 45999-0012
New York (<i>New York City and counties of Nassau, Rockland, Suffolk, and Westchester</i>)	Holtzville, NY 00501-0012
New York (<i>all other counties</i>), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501-0012
Illinois	Kansas City, MO 64999-0012
Alabama, Tennessee	Memphis, TN 37501-0012
Alaska, Arizona, Arkansas, California (<i>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</i>), Colorado, Hawaii, Idaho, Iowa, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Texas, Utah, Washington, Wyoming	Ogden, UT 84201-0012
California (<i>all other counties</i>)	Fresno, CA 93888-0012
Virginia	Philadelphia, PA 19255-0012

Corporations with their principal place of business outside the United States or claiming a possessions tax credit (sections 936 and 30A) must file with the Internal Revenue Service Center, Philadelphia, PA 19255-0012.

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.

Other Forms, Returns, and Statements That May Be Required

Forms

The corporation may have to file some of the following forms. See the form for more information.

Employment Tax Returns

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 either of the following applies.

1. It paid wages of \$1,500 or more in any calendar quarter in 1999 or 2000 or
2. It had at least one employee who worked for the corporation for some part of a day in any 20 or more different weeks in 1999 or 20 or more different weeks in 2000.

Form 941, Employer's Quarterly Federal Tax Return, or **Form 943**, Employer's Annual Tax Return for Agricultural Employees. Employers must file these forms to report income tax withheld, and employer and employee social security and Medicare taxes. Also, see **Trust fund recovery penalty** on page 7.

Form 945, Annual Return of Withheld Federal Income Tax. File Form 945 to report income tax withholding from nonpayroll distributions or payments, such as the following income:

- Pensions, annuities, IRAs, military retirement, gambling winnings and
- Indian gaming profits and backup withholding.

See **Trust fund recovery penalty** on page 7.

Information Returns

Form W-2, Wage and Tax Statement, and **Form W-3**, Transmittal of Wage and Tax Statements. Use these forms to report withheld income, wages, tips, other compensation, social security, and Medicare taxes for an employee.

Form W-2G, Certain Gambling Winnings. Use this form to report gambling winnings from horse racing, dog racing, jai alai, lotteries, keno, bingo, slot machines, sweepstakes, wagering pools, etc.

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

Form 1098, Mortgage Interest Statement. Use this form to report the receipt from any individual of \$600 or more of mortgage interest (including points) in the course of the corporation's trade or business and reimbursements of overpaid interest.

Form 1098-E, Student Loan Interest Statement. Use this form to report the receipt of \$600 or more of student loan interest in the course of the corporation's trade or business.

Forms 1099. Use these information returns to report the following:

- **Form 1099-A.** Acquisitions and abandonments of secured property.
- **Form 1099-B.** Proceeds from broker and barter exchange transactions.
- **Form 1099-C.** Cancellation of a debt.
- **Form 1099-DIV.** Certain dividends and distributions.
- **Form 1099-INT.** Interest income.
- **Form 1099-LTC.** Certain payments made under a long-term care insurance contract and certain accelerated death benefits.

● **Form 1099-MISC.** Miscellaneous income (e.g., payments to certain fishing boat crew members; payments to providers of health and medical services; rent or royalty payments; nonemployee compensation, etc.).

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

● **Form 1099-MSA.** Distributions from a medical savings account (MSA) or Medicare+Choice MSA.

● **Form 1099-OID.** Original issue discount.

● **Form 1099-PATR.** Distributions from cooperatives to their patrons.

● **Form 1099-R.** Distributions from pensions, annuities, retirement or profit-sharing plans, individual retirement arrangements (IRAs) (including SEPs, SIMPLEs, Roth IRAs, Ed IRAs, Roth conversions, and IRA recharacterizations), or insurance contracts.

● **Form 1099-S.** Gross proceeds from the sale or exchange of real estate transactions.

Also use these returns to report amounts received as a nominee for another person.

Form 5498, IRA Contribution Information. Use this form to report contributions (including rollover contributions) to any IRA, including a SEP, SIMPLE, Roth IRA and Ed IRA, Roth conversions, IRA recharacterization, and the fair market value of the account.

Form 5498-MSA, MSA or Medicare+Choice MSA Information. Use this form to report contributions to a medical savings account (MSA) and the fair market value of an MSA or Medicare+Choice MSA.

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

Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips. Use this form to report receipts from large food or beverage operations, tips reported by employees, and allocated tips.

Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments. Use this form to report the issuance of public offerings of debt instruments (obligations).

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

International Forms

Form 926, Return by a U.S. Transferor of Property to a Foreign Corporation. This form is filed to report certain transfers to foreign corporations under section 6038B.

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 send withheld tax on payments or distributions made to nonresident alien individuals, foreign partnerships, or foreign corporations.

Also see **Pub. 515,** Withholding of Tax on Nonresident Aliens and Foreign Corporations, and sections 1441 and 1442.

Form 3520, Annual Return to Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts. Use this form to report a distribution received from a foreign trust; or, if the corporation was the grantor of, transferor of, or transferor to, a foreign trust that existed during the tax year. (See Question 5 of Schedule N (Form 1120)).

Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations. This form is required if the corporation controls a foreign corporation; acquires, disposes of, or owns 10% or more in value or vote of the outstanding stock of a foreign corporation; or had control of a foreign corporation for an uninterrupted period of at least 30 days during the annual accounting period of the foreign corporation. (See Question 4 of Schedule N (Form 1120)).

Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. This form is filed if the corporation is 25% or more foreign-owned. See Question 7 on page 20.

Form 5713, International Boycott Report. Corporations that had operations in, or related to, certain "boycotting" countries file Form 5713.

Form 8621, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund. Use this form to make certain elections by shareholders in a passive foreign investment company and to figure certain deferred taxes.

Form 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships. A domestic corporation may have to file Form 8865 if it:

1. Controlled a foreign partnership (i.e., owned more than a 50% direct or indirect interest in the partnership).
2. Owned at least a 10% direct or indirect interest in a foreign partnership while U.S. persons controlled that partnership.
3. Had an acquisition, disposition, or change in proportional interest in a foreign partnership that:
 - Increased its direct interest to at least 10% or reduced its direct interest of at least 10% to less than 10%.
 - Changed its direct interest by at least a 10% interest.

4. Contributed property to a foreign partnership in exchange for a partnership interest if:

- Immediately after the contribution, the corporation owned, directly or indirectly, at least a 10% interest in the foreign partnership; or
- The fair market value of the property the corporation contributed to the foreign

partnership in exchange for a partnership interest, when added to other contributions of property made to the foreign partnership during the preceding 12-month period, exceeds \$100,000.

Also, the domestic corporation may have to file Form 8865 to report certain dispositions by a foreign partnership of property it previously contributed to that partnership if it was a partner at the time of the disposition. For more details, including penalties for failing to file Form 8865, see Form 8865 and its separate instructions.

Other Forms

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

Form 952, Consent To Extend Period of Limitation on Assessment of Income Taxes. This form is filed to extend the period of assessment of all income taxes of the receiving corporation on the complete liquidation of a subsidiary under section 332.

Form 966, Corporate Dissolution or Liquidation. Use this form to report the adoption of a resolution or plan to dissolve the corporation or liquidate any of its stock.

Form 5452, Corporate Report of Nondividend Distributions. Use this form to report nondividend distributions.

Form 8264, Application for Registration of a Tax Shelter. Tax shelter organizers use this form to receive a tax shelter registration number from the IRS.

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 return) 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, and **Form 8275-R,** Regulation Disclosure Statement. Disclose items or positions taken on a tax return that are not otherwise adequately disclosed on a tax return or that are contrary to Treasury regulations (to avoid parts of the accuracy-related penalty or certain preparer penalties).

Form 8594, Asset Acquisition Statement. Corporations file this form to report the purchase or sale of a group of assets that constitute a trade or business if goodwill or going concern value attach to the assets.

Form 8697, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts. This form is used to figure the interest due or to be refunded under the look-back method of section 460(b)(2). The look-back method applies to certain long-term contracts accounted for under the percentage of completion

method or percentage of completion-capitalized cost method.

Form 8810, Corporate Passive Activity Loss and Credit Limitations. Closely held corporations (and corporations that are personal service corporations) must use this form to compute the passive activity loss and credit allowed under section 469.

Form 8817, Allocation of Patronage and Nonpatronage Income and Deductions. Use this form to figure and report patronage and nonpatronage income and deductions (used by taxable cooperatives).

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

Form 8849, Claim for Refund of Excise Taxes. Corporations use this form to claim a refund of certain excise taxes.

Form 8866, Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method. Figure the interest due or to be refunded under the look-back method of section 167(g)(2) for property placed in service after September 13, 1995, that is depreciated under the income forecast method.

Consolidated Return

The parent corporation of an **affiliated group** of corporations must attach **Form 851**, Affiliations Schedule, to the consolidated return. For the first year a consolidated return is filed, each subsidiary must attach **Form 1122**, Authorization and Consent of Subsidiary Corporation To Be Included in a Consolidated Income Tax Return.

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

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

Enter the totals for the consolidated group on Form 1120. Attach consolidated balance sheets and a reconciliation of consolidated retained earnings. For more information on consolidated returns, see the regulations under section 1502.

Farm Return

Do not file **Schedule F (Form 1040)**, Profit or Loss From Farming. Instead, enter income on lines 1a through 10, and see the related instructions. Forms 1120 and 1120-A have entry lines for many of the expenses deducted by farming corporations. Expenses not listed on the form should be entered on the line for "Other deductions." Attach a schedule,

listing by type and amount, all deductions shown on this line. Also, see the instructions for lines 12 through 26 and line 29a, Form 1120 (lines 12 through 22 and line 25a, Form 1120-A).

Amended Return

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

Statements

Corporate tax shelters. A corporation is required to disclose its participation in certain tax shelters:

- By attaching a **disclosure statement** to its income tax return for a reportable transaction for each tax year its income tax liability is affected by its participation in the transaction and
- For the first tax year a disclosure statement is attached to its tax return, by sending a copy of the disclosure statement to the Internal Revenue Service, LM:PFTG:OTSA, 1111 Constitution Ave., NW, Washington, DC 20224.

Disclosure is required for reportable transactions that are: **(a)** listed transactions that the IRS has identified as tax avoidance transactions and **(b)** other reportable transactions that have tax shelter characteristics. A listed transaction must be reported if it is expected to reduce the taxpayer's income tax liability by more than \$1 million in a single tax year or by a total of more than \$2 million for any combination of years. For other reportable transactions, the threshold increases to \$5 million for a single tax year or to \$10 million for any combination of years. Generally, reporting is not required for customary business transactions or transactions with tax benefits that the IRS has no reasonable basis to challenge.

See Temporary Regulations section 1.6011-4T for details, including:

- The definition of a reportable transaction and a listed transaction,
- The relevant tax shelter characteristics for other reportable transactions,
- The form and content of the disclosure statement, and
- The filing requirements of the disclosure statement.

Also see Notice 2000-15, 2000-12 I.R.B. 826 and Notice 2000-44, 2000-36 I.R.B. 255, for certain listed transactions determined to have a tax avoidance purpose and the intended tax benefits that are subject to disallowance. The listed transactions in these notices may be updated from time to time when other tax avoidance transactions are identified.

Stock ownership in foreign

corporations. Attach the statement required by section 551(c) if:

- The corporation owned 5% or more in value of the outstanding stock of a foreign personal holding company and
- The corporation was required to include in its gross income any undistributed foreign personal holding company income from a foreign personal holding company.

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.

Dual consolidated losses. If a domestic corporation incurs a dual consolidated loss (as defined in Regulations section 1.1503-2(c)(5)), the corporation (or consolidated group) may need to attach an elective relief agreement and/or an annual certification as provided in Regulations section 1.1503-2(g)(2).

Assembling the Return

After page 4, Form 1120, or page 2, Form 1120-A, assemble any schedules and other forms in the following order.

1. Schedule N (Form 1120).
2. Form 4136, Form 4626, and Form 851.
3. Additional schedules in alphabetical order.
4. Additional forms in numerical order.

Complete every applicable entry space on Form 1120 or Form 1120-A. Do not write "See attached" instead of completing the entry spaces. If more space is needed on the forms or schedules, attach separate sheets using the same size and format as the printed forms. If there are supporting statements and attachments, arrange them in the same order as the schedules or forms they support and attach them last. Show the totals on the printed forms. Also, be sure to enter the corporation's name and EIN on each supporting statement or attachment.

Accounting Methods

An accounting method is a set of rules used to determine when and how income and expenses are reported.

Figure taxable income using the method of accounting regularly used in keeping the corporation's books and records. Generally, permissible methods include:

- Cash,
- Accrual, or
- Any other method authorized by the Internal Revenue Code.

In all cases, the method used must clearly show taxable income. If inventories are required, the accrual method must be used for sales and purchases of merchandise. See **Cost of Goods Sold** on page 14.

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

Under the accrual method, an amount is includable in income when:

- All the events have occurred that fix the right to receive the income, which is the earliest of the date: **(a)** the required performance takes place, **(b)** payment is due, or **(c)** payment is received and

- The amount can be determined with reasonable accuracy.

See Regulations section 1.451-1(a) for details.

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year when:

- All events that determine the liability have occurred,
- The amount of the liability can be figured with reasonable accuracy, and
- Economic performance takes place with respect to the expense.

There are exceptions to the economic performance rule for certain items, including recurring expenses. See section 461(h) and the related regulations for the rules for determining when economic performance takes place.

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

Mark-to-market accounting method. Generally, dealers in securities must use the mark-to-market accounting method described in section 475. Under this method, any security that is inventory to the dealer must be included in inventory at its fair market value (FMV). Any security held by a dealer that is not inventory and that is held at the close of the tax year is treated as sold at its FMV on the last business day of the tax year. Any gain or loss must be taken into account in determining gross income. The gain or loss taken into account is generally treated as ordinary gain or loss. For details, including exceptions, see section 475, the related regulations, and Rev. Rul. 94-7, 1994-1 C.B. 151.

Dealers in commodities and traders in securities and commodities may elect to use the mark-to-market accounting method. To make the election, the corporation must file a statement describing the election, the first tax year the election is to be effective, and, in the case of an election for traders in securities or commodities, the trade or business for which the election is made. Except for new taxpayers, the statement must be filed by the due date (not including extensions) of the income tax return for the tax year immediately **preceding** the election year and attached to that return, or if applicable, to a request for an extension of time to file that return. For more details, see Rev. Proc. 99-17, 1999-1 C.B. 503, and sections 475(e) and (f).

Change in accounting method. Generally, the corporation must get IRS consent to change the method of accounting used to report taxable income (for income as a whole or for any material item). To do so, it must file **Form 3115**, Application for Change in Accounting Method. For more information, see **Pub. 538**, Accounting Periods and Methods.

Accounting Periods

A corporation must figure its taxable income on the basis of a tax year. The tax

year is the annual accounting period the corporation uses to keep its records and report its income and expenses. Generally, corporations can use a calendar year or a fiscal year. Personal service corporations, however, must use a calendar year unless they meet one of the exceptions discussed in **Accounting period** under **Item A** on page 7.

For more information about accounting periods, see Temporary Regulations sections 1.441-1T, 1.441-2T, and Pub. 538.

Calendar year. If the calendar year is adopted as the annual accounting period, the corporation must maintain its books and records and report its income and expenses for the period from January 1 through December 31 of each year.

Fiscal year. A fiscal year is 12 consecutive months ending on the last day of any month except December. A 52–53-week year is a fiscal year that varies from 52 to 53 weeks.

Adoption of tax year. A corporation adopts a tax year when it files its first income tax return. It must adopt a tax year by the due date (not including extensions) of its first income tax return.

Change of tax year. Generally, a corporation must get the consent of the IRS before changing its tax year by filing **Form 1128**, Application To Adopt, Change, or Retain a Tax Year. However, under certain conditions, a corporation (other than a personal service corporation) may change its tax year without getting the consent. See Regulations section 1.442-1 and Pub. 538.

Rounding Off to Whole Dollars

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

Recordkeeping

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

The corporation should keep copies of all filed returns. They help in preparing future returns and amended returns.

Depository Method of Tax Payment

The corporation must pay the tax due in full no later than the 15th day of the 3rd month after the end of the tax year. The two methods of depositing corporate income taxes are discussed below.

Electronic Deposit Requirement

The corporation must make electronic deposits of **all** depository taxes (such as employment tax, excise tax, and corporate income tax) using the Electronic Federal Tax Payment System (EFTPS) in 2001 if:

- The total deposits of such taxes in 1999 were more than \$200,000 or
- The corporation was required to use EFTPS in 2000.

If the corporation is required to use EFTPS and fails to do so, it may be subject to a 10% penalty. If the corporation is not required to use EFTPS, it may participate voluntarily. To enroll in or get more information about EFTPS, call 1-800-555-4477 or 1-800-945-8400.

Depositing on time. For deposits made by EFTPS to be on time, the corporation must initiate the transaction at least 1 business day before the date the deposit is due.

Deposits With Form 8109

If the corporation does not use EFTPS, deposit corporation income tax payments (and estimated tax payments) with **Form 8109**, Federal Tax Deposit Coupon. If you do not have a preprinted Form 8109, use Form 8109-B to make deposits. You can get this form **only** by calling 1-800-829-1040. Be sure to have your employer identification number (EIN) ready when you call.

Do not send deposits directly to an IRS office; otherwise, the corporation may have to pay a penalty. Mail or deliver the completed Form 8109 with the payment to an authorized depository, i.e., a commercial bank or other financial institution authorized to accept Federal tax deposits.

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

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

 *If the corporation owes tax when it files Form 1120 or Form 1120-A, do not include the payment with the tax return. Instead, mail or deliver the payment with Form 8109 to an authorized depository, or use EFTPS, if applicable.*

Estimated Tax Payments

Generally, the following rules apply to the corporation's payments of estimated tax.

- The corporation must make installment payments of estimated tax if it expects its estimated tax (income tax minus credits) to be \$500 or more.
- The installments are due by the 15th day of the 4th, 6th, 9th, and 12th months of the tax year. If any date falls on a Saturday, Sunday, or legal holiday, the installment is due on the next regular business day.

- Use **Form 1120-W**, Estimated Tax for Corporations, as a worksheet to compute estimated tax.
- If the corporation does not use EFTPS, use the deposit coupons (Forms 8109) to make deposits of estimated tax.

For more information on estimated tax payments, including penalties that apply if the corporation fails to make required payments, see the instructions for line 33 on page 14.

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

Interest and Penalties

Interest. Interest is charged on taxes paid late even if an extension of time to file is granted. Interest is also charged on penalties imposed for failure to file, negligence, fraud, gross valuation overstatements, and substantial understatements of tax from the due date (including extensions) to the date of payment. The interest charge is figured at a rate determined under section 6621.

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

Penalty for late payment of tax. A corporation that does not pay the tax when due generally may be penalized 1/2 of 1% of the unpaid tax for each month or part of a month the tax is not paid, up to a maximum of 25% of the unpaid tax. The penalty will not be imposed if the corporation can show that the failure to pay on time was due to reasonable cause.

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. These taxes are generally reported on Forms 720, 941, 943, or 945 (see **Other Forms, Returns, and Statements That May Be Required** on page 3). 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.

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

Specific Instructions

Period Covered

File the 2000 return for calendar year 2000 and fiscal years that begin in 2000 and end in 2001. For a fiscal year, fill in the tax year space at the top of the form.

Note: *The 2000 Form 1120 may also be used if:*

- *The corporation has a tax year of less than 12 months that begins and ends in 2001 and*

- *The 2001 Form 1120 is not available at the time the corporation is required to file its return.*

The corporation must show its 2001 tax year on the 2000 Form 1120 and take into account any tax law changes that are effective for tax years beginning after December 31, 2000.

Name

Use the label on the tax package information form (Form 8160-A) or the Form 1120 package that was mailed to the corporation. Cross out any errors and print the correct information on the label. If the corporation doesn't have a label, print or type the corporation's true name (as set forth in the charter or other legal document creating it), address, and EIN on the appropriate lines.

Address

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

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

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

Employer Identification Number (EIN)

Show the correct EIN in item B on page 1 of Form 1120 or Form 1120-A. If the corporation does not have an EIN, it should apply for one on **Form SS-4**, Application for Employer Identification Number. If the corporation has not received its EIN by the time the return is due, write "Applied for" in the space for the EIN. See Pub. 583 for details.

Item A—Personal Service Corporation

A personal service corporation is a corporation whose principal activity (defined below) for the testing period for the tax year is the performance of personal services. The services must be substantially performed by employee-owners. Employee-owners must own more than 10% of the fair market value of the corporation's outstanding stock on the last day of the testing period.

Testing period. Generally, the testing period for a tax year is the prior tax year. The testing period for a new corporation starts with the first day of its first tax year and ends on the **earlier** of:

- The last day of its first tax year or
- The last day of the calendar year in which the first tax year began.

Principal activity. The principal activity of a corporation is considered to be the performance of personal services if, during the testing period, the corporation's compensation costs for the performance of personal services (defined below) are more than 50% of its total compensation costs.

Performance of personal services. Personal services are those performed in the health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting fields (as defined in Temporary Regulations section 1.448-1T(e)). The term "performance of personal services" includes any activity involving the performance of personal services in these fields.

Substantial performance by employee-owners. Personal services are substantially performed by employee-owners if, for the testing period, more than 20% of the corporation's compensation costs for the performance of personal services are for services performed by employee-owners.

Employee-owner. A person is considered to be an employee-owner if the person:

- Is an employee of the corporation on any day of the testing period and
- Owns any outstanding stock of the corporation on any day of the testing period.

Stock ownership is determined under the attribution rules of section 318, except that "any" is substituted for "50%" in section 318(a)(2)(C).

Accounting period. A personal service corporation must use a calendar tax year unless:

- It can establish a business purpose for a different tax year (see Rev. Proc. 87-32, 1987-2 C.B. 396, and Rev. Rul. 87-57, 1987-2 C.B. 117) or
- It elects under section 444 to have a tax year other than a calendar year. To make the election, see **Form 8716**, Election To Have a Tax Year Other Than a Required Tax Year.

Personal service corporations that want to change their tax year must also file Form 1128.

If a corporation makes the section 444 election, its deduction for certain amounts paid to employee-owners may be limited. See **Schedule H (Form 1120)**, Section 280H Limitations for a Personal Service Corporation (PSC), to figure the maximum deduction.

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

For more information about personal service corporations, see Temporary Regulations section 1.441-4T.

Other rules. For other rules that apply to personal service corporations, see **Passive activity limitations** on page 9 and **Contributions of property other than cash** on page 11.

Item D—Total Assets

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

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

- If this is the corporation's first return, check the "Initial return" box.
- If the corporation ceases to exist, file Form 1120 and check the "Final return" box. Do not file Form 1120-A.
- If the corporation has changed its address since it last filed a return, check the box for "Change of address."

Income

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

Line 1

Gross Receipts

Enter gross receipts or sales from all business operations except those that must be reported on lines 4 through 10. In general, advance payments are reported in the year of receipt. To report income from long-term contracts, see section 460. For special rules for reporting certain advance payments for goods and long-term contracts, see Regulations section 1.451-5. For permissible methods for reporting advance payments for services by an accrual method corporation, see Rev. Proc. 71-21, 1971-2 C.B. 549.

Installment sales. Generally, the installment method cannot be used for:

- Sales of property after December 16, 1999, that would otherwise be reported using the accrual method of accounting.
- Dealer dispositions of property. A "dealer disposition" is: (a) any disposition

of personal property by a person who regularly sells or otherwise disposes of personal property of the same type on the installment plan or (b) any disposition of real property held for sale to customers in the ordinary course of the taxpayer's trade or business.

Exception. These restrictions on using the installment method do not apply to dispositions of property used or produced in a farming business or sales of timeshares and residential lots for which the corporation elects to pay interest under section 453(l)(3).

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

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

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

For sales of timeshares and residential lots reported under the installment method, the corporation's income tax is increased by the interest payable under section 453(l)(3). To report this addition to the tax, see the instructions for line 11, Schedule J, Form 1120.

Nonaccrual experience method.

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

Line 2

Cost of Goods Sold

Enter the cost of goods sold on line 2, page 1. Before making this entry, a Form 1120 filer must complete Schedule A on page 2 of Form 1120. See the Schedule A instructions on page 14. Form 1120-A filers may use the worksheet on page 14 to figure the amount to enter on line 2.

Line 4

Dividends

Form 1120 filers. See the instructions for Schedule C on page 15. Then, complete Schedule C and enter on line 4 the amount from Schedule C, line 19.

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

Line 5

Interest

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

Do not offset interest expense against interest income.

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

Line 6

Gross Rents

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

Line 8

Capital Gain Net Income

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

Line 9

Net Gain or (Loss)

Enter the net gain or (loss) from line 18, Part II, **Form 4797**, Sales of Business Property.

Line 10

Other Income

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

- Any adjustment under section 481(a) required to be included in income during the current tax year due to a change in a method of accounting.
- Recoveries of bad debts deducted in prior years under the specific charge-off method.
- The amount of credit for alcohol used as fuel (determined without regard to the limitation based on tax) entered on **Form 6478**, Credit for Alcohol Used as Fuel.
- Refunds of taxes deducted in prior years to the extent they reduced income subject to tax in the year deducted (see section 111). Do not offset current year taxes against tax refunds.
- The amount of any deduction previously taken under section 179A that is subject to recapture. The corporation must recapture the benefit of any allowable

deduction for clean-fuel vehicle property (or clean-fuel vehicle refueling property), if the property later ceases to qualify. See Regulations section 1.179A-1 for details.

- Ordinary income from trade or business activities of a partnership (from Schedule K-1 (Form 1065 or 1065-B)). Do not offset ordinary losses against ordinary income. Instead, include the losses on line 26, Form 1120, or line 22, Form 1120-A. Show the partnership's name, address, and EIN on a separate statement attached to this return. If the amount entered is from more than one partnership, identify the amount from each partnership.

- Any LIFO recapture amount under section 1363(d). The corporation may have to include a LIFO recapture amount in income if it:

1. Used the LIFO inventory method for its last tax year before the first tax year for which it elected to become an S corporation or

2. Transferred LIFO inventory assets to an S corporation in a nonrecognition transaction in which those assets were transferred basis property.

The LIFO recapture amount is the amount by which the C corporation's inventory under the FIFO method exceeds the inventory amount under the LIFO method at the close of the corporation's last tax year as a C corporation (or for the year of the transfer, if 2 above applies). For more information, see Regulations section 1.1363-2 and Rev. Proc. 94-61, 1994-2 C.B. 775. Also see the instructions for Schedule J, line 11.

Deductions

Limitations on Deductions

Section 263A uniform capitalization rules. The uniform capitalization rules of section 263A require corporations to capitalize, or include in inventory costs, certain costs incurred in connection with:

- The production of real property and tangible personal property held in inventory or held for sale in the ordinary course of business.
- Real property or personal property (tangible and intangible) acquired for resale.
- The production of real property and tangible personal property by a corporation for use in its trade or business or in an activity engaged in for profit.

Tangible personal property produced by a corporation includes a film, sound recording, videotape, book, or similar property.

Corporations subject to the section 263A uniform capitalization rules are required to capitalize:

1. Direct costs and
2. An allocable part of most indirect costs (including taxes) that (a) benefit the assets produced or acquired for resale or (b) are incurred by reason of the performance of production or resale activities.

For inventory, some of the **indirect expenses** that must be capitalized are:

- Administration expenses.

- Taxes.
- Depreciation.
- Insurance.
- Compensation paid to officers attributable to services.
- Rework labor.
- Contributions to pension, stock bonus, and certain profit-sharing, annuity, or deferred compensation plans.

Regulations section 1.263A-1(e)(3) specifies other indirect costs that relate to production or resale activities that must be capitalized and those that may be currently deductible.

Interest expense paid or incurred during the production period of designated property must be capitalized and is governed by special rules. For more details, see Regulations sections 1.263A-8 through 1.263A-15.

The costs required to 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.

Exceptions. Section 263A does not apply to:

- Personal property acquired for resale if the corporation's average annual gross receipts for the 3 prior tax years were \$10 million or less.
- Timber.
- Most property produced under a long-term contract.
- Certain property produced in a farming business.
- Research and experimental costs under section 174.
- Intangible drilling costs for oil, gas, and geothermal property.
- Mining exploration and development costs.
- Inventory of a cash method corporation that does not account for inventories. See **Pub. 553**, Highlights of 2000 Tax Changes, for details.

For more details on the uniform capitalization rules, see Regulations sections 1.263A-1 through 1.263A-3 and section 1.263A-4 for rules for property produced in a farming business.

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

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

Golden parachute payments. A portion of the payments made by a corporation to key personnel that exceeds their usual compensation may not be deductible. This occurs when the corporation has an agreement (golden parachute) with these key employees to pay them these

excessive amounts if control of the corporation changes. See section 280G.

Business startup expenses. Business startup expenses must be capitalized unless an election is made to amortize them over a period of 60 months. See section 195 and Regulations section 1.195-1.

Passive activity limitations. Limitations on passive activity losses and credits under section 469 apply to personal service corporations as defined in Temporary Regulations section 1.441-4T (see **Item A—Personal Service Corporation** on page 7 and **Closely held corporations** below).

Generally, the two kinds of passive activities are:

- Trade or business activities in which the corporation did not materially participate for the tax year (see Temporary Regulations section 1.469-1T(g)(3)) and
- Rental activities regardless of its participation.

For exceptions, see Form 8810. An activity is a trade or business activity if it is not a rental activity, and

- The activity involves the conduct of a trade or business (i.e., deductions from the activity would be allowable under section 162 if other limitations, such as the passive loss rules, did not apply) or
- The activity involves research and experimental costs that are deductible under section 174 (or would be deductible if the corporation chose to deduct rather than capitalize them).

Corporations subject to the passive activity limitations must complete Form 8810 to compute their allowable passive activity loss and credit. Before completing Form 8810, see Temporary Regulations section 1.163-8T, which provides rules for allocating interest expense among activities. If a passive activity is also subject to the earnings stripping rules of section 163(j) or the at-risk rules of section 465, those rules apply before the passive loss rules. For more information, see section 469, the related regulations, and **Pub. 925**, Passive Activity and At-Risk Rules.

Closely held corporations. For this purpose, a corporation is a closely held corporation if:

- At any time during the last half of the tax year more than 50% in value of its outstanding stock is owned, directly or indirectly, by or for not more than five individuals and
- The corporation is not a personal service corporation.

Certain organizations are treated as individuals for purposes of this test. (See section 542(a)(2).) For rules of determining stock ownership, see section 544 (as modified by section 465(a)(3)).

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

- Work opportunity credit.
- Research credit.
- Enhanced oil recovery credit.

- Disabled access credit.
- Empowerment zone employment credit.
- Indian employment credit.
- Employer credit for social security and Medicare taxes paid on certain employee tips.
- Orphan drug credit.
- Welfare-to-work credit.

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

Line 12

Compensation of Officers

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

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

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

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

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

For this purpose, compensation does not include the following:

- Income from certain employee trusts, annuity plans, or pensions and
- 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 parachute payments under section 280G.

For details, see section 162(m) and Regulations section 1.162-27.

Line 13

Salaries and Wages

Enter the amount of salaries and wages paid for the tax year, reduced by:

- Any work opportunity credit from Form 5884,
- Any empowerment zone employment credit from Form 8844,
- Any Indian employment credit from Form 8845, and
- Any welfare-to-work credit from Form 8861.

See the instructions for these forms for more information. Do not include salaries and wages deductible elsewhere on the return, such as amounts included in cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement or a SIMPLE IRA plan.



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

Line 14

Repairs and Maintenance

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

Line 15

Bad Debts

Enter the total debts that became worthless in whole or in part during the tax year. A small bank or thrift institution using the reserve method of section 585 should attach a schedule showing how it arrived at the current year's provision.



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

Line 16

Rents

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

And the vehicle's FMV on the first day of the lease exceeded:

The lease term began:

After 12/31/98	\$15,500
After 12/31/96 but before 1/1/99.....	\$15,800
After 12/31/94 but before 1/1/97.....	\$15,500
After 12/31/93 but before 1/1/95.....	\$14,600

If the lease term began before January 1, 1994, or, the leased vehicle was an electric vehicle, see **Pub. 463**, Travel, Entertainment, Gift, and Car Expenses, to find out if the corporation has an inclusion amount.

See Pub. 463 for instructions on figuring the inclusion amount.

Line 17

Taxes and Licenses

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

- Federal income taxes.
 - Foreign or U.S. possession income taxes if a tax credit is claimed (however, see the Instructions for Form 5735 for special rules for possession income taxes).
 - Taxes not imposed on the corporation.
 - Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (these taxes must be treated as a part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition).
 - Taxes assessed against local benefits that increase the value of the property assessed (such as for paving, etc.).
 - Taxes deducted elsewhere on the return, such as those reflected in cost of goods sold.
- See section 164(d) for apportionment of taxes on real property between seller and purchaser.

Line 18

Interest

Note: *The deduction for interest is limited when the corporation is a policyholder or beneficiary with respect to a life insurance, endowment, or annuity contract issued after June 8, 1997. For details, see section 264(f). Attach a statement showing the computation of the deduction.*

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

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

Do not deduct the following interest:

- Interest on indebtedness incurred or continued to purchase or carry obligations if the interest is wholly exempt from income tax. For exceptions, see section 265(b).
- For cash basis taxpayers, prepaid interest allocable to years following the current tax year (e.g., a cash basis calendar year taxpayer who in 2000

prepaid interest allocable to any period after 2000 can deduct only the amount allocable to 2000).

- Interest and carrying charges on straddles. Generally, these amounts must be capitalized. See section 263(g).
- Interest on debt allocable to the production of designated property by a corporation for its own use or for sale. The corporation must capitalize this interest. Also capitalize any interest on debt allocable to an asset used to produce the property. See section 263A(f) and Regulations section 1.263A-8 through 1.263A-15 for definitions and more information.

Special rules apply to:

- Interest on which no tax is imposed (see section 163(j)).
- Foregone interest on certain below-market-rate loans (see section 7872).
- Original issue discount on certain high-yield discount obligations. (See section 163(e) to figure the disqualified portion.)

Line 19

Charitable Contributions

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

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

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

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

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

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

To figure the amount of any remaining NOL carryover to later years, taxable income must be modified (see section 172(b)). To the extent that contributions

are used to reduce taxable income for this purpose and increase an NOL carryover, a contributions carryover is not allowed. See section 170(d)(2)(B).

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, either gives a description and a good faith estimate of the value of any goods or services provided in return for the contribution, or states that no goods or services were provided in return for the contribution. The acknowledgment must be obtained by the due date (including extensions) of the corporation's return, or, if earlier, the date the return is filed. Do not attach the acknowledgment to the tax return, but keep it with the corporation's records. These rules apply in addition to the filing requirements for Form 8283 described below.

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

Contributions 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.

Contributions of property other than cash.

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

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

Reduced deduction for contributions of certain property. For a charitable contribution of property, the corporation must reduce the contribution by the sum of:

- The ordinary income and short-term capital gain that would have resulted if the property were sold at its FMV and
- For certain contributions, the long-term capital gain that would have resulted if the property were sold at its FMV.

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 to or for the use of certain private foundations except for stock for which market quotations are readily available (section 170(e)(5)).

Larger deduction. A larger deduction is allowed for certain contributions of:

- Inventory and other property to certain organizations for use in the care of the ill, needy, or infants (see section 170(e)(3) and Regulations section 1.170A-4A);
- Scientific equipment used for research to institutions of higher learning or to certain scientific research organizations (other than by personal holding companies and service organizations) (see section 170(e)(4)); and
- Computer technology and equipment to schools.

Contributions of computer technology and equipment to schools.

A corporation may take an increased deduction under section 170(e)(6) for qualified contributions of computer technology or equipment for elementary or secondary school purposes. A contribution is a qualified contribution if:

- It is made to an eligible donee (see below);
- Substantially all of the donee property's use is:
 1. Related to the purpose or function of the donee;
 2. For use within the United States; and
 3. For educational purposes in any grade K–12.
- The contribution is made not later than 2 years after the date the taxpayer acquired or substantially completed the construction of the property;
- The original use of the property is by the donor or the donee;
- The property is not transferred by the donee for money, services, or other property, except for shipping, transfer, and installation costs; and
- The property fits productively into the donee's education plan.

Eligible donee. The term "eligible donee" means:

- An educational organization that normally maintains a regular faculty and curriculum and has a regularly enrolled body of pupils in attendance at the place where its educational activities are regularly conducted or
 - A section 501(c)(3) entity organized primarily for purposes of supporting elementary and secondary education.
- Note:** Contributions of computer technology or equipment to private foundations may be treated as qualified elementary or secondary educational

contributions if certain requirements are met. See section 170(e)(6)(C).

Line 20

Depreciation

Besides depreciation, include on line 20 the part of the cost that the corporation elected to expense under section 179 for certain tangible property placed in service during tax year 2000 or carried over from 1999. See Form 4562 and its instructions.

Line 22 (Form 1120 Only)

Depletion

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

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

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

Line 24 (Form 1120 Only)

Pension, Profit-Sharing, etc., Plans

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

Form 5500, Annual Return/Report of Employee Benefit Plan. File this form for a plan that is not a one-participant plan (see below).

Form 5500-EZ, Annual Return of One-Participant (Owners and Their Spouses) Retirement Plan. File this form for a plan that only covers the owner (or the owner and his or her spouse) but only if the owner (or the owner and his or her spouse) owns the entire business.

Line 25 (Form 1120 Only)

Employee Benefit Programs

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

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

Other Deductions

Attach a schedule, listing by type and amount, all allowable deductions that are not deductible elsewhere on Form 1120

or Form 1120-A. Form 1120-A filers should include amounts described in the instructions above for lines 22, 24, and 25 of Form 1120. Enter the total of other deductions on line 26, Form 1120 (line 22, Form 1120-A).

Examples of other deductions include:

- Amortization of pollution control facilities, organization expenses, etc. (see Form 4562).
- Insurance premiums.
- Legal and professional fees.
- Supplies used and consumed in the business.
- Utilities.
- Ordinary losses from trade or business activities of a partnership (from Schedule K-1 (Form 1065 or 1065-B)). Do not offset ordinary income against ordinary losses. Instead, include the income on line 10. Show the partnership's name, address, and EIN on a separate statement attached to this return. If the amount is from more than one partnership, identify the amount from each partnership.
- Dividends paid in cash on stock held by an employee stock ownership plan. However, a deduction may only be taken if, according to the plan, the dividends are:
 1. Paid in cash directly to the plan participants or beneficiaries;
 2. Paid to the plan, which distributes them in cash to the plan participants or their beneficiaries no later than 90 days after the end of the plan year in which the dividends are paid; or
 3. Used to make payments on a loan described in section 404(a)(9). See section 404(k) for more details and the limitation on certain dividends.

Also see **Special rules** below for limits on certain other deductions.

Do not deduct:

- Fines or penalties paid to a government for violating any law.
- Any amount that is allocable to a class of exempt income. See section 265(b) for exceptions.

Special rules apply to the following expenses:

Travel, meals, and entertainment. Subject to limitations and restrictions discussed below, a corporation can deduct ordinary and necessary travel, meals, and entertainment expenses paid or incurred in its trade or business. Also, special rules apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets. See section 274 and Pub. 463 for more details.

Travel. The corporation cannot deduct travel expenses of any individual accompanying a corporate officer or employee, including a spouse or dependent of the officer or employee, unless:

- That individual is an employee of the corporation and
- His or her travel is for a bona fide business purpose and would otherwise be deductible by that individual.

Meals and entertainment. Generally, the corporation can deduct only 50% of the amount otherwise allowable for meals and entertainment expenses paid or

incurred in its trade or business. In addition (subject to exceptions under section 274(k)(2)):

- 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(n)(3) for a special rule that applies to expenses for meals consumed by individuals subject to the hours of service limits of the Department of Transportation.

Membership dues. The corporation may deduct amounts paid or incurred for membership dues in 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. However, no deduction is allowed if a principal purpose of the organization is to entertain, or provide entertainment facilities for, members or their guests. In addition, corporations may not deduct membership dues 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.

Entertainment facilities. The corporation cannot deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) used for an activity 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 during the tax year. For more information, see Pub. 535.

Lobbying expenses. Generally, lobbying expenses are not deductible. These expenses include:

- Amounts paid or incurred in connection with influencing Federal or state legislation (but not local legislation) or
- Amounts paid or incurred in connection with any communication with certain Federal executive branch officials in an attempt to influence the official actions or positions of the officials. See Regulations section 1.162-29 for the definition of "influencing legislation."

Dues and other similar amounts paid to certain tax-exempt organizations may not be deductible. See section 162(e)(3). If certain in-house lobbying expenditures do not exceed \$2,000, they are deductible. For information on contributions to charitable organizations that conduct lobbying activities, see the instructions for line 19. For more

information on lobbying expenses, see section 162(e).

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

Taxable Income Before NOL Deduction and Special Deductions

At-risk rules. Generally, special at-risk rules under section 465 apply to closely held corporations (see **Passive activity limitations** on page 9) engaged in any activity as a trade or business or for the production of income. These corporations may have to adjust the amount on line 28, Form 1120, or line 24, Form 1120-A. (See below.)

The at-risk rules do not apply to:

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

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

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

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

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

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

Net Operating Loss Deduction

A corporation may use the net operating loss (NOL) incurred in one tax year to reduce its taxable income in another tax year. Generally, a corporation may carry an NOL back to each of the 2 years preceding the year of the loss and then carry any remaining amount over to each of the 20 years (15 years for NOLs incurred in tax years beginning before August 6, 1997), following the year of the loss (but Form 1120 filers see **Waiving the carryback period** below). For exceptions to the general rule, see **Special carryback periods for certain losses** below.

Enter on line 29a (line 25a, Form 1120-A), the total NOL carryovers from prior tax years, but do not enter more than the corporation's taxable income (after special deductions). An NOL deduction cannot be taken in a year in which the

corporation has a negative taxable income. Attach a schedule showing the computation of the NOL deduction. Form 1120 filers must also complete question 12 on Schedule K.

For details on the NOL deduction, see **Pub. 536, Net Operating Losses.**

Carryback and carryover rules. To carry back the loss and obtain a quick refund of taxes, use **Form 1139, Corporation Application for Tentative Refund**. Form 1139 must be filed within 12 months after the close of the tax year of the loss. See section 6411 for details.

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

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

Special NOL rules apply when:

- An ownership change occurs (i.e., the amount of the taxable income of a loss corporation that can be offset by pre-change NOL carryovers is limited). See section 382 and the related regulations. Also see Temporary Regulations section 1.382-2T(a)(2)(ii), which requires that a loss corporation file an information statement with its income tax return for each tax year that it is a loss corporation and certain shifts in ownership occurred. See Regulations section 1.382-6(b) for details on how to make the closing-of-the-books election.
- A corporation acquires control of another corporation (or acquires its assets in a reorganization) and the amount of pre-acquisition losses that may offset recognized built-in gains is limited. See section 384.

Waiving the carryback period (Form 1120 filers only). A corporation may make an irrevocable election to waive the carryback period and instead carry the NOL forward to years following the year of the loss. To make this election, check the box in question 11 on Schedule K. Form 1120 must be timely filed (including extensions).

Special carryback periods for certain losses. The regular 2-year carryback period generally does not apply to the following losses.

- **Specified liability losses**, including a product liability loss. The part of an NOL that is attributable to a specified liability loss may be carried back 10 years. The corporation may, however, elect to treat such a loss as if it were not a specified liability loss. If the corporation makes this election, the loss carryback period will be 2, 3, or 5 years, whichever applies. Make the election by attaching a statement to a timely filed return (including extensions, however, see **Exception** below). Also see section 172(b)(1)(C).

- **Farming losses.** An NOL attributable to any farming business may be carried back 5 years. However, the corporation may elect to treat the loss as if it were not

a farming loss. If the corporation makes this election, the loss carryback period will be 2 years or 3 years, whichever applies. Make the election by attaching a statement to a timely filed return (including extensions, however, see **Exception**). Also see sections 172(b)(1)(G) and 172(i).

Exception. If the corporation timely filed its return for the loss year without making the election for **Specified liability losses** or **Farming losses** above, the corporation may still make the election by filing an amended return within 6 months of the due date of the loss year return (excluding extensions). Attach the election to the amended return and write "Filed pursuant to section 301.9100-2" on the election statement. File the amended return at the same address the original return was filed. Once made, the election is irrevocable.

- **Eligible losses.** The part of an NOL that is attributable to an eligible loss may be carried back 3 years. An "eligible loss" is an NOL attributable to a Presidentially declared disaster if, for the tax year in which the NOL arose, the corporation was (a) engaged in a farming business or (b) a small business that met the gross receipts test of section 448(c). An eligible loss does not include any farming loss or specified liability loss described above.

- **Corporate equity reduction interest losses.** See section 172(b)(1)(E) for special rules that apply if the corporation has an NOL attributable to interest deducted in connection with corporate equity reduction transactions.

- **Losses incurred by a personal service corporation (PSC).** A PSC may not carry back an NOL to or from any tax year to which a section 444 election applies.

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

Special Deductions

Form 1120 filers. See the instructions on page 15 for Schedule C.

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

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

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

Taxable Income

Capital construction fund. To take a deduction for amounts contributed to a capital construction fund (CCF), reduce the amount that would otherwise be entered on line 30 (line 26, Form 1120-A) by the amount of the deduction. On the dotted line next to the entry space, write "CCF" and the amount of the deduction.

For more information, see **Pub. 595**, Tax Highlights for Commercial Fishermen.

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

Estimated Tax Payments

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

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

Special estimated tax payments for certain life insurance companies. If the corporation is required to make or apply special estimated tax payments (SETP) under section 847 in addition to its regular estimated tax payments, enter on line 32b (line 28b, Form 1120-A), the corporation's total estimated tax payments. In the margin near line 32b, write "Form 8816" and the amount. Attach a schedule showing your computation of estimated tax payments. See sections 847(2) and 847(8) and **Form 8816**, Special Loss Discount Account and Special Estimated Tax Payments for Insurance Companies, for more information.

Line 32f, Form 1120 (Line 28f, Form 1120-A)

Enter the credit (from **Form 2439**, Notice to Shareholder of Undistributed Long-Term Capital Gains) for the corporation's share of the tax paid by a regulated investment company (RIC) or a real estate investment trust (REIT) on undistributed long-term capital gains included in the corporation's income. Attach Form 2439 to Form 1120 or 1120-A.

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

Credit for Federal Tax on Fuels

Complete and attach **Form 4136**, Credit for Federal Tax Paid on Fuels, if the corporation qualifies to take this credit.

Credit for tax on ozone-depleting chemicals. Include on line 32g (line 28g, Form 1120-A) any credit the corporation is claiming under section 4682(g)(2) for tax on ozone-depleting chemicals. Write "ODC" to the left of the entry space.

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

Total Payments

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

Backup withholding. If the corporation had income tax withheld from any payments it received because, for example, it failed to give the payer its correct EIN, include the amount withheld in the total for line 32h, Form 1120 (line 28h, Form 1120-A). This type of

withholding is called backup withholding. On Form 1120, show the amount withheld in the blank space in the right-hand column between lines 31 and 32h, and write "backup withholding." On Form 1120-A, show the amount withheld on the dotted line to the left of line 28h, and write "backup withholding."

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

Estimated Tax Penalty

A corporation that does not make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. Generally, a corporation is subject to the penalty if its tax liability is \$500 or more and it did not timely pay the smaller of:

- Its tax liability for 2000 or
 - Its prior year's tax.
- See section 6655 for details and exceptions, including special rules for large corporations.

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

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

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

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

Cost of Goods Sold

Generally, inventories are required at the beginning and end of each tax year if the production, purchase, or sale of

merchandise is an income-producing factor. See Regulations section 1.471-1.

However, if a corporation's average annual gross receipts for the 3 prior tax years are \$1 million or less and the corporation is an eligible taxpayer that adopts or changes to the cash method of accounting, it will be not required to account for inventories. If the corporation is not required to account for inventories and does not want to do so, it must treat inventory in the same manner as costs of materials and supplies that are not incidental. Under this rule, inventory costs for raw materials purchased for use in producing finished goods and merchandise purchased for resale are deductible in the year the finished goods or merchandise are sold (or, if later, the year the corporation paid for the raw materials or merchandise). Enter amounts paid for all raw materials and merchandise during the tax year on line 2. The amount the corporation can deduct for the tax year is figured on line 8.

If the corporation wants to change to the cash method of accounting, it must file Form 3115. It may also have to make an adjustment to prevent amounts of income or expense from being duplicated or omitted. This is called a section 481(a) adjustment, which is taken into account over a period not to exceed 4 years. For example, if the corporation accrued sales in 1999 for which it received payment in 2000, it must report those sales in both years as a result of changing its accounting method and will make a section 481(a) adjustment to prevent duplication of income. See Rev. Proc. 99-49, 1999-52 I.R.B. 725, to figure the amount of this adjustment for the tax year. Include any positive section 481(a) adjustment on page 1, line 10. If the section 481(a) adjustment is negative, report it on Form 1120, line 26 (Form 1120-A, line 22).

For eligibility requirements and further details on changing to the cash method of accounting, see Pub. 553.

All filers not using the cash method of accounting should see **Section 263A uniform capitalization rules** on page 9 before completing Schedule A or the worksheet. The instructions for lines 4 through 7 on page 15 apply to Schedule A and the worksheet below.

Cost of Goods Sold Worksheet

Form 1120-A
(keep for your records)

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

Line 1

Inventory at Beginning of Year

If the corporation is changing its method of accounting from accrual to cash for the current tax year and it does not want to account for inventories, it must refigure last year's closing inventory using the cash method and enter the result on line 1. If there is a difference between the closing inventory and the refigured amount, attach an explanation and take it into account when figuring the corporation's section 481(a) adjustment (explained on page 14).

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 but are now required to be capitalized under section 263A. For details, see Regulations section 1.263A-2(b).

For corporations that have elected the **simplified resale method**, additional section 263A costs are generally those costs incurred with respect to the following categories.

- Off-site storage or warehousing.
- Purchasing; handling, such as processing, assembling, repackaging, and transporting.
- 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 includable on lines 2, 3, and 5.

Line 5

Other Costs

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

Line 7

Inventory at End of Year

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

If the corporation is using the cash method of accounting and it does not want to account for inventories, enter on line 7 the portion of its raw materials and merchandise purchased for resale that are included on line 6 and were not sold during the year.

Lines 9a Through 9f (Schedule A)

Inventory Valuation Methods

Inventories can be valued at:

- Cost;

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

However, the corporation is required to use cost if it is using the cash method of accounting.

Producers whose average annual gross receipts are \$1 million or less that use the cash method of accounting and choose not to account for inventories may currently deduct expenditures for direct labor and all indirect costs that would otherwise be included in inventory costs.

The average cost (rolling average) method of valuing inventories generally does not conform to the requirements of the regulations. See Rev. Rul. 71-234, 1971-1 C.B. 148.

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

On line 9a, check the method(s) used for valuing inventories. Under lower of cost or market, the term "market" (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. For a manufacturer, market applies to the basic elements of cost—raw materials, labor, and burden. 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.

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, shopwear, etc., within the meaning of Regulations section 1.471-2(c). The goods may be valued at the current bona fide selling price, minus direct cost of disposition (but not less than scrap value) if such a price can be established.

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

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

Note: *Corporations using the LIFO method that make an S corporation election or transfer LIFO inventory to an S corporation in a nonrecognition transaction may be subject to an additional tax attributable to the LIFO*

recapture amount. See the instructions for line 11, Schedule J, on page 19, and for line 10, Other Income, on page 8.

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

Schedule C (Form 1120 Only)

Dividends and Special Deductions

For purposes of the 20% ownership test on lines 1 through 7, the percentage of stock owned by the corporation is based on voting power and value of the stock. Preferred stock described in section 1504(a)(4) is not taken into account. Corporations filing a consolidated return should see Regulations sections 1.1502-13, 1.1502-26, and 1.1502-27 before completing Schedule C.

Line 1, Column (a)

Enter dividends (except those received on debt-financed stock acquired after July 18, 1984—see section 246A) that:

- Are received from less-than-20%-owned domestic corporations subject to income tax and
- Qualify for the 70% deduction under section 243(a)(1).

Also include on line 1:

- Taxable distributions from an IC-DISC or former DISC that are designated as eligible for the 70% deduction and certain dividends of Federal Home Loan Banks. See section 246(a)(2).
- Dividends (except those received on debt-financed stock acquired after July 18, 1984) from a regulated investment company (RIC). The amount of dividends eligible for the dividends-received deduction under section 243 is limited by section 854(b). The corporation should receive a notice from the RIC specifying the amount of dividends that qualify for the deduction.

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

Line 2, Column (a)

Enter on line 2:

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

Line 3, Column (a)

Enter dividends that are:

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

incurring a debt (e.g., it borrowed money to buy the stock).

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

Line 3, Columns (b) and (c)

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

Line 4, Column (a)

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

Line 5, Column (a)

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

Line 6, Column (a)

Enter the U.S.-source portion of dividends that:

- Are received from less-than-20%-owned foreign corporations and
- 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
- Qualify for the 70% deduction provided in section 245(c)(1)(B).

Line 7, Column (a)

Enter the U.S.-source portion of dividends that are received from 20%-or-more-owned foreign corporations that qualify for the 80% deduction under section 245(a). Also include dividends received from a 20%-or-more-owned FSC that:

- Are attributable to income treated as effectively connected with the conduct of a trade or business within the United States (excluding foreign trade income) and
- Qualify for the 80% deduction provided in section 245(c)(1)(B).

Line 8, Column (a)

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

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

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

Line 9, Column (c)

Limitation on Dividends-Received Deduction

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

Line 10, Columns (a) and (c)

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

Line 11, Column (a)

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

Line 12, Columns (a) and (c)

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

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

Line 13, Column (a)

Enter foreign dividends not reportable on lines 3, 6, 7, 8, or 11 of column (a). Include on line 13 the corporation's share of the ordinary earnings of a qualified electing fund from Form 8621, line 1c. Exclude distributions of amounts constructively taxed in the current year or in prior years under subpart F (sections 951 through 964).

Line 14, Column (a)

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

Line 15, Column (a)

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

Line 16, Column (a)

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

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

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

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

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

Line 17, Column (a)

Include the following:

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

2. Dividends from tax-exempt organizations.

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

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

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

- If the corporation held it less than 46 days during the 90-day period beginning 45 days before the stock became ex-dividend with respect to the dividend (see section 246(c)(1)(A)) or

- To the extent the corporation is under an obligation to make related payments for substantially similar or related property.

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

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

Line 18, Column (c)

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

- Dividends paid on their preferred stock during the tax year or

- Taxable income computed without regard to this deduction.

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

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

Tax Computation

Note: *Members of a controlled group must attach a statement showing the computation of the tax entered on line 3.*

Lines 1 and 2, Form 1120

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

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

When a controlled group adopts or later amends an apportionment plan, each member must attach to its tax return a copy of its consent to this plan. The copy (or an attached statement) must show the part of the amount in each taxable income bracket apportioned to that member. See Regulations section 1.1561-3(b) for other requirements and for the time and manner of making the consent.

Unequal apportionment plan.

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

more than the total amount in each taxable income bracket.

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

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

Line 2b. Members of a controlled group are treated as one group to figure the applicability of the additional 5% tax and the additional 3% tax. If an additional tax applies, each member will pay that tax based on the part of the amount used in each taxable income bracket to reduce that member's tax. See section 1561(a). If an additional tax applies, attach a schedule showing the taxable income of the entire group and how the corporation figured its share of the additional tax.

Line 2b(1). Enter the corporation's share of the additional 5% tax on line 2b(1).

Line 2b(2). Enter the corporation's share of the additional 3% tax on line 2b(2).

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

Most corporations figure their tax by using the Tax Rate Schedule below. Exceptions apply to members of a controlled group (see worksheet below) and qualified personal service corporations (see below).

Tax Rate Schedule

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

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

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

- Substantially all of the corporation's activities involve the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting and
- At least 95% of the corporation's stock, by value, is owned, directly or indirectly, by (1) employees performing the services, (2) retired employees who had performed the services listed above, (3) any estate of the employee or retiree described

Tax Computation Worksheet for Members of a Controlled Group

(keep for your records)

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

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

above, or **(4)** any person who acquired the stock of the corporation as a result of the death of an employee or retiree (but only for the 2-year period beginning on the date of the employee or retiree's death). See Temporary Regulations section 1.448-1T(e) for details.

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

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

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

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

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

Line 4, Form 1120 (Line 2, Form 1120-A)

Alternative Minimum Tax

Unless the corporation is treated as a small corporation exempt from the alternative minimum tax (AMT), it may owe the AMT if it has any of the adjustments and tax preference items listed on **Form 4626**, Alternative Minimum Tax—Corporations. The corporation must file Form 4626 if its taxable income (loss) combined with these adjustments and tax preference items is more than the smaller of \$40,000 or the corporation's allowable exemption amount (from Form 4626).

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

Exemption for small corporations. A corporation is treated as a small corporation exempt from the AMT for its

tax year beginning in 2000 if that year is the corporation's first tax year in existence (regardless of its gross receipts) **or**:

1. It was treated as a small corporation exempt from the AMT for all prior tax years beginning after 1997 **and**
2. Its average annual gross receipts for the 3-tax-year period (or portion thereof during which the corporation was in existence) ending before its tax year beginning in 2000 did not exceed \$7.5 million (\$5 million if the corporation had only 1 prior tax year).

Line 6a (Form 1120 Only)

Foreign Tax Credit

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

Line 6b (Form 1120 Only)

Possessions Tax Credit

The Small Business Job Protection Act of 1996 repealed the possessions credit. However, existing credit claimants may qualify for a credit under the transitional rules. See **Form 5735**, Possessions Corporation Tax Credit (Under Sections 936 and 30A).

Line 6c (Form 1120 Only)

Complete line 6c if the corporation can take either of the following credits. Be sure to check the appropriate box.

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

Qualified electric vehicle (QEV) credit. Include on line 6c any credit from **Form 8834**, Qualified Electric Vehicle Credit. Vehicles that qualify for this credit are not eligible for the deduction for clean-fuel vehicles under section 179A.

Line 6d, Form 1120 (Line 4a, Form 1120-A)

General Business Credit

Complete this line if the corporation can take any of the following credits. Complete **Form 3800**, General Business Credit, if the corporation has two or more of these credits (other than the empowerment zone employment credit), general credits from an electing large partnership, a general business credit carryforward or carryback (other than the empowerment zone employment credit), a trans-Alaska pipeline liability fund credit, or a passive activity credit (other than the low-income housing credit or the empowerment zone employment credit). Enter the amount of the general business

credit on line 6d (line 4a, Form 1120-A), and check the box for Form 3800.

If the corporation has only one credit, enter on line 6d (line 4a, Form 1120-A), the amount of the credit from the form. Also be sure to check the appropriate box for that form.

Form 3468, Investment Credit.

Form 5884, Work Opportunity Credit.

Form 6478, Credit for Alcohol Used as Fuel.

Form 6765, Credit for Increasing Research Activities.

Form 8586, Low-Income Housing Credit.

Form 8820, Orphan Drug Credit.

Form 8826, Disabled Access Credit.

Form 8830, Enhanced Oil Recovery Credit.

Form 8835, Renewable Electricity Production Credit.

Form 8844, Empowerment Zone Employment Credit.

Note: *While the empowerment zone employment credit is a component of the general business credit, it is figured separately and is not carried to Form 3800.*

Form 8845, Indian Employment Credit.

Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips.

Form 8847, Credit for Contributions to Selected Community Development Corporations.

Form 8861, Welfare-to-Work Credit.

Line 6e, Form 1120 (Line 4b, Form 1120-A)

Credit for Prior Year Minimum Tax

To figure the minimum tax credit and any carryforward of that credit, use **Form 8827**, Credit for Prior Year Minimum Tax—Corporations. Also see Form 8827 if any of the corporation's 1999 nonconventional source fuel credit or qualified electric vehicle credit was disallowed solely because of the tentative minimum tax limitation. See section 53(d).

Line 6f (Form 1120 Only)

Enter the amount of any credit from **Form 8860**, Qualified Zone Academy Bond Credit.

Line 9 (Form 1120 Only)

Personal Holding Company Tax

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

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

See **Schedule PH (Form 1120)**, U.S. Personal Holding Company (PHC) Tax, for definitions and details on how to figure the tax.

Line 10, Form 1120 (Line 7, Form 1120-A)

Recapture Taxes

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

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

Recapture of qualified electric vehicle (QEV) credit. The corporation must recapture part of the QEV credit it claimed in a prior year, if, within 3 years of the date the vehicle was placed in service, it ceases to qualify for the credit. See Regulations section 1.30-1 for details on how to figure the recapture. Include the amount of the recapture in the total for line 10, Schedule J, Form 1120 (line 7, Part I, Form 1120-A). On the dotted line next to the entry space, write "QEV recapture" and the amount.

Recapture of Indian employment credit. Generally, if an employer terminates the employment of a qualified employee less than 1 year after the date of initial employment, any Indian employment credit allowed for a prior tax year because of wages paid or incurred to that employee must be recaptured. For details, see Form 8845 and section 45A. Include the amount of the recapture in the total for line 10, Schedule J, Form 1120 (line 7, Part I, Form 1120-A). On the dotted line next to the entry space, write "45" and the amount.

Line 11 (Form 1120 Only)

Other Tax and Interest Amounts

Other tax and interest amounts may be included in or subtracted from the total tax reported on line 11.

Amounts to include in the total for line 11 are:

- Tax and interest on a nonqualified withdrawal from a **capital construction fund** (section 7518).
- Interest on deferred tax attributable to:
 1. Installment sales of certain timeshares and residential lots (section 453(l)(3)) and
 2. Certain nondealer installment obligations (section 453A(c)).
- Interest due under the **look-back method** (see Form 8697 or Form 8866).
- Interest due on deferred gain (section 1260(b)).
- For shareholders in qualified electing funds, deferred tax due upon the termination of a section 1294 election (see Form 8621, Part V).

Amounts to subtract from the total for line 11 are:

- Deferred tax on the corporation's share of the undistributed earnings of a qualified electing fund (see Form 8621, Part II).

- Deferred LIFO recapture tax (section 1363(d)). See **Deferred LIFO recapture tax** below and the instructions regarding LIFO recapture amount under **Line 10, Other Income**, on page 8.

How to report. Attach a schedule showing your computation of each item included in, or subtracted from, the total for line 11. On the dotted line next to line 11, enter the amount of tax or interest and:

- Identify it as tax or interest and
- Specify the Code section that applies.

Example. To show \$50 of interest due on deferred tax from the installment sale of a timeshare, write "Sec. 453(l)(3) interest - \$50."

If you figured the tax or interest using another form (e.g., Form 8621 or Form 8697), see the instructions for that form to find out how to report the amount.

Deferred LIFO recapture tax. The deferred LIFO recapture tax is the part of the LIFO recapture tax that will be deferred and paid with Form 1120S in the future. To figure the deferred tax you must first figure the total LIFO recapture tax. Follow the steps below to figure the total LIFO recapture tax and the deferred amount.

Step 1. Figure the tax on the corporation's income including the LIFO recapture amount. (Complete Schedule J through line 10 but do not enter a total on line 11 yet.)

Step 2. On a separate worksheet using the Schedule J format, figure the tax again, but this time **do not** include the LIFO recapture amount in taxable income.

Step 3. Compare the tax in **Step 2** to the tax in **Step 1**. The difference between the two is the **LIFO recapture tax**.

Step 4. Multiply the amount from **Step 3** above by 75%. The result is the **deferred LIFO recapture tax**. Subtract this amount from the total for line 11, Schedule J, and enter the amount on the dotted line next to line 11. Label it "Sec. 1363 deferred tax."

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

Other Information

The following instructions apply to questions 1 through 12 on Form 1120, page 3, Schedule K, or questions 1 through 6 on Form 1120-A, page 2, Part II. Be sure to answer all the questions that apply to the corporation.

Question 4 (Form 1120 Only)

Check the "Yes" box for question 4 if:

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

Any corporation that meets either of the requirements above should check the "Yes" box. This applies even if the

corporation is a subsidiary member of one group and the parent corporation of another.

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

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

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

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

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

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

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

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

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

Question 6 (Form 1120-A Only)

Foreign financial accounts. Check the "Yes" box for question 6 if either 1 or 2 below applies to the corporation. Otherwise, check the "No" box:

1. At any time during the 2000 calendar year, the corporation had an interest in or signature or other authority over a bank, securities, or other financial account in a foreign country (see **Form TD F 90-22.1**, Report of Foreign Bank and Financial Accounts); and

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

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

If "Yes" is checked for the question:

- Enter the name of the foreign country or countries. Attach a separate sheet if more space is needed.
- File Form TD F 90-22.1 by June 30, 2001, with the Department of the Treasury at the address shown on the form. Because Form TD F 90-22.1 is not a tax form, do not file it with Form 1120-A. You can order Form TD F 90-22.1 by calling 1-800-TAX-FORM (1-800-829-3676) or you can download it from the IRS Web Site at www.irs.gov.

Question 7 (Form 1120 Only)

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

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

Enter on line 7a the percentage owned by the foreign person specified in question 7. On line 7b, write the name of the owner's country.

Note: *If there is more than one 25%-or-more foreign owner, complete lines 7a and 7b for the foreign person with the highest percentage of ownership.*

Foreign person. The term "foreign person" means:

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

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

Requirement to file Form 5472. If the corporation checked "Yes" to question 7, it may have to file Form 5472. Generally, a 25% foreign-owned corporation that had a reportable transaction with a foreign or domestic related party during the tax year must file Form 5472.

See Form 5472 for filing instructions and penalties for failure to file.

Question 9, Form 1120 (Question 3, Form 1120-A)

Show any **tax-exempt interest** received or accrued. Include any exempt-interest dividends received as a shareholder in a mutual fund or other RIC.

Question 11 (Form 1120 Only)

Check the box on line 11 if the corporation elects under section 172(b)(3) to forego the carryback period for a **net operating loss** (NOL). If you check this box, do not attach the statement described in Temporary Regulations section 301.9100-12T(d).

Question 12 (Form 1120 Only)

Enter the amount of the **net operating loss** (NOL) carryover to the tax year from prior years, even if some of the loss is used to offset income on this return. The amount to enter is the total of all NOLs generated in prior years but not used to offset income (either as a carryback or carryover) to a tax year prior to 2000. Do not reduce the amount by any NOL deduction reported on line 29a.

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

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

Balance Sheets per Books

The balance sheet should agree with the corporation's books and records. Include certificates of deposit as cash on line 1, Schedule L.

Line 5

Tax-Exempt Securities

Include on this line:

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

Line 26, Form 1120 (Line 21, Form 1120-A)

Adjustments to Shareholders' Equity

Some examples of adjustments to report on this line include:

- Unrealized gains and losses on securities held "available for sale."
- Foreign currency translation adjustments.
- The excess of additional pension liability over unrecognized prior service cost.
- Guarantees of employee stock (ESOP) debt.
- Compensation related to employee stock award plans.

If the total adjustment to be entered on line 26 (line 21, Form 1120-A) is a negative amount, enter the amount in parentheses.

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

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

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

Travel and Entertainment

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

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

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

Tax-Exempt Interest

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

Forms 1120 and 1120-A

Codes for Principal Business Activity

This list of principal business activities and their associated codes is designed to classify an enterprise by the type of activity in which it is engaged to facilitate the administration of the Internal Revenue Code. These principal business activity codes are based on the North American Industry Classification System.

Using the list of activities and codes below, determine from which activity the company derives the largest percentage of its "total receipts." Total receipts is defined as the sum of gross receipts or sales (page 1, line 1a) plus all other income (page 1, lines 4 through 10). If the company purchases raw materials and supplies them to a subcontractor to produce the finished product, but retains title to the product, the company is considered a manufacturer and must use one of the manufacturing codes (311110-339900).

Once the principal business activity is determined, entries must be made on Form 1120, Schedule K, lines 2a, 2b, and 2c, or on Form 1120-A, Part II, lines 1a, 1b, and 1c. For the business activity code number, enter the six digit code selected from the list below. On the next line (Form 1120, line 2b, or Form 1120-A, line 1b), enter a brief description of the company's business activity. Finally, enter a description of the principal product or service of the company on Form 1120, line 2c, or Form 1120-A, line 1c.

Agriculture, Forestry, Fishing and Hunting

Code

Crop Production

- 111100 Oilseed & Grain Farming
- 111210 Vegetable & Melon Farming (including potatoes & yams)
- 111300 Fruit & Tree Nut Farming
- 111400 Greenhouse, Nursery, & Floriculture Production
- 111900 Other Crop Farming (including tobacco, cotton, sugarcane, hay, peanut, sugar beet & all other crop farming)

Animal Production

- 112111 Beef Cattle Ranching & Farming
- 112112 Cattle Feedlots
- 112120 Dairy Cattle & Milk Production
- 112210 Hog & Pig Farming
- 112300 Poultry & Egg Production
- 112400 Sheep & Goat Farming
- 112510 Animal Aquaculture (including shellfish & finfish farms & hatcheries)
- 112900 Other Animal Production

Forestry and Logging

- 113110 Timber Tract Operations
- 113210 Forest Nurseries & Gathering of Forest Products
- 113310 Logging

Fishing, Hunting and Trapping

- 114110 Fishing
- 114210 Hunting & Trapping

Support Activities for Agriculture and Forestry

- 115110 Support Activities for Crop Production (including cotton ginning, soil preparation, planting, & cultivating)
- 115210 Support Activities for Animal Production
- 115310 Support Activities For Forestry

Mining

- 211110 Oil & Gas Extraction
- 212110 Coal Mining
- 212200 Metal Ore Mining
- 212310 Stone Mining & Quarrying
- 212320 Sand, Gravel, Clay, & Ceramic & Refractory Minerals Mining & Quarrying
- 212390 Other Nonmetallic Mineral Mining & Quarrying
- 213110 Support Activities for Mining

Utilities

- 221100 Electric Power Generation, Transmission & Distribution
- 221210 Natural Gas Distribution
- 221300 Water, Sewage & Other Systems

Construction

Code

Building, Developing, and General Contracting

- 233110 Land Subdivision & Land Development
- 233200 Residential Building Construction
- 233300 Nonresidential Building Construction

Heavy Construction

- 234100 Highway, Street, Bridge, & Tunnel Construction
- 234900 Other Heavy Construction

Special Trade Contractors

- 235110 Plumbing, Heating, & Air-Conditioning Contractors
- 235210 Painting & Wall Covering Contractors
- 235310 Electrical Contractors
- 235400 Masonry, Drywall, Insulation, & Tile Contractors
- 235500 Carpentry & Floor Contractors
- 235610 Roofing, Siding, & Sheet Metal Contractors
- 235710 Concrete Contractors
- 235810 Water Well Drilling Contractors
- 235900 Other Special Trade Contractors

Manufacturing

Food Manufacturing

- 311110 Animal Food Mfg
- 311200 Grain & Oilseed Milling
- 311300 Sugar & Confectionery Product Mfg
- 311400 Fruit & Vegetable Preserving & Specialty Food Mfg
- 311500 Dairy Product Mfg
- 311610 Animal Slaughtering and Processing
- 311710 Seafood Product Preparation & Packaging
- 311800 Bakeries & Tortilla Mfg
- 311900 Other Food Mfg (including coffee, tea, flavorings & seasonings)

Beverage and Tobacco Product Manufacturing

- 312110 Soft Drink & Ice Mfg
- 312120 Breweries
- 312130 Wineries
- 312140 Distilleries
- 312200 Tobacco Manufacturing

Textile Mills and Textile Product Mills

- 313000 Textile Mills
- 314000 Textile Product Mills

Apparel Manufacturing

- 315100 Apparel Knitting Mills
- 315210 Cut & Sew Apparel Contractors
- 315220 Men's & Boys' Cut & Sew Apparel Mfg

Code

- 315230 Women's & Girls' Cut & Sew Apparel Mfg
- 315290 Other Cut & Sew Apparel Mfg
- 315990 Apparel Accessories & Other Apparel Mfg

Leather and Allied Product Manufacturing

- 316110 Leather & Hide Tanning & Finishing
- 316210 Footwear Mfg (including rubber & plastics)
- 316990 Other Leather & Allied Product Mfg

Wood Product Manufacturing

- 321110 Sawmills & Wood Preservation
- 321210 Veneer, Plywood, & Engineered Wood Product Mfg
- 321900 Other Wood Product Mfg

Paper Manufacturing

- 322100 Pulp, Paper, & Paperboard Mills
- 322200 Converted Paper Product Mfg

Printing and Related Support Activities

- 323100 Printing & Related Support Activities

Petroleum and Coal Products Manufacturing

- 324110 Petroleum Refineries (including integrated)
- 324120 Asphalt Paving, Roofing, & Saturated Materials Mfg
- 324190 Other Petroleum & Coal Products Mfg

Chemical Manufacturing

- 325100 Basic Chemical Mfg
- 325200 Resin, Synthetic Rubber, & Artificial & Synthetic Fibers & Filaments Mfg
- 325300 Pesticide, Fertilizer, & Other Agricultural Chemical Mfg
- 325410 Pharmaceutical & Medicine Mfg
- 325500 Paint, Coating, & Adhesive Mfg
- 325600 Soap, Cleaning Compound, & Toilet Preparation Mfg
- 325900 Other Chemical Product & Preparation Mfg

Plastics and Rubber Products Manufacturing

- 326100 Plastics Product Mfg
- 326200 Rubber Product Mfg

Nonmetallic Mineral Product Manufacturing

- 327100 Clay Product & Refractory Mfg
- 327210 Glass & Glass Product Mfg
- 327300 Cement & Concrete Product Mfg
- 327400 Lime & Gypsum Product Mfg
- 327900 Other Nonmetallic Mineral Product Mfg

Primary Metal Manufacturing

- 331110 Iron & Steel Mills & Ferroalloy Mfg
- 331200 Steel Product Mfg from Purchased Steel
- 331310 Alumina & Aluminum Production & Processing
- 331400 Nonferrous Metal (except Aluminum) Production & Processing
- 331500 Foundries

Fabricated Metal Product Manufacturing

- 332110 Forging & Stamping
- 332210 Cutlery & Handtool Mfg
- 332300 Architectural & Structural Metals Mfg
- 332400 Boiler, Tank, & Shipping Container Mfg
- 332510 Hardware Mfg
- 332610 Spring & Wire Product Mfg
- 332700 Machine Shops; Turned Product; & Screw, Nut, & Bolt Mfg
- 332810 Coating, Engraving, Heat Treating, & Allied Activities

Code

- 332900 Other Fabricated Metal Product Mfg
- Machinery Manufacturing**
- 333100 Agriculture, Construction, & Mining Machinery Mfg
- 333200 Industrial Machinery Mfg
- 333310 Commercial & Service Industry Machinery Mfg
- 333410 Ventilation, Heating, Air-Conditioning, & Commercial Refrigeration Equipment Mfg
- 333510 Metalworking Machinery Mfg
- 333610 Engine, Turbine & Power Transmission Equipment Mfg
- 333900 Other General Purpose Machinery Mfg

Computer and Electronic Product Manufacturing

- 334110 Computer & Peripheral Equipment Mfg
- 334200 Communications Equipment Mfg
- 334310 Audio & Video Equipment Mfg
- 334410 Semiconductor & Other Electronic Component Mfg
- 334500 Navigational, Measuring, Electromedical, & Control Instruments Mfg
- 334610 Manufacturing & Reproducing Magnetic & Optical Media

Electrical Equipment, Appliance, and Component Manufacturing

- 335100 Electric Lighting Equipment Mfg
- 335200 Household Appliance Mfg
- 335310 Electrical Equipment Mfg
- 335900 Other Electrical Equipment & Component Mfg

Transportation Equipment Manufacturing

- 336100 Motor Vehicle Mfg
- 336210 Motor Vehicle Body & Trailer Mfg
- 336300 Motor Vehicle Parts Mfg
- 336410 Aerospace Product & Parts Mfg
- 336510 Railroad Rolling Stock Mfg
- 336610 Ship & Boat Building
- 336990 Other Transportation Equipment Mfg

Furniture and Related Product Manufacturing

- 337000 Furniture & Related Product Manufacturing

Miscellaneous Manufacturing

- 339110 Medical Equipment & Supplies Mfg
- 339900 Other Miscellaneous Manufacturing

Wholesale Trade

Wholesale Trade, Durable Goods

- 421100 Motor Vehicle & Motor Vehicle Parts & Supplies Wholesalers
- 421200 Furniture & Home Furnishing Wholesalers
- 421300 Lumber & Other Construction Materials Wholesalers
- 421400 Professional & Commercial Equipment & Supplies Wholesalers
- 421500 Metal & Mineral (except Petroleum) Wholesalers
- 421600 Electrical Goods Wholesalers
- 421700 Hardware, & Plumbing & Heating Equipment & Supplies Wholesalers
- 421800 Machinery, Equipment, & Supplies Wholesalers
- 421910 Sporting & Recreational Goods & Supplies Wholesalers
- 421920 Toy & Hobby Goods & Supplies Wholesalers
- 421930 Recyclable Material Wholesalers
- 421940 Jewelry, Watch, Precious Stone, & Precious Metal Wholesalers
- 421990 Other Miscellaneous Durable Goods Wholesalers

Code	Code	Code	Code
Wholesale Trade, Nondurable Goods	Clothing and Clothing Accessories Stores	Support Activities for Transportation	523210 Securities & Commodity Exchanges
422100 Paper & Paper Product Wholesalers	448110 Men's Clothing Stores	488100 Support Activities for Air Transportation	523900 Other Financial Investment Activities (including portfolio management & investment advice)
422210 Drugs & Druggists' Sundries Wholesalers	448120 Women's Clothing Stores	488210 Support Activities for Rail Transportation	Insurance Carriers and Related Activities
422300 Apparel, Piece Goods, & Notions Wholesalers	448130 Children's & Infants' Clothing Stores	488300 Support Activities for Water Transportation	524140 Direct Life, Health, & Medical Insurance & Reinsurance Carriers
422400 Grocery & Related Product Wholesalers	448140 Family Clothing Stores	488410 Motor Vehicle Towing	524150 Direct Insurance & Reinsurance (except Life, Health & Medical) Carriers
422500 Farm Product Raw Material Wholesalers	448150 Clothing Accessories Stores	488490 Other Support Activities for Road Transportation	524210 Insurance Agencies & Brokerages
422600 Chemical & Allied Products Wholesalers	448190 Other Clothing Stores	488510 Freight Transportation Arrangement	524290 Other Insurance Related Activities
422700 Petroleum & Petroleum Products Wholesalers	448210 Shoe Stores	488990 Other Support Activities for Transportation	Funds, Trusts, and Other Financial Vehicles
422800 Beer, Wine, & Distilled Alcoholic Beverage Wholesalers	448310 Jewelry Stores	Couriers and Messengers	525100 Insurance & Employee Benefit Funds
422910 Farm Supplies Wholesalers	448320 Luggage & Leather Goods Stores	492110 Couriers	525910 Open-End Investment Funds (Form 1120-RIC)
422920 Book, Periodical, & Newspaper Wholesalers	Sporting Goods, Hobby, Book, and Music Stores	492210 Local Messengers & Local Delivery	525920 Trusts, Estates, & Agency Accounts
422930 Flower, Nursery Stock, & Florists' Supplies Wholesalers	451110 Sporting Goods Stores	Warehousing and Storage	525930 Real Estate Investment Trusts (Form 1120-REIT)
422940 Tobacco & Tobacco Product Wholesalers	451120 Hobby, Toy, & Game Stores	493100 Warehousing & Storage (except lessors of miniwarehouses & self-storage units)	525990 Other Financial Vehicles
422950 Paint, Varnish, & Supplies Wholesalers	451130 Sewing, Needlework, & Piece Goods Stores	Information	"Offices of Bank Holding Companies" and "Offices of Other Holding Companies," are located under Management of Companies (Holding Companies) on page 23.
422990 Other Miscellaneous Nondurable Goods Wholesalers	451140 Musical Instrument & Supplies Stores	Publishing Industries	Real Estate and Rental and Leasing
Retail Trade	451211 Book Stores	511110 Newspaper Publishers	Real Estate
Motor Vehicle and Parts Dealers	451212 News Dealers & Newsstands	511120 Periodical Publishers	531110 Lessors of Residential Buildings & Dwellings
441110 New Car Dealers	451220 Prerecorded Tape, Compact Disc, & Record Stores	511130 Book Publishers	531114 Cooperative Housing
441120 Used Car Dealers	General Merchandise Stores	511140 Database & Directory Publishers	531120 Lessors of Nonresidential Buildings (except Miniwarehouses)
441210 Recreational Vehicle Dealers	452110 Department stores	511190 Other Publishers	531130 Lessors of Miniwarehouses & Self-Storage Units
441221 Motorcycle Dealers	452900 Other General Merchandise Stores	511210 Software Publishers	531190 Lessors of Other Real Estate Property
441222 Boat Dealers	Miscellaneous Store Retailers	Motion Picture and Sound Recording Industries	531210 Offices of Real Estate Agents & Brokers
441229 All Other Motor Vehicle Dealers	453110 Florists	512100 Motion Picture & Video Industries (except video rental)	531310 Real Estate Property Managers
441300 Automotive Parts, Accessories, & Tire Stores	453210 Office Supplies & Stationery Stores	512200 Sound Recording Industries	531320 Offices of Real Estate Appraisers
Furniture and Home Furnishings Stores	453220 Gift, Novelty, & Souvenir Stores	Broadcasting and Telecommunications	531390 Other Activities Related to Real Estate
442110 Furniture Stores	453310 Used Merchandise Stores	513100 Radio & Television Broadcasting	Rental and Leasing Services
442210 Floor Covering Stores	453910 Pet & Pet Supplies Stores	513200 Cable Networks & Program Distribution	532100 Automotive Equipment Rental & Leasing
442291 Window Treatment Stores	453920 Art Dealers	513300 Telecommunications (including paging, cellular, satellite, & other telecommunications)	532210 Consumer Electronics & Appliances Rental
442299 All Other Home Furnishings Stores	453930 Manufactured (Mobile) Home Dealers	Information Services and Data Processing Services	532220 Formal Wear & Costume Rental
Electronics and Appliance Stores	453990 All Other Miscellaneous Store Retailers (including tobacco, candle, & trophy shops)	514100 Information Services (including news syndicates, libraries, & on-line information services)	532230 Video Tape & Disc Rental
443111 Household Appliance Stores	Nonstore Retailers	514210 Data Processing Services	532290 Other Consumer Goods Rental
443112 Radio, Television, & Other Electronics Stores	454110 Electronic Shopping & Mail-Order Houses	Finance and Insurance	532310 General Rental Centers
443120 Computer & Software Stores	454210 Vending Machine Operators	Depository Credit Intermediation	532400 Commercial & Industrial Machinery & Equipment Rental & Leasing
443130 Camera & Photographic Supplies Stores	454311 Heating Oil Dealers	522110 Commercial Banking	Lessors of Nonfinancial Intangible Assets (except copyrighted works)
Building Material and Garden Equipment and Supplies Dealers	454312 Liquefied Petroleum Gas (Bottled Gas) Dealers	522120 Savings Institutions	533110 Lessors of Nonfinancial Intangible Assets (except copyrighted works)
444110 Home Centers	454319 Other Fuel Dealers	522130 Credit Unions	Professional, Scientific, and Technical Services
444120 Paint & Wallpaper Stores	454390 Other Direct Selling Establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)	522190 Other Depository Credit Intermediation	Legal Services
444130 Hardware Stores	Transportation and Warehousing	Nondepository Credit Intermediation	541110 Offices of Lawyers
444190 Other Building Material Dealers	Air, Rail, and Water Transportation	522210 Credit Card Issuing	541190 Other Legal Services
444200 Lawn & Garden Equipment & Supplies Stores	481000 Air Transportation	522220 Sales Financing	Accounting, Tax Preparation, Bookkeeping, and Payroll Services
Food and Beverage Stores	482110 Rail Transportation	522291 Consumer Lending	541211 Offices of Certified Public Accountants
445110 Supermarkets and Other Grocery (except Convenience) Stores	483000 Water Transportation	522292 Real Estate Credit (including mortgage bankers & originators)	541213 Tax Preparation Services
445120 Convenience Stores	Truck Transportation	522293 International Trade Financing	541214 Payroll Services
445210 Meat Markets	484110 General Freight Trucking, Local	522294 Secondary Market Financing	541219 Other Accounting Services
445220 Fish & Seafood Markets	484120 General Freight Trucking, Long-distance	522298 All Other Nondepository Credit Intermediation	Architectural, Engineering, and Related Services
445230 Fruit & Vegetable Markets	484200 Specialized Freight Trucking	Activities Related to Credit Intermediation	541310 Architectural Services
445291 Baked Goods Stores	Transit and Ground Passenger Transportation	522300 Activities Related to Credit Intermediation (including loan brokers)	
445292 Confectionery & Nut Stores	485110 Urban Transit Systems	Securities, Commodity Contracts, and Other Financial Investments and Related Activities	
445299 All Other Specialty Food Stores	485210 Interurban & Rural Bus Transportation	523110 Investment Banking & Securities Dealing	
445310 Beer, Wine, & Liquor Stores	485310 Taxi Service	523120 Securities Brokerage	
Health and Personal Care Stores	485320 Limousine Service	523130 Commodity Contracts Dealing	
446110 Pharmacies & Drug Stores	485410 School & Employee Bus Transportation	523140 Commodity Contracts Brokerage	
446120 Cosmetics, Beauty Supplies, & Perfume Stores	485510 Charter Bus Industry		
446130 Optical Goods Stores	485990 Other Transit & Ground Passenger Transportation		
446190 Other Health & Personal Care Stores	Pipeline Transportation		
Gasoline Stations	486000 Pipeline Transportation		
447100 Gasoline Stations (including convenience stores with gas)	Scenic & Sightseeing Transportation		
	487000 Scenic & Sightseeing Transportation		

<p><i>Code</i></p> <p>541320 Landscape Architecture Services</p> <p>541330 Engineering Services</p> <p>541340 Drafting Services</p> <p>541350 Building Inspection Services</p> <p>541360 Geophysical Surveying & Mapping Services</p> <p>541370 Surveying & Mapping (except Geophysical) Services</p> <p>541380 Testing Laboratories</p> <p>Specialized Design Services</p> <p>541400 Specialized Design Services (including interior, industrial, graphic, & fashion design)</p> <p>Computer Systems Design and Related Services</p> <p>541511 Custom Computer Programming Services</p> <p>541512 Computer Systems Design Services</p> <p>541513 Computer Facilities Management Services</p> <p>541519 Other Computer Related Services</p> <p>Other Professional, Scientific, and Technical Services</p> <p>541600 Management, Scientific, & Technical Consulting Services</p> <p>541700 Scientific Research & Development Services</p> <p>541800 Advertising & Related Services</p> <p>541910 Marketing Research & Public Opinion Polling</p> <p>541920 Photographic Services</p> <p>541930 Translation & Interpretation Services</p> <p>541940 Veterinary Services</p> <p>541990 All Other Professional, Scientific, & Technical Services</p> <p>Management of Companies (Holding Companies)</p> <p>551111 Offices of Bank Holding Companies</p> <p>551112 Offices of Other Holding Companies</p> <p>Administrative and Support and Waste Management and Remediation Services</p> <p>Administrative and Support Services</p> <p>561110 Office Administrative Services</p> <p>561210 Facilities Support Services</p> <p>561300 Employment Services</p> <p>561410 Document Preparation Services</p> <p>561420 Telephone Call Centers</p> <p>561430 Business Service Centers (including private mail centers & copy shops)</p> <p>561440 Collection Agencies</p> <p>561450 Credit Bureaus</p> <p>561490 Other Business Support Services (including repossession services, court reporting, & stenotype services)</p>	<p><i>Code</i></p> <p>561500 Travel Arrangement & Reservation Services</p> <p>561600 Investigation & Security Services</p> <p>561710 Exterminating & Pest Control Services</p> <p>561720 Janitorial Services</p> <p>561730 Landscaping Services</p> <p>561740 Carpet & Upholstery Cleaning Services</p> <p>561790 Other Services to Buildings & Dwellings</p> <p>561900 Other Support Services (including packaging & labeling services, & convention & trade show organizers)</p> <p>Waste Management and Remediation Services</p> <p>562000 Waste Management & Remediation Services</p> <p>Educational Services</p> <p>611000 Educational Services (including schools, colleges, & universities)</p> <p>Health Care and Social Assistance</p> <p>Offices of Physicians and Dentists</p> <p>621111 Offices of Physicians (except mental health specialists)</p> <p>621112 Offices of Physicians, Mental Health Specialists</p> <p>621210 Offices of Dentists</p> <p>Offices of Other Health Practitioners</p> <p>621310 Offices of Chiropractors</p> <p>621320 Offices of Optometrists</p> <p>621330 Offices of Mental Health Practitioners (except Physicians)</p> <p>621340 Offices of Physical, Occupational & Speech Therapists, & Audiologists</p> <p>621391 Offices of Podiatrists</p> <p>621399 Offices of All Other Miscellaneous Health Practitioners</p> <p>Outpatient Care Centers</p> <p>621410 Family Planning Centers</p> <p>621420 Outpatient Mental Health & Substance Abuse Centers</p> <p>621491 HMO Medical Centers</p> <p>621492 Kidney Dialysis Centers</p> <p>621493 Freestanding Ambulatory Surgical & Emergency Centers</p> <p>621498 All Other Outpatient Care Centers</p> <p>Medical and Diagnostic Laboratories</p> <p>621510 Medical & Diagnostic Laboratories</p> <p>Home Health Care Services</p> <p>621610 Home Health Care Services</p>	<p><i>Code</i></p> <p>Other Ambulatory Health Care Services</p> <p>621900 Other Ambulatory Health Care Services (including ambulance services & blood & organ banks)</p> <p>Hospitals</p> <p>622000 Hospitals</p> <p>Nursing and 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<p>713900 Other Amusement & Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, & bowling centers)</p> <p>Accommodation and Food Services</p> <p>Accommodation</p> <p>721110 Hotels (except casino hotels) & Motels</p> <p>721120 Casino Hotels</p> <p>721191 Bed & Breakfast Inns</p> <p>721199 All Other Traveler Accommodation</p> <p>721210 RV (Recreational Vehicle) Parks & Recreational Camps</p> <p>721310 Rooming & Boarding Houses</p>	<p><i>Code</i></p> <p>Food Services and Drinking Places</p> <p>722110 Full-Service Restaurants</p> <p>722210 Limited-Service Eating Places</p> <p>722300 Special Food Services (including food service contractors & caterers)</p> <p>722410 Drinking Places (Alcoholic Beverages)</p> <p>Other Services</p> <p>Repair and Maintenance</p> <p>811110 Automotive Mechanical & Electrical Repair & Maintenance</p> <p>811120 Automotive Body, Paint, Interior, & Glass Repair</p> <p>811190 Other Automotive Repair & Maintenance (including oil 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