

Instructions for Form 1120-L

U.S. Life Insurance Company Income Tax Return

Volume 1 of 2



Department of the Treasury
Internal Revenue Service

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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 [IRS.gov/Form1120L](https://www.irs.gov/Form1120L).

What's New

Increase in penalty for failure to file. For tax returns required to be filed in 2024, the minimum penalty for failure to file a return that is more than 60 days late has increased to the smaller of the tax due or \$485. See *Late filing of return*, later.

Expiration of 100% business meal expense deduction. The temporary 100% business meal expenses deduction for food and beverages provided by a restaurant does not apply to amounts paid or incurred after 2022.

Corporate alternative minimum tax (CAMT). For tax years beginning after 2022, certain corporations must determine whether they are subject to the new CAMT and calculate CAMT if applicable. See the instructions for Schedule K, line 3. Also, see new Schedule M, Question 19.

Elective payment election. Applicable entities and electing taxpayers can elect to treat certain credits as elective payments. Any resulting overpayment may result in refunds. See the instructions for line 27i, later. Also, see the Instructions for Form 3800.

Relief from additions to tax for underpayments applicable to the new corporate alternative minimum tax. For tax year 2023, the IRS will waive the penalty for failure to make estimated tax payments for taxes attributable to a CAMT liability. Affected corporations must still file the 2023 Form 2220, even if they owe no estimated tax

penalty. However, affected corporations may exclude the CAMT tax liability when calculating the required annual payment on Form 2220. Affected corporations must also include an amount of estimated tax penalty on line 29 of Form 1120-L (or other appropriate line of the corporation's income tax return), even if that amount is zero. Failure to follow these instructions could result in affected corporations receiving a penalty notice that will require an abatement request to apply the relief provided by Notice 2023-42. See Notice 2023-42, 2023-26 I.R.B. 1085, available at [IRS.gov/irb/2023-26 IRB#NOT-2023-42](https://www.irs.gov/irb/2023-26_IRB#NOT-2023-42). Also, see the instructions for line 29.

Photographs of Missing Children

The IRS is a proud partner with the [National Center for Missing & Exploited Children® \(NCMEC\)](https://www.nationalcenterformissingandexploitedchildren.org/). 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.

The Taxpayer Advocate Service

The Taxpayer Advocate Service (TAS) is an **independent** organization within the IRS that helps taxpayers and protects taxpayer rights. TAS's job is to ensure that every taxpayer is treated fairly and knows and understands their rights under the [Taxpayer Bill of Rights](#).

As a taxpayer, the corporation has rights that the IRS must abide by in its dealings with the corporation. TAS can help the corporation if:

- A problem is causing financial difficulty for the business;
- The business is facing an immediate threat of adverse action; or

- The corporation has tried repeatedly to contact the IRS but no one has responded, or the IRS hasn't responded by the date promised.

The TAS toolkit at [TaxpayerAdvocate.IRS.gov](https://taxpayeradvocate.irs.gov) can help the corporation understand these rights.

TAS has offices in every state, the District of Columbia, and Puerto Rico. Local advocates' numbers are in their local directories and at [TaxpayerAdvocate.IRS.gov/ Contact-Us](https://taxpayeradvocate.irs.gov/Contact-Us). The corporation can also call TAS at 877-777-4778.

TAS also works to resolve large-scale or systemic problems that affect many taxpayers. If the corporation knows of one of these broad issues, please report it to TAS through the Systemic Advocacy Management System at [IRS.gov/SAMS](https://irs.gov/SAMS).

For more information, go to [IRS.gov/Advocate](https://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.

Tax forms and publications. The corporation can view, download, or print all of the forms and publications it may need on [IRS.gov/FormsPubs](https://www.irs.gov/forms-pubs). Otherwise, the

corporation can go to [IRS.gov/OrderForms](https://www.irs.gov/OrderForms) to place an order and have forms mailed to it.

General Instructions

Purpose of Form

Use Form 1120-L 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 certain foreign corporations that would qualify as life insurance companies if they were U.S. corporations 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 Form 1120, Schedule J, line 1. 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.

Foreign-owned domestic disregarded entities. If a foreign person, including a foreign corporation, wholly owns a domestic disregarded entity (DE), the domestic DE is treated as a domestic corporation separate from its owner (the foreign corporation) for purposes of the reporting requirements under section 6038A that apply to 25% foreign-owned domestic corporations. These rules

apply to a domestic DE owned by a foreign insurance company that makes an election under section 953(c)(3) (C) but do not apply to a domestic DE owned by a foreign insurance company that makes an election under section 953(d) (for information on these elections, see the instructions for item D). If a foreign insurance company electing under section 953(c)(3)(C) wholly owns a domestic DE, the DE may be required 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. For additional information and coordination with Form 5472 filing by the domestic DE, see the Instructions for Form 5472.

Note. A domestic DE is generally a transparent entity. Any insurance company that must file Form 1120-L will include on Form 1120-L any tax items of a wholly owned domestic DE that are subject to reporting.

Qualified opportunity investment. If the corporation held a qualified investment in a qualified opportunity fund (QOF) at any time during the year, the corporation must file its return with Form 8997, Initial and Annual Statement of Qualified Opportunity Fund (QOF) Investments, attached. See the Instructions for Form 8997.

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 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.

For more information, go to [IRS.gov/Filing](https://www.irs.gov/filing). Click on the links for "Businesses & Self-Employed" and "Corporations."

When To File

Generally, a corporation must file its income tax return by the 15th day of the 4th 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 4th month after the short period ends. A corporation that has dissolved must generally file by the 15th day of the 4th month after the date it dissolved.

However, a corporation with a fiscal tax year ending June 30 must file by the 15th day of the 3rd month after the end of its tax year. A corporation with a short tax year ending any time in June will be treated as if the short year ended on June 30, and must file by the 15th day of the 3rd month after the end of its tax year.

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

Private Delivery Services

Corporations can use certain private delivery services (PDSs) designated by the IRS to meet the “timely mailing as timely filing” rule

for tax returns. Go to [IRS.gov/PDS](https://www.irs.gov/PDS) for the current list of designated services.

The PDS can tell you how to get written proof of the mailing date.

For the IRS mailing address to use if you're using a PDS, go to [IRS.gov/PDSStreetAddresses](https://www.irs.gov/PDSStreetAddresses).



PDSs 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 an extension of time to file.

Generally, file Form 7004 by the regular due date of the return. See the Instructions for Form 7004.

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.

Paid Preparer Use Only section. If an employee of the corporation completes Form 1120-L, the paid preparer section 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 complete the section.

The paid preparer must complete the required preparer information and:

- Sign the return in the space provided for the preparer's signature,
- Include their Preparer Tax Identification Number (PTIN), and
- 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.

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:	Use the following address:
The United States	Department of the Treasury Internal Revenue Service Center Ogden, UT 84201-0012
A foreign country or U.S. territory	Internal Revenue Service Center P.O. Box 409101 Ogden, UT 84409

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Paid Preparer Authorization

If the corporation wants to allow the IRS to discuss its 2023 tax return with the paid preparer who signed it, check the “Yes” box in the signature area of the return. This authorization applies only to the individual whose signature appears in the “Paid Preparer Use Only” section of the return. It doesn’t 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 2024 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 Form 1120-L electronically, don't attach the annual statement or pro forma annual statement to the electronically filed return. However, if the full annual statement is not attached, 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, later, 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 5 of Form 1120-L in the following order.

1. Schedule N (Form 1120).
2. Form 4626.
3. Form 4136.
4. Form 8978.
5. Form 965-B.
6. Form 8941.
7. Form 3800.
8. Additional schedules in alphabetical order.

9. Additional forms in numerical order.
10. 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 employer identification number (EIN) on each supporting statement or attachment.

Tax Payments

Generally, the corporation must pay any tax due in full no later than the due date for filing its tax return (not including extensions). See

the instructions for line 30. If the due date falls on a Saturday, Sunday, or legal holiday, the payment is due on the next day that isn't a Saturday, Sunday, or legal holiday.

Electronic Deposit Requirement

Corporations must use electronic funds transfers 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 wire 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 EFTPS.gov or call 800-555-4477. To contact EFTPS using Telecommunications Relay Services (TRS) for people who are deaf, hard of hearing, or have a speech disability, dial 711 and provide the TRS assistant the 800-555-4477 number above or 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). To use the same-day wire payment method, 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 same-day wire payment, go to [IRS.gov/SameDayWire](https://www.irs.gov/SameDayWire).

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 transfers to make installment payments of estimated tax.
- If, after the corporation figures and deposits estimated tax, it finds that its tax liability for the year will be more or less than originally estimated, it may have to refigure its required installments. If earlier installments were underpaid, the corporation may owe a penalty. 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 27c, later.

See section 6655 and Pub. 542, Corporations, for more information on how to figure estimated taxes.

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 29. See the instructions for line 29. Also, see Relief from additions to

tax for underpayments applicable to the new corporate alternative minimum tax, earlier.

Interest and Penalties



*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 tax return required to be filed in 2024 that is over 60 days late is the smaller of the tax due or \$485 (adjusted for inflation). 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 may generally be penalized $\frac{1}{2}$ of 1% of the unpaid tax for each month or part of a month the tax is not paid, up to a maximum of 25% of the unpaid tax. 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, or 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; and Pub. 15 (Circular E),

Employer's Tax Guide, for details, including the definition of responsible persons.

Note. The trust fund recovery penalty will not apply to any amount of trust fund taxes an employer holds back in anticipation of the credit for qualified sick and family leave wages or the employee retention credit that they are entitled to. See Pub. 15 for more information.

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 either an overall method of accounting or the accounting treatment of any material item for income tax purposes. To obtain consent, the corporation must generally file Form 3115, Application for Change in Accounting Method, during the tax year for which the change is requested. See the Instructions for Form 3115 and Pub. 538 for more information and exceptions. Also, see the Instructions for Form 3115 for procedures that may apply for obtaining automatic consent to change certain methods of accounting, non-automatic change procedures, and reduced Form 3115 filing requirements.

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 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 may enter decimal points and cents when completing its return. However, the corporation should round off cents to whole dollars on its return, forms, and schedules to make completing its return easier. The corporation must either round off all amounts on its return to whole dollars, or

use cents for all amounts. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, \$8.40 rounds to \$8 and \$8.50 rounds to \$9.

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, 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)(1)) 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 (CFC), 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 CFC, 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 transferee corporation may elect, under section 362(e)(2)(C), to reduce the transferor's basis in the stock received instead of reducing the transferee corporation's basis in the property transferred. Once made, the election is irrevocable. For more information, see section 362(e)(2) and Regulations section 1.362-4. If an election is made, a statement must be filed in accordance with Regulations section 1.362-4(d) (3).

Form 8975, Country-by-Country Report.

Certain U.S. persons that are the ultimate parent entity of a U.S. multinational enterprise group with annual revenue for the preceding reporting period of \$850 million or more are required to file Form 8975. Form 8975 and Schedule A (Form 8975) must be filed with the income tax return of the ultimate parent entity of a U.S. multinational enterprise group for the tax year in or within which the reporting period covered by Form 8975 ends. For more information, see Form 8975, Schedule A (Form 8975), and the Instructions for Form 8975 and Schedule A (Form 8975).

Additional 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 office is located in Little Rock, Arkansas, 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(b)(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(b)(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 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, where the common parent is a life insurance company; a Form 1120-PC, where the common parent is an insurance company, other than a life insurance company; or a Form 1120, 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 (e), (h), and (j) of Regulations section 1.1502-47.
- Report separately the nonlife consolidated taxable income or loss, determined under Regulations section 1.1502-47(f), 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 LICTI (as defined by Regulations section 1.1502-47(g)(1)), determined under

Regulations section 1.1502-11, 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 in one of the following ways.

- Online—Click on the *Employer ID Numbers* link at [IRS.gov/EIN](https://www.irs.gov/ein). The EIN is issued immediately once the application information is validated.
- By faxing or mailing Form SS-4, Application for Employer Identification Number.



Corporations located in the United States or U.S. territories can use the online application. Foreign corporations should call 1-267-941-1099 (not a toll-free

number) for more information on obtaining an EIN. See the Instructions for Form SS-4.

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 it was 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 11 of Schedule K. On the dotted line to the left of line 11 of Schedule K, write "Section 953(d)" and the amount. Attach a statement showing the computation. See section 953(d) for more details.

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

Indicate if this is 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.

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).

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 3a. Decrease in reserves under section 807(f). If the amount of any item referred to in section 807(c) decreased as a result of a change in the basis used to determine that item, then enter the section 807(f) prescribed portion of the change that must be included in life insurance company gross income (LICGI).

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 3b. Income from Reserve Transition Relief. If section 807(d) (as amended by P.L. 115-97) decreased the amount of the reserve for any contract as of the close of the tax year preceding the first tax year beginning after 2017, enter the portion of the change that must be included in LICGI as prescribed by section 13517(c)(3) of P.L. 115-97. See Rev. Proc. 2019-34, 2019-35 I.R.B. 669, for more information.

Line 4. Investment income. Enter the amount from Schedule B, line 6, less 50% of interest income of an employee stock ownership plan (ESOP) loan made prior to August 20, 1996. Also, see section 1602 of P.L. 104-188 for binding contracts and refinancing rules.

Line 5. Capital gain net income. 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 the following.

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, Sales and Other Dispositions of Capital Assets, must be attached to Schedule D (Form 1120), as required.

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.

- 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 the following.
 1. Property used in carrying on an insurance business that is either real or depreciable property held for more than 1 year.
 2. Timber, coal, and domestic iron ore to which section 631 applies.

For (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.

- Any amount includible in income from Form 6478, Biofuel Producer Credit, if applicable.
- Any amount includible in income from Form 8864, Biodiesel, Renewable Diesel, or Sustainable Aviation 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. 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.

- **Section 91 Transferred Loss Amount.**
Enter the transferred loss amount and identify the amount as “Section 91 Transferred Loss Amount” required to be recognized under section 91 resulting from a transfer of substantially all the assets of a foreign branch (within the meaning of section 367(a)(3)(C), as in effect before its repeal) to a foreign corporation with respect to which you were a U.S. shareholder immediately after the transfer as other income. Under section 91(d), transferred loss amounts recognized are treated as derived from sources within the United States.
- 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. See Form 8925.

- Income from cancellation of debt (COD) for the repurchase of a debt instrument for less than its adjusted issue price.
- 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.

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

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

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

Deductions

Limitations on Deductions

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

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

For more information on the uniform capitalization rules, see Pub. 538. Also, 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) and 267 for limitations on deductions for unpaid interest and expenses.

Limitations on business interest expense.

Business interest expense may be limited. See section 163(j) and Form 8990, Limitation on Business Interest Expense Under Section 163(j). Also, see the instructions for line 15a and *Schedule M, Question 17*, later.

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 a limited amount of start-up and organizational costs it paid or incurred. Any remaining costs must generally be amortized over a 180-month period. See sections 195 and 248 and the related regulations.

Time for making 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.

For more details, see the Instructions for Form 4562, Depreciation and Amortization.

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 current year, complete and attach Form 4562.

Reducing certain expenses for which credits are allowable. If the corporation claims certain credits, it may need to reduce the otherwise allowable deductions for expenses used to figure the credit. This applies to credits such as the following.

- 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 start-up 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) include a reasonable estimate of both 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 (for example, for reinsurance) for those losses together with estimates of those recoveries that may be recovered on those losses in future years.



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 11a. Increase in reserves under section 807(f). If the amount of any item referred to in section 807(c) increased as a result of a change in the basis used to determine that item, then enter the section 807(f) prescribed portion of the change that is a deduction in computing LICTI.

Note. 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 11b. Deduction from Reserve

Transition Relief. If section 807(d) (as amended by P.L. 115-97) increased the amount of the reserve for any contract as of the close of the tax year preceding the first tax year beginning after 2017, enter the portion of the change that is a deduction in computing LICTI as prescribed by section 13517(c)(3) of P.L. 115-97. See Rev. Proc. 2019-34, 2019-35 I.R.B. 669, for more information.

Line 12. Deductible policyholder

dividends. A policyholder dividend is any dividend or similar distribution to policyholders in their capacity as such and includes any amount 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. Enter on line 12 the

amount of policyholder dividends paid or credited during the tax year. Also, under section 808(e), any policyholder dividend that (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 page 1, line 1.

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.

Business interest expense is any interest paid or accrued on indebtedness properly allocable to a trade or business. Under section 163(j), business interest expense is generally limited to the sum of business interest income, 30% of the adjusted taxable income, and floor plan financing interest. The amount of any business expense that is not allowed as a deduction for the tax year is carried forward to the following year. If section 163(j) applies, use Form 8990 to figure the amount of business expense the corporation can deduct for the current tax year and the amount that can be carried forward to the next year. See the Instructions for Form 8990. Also see *Schedule M, Question 17*, later.

Consolidated groups. The limitation in section 163(j) (1) on the amount allowed as a deduction for business interest applies at the level of the consolidated group.

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 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 16.

Examples of other deductions may include the following.

- Certain business start-up and organizational costs (discuss 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). 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).

- Any applicable deduction under section 179D for the cost of energy efficient commercial building property placed in service during the tax year. Complete and attach Form 7205.
- Dividends paid in cash on stock held by an ESOP. 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.

- 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.

- Amounts paid, or incurred to, or at the direction of, a government or governmental entity for the violation, or investigation, or inquiry into the potential violation, of a law.

- 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, later.)

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.

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.

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.