



Instructions for Form 1120-C

U.S. Income Tax Return for Cooperative Associations

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

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What's New

Failure to file penalty. For returns required to be filed after December 31, 2008, the minimum penalty for failure to file a return that is over 60 days late has increased to the smaller of the tax due or \$135. See page 4 of the instructions.

Additional research and minimum tax credits. A cooperative can elect to claim additional research and minimum tax credits in lieu of claiming any additional first-year special depreciation allowance for eligible qualified property. See the instructions for line 29g.

Business start-up costs. For business start-up and organizational costs paid or incurred after September 8, 2008, a cooperative is no longer required to attach a statement to its return or specifically identify the amount deducted as organizational or start-up costs for the election under sections 195(b) or 248(a) to be effective. See page 8 of these instructions.

Qualified timber gain. For tax years ending after May 22, 2008, and beginning before May 23, 2009, a maximum 15% alternative tax will apply to the cooperative's qualified timber gain (as defined under section 1201(b)(2)). The alternative tax applies for both the regular tax and the alternative minimum tax. See the instructions for Schedule J, line 2.

General business credits. All general business credits allowed against the alternative minimum tax are claimed on Form 3800. See the instructions for Schedule J, line 5c, on page 20.

Kansas storms and tornadoes relief. For information on temporary tax relief for certain taxpayers in Kiowa County, Kansas, and surrounding areas, see Pub. 4492-A, Information for Taxpayers

Affected by the May 4, 2007, Kansas Storms and Tornadoes.

Midwestern disaster area relief. For information on tax relief granted to certain taxpayers in the Midwestern disaster areas that were affected by floods between May and August 2008 and declared eligible for federal assistance, see Pub. 4492-B, Information for Affected Taxpayers in the Midwestern Disaster Areas.

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

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should. The service is free, confidential, tailored to meet your needs, and is available for businesses, as well as individuals.

The cooperative can contact the TAS as follows.

- Call the TAS toll-free case intake line at 1-877-777-4778 or TTY/TDD 1-800-829-4059 to see if the cooperative is eligible for assistance.
- Call or write the cooperative's local taxpayer advocate, whose phone number and address are listed in the local telephone directory and in Pub. 1546, Taxpayer Advocate Service--Your Voice at the IRS.
- File Form 911, Request for Taxpayer Advocate Assistance (And Application for Taxpayer Assistance Order), or ask an IRS employee to complete it on the cooperative's behalf.

For more information, go to www.irs.gov/advocate.

How To Make a Contribution To Reduce Debt Held by the Public

To help reduce debt held by the public, make a check payable to "Bureau of the Public Debt." Send it 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 debt held by the public are deductible subject to the rules and limitations for charitable contributions.

How To Get Forms and Publications

Internet. You can access the IRS website 24 hours a day, 7 days a week, at www.irs.gov to:

- Download forms, instructions, and publications;
- Order IRS products online;
- Research your tax questions online;
- Search publications online by topic or keyword; and
- Sign up to receive local and national tax news by email.

IRS Tax Products DVD. You can order Pub. 1796, IRS Tax Products DVD, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Tax Map: An electronic research tool and finding aid.
- Tax law frequently asked questions (FAQs).
- Tax Topics from the IRS telephone response system.
- Internal Revenue Code – Title 26.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.
- Two releases during the year.
 - The first release will ship early in January 2009.
 - The final release will ship early in March 2009.

Purchase the DVD from National Technical Information Service at www.irs.gov/cdorders for \$30 (no handling fee) or call 1-877-233-6767 toll free to buy the DVD for \$30 (plus a \$6 handling fee).

By phone and in person. You can order forms and publications by calling 1-800-TAX-FORM (1-800-829-3676). You can also get most forms and publications at your local IRS office.

IRS E-Services Make Taxes Easier

Now more than ever before, businesses can enjoy the benefits of filing and paying their federal taxes electronically. Whether you rely on a tax professional or handle your own taxes, the IRS offers you convenient programs to make taxes easier.

- You can *e-file* your Form 7004; Form 940 and 941 employment tax returns; Form 1099 and other information returns. Visit www.irs.gov/efile for details.
- You can pay taxes online or by phone using the free Electronic Federal Tax Payment System (EFTPS). Visit www.eftps.gov or call 1-800-555-4477 for details.

Use these electronic options to make filing and paying taxes easier.

General Instructions

Purpose of Form

Use Form 1120-C, U.S. Income Tax Return for Cooperative Associations, to report income, gains, losses, deductions, credits, and to figure the income tax liability of the cooperative.

Who Must File

Any corporation operating on a cooperative basis under IRC section 1381 (including farmers' cooperatives under section 521 whether or not it has taxable income) and allocating amounts to patrons on the basis of business done with or for such patrons should file Form 1120-C.

This does **not** apply to organizations which are:

- Exempt from income tax under chapter 1 (other than exempt farmers' cooperatives under section 521);
- Subject to part II (section 591 and following), subchapter H, chapter 1 (relating to mutual savings banks);
- Subject to subchapter L (section 801 and following), chapter 1 (relating to insurance companies); or
- Engaged in generating, transmitting, or otherwise furnishing electric energy or providing telephone service to persons in rural areas.

Where To File

If the cooperative's principal business, office, or agency is located in the United States, file Form 1120-C with the Department of the Treasury, Internal Revenue Service Center, Ogden, UT 84201-0012.

If the cooperative's principal business, office, or agency is located in a foreign country or a U.S. possession, file Form 1120-C with the Internal

Revenue Service Center, P.O. Box 409101, Ogden, UT 84409.

When To File

A cooperative can file its income tax return by the 15th day of the 9th month after the end of its tax year provided it meets the requirements of section 6072(d) prior to filing. Any cooperative not meeting the requirements of section 6072(d) must file its income tax return by the 15th day of the 3rd month after the end of its tax year.

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

Private delivery services.

Cooperatives 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. These private delivery services include only the following.

- DHL Express (DHL): DHL Same Day Service, DHL Next Day 10:30 am, DHL Next Day 12:00 pm, DHL Next Day 3:00 pm, and DHL 2nd Day Service.
- Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2Day, FedEx International Priority, and FedEx International First.
- United Parcel Service (UPS): UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, UPS 2nd Day Air A.M., UPS Worldwide Express Plus, and UPS Worldwide Express.

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



Private delivery services cannot deliver items to P.O. boxes. You must use the U.S. Postal Service to mail any item to an IRS P.O. box address.

Extension of Time to File

File Form 7004, Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns, to request a 6-month extension of time to file. Generally, the cooperative must file Form 7004 by the regular due date of the return.

Who Must Sign

The return must be signed and dated by:

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

If a return is filed on behalf of a cooperative by a receiver, trustee, or assignee, the fiduciary must sign the return, instead of the cooperative

officer. Returns and forms signed by a receiver or trustee in bankruptcy on behalf of a cooperative must be accompanied by a copy of the order or instructions of the court authorizing signing of the return or form.

If an employee of the cooperative completes Form 1120-C, the paid preparer's space should remain blank. Anyone who prepares Form 1120-C but does not charge the cooperative should not complete that section. 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 in the space provided for the preparer's signature.
- Give a copy of the return to the taxpayer.

Note. A paid preparer may sign original or amended returns by rubber stamp, mechanical device, or computer software program.

Paid Preparer Authorization

If the cooperative wants to allow the IRS to discuss its 2008 tax return with the paid preparer who signed it, check the "Yes" box in the signature area of the return. This authorization applies only to the individual whose signature appears in the "Paid Preparer's Use Only" section of the cooperative's return. It does not apply to the firm, if any, shown in that section.

If the "Yes" box is checked, the cooperative is authorizing the IRS to call the paid preparer to answer any questions that may arise during the processing of its return. The cooperative is also authorizing the paid preparer to:

- Give the IRS any information that is missing from the return,
- Call the IRS for information about the processing of the return or the status of any related refund or payment(s), and
- Respond to certain IRS notices about math errors, offsets, and return preparation.

The cooperative is not authorizing the paid preparer to receive any refund check, bind the cooperative to anything (including any additional tax liability), or otherwise represent the cooperative before the IRS. If the cooperative wants to expand the paid preparer's authorization, see Pub. 947, Practice Before the IRS and Power of Attorney.

The authorization will automatically end no later than the due date (excluding extensions) for filing the cooperative's 2009 tax return.

Assembling the Return

To ensure that the cooperative's tax return is correctly processed, attach all

schedules and other forms after page 5 of Form 1120-C, in the following order.

1. Schedule N (Form 1120), Foreign Operations of U.S. Corporations.
2. Schedule O (Form 1120), Consent Plan and Apportionment Schedule for a Controlled Group.
3. Form 4626, Alternative Minimum Tax—Corporations.
4. Form 8302, Electronic Deposit of Tax Refund of \$1 Million or More.
5. Form 4136, Credit for Federal Tax Paid on Fuels.
6. Form 851, Affiliations Schedule.
7. Additional schedules in alphabetical order.
8. Additional forms in numerical order.

Complete every applicable entry space on Form 1120-C. 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. Enter the cooperative's name and EIN on each supporting statement or attachment.

Depository Methods of Tax Payment

The cooperative must pay any tax due in full no later than the 15th day of the 9th month after the end of the tax year. The two methods of depositing taxes are discussed below.

Electronic deposit requirement. The cooperative 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 2009 if:

- The total deposits of such taxes in 2007 were more than \$200,000, or
- The cooperative was required to use EFTPS in 2008.

If the cooperative is required to use EFTPS and fails to do so, it may be subject to a 10% penalty. If the cooperative is not required to use EFTPS, it can participate voluntarily. To enroll in or get more information about EFTPS, call 1-800-555-4477. To enroll online, visit www.eftps.gov.

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

Deposit with Form 8109. If the cooperative does not use EFTPS, deposit cooperative 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 by calling 1-800-829-4933 or visiting an IRS taxpayer assistance center. Have your EIN ready when you call or visit.

Do not send deposits directly to an IRS office; otherwise, the cooperative may have to pay a penalty. Mail or deliver the completed Form 8109 with the payment to an authorized depository (a commercial bank or other financial institution authorized to accept federal tax deposits). Make checks or money orders payable to the depository.

If the cooperative prefers, it may mail the coupon and payment to: Financial Agent, Federal Tax Deposit Processing, P.O. Box 970030, St. Louis, MO 63197. Make the check or money order payable to "Financial Agent."

To help ensure proper crediting, enter the cooperative's EIN, the tax period to which the deposit applies, and "Form 1120" on the check or money order. Darken the "1120" box under "Type of Tax" and the appropriate "Quarter" box under "Tax Period" on the coupon. Records of these deposits will be sent to the IRS. For more information, see "Marking the Proper Tax Period" in the Instructions for Form 8109.

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 cooperative owes tax when it files Form 1120-C, 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 cooperative's payments of estimated tax.

- The cooperative must make installment payments of estimated tax if it expects its total tax for the year (less applicable 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 cooperative does not use EFTPS, use the deposit coupons

(Forms 8109) to make deposits of estimated tax.

- If the cooperative 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.

See the instructions for lines 29b and 29c, Form 1120-C.

Estimated tax penalty. A cooperative 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 2008, 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 cooperative owes a penalty and to figure the amount of the penalty.

Generally, the cooperative does not have to file this form because the IRS can figure the amount of any penalty and bill the cooperative for it. However, even if the cooperative does not owe the penalty, complete and attach Form 2220 if:

- The annualized income or adjusted seasonal installment method is used, or
- The cooperative is a large corporation computing its first required installment based on the prior year's tax. See the Instructions for Form 2220 for the definition of a large corporation. Also, see the instructions for line 30, Form 1120-C.

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, substantial valuation misstatements, substantial understatements of tax, and reportable transaction understatements from the due date (including extensions) to the date of payment. The interest charge is figured at a rate determined under section 6621.

Late filing of return. A cooperative 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 \$135. The penalty will not be imposed if the cooperative can show that the failure to file on time was due to reasonable

cause. Cooperatives that file late should attach a statement explaining the reasonable cause.

Late payment of tax. A cooperative 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 cooperative 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:

- Form 720, Quarterly Federal Excise Tax Return;
- Form 941, Employer's QUARTERLY Federal Tax Return;
- Form 943, Employer's Annual Federal Tax Return for Agricultural Employees;
- Form 945, Annual Return of Withheld Federal Income Tax.

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, reportable transaction understatements, and fraud. See sections 6662, 6662A, and 6663.

Accounting Methods

Figure taxable income using the method of accounting regularly used in keeping the cooperative's books and records. In all cases, the method used must clearly show taxable income. Permissible methods include:

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

See Pub. 538, Accounting Periods and Methods, for more information.

Change in accounting method. Generally, the cooperative must get IRS consent to change the method of accounting used to report taxable income (for income as a whole or for the treatment of any material item). To do so, the cooperative generally must

file Form 3115, Application for Change in Accounting Method. See Form 3115 and Pub. 538, Accounting Periods and Methods, for more information on accounting methods.

There are some instances when the cooperative can obtain automatic consent from the IRS to change to certain accounting methods. See Rev. Proc. 2008-52, 2008-36 I.R.B. 587, as modified by Announcement 2008-84, 2008-38 I.R.B. 748.

Accounting Period

A cooperative must figure its taxable income on the basis of a tax year. A tax year is the annual accounting period a cooperative uses to keep its records and report its income and expenses. Generally, cooperatives can use a calendar year or a fiscal year.

Change of tax year. Generally, a cooperative 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 cooperative can change its tax year without getting a consent.

See the Instructions for Form 1128 and Pub. 538 for more information on accounting periods and tax years.

Rounding Off To Whole Dollars

The cooperative can round off cents to whole dollars on its return and schedules. If the cooperative does round to whole dollars, it must round all amounts. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar (for example, \$1.39 becomes \$1 and \$2.50 becomes \$3).

If two or more amounts must be added to figure the amount to enter on a line, include cents when adding the amounts and round off only the total.

Recordkeeping

Keep the cooperative'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 cooperative's basis in property for as long as they are needed to figure the basis of the original or replacement property.

The cooperative should also keep copies of all returns. They help in preparing future and amended returns.

Other Forms and Statements That May Be Required

Reportable transaction disclosure statement. Disclose information for each reportable transaction in which the cooperative participated. Form 8886, Reportable Transaction Disclosure Statement, must be filed for each tax year that the federal income tax liability of the cooperative is affected by its participation in the transaction. The following are reportable transactions.

1. Any listed transaction, which is a transaction that is the same as or substantially similar to tax avoidance transactions identified by the IRS.
2. Any transaction offered under conditions of confidentiality for which the cooperative paid an advisor a fee of at least \$250,000.
3. Certain transactions for which the cooperative has contractual protection against disallowance of the tax benefits.
4. Certain transactions resulting in a loss of at least \$10 million in any single year or \$20 million in any combination of years.
5. Any transaction identified by the IRS in published guidance as a "transaction of interest" (a transaction that the IRS believes has a potential for tax avoidance or evasion, but has not yet been identified as a listed transaction).

For more information, see Regulations section 1.6011-4 and the Instructions for Form 8886.

Penalties. The cooperative may have to pay a penalty if it is required to disclose a reportable transaction under section 6011 and fails to properly complete and file Form 8886. Penalties may also apply under section 6707A if the cooperative fails to file Form 8886 with its cooperative return, fails to provide a copy of Form 8886 to the Office of Tax Shelter Analysis (OTSA), or files a form that fails to include all the information required (or includes incorrect information). Other penalties, such as an accuracy-related penalty under section 6662A, may also apply.

See the Instructions for Form 8886 for details on these and other penalties.

Reportable transactions by material advisors. Material advisors to any reportable transaction must disclose certain information about the reportable transaction by filing Form 8918, Material Advisor Disclosure Statement, with the IRS.

Transfers to a cooperative controlled by the transferor. Every significant transferor (as defined in Regulations section 1.351-3(d)) that receives stock

of a cooperative in exchange for property in a nonrecognition event must attach the statement required by Regulations section 1.351-3(a) to its return for the tax year of the exchange. The transferee cooperative must include the statement required by Regulations section 1.351-3(b) for the tax year of the exchange, unless all the required information is included in any statement(s) provided by a significant transferor that is attached to the same return for the same section 351 exchange.

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

Election to reduce basis under section 362(e)(2)(C). The transferor and transferee in certain section 351 transactions can make a joint election under section 362(e)(2)(C) to limit the transferor's basis in the stock received instead of the transferee's basis in the transferred property. The transferor and transferee may make the election by attaching the statement as provided in Notice 2005-70, 2005-41 I.R.B. 694, to their tax returns filed by the due date (including extensions) for the tax year in which the transaction occurred. If the transferor is a controlled foreign corporation, its controlling U.S. shareholder(s) can make the election. The common parent of a consolidated group can make the election for the group.

Once made, the election is irrevocable. See section 362(e)(2)(C) and Notice 2005-70.

Other forms and statements. See Pub. 542 for a list of other forms and statements that the cooperative may need to file in addition to the forms and statements discussed throughout these instructions.

Specific Instructions

Period Covered

File the 2008 return for calendar year 2008 and fiscal years that begin in 2008 and end in 2009. For a fiscal or short tax year return, fill in the tax year space at the top of the form.

The 2008 Form 1120-C can also be used if:

- The cooperative has a tax year of less than 12 months that begins and ends in 2009, and

- The 2009 Form 1120-C is not available at the time the cooperative is required to file its return.

The cooperative must show its 2009 tax year on the 2008 Form 1120-C and take into account any tax law changes that are effective for tax years beginning after December 31, 2008.

Name and Address

Enter the cooperative's true name (as set forth in the charter or other legal document creating it), address, and EIN on the appropriate lines. Enter the address of the cooperative's principal office or place of business. Include the suite, room, or other unit number after the street address. If the post office does not deliver mail to the street address and the cooperative has a P.O. box, show the box number instead.

Note. Do not use the address of the registered agent for the state in which the cooperative is incorporated. For example, if the cooperative is incorporated in Delaware or Nevada and the cooperative's principal office is located in Little Rock, AR, the cooperative should enter the Little Rock address.

If the cooperative receives its mail in care of a third party (such as an accountant or an attorney), enter on the street address line "C/O" followed by the third party's name and street address or P.O. box.

Item A. Identifying Information

Consolidated return. Cooperatives filing a consolidated return must check box 1 and attach Form 851, Affiliations Schedule, and other supporting statements to the return. The first year a subsidiary cooperative is being included in a consolidated return, attach Form 1122, Authorization and Consent of Subsidiary Corporation To Be Included in a Consolidated Income Tax Return, to the parent's consolidated return. Attach a separate Form 1122 for each subsidiary being included in the consolidated return.

If you check the "Farmers' tax exempt cooperative" box, you cannot file a consolidated return.

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

1. Items of gross income and deductions.
2. A computation of taxable income.
3. Balance sheets as of the beginning and end of the tax year.

4. A reconciliation of income per books with income per return.

5. A reconciliation of retained earnings.

Enter on Form 1120-C the totals for each item of income, gain, loss, expense, or deduction, net of eliminating entries for intercompany transactions between cooperatives/corporations within the consolidated group. Attach consolidated balance sheets and a reconciliation of consolidated retained earnings.



TIP *The cooperative does not have to complete lines 3, 4, and 5 above, if its total receipts (lines 1a plus lines 4 through 9 on page 1 of the return) and its total assets at the end of the tax year are less than \$250,000.*

For more information on consolidated returns, see the regulations under section 1502.

Schedule M-3 (Form 1120). A cooperative with total assets (consolidated for all cooperatives/corporations included with the tax consolidation group) of \$10 million or more on the last day of the tax year must complete Schedule M-3 (Form 1120), Net Income (Loss) Reconciliation for Corporations With Total Assets of \$10 Million or More, instead of Schedule M-1 (Form 1120-C). A cooperative filing Form 1120-C that is not required to file Schedule M-3 may voluntarily file Schedule M-3 instead of Schedule M-1.

If you are filing Schedule M-3, check box 2 of Item A to indicate that Schedule M-3 is attached.

See the instructions for Schedule M-3 for more details.

Form 1120 filed previous year. Check box 3 if the cooperative filed Form 1120 in a prior year as a subchapter T cooperative.

Item B. Employer Identification Number (EIN)

Enter the cooperative's EIN. If the cooperative does not have an EIN, it must apply for one. An EIN can be applied for:

- Online—Click on the EIN link at www.irs.gov/businesses/small. The EIN is issued immediately once the application information is validated.
- By telephone at 1-800-829-4933 from 7:00 a.m. to 10:00 p.m. in the cooperative's local time zone.
- By mailing or faxing Form SS-4, Application for Employer Identification Number.

If the cooperative has not received its EIN by the time the return is due,

enter "Applied for" and the date you applied in the space for the EIN. For more details, see the Instructions for Form SS-4.

Note. Only cooperatives located in the United States or United States possessions can use the online application. Foreign corporations must use one of the other methods to apply.

Item C. Type of Cooperative

Farmers' tax exempt cooperative.

Check the "Farmers' tax exempt cooperative" box if the cooperative applied for and received status as a tax-exempt farmers', fruit growers', or like association, organized and operated on a cooperative basis as described in section 521.

If the cooperative has submitted Form 1028, Application for Recognition of Exemption, but has not received a determination letter from the IRS, enter "Application Pending" on Form 1120-C, at the top of page 1.

Nonexempt cooperative. All other subchapter T cooperatives including farmers' cooperatives without section 521 exempt status, organized and operated as described under *Who Must File* on page 2 of the instructions, should check the "Nonexempt cooperative" box.

Item D. Initial Return, Final Return, Name Change, Address Change, or Amended Return

- If this is the cooperative's first return, check the "Initial return" box.
- If the cooperative ceases to exist, file Form 1120-C and check the "Final return" box.
- If the cooperative changed its name since it last filed a return, check the "Name change" box. Generally, a cooperative also must have amended its articles of incorporation and filed the amendment with the state in which it was incorporated.
- If the cooperative has changed its address since it last filed a return (including a change to an "in care of" address), check the "Address change" box.
- If the cooperative must change their originally filed return for any year, it should file a new return including any required attachments. Use the revision of Form 990-C, Form 1120, or Form 1120-C applicable to the year being amended. The amended return must provide all the information called for by the form and instructions, not just the

new or corrected information. Check the "Amended return" box.

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.

Income

Except as otherwise provided in the Internal Revenue Code, gross income includes all income from whatever source derived.

Allocation of patronage and nonpatronage income and deductions (Schedule G).

Cooperatives that have total receipts and assets of \$250,000 or more must also complete Schedule G.

Income from qualifying shipping activities. Gross income does not include income from qualifying shipping activities if the cooperative makes an election under section 1354 to be taxed on its notional shipping income (as defined in section 1353) at the highest corporate rate (35%). If the election is made, the cooperative generally may not claim any loss, deduction, or credit with respect to qualifying shipping activities. A cooperative making this election also may elect to defer gain on the disposition of a qualifying vessel.

Use Form 8902, Alternative Tax on Qualifying Shipping Activities, to figure the tax. Include the alternative tax on Schedule J, line 8.

Line 1. Gross Receipts or Sales

Enter gross receipts or sales from all business operations except those that must be reported on lines 4 through 9. 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 adopting permissible methods for reporting certain advance payments for services and certain goods by an accrual method cooperative, see items 83 and 84 in the Instructions for Form 3115.

Installment sales. Generally, the installment method cannot be used for dealer dispositions of property. A "dealer disposition" is any disposition of: (a) personal property by a person who regularly sells or otherwise disposes of personal property of the same type on the installment plan or (b) real property held for sale to customers in the ordinary course of the taxpayer's trade or business.

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 cooperative elects to pay interest under section 453(l)(3).

For sales of timeshares and residential lots reported under the installment method, the cooperative's income tax is increased by the interest payable under section 453(l)(3). Report this addition to tax on Schedule J, line 8.

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.

Nonaccrual experience method.

Cooperatives that qualify to use the nonaccrual experience method should attach a schedule showing total gross receipts, the amount not accrued as a result of the application of section 448(d)(5) and Regulations section 1.448-2, and the net amount accrued. Enter the net amount on line 1a.

Line 2. Cost of Goods Sold

Enter the cost of goods sold on line 2, page 1. Before making the entry, complete Schedule A on page 2. For more information, see *Instructions for Schedule A*, later.

Line 4. Dividends

See the instructions for Schedule C. Complete Schedule C and enter the amount from line 19 on line 4 of page 1. Do not report patronage dividends received on Schedule C. Report income from patronage dividends and per-unit retain allocations on line 9.

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.

Note. Report tax-exempt interest income on Schedule K, Item 10. Also, if required, include the same amount on

Schedule M-1, line 7, or Schedule M-3 (Form 1120), Part II, line 13.

Line 6. Gross Rents and Royalties

Enter the gross amount received from the rental of property and royalties. Deduct expenses such as repairs, interest, taxes, and depreciation on the applicable lines.

Line 9. Other Income

Enter any other taxable income not reported on lines 1 through 8. List the type and amount of income on an attached schedule. If the cooperative has only one item of other income, describe it in parentheses on line 9. Examples of other income to report on line 9 are:

1. Patronage dividends and per-unit retain allocations (see later).
2. Recoveries of bad debts deducted in prior years under the specific charge-off method.
3. The amount included in income from Form 6478, Alcohol and Cellulosic Biofuel Fuels Credit.
4. The amount included in income from Form 8864, Biodiesel and Renewable Diesel Fuels Credit.
5. 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 any tax refunds.
6. Any recapture amount under section 179A for certain clean-fuel vehicle property (or clean-fuel vehicle refueling property) that ceases to qualify. See Regulations section 1.179A-1 for details.
7. 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 Form 1120-C, line 23. 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.
8. Any net positive section 481(a) adjustment. The cooperative may have to make an adjustment under section 481(a) to prevent amounts of income or expense from being duplicated or omitted. The section 481(a) adjustment period is generally 1 year for a net negative adjustment and 4 years for a net positive adjustment. However, a cooperative can elect to use a 1-year adjustment period if the net section 481(a) adjustment for the change is less than \$25,000. The cooperative must complete the appropriate lines of Form 3115 to make this election. Also,

under certain other conditions, the cooperative can modify the period for taking into account a net positive section 481 adjustment. See Rev. Proc. 2007-67, 2007-48 I.R.B. 1072. If the net section 481(a) adjustment is negative, report it on line 23.

9. Part or all of the proceeds received from certain corporate-owned life insurance contracts issued after August 17, 2006. See section 101(j) for details.

Patronage dividends and per-unit retain allocations. Attach a schedule listing the name of each declaring association from which the cooperative received income from patronage dividends and per-unit retain allocations, and the total amount received from each association.

Include the items listed below:

1. Patronage dividends received in:
 - Money,
 - Qualified written notices of allocation, or
 - Other property (except nonqualified written notices of allocation).
2. Nonpatronage distributions received on a patronage basis from tax-exempt farmers' cooperatives in:
 - Money,
 - Qualified written notices of allocation, or
 - Other property (except nonqualified written notices of allocation), based on earnings of that cooperative either from business done with or for the United States or any of its agencies (or from sources other than patronage, such as investment income).
3. Qualified written notices of allocation at their stated dollar amounts and property at its fair market value (FMV).
4. Amounts received on the redemption, sale, or other disposition of nonqualified written notices of allocation.

Generally, patronage dividends from purchases of capital assets or depreciable property are not includible in income but must be used to reduce the basis of the assets. See section 1385(b) and the related regulations.

5. Amounts received (or the stated dollar value of qualified per-unit retain certificates received) from the sale or redemption of nonqualified per-unit retain certificates.

6. Per-unit retain allocations received (except nonqualified per-unit retain certificates). See section 1385.

Payments from the Commodity Credit Corporation to a farmers' cooperative for certain expenses of the co-op's farmers-producers under a "reseed" program of the U.S.

Department of Agriculture are patronage-source income that may give rise to patronage dividends under section 1382(b)(1). See Rev. Rul. 89-97, 1989-2 C.B. 217, for more information.

Deductions

Limitations on Deductions

Section 263A uniform capitalization rules. The uniform capitalization (UNICAP) rules of section 263A generally require cooperatives to capitalize, or include in inventory, 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 cooperative for use in its trade or business or in an activity engaged in for profit.

Cooperatives subject to the UNICAP rules are required to capitalize not only direct costs but 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; and
- 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 cooperative.

Exceptions. Section 263A does not apply to:

- Personal property acquired for resale if the cooperative's (or any of its predecessor'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.
- Geological and geophysical costs amortized under section 167(h).
- Capital costs incurred to comply with EPA sulfur regulations.
- Intangible drilling costs for oil, gas, and geothermal property.
- Mining exploration and development costs.
- Inventoriable items accounted for in the same manner as materials and supplies that are not incidental. See *Schedule A. Cost of Goods Sold*, later.

For more details on the uniform capitalization rules, see Regulations sections 1.263A-1 through 1.263A-3. See Regulations section 1.263A-4 and Pub. 225, *Farmer's Tax Guide*, for rules for property produced in a farming business.

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

Cooperatives use Form 8926, *Disqualified Corporate Interest Expense Disallowed Under Section 163(j) and Related Information*, to figure the amount of any cooperative interest expense disallowed by section 163(j).

Section 291 limitations.

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

Golden parachute payments. A portion of the payments made by a cooperative to key personnel that exceeds their usual compensation may not be deductible. This occurs when the cooperative has an agreement (golden parachute) with these key employees to pay them these excess amounts if control of the cooperative changes. See section 280G and Regulations section 1.280G-1. Also see the instructions for line 12.

Business start-up and organizational costs. For business start-up and organizational costs paid or incurred

after September 8, 2008, a cooperative can deduct up to \$5,000 of such costs for the year it begins business (unless the cooperative elects to capitalize all such costs). The \$5,000 deduction is reduced by the amount the total costs exceed \$50,000. If the total costs are \$55,000 or more, the deduction is reduced to zero. Any cost not deducted must be amortized ratably over a 180-month period, beginning with the month the cooperative begins business. The cooperative is not required to attach a statement or specifically identify the amount deducted in order for the election to be effective. The cooperative can choose to forego the deduction and instead elect to capitalize all such costs. The election to deduct or capitalize costs is irrevocable. See Temporary Regulations sections 1.195-1T and 1.248-1T.

For business start-up and organizational costs paid after October 22, 2004, and before September 9, 2008, a cooperative can elect to deduct up to \$5,000 of such costs for the year it begins business (otherwise the cooperative must capitalize all such costs). The \$5,000 deduction is reduced by the amount the total cost exceeds \$50,000. If the total costs are \$55,000 or more, the deduction is reduced to zero. Any costs not deducted must be amortized ratably over a 180-month period, beginning with the month the cooperative begins business. If the election is made, the cooperative must attach any statement required by Regulations sections 1.195-1(b) and 1.248-1(c). However, the cooperative can apply the provisions of Temporary Regulations sections 1.195-1T and 1.248-1T to all expenses paid or incurred after October 22, 2004, provided the period of limitations on assessment has not expired for the year of the election. Otherwise the provisions under Regulations sections 1.195-1(b) and 1.248-1(c) will apply.

For business start-up and organizational costs paid or incurred before October 23, 2004, a cooperative can elect to amortize such costs over a period of 60-months or more.

Report the deductible amount of such costs and any amortization on line 26. For amortization that begins during the 2008 tax year, complete and attach Form 4562. For more details on business start-up and organizational costs, see Pub. 535, *Business Expenses*.

Passive activity limitations.

Limitations on passive activity losses and credits under section 469 apply to closely held cooperatives.

A cooperative is a "closely held cooperative" (as defined in section

469(j)(1)) 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 5 individuals. Certain organizations are treated as individuals for purposes of this test. See section 542(a)(2). For rules of determining stock ownership, see section 544 (as modified by section 465(a)(3)).

Generally, the two kinds of passive activities are:

- Trade or business activities in which the cooperative did not materially participate, and
- Rental activities, regardless of its participation.

For exceptions, see Form 8810, Corporate Passive Activity Loss and Credit Limitations.

Cooperatives 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), the at-risk rules of section 465, or the tax-exempt use loss rules of section 470, 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.

Reducing certain expenses for which credits are allowable.

If the cooperative claims any of the following credits, it may need to reduce the otherwise allowable deductions for expenses used to figure the credit.

- Work opportunity credit.
- Credits for affected Midwestern disaster area employers.
- Empowerment zone and renewal community credit.
- Indian employment credit.
- Welfare-to-work credit.
- Research credit.
- Orphan drug credit.
- Disabled access credit.
- Employer credit for social security and Medicare taxes paid on certain employee tips.
- Credit for small employer pension plan start-up costs.
- Credit for employer-provided childcare facilities and services.
- Mine rescue team training credit.
- Agricultural chemicals security credit.
- Credit for employer differential wage payments.

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

If the cooperative capitalized any costs on which it figured the credit, reduce the amount capitalized by the credit attributable to these costs.

See the instructions for the form used to figure the applicable credit.

Limitations on deductions related to property leased to tax-exempt entities. If a cooperative leases property to a governmental or other tax-exempt entity, the cooperative cannot claim deductions related to the property to the extent that they exceed the cooperative's income from the lease payments (tax-exempt use loss). Amounts disallowed may be carried over to the next tax year and treated as a deduction with respect to the property for that tax year. See section 470 for more details and exceptions.

Line 11. Compensation of Officers

Enter deductible officers' compensation on line 11. Before entering an amount on line 11, complete Schedule E if the cooperative's total receipts (line 1a plus lines 4 through 9, page 1) 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 each officer's compensation on Schedule E. Complete Schedule E, line 1, columns (a) through (f), for all officers. The cooperative determines who is an officer under the laws of the state where it is 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 cooperatives cannot deduct compensation to a "covered employee" to the extent that the compensation exceeds \$1 million. Generally, a covered employee is:

- The principal executive officer of the cooperative (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 three highest compensated officers for that tax year (other than the principal executive officer).

For this purpose, compensation does not include the following.

- Income from certain employee trusts, annuity plans, or pensions.

- Any benefit paid to an employee that is excluded from the employee's income.

The deduction limit does not apply to:

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

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

For details, see section 162(m) and Regulations section 1.162-27. Also see Notice 2007-49, 2007-25 I.R.B. 1429.

Limitations on tax benefits for executive compensation under a Treasury troubled asset relief program.

The \$1 million compensation limit is reduced to \$500,000 for executive remuneration and deferred deduction executive remuneration paid to covered executives during an applicable tax year by an applicable employer under a troubled asset relief program. The \$500,000 is reduced by any amounts disallowed as excess parachute payments. See section 162(m)(5) for definitions and other special rules. Also see Notice 2008-94, 2008-44 I.R.B. 1070, for additional guidance.

In addition, a portion of any parachute payments made to a covered executive by an applicable employer participating in a Treasury troubled asset relief program is not deductible as compensation if the payments are made because of a severance from employment during an applicable tax year. For this purpose applicable employer, covered executive, and applicable tax year each have the same meaning as under section 162(m)(5). These limits do not apply to a payment already treated as a parachute payment. See section 280G(e) and Notice 2008-94.

Line 12. Salaries and Wages

Enter the total salaries and wages paid for the tax year. Do not include salaries and wages deductible elsewhere on the return, such as amounts included in officers' compensation, 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 cooperative claims a credit for any wages paid or incurred, it may need to reduce its deduction for officers' compensation and salaries and wages. See *Reducing certain expenses*

for which credits are allowable on page 9.

If the cooperative 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 18 and 23.

Line 13. Bad Debts

Enter the total debts that became worthless in whole or in part during the tax year. A cash method taxpayer cannot claim a bad debt deduction unless the amount was previously included in income.

Line 14. Rents

If the cooperative rented or leased a vehicle, enter the total annual rent or lease expense paid or incurred during the year. Also complete Form 4562, Depreciation and Amortization, Part V. If the cooperative 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 cooperative may have an inclusion amount if:

The lease term began:	And the vehicle's FMV on the first day of the lease exceeded:
After 12/31/07 but before 1/1/09	\$18,500
After 12/31/06 but before 1/1/08	\$15,500
After 12/31/04 but before 1/1/07	\$15,200
After 12/31/03 but before 1/1/05	\$17,500

If the lease term began before January 1, 2004, see Pub. 463, Travel, Entertainment, Gift, and Car Expenses, to find out if the cooperative has an inclusion amount. The inclusion amount for lease terms beginning in 2009 will be published in the Internal Revenue Bulletin in early 2009.

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

Line 15. 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 foreign tax credit is claimed.
- Taxes not imposed on the cooperative.
- Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (these taxes are treated as 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 sidewalks, etc.).
- Taxes deducted elsewhere on the return, such as those reflected in cost of goods sold.

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

Line 16. Interest

Note. Do not offset interest income against interest expense.

The cooperative must make an interest allocation if the proceeds of a loan were used for more than one purpose. See Temporary Regulations section 1.163-8T for the interest allocation rules.

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. For example, a cash basis calendar year taxpayer who in 2008 prepaid interest allocable to any period after 2008 can deduct only the amount allocable to 2008.
- 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 cooperative for its own use or for sale. The cooperative 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 sections 1.263A-8 through 1.263A-15 for definitions and more information.
- Interest paid or incurred on any portion of an underpayment of tax that is attributable to an understatement arising from an undisclosed listed transaction or an undisclosed reportable avoidance transaction (other than a listed transaction) entered into in tax years beginning after October 22, 2004.

Special rules apply to:

- Disqualified interest on certain indebtedness under section 163(j). See Form 8926, Disqualified Corporate Interest Expense Disallowed Under Section 163(j) and Related Information, and the related instructions.
- Interest on which no tax is imposed (see section 163(j)). For tax years beginning after May 16, 2006, a cooperative that owns an interest in a partnership, directly or indirectly, must treat its distributive share of the partnership liabilities, interest income, and interest expense as liabilities, income, and expenses of the cooperative for purposes of applying the earnings stripping rules. For more details, see section 163(j)(8).

- Forgone 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).
- Interest which is allocable to unborrowed policy cash values of life insurance, endowment, or annuity contracts issued after June 8, 1997. See section 264(f). Attach a statement showing the computation of the deduction.

Line 17. 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. Special rules and limits apply to contributions to organizations conducting lobbying activities. See section 170(f)(9).

Cooperatives reporting taxable income on the accrual method can 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 stating that the resolution authorizing the contributions was adopted by the board of directors during the current tax year. The declaration must include the date the resolution was adopted. See Regulations section 1.170A-11.

Limitation on deduction. The total amount claimed may not be more than 10% of taxable income (line 27) computed without regard to the following.

- Any deduction for contributions.
- The special deductions on line 26c, Form 1120-C.
- The deduction allowed under section 249.
- The domestic production activities deduction under section 199.
- Any net operating loss (NOL) carryback to the tax year under section 172.
- Any capital loss carryback to the tax year under section 1212(a)(1).

Temporary suspension of 10% limit for contributions to Midwestern disaster area. A cooperative can elect to deduct qualified cash contributions without regard to the general 10% limit, if the contributions were paid after May 1, 2008, and before January 1, 2009, to a qualified charitable organization as defined in section 170(b)(1)(A) (except for contributions to a section 509(a)(3) organization or a donor advised fund (as defined in section 4966(d)(2))), and

were for relief efforts in one or more Midwestern disaster areas. The cooperative must obtain contemporaneous written acknowledgment from the organization that the contribution was used (or will be used) for relief efforts in one or more Midwestern disaster areas. The total amount claimed cannot exceed 100% of the excess of the cooperative's taxable income (as computed under *Limitation on deduction* above, substituting "100%" for "10%") over the cooperative's deduction for all other charitable contributions. Any excess contributions can be carried over to the next 5 years. For more information, see Pub. 4492-B.

Carryover. Charitable contributions over the 10% limitation cannot be deducted for the current tax year but can be carried over to the next five tax years.

Special rules apply if the cooperative 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 sections 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).

Contributions of \$250 or more.

Generally, no deduction is allowed for any contribution of \$250 or more unless the cooperative 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 cooperative'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 cooperative's records.

Cash contributions. For contributions of cash, checks, or other monetary gifts (regardless of the amount), the cooperative must maintain a bank record or a receipt, letter, or other written communication from the donee organization indicating the name of the organization, the date of the contribution, and the amount of the contribution.

Contributions of property other than cash. If a cooperative 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). Complete and attach Form 8283, Noncash Charitable Contributions, for contributions of property (other than money) if the total claimed deduction for all property contributed was more than \$5,000. Special rules apply to the contribution of certain property. See the Instructions for Form 8283.

Qualified conservation contributions. Special rules apply to qualified conservation contributions, including contributions of certain easements on buildings located in a registered historic district. See section 170(h) and Pub. 526, Charitable Contributions.

Other special rules. The cooperative must reduce its deduction for contributions of certain capital gain property. See sections 170(e)(1) and 170(e)(5).

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)) including contributions of "apparently wholesome food" (see section 170(e)(3)(C)) and contributions of qualified book inventory to public schools (see section 170(e)(3)(D)),
- Scientific equipment used for research made 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 for educational purposes (see section 170(e)(6)).

For more information on charitable contributions, including substantiation and recordkeeping requirements, see section 170, the related regulations, and Pub. 526. For special rules that apply to corporations, see Pub. 542.

Line 18. Depreciation

Include on line 18 depreciation and the cost of certain property that the cooperative elected to expense under section 179 that is not claimed on Schedule A or elsewhere on the return. See Form 4562 and its instructions.

Line 20. 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 cooperative does not claim a deduction for the current tax year. There are penalties for failure to file these forms timely 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 21. Employee Benefit Programs

Enter the contributions to employee benefit programs not claimed elsewhere on the return (that is, insurance, health and welfare programs, etc.) that are not an incidental part of a pension, profit-sharing, etc., plan included on line 20.

Line 22. Domestic Production Activities Deduction

Cooperatives described in section 1381 are required to calculate the domestic production activities deduction (DPAD) on Form 8903 and file it with Form 1120-C.

For purposes of determining the section 199 deduction, a specified agricultural or horticultural cooperative computes qualified production activities income (QPAI) and taxable income without any deductions under section 1382(b) or (c). A cooperative engaged in the marketing of agricultural or horticultural products may allocate some, all, or none of its DPAD to its patrons. If any of its DPAD is passed through to patrons, the rules of section 199(d)(3) apply. Reduce the amount the cooperative deducts under section 1382 by the portion of the cooperative's DPAD allocated to patrons.

See Form 8903 and its instructions for more information.

Line 23. Other Deductions

Attach a schedule, listing by type and amount, all allowable deductions that are not deductible elsewhere on Form 1120-C. Enter the total on line 23.

See *Special rules*, later, for limits on certain other deductions. Also, see Pub. 535 and Pub. 542 for details on other

deductions that may apply to cooperatives.

Examples of other deductions include the following.

- Amortization. See Part VI of Form 4562.
- Certain business start-up and organizational costs.
- Qualified demolition and clean-up costs attributable to damage from storms and tornadoes in the Kansas and Midwestern disaster areas. See Pubs. 4492-A and 4492-B.
- Certain qualified disaster expenses that the cooperative elects to deduct. See section 198A.
- Reforestation costs. The cooperative can elect to deduct up to \$10,000 of qualifying reforestation expenses for each qualified timber property. The cooperative can elect to amortize over 84 months any amount not deducted. See Pub. 535.
- Depletion. See sections 613 and 613A for percentage depletion rates applicable to natural deposits and section 291(a)(2) for the limitation on the depletion deduction for iron ore and coal (including lignite). Attach Form T (Timber), Forest Activities Schedule, 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 cooperative's basis for cost depletion purposes or be deducted ratably over a 10-year period. See sections 263(i), 616, and 617 for details. See Pub. 535 for more information on depletion.
- Insurance premiums.
- Legal and professional fees.
- Repairs and maintenance (discussed later).
- Supplies used and consumed in the business.
- Travel, meals, and entertainment expenses. Special rules apply (discussed later).
- Utilities.
- Ordinary losses 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 income on line 9. 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 extraterritorial income exclusion (from Form 8873, line 52).
- Any negative net section 481(a) adjustment.
- Deduction for certain energy efficient commercial building property placed in service. See section 179D, Notice 2008-40, 2008-14 I.R.B. 725, and Notice 2006-52, 2006-26 I.R.B. 1175.

- Dividends paid in cash on stock held by an employee stock ownership plan.

However, a deduction can only be taken for the dividends above 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;
3. At the election of such participants or their beneficiaries (a) payable as provided under 1 or 2 above or (b) paid to the plan and reinvested in qualifying employer securities; or
4. 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.

Do not deduct the following.

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

Repairs and maintenance. Include 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 must be depreciated or amortized.

Special Rules

Travel, meals, and entertainment. Subject to limitations and restrictions discussed below, a cooperative can deduct ordinary and necessary travel, meals, and entertainment expenses paid or incurred in its trade or business.

Special rules apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets. See section 274 and Pub. 463.

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

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

Meals and entertainment.

Generally, the cooperative 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 cooperative must be present at the meal.

See section 274(n)(3) for a special rule that applies to meal expenses for individuals subject to the hours of service limits of the Department of Transportation.

Membership dues. The cooperative can deduct amounts paid or incurred for membership dues in civic or public service organizations, professional organizations, business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards, unless a principal purpose of the organization is to entertain or provide entertainment facilities for members or their guest.

Cooperatives 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 cooperative cannot deduct an expense paid or incurred for use of a facility (such as a yacht or hunting lodge) for an activity that is usually considered entertainment, amusement, or recreation.

Travel, meals, and entertainment treated as compensation. Generally, the cooperative may be able to deduct otherwise nondeductible entertainment, amusement, or recreation expenses if the amounts are treated as compensation to the recipient and reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.

However, if the recipient is an officer, director, or beneficial owner (directly or indirectly) of more than 10% of any class of stock, the deductible expense is limited. See section 274(e)(2) and Notice 2005-45, 2005-24 I.R.B. 1228.

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
- 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 expenditures do not exceed \$2,000, they are deductible. See section 162(e)(5)(B).

Line 25. Taxable Income Before Section 1382, NOL Deduction, and Special Deductions

At-risk rules. Special at-risk rules under section 465 generally apply to closely held cooperatives (see *Passive activity limitations* on page 8) engaged in any activity as a trade or business or for the production of income. These cooperatives may have to adjust the amount on line 25.

A taxpayer is generally considered “at-risk” for an amount equal to his or her investment in the entity. That investment consists of money and other property contributed to the entity and amounts borrowed on behalf of the entity.

The at-risk rules do not apply to:

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

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

If the at-risk rules apply, complete Form 6198, At-Risk Limitations, then adjust the amount on line 25 for any section 465(d) losses. These losses are limited to the amount for which the cooperative is at risk for each separate activity at the close of the tax year. If the cooperative 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 showing the amount at risk and gross income and deductions for the activities with the losses.

If the cooperative 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 cooperative has a net loss, the loss may be limited because of the at-risk rules.

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

Cooperatives are required to allocate income and deductions between patronage and nonpatronage-related business. Cooperatives with gross receipts and assets of \$250,000 or more must complete Schedule G.

Line 26a. Deductions and Adjustments Under Section 1382

Complete Schedule H and enter the amount from line 5.

Line 26b. Net Operating Loss (NOL) Deduction

The cooperative must attach a statement separately accounting for patronage and nonpatronage-sourced NOLs.

Note. Patronage-sourced NOLs cannot be used to reduce nonpatronage-sourced taxable income.

A cooperative can use the NOL loss incurred in one tax year to reduce its taxable income in another year. Enter the total NOL carryovers from other tax years on line 26b, but do not enter more than the cooperative’s taxable income (after special deductions). Attach a schedule showing the computation of the deduction. Also complete item 12 on Schedule K.

The following special rules apply.

- A cooperative equity reduction interest loss may not be carried back to a tax year preceding the year of the equity reduction transaction (see section 172(b)(1)(E)).
- If an ownership change occurs, the amount of the taxable income of a loss cooperative that may be offset by the pre-change NOL carryovers may be limited. See section 382 and the related regulations. A loss cooperative must include the information statement as provided in Regulations section 1.382-11(a), with its income tax return for each tax year that it is a loss cooperative in which an ownership shift, equity structures shift, or other transaction described in Temporary Regulations section 1.382-2T(a)(2)(i) occurs. If the cooperative makes the closing-of-the-books election, see Regulations section 1.382-6(b).

For guidance in applying section 382 to loss cooperatives whose instruments were acquired by Treasury under the Capital Purchase Program under the Emergency Economic Stabilization Act of 2008, see Notice 2008-100, 2008-44 I.R.B. 1081.

- If a cooperative acquires control of another cooperative (or acquires its assets in a reorganization), the amount of pre-acquisition losses that may offset recognized built-in gain may be limited (see section 384).
- If a cooperative elects the alternative tax on qualifying shipping activities under section 1354, no deduction is allowed for an NOL attributable to the qualifying shipping activities to the extent that the loss is carried forward from a tax year preceding the first tax

year for which the alternative tax election was made. See section 1358(b)(2).

- If a cooperative has a loss attributable to a disaster, special rules apply. See the Instructions for Form 1139.

For more details on the NOL deduction, see Pub. 542, section 172, and Form 1139, Corporation Application for Tentative Refund.

Line 26c. Special Deductions

See the instructions for Schedule C beginning on page 16.

Line 26d. Total Section 1382, NOL, and Special Deductions

Combine lines 26a through 26c and enter the result on line 26d.

Line 27. Taxable Income

See Schedule K, Item 14, to determine if the cooperative needs to complete Schedule G. Taxable income reported on line 27, page 1 of the return, cannot be less than the nonpatronage taxable income shown on Schedule G, line 10, column b.

 *Patronage source losses cannot be used to offset nonpatronage income. See Schedule G instructions.*

Minimum taxable income. The cooperative’s taxable income cannot be less than the inversion gain of the cooperative for the tax year, if the cooperative is an expatriated entity or a partner in an expatriated entity. For details, see section 7874.

Net operating loss (NOL). If line 27 (figured without regard to the **minimum taxable income** rule stated above) is zero or less, the cooperative can have an NOL that can be carried back or forward as a deduction to other tax years. Generally, a cooperative first carries an NOL back 2 tax years. However, the cooperative can elect to waive the carryback period and instead carry the NOL forward to future tax years. To make the election, see the instructions for Schedule K, item 12 on page 21.

See Form 1139 for details, including other elections that may be available, which must be made no later than 6 months after the due date (excluding extensions) of the cooperative’s return.

Merchant Marine 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 27 by the amount of the deduction. On the dotted line next to the entry space, enter “CCF” and the amount of the deduction. For more information, see section 7518.

Line 29a. 2007 Overpayment Credited to 2008

Enter amount of overpayment credited to 2008 from the tax return filed in 2007.

Line 29b. Estimated Tax Payments

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

Beneficiaries of trusts. If the cooperative 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 cooperative's share of the payment in the total for line 29b. Enter "T" and the amount of the payment in the shaded space beside line 29b.

Line 29c. Overpaid Estimated Tax

If the cooperative overpaid estimated tax, it may be able to get a quick refund by filing Form 4466, Corporation Application for Quick Refund of Overpayment of Estimated Tax. The overpayment must be at least 10% of the expected income tax liability and be at least \$500. File Form 4466 after the end of the cooperative's tax year, and no later than the 15th day of the third month after the end of the tax year. Form 4466 must be filed before the cooperative files its tax return.

Line 29d. Net Tax Payments

Combine lines 29a through 29c and enter the result on line 29d.

Line 29f. Credits

Form 2439. Enter any credit from Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains, for the cooperative'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 cooperative's income. Attach Form 2439 to Form 1120-C.

Form 4136. Enter any credit from Form 4136, Credit for Federal Tax Paid on Fuels. Attach Form 4136 to Form 1120-C.

Credit for tax on ozone-depleting chemicals. Include on line 29f any credit the cooperative is claiming under section 4682(g)(2) for tax on ozone-depleting chemicals. Enter "ODC" next to the entry space.

Line 29g. Refundable Credits From Forms 3800 and 8827

The cooperative can elect to claim certain unused research and minimum tax credits instead of claiming any additional first-year special depreciation

allowance for eligible qualified property. If the cooperative makes the election, enter on line 29g the combined amounts from line 19c of Form 3800 and line 8c of Form 8827, if applicable. See the instructions for these forms. Also, see Rev. Proc. 2008-65, 2008-44 I.R.B. 1082.

Line 29h. Section 1383 Adjustment

If the cooperative would pay less total tax by claiming the deduction for the redemption of nonqualified written notices of allocation or nonqualified per-unit retain certificates in the issue year versus the current tax year, refigure the tax for the years the nonqualified written notices or certificates were originally issued (deducting them in the issue year), then enter the amount of the reduction in the issue years' taxes on this line. Attach a schedule showing how the adjustment was figured. This adjustment is treated as a payment, and any amount that is more than the tax on line 28 will be refunded.

Line 29i. Total Payments, Refundable Credits, and Section 1383 Adjustments

Add the amounts on lines 29d through 29h and enter the total on line 29i.

Backup withholding. If the cooperative had federal 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 29i. Enter the amount withheld and the words "Backup withholding" in the blank space above line 29i.

Line 30. Estimated Tax Penalty

If Form 2220 is attached, check the box on line 30 and enter the amount of any penalty on this line.

Line 33. Refund

If the cooperative has a refund of \$1 million or more and wants it directly deposited into its checking or savings account at any U.S. bank or other financial institution instead of having a check sent to the cooperative, complete Form 8302 and attach it to the cooperative's tax return.

Schedule 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 the cooperative is a qualifying taxpayer, or a qualifying small business taxpayer (defined below), it can adopt or change its accounting method to account for inventoriable items in the same manner as materials and supplies that are not incidental (unless its business is a tax shelter as defined in section 448(d)(3)).

A qualifying taxpayer is a taxpayer that for each prior tax year ending after December 16, 1998, has average annual gross receipts of \$1 million or less for the 3 prior tax years.

A qualifying small business taxpayer is a taxpayer (a) that for each prior tax year ending on or after December 31, 2000, has average annual gross receipts of \$10 million or less for the 3 prior tax years and (b) whose principal business activity is not an ineligible activity.

Under this accounting method, 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 (but not before the year the cooperative pays for the raw materials or merchandise if it is also using the cash method). For additional guidance on this method of accounting for inventoriable items, see Pub. 538 and the Instructions for Form 3115.

Enter amounts paid for all raw materials and merchandise on line 2. The amount the cooperative can deduct for the tax year is figured on line 9.

All filers not using the cash method of accounting should see *Section 263A uniform capitalization rules* on page 8 before completing Schedule A.

Line 1. Inventory at Beginning of Year

Beginning inventory will generally equal ending inventory from last year's return. If this is your initial year, do not make an entry on line 1.

If the cooperative is changing its method of accounting for the current tax year, it must refigure last year's closing inventory using its new method of accounting and enter the result on line 1. If there is a difference between last year's closing inventory and the refigured amount, attach an explanation. Take the difference into account when figuring the cooperative's section 481(a) adjustment.

Line 4a. Per-Unit Retain Allocations Paid in Qualified Per-Unit Retain Certificates and Money or Other Property

A cooperative is allowed to deduct from its taxable income amounts paid during the payment period for the taxable year as per-unit retain allocations to the extent paid in money, qualified per-unit retain certificates or other property with respect to marketing occurring during such tax year. A per-unit retain allocation is defined as any allocation from a cooperative to a patron with respect to products marketed for him without reference to the cooperative net earnings. A qualified per-unit retain certificate is defined as any per-unit retain certificate which the distributee has agreed to take into account at its stated dollar amount.

Line 5. Nonqualified Per-Unit Retain Certificates Redeemed This Year

Enter the amount paid in money or other property (except per-unit retain certificates) to patrons to redeem nonqualified per-unit retain certificates. No deduction is allowed at the time of issuance for a nonqualified per-unit retain certificate. However, the cooperative may take a deduction in the year the certificate is redeemed, subject to the stated dollar amount of the certificate.

See section 1383 and the instructions for line 29h on page 14 for a special rule for figuring the cooperative's tax in the year of redemption of a nonqualified per-unit retain certificate.

Line 6a. Additional Section 263A Costs

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

For cooperatives that have elected the simplified production method, additional section 263A costs are generally those costs, other than interest, that were not capitalized under the cooperative'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 cooperatives 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, assembly, repackaging, and transporting.
- General and administrative costs (mixed service costs).

For details, see Regulations section 1.263A-3(d).

Enter on line 6a the balance of section 263A costs paid or incurred during the tax year not includable on lines 2, 3, and 6b.

Line 6b. Other Costs

Enter on line 6b any costs paid or incurred during the tax year not entered on lines 2 through 6a.

Line 8. Inventory at End of Year

See Regulations sections 1.263A-1 through 1.263A-3 for details on figuring the amount of additional section 263A costs to be included in ending inventory. If the cooperative accounts for inventoriable items in the same manner as materials and supplies that are not incidental, enter on line 8 the portion of its raw materials and merchandise purchased for resale that is included on line 7 and was not sold during the year.

Lines 10a through 10f. 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.

The cooperative is required to use cost if it is using the cash method of accounting.

Cooperatives that account for inventory in the same manner as materials and supplies that are not incidental can currently deduct expenditures for direct labor and all indirect costs that would otherwise be included in inventory costs.

Generally, the average cost (rolling average) method of valuing inventories does not conform to the requirements of the regulations. See Rev. Rul. 71-234, 1971-1 C.B. 148. However, if a cooperative uses the average cost method for financial accounting purposes, there are two safe harbors under which this method will be deemed to clearly reflect income for federal income tax purposes. See Rev. Proc. 2008-43, 2008-30 I.R.B. 186, for details.

The completed pool method of accounting is not an acceptable method of accounting for federal income tax purposes. See Rev. Rul. 69-71, 1969-1 C.B. 207.

Cooperatives that use erroneous valuation methods must change to a method permitted for federal income tax purposes. Use Form 3115 to make this change.

On line 10a, 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 unsalable in the normal way because the goods are subnormal due to damage, imperfections, shop wear, etc., within the meaning of Regulations section 1.471-2(c). The goods may be valued at the bona fide selling price, minus the direct cost of disposition (but not less than scrap value). Bona fide selling price means the price at which goods are actually offered during a period ending not later than 30 days after the inventory date.

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 for 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 10c. On line 10d, enter the amount or the percent of total closing inventories covered under section 472. Estimates are acceptable.

If the cooperative changed or extended its inventory to LIFO and had to write up its opening inventory to cost in the year of election, report the effect of this write-up as income (line 9, page 1) proportionately over a 3-year period beginning with the year of the LIFO election (section 472(d)).

For more information on inventory valuation methods, see Pub. 538.

Schedule C. Dividends and Special Deductions

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

Cooperatives filing a consolidated return must not report as dividends on Schedule C any amounts received from corporations within the tax consolidation group. Such dividends are eliminated in consolidation rather than offset by the dividends-received deduction.

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.
- Qualified for the 70% deduction under section 243(a)(1).
- Taxable distributions from an interest charge domestic international sales corporation (IC-DISC) or former domestic international sales corporation (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 cooperative 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 income. 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) received from 20%-or-more-owned domestic corporations subject to income tax and are subject to the 80% deduction under section 243(c), and

- Taxable distributions from an IC-DISC or former DISC considered eligible for the 80% deduction.

Line 3. Column (a)

Enter on line 3:

- Dividends received on debt-financed stock acquired after July 18, 1984, that are received from domestic and foreign corporations subject to income tax that would otherwise be subject to the dividends-received deduction under sections 243(a)(1), 243(c), or 245(a).
- Dividends 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 cooperative 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) for an additional limitation that applies to dividends received from foreign corporations before making this computation. Attach a schedule to Form 1120-C showing how the amount on line 3, column (c), was figured.

Line 4. Column (a)

Enter dividends received on 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 cooperative 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 foreign sales corporation (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, and
- 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 under section 245(c)(1)(B).

Line 8. Column (a)

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

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

- All of its outstanding stock is directly or indirectly owned by the domestic cooperative 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)

Generally, line 9, column (c), cannot 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).

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

1. Refigure line 25, page 1, Form 1120-C, without any adjustment under section 1059 and without any capital loss carryback to the tax year under section 1212(a)(1) _____
2. Complete lines 10, 11, and 12, column (c) and enter the total _____
3. Subtract line 2 from line 1 _____
4. Multiply line 3 by 80% _____
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 received from 20%-or-more-owned corporations _____

- 6. Enter the smaller of line 4 or line 5. If line 5 is greater than line 4, stop here; enter the amount from line 6 on line 9, column (c). Do not complete the rest of this worksheet _____
- 7. Enter the total amount of dividends received from 20%-or-more-owned corporations that are included on lines 2, 3, 5, 7, and 8, column (a) _____
- 8. Subtract line 7 from line 3 _____
- 9. Multiply line 8 by 70% _____
- 10. Subtract line 5 from line 9, column (c) _____
- 11. Enter the smaller of line 9 or line 10 _____
- 12. **Dividends-received deduction after limitation** (section 246(b)). Add lines 6 and 11. Enter the result here and on line 9, column (c) _____

Line 10. Columns (a) and (c)
 Small business investment companies operating under the Small Business Investment Act of 1958 (see 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 cooperative 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. Columns (a) and (c)
 Enter only dividends that qualify under section 243(b) for the 100% dividends-received deduction described in section 243(a)(3). Cooperatives taking this deduction are subject to the provisions of section 1561. The 100% deduction does not apply to affiliated group members that are joining in the filing of a consolidated return.

Line 12. Columns (a) and (b)
 Enter in column (a) 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). For cooperatives described in section 1381 that are engaged in the marketing of agricultural or horticultural products and are shareholders in a FSC, multiply the total dividends reported in column (a) by 15/23, for the exempt portion of the dividends that are attributable to foreign trade income, and enter the amount in column (c). See sections 245(c)(2) and 923(a)(4)(repealed) for additional information.

Line 13. Column (a)
 Enter foreign dividends not reportable on lines 3, 6, 7, 8, 11, or 12 of column (a). Include on line 13 the cooperative's

share of the ordinary earnings of a qualified electing fund from line 1c of Form 8621, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund. 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 (CFCs) under subpart F. This amount should equal the total subpart F income reported on Schedule I, Form 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations.

Line 15. Column (a)
 Include gross-up for taxes deemed paid under sections 902 and 960.

Line 16. Column (a)
 Enter taxable distributions from an IC-DISC or former DISC that are designated as not eligible for a dividends-received deduction.

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

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

Line 17. Column (a)
 Include the following:

1. Dividends (other than capital gain distributions reported on Schedule D (Form 1120) 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 distributions) 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, which include the following.
 - a. Dividends received on any share of stock held for less than 46 days during the 91-day period beginning 45 days before the ex-dividend date. When counting the number of days the cooperative held the stock, you cannot count certain days during which the cooperative's risk of loss was diminished. See section 246(c)(4) and Regulations section 1.246-5 for more details.

b. Dividends attributable to periods totaling more than 366 days that the cooperative received on any share of preferred stock held for less than 91 days during the 181-day period that began 90 days before the ex-dividend date. When counting the number of days the cooperative held the stock, you cannot count certain days during which the cooperative's risk of loss was diminished. See section 264(c)(4) and Regulations section 1.264-5 for more details. Preferred dividends attributable to periods totaling less than 367 days are subject to the 46-day holding period above.

c. Dividends on any share of stock to the extent the cooperative is under an obligation (including a short sale) to make related payments with respect to positions in substantially similar or related property.
 5. Any other taxable dividend income not properly reported above.

Line 18. Column (c)
 Section 247 allows public utilities a deduction of 40% of the smaller of (a) dividends paid on their preferred stock during the year, or (b) 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 G. Allocation of Patronage and Nonpatronage Income and Deductions

If the cooperative's total receipts (line 1a plus lines 4 through 9 on page 1 of the return) for the tax year and its total assets at the end of the tax year are less than \$250,000, the cooperative is not required to complete Schedule G.

Cooperatives are required to allocate income and deductions between patronage and nonpatronage business. If the transaction producing the income merely enhances the overall profitability of the cooperative, being merely incidental to the cooperative's operation, the income is from a nonpatronage source. But if the source of income or loss is from an activity that is an integral part of the cooperative's business (such as inventory), then the source may be patronage (Rev. Rul. 69-576, 1969-2 C.B. 166).

Special rules also apply if a cooperative has acquired the assets of another cooperative under a section 381(a) transaction. Cooperatives may net earnings and losses under section 1388(j) and still be eligible for

tax-exempt treatment (section 521(b)(6)).

Line 8 (columns a and b)

Complete Schedule H before entering an amount on this line. Allocate the amount on line 5, Schedule H, between patronage and nonpatronage. Only farmers' cooperatives exempt under section 521 are allowed to take a deduction in column (b) for nonpatronage distributions under section 1382(b).

Line 9a (columns a and b)

Patronage and nonpatronage losses must be computed separately and carried over or carried back separately. Under section 1388(j)(1), cooperatives can use losses from one or more allocation units to offset earnings of one or more other allocation units, as permitted by their bylaws, but only to the extent that the earnings and losses are from business done with or for patrons. If a cooperative exercises this option, it must provide the information specified in section 1388(j)(3) by written notice to its patrons.

Line 9b (columns a and b)

Allocate the amount of total special deductions reported on Schedule C, line 20, between patronage and nonpatronage business.

Line 10 (columns a and b)

The taxable income reported on line 27 of the cooperative's tax return may not be less than the nonpatronage taxable income shown on line 10 (column b) of this schedule.

Line 11 (column a)

Combine lines 10(a) and 10(b). Move under Line 11 (column a) instructions.

Note. Any patronage source losses (line 10, column (a)) cannot be used to offset nonpatronage income (line 10, column (b)).

Line 12 (column a)

Enter any unused patronage loss from line 10, column (a).

Line 13 (column b)

Enter any unused nonpatronage loss from line 10, column (b).

Schedule H. Deductions and Adjustments Under Section 1382

Cooperatives described in IRC section 1381 engaged in the marketing of agricultural or horticultural products may be eligible to exclude extraterritorial income if the cooperative sells qualifying foreign trade property.

No deduction is allowed for patronage dividends, per-unit retain allocations, and nonpatronage distributions related to the excluded foreign trade income. For details, see section 941(b)(2).

Any patronage dividends or per-unit retain allocations that are allocated to qualifying foreign trade income of the cooperative may be treated as qualifying foreign trade income of the patron. In order to qualify, the amount must be designated by the cooperative in a written notice mailed to its patrons not later than the 15th day of the 9th month following the close of the tax year. For more details, see section 943(g).

Lines 1 and 2 apply only to section 521 cooperatives.

Line 1. Dividends Paid on Capital Stock (Section 521 Cooperatives Only)

Enter the amount actually or constructively paid as dividends during the tax year on:

- Common stock (whether voting or nonvoting),
- Preferred stock,
- Capital retain certificates,
- Revolving fund certificates,
- Letters of advice, or
- Other documentary evidence of a proprietary interest in the cooperative association.

See Regulations section 1.1382-3(b) for more information.

Line 2. Nonpatronage Income Allocated to Patrons (Section 521 Cooperatives Only)

Enter nonpatronage income allocated to patrons. Payment may be in:

- Money,
- Qualified written notices of allocation, or
- Other property (except nonqualified written notices of allocation).

The amounts must be paid during the payment period that begins on the first day of the tax year and ends on the 15th day of the 9th month after the end of the tax year in which the income was earned.

Nonpatronage income.

Nonpatronage income includes incidental income from sources not directly related to:

- Marketing,
- Purchasing,
- Service activities of the cooperative, or
- Income from business done with or for the U.S. Government, or any of its agencies.

See the instructions for line 3 for a definition of "qualified written notice of

allocation." See section 1382(c)(2)(B) for deductibility of amounts paid in redemption of nonqualified written notices of allocation. See section 1388(d) for a definition of a nonqualified written notice of allocation.

Line 3. Patronage Dividends

To be deductible, patronage dividends must be paid during the payment period that begins on the first day of the tax year in which the patronage occurs and ends on the 15th day of the 9th month after the end of that tax year.

See sections 1382(e) and (f) for special rules for the time when patronage occurs if products are marketed under a pooling arrangement, or if earnings are includible in the gross income of the cooperative for a tax year after the year in which the patronage occurred.

Patronage dividends include any amount paid to a patron by a cooperative based on the quantity or value of business done with or for that patron under a pre-existing obligation to pay that amount. The amount is determined by reference to the net earnings of the organization from business done with or for its patrons.

Note. Net earnings are not reduced by dividends paid on capital stock of the organization if there is a legally enforceable agreement that such dividends are in addition to amounts otherwise payable to patrons derived from business done with or for patrons.

Patronage dividends may be paid in:

- Money,
- Qualified written notices of allocation, or
- Other property (except nonqualified written notices of allocation).

Line 3b. Qualified written notices of allocation. A written notice of allocation means:

- Any capital stock,
- Revolving fund certificate,
- Retain certificate,
- Certificate of indebtedness,
- Letter of advice, or
- Other written notice, which states the dollar amount allocated to the patron by the cooperative and the part, if any, which is a patronage dividend.

In general, a qualified written notice of allocation is a written notice of allocation that is:

- Paid as part of a patronage dividend, in money or by qualified check equal to at least 20% of the patronage dividend, and
- One of the following conditions is met:

1. The patron must have at least 90 days from the date the written notice of allocation is paid to redeem it in cash, and must receive written notice of the

right of redemption at the time the patron receives the allocation; or

2. The patron must agree to have the allocation treated as constructively received and reinvested in the cooperative. See section 1388(c)(2) and the related regulations for information on how this consent must be made.

Line 3d. Nonqualified written notices of allocation. If a written notice of allocation does not qualify, no deduction is allowable at the time it is issued. However, the cooperative is entitled to a deduction or refund of tax when the nonqualified written notice of allocation is finally redeemed, if that notice was paid as a patronage dividend during the payment period for the tax year during which the patronage occurred. The deduction or refund is allowed, but only to the extent that amounts paid to redeem the nonqualified written notices of allocation are paid in money or other property (other than written notices of allocation) which do not exceed the stated dollar amounts of the nonqualified written notices of allocation. See section 1382(b), Regulations section 1.1382-2, and section 1383.

See Rev. Rul. 81-103, 1981-1 C.B. 447, for the redemption of nonqualified written notices of allocation issued to patrons by a payment of cash and a crediting of accounts receivable due from patrons.

See section 1383 for special rules for figuring the cooperative's tax in the year nonqualified written notices of allocation are redeemed. The cooperative is entitled to:

1. A deduction in the tax year the nonqualified written notices of allocation are redeemed (if permitted under section 1382(b)(2) or (4) or section 1382(c)(2)(B)), or

2. A tax credit based on a recomputation of tax for the year(s) the nonqualified written notices of allocation were issued. See the instructions for line 29h.

Amounts paid to patrons are not patronage dividends if paid:

1. Out of earnings not from business done with or for patrons;
2. Out of earnings from business done with or for other patrons to whom no amounts or smaller amounts are paid for substantially identical transactions;
3. To redeem capital stock, certificates of indebtedness, revolving fund certificates, retain certificates, letters of advice, or other similar documents; or
4. Without reference to the net earnings of the cooperative

organization from business done with or for its patrons.

Line 4. Domestic production activities deduction allocation (section 199). An agricultural or horticultural cooperative (as defined in Regulations section 1.199-6(f)) must reduce its section 1382 deduction by the amount of the domestic production activities deduction that was allocated to patrons.

Note. Only include on line 4 the portion of the domestic production activities deduction attributable to the amounts reported on this schedule. Marketing cooperatives that distribute patronage as per-unit retain allocations must attach a schedule showing the amount of the section 199(a) deduction attributable to the per-unit retain allocations.

Schedule J. Tax Computation

Line 1. Members of a Controlled Group

If the cooperative is a member of a controlled group, check the box on line 1. Complete and attach Schedule O (Form 1120), Consent Plan and Apportionment Schedule for a Controlled Group. Members of a controlled group must use Schedule O to report the apportionment of taxable income, income tax, and certain tax benefits between the members of the group. See Schedule O and its Instructions for more information.

Line 2. Income Tax

If the cooperative is a member of a controlled group, enter the cooperative's tax from Part III of Schedule O (Form 1120). Most cooperatives that are not members of a controlled group and not filing a consolidated return figure their tax by using the Tax Rate Schedule below.

Tax Rate Schedule

If taxable income on Form 1120-C, line 27, 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

Deferred tax under section 1291. If the cooperative was a shareholder in a passive foreign investment company

(PFIC), and the cooperative received an excess distribution or disposed of its investment in the PFIC during the year, it must include the total increase in taxes due under section 1291(c)(2) in the amount entered on line 2, Schedule J. On the dotted line next to line 2, Schedule J, enter "Section 1291" and the amount.

Do not include on line 2 any interest due under section 1291(c)(3). Instead, show the amount of interest owed in the bottom margin of page 1, Form 1120-C, and enter "Section 1291 interest." If the cooperative has a tax due, include the interest due in the payment. If you would otherwise receive a refund, reduce the refund by the interest due. For details, see Form 8621.

Alternative tax for cooperatives with qualified timber gains. A cooperative that has net capital gain and qualified timber gain (as defined in section 1201(b)(2)) is subject to an alternative tax computation. The alternative tax applies for tax years ending after May 22, 2008, and beginning on or before May 23, 2009. The tax is figured on Schedule D (Form 1120), Part II. Enter on Schedule J, line 2, the tax from Schedule D, Part IV, line 26.

Line 3. Alternative Minimum Tax (AMT)

Unless the cooperative is treated as a small corporation exempt from the AMT, it may owe AMT if it has any of the adjustments and tax preference items listed on Form 4626, Alternative Minimum Tax—Corporations. The cooperative must file Form 4626 if its taxable income (or loss) before the NOL deduction combined with these adjustments and tax preference items is more than the smaller of:

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

See the Instructions for Form 4626 for definitions and details on how to figure the tax.

Line 5a. Foreign Tax Credit

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

Also see Form 8827 if any of the cooperative's 2006 qualified electric vehicle credit was disallowed solely because of the tentative minimum tax limitation. See section 53(d).

Line 5b. Qualified Electric Vehicle Credit

Enter the amount of any credit from Form 8834, Qualified Electric Vehicle

Credit, for qualified electric vehicle passive activity credits from prior years allowed on Form 8810 for the current tax year. Also include on line 5b any credits from Form 5735, American Samoa Economic Development Credit. See the Instructions for Form 5735.

Line 5c. General Business Credit

Enter on line 5c the cooperative's total general business credit. The cooperative is required to file Form 3800, General Business Credit, to claim most business credits. For a list of allowable credits, see Form 3800. Enter on line 5c the allowable credit from Form 3800, Part II, line 32. Also, see the applicable credit form and its instructions.

Elective allocations to patrons of subchapter T cooperatives. The cooperative may elect to allocate any or all of certain credits (Forms 6478, 8835 (Section A or Section B), 8864, or 8896) among the patrons based on the quantity or value of business done with or for such patrons. For the allocation to take effect, the cooperative must designate the apportionment in a written notice mailed to its patrons before the due date of the cooperative's return. The credit amount allocated to patrons cannot be included on line 5c. Once made, the election cannot be revoked. For more information, see the instructions for Form 6478, 8835, 8864, or 8896. For tax associated with a decrease in the credit allocated to patrons, see *Other Taxes* later.

Required allocations to patrons of subchapter T cooperatives. Any excess investment credit (Form 3468), work opportunity credit (Form 5884), Indian employment credit (Form 8845), empowerment zone or renewal community employment credit (Form 8844), welfare-to-work credit (Form 8861), or energy efficient appliance credit (Form 8909) not used by the cooperative (because of the tax liability limitation) **must** be passed through to the patrons. These credits cannot be carried back or over by the cooperative. See the forms for details. For tax associated with a recapture of credit, see *Other Taxes*, later.

Line 5d. Credit for Prior Year Minimum Tax

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

Line 6. Total Credits

Add lines 5a through 5d and enter the total on line 6.

Line 8. Other Taxes

Include any of the following taxes and interest in the total on line 8. Check the appropriate box(es) for the form, if any, used to compute the total.

Recapture of Investment Credit

If the cooperative disposed of investment credit property or changed its use before the end of its useful life or recovery period, see Form 4255, Recapture of Investment Credit, for details.

Recapture of Low-Income Housing Credit

If the cooperative 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.

Alternative Tax on Qualifying Shipping Activities

Enter any alternative tax on qualifying shipping activities from Form 8902. Check the box for Form 8902.

Other

Additional taxes and interest amounts can be included in the total entered on line 8. Check the box for "Other" if the cooperative includes any additional taxes and interest such as the items discussed below. See *How to report*, below, for details on reporting these amounts on an attached schedule.

- Recapture of the qualified electric vehicle (QEV) credit (see Regulations section 1.30-1).
- Recapture of the Indian employment credit (see Form 8845 and section 45A).
- Recapture of new markets credit (see Form 8874).
- Recapture of employer-provided childcare facilities and services credit (see Form 8882).
- Interest on deferred tax attributable to (a) installment sales of certain timeshares and residential lots (section 453(l)(3)) and (b) certain nondealer installment obligations (section 453A(c)).
- Interest due on deferred gain (section 1260(b)).

Recapture of elective allocation of credit to patrons. If the amount of any of the following elective credits apportioned to any patron is decreased, there is a tax imposed on the cooperative, not the patron.

- Small ethanol producer credit (Form 6478). See section 40(g)(6)(B)(iii) for how to figure the tax.
- Renewable electricity, refined coal, and Indian coal production credit (Form 8835). See section 45(e)(11)(C) for how to figure the tax.

- Small agri-biodiesel producer credit (Form 8864). See section 40A(e)(6)(B)(iii) on how to figure the tax.
- Low sulfur diesel fuel production credit (Form 8896). See section 45H(g)(3) for how to figure the tax.

Recapture of required excess credit allocated to patrons. If the cooperative allocated excess credit to patrons, any credit recapture applies as if the cooperative had claimed the entire credit. For details, see section 46(h) (as in effect prior to enactment of the Revenue Reconciliation Act of 1990). This applies to the following credits.

- Investment credit (Form 3468).
- Indian employment credit (Form 8845).
- Work opportunity credit (Form 5884).
- Empowerment zone and renewal community employment credit (Form 8844).
- Welfare-to-work credit (Form 8861).
- Energy Efficient Appliance Credit (Form 8909).

For details on the recapture of the investment credit, see Form 4255, Recapture of Investment Credit. For details on recapture of the other credits, see the instructions for the form shown.

How to report. If the cooperative checked the "Other" box, attach a schedule showing the computation of each item included in the total for line 8, identify the applicable Code section and the type of tax or interest.

Line 9. Total Tax

Include any deferred tax on the termination of a section 1294 election applicable to shareholders in a qualified electing fund in the amount entered on line 9. See Form 8621, Part V and *How to report*, below.

Subtract any deferred tax on the cooperative's share of undistributed earnings of a qualified electing fund (see Form 8621, Part II).

How to report. If deferring tax, attach a schedule showing the computation of each item included in, or subtracted from, the total for line 9. On the dotted line next to line 9, specify (a) the applicable Code section, (b) the type of tax, and (c) the amount of tax.

Schedule K. Other Information

The following instructions apply to Form 1120-C, page 4, Schedule K. Complete all items that apply to the cooperative.

Item 5

Check the "Yes" box if:

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

2. The cooperative is a subsidiary in a parent-subsidiary controlled group. For a definition of a parent-subsidiary controlled group, see the Instructions for Schedule O (Form 1120).

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

If the cooperative 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. An "affiliated group" is 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 directly own 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, and

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 one or more of the other includible corporations.

For this purpose, 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).

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

Item 7

Enter the cooperative's total assets (as determined by the accounting method regularly used in keeping the cooperative's books and records) at the end of the tax year. If there are no assets at the end of the tax year, enter -0-.

If the cooperative is required to complete Schedule L, enter total assets from Schedule L, line 13, column (d) on page 4, item 7. If filing a consolidated return, report total consolidated assets for all cooperatives and corporations joining in the return.

Item 8

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 cooperative entitled to vote, or (b) the total value of all classes of stock of the cooperative.

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

Enter on line 8a the percentage owned by the foreign person specified in Item 8. On line 8b, enter the name of the owner's country.

Note. If there is more than one 25%-or-more foreign owner, complete lines 8a and 8b for the foreign person with the highest percentage of ownership.

Foreign person. The term "foreign person" means:

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

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

Requirement to file Form 5472. If the cooperative checked "Yes," it may have to file Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Generally, a 25% foreign-owned cooperative 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.

Item 10

Show any tax-exempt interest income received or accrued. Include any tax-exempt interest dividends received as a shareholder in a mutual fund or RIC. Also, if required, include the same amount on Schedule M-1, line 7 (or

Schedule M-3 (Form 1120), Part II, line 13, if applicable).

Item 12

If the cooperative has an NOL for its 2008 tax year, it can elect, under section 172(b)(3), to waive the entire carryback period for the NOL and instead carry the NOL forward to future tax years. To do so, check the box in Item 12 and file the return by its due date, including extensions (do not attach the statement described in Temporary Regulations section 301.9100-12T). Once made, the election is irrevocable. See Form 1139 for more details.

Cooperatives filing a consolidated return must check the box and attach the statement required by Regulations section 1.1502-21(b)(3)(i) or (ii).

Item 13

Enter the amount of the 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) in a tax year prior to 2008. Do not reduce the amount by any NOL deduction reported on line 26b.

Schedule L. Balance Sheets per Books

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

Cooperatives with total receipts (line 1a plus lines 4 through 9 on page 1) and total assets at the end of the tax year less than \$250,000 are not required to complete Schedules L, M-1, and M-2 if the "Yes" box on Schedule K, question 14 is checked.

If filing a consolidated return, report total consolidated assets, liabilities, and shareholder's equity for all cooperatives and corporations joining in the return. See *Consolidated Return* on page 5 of these instructions.

Cooperatives with total assets non-consolidated (or consolidated for all cooperatives and corporations included within the tax consolidation group) of \$10 million or more on the last day of the tax year must complete Schedule M-3 (Form 1120) instead of Schedule M-1. See the separate instructions for Schedule M-3 (Form 1120) for provisions that also affect Schedule L.

Line 5. Investments

Tax-exempt securities. Include on this line:

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

Line 26. Adjustments to Shareholders' Equity

Some examples of items 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 is a negative amount, enter it in parentheses.

Schedule M-1. Reconciliation of Income (Loss) per Books With Income per Return

If the cooperative's total receipts (line 1a plus lines 4 through 9 on page 1 of the return) for the tax year and its total assets at the end of the tax year are less than \$250,000, the cooperative is not required to complete Schedules L, M-1, and M-2.

Cooperatives with total assets of \$10 million or more on the last day of the tax year must complete Schedule M-3 (Form 1120) instead of Schedule M-1. A cooperative filing Form 1120-C that is not required to file Schedule M-3 may voluntarily file Schedule M-3 instead of Schedule M-1. See the Instructions for Schedule M-3 (Form 1120) for more information.

Line 5c. Travel and Entertainment

Include on line 5c any of the following:

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

For more information, see Pub. 542.

Line 7. Tax-exempt Interest

Show any tax-exempt interest received or accrued including any exempt-interest dividends received as a shareholder in a mutual fund or RIC. Also report this same amount on Schedule K, Item 10.

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the

Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. Section 6109 requires return preparers to provide their identifying numbers on the return.

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 this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	70 hr., 33 min.
Learning about the law or the form	15 hr., 48 min.
Preparing the form	20 hr., 27 min.
Copying, assembling, and sending the form to the IRS	0 hr., 48 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Do **not** send the tax form to this office. Instead, see *Where To File* on page 2.

Form 1120-C

Principal Business Activity Codes

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 9). 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-C, Schedule K, lines 2a, 2b, and 2c. For the business activity code number, enter the six digit code selected from the list below. On the next line (line 2b), enter a brief description of the company's business activity. Finally, enter a description of the principal product or service of the company on line 2c.

<p><i>Code</i></p> <p>Agriculture, Forestry, Fishing and Hunting</p> <p>Crop Production</p> <p>111100 Oilseed & Grain Farming</p> <p>111210 Vegetable & Melon Farming (including potatoes & yams)</p> <p>111300 Fruit & Tree Nut Farming</p> <p>111400 Greenhouse, Nursery, & Floriculture Production</p> <p>111900 Other Crop Farming (including tobacco, cotton, sugarcane, hay, peanut, sugar beet & all other crop farming)</p> <p>Animal Production</p> <p>112111 Beef Cattle Ranching & Farming</p> <p>112112 Cattle Feedlots</p> <p>112120 Dairy Cattle & Milk Production</p> <p>112210 Hog & Pig Farming</p> <p>112300 Poultry & Egg Production</p> <p>112400 Sheep & Goat Farming</p> <p>112510 Aquaculture (including shellfish & finfish farms & hatcheries)</p> <p>112900 Other Animal Production</p> <p>Forestry and Logging</p> <p>113110 Timber Tract Operations</p> <p>113210 Forest Nurseries & Gathering of Forest Products</p> <p>113310 Logging</p> <p>Fishing, Hunting and Trapping</p> <p>114110 Fishing</p> <p>114210 Hunting & Trapping</p> <p>Support Activities for Agriculture and Forestry</p> <p>115110 Support Activities for Crop Production (including cotton ginning, soil preparation, planting, & cultivating)</p> <p>115210 Support Activities for Animal Production</p> <p>115310 Support Activities For Forestry</p>	<p><i>Code</i></p> <p>Heavy and Civil Engineering Construction</p> <p>237100 Utility System Construction</p> <p>237210 Land Subdivision</p> <p>237310 Highway, Street, & Bridge Construction</p> <p>237990 Other Heavy & Civil Engineering Construction</p> <p>Specialty Trade Contractors</p> <p>238100 Foundation, Structure, & Building Exterior Contractors (including framing carpentry, masonry, glass, roofing, & siding)</p> <p>238210 Electrical Contractors</p> <p>238220 Plumbing, Heating, & Air-Conditioning Contractors</p> <p>238290 Other Building Equipment Contractors</p> <p>238300 Building Finishing Contractors (including drywall, insulation, painting, wallcovering, flooring, tile, & finish carpentry)</p> <p>238900 Other Specialty Trade Contractors (including site preparation)</p> <p>Manufacturing</p> <p>Food Manufacturing</p> <p>311110 Animal Food Mfg</p> <p>311200 Grain & Oilseed Milling</p> <p>311300 Sugar & Confectionery Product Mfg</p> <p>311400 Fruit & Vegetable Preserving & Specialty Food Mfg</p> <p>311500 Dairy Product Mfg</p> <p>311610 Animal Slaughtering and Processing</p> <p>311710 Seafood Product Preparation & Packaging</p> <p>311800 Bakeries & Tortilla Mfg</p> <p>311900 Other Food Mfg (including coffee, tea, flavorings & seasonings)</p> <p>Beverage and Tobacco Product Manufacturing</p> <p>312110 Soft Drink & Ice Mfg</p> <p>312120 Breweries</p> <p>312130 Wineries</p> <p>312140 Distilleries</p> <p>312200 Tobacco Manufacturing</p> <p>Textile Mills and Textile Product Mills</p> <p>313000 Textile Mills</p> <p>314000 Textile Product Mills</p> <p>Apparel Manufacturing</p> <p>315100 Apparel Knitting Mills</p> <p>315210 Cut & Sew Apparel Contractors</p> <p>315220 Men's & Boys' Cut & Sew Apparel Mfg</p> <p>315230 Women's & Girls' Cut & Sew Apparel Mfg</p> <p>315290 Other Cut & Sew Apparel Mfg</p> <p>315990 Apparel Accessories & Other Apparel Mfg</p> <p>Leather and Allied Product Manufacturing</p> <p>316110 Leather & Hide Tanning & Finishing</p> <p>316210 Footwear Mfg (including rubber & plastics)</p> <p>316990 Other Leather & Allied Product Mfg</p>	<p><i>Code</i></p> <p>Wood Product Manufacturing</p> <p>321110 Sawmills & Wood Preservation</p> <p>321210 Veneer, Plywood, & Engineered Wood Product Mfg</p> <p>321900 Other Wood Product Mfg</p> <p>Paper Manufacturing</p> <p>322100 Pulp, Paper, & Paperboard Mills</p> <p>322200 Converted Paper Product Mfg</p> <p>Printing and Related Support Activities</p> <p>323100 Printing & Related Support Activities</p> <p>Petroleum and Coal Products Manufacturing</p> <p>324110 Petroleum Refineries (including integrated)</p> <p>324120 Asphalt Paving, Roofing, & Saturated Materials Mfg</p> <p>324190 Other Petroleum & Coal Products Mfg</p> <p>Chemical Manufacturing</p> <p>325100 Basic Chemical Mfg</p> <p>325200 Resin, Synthetic Rubber, & Artificial & Synthetic Fibers & Filaments Mfg</p> <p>325300 Pesticide, Fertilizer, & Other Agricultural Chemical Mfg</p> <p>325410 Pharmaceutical & Medicine Mfg</p> <p>325500 Paint, Coating, & Adhesive Mfg</p> <p>325600 Soap, Cleaning Compound, & Toilet Preparation Mfg</p> <p>325900 Other Chemical Product & Preparation Mfg</p> <p>Plastics and Rubber Products Manufacturing</p> <p>326100 Plastics Product Mfg</p> <p>326200 Rubber Product Mfg</p> <p>Nonmetallic Mineral Product Manufacturing</p> <p>327100 Clay Product & Refractory Mfg</p> <p>327210 Glass & Glass Product Mfg</p> <p>327300 Cement & Concrete Product Mfg</p> <p>327400 Lime & Gypsum Product Mfg</p> <p>327900 Other Nonmetallic Mineral Product Mfg</p> <p>Primary Metal Manufacturing</p> <p>331110 Iron & Steel Mills & Ferroalloy Mfg</p> <p>331200 Steel Product Mfg from Purchased Steel</p> <p>331310 Alumina & Aluminum Production & Processing</p> <p>331400 Nonferrous Metal (except Aluminum) Production & Processing</p> <p>331500 Foundries</p> <p>Fabricated Metal Product Manufacturing</p> <p>332110 Forging & Stamping</p> <p>332210 Cutlery & Handtool Mfg</p> <p>332300 Architectural & Structural Metals Mfg</p> <p>332400 Boiler, Tank, & Shipping Container Mfg</p> <p>332510 Hardware Mfg</p> <p>332610 Spring & Wire Product Mfg</p> <p>332700 Machine Shops; Turned Product; & Screw, Nut, & Bolt Mfg</p>	<p><i>Code</i></p> <p>332810 Coating, Engraving, Heat Treating, & Allied Activities</p> <p>332900 Other Fabricated Metal Product Mfg</p> <p>Machinery Manufacturing</p> <p>333100 Agriculture, Construction, & Mining Machinery Mfg</p> <p>333200 Industrial Machinery Mfg</p> <p>333310 Commercial & Service Industry Machinery Mfg</p> <p>333410 Ventilation, Heating, Air-Conditioning, & Commercial Refrigeration Equipment Mfg</p> <p>333510 Metalworking Machinery Mfg</p> <p>333610 Engine, Turbine & Power Transmission Equipment Mfg</p> <p>333900 Other General Purpose Machinery Mfg</p> <p>Computer and Electronic Product Manufacturing</p> <p>334110 Computer & Peripheral Equipment Mfg</p> <p>334200 Communications Equipment Mfg</p> <p>334310 Audio & Video Equipment Mfg</p> <p>334410 Semiconductor & Other Electronic Component Mfg</p> <p>334500 Navigational, Measuring, Electromedical, & Control Instruments Mfg</p> <p>334610 Manufacturing & Reproducing Magnetic & Optical Media</p> <p>Electrical Equipment, Appliance, and Component Manufacturing</p> <p>335100 Electric Lighting Equipment Mfg</p> <p>335200 Household Appliance Mfg</p> <p>335310 Electrical Equipment Mfg</p> <p>335900 Other Electrical Equipment & Component Mfg</p> <p>Transportation Equipment Manufacturing</p> <p>336100 Motor Vehicle Mfg</p> <p>336210 Motor Vehicle Body & Trailer Mfg</p> <p>336300 Motor Vehicle Parts Mfg</p> <p>336410 Aerospace Product & Parts Mfg</p> <p>336510 Railroad Rolling Stock Mfg</p> <p>336610 Ship & Boat Building</p> <p>336990 Other Transportation Equipment Mfg</p> <p>Furniture and Related Product Manufacturing</p> <p>337000 Furniture & Related Product Manufacturing</p> <p>Miscellaneous Manufacturing</p> <p>339110 Medical Equipment & Supplies Mfg</p> <p>339900 Other Miscellaneous Manufacturing</p> <p>Wholesale Trade</p> <p>Merchant Wholesalers, Durable Goods</p> <p>423100 Motor Vehicle & Motor Vehicle Parts & Supplies</p> <p>423200 Furniture & Home Furnishings</p> <p>423300 Lumber & Other Construction Materials</p> <p>423400 Professional & Commercial Equipment & Supplies</p>
<p>Mining</p> <p>211110 Oil & Gas Extraction</p> <p>212110 Coal Mining</p> <p>212200 Metal Ore Mining</p> <p>212310 Stone Mining & Quarrying</p> <p>212320 Sand, Gravel, Clay, & Ceramic & Refractory Minerals Mining & Quarrying</p> <p>212390 Other Nonmetallic Mineral Mining & Quarrying</p> <p>213110 Support Activities for Mining</p>			
<p>Utilities</p> <p>221100 Electric Power Generation, Transmission & Distribution</p> <p>221210 Natural Gas Distribution</p> <p>221300 Water, Sewage & Other Systems</p> <p>221500 Combination Gas & Electric</p>			
<p>Construction</p> <p>Construction of Buildings</p> <p>236110 Residential Building Construction</p> <p>236200 Nonresidential Building Construction</p>			

Form 1120-C (continued)

<p><i>Code</i></p> <p>423500 Metal & Mineral (except Petroleum)</p> <p>423600 Electrical & Electronic Goods</p> <p>423700 Hardware, & Plumbing & Heating Equipment & Supplies</p> <p>423800 Machinery, Equipment, & Supplies</p> <p>423910 Sporting & Recreational Goods & Supplies</p> <p>423920 Toy & Hobby Goods & Supplies</p> <p>423930 Recyclable Materials</p> <p>423940 Jewelry, Watch, Precious Stone, & Precious Metals</p> <p>423990 Other Miscellaneous Durable Goods</p> <p>Merchant Wholesalers, Nondurable Goods</p> <p>424100 Paper & Paper Products</p> <p>424210 Drugs & Druggists' Sundries</p> <p>424300 Apparel, Piece Goods, & Notions</p> <p>424400 Grocery & Related Products</p> <p>424500 Farm Product Raw Materials</p> <p>424600 Chemical & Allied Products</p> <p>424700 Petroleum & Petroleum Products</p> <p>424800 Beer, Wine, & Distilled Alcoholic Beverages</p> <p>424910 Farm Supplies</p> <p>424920 Book, Periodical, & Newspapers</p> <p>424930 Flower, Nursery Stock, & Florists' Supplies</p> <p>424940 Tobacco & Tobacco Products</p> <p>424950 Paint, Varnish, & Supplies</p> <p>424990 Other Miscellaneous Nondurable Goods</p> <p>Wholesale Electronic Markets and Agents and Brokers</p> <p>425110 Business to Business Electronic Markets</p> <p>425120 Wholesale Trade Agents & Brokers</p>	<p><i>Code</i></p> <p>445120 Convenience Stores</p> <p>445210 Meat Markets</p> <p>445220 Fish & Seafood Markets</p> <p>445230 Fruit & Vegetable Markets</p> <p>445291 Baked Goods Stores</p> <p>445292 Confectionery & Nut Stores</p> <p>445299 All Other Specialty Food Stores</p> <p>445310 Beer, Wine, & Liquor Stores</p> <p>Health and Personal Care Stores</p> <p>446110 Pharmacies & Drug Stores</p> <p>446120 Cosmetics, Beauty Supplies, & Perfume Stores</p> <p>446130 Optical Goods Stores</p> <p>446190 Other Health & Personal Care Stores</p> <p>Gasoline Stations</p> <p>447100 Gasoline Stations (including convenience stores with gas)</p> <p>Clothing and Clothing Accessories Stores</p> <p>448110 Men's Clothing Stores</p> <p>448120 Women's Clothing Stores</p> <p>448130 Children's & Infants' Clothing Stores</p> <p>448140 Family Clothing Stores</p> <p>448150 Clothing Accessories Stores</p> <p>448190 Other Clothing Stores</p> <p>448210 Shoe Stores</p> <p>448310 Jewelry Stores</p> <p>448320 Luggage & Leather Goods Stores</p> <p>Sporting Goods, Hobby, Book, and Music Stores</p> <p>451110 Sporting Goods Stores</p> <p>451120 Hobby, Toy, & Game Stores</p> <p>451130 Sewing, Needlework, & Piece Goods Stores</p> <p>451140 Musical Instrument & Supplies Stores</p> <p>451211 Book Stores</p> <p>451212 News Dealers & Newsstands</p> <p>451220 Prerecorded Tape, Compact Disc, & Record Stores</p> <p>General Merchandise Stores</p> <p>452110 Department Stores</p> <p>452900 Other General Merchandise Stores</p> <p>Miscellaneous Store Retailers</p> <p>453110 Florists</p> <p>453210 Office Supplies & Stationery Stores</p> <p>453220 Gift, Novelty, & Souvenir Stores</p> <p>453310 Used Merchandise Stores</p> <p>453910 Pet & Pet Supplies Stores</p> <p>453920 Art Dealers</p> <p>453930 Manufactured (Mobile) Home Dealers</p> <p>453990 All Other Miscellaneous Store Retailers (including tobacco, candle, & trophy shops)</p> <p>Nonstore Retailers</p> <p>454110 Electronic Shopping & Mail-Order Houses</p> <p>454210 Vending Machine Operators</p> <p>454311 Heating Oil Dealers</p> <p>454312 Liquefied Petroleum Gas (Bottled Gas) Dealers</p> <p>454319 Other Fuel Dealers</p> <p>454390 Other Direct Selling Establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)</p>	<p><i>Code</i></p> <p>Truck Transportation</p> <p>484110 General Freight Trucking, Local</p> <p>484120 General Freight Trucking, Long-distance</p> <p>484200 Specialized Freight Trucking</p> <p>Transit and Ground Passenger Transportation</p> <p>485110 Urban Transit Systems</p> <p>485210 Interurban & Rural Bus Transportation</p> <p>485310 Taxi Service</p> <p>485320 Limousine Service</p> <p>485410 School & Employee Bus Transportation</p> <p>485510 Charter Bus Industry</p> <p>485990 Other Transit & Ground Passenger Transportation</p> <p>Pipeline Transportation</p> <p>486000 Pipeline Transportation</p> <p>Scenic & Sightseeing Transportation</p> <p>487000 Scenic & Sightseeing Transportation</p> <p>Support Activities for Transportation</p> <p>488100 Support Activities for Air Transportation</p> <p>488210 Support Activities for Rail Transportation</p> <p>488300 Support Activities for Water Transportation</p> <p>488410 Motor Vehicle Towing</p> <p>488490 Other Support Activities for Road Transportation</p> <p>488510 Freight Transportation Arrangement</p> <p>488990 Other Support Activities for Transportation</p> <p>Couriers and Messengers</p> <p>492110 Couriers</p> <p>492210 Local Messengers & Local Delivery</p> <p>Warehousing and Storage</p> <p>493100 Warehousing & Storage (except lessors of miniwarehouses & self-storage units)</p>	<p><i>Code</i></p> <p>Finance and Insurance</p> <p>Depository Credit Intermediation</p> <p>522110 Commercial Banking</p> <p>522120 Savings Institutions</p> <p>522130 Credit Unions</p> <p>522190 Other Depository Credit Intermediation</p> <p>Nondepository Credit Intermediation</p> <p>522210 Credit Card Issuing</p> <p>522220 Sales Financing</p> <p>522291 Consumer Lending</p> <p>522292 Real Estate Credit (including mortgage bankers & originators)</p> <p>522293 International Trade Financing</p> <p>522294 Secondary Market Financing</p> <p>522298 All Other Nondepository Credit Intermediation</p> <p>Activities Related to Credit Intermediation</p> <p>522300 Activities Related to Credit Intermediation (including loan brokers, check clearing, & money transmitting)</p> <p>Securities, Commodity Contracts, and Other Financial Investments and Related Activities</p> <p>523110 Investment Banking & Securities Dealing</p> <p>523120 Securities Brokerage</p> <p>523130 Commodity Contracts Dealing</p> <p>523140 Commodity Contracts Brokerage</p> <p>523210 Securities & Commodity Exchanges</p> <p>523900 Other Financial Investment Activities (including portfolio management & investment advice)</p> <p>Insurance Carriers and Related Activities</p> <p>524140 Direct Life, Health, & Medical Insurance & Reinsurance Carriers</p> <p>524150 Direct Insurance & Reinsurance (except Life, Health & Medical) Carriers</p> <p>524210 Insurance Agencies & Brokerages</p> <p>524290 Other Insurance Related Activities (including third-party administration of insurance and pension funds)</p> <p>Funds, Trusts, and Other Financial Vehicles</p> <p>525100 Insurance & Employee Benefit Funds</p> <p>525910 Open-End Investment Funds (Form 1120-RIC)</p> <p>525920 Trusts, Estates, & Agency Accounts</p> <p>525990 Other Financial Vehicles (including mortgage REITs & closed-end investment funds)</p> <p>"Offices of Bank Holding Companies" and "Offices of Other Holding Companies" are located under Management of Companies (Holding Companies) on page 25.</p>
<p>Retail Trade</p> <p>Motor Vehicle and Parts Dealers</p> <p>441110 New Car Dealers</p> <p>441120 Used Car Dealers</p> <p>441210 Recreational Vehicle Dealers</p> <p>441221 Motorcycle Dealers</p> <p>441222 Boat Dealers</p> <p>441229 All Other Motor Vehicle Dealers</p> <p>441300 Automotive Parts, Accessories, & Tire Stores</p> <p>Furniture and Home Furnishings Stores</p> <p>442110 Furniture Stores</p> <p>442210 Floor Covering Stores</p> <p>442291 Window Treatment Stores</p> <p>442299 All Other Home Furnishings Stores</p> <p>Electronics and Appliance Stores</p> <p>443111 Household Appliance Stores</p> <p>443112 Radio, Television, & Other Electronics Stores</p> <p>443120 Computer & Software Stores</p> <p>443130 Camera & Photographic Supplies Stores</p> <p>Building Material and Garden Equipment and Supplies Dealers</p> <p>444110 Home Centers</p> <p>444120 Paint & Wallpaper Stores</p> <p>444130 Hardware Stores</p> <p>444190 Other Building Material Dealers</p> <p>444200 Lawn & Garden Equipment & Supplies Stores</p> <p>Food and Beverage Stores</p> <p>445110 Supermarkets and Other Grocery (except Convenience) Stores</p>	<p>Transportation and Warehousing</p> <p>Air, Rail, and Water Transportation</p> <p>481000 Air Transportation</p> <p>482110 Rail Transportation</p> <p>483000 Water Transportation</p>	<p>Information</p> <p>Publishing Industries (except Internet)</p> <p>511110 Newspaper Publishers</p> <p>511120 Periodical Publishers</p> <p>511130 Book Publishers</p> <p>511140 Directory & Mailing List Publishers</p> <p>511190 Other Publishers</p> <p>511210 Software Publishers</p> <p>Motion Picture and Sound Recording Industries</p> <p>512100 Motion Picture & Video Industries (except video rental)</p> <p>512200 Sound Recording Industries</p> <p>Broadcasting (except Internet)</p> <p>515100 Radio & Television Broadcasting</p> <p>515210 Cable & Other Subscription Programming</p> <p>Telecommunications</p> <p>517000 Telecommunications (including paging, cellular, satellite, cable & other program distribution, resellers, other telecommunications, & internet service providers)</p> <p>Data Processing Services</p> <p>518210 Data Processing, Hosting, & Related Services</p> <p>Other Information Services</p> <p>519100 Other Information Services (including news syndicates, libraries, internet publishing & broadcasting)</p>	<p>Real Estate and Rental and Leasing</p> <p>Real Estate</p> <p>531110 Lessors of Residential Buildings & Dwellings (including equity REITs)</p> <p>531114 Cooperative Housing (including equity REITs)</p> <p>531120 Lessors of Nonresidential Buildings (except Miniwarehouses) (including equity REITs)</p> <p>531130 Lessors of Miniwarehouses & Self-Storage Units (including equity REITs)</p>

Form 1120-C (continued)

<p><i>Code</i></p> <p>531190 Lessors of Other Real Estate Property (including equity REITs)</p> <p>531210 Offices of Real Estate Agents & Brokers</p> <p>531310 Real Estate Property Managers</p> <p>531320 Offices of Real Estate Appraisers</p> <p>531390 Other Activities Related to Real Estate</p> <p>Rental and Leasing Services</p> <p>532100 Automotive Equipment Rental & Leasing</p> <p>532210 Consumer Electronics & Appliances Rental</p> <p>532220 Formal Wear & Costume Rental</p> <p>532230 Video Tape & Disc Rental</p> <p>532290 Other Consumer Goods Rental</p> <p>532310 General Rental Centers</p> <p>532400 Commercial & Industrial Machinery & Equipment Rental & Leasing</p> <p>Lessors of Nonfinancial Intangible Assets (except copyrighted works)</p> <p>533110 Lessors of Nonfinancial Intangible Assets (except copyrighted works)</p>	<p><i>Code</i></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>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><i>Code</i></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>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 Residential Care Facilities</p> <p>623000 Nursing & Residential Care Facilities</p> <p>Social Assistance</p> <p>624100 Individual & Family Services</p> <p>624200 Community Food & Housing, & Emergency & Other Relief Services</p> <p>624310 Vocational Rehabilitation Services</p> <p>624410 Child Day Care Services</p>	<p><i>Code</i></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>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>Professional, Scientific, and Technical Services</p> <p>Legal Services</p> <p>541110 Offices of Lawyers</p> <p>541190 Other Legal Services</p> <p>Accounting, Tax Preparation, Bookkeeping, and Payroll Services</p> <p>541211 Offices of Certified Public Accountants</p> <p>541213 Tax Preparation Services</p> <p>541214 Payroll Services</p> <p>541219 Other Accounting Services</p> <p>Architectural, Engineering, and Related Services</p> <p>541310 Architectural Services</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>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>Arts, Entertainment, and Recreation</p> <p>Performing Arts, Spectator Sports, and Related Industries</p> <p>711100 Performing Arts Companies</p> <p>711210 Spectator Sports (including sports clubs & racetracks)</p> <p>711300 Promoters of Performing Arts, Sports, & Similar Events</p> <p>711410 Agents & Managers for Artists, Athletes, Entertainers, & Other Public Figures</p> <p>711510 Independent Artists, Writers, & Performers</p> <p>Museums, Historical Sites, and Similar Institutions</p> <p>712100 Museums, Historical Sites, & Similar Institutions</p> <p>Amusement, Gambling, and Recreation Industries</p> <p>713100 Amusement Parks & Arcades</p> <p>713200 Gambling Industries</p> <p>713900 Other Amusement & Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, & bowling centers)</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 change & lubrication shops & car washes)</p> <p>811210 Electronic & Precision Equipment Repair & Maintenance</p> <p>811310 Commercial & Industrial Machinery & Equipment (except Automotive & Electronic) Repair & Maintenance</p> <p>811410 Home & Garden Equipment & Appliance Repair & Maintenance</p> <p>811420 Reupholstery & Furniture Repair</p> <p>811430 Footwear & Leather Goods Repair</p> <p>811490 Other Personal & Household Goods Repair & Maintenance</p> <p>Personal and Laundry Services</p> <p>812111 Barber Shops</p> <p>812112 Beauty Salons</p> <p>812113 Nail Salons</p> <p>812190 Other Personal Care Services (including diet & weight reducing centers)</p> <p>812210 Funeral Homes & Funeral Services</p> <p>812220 Cemeteries & Crematories</p> <p>812310 Coin-Operated Laundries & Drycleaners</p> <p>812320 Drycleaning & Laundry Services (except Coin-Operated)</p> <p>812330 Linen & Uniform Supply</p> <p>812910 Pet Care (except Veterinary) Services</p> <p>812920 Photofinishing</p> <p>812930 Parking Lots & Garages</p> <p>812990 All Other Personal Services</p> <p>Religious, Grantmaking, Civic, Professional, and Similar Organizations</p> <p>813000 Religious, Grantmaking, Civic, Professional, & Similar Organizations (including condominium and homeowners associations)</p>
		<p>Accommodation and Food Services</p> <p>Accommodation</p> <p>721110 Hotels (except Casino Hotels) & Motels</p>	

