1996 Department of the Treasury
Internal Revenue Service

Instructions for Form 1120-RIC

U.S. Income Tax Return for Regulated Investment Companies

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

Paperwork Reduction Act Notice

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

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	57 hr., 10 min.
Learning about the law or the form	18 hr., 13 min.
Preparing the form	34 hr., 50 min.
Copying, assembling, and sending the form to the IRS	4 hr., 17 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 Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **DO NOT** send the tax form to this office. Instead, see **Where To File** on page 2.

Changes To Note

The Small Business Job Protection Act of 1996 ("The Act") made changes to the tax law for corporations. These and other changes are highlighted below.

- If a fund's total deposits of social security, Medicare, and withheld income taxes were more than $50,000 in 1995, it must make electronic deposits for all depository tax liabilities that occur after June 30, 1997. See **Depository Method of Tax Payment** on page 3.
- The targeted jobs credit has been replaced by the work opportunity credit. The credit applies for wages paid to qualified employees who begin work for the employer after September 30, 1996, and before October 1, 1997. Get **Form 5884,** Work Opportunity Credit, for details.
- The Act modified the definition of section 179 property, classified gas station convenience stores as 15-year property, provided a new 25-year recovery period for water utility property, and added new rules for property depreciated under the income forecast method. For details, get **Form 4562,** Depreciation and Amortization.
- The Act changed the rules for replacing business property that was involuntarily converted as a result of a Presidentially declared disaster. For more information, get **Form 4684,** Casualties and Thefts.
- A fund that received a distribution from a foreign trust after August 20, 1996, must provide additional information. For details, get **Pub. 553,** Highlights of 1996 Tax Changes.

The Health Insurance and Portability Act of 1996 changed the rules for deducting interest on loans for company-owned life insurance. Generally, no deduction is allowed for interest paid or accrued after October 13, 1995, on any amount of debt incurred with respect to company-owned life insurance policies, annuities, or endowment contracts that cover corporate officers or employees (or any person who has a financial interest in the fund). Exceptions and phase-in rules apply. See Act section 501.

Unresolved Tax Problems

The Problem Resolution Program is for taxpayers that have been unable to resolve their problems with the IRS. If the fund has a tax problem it cannot clear up through normal channels, write to the fund's local IRS District Director or call the fund's local IRS office and ask for Problem Resolution assistance. Persons who have access to TTY/TDD equipment may call 1-800-829-4059 to ask for help from Problem Resolution. This office cannot change the tax law or technical decisions. But it can help the fund clear up problems that resulted from previous contacts.

How To Get Forms and Publications

By personal computer.— If you subscribe to an on-line service, ask if IRS information is available and, if so, how to access it. Tax forms, instructions, publications, and other IRS information are available through the Internal Revenue Information Service (IRIS), on FedWorld, a government bulletin board. The IRIS menus offer information on available file formats and software needed to read and print files. You must print the forms to use them; the forms are not designed to be filled out on-screen.

IRIS is directly accessible by modem at 703-321-8020. On the Internet, telnet to iris.irs.ustreas.gov or, for file transfer protocol services, connect to ftp.irs.ustreas.gov. If you are using the World Wide Web, connect to http://www.irs.ustreas.gov. FedWorld's help desk offers technical assistance on accessing IRIS (not tax help) during regular business hours at 703-487-4608.

Tax forms, instructions, and publications are also available on CD-ROM, including prior-year forms starting with the 1991 tax year. For ordering information and software requirements, contact the Government Printing Office's Superintendent of Documents (202-512-1800) or Federal Bulletin Board (202-512-1387).

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

General Instructions

Purpose of Form

Use **Form 1120-RIC,** U.S. Income Tax Return for Regulated Investment Companies, to report the income, gains, losses, deductions, credits, and to figure the income tax liability of a regulated investment company as defined in section 851. Also see **Pub. 542,** Corporations, for more information.

Who Must File

A domestic corporation that elects to be treated as a RIC for the tax year (or has made an election for a prior tax year) and meets the requirements listed below must file Form 1120-RIC. The election is made by computing taxable income as a RIC on Form 1120-RIC.

A corporation that elects to be treated as a RIC must be a domestic corporation that:

- Is registered with the Securities and Exchange Commission throughout the tax year as a management company or unit investment trust under the Investment Company Act of 1940 (the ICA);

- Has an election in effect under the ICA to be treated as a business development company; or
- Is a common trust fund or similar fund that is neither an investment company under section 3(c)(3) of the ICA nor a common trust fund as defined under section 584(a).

In addition, the corporation must meet all six of the following requirements in order to qualify as a RIC:

1. At least 90% of its gross income (including tax-exempt interest income) must be derived from:

- Dividends;
- Interest;
- Payments with respect to securities loans (as defined in section 512(a)(5));
- Gains from the sale or other disposition of stock or securities (as defined in ICA section 2(a)(36)) or foreign currencies; or
- Other income (including gains from options, futures, or forward contracts) derived from the company's business of investing in such stock, securities, or currencies.

Income from a partnership or trust qualifies under the 90% test to the extent the company's distributive share of such income is from items described above as realized by the partnership or trust.

Income that a RIC receives in the normal course of business as a reimbursement from its investment advisor is qualifying income for purposes of the 90% test if the reimbursement is includible in the RIC's gross income.

2. Less than 30% of its gross income must be derived from the sale or disposition of any of the following that were held for less than 3 months:

- Stock or securities (as defined in ICA section 2(a)(36));
- Options, futures, or forward contracts (other than options, futures, or forward contracts on foreign currencies); or
- Foreign currencies (or options, futures, or forward contracts on foreign currencies) but only if such currencies (or options, futures, or forward contracts) are not directly related to the company's principal business of investing in stock or securities (or options and futures on stocks or securities).

However, a fund (defined below) will not be disqualified for failing to meet the 30% test because of sales resulting from abnormal redemptions on any day and occurring before the close of the fifth business day after such day if: (1) the sum of the percentages determined under section 851(h)(3)(B) for abnormal redemptions on that day and on prior days during the tax year exceeds 30%, and (2) the RIC would meet the 30% test for the tax year if all of the funds which are a part of the RIC were treated as a single RIC.

3. At the end of each quarter of the company's tax year, at least 50% of the value of its assets must be invested in:

- Cash and cash items (including receivables);
- Government securities;
- Securities of other RICs; and
- Securities of other issuers, except that the investment in a single issuer of securities may not exceed 5% of the value of the company's assets or 10% of the outstanding voting securities of the issuer (except as provided in section 851(e)). See sections 851(b)(4) and 851(c).

4. At the end of each quarter of the company's tax year, no more than 25% of the value of the company's assets may be invested in the securities (excluding government securities or securities of other RICs) of a single issuer or in the securities of two or more issuers controlled by the RIC and engaged in the same or related trades or businesses. See sections 851(b)(4) and 851(c).

5. The company's deduction for dividends paid for the tax year (as defined in section 561, but without regard to capital gain dividends) equals or exceeds the sum of:

- 90% of its investment company taxable income determined without regard to section 852(b)(2)(D); and
- 90% of the excess of the company's interest income excludable from gross income under section 103(a) over its deductions disallowed under sections 265 and 171(a)(2).

6. The company must have been a RIC for all tax years ending after November 7, 1983, or, at the end of the current tax year, the company had no accumulated earnings and profits from a tax year that it did not qualify as a RIC.

See sections 851 and 852 and related regulations for details.

If a RIC has more than one fund (defined below), each fund is treated as a separate corporation for purposes of the Internal Revenue Code.

Definition of a Fund

A fund is a separate portfolio of assets, whose beneficial interests are owned by the holders of a class or series of stock that is preferred over all other classes or series for that portfolio of assets.

Note: *As used in these instructions and Form 1120-RIC, the term "fund" refers to the above definition and to any RIC that does not have more than one portfolio of assets.*

When To File

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

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

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

Where To File

File the tax return at the applicable IRS address listed below.

If the corporation's principal business, office, or agency is located in	Use the following Internal Revenue Service Center address
New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Florida, Georgia, South Carolina	Atlanta, GA 39901
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Minnesota, Missouri, Wisconsin	Kansas City, MO 64999
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia	Philadelphia, PA 19255

Who Must Sign

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

Note: *If this return is being filed for a series fund (as discussed in section 851(h)(2)), the return may be signed by any officer authorized to sign for the RIC in which the fund is a series.*

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

The paid preparer must complete the required preparer information and—

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

Accounting Methods

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

Figure taxable income using the method of accounting regularly used in keeping the fund's books and records. Generally, permissible methods include the cash, accrual, or any other method authorized by the Internal Revenue Code. In all cases, the method used must clearly show taxable income.

Generally, a fund must use the accrual method of accounting if its average annual gross receipts exceed $5 million. See section 448(c).

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

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year in which (1) all events that determine the liability have occurred, (2) the amount of the liability can be figured with reasonable accuracy, and (3) economic performance takes place with respect to the expense. There are exceptions to the economic performance rule for certain items, including recurring expenses. See section 461(h) and the related regulations for the rules for determining when economic performance takes place.

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

For details, including exceptions, see section 475, the related temporary regulations, and Rev. Rul. 94-7, 1994-1 C.B. 151.

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

Accounting Periods

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

If the calendar year is adopted as the annual accounting period, the fund must maintain its books and records and report its income and expenses for the period from January 1 through December 31 of each year. A fiscal year is 12 consecutive months ending on the last day of any month except December. A 52-53 week year is a fiscal year that varies from 52 to 53 weeks.

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

For more information, see Temporary Regulations section 1.441-2T and Pub. 538.

Change in accounting period.— Generally, a fund 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 fund may change its tax year without getting the consent. See Regulations section 1.442-1 and Pub. 538.

Rounding Off to Whole Dollars

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

Recordkeeping

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

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

Depository Method of Tax Payment

The fund must pay the tax due in full no later than the 15th day of the 3rd month after the end of the tax year. Some funds (described below) are required to electronically deposit all depository taxes, including fund income tax payments.

Electronic deposit requirement.— If the fund's total deposits of social security, Medicare, and withheld income taxes were more than $50,000 in 1995, it must make electronic deposits for all despository tax liabilities that occur after June 30, 1997. If the fund was required to deposit by electronic funds transfer in prior years, it should continue to do so in 1997. The Electronic Federal Tax Payment System (EFTPS) must be used to make electronic deposits. If the fund is required to make deposits by electronic funds transfer and fails to do so, it may be subject to a 10% penalty. Funds that are not required to make electronic deposits may voluntarily participate in EFTPS. For information on EFTPS, call 1-800-945-8400 or 1-800-555-4477. (These numbers are for EFTPS information only.)

Form 8109, Federal Tax Deposit Coupon.— If the fund does not use EFTPS, deposit fund income tax payments (and estimated tax payments) with Form 8109. Do not send deposits directly to an IRS office. Mail or deliver the completed Form 8109 with the payment to a qualified depositary for Federal taxes or to the Federal Reserve bank (FRB) servicing the fund's geographic area. Make checks or money orders payable to that depositary or FRB. To help ensure proper crediting, write the fund's employer identification number (EIN), the tax period to which the deposit applies and "Form 1120-RIC" on the check or money order. Be sure to darken the "1120" box on the coupon. Records of these deposits will be sent to the IRS.

A penalty may be imposed if the deposits are mailed or delivered to an IRS office rather than to an authorized depositary or FRB. For more information on deposits, see the instructions in the coupon booklet (Form 8109) and **Pub. 583,** Starting a Business and Keeping Records.

Caution: *If the fund owes tax when it files Form 1120-RIC, do not include the payment with the tax return. Instead, mail or deliver the payment with Form 8109 to a qualified depositary or FRB, or use EFTPS, if applicable.*

Estimated Tax Payments

Generally, a fund must make installment payments of estimated tax if it expects its estimated tax 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. For estimated tax purposes, the estimated tax of the fund is defined as its alternative minimum tax less the credit for Federal tax paid on fuels. Use **Form 1120-W,** Estimated Tax for Corporations, as a worksheet to compute estimated tax. Use the deposit coupons (Forms 8109) to make deposits of estimated tax. For more information on estimated tax payments, including penalties that apply if the fund fails to make required payments, see the instructions for line 29 on page 8.

Overpaid estimated tax.— If the fund overpaid estimated tax, it may be able to get a quick refund by filing **Form 4466,**

Corporation Application for Quick Refund of Overpayment of Estimated Tax. The overpayment must be at least 10% of the expected income tax liability and at least $500. To apply for a quick refund, file Form 4466 before the 16th day of the 3rd month after the end of the tax year, but before the fund files its income tax return. Do not file Form 4466 before the end of the fund's tax year.

Interest and Penalties

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

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

Penalty for late payment of tax.— A fund that does not pay the tax when due may be penalized ½ 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 fund can show that the failure to pay on time was due to reasonable cause.

Trust fund recovery penalty.— This penalty may apply if certain income, social security, and Medicare taxes that must be collected or withheld are not collected or withheld, or these taxes are not paid to the IRS. These taxes are generally reported on Forms 941, 943, or 945 (see **Other Forms, Returns, and Statements That May Be Required,** below). 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 **Pub. 15** (Circular E), Employer's Tax Guide, for more details, including the definition of responsible person.

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

Other Forms, Returns, and Statements That May Be Required

Forms

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

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

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

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

Form 941, Employer's Quarterly Federal Tax Return. Employers must file this form quarterly to report income tax withheld and employer and employee social security and Medicare taxes. Also, see **Trust fund recovery penalty** above.

Form 945, Annual Return of Withheld Federal Income Tax. File Form 945 to report income tax withholding from nonpayroll distributions or payments, such as pensions, annuities, IRAs, military retirement, gambling winnings, Indian gaming profits, and backup withholding. Also, see **Trust fund recovery penalty** above.

Form 966, Corporate Dissolution or Liquidation.

Form 972, Consent of Shareholder To Include Specific Amount in Gross Income, and **Form 973,** Corporation Claim for Deduction for Consent Dividends. Use these forms to report a consent dividend under section 565 or to claim a consent dividend deduction under section 561.

Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons; and **Form 1042-S,** Foreign Person's U.S. Source Income Subject to Withholding. Use these forms to report and send withheld tax on certain payments or distributions made to nonresident alien individuals, foreign partnerships, or foreign corporations. For more information, see sections 1441 and 1442, and **Pub. 515,** Withholding of Tax on Nonresident Aliens and Foreign Corporations.

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

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

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

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

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

Form 2438, Regulated Investment Company Undistributed Capital Gains Tax Return. If the fund designates undistributed capital gains under section 852(b)(3)(D), it must file this return and pay tax on the gains designated by the 30th day after the end of the fund's tax year. In addition, a copy of Form 2438 (with Copy A of all Forms 2439) must be attached to Form 1120-RIC when filed.

Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains. If the fund filed Form 2438, it must complete Form 2439 for each shareholder for whom it paid tax on undistributed capital gains designated under section 852(b)(3)(D) and furnish a copy to the shareholder by the 60th day after the end of the fund's tax year.

Form 5452, Corporate Report of Nondividend Distributions.

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

- It controls a foreign corporation.
- It acquires, disposes of, or owns 5% or more in value of the outstanding stock of a foreign corporation.
- It owns stock in a corporation that is a controlled foreign corporation for an uninterrupted period of 30 days or more during any tax year of the foreign corporation, and it owned that stock on the last day of that year.

Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. A domestic corporation that is 25% or more foreign-owned may have to file this form. See the instructions for question 5 on page 11.

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

Form 5713, International Boycott Report. Funds that had operations in or related to a "boycotting" country, company, or national of a country must file Form 5713 to report those operations and figure the loss of certain tax benefits.

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

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

Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments. Issuers of public offerings of debt instruments generally must file this form within 30 days of the issuance of the debt instrument.

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

Form 8613, Return of Excise Tax on Undistributed Income of Regulated Investment Companies. If the fund is liable for the 4% excise tax on undistributed income under section 4982 or makes an election under section 4982(e)(4), it must file this return for the calendar year.

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

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

Statements

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

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

Election under Temporary Regulations section 1.67-2T(j)(2).— Generally, shareholders in a nonpublicly offered fund that are individuals or pass-through entities are treated as having received a dividend in an amount equal to the shareholder's allocable share of affected RIC expenses for the calendar year. They are also treated as having paid or incurred an expense described in section 212 (and subject to the 2% limitation on miscellaneous itemized deductions) in the same amount for the calendar year. A nonpublicly offered fund may elect to treat its affected RIC expenses for a calendar year as equal to 40% of the amount determined under Temporary Regulations section 1.67-2T(j)(1)(i) for that calendar year. To make this election, attach to Form 1120-RIC for the tax year that includes the last day of the calendar year for which the fund makes the election, a statement that it is making an election under paragraph (j)(2) of Temporary Regulations section 1.67-2T. Once made, the election remains in effect for all subsequent calendar years and may not be revoked without IRS consent. See Temporary Regulations section 1.67-2T for definitions and other details.

Notice to shareholders.— A fund must notify its shareholders within 60 days after the close of its tax year of the distribution made during the tax year that qualifies for the dividends received deduction under section 243. For purposes of the dividends received deduction, a capital gain dividend received from a RIC is not treated as a dividend.

Attachments

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

Complete every applicable entry space on Form 1120-RIC. Do not write "See attached" instead of completing the entry spaces. If more space is needed on the forms or schedules, attach separate sheets. Use the same size and format as on the printed forms. But show the fund's totals on the printed forms. Attach these separate sheets after all the schedules and forms. Be sure to put the fund's name and EIN on each sheet.

Specific Instructions

Period Covered

File the 1996 return for calendar year 1996 and fiscal years that begin in 1996 and end in 1997. For a fiscal year, fill in the tax year space at the top of the form.

Note: *The 1996 Form 1120-RIC may also be used if **(1)** the fund has a tax year of less than 12 months that begins and ends in 1997, and **(2)** the 1997 Form 1120-RIC is not available at the time the fund is required to file its return. However, the fund must show its 1997 tax year on the 1996 Form 1120-RIC and incorporate any tax law changes that are effective for tax years beginning after December 31, 1996.*

Address

Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and the RIC has a P.O. box, show the box number instead of the street address.

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

Items B Through E

Item B. Date fund was established.— If this return is being filed for a series fund (as described in section 851(h)(2)), enter the date the fund was created. Otherwise, enter the date the RIC was incorporated or organized.

Item C. Employer identification number (EIN).— Show the correct EIN in item C on page 1 of Form 1120-RIC. If the fund does not have an EIN, it should apply for one on **Form SS-4,** Application for Employer Identification Number. Form SS-4 may be obtained at Social Security Administration (SSA) offices or by calling 1-800-TAX-FORM. If the fund has not received its EIN by the time the return is due, write "Applied for" in the space for the EIN. See Pub. 583 for more information.

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

Item E. Final return, change of address, or amended return.— If the fund ceases to exist, file Form 1120-RIC and check the "Final return" box. If the fund has changed its address since it last filed a return, check the box for “Change of address.” If the fund is amending its return, check the box for “Amended return.”

Part I—Investment Company Taxable Income

Income

Line 1. Dividends

A fund that is the holder of record of any share of stock on the record date for a dividend payable on that stock must include the dividend in gross income by the later of **(a)** the date the share became an ex-dividend or **(b)** the date the company acquired the share.

Line 2. 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.

Line 3. Net Foreign Currency Gain or (Loss) From Section 988 Transactions

Enter the net foreign currency gain or (loss) from section 988 transactions that is treated as ordinary income or loss under section 988(a)(1)(A). Attach a schedule detailing each separate transaction.

Line 4. Payments With Respect To Securities Loans

Enter the amount received or accrued from a broker as compensation for securities loaned by the fund to the broker for use in completing market transactions. The payments must meet the requirements of section 512(a)(5).

Line 5. Excess of Net Short-Term Capital Gain Over Net Long-Term Capital Loss

Enter the excess of net short-term capital gain over net long-term capital loss from Schedule D (Form 1120), line 11.

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

Line 7. Other Income

Enter any other taxable income not reported on lines 1 through 6, except net capital gain that is reported in Part II. List the type and amount of income on an attached schedule. If the RIC has only one item of other income, describe it in parentheses on line 7. Examples of other income to report on line 7 are:

- Any adjustment under section 481(a) required to be included in income during the current tax year due to a change in method of accounting.
- Gross rents.
- Recoveries of fees or expenses in settlement or litigation.
- The amount of credit for alcohol used as fuel (determined without regard to the limitation based on tax) entered on **Form 6478,** Credit for Alcohol Used as Fuel.
- Refunds of taxes deducted in prior years to the extent they reduced income subject to tax in the year deducted (see section 111). Do not offset current year taxes against tax refunds.
- The amount of any deduction previously taken under section 179A that is subject to recapture. The RIC must recapture the benefit of any allowable deduction for qualified clean-fuel vehicle property (or clean-fuel vehicle refueling property), if, the property later ceases to qualify. See Regulations section 1.179A-1 for details.
- Ordinary income from trade or business activities of a partnership (from Schedule K-1 (Form 1065), line 1).

Deductions

Limitations on Deductions

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

Direct and indirect costs (including taxes) allocable to real or tangible personal property constructed or improved by the taxpayer.— Such costs must be capitalized in accordance with section 263A.

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

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

Section 265(a)(3) limitation.— If the fund paid exempt-interest dividends during the tax year (including those dividends deemed paid under section 855), no deduction is allowed for that portion of otherwise deductible expenses which the amount of tax-exempt interest income bears to total gross income (including tax-exempt income but excluding capital gain net income).

Net operating loss deduction.— The net operating loss deduction is not allowed.

Passive activity limitations.— Limitations on passive activity losses and credits under section 469 apply to funds that are closely held (as defined in section 469(j)(1)). Funds subject to the passive activity limitations must complete **Form 8810,** Corporate Passive Activity Loss and Credit Limitations, to compute their allowable passive activity loss and credit.

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

1. The work opportunity credit.

2. The research credit.

3. The enhanced oil recovery credit.

4. The disabled access credit.

5. The empowerment zone employment credit.

6. The Indian employment credit.

7. The employer credit for social security and Medicare taxes paid on certain employee tips.

8. The orphan drug credit.

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

Line 9. Compensation of Officers

Enter deductible officers' compensation on line 9. Complete Schedule E if total receipts (line 8, Part I, plus net capital gain from line 1, Part II, and line 9a, Form 2438) are $500,000 or more. Do not include compensation deductible elsewhere on the return, such as elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement or a SIMPLE retirement plan (savings incentive match plan).

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

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

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

For this purpose, compensation does not include the following:

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

The deduction limit does not apply to:

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

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

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

Line 10. Salaries and Wages

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

Caution: *If the fund 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 14 and 22.*

Line 12. 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 or if the fund made an election under section 853.
- Excise taxes imposed under section 4982 on undistributed RIC income.
- Taxes not imposed on the fund.
- Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (these taxes must be treated as a part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition).
- Taxes assessed against local benefits that increase the value of the property assessed (such as for paving, etc.).
- Taxes deducted elsewhere on the return.

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

Line 13. Interest

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

Do not include interest on indebtedness incurred or continued to purchase or carry obligations if the interest is wholly exempt from income tax. For exceptions, see section 265(b).

Generally, a cash basis taxpayer cannot deduct prepaid interest allocable to years following the current tax year. For example, a cash basis calendar year taxpayer who in 1996 prepaid interest allocable to any period after 1996 can deduct only the amount allocable to 1996.

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

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

The deduction for certain interest paid or accrued by the fund may be limited if no tax is imposed on that interest. See section 163(j) for more information.

Line 14. Depreciation

Besides depreciation, include on line 14 the part of the cost that the fund elected to expense under section 179 for certain tangible property placed in service during tax year 1996 or carried over from 1995. See **Form 4562,** Depreciation and Amortization, and its instructions.

Line 22. Other Deductions

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

Attach a schedule, listing by type and amount, all allowable deductions that are not deductible elsewhere on Form 1120-RIC, including amortization of organization expenses. Enter the total of other deductions on this line.

Also include ordinary losses from trade or business activities of a partnership (from Schedule K-1 (Form 1065), line 1).

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

Charitable contributions.— Include on this line charitable contributions deductible under section 170.

Substantiation requirements.— Generally, no deduction is allowed for any contribution of $250 or more unless the RIC gets a written acknowledgment from the donee organization that shows the amount of cash contributed, describes any property contributed, and gives an estimate of the value of any goods or services provided in return for the contribution. The acknowledgment must be obtained by the due date (including extensions) of the RIC'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 RIC's records. These rules apply in addition to the filing requirements for Form 8283 described below.

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

Contribution of property other than cash.— If the fund 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. Closely held funds must complete **Form 8283,** Noncash Charitable Contributions, and attach it to their returns. All other funds generally must complete and attach Form 8283 to their returns for contributions of property other than money if the total claimed deduction for all property contributed was more than $5,000.

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

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

Pension, profit-sharing, etc., plans.— Also include on line 22 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 fund does not claim a deduction for the current tax year. There are penalties for failure to file these forms on time and for overstating the pension plan deduction. See sections 6652(e) and 6662(f).

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

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

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

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

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

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

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

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

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

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

Lobbying expenses.— Generally, lobbying expenses are not deductible. These expenses include amounts paid or incurred in connection with influencing Federal or state legislation (but not local legislation), or amounts paid or incurred in connection with any communication with certain Federal executive branch officials in an attempt to influence the official actions or positions of the officials. See Regulations section 1.162-29 for the definition of “influencing legislation.” If certain in-house lobbying expenditures do not exceed $2,000, they are deductible. Dues and other similar amounts paid to certain tax-exempt organizations may not be deductible. See section 162(e)(3). For information on contributions to charitable organizations that conduct lobbying activities, see the instructions for this line on page 7. For more information on lobbying expenses, see section 162(e).

Line 24. Taxable Income Before Deduction for Dividends Paid

At-risk rules.— Generally, special at-risk rules under section 465 apply to closely held funds engaged in any activity as a trade or business or for the production of income. These funds may have to adjust the amount on line 24.

But the at-risk rules do not apply to:

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

However, the at-risk rules do apply to the holding of mineral property. For more information, see section 465 and **Form 6198,** At-Risk Limitations.

Tax and Payments

Line 28b. Estimated Tax Payments

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

Line 28g. Credit for Federal Tax on Fuels

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

Line 28h

Add the amounts on lines 28d through 28g and enter the total on line 28h.

Backup withholding.— If the fund had income tax withheld from any payments it received, because, for example, it failed to give the payer its correct EIN, include the amount withheld in the total for line 28h. This type of withholding is called “backup withholding”. Show the amount withheld in the blank space in the right-hand column between lines 27 and 28h, and write “backup withholding.”

Line 29. Estimated Tax Penalty

A fund that does not make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. Generally, a fund is subject to the penalty if its tax liability is $500 or more, and it did not timely pay the smaller of **(a)** 100% of its alternative minimum tax minus the credit for Federal tax paid on fuels for 1996 as shown on the return or **(b)** 100% of its prior year's tax. See section 6655 for details and exceptions, including special rules for large corporations.

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

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

If Form 2220 is attached, check the box on line 29, page 1, Form 1120-RIC, and enter the amount of any penalty on this line.

Schedule A

Deduction for Dividends Paid Columns (a) and (b)

Column (a) is used to determine the deduction for dividends paid resulting from ordinary dividends. Column (b) is used to determine the deduction for dividends paid resulting from capital gain dividends. Do not include any amount reported for the tax year on Form 2438, line 9b. Section 561 (taking into account sections 852(b)(7) and 855(a)) determines the deduction for dividends paid. Do not take into account exempt-interest dividends defined in section 852(b)(5). See Regulations section 1.852-11.

Line 3

Dividends, both ordinary and capital gain, declared and payable to shareholders of record in October, November, or December are treated as paid by the fund and received by each shareholder on December 31 of that calendar year provided that they are actually paid in January of the following calendar year. Enter on line 3 all such dividends not already entered on line 1 or 2.

Line 5

Enter the foreign tax paid deduction allowed as an addition to the dividends paid deduction under section 853(b)(1)(B). See the instructions for Schedule K, question 13, for more details.

Schedule B

Income From Tax-Exempt Obligations

If, at the close of each quarter of the tax year, at least 50% of the value of the fund's assets consisted of tax-exempt obligations under section 103(a), the fund qualifies under section 852(b)(5) to pay exempt-interest dividends for the tax year. Check the “Yes” box on line 1 of Schedule B and complete lines 2 through 5. See section 852(b)(5) for the definition of exempt-interest dividends and other details.

Tax Computation Worksheet for Members of a Controlled Group

(Keep for the member's records.)

Note: *Each member of a controlled group must compute the tax on its investment company taxable income using this worksheet (except funds that are personal holding companies or that are not in compliance with Regulations section 1.852-6—see item 2 of **Line 3a** below).*

1.	Enter investment company taxable income (line 26, page 1)	**1.**	
2.	Enter line 1 or the fund's share of the $50,000 taxable income bracket, whichever is less	**2.**	
3.	Subtract line 2 from line 1	**3.**	
4.	Enter line 3 or the fund's share of the $25,000 taxable income bracket, whichever is less	**4.**	
5.	Subtract line 4 from line 3	**5.**	
6.	Enter line 5 or the fund's share of the $9,925,000 taxable income bracket, whichever is less	**6.**	
7.	Subtract line 6 from line 5	**7.**	
8.	Multiply line 2 by 15%	**8.**	
9.	Multiply line 4 by 25%	**9.**	
10.	Multiply line 6 by 34%	**10.**	
11.	Multiply line 7 by 35%	**11.**	
12.	If the taxable income of the controlled group exceeds $100,000, enter this member's share of the smaller of: 5% of the taxable income in excess of $100,000, or $11,750. (See the instructions for line 2b below.)	**12.**	
13.	If the taxable income of the controlled group exceeds $15 million, enter this member's share of the smaller of: 3% of the taxable income in excess of $15 million, or $100,000. (See the instructions for line 2b below.)	**13.**	
14.	Add lines 8 through 13. Enter here and on line 3a, Schedule J	**14.**	

Schedule J

Tax Computation

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

Lines 1 and 2

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

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

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

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

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

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

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

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

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

Line 3a

The fund must compute the tax on its investment company taxable income as follows:

1. A fund that is not a personal holding company and is in compliance with Regulations section 1.852-6 regarding disclosure of the fund's actual stock ownership (members of a controlled group should see the instructions above for lines 1 and 2) computes its tax using the **Tax Rate Schedule** below.

Tax Rate Schedule

If the investment company taxable income (line 26, page 1) is:

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

2. A fund that is a personal holding company or that is not in compliance with Regulations section 1.852-6 is taxed at a flat rate of 35% on its investment company taxable income.

Line 3c

Deferred tax under section 1291.— If the fund was a shareholder in a passive foreign investment company (PFIC), and the fund 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 to be entered on line 3c, Schedule J. On the dotted line to the left of line 3c, Schedule J, write "Section 1291" and the amount.

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

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

Line 4a. Foreign Tax Credit

To find out when a fund can take this credit for payment of income tax to a foreign country or U.S. possession, see **Form 1118,** Foreign Tax Credit–Corporations. The fund may not claim this credit if an election under section 853 was made for the tax year.

Line 4b

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

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

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

Line 4c. General Business Credit

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

Form 3468, Investment Credit. Use Form 3468 to claim a credit for property placed in service that is qualified rehabilitation, energy, timber, or transition property.

Form 5884, Work Opportunity Credit. Use Form 5884 to claim a credit for wages paid to qualified employees who began work after September 30, 1996, and before October 1, 1997.

Form 6478, Credit for Alcohol Used As Fuel.

Form 6765, Credit for Increasing Research Activities. Use Form 6765 to claim a credit for qualified research expenses. Generally, the expenses must be paid or incurred after June 30, 1996, and before June 1, 1997.

Form 8586, Low-income Housing Credit. Funds that own residential rental buildings providing low-income housing may qualify for this credit.

Form 8820, Orphan Drug Credit. Use Form 8820 to claim a credit for qualified clinical testing expenses. Generally, the expenses must be paid or incurred after June 30, 1996, and before June 1, 1997.

Form 8826, Disabled Access Credit. Use Form 8826 to take a credit for certain expenditures paid or incurred to help individuals with disabilities.

Form 8830, Enhanced Oil Recovery Credit. Use Form 8830 to claim a credit for 15% of qualified enhanced oil recovery costs.

Form 8835, Renewable Electricity Production Credit. Use Form 8835 to claim a credit for the sale of electricity produced in the United States or U.S. possessions from qualified energy resources.

Form 8844, Empowerment Zone Employment Credit. Use Form 8844 to claim a credit for qualified wages and certain training and educational expenses paid or incurred by the fund for employees who live in and work for the funds in areas designated as empowerment zones.

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

Form 8845, Indian Employment Credit. Use Form 8845 to claim a credit based on qualified wages and health insurance costs paid by the fund for American Indians who are qualified employees.

Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips. Food and beverage establishments use Form 8846 to claim a credit for social security and Medicare taxes paid or incurred by the employer on certain employees' tips.

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

Line 4d. Credit for Prior Year Minimum Tax

To figure the minimum tax credit and any carryforward of that credit, use **Form 8827,** Credit for Prior Year Minimum Tax–Corporations. Also see Form 8827 if any of the fund's 1995 nonconventional source fuel credit, orphan drug credit, or qualified electric vehicle credit was disallowed solely because of the tentative minimum tax limitation. See section 53(d).

Line 6. Personal Holding Company Tax

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

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

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

Line 7. Recapture Taxes

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

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

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

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

Line 8. Alternative Minimum Tax

The RIC may owe the alternative minimum tax if it has any of the adjustments and tax preference items listed on **Form 4626,** Alternative Minimum Tax–Corporations. The fund must file Form 4626 if its investment company taxable income or (loss) and retained capital gains not designated under section 852(b)(3)(D) plus adjustments and tax preference items is more than the smaller of $40,000, or the fund's allowable exemption amount (from Form 4626). Get Form 4626 for details.

Reduce alternative minimum tax by any amounts from Form 3800, Schedule A, line 36, and Form 8844, line 23. On the dotted line next to line 8, write “Section 38(c)(2)” (“EZE” if from Form 8844) and the amounts.

Line 9. Total Tax

Deferred tax and interest under section 1294.— Complete Form 8621 to determine the RIC's share of tax attributable to the undistributed earnings of a qualified electing fund, or the deferred tax due, if any, as a result of the termination of a section 1294 election. See the instructions for Form 8621 to figure the amount of tax to include in, or subtract from, the total on line 9. The instructions for Form 8621 also explain how to report any interest due under section 1294 on the deferred tax.

Interest on tax deferred under the installment method for certain nondealer installment obligations.— If an obligation arising from the disposition of property to which section 453A applies is outstanding at the close of the tax year, the fund must include the interest due under section 453A(c) on line 9, Schedule J. Write on the dotted line to the left of line 9, Schedule J, “Section 453A(c) interest” and the amount. Attach a schedule showing the computation.

Schedule K

Other Information

The following instructions apply to questions 1 through 14 on page 3, Form 1120-RIC. Answer all the questions that apply to the fund.

Question 3

Check the “Yes” box for question 3 if the fund is a subsidiary in a parent-subsidiary controlled group (defined below). This applies even if the fund is a subsidiary member of one group and the parent corporation of another.

Note: *If the fund 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.*

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

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

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

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

Question 5

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 fund entitled to vote or **(b)** the total value of all classes of stock of the fund.

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

Enter on line 5b(1) the percentage owned by the foreign person specified in question 5. For line 5b(2), write the name of the owner's country.

Note: *If there is more than one 25%-or-more foreign owner, complete lines 5b(1) and 5b(2) for the foreign person with the highest percentage of ownership.*

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

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

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

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

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

Question 7

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

1. At any time during the 1996 calendar year the fund had an interest in or signature or other authority over a bank, securities, or other financial account in a foreign country; and

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

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

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

If "Yes" is checked for this question, file Form TD F 90-22.1 by June 30, 1997, with the Department of the Treasury at the address shown on the form. Because Form TD F 90-22.1 is not a tax return, do not file it with Form 1120-RIC.

Form TD F 90-22.1 may be obtained from an IRS Distribution Center or by calling 1-800-TAX-FORM (1-800-829-3676).

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

Question 8

If the fund received a distribution from a foreign trust after August 20, 1996, it must provide additional information. For this purpose, a loan of cash or marketable securities is generally considered to be a distribution. Get Pub. 553 for details.

If a fund was the grantor of, or the transferor to, a foreign trust that existed during the tax year, it may have to file **Form 3520,** Creation of or Transfers to Certain Foreign Trusts, **Form 3520-A,** Annual Return of Foreign Trust With U.S. Beneficiaries, or **Form 926,** Return by a U.S. Transferor of Property to a Foreign Corporation, Foreign Estate or Trust, or Foreign Partnership.

Question 11

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

Question 13

A fund may make an irrevocable election under section 853(a) to allow its shareholders to apply their shares of the foreign taxes paid by the fund either as a credit or a deduction. If the fund makes this election, the amount of foreign taxes it paid during the tax year may not be taken as a credit or a deduction on Form 1120-RIC, but may be claimed on Form 1120-RIC, Schedule A, line 5, as an addition to the dividends paid deduction.

To be eligible for the election, more than 50% of the value of the fund's total assets at the end of the tax year must consist of stock or securities in foreign corporations.

If the fund makes the election, it must furnish to its shareholders a written notice designating the shareholder's share of foreign taxes paid to each country or possession and the share of the dividend that represents income derived from sources within each country or possession. The notice must be mailed to the shareholders no later than 60 days after the end of the fund's tax year.

To make a valid election, in addition to timely filing Form 1120-RIC and checking the box for question 13, the fund must file:

- Form 1099-DIV and Form 1096, including the statement required by Regulations section 1.853-4; and
- Form 1118, modified to become a statement supporting the fund's election.

For further information, see Regulations section 1.853-4.

Schedule L

Balance Sheets per Books

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

Line 4. Tax-Exempt Securities

Include on this line:

1. State and local government obligations, the interest on which is excludible from gross income under section 103(a), and

2. Stock in another mutual fund or other regulated investment company that distributed exempt-interest dividends during the tax year of the fund.

Schedule M-1

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

Line 5d. Travel and Entertainment

Include on line 5d any of the following:

- 50% of the meals and entertainment not allowed under section 274(n).

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

For more information, see Pub. 542.

Line 7. Tax-Exempt Interest

Include as interest on line 7 any exempt-interest dividends received by the fund as a shareholder in a mutual fund or other regulated investment company.