

# 1990



## Department of the Treasury Internal Revenue Service

# Instructions for Form 1120-PC

## U.S. Property and Casualty Insurance Company Income Tax Return

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

### Paperwork Reduction Act Notice

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

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

- Recordkeeping . . . . . 106 hrs., 25 min.
- Learning about the law or the form . . . . . 33 hrs., 19 min.
- Preparing the form . . . . . 54 hrs., 12 min.
- Copying, assembling, and sending the form to IRS . . . . . 5 hrs., 5 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the **Internal Revenue Service**, Washington, DC 20224, Attention: IRS Reports Clearance Officer, T:FP; and the **Office of Management and Budget**, Paperwork Reduction Project (1545-1027), Washington, DC 20503. **DO NOT** send the tax form to either of these offices. Instead, see the instructions below for information on where to file.

### Important Changes

The Revenue Reconciliation Act of 1990 made several changes to the way corporations compute their taxable income and their tax liability.

- For tax years ending on or after September 30, 1990, insurance companies are generally required to amortize policy acquisition expenses. See the instructions for Schedule A.
- For tax years beginning after December 31, 1989, Section 832(b)(5)(A) has been amended effecting the treatment of salvage recoverable. See the instructions for Schedule F.
- New **Form 8826**, Disabled Access Credit, has been developed as a result of the addition of section 44. This allows eligible small businesses to claim a new nonrefundable income tax credit equal to 50% of expenses that are over \$250 and not more than \$10,250. These expenses must be paid or incurred after November 5, 1990, to enable a small business to comply with the requirements of the Americans With Disabilities Act of 1990. An eligible small business is one with gross receipts of \$1 million or less in the previous tax year or one that had not more than 30 full-time

employees in the previous tax year. Examples of expenses eligible for the credit include amounts paid or incurred: (1) to remove barriers that prevent a business from being accessible to, or usable by, individuals with disabilities; (2) to provide qualified interpreters or other methods of making audio materials available to hearing-impaired individuals; (3) to provide qualified readers, taped texts, and other methods of making visual materials available to individuals with visual impairments; or (4) to acquire or modify equipment or devices for individuals with disabilities.

## General Instructions

### A. Purpose of Form

**Form 1120-PC**, U.S. Property and Casualty Insurance Company Income Tax Return, is used to report income, gains, losses, deductions, credits, and to figure the income tax liability of insurance companies other than life insurance companies.

### B. Filing Form 1120-PC

#### Who Must File

Every domestic nonlife insurance company subject to taxation under section 831 and every foreign corporation carrying on an insurance business within the U.S. that would qualify as a nonlife insurance company subject to taxation under section 831, if it were a U.S. corporation, must file a return on Form 1120-PC. This includes organizations described in section 501(m)(1) that provide commercial-type insurance and organizations described in section 833.

**Exceptions.**—A nonlife insurance company that is:

- Exempt under section 501(c)(15) should file **Form 990**, Return of Organization Exempt from Income Tax.
  - Subject to taxation under section 831, and disposes of its insurance business and reserves, or otherwise ceases to be taxed under section 831, but continues its corporate existence while winding up and liquidating its affairs, should file **Form 1120**, U.S. Corporation Income Tax Return.
- Life Insurance companies.**—Life insurance companies should file **Form 1120L**, U.S. Life Insurance Company Income Tax Return.

#### When To File

In general, a corporation must file its income tax return by the 15th day of the 3rd month after its tax year ends. 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. A foreign corporation that does not maintain an office or place of business in the U.S. has until the 15th day of the 6th month after the end of its tax year to file.

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

**Period Covered.**—File the 1990 return for calendar year 1990.

### Where To File

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

Corporations having their principal place of business outside the U.S. or claiming a possessions tax credit (section 936) must file with the Internal Revenue Service Center, Philadelphia, PA 19255.

The separate income tax returns of a group of corporations located in several Service Center regions may be filed with the Service Center for the area in which the principal office of the managing corporation that keeps all the books and records is located.

### Signature

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. A receiver, trustee, or assignee must sign and date any return

required to be filed on behalf of a corporation.

If a corporate officer filled in Form 1120-PC, the Paid Preparer's space under "Signature of officer" should remain blank. If someone prepares Form 1120-PC and does not charge the corporation, that person should not sign the return. Certain others who prepare Form 1120-PC should not sign. For example, a regular, full-time employee of the corporation, such as a clerk, secretary, etc., should not sign.

Generally, anyone who is paid to prepare Form 1120-PC must sign the return and fill in the other blanks in the Paid Preparer's Use Only area of the return.

The preparer required to sign the return MUST complete the required preparer information and:

- Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps or labels are not acceptable.)
- Give a copy of Form 1120-PC to the taxpayer in addition to the copy filed with IRS.

## C. Figuring and Paying the Tax

### 1. Accounting

**Accounting Methods.**—Taxable income must be computed using the method of accounting regularly used in keeping the corporation's books and records. In all cases, the method adopted must clearly reflect taxable income. See section 446.

Unless the law specifically permits otherwise, the corporation may not change the method of accounting used to report taxable income in earlier years (for income as a whole or for any material item) unless it first secures IRS consent on **Form 3115**, Application for Change in Accounting Method.

Corporations (other than qualified personal service corporations) are not permitted to use the cash method of accounting if their average annual gross receipts are more than \$5,000,000. Corporations required to change from the cash method because of this provision must complete and file Form 3115 in accordance with the requirements in Temporary Regulations sections 1.448-1T(g) and 1.448-1T(h). Attach Form 3115 to Form 1120-PC. See section 448 for more information.

### 2. Rounding Off to Whole-Dollar Amounts

Money items may be shown on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

### 3. Depositary Method of Tax Payment

The corporation must pay the tax due in full when the return is filed but no later than the 15th day of the 3rd month after the end of the tax year.

Deposit corporation income tax payments (and estimated tax payments) with a Federal Tax Deposit Coupon (**Form 8109**). Be sure to darken the "1120" box on the coupon. Make these tax deposits with either a financial institution qualified as a depositary for federal taxes or the Federal Reserve bank

or branch serving the geographic area where the corporation is located. Do not submit deposits directly to an IRS office; otherwise, the corporation may be subject to a failure to deposit penalty. Records of deposits will be sent to IRS for crediting to the corporation's account. See the instructions contained in the coupon book (**Form 8109**) for more information.

To help ensure proper crediting to the corporation's account, please write the corporation's employer identification number (EIN), "Form 1120-PC," the type of tax paid, and the tax period to which the deposit applies on the check or money order.

To get more deposit coupons, use the reorder form (**Form 8109A**) provided in the coupon book. A penalty may be imposed for failure to deposit the required amount of tax. See section 6656. For more information concerning deposits, see **Pub. 583**, Taxpayers Starting a Business.

### 4. Estimated Tax

Generally, a corporation must make estimated tax payments if it can expect its estimated tax (income tax minus credits) to be \$500 or more. Use **Form 1120-W**, Corporation Estimated Tax, as a worksheet to compute estimated tax. Use the deposit coupons (**Form 8109**) in making deposits of 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 both: (1) at least 10% of expected income tax liability, and (2) at least \$500. To apply, file Form 4466 after the end of the tax year, but before the 16th day of the 3rd month thereafter, and before the corporation files its tax return.

**Caution:** Foreign insurance companies see Notice 90-13, 1990-6, I.R.B. 10 before computing estimated tax.

### 5. Timing Change in Deducting Accrued Expenses

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year that all events have occurred that determine the liability, and the amount of the liability can be determined with reasonable accuracy. However, all the events that establish liability for the amount are treated as occurring only when economic performance takes place. There are exceptions. See section 461(h).

## D. Interest and Penalties

Interest and penalty charges are described below. If a corporation files late or fails to pay the tax when due, it will be liable for penalties unless it can show that failure to file or pay was due to reasonable cause and not willful neglect.

**1. Interest.**—Interest is charged on taxes not paid by the due date, even if an extension of the 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.

**2. Late Filing of Return.**—A corporation that fails to file its return when due (including extensions of time for filing) may

be subject to a penalty of 5% of the unpaid tax for each month or part of a month the return is late up to a maximum of 25%. The minimum penalty for a tax return that is more than 60 days late is the smaller of the tax due or \$100.

Since Regulations section 1.6012-2(c) requires that the annual statement approved by the National Association of Insurance Commissioners (NAIC) be filed as part of the return, a late filing penalty may be imposed for not including the annual statement when the return is filed.

**3. Late Payment of Tax.**—The penalty for late payment of taxes is usually ½ of 1% of the unpaid tax for each month or part of a month the tax is unpaid. The penalty cannot exceed 25% of the amount due. This penalty may also apply to any additional tax not paid within 10 days of the date of the notice and demand for payment.

**4. Underpayment of Estimated Tax.**—A corporation that fails to make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. In general, to avoid the estimated tax penalty, the corporation must make estimated tax payments of at least the smaller of 90% of the tax shown on the return, or 100% of its prior year's tax. See section 6655 for details and exceptions. **Form 2220**, Underpayment of Estimated Tax by Corporations, is used 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 IRS can figure the amount of any penalty and bill the corporation for it. However, you must complete and attach Form 2220 even if the corporation does not owe the penalty if: (a) the annualized income or adjusted seasonal installment method is used, or (b) the corporation is a "large corporation" computing its first required installment based on the prior year's tax. If you attach Form 2220, be sure to check the box on line 15, and enter the amount of any penalty on that line.

**5. Other Penalties.**—There are also penalties that can be imposed for negligence, substantial understatement of tax, and fraud. See sections 6662 and 6663.

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

### 1. Forms

The corporation may have to file the following:

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

**Form W-2P.** Statement for Recipients of Annuities, Pensions, Retired Pay, or IRA Payments.

**Forms 1042 and 1042S.** Annual Withholding Tax Return for U.S. Source Income of Foreign Persons; and Foreign Person's U.S. Source Income Subject to Withholding. Use these forms to report and transmit withheld tax on payments or distributions made to nonresident alien individuals, foreign partnerships, or foreign corporations to the extent such payments or distributions constitute gross income from sources within the U.S. (see sections 861 through 865). For more information, see sections 1441 and 1442, and **Pub. 515**,

Withholding of Tax on Nonresident Aliens and Foreign Corporations.

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

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

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

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

**Form 5452.** Corporate Report of Nondividend Distributions.

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

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

**Form 8264.** Application for Registration of a Tax Shelter. This form is used by tax shelter organizers to register tax shelters with the IRS for the purpose of receiving a tax shelter registration number.

**Form 8271.** Investor Reporting of Tax Shelter Registration Number. This form is used by taxpayers who have acquired an interest in a tax shelter, which is required to be registered, to report the tax shelter's registration number. Form 8271 must be attached to any tax return (including an application for tentative refund (Form 1139, Corporation Application for Tentative Refund) or an amended return) on which a deduction, credit, loss, or other tax benefit attributable to a tax shelter is taken or any income attributable to a tax shelter is reported.

**Form 8281.** Information Return for Publicly Offered Original Issue Discount Instruments. This form is generally required to be filed by issuers of public offerings of debt instruments within 30 days of the issuance of the debt instrument.

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

**Form 8594.** Asset Acquisition Statement, is to be filed by both the purchaser and seller of a group of assets constituting a trade or business if goodwill or a going concern value attaches, or could attach, to such assets and if the purchaser's basis in the assets is determined only by the amount paid for the assets.

**Form 8816.** Special Loss Account and Special Estimated Tax Payments for Insurance Companies. This form must be filed by any insurance company that elects to take an additional deduction under section 847. See Form 8816 and section 847 for more information.

## 2. Consolidated Returns

If an affiliated group of corporations includes one or more domestic life insurance companies taxed under section 801, the common parent may elect to treat those life insurance companies as includible corporations. The life insurance companies must have been members of the group for the 5 tax years immediately preceding the tax year for which the election is made. See section 1504(c)(2) and Regulations section 1.1502-47(d)(12).

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

File supporting statements for each corporation included in the consolidated return. Use columns to show the following, both before and after adjustments:

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

**Note:** If a nonlife insurance company is a member of an affiliated group, file Form 1120-PC as an attachment to the consolidated return in lieu of filing supporting statements. Write across the top of page 1 of Form 1120-PC, "Supporting Statement to Consolidated Return."

Attach consolidated balance sheets and a reconciliation of consolidated retained earnings.

## 3. Statements

**NAIC Annual Statement.**—Regulations section 1.6012-2(c) requires that the NAIC annual statement be filed with Form 1120-PC.

**Stock ownership in foreign corporations.**—Attach the required statement to Form 1120-PC if the corporation owned 5% or more in value of the outstanding stock of a foreign personal holding company and the corporation was required to include in its gross income any undistributed foreign personal holding company income from a

foreign personal holding company. See section 551(c).

A corporation that controls a foreign corporation, or that is a 10%-or-more shareholder of a controlled foreign corporation, or acquires, disposes of, or owns 5% or more ownership in the outstanding stock of a foreign corporation may have to file Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations.

A domestic corporation or a foreign corporation that is engaged in a trade or business in the U.S. and is controlled by a foreign person may have to file Form 5472, Information Return of a Foreign or Foreign-Owned Corporation Engaged in a U.S. Trade or Business.

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

## 4. Attachments

Please complete every applicable entry space on Form 1120-PC. Do not attach statements and write "See attached" in lieu of completing the entry spaces on Form 1120-PC.

If more space is needed on the forms or schedules, attach separate sheets indicating at the top of each attachment the form number or schedule letter of the form or schedule being continued. Show the same information called for on the form in the same order as on the printed forms. **Be sure to show totals on the printed forms.** Please use sheets that are the same size as the forms and schedules. Attach these separate sheets after all the schedules and forms. Also, put the corporation's name and EIN on each sheet.

## Specific Instructions

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

**Item A. Employer identification number.**—Enter the corporation's EIN. A corporation that does not have an EIN should apply for one on Form SS-4, Application for Employer Identification Number. This form may be obtained from most IRS and Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center to which Form 1120-PC is mailed. If the EIN has not been received by the filing time for the corporation, write "Applied for" in the space provided for the EIN. For more information concerning an EIN, see Pub. 583.

**Item D.**—Indicate a final return, change of address, or amended return by checking the appropriate box. Form 8822, Change of Address. This form may be used to notify the IRS if the corporation's mailing address changes.

**Item E.**—Check the box provided if the corporation is a foreign corporation and elects under (1) section 953(c)(3)(C) to treat its related person insurance income as effectively connected with the conduct of a

**Each member of a controlled group must compute the tax as follows:**

1. Enter the taxable income (line 1 or 2, page 1) \_\_\_\_\_
2. Enter line 1 above or your share of the \$50,000 taxable income bracket, whichever is less \_\_\_\_\_
3. Subtract line 2 from line 1 \_\_\_\_\_
4. Enter line 3 or your share of the \$25,000 taxable income bracket, whichever is less \_\_\_\_\_
5. Subtract line 4 from line 3 \_\_\_\_\_
6. 15% of line 2 \_\_\_\_\_
7. 25% of line 4 \_\_\_\_\_
8. 34% of line 5 \_\_\_\_\_
9. If the taxable income of the controlled group exceeds \$100,000, enter the portion of the lesser of 5% of the excess over \$100,000 or \$11,750 that this member must pay. (See instructions for additional 5% tax below.) \_\_\_\_\_
10. Add lines 6 through 9. Enter here and on line 4, page 1 \_\_\_\_\_

**Additional 5% tax.** Members of a controlled group are treated as one corporation for purposes of figuring the applicability of the additional 5% tax that must be paid by corporations with taxable income in excess of \$100,000. If the additional tax applies, each member of the controlled group will pay that tax based on the part of the amount that is used in each taxable income bracket to reduce that member's tax. See section 1561(a). Each member of the group must enter its share of the additional 5% tax on line 3b and attach to its tax return a schedule that shows the taxable income of the entire group as well as how its share of the additional tax was figured.

**Line 4. Income tax**

If the amount on line 1 or 2, Form 1120-PC 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	-----	34%	0

trade or business in the U.S., or (2) section 953(d) to be treated as a domestic corporation. A foreign corporation making either election should file its return with the Internal Revenue Service Center, Philadelphia, PA 19255. See Notice 89-79, 1989-2, C.B. 392, for the procedural rules to make the section 953(d) election.

**Note:** Once either election is made, it shall apply to the tax year for which it is made and to all subsequent tax years unless revoked with the consent of the Secretary of the Treasury. Also, any loss of a foreign corporation electing to be treated as a domestic insurance company, under section 953(d), will be treated as a dual consolidated loss and will not be allowed to reduce the taxable income of any other member of the affiliated group for this tax year or any other tax year.

**Taxable Income**

**Line 1, Taxable income, and line 2, Taxable investment income.**—If the corporation is a small company as defined in section 831(b)(2) and makes the election under section 831(b)(2)(A)(ii) to be taxed on taxable investment income, complete Schedule B (ignore Schedule A) and enter the amount from Schedule B, line 21, on line 2, page 1. All other corporations should complete Schedule A (ignore Schedule B)

and enter on line 1, page 1, the amount from Schedule A, line 37.

**Tax Computation and Payments**

**Page 1, lines 3–18**

Members of a controlled group, as defined in section 1563, are entitled to one \$50,000 amount and one \$25,000 amount (in that order) in each taxable income bracket on line 3a.

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. There are other requirements as well. See Regulations section 1.1561-3(b) for the requirements and for the time and manner of making the consent.

**Equal apportionment plan.** If no apportionment plan is adopted, the members of the 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, Corporation A is entitled to \$25,000 (one-half of \$50,000) in the \$50,000 taxable income

bracket on line 3a(i) and to \$12,500 (one-half of \$25,000) in the \$25,000 taxable income bracket on line 3a(ii). Corporation B is also entitled to the same apportionment in each taxable income bracket.

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

**Deferred tax amount under section 1291.**—If the corporation was a shareholder in a passive foreign investment company (PFIC) that received an excess distribution or disposed of its investment in the PFIC during the year, it must include the aggregate increases in taxes due under section 1291(c)(2) in the amount to be entered on line 4, page 1 Form 1120-PC. Write on the dotted line to the left of line 4, "Sec. 1291—\$(amount)." Do not include on line 4 the interest charge due under section 1291(c)(3). Instead, write "Sec. 1291 interest" and the amount owed in the bottom margin of page 1, Form 1120-PC. See Form 8621 for details.

**Line 5. Enter amount of tax that a reciprocal must include.**—Section 835 provides that a mutual insurance company that is an interinsurer or reciprocal underwriter can elect to limit the deduction for amounts paid or incurred to a qualifying attorney-in-fact to the amount of the deductions of the attorney-in-fact that are allocable to the income received by the attorney-in-fact from the reciprocal. If this election is made, any increase in the taxable income of a reciprocal that is attributable to this limitation is taxed at the highest rate of tax specified in section 11(b).

If the mutual insurance company's taxable income before including the section 835(b) amount is \$100,000 or more, make no entry on line 5. Otherwise, this tax is 34% of the section 835(b) amount. If there is an entry on line 5, attach a statement showing how you computed the tax.

Reciprocal underwriters making the election under section 835(a) are allowed a credit on line 14h for the amount of tax paid by the attorney-in-fact that is attributable to the income received by the attorney-in-fact from the reciprocal in the tax year.

See section 835 and the related regulations for special rules and for information regarding the statements required to be attached to the return.

**Line 7a. Foreign tax credit.**—See Form 1118, Computation of Foreign Tax Credit—Corporations, for an explanation of when a corporation can take this credit for payment of income tax to a foreign country or U.S. possession.

**Line 7b. Other credits.**—**Possessions tax credit.**—See Form 5712, Election To Be Treated as a Possessions Corporation Under Section 936, for rules on how to elect to claim the possessions tax credit. Compute the credit on Form 5735, Computation of Possessions Corporation Tax Credit Allowed Under Section 936. Include the credit in the amount shown on line 7b. On the line to the left of the entry space, write the amount of

the credit and identify it as a section 936 credit.

**Credit for fuel produced from a nonconventional source.**—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. See Form 8801 if any of the 1989 credit was disallowed solely because of the tentative minimum tax limitation. Also see section 53(d).

**Orphan drug credit.**—See section 28 and Form 6765, Credit for Increasing Research Activities (or for claiming the orphan drug credit), for an explanation of when a corporation can take this credit as well as how it is figured.

**Line 7c. General business credit.**—This credit is made up of the sum of the following credits:

**Investment credit.**—The investment credit was generally repealed for property placed in service after 1985. See Form 3468, Investment Credit, for exceptions.

**Jobs credit.**—The jobs credit, if elected, is allowed for hiring members of targeted groups during the tax year. See Form 5884, Jobs Credit, for definitions, special rules, and limitations.

Do not take an expense deduction for the part of the wages or salaries paid or incurred which is equal to the amount of the jobs credit determined without regard to the limitation based on the tax (section 38(c)).

**Alcohol fuel credit.**—Use Form 6478, Credit for Alcohol Used As Fuel, to figure the credit.

**Credit for increasing research activities.**—See Form 6765, Credit for Increasing Research Activities, and section 41.

**Low-income housing credit.**—See section 42 and Form 8586, Low-Income Housing Credit.

**Disabled access credit.**—A corporation may be able to take a credit for certain expenditures paid or incurred to assist individuals with disabilities. See "Important Change" on page 1 for more information on this credit.

**Form 3800, General Business Credit.**—Complete Form 3800, General Business Credit, if the corporation has: (1) more than one of the above credits; **OR** (2) a credit carryforward or carryback (including one from an ESOP credit); **OR** (3) a passive activity credit. Enter the amount of the general business credit on the appropriate line and check the Form 3800 box on that line. Form 3800 is not required if the corporation has only one of the general business credits (and items 2 and 3 do not apply). Instead, attach the applicable credit form to the return and check the appropriate box for that form. If the corporation's only general business credit is the disabled access credit, attach Form 8826 to the return and write "From Form 8826" in the space to the left of line 7c.

**Line 7d. Credit for prior year minimum tax.**—See Form 8801, Credit for Prior Year Minimum Tax, and section 53.

**Line 9. Foreign corporations.**—A foreign corporation carrying on an insurance business within the U.S. is taxable in the same manner as a domestic insurance company on its income effectively connected with the conduct of a trade or business

within the U.S. See sections 842 and 897, and Notice 89-96, 1989-2, C.B. 417 for more information. Also see Notice 90-13, 1990-6 I.R.B. 10 for the domestic asset/liability percentages and domestic investment yields needed by foreign insurance companies to compute their minimum effectively connected net investment income under section 842(b) for tax years beginning after December 31, 1988. Income from sources outside the U.S. from U.S. business is treated as effectively connected with the conduct of a trade or business within the U.S. For a definition of effectively connected income, see sections 864(c) and 897.

Generally, any other U.S. source income received by a foreign corporation that is not effectively connected with the conduct of a trade or business within the U.S. is taxed at 30% (or at a lower treaty rate).

**Note:** Interest received from certain portfolio debt investments that were issued after July 18, 1984, is not subject to the tax.

See section 881. If you have this income, attach a schedule showing the kind and amount of income, the tax rate (30% or a lower treaty rate), and the amount of tax.

Additional taxes resulting from the net investment income adjustment may offset a corporation's 30% tax on U.S. source income. The tax reduction is determined by multiplying the 30% tax by the ratio of the amount of income adjustment to income subject to the 30% tax, computed without the exclusion for interest on state and local bonds or income exempted from taxation by treaty. See section 842(c)(2). Attach a statement showing how you figured the reduction of section 881 tax. Enter the net tax imposed by section 881 on line 9, page 1.

**Note:** Section 953(d) allows a foreign insurance company to elect to be taxed as a domestic corporation. If the corporation makes this election, include the additional tax required to be paid on line 13. Write on the dotted line to the left of line 13, "Sec. 953(d) tax—\$(amount)." Attach a schedule showing the computation. See Section 953(d) for more details.

**Line 10. Recapture taxes.**—

**Recapture of investment credit.**—If property is disposed of or ceases to be qualified property before the end of the life-years used in computing the regular or energy investment credit, there may be a recapture of the credit. See Form 4255, Recapture of Investment Credit.

**Recapture of low-income housing credit.**—If you must recapture part of the low-income housing credit because there has been a decrease in the qualified basis of a building from the prior year, or if you disposed of the building or an ownership interest in it, see Form 8611, Recapture of Low-Income Housing Credit, and section 42(j).

**Line 11a. Alternative minimum tax.**—Attach Form 4626, Alternative Minimum Tax—Corporations, if the taxable income or (loss) before the net operating loss deduction when combined with adjustment and tax preference items (including the adjusted current earnings adjustment) exceeds (a) \$40,000, or (b) the allowable exemption amount. See Form 4626 for details. Reduce alternative minimum tax by any credit allowed under section 38(c)(2) on line 19 of Schedule A, Form 3800. Write on the dotted line to the left on line 11a, "Sec. 38(c)(2)—\$(amount)."

**Line 11b. Environmental tax.**—The corporation may be liable for the environmental tax if the modified alternative minimum taxable income of the corporation exceeds \$2,000,000. See Form 4626 for details.

**Line 12. Personal holding company tax.**—A corporation is taxed as a personal holding company under section 542 if:

- At least 60% of its adjusted ordinary gross income, defined in section 543(b)(2), for the tax year is personal holding company income as defined in section 543(a), and
- At any time during the last half of the tax year more than 50% in value of its outstanding stock is owned, directly or indirectly, by not more than 5 individuals.

Use Schedule PH (Form 1120), U.S. Personal Holding Company Tax, to figure this tax.

**Line 13. Total tax.**—Include on line 13 any interest charge for certain installment sales. See sections 453(l)(3) and 453A(c) for details. Write on the dotted line to the left of line 13 "Sec. 453(l)(3) (or Sec. 453A(c)) interest—\$(amount)." Attach a schedule showing the computation.

**Deferred tax and interest on undistributed earnings of a qualified electing fund under section 1294.**—Complete Form 8621 and follow the instructions for that form to determine the tax attributable to the undistributed earnings of a "qualified electing fund" or the deferred tax due, if any, as a result of the termination of the section 1294 election. Include the deferred tax owed on line 13 and follow the reporting instructions in Form 8621 for Form 1120 filers.

**Line 14b. Prior year's special estimated tax payments to be applied.**—Enter on this line the portion of the special estimated tax payments made in earlier tax years that the corporation is applying this year. The amount entered on this line must agree with the amount(s) from line 10, Part II, Form 8816. See Form 8816 and section 847(2) for additional information.

**Line 14c. 1990 Estimated tax payments.**—Enter on this line the corporation's estimated tax payments for 1990. Do not include any amount being applied on line 14d as a "Special estimated tax payment."

**Line 14d. 1990 Special estimated tax payments.**—If an additional deduction for undiscounted unpaid losses under section 847 is claimed on Schedule A, line 27, special estimated tax payments must be made in an amount equal to the tax benefit attributable to the deduction. See Form 8816 and section 847(2) for additional information.

**Line 14h. Credit by reciprocal for tax paid by attorney-in-fact under section 835(d).**—Enter the amount of tax paid by an attorney-in-fact that is attributable to the income received by the attorney-in-fact from the reciprocal during the tax year. For additional information, see section 835, the related regulations, and the instructions for line 5.

## Sales or Exchanges of Capital Assets

Report sales or exchanges of capital assets on Schedule D (Form 1120). The corporation must report every sale or exchange of a

capital asset in detail, even if there is no gain or loss.

In general, corporate losses from sales or exchanges of capital assets are only allowed up to the gains from such sales or exchanges. However, for corporations taxable under section 831, this general rule does not apply to losses from capital assets sold or exchanged to get funds needed to meet abnormal insurance losses and to pay dividends and similar distributions to policyholders. The net capital loss for these corporations is the amount by which losses for the year from sales or exchanges of capital assets exceed the gains from these sales or exchanges plus the lesser of:

- (1) Taxable income (computed without regard to gains or losses from sales or exchanges of capital assets); or
- (2) Losses from the sale or exchange of capital assets sold or exchanged to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders.

Subject to the limitations in section 1212(a), a net capital loss can be carried back 3 years and forward 5 years as a short-term capital loss.

For more information on gains and losses from sales or exchanges of property, see the instructions for Schedule D (Form 1120) and Pub. 544, Sales and Other Dispositions of Assets.

## Schedule A—Taxable Income

**Gross income.**—The gross amounts of underwriting income and investment income should be computed on the basis of the underwriting and investment exhibit of the NAIC annual statement.

**Note:** In computing the amounts entered on lines 2, 3, and 4, take all interest, dividends, or rents received during the year, add interest, dividends, or rents due and accrued at the end of the tax year, and deduct interest, dividends, or rents due and accrued at the end of the preceding tax year. For rules regarding the accrual of dividends, see Regulations section 1.301-1(b).

**Line 3a, column (a). Gross interest.**—Enter the gross amount of interest income, including all tax-exempt interest.

**Line 3b, column (a). Interest exempt under section 103.**—Section 103(a) provides that interest on state or local bonds is excludible from gross income. This exclusion does not apply to: (1) any private activity bond which is not a qualified bond within the meaning of section 141; (2) any arbitrage bond within the meaning of section 148; or (3) any bond that does not meet the applicable requirements of section 149 (regarding the registration of tax-exempt bonds).

**Lines 3a and 3b, column (b). Amortization of premium.**—Enter on line 3a, column (b), the total amortization of bond premium, including amortization on tax-exempt bonds. Enter on line 3b, column (b), the amortization of bond premium on tax-exempt bonds only.

**Line 4. Rents.**—Enter gross rents, computed as indicated in the note above. Deduct rental expenses, such as repairs, interest, taxes, and depreciation on the proper lines in the deductions section (lines 15 through 31).

**Line 5. Royalties.**—Enter gross royalties. If you claim a deduction for depletion, report it on line 23.

**Line 6. Capital gain net income.**—Enter the capital gain net income (if any) shown on line 11 of Schedule D (Form 1120).

**Line 8. Certain mutual fire or flood insurance companies.**—Under the provisions of section 832(b)(1)(D), a mutual fire or flood insurance company whose principal business is the issuance of policies:

(i) for which the premium deposits are the same (regardless of the length of the term for which the policies are written), and

(ii) under which the unabsorbed portion of such premium deposits not required for losses, expenses, or establishment of reserves is returned or credited to the policyholder on cancellation or expiration of the policy, must include in income an amount equal to 2% of the premiums earned on insurance contracts during the tax year with respect to such policies returned or credited during the same tax year.

**Line 9. Income on account of the special income and deduction accounts.**—Section 832(e) requires corporations which write the kinds of insurance listed below to maintain the following special accounts. A corporation which writes: (1) mortgage guaranty insurance, must maintain a mortgage guaranty account; (2) lease guaranty insurance, must maintain a lease guaranty account; and (3) insurance on obligations the interest on which is excludible from gross income under section 103, must maintain an account with respect to insurance on state and local obligations.

Amounts that are required to be added to these special accounts under the provisions of section 832(e)(4) or 832(e)(6) are allowed as a deduction on line 34b of Schedule A. Amounts that are required to be subtracted from these accounts under the provisions of sections 832(e)(5) and 832(e)(6) must be reported as income on line 9 of Schedule A. See section 832(e) for more information.

**Line 11. Mutual interinsurers or reciprocal underwriters—decrease in subscriber accounts.**—Enter the decrease for the tax year in savings credited to subscriber accounts of a mutual insurance company that is an interinsurer or reciprocal underwriter. See the instructions for line 30, Schedule A, for a definition of savings credited to subscriber accounts.

**Line 12. Income from a special loss discount account.**—Enter on line 12, the total from line 7, Part I, Form 8816. See section 847(5) and the instructions for Form 8816 for more information.

**Line 13. Other income.**—Enter on line 13 the total of all taxable income not reported on lines 1 through 12. Attach an itemized schedule listing the sources of all amounts included on line 13. See section 832(b)(1)(C).

### Deductions

**Line 16a. Salaries and wages.**—Enter salaries and wages paid or accrued during the tax year. Do not include salaries and wages deducted elsewhere on the corporation's return, such as contributions to a simplified employee pension plan that are deducted on line 24 of Schedule A.

**Caution:** If the corporation provided taxable fringe benefits to its employees, such as the personal use of an auto, do not deduct as

wages the amount allocated for depreciation and other expenses that the corporation claimed elsewhere on its return.

**Line 16b. Less jobs credit.**—Enter on line 16b the amount of the jobs credit from Form 5884.

**Line 18. Rents.**—Enter rent paid or accrued for business property in which the corporation has no equity.

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 the vehicle lease expense may have to be reduced by an amount called the inclusion amount. You may have an inclusion amount if:

The lease term began:	And the vehicle's fair market value on the first day of the lease exceeded:
After 12/31/86 . . . . .	\$12,800
After 4/2/85 but before 1/1/87 . . . . .	\$23,000
After 6/18/84 but before 4/3/85 . . . . .	\$34,500

**Note:** If the corporation leased a vehicle during 1986, and the tax year beginning in 1990 is the first tax year the vehicle was used 50% or less for business, you will need to figure an additional inclusion amount. You must figure this additional amount even if the corporation had no inclusion amount using the table shown above.

See Pub. 917, Business Use of a Car, for instructions on how to figure the inclusion amount and additional inclusion amount.

**Line 19. Taxes.**—Enter taxes paid or accrued during the tax year. Do not include the following taxes: 1. Federal income taxes (except the environmental tax under section 59A); 2. Foreign or U.S. possession income taxes if a credit is claimed; 3. Taxes not imposed on the corporation; or 4. Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property. Such taxes must be treated as a part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition.

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

If the corporation is liable for the environmental tax under section 59A, see Form 4626 for computation of the environmental tax deduction.

**Line 20a. Interest.**—Enter all interest paid or accrued during the tax year.

Generally, the interest and carrying charges on straddles must be capitalized. See section 263(g).

Interest paid or incurred that is allocable to certain property produced by a corporation for its own use or for sale must be capitalized. In addition, a corporation must capitalize any interest on debt that it incurred or continued in connection with an asset used to produce the above property. See section 263A for definitions and for more information.

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

Certain interest paid or accrued by the corporation (directly or indirectly) to a related person may be limited if no tax is

imposed on such interest. See section 163(j) for more information.

See section 7872 for special rules regarding the deductibility of forgone interest on certain below-market rate loans.

**Line 20b. Less tax-exempt interest.**—Enter interest paid or accrued during the tax year on indebtedness incurred or continued to purchase or carry obligations, the interest on which is wholly tax exempt.

**Line 21. Contributions.**—Enter contributions or gifts actually paid within the tax year to or for the use of charitable and governmental organizations described in section 170(c), and for any unused contributions carried over from prior years.

The total deduction allowable in any year may not exceed 10% of taxable income (line 37, Schedule A) computed without regard to: (1) the deduction for charitable contributions; (2) the deduction for dividends received; (3) the deductions allowed under sections 249 and 250; (4) any net operating loss carryback to the tax year under section 172; and (5) any capital loss carryback to the tax year under section 1212(a)(1).

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

Taxable income is modified in order to determine the amount of a net operating loss used in an intervening year (i.e., a year to which a net operating loss is carried but not fully absorbed). For this purpose, taxable income is computed by determining the net operating loss deduction for the year without regard to the net operating loss for the loss year or any later year. See section 172(b)(2). To the extent charitable contributions are used to reduce taxable income for this purpose and increase a net operating loss carryover, a contributions carryover is not allowed. See section 170(d)(2)(B).

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.

If a contribution is in property other than money for which the total claimed deduction of all property contributed exceeds \$500, corporations (except closely held and personal service corporations) must attach a schedule describing the kind of property contributed and the method used in determining its fair market value. If a contribution carryover is included, show the amount and how it was determined.

Closely-held and personal service corporations generally must complete and attach Form 8283, Noncash Charitable Contributions, to their returns for contributions of property other than money, if the total claimed deduction for all property contributed was more than \$5,000.

If the corporation made a qualified conservation contribution under section 170(h), include the fair market value of the underlying property before and after the donation. Describe the conservation purpose furthered by the corporation's donation and the type of legal interest contributed.

**Special rule for contributions of certain property.**—For a charitable contribution of property, the contribution must be reduced by the sum of: (1) The ordinary income or short-term capital gain that would have resulted if the property had been sold at its fair market value, and (2) For certain contributions, all of the long-term capital gain that would have resulted if the property had been sold at its fair market value.

The reduction for long-term capital gain applies to: (1) Contributions of tangible personal property for use by an exempt organization for a purpose or function unrelated to the basis for its exemption; and (2) Contributions of any property (except stock for which market quotations are readily available—see section 170(e)(5)) to or for the use of certain private foundations. (See section 170(e) and Regulations section 1.170A-4.)

For special rules for contributions of inventory and other property to certain organizations, see section 170(e)(3) and Regulations section 1.170A-4A.

**Charitable contributions of scientific property used for research.**—A corporation (other than a personal holding company or a personal service organization) can receive a larger deduction for contributing scientific property used for research to an institution of higher education. For further information, see section 170(e).

**Line 22. Depreciation.**—Besides depreciation, include on line 22 the part of the cost (up to \$10,000) that the corporation elected to expense for certain recovery property placed in service during tax year 1990 or carried over from 1989. See the instructions for Form 4562.

**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).

Foreign intangible drilling costs and mining and development costs paid or incurred 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 more information.

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

**Line 24. Pension, profit-sharing, etc., plans.**—Employers who maintain a pension, profit-sharing, or other funded deferred compensation plan, whether or not qualified under the Internal Revenue Code and whether or not a deduction is claimed for the current tax year, generally are required to file one of the forms described below. There are penalties for failure to file these forms on time and for overstating the pension plan deduction. See sections 6652(e) and 6662(f).

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

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

**Form 5500EZ.**—Complete this form for a one-participant plan.

**Line 25. Employee benefit programs.**—Enter the amount of contributions to employee benefit programs (for example, insurance, health and welfare programs) that are not an incidental part of a pension, profit-sharing, etc., plan included on line 24.

**Line 27. Additional deduction.**—Any insurance company that is required to discount unpaid losses under section 846 is allowed an additional deduction that is not to exceed the excess of (1) the amount of certain undiscounted unpaid losses, over (2) the amount of the related discounted unpaid losses, to the extent the amount was not deducted in a preceding tax year. Enter the amount of the additional deduction on this line and attach Form 8816.

Any insurance company taking the additional deduction is required to: (1) make special estimated tax payments equal to the tax benefit attributable to the deduction, and (2) establish and maintain a Special Loss Discount Account. See section 847 and Form 8816 for details.

**Line 29. Dividends to policyholders.**—Enter the total dividends and similar distributions paid or declared to policyholders in their capacity as such, except in the case of a mutual fire insurance company exclusively issuing perpetual policies. Whether dividends have been paid or declared should be determined according to the method of accounting regularly employed in keeping the books of the insurance company.

The term "dividends and similar distributions" includes amounts returned or credited to policyholders on cancellation or expiration of policies issued by a mutual fire or flood insurance company (1) where the premium deposits for the policy are the same (regardless of the length of the term for which the policies are written), and (2) under which the unabsorbed portion of such premium deposits not required for losses, expenses, or establishment of reserves is returned or credited to the policyholder on cancellation or expiration of the policy.

In the case of a qualified group self-insurers fund, the fund's deduction for policyholder dividends is allowed no earlier than the date the state regulatory authority determines the amount of the policyholder dividend that may be paid. See section 6076 of the Technical and Miscellaneous Revenue Act of 1988 ("Act of 1988").

**Line 30. Mutual interinsurers or reciprocal underwriters—Increase in subscriber accounts.**—A mutual insurance company that is an interinsurer or reciprocal underwriter may deduct the increase in savings credited to subscriber accounts for the tax year.

Savings credited to subscriber accounts means the surplus credited to the individual accounts of subscribers before the 16th day of the 3rd month following the close of the tax year. This is true only if the corporation would be required to pay this amount promptly to a subscriber if the subscriber ended the contract when the corporation's tax year ends. The corporation must notify the subscriber as required by Regulations section 1.823-6(c)(2)(v). The subscriber must treat any savings credited to the subscriber's account as a dividend paid or declared.

**Line 31. Other deductions.**—Enter the total deductions allowable under sections 832(c)(1) and (10) (net of the annual statement change in undiscounted unpaid loss adjustment expenses) to the extent they are not reported on lines 15 through 30. A corporation may deduct dividends it pays 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 information and the limitation on certain dividends.

**Meals, etc.**—Generally, the corporation can deduct only 80% of the amount otherwise allowable for meals and entertainment expenses paid or incurred in its trade or business. In addition, meals must not be lavish or extravagant; a bona fide business discussion must occur during, immediately before, or immediately after the meal; and an employee of the corporation must be present at the meal. See section 274(k)(2) for exceptions. If the corporation claims a deduction for unallowable meal expenses, it may have to pay a penalty. Additional limitations apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets. See section 274 and **Pub. 463**, Travel, Entertainment, and Gift Expenses, for details.

For tax years ending on or after September 30, 1990, insurance companies are generally required to amortize policy acquisition expenses on a straight-line basis over a period of 120 months beginning with the 1st month in the 2nd half of the tax year (section 848(a)). The following percentages of net premiums shall be amortized: Annuities 1.75%, Group life 2.05%, Other life (including noncancelable or guaranteed renewable accident and health) 7.7%. Section 848(b) provides for an amortization period of 60 months for the first \$5 million of amortizable policy acquisition expenses for any tax year. See section 848(b)(2) for phase-out rules. The 60 month amortization period does not apply to any policy acquisition expenses for any tax year that are attributable to premiums or other consideration under any reinsurance contract (section 848(b)(4)). See section 848 for special rules, definitions, and exceptions.

For tax years including September 30, 1990, only a pro rata portion of amortizable expenses are required to be amortized, determined by dividing the days left in the tax year on or after September 30 by the total number of days in that tax year.

Attach a schedule itemizing the amounts included on line 31.

**Line 34a. Special deduction for section 833 organizations.**—The amount claimed cannot exceed taxable income for the tax year (determined without regard to this deduction).

**Line 34b. Deduction on account of the special income and deduction accounts.**—Enter the total of the amounts required to be added under the provisions of sections 832(e)(4) and (6). However, no deduction is permitted unless the corporation purchases tax and loss bonds in an amount equal to the tax benefit attributable to the deduction. See section 832(e) for more information.

**Note:** The deduction on account of the special income and deduction accounts is limited to taxable income for the tax year (computed without regard to this deduction or to any carryback of a net operating loss).

**Line 36a. Dividends-received deduction.**—Generally, the dividends-received deduction allowed by sections 243(a)(1), 244(a), and

subsections (a) and (b) of section 245 may not exceed 70% (80% in certain cases) of taxable income (or taxable investment income for electing small companies) computed without regard to: (1) the deduction allowed by section 172 (net operating loss); (2) the deductions allowed by section 243(a)(1), section 244(a), subsection (a) or (b) of section 245, and section 247; (3) any adjustment under section 1059; and (4) any capital loss carryback to the tax year under section 1212(a)(1). However, this limitation does not apply for any tax year for which there is a net operating loss as determined under section 172.

**Line 36b. Net operating loss deduction.**—The "net operating loss" is the amount of the net operating loss carryovers and carrybacks that can be deducted in the tax year. See section 172(a). If this deduction is taken, explain its computation on an attached schedule.

Generally, a corporation may carry a net operating loss back to each of the 3 years preceding the year of the loss and carry it over to each of the 15 years following the year of the loss. Personal service corporations are not permitted to carry back a net operating loss to or from any tax year to which a section 444 election applies.

A corporation may carry back 10 years the part of the net operating loss attributable to a product liability loss. See section 172(b)(1)(i). See Regulations section 1.172-13(c) for the required statement that must be attached to Form 1120-PC when claiming the 10-year carryback on product liability losses.

There is also an available election to carry a net operating loss over to just each of the 15 years following the year of the loss. The election may be made by attaching a statement to a tax return that is filed on time (including extensions). The election is irrevocable. Section 172(b)(1) describes types of losses for which the 15-year carryover period does not apply. Also see section 172(b)(1)(M) for special rules for a corporation with an excess interest loss if the corporation had an equity reduction interest loss for any loss limitation year ending after August 2, 1989.

After applying the net operating loss to the first tax year to which it may be carried, the portion of the loss the corporation may carry to each of the remaining tax years is the excess, if any, of the loss over the sum of the modified taxable income for each of the prior tax years to which the corporation may carry the loss. See section 172(b).

If there is a carryback of a net operating loss, net capital loss, or an unused credit, file **Form 1139**, Corporation Application for Tentative Refund, within 12 months after the close of the tax year for a "quick refund" of taxes. See section 6411.

**Caution:** Do not attach Form 1139 to the corporation's income tax return. Mail it in a separate envelope and file it with the same service center the corporation files its income tax return.

A net operating loss cannot be carried to or from any tax year for which the insurance company is not subject to tax under section 831(a), or to any tax year if (between the tax year from which the loss is being carried and such tax year) there is an intervening tax year for which the insurance company was not subject to tax imposed by section 831(a).

See section 172 for special rules, limitations, and definitions pertaining to net operating loss carrybacks and carryovers. Also see **Pub. 536**, Net Operating Losses.

See section 382 for the limitation on the amount of taxable income of a loss corporation for any tax year ending after a post-1986 ownership change that may be offset by pre-change net operating loss carryovers. 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.

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

See section 844 for special loss carryover rules for insurance companies.

## Schedule B, Part I— Taxable Investment Income or (Loss) of Electing Small Companies

**Note:** (1) Once an election is made to be taxed only on investment income, it can only be revoked with the consent of the Secretary, and (2) a corporation making this election must include in gross investment income any amount subtracted from a protection against loss account.

### Income

**Line 1a, column (a). Gross interest.**—Enter the gross amount of interest income including all tax-exempt interest income.

**Line 1b, column (a). Interest exempt under section 103.**—Enter the amount of interest on state and local bonds that is exempt from taxation under section 103. See the instructions for Schedule A, line 3b, column (a), for more information.

**Lines 1a and 1b, column (b). Amortization of premiums.**—Enter on line 1a, column (b), the total amortization of bond premiums, including amortization of premium on tax-exempt bonds. Enter on line 1b, column (b), the amortization of bond premium on tax-exempt bonds.

**Line 3. Gross rents.**—Enter the gross rents received or accrued during the tax year. Deduct rental expenses such as repairs, interest, taxes and depreciation on the proper lines in the deductions section.

**Line 4. Gross royalties.**—Enter the gross royalties received or accrued during the tax year. If you claim a deduction for depletion, see line 12 below.

**Line 5. Gross income from trade or business other than insurance business and from Form 4797.**—Enter the gross income from any business other than an insurance business carried on by the insurance company or by a partnership of which the insurance company is a partner. Include section 1245, section 1250 (as modified by section 291), and other gains from **Form 4797**, Sales of Business Property, on investment assets only.

**Line 6. Income from leases described in sections 834(b)(1)(B) and 834(b)(1)(C).**—Enter the gross income from entering into (or changing or ending) any lease, mortgage, or other instrument or agreement from which the company earns interest, dividends, rents, or royalties.



## Deductions

**Note:** Also see section 834(d)(1) regarding the limitation of expenses on real estate owned and occupied in part or in whole by a mutual insurance company.

**Line 9. Real estate taxes.**—Enter taxes paid or accrued on real estate owned by the corporation and deductible under section 164.

**Line 10. Other real estate expenses.**—Enter all ordinary and necessary real estate expenses, such as fire insurance, heat, light, and labor. Also enter the cost of incidental repairs that keep the property in an ordinary, efficient operating condition but neither materially add to the property's value nor appreciably prolong its life. Do not include any amount paid for new buildings or for permanent improvements or betterments made to increase the value of any property or any amount spent on foreclosed property before the property is held for rent.

**Line 11. Depreciation.**—Enter depreciation on assets only to the extent that the assets are used to produce the income specified in section 834(b) and reported on lines 1 through 7 of Schedule B. Besides depreciation, include on line 11 the part of the cost you elect to expense for certain recovery property placed in service during the tax year. See the instructions for Form 4562.

**Line 12. Depletion.**—Enter any allowable depletion on the royalty income reported on line 4 of Schedule B. See the instructions for line 23, Schedule A, for more information.

**Line 13. Trade or business deductions.**—Enter total deductions for any business income included in the corporation's gross investment income under section 834(b)(2). Do not include deductions for any insurance business. Do not include losses from sales or exchanges of capital assets or property used in the business, or from the compulsory or involuntary conversion of property used in the trade or business.

**Line 14. Interest.**—See the instructions for lines 20a and 20b Schedule A.

**Line 17. Investment expenses.**—Enter expenses that are properly chargeable as investment expenses. If you allocate general expenses to investment expenses, the total deduction cannot be more than the amount shown on Schedule B, Part II, line 39. Attach a schedule showing the kind and amount of the items and group the minor items into one amount.

See section 267 for the limitation on deductions for unpaid expenses and interest in transactions between related taxpayers.

## Schedule B, Part II—Invested Assets Book Values

Schedule B, Part II, is used to compute the limitation on investment expenses required under section 834(c)(2) when any general expenses are in part assigned to or included in the investment expenses deducted on Schedule B, Part I, line 17. In such cases, the total deductible investment expenses are limited to  $\frac{1}{4}$  of 1% of the mean of the book value of the invested assets held at the beginning and end of the tax year plus  $\frac{1}{4}$  of the amount by which taxable investment income (computed without regard to any deduction for: (i) investment expenses under section 834(c)(2), (ii) tax-free interest excludible under section 834(c)(1), or (iii) any dividends-received deduction allowed by

section 834(c)(7)) exceeds 3 $\frac{3}{4}$ % of the book value of the mean of the invested assets held at the beginning and end of the tax year.

## 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 stock. Preferred stock described in section 1504(a)(4) is not taken into account. Corporations filing a consolidated return should see Regulations sections 1.1502-14, 26, and 27 before completing Schedule C.

**Lines 1 through 9, column (a). Not subject to section 832(b)(5)(B).**—Enter in column (a) of the appropriate line those dividends that are not subject to the provisions of section 832(b)(5)(B). This will include: (i) all dividends received on stock whose acquisition date is before August 8, 1986; and (ii) 100% dividends (defined below) on stock acquired after August 7, 1986, to the extent that such dividends are not attributable to prorated amounts.

**Lines 1 through 9, column (b). Subject to section 832(b)(5)(B).**—Enter in column (b) of the appropriate line those dividends that are subject to the provisions of section 832(b)(5)(B). This will include: (i) all dividends (other than 100% dividends) received on stock acquired after August 7, 1986; and (ii) 100% dividends received on stock acquired after August 7, 1986, to the extent that such dividends are attributable to prorated amounts.

In the case of an insurance company that files a consolidated return, the determination with respect to any dividend paid by a member to another member of the affiliated group is made as if no consolidated return was filed. See section 832(g).

### Definitions.—

**Acquisition date.**—In the case of investments acquired by direct purchase, the trade date rather than the settlement date should be used for purposes of determining the acquisition date. In the case of investments acquired other than by direct purchase (such as those acquired through transfers among affiliates, tax-free reorganizations, or the liquidation of a subsidiary, etc.), the actual acquisition date should be used regardless of the holding period determined under section 1223.

In the case of dividends received from affiliates, a special rule applies in determining the acquisition date. This rule provides that the portion of any 100% dividend which is attributable to prorated amounts shall be treated as received with respect to stock acquired on the later of: (a) the date the payor acquired the stock or obligation to which the prorated amounts are attributable, or (b) the first day on which the payor and payee were members of the same affiliated group as defined in section 243(b)(5). Also, if the taxpayer is a member of an affiliated group filing a consolidated return, its determination of dividends received is made as if the group were not filing a consolidated return.

**Prorated amounts.**—The term "prorated amounts" means tax-exempt interest and dividends with respect to which a deduction is allowable under section 243, 244, or 245 (other than 100% dividends).

**100% dividends.**—The term "100% dividend" means any dividend if the percentage used for purposes of determining the deduction allowable under section 243, 244, or 245(b) is 100%. A special rule applies with regard to certain dividends received by a foreign corporation.

**Line 1.**—Enter dividends (except those received on debt-financed stock acquired after July 18, 1984) received from less-than-20%-owned domestic corporations subject to income tax and that qualify for the deduction allowable under section 243(a)(1).

**Line 2.**—Enter dividends (except those received on debt-financed stock acquired after July 18, 1984) received from 20%-or-more-owned domestic corporations subject to income tax and that qualify for the deduction allowable under section 243(c)(1).

Include on lines 1 and 2 taxable distributions from an IC-DISC or former DISC that are designated as being eligible for the section 243(a)(1) deduction and certain dividends of Federal Home Loan Banks (see section 246(a)(2)). For dividends received from a regulated investment company, see section 854 for the amount that qualifies for the deduction.

So-called dividends or earnings received from mutual savings banks, money market certificates, etc., are really interest and should not be treated as dividends.

**Line 3.**—Enter dividends on debt-financed stock (acquired after July 18, 1984) that were received from domestic corporations subject to income tax and that would otherwise be subject to the dividends-received deduction under section 243(a)(1). Generally, debt-financed stock is stock that the corporation acquired and, in doing so, incurred a debt (for example, it borrowed money to buy the stock).

Dividends on any debt-financed stock of foreign corporations that was acquired after July 18, 1984, are also subject to the rules of section 246A. For more information, see section 246A.

**Line 4.**—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.

**Line 5.**—Enter dividends received on the 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.

**Line 6.**—Enter the U.S. source portion of dividends received from less-than-20%-owned foreign corporations that qualify for the 70% deduction under section 245(a). To qualify for the 70% deduction, the corporation must own at least 10% of the foreign corporation by vote and value. Also include dividends received from a foreign sales corporation (FSC) that are attributable to income treated as effectively connected with the conduct of a trade or business within the U.S. (excluding foreign trade income) and that qualify for the 70% deduction provided in section 245(c)(1)(B).

**Line 7.**—Enter the U.S.-source portion of dividends received from 20%-or-more-owned foreign corporations that qualify for the 80% deduction under section 245(a). Also include dividends received from a FSC that are attributable to income treated as effectively connected with the conduct of a trade or business within the U.S. (excluding foreign

trade income) and that qualify for the 80% deduction provided in section 245(c)(1)(B).

**Line 8.**—Enter dividends received from wholly owned foreign subsidiaries that qualify for the 100% deduction under section 245(b) and dividends from a FSC that qualify for the deduction provided in section 245(c)(1)(A). In general, the deduction under section 245(b) applies to dividends paid out of the earnings and profits of a foreign corporation for a tax year during which: (1) all of its outstanding stock is owned (directly or indirectly) by the domestic corporation receiving the dividend, and (2) all of its gross income from all sources is effectively connected with the conduct of a trade or business within the U.S. Also include all dividends received from a FSC that are attributable to export sales income and that qualify for the 100% deduction under section 245(c).

**Line 9.**—Enter dividends that qualify for the 100% dividends-received deduction under section 243(a)(3) and are subject to the elective provisions of section 243(b).

**Line 10, column (c). Other dividends from foreign corporations not included on lines 6, 7, and 8.**—Enter dividends from foreign corporations that are not reportable on lines 6, 7, and 8. Exclude distributions of amounts constructively taxed under Subpart F (sections 951 through 964) in the current year or in earlier years.

**Line 11, column (c). Income from controlled foreign corporations under Subpart F.**—Enter dividends constructively received from controlled foreign corporations under Subpart F. The total reported should equal the total amount reported in Schedule J, if using the November 1987 revision of Form 5471 (Schedule I if using the October 1990 revision of Form 5471).

**Line 12, column (c). Foreign dividend gross-up.**—Enter the gross-up required by section 78 of dividends received from certain foreign corporations for taxes considered paid under sections 902 and 906.

**Line 13, column (c). Other dividends.**—Enter the total other dividends received. Attach a schedule showing separately: (1) Dividends (other than capital gain and exempt-interest dividends) received from regulated investment companies that do not qualify for the dividends-received deduction. (2) Dividends from tax-exempt organizations. (3) Dividends (other than capital gain dividends) received from a real estate investment trust that, for the tax year of the trust in which the dividends are paid, qualifies under sections 856 through 860. (4) Dividends not eligible for the dividends-received deduction because of the stock's holding period or because of an obligation to make corresponding payments on 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 the stock, with regard to which the dividends were issued, for 45 days or less; or (2) to the extent that the corporation is under an obligation to make related payments for substantially similar or related property.

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

**Line 17. Deduction for line 3.**—Dividends received on debt-financed stock are not entitled to the full 70% or 80% dividends-received deduction. Instead, the 70% or

80% deduction is reduced under the provisions of section 246A by a percentage that is related to the amount of debt incurred to acquire the stock. For more information, see section 246A. Also see section 245(a) before making this computation for an additional limitation which applies to dividends received from foreign corporations.

A schedule showing how the dividends-received deduction on debt-financed stock was computed must be attached to Form 1120-PC.

**Line 23. Total.**

**Limitation on dividends-received deduction worksheet.**

Generally, line 23 of column (c) may not exceed the amount from the worksheet below. However, in a year in which a net operating loss occurs, this limitation does not apply even if the loss is created by the dividends-received deduction. (See sections 172(d) and 246(b)).

1. Enter the amount from Schedule A, line 37 or Schedule B, line 21, whichever applies, computed without regard to: the net operating loss deduction (section 172); dividend-received deduction (sections 243(a)(1), 244(a), 245(a) or (b), and 247); any adjustment under section 1059; and any capital loss carryback to the tax year under section 1212(a)(1) . . . . . \_\_\_\_\_
2. Enter the amount from line 22, column (c), (without regard to wholly owned foreign subsidiary dividends) and line 24, column (c) . . . . . \_\_\_\_\_
3. Subtract line 2 from line 1 . . . . . \_\_\_\_\_
4. Multiply the amount on line 3 by 80% . . . . . \_\_\_\_\_
5. Enter the sum of the amounts on lines 16, 19, 21, and 22 (without regard to FSC dividends) of column (c) and the portion of the deduction on line 17 of column (c) that is attributable to dividends received from 20%-or-more-owned corporations. . . . . \_\_\_\_\_
6. Enter the lesser of line 4 or line 5. (Do not complete the rest of this worksheet if line 5 is greater than line 4. Instead, enter the amount from line 6 on line 23 of column (c) (without regard to FSC dividends)) . . . . . \_\_\_\_\_
7. Enter the total amount of dividends received from 20%-or-more-owned corporations and included on lines 2, 3, 5, 7, and 8 (without regard to FSC dividends) of column (a) . . . . . \_\_\_\_\_
8. Subtract line 7 from line 3 . . . . . \_\_\_\_\_
9. Multiply the amount on line 8 by 70% . . . . . \_\_\_\_\_
10. Subtract line 5 from line 23 of column (c) (without regard to FSC dividends). . . . . \_\_\_\_\_
11. Enter the lesser of line 9 or line 10 . . . . . \_\_\_\_\_
12. Dividends-received deduction after limitation (section 246(b)). Add the amounts on lines 6 and 11 and enter on line 23 of column (c) (without regard to FSC dividends) . . . . . \_\_\_\_\_

**Schedule E—Premiums Earned—Section 832**

**Line 1. Net premiums written.**—From the amount of gross premiums written on insurance contracts during the tax year, deduct return premiums and premiums paid for reinsurance. Enter the balance on line 1.

**Lines 2a and 4a. 100% of life insurance reserves included in unearned premiums and all unearned premiums of section 833 organizations.**—Include on lines 2a and 4a:

(1) For tax years beginning on or before September 29, 1990, all life insurance reserves, as defined in section 816(b) (but determined as provided in section 807),

pertaining to the life, burial, or funeral insurance, or annuity business of an insurance company subject to the tax imposed by section 831 and not qualifying as a life insurance company under section 816. For tax years beginning on or after September 30, 1990, all life insurance reserves, as defined in section 816(b) (but determined as provided in section 807); and

(2) all unearned premiums of a Blue Cross or Blue Shield organization to which section 833 applies.

**Note:** If by reason of the amendments made to section 832(b)(4) applicable to tax years beginning on or after September 30, 1990, a corporation is required to change its method of computing reserves, this change is treated as a change in method of accounting, initiated by the corporation, and made with the consent of the Secretary. The corporation must take into account the net adjustments required by section 481 over a period not to exceed 4 tax years beginning with the 1st tax year beginning on or after September 30, 1990.

**Lines 2b and 4b. 90% of unearned premiums attributable to insuring certain securities.**—Include on lines 2b and 4b, 90% of unearned premiums attributable to insurance against default in the payment of principal or interest on securities described in section 165(g)(2)(C) (relating to worthless securities) with maturities of more than 5 years.

**Lines 2c and 4c. Discounted unearned premiums attributable to title insurance.**—The amount of the discounted unearned premiums as of the end of any tax year shall be the present value of such premiums (as of such time and separately with respect to premiums received in each calendar year) determined by using: (1) the amount of the undiscounted unearned premiums at such time; (2) the applicable interest rate; and (3) the applicable statutory premium recognition pattern.

**Definition of terms**

“Undiscounted unearned premiums” means the unearned premiums shown in the annual statement filed for the year ending with or within such tax year.

“Applicable interest rate” means the annual rate determined under section 846(c)(2) for the calendar year in which the premiums are received.

“Applicable statutory premium recognition pattern” means the statutory premium recognition pattern which is in effect for the calendar year in which the premiums are received, and which is based on the statutory premium recognition pattern which applies to premiums received by the corporation in such calendar year. For purposes of the preceding sentence, premiums received during any calendar year shall be treated as received in the middle of such year.

**Lines 2d and 4d. 80% of all other unearned premiums.**—Include on lines 2d and 4d, 80% of the total of all unearned premiums not reported on lines 2a through 2c, or 4a through 4c, respectively.

A reciprocal or interinsurer that is required under state law to reflect unearned premiums on its annual statement net of premium acquisition expenses, should increase its unearned premiums by the amount of such acquisition expenses prior to making the computation on lines 2d and 4d. See section 832(b)(7)(E).

**Line 6a. Unearned premiums (other than title, life, and those described in sections 832(b)(7)(B) and 833) as of 12/31/86.**—Enter all unearned premiums other than those attributable to: (1) title insurance; (2) life insurance; (3) insurance against default in the payment of principal or interest on securities described in section 165(g)(2)(C) (relating to worthless securities) with maturities of more than 5 years; and (4) organizations described in section 833.

In the case of a reciprocal or interinsurer that is required under state law to report unearned premiums on its annual statement, net of premium adjustment expenses, appropriate adjustments shall be made to reflect the amount by which unearned premium reserves at the close of the tax year beginning before January 1, 1987, are greater or less than 80% of the sum of such unearned premium reserves plus premium acquisition expenses. See section 832(b)(7)(E).

**Line 6c. Unearned premiums attributable to insuring certain securities as of 12/31/86.**—Enter unearned premiums attributable to insurance against default in the payment of principal or interest on securities described in section 165(g)(2)(C) (relating to worthless securities) with maturities of more than 5 years.

**Note:** Fiscal year filers completing lines 6a and 6c should enter unearned premiums on outstanding business as of the end of the most recent tax year beginning before January 1, 1987.

**Line 6e. Adjustment for corporations terminating as insurance companies taxable under section 831(a).**—Except as provided in section 381(c)(22) (relating to carryovers in certain corporate readjustments), if, for any tax year beginning before January 1, 1993, the corporation ceases to be an insurance company taxable under section 831(a), the aggregate adjustments which would be made under section 832(b)(4)(C) in such tax year and in subsequent tax years but for such cessation shall be made in the tax year preceding such cessation year.

## Schedule F—Losses Incurred

**Line 1. Losses paid.**—Enter the total of the losses paid on insurance contracts during the year reduced by salvage and reinsurance recovered during the year.

**Note:** An insurance company's treatment of salvage in determining its paid and unpaid losses is a method of accounting for Federal income tax purposes. In general, insurance companies that did not previously treat salvage in accordance with the provisions of section 832(b)(5)(A) are to change their method of accounting for the first tax year beginning after December 31, 1989. A change in the method of computing losses incurred, is treated as a change in a method of accounting, initiated by the corporation, and made with the consent of the Secretary. In applying section 481 due to a change required by section 832(b)(5)(A), only 13% of the net amount of adjustments (otherwise required by section 481 to be taken into account) shall be taken into account. In addition, the portion of net adjustments required to be taken into account, shall be taken into account over a period not to exceed 4 tax years beginning with the corporation's first tax year beginning after December 31, 1989. If a corporation took

salvage recoverable into account in determining losses incurred for its last tax year beginning before January 1, 1990, (and reflected such treatment in its annual statement) 87% of the discounted amount of estimated salvage recoverable as of the close of such last tax year shall be allowed as a deduction ratably over its first 4 tax years beginning after December 31, 1989.

See section 11305(c)(4) and (5) of the "Act of 1990" for a special rule for overestimates and effect on earnings and profits.

Salvage, in the course of liquidation, includes: (1) all property (other than cash), real or personal, tangible or intangible, regardless of how the salvage recoverable is reported for annual statement purposes; and (2) the estimated value of unaccrued subrogation claims contested by third parties. A schedule should be attached showing the computation of losses incurred during the tax year.

**Lines 2a and 4a. Unpaid losses on life insurance contracts.**—Unpaid losses must be adjusted for estimated recoveries of salvage and reinsurance attributable to unpaid losses. The amounts of such expected recoveries should be estimated based upon the facts in each case and the corporation's experience with similar cases.

**Lines 2b and 4b. Discounted unpaid losses outstanding.**—Enter all discounted unpaid losses as defined in section 846.

In general, section 846 provides that the amount of the discounted unpaid losses shall be computed separately by line of business (except that the multiple peril lines shall be treated as a single line of business) and by accident year and shall be equal to the present value of such losses determined by using: (1) the amount of the undiscounted unpaid losses, (2) the applicable interest rate, and (3) the applicable loss payment pattern. Special rules apply with respect to unpaid losses related to disability insurance (other than credit disability insurance), noncancelable accident and health insurance, cancelable accident and health insurance, and to the international and reinsurance lines of business. With regard to the special rules for discounting unpaid losses on accident and health insurance (other than disability income insurance), unpaid losses are assumed to be paid in the middle of the year following the accident year.

As a rule, the amount of the undiscounted unpaid losses means the unpaid losses and unpaid loss adjustment expenses shown in the annual statement. Under section 832(b)(5)(A), however, unpaid losses must be adjusted to take into account estimated recoveries on account of salvage and reinsurance attributable to those losses. If the amounts shown in the annual statement were determined on a discounted basis and if the extent to which these losses were discounted can be determined on the basis of information disclosed on or with the annual statement, the amount of the undiscounted unpaid losses must be recomputed to eliminate any reduction attributable to such discounting. In no event can the amount of discounted unpaid losses determined under section 846 with respect to any line of business for an accident year exceed the aggregate amount of unpaid losses with respect to any line of business for an accident year as reported on the NAIC annual statement.

The applicable interest rate for each calendar year and the applicable loss payment pattern for each accident year for each line of business are determined by the Secretary of the Treasury. The applicable interest rate, 8.37%, and applicable loss payment patterns for 1990 are published in Rev. Rul. 90-26, 1990-13 I.R.B. 7. Applicable interest rates and payment patterns for prior years are published in Rev. Rul. 89-66A, 1989-1 C.B. 220; Rev. Rul. 88-63, 1988-2 C.B. 130; and Rev. Rul. 87-34, 1987-1 C.B. 168. However, under the provisions of section 846(e), corporations having sufficient historical experience to determine a loss payment pattern may, under certain circumstances, elect to use their own. If such an election is made, the loss payment patterns will be based on the most recent calendar year for which an annual statement was filed before the beginning of the accident year. No election under section 846(e) shall apply to any international or reinsurance line of business. If the corporation elects to use its own loss payment patterns, be sure to check the "Yes" column for question M in **Schedule J, Additional Information**. For more information regarding this election, see section 846(e) and Notice 88-100, 1988-2 C.B. 439.

**Note:** There is a special application of the "Fresh Start" provision in the case of an insurance company that: (1) is exempt from tax for its first tax year beginning after 1986 under section 501(a) by virtue of it being described in any paragraph of section 501(c) or, under section 831(b), is taxed only on investment income, and (2) if such insurance company later becomes subject to tax under section 831(a), the rules relating to the Fresh Start under the discounting provisions are to be applied by treating the last tax year before the year in which the insurance company becomes subject to tax under section 831(a) as the insurance company's last tax year beginning before 1987. See section 1010(e) of the Act of 1988 and Notice 88-100.

**Line 6. Tax-exempt interest subject to section 832(b)(5)(B).**—Enter the amount of tax-exempt interest received or accrued during the tax year on investments made after August 7, 1986. For additional information regarding the determination of the acquisition date of an investment, see the instructions for Schedule C, lines 1 through 9, column (b).

## Schedule G—Other Capital Losses

Capital assets are considered sold or exchanged to provide funds to meet abnormal insurance losses and to pay dividends and make similar distributions to policyholders to the extent that the gross receipts from their sale or exchange are not more than the amount by which the sum of dividends and similar distributions paid to policyholders, losses paid, and expenses paid for the tax year is more than the total on line 9, Schedule G.

Total gross receipts from sales of capital assets (line 12, column (c)) must not be more than line 10. If necessary, the corporation may report part of the gross receipts from a particular sale of a capital asset on this schedule and the rest on Schedule D (Form 1120). Otherwise, do not include on Schedule D (Form 1120) any sales reported on this schedule.

## Schedule H—Special Deduction for Section 833 Organizations

### Part I—Computation of Deduction

**Line 5. Beginning adjusted surplus.**—Enter on this line the amount from Schedule H, Part II, line 12 of the 1989 Form 1120-PC.

**Line 6. Special deduction.**—The deduction determined in Part I for any tax year is limited to taxable income for such tax year determined without regard to such deduction.

**Note:** Under the provisions of section 833(b)(4), any determination under section 833(b) shall be made by only taking into account items attributable to the health-related business of the corporation.

### Part II—Computation of Ending Adjusted Surplus

The adjusted surplus as of the beginning of any tax year is an amount equal to the adjusted surplus as of the beginning of the preceding tax year: (1) increased by the amount of any adjusted taxable income for such preceding tax year, or (2) decreased by the amount of any adjusted net operating loss for such preceding tax year.

For purposes of the computation of the adjusted surplus, the terms "adjusted taxable income" and "adjusted net operating loss" mean the taxable income or the net operating loss, respectively, determined with the following modifications: (1) without regard to the deduction determined under section 833(b)(1); (2) without regard to any carryover or carryback to such tax year; and (3) by increasing gross income by an amount equal to the net exempt income for the tax year.

**Line 10a. Adjusted tax-exempt income.**—Reduce the total tax-exempt interest received or accrued during the tax year by any amount (not otherwise deductible) which would have been allowable as a deduction for the tax year if such interest were not tax-exempt. Enter the result on line 10a.

**Line 10b. Adjusted dividends-received deduction.**—Reduce the aggregate amount allowed as a deduction under sections 243, 244, and 245 by the amount of any decrease in deductions allowable for the tax year by reason of section 832(b)(5)(B) to the extent such decrease is attributable to deductions under sections 243, 244, and 245. Enter the result on line 10b.

## Schedule I—Compensation of Officers

Attach a schedule for all officers using the following columns: 1. Name of officer. 2. Social security number. 3. Percentage of time devoted to business. 4. Amount of compensation.

This information must be submitted by each member of an affiliated group included in a consolidated return.

## Schedule J—Additional Information

Be sure to answer questions G through P on page 7 of Form 1120-PC. The instructions that follow are keyed to these questions.

**1. Question G. Foreign person.**—The term "Foreign person" means: (1) a foreign citizen or nonresident alien; (2) a foreign partnership; (3) a foreign corporation; or (4) any foreign estate or trust within the meaning of section 7701(a)(31).

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

**2. Question I. Foreign financial accounts.**—Check the "Yes" box if either (a) or (b), below, applies to the corporation; otherwise, check the "No" box:

(a) At any time during the year the corporation had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account); and

• the combined value of the account(s) was more than \$10,000 at any time during the year; AND

• the account was NOT with a U.S. military banking facility operated by a U.S. financial institution.

(b) The corporation owns more than 50% of the stock in any corporation that would answer "Yes" to item (a), above.

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

If "Yes" is checked for this question, file form TD F 90-22.1 by June 30, 1991, with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return, do not file it with Form 1120-PC. Form TD F 90-22.1 may be obtained from IRS Forms Distribution Centers.

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

## Schedule K—Subtractions From Protection Against Loss Account

Section 1024 of P.L. 99-514 repealed section 824 relating to the protection against loss account (PAL account). However, for tax years beginning after December 31, 1986, PAL account balances are includible in income as though section 824 were still in effect.

**Line 2a. Section 824(d)(1)(B).**—Enter the amount (if any) by which the sum of the

investment loss and the statutory underwriting loss for the tax year exceeds the sum of the statutory underwriting income and the taxable investment income for the tax year.

**Line 2b. Section 824(d)(1)(C).**—Enter (in the order in which the losses occurred) amounts equal to the unused loss carryovers to the tax year.

**Line 2c. Section 824(d)(1)(D).**—Enter any amount remaining in the account which was added to the account for the fifth preceding tax year minus one-half of the amount remaining in the account for such tax year which was added by reason of section 824(a)(1)(B).

**Line 2d. Section 824(d)(1)(E).**—Enter the amount by which the total amount in the account exceeds whichever of the following is greater:

(i) 10% of premiums earned on insurance contracts during the tax year (as defined in section 832(b)(4)) less dividends to policyholders (as defined in section 832(c)(11)), or

(ii) the total amount in the account at the close of the preceding tax year.

## Schedule L—Balance Sheets

**Note:** All insurance companies required to file Form 1120-PC must complete Schedule L.

**Line 5. Tax-exempt securities.**—Include on this line: (1) State and local government obligations, the interest on which is excludable from gross income under section 103(a), and (2) Stock in a mutual fund or other regulated investment company that distributed exempt-interest dividends during the tax year of the corporation.

**Line 18. Insurance liabilities.**—Include on this line: (a) undiscounted unpaid losses, (b) loss adjustment expenses, and (c) unearned premiums. See section 846 for more information.

## Schedule M-1—Reconciliation of Income per Books With Income per Return

**Line 5c. Travel and entertainment.**—Include on this line: 20% of meals and entertainment not allowed under section 274(n); expenses for the use of an entertainment facility; the part of business gifts in excess of \$25; expenses of an individual allocable to conventions on cruise ships in excess of \$2,000; employee achievement awards in excess of \$400; the cost of entertainment tickets in excess of face value (also subject to 20% disallowance); the cost of skyboxes in excess of the face value of non-luxury box seat tickets; the part of the cost of luxury water travel not allowed under section 274(m); expenses for travel as a form of education; and other travel and entertainment expenses not allowed as a deduction.