Caution: *DRAFT—NOT FOR FILING*

This is an early release draft of an IRS tax form, instructions, or publication, which the IRS is providing for your information as a courtesy. **Do not file draft forms.** Also, do not rely on draft instructions and publications for filing. We generally do not release drafts of forms until we believe we have incorporated all changes. However, unexpected issues sometimes arise, or legislation is passed, necessitating a change to a draft form. In addition, forms generally are subject to OMB approval before they can be officially released. Drafts of instructions and publications usually have at least some changes before being officially released.

Early releases of draft forms and instructions are at IRS.gov/draftforms. Please note that drafts may remain on IRS.gov even after the final release is posted at IRS.gov/downloadforms, and thus may not be removed until there is a new draft for the subsequent revision. All information about all revisions of all forms, instructions, and publications is at IRS.gov/formspubs.

Almost every form and publication also has its own easily accessible information page on IRS.gov. For example, the Form 1040 page is at IRS.gov/form1040; the Form W-2 page is at IRS.gov/w2; the Publication 17 page is at IRS.gov/pub17; the Form W-4 page is at IRS.gov/w4; the Form 8863 page is at IRS.gov/form8863; and the Schedule A (Form 1040) page is at IRS.gov/schedulea. If typing in the links above instead of clicking on them: type the link into the address bar of your browser, not in a Search box; the text after the slash must be lowercase; and your browser may require the link to begin with “www.”. Note that these are shortcut links that will automatically go to the actual link for the page.

If you wish, you can submit comments about draft or final forms, instructions, or publications on the Comment on Tax Forms and Publications page on IRS.gov. We cannot respond to all comments due to the high volume we receive, but we will carefully consider each one. Please note that we may not be able to consider many suggestions until the subsequent revision of the product.

2014

Instructions for Form 1120-L

U.S. Life Insurance Company Income Tax Return

Department of the Treasury
Internal Revenue Service

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

Contents **Page**

Photographs of Missing Children 1
Unresolved Tax Issues 1
How To Get Forms and Publications 2
General Instructions 2
Purpose of Form 2
Who Must File 2
Definitions 2
When To File 3
Who Must Sign 3
Paid Preparer Authorization 3
Statements 4
Assembling the Return 4
Tax Payments 4
Interest and Penalties 5
Accounting Methods 5
Accounting Period 5
Rounding Off to Whole Dollars 6
Recordkeeping 6
Other Forms and Statements That May Be Required 6
Specific Instructions 7
Period Covered 7
Name and Address 7
Item A. Identifying Information 7
Item B. Employer Identification Number (EIN) 8
Item D. Section 953 Elections 8
Item E. Final Return, Name Change, Address Change, or Amended Return 9
Life Insurance Company Taxable Income 9
Schedule A—Dividend Income and Dividends-Received Deduction 16
Schedule B—Gross Investment Income 18
Schedule F—Increase (Decrease) in Reserves and Company/Policyholder Share Percentage 19
Schedule G—Policy Acquisition Expenses 21
Schedule H—Small Life Insurance Company Deduction 21
Schedule I—Limitation on Noninsurance Losses 21
Schedule J 22

Contents **Page**

Schedule K—Tax Computation 22
Schedule L 24
Schedule M—Other Information 24
Index 27

Future Developments

For the latest information about developments related to Form 1120-L and its instructions, such as legislation enacted after they were published, go to *www.irs.gov/1120l*.

What's New

Information reporting requirements for health insurance offers and coverage. Under the Affordable Care Act, employers that offer (or fail to offer) and others that provide minimum essential coverage to individuals are required under sections 6055 and 6056 to provide certain information to the IRS and to the individuals. The information is required for calendar years beginning after December 31, 2014, but may voluntarily be filed with the IRS and provided to individuals for 2014. For more information, see the final regulations under sections 6055 and 6056. Also, for information related to the Affordable Care Act, visit *www.irs.gov/ACA*.

Online payment agreement. The corporation may be able to apply for an installment agreement online if it has a balance due when the corporation's return is filed. See the instructions for line 31.

Reminders

Deductions for compensation paid by health insurance providers. Section 162(m)(6) limits the allowable deduction for remuneration for services provided by individuals for or on behalf of certain health insurance providers. See *Limitation on tax benefits for remuneration under the Patient Protection and Affordable Care Act*, under *Limitations on Deductions*, later.

Photographs of Missing Children

The IRS 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

The Taxpayer Advocate Service (TAS) is your voice at the IRS. Its job is to ensure that every taxpayer is treated fairly and that you know and understand your rights. TAS offers free help to guide you through the often-confusing process of resolving tax problems that you haven't been able to solve on your own. Remember, the worst thing you can do is nothing at all.

As a taxpayer, the corporation has rights that the IRS must abide by in its dealings with the corporation. The TAS tax toolkit at *www.irs.gov/advocate* can help the corporation understand these rights.

The corporation can contact the TAS as follows.

- Call the corporation's local advocate, whose number is listed in the local phone book and on our website at *www.irs.gov/advocate*.
- Call the TAS toll-free intake line at 1-877-777-4778 to see if the corporation is eligible for assistance. Individuals who are deaf, hard of hearing, or have a speech disability and who have access to TTY/TDD equipment can call 1-800-829-4059. These individuals can also access the IRS through relay services such as the Federal Relay Service available at *www.gsa.gov/fedrelay*.

TAS also handles large-scale or systemic problems that affect many taxpayers. If the corporation knows of one of these broad issues, please report it to us through the Systemic

Draft as of 01/07/2015

Advocacy Management System at www.irs.gov/advocate.

For more information, go to www.irs.gov/advocate.

How To Get Forms and Publications

Internet. You can access the IRS website 24 hours a day, 7 days a week, at IRS.gov to:

- Download forms, instructions, and publications;
- Order IRS products online;
- Research your tax questions online;
- Search publications online by topic or keyword;
- View Internal Revenue Bulletins (IRBs) published in recent years; and
- Sign up to receive local and national tax news by email.

By phone and in person. You can order forms and publications 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-L, U.S. Life Insurance Company Income Tax Return, to report the income, gains, losses, deductions, credits, and to figure the income tax liability of life insurance companies.

Who Must File

Every domestic life insurance company and every foreign corporation that would qualify as a life insurance company if it were a U.S. corporation must file Form 1120-L. This includes organizations described in section 501(m)(1) that provide commercial-type life insurance.

Mutual Savings Banks Conducting Life Insurance Business

Mutual savings banks conducting life insurance business and meeting the requirements of section 594 are subject to an alternative tax consisting of:

- A partial tax computed on Form 1120, U.S. Corporation Income Tax Return, on the taxable income of the bank excluding the life insurance department, and
- A partial tax on the taxable income computed on Form 1120-L of the life insurance department.

Enter the combined tax on line 2 of Schedule J, Form 1120. File Form 1120 and attach Form 1120-L as a statement (and identify it as such) or attach a statement showing the computation of the taxable income of the life insurance department (including all relevant information that would be reported on Form 1120-L).

Foreign Life Insurance Companies

A foreign life insurance company that sells a U.S. real property interest must file Form 1120-L and Schedule D (Form 1120) to report the sale. Gain or loss from the sale of a U.S. real property interest is considered effectively connected with the conduct of a U.S. business, even though the foreign life insurance company does not carry on any insurance business in the United States and is not otherwise required to file a U.S. income tax return. See sections 842 and 897, and the instructions for Schedule K, line 8, later.

Other Insurance Companies

Insurance companies, other than life insurance companies, should file Form 1120-PC, U.S. Property and Casualty Insurance Company Income Tax Return. A burial or funeral benefit insurance company that directly manufactures funeral supplies or performs funeral services is taxable under section 831 and should file Form 1120-PC.

Definitions

An "insurance company" means any corporation if more than half of its business during the tax year is from the issuance of insurance or annuity contracts or the reinsuring of risks underwritten by insurance companies.

A "life insurance company" is an insurance company in the business of issuing life insurance and annuity contracts either separately or combined with health and accident insurance, or noncancelable contracts of health and accident insurance that meet the reserves test in section 816(a). Guaranteed renewable life, health, and accident insurance that the corporation cannot cancel but reserves the right to adjust premium rates by classes, according to experience under the kind of policy involved, are treated as noncancelable.

The "reserves test" requires that life insurance reserves, as defined in section 816(b), plus unearned premiums and unpaid losses (whether or not ascertained) on noncancelable life, health, or accident policies not included in life insurance reserves must make up more than 50% of total reserves as defined in section 816(c). When determining whether the reserves test has been met:

1. Life insurance reserves and total reserves must each be reduced by an amount equal to the mean of the aggregates, at the beginning and end of the tax year, of the policy loans outstanding with respect to contracts for which life insurance reserves are maintained;

2. Amounts set aside and held at interest to satisfy obligations under contracts that do not contain permanent guarantees with respect to life, accident, or health contingencies must not be included in either life insurance reserves (section 816(c)(1)) or other reserves required by law (section 816(c)(3)); and

3. Deficiency reserves must not be included in either life insurance reserves or total reserves.

Electronic Filing

Corporations can generally electronically file *(e-file)* Form 1120–L, related forms, schedules, and attachments, Form 7004 (automatic extension of time to file) and Forms 940, 941, and 944 (employment tax returns). If there is a balance due, the corporation can authorize an electronic funds withdrawal while e-filing. Form 1099 and other information returns can also be electronically filed. The option to *e-file* does not, however, apply to certain returns.

Certain corporations with total assets of $10 million or more that file at least 250 returns a year are required to *e-file* Form 1120–L. See Regulations section 301.6011–5. However, these corporations can request a waiver of the electronic filing requirements. See Notice 2010-13, 2010-4 I.R.B. 327.

For more information, visit www.irs.gov/Filing. Click on the links

Draft as of 01/07/2015

for *Self-Employed & Small Businesses* and *Corporations*.

When To File

Generally, a corporation must file its income tax return by the 15th day of the 3rd month after the end of its tax year. 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 falls on a Saturday, Sunday, or legal holiday, the corporation can file on the next business day.

Private Delivery Services

Corporations can use certain private delivery services designated by the IRS to meet the "timely mailing as timely filing" rule for tax returns. These private delivery services include only the following.

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

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

For the IRS mailing address to use if you are using a private delivery service, go to IRS.gov and enter "private delivery services" in the search box.

CAUTION *Private delivery services cannot deliver items to P.O. boxes. You must use the U.S. Postal Service to mail any item to an IRS P.O. box address.*

Extension of Time To File

File Form 7004, Application for Automatic Extension of Time to File Certain Business Income Tax, Information, and Other Returns, to request a 6-month extension of time to file. Generally, file Form 7004 by the regular due date of the return. See the Instructions for Form 7004.

Where To File

File the corporation's return at the applicable IRS address listed below.

If the corporation's principal business, office, or agency is located in:	And the total assets at the end of the tax year (Form 1120-L, Schedule L, Part I, line 6, column (b)) are:	Use the following address:
Connecticut, Delaware, District of Columbia, Florida, Georgia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, West Virginia, Wisconsin	Less than $10 million and Schedule M-3 is not filed	Department of the Treasury Internal Revenue Service Center Cincinnati, OH 45999-0012
	$10 million or more or less than $10 million and Schedule M-3 is filed	Department of the Treasury Internal Revenue Service Center Ogden, UT 84201-0012
Alabama, Alaska, Arizona, Arkansas, California, Colorado, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, Wyoming	Any amount	Department of the Treasury Internal Revenue Service Center Ogden, UT 84201-0012
A foreign country or U.S. possession	Any amount	Internal Revenue Service Center P.O. Box 409101 Ogden, UT 84409

A group of corporations with members located in more than one service center area will often keep all the books and records at the principal office of the managing corporation. In this case, the tax returns of the corporations may be filed with the service center for the area in which the principal office of the managing corporation is located.

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.

If a return is filed on behalf of a corporation by a receiver, trustee, or assignee, the fiduciary must sign the return, instead of the corporate officer. Returns and forms signed by a receiver or trustee in bankruptcy on behalf of a corporation must be accompanied by a copy of the order or instructions of the court authorizing signing of the return or form.

If an employee of the corporation completes Form 1120-L, the paid preparer space should remain blank. Anyone who prepares Form 1120-L 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 Use Only" area.

The paid preparer must complete the required preparer information and:

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

Note. A paid preparer may sign original or amended returns by rubber stamp, mechanical device, or computer software program.

Paid Preparer Authorization

If the corporation wants to allow the IRS to discuss its 2014 tax return with the paid preparer who signed it, check

Draft as of 01/07/2015

the "Yes" box in the signature area of the return. This authorization applies only to the individual whose signature appears in the "Paid Preparer Use Only" section of the 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 about math errors, offsets, and return preparation.

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.

The authorization will automatically end no later than the due date (excluding extensions) for filing the corporation's 2015 tax return. If the corporation wants to expand the paid preparer's authorization or revoke the authorization before it ends, see Pub. 947, Practice Before the IRS and Power of Attorney.

Statements

Annual Statement. In general, every domestic or foreign life insurance company must attach a copy of the National Association of Insurance Commissioners (NAIC) annual statement filed with the state of domicile and used as the basis for computing taxable income. If a different annual statement was used as the basis for computing taxable income, attach that annual statement to Form 1120-L. However, see *Electronic filing*, next.

Electronic filing. If a domestic or foreign life insurance company files the Form 1120-L electronically, do not attach the annual statement or pro forma annual statement to the electronically filed return. However, you must provide a copy of the annual statement or pro forma annual statement to the IRS if requested and retain it with your other tax records for the period required by the regulations.

Reconciliation. Corporations that do not file Schedule M-3 (Form 1120-L) with Form 1120-L must attach a statement that reconciles Form 1120-L with the annual statement used as the basis for computing taxable income reported on Form 1120-L. Also, see the *Note* under the instructions for Schedule F for additional required reconciliations.

Assembling the Return

To ensure that the corporation's tax return is correctly processed, attach all schedules and other forms after page 8 of Form 1120-L in the following order.

1. Schedule N (Form 1120), Foreign Operations of U.S. Corporations.
2. Schedule D (Form 1120), Capital Gains and Losses.
3. Schedule O (Form 1120), Consent Plan and Apportionment Schedule for a Controlled Group.
4. Form 4626, Alternative Minimum Tax—Corporations.
5. Form 8302, Electronic Deposit of Tax Refund of $1 Million or More.
6. Form 4136, Credit for Federal Tax Paid on Fuels.
7. Form 8941, Credit for Small Employer Health Insurance Premiums.
8. Form 851, Affiliations Schedule.
9. Additional schedules in alphabetical order.
10. Additional forms in numerical order.
11. Supporting statements and attachments.

Complete every applicable entry space on Form 1120-L. Do not enter "See Attached" or "Available Upon Request" instead of completing the entry spaces. If more space is needed on the forms or schedules, attach separate sheets using the same size and format as on the printed forms. 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. Enter the corporation's name and EIN on each supporting statement or attachment.

Tax Payments

Generally, the corporation must pay any tax due in full no later than the 15th day of the 3rd month after the end of the tax year. See the instructions for line 31.

Electronic Deposit Requirement

Corporations must use electronic funds transfer to make all federal tax deposits (such as deposits of employment, excise, and corporate income tax). Generally, electronic funds transfers are made using the Electronic Federal Tax Payment System (EFTPS).

If the corporation does not want to use EFTPS, it can arrange for its tax professional, financial institution, payroll service, or other trusted third party to make deposits on its behalf. Also, it can arrange for its financial institution to submit a same-day payment (discussed later) on its behalf. EFTPS is a free service provided by the Department of the Treasury. Services provided by a tax professional, financial institution, payroll service, or other third party may have a fee.

To get more information about EFTPS or to enroll in EFTPS, visit *www.eftps.gov*, or call 1-800-555-4477, (TTY/TDD 1-800-733-4829).

Depositing on time. To make your EFTPS deposits on time, the corporation must submit the transaction by 8 p.m. Eastern time the day before the date the deposit is due. If the corporation uses a third party to make deposits on its behalf, they may have different cutoff times.

Same-day wire payment option. If the corporation fails to submit a deposit transaction on EFTPS by 8 p.m. Eastern time the day before the date a deposit is due, it can still make the deposit on time by using the Federal Tax Collection Service (FTCS). Before using the same-day wire payment option, the corporation will need to make arrangements with its financial institution ahead of time regarding availability, deadlines, and costs. Financial institutions may charge a fee for payments made this way. To learn more about making a

Draft as of 01/07/2015

same-day wire payment, visit www.eftps.gov/epay and click on *Same-Day Wire Federal Tax Payments.*

Estimated Tax Payments

Generally, the following rules apply to the 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.
- The corporation must use electronic funds transfer to make installment payments of estimated tax.
- Use Form 1120-W, Estimated Tax for Corporations, as a worksheet to compute estimated tax. See the Instructions for Form 1120-W.
- Penalties may apply if the corporation does not make required estimated tax payment deposits. See *Estimated tax penalty*, below.
- 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.

See the instructions for line 29c and line 29e, later.

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 at least the smaller of:

- Its tax liability for the current year, or
- Its prior year's tax.

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

Use Form 2220, Underpayment of Estimated Tax by Corporations, to see if the corporation owes a penalty and to figure the amount of the penalty. If Form 2220 is completed, enter the penalty on line 30. See the instructions for line 30, later.

Interest and Penalties

CAUTION *If the corporation receives a notice about penalties after it files its return, send the IRS an explanation and we will determine if the corporation meets reasonable-cause criteria.* ***Do not*** *attach an explanation when the corporation's return is filed.*

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

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 $135. The penalty will not be imposed if the corporation can show that the failure to file on time was due to reasonable cause. See *Caution*, earlier.

Late payment of tax. A corporation that does not pay the tax when due generally may be penalized ½ 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. See *Caution*, earlier.

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:

- Form 720, Quarterly Federal Excise Tax Return;
- Form 941, Employer's QUARTERLY Federal Tax Return;
- Form 944, Employer's ANNUAL Federal Tax Return; or
- Form 945, Annual Return of Withheld Federal Income Tax.

The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to be responsible for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so. The penalty is equal to the full amount of the unpaid trust fund tax. See the Instructions for Form 720, Pub. 15 (Circular E), 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, reportable transaction understatements, and fraud. See sections 6662, 6662A, and 6663.

Accounting Methods

The return of a life insurance company must be filed using the accrual method of accounting or, to the extent permitted under regulations, a combination of the accrual method with any other method, except the cash receipts and disbursements method. In all cases, the method used must clearly show life insurance company taxable income (LICTI).

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 the treatment of any material item). To do so, the corporation generally must file Form 3115, Application for Change in Accounting Method. For more information, see the Instructions for Form 3115, and Pub. 538, Accounting Periods and Methods.

There are some instances when the corporation can obtain automatic consent from the IRS to change to certain accounting methods. See Rev. Proc. 2011-14, 2011-4 I.R.B. 330, as modified and clarified by Rev. Proc. 2014-54, 2014-41 I.R.B. 675, Rev. Proc. 2014-16, 2014-9 I.R.B. 606, and Rev. Proc. 2014-17, 2014-12 I.R.B. 661, or any successor. Also, see the Instructions for Form 3115.

Accounting Period

An insurance company must figure its taxable income on the basis of a tax year. A tax year is the annual accounting period an insurance

Draft as of 01/07/2015

company uses to keep its records and report its income and expenses.

As a general rule under section 843, the tax year for every insurance company is the calendar year. However, if an insurance company joins in the filing of a consolidated return, it may adopt the tax year of the common parent corporation even if that year is not a calendar year.

Rounding Off to Whole Dollars

The corporation can round off cents to whole dollars on its return and schedules. If the corporation does round to whole dollars, it must round all amounts. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, $1.39 becomes $1 and $2.50 becomes $3.

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

Recordkeeping

Keep the 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 and in the calculation of earnings and profits.

Other Forms and Statements That May Be Required

Reportable transaction disclosure statement. Disclose information for each reportable transaction in which the corporation participated. Form 8886, Reportable Transaction Disclosure Statement, must be filed for each tax year that the federal income tax liability of the corporation is affected by its participation in the transaction. The following are reportable transactions.

1. Any listed transaction, which is a transaction that is the same as or substantially similar to one of the types of transactions that the IRS has determined to be a tax avoidance transaction and identified by notice, regulation, or other published guidance as a listed transaction.

2. Any transaction offered under conditions of confidentiality for which the corporation (or a related party) paid an advisor a fee of at least $250,000.

3. Certain transactions for which the corporation (or a related party) has contractual protection against disallowance of the tax benefits.

4. Certain transactions resulting in a loss of at least $10 million in any single year or $20 million in any combination of years.

5. Any transaction identified by the IRS by notice, regulation, or other published guidance as a "transaction of interest."

For more information, see Regulations section 1.6011-4. Also see the Instructions for Form 8886.

Penalties. The corporation may have to pay a penalty if it is required to disclose a reportable transaction under section 6011 and fails to properly complete and file Form 8886. Penalties also apply under section 6707A if the corporation fails to file Form 8886 with its corporate return, fails to provide a copy of Form 8886 to the Office of Tax Shelter Analysis (OTSA), or files a form that fails to include all the information required (or includes incorrect information). Other penalties, such as an accuracy-related penalty under section 6662A, may also apply. See the Instructions for Form 8886 for details on these and other penalties.

Reportable transactions by material advisors. Material advisors to any reportable transaction must disclose certain information about the reportable transaction by filing Form 8918, Material Advisor Disclosure Statement, with the IRS. See the Instructions for Form 8918.

Transfers to a corporation controlled by the transferor. Every significant transferor (as defined in Regulations section 1.351-3(d)) that receives stock of a corporation in exchange for property in a nonrecognition event must include the statement required by Regulations section 1.351-3(a) on or with the transferor's tax return for the tax year of the exchange. The transferee corporation must include the statement required by Regulations section 1.351-3(b) on or with its return for the tax year of the exchange, unless all the required information is included in any statement(s) provided by a significant transferor that is attached to the same return for the same section 351 exchange. If the transferor or transferee corporation is a controlled foreign corporation, each U.S. shareholder (within the meaning of section 951(b)) must include the required statement on or with its return.

Distributions under section 355. Every corporation that makes a distribution of stock or securities of a controlled corporation, as described in section 355 (or so much of section 356 as it relates to section 355), must include the statement required by Regulations section 1.355-5(a) on or with its return for the year of the distribution. A significant distributee (as defined in Regulations section 1.355-5(c)) that receives stock or securities of a controlled corporation must include the statement required by Regulations section 1.355-5(b) on or with its return for the year of receipt. If the distributing or distributee corporation is a controlled foreign corporation, each U.S. shareholder (within the meaning of section 951(b)) must include the statement on or with its return.

Dual consolidated losses. If a domestic corporation incurs a dual consolidated loss (as defined in Regulations section 1.1503-2(c)(5)), the corporation (or consolidated group) may need to attach an elective relief agreement and/or an annual certification as provided in Regulations section 1.1503-2(g)(2).

Election to reduce basis under section 362(e)(2)(C). If property is transferred to a corporation subject to section 362(e)(2), the transferor and the acquiring corporation may elect, under section 362(e)(2)(C), to reduce the transferor's basis in the stock received instead of reducing the acquiring corporation's basis in the property transferred. Once made, the election is irrevocable. If an election is

Draft as of 01/07/2015

made, a statement must be filed in accordance with Regulations section 1.362-4(d)(3).

Annual information statement for elections under section 108(i). If the corporation made an election in 2009 or 2010 to defer income from cancellation of debt (COD) in connection with the reacquisition of an applicable debt instrument, the corporation must attach a statement to its return beginning with the tax year following the tax year for which the corporation made the election, and ending the first tax year all income deferred has been included in income. The statement must be labeled "Section 108(i) Information Statement" and must clearly identify, for each applicable debt instrument to which an election under section 108(i) applies, any deferred:

- COD income that is included in income in the current tax year.
- COD income that has been accelerated because of an event described in section 108(i)(5)(D) and must be included in income in the current tax year. Include a description and the date of the acceleration event.
- COD income that has not been included in income in the current or prior tax years.
- OID deduction allowed as a deduction in the current tax year.
- OID deduction that is allowed as a deduction in the current tax year because of an accelerated event described in section 108(i)(5)(D).
- OID deduction that has not been deducted in the current or prior tax years.

In addition, the corporation must annually include a copy of the election statement it filed to make the election to defer the income. For more information regarding the annual information statement, see Rev. Proc. 2009-37, 2009-36 I.R.B. 309. For additional information on deferring COD income, see the instructions for *Line 7. Other income,* later.

Other forms and statements. See Pub. 542, Corporations, for a list of other forms and statements a corporation may need to file in addition to the forms and statements discussed throughout these instructions.

Specific Instructions

Period Covered

Section 843 requires all insurance companies to file on a calendar year basis, unless they join in the filing of a consolidated return. If a consolidated return is filed, indicate the period covered on the parent corporation's return.

Name and Address

Enter the corporation's true name (as set forth in the charter or other legal document creating it), address, and EIN on the appropriate lines. Enter the address of the corporation's principal office or place of business. Include the suite, room, or other unit number after the street address. If the post office does not deliver mail to the street address and the corporation has a P.O. box, show the box number instead.

Note. Do not use the address of the registered agent for the state in which the corporation is incorporated. For example, if a business is incorporated in Delaware or Nevada and the corporation's principal place office is located in Little Rock, AR, the corporation should enter the Little Rock address.

If the corporation receives its mail in care of a third party (such as an accountant or an attorney), enter on the street address line “C/O” followed by the third party's name and street address or P.O. box.

If the corporation has a foreign address, include the city or town, state or province, country, and foreign postal code. Do not abbreviate the country name. Follow the country's practice for entering the name of the state or province and postal code.

Item A. Identifying Information

Consolidated Return

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

Note. The eligibility requirements (the tacking rule) for a life insurance company to join in the filing of a consolidated return with nonlife companies are covered in Regulations section 1.1502-47(d)(12)(v).

Note. If an election under section 1504(c)(2) is in effect for an affiliated group for the tax year, all items of members of the group that are not life insurance companies must not be taken into account in figuring the tentative LICTI of members that are life insurance companies.

Corporations filing a consolidated return must check box 1 of item A and attach Form 851, Affiliations Schedule, and other supporting statements to the return. Also, for the first year a subsidiary corporation is being included in a consolidated return, attach Form 1122, Authorization and Consent of Subsidiary Corporation To Be Included in a Consolidated Income Tax Return, to the parent's consolidated return. Attach a separate Form 1122 for each new subsidiary being included in the consolidated return.

File supporting statements for each corporation included in the consolidated return. Do not use Form 1120-L as a substitute for the supporting statement. On the supporting statement, use columns to show the following, both before and after adjustments.

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

Enter on Form 1120-L the totals for each item of income, gain, loss, expense, or deduction, net of eliminating entries for intercompany transactions between corporations within the consolidated group. Attach consolidated balance sheets and a

Draft as of 01/07/2015

reconciliation of consolidated retained earnings.

For more information on consolidated returns, see the regulations under section 1502.

Life-Nonlife Consolidated Return

If the corporation is the common parent of a life-nonlife consolidated group, check boxes 1 and 2 of Item A.

Filing requirements. The common parent of a life-nonlife consolidated group must satisfy the following filing requirements.

- File the applicable consolidated corporate income tax return: a Form 1120-L, U.S. Life Insurance Company Income Tax Return, where the common parent is a life insurance company; a Form 1120-PC, U.S. Property and Casualty Insurance Company Income Tax Return, where the common parent is an insurance company, other than a life insurance company; or a Form 1120, U.S. Corporation Income Tax Return, where the common parent is any other type of corporation.
- Indicate clearly on the face of the return that the corporate tax return is a life-nonlife return. This requirement is satisfied by checking box 2 of Item A on page 1.
- Show any setoffs required by paragraphs (g), (m), and (n) of section 1.1502-47.
- Report separately the nonlife consolidated taxable income or loss, determined under section 1.1502-47(h), on a Form 1120 or 1120-PC (whether filed by the common parent or as an attachment to the consolidated return), for all nonlife members of the consolidated group.
- Report separately the consolidated partial LICTI (as defined by section 1.1502-47(d)(3)), determined under section 1.1502-47, on a Form 1120-L (whether filed by the common parent or as an attachment to the consolidated return), for all life members of the consolidated group.

Note. If a nonlife insurance company is a member of an affiliated group, file Form 1120-PC as an attachment to the consolidated return in addition to the supporting statements discussed earlier under *Consolidated Return*. Across the top of page 1 of Form 1120-PC, write "Supporting Statement to Consolidated Returns."

Schedule M-3 (Form 1120-L)

A life insurance company with total assets (non-consolidated or consolidated for all companies included within a tax consolidation group) of $10 million or more on the last day of the tax year must file Schedule M-3 (Form 1120-L), Net Income (Loss) Reconciliation for U.S. Life Insurance Companies With Total Assets of $10 Million or More. A corporation filing Form 1120-L that is not required to file Schedule M-3 may voluntarily file Schedule M-3.

If you are filing Schedule M-3 (Form 1120-L), check box 3 of Item A, "Schedule M-3 (Form 1120-L) attached" at the top of page 1 of Form 1120-L. See the Instructions for Schedule M-3 (Form 1120-L) for more details.

Note. If you do not file Schedule M-3 (Form 1120-L) with Form 1120-L, see *Reconciliation* under *Statements*, earlier.

Item B. Employer Identification Number (EIN)

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

- Online—Click on the Employer ID Numbers link at www.irs.gov/businesses. The EIN is issued immediately once the application information is validated.
- By faxing or mailing Form SS-4, Application for Employer Identification Number.

CAUTION *Corporations located in the United States or U.S. possessions can use the online application. Foreign corporations should call 1–267–941–1099 for more information on obtaining an EIN.*

EIN applied for, but not received. If the corporation has not received its EIN by the time the return is due, enter "Applied For" and the date the corporation applied in the space for the EIN. However, if the corporation is filing its return electronically, an EIN is required at the time the return is filed. An exception applies to subsidiaries of corporations whose returns are filed with the parent's electronically filed consolidated Form 1120. These subsidiaries should enter "Applied For" in the space for the EIN on their returns. The subsidiaries' returns are identified under the parent corporation's EIN.

For more information, see the Instructions for Form SS-4.

Item D. Section 953 Elections

Check the appropriate box if the corporation is a foreign corporation and elects under:

1. Section 953(c)(3)(C) to treat its related person insurance income as effectively connected with the conduct of a trade or business in the United States or
2. Section 953(d) to be treated as a domestic corporation.

Generally, a foreign corporation making either election must file its return by sending it to:

Internal Revenue Service Center
P.O. Box 409101
Ogden, UT 84409

See Notice 87-50, 1987-2 C.B. 357, and Rev. Proc. 2003-47, 2003-28 I.R.B. 55, for the procedural rules, election statement formats, and filing addresses for making the respective elections under section 953(c)(3)(C) or section 953(d).

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

Note. If a section 953(d) election is made, include the additional tax required to be paid on line 10, Schedule K. On the dotted line to the left of line 10, Schedule K, write "Section 953(d)" and the amount. Attach a statement showing the computation. See section 953(d) for more details.

Draft as of 01/07/2015

Item E. Final Return, Name Change, Address Change, or Amended Return

Indicate a final return, name change, address change, or amended return by checking the appropriate box.

Note. If a change of address or responsible party occurs after the return is filed, use Form 8822-B, Change of Address or Responsible Party — Business, to notify the IRS of the new address.

Life Insurance Company Taxable Income

Income

Except as otherwise provided in the Internal Revenue Code, gross income includes all income from whatever source derived.

Income from qualifying shipping activities. Gross income does not include income from qualifying shipping activities if the corporation makes an election under section 1354 to be taxed on its notional shipping income (as defined in section 1353) at the highest corporate tax rate (35%). If the election is made, the corporation generally may not claim any loss, deduction, or credit with respect to qualifying shipping activities. A corporation making this election also may elect to defer gain on the disposition of a qualifying vessel.

Use Form 8902, Alternative Tax on Qualifying Shipping Activities, to figure the tax. Include the alternative tax on Schedule K, line 9.

Line 1. Enter gross premiums and other consideration received on insurance and annuity contracts less return premiums and premiums and other consideration paid for indemnity reinsurance.

Gross premiums and other consideration includes advance premiums, deposits, fees, assessments, consideration received for assuming liabilities under contracts not issued by the corporation, and any amount treated as premiums received under section 808(e). (See the instructions for Schedule F, line 18a, later.)

Return premiums include amounts rebated or refunded due to policy cancellations or incorrectly computed premiums, but do not include amounts returned to policyholders when such amounts are not fixed in the contract but instead depend on the corporation's experience or the management's discretion.

Line 2. Net decrease in reserves. If there is a decrease in reserves, complete line 2 by doing the following:

1. Pencil in the amount from line 8, Schedule F, on line 2, to tentatively compute life insurance company gross income (LICGI).

2. Enter this tentative LICGI on Schedule F, line 12, and complete the remainder of Schedule F.

After completing steps 1 and 2 above, erase the numbers penciled in for step 1 and then enter on line 2 the net decrease in reserves shown on line 35, Schedule F.

Line 3. 10% of certain decreases in reserves under section 807(f)(1)(B)(ii). If the amount of any item referred to in section 807(c) decreases as a result of a change in the basis used to determine that item, 10% of the decrease must be included in LICGI for each of the 10 succeeding tax years. See section 807(f)(1).

Note. If a corporation no longer qualifies as a life insurance company, the balance of any adjustments under section 807(f) must be taken into account in the last tax year the corporation is qualified to file Form 1120-L. See section 807(f)(2).

Line 4. Investment income. Enter the amount from Schedule B, line 8, less 50% of interest income of an ESOP loan made prior to August 20, 1996. Also, see Public Law 104–188, section 1602 for binding contracts and refinancing rules.

Line 5. Net capital gain. Unless specifically excluded by section 1221, each asset held by a corporation (whether or not connected with its business) is a "capital asset."

Under section 1221, capital asset does not include:

1. Assets that can be inventoried or property held mainly for sale to customers.

2. Depreciable or real property used in the trade or business.

3. Certain copyrights; or literary, musical, or artistic compositions.

4. Accounts or notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property described in 1 above.

5. Certain publications of the U.S. Government.

Section 818(b) modifies the above definition so only property used in carrying on an insurance business will be considered as “depreciable or real property used in the corporation's trade or business.” For life insurance companies, gains or losses from the sale or exchange of depreciable assets of any business other than an insurance business will be treated as gains or losses from the sale or exchange of capital assets.

See section 818(c) and the related regulations for how to limit the gain from the sale or exchange of any section 818(c) property.

Note. Form 8949 must be attached to Schedule D (Form 1120), as required.

Line 6. Income from a special loss discount account. Enter the total from Part II, line 6, of Form 8816, Special Loss Discount Account and Special Estimated Tax Payments for Insurance Companies. See section 847(5) and the Instructions for Form 8816 for more information.

Line 7. Other income. Enter any other taxable income, includible in LICGI, not reported on lines 1 through 6. List the type and amount of income on an attached statement. If the life insurance company has only one item of other income, describe it in parentheses on line 7. The following are examples of other income to report on line 7.

- All income from noninsurance business (defined in section 806(b)(3)), but list it separately from all other income.
- Gains and losses (including ordinary gains and losses) from sales or exchanges of assets used in a trade or business and from involuntary conversions reported on Form 4797, Sales of Business Property. Section 818(b)(1) provides that, for section 1231(a), “property used in a trade or business” includes only:

1. Property used in carrying on an insurance business that is either real or depreciable property held for more than 1 year.

Draft as of 01/07/2015

2. Timber, coal, and domestic iron ore to which section 631 applies.

For paragraph 1 above, property used in a trade or business does not include property includible in inventory, property held primarily for sale to customers, or certain copyrights, literary, musical, or artistic compositions, letters, memoranda, and similar property.

- The amount included in income from Form 6478, Biofuel Producer Credit.
- The amount included in income from Form 8864, Biodiesel and Renewable Diesel Fuels Credit.
- Ordinary income from trade or business activities of a partnership (from Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc., or from Schedule K-1 (Form 1065-B), Partner's Share of Income (Loss) From an Electing Large Partnership). Do not offset ordinary losses against ordinary income. Instead, include the losses on line 18. 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.
- Part or all of the proceeds received from certain corporate-owned life insurance contracts issued after August 17, 2006. Corporations that own one or more employer-owned life insurance contracts issued after August 17, 2006, must file Form 8925, Report of Employer-Owned Life Insurance Contracts.
- Income from cancellation of debt (COD) for the repurchase of a debt instrument for less than its adjusted issue price.
- Any COD income deferred from 2009 or 2010 that is includible in income in 2014. See section 108(i), Regulations section 1.108(i)-1, and Rev. Proc. 2009-37.
- The corporation's share of the following income from Form 8621, Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund.

1. Ordinary earnings of a qualified electing fund (QEF).

2. Gain or loss from marking passive foreign investment company (PFIC) stock to market.

3. Gain or loss from sale or other disposition of Section 1296 stock.

4. Excess distributions from a section 1291 fund treated as ordinary income.

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

Deductions

Limitations on Deductions

Section 263A uniform capitalization rules. The uniform capitalization rules of section 263A require corporations to capitalize certain costs.

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

Transactions between related taxpayers. Generally, an accrual basis taxpayer 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), 163(j), and 267 for limitations on deductions for unpaid interest and expenses.

Corporations use Form 8926, Disqualified Corporate Interest Expense Disallowed Under Section 163(j) and Related Information, to figure the amount of any corporate interest expense disallowed by section 163(j).

Section 291 limitations. Corporations may be required to adjust certain deductions. See section 291 to determine the amount of the adjustment.

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 and Regulations section 1.280G-1.

Business start-up and organizational costs. A corporation can elect to deduct up to $5,000 of business start-up and up to $5,000 of organizational costs paid or incurred after October 22, 2004. Any remaining costs must be amortized ratably over a 180-month period. The $5,000 deduction is reduced (but not below zero) by the amount the total costs exceed $50,000. If the total costs are $55,000 or more, the deduction is reduced to zero.

Time for making the 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. However, for start-up or organizational costs paid or incurred before September 9, 2008, the corporation may be required to attach a statement to its return to elect to deduct such costs.

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 write “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 18. For amortization that begins during the 2014 tax year, complete and attach Form 4562, Depreciation and Amortization.

For more details on business start-up and organizational costs, see the Instructions for Form 4562. Also see Pub. 535, Business Expenses.

Reducing certain expenses for which credits are allowable. If the corporation claims certain credits, it

Draft as of 01/07/2015

may need to reduce the otherwise allowable deductions for expenses used to figure the credit. This applies to credits such as the following.

- Employment credits. See *Employment credits*, later.
- Credit for increasing research activities (Form 6765).
- Orphan drug credit (Form 8820).
- Disabled access credit (Form 8826).
- Employer credit for social security and Medicare taxes paid on certain employee tips (Form 8846).
- Credit for small employer pension plan startup costs (Form 8881).
- Credit for employer-provided childcare facilities and services (Form 8882).
- Credit for small employer health insurance premiums (Form 8941).

If the corporation has any of these credits, 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 information.

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 more details and exceptions.

Line 9. Death benefits, etc. Enter all claims and benefits accrued and losses incurred (whether or not ascertained) during the year on insurance and annuity contracts.

Losses incurred (whether or not ascertained) includes a reasonable estimate both of losses incurred but not reported and of reported losses, when the amount of the losses cannot be determined by the end of the tax year. Losses incurred must be adjusted to take into account recoveries (e.g., for reinsurance) for those losses together with estimates of those recoveries that may be recovered on those losses in future years.

TIP *Under section 807(c), the amount of unpaid losses (other than losses on life insurance contracts) must be the amount of the discounted unpaid losses under section 846. See the instructions for Schedule F, line 2, for more information on the discounting provisions.*

Line 11. 10% of increase in reserves under section 807(f)(1)(B)(i). If the amount of any item referred to in section 807(c) increases as a result of a change in the basis used to determine that item, 10% of the increase will be allowed as a deduction in computing LICTI for each of the 10 succeeding tax years. See section 807(f)(1).

Termination as life insurance company. If a corporation ceases to qualify as a life insurance company, the balance of any adjustments under section 807(f) must be taken into account in the last year that the corporation is qualified to file Form 1120-L. See section 807(f)(2).

Line 13. Assumption by another person of liabilities under insurance, etc., contracts. Enter the total consideration paid by the corporation to another person (other than for indemnity reinsurance) for the assumption by that person of liabilities under insurance and annuity contracts (including supplementary contracts).

Line 14. Dividends reimbursable by taxpayer. Enter the amount of policyholder dividends:

1. Paid or accrued by another insurance company for policies this corporation has reinsured and
2. That are reimbursable by the corporation under the terms of the reinsurance contract.

Line 15a. Interest. Enter all interest paid or accrued during the tax year. No deduction is allowed under section 163 for interest on the items described in section 807(c). Also, do not include interest included on Schedule G, line 9 (general deductions).

Limitations. 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 statement showing the computation of the deduction.

Section 108(i) OID deduction. If the corporation issued a debt instrument with OID that is subject to section 108(i)(2) because of an election to defer the income from the cancellation of debt (COD), the interest deduction for this OID is deferred until the COD is includible in income. The accrued OID is allowed as a deduction ratably over the 5-year period that the COD is includible in income. The deduction is limited to the amount of COD subject to the section 108(i) election. An annual information statement (discussed earlier) is required if the election is made. See section 108(i) for more details.

Line 15b. Less tax-exempt interest expense. Enter interest paid or accrued on indebtedness incurred or continued to purchase or carry obligations, the interest on which is wholly tax-exempt. 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.

Line 17. Additional deduction. Enter the total from Form 8816, Part II, line 5.

Any insurance company taking the additional deduction must:

- Make special estimated tax payments equal to the tax benefit from the deduction and
- Establish and maintain a Special Loss Discount Account. See section 847 and Form 8816 for more information.

Line 18. Other deductions. Attach a statement, listing by type and amount, all allowable deductions in computing LICTI (including the amortization of premiums under section 811(b)) not included on lines 9 through 17.

Examples of other deductions include the following. See Pub. 535 for details on other deductions that may apply to corporations.

Draft as of 01/07/2015

- The domestic production activities deduction. See Form 8903, Domestic Production Activities Deduction.
- Certain business start-up and organizational costs (discussed earlier under *Limitations on Deductions*).
- 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 or 1065-B)). Do not offset ordinary income against ordinary losses. Instead, include the income on line 7. 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, Extraterritorial Income Exclusion).
- Deduction for certain energy efficient commercial building property placed in service before January 1, 2015. See section 179D. Also see Notice 2006-52, 2006-26 I.R.B. 1175, as amplified and clarified by Notice 2008-40, 2008-14 I.R.B. 725, and as modified by Notice 2012-26, 2012-17 I.R.B. 847.
- Dividends paid in cash on stock held by an employee stock ownership plan. However, a deduction can only be taken for the dividends above 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.

- Deductions from any noninsurance business (defined in section 806(b)(3)). Deductions from any noninsurance business should be listed separately from all other deductions.
- Depreciation or amortization (attach Form 4562, if required). 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.

Do not deduct the following.

- Fines or penalties paid to a government for violating any law.
- Lobbying expenses. However, see exceptions (discussed later).

Also include on line 18 the following.

Compensation of officers. Enter deductible officers' compensation. See *Employment credits* later for a list of employment credits that may reduce your deduction for officers' compensation. Do not include compensation deductible elsewhere on the return, such as 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 officer's compensation on line 18. (See *Disallowance of deduction for employee compensation in excess of $1 million* below.) Attach a statement for compensation of all officers using the following columns.

1. Name of officer.

2. Social security number.

3. Percentage of time devoted to business.

4. Amount of compensation.

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

Disallowance of deduction for employee compensation in excess of $1 million. Publicly held corporations cannot deduct compensation to a covered employee to the extent that the compensation exceeds $1 million. Generally, a covered employee is:

- The principal 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 three highest compensated officers for that tax year (other than the principal executive officer).

For this purpose, compensation does not include the following.

- Income from certain employee trusts, annuity plans, or pensions.
- 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. Also see Notice 2007-49, 2007-25 I.R.B. 1429.

Limitations on tax benefits for executive compensation under the Treasury Troubled Asset Relief Program (TARP). The $1 million compensation limit is reduced to $500,000 for executive remuneration and deferred deduction executive remuneration paid to covered executives by any entity that receives or has received financial assistance under TARP. The limit applies for each period in which obligations arising from financial assistance under TARP remain outstanding. The $500,000 is reduced by any amounts disallowed as excess parachute payments. See section 162(m)(5) for definitions and other special rules. Also see Notice 2008-94, 2008-44 I.R.B. 1070, for additional guidance.

Draft as of 01/07/2015

In addition, a portion of any parachute payments made to a covered executive by an applicable employer participating in a Treasury troubled asset relief program is not deductible as compensation if the payments are made because of a severance from employment during an applicable tax year. For this purpose, a parachute payment is any payment to a senior executive officer for departure from a company for any reason, except for payments for services performed or benefits accrued. These limits do not apply to a payment already treated as a parachute payment. See section 280G(e) and Notice 2008-94.

Salaries and wages. Include 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, 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.

CAUTION *If the corporation provided taxable fringe benefits to its employees, such as personal use of a car, do not deduct as wages the amount allocated for depreciation and other expenses claimed under Other Deductions on line 18.*

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 in taxable years beginning after December 31, 2009. The $500,000 limitation applies to remuneration that is deductible in the taxable year during which the services were performed and remuneration for services during the year that is deductible in a future taxable year (called “deferred deduction remuneration”). The $500,000 limitation is reduced by any amounts disallowed as excess parachute payments. See section 162(m)(6) for definitions and other special rules. Also see Notice 2011-2, 2011-2 I.R.B. 260, for additional guidance.

Employment credits. If the corporation claims a credit on any of the below forms, it may need to reduce its deduction for salaries and wages. See the applicable form(s).

- Form 5884, Work Opportunity Credit;
- Form 8844, Empowerment Zone Employment Credit;
- Form 8845, Indian Employment Credit; and
- Form 8932, Credit for Employer Differential Wage Payments.

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 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, instead of Form 5500, generally if 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.

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.

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).

Life insurance companies reporting LICTI on the accrual method can 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 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 Regulations section 1.170A-11.

Limitation on deduction. The total amount claimed cannot be more than 10% of LICTI computed without regard to the following.

- Any deduction for contributions.
- The deduction for policyholder dividends.
- The deduction for dividends received.
- The small life insurance company deduction.
- The domestic production activities deduction under section 199.
- Any operations loss carryback to the tax year under section 810.
- Any capital loss carryback to the tax year under section 1212(a)(1).

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

A contributions carryover is not allowed, however, to the extent that it increases an operations loss.

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, and either gives a description and a good faith estimate of the value of any goods or

Draft as of 01/02/2015

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 contributes property other than cash and claims over a $500 deduction for the property, it must, generally, attach a statement to the return describing the kind of property contributed and the method used to determine its fair market value (FMV). Attach Form 8283, Noncash Charitable Contributions, to the return 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 capital gain property. See sections 170(e)(1) and 170(e)(5).

A larger deduction is allowed for certain contributions. See section 170(e)(3) and (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.

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, Travel, Entertainment, Gift, and Car Expenses.

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 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. 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-MISC 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. See section 274(e)(2) and Regulations sections 1.274-9 and 1.274-10.

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.

Line 21b. Operations loss deduction. The operations loss deduction (OLD) is the total of the operations loss carryovers from prior tax years. However, the OLD cannot exceed the corporation's LICTI (after the dividends-received deduction). See section 810(c). If this deduction is taken, show its computation on an attached statement.

Generally, a life insurance company can carry an operating loss back to each of the 3 years preceding the year of the loss and carry it over to each of the 15 years following the year of the loss.

Drafts as of 01/02/2014

There is also an irrevocable election to waive the carryback period and instead carry an operating loss forward to years following the year of the loss. To make this election, check the box in line 12, Schedule M. To be valid, the election must be made by the due date (including extensions) for filing Form 1120-L. If the life insurance company is a new company for the loss year, the loss may be carried over to each of the 18 years following the year of the loss.

After applying the operating loss to the first tax year to which it may be carried, the portion of the loss the corporation may carry to each of the remaining tax years is the excess, if any, of the loss over the sum of the offsets for each of the prior tax years to which the corporation may carry the loss. See section 810(b)(2).

See section 810 for special rules, limitations, and definitions pertaining to operating loss carrybacks and carryovers.

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 operations loss 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 structures 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 elects the alternative tax on qualifying shipping activities under section 1354, no deduction is allowed for an operations loss 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).

See section 844 for special loss carryover rules for an insurance company that has changed its form of organization or has had a change in the nature of its insurance business.

Line 27. Total taxable income. The total taxable income reported on line 27 cannot be less than line 26 of the Form 1120-L.

Also, line 27 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. For details, see section 7874.
- The sum of the corporation's excess inclusions from Schedules Q (1066), line 2c, and the corporation's taxable income determined solely with respect to its ownership and high-yield interests in FASITs. For details, see sections 860E(a) and 860J (repealed).

Tax and Payments

Line 29b. Prior year(s) special estimated tax payments to be applied. The amount entered on line 29b must agree with the amount(s) from Form 8816, Part III, line 11. See Form 8816 and section 847(2) for additional information.

Line 29c. Estimated tax payments. Enter any estimated tax payments the corporation made for the tax year. Do not include any amount being applied on line 29d.

Line 29d. Special estimated tax payments. If the deduction under section 847 is claimed on line 17, page 1, special estimated tax payments must be made in an amount equal to the tax benefit of the deduction. These payments must be made on or before the due date (without regard to extensions) of this tax return. See Form 8816 and section 847(2) for additional information.

Tax benefit rule. Section 847(8) requires that if a corporation carries back net operating losses or capital losses that arise in years after a year in which a section 847 deduction was claimed, then the corporation must recompute the tax benefit attributable to the previously claimed section 847 deduction taking into account the loss carrybacks. Tax benefits also include those derived from filing a consolidated return with another insurance company (without regard to section 1503(c)).

Therefore, if the recomputation changes the amount of the section 847 tax benefit, then the taxpayer must provide a computation statement and attach it to Form 8816.

Line 29e. Overpaid Estimated Tax. If the corporation overpaid estimated tax, it may be able to get a quick refund by filing Form 4466. The overpayment must be at least 10% of the corporation's expected income tax liability and at least $500. File Form 4466 after the end of the corporation's tax year, and no later than the 15th day of the third month after the end of the tax year. Form 4466 must be filed before the corporation files its tax return.

Line 29f. Enter the total of lines 29a through 29c less line 29e. Do not include line 29d in the total for line 29f.

Line 29h. Credits. Enter the applicable credit on line 29h.

Credit for tax paid on undistributed capital gains. Enter any 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 (RIC) or a real estate investment trust (REIT) on undistributed long-term capital gains included in the corporation's income. Attach Form 2439 to Form 1120-L.

Credit for federal tax on fuels. Enter the total income tax credit claimed on Form 4136, Credit for Federal Tax Paid on Fuels. Attach Form 4136 to Form 1120-L.

Credit for tax on ozone-depleting chemicals. Include on line 29h any credit the corporation is claiming under section 4682(g)(2) for tax on ozone-depleting chemicals. Enter "ODC" next to the entry space.

Line 29i. U.S. income tax paid or withheld at source. Enter the amount of any U.S. income tax paid or withheld as reported on Form 1042-S,

Draft as of 01/07/2015

Foreign Person's U.S. Source Income Subject to Withholding.

Line 29j. Refundable Credits from Form 8827, Credit for Prior Year Minimum Tax—Corporations. If the corporation elected to claim certain unused minimum tax credits instead of claiming any additional first-year special depreciation allowance for eligible property, see the Instructions for Form 8827. Enter on line 29j the amount from line 8c of Form 8827, if applicable. See the Instructions for Form 8827, for more information.

Line 29k. Total payments. Add the amounts on lines 29f through 29j and enter the total on line 29k.

Backup withholding. If the corporation had federal income tax withheld from any payments it received because, for example, it failed to give the payer its correct EIN, include the amount withheld in the total for line 29k. Write the amount withheld and the words "Backup Withholding" in the blank space above line 29k.

Line 30. 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 30 and enter the amount of any penalty on that line. See *Estimated tax penalty*, earlier.

Line 31. 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 31,
- 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, click on "Tools," then click on "Online Payment Agreement."

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 33. Electronic deposit of tax refund of $1 million or more. If the corporation is due a refund of $1 million or more and wants it electronically 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.

Schedule A—Dividend Income and Dividends-Received Deduction

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 A.

Corporations filing a consolidated return must not report as dividends on Schedule A any amounts received from corporations within the tax consolidation 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 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 70% 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 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 the following.

- Dividends 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 (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.

Draft as of 01/07/2015

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 statement 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 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.

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

- Are attributable to income treated as effectively connected with the conduct of a trade or business within the United States (excluding foreign trade income), and
- Qualify for the 70% deduction under 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 80% deduction under section 245(a).

Also include dividends received from a 20%-or-more-owned FSC that:

- Are attributable to income treated as effectively connected with the conduct of a trade or business within the United States (excluding foreign trade income), and
- Qualify for the 80% deduction 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) but that do not qualify as "100% dividends" under section 805(a)(4)(C).

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.

Do not include dividends received from a life insurance company.

Also, include on line 8, column (a), 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 9, column (a). Enter only those dividends that qualify under section 243(b) for the 100% dividends-received deduction described in section 243(a)(3) but that do not qualify as "100% dividends" under section 805(a)(4)(C). Corporations taking this deduction are subject to the provisions of section 1561. Do not include dividends received from a life insurance company.

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

Line 10, column (c). Limitation on dividends-received deduction. Generally, line 10 of column (c) cannot exceed the amount from the Worksheet for Schedule A, line 10. However, in a year in which a loss from operations occurs, this limitation does not apply even if the loss is created by the dividends-received deduction. See sections 246(b) and 810.

Line 13, column (a). In general, enter "100% dividends" as defined in section 805(a)(4)(C). That is, in general, enter dividends that qualify for the 100% dividends-received deduction under sections 243, 244, and 245(b), and were not reported on line 8 or 9 because they were (a) not distributed out of tax-exempt interest or out of dividends that do not qualify as 100% dividends, or (b) paid by a life insurance company.

Note. Certain dividends received by a foreign corporation are not subject to proration. Attach a statement showing computations.

Line 14, column (a). Include the following.

1. Enter foreign dividends not reportable on lines 3, 6, 7, or 8, of column (a). 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 the Instructions for Form 8621.

2. Income constructively received from CFCs under subpart F. This amount should equal the total subpart F income reported on Schedule I, Form 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations.

3. Gross-up of dividends for taxes deemed paid under sections 902 and 960.

4. Dividends (other than capital gain distributions reported on Schedule D (Form 1120) and exempt-interest dividends) that are received from RICs and that are not subject to the 70% deduction.

5. Dividends from tax-exempt organizations.

6. 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.

7. 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

Draft as of 01/07/2015

Worksheet for Schedule A, line 10 *Keep for Your Records*

1. Refigure line 8, page 1, without any domestic production activities deduction, any adjustment under section 1059, and without any capital loss carryback to the tax year under section 1212(a)(1). Add this refigured line 8 amount to the amount on line 25, page 1. Subtract from that total the sum of lines 9 through 18, page 1 . . . . . _____
2. Complete line 13, column (c) and enter the total of that amount, line 9, column (c), and the portion of the deduction on line 8, column (c), that is attributable to dividends from FSCs that are attributable to foreign trade income . . . . . _____
3. Subtract line 2 from line 1 . . . . . _____
4. Multiply line 3 by 80% . . . . . _____
5. Add lines 2, 5, and 7, column (c); the portion of the deduction on line 8, column (c) that is attributable to wholly owned foreign subsidiaries; and the portion of the deduction on line 3, column (c) that is attributable to dividends received from 20%-or-more-owned corporations . . . . . _____
6. Enter the smaller of line 4 or line 5. If line 5 is greater than line 4, stop here and enter the amount from line 6 on line 10, column (c), and do not complete the rest of the worksheet . . . . . _____
7. Enter the total amount of dividends from 20%-or-more-owned corporations that are included on lines 2, 3, 5, and 7, column (a), and the portion of the deduction on line 8, column (a), that is attributable to wholly owned subsidiaries . . . . . _____
8. Subtract line 7 from line 3 . . . . . _____
9. Multiply line 8 by 70% . . . . . _____
10. Subtract line 5 above from line 10 of column (c) . . . . . _____
11. Enter the smaller of line 9 or line 10 . . . . . _____
12. **Dividends-received deduction after limitation (section 246(b)).** Add lines 6 and 11. Enter the result here and on line 10, column (c) . . . . . _____

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 attributable to periods totaling more than 366 days that the corporation received on any share of preferred stock 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 above.

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.

8. Any other taxable dividend income not properly reported above.

Schedule B—Gross Investment Income

Line 1. Interest. Enter the total taxable interest received or accrued during the tax year, less any amortization of premium, plus any accrual of discount required by section 811(b). Generally, the appropriate amortization of premium and accrual of discount for the tax year on bonds, notes, debentures, or other evidence of indebtedness held by a life insurance company should be determined:

1. Under the method regularly employed by the company, if reasonable, and

2. In all other cases, under the regulations.

For bonds (as defined in section 171(d)) issued after September 27, 1985, the appropriate amount of amortization of premium must be determined using the yield to maturity method described in section 171(b)(3). Market discount is not required to be accrued under section 811(b). Attach a statement showing the method and computation used.

Note. The Small Business Job Protection Act of 1996 repealed section 133, which provided for the 50% interest income exclusion with respect to ESOP loans. The Act also repealed section 812(g), which provided for the exclusion of interest income from ESOP loans for company/policyholder proration. The repeal of these exclusions is effective for ESOP loans made after August 20, 1996. See Act section 1602 for special rules for binding contract agreements in effect prior to June 10, 1996, and certain refinancings made after August 20, 1996.

Line 3. Gross rents. Enter the gross rents received or accrued during the tax year. Related expenses, such as repairs, taxes, and depreciation, should be reported as "Other deductions" on line 18, page 1.

Line 4. Gross royalties. Enter the gross royalties received or accrued during the tax year. Report the depletion deduction on line 18, page 1.

Line 5. Leases, terminations, etc. Enter the gross income received from entering into, altering, or terminating any lease, mortgage, or other instrument from which the corporation derives interest, rents, or royalties.

Line 6. Excess of net short-term capital gain over net long-term capital loss. See the instructions for line 5, page 1, earlier, for a definition of capital assets.

Line 7. Gross income from a trade or business other than insurance. Enter the gross income from a trade or business (other than insurance carried on by the life insurance company or by a partnership of which the life insurance company is a partner). Include section 1245, section 1250, and other ordinary gains on assets used in a noninsurance business from Form 4797. Report expenses related to any

Draft as of 01/07/2015

trade or business other than insurance on line 18, page 1.

Line 10. The increase in policy cash value of section 264(f) policies as defined in section 805(a)(4)(F). Generally, this applies to contracts issued after June 8, 1997, in tax years ending after that date. However, it also applies to contracts issued prior to June 9, 1997, that have been subject to a material increase in death benefits or other material change. See Public Law 105–34, section 1084(d).

See section 807 for a safe harbor related to certain life insurance contracts described in section 264(f)(4).

Line 12. 100% qualifying dividends. Enter the total amount of dividends if the percentage used to determine the deduction allowable under sections 243, 244, and 245(b) is 100%. Do not include dividends to the extent they are funded with tax-exempt interest or dividends that would not qualify as 100% dividends in the hands of the corporation. See section 812(e).

Note. Multi-tiered corporate arrangements cannot be used to change the character of the tax-exempt interest income and dividends received in an attempt to avoid exclusion.

Schedule F—Increase (Decrease) in Reserves and Company/ Policyholder Share Percentage

Note. Attach a statement to the tax return that reconciles lines 1 through 6 of Schedule F to the annual statement used to prepare the tax return. If the annual statement used to prepare the tax return is different than the NAIC annual statement filed with the state of domicile, include a separate reconciliation of lines 1 through 6 of Schedule F to the annual statement filed with the state of domicile.

Schedule F is used to figure:

1. The company's share percentage used in determining the company's share of the dividends-received deduction under section 805(a)(4);

2. The policyholders' share percentage used in determining the policyholders' share of tax-exempt interest for determining the increase or decrease in reserves under section 807 (and the increase in policy cash value of section 264(f) policies as defined in section 805(a)(4)(F)); and

3. To determine if, under section 807, certain reserves decreased or increased for the tax year. A net decrease will be includible in gross income, while a net increase will be a deduction in computing LICTI.

The net increase or net decrease in reserves is figured by comparing the opening balance for reserves to the closing balance for reserves reduced by the policyholders' share of tax-exempt interest (and the increase in policy cash value of section 264(f) policies as defined in section 805(a)(4)(F)).

Reserve adjustments are not treated as interest expenses for allocation purposes under section 864(c). See section 818(f).

There are special rules for computing reserves of unearned premiums of certain nonlife contracts. See section 807(e)(7)(A).

Note. If the basis for determining the amount of any item referred to in section 807(c) (life insurance reserves, etc.) at the end of the tax year differs from the basis for the determination at the beginning of the tax year, see section 807(f).

Line 1. Life insurance reserves. For rules on how to compute life insurance reserves, see sections 807(d) and (e). Section 807(d)(2)(B) provides that the interest rate used to compute life insurance reserves is the greater of the applicable federal interest rate (AFIR) or the prevailing state assumed interest rate (SAIR). The applicable rates for tax years beginning in 2014 will be published in the Internal Revenue Bulletin when available. The applicable rates for tax years beginning in 2013 are published in Rev. Rul. 2014–4, 2014–5 I.R.B. 449. For modified guaranteed contracts described in section 817A, see Regulations section 1.817A-1.

Note. A change in a life insurance company's computation of existing life insurance reserves for annuity contracts to take into account specific factors issued by the NAIC is a change in basis subject to section 807(f). See Rev. Rul. 2002-6, 2002-6 I.R.B. 460.

Line 2. Unearned premiums and unpaid losses. For purposes of sections 807 and 805(a)(1), the amount of the unpaid losses (other than losses on life insurance contracts) must be the amount of the discounted unpaid losses determined under section 846.

Section 846 provides that the amount of the discounted unpaid losses must be figured separately by each line of business (multiple peril lines must be treated as a single line of business) and by each accident year and must be equal to the present value of those losses determined by using the:

1. Amount of the undiscounted unpaid losses,

2. Applicable interest rate, and

3. Applicable loss payment pattern.

Special rules apply to:

- unpaid losses related to disability insurance (other than credit disability insurance),
- noncancelable accident and health insurance,
- cancelable accident and health insurance, and
- to the international and reinsurance lines of business.

With regard to the special rules for discounting unpaid losses on accident and health insurance (other than disability income insurance), unpaid losses are assumed to be paid in the middle of the year following the accident year.

Generally, the amount of undiscounted unpaid losses means the unpaid losses shown in the annual statement. The amount of discounted unpaid losses with respect to any line of business for an accident year cannot exceed the total amount of unpaid losses with respect to any line of business for an accident year as reported on the annual statement.

The applicable interest rate for each calendar year and the applicable loss payment patterns for each accident year for each line of business are determined by the IRS. The applicable interest rate and loss payment patterns for 2014 are

Draft as of 01/07/2015

published in Rev. Proc. 2014-59, 2014-47 I.R.B. 843. The applicable interest rate and loss payment patterns for 2012 and 2013 are published in Rev. Proc. 2012–44, 2012–49 I.R.B. 645, and Rev. Proc. 2013–36, 2013–49 I.R.B. 602, respectively.

Corporations having sufficient historical experience to determine a loss payment pattern may, under certain circumstances, elect under section 846(e) to use their own historical experience (instead of the loss payment patterns determined by the IRS). If this election is made, the loss payment patterns will be based on the most recent calendar year for which an annual statement was filed before the beginning of the accident year. The election will not apply to any international or reinsurance line of business. If the corporation makes this election, check the "Yes" column for question 9 in Schedule M, Other Information. For more information, see section 846(e), Regulations section 1.846-2, and Rev. Proc. 92-76, 1992-2 C.B. 453.

Section 807(d)(4)(A)(ii) permits an election to recompute the federal interest rate every 5 years. In general, a life insurance company would apply the greater of the AFIR or the prevailing SAIR for the calendar year in which the contract is issued and the following 4 calendar years. In the 5th calendar year after the calendar year in which the contract was issued, the life insurance company would begin using the AFIR in effect for that 5th calendar year or the prevailing SAIR for the calendar year in which the contract was issued, whichever is greater. This rate would then remain in effect for the 4 subsequent years. For each subsequent 5-year period, a similar recomputation would be required. Once made, the election is effective for contracts issued during that calendar year and any subsequent years, and may only be revoked with the consent of the IRS.

Line 3. Supplementary contracts. Enter the amount (discounted at the appropriate rate of interest) necessary to satisfy the obligations under insurance and annuity contracts, but only if the obligations do not involve (at the time the computation is made) life, accident, or health contingencies.

For this item, the appropriate rate of interest is the higher of the prevailing SAIR at the time the obligation first did not involve life, accident, or health contingencies or the rate of interest assumed by the corporation (at that time) in determining the guaranteed benefit. However, the amount of any contract may not be less than the net surrender value of the contract.

Line 4. Dividend accumulations and other amounts. Enter the total dividend accumulations and other amounts held as interest in connection with insurance and annuity contracts.

Line 5. Advance premiums. Enter the total premiums received in advance and liabilities for premium deposit funds. See section 807(e)(7)(A) for special rules for treatment of certain nonlife reserves.

Line 6. Special contingency reserves. Enter the total reasonable special contingency reserves under contracts of group term life insurance or group accident and health insurance, which are established and maintained for the provision of insurance on retired lives, premium stabilization, or for a combination thereof.

Line 8. Increase (decrease) in reserves. In figuring the amount on line 8, any decrease in reserves must be computed without any reduction of the closing balance of section 807 reserves by the policyholders' share of tax-exempt interest.

Note. In figuring the company's and policyholders' share percentages, carry the computations to enough decimal places to ensure substantial accuracy and to eliminate any significant error in the resulting tax.

Lines 9 and 12. Do not include any of the interest income received on an ESOP loan made prior to August 21, 1996. For binding contract and refinancing rules, see Public Law 104–188, section 1602.

Line 12. If there is an increase in reserves, enter the amount from page 1, line 8. If there is a decrease in reserves, see the instructions for line 2, page 1.

Line 13. Do not include the exempt portion of any of the interest income received on an ESOP loan made prior to August 21,1996. For binding contract and refinancing rules, see Public Law 104–188, section 1602.

Line 16. In computing the amount entered on line 16, any decrease in reserves must be figured without any reduction of the closing balance of section 807 reserve items by the policyholders' share of tax-exempt interest.

Line 18a. A policyholder dividend is any dividend or similar distribution to policyholders in their capacity as such.

Enter on line 18a policyholder dividends paid or credited (including an increase in benefits) where the amount is not fixed in the contract but depends on the corporation's experience or management's discretion.

Also, under section 808(e), any policyholder dividend which (a) increases either the cash surrender value of the contract or other benefits payable under the contract or (b) reduces the premium otherwise required to be paid, is treated as paid to and returned by the policyholder to the company as a premium. Include these amounts in income on line 1, page 1.

Line 18b. Excess interest means any amount in the nature of interest:

- Paid or credited to policyholders in their capacity as such, and
- In excess of interest determined at the prevailing SAIR for such contract.

Line 18c. Premium adjustment means any reduction in the premium under an insurance or annuity contract which (except for the reduction) would have been required to be paid under the contract.

Line 18d. Experience-rated refund means any refund or credit based on the experience of the contract or group involved.

Line 28. Multiply gross investment income (line 9) by 90% or, in the case of gross investment income related to assets held in segregated asset accounts under variable contracts, by 95%. Enter the result on line 28.

Draft as of 01/07/2014

Schedule G—Policy Acquisition Expenses

For purposes of section 848(b), all life insurance company members of the same controlled group are treated as one company. Any deduction determined for the group must be allocated among the life insurance companies in the group in such a manner as the IRS may prescribe.

Note. Policy acquisition expenses for an annuity or life insurance contract that includes a qualified long-term care insurance contract as part of, or as a rider on, the annuity or life insurance contract, must be capitalized at the rate of 7.7 percent of the net premiums. See section 848(e)(6) for more information.

Line 1. Gross premiums and other consideration. Generally, gross premiums and other consideration is the total of:

1. All premiums and other consideration (other than amounts on reinsurance agreements), and

2. Net positive consideration for any reinsurance agreement (see Regulations section 1.848-2(b)).

Also include on this line:

- Advanced premiums,
- Amounts in a premium deposit fund or similar account, as permitted by Regulations section 1.848-2(b)(3),
- Fees,
- Assessments,
- Amounts that the insurance company charges itself representing premiums with respect to benefits for its employees (including full-time insurance salesmen treated as employees under section 7701(a)(20)), and
- The value of a new contract issued in an exchange described in Regulations section 1.848-2(c)(2) or (3).

Line 2. Return premiums and premiums and other consideration incurred for reinsurance. For purposes of section 848(d)(1)(B) and Regulations section 1.848-2(e), return premiums means amounts (other than policyholder dividends or claims and benefit payments) returned or credited to the policyholder. See Regulations sections 1.848-2(f) and 1.848-3 for how to treat amounts returned to another insurance company under a reinsurance agreement.

Line 5. The entries in columns 5(a), (b), or (c) may be positive or negative.

Line 6. If the sum of columns 5(a), (b), and (c) is negative, enter this negative amount on line 6 and enter -0- on lines 7 and 8. The result is a negative capitalization amount under section 848(f).

Line 9. General deductions. These are deductions under sections 161 through 198, relating to itemized deductions, and sections 401 through 424, relating to pension, profit-sharing, stock bonus plans, etc. Also, include on this line ceding commissions incurred for the reinsurance of a specified insurance contract. Do not include amortization deductions of specified policy acquisition expenses under sections 848(a) or (b). Skip line 9 if the corporation has elected out of the general deductions limitation. See Regulations section 1.848-2(g)(8).

Note. If interest expense is included on line 9, do not also include it on page 1, line 15a.

Line 13. Unamortized specified policy acquisition expenses from prior years. Enter the balance of unamortized specified policy acquisition expenses from prior years as of the beginning of the tax year. See section 848(f)(1)(B).

Line 16. Phase-out amount. The amount of amortization for members of a controlled group and the phase-out of the group's specified policy acquisition expenses under section 848(b) must be allocated to each member in proportion to that member's specified policy acquisition expenses for the tax year.

Schedule H—Small Life Insurance Company Deduction

To qualify for the small life insurance company deduction, a life insurance company must have less than:

- $15 million of tentative LICTI and
- $500 million in assets.

The deduction for qualifying small life insurance companies is 60% of the first $3 million of tentative LICTI for the tax year. If tentative LICTI exceeds $3 million, the deduction is phased out. The reduction in the deduction is equal to 15% of the tentative LICTI for the tax year that exceeds $3 million.

In computing the small life insurance company deduction, all life insurance company members of the same controlled group are treated as one company. Any small life insurance company deduction determined for the group must be allocated among the life insurance companies in the group in proportion to their respective tentative LICTIs.

Do not include any items from noninsurance businesses when figuring tentative LICTI for purposes of computing the small life insurance company deduction.

Noninsurance business generally means any activity which is not an insurance business. However, under section 806(b)(3)(B), any activity which is not an insurance business shall be treated as an insurance business if:

1. It is of a type traditionally carried on by life insurance companies for investment purposes, but only if the carrying on of the activity (other than real estate) does not constitute the active conduct of a trade or business or

2. It involves the performance of administrative services in connection with plans providing life insurance, pension, or accident and health benefits.

For the assets test, the assets of all members of a controlled group, as defined in section 806(c)(3), must be included, whether or not they are life insurance companies. For information regarding the valuation of assets, see the instructions for Schedule L, Part I.

Schedule I—Limitation on Noninsurance Losses

Section 806(b)(3)(C) provides that, in computing LICTI, any loss from noninsurance business (defined above in the instructions for Schedule H) is limited to the smaller of:

- 35% of the loss or
- 35% of LICTI (computed by excluding any noninsurance loss included in arriving at LICTI on line 24, page 1).

Draft as of 01/07/2015

For more information on either the computation of the allowable loss deduction or on applicable carryback provisions, see section 1503(c).

Schedule J

Part I—Shareholders Surplus Account

Any stock life insurance company that had a policyholders surplus account (PSA) on December 31, 1983, will continue to maintain a shareholders surplus account (SSA). See section 815(c)(1) for more information.

Line 2d. Do not include the increase in cash value for section 264(f) policies.

Line 4. In figuring the tax liability on line 4, adjustments must be made for any year in which the alternative minimum tax is imposed or the minimum credit has been taken.

Line 6. Enter all amounts treated under section 815 as distributions to shareholders.

Any distribution to shareholders is treated as having been made first out of the SSA, to the extent thereof.

Part II—Policyholders Surplus Account

Any stock life insurance company that had an existing policyholders surplus account (PSA) on December 31, 1983, will continue to maintain the account. See section 815(d)(1). While no additions can be made to this account, it must be decreased by amounts specified in section 815(d)(3). Also, section 815(f) provides that, in general, the provisions of subsections (d), (e), (f), and (g) of section 815 as in effect before the enactment of the Tax Reform Act of 1984 ("Act of 1984") continue to apply for any PSA that had a balance as of December 31, 1983.

Amounts subtracted from the PSA for a tax year are added to LICTI and are subject to tax under section 801.

Line 8. If the balance at the end of the preceding tax year differs from the balance at the beginning of the current tax year (for example, due to section 815(d)(5) as in effect prior to the Act of 1984), attach a statement showing the adjustments made. Prior to the Act of 1984, section 815(d)(5) provided that, if any addition to the PSA increases or creates a loss from operations and part or all of the loss cannot be used in any other year to reduce LICTI, then the loss will reduce the PSA at the time that the addition was made. In this case, the beginning balance of the PSA must be adjusted before any subtractions for the current tax year are made.

Line 9b. To figure the tax increase due to the amount entered on line 9a:

1. Subtract the corporation's tax rate from 100%,

2. Divide the distributions on line 9a by the result of step 1,

3. Subtract the amount on line 9a from the result of step 2, and

4. Enter the result of step 3 on line 9b.

Line 9c. To figure the amount to enter on line 9c:

1. Determine the total amount to be subtracted from the PSA under sections 815(d)(1) and 815(d)(4) as in effect prior to the Act of 1984 (do this only after the amounts on lines 9a and 9b are subtracted from the beginning balance in the PSA),

2. Add 100% to the corporation's tax rate,

3. Divide the result of step 1 by the result of step 2, and

4. Enter the result of step 3 on line 9c. The amount entered on line 9c must be added to the SSA at the beginning of the next tax year.

Line 9d. Subtract the result of step 3, line 9c, from the result of step 1, line 9c. Enter the result on line 9d.

Line 9e. Enter the total amount to be subtracted from the PSA under section 815(d)(2) as in effect prior to the Act of 1984. At that time, section 815(d)(2) provided that if, for any tax year, a corporation was not an insurance company, or if for any 2 successive tax years a corporation was not a life insurance company, then any balance remaining in the PSA at the end of the last tax year that the corporation was a life insurance company must be included in taxable income for that tax year.

Schedule K—Tax Computation

Line 1. If the corporation is a member of a controlled group, check the box on line 1. Complete and attach Schedule O (Form 1120), Consent Plan and Apportionment Schedule for a Controlled Group. Component members of a controlled group must use Schedule O (Form 1120) to report the apportionment of taxable income, income tax, and certain tax benefits between the members of the group. See Schedule O (Form 1120) and the instructions for Schedule O for more information.

Line 2. If the corporation is a member of a controlled group, and is filing Schedule O (Form 1120), enter the corporation's tax from Part III of Schedule O.

Most corporations that are not members of a controlled group and are not filing a consolidated return figure their tax by using the Tax Rate Schedule below.

Tax Rate Schedule

If taxable income on line 27, page 1 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

Note. Gain recognized by a life insurance company from the redemption of market discount bonds issued before July 19, 1984, and acquired on or before September 25, 1985, is taxed at a rate of 31.6% only if it is less than the tax that otherwise would be imposed. See Public Law 99–514, section 1011(d) as amended by Public Law 100–647. On the dotted line to the left of line 2, write "Tax differential rate of 31.6% used" and the amount.

Deferred tax under section 1291. If the corporation was a shareholder in a passive foreign investment company (PFIC) and received an excess distribution or disposed of its investment in the PFIC during the year, it must include the

Draft as of 01/07/2015

total increase in taxes due under section 1291(c)(2) (from Form 8621) in the total for line 2. On the dotted line to the left of line 2, enter "Sec. 1291" and the amount.

Do not include on line 2 any interest due under section 1291(c)(3). Instead, include the amount of interest owed on Schedule K, line 9.

For more information on reporting the deferred tax and interest, see the Instructions for Form 8621.

Additional tax under section 197(f). A corporation that elects to recognize gain and pay tax on the sale of a section 197 intangible under the related person exception to the anti-churning rules should include any additional tax due in the total for line 2. On the dotted line next to line 2, enter "Section 197" and the amount. See section 197(f)(9)(B)(ii).

Line 3. Alternative minimum tax (AMT).

CAUTION *A corporation that is not a small corporation exempt from the AMT may be required to file Form 4626, Alternative Minimum Tax—Corporations, if it claims certain credits, even though it does not owe any AMT. See the Instructions for Form 4626 for details.*

Unless the corporation is treated as a small corporation exempt from the AMT, it may owe the AMT if it has any of the adjustments and tax preference items listed on Form 4626. A life insurance company must file Form 4626 if its LICTI before the operations loss deduction, combined with these adjustments and tax preference items, is more than the smaller of $40,000 or the life insurance company's allowable exemption amount (from Form 4626). For this purpose, taxable income does not include the operations loss deduction.

See Form 4626, for definitions and details on how to figure the tax.

Note. See section 56(g)(4)(B)(ii) for special rules for life insurance companies for the computation of adjusted current earnings.

Line 5a. Foreign tax credit. To find out if a corporation can take this credit for payment of income tax to a foreign country or U.S. possession, see Form 1118, Foreign Tax Credit—Corporations.

Line 5b. Credit from Form 8834, line 7. Enter any qualified electric vehicle passive activity credits from prior years allowed for the current year from Form 8834, Electric Vehicle Credit, line 7. Attach Form 8834. Include on line 5b any credits from Form 5735, American Samoa Economic Development Credit. See the Instructions for Form 5735. Attach Form 5735, if applicable.

Line 5c. General business credit. Enter on line 5c the corporation's allowable credit from Form 3800, Part II, line 38.

The corporation is required to file Form 3800 to claim most business credits. See the Instructions for Form 3800 for exceptions. For a list of allowable credits, see Form 3800. Also, see the applicable credit form and its instructions.

Line 5d. Credit for prior year minimum tax. To figure the minimum tax credit and any carryforward of that credit, complete and attach Form 8827.

Line 5e. Bond credits from Form 8912. Enter the allowable credits from Form 8912, Credit to Holders of Tax Credit Bonds, line 12.

Line 8. Foreign corporations. A foreign corporation carrying on a life insurance business in the United States is taxed as a domestic life insurance company on its income effectively connected with the conduct of a trade or business in the United States (see sections 864(c) and 897 for definition).

Generally, any other U.S.-source income received by the foreign corporation is taxed at 30% (or at a lower treaty rate) under section 881. If the corporation has this income, attach a statement showing the kind and amount of income, the tax rate, and the amount of tax. Enter the tax on line 8. However, see *Reduction of section 881 tax*, later.

Note. Interest received from certain portfolio debt investments that were issued after July 18, 1984, is not subject to the tax. See section 881(c).

See section 842 for more information.

Minimum effectively connected net investment income. See section 842(b) and Notice 89-96, 1989-2 C.B. 417, for the general rules for computing this amount. Also, see Rev. Proc. 2013-33, 2013-38 I.R.B. 209, for the domestic asset/liability percentages and domestic yields needed to compute this amount.

Any additional income required by section 842(b) must be included in LICTI (for example, line 7, page 1).

Reduction of section 881 tax. Additional taxes resulting from the net investment income adjustment may offset a corporation's section 881 tax on U.S.-source income. The tax reduction is determined by multiplying the section 881 tax by the ratio of the amount of income adjustment to income subject to the section 881 tax, computed without the exclusion for interest on state and local bonds or income exempted from taxation by treaty (section 842(c)(2)). Attach a statement showing how the reduction of section 881 tax was figured. Enter the net tax imposed by section 881 on line 8.

Note. Section 842(c)(1) requires that foreign life insurance companies make the investment income adjustment before claiming a small life insurance company deduction.

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 figure 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 tax. See Form 4255, Recapture of Investment Credit.

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 and the corporation did not follow the procedures that would have prevented recapture of the credit, it may owe a tax. See Form 8611, Recapture of Low-Income Housing Credit.

Alternative tax on qualifying shipping activities. Enter any alternative tax on qualifying shipping activities from Form 8902. Check the "Other" box and attach Form 8902.

Draft as of 01/07/2015

Other. Additional taxes and interest amounts can be included in the total entered on line 9. Check the box for "Other" if the corporation includes any additional taxes and interest such as the items discussed below. See *How to report* below for details on reporting these amounts on an attached statement.

- 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.
- Recapture of new markets credit (see Form 8874, New Markets Credit).
- Recapture of employer-provided childcare facilities and services credit (see Form 8882, Credit for Employer-Provided Childcare Facilities and Services).
- Interest on deferred tax attributable to certain nondealer installment obligations (section 453A(c)).
- Interest due on deferred gain (section 1260(b)).
- Interest due under section 1291(c)(3). See Form 8621 and the Instructions for Form 8621.

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

Line 10. Total tax. Include any deferred tax on the termination of a section 1294 election applicable to shareholders in a qualified electing fund in the amount entered on line 10.

Subtract any deferred tax on the corporation's share of undistributed earnings of a qualified electing fund (see Form 8621).

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

Schedule L

All filers must complete Parts I and II of Schedule L.

Note. Foreign life insurance companies should report assets and insurance liabilities for their U.S. business only.

Part I—Total Assets

For Schedule L, assets means all assets of the corporation. In valuing real property and stocks, use fair market value; for other assets, use the adjusted basis as determined under section 1011 and related sections, without regard to section 818(c). An interest in a partnership or trust is not itself treated as an asset of the corporation. Instead, the corporation is treated as actually owning its proportionate share of the assets held by the partnership or trust. The value of the corporation's share of these assets should be listed on line 3.

Part II—Total Assets and Total Insurance Liabilities

Foreign life insurance companies must maintain a minimum surplus of U.S. assets over their U.S. insurance liabilities. The minimum required surplus is determined by multiplying their U.S. insurance liabilities by a percentage determined by the IRS. The IRS determines the percentage from data supplied by domestic life insurance companies in Schedule L, Part II. See section 842.

For Schedule L, total insurance liabilities means the sum of the following amounts as of the end of the tax year:

1. Total reserves as defined in section 816(c); plus

2. The items referred to in paragraphs (3), (4), (5), and (6) of section 807(c), to the extent such amounts are not included in total reserves.

Foreign life insurance companies, see Notice 89-96 for more information on determining total insurance liabilities on U.S. business.

Schedule M—Other Information

Complete the items that apply to the corporation.

Question 6. Check the "Yes" box if:

- The corporation is a subsidiary in an affiliated group (defined below), but is not filing a consolidated return for the tax year with that group, or
- The corporation is a subsidiary in a parent-subsidiary controlled group. For a definition of a parent-subsidiary controlled group, see the instructions for Schedule O (Form 1120).

Any corporation that meets either of the requirements above should check the "Yes" box. 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 definition in the Instructions for Schedule O (Form 1120)), it is still considered a member of a controlled group for this purpose.

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

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

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

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

Question 8. Check the "Yes" box if one foreign person owned at least 25% of (a) the total voting power of all classes of stock of the corporation entitled to vote, or (b) the total value of all classes of stock of the corporation.

Draft as of 01/07/2015

The constructive ownership rules of section 318 apply in determining if a corporation is foreign owned. See section 6038A(c)(5) and the related regulations.

Enter on line 8a the percentage owned by the foreign person specified in question 8. On line 8b, write the name of the owner's country.

Note. If there is more than one 25%-or-more foreign owner, complete lines 8a and 8b for the foreign person with the highest percentage of ownership.

Foreign person. The term "foreign person" means:

- An individual who is not a citizen or resident of the United States;
- An individual who is a citizen or resident of a U.S. possession who is not otherwise a citizen or resident of the United States;
- Any partnership, association, company, or corporation that is not created or organized in the United States;
- Any foreign estate or trust within the meaning of section 7701(a)(31); or
- A foreign government (or one of its agencies or instrumentalities) to the extent that it is engaged in the conduct of a commercial activity as described in section 892.

However, the term "foreign person" does not include any foreign person who consents to the filing of a joint income tax return.

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

Requirement to file Form 5472. If the corporation checked "Yes" to question 8, it may have to file Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Generally, a 25% foreign-owned corporation that had a reportable transaction with a foreign or domestic related party during the tax year must file Form 5472. See the Instructions for Form 5472 for filing instructions and penalties for failure to file.

Item 12. If the corporation has an operations loss deduction (OLD), it generally may elect under section 810(b)(3) to waive the entire carryback period for the OLD and instead carry the OLD forward to future tax years. To do so, check the box on line 12 and file the tax return by its due date, including extensions. Do not attach the statement described in Temporary Regulations section 301.9100-12T. Once made, the election is irrevocable.

Corporations filing a consolidated return that elect to waive the entire carryback period for the group must also attach the statement required by Regulations section 1.1502-21(b)(3) or the election will not be valid.

Item 13. Enter the amount of the operations loss 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 operating losses generated in prior years but not used to offset income (either as a carryback or carryover) in a tax year prior to 2014. Do not reduce the amount by any OLD reported on line 21b.

Item 14. Complete Item 14 to identify the state where the annual statement used to prepare the tax return was filed.

Question 15. A corporation that files Form 1120-L must file Schedule UTP (Form 1120), Uncertain Tax Position Statement, with its 2014 income tax return if:

- For 2014, the corporation's total assets equal or exceed $50 million;
- The corporation or a related party issued audited financial statements reporting all or a portion of a corporation's operations for all or a portion of the corporation's tax year; and
- The corporation has one or more tax positions that must be reported on Schedule UTP.

Attach Schedule UTP to the corporation's income tax return. Do not file it separately. A taxpayer that files a protective Form 1120-L must also file Schedule UTP if it satisfies the requirements set forth above.

For details, see the Instructions for Schedule UTP.

Draft as of 01/07/2015

Paperwork Reduction Act Notice. We ask for the information on these forms 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 the following forms will vary depending on individual circumstances. The estimated average times are:

Form	Recordkeeping	Learning about the law or the form	Preparing the form	Copying, assembling, and sending the form to the IRS
1120-L	76 hr., 46 min.	39 hr., 41 min.	65 hr., 57 min.	6 hr., 42 min.
Sch. M-3 (Form 1120-L)	81 hr., 04 min.	4 hr., 22 min.	5 hr., 53 min.	- - - - -

If you have comments concerning the accuracy of these time estimates or suggestions for making this form and related schedule simpler, we would be happy to hear from you. You can send us comments from *www.irs.gov/formspubs/*. Click on "More Information" and then on "Give us feedback." Or you can write to:

Internal Revenue Service
Tax Forms and Publications
1111 Constitution Ave. NW, IR-6526
Washington, DC 20224

Do not send the tax form to this address. Instead, see *Where To File*, earlier.

Draft as of 01/07/2015

Index

A
Accounting methods, change in 5
Accounting period (tax year) 5
Address change 9
Affiliated group 24
Amended return 9
Amortization 10
Annual Statement 4
Assembling the return 4

B
Backup withholding 16
Business start-up expenses 10

C
Charitable contributions 13
Consolidated return 7
Controlled group:
Member of 22
Parent-subsidiary 24

D
Deductions 10
Definitions:
Insurance company 2
Life insurance company 2
Reserves test 2
Depository methods of tax payment 4
Disclosure statement 6
Dues, membership and other 14

E
Electronic deposit of tax refund of $1 million or more 16
Electronic Federal Tax Payment System (EFTPS) 4
Electronic Filing 2
Employer identification number (EIN) 8
Estimated tax payments 15
Estimated tax penalty 5, 16
Excess interest 20
Experience-rated refund 20
Extension of time to file 3

F
Final return 9
Foreign corporations 23
Foreign person 25
Foreign tax credit 23
Forms and publications, how to get 2

G
General business credit 23
Golden parachute payments 10
Gross premiums and other consideration 9

I
Interest due on late payment of tax 5

L
Life insurance company taxable income 9
Limitation on dividends-received deduction 17
Limitations on deductions 10
Lobbying expenses, nondeductibility 14
Losses incurred 11

M
Minimum tax:
Alternative 23
Prior year, credit for 23

N
Name change 9

O
Operations loss deduction 14
Other deductions 11
Other taxes 23
Overpaid 15
Owner's country 25
Ozone-depleting chemicals, credit for tax on 15

P
Paid preparer authorization 3
Penalties 5, 16
Pension, profit-sharing, etc. plans 13
Period covered 7
Policyholder dividends 20
Premium adjustment 20
Private delivery services 3

R
Recordkeeping 6
Refundable credits 16
Return premiums 9

S
Schedule:
A 16
B 18
F 19
G 21
H 21
I 21
J, Part I 22
J, Part II 22
K 22
L, Part I 24
L, Part II 24
M 24
Schedule M-3 (Form 1120-L) 8
Section 953 elections 8
Special estimated tax payments:
Prior year(s) payments to be applied 15
Tax benefit rule 15

T
Tax and payments:
Estimated tax payments 15
Prior year(s) special estimated tax payments to be applied 15
Special estimated tax payments 15
Tax issues, unresolved 1
Tax rate schedule 22
Transactions between related taxpayers 10
Travel, meals, and entertainment 14

W
When to file 3
Where to file 3
Who must file:
Foreign life insurance companies 2
Mutual savings banks conducting life insurance business 2
Other insurance companies 2
Who must sign 3
Worksheet for Schedule A 17

Draft as of 01/07/2015