



# Instructions for Form 1120-F

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

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

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### Changes To Note

- For tax years ending on or after December 31, 2001, certain corporations with average annual gross receipts of more than \$1 million but less than or equal to \$10 million may be able to adopt or change to the cash method of accounting for eligible trades or businesses. This rule does not apply to corporations prohibited from using the cash method under section 448. For more details, including change in accounting method requirements, see Notice 2001-76, 2001-52 I.R.B. 614.
- The corporation may request that the IRS deposit its income tax refund of \$1 million or more directly into its checking or savings account at any U.S. bank or other financial institution that accepts direct deposits. For details, see the instructions for line 10 on page 8 and **Form 8302**, Direct Deposit of Tax Refund of \$1 Million or More.
- If the corporation wants to allow the IRS to discuss its 2001 tax return with the paid preparer who signed it, check the "Yes" box in the area where the officer of the corporation signed the return. See page 3 for details.

### 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 corporation has attempted to deal with an IRS problem unsuccessfully, it should contact the Taxpayer Advocate. The Taxpayer Advocate independently represents the corporation'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

corporation's case is given a complete and impartial review.

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

- A "fresh look" at a new or on-going problem.
- Timely acknowledgment.
- 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 corporation should provide the following information:

- The corporation'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 had been contacted.
- A description of the hardship the corporation is facing (if applicable).

The corporation may contact a Taxpayer Advocate by calling **1-877-777-4778** (toll free). Persons who have access to TTY/TDD equipment may call 1-800-829-4059 and ask for Taxpayer Advocate assistance. If the corporation 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 web site 24 hours a day, 7 days a week at **www.irs.gov** to:

- Download forms, instructions, and publications.
- See answers to frequently asked tax questions.
- Search publications on-line by topic or keyword.
- Send us comments or request help by e-mail.
- Sign up to receive local and national tax news by e-mail.

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](http://www.irs.gov/cdorders) from the National Technical Information Service (NTIS) for \$21 (no handling fee), or call **1-877-CDFORMS** (1-877-233-6767) toll free to buy the CD-ROM for \$21 (plus a \$5 handling fee).

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

## General Instructions

### Purpose of Form

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

### Who Must File

Unless one of the exceptions under **Exceptions From Filing** below applies or a special return is required (see **Special Returns for Certain Organizations** below), a foreign corporation must file Form 1120-F if, during the tax year, the corporation:

- Overpaid income tax that it wants refunded.
- Engaged in a trade or business in the United States, whether or not it had income from that trade or business.
- Had income, gains, or losses treated as if they were effectively connected with that U.S. trade or business. (See **Section II** on page 10.)
- Had income from any U.S. source (even if its income is tax exempt under an income tax treaty or code section).

Others that must file Form 1120-F include:

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

**Treaty exemption.** If the corporation does not owe any tax because it is claiming a treaty exemption and there was no withholding at source, it must still file Form 1120-F to show that the income was exempted by treaty. In this case, the corporation should only complete the identifying information at the top of page 1 and Item W at the bottom of page 5.

If the corporation does not owe any tax and there was withholding at source, see **Claim for Refund or Credit** below.

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

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

### Exceptions From Filing

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

- It did not engage in a U.S. trade or business during the year, and its full U.S. tax was withheld at source.
- Its only income is not subject to U.S. taxation under section 881(d).
- It is a beneficiary of an estate or trust engaged in a U.S. trade or business, but would itself otherwise not need to file.

### Special Returns for Certain Organizations

Instead of filing Form 1120-F, certain foreign organizations must file special returns.

- **Form 1120-L**, U.S. Life Insurance Company Income Tax Return, as a foreign life insurance company.
- **Form 1120-PC**, U.S. Property and Casualty Insurance Company Income Tax Return, as a foreign property and casualty insurance company.
- **Form 1120-FSC**, U.S. Income Tax Return of a Foreign Sales Corporation, if the corporation elected to be treated as a FSC and the election is still in effect.

### Claim for Refund or Credit

If the corporation is filing Form 1120-F **only** as a claim for refund or credit of tax paid or withheld at source, the simplified procedure described below can be used. This procedure can be used **only** if the foreign corporation meets **all** of the following conditions **for the tax year**.

- It was not engaged in a trade or business in the United States.
- It did not have a permanent establishment in the United States.
- It had no income effectively connected with the conduct of a U.S. trade or business.
- Its U.S. income tax liability was fully satisfied through withholding of tax at source and the corporation owes no additional U.S. income tax.

### Simplified Procedure for Claiming a Refund of U.S. Tax Withheld at Source

To make a claim for a refund, complete Form 1120-F as follows.

**Page 1.** Enter the complete name, address, and employer identification number of the corporation. Check the applicable box to indicate the type of filing. Provide all the information required in items A through L.

**Refund amount.** Enter on lines 1 and 5, page 1, the amounts from line 11, page 2. Enter on lines 6h and 6i the amount from line 12, page 2. Enter the excess of line 6i over line 5 on lines 9 and 10. This is the amount to be refunded to you.

**Signature.** An authorized officer of the corporation must sign and date the return.

**Page 2.** Enter in column (b) the gross amount of each type of income received that was subject to withholding at source. Include income from foreign sources that was subject

to backup withholding. Do not include income from which no U.S. tax was withheld. If the corporation is subject to backup withholding on gross proceeds from sales of securities or transactions in regulated futures contracts, enter the gross proceeds on line 10.

Enter in columns (c) and (d), respectively, the correct rate and amount of U.S. income tax liability for each type of income reported in column (b). If the corporation is claiming a refund of U.S. tax withheld in excess of the rate provided in a tax treaty with the United States, enter the applicable treaty rate in column (c) and figure the correct U.S. income tax liability on the gross income reported in column (b).

Enter in column (e) the U.S. tax actually withheld at source (and not refunded by the payor or the withholding agent) from each type of income reported.

Enter on line 11 the total U.S. tax liability for the reported income.

Enter on line 12 the total U.S. tax actually withheld from such income.

**Additional information.** Complete all items at the bottom of page 2 and 5 that apply to the corporation.

### Additional Documentation Required

The corporation **must** attach to Form 1120-F the following:

1. Proof of the withholding (e.g. Form 1042-S),
2. A statement that describes the basis for the claim for refund,
3. Any required tax certifications (e.g., Form W-8BEN), and
4. Any additional documentation to support the claim.

**Refund of backup withholding tax.** If the corporation is claiming a refund of backup withholding tax based on its status as a non-U.S. resident, it must:

- Provide a copy of the Form 1099 that shows the amount of reportable payment and backup withholding and
- Attach a statement, signed under penalties of perjury, that the corporation is exempt from backup withholding because it is not a U.S. corporation or other U.S. resident (e.g. Form W-8BEN).

**Refunds of U.S. withholding.** If any of the following apply, attach the information requested.

- If claiming a refund of U.S. withholding tax on U.S. source income, provide a copy of the Form 1042-S that shows the income and actual amount of U.S. tax withheld.
- If claiming a refund of U.S. tax withheld from portfolio interest, include a description of the relevant debt obligation, including the name of the issuer, CUSIP number (if any), interest rate, scheduled maturity date, and the date the debt was issued. Also include a statement, signed under penalties of perjury, that the corporation is the beneficial owner of the interest income and not a U.S. corporation or other U.S. resident (e.g., Form W-8BEN).
- If claiming a reduced rate of, or exemption from, tax based on a tax treaty, provide a certificate of entitlement to treaty benefits (e.g. Form 1001 or Form W-8BEN). A separate statement should be provided that contains any additional representations necessary to explain the basis for the claim.

**Note:** To claim a reduced rate of, or exemption from, tax based on a tax treaty, the corporation must generally be a resident of the

particular treaty country within the meaning of the treaty and cannot have a permanent establishment or fixed base in the United States.

- If claiming an exemption from withholding on a distribution from a U.S. corporation with respect to its stock because the corporation has insufficient earnings and profits to support ordinary dividend treatment, provide a statement that identifies the distributing corporation and provides the basis for the claim.
- If claiming an exemption from withholding on a distribution from a mutual fund or a real estate investment trust (REIT) with respect to its stock because the distribution was designated as long-term capital gain or a return of capital, provide a statement that identifies the mutual fund or REIT and provide the basis for the claim.
- If claiming an exemption from withholding on a distribution from a U.S. corporation with respect to its stock because, in the foreign corporation's particular circumstances, the transaction qualifies as a redemption of stock under section 302, provide a statement that describes the transaction and presents the facts necessary to establish that the payment was (a) a complete redemption, (b) a disproportionate redemption, or (c) not essentially equivalent to a dividend.

**Use of foreign nominees.** If the corporation received income through a foreign intermediary or nominee acting on its behalf (and a Form 1042-S or 1099 is not received), the corporation may substitute a statement from the intermediary or nominee. The statement should include the following information:

- The gross amount(s) and type(s) of income subject to withholding,
- The name(s) and address(es) of the U.S. withholding agent(s),
- The U.S. taxpayer identification number of the U.S. withholding agent or payor, **and**
- The name in which the tax was withheld, if different from the name of the beneficial owner claiming the refund.

## When To File

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

A foreign corporation that maintains an office or place of business in the United States must **either**:

1. File Form 1120-F by the 15th day of the 3rd month after the end of its tax year **or**
2. Get an extension of time to file.

**Extension.** To get an extension, the corporation may **either**:

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

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

2. Get a 3-month extension by attaching to Form 1120-F the statement described in Regulations section 1.6081-5. If additional time is needed beyond the 3 month extension, then

file Form 7004 before the end of the 3-month extension period to obtain up to an additional 3 months to file. If Form 7004 is not filed by the expiration of the 3-month extension period, and the corporation files its income tax return after such period, it may be liable for the penalty for late filing of return described on page 7. In no event may the total extension period exceed 6 months from the original due date of the return (i.e., the return must be filed by the 15th day of the 9th month after the end of its tax year). See Rev. Rul. 93-85, 1993-2 C.B. 297.

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



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

### Foreign Corporation With No Office or Place of Business in the U.S.

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

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

**Note:** *The extension does not extend the time for payment of tax. If the tax is paid after the 15th day of the 6th month after the end of its tax year, the corporation must pay interest on the late payment and a penalty for late payment of tax may apply. See **Interest and Penalties** on page 7.*

### Other Filing Requirements

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

A foreign corporation is allowed the following deductions and credits regardless of whether Form 1120-F is timely filed.

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

See Regulations section 1.882-4 for details.

## Private Delivery Services

Corporations 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 October 2001.

The list includes only the following:

- Airborne Express (Airborne): Overnight Air Express Service, Next Afternoon Service, Second Day Service.
- DHL Worldwide Express (DHL): DHL "Same Day" Service, DHL USA Overnight.
- Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2Day.
- 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.

## Who Must Sign

The return must be signed and dated by:

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

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

If an employee of the corporation completes Form 1120-F, the paid preparer's space should remain blank. In addition, anyone who prepares Form 1120-F but does not charge the corporation 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, by hand, in the space provided for the preparer's signature (signature stamps or labels are not acceptable).
- Give a copy of the return to the taxpayer.

## Paid Preparer Authorization

If the corporation wants to allow the IRS to discuss its 2001 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 corporation's return. It does not apply to the firm, if any, shown in that section.

If the "Yes" box is checked, the corporation is authorizing the IRS to call the paid preparer to answer any questions that may arise during the processing of its return. The corporation 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 corporation has shared with the preparer about math errors, offsets, and return preparation. The notices will not be sent to the preparer.

The corporation is not authorizing the paid preparer to receive any refund check, bind the corporation to anything (including any additional tax liability), or otherwise represent the corporation before the IRS. If the corporation 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 corporation's 2002 tax return.

## Where To File

File Form 1120-F with the Internal Revenue Service Center, Philadelphia, PA 19255.

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

### Forms

A foreign corporation may have to file some of the following forms. See the forms 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 the luxury tax on passenger vehicles, environmental taxes, communications and air transportation taxes, fuel taxes, manufacturers taxes, ship passenger taxes, and certain other excise taxes.

**Form 940** or **Form 940-EZ**, Employer's Annual Federal Unemployment (FUTA) Tax Return. The corporation may be liable for FUTA tax and may have to file Form 940 or Form 940-EZ if either of the following applies.

1. It paid wages of \$1,500 or more in any calendar quarter in 2000 or 2001 or
2. It had at least one employee who worked for the corporation for some part of a day in 20 or more different weeks in 2000 or 20 or more different weeks in 2001.

**Form 941**, Employer's Quarterly Federal Tax Return, or **Form 943**, Employer's Annual 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 7.

**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.

See **Trust fund recovery penalty** on page 7.

**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).

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 corporation's trade or business and reimbursement of overpaid interest.

**Forms 1099**. Use these information returns to report the following.

- **Form 1099-A**, Acquisition or Abandonment of Secured Property.
- **Form 1099-B**, Proceeds From Broker and Barter Exchange Transactions.
- **Form 1099-C**, Cancellation of Debt.
- **Form 1099-DIV**, Dividends and Distributions.
- **Form 1099-INT**, Interest Income.
- **Form 1099-LTC**, Long-Term Care and Accelerated Death Benefits.
- **Form 1099-MISC**, Miscellaneous Income. Use this form to report payments to: certain fishing boat crew members, to providers of health and medical services, of rent or royalties, of non-employee compensation, etc.

**Note:** Every corporation 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 U. S. person in the course of its trade or business during the calendar year.

- **Form 1099-MSA**, Distributions From an Archer MSA or Medicare+Choice MSA.
- **Form 1099-OID**, Original Issue Discount.
- **Form 1099-PATR**, Taxable Distributions Received From Cooperatives.
- **Form 1099-R**, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
- **Form 1099-S**, Proceeds From Real Estate Transactions.

Also, use these returns to report amounts received as a nominee for another person.

**Form 5471**, Information Return of U.S. Persons With Respect to Certain Foreign Corporations. This form is filed by certain officers, directors, and U.S. shareholders of certain foreign corporations to report the information required by sections 6035, 6038, and 6046 (and the underlying regulations). See Form 5471 and its instructions.

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

**Form 5498**, IRA Contribution Information. Use this form to report contributions (including rollover contributions) to any IRA, including a SEP, SIMPLE, Roth IRA, Coverdell ESA, and to report Roth conversions, IRA recharacterizations, and the fair market value of the account.

**Form 5498-MSA**, Archer MSA or Medicare+Choice MSA Information. Use this form to report contributions to an Archer MSA and the fair market value of an Archer MSA or Medicare+Choice MSA.

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

**Form 5713**, International Boycott Report. If the foreign corporation had operations in or related to certain "boycotting" countries, the U.S. shareholders, if any, must 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. Corporations, 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 8288**, U.S. Withholding Tax Return for Dispositions by Foreign Persons of U.S. Real Property Interests, and **Form 8288-A**, Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interests. Use these forms to report and transmit withheld tax on the purchase of U.S. real property to a foreign person. However, for distributions described in Regulations section 1.1445-8, use Forms 1042 and 1042-S. See section 1445 and the related regulations for additional information.

**Form 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**, Direct Deposit of Tax Refund of \$1 Million or More. This form must be filed to request a direct deposit of a tax refund of \$1 million or more.

**Form 8594**, Asset Allocation Statement Under Sections 338 and 1060. Corporations 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 and if the buyer's basis is determined only by the amount paid for the assets.

**Form 8621**, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund. This form is used by U.S. shareholders to make certain elections by shareholders in a passive foreign investment company and to figure certain deferred taxes.

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

**Form 8810**, Corporate Passive Activity Loss and Credit Limitations. Closely held corporations (and corporations that are personal service corporations) must use this form to figure the passive activity loss and credit allowed under section 469.

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

**For 8833, Treaty-Based Return Position Disclosure.** Use this form to make the treaty-based return position disclosure required by section 6114.

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

**Form 8848, Consent to Extend the Time To Assess the Branch Profits Tax Under Regulations Sections 1.884-2(a) and (c).** A foreign corporation must file Form 8848 if it has completely terminated all of its U.S. trade or business within the meaning of Regulations section 1.884-2T(a) during the tax year.

**Form 8849, Claim for Refund of Excise Taxes.** Use this form to claim a refund of certain excise taxes.

**Form 8866, Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method.** Figure the interest due or to be refunded under the look-back method of section 167(g)(2) for property placed in service after September 13, 1995, that is depreciated under the income forecast method.

**Schedule PH (Form 1120), U.S. Personal Holding Company Tax.** See **Line 4, Personal Holding Company Tax**, on page 8.

## Statements

**Corporate tax shelters.** A corporation is required to disclose its participation in certain tax shelters:

- By attaching a **disclosure statement** to its income tax return for a reportable transaction for each tax year its income tax liability is affected by its participation in the transaction and
- For the first tax year a disclosure statement is attached to its tax return, by sending a copy of the disclosure statement to the Internal Revenue Service, LM:PFTG:OTSA, Large & Mid-Size Business Division, 1111 Constitution Ave., NW, Washington, DC 20224.

Disclosure is required for reportable transactions that are: **(a)** listed transactions that the IRS has identified as tax avoidance transactions and **(b)** other reportable transactions that have tax shelter characteristics. A listed transaction must be reported if it is expected to reduce the taxpayer's income tax liability by more than \$1 million in a single tax year or by a total of more than \$2 million for any combination of years. For other reportable transactions, the threshold increases to \$5 million for a single tax year or to \$10 million for any combination of years. Generally, reporting is not required for customary business transactions or transactions with tax benefits that the IRS has no reasonable basis to challenge.

See Temporary Regulations section 1.6011-4T for details, including:

- The definition of a reportable transaction and a listed transaction,
- The relevant tax shelter characteristics for other reportable transactions,
- The form and content of the disclosure statement, and
- The filing requirements of the disclosure statement.

Also, see Notice 2001-51, 2001-34 I.R.B. 190, for certain listed transactions determined to have a tax avoidance purpose and the

intended tax benefits that are subject to disallowance. The listed transactions in this notice may be updated from time to time when other tax avoidance transactions are identified.

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

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

## Assembling the Return

To ensure that the corporation's tax return is correctly processed, attach all schedules and other forms after page 6, Form 1120-F in the following order.

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

Complete every applicable entry space on Form 1120-F. Do not write "See Attached" instead of completing the entry spaces. If more space is needed on the forms or schedules, attach separate sheets, using the same size and format as 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 corporation'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 corporation's books and records. Generally, permissible methods include:

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

In all cases, the method used must clearly show taxable income. If inventories are required, the accrual method must be used for sales and purchases of merchandise. However, qualifying taxpayers and eligible businesses of qualifying small business taxpayers are exempted from using the accrual method and may account for inventoriable items as materials and supplies that are not incidental. For details, see **Schedule A—Cost of Goods Sold** on page 15.

Generally, a corporation (other than a qualified personal service corporation) must use the accrual method of accounting if its average annual gross receipts exceed \$5 million. See section 448(c). A corporation engaged in farming operations must also use the accrual method. For exceptions, see section 447.

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

- All the events have occurred that fix the right to receive the income, 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.

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 underlying regulations for rules on long-term contracts.

### Mark-to-market accounting method.

Generally, dealers in securities must use the mark-to-market accounting method described in section 475. Under this method, any security that is inventory to the dealer must be included in inventory at its fair market value (FMV). Any security held by a dealer that is not inventory and that is held at the close of the tax year is treated as sold at its FMV on the last business day of the tax year. Any gain or loss must be taken into account in determining gross income. The gain or loss taken into account is generally treated as ordinary gain or loss. For details, including exceptions, see section 475, the related regulations, and Rev. Rul. 94-7, 1994-1 C.B. 151.

**Dealers in commodities and traders in securities and commodities** may elect to use the mark-to-market accounting method. To make the election, the corporation must file a statement describing the election, the first tax year the election is to be effective, and, in the case of an election for traders in securities or commodities, the trade or business for which the election is made. Except for new taxpayers, the statement must be filed by the due date (not including extensions) of the income tax return for the tax year immediately preceding the election year and attached to that return, or if applicable, to a request for an extension of time to file that return. For details, see Rev. Proc. 99-17, 1999-1 C.B. 503 and sections 475(e) and (f).

**Change in accounting method.** Generally, the corporation must get IRS consent to change the method of accounting used to report taxable income (for income as a whole or for any material item). To do so, it must file **Form 3115, Application for Change in Accounting Method**. For more information, see **Pub. 538, Accounting Periods and Methods**.

The corporation may also have to make an adjustment to prevent amounts of income or expense from being duplicated or omitted. This is called a **section 481(a) adjustment**, which is taken into account over a period not to exceed 4 years.

**Example.** A corporation changes to the cash method of accounting. It accrued sales in

2000 for which it received payment in 2001. It must report those sales in both years as a result of changing its accounting method and must make a section 481(a) adjustment to prevent duplication of income.

See Rev. Proc 99-49, 1999-2 C.B. 725, to figure the amount of this adjustment for 2001. Include any positive section 481(a) adjustment on page 3, Section II, line 10. If the section 481(a) adjustment is negative, report it on line 27 of Section II.

## Accounting Periods

A corporation must figure its taxable income on the basis of a tax year. The tax year is the annual accounting period the corporation uses to keep its records and report its income and expenses. Generally, corporations can use a calendar year or a fiscal year. Personal service corporations, however, must generally use a calendar year unless they meet one of the exceptions discussed in **Accounting period** under **Item O—Personal Service Corporation** on page 9. Furthermore, special rules apply to specified foreign corporations. See **Specified Foreign Corporations** below.

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

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

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

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

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

## Specified Foreign Corporations

The annual accounting period of a specified foreign corporation (defined below) is generally required to be the tax year of its majority U.S. shareholder. If there is more than one majority shareholder, the required tax year will be the tax year that results in the least aggregate deferral of income to all U.S. shareholders of the foreign corporation. For more information, see section 898.

**Specified foreign corporation.** A specified foreign corporation is any foreign corporation:

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

A specified foreign corporation that wishes to change to any other U.S. tax year (or change to its pre-change year) must get the

consent of the IRS using the procedures of section 442 and the related regulations. For details, see Notice 95-13, 1995-1 C.B. 296.

## Rounding Off to Whole Dollars

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

## Recordkeeping

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

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

## Payment of Tax Due

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

Foreign corporations that **do not** maintain an office or place of business in the United States must pay the tax due (page 1, line 8) in full no later than the 15th day of the 6th month after the end of the tax year.

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

Foreign corporations that **do** maintain an office or place of business in the United States must pay the tax due (page 1, line 8) in full no later than the 15th day of the 3rd month after the end of the tax year.

## Depository Method of Tax Payment

Foreign corporations that maintain an office or place of business in the United States may use either of the two methods of depositing corporate income taxes discussed below.

### Electronic Deposit Requirement

The corporation must make electronic deposits of **all** depository taxes (such as employment tax, excise tax, and corporate income tax) using the Electronic Tax Payment System (EFTPS) in 2002 if:

- The total deposits of such taxes in 2000 were more than \$200,000 or
- The corporation was required to use EFTPS in 2001.

If the corporation is required to use EFTPS and fails to do so, it may be subject to a 10% penalty. If the corporation 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 corporation must initiate the transaction at least 1 business day before the date the deposit is due.

### Deposits With Form 8109

If the corporation does not use EFTPS, deposit corporation 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 1-800-829-1040. Be sure to have your EIN ready when you call.

Do not send deposits directly to an IRS office; otherwise, the corporation 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 corporation 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 corporation's EIN, the tax period to which the deposit applies, and "Form 1120-F" on the check or money order. Be sure to darken the "1120" box on the coupon. Records of these deposits will be sent to the IRS.

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 corporation owes tax when it files Form 1120-F, do not include the payment with the tax return. Instead, mail or deliver the payment with Form 8109 to an authorized depository or use EFTPS, if applicable.*

## Estimated Tax Payments

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

- The corporation must make installment payments of estimated tax if it expects its 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 foreign corporation maintains an office or place of business in the United States, and does not use EFTPS, use the deposit coupons (Forms 8109) to make deposits of estimated tax.

For more information on estimated tax payments, including penalties that apply if the corporation fails to make required payments, see **Line 7. Estimated Tax Penalty** on page 8.

**Overpaid estimated tax.** If the corporation overpaid estimated tax, it may be able to get a quick refund by filing **Form 4466**, Corporation Application for Quick Refund of Overpayment of Estimated Tax. The overpayment must be at least 10% of the corporation's expected income tax liability and at least \$500. File Form 4466 before the 16th day of the 3rd month after the end of the tax year, but before the

corporation files its income tax return. Do not file Form 4466 before the end of the corporation's tax year.

## Interest and Penalties

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

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

**Penalty for late payment of tax.** A corporation that does not pay the tax when due 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 corporation can show that the failure to pay on time was due to reasonable cause.

**Trust fund recovery penalty.** This penalty may apply if certain excise, income, social security, and Medicare taxes that must be collected or withheld are not collected or withheld, or these taxes are not paid. These taxes are generally reported on Forms 720, 941, 943, or 945. (See **Other Forms, Returns, and Statements That May be Required** on page 4.) 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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## Special Rules for Foreign Corporations

### Source of Income Rules

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

### Interest Income

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

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

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

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

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

The **testing period** is generally the 3 tax years of the U.S. corporation or resident alien individual preceding the tax year during which the interest is paid. If the payer existed for fewer than 3 years before the tax year of the payment, the testing period is the term of the payer's existence before the current year. If the payment is made during the payer's first tax year, that year is the testing period.

• The interest allowable as a deduction to a foreign corporation (under Regulations section 1.882-5) in figuring its effectively connected taxable income is treated as paid by a domestic corporation. This interest is treated as U.S. source interest, although the actual payer of the interest is a foreign corporation. For details, see **Part II—Tax on Excess Interest** on page 20.

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

### Dividend Income

The source of dividend income is usually determined by the payer. For example, dividends paid by a corporation that was incorporated in the United States are U.S. source income and dividends paid by a corporation that was incorporated in a foreign country are foreign source income.

### Exceptions.

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

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

The **testing period** is generally the 3 tax years of the foreign corporation payer preceding the tax year during which it declared the dividend. If the foreign corporation existed for fewer than 3 years before the tax year of

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

### Rent and Royalty Income

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

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

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

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

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

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

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

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

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

### Other Special Rules

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

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

### Income of Foreign Governments and International Organizations

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

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

executing governmental financial or monetary policy.

**Exception.** The income described in section 892(a)(2) that is received directly or indirectly from commercial activities is subject to both tax and withholding.

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## Specific Instructions

### Period Covered

File the 2001 return for calendar year 2001 and fiscal years that begin in 2001 and end in 2002. For a fiscal year return, fill in the tax year space at the top of the form.

**Note:** *The 2001 Form 1120-F may also be used if:*

- The corporation has a tax year of less than 12 months that begins and ends in 2002 and
- The 2002 Form 1120-F is not yet available at the time the corporation is required to file its return.

*The corporation must show its 2002 tax year on the 2001 Form 1120-F and take into account any tax law changes that are effective for tax years beginning after December 31, 2001.*

### Address

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

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

### Employer Identification Number (EIN)

Show the corporation's correct EIN. If the corporation does not have an EIN, it should apply for one on **Form SS-4**, Application for Employer Identification Number. If the corporation has not received its EIN by the time the return is due, write "Applied for" in the space for the EIN. See Pub. 583 for details.

### Initial Return, Final Return, Amended Return, Name Change, or Address Change

Check the applicable box(es). If the corporation's address has changed from the last time Form 1120-F was filed, 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.*

### Computation of Tax Due or Overpayment

#### Line 4. Personal Holding Company Tax

If the corporation is a personal holding company (as defined in section 542) but **not** a foreign personal holding company (as defined in section 552), it must file Schedule PH (Form 1120) with Form 1120-F and report the

personal holding company tax on line 4. See section 542 and the instructions for Schedule PH (Form 1120) for details.

#### Line 6b. Estimated Tax Payments

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

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

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

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

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

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

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

#### Line 6i. Total Payments

**Backup withholding.** If the corporation had income tax withheld from any payments it received due to backup withholding, include the amount withheld in the total for line 6i. Do not include these amounts on line 6h. (Include on line 6h only amounts withheld under Chapter 3 of the Code.) Show the amount withheld in the blank space in the right-hand column between lines 5 and 6i, and write "Backup Withholding."

#### Line 7. Estimated Tax Penalty

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

- Its tax liability for 2001 or
- Its prior year's tax.

See section 6655 for details and exceptions, including special rules for large corporations. Also, no estimated tax payments are required with respect to a foreign corporation's liability for the branch profits tax. See Regulations section 1.884-1(a).

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

- The annualized income or adjusted seasonal installment method is used or
- The corporation is a large corporation computing its first required installment based

on the prior year's tax. (See the Instructions for Form 2220 for the definition of a large corporation.)

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

#### Line 10. Direct Deposit of Refund

If the corporation 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 corporation, complete Form 8302 and attach it to the corporation's tax return.

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## Section I— Income From U.S. Sources Not Effectively Connected With the Conduct of a Trade or Business in the United States

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

- The amount received is fixed or determinable, annual or periodic (FDAP) (see below).
- The amount received is **includible** in the gross income of the foreign corporation. Therefore, receipts that are excluded from income (e.g., interest income received on state and local bonds that are excluded under section 103) would not be included as income in Section I.
- The amount received is from U.S. sources (see **Source of Income Rules** on page 7).
- The amount received is not effectively connected with the conduct of a U.S. trade or business (see **Section II** on page 10). The amount received is not exempt (by Code) from taxation. For example, interest on deposits that are exempted by section 881(d) would not be included as income in Section I.

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

1. Interest (other than original issue discount (OID) as defined in section 1273), dividends, rents, royalties, salaries, wages, premiums, annuities, compensation, and other FDAP gains, profits, and income. Certain portfolio interest is not taxable for obligations issued after July 18, 1984. See section 881(c) for more details.
2. Gains described in section 631(b) or (c), relating to disposal of timber, coal, or domestic iron ore with a retained economic interest.
3. On a sale or exchange of an OID obligation, the amount of the OID accruing while the obligation was held by the foreign corporation, unless this amount was taken into account on a payment.
4. On a payment received on an OID obligation, the amount of the OID accruing while the obligation was held by the foreign corporation, if such OID was not previously taken into account and if the tax imposed on the OID does not exceed the payment received less the tax imposed on any interest included in the payment received. This rule applies to payments received for OID obligations issued after March 31, 1972.

Certain OID is not taxable for OID obligations issued after July 18, 1984. See section 881(c) for more details. For rules that apply to other OID obligations, see Pub. 515.

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

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

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

## Line 9. Gross Transportation Income

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

Transportation income is any income from or connected with:

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

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

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

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

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

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

For more information, see section 887.

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

## Additional Information Required

Be sure to complete all items at the bottom of page 2 of Form 1120-F that apply to the corporation.

## Item M—Personal Holding Company

See the instructions for line 4 on page 8.

## Item O—Personal Service Corporation

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

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

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

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

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

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

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

- Is an employee of the corporation on any day of the testing period **and**
  - Owns any outstanding stock of the corporation on any day of the testing period.
- Stock ownership is determined under the attribution rules of section 318, except that "any" is substituted for "50%" in section 318(a)(2)(C).

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

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

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

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

If a section 444 election is terminated and the termination results in a short tax year, type

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

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

**Other rules.** For other rules that apply to personal service corporations, see **Passive activity limitations** on page 11 and **Contributions of property other than cash** on page 13.

## Item P

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

## Item R

Check this box if the corporation elects under section 172(b)(3) to forego the carryback period for a **net operating loss (NOL)**. To be valid, the election must be made by the due date (including extensions) for filing Form 1120-F. If the corporation checks this box, do not attach the statement described in Temporary Regulations section 301.9100-12T(d).

## Item S

Enter the amount of the NOL carryover to the tax year from prior years, even if some of the loss is used to offset income on this return. The amount to enter is the total of all NOLs generated in prior years but not used to offset income (either as a carryback or carryover) to a tax year prior to 2001. Do not reduce the amount by any NOL deduction reported on page 3, Section II, line 30a.

## Item T

Check the "Yes" box if the corporation is a subsidiary in a parent-subsidiary controlled group. This applies even if the corporation is a subsidiary member of one group and the parent corporation of another.

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

A **parent-subsidiary controlled group** is one or more chains of corporations connected through stock ownership (section 1563(a)(1)). Both of the following requirements **must** be met.

1. 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 voting stock or at least 80% of the total value of all classes of stock of at least one of the other corporations in the group. Stock owned directly by other members of the group is not counted when computing the voting power or value.

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

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

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

These corporations are taxed on their effectively connected income using the same graduated tax rate schedule (see page 17) that applies to domestic corporations. Effectively connected income can be U.S. source or foreign source as explained below.

#### U.S. Source Effectively Connected Income

Fixed or determinable, annual or periodic (FDAP) items are generally effectively connected income (and are therefore includible in Section II) if the asset-use test, the business-activities test, or both tests (explained below) are met.

If neither test is met, FDAP items are generally not effectively connected income (and are therefore includible in Section I instead of Section II). For more information, see section 864(c)(2) and Regulations section 1.864-4(c).

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

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

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

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

#### Foreign Source Effectively Connected Income

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

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

See section 864(c)(5)(A) and Regulations section 1.864-7 for the definition of office or other fixed place of business in the United States. See sections 864(c)(5)(B) and (C) and

Regulations section 1.864-6 for special rules for determining when foreign source income received by a foreign corporation is from an office or other fixed place of business in the United States.

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

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

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

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

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

Report income in Section II only if these corporations:

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

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

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

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

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

To make the election, attach a statement that includes the information required in

Regulations section 1.871-10(d)(1)(ii) to Form 1120-F for the first tax year for which the election is to apply. Use Section II to figure the tax on this income.

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

A foreign corporation that disposes of a U.S. real property interest (as defined in section 897(c)) must treat the gain or loss from the disposition as effectively connected income, even if the corporation is not engaged in a U.S. trade or business. Figure this gain or loss on **Schedule D (Form 1120)**, Capital Gains and Losses. Carry the result to Section II, line 8, on page 3 of Form 1120-F.

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

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

If the corporation had income tax withheld on Form 8288-A, include the amount withheld in line 6h, page 1.

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## Income

### Line 1. Gross Receipts

Enter gross income effectively connected with the conduct of a U.S. trade or business (except those income items that must be reported on lines 4 through 10). In general, advance payments are reported in the year of receipt. To report income from long-term contracts, see section 460. For special rules for reporting advance payments for goods and long-term contracts, see Regulations section 1.451-5. For permissible methods for reporting advance payments for services by an accrual method corporation, 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 corporation elects to pay interest under section 453(l)(3).

For sales of timeshares and residential lots reported under the installment method, the corporation's income tax is increased by the interest payable under section 453(l)(3). To report this addition to the tax, see the instructions for Schedule J, line 9 on page 18.

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

## Line 2. Cost of Goods Sold

See the instructions for Schedule A on page 15.

## Line 4. Dividends

See the instructions for Schedule C on page 16.

## Line 5. Interest

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

Do not offset interest expense against interest income.

## Line 6. Gross Rents

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

## Line 8. Capital Gain Net Income

Every effectively connected sale or exchange of a capital asset must be reported in detail on Schedule D (Form 1120), even if there is no gain or loss.

## Line 10. Other Income

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

- 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 tax refunds.
- The amount of any deduction previously taken under section 179A that is subject to recapture. The corporation must recapture the benefit of any allowable deduction for clean-fuel vehicle property (or clean-fuel vehicle refueling property), if the property later ceases to qualify. See Regulations section 1.179A-1 for details.
- Ordinary income from trade or business activities of a partnership (from Schedule K-1 (Form 1065 or 1065-B)). Do not offset ordinary

losses against ordinary income. Instead, include the losses on line 27. 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

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

## Apportionment of Expenses

Expenses that are directly related to a class of gross income (including tax-exempt income) must be allocated to that class of gross income. Expenses not directly related to a class of gross income should be allocated to all classes of income based on the ratio of gross income in each class of income to total gross income, or some other ratio that clearly relates to the classes of income. See Regulations section 1.861-8 and Temporary Regulations section 1.861-8T for more information.

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

## Limitations on Deductions

### Section 263A uniform capitalization rules.

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

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

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

Corporations subject to these rules are required to capitalize:

1. Direct costs and
2. An allocable portion of most indirect costs (including taxes) that **(a)** benefit the assets produced or acquired for resale or **(b)** are incurred by reason of the performance of production or resale activities.

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

- Administration expenses.
- Taxes.
- Depreciation.
- Insurance.
- Compensation paid to officers attributable to services.
- Rework labor.
- 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 corporation.

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

- Personal property acquired for resale if the corporation's annual average gross receipts for the 3 prior tax years are \$10 million or less.
- Timber.
- Most property produced under a long-term contract.
- Certain property produced in a farming business.
- Research and experimental costs under section 174.
- Intangible drilling costs for oil, gas, and geothermal property.
- Mining exploration and developmental costs.
- Inventoriable items accounted for in the same manner as materials and supplies that are not incidental. See **Schedule A—Cost of Goods Sold** on page 15 for details.

For more details on the uniform capitalization rules, see Regulations sections 1.263A-1 through 1.263A-3. See Regulations section 1.263-4 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 the payment is included in the income of the related party. See sections 163(e)(3), 163(j), and 267 for limitations on deductions for unpaid interest and expenses.

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

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

**Business startup expenses.** Business startup expenses must be capitalized unless an election is made to amortize them over a period of 60 months. See section 195 and Regulations section 1.195-1.

**Passive activity limitations.** Limitations on passive activity losses and credits under section 469 apply to personal service corporations as defined in Temporary Regulations section 1.441-4T (see **Item O—Personal Service Corporation** on page 9, and **Closely held corporations** on page 12).

Generally, two kinds of passive activities are:

- Trade or business activities in which the corporation did not materially participate for the

tax year (see Temporary Regulations section 1.469-1T(g)(3)) and

- Rental activities regardless of its participation.

For exceptions, see Form 8810.

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

- 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 corporation chose to deduct rather than capitalize them).

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

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

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

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

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

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

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

## Line 12. Compensation of Officers

Complete Schedule E if total receipts (line 1a, plus lines 4 through 10, on page 3 of Form 1120-F) are \$500,000 or more. Do not include compensation 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. (See **Disallowance of deduction for employee compensation in excess of \$1 million** below.) Complete Schedule E, line 1, columns

(a) through (f), for all officers. The corporation determines who is an officer under the laws where it is incorporated.

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

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

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

For this purpose, compensation does not include the following:

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

The deduction limit does not apply to:

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

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

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

## Line 13. Salaries and Wages

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

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

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

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

## Line 14. Repairs and Maintenance

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

## Line 15. Bad Debts

Enter the total debts that became worthless in whole or in part during the tax year. A small bank or thrift institution using the reserve method of section 585 should attach a schedule showing how it figured the current year's provision. A cash basis taxpayer may not claim a bad debt deduction unless the amount was previously included in income.

## Line 16. Rents

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

**And the vehicle's FMV on the first day of the lease exceeded:**

<b>The lease term began:</b>	
After 12/31/98 . . . . .	\$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, or, the leased vehicle was an electric vehicle, see **Pub. 463**, *Travel, Entertainment, Gift, and Car Expenses*, to find out if the corporation has an inclusion amount.

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

## Line 17. Taxes and Licenses

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

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

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

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

## Line 18. Interest

**Important:** *In determining the amount of interest expense disallowed under section 265 or 163(j), deferred under section 163(e) or 267(a)(3), or capitalized under section 263A from a U.S. trade or business, take into account only the amount of interest expense allocable to effectively connected income under Regulations section 1.882-5.*

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

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

was determined, using the exclusive rules outlined in the regulations.

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

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

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

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

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

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

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

## Line 19. Charitable Contributions

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

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

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

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

- Any deduction for contributions,
- The special deductions on line 30b,
- The deduction allowed under section 249,
- Any net operating loss (NOL) carryback to the tax year under section 172, and
- Any capital loss carryback to the tax year under section 1212(a)(1).

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

Special rules apply if the corporation has an NOL carryover to the tax year. In figuring the

charitable contributions deduction for the tax year, the 10% limit is applied using the taxable income after 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 section 172(b)). To the extent that contributions are used to reduce taxable income for this purpose and increase an NOL carryover, a contributions carryover is not allowed. See section 170(d)(2)(B).

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

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

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

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

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

If the corporation made a "qualified conservation contribution" under section 170(h), also include the 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 is included, show the amount and how it was determined.

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

- The ordinary income 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 of:

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

**Contributions of computer technology and equipment for educational purposes.** A corporation may take an increased deduction under section 170(e)(6) for qualified contributions of computer technology or equipment 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 someone other than the donor or the donee.

### Line 20. Depreciation

In addition to depreciation, include on line 20 the part of the cost that the corporation elected to expense under section 179 for certain tangible property placed in service during tax year 2001, or carried over from 2000. See Form 4562 and its instructions.

### Line 23. Depletion

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

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

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

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

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

**Form 5500**, 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 26. Employee Benefit Programs

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

### Line 27. Other Deductions

Attach a schedule listing by type and amount, all allowable deductions that are not deductible elsewhere on Form 1120-F.

Examples of other deductions 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 income against ordinary losses. 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.

- Dividends paid in cash on stock held by an employee stock ownership plan. However, a deduction may only be taken if, according to the plan, the dividends are:

1. Paid in cash directly to the plan participants or beneficiaries;
2. Paid to the plan, which distributes them in cash to the plan participants or their beneficiaries no later than 90 days after the end of the plan year in which the dividends are paid; or
3. Used to make payments on a loan described in section 404(a)(9).

See section 404(k) for more details and the limitation on certain dividends.

Also, see **Special rules** below for limits on certain other deductions.

#### Do not deduct:

- Fines or penalties paid to a government for violating any law.
- Any amount that is 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 corporation can deduct ordinary and necessary travel, meals, and entertainment expenses paid or incurred in its trade or business. Also, special rules apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets. See section 274 and Pub. 463 for more details.

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

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

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

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

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

**Membership dues.** The corporation may deduct amounts paid or incurred for membership dues in civic or public service organizations, professional organizations (such as bar and medical associations), business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards. However, no deduction is allowed if a

principal purpose of the organization is to entertain, or provide entertainment facilities for, members or their guests. In addition, corporations may not deduct membership dues in any club organized for business, pleasure, recreation, or other social purpose. This includes country clubs, golf and athletic clubs, airline and hotel clubs, and clubs operated to provide meals under conditions favorable to business discussion.

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

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

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

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

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

Dues and other similar amounts paid to certain tax-exempt organizations may not be deductible. See section 162(e)(3). If certain in-house lobbying expenditures do not exceed \$2,000, they are deductible. For information on contributions to charitable organizations that conduct lobbying activities, see page 13. For more information on lobbying expenses, see section 162(e).

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

**At-risk rules.** Generally, special at-risk rules under section 465 apply to closely held corporations (see **Passive activity limitations** on page 11) engaged in any activity as a trade or business or for the production of income. These corporations may have to adjust the amount on line 29.

The at-risk rules do not apply to:

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

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

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

and gross income and deductions for the activities with the losses.

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

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

### Line 30a. Net Operating Loss Deduction

A corporation may use the net operating loss (NOL) incurred in one tax year to reduce its taxable income in another tax year. Generally, a corporation may carry an NOL back to each of the 2 years preceding the year of the loss and then carry any remaining amount over to each of the 20 years (15 years for NOLs incurred in tax years beginning before August 6, 1997) following the year of the loss (but see **Waiving the carryback period** below). For exceptions to the general rule, see **Special carryback periods for certain losses** below.

Enter on line 30a the total NOL carryovers from prior tax years, but do not enter more than the corporation's taxable income (after special deductions). An NOL deduction cannot be taken in a year in which the corporation has a negative taxable income. Attach a schedule showing the computation of the NOL deduction. Also complete Item S at the bottom of page 2 of the form.

For more details on the NOL deduction, see **Pub. 542, Corporations**.

**Carryback and carryover rules.** To carry back the loss and obtain a quick refund of taxes, use **Form 1139, Corporation Application for Tentative Refund**. Form 1139 must be filed within 12 months after the close of the tax year of the loss. See section 6411 for details.

For carryback claims filed later than 12 months after the close of the tax year of the loss, file an amended Form 1120-F instead of Form 1139.

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

#### **Special NOL rules** apply when:

- An ownership change occurs (i.e., the amount of the taxable income of a loss corporation that can be offset by pre-change NOL carryovers is limited). See section 382 and the related regulations. Also see Temporary Regulations section 1.382-2T(a)(2)(ii), which requires that a loss corporation file an information statement with its income tax return for each tax year that it is a loss corporation and certain shifts in ownership occurred. See Regulations section 1.382-6(b) for details on how to make the closing-of-the-books election.
- A corporation acquires control of another corporation (or acquires its assets in a reorganization) and the amount of pre-acquisition losses that may offset recognized built-in gains is limited. See section 384.

**Waiving the carryback period.** A corporation may make an irrevocable election to waive the carryback period and instead carry the NOL forward to years following the year of the loss. To make this election, check the box in Item R at the bottom of page 2 of Form 1120-F. To be valid, the election must be made by the due date (including extensions) for filing Form 1120-F.

**Special carryback periods for certain losses.** The regular 2-year carryback period generally does not apply to the following losses.

- **Specified liability losses**, including a product liability loss. The part of an NOL that is attributable to a specified liability loss may be carried back 10 years. The corporation may, however, elect to treat such a loss as if it were not a specified liability loss. If the corporation makes this election, the loss carryback period will be 2, 3, or 5 years, whichever applies. Make the election by attaching a statement to a timely filed return (including extensions; however, see **Exception** below). Also, see section 172(b)(1)(C).
- **Farming losses.** An NOL attributable to any farming business may be carried back 5 years. However, the corporation may elect to treat the loss as if it were not a farming loss. If the corporation makes this election, the loss carryback period will be 2 years or 3 years, whichever applies. Make the election by attaching a statement to a timely filed return (including extensions; however, see **Exception**). Also, see sections 172(b)(1)(G) and 172(i).

**Exception.** If the corporation timely filed its return for the loss year without making the election for **Specified liability losses** or **Farming losses** above, the corporation may still make the election by filing an amended return within 6 months of the due date of the loss year return (excluding extensions). Attach the election to the amended return and write "Filed pursuant to section 301.9100-2" on the election statement. File the amended return at the same address the original return was filed. Once made, the election is irrevocable.

- **Eligible losses.** The part of an NOL that is attributable to an eligible loss may be carried back 3 years. An "eligible loss" is an NOL attributable to a Presidentially-declared disaster if, for the tax year in which the NOL arose, the corporation was (a) engaged in a farming business or (b) a small business that met the gross receipts test of section 448(c). An eligible loss does not include any farming loss or specified liability loss described above.

- **Corporate equity reduction interest losses.** See section 172(b)(1)(E) for special rules that apply if the corporation has an NOL attributable to interest deducted in connection with corporate equity reduction transactions.
- **Losses incurred by a personal service corporation (PCS).** A PCS may not carry back an NOL to or from any tax year to which a section 444 election applies.

### Line 30b. Special Deductions

See the instructions for Schedule C.

## Schedule A—Cost of Goods Sold

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 corporation is a qualifying taxpayer, it may adopt or change its accounting method to account for inventoriable items in the same manner as materials and supplies that are incidental. A **qualifying taxpayer** is a taxpayer (a) whose average annual gross receipts for the 3 prior tax years is \$1 million or less and (b) whose business is not a tax shelter (as defined in section 448(d)(3)). In addition, for tax years ending on or after December 31, 2001, this rule applies to an eligible business of a qualifying small business taxpayer. A **qualifying small business taxpayer** includes a corporation with average annual gross receipts of more than \$1 million but less than or equal to \$10 million and that is not prohibited from using the cash method under section 448. For more details, including the definition of an eligible business, see Notice 2001-76.

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 corporation paid for the raw materials or merchandise, if it is also using the cash method). Enter amounts paid for all raw materials and merchandise during the tax year on line 2. The amount the corporation can deduct for the tax year is figured on line 8. For additional guidance on this method of accounting for inventory items, see Rev. Proc. 2001-10 and Pub. 538.

All filers not using the cash method of accounting should see **Section 263A uniform capitalization rules** on page 11 before completing Schedule A.

**Line 1. Inventory at beginning of year.** If the corporation is changing its method of accounting for the current tax year, it must refigure last year's closing inventory using its new method of accounting and enter the result on line 1. If there is a difference between last year's closing inventory and the refigured amount, attach an explanation and take it into account when figuring the corporation's section 481(a) adjustment (explained on page 5).

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

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

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

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

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

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

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

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

If the corporation accounts for inventoriable items in the same manner as materials and supplies that are not incidental, enter on line 7 the portion of its raw materials and merchandise purchased for resale that are included on line 6 and were not sold during the year.

**Line 9a. Inventory valuation methods.**

Inventories can be valued at:

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

However, if the corporation is using the cash method of accounting, it is required to use cost.

Corporations that account for inventoriable items 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.

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

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

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

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

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

begins with the year of the LIFO election (see section 472(d)).

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

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## Schedule C—Dividends and Special Deductions

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

### Line 1, Column (a)

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

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

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 corporation should receive a notice from the RIC specifying the amount of dividends that qualify for the deduction.

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

### Line 2, Column (a)

Enter 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, from domestic and foreign corporations subject to income tax that would otherwise be subject to the dividends-received deduction under section 243(a)(1), 243(c), or 245(a). Generally, debt-financed stock is stock that the corporation acquired by incurring a debt (e.g., it borrowed money to buy the stock).
- Dividends received from a RIC on debt-financed stock. The amount of dividends eligible for the dividends-received deduction is limited by section 854(b). The corporation should receive a notice from the RIC specifying the amount of dividends that qualify for the deduction.

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

Dividends received on debt-financed stock acquired after July 18, 1984, are not entitled to the full 70% or 80% dividends-received deduction. The 70% or 80% deduction is reduced by a percentage that is related to the amount of debt incurred to acquire the stock.

See section 246A. Also, see section 245(a) before making this computation for an additional limitation that applies to dividends received from foreign corporations. Attach a schedule that shows how the amount on line 3, column (c) was figured.

### Line 4, Column (a)

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

### Line 5, Column (a)

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

### Line 6, Column (a)

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

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

### Line 7, Column (a)

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

### Line 8, Column (c)

#### Limitation on dividends-received deduction.

Generally, line 8, column (c), may not exceed the amount from the worksheet on page 17. However, in a year in which a NOL occurs, this limitation does not apply even if the loss is created by the dividends-received deduction. See sections 172(d) and 246(b).

### Line 9, Column (a)

Enter foreign dividends that are not reportable on lines 3, 6, or 7 of column (a).

### Line 10, Column (a)

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

### Line 11, Column (a)

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

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

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

### Line 12, Column (a)

Include the following:

- Dividends (other than capital gain distributions and exempt-interest dividends) that are received from RICs and that are not subject to the 70% deduction.
- Dividends from tax-exempt organizations.
- Dividends (other than capital gain distributions) received from a REIT that qualifies, for the tax year of the trust in which the dividends are paid, under sections 856 through 860.
- Dividends not eligible for a dividends-received deduction because of the holding

**Worksheet for Schedule C, line 8**  
(Keep for your records)

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

\$9,925,000 taxable income bracket amount (in that order) on line 2a.

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

**Unequal apportionment plan.** Members of a controlled group may elect an unequal apportionment plan and divide the taxable income brackets as they want. There is no need for consistency 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 be more than the total amount in each taxable income bracket.

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

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

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

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

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

**Line 3. Income Tax**

Most corporations should figure their tax using the Tax Rate Schedule below. Exceptions apply to members of a controlled group (see the worksheet above) and qualified personal service corporations (see instructions on page 18). Members of a controlled group must attach to Form 1120-F a statement showing the computation of the amount entered on line 3.

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

**Tax Computation Worksheet for Members of a Controlled Group**  
(Keep for your records)

**Note:** Each member of a controlled group (except a qualified personal service corporation) must compute its tax using this worksheet.

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

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:

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

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

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

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

**Line 13, Column (c)**

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

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

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

**Schedule J—Tax Computation**

**Lines 1 and 2**

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

**Line 2a.** Members of a controlled group are entitled to one \$50,000, one \$25,000, and one

**Qualified personal service corporation.** A qualified personal service corporation is taxed at a flat rate of 35% on its taxable income. If the corporation is a qualified personal service corporation, check the box on line 3, Schedule J, even if the corporation has no tax liability.

A corporation is a qualified personal service corporation if it meets **both** of the following tests:

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

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

#### Line 4. Alternative Minimum Tax

Unless the corporation is treated as a small corporation exempt from the alternative minimum tax (AMT), it may owe the AMT if it has any of the adjustments and tax preference items listed on **Form 4626**, Alternative Minimum Tax—Corporations. The corporation must file Form 4626 if its taxable income (loss) combined with these adjustments and tax preference items is more than the smaller of \$40,000 or the corporation's allowable exemption amount (from Form 4626).

For this purpose, taxable income does not include the NOL deduction. See Form 4626 for details.

**Exemption for small corporations.** A corporation is treated as a small corporation exempt from the AMT for its tax year beginning in 2001 if that year is the corporation'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 corporation was in existence) ending before its tax year beginning in 2001 did not exceed \$7.5 million (\$5 million if the corporation had only 1 prior tax year).

#### Line 6a. Foreign Tax Credit

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

#### Line 6b

If the corporation can take either of the following credits, check the appropriate box(es) and include the amount of the credits in the total for line 6b.

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

**Qualified electric vehicle (QEV) credit.** Use **Form 8834**, Qualified Electric Vehicle Credit, if the corporation can claim a credit for the purchase of a new qualified electric vehicle. Vehicles that qualify for this credit are not eligible for the deduction for clean-fuel vehicles under section 179A.

#### Line 6c. General Business Credit

Check the "Form 3800" box, complete **Form 3800**, General Business Credit, and enter the total of the credit on line 6c if the corporation has any of the following:

- More than one of the general business credits listed below (other than the empowerment zone employment credit),
- General credits from an electing large partnership shown in box 7 of Schedule K-1 (Form 1065-B),
- A credit carryforward or carryback of any of these credits (other than the empowerment zone employment credit),
- A trans-Alaska pipeline liability fund credit, or
- Any of these credits (other than the low-income housing credit and the empowerment zone employment credit) that is from a passive activity.

**Note:** A corporation filing Form 3800 and **Form 8844**, Empowerment Zone Employment Credit, would check **both** the "Form 3800" box and the "Form(s)" box, write "8844" in the space provided, and enter the total of the credits on line 6c.

If the corporation is not required to file Form 3800, attach the applicable form(s) listed in parentheses below. Check the "Form(s)" box, write the attached form number(s) in the space provided, and include the total of the credit(s) on line 6c.

- 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).
- Empowerment Zone Employment Credit (Form 8844). While the empowerment zone employment credit is part of the general business credit, it is figured separately on Form 8844 and never carried to Form 3800.
- 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).

#### Line 6d. Credit for Prior Year Minimum Tax

To figure the minimum tax credit and any carryforward of the credit, use **Form 8827**, Credit for Prior Year Minimum Tax—Corporations. Also see Form 8827 if any of the corporation's 2000 nonconventional source fuel credit or qualified electric vehicle credit was disallowed solely because of the tentative minimum tax limitation. See section 53(d).

#### 6e. Qualified Zone Academy Bond Credit

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

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

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

**Interest due under the look-back methods.** If the corporation used the look-back method for certain long-term contracts, see Form 8697 for information on figuring the interest the corporation may have to include.

The corporation may also have to include interest due under the look-back method for property depreciated under the income forecast method. See Form 8866.

**Other.** Additional taxes and interest amounts may be included in the total entered on line 9. Check the box for "Other" if the corporation 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 qualified electric vehicle (QEV) credit. The corporation must recapture part of the QEV credit it claimed in a prior year if, within 3 years of the date the vehicle was placed in service, it ceases to qualify for the credit. See Regulations section 1.30-1 for details on how to figure the recapture.
- Recapture of Indian employment credit. Generally, if an employer terminates the employment of a qualified employee less than 1 year after the date of initial employment, any Indian employment credit allowed for a prior tax year because of wages paid or incurred to that employee must be recaptured. For details, see Form 8845 and section 45A.
- 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 corporation checked the "Other" box, attach a schedule showing the computation of each item included in the total for line 9 and identify the applicable Code section and type of tax or interest.

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

### Part I—Branch Profits Tax

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

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

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

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

See Regulations section 1.884-1(g)(3) for a list of the qualifying countries. See **Item X** on page 20 for the definition of qualified resident.

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

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

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

#### Line 2

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

- Positive adjustments for certain effectively connected income items that are excluded from ECTI but must be included in computing ECEP (such as tax-exempt interest income).
- Positive adjustments for certain items deducted in computing ECTI but cannot be deducted in computing ECEP. Include adjustments for certain deductions claimed in computing ECTI, such as:

1. Excess of percentage depletion over cost depletion,

2. Excess of accelerated depreciation over straight line depreciation (but only if 20% or more of the foreign corporation's gross income from all sources is U.S. source), and

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

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

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

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

- Income from the operation of ships or aircraft exempt from taxation under section 883(a)(1) or (2).
- FSC income and distributions treated as effectively connected income under section 921(d) or section 926(b) that are not otherwise effectively connected income.
- Gain on the disposition of an interest in a domestic corporation that is a U.S. real property interest under section 897(c)(1)(A)(ii) if the gain is not otherwise effectively connected income.
- Related person insurance company income that a taxpayer elects to treat as effectively connected income under section 953(c)(3)(C) if the income is not otherwise effectively connected income.
- Income that is exempt from tax under section 892.
- Interest income derived by a possession bank from U.S. obligations if the interest is treated as effectively connected income under section 882(e) and is not otherwise effectively connected income.

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

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

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

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

**U.S. liabilities.** In general, U.S. liabilities are U.S.-connected liabilities of a foreign

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

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

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

#### Line 6. Branch Profits Tax

**Qualification for treaty benefits.** In general, a foreign corporation must be a qualified resident (see **Item X** on page 20 for definition) in the tax year in which it has a dividend equivalent amount to obtain treaty benefits for the branch profits tax. It must also meet the requirements of any limitation on benefits article in the treaty. However, a foreign corporation is not required to be a qualified resident if it meets the requirements of a limitation on benefits article that entered into force after December 31, 1986. Treaties other than income tax treaties do not exempt a foreign corporation from the branch profits tax.

**Note:** *If a foreign corporation claims to be a qualified resident based on the two-part stock ownership and base erosion test, a special rule governs the period during which it must be a qualified resident. (See the instructions for Item X on page 20.)*

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

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

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

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

## Part II—Tax on Excess Interest

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

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

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

### Line 8. Branch Interest

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

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

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

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

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

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

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

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

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

### Line 9b

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

### Line 10. Tax on Excess Interest

The rate of tax on excess interest is the same rate that would apply to interest paid to the foreign corporation by a wholly owned domestic corporation. The tax on excess interest is not prohibited by any provision in any treaty to which the United States is a party. The corporation may qualify for treaty benefits if it meets certain requirements. See **Line 6. Branch Profits Tax**, on page 19 and **Item X** below. The corporation is exempt from the tax on excess interest if the rate of tax that would apply to interest paid to the foreign corporation by a wholly owned domestic corporation is zero and the foreign corporation qualifies for treaty benefits.

## Additional Information Required

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

### Item X

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

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

- More than 50% of its stock (by value) is owned (directly or indirectly) during at least half the number of days in the tax year by qualifying shareholders and
- Less than 50% of its income is used (directly or indirectly) to meet liabilities to persons who are not residents of such foreign country or U.S. citizens or residents. For this test, individuals resident in the foreign country, U.S. citizens and residents, governments of foreign countries, and foreign corporations that meet the publicly traded test (described later) are treated as qualifying shareholders.

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

In order to satisfy the 50% stock ownership test described above, a foreign corporation

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

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

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

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

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

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

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

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

See Regulations section 1.884-5(d).

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

### Item Z

If the corporation owned at least a 10% interest, directly or indirectly, in any foreign partnership, attach a statement listing the following information for each foreign partnership:

- Name and EIN (if any) of the foreign partnership;
- Identify which, if any, of the following forms the foreign partnership filed for its tax year ending with or within the corporation's tax year: Form 1042, 1065 or 1065-B, or 8804;
- Name of tax matters partner (if any); and
- Beginning and ending dates of the foreign partnership's tax year.

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

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

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

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

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

### Schedule L Balance Sheets per Books

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

#### Line 5. Tax-exempt securities.

Include:

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

#### Line 26. Adjustments to shareholders' equity.

Some examples of adjustments to report on this line include:

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

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

### Schedule M-1

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

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

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

For more information, see Pub. 542.

**Line 7a. Tax-exempt interest.** Include any exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company.

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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> . . . . .	106 hr., 25 min.
<b>Learning about the law or the form</b> . . . . .	41 hr., 18 min.
<b>Preparing the form</b> . . . . .	70 hr., 54 min.
<b>Copying, assembling, and sending the form to the IRS</b> . . . . .	7 hr., 30 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **Do not** send the tax form to this office. Instead, see **Where To File** on page 4.

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## Codes for Principal Business Activity

This list of principal business activities and their associated codes is designed to classify an enterprise by the type of activity in which it is engaged to facilitate the administration of the Internal Revenue Code. These principal business activity codes are based on the North American Industry Classification System.

Using the list of activities and codes below, determine from which activity the company derives the largest percentage of its "total receipts." Total receipts is defined as the sum of gross receipts or sales (page 3, line 1a) plus all other income (page 3, lines 4 through 10). If the company purchases raw materials and supplies them to a subcontractor to produce the finished product, but retains title to the product, the company is considered a manufacturer and must use one of the manufacturing codes (311110-339900).

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

### Agriculture, Forestry, Fishing and Hunting

#### Code

##### Crop Production

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

##### Animal Production

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

##### Forestry and Logging

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

##### Fishing, Hunting and Trapping

- 114110 Fishing
- 114210 Hunting & Trapping

##### Support Activities for Agriculture and Forestry

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

### Mining

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

### Utilities

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

### Construction

#### Code

##### Building, Developing, and General Contracting

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

##### Heavy Construction

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

##### Special Trade Contractors

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

### Manufacturing

#### Food Manufacturing

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

#### Beverage and Tobacco Product Manufacturing

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

#### Textile Mills and Textile Product Mills

- 313000 Textile Mills
- 314000 Textile Product Mills

#### Apparel Manufacturing

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

#### Code

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

#### Leather and Allied Product Manufacturing

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

#### Wood Product Manufacturing

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

#### Paper Manufacturing

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

#### Printing and Related Support Activities

- 323100 Printing & Related Support Activities

#### Petroleum and Coal Products Manufacturing

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

#### Chemical Manufacturing

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

#### Plastics and Rubber Products Manufacturing

- 326100 Plastics Product Mfg
- 326200 Rubber Product Mfg

#### Nonmetallic Mineral Product Manufacturing

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

#### Primary Metal Manufacturing

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

#### Fabricated Metal Product Manufacturing

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

#### Code

### Machinery Manufacturing

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

### Computer and Electronic Product Manufacturing

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

### Electrical Equipment, Appliance, and Component Manufacturing

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

### Transportation Equipment Manufacturing

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

### Furniture and Related Product Manufacturing

- 337000 Furniture & Related Product Manufacturing

### Miscellaneous Manufacturing

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

### Wholesale Trade

#### Wholesale Trade, Durable Goods

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

## Code

**Wholesale Trade, Nondurable Goods**

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

**Retail Trade****Motor Vehicle and Parts Dealers**

441110	New Car Dealers
441120	Used Car Dealers
441210	Recreational Vehicle Dealers
441221	Motorcycle Dealers
441222	Boat Dealers
441229	All Other Motor Vehicle Dealers
441300	Automotive Parts, Accessories, & Tire Stores

**Furniture and Home Furnishings Stores**

442110	Furniture Stores
442210	Floor Covering Stores
442291	Window Treatment Stores
442299	All Other Home Furnishings Stores

**Electronics and Appliance Stores**

443111	Household Appliance Stores
443112	Radio, Television, & Other Electronics Stores
443120	Computer & Software Stores
443130	Camera & Photographic Supplies Stores

**Building Material and Garden Equipment and Supplies Dealers**

444110	Home Centers
444120	Paint & Wallpaper Stores
444130	Hardware Stores
444190	Other Building Material Dealers
444200	Lawn & Garden Equipment & Supplies Stores

**Food and Beverage Stores**

445110	Supermarkets and Other Grocery (except Convenience) Stores
445120	Convenience Stores
445210	Meat Markets
445220	Fish & Seafood Markets
445230	Fruit & Vegetable Markets
445291	Baked Goods Stores
445292	Confectionery & Nut Stores
445299	All Other Specialty Food Stores
445310	Beer, Wine, & Liquor Stores

**Health and Personal Care Stores**

446110	Pharmacies & Drug Stores
446120	Cosmetics, Beauty Supplies, & Perfume Stores
446130	Optical Goods Stores
446190	Other Health & Personal Care Stores

**Gasoline Stations**

447100	Gasoline Stations (including convenience stores with gas)
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## Code

**Clothing and Clothing Accessories Stores**

448110	Men's Clothing Stores
448120	Women's Clothing Stores
448130	Children's & Infants' Clothing Stores
448140	Family Clothing Stores
448150	Clothing Accessories Stores
448190	Other Clothing Stores
448210	Shoe Stores
448310	Jewelry Stores
448320	Luggage & Leather Goods Stores

**Sporting Goods, Hobby, Book, and Music Stores**

451110	Sporting Goods Stores
451120	Hobby, Toy, & Game Stores
451130	Sewing, Needlework, & Piece Goods Stores
451140	Musical Instrument & Supplies Stores
451211	Book Stores
451212	News Dealers & Newsstands
451220	Prerecorded Tape, Compact Disc, & Record Stores

**General Merchandise Stores**

452110	Department stores
452900	Other General Merchandise Stores

**Miscellaneous Store Retailers**

453110	Florists
453210	Office Supplies & Stationery Stores
453220	Gift, Novelty, & Souvenir Stores
453310	Used Merchandise Stores
453910	Pet & Pet Supplies Stores
453920	Art Dealers
453930	Manufactured (Mobile) Home Dealers
453990	All Other Miscellaneous Store Retailers (including tobacco, candle, & trophy shops)

**Nonstore Retailers**

454110	Electronic Shopping & Mail-Order Houses
454210	Vending Machine Operators
454311	Heating Oil Dealers
454312	Liquefied Petroleum Gas (Bottled Gas) Dealers
454319	Other Fuel Dealers
454390	Other Direct Selling Establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)

**Transportation and Warehousing****Air, Rail, and Water Transportation**

481000	Air Transportation
482110	Rail Transportation
483000	Water Transportation

**Truck Transportation**

484110	General Freight Trucking, Local
484120	General Freight Trucking, Long-distance
484200	Specialized Freight Trucking

**Transit and Ground Passenger Transportation**

485110	Urban Transit Systems
485210	Interurban & Rural Bus Transportation
485310	Taxi Service
485320	Limousine Service
485410	School & Employee Bus Transportation
485510	Charter Bus Industry
485900	Other Transit & Ground Passenger Transportation

**Pipeline Transportation**

486000	Pipeline Transportation
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**Scenic & Sightseeing Transportation**

487000	Scenic & Sightseeing Transportation
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## Code

**Support Activities for Transportation**

488100	Support Activities for Air Transportation
488210	Support Activities for Rail Transportation
488300	Support Activities for Water Transportation
488410	Motor Vehicle Towing
488490	Other Support Activities for Road Transportation
488510	Freight Transportation Arrangement
488900	Other Support Activities for Transportation

**Couriers and Messengers**

492110	Couriers
492210	Local Messengers & Local Delivery

**Warehousing and Storage**

493100	Warehousing & Storage (except lessors of miniwarehouses & self-storage units)
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**Information****Publishing Industries**

511110	Newspaper Publishers
511120	Periodical Publishers
511130	Book Publishers
511140	Database & Directory Publishers
511190	Other Publishers
512120	Software Publishers

**Motion Picture and Sound Recording Industries**

512100	Motion Picture & Video Industries (except video rental)
512200	Sound Recording Industries

**Broadcasting and Telecommunications**

513100	Radio & Television Broadcasting
513200	Cable Networks & Program Distribution
513300	Telecommunications (including paging, cellular, satellite, & other telecommunications)

**Information Services and Data Processing Services**

514100	Information Services (including news syndicates, libraries, & on-line information services)
514210	Data Processing Services

**Finance and Insurance****Depository Credit Intermediation**

522110	Commercial Banking
522120	Savings Institutions
522130	Credit Unions
522190	Other Depository Credit Intermediation

**Nondepository Credit Intermediation**

522210	Credit Card Issuing
522220	Sales Financing
522291	Consumer Lending
522292	Real Estate Credit (including mortgage bankers & originators)
522293	International Trade Financing
522294	Secondary Market Financing
522298	All Other Nondepository Credit Intermediation

**Activities Related to Credit Intermediation**

522300	Activities Related to Credit Intermediation (including loan brokers)
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**Securities, Commodity Contracts, and Other Financial Investments and Related Activities**

523110	Investment Banking & Securities Dealing
523120	Securities Brokerage
523130	Commodity Contracts Dealing
523140	Commodity Contracts Brokerage

## Code

523210	Securities & Commodity Exchanges
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523900	Other Financial Investment Activities (including portfolio management & investment advice)
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**Insurance Carriers and Related Activities**

524140	Direct Life, Health, & Medical Insurance & Reinsurance Carriers
524150	Direct Insurance & Reinsurance (except Life, Health & Medical) Carriers
524210	Insurance Agencies & Brokerages
524290	Other Insurance Related Activities

**Funds, Trusts, and Other Financial Vehicles**

525100	Insurance & Employee Benefit Funds
525910	Open-End Investment Funds (Form 1120-RIC)
525920	Trusts, Estates, & Agency Accounts
525930	Real Estate Investment Trusts (Form 1120-REIT)
525990	Other Financial Vehicles "Offices of Bank Holding Companies" and "Offices of Other Holding Companies" are located under <b>Management of Companies (Holding Companies)</b> on page 24.

**Real Estate and Rental and Leasing****Real Estate**

531110	Lessors of Residential Buildings & Dwellings
531114	Cooperative Housing
531120	Lessors of Nonresidential Buildings (except Miniwarehouses)
531130	Lessors of Miniwarehouses & Self-Storage Units
531190	Lessors of Other Real Estate Property
531210	Offices of Real Estate Agents & Brokers
531310	Real Estate Property Managers
531320	Offices of Real Estate Appraisers
531390	Other Activities Related to Real Estate

**Rental and Leasing Services**

532100	Automotive Equipment Rental & Leasing
532210	Consumer Electronics & Appliances Rental
532220	Formal Wear & Costume Rental
532230	Video Tape & Disc Rental
532290	Other Consumer Goods Rental
532310	General Rental Centers
532400	Commercial & Industrial Machinery & Equipment Rental & Leasing

**Lessors of Nonfinancial Assets (except copyrighted works)**

533110	Lessors of Nonfinancial Assets (except copyrighted works)
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**Professional, Scientific, and Technical Services****Legal Services**

541110	Offices of Lawyers
541190	Other Legal Services
<b>Accounting, Tax Preparation, Bookkeeping, and Payroll Services</b>	
541211	Offices of Certified Public Accountants
541213	Tax Preparation Services
541214	Payroll Services
541219	Other Accounting Services

**Code****Architectural, Engineering, and Related Services**

- 541310 Architectural Services
- 541320 Landscape Architecture Services
- 541330 Engineering Services
- 541340 Drafting Services
- 541350 Building Inspection Services
- 541360 Geophysical Surveying & Mapping Services
- 541370 Surveying & Mapping (except Geophysical) Services
- 541380 Testing Laboratories

**Specialized Design Services**

- 541400 Specialized Design Services (including interior, industrial, graphic, & fashion design)

**Computer Systems Design and Related Services**

- 541511 Custom Computer Programming Services
- 541512 Computer Systems Design Services
- 541513 Computer Facilities Management Services
- 541519 Other Computer Related Services

**Other Professional, Scientific, and Technical Services**

- 541600 Management, Scientific, & Technical Consulting Services
- 541700 Scientific Research & Development Services
- 541800 Advertising & Related Services
- 541910 Marketing Research & Public Opinion Polling
- 541920 Photographic Services
- 541930 Translation & Interpretation Services
- 541940 Veterinary Services
- 541990 All Other Professional, Scientific, & Technical Services

**Management of Companies (Holding Companies)**

- 551111 Offices of Bank Holding Companies
- 551112 Offices of Other Holding Companies

**Administrative and Support and Waste Management and Remediation Services****Administrative and Support Services**

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

**Code**

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

**Waste Management and Remediation Services**

- 562000 Waste Management & Remediation Services

**Educational Services**

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

**Health Care and Social Assistance****Offices of Physicians and Dentists**

- 621111 Offices of Physicians (except mental health specialists)
- 621112 Offices of Physicians, Mental Health Specialists
- 621210 Offices of Dentists

**Offices of Other Health Practitioners**

- 621310 Offices of Chiropractors
- 621320 Offices of Optometrists
- 621330 Offices of Mental Health Practitioners (except Physicians)
- 621340 Offices of Physical, Occupational & Speech Therapists, & Audiologists

- 621391 Offices of Podiatrists
- 621399 Offices of All Other Miscellaneous Health Practitioners

**Outpatient Care Centers**

- 621410 Family Planning Centers
- 621420 Outpatient Mental Health & Substance Abuse Centers
- 621491 HMO Medical Centers
- 621492 Kidney Dialysis Centers
- 621493 Freestanding Ambulatory Surgical & Emergency Centers
- 621498 All Other Outpatient Care Centers

**Medical and Diagnostic Laboratories**

- 621510 Medical & Diagnostic Laboratories

**Home Health Care Services**

- 621610 Home Health Care Services

**Code****Other Ambulatory Health Care Services**

- 621900 Other Ambulatory Health Care Services (including ambulance services & blood & organ banks)

**Hospitals**

- 622000 Hospitals

**Nursing and Residential Care Facilities**

- 623000 Nursing & Residential Care Facilities

**Social Assistance**

- 624100 Individual & Family Services
- 624200 Community Food & Housing, & Emergency & Other Relief Services
- 624310 Vocational Rehabilitation Services
- 624410 Child Day Care Services

**Arts, Entertainment, and Recreation****Performing Arts, Spectator Sports, and Related Industries**

- 711100 Performing Arts Companies
- 711210 Spectator Sports (including sports clubs & racetracks)
- 711300 Promoters of Performing Arts, Sports, & Similar Events
- 711410 Agents & Managers for Artists, Athletes, Entertainers, & Other Public Figures
- 711510 Independent Artists, Writers, & Performers

**Museums, Historical Sites, and Similar Institutions**

- 712100 Museums, Historical Sites, & Similar Institutions

**Amusement, Gambling, and Recreation Industries**

- 713100 Amusement Parks & Arcades
- 713200 Gambling Industries
- 713900 Other Amusement & Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, & bowling centers)

**Accommodation and Food Services****Accommodation**

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

**Code****Food services and Drinking Places**

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

**Other Services****Repair and Maintenance**

- 811110 Automotive Mechanical & Electrical Repair & Maintenance
- 811120 Automotive Body, Paint, Interior, & Glass Repair
- 811190 Other Automotive Repair & Maintenance (including oil change & lubrication shops & car washes)
- 811210 Electronic & Precision Equipment Repair & Maintenance
- 811310 Commercial & Industrial Machinery & Equipment (except Automotive & Electronic) Repair & Maintenance
- 811410 Home & Garden Equipment & Appliance Repair & Maintenance
- 811420 Reupholstery & Furniture Repair
- 811430 Footwear & Leather Goods Repair
- 811490 Other Personal & Household Goods Repair & Maintenance

**Personal and Laundry Services**

- 812111 Barber Shops
- 812112 Beauty Salons
- 812113 Nail Salons
- 812190 Other Personal Care Services (including diet & weight reducing centers)
- 812210 Funeral Homes & Funeral Services
- 812220 Cemeteries & Crematories
- 812310 Coin-Operated Laundries & Drycleaners
- 812320 Drycleaning & Laundry Services (except Coin-Operated)
- 812330 Linen & Uniform Supply
- 812910 Pet Care (except Veterinary) Services
- 812920 Photofinishing
- 812930 Parking Lots & Garages
- 812990 All Other Personal Services

**Religious, Grantmaking, Civic, Professional, and Similar Organizations**

- 813000 Religious, Grantmaking, Civic, Professional, & Similar Organizations (including condominium and homeowners associations)