



# Instructions for Form 1120-F

## U.S. Income Tax Return of a Foreign Corporation

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

### Changes To Note

• The new principal business activity (PBA) codes beginning on page 18 of these instructions are based on the North American Industry Classification System (NAICS), which was developed by the statistical agencies of Canada, Mexico, and the United States in cooperation with the Office of Management and Budget. The NAICS-based codes replace the PBA codes previously based on the Standard Industrial Classification (SIC) system.

The Taxpayer Relief Act of 1997 (The Act) made changes to the tax law for corporations. Some of the changes are discussed below.

- For tax years beginning after December 31, 1997, corporations may be entitled to an increased charitable contribution deduction for gifts of computer technology and equipment to schools. For details, see **Contributions of computer technology and equipment to schools** on page 11.
- Certain corporations may take the qualified zone academy bond credit (section 1397E). For more information, see **Form 8860**, Qualified Zone Academy Bond Credit.
- For tax years beginning after December 31, 1997, the alternative minimum tax has been repealed for corporations that qualify as "small corporations." For more information, see the instructions on page 15 and **Form 4626**, Alternative Minimum Tax—Corporations.
- The Act changed the tax year to which unused general business credits may be carried. Unused general business credits that arise in tax years beginning after 1997 are carried back 1 year and then forward to each of the 20 years following the unused credit year. For more information, see section 39(a).

### How To Get Forms and Publications

**Personal computer.** Access the IRS's Internet web site at **www.irs.ustreas.gov** to do the following:

- Download forms, instructions, and publications.
- See answers to frequently asked tax questions.
- Search publications on-line by topic or keyword.
- Send us comments or request help via e-mail.
- Sign up to receive hot tax issues and news by e-mail from the IRS Digital Dispatch.

You can also reach us using:

- Telnet at **iris.irs.ustreas.gov**
- File transfer protocol at **ftp.irs.ustreas.gov**
- Direct Dial (by modem) at **703-321-8020**.

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

- Current year forms, instructions, and publications.
- Prior year forms and instructions.

• Popular forms that may be filled in electronically, printed out for submission, and saved for recordkeeping.

Buy the CD-ROM on the Internet at **www.irs.ustreas.gov/cdorders** from the National Technical Information Service (NTIS) for \$13 (plus a \$5 handling fee) and save 35%, or call **1-877-CDFORMS** (1-877-233-6767) toll-free to buy the CD-ROM for \$20 (plus a \$5 handling fee).

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

### General Instructions

#### Purpose of Form

Use Form 1120-F to report the income, gains, losses, deductions, credits, and to figure the U.S. income tax liability of a foreign corporation. Also, use Form 1120-F to claim any refund that is due.

#### Who Must File

Unless one of the exceptions in **Who Does Not File Form 1120-F** below applies, every foreign corporation must file Form 1120-F if, during the tax year, it:

- Overpaid income tax that it wants refunded.
- Engaged in a trade or business in the United States, whether or not it had income from that trade or business.
- Had income, gains, or losses treated as if they were effectively connected with that U.S. trade or business. See **Section II** on page 7 for the definition of effectively connected income.
- Had income from any U.S. source (even if its income is tax exempt under an income tax treaty or code section).

Others that must file Form 1120-F:

- A Mexican or Canadian branch of a U.S. mutual life insurance company. The branch must file Form 1120-F on the same basis as a foreign corporation if the U.S. company elects to exclude the branch's income and expenses from its own gross income.
- A receiver, assignee, or trustee in dissolution or bankruptcy, if that person has or holds title to virtually all of a foreign corporation's property or business. Form 1120-F is due whether or not the property or business is being operated.
- An agent in the United States, if the foreign corporation has no office or place of business in the United States when the return is due.

**Treaty Exemption.** If the corporation does not owe any tax because it is claiming a treaty exemption, it must still file Form 1120-F to show that the income was exempted by treaty. However the corporation should only complete the identifying information at the top of page 1 and Item W at the bottom of page 5.

If the foreign corporation does not owe the branch profits tax or the tax on excess interest because it is claiming a treaty exemption, complete Item W and attach a statement explaining why the corporation is a qualified resident or otherwise qualifies for treaty benefits.

**Note:** An exemption from tax under Section 11 based on the permanent establishment article of an income tax treaty does not necessarily exempt the corporation from the branch profits tax.

**Consolidated returns.** A foreign corporation cannot belong to an affiliated group of corporations that files a consolidated return unless it is a Canadian or Mexican corporation maintained solely for complying with the laws of Canada or Mexico for title and operation of property.

#### Who Does Not File Form 1120-F

A foreign corporation does not need to file Form 1120-F if any of the following apply:

- Its only income is not subject to U.S. taxation under section 881(d).
- It is a beneficiary of an estate or trust engaged in a U.S. trade or business, but would itself otherwise not need to file.
- It files **Form 1120-L**, U.S. Life Insurance Company Income Tax Return, as a foreign life insurance company, or **Form 1120-PC**, U.S. Property and Casualty Insurance Company Income Tax Return, as a foreign property and casualty insurance company.
- It did not engage in a U.S. trade or business during the year, and its full U.S. tax was withheld at source.
- It has filed **Form 8279**, Election To Be Treated as a FSC or as a Small FSC, and the election is still in effect. These corporations must file **Form 1120-FSC**, U.S. Income Tax Return of a Foreign Sales Corporation.

#### When To File

##### Foreign Corporation With An Office in The U.S.

A foreign corporation that maintains an office or place of business in the United States must file Form 1120-F by the 15th day of the 3rd month after the end of its tax year, **OR** get an extension of time to file.

**Extension of time to file.** The corporation may **EITHER**:

1. File **Form 7004**, Application for Automatic Extension of Time To File Corporation Income Tax Return, by the 15th day of the 3rd month after the end of its tax year to obtain a 6-month extension.

**Note:** The extension granted by the timely filing of Form 7004 does not extend the time for payment of the tax. If the tax is paid after the 15th day of the 3rd month following the close of the corporation's tax year, the corporation must pay interest on the late payment and is

subject to the penalty for late payment of tax.  
**OR**

2. Get a 3-month extension by attaching to Form 1120-F the statement described in Regulations section 1.6081-5. If additional time is needed beyond the 3 month extension, then file Form 7004 **before** the end of the 3-month extension period to obtain up to an additional 3 months to file. If Form 7004 is not filed by the expiration of the 3-month extension period, and the corporation files its income tax return after such period, it may be liable for the penalty for late filing of return described on page 4. In **no** event may the total extension period exceed 6 months from the original due date of the return (i.e., the return must be filed by the 15th day of the 9th month after the end of its tax year). See Rev. Rul. 93-85, 1993-2 C.B. 297.

**Note:** *The corporation is still required to pay the tax due by the 15th day of the 3rd month after the end of its tax year. If it does not, the corporation must pay the interest on the late payment but is not subject to the penalty for late payment of tax if it pays the tax due by the 15th day of the 6th month after the end of its tax year.*

**Important:** *The options described in 1 and 2 above are mutually exclusive. If a corporation chooses the option described in 1 to extend the time to file, it may **not** later choose the option described in 2.*

### No Office or Place of Business in The U.S.

If the foreign corporation does not maintain an office or place of business in the United States it must:

- File Form 1120-F by the 15th day of the 6th month after the end of its tax year; **OR**
- File Form 7004 to request a 6-month extension of time to file.

**Note:** *The extension does not extend the time for payment of tax. If the tax is paid after the 15th day of the 6th month after the end of its tax year, the corporation must pay interest on the late payment and a penalty for late payment of tax may apply. See **Interest and Penalties** on page 4.*

### Other Filing Requirements

- A new corporation filing a short-period return must generally file by the 15th day of the 3rd month after the short period ends.
- A corporation that has dissolved must generally file by the 15th day of the 3rd month after the date it dissolved.
- If the due date of any filing falls on a Saturday, Sunday, or legal holiday, the corporation may file on the next business day.
- Form 1120-F must be filed on a timely basis and in a true and accurate manner in order for a foreign corporation to take deductions and credits against its effectively connected income. For these purposes, Form 1120-F is generally considered to be timely filed if it is filed no later than 18 months after the due date of the current year's return. An exception may apply to foreign corporations that have yet to file Form 1120-F for the preceding tax year.
- A foreign corporation is allowed the following deductions and credits regardless of whether Form 1120-F is timely filed:

1. The charitable contributions deduction (page 3, Section II, line 19);
  2. The credit from Form 2439 (page 1, line 6f);
  3. The credit for Federal tax on fuels (page 1, line 6g); and
  4. U.S. income tax paid or withheld at source (page 1, line 6h).
- See Regulations section 1.882-4 for details.

### Private Delivery Services

You can use certain private delivery services designated by the IRS to meet the "timely mailing as timely filing/paying" rule for tax returns and payments. The IRS publishes a list of the designated private delivery services in September of each year. The list published in September 1998 includes only the following:

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

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

### Where To File

File Form 1120-F with the Internal Revenue Service Center, 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 corporate officer (such as tax officer) authorized to sign.

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

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

- The paid preparer must complete the required preparer information and—
- Sign the return, by hand, in the space provided for the preparer's signature (signature stamps or labels are not acceptable).
  - Give a copy of the return to the taxpayer.

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

A foreign corporation may have to file some of the following forms. See the forms for more information.

#### Information Returns

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

**Forms 1099-A, B, C, DIV, INT, LTC, MISC, MSA, OID, PATR, R, and S.** Use these forms to report the following:

- Acquisitions and abandonments of secured property through foreclosure;
- Proceeds from broker and barter exchange transactions;
- Cancellation of a debt;
- Certain dividends and distributions;
- Interest income;
- Certain payments made on a per diem basis under a long-term care insurance contract, and certain accelerated death benefits;
- Miscellaneous income (e.g., payments to certain fishing boat crew members, payments

to providers of health and medical services, miscellaneous income payments, and non-employee compensation;

- Distributions from a medical savings account;
- Original issue discount;
- Distributions from cooperatives to their patrons;
- Distributions from retirement or profit-sharing plans, IRAs, SEPs, SIMPLEs, and insurance contracts;
- Proceeds from real estate transactions.

**Form W-2**, Wage and Tax Statement (and **Form W-3**, Transmittal of Wage and Tax Statements), is used to report withheld income, social security, and Medicare taxes for an employee.

**Form 5498**, IRA, SEP or SIMPLE Retirement Plan Information, is used to report contributions (including rollover contributions) to an IRA, SEP or SIMPLE, and the value of an IRA, SEP, or SIMPLE account.

**5498-MSA**, Medical Savings Account Information, is used to report contributions (including rollover contributions) to a medical savings account (MSA).

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

**Note:** *To transmit Forms 1098, 1099, and 5498, get Form 1096, Annual Summary and Transmittal of U.S. Information Returns.*

### Employment Tax Returns

**Form 940** or **Form 940-EZ**, Employer's Annual Federal Unemployment (FUTA) Tax Return, is used to report annual Federal unemployment (FUTA) tax. The tax applies if the corporation **either:**

- Paid wages of \$1,500 or more in any calendar quarter in 1997 or 1998; or
- Had at least one employee who worked for the corporation for some part of a day in any 20 or more different weeks in 1997 or 20 or more different weeks in 1998.

**Form 941**, Employer's Quarterly Federal Tax Return (or, for agricultural employers, **Form 943**, Employer's Annual Tax Return for Agricultural Employees), is filed quarterly by employers to report payroll income tax withheld and employer and employee social security and Medicare taxes. Also, see **Trust fund recovery penalty** on page 4.

**Form 945**, Annual Return of Withheld Federal Income Tax, is filed to report income tax withholding from nonpayroll distributions (e.g., pensions, annuities, IRAs, military retirement, gambling winnings, Indian gaming profits, and backup withholding). Also, see **Trust fund recovery penalty** on page 4.

**Form 720**, Quarterly Federal Excise Tax Return, is used to report and pay:

- The luxury tax on passenger vehicles;
- Environmental excise taxes;
- Communications and air transportation taxes;
- Fuel taxes;
- Manufacturers' taxes;
- Ship passenger taxes; and
- Certain other excise taxes.

### International Forms

**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, are used to report and send withheld tax on payments or distributions made to nonresident alien individuals, foreign partnerships, or foreign corporations. Also, see sections 1441 and

1442, and **Pub. 515**, Withholding of Tax on Nonresident Aliens and Foreign Corporations.

**Form 5471**, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, is filed by certain officers, directors, and shareholders of foreign personal holding companies to report the information required by sections 551(c) and 6035. For more information, see Form 5471 and its instructions.

**Form 5472**, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business, is filed by a foreign corporation engaged in a U.S. trade or business that had certain reportable transactions with a related party. See Form 5472 for filing instructions and information for failure to file and maintain records.

**Form 5713**, International Boycott Report, must be filed if the corporation had operations in or related to a "boycotting" country, company, or national of a country.

**Form 8288**, U.S. Withholding Tax Return for Dispositions by Foreign Persons of U.S. Real Property Interests, and **Form 8288-A**, Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interests. Use these forms to report and transmit withheld tax on the sale of U.S. real property by a foreign person. However, for distributions described in Regulations section 1.1445-8, use Forms 1042 and 1042-S. See section 1445 and the related regulations for additional information.

**Form 8621**, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund, is filed by a corporation that was a shareholder in a passive foreign investment company (under section 1297) at any time during the tax year.

#### Other Forms

**Form 8264**, Application for Registration of a Tax Shelter, is used to apply for a tax shelter registration number (used by tax shelter organizers).

**Form 8271**, Investor Reporting of Tax Shelter Registration Number, is used to report a registered tax shelter's registration number. This form must be filed with any return on which a deduction, loss, credit, or other tax benefit is claimed or reported (or any income is reported) from an interest in a tax shelter. The requirement applies to all returns, including applications for tentative refund (Form 1139) and amended returns.

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

**Form 8594**, Asset Acquisition Statement Under Section 1060, is used to report the purchase or sale of a group of assets that constitute a trade or business if goodwill or going concern value attach to the assets.

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

**Form 8810**, Corporate Passive Activity Loss and Credit Limitations, is used to figure allowable passive activity loss and credit for closely-held or personal service corporations.

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

**Form 8842**, Election to Use Different Annualization Periods for Corporate Estimated Tax, is used to elect one of the annualization periods in section 6655(e)(2) to figure estimated tax payments under the annualized income installment method.

**Form 8849**, Claim for Refund of Excise Taxes, is used to claim a refund of excise taxes reported on Forms 720, 730, or 2290.

**Schedule PH (Form 1120)**, U.S. Personal Holding Company Tax. See **Line 4. Personal Holding Company Tax**, on page 6.

#### Statements

**Stock ownership in foreign corporations.** Attach the statement required by section 551(c) if:

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

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

**Statements instead of schedules.** If the foreign corporation has no gross income for the tax year, do not complete the Form 1120-F schedules. Instead, attach a statement to the return showing the types and amounts of income excluded from gross income.

#### Attachments

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

Complete every applicable entry space on Form 1120-F. 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 on the printed forms. Show the totals on the printed forms. Attach these separate sheets after all the schedules and forms. Be sure to put the corporation's name and EIN on each sheet.

#### Accounting Methods

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

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

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

In all cases, the method used must clearly show taxable income.

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

the accrual method. For exceptions, see section 447.

Under the accrual method, an amount is 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 when:

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

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

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

**Mark-to-market accounting method for dealers in securities.** Generally, dealers in securities must use the mark-to-market accounting method described in section 475. Under this method, any security that is inventory to the dealer must be included in inventory at its fair market value. 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 regulations, and Rev. Rul. 94-7, 1994-1 C.B. 151.

**Note:** *Dealers in commodities and traders in securities and commodities may make the election to use the mark-to-market accounting method. See section 475(e) and (f).*

**Change in accounting method.** Generally, the corporation 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, get **Pub. 538**, Accounting Periods and Methods.

#### Accounting Periods

A corporation must figure its taxable income on the basis of a tax year. The tax year is the annual accounting period the corporation uses to keep its records and report its income and expenses. Generally, corporations can use a calendar year or a fiscal year. Personal service corporations, however, must generally use a calendar year unless they meet one of the exceptions discussed in **Item O—Personal Service Corporation** on page 7. Special rules apply to specified foreign corporations. See **Specified Foreign Corporations** on page 4.

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

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

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

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

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

### Specified Foreign Corporations

The annual accounting period of a specified foreign corporation is generally required to be the tax year of its majority U.S. shareholder. For more information, see section 898.

A specified foreign corporation is any foreign corporation:

- That is treated as a controlled foreign corporation under subpart F (sections 951 through 964), or is a foreign personal holding company (as defined in section 552); and
- In which more than 50% of the total voting power or value of all classes of stock of the corporation is treated as owned by a U.S. shareholder (section 898(b)(2)).

If the specified foreign corporation made an election under section 898(c)(1)(B) or changed its tax year to conform to the tax year required by section 898, see Rev. Proc. 90-26, 1990-1 C.B. 512.

Any specified foreign corporation that wishes to change to any U.S. tax year (or to change to its pre-change year), must get the consent of the IRS using the procedures of section 442 and the related regulations. For more details, see Notice 95-13, 1995-1 C.B. 296.

### Rounding Off to Whole Dollars

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

### Recordkeeping

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

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

### Payment of Tax Due

The requirements for payment of tax depend on whether the foreign corporation has an office or place of business in the United States.

Foreign corporations that **do not** maintain an office or place of business in the United States must pay the tax due (page 1, line 8) in full when they file their tax return, but not later than the 15th day of the 6th month after the end of the tax year.

The tax must be paid directly to the IRS (i.e., do not use the depository method of tax payment described below). The tax may be paid by check or money order, payable to the United States Treasury. To help ensure proper crediting, write the corporation's employer identification number (EIN), "Form 1120-F," and the tax period to which the payment applies on the check or money order. Enclose the payment when the corporation files Form 1120-F with the Internal Revenue Service Center, Philadelphia, PA 19255.

Foreign corporations that **do** maintain an office or place of business in the United States must pay the tax due (page 1, line 8) in full when they file their tax return, but not later than the 15th day of the 3rd month after the end of the tax year.

### Depository Method of Tax Payment

#### Electronic Deposit Requirement

The corporation must make electronic deposits of all depository tax liabilities that occur after 1998 if it:

- Maintains an office or place of business in the U.S.;
- Was required to electronically deposit taxes in prior years;
- Deposited more than \$50,000 in social security, Medicare, railroad retirement, and withheld income taxes in 1997; or
- It **did not** deposit social security, Medicare, railroad retirement, or withheld income taxes in 1997, but it deposited more than \$50,000 in other taxes under section 6302 (such as the corporate income tax) in 1997.

See Regulations section 31.6302-1(h) for more information.

The Electronic Federal Tax Payment System (EFTPS) must be used to make electronic deposits. If the corporation is required to make electronic deposits and fails to do so, it may be subject to a 10% penalty.

**Note:** A penalty will not be imposed prior to July 1, 1999, if the corporation was first required to use EFTPS on or after July 1, 1997.

Corporations that are not required to make electronic deposits may voluntarily participate in EFTPS. To enroll in EFTPS, call 1-800-945-8400 or 1-800-555-4477. For general information about EFTPS, call 1-800-829-1040.

#### Deposits With Form 8109

If the corporation maintains an office or place of business in the United States and does not use EFTPS, deposit corporate 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 depository for Federal taxes or to the Federal Reserve bank (FRB) servicing the corporation's geographic area. Make checks or money orders payable to that depository or FRB. To help ensure proper crediting, write the corporation's EIN, the tax period to which the deposit applies, and "Form 1120-F" 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 depository 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 corporation owes tax when it files Form 1120-F, do not include the payment with the tax return. Instead, mail or deliver the

payment with Form 8109 to a qualified depository or FRB or use EFTPS, if applicable.

### Estimated Tax Payments

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

- The corporation 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.
- Use **Form 1120-W**, Estimated Tax for Corporations, as a worksheet to compute estimated tax.
- If the foreign corporation maintains an office or place of business in the United States, and does not use EFTPS, use the deposit coupons (Forms 8109) to make deposits of estimated tax.

For more information on estimated tax payments, including penalties that apply if the corporation fails to make required payments, see **Line 7. Estimated Tax Penalty** on page 6.

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

### Interest and Penalties

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

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

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

**Trust fund recovery penalty.** This penalty may apply if certain excise, income, social security, and Medicare taxes that must be collected or withheld are not collected or withheld, or these taxes are not paid. These taxes are generally reported on Forms 720, 941, 943, or 945. (See **Other Forms, Returns, Schedules, and Statements That May be Required** on page 2.) The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to have been responsible for collecting, accounting for, and

paying over these taxes, and who acted willfully in not doing so. The penalty is equal to the unpaid trust fund tax. See the instructions for Form 720, **Pub. 15** (Circular E), Employer's Tax Guide, or **Pub. 51** (Circular A), Agricultural Employer's Tax Guide, for details, including the definition of responsible persons.

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

## Claim for Refund or Credit

If a foreign corporation has only income that is not effectively connected with the conduct of a U.S. trade or business and Form 1120-F is being used as a claim for refund or credit of tax paid or withheld at source, attach Form(s) 1042-S, 8805, 8288-A, etc., to the return to verify the amount(s) of withholding credit reported. Include all income from U.S. sources on the return, even though all tax due on it was paid or withheld at source.

If the refund results from tax that was withheld at source, a statement from the payer/withholding agent (or from an intermediate nominee acting on the corporation's behalf as the foreign recipient of the income) may be substituted for Form 1042-S. The statement should show:

- The amount(s) of tax withheld;
- The name(s) and address(es) of the U.S. withholding agent(s);
- The U.S. tax identification number of the U.S. withholding agent;
- The name in which the tax was withheld, if different from the name of the taxpayer claiming the refund or credit; and
- If applicable, enough information to show that the taxpayer was entitled to a reduced tax rate under a treaty.

## Special Rules for Foreign Corporations

### Source Of Income Rules

The source of income is important in determining the extent to which income is taxable to foreign corporations. Each type of income has its own sourcing rules.

### Interest Income

The source of interest income is usually determined by the residence of the obligor.

**Example.** Interest paid by an obligor who is a resident of the United States is U.S. source income, and interest paid by an obligor who is a resident of a country other than the United States is foreign source income.

**Exceptions.** The following types of interest income are treated as foreign source income:

- Interest income received from foreign branches of U.S. banks and savings and loan associations.
- Interest income received from a U.S. corporation or a resident alien individual, if 80% or more of the U.S. corporation's (or resident alien individual's) gross income is active foreign business income during the testing period.

**Active foreign business income** is income from sources outside the United States attributable to the active conduct of a trade or business in a foreign country or U.S. possession.

The **testing period** is generally the 3 tax years of the U.S. corporation or resident alien individual preceding the tax year during which the interest is paid. If the payer existed for fewer than 3 years before the tax year of the

payment, the testing period is the term of the payer's existence before the current year. If the payment is made during the payer's first tax year, that year is the testing period.

• The interest allowable as a deduction to a foreign corporation (under Regulations section 1.882-5) in figuring its effectively connected taxable income is treated as paid by a domestic corporation. This interest is treated as U.S. source interest, although the actual payer of the interest is a foreign corporation. For more details, see **Part II—Tax on Excess Interest** on page 16.

**Look-thru rule.** If the foreign corporation is a related person to a U.S. corporation or resident alien individual that meets the 80% rule described above, the foreign corporation will have foreign source income only when the income of the payer was from foreign sources. See section 861(c)(2)(B) for more information.

### Dividend Income

The source of dividend income is usually determined by the payer.

**Example.** Dividends paid by a corporation that was incorporated in the United States are U.S. source income; and dividends paid by a corporation that was incorporated in a foreign country are foreign source income.

**Exceptions.** Dividends paid by a U.S. corporation are foreign source income:

- If the U.S. corporation has made a valid election under section 936 (or section 30A), relating to certain U.S. corporations operating in a U.S. possession, or
- To the extent the dividends are from qualified export receipts described in section 993(a)(1) (other than interest and gains described in section 995(b)(1)).

Dividends paid by a foreign corporation are U.S. source income:

- If the dividend is treated under section 243(e) as a distribution from the accumulated profits of a predecessor U.S. corporation; or
- To the extent the foreign corporation's effectively connected gross income for the testing period (defined below) bears to all of the foreign corporation's gross income for the testing period, but only if 25% or more of the foreign corporation's gross income during the testing period was effectively connected with the conduct of a U.S. trade or business.

The **testing period** is generally the 3 tax years of the foreign corporation payer preceding the tax year during which it declared the dividend. If the foreign corporation existed for fewer than 3 years before the tax year of declaration, the testing period is the term of the foreign corporation's existence before the current year. If the foreign corporation declared the dividend in its first tax year, that year is the testing period. Regardless of source, however, there is no tax imposed on any dividends paid by a foreign corporation out of earnings and profits for a tax year in which the foreign corporation was subject to the branch profits tax (determined after application of any income tax treaty).

### Rent and Royalty Income

The source of rent and royalty income for the use of property is determined based on where the property is located.

### Income From the Sale or Exchange of Real Estate

The source of this income is determined based on where the property is located.

### Income From the Sale or Exchange of Personal Property

Income from the sale of personal property by a foreign corporation is sourced as follows:

- Income from the purchase and sale of inventory property is generally sourced under sections 861(a)(6) and 862(a)(6);
- Income from the production and sale of inventory property is generally sourced under section 863(b)(2);
- Income from the sale of depreciable property is generally sourced under section 865(c); and
- Income from the sale of intangibles is generally sourced under section 865(d).

### Foreign corporations with an office or fixed place of business in the United States.

Income from the sale of personal property attributable to such office or fixed place of business is U.S. source income regardless of any of the above rules relating to the source of income from the sale or exchange of personal property unless the foreign corporation is an export trade corporation (see sections 865(e)(2)(A) and 971).

**Exception.** Income from the sale of inventory property is foreign source income if the goods were sold for use, disposition, or consumption outside the United States and a foreign office of the corporation materially participated in the sale.

## Other Special Rules

### Basis of Property and Inventory Costs for Property Imported by a Related Person

If property is imported into the United States by a related person in a transaction and the property has a customs value, the basis or inventory cost to the importer cannot exceed the customs value. For more information, see section 1059A.

### Income of Foreign Governments and International Organizations

Income of foreign governments and international organizations from the following sources is generally not subject to taxation:

- Investments in the United States in stocks, bonds, or other domestic securities owned by such foreign government or international organization.
- Interest on deposits in banks in the United States of money belonging to such foreign government or international organization.
- Investments in the United States in financial instruments held (by a foreign government) in executing governmental financial or monetary policy.

**Note:** *The income described in section 892(a)(2) that is received directly or indirectly from commercial activities is subject to tax. (It is also subject to withholding.)*

## Specific Instructions

### Period Covered

File the 1998 return for calendar year 1998 and fiscal years that begin in 1998 and end in 1999. For a fiscal year, fill in the tax year space at the top of the form.

**Note:** *The 1998 Form 1120-F may also be used if:*

- *The corporation has a tax year of less than 12 months that begins and ends in 1999, and*
- *The 1999 Form 1120-F is not yet available at the time the corporation is required to file its return.*

*The corporation must show its 1999 tax year on the 1998 Form 1120-F and incorporate any tax law changes that are effective for tax years beginning after December 31, 1998.*

## Address

Include the suite, room, or other unit number after the street address. If a preaddressed label is used, include this information on the label. If the Post Office does not deliver mail to the street address and the corporation has a P.O. box, show the box number instead of the street address.

If a foreign address, enter the information in the following order: city, province or state, and country. Follow the country's practice for entering the postal Code. Please **do not** abbreviate the country's name.

If the corporation's address has changed from the last time Form 1120-F was filed, check the box at the top of page 1.

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

## Employer Identification Number (EIN)

Show the corporation's correct EIN. If the corporation does not have an EIN, it should apply for one on **Form SS-4**, Application for Employer Identification Number. Form SS-4 can be obtained at Social Security Administration (SSA) offices or by calling 1-800-TAX-FORM. If the corporation has not received its EIN by the time the return is due, write "Applied for" in the space for the EIN. See Pub. 583 for details.

## Computation of Tax Due or Overpayment

### Line 4. Personal Holding Company Tax

If the corporation is a personal holding company (as defined in section 542) but **not** a foreign personal holding company, it must file Schedule PH (Form 1120) with Form 1120-F and report the personal holding company tax on line 4. See section 542 and Schedule PH (Form 1120) for details.

### Line 6b. Estimated Tax Payments

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

**Beneficiaries of trusts.** If the corporation is the beneficiary of a trust, and the trust makes a section 643(g) election to credit its estimated tax payments to its beneficiaries, include the corporation's share of the payment in the total for line 6b. Write "T" and the amount on the dotted line next to the entry space.

### Line 6f. Credit for Tax Paid on Undistributed Capital Gains

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

### Line 6g. Credit for Federal Tax on Fuels

Complete Form 4136 if the corporation qualifies to take this credit.

### Credit for ozone-depleting chemicals.

Include on line 6g any credit the corporation is claiming under section 4682(g)(2) for tax paid on ozone-depleting chemicals. Write "ODC" on the dotted line to the left of the entry space.

## Line 6i. Total Payments

**Backup withholding.** If the corporation had income tax withheld from any payments it received, because, for example, it failed to give the payer its correct EIN, include the amount withheld in the total for line 6i. This type of withholding is called backup withholding. Show the amount withheld in the blank space in the right-hand column between lines 5 and 6i, and write "backup withholding."

## Line 7. Estimated Tax Penalty

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

- 100% of its tax liability for 1998, or
- 100% of its prior year's tax.

See section 6655 for details and exceptions, including special rules for large corporations.

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

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

If you attach Form 2220, check the box on line 7 of Form 1120-F and enter any penalty on this line.

## Section I.—Certain Gains, Profits, and Income From U.S. Sources That Are NOT Effectively Connected With the Conduct of a Trade or Business in the United States

Include in Section I amounts received by the foreign corporation that meet **all** of the following conditions:

- The amount received is fixed or determinable, annual or periodic (FDAP). See examples below.
- The amount received is **includible** in the gross income of the foreign corporation.
- The amount received is from U.S. sources (see **Source of Income Rules** on page 5).
- The amount received is not effectively connected with the conduct of a U.S. trade or business. See **Section II** on page 7.
- The amount received is not exempt from taxation.

For more information, see section 881(a) and Regulations section 1.881-2.

**Amounts fixed or determinable, annual or periodic** include:

1. Interest (other than original issue discount (OID) as defined in section 1273), dividends, rents, royalties, salaries, wages, premiums, annuities, compensation, and other FDAP gains, profits, and income.
2. Gains described in section 631(b) or (c), relating to disposal of timber, coal, or domestic iron ore with a retained economic interest.
3. On a sale or exchange of an OID obligation, the amount of the OID accruing

while the obligation was held by the foreign corporation, unless this amount was taken into account on a payment.

4. On a payment received on an OID obligation, the amount of the OID accruing while the obligation was held by the foreign corporation, if such OID was not previously taken into account and if the tax imposed on the OID does not exceed the payment received less the tax imposed on any interest included in the payment received. This rule applies to payments received for OID obligations issued after March 31, 1972.

5. Gains from the sale or exchange of patents, copyrights, and other intangible property if the gains are from payments that are contingent on the productivity, use, or disposition of the property or interest sold or exchanged.

For rules that apply to other OID obligations, see **Pub. 515**, Withholding of Tax on Nonresident Aliens and Foreign Corporations.

**Note:** *Certain portfolio interest and OID are not taxable for obligations issued after July 18, 1984. See section 881(c) for more details.*

**Important:** *For purposes of determining whether its income is taxable under section 881(a), a corporation created or organized in Guam, American Samoa, the Northern Mariana Islands, or the U.S. Virgin Islands will not be treated as a foreign corporation if it meets the rules of section 881(b).*

## Line 9. Gross Transportation Income

A 4% tax is imposed on a foreign corporation's U.S. source gross transportation income for the tax year. U.S. source gross transportation income generally is any gross income that is transportation income if such income is treated as from U.S. sources.

Transportation income is any income from or connected with:

- The use (or hiring or leasing for use) of a vessel or aircraft, or
- The performance of services directly related to the use of a vessel or aircraft. (The term "vessel or aircraft" includes any container used in connection with a vessel or aircraft.)

Generally, 50% of all transportation income that is attributable to transportation that either begins or ends in the United States is treated as from U.S. sources. See section 863(c)(2)(B) for a special rule for personal service income.

U.S. source gross transportation income does **not** include income that is:

- Effectively connected with the conduct of a U.S. trade or business, or
- Taxable in a possession of the United States under the provisions of the Internal Revenue Code as applied to that possession.

Transportation income of the corporation will not be treated as effectively connected income unless:

- The corporation has a fixed place of business in the United States involved in the earning of transportation income, and
- Substantially all of the corporation's U.S. source gross transportation income (determined without regard to the rule that such income does not include effectively connected income) is attributable to regularly scheduled transportation (or, in the case of income from the leasing of a vessel or aircraft, is attributable to a fixed place of business in the United States).

For more information, see section 887.

Enter the foreign corporation's U.S. source gross transportation income on line 9, column (b). Also, attach a statement showing the dates the vessels or aircraft entered or left the United States and the amount of gross income for each trip.

## Additional Information Required

Be sure to complete all items on page 2 that apply to the corporation.

### Item O—Personal Service Corporation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Other rules.** For other rules that apply to personal service corporations, see **Passive activity limitations** on page 9 and **Contributions of property other than cash** on page 10.

### Item P

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

### Item R

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

### Item S

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 1998. Do not reduce the amount by any NOL deduction reported on page 3, Section II, line 30a.

**Pub. 536**, Net Operating Losses, has a worksheet for figuring a corporation's NOL carryover.

### Item T

Check the "Yes" box if the corporation is a subsidiary in a parent-subsidiary controlled group. The "Yes" box must be checked even if the corporation is a subsidiary member of one group and the parent corporation of another.

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

A **parent-subsidiary controlled group** is 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 the stock ownership above.

## Section II.—Income Effectively Connected With the Conduct of a Trade or Business in the United States

### Foreign Corporations Engaged in a U.S. Trade or Business

These corporations are taxed on their effectively connected income using the same graduated tax rate schedule (see page 14) that applies to domestic corporations. Effectively connected income can be U.S. source or foreign source.

### U.S. Source Effectively Connected Income

Fixed or determinable, annual or periodic (FDAP) items are generally effectively connected income (and are therefore includible in Section II) if one or both of the following tests is met.

**Asset-use test.** The FDAP items are from assets used in, or held for use in, the conduct of U.S. trade or business. For example, the following items are effectively connected income:

- Income earned on a trade or note receivable acquired in the conduct of the U.S. trade or business.
- Interest income earned from the temporary investment of funds needed in the foreign corporation's U.S. trade or business.

**Business-activities test.** The activities of the U.S. trade or business were a material factor in the realization of the FDAP items.

If neither test is met, FDAP items are generally not effectively connected income (and are therefore includible in Section I instead of Section II).

For more information, see section 864(c)(2) and the examples in Regulations section 1.864-4(c).

U.S. source income other than FDAP items is effectively connected income.

### Foreign Source Effectively Connected Income

Foreign source income is generally not effectively connected income. However, if the foreign corporation has an office or other fixed place of business in the United States, the following types of foreign source income it receives from that U.S. office are effectively connected income:

- Rents or royalties received for the use outside the United States of intangible personal property described in section 862(a)(4) if from the active conduct of a U.S. trade or business;
- Dividends or interest from foreign sources if from the active conduct of a U.S. banking, financing, or similar business, OR if the principal business of the foreign corporation is trading in stocks or securities for its own account; or
- Income from the sale or exchange of inventory outside the United States through the U.S. office, unless the property is sold or exchanged for use, consumption, or disposition outside the United States and an office of the foreign corporation in a foreign country materially participated in the sale.

See section 864(c)(5)(A) and Regulations section 1.864-7 for definition of office or other fixed place of business in the United States. See sections 864(c)(5)(B) and (C) and Regulations section 1.864-6 for special rules for determining when foreign source income received by a foreign corporation is from an office or other fixed place of business in the United States.

**Foreign insurance companies.** Foreign source income of a foreign insurance company that is attributable to its U.S. trade or business is effectively connected income.

**Exceptions.** Foreign source income that would otherwise be effectively connected income under any of the above rules for foreign source income is excluded if:

- It is foreign source dividends, interest, or royalties paid by a foreign corporation in which the taxpayer owns or is considered to own (within the meaning of section 958) 50% or more of the total combined voting power of all classes of stock entitled to vote; or
- The taxpayer is a controlled foreign corporation (as defined in section 957) and the foreign source income is subpart F income (as defined in section 952).

For more information, see section 864(c)(4) and Regulations section 1.864-5.

### Foreign Corporations NOT Engaged in a U.S. Trade or Business

Report income in Section II only if these corporations:

- Had current year income or gain from a sale or exchange of property or from performing services (or any other transaction) in any other tax year and would have been effectively connected income in that other tax year (see section 864(c)(6));
- Had current year income or gain from a disposition of property that is no longer used or held for use in conducting a U.S. trade or business within the 10-year period before the disposition and would have been effectively connected income immediately before such cessation (see section 864(c)(7));
- Elected to treat real property income as effectively connected income (see below);
- Were created or organized and are conducting a banking business in a U.S. possession, and receive interest on U.S. obligations that is not portfolio interest (see section 882(e)); or
- Had gain or loss from disposing of a U.S. real property interest (see below).

### Election to Treat Real Property Income as Effectively Connected Income

A foreign corporation that receives, during the tax year, any income from real property located in the United States, or from any interest in such real property, may elect, for the tax year, to treat all such income as effectively connected income. Income to which this election applies includes:

- Gains from the sale or exchange of real property or an interest therein;
- Rents or royalties from mines, wells, or other natural deposits; and
- Gain described in sections 631(b) or (c).

The election may be made whether or not the corporation is engaged in a U.S. trade or business during the tax year for which the election is made or whether or not the corporation has income from real property that, for the tax year, is effectively connected with the conduct of a U.S. trade or business.

To make the election:

- Figure the tax on this income in Section II.
- Attach a statement that includes the information required in Regulations section 1.871-10(d)(1)(ii) to Form 1120-F for the first tax year for which the election is to apply.

### Disposition of U.S. Real Property Interest by a Foreign Corporation

A foreign corporation that disposes of a U.S. real property interest (as defined in section 897(c)) must treat the gain or loss from the

disposition as effectively connected income, even if the corporation is not engaged in a U.S. trade or business. Figure this gain or loss on **Schedule D (Form 1120)**, Capital Gains and Losses. Carry the result to Section II, line 8, on page 3 of Form 1120-F.

A foreign corporation may elect to be treated as a domestic corporation for purposes of sections 897 and 1445. See sections 897(i) and 882(d).

See Temporary Regulations section 1.897-5T for the applicability of section 897 to reorganizations and liquidations.

If the corporation had income tax withheld on **Form 8288-A**, Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interests, include the amount withheld in line 6h, page 1.

## Income

### Line 1. Gross Receipts

Enter gross income effectively connected with the conduct of a U.S. trade or business (except those income items that must be reported on lines 4 through 10). For reporting advance payments, see Regulations section 1.451-5. To report income from long-term contracts, see section 460.

**Installment sales.** Generally, the installment method cannot be used for dealer dispositions of property. A "dealer disposition" means any disposition of personal property by a person who regularly sells or otherwise disposes of property of the same type on the installment plan. The disposition of property used or produced in the farming business is not included as a dealer disposition. See section 453(l) for details and exceptions.

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

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

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

For sales of timeshares and residential lots reported under the installment method, the corporation's income tax is increased by the interest payable under section 453(l)(3). To report this addition to the tax, see the instructions for Schedule J, line 11 on page 15.

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

### Line 2. Cost of Goods Sold

See the instructions for Schedule A on page 12.

### Line 4. Dividends

See instructions for Schedule C beginning on page 12.

### 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.

### Line 6. Gross Rents

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

### Line 8. Capital Gain Net Income

Every sale or exchange of a capital asset must be reported in detail on **Schedule D (Form 1120)**, Capital Gains and Losses, even though no gain or loss is indicated. In computing the adjustments to the accumulated earnings tax under section 535(b)(6), foreign corporations must only include capital gains and losses that are effectively connected with a U.S. trade or business.

### Line 10. Other Income

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

- Any adjustment under section 481(a) required to be included in income during the current tax year due to a change in a method of accounting.
- Recoveries of bad debts deducted in prior years under the specific charge-off method.
- The credit for alcohol used as fuel (determined regardless of the limitation based on tax) that was entered on **Form 6478**, Credit for Alcohol Used as Fuel.
- Refunds of taxes deducted in prior years if they reduced income subject to tax in the year deducted (see section 111). Do not offset current year taxes against tax refunds.
- The amount of any deduction previously taken under section 179A that is subject to recapture. The corporation must recapture the benefit of any allowable deduction for clean-fuel vehicle property (or clean-fuel vehicle refueling property), if the property later ceases to qualify. See Regulations section 1.179A-1 for details.
- Ordinary income from trade or business activities of a partnership (from Schedule K-1 (Form 1065), line 1).

## Deductions

**Important.** In computing the taxable income of a foreign corporation engaged in a U.S. trade or business, deductions are allowed only if they are connected with income effectively connected with the conduct of a trade or business in the United States. Charitable contributions, however, may be deducted whether or not they are so connected. See section 882(c) and Regulations section 1.882-4(b) for more information.

### Apportionment of Expenses

Expenses that are directly related to a class of gross income (including tax-exempt income) must be allocated to that class of gross income. Expenses not directly related to a class of



gross income should be allocated to all classes of income based on the ratio of gross income in each class of income to total gross income, or some other ratio that clearly relates to the classes of income. See Regulations section 1.861-8 and Temporary Regulations section 1.861-8T for more information.

Attach a schedule showing each class of gross income, and the expenses directly allocable to each class. For expenses that are not directly allocable to a class of gross income, show the computation of the expense allocated to each class.

### Limitations on Deductions

#### Section 263A uniform capitalization rules.

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

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

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

Corporations subject to these rules are required to capitalize not only direct costs but an allocable portion of most indirect costs (including taxes) that benefit the assets produced or acquired for resale. See Regulations section 1.263A-1(e) for indirect expenses that must be capitalized and those that may be currently deductible.

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

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

**Exceptions.** Section 263A **does not** apply to:

- Personal property acquired for resale if the corporation's annual average gross receipts for the 3 prior tax years are \$10 million or less;
- Timber;
- Most property produced under a long-term contract;
- Certain property produced in a farming business;
- Research and experimental costs under section 174;
- Intangible drilling costs for oil, gas, and geothermal property;
- Mining exploration and developmental costs.

For more details on the uniform capitalization rules, see Regulations sections 1.263A-1 through 1.263A-3.

#### Transactions between related taxpayers.

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

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

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

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

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

Generally, two kinds of passive activities are:

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

For exceptions, see Form 8810.

An activity is a trade or business activity if the activity is not a rental activity, and involves:

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

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

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

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

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

#### Reducing certain expenses for which credits are allowable.

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

- Work opportunity credit.
- Research credit.
- Enhanced oil recovery credit.
- Disabled access credit.
- Empowerment zone employment credit.
- Indian employment credit.
- Employer credit for social security and Medicare taxes paid on certain employee tips.
- Orphan drug credit.

- Welfare-to-work credit.

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

### Line 12. Compensation of Officers

Complete Schedule E if total receipts (line 1a, plus lines 4 through 10, on page 3 of Form 1120-F) are \$500,000 or more. Do not include compensation claimed 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 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 line 1, columns (a) through (f), for all officers. The corporation determines who is an officer under the laws where incorporated.

#### Disallowance of deduction for employee compensation in excess of \$1 million.

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

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

For this purpose, compensation does not include the following:

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

The deduction limit does not apply to:

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

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

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

### Line 13. Salaries and Wages

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

- Work opportunity credit from Form 5884,
- Empowerment zone credit from Form 8844,
- Indian employment credit from Form 8845, and
- Welfare-to-work credit from Form 8861.

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

**Caution:** If the corporation provided taxable fringe benefits to its employees, such as personal use of a car, do not deduct as wages the amount allocated for depreciation and other expenses claimed on lines 20 and 27.

#### Line 14. Repairs and Maintenance

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

#### Line 15. Bad Debts

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

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

#### Line 16. Rents

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

**And the vehicle's fair market value on the first**

**The lease term began: day of the lease exceeded:**

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

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

#### Line 17. Taxes and Licenses

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

- Federal income taxes.
- Foreign or U.S. possession income taxes if a tax credit is claimed.
- Taxes not imposed on the corporation.
- Taxes, including state or local sales taxes, that are paid or incurred in acquiring or disposing of property (these taxes must be treated as a part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition).
- Taxes assessed against local benefits that increase the value of the property assessed (such as for paving, etc.).
- Taxes deducted elsewhere on the return, such as those reflected in cost of goods sold.

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

See section 906(b)(1) for rules concerning certain foreign taxes imposed on income from U.S. sources that may not be deducted or credited.

#### Line 18. Interest

**Important:** In determining the amount of interest expense disallowed under section 265 or 163(j), deferred under section 163(e) or 267(a)(3), or capitalized under section 263A from a U.S. trade or business, take into account only the amount of interest expense

allocable to effectively connected income under Regulations section 1.882-5.

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

All foreign corporations (including corporations that are residents of countries with which the U.S. has an income tax treaty) must use the 3-step process described in Regulations 1.882-5 to allocate interest. In addition, all corporations must attach a schedule showing how the deduction was determined, using the exclusive rules outlined in the regulations.

The interest expense allocable to effectively connected income is the sum of:

- The interest paid or accrued by the foreign corporation on its liabilities booked in the U.S., adjusted under the 3-step process described in Regulations section 1.882-5; and
- Any interest directly allocated to income from an asset (see Regulations section 1.882-5(a)(1)(ii)).

In determining the amount of interest expense allocable to effectively connected income (Step 3 of the process), the corporation may use either:

- The adjusted booked liabilities method (Regulations section 1.882-5(d)), or
- The separate currency pools method (Regulations section 1.882-5(e)).

Generally, once a method is elected, it must be used for a consecutive 5-year period. Indicate the method used.

If the separate currency pool method is used, attach a schedule showing the following:

1. The currency denomination of each currency pool in which U.S. assets are denominated;
2. The amount of U.S.-connected liabilities in each currency pool; and
3. The average rate of interest paid on liabilities by all branches and offices of the foreign corporation world-wide in each currency pool. The corporation may convert any currency pool in which it holds less than 3% of its U.S. assets for the year in U.S. dollars, and apply the U.S. dollar interest rate. See Regulations 1.882-5(e).

#### Line 19. Charitable Contributions

**Note:** This deduction is allowed for all contributions, whether or not connected with income that is effectively connected with the conduct of a trade or business in the United States (see section 882(c)(1)(B)).

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

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

**Limitation on deduction.** The total amount claimed may not exceed 10% of taxable income (Section II, line 31) computed without regard to the following:

- Any deduction for contributions;
- The special deductions on line 30b;

- The deduction allowed under section 249;
- Any net operating loss (NOL) carryback to the tax year under section 172; and
- Any capital loss carryback to the tax year under section 1212(a)(1).

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

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

To figure the amount of any remaining NOL carryover to later years, taxable income must be modified (see section 172(b)). To the extent that contributions are used to reduce taxable income for this purpose and increase an NOL carryover, a contributions carryover is not allowed. See section 170(d)(2)(B).

**Substantiation requirements.** Generally, no deduction is allowed for any contribution of \$250 or more unless the corporation gets a written acknowledgment from the donee organization that shows the amount of cash contributed, describes any property contributed, and gives a description and a good faith estimate of the value of any goods or services provided in return for the contribution. The acknowledgment must be obtained by the due date (including extensions) of the corporation's return, or if earlier, the date the return is filed. Do not attach the acknowledgment to the tax return, but keep it with the corporation's records. These rules apply in addition to the filing requirements for Form 8283 described below.

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

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

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

#### Contributions of property other than cash.

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

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

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

- The ordinary income, short-term capital gain that would have resulted if the property were sold at its fair market value; and
- For certain contributions, all of the long-term capital gain that would have resulted if the property were sold at its fair market value.

The reduction for the long-term capital gain applies to:

- Contributions of tangible personal property for use by an exempt organization for a purpose or function unrelated to the basis for its exemption; and
- Contributions of any property to or for the use of certain private foundations, except for stock for which market quotations are readily available (section 170(e)(5)).

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

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

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

- It is made to an eligible donee (see section 170(e)(6)(B));
- Substantially all of the donee property use is related to the purpose or function of the donee and the use is in the United States for grade K through 12 educational purposes;
- The contribution is made not later than two years after the date the taxpayer acquired or substantially completed the construction of the property;
- The original use of the property is by the donor or the donee;
- The property is not transferred by the donee for money, services, or other property, except for shipping, transfer, and installation costs; and
- The property fits productively into the donee's education plans.

**Note:** *Contributions of computer technology or equipment to private foundations may be treated as qualified elementary or secondary educational contributions if certain requirements are met. See section 170(e)(6)(C).*

#### Line 20. Depreciation

In addition to depreciation, include on line 20 the part of the cost that the corporation elected to expense under section 179 for certain tangible property placed in service during tax year 1998, or carried over from 1997. See **Form 4562**, Depreciation and Amortization, and its instructions.

#### Line 23. Depletion

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

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

Foreign intangible drilling costs and foreign exploration and development costs must either be added to the corporation's basis for cost

depletion purposes or be deducted ratably over a 10-year period. See sections 263(i), 616, and 617 for details.

#### Line 25. Pension, Profit-sharing, etc., Plans

Enter the deduction for contributions to qualified pension, profit-sharing, or other funded deferred compensation plans. Employers who maintain such a plan generally must file one of the forms listed below, even if the plan is not a qualified plan under the Internal Revenue Code. The filing requirement applies even if the corporation does not claim a deduction for the current tax year. There are penalties for failure to file these forms on time and for overstating the pension plan deduction. For more information, 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" means a plan that covers the owner and his or her spouse, or a plan that cover partners in a business partnership (or the partners and their spouses).

#### Line 26. Employee Benefit Programs

Enter contributions to employee benefit programs not claimed elsewhere on the return (e.g., insurance, health, and welfare programs, etc.) that are not an incidental part of a pension, profit-sharing, etc., plan included on line 25.

#### Line 27. Other Deductions

**Note:** *Do not deduct fines and 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-F.

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.

Examples of amounts to include are:

- The deduction for amortization of pollution control facilities, organization expenses, etc. See Form 4562.
- Ordinary losses from trade or business activities of a partnership (from Schedule K-1 (Form 1065), line 1).
- Dividends paid in cash on stock held by an employee stock ownership plan. However, a deduction may only be taken if, according to the plan, the dividends are:
  1. Paid in cash directly to the plan participants or beneficiaries;
  2. Paid to the plan, which distributes them in cash to the plan participants or their beneficiaries, no later than 90 days after the end of the plan year in which the dividends are paid; or
  3. Used to make payments on a loan described in section 404(a)(9). See section 404(k) for more details and the limitation on certain dividends.

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

**Travel.** The corporation cannot deduct travel expenses of any individual accompanying a corporate officer or employee,

including a spouse or dependent of the officer or employee, unless:

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

**Meals and entertainment.** Generally, the corporation can deduct only 50% of the amount otherwise allowable for meals and entertainment expenses paid or incurred in its trade or business. In addition (subject to exceptions under section 274(k)(2)):

- Meals must not be lavish or extravagant;
- A bona fide business discussion must occur during, immediately before, or immediately after the meal; and
- An employee of the corporation must be present at the meal.

**Membership dues.** Corporations may deduct amounts paid or incurred for membership dues in civic or public service organizations, professional organizations (such as bar and medical associations), business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards. However, no deduction is allowed if a principal purpose of the organization is to entertain, or provide entertainment facilities for members or their guests. In addition, corporations may not deduct membership dues in any club organized for business, pleasure, recreation, or other social purpose. This includes country clubs, golf and athletic clubs, airline and hotel clubs, and clubs operated to provide meals under conditions favorable to business discussion.

**Entertainment facilities.** The corporation cannot deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) used for an activity usually considered amusement, entertainment, or recreation.

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

**Deduction for clean-fuel vehicles and certain refueling property.** Section 179A allows a deduction for part of the cost of qualified clean-fuel vehicle property and qualified clean-fuel vehicle refueling property placed in service during the tax year. For more information, see Pub. 535.

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

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

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

#### Line 29. Taxable Income Before NOL Deduction and Special Deductions

**At-risk rules.** Generally, special at-risk rules under section 465 apply to closely held corporations (see **Passive activity limitations** on page 9) engaged in any activity as a trade

or business, or for the production of income. These corporations may have to adjust the amount on line 29.

But the at-risk rules do not apply to:

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

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

If the at-risk rules apply, adjust the amount on line 29 for any section 465(d) losses. These losses are limited to the amount for which the corporation is at risk for each separate activity at the close of the tax year. If the corporation is involved in one or more activities, any of which incurs a loss for the year, report the loss for each activity separately. Attach **Form 6198**, At-Risk Limitations, showing the amount at risk and gross income and deductions for the activities with the losses.

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

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

#### Line 30a. Net Operating Loss Deduction

A corporation may use the net operating loss (NOL) incurred in one tax year to reduce its taxable income in another year. Generally, a corporation may carry an NOL back to each of the 2 years (3 years for NOLs incurred in tax years beginning before August 6, 1997), preceding the year of the loss and then carry any remaining amount over to each of the 20 years (15 years for NOLs incurred in tax years beginning before August 6, 1997), following the year of the loss (but see **Exceptions to carryback rules** below). Enter on line 30a the total NOL carryovers from prior tax years, but do not enter more than the corporation's taxable income (after special deductions). An NOL deduction cannot be taken in a year in which the corporation has a negative taxable income. Attach a schedule showing the computation of the NOL deduction. Also complete Item S at the bottom of page 2 of the form.

For more information, get Pub. 536.

**Carryback and carryover rules.** Generally, an NOL first must be carried back to the second tax year (third tax year for NOLs incurred in tax years beginning before August 6, 1997), preceding the year of the loss. To carry back the loss and obtain a refund of taxes, use **Form 1139**, Corporation Application for Tentative Refund. Form 1139 must be filed within 12 months after the close of the tax year of the loss. See section 6411 for details. For carryback claims filed later than 12 months after the close of the tax year of the loss, file an amended Form 1120-F instead of Form 1139.

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

Special rules apply when an ownership change occurs (i.e., the amount of the taxable income of a loss corporation that can be offset

by pre-change NOL carryovers is limited). See section 382 and the related regulations. Also see Temporary Regulations section 1.382-2T(a)(2)(ii), which requires that a loss corporation file an information statement with its income tax return for each tax year that it is a loss corporation and certain shifts in ownership occurred. See Regulations section 1.382-6(b) for details on how to make the closing-of-the-books election.

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

**Note:** See section 383 and the related regulations for limits that apply to net capital losses and credits when an ownership change occurs.

**Exceptions to carryback rules.** A corporation may make an irrevocable election to forego the carryback period and instead carry the NOL forward to years following the year of the loss. To make this election, check the box in Item R at the bottom of page 2 of the form. The return must be timely filed (including extensions).

Different carryback periods apply for certain losses. The part of an NOL that is from a specified liability loss, including a product liability loss, may be carried back 10 years (section 172(b)(1)(C)). See Regulations section 1.172-13(c) for the statement that must be attached to Form 1120-F if the corporation is claiming the 10-year carryback period for a product liability loss.

Special rules apply to the carryback of losses that are attributable to interest paid in connection with corporate equity reduction transactions. See section 172(b)(1)(E).

Personal service corporations may not carry back an NOL to or from any tax year to which a section 444 election applies.

#### Line 30b. Special Deductions

See the instructions for Schedule C.

### Schedule A—Cost of Goods Sold

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. If inventories are not used, enter zero on lines 1 and 7 of Schedule A.

See **Section 263A uniform capitalization rules** on page 9 before completing Schedule A.

**Line 4. Additional section 263A costs.** An entry is required on this line only for corporations that have elected a simplified method of accounting.

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

For corporations that have elected the **simplified resale method**, additional section 263A costs are generally those costs incurred for the following categories:

- Off-site storage or warehousing;
- Purchasing;
- Handling, processing, assembly, and repackaging; and
- General and administrative costs (mixed service costs).

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

Enter on line 4 the balance of section 263A costs paid or incurred during the tax year not included on lines 2, 3, and 5.

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

**Line 7. Inventory at end of year.** See Regulations section 1.263A-1 through 1.263A-3 for details on figuring the amount of additional section 263A costs to be included in ending inventory.

**Line 9a. 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 average cost (rolling average) method of valuing inventories generally does not conform to the requirements of the regulations. See Rev. Rul. 71-234, 1971-1 C.B. 148.

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

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

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

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

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

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

### Schedule C—Dividends and Special Deductions

For purposes of the 20% ownership test on lines 1 through 7, the percentage of stock owned by the corporation is based on voting power and value of the stock. Preferred stock described in section 1504(a)(4) is not taken into account.

**Line 1, Column (a)**

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

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

Include taxable distributions from an IC-DISC or former DISC that are designated as eligible for the 70% deduction and certain dividends of Federal Home Loan Banks. See section 246(a)(2).

Also include on line 1 dividends (except those received on debt-financed stock acquired after July 18, 1984) from a regulated investment company (RIC). The amount of dividends eligible for the dividends-received deduction under section 243 is limited by section 854(b). The corporation should receive a notice from the RIC specifying the amount of dividends that qualify for the deduction.

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

**Line 2, Column (a)**

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

**Line 3, Column (a)**

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

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

**Line 3, Columns (b) and (c)**

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

**Line 4, Column (a)**

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

**Line 5, Column (a)**

Enter dividends received on preferred stock of a 20%-or-more-owned public utility that is

subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

**Line 6, Column (a)**

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

- Are received from less-than-20%- owned foreign corporations, and
- Qualify for the 70% deduction under section 245(a). To qualify for the 70% deduction, the corporation must own at least 10% of the stock of the foreign corporation by vote and value.

**Line 7, Column (a)**

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

**Line 8, Column (c)**

**Limitation on dividends-received deduction.** Generally, line 8, column (c) may not exceed the amount from the worksheet on page 14. However, in a year in which an NOL occurs, this limitation does not apply even if the loss is created by the dividends-received deduction. See sections 172(d) and 246(b).

**Line 9, Column (a)**

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

**Line 10, Column (a)**

If the corporation claims the foreign tax credit, enter the tax that is deemed paid under sections 902 and 960. See sections 78 and 906(b)(4).

**Line 11, Column (a)**

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

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

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

**Line 12, Column (a)**

Include the following:

- Dividends (other than capital gain dividends and exempt-interest dividends) that are received from regulated investment companies and that are not subject to the 70% deduction.
- Dividends from tax-exempt organizations.
- Dividends (other than capital gain dividends) received from a real estate investment trust that qualifies, for the tax year of the trust in which the dividends are paid, under sections 856 through 860.
- Dividends not eligible for a dividends-received deduction because of the holding period of the stock or an obligation to make corresponding payments for similar stock.

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

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

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

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

If patronage dividends or per-unit retain allocations are included on line 12, identify the total of these amounts in a schedule and attach it to Form 1120-F.

**Line 13, Column (c)**

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

- Dividends paid on their preferred stock during the tax year, or
- Taxable income computed without regard to this deduction.

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

**Schedule J—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.

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

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

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

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

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

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

**Worksheet for Schedule C, Line 8**

(Keep for your records.)

1. Refigure Section II, line 29 without any adjustment under section 1059 and without any capital loss carryback to the tax year under section 1212(a)(1) . . . . . \_\_\_\_\_
2. Multiply line 1 by 80% . . . . . \_\_\_\_\_
3. Add lines 2, 5, and 7, 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 . . . . . \_\_\_\_\_
4. Enter the smaller of line 2 or line 3. If line 3 is greater than line 2, stop here; enter the amount from line 4 on line 8, column (c), and do not complete the rest of this worksheet . . . . . \_\_\_\_\_
5. Enter the total amount of dividends received from 20%-or-more-owned corporations that are included on lines 2, 3, 5, and 7, column (a). . . . . \_\_\_\_\_
6. Subtract line 5 from line 1 . . . . . \_\_\_\_\_
7. Multiply line 6 by 70% . . . . . \_\_\_\_\_
8. Subtract line 3 above from line 8, column (c) . . . . . \_\_\_\_\_
9. Enter the smaller of line 7 or line 8 . . . . . \_\_\_\_\_
10. Dividends-received deduction after limitation (sec. 246(b)). Add lines 4 and 9. Enter the result here and on line 8, column (c) . . . . . \_\_\_\_\_

**Tax Computation Worksheet for Members of a Controlled Group**

(Keep for your records.)

**Note:** Each member of a controlled group (except qualified personal service corporations) must compute its tax as follows.

1. Enter taxable income (Section II, line 31) . . . . . \_\_\_\_\_
2. Enter line 1 or the corporation's share of the \$50,000 taxable income bracket, whichever is less . . . . . \_\_\_\_\_
3. Subtract line 2 from line 1 . . . . . \_\_\_\_\_
4. Enter line 3 or the corporation's share of the \$25,000 taxable income bracket, whichever is less . . . . . \_\_\_\_\_
5. Subtract line 4 from line 3 . . . . . \_\_\_\_\_
6. Enter line 5 or the corporation's share of the \$9,925,000 taxable income bracket, whichever is less . . . . . \_\_\_\_\_
7. Subtract line 6 from line 5 . . . . . \_\_\_\_\_
8. Multiply line 2 by 15% . . . . . \_\_\_\_\_
9. Multiply line 4 by 25% . . . . . \_\_\_\_\_
10. Multiply line 6 by 34% . . . . . \_\_\_\_\_
11. Multiply line 7 by 35% . . . . . \_\_\_\_\_
12. If the taxable income of the controlled group exceeds \$100,000, enter this member's share of the **smaller of (a)** 5% of the excess over \$100,000, **or (b)** \$11,750. (See **Line 2b** below.) . . . . . \_\_\_\_\_
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 **Line 2b** below.) . . . . . \_\_\_\_\_
14. Add lines 8 through 13. Enter here and on line 3, Schedule J. . . . . \_\_\_\_\_

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

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

**Line 3. Income Tax**

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

Tax Rate Schedule			
If its taxable income (Section II, line 31) is:			
Over—	But not over—	Tax is:	Of the amount over—
\$0	\$50,000	15%	\$0
50,000	75,000	\$ 7,500 + 25%	50,000
75,000	100,000	13,750 + 34%	75,000
100,000	335,000	22,250 + 39%	100,000
335,000	10,000,000	113,900 + 34%	335,000
10,000,000	15,000,000	3,400,000 + 35%	10,000,000
15,000,000	18,333,333	5,150,000 + 38%	15,000,000
18,333,333	-----	35%	0

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

- Substantially all of its activities involve performing services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting, and
- At least 95% of its stock, by value, is owned, directly or indirectly, by (1) employees performing the services; (2) retired employees who had performed the services listed above; (3) any estate of an employee or retiree described above; or (4) any person who acquired the stock of the corporation because of the death of an employee or retiree (but only for the 2-year period beginning on the date of the employee's or retiree's death). See Temporary Regulations section 1.448-1T(e) for details.

**Note:** If the corporation meets these tests, check the box on line 3, Schedule J.

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

**Line 4a. Foreign Tax Credit**

A foreign corporation engaged in a U.S. trade or business during the tax year can take a credit for income, war profits, and excess profits taxes paid, accrued, or deemed paid to any foreign country or U.S. possession for income effectively connected with the conduct of a trade or business in the United States. See section 906 and **Form 1118**, Foreign Tax Credit—Corporations.

**Line 4b**

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

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

**Qualified electric vehicle 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 corporation can take any of the following credits. Complete **Form 3800**, General Business Credit, if the corporation has two or more of these credits, a credit carryforward or carryback (including an ESOP 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 corporation 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.  
**Form 5884**, Work Opportunity Credit.  
**Form 6478**, Credit for Alcohol Used as Fuel.  
**Form 6765**, Credit for Increasing Research Activities.  
**Form 8586**, Low-Income Housing Credit.  
**Form 8820** Orphan Drug Credit.  
**Form 8826**, Disabled Access Credit.  
**Form 8830**, Enhanced Oil Recovery Credit.  
**Form 8835**, Renewable Electricity Production Credit.  
**Form 8844**, Empowerment Zone Employment Credit.  
**Note:** *While the empowerment zone employment credit is a component of the general business credit, it is figured separately and is not carried to Form 3800.*  
**Form 8845**, Indian Employment Credit.  
**Form 8846**, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips.  
**Form 8847**, Credit for Contributions to Selected Community Development Corporations.  
**Form 8861**, Welfare-to-Work Credit.

#### Line 4d. Credit for Prior Year Minimum Tax

To figure the minimum tax credit and any carryforward of the credit, use **Form 8827**, Credit for Prior Year Minimum Tax—Corporations. Also see Form 8827 if any of the corporation's 1997 nonconventional source fuel credit, or qualified electric vehicle credit was disallowed solely because of the tentative minimum tax limitation. See section 53(d).

#### Line 7. Recapture Taxes

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

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

**Recapture of qualified electric vehicle (QEV) credit.** The corporation must recapture part of the QEV credit it claimed in a prior year, if, within 3 years of the date the vehicle was placed in service, it ceases to qualify for the credit. See Regulations section 1.30-1 for details on how to figure the recapture. Include the amount of the recapture in the total for line 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 because of wages paid or incurred to that employee must be recaptured. For details, see Form 8845 and section 45A. Include the amount of the recapture in the total for line 7, Schedule J. On the dotted line next to the entry space, write "45" and the amount.

#### Line 8. Alternative Minimum Tax

The corporation 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 corporation must file Form 4626 if its taxable income (loss) combined with these adjustments

and tax preference items is more than the smaller of \$40,000, or the corporation's allowable exemption amount (from Form 4626).

Reduce alternative minimum tax by any amounts from Form 3800, Schedule A, line 37, and Form 8844, line 23. On the dotted line next to line 9a, write "Section 38(c)(2)" ("EZE" if from Form 8844) and the amounts.

**Exception for small corporations.** For tax years beginning after December 31, 1997, the alternative minimum tax does not apply to corporations that qualify as "small corporations." For more information, see Form 4626.

#### Line 10

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

#### Line 11

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

**Amounts to include** in the total for line 11 are:

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

**Amounts to subtract** from the total for line 11 include the deferred tax on the corporation's share of the undistributed earnings of a qualified electing fund (see Form 8621, Part II).

**How to report.** Attach a schedule showing the computation of each item included in or subtracted from the total for line 11. On the dotted line next to line 11, enter the amount of tax or interest, identify it as tax or interest, and specify the Code section that applies.

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

If you figured the tax or interest using another form (e.g. Form 8621 or Form 8697), see the instructions for that form to find out how to report the amount and what to write on Schedule J, line 11.

## Section III—Branch Profits Tax and Tax on Excess Interest

### Part I—Branch Profits Tax

Section 884(a) imposes a 30% branch profits tax on the aftertax earnings of a foreign corporation's U.S. trade or business (i.e., effectively connected earnings and profits (ECEP)) that are not reinvested in a U.S. trade or business by the close of the tax year, or are disinvested in a later tax year. Changes in the value of the equity of the foreign corporation's U.S. trade or business (i.e., U.S. net equity) are used as a measure of whether earnings have been reinvested in, or disinvested from, a U.S. trade or business. An increase in U.S. net equity during the tax year is generally treated as a reinvestment of earnings for the current tax year. A decrease in U.S. net equity is generally treated as a disinvestment of prior year's earnings that have not previously been subject to the branch profits tax.

The amount subject to the branch profits tax for the tax year is the dividend equivalent amount. See Regulations section 1.884-1(b).

**Exempt corporations.** A foreign corporation is exempt from the branch profits tax on its dividend equivalent amount if:

- It is a qualified resident of a country with which the U.S. has an income tax treaty in effect for the year in which the dividend equivalent arises; and
- The income tax treaty with that country has not been modified on or after January 1, 1987.

See Regulations section 1.884-1(g)(3) for a list of the qualifying countries. See **Item X** on page 16 for the definition of qualified resident.

If the foreign corporation is exempt from the branch profits tax, **do not** complete Part I. However, be sure to complete Items W and X at the bottom of page 5.

#### Other entities subject to the branch profits tax.

- A foreign corporate partner of a partnership engaged in a U.S. trade or business is subject to the branch profits tax on its ECEP attributable to its distributive share of effectively connected income.
- A foreign government is subject to both the branch profits tax and the branch-level interest taxes. However, no branch profits tax or branch-level interest taxes will be imposed on ECEP and interest accrued prior to September 11, 1992. See Regulations section 1.884-0.

#### Line 2

Attach a schedule showing the following adjustments (based on the principles of section 312) to the corporation's line 1 effectively connected taxable income (ECTI) (before the NOL deduction and special deductions) to get ECEP:

- Positive adjustments for certain effectively connected income items that are excluded from ECTI but must be included in computing ECEP (such as tax-exempt interest income).
- Positive adjustments for certain items deducted in computing ECTI but cannot be deducted in computing ECEP. Include adjustments for certain deductions claimed in computing ECTI, such as:
  1. Excess of percentage depletion over cost depletion,
  2. Excess of accelerated depreciation over straight line depreciation (but only if 20% or more of the foreign corporation's gross income from all sources is U.S. source), and
  3. Capital loss carrybacks and carryovers.

• Negative adjustments for certain deductible items (that are allocable to effectively connected income) that cannot be deducted in computing ECTI but must be deducted in computing ECEP (e.g., Federal income taxes, capital losses in excess of capital gains, and interest and expenses that are not deductible under section 265).

**Note:** *Do not reduce ECEP by any dividends or other distributions made by the foreign corporation to its shareholders during the year.*

See Temporary Regulations section 1.884-2T for any adjustments to ECEP due to a reorganization, liquidation, or incorporation.

**Exceptions.** Do not include the following types of income when computing ECEP:

- Income from the operation of ships or aircraft exempt from taxation under section 883(a)(1) or (2).
- FSC income and distributions treated as effectively connected income under section 921(d) or section 926(b) that are not otherwise effectively connected income.
- Gain on the disposition of an interest in a domestic corporation that is a U.S. real property interest under section 897(c)(1)(A)(ii) if the gain is not otherwise effectively connected income.

- Related person insurance company income that a taxpayer elects to treat as effectively connected income under section 953(c)(3)(C) if the income is not otherwise effectively connected income.
- Income that is exempt from tax under section 892.
- Interest income derived by a possession bank from U.S. obligations if the interest is treated as effectively connected income under section 882(e) and is not otherwise effectively connected income.

**Note:** *Deductions and other adjustments attributable (under the principles of Regulations section 1.861-8) to the types of income not includible in ECEP listed above do not reduce ECEP.*

#### Lines 4a and 4b. U.S. Net Equity

U.S. net equity is U.S. assets reduced by U.S. liabilities. U.S. net equity may be less than zero. See Temporary Regulations section 1.884-2T for specific rules regarding the computation of the foreign corporation's U.S. net equity due to a reorganization, liquidation, or incorporation.

**U.S. asset.** In general, property is a U.S. asset if all income from its use and all gain from its disposition (if used or sold on the last day of the tax year) are or would be effectively connected income. The amount of property taken into account as a U.S. asset is the adjusted basis (for purposes of computing earnings and profits) of the property. Special rules exist for specific types of property, such as depreciable property, inventory, and installment obligations. Special rules also exist to determine the amount of a partnership interest that is treated as a U.S. asset. See Regulations section 1.884-1(d).

**U.S. liabilities.** In general, U.S. liabilities are U.S.-connected liabilities of a foreign corporation (determined under Regulations section 1.882-5), computed as of the end of the tax year, rather than as an average, as required under Regulations section 1.882-5. Special rules may apply to foreign insurance companies. For more details, see Regulations section 1.884-1(e).

If the corporation is electing to reduce liabilities according to Regulations section 1.884-1(e)(3), attach a statement that it is making the election and indicate the amount of the reduction of U.S. liabilities and the corresponding reduction in interest expense.

**Reporting requirements.** In the schedules required for lines 4a and 4b, report U.S. assets according to the categories of U.S. assets in Regulations section 1.884-1(d). For U.S. liabilities, show the formula used to calculate the U.S. liabilities figure.

#### Line 6. Branch Profits Tax

**Qualification for treaty benefits.** In general, a foreign corporation must be a qualified resident (see **Item X** below for definition) in the tax year in which it has a dividend equivalent amount to obtain treaty benefits for the branch profits tax. It must also meet the requirements of any limitation on benefits article in the treaty. However, a foreign corporation is not required to be a qualified resident if it meets the requirements of a limitation on benefits article that entered into force after December 31, 1986. Treaties other than income tax treaties do not exempt a foreign corporation from the branch profits tax.

**Note:** *If a foreign corporation claims to be a qualified resident based on the two-part stock ownership and base erosion test, a special rule governs the period during which it must be a qualified resident. (See the instructions for Item X.)*

**Rate of tax.** If treaty benefits apply, the rate of tax is the rate on branch profits specified in the treaty. If the treaty does not specify a rate for branch profits, the rate of tax is the rate specified in the treaty for dividends paid by a wholly owned domestic corporation to the foreign corporation. See Regulations section 1.884-1(g) for applicable rates of tax. Benefits other than a rate reduction may be available under certain treaties, such as the Canadian income tax treaty.

**Effect of complete termination.** If the foreign corporation has completely terminated its U.S. trade or business (within the meaning of Temporary Regulations section 1.884-2T(a)) during the tax year, enter zero on line 6, and complete Item V at the bottom of page 5.

In general, a foreign corporation has terminated its U.S. trade or business if it no longer has any U.S. assets, except those retained to pay off liabilities. The foreign corporation (or a related corporation) may not use assets from the terminated U.S. trade or business or the proceeds from their sale in a U.S. trade or business within 3 years after the complete termination.

**Coordination with withholding tax.** If a foreign corporation is subject to the branch profits tax in a tax year, it will not be subject to withholding at source (sections 871(a), 881(a), 1441, or 1442) on dividends paid out of earnings and profits for the tax year.

#### Part II—Tax on Excess Interest

If a foreign corporation is engaged in a U.S. trade or business, has effectively connected gross income, or has U.S. assets for purposes of Regulations section 1.882-5, it is subject to the tax on excess interest.

Excess interest is the interest apportioned to effectively connected income of the foreign corporation (including capitalized and nondeductible interest) under Regulations section 1.882-5, less branch interest. Branch interest is the interest paid by the U.S. trade or business of the foreign corporation (including capitalized and other nondeductible interest).

**Important:** *See the instructions for line 10 below to determine if the foreign corporation is exempt from the tax on excess interest. If it is exempt from the tax, do not complete Part II of Section III. However, be sure to complete Items W and X on page 5.*

#### Line 8. Branch Interest

**Foreign banks.** In general, branch interest of a foreign bank is limited to:

- Interest paid for branch liabilities that are reported to bank regulatory authorities;
- Interest paid for offshore shell branches, if the U.S. branch performs substantially all the activities required to incur the liability; and
- Interest on liabilities that are secured predominantly by U.S. assets or that cause certain nondeductible interest (such as capitalized interest) related to U.S. assets.

**All other foreign corporations.** In general, branch interest of foreign corporations (other than banks) includes:

1. Interest on liabilities shown on the books and records of the U.S. trade or business for purposes of Regulations section 1.882-5;
2. Interest on liabilities that are secured predominantly by U.S. assets or that cause certain nondeductible interest (such as capitalized interest) related to U.S. assets; and
3. Interest on liabilities identified as liabilities of the U.S. trade or business on or before the earlier of the date on which the first interest payment is made or the due date (including extensions) of the foreign corporation's income tax return for the tax year.

However, a liability may not be identified under **3** if the liability is incurred in the ordinary course of the foreign corporation's trade or business, or if the liability is secured predominantly by assets that are not U.S. assets. The interest on liabilities identified in **3** that will be treated as interest paid by the U.S. trade or business is capped at 85% of the interest of the foreign corporation that would be excess interest before considering interest on liabilities identified in **3** above. See Regulations section 1.884-4.

**Interbranch interest.** Any interest paid for interbranch liabilities is disregarded in computing branch interest of any corporation.

**Eighty-percent rule.** If 80% or more of a foreign corporation's assets are U.S. assets, the foreign corporation's branch interest will generally equal the interest reported on line 7. However, any interest included on line 7 that has accrued but has not been paid will not be treated as branch interest on line 8 unless an election is made under Regulations section 1.884-4(c)(1) to treat such interest as paid in that year for all purposes of the Code. If this 80% rule applies, check the box on line 8.

**Note:** *Branch interest of a foreign corporation is treated as if paid by a domestic corporation. A foreign corporation is thus required to withhold on interest paid by its U.S. trade or business to foreign persons (unless the interest is exempt from withholding under a treaty or the Code) and is required to file Forms 1042 and 1042-S for the payments as required under Regulations sections 1.1461-2 and 35a.9999-5.*

*Special treaty shopping rules apply if the recipient of the interest paid by the U.S. trade or business is a foreign corporation.*

#### Line 9b

A foreign bank may treat a percentage of its excess interest as if it were interest on deposits and thus exempt from tax. Multiply the amount on line 9a by the greater of 85% or the ratio of the foreign bank's worldwide interest-bearing deposits to its worldwide interest-bearing liabilities as of the close of the tax year.

#### Line 10. Tax on Excess Interest

The rate of tax on excess interest is the same rate that would apply to interest paid to the foreign corporation by a wholly owned domestic corporation. The tax on excess interest is not prohibited by any provision in any treaty to which the United States is a party. The corporation may qualify for treaty benefits if it meets certain requirements. (See **Line 6. Branch Profits Tax**, and **Item X**.) The corporation is exempt from the tax on excess interest if the rate of tax that would apply to interest paid to the foreign corporation by a wholly owned domestic corporation is zero and the foreign corporation qualifies for treaty benefits.

### Additional Information Required

Be sure to complete all additional information on page 5 that applies to the corporation.

#### Item X

**Qualified resident.** A foreign corporation is a qualified resident of a country if it meets one of the three tests explained below. See the regulations under section 884 for details on these tests and certain circumstances in which a foreign corporation that does not meet these tests may obtain a ruling to be treated as a qualified resident.

**Two-part ownership and base erosion test.** A foreign corporation meets this test if:

- More than 50% of its stock (by value) is owned (directly or indirectly) during at least half



the number of days in the tax year by qualifying shareholders; and

- Less than 50% of its income is used (directly or indirectly) to meet liabilities to persons who are not residents of such foreign country or U.S. citizens or residents. For this test, individuals resident in the foreign country, U.S. citizens and residents, governments of foreign countries, and foreign corporations that meet the publicly traded test (described later) are treated as qualifying shareholders.

In general, stock owned by a corporation, partnership, trust, or estate is treated as proportionately owned by the individual owners of such entities.

In order to satisfy the 50% stock ownership test described above, a foreign corporation must, before filing Form 1120-F for the tax year, obtain certain written documentation from the requisite number of its direct and indirect shareholders to show that it meets the test, including a certificate of residency from each foreign individual resident signed by the Competent Authority of the individual's country of residence. See Regulations sections 1.884-5(a) through (c).

If a foreign corporation is a qualified resident under this test and a portion of its dividend equivalent amount for the tax year is from ECEP earned in prior tax years, the foreign corporation will be entitled to treaty benefits for the entire dividend equivalent amount only if:

1. The foreign corporation was a qualified resident for all tax years within the 36-month period that includes the tax year of the dividend equivalent amount, or

2. The foreign corporation was a qualified resident for the tax year of the dividend equivalent amount, and for the years in which the ECEP included in the dividend equivalent amount were earned.

If the foreign corporation fails the 36-month test but is a qualified resident for the tax year, the portion of the dividend equivalent amount for ECEP from any prior tax year will not be entitled to treaty benefits if the foreign corporation was not a qualified resident for the tax year in which the ECEP was earned. Thus, in some instances, more than one rate of tax may apply to the dividend equivalent amount reported on line 5, Section III. See Regulations section 1.884-1(g)(2).

**Publicly traded test.** A foreign corporation meets this test if:

1. Its stock is primarily and regularly traded on one or more established securities markets in its country of residence or the United States, or

2. 90% or more of its stock is owned (directly or indirectly) by another corporation that meets the requirements of 1 and is a resident of the same country or is a domestic corporation.

See Regulations section 1.884-5(d).

**Active trade or business test.** A foreign corporation meets this test if it has a substantial presence in its country of residence and its U.S. trade or business is an integral part of an active trade or business conducted by the foreign corporation in its country of residence. See Regulations section 1.884-5(e).

---

## Schedules L, M-1, and M-2

A foreign corporation may limit Schedules L, M-1, and M-2 to:

1. The corporation's U.S. assets and its other assets effectively connected with its U.S. trade or business and liabilities reported on its U.S. books and records; and

2. Its effectively connected income and its other U.S. source income.

Do not complete Schedules M-1 and M-2 if total assets at the end of the tax year (line 15, column (d) of Schedule L) are less than \$25,000.

---

## Schedule L Balance Sheets per Books

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

**Line 5. Tax-exempt securities.** Include:

- 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 company that distributed exempt-interest dividends during the tax year of the corporation.

**Line 26. Adjustments to shareholders' equity.** Some examples of adjustments to report on this line include:

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

If the total adjustment to be entered on line 26 is a negative amount, enter the amount in parenthesis.

## Schedule M-1

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

**Line 5c. Travel and entertainment expenses.** Include 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.

- An individual's expense over \$2,000, allocable to conventions on cruise ships.

- Employee achievement awards over \$400.

- The cost of entertainment tickets over face value (also subject to the 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 7a. Tax-exempt interest.** Include any exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company.

---

**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**..... 106 hr., 40 min.

**Learning about the law or the form** 41 hr. 12 min.

**Preparing the form**..... 70 hr., 49 min.

**Copying, assembling, and sending the form to the IRS**..... 7 hr., 31 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.

## Codes for Principal Business Activity

This list of principal business activities and their associated codes is designed to classify an enterprise by the type of activity in which it is engaged to facilitate the administration of the Internal Revenue Code. For tax years beginning after 1997, 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 3, line 1a) plus all other income (page 3, lines 4 through 10). If the company purchases raw materials and supplies them to a subcontractor to produce the finished product, but retains title to the product, the company is considered a manufacturer and must use one of the manufacturing codes (311110-339900).

Once the principal business activity is determined, entries must be made on page 1, items F(1), F(2), and F(3). For the business activity code number, enter the six digit code selected from the list below. In item F(2), enter a brief description of the company's business activity. Finally, enter a description of the principal product or service of the company in item F(3).

### Agriculture, Forestry, Fishing and Hunting

#### Code

#### Crop Production

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

#### Animal Production

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

#### Forestry and Logging

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

#### Fishing, Hunting and Trapping

- 114110 Fishing
- 114210 Hunting & Trapping

#### Support Activities for Agriculture and Forestry

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

#### Mining

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

#### Utilities

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

### Construction

#### Code

#### Building, Developing, and General Contracting

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

#### Heavy Construction

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

#### Special Trade Contractors

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

### Manufacturing

#### Food Manufacturing

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

#### Beverage and Tobacco Product Manufacturing

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

#### Textile Mills and Textile Product Mills

- 313000 Textile Mills
- 314000 Textile Product Mills

#### Apparel Manufacturing

- 315100 Apparel Knitting Mills
- 315210 Cut & Sew Apparel Contractors
- 315220 Men's & Boys' Cut & Sew Apparel Mfg
- 315230 Women's & Girls' Cut & Sew Apparel Mfg

#### Code

- 315290 Other Cut & Sew Apparel Mfg
- 315990 Apparel Accessories & Other Apparel Mfg

#### Leather and Allied Product Manufacturing

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

#### Wood Product Manufacturing

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

#### Paper Manufacturing

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

#### Printing and Related Support Activities

- 323100 Printing & Related Support Activities

#### Petroleum and Coal Products Manufacturing

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

#### Chemical Manufacturing

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

#### Plastics and Rubber Products Manufacturing

- 326100 Plastics Product Mfg
- 326200 Rubber Product Mfg

#### Nonmetallic Mineral Product Manufacturing

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

#### Primary Metal Manufacturing

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

#### Fabricated Metal Product Manufacturing

- 332110 Forging & Stamping
- 332210 Cutlery & Handtool Mfg
- 332300 Architectural & Structural Metals Mfg
- 332400 Boiler, Tank, & Shipping Container Mfg
- 332510 Hardware Mfg
- 332610 Spring & Wire Product Mfg
- 332700 Machine Shops; Turned Product; & Screw, Nut, & Bolt Mfg
- 332810 Coating, Engraving, Heat Treating, & Allied Activities
- 332900 Other Fabricated Metal Product Mfg

#### Code

#### Machinery Manufacturing

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

#### Computer and Electronic Product Manufacturing

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

#### Electrical Equipment, Appliance, and Component Manufacturing

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

#### Transportation Equipment Manufacturing

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

#### Furniture and Related Product Manufacturing

- 337000 Furniture & Related Product Manufacturing

#### Miscellaneous Manufacturing

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

### Wholesale Trade

#### Wholesale Trade, Durable Goods

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

Code	Wholesale Trade, Nondurable Goods
422100	Paper & Paper Product Wholesalers
422210	Drugs & Druggists' Sundries Wholesalers
422300	Apparel, Piece Goods, & Notions Wholesalers
422400	Grocery & Related Product Wholesalers
422500	Farm Product Raw Material Wholesalers
422600	Chemical & Allied Products Wholesalers
422700	Petroleum & Petroleum Products Wholesalers
422800	Beer, Wine, & Distilled Alcoholic Beverage Wholesalers
422910	Farm Supplies Wholesalers
422920	Book, Periodical, & Newspaper Wholesalers
422930	Flower, Nursery Stock, & Florists' Supplies Wholesalers
422940	Tobacco & Tobacco Product Wholesalers
422950	Paint, Varnish, & Supplies Wholesalers
422990	Other Miscellaneous Nondurable Goods Wholesalers

Code	Retail Trade
<b>Motor Vehicle and Parts Dealers</b>	
441110	New Car Dealers
441120	Used Car Dealers
441210	Recreational Vehicle Dealers
441221	Motorcycle Dealers
441222	Boat Dealers
441229	All Other Motor Vehicle Dealers
441300	Automotive Parts, Accessories, & Tire Stores
<b>Furniture and Home Furnishings Stores</b>	
442110	Furniture Stores
442210	Floor Covering Stores
442291	Window Treatment Stores
442299	All Other Home Furnishings Stores
<b>Electronics and Appliance Stores</b>	
443111	Household Appliance Stores
443112	Radio, Television, & Other Electronics Stores
443120	Computer & Software Stores
443130	Camera & Photographic Supplies Stores
<b>Building Material and Garden Equipment and Supplies Dealers</b>	
444110	Home Centers
444120	Paint & Wallpaper Stores
444130	Hardware Stores
444190	Other Building Material Dealers
444200	Lawn & Garden Equipment & Supplies Stores
<b>Food and Beverage Stores</b>	
445110	Supermarkets and Other Grocery (except Convenience) Stores
445120	Convenience Stores
445210	Meat Markets
445220	Fish & Seafood Markets
445230	Fruit & Vegetable Markets
445291	Baked Goods Stores
445292	Confectionery & Nut Stores
445299	All Other Specialty Food Stores
445310	Beer, Wine, & Liquor Stores
<b>Health and Personal Care Stores</b>	
446110	Pharmacies & Drug Stores
446120	Cosmetics, Beauty Supplies, & Perfume Stores
446130	Optical Goods Stores
446190	Other Health & Personal Care Stores
<b>Gasoline Stations</b>	
447100	Gasoline Stations (including convenience stores with gas)

Code	Clothing and Clothing Accessories Stores
448110	Men's Clothing Stores
448120	Women's Clothing Stores
448130	Children's & Infants' Clothing Stores
448140	Family Clothing Stores
448150	Clothing Accessories Stores
448190	Other Clothing Stores
448210	Shoe Stores
448310	Jewelry Stores
448320	Luggage & Leather Goods Stores
<b>Sporting Goods, Hobby, Book, and Music Stores</b>	
451110	Sporting Goods Stores
451120	Hobby, Toy, & Game Stores
451130	Sewing, Needlework, & Piece Goods Stores
451140	Musical Instrument & Supplies Stores
451211	Book Stores
451212	News Dealers & Newsstands
451220	Prerecorded Tape, Compact Disc, & Record Stores
<b>General Merchandise Stores</b>	
452110	Department stores
452900	Other General Merchandise Stores
<b>Miscellaneous Store Retailers</b>	
453110	Florists
453210	Office Supplies & Stationery Stores
453220	Gift, Novelty, & Souvenir Stores
453310	Used Merchandise Stores
453910	Pet & Pet Supplies Stores
453920	Art Dealers
453930	Manufactured (Mobile) Home Dealers
453990	All Other Miscellaneous Store Retailers (including tobacco, candle, & trophy shops)
<b>Nonstore Retailers</b>	
454110	Electronic Shopping & Mail-Order Houses
454210	Vending Machine Operators
454311	Heating Oil Dealers
454312	Liquefied Petroleum Gas (Bottled Gas) Dealers
454319	Other Fuel Dealers
454390	Other Direct Selling Establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)

Code	Transportation and Warehousing
<b>Air, Rail, and Water Transportation</b>	
481000	Air Transportation
482110	Rail Transportation
483000	Water Transportation
<b>Truck Transportation</b>	
484110	General Freight Trucking, Local
484120	General Freight Trucking, Long-distance
484200	Specialized Freight Trucking
<b>Transit and Ground Passenger Transportation</b>	
485110	Urban Transit Systems
485210	Interurban & Rural Bus Transportation
485310	Taxi Service
485320	Limousine Service
485410	School & Employee Bus Transportation
485510	Charter Bus Industry
485990	Other Transit & Ground Passenger Transportation
<b>Pipeline Transportation</b>	
486000	Pipeline Transportation
<b>Scenic &amp; Sightseeing Transportation</b>	
487000	Scenic & Sightseeing Transportation

Code	Support Activities for Transportation
488100	Support Activities for Air Transportation
488210	Support Activities for Rail Transportation
488300	Support Activities for Water Transportation
488410	Motor Vehicle Towing
488490	Other Support Activities for Road Transportation
488510	Freight Transportation Arrangement
488990	Other Support Activities for Transportation
<b>Couriers and Messengers</b>	
492110	Couriers
492210	Local Messengers & Local Delivery
<b>Warehousing and Storage</b>	
493100	Warehousing & Storage (except lessors of miniwarehouses & self-storage units)

Code	Information Publishing Industries
511110	Newspaper Publishers
511120	Periodical Publishers
511130	Book Publishers
511140	Database & Directory Publishers
511190	Other Publishers
511210	Software Publishers
<b>Motion Picture and Sound Recording Industries</b>	
512100	Motion Picture & Video Industries (except video rental)
512200	Sound Recording Industries
<b>Broadcasting and Telecommunications</b>	
513100	Radio & Television Broadcasting
513200	Cable Networks & Program Distribution
513300	Telecommunications (including paging, cellular, satellite, & other telecommunications)
<b>Information Services and Data Processing Services</b>	
514100	Information Services (including news syndicates, libraries, & on-line information services)
514210	Data Processing Services

Code	Finance and Insurance
<b>Depository Credit Intermediation</b>	
522110	Commercial Banking
522120	Savings Institutions
522130	Credit Unions
522190	Other Depository Credit Intermediation
<b>Nondepository Credit Intermediation</b>	
522210	Credit Card Issuing
522220	Sales Financing
522291	Consumer Lending
522292	Real Estate Credit (including mortgage bankers & originators)
522293	International Trade Financing
522294	Secondary Market Financing
522298	All Other Nondepository Credit Intermediation
<b>Activities Related to Credit Intermediation</b>	
522300	Activities Related to Credit Intermediation (including loan brokers)
<b>Securities, Commodity Contracts, and Other Financial Investments and Related Activities</b>	
523110	Investment Banking & Securities Dealing
523120	Securities Brokerage
523130	Commodity Contracts Dealing
523140	Commodity Contracts Brokerage

Code	Securities & Commodity Exchanges
523210	Securities & Commodity Exchanges
523900	Other Financial Investment Activities (including portfolio management & investment advice)
<b>Insurance Carriers and Related Activities</b>	
524140	Direct Life, Health, & Medical Insurance & Reinsurance Carriers
524150	Direct Insurance & Reinsurance (except Life, Health & Medical) Carriers
524210	Insurance Agencies & Brokerages
524290	Other Insurance Related Activities
<b>Funds, Trusts, and Other Financial Vehicles</b>	
525100	Insurance & Employee Benefit Funds
525910	Open-End Investment Funds (Form 1120-RIC)
525920	Trusts, Estates, & Agency Accounts
525930	Real Estate Investment Trusts (Form 1120-REIT)
525990	Other Financial Vehicles

Code	Real Estate and Rental and Leasing
<b>Real Estate</b>	
531110	Lessors of Residential Buildings & Dwellings
531120	Lessors of Nonresidential Buildings (except Miniwarehouses)
531130	Lessors of Miniwarehouses & Self-Storage Units
531190	Lessors of Other Real Estate Property
531210	Offices of Real Estate Agents & Brokers
531310	Real Estate Property Managers
531320	Offices of Real Estate Appraisers
531390	Other Activities Related to Real Estate
<b>Rental and Leasing Services</b>	
532100	Automotive Equipment Rental & Leasing
532210	Consumer Electronics & Appliances Rental
532220	Formal Wear & Costume Rental
532230	Video Tape & Disc Rental
532290	Other Consumer Goods Rental
532310	General Rental Centers
532400	Commercial & Industrial Machinery & Equipment Rental & Leasing
<b>Lessors of Nonfinancial Assets (except copyrighted works)</b>	
533110	Lessors of Nonfinancial Assets (except copyrighted works)

Code	Professional, Scientific, and Technical Services
<b>Legal Services</b>	
541110	Offices of Lawyers
541190	Other Legal Services
<b>Accounting, Tax Preparation, Bookkeeping, and Payroll Services</b>	
541211	Offices of Certified Public Accountants
541213	Tax Preparation Services
541214	Payroll Services
541219	Other Accounting Services
<b>Architectural, Engineering, and Related Services</b>	
541310	Architectural Services
541320	Landscape Architecture Services
541330	Engineering Services
541340	Drafting Services
541350	Building Inspection Services

**Code**  
541360 Geophysical Surveying & Mapping Services  
541370 Surveying & Mapping (except Geophysical) Services  
541380 Testing Laboratories  
**Specialized Design Services**  
541400 Specialized Design Services (including interior, industrial, graphic, & fashion design)  
**Computer Systems Design and Related Services**  
541511 Custom Computer Programming Services  
541512 Computer Systems Design Services  
541513 Computer Facilities Management Services  
541519 Other Computer Related Services  
**Other Professional, Scientific, and Technical Services**  
541600 Management, Scientific, & Technical Consulting Services  
541700 Scientific Research & Development Services  
541800 Advertising & Related Services  
541910 Marketing Research & Public Opinion Polling  
541920 Photographic Services  
541930 Translation & Interpretation Services  
541940 Veterinary Services  
541990 All Other Professional, Scientific, & Technical Services

---

**Management of Companies (Holding Companies)**  
551111 Offices of Bank Holding Companies  
551112 Offices of Other Holding Companies

---

**Administrative and Support and Waste Management and Remediation Services**  
**Administrative and Support Services**  
561110 Office Administrative Services  
561210 Facilities Support Services  
561300 Employment Services  
561410 Document Preparation Services  
561420 Telephone Call Centers  
561430 Business Service Centers (including private mail centers & copy shops)  
561440 Collection Agencies  
561450 Credit Bureaus  
561490 Other Business Support Services (including repossession services, court reporting, & stenotype services)

**Code**  
561500 Travel Arrangement & Reservation Services  
561600 Investigation & Security Services  
561710 Exterminating & Pest Control Services  
561720 Janitorial Services  
561730 Landscaping Services  
561740 Carpet & Upholstery Cleaning Services  
561790 Other Services to Buildings & Dwellings  
561900 Other Support Services (including packaging & labeling services, & convention & trade show organizers)  
**Waste Management and Remediation Services**  
562000 Waste Management & Remediation Services

---

**Educational Services**  
611000 Educational Services (including schools, colleges, & universities)

---

**Health Care and Social Assistance**  
**Offices of Physicians and Dentists**  
621111 Offices of Physicians (except mental health specialists)  
621112 Offices of Physicians, Mental Health Specialists  
621210 Offices of Dentists  
**Offices of Other Health Practitioners**  
621310 Offices of Chiropractors  
621320 Offices of Optometrists  
621330 Offices of Mental Health Practitioners (except Physicians)  
621340 Offices of Physical, Occupational & Speech Therapists, & Audiologists  
621391 Offices of Podiatrists  
621399 Offices of All Other Miscellaneous Health Practitioners  
**Outpatient Care Centers**  
621410 Family Planning Centers  
621420 Outpatient Mental Health & Substance Abuse Centers  
621491 HMO Medical Centers  
621492 Kidney Dialysis Centers  
621493 Freestanding Ambulatory Surgical & Emergency Centers  
621498 All Other Outpatient Care Centers  
**Medical and Diagnostic Laboratories**  
621510 Medical & Diagnostic Laboratories  
**Home Health Care Services**  
621610 Home Health Care Services

**Code**  
**Other Ambulatory Health Care Services**  
621900 Other Ambulatory Health Care Services (including ambulance services & blood & organ banks)  
**Hospitals**  
622000 Hospitals  
**Nursing and Residential Care Facilities**  
623000 Nursing & Residential Care Facilities  
**Social Assistance**  
624100 Individual & Family Services  
624200 Community Food & Housing, & Emergency & Other Relief Services  
624310 Vocational Rehabilitation Services  
624410 Child Day Care Services

---

**Arts, Entertainment, and Recreation**  
**Performing Arts, Spectator Sports, and Related Industries**  
711100 Performing Arts Companies  
711210 Spectator Sports (including sports clubs & racetracks)  
711300 Promoters of Performing Arts, Sports, & Similar Events  
711410 Agents & Managers for Artists, Athletes, Entertainers, & Other Public Figures  
711510 Independent Artists, Writers, & Performers  
**Museums, Historical Sites, and Similar Institutions**  
712100 Museums, Historical Sites, & Similar Institutions  
**Amusement, Gambling, and Recreation Industries**  
713100 Amusement Parks & Arcades  
713200 Gambling Industries  
713900 Other Amusement & Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, & bowling centers)

---

**Accommodation and Food Services**  
**Accommodation**  
721110 Hotels (except casino hotels) & Motels  
721120 Casino Hotels  
721191 Bed & Breakfast Inns  
721199 All Other Traveler Accommodation  
721210 RV (Recreational Vehicle) Parks & Recreational Camps  
721310 Rooming & Boarding Houses

**Code**  
**Food services and Drinking Places**  
722110 Full-Service Restaurants  
722210 Limited-Service Eating Places  
722300 Special Food services (including food service contractors & caterers)  
722410 Drinking Places (Alcoholic Beverages)

---

**Other Services**  
**Repair and Maintenance**  
811110 Automotive Mechanical & Electrical Repair & Maintenance  
811120 Automotive Body, Paint, Interior, & Glass Repair  
811190 Other Automotive Repair & Maintenance (including oil change & lubrication shops & car washes)  
811210 Electronic & Precision Equipment Repair & Maintenance  
811310 Commercial & Industrial Machinery & Equipment (except Automotive & Electronic) Repair & Maintenance  
811410 Home & Garden Equipment & Appliance Repair & Maintenance  
811420 Reupholstery & Furniture Repair  
811430 Footwear & Leather Goods Repair  
811490 Other Personal & Household Goods Repair & Maintenance  
**Personal and Laundry Services**  
812111 Barber Shops  
812112 Beauty Salons  
812113 Nail Salons  
812190 Other Personal Care Services (including diet & weight reducing centers)  
812210 Funeral Homes & Funeral Services  
812220 Cemeteries & Crematories  
812310 Coin-Operated Laundries & Drycleaners  
812320 Drycleaning & Laundry Services (except Coin-Operated)  
812330 Linen & Uniform Supply  
812910 Pet Care (except Veterinary) Services  
812920 Photofinishing  
812930 Parking Lots & Garages  
812990 All Other Personal Services  
**Religious, Grantmaking, Civic, Professional, and Similar Organizations**  
813000 Religious, Grantmaking, Civic, Professional, & Similar Organizations