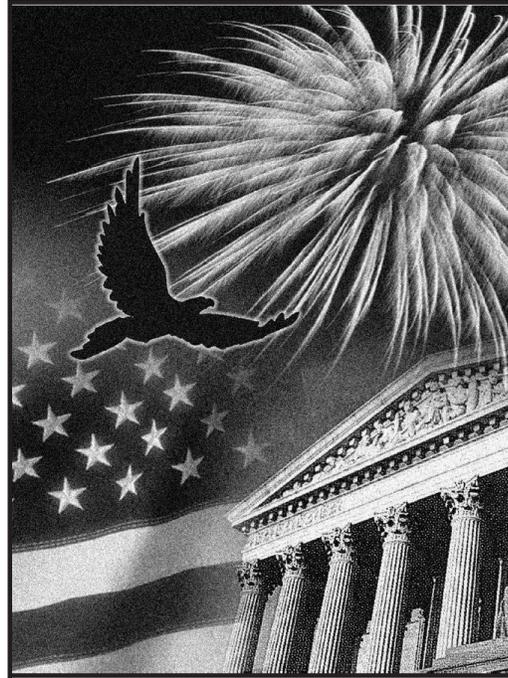


# Instructions for Form 1120

## U.S. Corporation Income Tax Return

2023

Volume 2 of 3



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See Form 8621 and the Instructions for Form 8621 for details.

- Any payroll tax credit taken by an employer on its 2023 employment tax returns (Forms 941, 943, and 944) for qualified paid sick and qualified paid family leave under FFCRA and ARP (both the nonrefundable and refundable portions). The corporation must include the full amount of the credit for qualified sick and family leave wages in gross income for the tax year that includes the last day of any calendar quarter in which the credit is allowed.

**Note.** A credit is available only if the leave was taken after

March 31, 2020, and before October 1, 2021, and only after the qualified leave wages were paid, which might, under certain circumstances, not occur until a quarter after September 30, 2021, including quarters in 2023.

# Deductions

## Limitations on Deductions

**Uniform capitalization rules.** The uniform capitalization rules of section 263A require corporations to capitalize certain costs to inventory or other property. Corporations subject to the section 263A uniform capitalization rules are required to capitalize:

1. Direct costs of assets produced or acquired for resale, and
2. Certain indirect costs (including taxes) that are properly allocable to property produced or property acquired for resale.

The corporation cannot deduct the costs required to be capitalized under section 263A until it sells, uses, or otherwise disposes of the property (to which the costs relate). The corporation recovers these costs through

depreciation, amortization, or cost of goods sold.

A small business taxpayer (defined earlier) is not required to capitalize costs under section 263A. A small business taxpayer that wants to discontinue capitalizing costs under section 263A must change its method of accounting. See section 263A(i) and Regulations section 1.263A-1(j). Also, see the Instructions for Form 3115.

For more information on the uniform capitalization rules, see Pub. 538. Also, see Regulations sections 1.263A-1 through 1.263A-3. See section 263A(d), Regulations section 1.263A-4, and Pub. 225 for rules for property produced in a farming business.

**Transactions between related taxpayers.**

Generally, an accrual basis taxpayer can 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) and 267(a)(2) for

limitations on deductions for unpaid interest and expenses.

**Limitations on business interest expense.**

Business interest expense may be limited. See section 163(j) and Form 8990. Also, see Limitation on deduction in the instructions for line 18 and Schedule K, Question 23 and Question 24, later.

**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 the adjustment.

**Election to deduct business start-up and organizational costs.**

A corporation can elect to deduct a limited amount of start-up and organizational costs it paid or incurred. Any remaining costs must generally be amortized over a 180-month period. See

sections 195 and 248 and the related regulations.

***Time for making an election.*** The corporation generally elects to deduct start-up or organizational costs by claiming the deduction on its income tax return filed by the due date (including extensions) for the tax year in which the active trade or business begins. For more details, see the Instructions for Form 4562.

If the corporation timely filed its return for the year without making an election, it can still make an election by filing an amended return within 6 months of the due date of the return (excluding extensions). Clearly indicate the election on the amended return and enter "Filed pursuant to section 301.9100-2" at the top of the amended return. File the amended return at the same address the corporation filed its original return. The election applies when figuring taxable income for the current tax year and all subsequent years.

The corporation can choose to forgo the elections above by affirmatively electing to capitalize its start-up or organizational costs on its income tax return filed by the due date (including extensions) for the tax year in which the active trade or business begins.

**Note.** The election to either amortize or capitalize start-up costs is irrevocable and applies to all start-up costs that are related to the trade or business.

Report the deductible amount of start-up and organizational costs and any amortization on line 26. For amortization that begins during the current tax year, complete and attach Form 4562, Depreciation and Amortization.

**Passive activity limitations.** Limitations on passive activity losses and credits under section 469 apply to personal service corporations (defined earlier) and closely held corporations (defined later).

Generally, the two kinds of passive activities are:

- Trade or business activities in which the corporation did not materially participate for the tax year; and
- Rental activities, regardless of its participation. For exceptions, see Form 8810, Corporate Passive Activity Loss and Credit Limitations.

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 at-risk rules of section 465 or the tax-exempt use loss rules of section 470, 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.*** 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 directly or indirectly owned 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 for determining stock ownership, see section 544 (as modified by section 465(a) (3)).

**Reducing certain expenses for which credits are allowable.** If the corporation claims certain credits, it may need to reduce the otherwise allowable deductions for

expenses used to figure the credit. This applies to credits such as the following.

- Work opportunity credit (Form 5884).
- Credit for increasing research activities (Form 6765).
- Orphan drug credit (Form 8820).
- Disabled access credit (Form 8826).
- Empowerment zone employment credit (Form 8844).
- Credit for employer social security and Medicare taxes paid on certain employee tips (Form 8846).
- Credit for small employer pension plan start-up costs (Form 8881).
- Credit for employer-provided childcare facilities and services (Form 8882).
- Low sulfur diesel fuel production credit (Form 8896).

- Credit for employer differential wage payments (Form 8932).
- Credit for small employer health insurance premiums (Form 8941).
- Employer credit for paid family and medical leave (Form 8994).

If the corporation has any of the credits listed above, figure the current-year credit before figuring the deduction for expenses on which the credit is based. If the corporation capitalized any costs on which it figured the credit, it may need to reduce the amount capitalized by the credit attributable to these costs.

See the instructions for the form used to figure the applicable credit for more details.

**Limitations on deductions related to property leased to tax-exempt entities.** If a corporation leases property to a governmental or other tax-exempt entity, the corporation cannot claim deductions related

to the property to the extent that they exceed the corporation's income from the lease payments. This disallowed tax-exempt use loss can be carried over to the next tax year and treated as a deduction with respect to the property for that tax year. See section 470(d) for exceptions.

**Limitation on tax benefits for remuneration under the Patient**

**Protection and Affordable Care Act.** The \$1 million compensation limit is reduced to \$500,000 for remuneration for services provided by individuals for or on behalf of certain health insurance providers. The \$500,000 limitation applies to remuneration that is deductible in the tax year during which the services were performed and remuneration for services during the year that is deductible in a future tax year (called "deferred deduction remuneration"). The \$500,000 limitation is reduced by any amounts disallowed as excess parachute

payments. See section 162(m)(6) and Regulations section 1.162-31 for definitions and other special rules.

## **Line 12. Compensation of Officers**

Enter deductible officers' compensation on line 12. 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.

If the corporation's total receipts (line 1a, plus lines 4 through 10) are \$500,000 or more, complete Form 1125-E, Compensation of Officers. Enter on Form 1120, line 12, the amount from Form 1125-E, line 4.

## **Line 13. Salaries and Wages**

Enter the total salaries and wages paid for the tax year. Do not include salaries and wages deductible elsewhere on the return, such as amounts included in officers' compensation, 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 26.



*If the corporation claims a credit for any wages paid or incurred, it may need to reduce any corresponding deduction for officers' compensation and salaries and wages. See Reducing certain expenses for which credits are allowable, earlier.*

## **Line 14. Repairs and Maintenance**

Enter the cost of repairs and maintenance not claimed elsewhere on the return, such as labor and supplies, that are not payments to produce or improve real or tangible personal property. See Regulations section 1.263(a)-1. For example, amounts are paid for improvements if they are for betterments to the property, restorations of the property (such as the replacements of major components or substantial structural parts), or if they adapt the property to a new or different use.

Amounts paid to produce or improve property must be capitalized. See Regulations sections 1.263(a)-2 and (a)-3.

The corporation can deduct repair and maintenance expenses only to the extent they relate to a trade or business activity. See Regulations section 1.162-4. The corporation may elect to capitalize certain repair and maintenance costs consistent with its books and records. See Regulations section 1.263(a)-3(n) for information on how to make the election.

## **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 statement showing how it figured the current year's provision. A corporation that uses the cash method of accounting cannot 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. 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 includible in income called the inclusion amount. The corporation may have an inclusion amount if:

<b>The lease term began:</b>	<b>And the vehicle's FMV on the first day of the lease exceeded:</b>
<b>Cars (excluding trucks and vans)</b>	
After 12/31/22 but before 1/1/24 . . . . .	\$60,000
After 12/31/21 but before 1/1/23 . . . . .	\$56,000
After 12/31/20 but before 1/1/22 . . . . .	\$51,000
After 12/31/17 but before 1/1/21 . . . . .	\$50,000
After 12/31/12 but before 1/1/18 . . . . .	\$19,000
<b>Trucks and vans</b>	
After 12/31/22 but before 1/1/24 . . . . .	\$60,000
After 12/31/21 but before 1/1/23 . . . . .	\$56,000
After 12/31/20 but before 1/1/22 . . . . .	\$51,000
After 12/31/17 but before 1/1/21 . . . . .	\$50,000
After 12/31/13 but before 1/1/18 . . . . .	\$19,500
After 12/31/09 but before 1/1/14 . . . . .	\$19,000

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See Pub. 463, Travel, Gift, and Car Expenses, for instructions on figuring the inclusion amount.

**Note.** The inclusion amount for lease terms beginning in 2024 will be published in the Internal Revenue Bulletin in early 2024.

## **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. territory income taxes if a foreign 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 information on apportionment of taxes on real property between seller and purchaser.



*Do not reduce the corporation's deduction for social ! security and Medicare taxes by the nonrefundable and refundable portions of any FFCRA and ARP credits for qualified sick and family leave wages claimed on its employment tax returns. Instead, report this amount as income on line 10.*

## **Line 18. Interest**

**Note.** Do not offset interest income against interest expense.

The corporation must make an interest allocation if the proceeds of a loan were used for more than one purpose (for example, to purchase a portfolio investment and to acquire an interest in a passive activity). See Temporary Regulations section 1.163-8T for the interest allocation rules.

Mutual savings banks, building and loan associations, and cooperative banks can deduct the amounts paid or credited to the accounts of depositors as dividends, interest, or earnings. See section 591.

Do not deduct the following interest.

- Interest on indebtedness incurred or continued to purchase or carry obligations if the interest is wholly exempt from income tax. See section

265(b) for special rules and exceptions for financial institutions. Also, see section 265(b)(7) for a de minimis exception for financial institutions for certain tax-exempt bonds issued in 2009 and 2010.

- For cash basis taxpayers, prepaid interest allocable to years following the current tax year. For example, a cash basis calendar year taxpayer who in 2023 prepaid interest allocable to any period after 2023 can deduct only the amount allocable to 2023.
- Interest and carrying charges on straddles. Generally, these amounts must be capitalized. See section 263(g).
- Interest on debt allocable to the production of designated property by a corporation for its own use or for sale. The corporation must capitalize this interest. Also, capitalize any interest

on debt allocable to an asset used to produce the property. See section 263A(f) and Regulations sections 1.263A-8 through 1.263A-15 for definitions and more information.

- Interest paid or incurred on any portion of an underpayment of tax that is attributable to an understatement arising from an undisclosed listed transaction or an undisclosed reportable avoidance transaction (other than a listed transaction) entered into in tax years beginning after October 22, 2004.

**Special rules** apply to:

- Forgone interest on certain below-market-rate loans (see section 7872).
- Original issue discount (OID) on certain high yield discount obligations. See section 163(e)(5) to determine the amount of the deduction for OID that is deferred and the

amount that is disallowed on a high yield discount obligation. The rules under section 163(e)(5) do not apply to certain high yield discount obligations issued after August 31, 2008, and before January 1, 2011. See section 163(e)(5)(F).

- Interest which is allocable to unborrowed policy cash values of life insurance, endowment, or annuity contracts issued after June 8, 1997. See section 264(f). Attach a statement showing the computation of the deduction.

**Limitation on deduction.** Under section 163(j), business interest expense is generally limited to the sum of business interest income, 30% of the adjusted taxable income, and floor plan financing interest. The amount of any business interest expense that is not allowed as a deduction for the tax year is carried forward to the following year. If section 163(j) applies, use Form 8990 to figure the amount of business interest

expense the corporation can deduct for the current tax year and the amount that can be carried forward to the next year. See the Instructions for Form 8990. Also see Schedule K, Question 23 and Question 24, later.

## **Line 19. Charitable Contributions**

Enter contributions or gifts actually paid within the tax year to or for the use of charitable and governmental organizations described in section 170(c) and any unused contributions carried over from prior years. Special rules and limits apply to contributions to organizations conducting lobbying activities. See section 170(f)(9).

Corporations reporting taxable income on the accrual method can elect to treat as paid during the tax year any contributions paid by the due date for filing the corporation's tax return (not including extensions), if the contributions were authorized by the board of directors during the tax year. Attach a declaration to the return stating that the resolution authorizing the contributions was adopted by the board of directors during the tax year. The declaration must include the date the resolution was adopted. See section 170(a)(2)(B).

**Limitation on deduction.** Generally, the total amount claimed cannot be more than 10% of taxable income (line 30) computed without regard to the following.

- Any deduction for contributions.
- The special deductions on line 29b.
- The limitation under section 249 on the deduction for bond premium.
- Any net operating loss (NOL) carryback to the tax year under section 172.
- Any capital loss carryback to the tax year under section 1212(a)(1).
- Deduction for income attributable to domestic production activities of specified agricultural or horticultural cooperatives.

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

years. See the exception below for farmers and ranchers and certain Native Corporations.

Special rules apply if the corporation has an NOL carryover to the tax year. In figuring the charitable contributions deduction for the current 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).

**Suspension of 10% limitation for farmers and ranchers and certain Native**

**Corporations.** Certain corporations can deduct contributions of qualified conservation property without regard to the general 10% limit. This applies to:

- A qualified farmer or rancher (as defined in section 170(b)(1) (E)(v)) that does not have publicly traded stock; and
- A Native Corporation (as defined in section 170(b)(2)(C)(iii)) that contributes property which was land conveyed under the Alaska Native Claims Settlement Act.

The total amount of the contribution claimed for the qualified conservation property cannot exceed 100% of the excess of the corporation's taxable income (as computed above substituting "100%" for "10%" ) over all other allowable charitable contributions. Any excess qualified conservation contributions can be carried over to the next 15 years, subject to the 100% limitation. See sections 170(b)(2)(B) and (C).

**Cash contributions.** For contributions of cash, check, or other monetary gifts (regardless of the amount), the corporation

must maintain a bank record, or a receipt, letter, or other written communication from the donee organization indicating the name of the organization, the date of the contribution, and the amount of the contribution.

**Contributions of \$250 or more.** A corporation can deduct a contribution of \$250 or more only if it gets a written acknowledgment from the donee organization that shows the amount of cash contributed, describes any property contributed (but not its value), and either 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.

**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 statement 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, *Noncash Charitable Contributions*, and attach it to their returns. All other corporations must generally complete and attach Form 8283 to their returns for contributions of property (other than money) if the total claimed deduction for all property contributed was more than \$5,000. Special rules apply to the contribution of certain property. See the Instructions for Form 8283.

***Qualified conservation contributions.*** Special rules apply to qualified conservation

contributions, including contributions of certain easements on buildings located in a registered historic district. See section 170(h) and Pub. 526, Charitable Contributions.

***Other special rules.*** The corporation must reduce its deduction for contributions of certain ordinary income and capital gain property. See section 170(e).

A larger deduction is allowed for certain contributions including:

- Inventory and other property to certain organizations for use in the care of the ill, needy, or infants (see section 170(e)(3)), including qualified contributions of “apparently wholesome food”; and
- 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).

For more information on charitable contributions, including substantiation and recordkeeping requirements, see section 170 and the related regulations and Pub. 526. For other special rules that apply to corporations, see Pub. 542.

## **Line 20. Depreciation**

Include on line 20 depreciation and the cost of certain property that the corporation elected to expense under section 179 from Form 4562. Include amounts not claimed on Form 1125-A or elsewhere on the return. See Form 4562 and the Instructions for Form 4562.

## **Line 21. Depletion**

If the corporation has an economic interest in mineral property or standing timber, it can take a deduction for depletion. More than one person can have an economic interest in the same mineral deposit or timber. In the case of leased property, the depletion deduction is divided between the lessor and the lessee.

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 Schedule, if a deduction for depletion of timber is taken.

Foreign intangible drilling costs and foreign exploration and development costs must either be added to the 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 23. 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 must generally file one of the forms listed below unless exempt from filing under regulations or other applicable guidance, 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. See sections 6652(e) and 6662(f). Also, see the instructions for the applicable form.

**Form 5500**, Annual Return/Report of Employee Benefit Plan.

**Form 5500-SF**, Short Form Annual Return/Report of Small Employee Benefit Plan. File this form instead of Form 5500 generally if there were under 100 participants at the beginning of the plan year.

**Note.** Form 5500 and Form 5500-SF must be filed electronically under the computerized ERISA Filing Acceptance System (EFAST2). For more information, see the EFAST2 website at [www.EFAST.dol.gov](http://www.EFAST.dol.gov).

**Form 5500-EZ**, Annual Return of A One-Participant (Owners/ Partners and Their Spouses) Retirement Plan or A Foreign Plan. File this form for a plan that only covers the owner (or the owner and spouse) or a foreign plan that is required to file an annual return and does not file the annual return electronically on Form 5500-SF. See the Instructions for Form 5500-EZ.

## **Line 24. Employee Benefit Programs**

Enter contributions to employee benefit programs not claimed elsewhere on the return (for example, insurance or health and welfare programs) that are not an incidental part of a pension, profit-sharing, etc., plan included on line 23.

## **Line 25. Energy Efficient Commercial Buildings Deduction**

Complete and attach Form 7205 if claiming the energy efficient commercial building deduction. See the Instructions for Form 7205 for more information. Also, see section 179D.

## Line 26. Other Deductions

Attach a statement, listing by type and amount, all allowable deductions that are not deductible elsewhere on Form 1120. Enter the total on line 26.

Examples of other deductions include the following.

- Amortization. See Part VI of Form 4562.
- Certain costs of a qualified film, television, or live theatrical production commencing before January 1, 2026 (after December 31, 2015, and before January 1, 2026, for a live theatrical production). This deduction does not apply to any portion of the aggregate cost of the production above \$15 million. There is a higher allowance for production in certain areas. See section 181 and the related regulations. **Note.** Certain film,

television, or live theatrical productions acquired and placed in service after September 27, 2017 (for which a deduction would have been allowable under section 181 without regard to the dollar limitation), are qualified property eligible for the special depreciation allowance under section 168(k). See the Instructions for Form 4562.

- Certain business start-up and organizational costs (discussed earlier, under *Limitations on Deductions*).
- Reforestation costs. The corporation can elect to deduct up to \$10,000 of qualifying reforestation expenses for each qualified timber property. The corporation can elect to amortize over 84 months any amount not deducted. See the Instructions for Form T (Timber).
- Insurance premiums.

- Legal and professional fees.
- Supplies used and consumed in the business.
- Travel, meals, and entertainment expenses. Special rules apply (discussed later).
- Utilities.
- Ordinary losses from trade or business activities of a partnership (from Schedule K-1 (Form 1065)). 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 is from more than one partnership, identify the amount from each partnership.
- Any extraterritorial income exclusion (from Form 8873).

- Any net negative section 481(a) adjustment, or in the case of an eligible terminated S corporation, the ratable portion of any negative section 481(a) adjustment. See Section 481(a) adjustment, earlier.
- Dividends paid in cash on stock held by an employee stock ownership plan.

However, a deduction may be taken for these dividends only 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;
3. At the election of such participants or their beneficiaries (a) payable as provided under (1) or (2) above, or

(b) paid to the plan and reinvested in qualifying employer securities; or

4. 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.

Do not deduct expenses such as the following.

- Amounts paid or incurred to, or at the direction of, a government or governmental entity for the violation, or investigation or inquiry into the potential violation, of a law.
- However, see *Fines or similar penalties*, later.
- Any amount that is allocable to a class of exempt income. See section 265(b) for exceptions.
- Lobbying expenses. However, see exceptions discussed later.

- Amounts paid or incurred for any settlement, payout, or attorney fees related to sexual harassment or sexual abuse, if such payments are subject to a nondisclosure agreement. See section 162(q).

**Travel, meals, and entertainment.** Subject to limitations and restrictions discussed below, a corporation can deduct ordinary and necessary travel, meal, and non-entertainment expenses paid or incurred in its trade or business. Generally, entertainment expenses, membership dues, and facilities used in connection with these activities cannot be deducted. In addition, no deduction is generally allowed for qualified transportation fringe benefits. Special rules apply to deductions for gifts, luxury water travel, and convention expenses. See section 274 and Pub. 463, for 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
- That individual's travel is for a bona fide business purpose and would otherwise be deductible by that individual.

**Meals.** Generally, the corporation can deduct only 50% of the amount otherwise allowable for non-entertainment-related meal expenses paid or incurred in its trade or business. Meals not separately stated from entertainment are generally not deductible. In addition (subject to exceptions under section 274(k)(2)):

- Meals must not be lavish or extravagant, 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.

***Qualified transportation fringes (QTFs).***

Generally, no deduction is allowed under section 274(a)(4) for QTFs provided by employers to their employees. QTFs are defined in section 132(f)(1) and include:

- Transportation in a commuter highway vehicle between the employee's residence and place of employment,
- Any transit pass, and
- Qualified parking.

See section 274 and Pub. 15-B, Employers Tax Guide to Fringe Benefits, for details.

***Membership dues.*** The corporation can 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 cannot 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.*** Generally, 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 entertainment, amusement, or recreation.

***Amounts treated as compensation.***

Generally, the corporation may be able to deduct otherwise nondeductible entertainment, amusement, or recreation expenses if the amounts are treated as compensation to the recipient and reported on Form W-2 for an employee or on Form 1099-NEC for an independent contractor.

However, if the recipient is an officer, director, beneficial owner (directly or indirectly), or other “specified individual” (as defined in section 274(e)(2)(B) and Regulations section 1.274-9(b)), special rules apply.

**Fines or similar penalties.** Generally, no deduction is allowed for fines or similar penalties paid or incurred to, or at the direction of, a government or governmental entity for violating any law, or for the investigation or inquiry into the potential violation of a law, except:

- Amounts that constitute restitution or remediation of property,
- Amounts paid to come into compliance with the law,
- Amounts paid or incurred as the result of orders or agreements in which no government or governmental entity is a party, and
- Amounts paid or incurred for taxes due.

No deduction is allowed unless the amounts are specifically identified in the order or agreement and the corporation establishes that the amounts were paid for that purpose. Also, any amount paid or incurred as reimbursement to the government for the costs of any investigation or litigation are not eligible for the exceptions and are nondeductible. See section 162(f).

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

- Amounts paid or incurred in connection with influencing federal, state, or 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. If certain in-house lobbying expenditures do not exceed \$2,000, they are deductible.

## **Line 28. 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*, earlier) 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 28. (See below.)

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 under section 465(c)(7).

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

If the at-risk rules apply, adjust the amount on this line 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 losses 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 29a. Net Operating Loss Deduction**

A corporation can use the NOL incurred in one tax year to reduce its taxable income in another tax year. Enter on line 29a the total NOL carryovers from other tax years, but do not enter more than the corporation's taxable income (after special deductions). Attach a statement showing the computation of the NOL deduction. Complete item 12 on Schedule K.

The following special rules apply.

- If an ownership change (described in section 382(g)) occurs, the amount of the taxable income of a loss corporation that may be offset by the pre-change NOL carryovers may be limited. See section 382 and the related regulations. A loss corporation must include the information statement as provided in Regulations

section 1.382-11(a) with its income tax return for each tax year that it is a loss corporation in which an ownership shift, equity structure shift, or other transaction described in Temporary Regulations section 1.382-2T(a)(2)(i) occurs. If the corporation makes the closing-of-the-books election, see Regulations section 1.382-6(b).

The limitations under section 382 do not apply to certain ownership changes after February 17, 2009, made pursuant to a restructuring plan under the Emergency Economic Stabilization Act of 2008. See section 382(n).

For guidance in applying section 382 to loss corporations whose instruments were acquired by Treasury under certain programs under the Emergency Economic Stabilization Act of 2008, see Notice 2010-2, 2010-2 I.R.B. 251.

- If a corporation acquires control of another corporation (or acquires its assets in a reorganization), the amount of pre-acquisition losses that may offset recognized built-in gain may be limited (see section 384).
- If a corporation elects the alternative tax on qualifying shipping activities under section 1354, no deduction is allowed for an NOL attributable to the qualifying shipping activities to the extent that the loss is carried forward from a tax year preceding the first tax year for which the alternative tax election was made. See section 1358(b)(2).

For more details on the NOL deduction, see section 172 and the Instructions for Form 1139.

## **Line 29b. Special Deductions**

See the instructions for Schedule C.

## **Line 30. Taxable Income**

**Minimum taxable income.** The corporation's taxable income cannot be less than the largest of the following amounts.

- The inversion gain of the corporation for the tax year, if the corporation is an expatriated entity or a partner in an expatriated entity. See section 7874(a).
- The sum of the corporation's excess inclusions from its residual interest in a REMIC from Schedules Q (Form 1066), line 2c, and the corporation's taxable income determined solely with respect to its ownership and high-yield interests in FASITs. See sections 860E(a) and 860J (repealed).

**Net operating loss (NOL).** If line 30 (figured without regard to the items listed above under minimum taxable income) is zero or less, the corporation may have an NOL that can be carried back or forward as a deduction to other tax years.

Only farming losses and losses of an insurance company (other than a life insurance company) can be carried back. The carryback period for these losses is 2 years. For NOLs that can be carried back, the corporation can elect to waive the carryback period and instead carry the NOL forward to future tax years.

See the instructions for Schedule K, Item 11 for information on making the election to waive the carryback period. See the Instructions for Form 1139 for other special rules and elections.

The NOL deduction for tax year 2023 cannot exceed the aggregate amount of NOLs arising

in tax years beginning before January 1, 2018, carried to such year plus the lesser of:

1. The aggregate amount of NOLs arising in tax years beginning after December 31, 2017, carried to such tax year; or
2. 80% of the excess, if any, of taxable income determined without any NOL deduction, section 199A deduction, or section 250 deduction, over any NOL carryover to the tax year from tax years beginning before January 1, 2018.

An exception applies for NOLs of insurance companies other than life insurance companies. The 80% taxable income limit does not apply to these entities. See sections 172(b) and (f).

**Merchant Marine capital construction fund.** To take a deduction for amounts contributed to a capital construction fund (CCF), reduce the amount that would

otherwise be entered on line 30 by the amount of the deduction. On the dotted line next to the entry space, enter "CCF" and the amount of the deduction. For more information, see section 7518.

## **Line 32**

Reserved for future use.

## Line 34. Estimated Tax Penalty

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

- The annualized income or adjusted method is used, or
- The corporation is a large corporation (as defined in the Instructions for Form 2220) computing its first required installment based on the prior year's tax.

If Form 2220 is attached, check the box on line 34, and enter any penalty on this line.



*If the corporation's tax liability includes a CAMT liability, the corporation must complete and attach Form 2220. The affected corporation must*

*also include an amount of estimated tax penalty on Form 1120, line 34, even if that amount is zero. Failure to follow these instructions could result in the corporation receiving a penalty notice that will require an abatement request to apply any penalty relief. See [Notice 2023-42](#).*

## Line 35. Amount Owed

If the corporation cannot pay the full amount of tax owed, it can apply for an installment agreement online. The corporation can apply for an installment agreement online if:

- It cannot pay the full amount shown on line 35,
- The total amount owed is \$25,000 or less, and
- The corporation can pay the liability in full in 24 months. To apply using the Online Payment Agreement Application, go to [IRS.gov/OPA](https://www.irs.gov/opa).

Under an installment agreement, the corporation can pay what it owes in monthly installments. There are certain conditions that must be met to enter into and maintain an installment agreement, such as paying the liability within 24 months and making all

required deposits and timely filing tax returns during the length of the agreement.

If the installment agreement is accepted, the corporation will be charged a fee and it will be subject to penalties and interest on the amount of tax not paid by the due date of the return.

## Line 37

Enter the amount of any overpayment that should be refunded or applied to next year's estimated tax.

**Note.** This election to apply some or all of the overpayment amount to the corporation's 2024 estimated tax cannot be changed at a later date.

**Direct deposit of refund.** If the corporation wants its refund 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 8050, Direct Deposit of Corporate Tax Refund, and attach it to the corporation's tax return.

# **Schedule C. Dividends, Inclusions, 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.

**Consolidated returns.** Corporations filing a consolidated return should see Regulations sections 1.1502-13, 1.1502-26, and 1.1502-27 before completing Schedule C.

Corporations filing a consolidated return must not report as dividends on Schedule C any amounts received from corporations within the consolidated group. Such dividends are eliminated in consolidation rather than offset by the dividends-received deduction.

## **Line 1, Column (a)**

Enter dividends (except those received on certain 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
- Qualified for the 50% deduction under section 243(a)(1). Also, include on line 1 the following.
- Taxable distributions from an IC-DISC or former DISC that are designated as eligible for the 50% deduction and certain dividends of Federal Home Loan Banks. See section 246(a)(2).
- Dividends (except those received on certain 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 certain 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 65% deduction under section 243(c), and
- Taxable distributions from an IC-DISC or former DISC that are considered eligible for the 65% deduction.

## **Line 3, Column (a)**

Enter the following.

- Dividends received on certain 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 (for example, 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 certain debt-financed stock acquired after July 18, 1984, are not entitled to the full 50% or 65% dividends-received deduction under section 243 or 245(a). The

50% or 65% 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 certain dividends received from foreign corporations. Attach a statement to Form 1120 showing how the amount on line 3, column (c), was figured.

## **Line 4, Column (a)**

Enter dividends received on preferred stock of a less-than-20%-owned public utility that is subject to income tax and is allowed the 23.3% deduction provided in sections 244 and 247 (as affected by P.L.113-295, Div. A, section 221(a)(41) (A), Dec. 19, 2014, 128 Stat. 4043) 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 26.7% deduction provided in sections 244 and 247 (as affected by P.L.113-295, Div. A, section 221(a)(41) (A), Dec. 19, 2014, 128 Stat. 4043) 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 50% deduction under section 245(a). To qualify for the 50% deduction, the corporation must own at least 10% of the stock of the foreign corporation by vote and value.

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

- Are attributable to income treated as effectively connected with the conduct of a trade or business within the United States (excluding foreign trade income), and
- Qualify for the 50% deduction under section 245(c)(1)(B).

## **Line 7, Column (a)**

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

- Are received from 20%-or-more-owned foreign corporations, and
- Qualify for the 65% deduction under sections 243 and 245(a). Also, include dividends received from a 20%-or-more-owned FSC that:
  - Are attributable to income treated as effectively connected with the conduct of a trade or business within the United States (excluding foreign trade income), and
  - Qualify for the 65% deduction under section 245(c)(1)(B).

## **Line 8, Column (a)**

Enter dividends received from wholly owned foreign subsidiaries that are eligible for the 100% deduction under section 245(b).

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

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

## **Line 9, Column (c)**

Generally, line 9, column (c), cannot exceed the amount from the

Worksheet for Schedule C, line 9. However, in a year in which an NOL occurs, this limitation does not apply even if the loss is created by the dividends-received deduction. See sections 172(d) and 246(b).

## **Line 10, Columns (a) and (c)**

Small business investment companies operating under the Small Business Investment Act of 1958 must enter dividends that are received from domestic corporations subject to income tax even though a deduction is allowed for the entire amount of those dividends. To claim the 100% deduction on line 10, column (c), the company must file with its return a statement that it was a federal licensee under the Small Business Investment Act of 1958 at the time it received the dividends.

## **Line 11, Columns (a) and (c)**

Enter only dividends that qualify under section 243(b) for the 100% dividends-received deduction described in section 243(a) (3). Corporations taking this deduction are subject to the provisions of section 1561.

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

## **Line 12, Column (a)**

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

## **Line 13, Column (a)**

Enter the foreign-source portion of dividends that:

- Are received from specified 10%-owned foreign corporations (as defined

in section 245A(b)), including, for example, gain from the sale of stock of a foreign corporation that is treated as a dividend under sections 1248(a) and (j); and

- Qualify for the section 245A deduction.

### **Line 14, Column (a)**

Enter the foreign dividends not reportable on line 3, 6, 7, 8, 11, 12, or 13 of column (a).

Include on line 14 the foreign-source portion of any dividend that does not qualify for the section 245A deduction (for example, hybrid dividends within the meaning of section 245A(e), ineligible amounts of dividends within the meaning of Regulations section 1.245A-5(b), dividends that fail to meet the holding period requirement under section 246(c)(5), etc.).

Also, include on line 14 the corporation's share of distributions from a section 1291

fund from Form 8621, to the extent that the amounts are taxed as dividends under section 301. See Form 8621 and the Instructions for Form 8621.

Attach a statement identifying the amount of each dividend reported on line 14 and the provision pursuant to which a deduction is not allowed with respect to such dividend.

## **Line 15, Column (a)**

Reserved for future use.

## **Line 15, Column (c)**

Reserved for future use.

## **Line 16a, Column (a)**

Enter the foreign-source portion of any subpart F inclusions attributable to the sale or exchange by a CFC of stock in another foreign corporation described in section 964(e)(4). This should equal the sum of the amounts reported by the U.S. shareholder on Form(s) 5471, Schedule I, line 1a. (Do not include on line 16a any portion of such subpart F inclusion that is not eligible for the section 245A deduction pursuant to Regulations section 1.245A-5(g)(2). Include such amounts on line 16c.)

## **Line 16b, Column (a)**

Enter the total subpart F inclusions attributable to tiered hybrid dividends. This should equal the sum of the amounts reported by the U.S. shareholder on Form(s) 5471, Schedule I, line 1b.

## **Line 16c, Column (a)**

Enter all other amounts included in income under section 951. This should equal the sum of the amounts reported by the U.S. shareholder on Form(s) 5471, Schedule I, lines 1(c) through 1(h), 2, and 4.

## **Line 17, Column (a)**

Enter amounts included in income under section 951A. See Form 8992, Part II, line 5, and the Instructions for Form 8992. Also, if applicable, attach Form(s) 5471.

**Note.** Consider the applicability of section 951A with respect to CFCs owned by domestic

partnerships in which the corporation has an interest.

### **Line 18, Column (a)**

Include gross-up for taxes deemed paid under section 960.

### **Line 19, 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 20, Column (a)**

Include the following.

1. Dividends (other than capital gain distributions reported on Schedule D (Form 1120), Capital Gains and Losses, and exempt-interest dividends) that are received from RICs and that are not subject to the 50% deduction.
2. Dividends from tax-exempt organizations.
3. Dividends (other than capital gain distributions) received from a REIT that, for the tax year of the trust in which the dividends are paid, qualifies under sections 856 through 860.
4. Dividends not eligible for a dividends-received deduction, which include the following.

- a. Dividends received on any share of stock held for less than 46 days during the 91-day period beginning 45 days before the ex-dividend date. When counting the number of days the corporation held the stock, you cannot count certain days during which the corporation's risk of loss was diminished. See section 246(c)(4) and Regulations section 1.246-5 for more details.
- b. Dividends received on any share of preferred stock which are attributable to periods totaling more than 366 days if such stock was held for less than 91 days during the 181-day period that began 90 days before the ex-dividend date. When counting the number of days the corporation held the stock, you cannot count certain days during which the

corporation's risk of loss was diminished. See section 246(c)(4) and Regulations section 1.246-5 for more details. Preferred dividends attributable to periods totaling less than 367 days are subject to the 46-day holding period rule discussed above.

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## Worksheet for Schedule C, line 9

Keep for Your Records



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|---|-----------|
| 1. Refigure Form 1120, page 1, line 28, without any adjustment under section 1059 and without any capital loss carryback to the tax year under section 1212(a)(1) . . . . .                         | 1. _____  |
| 2. Complete lines 10, 11, 12, and 13, column (c), and enter the total here . . . . .  | 2. _____  |
| 3. Subtract line 2 from line 1 . . . . .  | 3. _____  |
| 4. Multiply line 3 by 65% (0.65) . . . . .  | 4. _____  |
| 5. Add lines 2, 5, 7, and 8, column (c), and the part of the deduction on line 3, column (c), that is attributable to dividends from 20%-or-more-owned corporations . . . . .                       | 5. _____  |
| 6. Enter the smaller of line 4 or line 5. If line 5 is greater than line 4, stop here; enter the amount from line 6 on line 9, column (c), and do not complete the rest of this worksheet . . . . . | 6. _____  |
| 7. Enter the total amount of dividends from 20%-or-more-owned corporations that are included on lines 2, 3, 5, 7, and 8, column (a) . . . . .   | 7. _____  |
| 8. Subtract line 7 from line 3 . . . . .  | 8. _____  |
| 9. Multiply line 8 by 50% (0.50) . . . . .  | 9. _____  |
| 10. Subtract line 5 from line 9, column (c) . . . . .   | 10. _____ |
| 11. Enter the smaller of line 9 or line 10 . . . . .  | 11. _____ |
| 12. <b>Dividends-received deduction after limitation (sec. 246(b)).</b> Add lines 6 and 11. Enter the result here and on line 9, column (c) . . . . .   | 12. _____ |
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- c. Dividends on any share of stock to the extent the corporation is under an obligation (including a short sale) to make related payments with respect to positions in substantially similar or related property.
- 5. Any other taxable dividend income not properly reported elsewhere on Schedule C.

If patronage dividends or per-unit retain allocations are included on line 20, identify the total of these amounts in a statement attached to Form 1120.

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