



# Instructions for Form 990-C

## Farmers' Cooperative Association Income Tax Return

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

Contents	Page
Photographs of Missing Children . . . . .	1
Unresolved Tax Issues . . . . .	1
How To Get Forms and Publications . . . . .	1
<b>General Instructions</b> . . . . .	1
Purpose of Form . . . . .	1
Who Must File . . . . .	1
When To File . . . . .	2
Where To File . . . . .	2
Who Must Sign . . . . .	2
Paid Preparer Authorization . . . . .	2
Other Forms and Statements That May Be Required . . . . .	2
Assembling the Return . . . . .	4
Accounting Methods . . . . .	4
Accounting Periods . . . . .	4
Rounding Off to Whole Dollars . . . . .	4
Recordkeeping . . . . .	5
Depository Method of Tax Payment . . . . .	5
Estimated Tax Payments . . . . .	5
Interest and Penalties . . . . .	5
<b>Specific Instructions</b> . . . . .	5
Period Covered . . . . .	5
Address . . . . .	6
Business Activity With the Largest Total Receipts . . . . .	6
Employer Identification Number (EIN) . . . . .	6
Consolidated Return . . . . .	6
Type of Cooperative . . . . .	6
Initial Return, Final Return, Name Change, Address Change, or Amended Return . . . . .	6
Income . . . . .	6
Deductions . . . . .	7
Schedule A . . . . .	12
Schedule C . . . . .	13
Worksheet for Schedule C . . . . .	14
Schedule H . . . . .	14
Schedule J and Worksheet for Members of a Controlled Group . . . . .	15
Schedule L . . . . .	17
Schedule M-1 . . . . .	17
Schedule N . . . . .	17
Index . . . . .	19

### Photographs of Missing Children

The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in instructions on pages that would otherwise be blank. You can help bring these children home

by looking at the photographs and calling **1-800-THE-LOST** (1-800-843-5678) if you recognize a child.

### Unresolved Tax Issues

If the cooperative has attempted to deal with an IRS problem unsuccessfully, it should contact the Taxpayer Advocate. The Taxpayer Advocate independently represents the cooperative's interests and concerns within the IRS by protecting its rights and resolving problems that have not been fixed through normal channels.

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

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

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

When contacting the Taxpayer Advocate, the cooperative should be prepared to provide the following information:

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

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

### How To Get Forms and Publications

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

- Download forms, instructions, and publications.
- Order IRS products online.
- See answers to frequently asked tax questions.
- Search publications online by topic or keyword.
- Send us comments or request help by email.
- Sign up to receive local and national tax news by email.

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

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

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

Buy the CD-ROM on the Internet at **www.irs.gov/cdorders** from the National Technical Information Service (NTIS) for \$22 (no handling fee) or call **1-877-CDFORMS** (1-877-233-6767) toll free to buy the CD-ROM for \$22 (plus a \$5 handling fee).

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

### General Instructions

#### Purpose of Form

Use **Form 990-C**, Farmers' Cooperative Association Income Tax Return, to report income, gains, losses, deductions, credits, and to figure the income tax liability of the cooperative.

#### Who Must File

Every farmers' cooperative must file Form 990-C whether or not it has taxable income (Regulations section 1.6012-2(f)).

Generally, a **farmers' cooperative** is a farmers, fruit growers, or like

association organized and operated on a cooperative basis to:

1. Market the products of members or other producers and return to them the proceeds of sales, less necessary marketing expenses, on the basis of either the quantity or value of their products; **or**
2. Purchase supplies and equipment for the use of members or other persons and turn over the supplies and equipment to them at actual cost, plus necessary expenses.

A **member** is anyone who shares in the profits of a cooperative association and is entitled to participate in the management of the association.

A **producer** is a person who, as owner or tenant, bears the risk of production and receives income based on farm production rather than fixed compensation. For example, if a cooperative leases its land to a tenant farmer who agrees to pay a rental fee based on a percentage of the farm crops produced, both the landowner and the tenant farmer qualify as producers.

## When To File

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

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

**Private delivery services.** Cooperatives can use certain private delivery services designated by the IRS to meet the "timely mailing as timely filing/paying" rule for tax returns and payments. The most recent list of designated private delivery services was published by the IRS in September 2002. The list includes only the following:

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

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

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

is available for all timely filed income tax returns without regard to the requirements of section 6072(d).

## Where To File

File Form 990-C with the Internal Revenue Service, Ogden, UT 84201-0027.

## Who Must Sign

The return must be signed and dated by:

- The president, vice president, treasurer, assistant treasurer, chief accounting officer or
  - Any other cooperative officer (such as tax officer) authorized to sign.
- Receivers, trustees, or assignees also must sign and date any return filed on behalf of a cooperative.

If an employee of the cooperative completes Form 990-C, the paid preparer's space should remain blank. Anyone who prepares Form 990-C but does not charge the cooperative should not complete that section. Generally, anyone who is paid to prepare the return must sign it and fill in the "Paid Preparer's Use Only" area.

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

- Sign the return in the space provided for the preparer's signature.
- Give a copy of the return to the taxpayer.

## Paid Preparer Authorization

If the cooperative wants to allow the IRS to discuss its 2003 tax return with the paid preparer who signed it, check the "Yes" box in the signature area of the return. This authorization applies only to the individual whose signature appears in the "Paid Preparer's Use Only" section of the cooperative's return. It does not apply to the firm, if any, shown in that section.

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

- Give the IRS any information that is missing from the return,
- Call the IRS for information about the processing of the return or the status of any related refund or payment(s), and
- Respond to certain IRS notices that the cooperative has shared with the preparer about math errors, offsets, and return preparation. The notices will not be sent to the preparer.

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

The authorization cannot be revoked. However, the authorization will automatically end no later than the due

date (excluding extensions) for filing the cooperative's 2004 tax return.

## Other Forms and Statements That May Be Required

### Forms

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

- **Form W-2**, Wage and Tax Statement, and **Form W-3**, Transmittal of Wage and Tax Statements. Use these forms to report wages, tips, and other compensation, and withheld income, social security, and Medicare taxes for employees.
- **Form 720**, Quarterly Federal Excise Tax Return. Use this form to report and pay environmental taxes, communications and air transportation taxes, fuel taxes, manufacturers taxes, ship passenger taxes, and certain other excise taxes.
- **Form 851**, Affiliations Schedule. The parent corporation of an affiliated group of corporations must attach this form to its consolidated return. If this is the first year one or more subsidiaries are being included in a consolidated return, also see **Form 1122**, Authorization and Consent of Subsidiary Corporation To Be Included in a Consolidated Income Tax Return, on page 3.
- **Form 926**, Return by a U.S. Transferor of Property to a Foreign Corporation. Use this form to report certain transfers to foreign corporations under section 6038B.
- **Form 940** or **Form 940-EZ**, Employer's Annual Federal Unemployment (FUTA) Tax Return. The cooperative may be liable for FUTA tax and may have to file Form 940 or Form 940-EZ if it either:
  1. Paid wages of \$1,500 or more in any calendar quarter in 2002 or 2003 or
  2. Had one or more employees who worked for the cooperative for at least some part of a day in any 20 or more different weeks in 2002 or 20 or more different weeks in 2003.
- **Form 941**, Employer's Quarterly Federal Tax Return or **Form 943**, Employer's Annual Federal Tax Return for Agricultural Employees. Employers must file these forms to report income tax withheld, and employer and employee social security and Medicare taxes. Also, see **Trust fund recovery penalty** on page 5.
- **Form 945**, Annual Return of Withheld Federal Income Tax. File Form 945 to report income tax withheld from nonpayroll distributions or payments, including pensions, annuities, IRAs, gambling winnings, and backup withholding. Also, see **Trust fund recovery penalty** on page 5.
- **Form 966**, Corporate Dissolution or Liquidation. Use this form to report the adoption of a resolution or plan to dissolve the cooperative or liquidate any of its stock.

- **Form 1042**, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, and
- **Form 1042-S**, Foreign Person's U.S. Source Income Subject to Withholding. Use these forms to report and send withheld tax on payments or distributions made to nonresident alien individuals, foreign partnerships, or foreign corporations to the extent these payments constitute gross income from sources within the United States (see sections 861 through 865).
- **Form 1042-T**, Annual Summary and Transmittal of Forms 1042-S. Use Form 1042-T to transmit paper forms 1042-S to the IRS.

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

- **Form 1096**, Annual Summary and Transmittal of U.S. Information Returns.
- **Form 1098**, Mortgage Interest Statement. Use this form to report the receipt from any individual of \$600 or more of mortgage interest (including points) in the course of the cooperative's trade or business and reimbursements of overpaid interest.
- **Forms 1099**. Use these information returns to report the following:
  1. **Form 1099-A**, Acquisition or Abandonment of Secured Property.
  2. **Form 1099-B**, Proceeds From Broker and Barter Exchange Transactions.
  3. **Form 1099-C**, Cancellation of Debt.
  4. **Form 1099-DIV**, Dividends and Distributions.
  5. **Form 1099-INT**, Interest Income.
  6. **Form 1099-MISC**, Miscellaneous Income. See this form to report payments: to certain fishing boat crew members; to providers of health and medical services; of rent or royalties; nonemployee compensation, etc.

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

- 7. **Form 1099-OID**, Original Issue Discount.
- 8. **Form 1099-PATR**, Taxable Distributions Received from Cooperatives.
- 9. **Form 1099-R**, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
- **Form 1122**, Authorization and Consent of Subsidiary Corporation To Be Included in a Consolidated Income Tax Return. For the first year a subsidiary corporation is being included in a consolidated return, attach the form to the parent's consolidated return. Attach a separate Form 1122 for each subsidiary being included in the consolidated return.

- **Form 5452**, Corporate Report of Nondividend Distributions. Use this form to report nondividend distributions.
- **Form 5471**, Information Return of U.S. Persons With Respect to Certain Foreign Corporations. This form is required if the cooperative controls a foreign corporation; acquires, disposes of, or owns 10% or more in value or vote of the outstanding stock of a foreign corporation; or had control of a foreign corporation for an uninterrupted period of at least 30 days during the annual accounting period of the foreign corporation.
- **Form 5713**, International Boycott Report. Cooperatives that have operations in, or related to, certain "boycotting" countries file Form 5713.
- **Form 8264**, Application for Registration of a Tax Shelter. Tax shelter organizers use this form to receive a tax shelter registration number from the IRS.
- **Form 8271**, Investor Reporting of Tax Shelter Registration Number. Cooperatives which have acquired an interest in a tax shelter that is required to be registered, use this form to report the tax shelter's registration number. Attach Form 8271 to any tax return (including an application for tentative refund (Form 1139) and an amended return) on which a deduction, credit, loss, or other tax benefit attributable to a tax shelter is taken or any income attributable to a tax shelter is reported.
- **Form 8275**, Disclosure Statement, and **Form 8275-R**, Regulation Disclosure Statement. Disclose items or positions taken on a tax return that are not otherwise adequately disclosed on a tax return or that are contrary to Treasury regulations (to avoid parts of the accuracy-related penalty or certain preparer penalties).
- **Form 8300**, Report of Cash Payments Over \$10,000 Received in a Trade or Business. Use this form to report the receipt of more than \$10,000 in cash or foreign currency in one transaction or a series of related transactions.
- **Form 8302**, Electronic Deposit of Tax Refund of \$1 Million or More. This form must be filed to request an electronic deposit of a tax refund of \$1 million or more.
- **Form 8594**, Asset Acquisition Statement. Cooperatives file this form to report the purchase or sale of a group of assets that constitute a trade or business if goodwill or going concern value could attach to the assets.
- **Form 8810**, Corporate Passive Activity Loss and Credit Limitations. Closely held cooperatives must use this form to compute the passive activity loss and credit allowed under section 469.
- **Form 8842**, Election To Use Different Annualization Periods for Corporate Estimated Tax. Cooperatives use Form 8842 for each year they want to elect one of the annualization periods in section 6655(e)(2)(C) for figuring estimated tax payments under the annualized income installment method.

- **Form 8849**, Claim for Refund of Excise Taxes. Cooperatives use this form to claim a refund of certain excise taxes.
- **Form 8865**, Return of U.S. Persons With Respect to Certain Foreign Partnerships. A cooperative may have to file Form 8865 if it:

1. Controlled a foreign partnership (i.e., owned more than a 50% direct or indirect interest in the partnership).
2. Owned at least a 10% direct or indirect interest in a foreign partnership while U.S. persons controlled that partnership.
3. Had an acquisition, disposition, or change in proportional interest in a foreign partnership that:
  - a. Increased its direct interest to at least 10% or reduced its direct interest of at least 10% to less than 10%.
  - b. Changed its direct interest by at least a 10% interest.
4. Contributed property to a foreign partnership in exchange for a partnership interest if:
  - a. Immediately after the contribution, the cooperative owned, directly or indirectly, at least a 10% interest in the foreign partnership or
  - b. The fair market value of the property the cooperative contributed to the foreign partnership, when added to other contributions of property made to the foreign partnership during the preceding 12-month period, exceeds \$100,000.

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

- **Form 8886**, Reportable Transaction Disclosure Statement. Use this form to disclose information for each reportable transaction in which the cooperative participated. Form 8886 must be filed for each tax year that the Federal income tax liability of the cooperative is affected by its participation in the transaction. The following are reportable transactions.

1. Any transaction that is the same as or substantially similar to tax avoidance transactions identified by the IRS.
2. Any transaction offered under conditions of confidentiality.
3. Any transaction for which the cooperative has contractual protection against disallowance of the tax benefits.
4. Any transaction resulting in a loss of at least \$10 million in any single year or \$20 million in any combination of years.
5. Any transaction resulting in a book-tax difference of more than \$10 million on a gross basis.
6. Any transaction resulting in a tax credit of more than \$250,000, if the cooperative held the asset generating the credit for 45 days or less.

## Statements

**Consolidated return.** File supporting statements for each corporation included in the consolidated return. Do not use Form 990-C as a supporting statement. On the supporting statement, use columns to show the following (both before and after adjustments):

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



*The cooperative does not have to complete items 3, 4, and 5, if its total receipts (line 1a plus lines 4 through 10 on page 1 of the return) and its total assets at the end of the tax year are less than \$250,000.*

Enter the totals for the consolidated group on Form 990-C. Attach consolidated balance sheets and a reconciliation of consolidated retained earnings. For more information on consolidated returns, see the regulations under section 1502.

## Assembling the Return

To ensure that the cooperative's tax return is correctly processed, attach all schedules and other forms after page 5, Form 990-C, in the following order.

1. Form 8302.
2. Form 4136.
3. Form 4626.
4. Form 851.
5. Additional schedules in alphabetical order.
6. Additional forms in numerical order.

Complete every applicable entry space on Form 990-C. Do not write "See Attached" instead of completing the entry spaces. If more space is needed on the forms or schedules, attach separate sheets, using the same size and format as the printed forms. If there are supporting statements and attachments, arrange them in the same order as the schedules or forms they support and attach them last. Show the totals on the printed forms. Also, be sure to enter the cooperative's name and EIN on each supporting statement or attachment.

## Accounting Methods

An accounting method is a set of rules used to determine when and how income and expenses are reported. Figure taxable income using the method of accounting regularly used in keeping the cooperative's books and records. In all cases, the method used must clearly show taxable income. Permissible methods include:

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

**Accrual method.** Generally, a cooperative must use the accrual method of accounting if its average annual gross receipts exceed \$5 million. For details, see section 448(c). Generally, a cooperative engaged in farming operations also must use the accrual method. For exceptions, see section 447.

If inventories are required, the accrual method generally must be used for sales and purchases of merchandise. However, qualifying taxpayers and eligible businesses of qualifying small business taxpayers are excepted from using the accrual method and may account for inventoriable items as materials and supplies that are not incidental. For details, see **Cost of Goods Sold** on page 12.

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

- All the events have occurred that fix the right to receive the income, which is the earliest of the date: **(a)** the required performance takes place, **(b)** payment is due, or **(c)** payment is received and
- The amount can be determined with reasonable accuracy.

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

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

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

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

### **Nonaccrual experience method.**

Accrual-method cooperatives whose average annual gross receipts for the 3 prior tax years do not exceed \$5 million, are not required to accrue certain amounts to be received from the performance of services that, on the basis of experience, will not be collected. This provision does not apply to any amount if interest is required to be paid on the amount or if there is any penalty for failure to timely pay the amount. For more information, see section 448(d)(5) and Temporary Regulations section 1.448-2T. See the instructions on page 6 for reporting requirements.

### **Percentage-of-completion method.**

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

**Change in accounting method.** To change its method of accounting used to report taxable income (for income as a whole or for any material item), the

cooperative must file **Form 3115**, Application for Change in Accounting Method. For more information, see Form 3115 and **Pub. 538**, Accounting Periods and Methods.

**Section 481(a) adjustment.** The cooperative may have to make an adjustment under section 481(a) to prevent amounts of income or expense from being duplicated or omitted. Cooperatives generally must take the section 481(a) adjustment into account in the year of change. The cooperative must complete the appropriate lines of Form 3115 to figure the amount of the adjustment.

Include any net positive section 481(a) adjustment on page 1, line 10. If the net section 481(a) adjustment is negative, report it on page 1, line 26.

### **Completed crop pool method of accounting.**

Cooperatives may be able to use the completed crop pool method of accounting for crop pools opened before March 1, 1978. See section 1382(g) for more information.

## Accounting Periods

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

For more information about accounting periods, see Pub. 538.

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

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

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

**Change in tax year.** Generally, a cooperative must get the consent of the IRS before changing its tax year by filing **Form 1128**, Application To Adopt, Change, or Retain a Tax Year. However, under certain conditions, a cooperative may change its tax year without getting consent. For more information on change of tax year, see Form 1128, Regulations section 1.442-1, and Pub. 538.

## Rounding Off to Whole Dollars

The cooperative may round off cents to whole dollars on its return and schedules. If the cooperative does round to whole dollars, it must round all amounts. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to

the next dollar (for example, \$1.39 becomes \$1 and \$2.50 becomes \$3.)

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

## Recordkeeping

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

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

## Depository Method of Tax Payment

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

**Electronic Deposit Requirement.** The cooperative must make electronic deposits of all depository taxes (such as employment tax, excise tax, and corporate income tax) using the Electronic Federal Tax Payment System (EFTPS) in 2004 if:

- The total deposits of such taxes in 2002 were more than \$200,000 or
- The cooperative was required to use EFTPS in 2003.

If the cooperative is required to use EFTPS and fails to do so, it may be subject to a 10% penalty. If the cooperative is not required to use EFTPS, it may participate voluntarily. To enroll in or get more information about EFTPS, call 1-800-555-4477 or 1-800-945-8400. To enroll online, visit [www.eftps.gov](http://www.eftps.gov).

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

**Deposits with Form 8109.** If the cooperative does not use EFTPS, deposit cooperative income tax payments (and estimated tax payments) with **Form 8109**, Federal Tax Deposit Coupon. If you do not have a preprinted Form 8109, use Form 8109-B to make deposits. You can get this form by calling 1-800-829-4933. Be sure to have your EIN ready when you call.

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

tax deposits). Make checks or money orders payable to the depository.

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

To help ensure proper crediting, write the cooperative's EIN, the tax period to which the deposit applies, and "Form 990-C" on the check or money order. Be sure to darken the "990-C" box on the coupon. Records of these deposits will be sent to the IRS.

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



*If the cooperative owes tax when it files Form 990-C, do not include the payment with the tax return. Instead, mail or deliver the payment with Form 8109 to an authorized depository or use EFTPS, if applicable.*

## Estimated Tax Payments

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

- The cooperative must make installment payments of estimated tax if it expects its total tax for the year (less applicable credits) to be \$500 or more.
- The installments are due by the 15th day of the 4th, 6th, 9th, and 12th months of the tax year. If any date falls on a Saturday, Sunday, or legal holiday, the installment is due on the next regular business day.
- Use **Form 1120-W**, Estimated Tax for Corporations, as a worksheet to compute estimated tax.
- If the cooperative does not use EFTPS, use the deposit coupons (Form 8109) to make deposits of estimated tax.

For more information on estimated tax payments, including penalties that apply if the cooperative fails to make required payments, see the instructions for line 33 on page 12.

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

## Interest and Penalties

**Interest.** Interest is charged on taxes paid late even if an extension of time to file is granted. Interest is also charged on penalties imposed for failure to file, negligence, fraud, substantial valuation misstatements, and substantial understatements of tax from the due date

(including extensions) to the date of payment. The interest charge is figured at a rate determined under section 6621.

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

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

**Trust fund recovery penalty.** This penalty may apply if certain excise, income, social security, and Medicare taxes that must be collected or withheld are not collected or withheld, or these taxes are not paid to the IRS. These taxes are generally reported on Forms 720, 941, 943, or 945 (see **Other Forms and Statements That May Be Required** on page 2). The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to have been responsible for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so. The penalty is equal to the unpaid trust fund tax. See the instructions for Form 720, **Pub. 15** (Circular E), Employer's Tax Guide, or **Pub. 51** (Circular A), Agricultural Employer's Tax Guide, for details, including the definition of responsible persons.

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

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## Specific Instructions

### Period Covered

File the 2003 return for calendar year 2003 and fiscal years that begin in 2003 and end in 2004. For a fiscal year return, fill in the tax year space at the top of the form.

**Note.** The 2003 Form 990-C may also be used if:

- The cooperative has a tax year of less than 12 months that begins and ends in 2004 and
- The 2004 Form 990-C is not available at the time the cooperative is required to file its return.

The cooperative must show its 2004 tax year on the 2003 Form 990-C and take into account any tax law changes that are effective for tax years beginning after December 31, 2003.

## Address

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

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

## Item A—Business Activity With the Largest Total Receipts

Identify the business activity from which the cooperative receives the largest total receipts (e.g., wholesale marketing of meat, drying fruit, grain storage, wholesale purchasing of fertilizers, cattle breeding, etc.).

## Item B—Employer Identification Number (EIN)

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

- Online—Click on the EIN link at [www.irs.gov/businesses/small](http://www.irs.gov/businesses/small). The EIN is issued immediately once the application information is validated.
- By telephone at 1-800-829-4933 from 7:30 a.m. to 5:30 p.m. in the cooperatives local time zone.
- By mailing or faxing **Form SS-4**, Application for Employer Identification Number.

If the cooperative has not received its EIN by the time the return is due, write "Applied for" in the space for the EIN. For more details, see Pub. 583.

**Note:** The online application process is not yet available for cooperatives with addresses in foreign countries or Puerto Rico.

## Item C—Consolidated Return

Cooperatives filing a consolidated return must attach Form 851 and other supporting statements to the return. For details, see **Other Forms and Statements That May Be Required**, on page 2. Do not check this box if the "Section 521" box is checked in Item D.

## Item D—Type of Cooperative

Check the "Tax exempt" (section 521) box if the cooperative is a tax-exempt farmers', fruit growers', or like association, organized and operated on a cooperative basis and is described in section 521.

If the cooperative has submitted **Form 1028**, Application for Recognition of Exemption, but has not received a

determination letter from the IRS, check the "Tax exempt" box, and write "Application Pending" at the top of page 1 of Form 990-C.

Farmers' cooperatives without section 521 exempt status, organized and operated as described under **Who Must File** on page 1 of the instructions, should check the "Nonexempt" box.

Cooperatives organized and operated for purposes other than those described in **Who Must File** should **not** file Form 990-C. See the instructions for **Form 1120**, U.S. Corporation Income Tax Return, for information about filing requirements.

## Item E—Initial Return, Final Return, Name Change, Address Change, or Amended Return

- If this is the cooperative's first return, check the "Initial return" box.
- If the cooperative ceases to exist, file Form 990-C and check the "Final return" box.
- If the cooperative changed its name since it last filed a return, check the box for "Name change." Generally, a cooperative also must have amended its articles of incorporation and filed the amendment with the state in which it was incorporated.
- If the cooperative has changed its address since it last filed a return, check the box for "Address change."

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

- If the cooperative must change their originally filed return for any year, it should file a new return including any required attachments. Use the revision of Form 990-C applicable to the year being amended. The amended return must provide all the information called for by the form and instructions, not just the new or corrected information. Check the "Amended return" box.

## Income

Except as otherwise provided in the Internal Revenue Code, gross income includes all income from whatever source derived. Gross income, however, does not include extraterritorial income that is qualifying foreign trade income. Use **Form 8873**, Extraterritorial Income Exclusion, to figure the exclusion. Include the exclusion in the total for "Other Deductions" on line 26.

**Line 1. Gross receipts.** Enter gross receipts or sales from all business operations except items of income required to be reported on lines 4a through 10. In general, advance payments are reported in the year of receipt. For how to report income from long-term contracts, see section 460. For special rules for reporting certain advance

payments for goods and long-term contracts, see Regulations section 1.451-5. For permissible methods for reporting certain advance payments for services by an accrual method cooperative, see Rev. Proc. 71-21, 1971-2 C.B. 549.

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

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

For sales of timeshares and residential lots reported under the installment method, the cooperative's income tax is increased by the interest payable under section 453(l)(3). To report this addition to tax, see the instructions for line 9, Schedule J, on page 16.

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

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

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

**Nonaccrual experience method.** Cooperatives that qualify to use the nonaccrual experience method (explained on page 4) should attach a schedule showing total gross receipts, the amount not accrued as a result of the application of section 448(d)(5), and the net amount accrued. Enter the net amount on line 1a.

**Note.** Certain cooperatives that have gross receipts of \$10 million or more and have patronage and nonpatronage source income and deductions, must complete and attach **Form 8817**, Allocation of Patronage and Nonpatronage Income and Deductions, to their return.

**Line 2. Cost of goods sold.** Enter the cost of goods sold on line 2, page 1. Before making this entry, complete Schedule A on page 2 of Form 990-C. See the Schedule A instructions on page 12.

**Line 4a. Income from patronage dividends and per-unit retain**

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

Include the items listed below:

**1. Patronage dividends** received in:

- Money,
- Qualified written notices of allocation, or

• Other property (except nonqualified written notices of allocation).

**2. Nonpatronage distributions**

received on a patronage basis from tax-exempt farmers' cooperatives in:

- Money,
- Qualified written notices of allocation, or
- Other property (except nonqualified written notices of allocation), based on earnings of that cooperative either from business done with or for the United States or any of its agencies (or from sources other than patronage, such as investment income).

**3. Qualified written notices of allocation** at their stated dollar amounts and property at its fair market value (FMV).

**4.** Amounts received on the redemption, sale, or other disposition of **nonqualified written notices of allocation.**

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

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

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

**Note.** *Payments from the Commodity Credit Corporation to a farmers' cooperative for certain expenses of the co-op's farmers-producers under a "reseal" program of the U.S. Department of Agriculture are patronage-source income that may give rise to patronage dividends under section 1382(b)(1). See Rev. Rul. 89-97, 1989-2 C.B. 217, for more information.*

**Line 4b. Dividends.** See the instructions for Schedule C on page 13, then complete Schedule C and enter on line 4b, the amount from Schedule C, line 17.

**Line 5. Interest.** Enter taxable interest on U.S. obligations and on loans, notes, mortgages, bonds, bank deposits, corporate bonds, tax refunds, etc.

Do not offset interest expense against interest income.

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

**Note.** *Interest income is generally nonpatronage income to nonexempt cooperatives (Regulations section 1.1382-3(c)(2)). As such, a patronage dividend deduction may not be allowable.*

**Line 6. Gross rents.** Enter the gross amount received from the rental of property. Deduct expenses such as repairs, interest, taxes, and depreciation on the applicable lines.

**Note.** *Generally, gross rents are considered nonpatronage income to nonexempt cooperatives (Regulations section 1.1382-3(c)(2)). As such, a patronage dividend deduction may not be allowable.*

**Line 8. Capital gain net income.** Every sale or exchange of a capital asset must be reported in detail on **Schedule D (Form 1120)**, Capital Gains and Losses, even if there is no gain or loss. Generally, capital gains and losses are considered nonpatronage source.

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

- Recoveries of bad debts deducted in prior years under the specific charge-off method.
- The amount of credit for alcohol used as fuel (determined without regard to the limitation based on tax) that was entered on **Form 6478**, Credit for Alcohol Used as Fuel.
- Refunds of taxes deducted in prior years to the extent they reduced income subject to tax in the year deducted (see section 111). Do not offset current year taxes against any tax refunds.
- The amount of any deduction previously taken under section 179A that is subject to recapture. The cooperative must recapture the benefit of any allowable deduction for clean-fuel vehicle property (or clean-fuel vehicle refueling property) if, within 3 years of the date the property was placed in service, it ceases to qualify. See Regulations section 1.179A-1 for details.
- For cooperatives described in section 1381 that are shareholders in an FSC, include the nonexempt portion of foreign trade income from the sale or other disposition of agricultural or horticultural products by the FSC for the tax year that includes the last day of the FSC's tax year, even though the FSC is not required to distribute such income until the due date of its income tax return.
- Ordinary income from trade or business activities of a partnership (from Schedule K-1 (Form 1065 or 1065-B)). Do not offset ordinary losses against ordinary income. Instead, include the losses on line 26, Form 990-C. Show the partnership's name, address, and EIN on a separate statement attached to this return. If the amount entered is from more than one

partnership, identify the amount from each partnership.

## Deductions

### Limitations on deductions

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

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

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

Cooperatives subject to the UNICAP rules are required to capitalize not only direct costs but an allocable part of most indirect costs (including taxes) that **(a)** benefit the assets produced or acquired for resale or **(b)** are incurred by reason of the performance of production or resale activities.

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

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

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

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

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

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

- Personal property acquired for resale if the cooperative's average annual gross receipts for the 3 prior tax years were \$10 million or less.
- Timber.

- Most property produced under a long-term contract.
- Certain property produced in a farming business.
- Research and experimental costs under section 174.
- Intangible drilling costs for oil, gas, and geothermal property.
- Mining exploration and development costs.
- Inventoriable items accounted for in the same manner as materials and supplies that are not incidental. See **Cost of Goods Sold** on page 12 for details.

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

#### Transactions between related taxpayers.

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

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

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

**Business start-up expenses.** Business start-up expenses must be capitalized. An election may be made to expense them over a period of 60 months. See section 195 and Regulations section 1.195-1.

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

A cooperative is a **closely held cooperative** (as defined at section 469(j)(1)) if at any time during the last half of the tax year more than 50% in value of its outstanding stock is owned, directly or indirectly, by or for not more than 5 individuals. Certain organizations are treated as individuals for purposes of this test. See section 542(a)(2). For rules of determining stock ownership, see section 544 (as modified by section 465(a)(3)).

Generally, the two kinds of passive activities are:

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

For exceptions, see Form 8810.

An activity is a trade or business activity if it is not a rental activity and

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

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

**Reducing certain expenses for which credits are allowable.** For each credit listed below, the cooperative may have to reduce the otherwise allowable deductions for expenses used to figure the credit, by the amount of the current year credit generated by the cooperative.

- Work opportunity credit.
- Research credit.
- Enhanced oil recovery credit.
- Disabled access credit.
- Empowerment zone and renewal community employment credit.
- Indian employment credit.
- The employer credit for social security and Medicare taxes paid on certain employee tips.
- Orphan drug credit.
- Welfare-to-work credit.
- New York Liberty Zone business employee credit.

If the cooperative has any of these credits, first figure each current year credit generated by the cooperative, then figure the remaining deduction for the expense upon which the credit is based.

#### Line 12. Compensation of officers.

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


Include only the deductible part of each officers' compensation on Schedule E. Complete Schedule E, line 1, columns (a) through (f), for all officers. The cooperative determines who is an officer

under the laws of the state where it is incorporated.

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

**Line 13. Salaries and wages.** Enter the amount of salaries and wages paid for the tax year, reduced by the current year credits generated by the cooperative claimed on:

- Line 2 of **Form 5884**, Work Opportunity Credit,
  - Line 2 of **Form 8844**, Empowerment Zone and Renewal Community Employment Credit,
  - Line 4 of **Form 8845**, Indian Employment Credit,
  - Line 2 of **Form 8861**, Welfare-to-Work Credit, and
  - Line 2 of **Form 8884**, New York Liberty Zone Business Employee Credit.
- See the instructions for these forms for more information. Do not include salaries and wages deductible elsewhere on the return, such as amounts included in cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement or a SIMPLE IRA plan.

 *If the cooperative provided taxable fringe benefits to its employees, such as personal use of a car, do not deduct as wages the amount allocated for depreciation, and other expenses claimed on lines 20 and 26.*

#### Line 14. Repairs and maintenance.

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

**Line 15. Bad debts.** Enter the total debts that became worthless in whole or in part during the tax year. A cash method taxpayer may not claim a bad debt deduction unless the amount was previously included in income.

**Line 16. Rents.** If the cooperative rented or leased a vehicle, enter the total annual rent or lease expense paid or incurred during the year. Also complete Part V of **Form 4562**, Depreciation and Amortization. If the cooperative leased a vehicle for a term of 30 days or more, the deduction for vehicle lease expense may have to be reduced by an amount called the **inclusion amount**. The cooperative may have an inclusion amount if:

The lease term began:	And the vehicle's FMV the first day of the lease exceeded:
After 12/31/02 but before 1/1/04	\$18,000
After 12/31/98 but before 1/1/03	\$15,500
After 12/31/96 but before 1/1/99	\$15,800
After 12/31/94 but before 1/1/97	\$15,500



After 12/31/93 but before 1/1/95 \$14,600  
If the lease term began before January 1, 1994, see **Pub. 463**, Travel, Entertainment, Gift, and Car Expenses, to find out if the cooperative has an inclusion amount. The inclusion amount for lease terms beginning in 2004 will be published in the Internal Revenue Bulletin in early 2004.

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

**Line 17. Taxes and licenses.** Enter taxes paid or accrued during the tax year, except the following.

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

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

**Line 18. Interest.**

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

**Do not** deduct the following:

- Interest on indebtedness used to purchase or carry exempt interest obligations. For exceptions, see section 265(b).
- For cash basis taxpayers, prepaid interest allocable to years following the current tax year (e.g., a cash basis calendar year taxpayer who in 2003 prepaid interest allocable to any period after 2003 can deduct only the amount allocable to 2003).
- Interest and carrying charges on straddles. Generally, these amounts must be capitalized. See section 263(g).
- Interest on debt allocable to the production of designated property by a cooperative for its own use or for sale. This interest must be capitalized. A cooperative must also capitalize any interest on debt allocable to an asset used to produce the above property. See section 263A(f) and Regulations sections 1.263A-8 through 1.263A-15 for definitions and more information.

Special rules apply to:

- Interest on which no tax is imposed (see section 163(j)).

- Forgone interest on certain below-market-rate loans (see section 7872).
- Original issue discount on certain high yield discount obligations (see section 163(e) to figure the disqualified portion).

**Line 19. Charitable contributions.**

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

Cooperatives reporting taxable income on the accrual method may elect to treat any contributions paid by the 15th day of the 3rd month **after** the end of the tax year as paid during the tax year if the contributions were authorized by the board of directors during the tax year. Attach a declaration to the return stating that the resolution authorizing the contributions was adopted by the board of directors during the current tax year. The declaration must include the date the resolution was adopted.

**Limitation on deduction.** The total amount claimed may not be more than 10% of taxable income (line 30) computed without regard to the following:

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

**Carryover.** Charitable contributions over the 10% limitation may not be deducted for the current tax year but may be carried over to the next 5 tax years. (See section 170(d)(2) for further details.)

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

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

**Substantiation requirements.**

Generally, no deduction is allowed for any contribution of \$250 or more unless the cooperative gets a written acknowledgment from the donee organization that shows the amount of cash contributed, describes any property contributed and gives an estimate of the value of any goods or services provided in return for the contribution. The acknowledgment must be obtained by the due date (including extensions) of the cooperative's return, or, if earlier, the date the return is filed. Do not attach the

acknowledgment to the tax return, but keep it with the cooperative's records. These rules apply in addition to the filing requirements for **Form 8283**, Noncash Charitable Contributions, described later under **Contributions of property other than cash**.

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

**Contributions to organizations conducting lobbying activities.**

Contributions made to an organization that conducts lobbying activities are not deductible if:

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

**Contributions of property other than cash.**

If a cooperative contributes property other than cash and claims over a \$500 deduction for the property, it must attach a schedule to the return describing the kind of property contributed and the method used to determine its FMV. Generally, cooperatives must complete and attach Form 8283 to their returns for all contributions of property (other than money) if the total claimed deduction for all property contributed was more than \$5,000.

If the cooperative made a "qualified conservation contribution" under section 170(h), also include the FMV of the underlying property before and after the donation, as well as the type of legal interest contributed, and describe the conservation purpose benefited by the donation.

If a contribution carryover was included, show the amount and how it was determined.

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

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

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

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

**Larger deduction.** A larger deduction is allowed for certain contributions, such as:

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

**Contributions of computer technology and equipment for educational purposes.** A cooperative may take an increased deduction under section 170(e)(6) for qualified contributions of computer technology or equipment used for educational purposes.

**Computer technology or equipment** means computer software, computer or peripheral equipment, and fiber optic cable related to computer use. A contribution is a qualified contribution if:

- It is made to an eligible donee (see below);
- Substantially all of the donee property's use is:

1. Related to the purpose or function of the donee,
  2. For use within the United States, and
  3. For educational purposes.
- The contribution is made not later than 3 years after the date the taxpayer acquired or substantially completed the construction of the property;
  - The original use of the property is by the donor or the donee;
  - The property is not transferred by the donee for money, services, or other property, except for shipping, transfer, and installation costs;
  - The property fits productively into the donee's education plan; and
  - The property meets standards, if any, that may be prescribed by future regulations, to assure it meets minimum functionality and suitability for educational purposes.

**Eligible donee.** The term "eligible donee" means:

- An educational organization that normally maintains a regular faculty and curriculum and has a regularly enrolled body of pupils in attendance at the place where its educational activities are regularly conducted,
- A section 501(c)(3) entity organized primarily for purposes of supporting elementary and secondary education, or
- A public library (as described in section 170(e)(6)(B)(i)(III)).

**Exceptions.** The following exceptions apply to the above rules for computer technology and equipment:

- Contributions to private foundations may qualify if the foundation contributes the property to an eligible donee within 30

days after the contribution and notifies the donor of the contribution. For details, see section 170(e)(6)(C).

- For contributions of property reacquired by the manufacturer of the property, the 3-year period begins on the date that the original construction of the property was substantially completed. Also, the original use of the property may be by someone other than the donor or the donee.

**Line 20. Depreciation.** Besides depreciation, include on line 20 the part of the cost that the cooperative elected to expense under section 179 for certain property placed in service during tax year 2003 or carried over from 2002. See Form 4562 and its instructions.

**Line 22. Depletion.** See sections 613 and 613A for percentage depletion rates applicable to natural deposits. Also, see section 291(a)(2) for the limitation on the depletion deduction for iron ore and coal (including lignite).

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

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

**Line 24. Pension, profit-sharing, etc., plans.** Enter the deduction for contributions to qualified pension, profit-sharing, or other funded deferred compensation plans. Employers who maintain such a plan generally must file one of the forms listed below, even if the plan is not a qualified plan under the Internal Revenue Code. The filing requirement applies even if the cooperative does not claim a deduction for the current tax year. There are penalties for failure to file these forms timely and for overstating the pension plan deduction. See sections 6652(e) and 6662(f).

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

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

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

**Line 26. Other deductions.** Attach a schedule, listing by type and amount, all allowable deductions that are not deductible elsewhere.

Examples of items to include:

- Amortization of pollution control facilities, organization expenses, etc. See Form 4562.
- Insurance premiums.
- Legal and professional fees.
- Supplies used and consumed in the business.
- Utilities.
- Ordinary losses from trade or business activities of a partnership (from Schedule K-1 (Form 1065 or 1065-B)). Do not offset ordinary losses against ordinary income. Instead, include the income on line 10. Show the partnership's name, address, and EIN on a separate statement attached to this return. If the amount entered is from more than one partnership, identify the amount from each partnership.
- Extraterritorial income exclusion (from Form 8873, line 52).

**Do not deduct:**

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

*Special rules apply to the following expenses.*

**Travel, meals, and entertainment.**

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

For details on rules that apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets, see section 274 and Pub. 463.

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

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

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

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

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

**Membership dues.** The cooperative may deduct amounts paid or incurred for membership dues in civic or public

service organizations, professional organizations, business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards, unless a principal purpose of the organization is to entertain or provide entertainment facilities for members or their guest. In addition, cooperatives may not deduct membership dues in any club organized for business, pleasure, recreation, or other social purpose. This includes country clubs, golf and athletic clubs, airline and hotel clubs, and clubs operated to provide meals under conditions favorable to business discussion.

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

**Note.** *The cooperative may be able to deduct the otherwise nondeductible expense if the amount is treated as compensation and reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.*

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

**Lobbying expenses.** Generally, lobbying expenses are not deductible. These expenses include amounts paid or incurred in connection with:

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

Dues and other similar amounts paid to certain tax-exempt organizations may not be deductible. See section 162(e)(3). If certain in-house expenditures do not exceed \$2,000, they are deductible. See section 162(e)(5)(B). For information on contributions to charitable organizations that conduct lobbying activities, see **Contributions to organizations conducting lobbying activities** on page 9. For more information on lobbying expenses, see section 162(e).

## Line 28 Taxable income before NOL deduction and special deductions

**At-risk rules.** Special at-risk rules under section 465 generally apply to closely held cooperatives (see **Passive activity limitations** on page 8) engaged in any activity as a trade or business or for the production of income. These cooperatives may have to adjust the amount on line 28.

A taxpayer is generally considered "at-risk" for an amount equal to his or her

investment in the entity. That investment consists of money and other property contributed to the entity and amounts borrowed on behalf of the entity.

- The at-risk rules do not apply to:
- Holding real property placed in service by the cooperative before 1987;
  - Equipment leasing under sections 465(c)(4), (5), and (6); and
  - Any qualifying business of a qualified cooperative under section 465(c)(7).

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

If the at-risk rules apply, complete **Form 6198**, At-Risk Limitations, then adjust the amount on line 28 for any section 465(d) losses. These losses are limited to the amount for which the cooperative is at risk for each separate activity at the close of the tax year. If the cooperative is involved in one or more activities, any of which incurs a loss for the year, report the losses for each activity separately. Attach Form 6198 showing the amount at risk and gross income and deductions for the activities with the losses.

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

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

**Line 29a. Net operating loss deduction.** A cooperative may use the net operating loss incurred in one tax year to reduce its taxable income in another year. Enter the total NOL carryovers from other tax years on line 29a, but do not enter more than the cooperative's taxable income (after special deductions). Attach a schedule showing the computation of the deduction. Also complete item 20 on Schedule N.

The following special rules apply.

- If an ownership change occurs, the amount of taxable income of a "loss" cooperative that may be offset by the pre-change NOL carryovers may be limited (see section 382 and the related regulations). A loss cooperative must file an information statement with its income tax return for each tax year that certain ownership shifts occur (see Temporary Regulations section 1.382-2T(a)(2)(ii) for details). See Regulations section 1.382-6(b) for details on how to make the closing-of-the-books election.
- If a cooperative acquires control of another cooperative (or acquires its assets in a reorganization), the amount of pre-acquisition losses that may offset recognized built-in gain may be limited (see sections 384 and 1388(j)(2)).

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

**Line 30. Taxable income.** Certain cooperatives may need to file Form 8817. If so, taxable income reported on line 30 may not exceed the combined taxable income shown on line 30, Form 8817. Attach Form 8817 to Form 990-C.



*Patronage source losses cannot be used to offset nonpatronage income. See Form 8817.*

**Net operating loss.** If line 30 is zero or less, the cooperative may have an NOL that can be carried back or forward as a deduction to other tax years. Generally, a cooperative first carries an NOL back 2 tax years. However, the cooperative may elect to waive the carryback period and instead carry the NOL forward to future tax years. To make the election, see the instructions for Schedule N, item 19, on page 18. See Form 1139 for details, including other elections that may be available, which must be made no later than 6 months after the due date (excluding extensions) of the cooperative's return.

**Line 32b. Estimated tax payments.** Enter any estimated tax payments the cooperative made for the tax year.

**Beneficiaries of trusts.** If the cooperative is the beneficiary of a trust, and the trust makes a section 643(g) election to credit its estimated tax payments to its beneficiaries, include the cooperative's share of the estimated tax payment in the total amount entered on line 32b. Write "T" and the amount of the payment in the blank space below line 31.

**Line 32f. Credit from refiguring tax for years in which nonqualified per-unit retain certificates or nonqualified written notices of allocation (redeemed this year) were issued.** If the cooperative would pay less total tax by claiming the deduction for the redemption of nonqualified written notices of allocation or nonqualified per-unit retain certificates in the issue year versus the current tax year, refigure the tax for the years the nonqualified written notices or certificates were originally issued (deducting them in the issue year), then enter the amount of the reduction in the issue years' taxes on this line. Attach a schedule showing how the credit was figured. This credit is treated as a payment, and any amount that is more than the tax on line 31 will be refunded.

**Line 32g. Credit for federal tax on fuels.** Enter the credit from **Form 4136**, Credit for Federal Tax Paid on Fuels, if the cooperative qualifies to take this credit. Attach Form 4136.

**Line 32h. Total payments.** Add the amounts on lines 32d through 32g and enter the total on line 32h.

**Backup withholding.** If the cooperative had federal income tax withheld from any payments it received, because, for

example, it failed to give the payer its correct EIN, include the amount withheld in the total for line 32h. Write the amount withheld and the words "Backup withholding" in the blank space above line 32h.

**Line 33. Estimated tax penalty.** A cooperative that does not make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. Generally, a cooperative is subject to the penalty if its tax liability is \$500 or more and it did not timely pay the smaller of:

- Its tax liability for 2003 or
- Its prior year's tax.

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

Use **Form 2220**, Underpayment of Estimated Tax by Corporations, to see if the cooperative owes a penalty and to figure the amount of the penalty.

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

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

If Form 2220 is attached, check the box on line 33, and enter the amount of any penalty on this line.

**Line 36. Direct deposit of refund.** If the cooperative has a refund of \$1 million or more and wants it directly deposited into its checking or savings account at any U.S. bank or other financial institution instead of having a check sent to the cooperative, complete Form 8302 and attach it to the cooperative's tax return.

## Schedule A

### Cost of Goods Sold

Generally, inventories are required at the beginning and end of each tax year if the production, purchase, or sale of merchandise is an income-producing factor. See Regulations section 1.471-1.

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

A **qualifying taxpayer** is a taxpayer that, for each prior tax year ending after December 16, 1998, has average annual gross receipts of \$1 million or less for the 3-tax-year period ending with that prior tax year. See Rev. Proc. 2001-10, 2001-2 I.R.B. 272 for details.

A **qualifying small business taxpayer** is a taxpayer (a) that, for each prior tax year ending on or after December 31, 2000, has average annual gross receipts of \$10 million or less for the 3-tax-year period ending with that prior tax year and (b) whose principal business activity is not an ineligible activity. See Rev. Proc. 2002-28, 2002-18 I.R.B. 815 for details.

Under this accounting method, inventory costs for raw materials purchased for use in producing finished goods, and merchandise purchased for resale, are deductible in the year the finished goods or merchandise are sold (but not before the year the cooperative pays for the raw materials or merchandise if it is also using the cash method). For additional guidance on this method of accounting for inventoriable items, see Pub. 538.

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

All filers not using the cash method of accounting should see **Section 263A uniform capitalization rules** on page 7 before completing Schedule A.

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

If the cooperative is changing its method of accounting for the current tax year, it must refigure last year's closing inventory using the newly adopted method of accounting and enter the result on line 1. If there is a difference between last year's closing inventory and the refigured amount, attach an explanation. Take the difference into account when figuring the cooperative's section 481(a) adjustment (explained on page 4).

**Line 4a.** Qualified per-unit retain certificates are issued to patrons who have agreed to include the stated dollar amount on the certificate in current income.

**Line 5.** Enter the amount paid in money or other property (except per-unit retain certificates) to patrons to redeem nonqualified per-unit retain certificates. No deduction is allowed at the time of issuance for a nonqualified per-unit retain certificate. However, the cooperative may take a deduction **in the year the certificate is redeemed**, subject to the stated dollar amount of the certificate.

The cooperative may also choose to deduct the amount paid to redeem the certificate *in the prior year* if redemption occurs within the payment period for that preceding year. See section 1382(b).

See section 1383 and the instructions for line 32f on page 11 for a special rule for figuring the cooperative's tax in the year of redemption of a nonqualified per-unit retain certificate.

**Line 6a.** An entry is required on this line only by cooperatives electing a simplified method of accounting.

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

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

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

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

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

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

**Line 8. Inventory at end of year.** See Regulations sections 1.263A-1 through 1.263A-3 for details on figuring the amount of additional section 263A costs to be included in ending inventory.

If the cooperative accounts for inventoriable items in the same manner as materials and supplies that are not incidental, enter on line 8 the portion of its raw materials and merchandise purchased for resale that is included on line 7 and was not sold during the year.

### Lines 10a through 10f

#### Inventory valuation methods.

Inventories can be valued at:

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

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

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

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

Cooperatives that use erroneous valuation methods must change to a method permitted for Federal income tax

purposes. Use Form 3115 to make this change.

On line 10a, check the method(s) used for valuing inventories. Under lower of cost or market, the term "market" (for normal goods) means the current bid price prevailing on the inventory valuation date for the particular merchandise in the volume usually purchased by the taxpayer. For a manufacturer, market applies to the basic elements of cost—raw materials, labor, and burden. If section 263A applies to the taxpayer, the basic elements of cost must reflect the current bid price of all direct costs and all indirect costs properly allocable to goods on hand at the inventory date.

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

If this is the first year the Last-in, First-out (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method provided for in section 472, attach **Form 970**, Application To Use LIFO Inventory Method, or a statement with the information required by Form 970. Also check the LIFO box on line 10c. On line 10d, enter the amount or the percent of total closing inventories covered under section 472. Estimates are acceptable.

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

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

## Schedule C

### Dividends and Special Deductions

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

**Line 1, Column (a).** Enter dividends (except those received on debt-financed stock acquired after July 18, 1984—see section 246A) that:

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

Also include on line 1:

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

Generally, **debt-financed stock** is stock that the cooperative acquired by incurring a debt (e.g., it borrowed money to buy the stock).

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

**Line 2, Column (a).** Enter on line 2:

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

**Line 3, Column (a).** Enter dividends that are:

- Received on debt-financed stock acquired after July 18, 1984, that are received from domestic and foreign corporations subject to income tax that would otherwise be subject to the dividends-received deduction under sections 243(a)(1), 243(c), or 245(a).
- Received from a RIC on debt-financed stock. The amount of dividends eligible for the dividends-received deduction is limited by section 854(b). The cooperative should receive a notice from the RIC specifying the amount of dividends that qualify for the deduction.

**Line 3, Columns (b) and (c).** Dividends received on debt-financed stock acquired after July 18, 1984, are not entitled to the full 70% or 80% dividends-received deduction. The 70% or 80% deduction is reduced by a percentage that is related to the amount of debt incurred to acquire the stock. See section 246A. Also see section 245(a) before making this computation for an additional limitation that applies to dividends received from foreign corporations. Attach a schedule to Form 990-C showing how the amount on line 3, column (c), was figured.

**Line 4, Column (a).** Enter dividends received on the preferred stock of a less-than-20%-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

**Line 5, Column (a).** Enter dividends received on preferred stock of a 20%-or-more-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

**Line 6, Column (a).** Enter the U.S.-source portion of dividends that:

- Are received from less-than-20%-owned foreign corporations and
- Qualify for the 70% deduction under section 245(a).

To qualify for the 70% deduction, the cooperative must own at least 10% of the stock of the foreign corporation by vote and value.

Also include dividends received from a less-than-20%-owned FSC that:

- Are attributable to income treated as effectively connected with the conduct of a trade or business within the United States (excluding foreign trade income) and
- Qualify for the 70% deduction provided in section 245(c)(1)(B).

**Line 7, Column (a).** Enter the U.S.-source portion of dividends that are received from 20%-or-more-owned foreign corporations and that qualify for the 80% deduction under section 245(a). Also include dividends received from a 20%-or-more-owned FSC that:

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

**Line 8, Column (a).** Enter dividends received from wholly owned foreign subsidiaries that are eligible for the 100% deduction provided in section 245(b).

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

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

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

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

1. Refigure line 28, page 1, Form 990-C, without any adjustment under section 1059 and without any capital loss carryback to the tax year under section 1212(a)(1) . . . . . \_\_\_\_\_
2. Complete lines 10 and 11, column (c) and enter the total here . . . . . \_\_\_\_\_
3. Subtract line 2 from line 1 . . . . . \_\_\_\_\_
4. Multiply line 3 by 80% . . . . . \_\_\_\_\_
5. Add lines 2, 5, 7, and 8, column (c) and the part of the deduction on line 3, column (c) that is attributable to dividends received from 20%-or-more-owned corporations . . . . . \_\_\_\_\_
6. Enter the smaller of line 4 or line 5. If line 5 is greater than line 4, stop here; enter the amount from line 6 on line 9, column (c). Do not complete the rest of this worksheet . . . . . \_\_\_\_\_
7. Enter the total amount of dividends received from 20%-or-more-owned corporations that are included on lines 2, 3, 5, 7, and 8, column (a) . . . . . \_\_\_\_\_
8. Subtract line 7 from line 3 . . . . . \_\_\_\_\_
9. Multiply line 8 by 70% . . . . . \_\_\_\_\_
10. Subtract line 5 from line 9, column (c) . . . . . \_\_\_\_\_
11. Enter the smaller of line 9 or line 10 . . . . . \_\_\_\_\_
12. **Dividends-received deduction after limitation** (section 246(b)). Add lines 6 and 11. Enter the result here and on line 9, column (c) . . . . . \_\_\_\_\_

**Line 10, Column (a).** Enter dividends from FSCs that are attributable to foreign trade income and that are eligible for the 100% deduction provided in section 245(c)(1)(A).

**Line 11, Columns (a) and (c).** Enter only those dividends that qualify under section 243(b) for the 100% dividends-received deduction described in section 243(a)(3). Cooperatives taking this deduction are subject to the provisions of section 1561.

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

**Line 12, Column (a).** Enter foreign dividends not reportable on lines 3, 6, 7, 8, or 10 of column (a). Include on line 12 the cooperative's share of the ordinary earnings of a qualified electing fund from **Form 8621**, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund, line 1c. Exclude distributions of amounts constructively taxed in the current year or in prior years under subpart F (sections 951 through 964).

**Line 13, Column (a).** Include income constructively received from controlled foreign corporations under subpart F. This amount should equal the total subpart F

income reported on Schedule I, Form 5471.

**Line 14, Column (a).** Include gross-up for taxes deemed paid under sections 902 and 960.

**Line 15, Column (a).** Enter taxable distributions from an IC-DISC or former DISC that are designated as not eligible for a dividends-received deduction.

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

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

**Line 16, Column (a).** Include the following:

1. Dividends (other than capital gain distributions reported on Schedule D (Form 1120) and exempt-interest dividends) that are received from RICs and that are not subject to the 70% deduction.
2. Dividends from tax-exempt organizations.
3. Dividends (other than capital gain distributions) received from a REIT that, for the tax year of the trust in which the dividends are paid, qualifies under sections 856 through 860.
4. Dividends not eligible for a dividends-received deduction because of the holding period of the stock or an obligation to make corresponding payments with respect to similar stock.

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

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

Special rules also apply if a cooperative has acquired the assets of another cooperative under a section 381(a) transaction. See section 1388(j) for more information. Cooperatives may net earnings and losses under section 1388(j) and still be eligible for tax-exempt treatment. See section 521(b)(6).

If the cooperative sells qualifying foreign trade property, no deduction is allowed for patronage dividends, per-unit retain allocations, and nonpatronage distributions related to foreign trade income. For details, see section 941(b)(2).

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

**Note.** Lines 1 and 2 apply only to section 521 cooperatives.

**Line 1.** Enter the amount actually or constructively paid as dividends during the tax year on:

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

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

**Line 2.** Enter nonpatronage income allocated to patrons. Payment may be in:

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

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

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

- Marketing,
- Purchasing,
- Service activities of the cooperative (such as income from the lease of premises, investments, or from the sale or exchange of capital assets), or
- Income from business done with or for the U.S. Government, or any of its agencies.

See **Patronage dividends** on page 15 for a definition of "qualified written notice of allocation." See section 1382(c)(2)(B) for deductibility of amounts paid in redemption of "nonqualified written notices of allocation." See section 1388

**Schedule H**  
**Deductions and Adjustments Under Section 1382**

Cooperatives may, under section 1388(j)(1), use losses from one or more allocation units to offset earnings of one or more other allocation units, as permitted by their bylaws, but only to the extent that the earnings and losses are from business done with or for patrons. If a cooperative exercises this option, it must provide the information specified in section 1388(j)(3) by written notice to its patrons.

(d) for a definition of a nonqualified written notice of allocation.

**Line 3.** To be deductible, patronage dividends must be paid during the payment period that begins on the first day of the tax year in which the patronage occurs and ends on the 15th day of the 9th month after the end of that tax year.

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

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

Patronage dividends may be paid in:

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

A **written notice of allocation** means:

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

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

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

1. The patron must have at least 90 days from the date the written notice of allocation is paid to redeem it in cash, **and** must receive written notice of the right of redemption at the time the patron receives the allocation; **or**

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

If a written notice of allocation does not qualify, no deduction is allowable at the time it is issued. However, the cooperative is entitled to a deduction or refund of tax when the nonqualified written notice of allocation is finally redeemed, if that notice was paid as a patronage dividend during the payment period for the tax year **during which** the patronage occurred. The deduction or refund is allowed, but only to the extent that amounts paid to redeem the nonqualified written notices of allocation are paid in money or other property (other

than written notices of allocation) which do not exceed the stated dollar amounts of the nonqualified written notices of allocation. See section 1382(b), Regulations section 1.1382-2 and section 1383.

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

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

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

(b) A tax credit based on a recomputation of tax for the year(s) the nonqualified written notices of allocation were issued. See the instructions for line 32f.

Amounts paid to patrons are **not** patronage dividends if paid:

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

## Schedule J

### Tax Computation

#### Lines 1 and 2

**Members of a controlled group.** A member of a controlled group, as defined in section 1563, must check the box on line 1 and complete lines 2a and 2b, as applicable.

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

When a controlled group adopts or later amends an apportionment plan, each member must attach to its tax return a copy of its consent to this plan.

The copy (or an attached statement) must show the part of the amount in each taxable income bracket apportioned to that member. See Regulations section 1.1561-3(b) for other requirements and for the time and manner of making the consent.

**Equal apportionment plan.** If no apportionment plan is adopted, members of a controlled group must divide the

amount in each taxable income bracket equally among themselves. For example, Controlled Group AB consists of Cooperative A and Cooperative B. They do not elect an apportionment plan.

Therefore, each cooperative is entitled to:

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

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

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

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

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

#### Line 3

#### Tax Computation Worksheet for Members of a Controlled Group (keep for your records)

**Note.** Each member of a controlled group must compute its tax using this worksheet.

1. Enter taxable income (line 30, page 1) . . . . . \_\_\_\_\_
2. Enter line 1 or the cooperative's share of the \$50,000 taxable income bracket, whichever is less . . . . . \_\_\_\_\_
3. Subtract line 2 from line 1 . . . . . \_\_\_\_\_
4. Enter line 3 or the cooperative's share of the \$25,000 taxable income bracket, whichever is less . . . . . \_\_\_\_\_
5. Subtract line 4 from line 3 . . . . . \_\_\_\_\_
6. Enter line 5 or the cooperative's share of the \$9,925,000 taxable income bracket, whichever is less . . . . . \_\_\_\_\_
7. Subtract line 6 from line 5 . . . . . \_\_\_\_\_
8. Multiply line 2 by 15% . . . . . \_\_\_\_\_
9. Multiply line 4 by 25% . . . . . \_\_\_\_\_
10. Multiply line 6 by 34% . . . . . \_\_\_\_\_
11. Multiply line 7 by 35% . . . . . \_\_\_\_\_

12. If the taxable income of the controlled group exceeds \$100,000, enter this member's share of the smaller of: 5% of the taxable income in excess of \$100,000, or \$11,750. See instructions for line 2b . . . . . \_\_\_\_\_
13. If the taxable income of the controlled group exceeds \$15 million, enter this member's share of the smaller of: 3% of the taxable income in excess of \$15 million, or \$100,000. See instructions for line 2b . . . . . \_\_\_\_\_
14. Add lines 8 through 13. Enter here and on Schedule J, line 3. \_\_\_\_\_

**Note.** *Members of a controlled group must attach to Form 990-C a statement showing the computation of the tax entered on Schedule J, line 3.*

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

**Tax Rate Schedule**

*If taxable income on line 30, page 1, Form 990-C is:*

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

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

Do not include on line 3 any interest due under section 1291(c)(3). Instead, show the amount of interest owed in the bottom margin of page 1, Form 990-C, and write "Section 1291 interest." If the cooperative has a tax due, include the interest due in the payment. If you would otherwise receive a refund, reduce the refund by the interest due. For details, see Form 8621.

**Line 4. Alternative minimum tax (AMT).** Unless the cooperative is treated as a small corporation exempt from the AMT, it may owe AMT if it has any of the adjustments and tax preference items listed on **Form 4626**, Alternative Minimum Tax—Corporations. The cooperative

must file Form 4626 if its taxable income (or loss) before the NOL deduction combined with these adjustments and tax preference items is more than the lesser of:

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

**Exemption for small corporations.**

A cooperative is treated as a small corporation exempt from the AMT for its tax year beginning in 2003 if that year is the cooperative's first tax year in existence (regardless of its gross receipts) or:

1. It was treated as a small corporation exempt from the AMT for all prior tax years beginning after 1997 and
2. Its average annual gross receipts for the 3-tax-year period (or portion thereof during which the cooperative was in existence) ending before its tax year beginning in 2003 did not exceed \$7.5 million (\$5 million if the cooperative had only 1 prior tax year).

For more details, see the Instructions for Form 4626.

**Line 6a. Foreign tax credit.** To find out when a cooperative can take the credit for payment of income tax to a foreign country or U.S. possession, see **Form 1118**, Foreign Tax Credit—Corporations.

**Line 6b. Other Credits**

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

**Nonconventional source fuel credit.** A credit is allowed for the sale of qualified fuels produced from a nonconventional source. Section 29 contains a definition of qualified fuels, provisions for figuring the credit, and other special rules. Attach a separate schedule to Form 990-C showing the computation of the credit.

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

**Line 6c. General business credit.** Enter the cooperative's total general business credit.

If the cooperative is filing **Form 8844**, Empowerment Zone and Renewal Community Employment Credit, or **Form 8884**, New York Liberty Zone Business Employee Credit, check the "Form(s)" box, write the form number in the space provided, and include the allowable credit on line 6c.

If the cooperative is required to file **Form 3800**, General Business Credit, check the "Form 3800" box and include the allowable credit on line 6c. If the

cooperative is not required to file Form 3800, check the "Form(s)" box, write the form number (from the list below) in the space provided, and include on line 6c the allowable credit from the applicable form.

**Note.** *Any excess energy investment credit, work opportunity credit, Indian employment credit, empowerment zone or renewal community employment credit, welfare-to-work credit, or new markets credit not used by the cooperative (because of the tax liability limitation) must be passed through to the patrons.*

**These credits cannot be carried back or over by the cooperative.** See **Forms 3468, 5884, 8844, 8845, 8861, and 8874** for details.

- Investment Credit (Form 3468).
- Work Opportunity Credit (Form 5884).
- Credit for Alcohol Used as Fuel (Form 6478).
- Credit for Increasing Research Activities (Form 6765).
- Low-Income Housing Credit (Form 8586).
- Orphan Drug Credit (Form 8820).
- Disabled Access Credit (Form 8826).
- Enhanced Oil Recovery Credit (Form 8830).
- Renewable Electricity Production Credit (Form 8835).
- Indian Employment Credit (Form 8845).
- Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips (Form 8846).
- Credit for Contributions to Selected Community Development Corporations (Form 8847).
- Welfare-to-Work Credit (Form 8861).
- New Markets Credit (Form 8874).
- Credit for Small Employer Pension Plan Startup Costs (Form 8881).
- Credit for Employer-Provided Childcare Facilities and Services (Form 8882).

**Line 6d. Credit for prior year minimum tax.** To figure the minimum tax credit and any carryforward of that credit, use **Form 8827**, Credit for Prior Year Minimum Tax—Corporations.

Also see Form 8827 if any of the cooperative's 2002 nonconventional source fuel credit, orphan drug credit, or qualified electric vehicle credit was disallowed solely because of the tentative minimum tax limitation. See section 53(d).

**Line 9. Other taxes.** Include any of the following taxes and interest in the total on line 9. Check the appropriate box(es) for the form, if any, used to compute the total.

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

**Recapture of low-income housing credit.** If the cooperative disposed of property (or there was a reduction in the qualified basis of the property) for which it took the low-income housing credit, it may



owe a tax. See **Form 8611**, Recapture of Low-Income Housing Credit.

**Other.** Additional taxes and interest amounts may be included in the total entered on line 9. Check the box for "Other" if the cooperative includes any of the taxes and interest discussed below. See **How to report**, below, for details on reporting these amounts on an attached schedule.

- Recapture of the qualified electric vehicle (QEV) credit. The cooperative must recapture part of the QEV credit claimed in a prior year, if, within 3 years of the date the vehicle was placed in service, it ceases to qualify for the credit. See Regulations section 1.30-1 for details on how to figure the recapture.
- Recapture of the Indian employment credit. Generally, if an employer terminates the employment of a qualified employee less than 1 year after the date of initial employment, any Indian employment credit allowed for a prior tax year because of wages paid or incurred to that employee must be recaptured. For details, see Form 8845 and section 45A.
- Recapture of new markets credit (see Form 8874).
- Recapture of employer-provided childcare facilities and services credit (see Form 8882).
- Interest on deferred tax attributable to (a) installment sales of certain timeshares and residential lots (section 453(l)(3)) and (b) certain nondealer installment obligations (section 453A(c)).
- Interest due on deferred gain (section 1260(b)).

**How to report.** If the cooperative checked the "Other" box, attach a schedule showing the computation of each item included in the total for line 9, identify the applicable Code section and the type of tax or interest.

**Line 10. Total tax.** Include any deferred tax on the termination of a section 1294 election applicable to shareholders in a qualified electing fund in the amount entered on line 10. See Form 8621, Part V and **How to report** below.

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

**How to report.** If deferring tax, attach a schedule showing the computation of each item included in, or subtracted from, the total for line 10. On the dotted line next to line 10, specify (a) the applicable Code section, (b) the type of tax, and (c) the amount of tax.

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## Schedule L

### Balance Sheets per Books

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

**Line 5. Tax-exempt securities.** Include on this line:

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

**Line 24. Adjustments to shareholders' equity.** Some examples of items to report on this line include:

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

If the total adjustment to be entered on line 24 is a negative amount, enter it in parentheses.

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## Schedule M-1

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

#### Line 5c. Travel and entertainment.

Include on line 5c any of the following:

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

For more information, see Pub. 542.

**Line 7. Tax-exempt interest.** Include as interest on line 7, any exempt-interest dividends received as a shareholder in a mutual fund or RIC.

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## Schedule N

### Other Information

The following instructions apply to Form 990-C, page 5, Schedule N. Be sure to complete all the items that apply to the cooperative.

#### Question 13

**Foreign financial account.** Check the "Yes" box if either 1 or 2 below applies to the cooperative. Otherwise, check the "No" box.

1. At any time during the 2003 calendar year, the cooperative had an interest in or signature or other authority over a bank, securities, or other financial account in a foreign country (see **Form TD F 90-22.1**, Report of Foreign Bank and Financial Accounts); and

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

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

If "Yes" is checked for this question:

- Enter the name(s) of the foreign country or countries. Attach a separate sheet if more space is needed.
- File Form TD F 90-22.1 by June 30, 2004, with the Department of the Treasury at the address shown on the form. Do not file it with Form 990-C.

You can order Form TD F 90-22.1 by calling 1-800-TAX-FORM (1-800-829-3676) or you can download it from the IRS website at [www.irs.gov](http://www.irs.gov).

#### Question 14

The cooperative may be required to file **Form 3520**, Annual Return To Report Transactions with Foreign Trusts and Receipt of Certain Foreign Gifts, if:

- It directly or indirectly transferred money or property to a foreign trust. For this purpose, any U.S. person who created a foreign trust is considered a transferor.
- It is treated as the owner of any part of the assets of a foreign trust under the grantor trust rules.
- It received a distribution from a foreign trust.

For more information, see the Instructions for Form 3520.

**Note.** *An owner of a foreign trust must ensure that the trust files an annual information return on **Form 3520-A**, Annual Information Return of Foreign Trust with a U.S. Owner. For details, see Form 3520-A.*

#### Item 15

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

#### Question 17

Check the "Yes" box if:

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

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

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

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

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

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

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

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

1. At least 80% of the total combined voting power of all classes of voting stock or at least 80% of the total value of all classes of stock of each corporation in the

group (except the parent) must be owned by one or more of the other corporations in the group and

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

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

### Item 19

If the cooperative has an NOL for its 2003 tax year, it may elect, under section 172(b)(3), to waive the entire carryback period for the NOL and instead carry the NOL forward to future tax years. To do so, check the box in item 19 and file the return by its due date, including extensions (do not attach the statement described in Temporary Regulations section 301.9100-12T). Once made, the election is irrevocable. See Pub. 542, section 172, and Form 1139 for more details.

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

### Item 20

Enter the amount of the NOL carryover to the tax year from prior years, even if some of the loss is used to offset income on this return. The amount to enter is the total of all NOLs generated in prior years but not used to offset income (either as a carryback or carryover) in a tax year prior to 2003. Do not reduce the amount by any NOL deduction reported on line 29a.

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

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

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

<b>Recordkeeping</b> . . . . .	75 hr., 34 min.
<b>Learning about the law or the form</b> . . . . .	24 hr., 55 min.
<b>Preparing the form</b> . . . . .	43 hr., 5 min.
<b>Copying, assembling, and sending the form to the IRS</b> . . . . .	4 hr., 33 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Products Coordinating Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001.

**Do not** send the tax form to this office. Instead, see **Where To File** on page 2.

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**Index**

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<b>A</b>	<b>E</b>	<b>N</b>	<b>S</b>
Accounting methods . . . . . 4	Electronic Federal Tax Payment System (EFTPS) . . . . . 5	Name change . . . . . 6	Salaries and wages . . . . . 8
Accounting periods . . . . . 4	Employee benefit programs . . . . . 10	Net operating loss . . . . . 11	Schedule:
Address change . . . . . 6	Employer identification number (EIN) . . . . . 6	Nonaccrual experience method . . . . . 4	A . . . . . 12
Affiliated group . . . . . 18	Estimated tax payments . . . 5	Nonpatronage income . . . 14	C . . . . . 13
Alternative minimum tax . . . . . 16			H . . . . . 14
Amended return . . . . . 6			J . . . . . 15
Assembling the return . . . . 4			L . . . . . 17
			M-1 . . . . . 17
			N . . . . . 17
<b>B</b>	<b>F</b>	<b>O</b>	<b>T</b>
Backup withholding . . . . . 11	Final return . . . . . 6	Other deductions . . . . . 10	Tax Computation . . . . . 15
Bad debts . . . . . 8	Foreign financial account . . . . . 17	Other income . . . . . 7	Tax issues, unresolved . . . . 1
Balance sheets . . . . . 17	Foreign tax credit . . . . . 16	Other taxes: Recapture . . . . . 16	Tax rate schedule . . . . . 16
Business start-up expenses . . . . . 8	Forms and publications, how to get . . . . . 1		Taxes and licenses . . . . . 9
			Travel, meals, and entertainment . . . . . 10
<b>C</b>	<b>G</b>	<b>P</b>	<b>W</b>
Capital gain net income . . . 7	General business credit . . . . . 16	Paid preparer authorization . . . . . 2	When to file . . . . . 2
Charitable contributions . . . 9	Golden parachute payments . . . . . 8	Passive activity limitations . . . . . 8	Where to file . . . . . 2
Closely held cooperative . . . 8	Gross receipts . . . . . 6	Patronage dividends . . . . 15	Who must file . . . . . 1
Compensation of officers . . . . . 8	Gross rents . . . . . 7	Penalty: Estimated tax . . . . . 12	Who must sign . . . . . 2
Consolidated return . . . . . 4		Late filing . . . . . 5	Worksheet: Schedule C . . . . . 13
Controlled group: Member of . . . . . 15		Late payment . . . . . 5	Worksheets: Controlled group members, tax computation . . . . . 15
Cost of goods sold . . . . . 12	<b>I</b>	Pension, profit-sharing, etc., plans . . . . . 10	Written notice of allocation . . . . . 15
	Income . . . . . 6	Private delivery services . . . 2	
<b>D</b>	Initial return . . . . . 6		
Deductions . . . . . 7	Interest and Penalties . . . . 5	<b>Q</b>	
Deductions and Adjustments under Section 1382 . . . . . 14	Interest expense . . . . . 9	Qualified written notice of allocation . . . . . 15	
Depletion . . . . . 10	Interest income . . . . . 7		
Depository method of tax payment . . . . . 5	Inventory: Valuation methods . . . . . 12	<b>R</b>	
Depreciation . . . . . 10		Reconciliation of income (Sch M-1) . . . . . 17	
Direct deposit of refund . . . 12	<b>L</b>	Recordkeeping . . . . . 5	
Dividends . . . . . 7	Limitations on deductions: Section 263A uniform capitalization rules . . . . 7	Related taxpayer transactions . . . . . 8	
Dividends and Special Deductions . . . . . 13	Lobbying expenses . . . . . 11	Rents (expense) . . . . . 8	
		Repairs and maintenance . . . . . 8	