

Instructions for Form 1120-S

2023

U.S. Income Tax Return for an S Corporation

Volume 3 of 5



Department of the Treasury
Internal Revenue Service

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



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.

There are penalties for not filing these forms on time and for overstating the pension plan deduction. See sections 6652(e) and 6662(f).

Line 18. Employee Benefit Programs

Enter amounts for fringe benefits paid or incurred on behalf of employees owning 2% or less of the corporation's stock. These fringe benefits include (a) employer contributions to

certain accident and health plans, (b) the cost of up to \$50,000 of group-term life insurance on an employee's life, and (c) meals and lodging furnished for the employer's convenience.

Don't deduct amounts that are an incidental part of a pension, profit-sharing, etc., plan included on line 17 or amounts reported elsewhere on the return or on Form 1125-A.

Report amounts for fringe benefits paid on behalf of employees owning more than 2% of the corporate stock on line 7 or 8 (or Form 1125-E), whichever applies. An employee is considered to own more than 2% of the corporation's stock if that person owns on any day during the tax year more than 2% of the outstanding stock of the corporation or stock possessing more than 2% of the combined voting power of all stock of the corporation. See section 318 for attribution rules.

Line 19. Energy Efficient Commercial Buildings Deduction

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

Line 20. Other Deductions

Enter the total allowable trade or business deductions that aren't deductible elsewhere on page 1 of Form 1120-S. Attach a statement listing by type and amount each deduction included on this line. Examples of other deductions include the following.

- Amortization. See Part VI of Form 4562.
- Certain business start-up and organizational costs (discussed earlier).
- Insurance premiums.
- Legal and professional fees.

- Supplies used and consumed in the business.
- Travel, meal, and entertainment expenses. Special rules apply (discussed later).
- Utilities.
- Any negative section 481(a) adjustments resulting from changes in accounting methods. Show the computation of the negative section 481(a) adjustments on an attached statement. In the statement, for each section 481(a) adjustment, include the total section 481(a) adjustment and a brief description of the changes in methods of accounting to which the section 481(a) adjustment relates. See Rev. Proc. 2015-13. Don't deduct the following on line 20.
- Amounts paid or incurred for any settlement, payout, or attorney fees related to sexual harassment or sexual

abuse, if such payments are subject to a nondisclosure agreement. See section 162(q).

- Expenses allocable to tax-exempt income. Report these expenses on Schedule K, line 16c.
- Fines or similar penalties paid to or at the direction of a government or governmental entity for violating any law. However, see exceptions (discussed later). Report these expenses on Schedule K, line 16c.
- Items that must be reported separately on Schedules K and K-1.

Special Rules

Travel, meals, and entertainment. Subject to limitations and restrictions discussed below, a corporation can deduct ordinary and necessary travel and meal expenses paid or incurred in its trade or business. Generally, entertainment expenses, membership dues,

and facilities used in connection with these activities can't be deducted. Generally, no deduction is allowed for qualified transportation fringe benefits. Also, special rules apply to deductions for gifts, luxury water travel, and convention expenses. See section 274 and Pub. 463 for details.

Travel. The corporation can't 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
- The travel is for a bona fide business purpose and would otherwise be deductible by that individual.

Meals. Generally, the corporation can deduct only 50% of the amount otherwise allowable for meal 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, and
- An employee of the corporation must be present at the meal.

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

Qualified transportation fringes (QTFs).

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

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

- Qualified parking.

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

Membership dues. The corporation can generally 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 can't 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 can't 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. The corporation may be able to deduct otherwise nondeductible entertainment, amusement, or recreation expenses if the amounts are treated as compensation to the recipient and reported on Form W-2 for an employee or on Form 1099-NEC for an independent contractor.

However, if the recipient is an officer, director, or beneficial owner (directly or indirectly) of more than 10% of the corporation's stock, the deductible expense is limited. See section 274(e)(2) and Regulations sections 1.274-9 and 1.274-10.

Fines and similar penalties. Generally, no deduction is allowed for fines or similar penalties paid to or at the direction of a

government or governmental entity for violating any law except:

- Amounts that constitute restitution (including remediation of property),
- Amounts paid to come into compliance with the law,
- Amounts paid or incurred as the result of orders or agreements in which no government or governmental entity is a party, and
- Amounts paid or incurred for taxes due to the extent the amount would have been allowed as a deduction if timely paid, and the taxpayer establishes that the amount paid or incurred was for restitution, remediation, or to come into compliance.

No deduction is allowed unless the amounts are specifically identified in the order or agreement and the taxpayer establishes that the amounts were paid for a purpose mentioned above. Also, any amount paid or

incurred as reimbursement to the government for the costs of any investigation or litigation are not eligible for the exceptions and are nondeductible. See section 162(f). Also see Regulations section 1.162-21.

Lobbying expenses. Generally, lobbying expenses aren't deductible. Report nondeductible expenses on Schedule K, line 16c. These expenses include:

- Amounts paid or incurred in connection with influencing federal, state, or local legislation; or
- Amounts paid or incurred in connection with any communication with certain federal executive branch officials in an attempt to influence the official actions or positions of the officials. See Regulations section 1.162-29 for the definition of "influencing legislation."

Dues and other similar amounts paid to certain tax-exempt organizations may not be deductible. If certain in-house lobbying expenditures don't exceed \$2,000, they are deductible. For information on contributions to charitable organizations that conduct lobbying activities, see section 170(f)(9).

Certain corporations engaged in farming.

Section 464(d) limits the deduction for certain expenditures of S corporations engaged in farming if they use the cash method of accounting, and their prepaid farm supplies are more than 50% of other deductible farming expenses.

Prepaid farm supplies include expenses for feed, seed, fertilizer, and similar farm supplies not used or consumed during the year. They also include the cost of poultry that would be allowable as a deduction in a later tax year if the corporation were to (a) capitalize the cost of poultry bought for use in its farm business and deduct it ratably over

the lesser of 12 months or the useful life of the poultry, and (b) deduct the cost of poultry bought for resale in the year it sells or otherwise disposes of it.

If the limit applies, the corporation can deduct prepaid farm supplies that don't exceed 50% of its other deductible farm expenses in the year of payment. The excess is deductible only in the year the corporation uses or consumes the supplies (other than poultry, which is deductible, as explained above). For exceptions and more details on these rules, see Pub. 225.

Reforestation expenditures. If the corporation made an election to deduct a portion of its reforestation expenditures on line 12d of Schedule K, it must amortize over an 84-month period the portion of these expenditures in excess of the amount deducted on Schedule K (see section 194). Deduct on line 20 only the amortization of these excess reforestation expenditures. See

Reforestation expense deduction (code O),
later.

Line 22. Ordinary Business Income (Loss)

Enter this income or loss on line 1 of Schedule K. Line 22 income is **not** used in figuring the excess net passive income or built-in gains taxes. See the instructions for line 23a for figuring taxable income for purposes of these taxes.

Tax and Payments

Line 23a. Excess Net Passive Income and LIFO Recapture Tax

These taxes can apply if the corporation was previously a C corporation or if the corporation engaged in a tax-free reorganization with a C corporation.

Excess net passive income tax. If the corporation has AE&P at the close of its tax year and has passive investment income for

the tax year that is in excess of 25% of gross receipts, the corporation must figure its excess net passive income and pay tax on it. To make this determination, complete lines 1 through 3 and line 9 of the Excess Net Passive Income Tax Worksheet for Line 23a. If line 2 is greater than line 3 and the corporation has taxable income (see the instructions for line 9 of the worksheet), it must pay the tax. Complete a separate statement using the format of lines 1 through 11 of the worksheet to figure the tax. Enter the tax on line 23a, page 1, Form 1120-S, and attach the computation statement to Form 1120-S.

Reduce each item of passive investment income passed through to shareholders by its portion of any excess net passive income tax reported on line 23a. See section 1366(f)(3).

LIFO recapture tax. The corporation may be liable for the additional tax due to LIFO recapture under Regulations section 1.1363-2 if:

- The corporation used the LIFO inventory pricing method for its last tax year as a C corporation, or
- A C corporation transferred LIFO inventory to the corporation in a nonrecognition transaction in which those assets were transferred basis property.

The additional tax due to LIFO recapture is figured for the corporation's last tax year as a C corporation or for the tax year of the transfer, whichever applies. See the Instructions for Form 1120 to figure the tax.

Excess Net Passive Income Tax Worksheet for Line 23a

Keep for Your Records 

1. Enter gross receipts for the tax year (see section 1362(d)(3)(B) for gross receipts from the sale of capital assets)*	_____	6. Net passive income—Subtract line 5 from line 2	_____
2. Enter passive investment income as defined in section 1362(d)(3)(C)*	_____	7. Divide amount on line 4 by amount on line 2	_____ %
3. Multiply line 1 by 25% (0.25). (If line 2 is less than line 3, stop here. You aren't liable for this tax.)	_____	8. Excess net passive income—Multiply line 6 by line 7	_____
4. Excess passive investment income—Subtract line 3 from line 2	_____	9. Enter taxable income (see instructions for taxable income below)	_____
5. Enter deductions directly connected with the production of the income listed on line 2 (see section 1375(b)(2))*	_____	10. Enter smaller of line 8 or line 9	_____
		11. Excess net passive income tax—Multiply line 10 by 21% (0.21). Enter here and on Form 1120-S, line 23a	_____

*Income and deductions on lines 1, 2, and 5 are from total operations for the tax year. This includes applicable income and expenses from page 1, Form 1120-S, as well as those imported separately on Schedule K. See section 1375(b)(4) for an exception regarding lines 2 and 5.

Line 9 of Worksheet—Taxable Income
Taxable income, for this purpose, is defined in Regulations section 1.1374-1A(d)(1). Figure this income by completing lines 1 through 28 of **Form 1120**, U.S. Corporation Income Tax Return. Include the Form 1120 computation with the worksheet computation you attach to Form 1120-S. You don't have to attach the schedules, etc., called for on Form 1120. However, you may want to complete certain Form 1120 schedules, such as Schedule D (Form 1120), if you have capital gains or losses.

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The tax is paid in four equal installments. The C corporation must pay the first installment by the due date (not including extensions) of Form 1120 for the corporation's last tax year as a C corporation or for the tax year of the transfer, whichever applies. The S corporation must pay each of the remaining installments by the due date (not including extensions) of Form 1120-S for the 3 succeeding tax years. Include this year's

installment in the total amount to be entered on line 23a. To the left of the total on line 23a, enter the installment amount and

“LIFO tax.”

Line 23b. Tax From Schedule D (Form 1120-S)

Enter the built-in gains tax from line 23 of Part III of Schedule D. See the instructions for Part III of Schedule D to determine if the corporation is liable for the tax.

Line 23c

Include the following in the total for line 23c.

Investment credit recapture tax. The corporation is liable for any required investment credit recapture attributable to credits allowed for tax years for which the corporation wasn't an S corporation. The corporation is also liable for any required qualifying therapeutic discovery project grant recapture. Figure the corporation's investment credit recapture tax and qualifying therapeutic discovery project grant recapture tax by completing Form 4255, Recapture of Investment Credit. See the Instructions for Form 4255.

To the left of the line 23c total, enter the amount of recapture tax and "Tax From Form 4255." Attach Form 4255 to Form 1120-S.

Interest due under the look-back method—Completed long-term contracts.

If the corporation owes this interest, attach

Form 8697, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts. To the left of the total on line 23c, enter the amount owed and "From Form 8697."

Interest due under the look-back method—Property depreciated under the income forecast method. If the corporation owes this interest, attach Form 8866, Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method. To the left of the total on line 23c, enter the amount owed and "From Form 8866."

Line 24d. Elective Payment Election Amount From Form 3800

Enter the total gross elective payment election amount from Form 3800, Part III, line 6, column (h). See the Instructions for Form 3800 for more information.

Line 24z

If the corporation is the beneficiary of a trust, and the trust makes a section 643(g) election to credit its estimated tax payments to its beneficiaries, include the corporation's share of the payment in the total for line 24z. Enter "T" and the amount of the payment on the dotted line to the left of the entry space.

Line 25. Estimated Tax Penalty

If Form 2220 is attached, check the box on line 25 and enter the amount of any penalty on this line.

Line 26. Amount Owed

If the corporation can't 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 can't pay the full amount shown on line 26,

- The total amount owed is \$25,000 or less, and
- The corporation can pay the liability in full in 24 months.

To apply using the Online Payment Agreement Application, go to [IRS.gov/OPA](https://www.irs.gov/opa).

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

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

Line 28

Direct deposit of refund. If the corporation wants its refund directly deposited into its checking or savings account at any U.S. bank or other financial institution instead of having a check sent to the corporation, complete Form 8050 and attach it to the corporation's return.

Schedule B. Other Information

Complete all items that apply to the corporation.

Item 2

See Principal Business Activity Codes at the end of these instructions and enter the business activity and product or service. For nonstore retailers, select the PBA code by the primary product that your establishment sells. For example, establishments primarily selling prescription and non-prescription drugs,

select PBA code 456110 Pharmacies & Drug Retailers.

Question 4. Constructive Ownership of Other Entities

For purposes of determining the corporation's constructive ownership of other entities, the constructive ownership rules of section 267(c) (excluding section 267(c)(3)) apply to ownership of interests in partnerships and trusts as well as corporate stock. Generally, if an entity (a corporation, partnership, or trust) is owned, directly or indirectly, by or for another entity (corporation, partnership, estate, or trust), the owned entity is considered to be owned proportionately by or for the owners (shareholders, partners, or beneficiaries) of the owning entity.

Maximum percentage owned in partnership profit, loss, or capital. For the purposes of question 4b, the term “maximum percentage owned” means the highest percentage of interest in a partnership's

profit, loss, or capital as of the end of the partnership's tax year, as determined under the partnership agreement, when taking into account the constructive ownership rules discussed earlier. If the partnership agreement doesn't express the partner's share of profit, loss, and capital as fixed percentages, use a reasonable method in arriving at the percentage items for the purposes of completing question 4b. Such method must be consistent with the partnership agreement. The method used to figure a percentage share of profit, loss, and capital must be applied consistently from year to year. Maintain records to support the determination of the share of profits, losses, and share of capital.

Question 6

Answer "Yes" if the corporation filed, or is required to file, Form 8918, Material Advisor Disclosure Statement. For details, see the Instructions for Form 8918.

Item 8

Complete item 8 if the corporation (a) was a C corporation before it elected to be an S corporation or the corporation acquired an asset with a basis determined by reference to its basis (or the basis of any other property) in the hands of a C corporation, and (b) has net unrealized built-in gain (defined below) in excess of the net recognized built-in gain from prior years.

The corporation is liable for section 1374 tax if (a) and (b) above apply and it has a net recognized built-in gain (defined in section 1374(d)(2)) for its tax year.

The corporation's net unrealized built-in gain is the amount, if any, by which the aggregate fair market value of the assets of the corporation at the beginning of its first S corporation year (or as of the date the assets were acquired, for any asset with a basis determined by reference to its basis (or the basis of any other property) in the hands of a

C corporation) exceeds the aggregate adjusted basis of such assets at that time.

Enter the corporation's net unrealized built-in gain reduced by the net recognized built-in gain from prior years. See sections 1374(c)(2) and (d)(1).

If the corporation has more than one pool of assets (as defined in Regulations section 1.1374-3(b)(4)), attach a statement showing for each pool of assets the amount of the corporation's net unrealized built-in gain reduced by the net recognized built-in gain from prior years.

Question 9. Business Interest Expense Election

The limitation on business interest expense under section 163(j) applies to every taxpayer with a trade or business, unless the taxpayer meets certain specified exceptions. A taxpayer may elect out of the limitation for certain businesses otherwise subject to the

business interest expense limitation. This is an irrevocable election.

Certain real property trades or businesses and farming businesses qualify to make an election not to limit business interest expense. This is an irrevocable election. If you make this election, you are required to use the alternative depreciation system to depreciate certain property. Also, you aren't entitled to the special depreciation allowance for that property. For a taxpayer with more than one qualifying business, the election is made with respect to each business.

Check "Yes" if the taxpayer has an election in effect to exclude a real property trade or business or a farming business from section 163(j). For more information, see the Instructions for Form 8990.

Question 10. Conditions for Filing Form 8990

A taxpayer that isn't a small business taxpayer (defined below) must generally file Form 8990. In addition, any taxpayer that owns an interest in a partnership with current year, or prior year carryover, excess business interest expense allocated from the partnership must file Form 8990.

A taxpayer who is a U.S. shareholder of an applicable CFC that has business interest expense, disallowed business interest expense carryforward, or is part of a CFC group must generally apply section 163(j) to each applicable CFC and attach a Form 8990 with each Form 5471.

Exclusions from filing. A taxpayer isn't required to file Form 8990 if the taxpayer is a small business taxpayer and doesn't have excess business interest expense from a partnership. A taxpayer is also not required to file Form 8990 if the taxpayer only has

business interest expense from these excepted trades or businesses:

- The trade or business of providing services as an employee,
- An electing real property trade or business,
- An electing farming business, or
- Certain regulated utility businesses.

Small business taxpayer. A small business taxpayer isn't subject to the business interest expense limitation and isn't required to file Form 8990. A small business taxpayer is a taxpayer that (a) isn't a tax shelter (as defined in section 448(d) (3)), and (b) meets the gross receipts test of section 448(c), discussed next.

Gross receipts test. A taxpayer meets the gross receipts test if the taxpayer has average annual gross receipts of \$29 million or less for the 3 prior tax years. A taxpayer's

average annual gross receipts for the 3 prior tax years is determined by adding the gross receipts for the 3 prior tax years and dividing the total by 3. Gross receipts include the aggregate gross receipts from all persons treated as a single employer, such as a controlled group of corporations, commonly controlled partnerships, or proprietorships, and affiliated service groups. See section 448(c) and the Instructions for Form 8990 for additional information.

Question 11

Total receipts is the sum of the following amounts.

- Gross receipts or sales (page 1, line 1a).
- All other income (page 1, lines 4 and 5).
- Income reported on Schedule K, lines 3a, 4, 5a, and 6.
- Income or net gain reported on Schedule K, lines 7, 8a, 9, and 10.

- Income or net gain reported on Form 8825, lines 2, 19, and 20a.

Question 12

Amounts related to the forgiveness of PPP loans are disregarded for purposes of this question.

Question 13

Answer “Yes” if, during the tax year, the corporation revoked a qualified subchapter S subsidiary (QSub) election or a QSub election of the corporation was terminated. If “Yes,” see

Regulations section 1.1361-5 for additional information.

Questions 14a and 14b

If the corporation made any payment in 2023 that would require it to file any Form(s) 1099, check the “Yes” box for question 14a and answer question 14b. Otherwise, check the “No” box for question 14a and skip question

14b. See [Am I Required to File a Form 1099 or Other Information Return](#) on IRS.gov.

Question 15

To be certified as a qualified opportunity fund, the S corporation must file Form 1120-S and attach Form 8996, even if the corporation had no income or expenses to report. If the S corporation is attaching Form 8996, check the “Yes” box and enter the amount from Form 8996, line 15, in the entry space. See [Certification as a qualified opportunity fund](#), earlier.

The penalty reported on this line from Form 8996, line 15, is not due with the filing of this form. The IRS will separately send you a notice setting forth the due date for the penalty payment and where that payment should be sent.

Question 16

Digital assets are any digital representations of value that are recorded on a

cryptographically secured distributed ledger or any similar technology. For example, digital assets include non-fungible tokens (NFTs) and virtual currencies, such as cryptocurrencies and stablecoins. If a particular asset has the characteristics of a digital asset, it will be treated as a digital asset for federal income tax purposes.

Check the “Yes” box if at any time during the tax year, the S corporation (a) received (as a reward, award, or payment for property or services); or (b) sold, exchanged, or otherwise disposed of a digital asset (or any financial interest in any digital asset).

For example, check “Yes” if at any time during the tax year, the S corporation:

- Received digital assets as payment for property or services provided;
- Received digital assets as a result of a reward or award;

- Received new digital assets as a result of mining, staking, and similar activities;
- Received digital assets as a result of a hard fork;
- Disposed of digital assets in exchange for property or services;
- Disposed of a digital asset in exchange or trade for another digital asset;
- Sold a digital asset; or
- Otherwise disposed of any other financial interest in a digital asset.

The S corporation has a financial interest in a digital asset if it is the owner of record of a digital asset, or has an ownership stake in an account that holds one or more digital assets, including the rights and obligations to acquire a financial interest, or owns a wallet that holds digital assets.

The following actions or transactions in the tax year, alone, generally do not require the S corporation to check “Yes.”

- Holding a digital asset in a wallet or account;
- Transferring a digital asset from one wallet or account the S corporation owns or controls to another wallet or account that it owns or controls; or
- Purchasing digital assets using U.S. or other real currency, including through the use of electronic platforms such as PayPal and Venmo.

Do not leave the question unanswered. The S corporation must answer “Yes” or “No” by checking the appropriate box. For more information, go to

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

If the S corporation disposed of any digital asset that was held as a capital asset, through a sale, trade, exchange, payment, or

other transfer, use Form 8949 to calculate the capital gain or loss and report that gain or loss on Schedule D (Form 1120-S). If the S corporation received any digital asset as compensation for services or disposed of any digital asset that was held for sale to customers in a trade or business, it must report the income as it would report other income of the same type.

Schedules K and K-1 (General Instructions)

Purpose of Schedules

The corporation is liable for taxes on lines 23a, 23b, and 23c on page 1 of Form 1120-S. Shareholders are liable for tax on their shares of the corporation's income (reduced by any taxes paid by the corporation on income). Shareholders must include their share of the income on their tax return whether or not it is distributed to them. Unlike most partnership income, S corporation income isn't self-

employment income and isn't subject to self-employment tax.

Schedule K. Schedule K is a summary schedule of all shareholders' shares of the corporation's income, deductions, credits, etc. All corporations must complete Schedule K.

Schedule K-1. Schedule K-1 shows each shareholder's separate share. Attach a copy of each Schedule K-1 to the Form 1120-S filed with the IRS. Keep a copy for the corporation's records and give each shareholder a copy.

Give each shareholder a copy of the Shareholder's Instructions for Schedule K-1 (Form 1120-S) or specific instructions for each item reported on the shareholder's Schedule K-1.

Substitute Forms

The corporation doesn't need IRS approval to use a substitute

Schedule K-1 if it is an exact copy of the IRS schedule. The boxes must use the same numbers and titles and must be in the same order and format as on the comparable IRS Schedule K-1. The substitute schedule must include the OMB number. The corporation must provide each shareholder with the Shareholder's Instructions for Schedule K-1 (Form 1120-S) or instructions that apply to the specific items reported on the shareholder's Schedule K-1.

The corporation must ask for IRS approval to use other substitute Schedules K-1.

Each shareholder's information must be on a separate sheet of paper. Therefore, separate all continuously printed substitutes before you file them with the IRS.

The corporation may be subject to a penalty if it files a substitute Schedule K-1 that doesn't conform to the specifications discussed in Pub. 1167, General Rules and Specifications for Substitute Forms and Schedules.

For more information, see Pub. 1167.

Shareholder's Pro Rata Share Items

General Rule

Items of income, gain, loss, deduction, or credit are allocated to a shareholder on a daily basis, according to the number of shares of stock held by the shareholder on each day of the corporation's tax year. See the detailed instructions for item G in Part II. Information About the Shareholder, later.

Shareholders who dispose of stock are treated as shareholders for the day of their disposition. Shareholders who die are treated as shareholders for the day of their death.

Special Rules

Termination of shareholder's interest. If a shareholder terminates shareholder's interest in a corporation during the tax year, the corporation, with the consent of all affected shareholders (including those whose

interest is terminated), may elect to allocate income and expenses, etc., as if the corporation's tax year consisted of 2 separate tax years, the first of which ends on the date of the shareholder's termination.

To make the election, the corporation must attach a statement to a timely filed original or amended Form 1120-S for the tax year for which the election is made. In the statement, the corporation must state that it is electing under section 1377(a)(2) and Regulations section 1.1377-1(b) to treat the tax year as if it consisted of 2 separate tax years. The statement must also explain how the shareholder's entire interest was terminated (for example, sale or gift), and state that the corporation and each affected shareholder consent to the corporation making the election. A single statement may be filed for all terminating elections made for the tax year. If the election is made, enter "Section

1377(a)(2) Election Made” at the top of each affected shareholder's Schedule K-1.

For more details, see Regulations section 1.1377-1(b).

Qualifying dispositions. If a qualifying disposition takes place during the tax year, the corporation may make an irrevocable election to allocate income and expenses, etc., as if the corporation's tax year consisted of 2 tax years, the first of which ends on the close of the day the qualifying disposition occurs.

A qualifying disposition is:

1. A disposition by a shareholder of at least 20% of the corporation's outstanding stock in one or more transactions in any 30-day period during the tax year,
2. A redemption treated as an exchange under section 302(a) or 303(a) of at least 20% of the corporation's

outstanding stock in one or more transactions in any 30-day period during the tax year, or

3. An issuance of stock that equals at least 25% of the previously outstanding stock to one or more new shareholders in any 30-day period during the tax year.

To make the election, the corporation must attach a statement to a timely filed original or amended Form 1120-S for the tax year for which the election is made. In the statement, the corporation must state that it is electing under Regulations section 1.1368-1(g)(2)(i) to treat the tax year as if it consisted of 2 separate tax years, give the facts relating to the qualifying disposition (for example, sale, gift, stock issuance, or redemption), and state that each shareholder who held stock in the corporation during the tax year consents to the election. A single election statement may

be filed for all qualifying disposition elections for the tax year.

For more details, see Regulations section 1.1368-1(g)(2).

Specific Instructions (Schedule K-1 Only)

General Information

Generally, the corporation is required to prepare and give a Schedule K-1 to each person who was a shareholder in the corporation at any time during the tax year. Schedule K-1 must be provided to each shareholder on or before the day on which the corporation's Form 1120-S is required to be filed.

How To Complete Schedule K-1

If the return is for a fiscal year or a short tax year, fill in the tax year space at the top of each Schedule K-1. On each Schedule K-1, enter the information about the corporation

and the shareholder in Parts I and II (items A through I). In Part III, enter the shareholder's pro rata share of each item of income, deduction, and credit and any other information the shareholder needs to prepare the shareholder's tax return, including information needed to prepare state and local tax returns. Use 10-point Helvetica Light Standard font (if possible) for all entries if you are typing or using a computer to complete Schedule K-1.

Codes. In boxes 10, 12, 13, and boxes 15 through 17, identify each item by entering a code in the left column of the entry space. These codes are identified in these instructions and on the List of Codes in the Shareholder's Instructions for Schedule K-1 (Form 1120-S).

Attached statements. When attaching statements to Schedule K-1 to report additional information to the shareholder,

indicate there is a statement depending upon the following.

- If an amount can be input on Schedule K-1 but additional information is required so the shareholder can determine the proper reporting, enter an asterisk (*) after the code in the left column of the entry space.
- For items that can't be reported as a single dollar amount, enter the code and asterisk (*) in the left column and enter "STMT" in the right column to indicate that the information is provided on an attached statement.
- If the corporation has more coded items than the number of entry boxes (for example, boxes 10, 12, 13, or boxes 15 through 17), don't enter a code or dollar amount in the last box. Instead, enter an asterisk (*) in the left column and enter "STMT" in the entry space to the right.

More than one attached statement can be placed on the same sheet of paper. The information included in the statement should be identified in alphanumeric order by box number followed by the letter code (if any), description, and dollar amount. For example: "Box 13, code J—Work opportunity credit—\$1,000." This can be followed with any additional information that the shareholder needs to determine the proper tax treatment of the item.



For electronically filed returns, the corporation must follow the instructions for attached statements as described in Pub. 4164 when reporting the additional information that may be required for each respective box. See Pub. 4164, Modernized e-File (MeF) Guide for Software Developers and Transmitters, for more information.

Special Reporting Requirements for At-Risk Activities

If items of income, loss, or deduction from more than one at-risk activity are reported on Schedule K-1, the corporation must provide its shareholders with separate information for each activity. See *At-Risk Activity Reporting Requirements* under *At-Risk Limitations*, earlier, for details.

Special Reporting Requirements for Corporations With Multiple Activities

If items of income, loss, deduction, or credit from more than one activity (determined for purposes of the passive activity loss and credit limitations) are reported on Schedule K-1, the corporation must provide information separately for each activity to its shareholders. See *Passive Activity Reporting Requirements*, earlier, for details on the reporting requirements.

Part I. Information About the Corporation

On each Schedule K-1, enter the corporation's name, address, and identifying number.

Item C

If the corporation is filing its return electronically, enter "e-file." Otherwise, enter the name of the IRS service center where the corporation will file its return. See Where To File, earlier.

Item D

Report the total number of shares issued and outstanding at the beginning and end of the S corporation's tax year. An entity without stock, such as an LLC, should enter the number of units or other equivalent to S corporation stock. Round the number of shares to the nearest whole number (but not below zero). For example, round 0.6315 up to 1.

Part II. Information About the Shareholder

On each Schedule K-1, enter the shareholder's name, address, identifying number, and percentage of stock ownership.

Truncating recipient's identification number on Schedule K-1. The corporation can truncate a shareholder's identifying number on the Schedule K-1 the corporation sends to the shareholder. Truncation isn't allowed on the Schedule K-1 the corporation files with the IRS. Also, the corporation can't truncate its own identification number on any form.

To truncate, where allowed, replace the first five digits of the nine-digit number with asterisks (*) or Xs (for example, an SSN xxx-xx-xxxx would appear as ***-**-xxxx or XXX-XX-xxxx). For more information, see Regulations section 301.6109-4.

Items E and F

For an individual shareholder, enter the shareholder's social security number (SSN) or individual taxpayer identification number (ITIN) in item E. For all other shareholders, enter the shareholder's EIN.

If stock of the corporation is held by a nominee, guardian, custodian, or an agent, enter the name, address, and identifying number of the person for whom the stock is held.

If S corporation stock is part of a decedent's estate, the executor of the estate should notify the S corporation of the name and taxpayer identification number of the decedent's estate. See Pub. 559 for details.

If a single-member limited liability company (LLC) owns stock in the corporation, and the LLC is treated as a disregarded entity for federal income tax purposes, enter the LLC owner's identifying number in item E and the

LLC owner's name and address in item F. The LLC's owner must be eligible to be an S corporation shareholder. An LLC that elects to be treated as a corporation for federal income tax purposes isn't eligible to be an S corporation shareholder.

Item G

Each shareholder's pro rata share items are figured separately for each period on a daily basis, based on the percentage of stock held by the shareholder on each day.

If there was no change in shareholders or in the relative interest in stock the shareholders owned during the tax year, enter the percentage of total stock owned by each shareholder during the tax year (current year allocation percentage). For example, if shareholders X and Y each owned 50% for the entire tax year, enter 50% in item G for each shareholder. Each shareholder's pro rata share items (boxes 1 through 17 of Schedule K-1) are figured by multiplying the

corresponding Schedule K amount by the percentage in item G.

If there was a change in shareholders or in the relative interest in stock the shareholders owned during the tax year, figure the percentage as follows.

- Each shareholder's percentage of ownership is weighted for the number of days in the tax year that stock was owned. For example, A and B each held 50% for half the tax year and A, B, and C held 40%, 40%, and 20%, respectively, for the remaining half of the tax year. The percentage of ownership for the year for A, B, and C is figured as presented in the illustration and is then entered in item G.
- Each shareholder's pro rata share items are generally figured by multiplying the Schedule K amount by the percentage in item G. However, if a shareholder terminated the shareholder's entire interest in the corporation during the year

or a qualifying disposition took place, the corporation may elect to allocate income and expenses, etc., as if the tax year consisted of 2 tax years, the first of which ends on the day of the termination or qualifying disposition. See Special Rules, earlier, for more details.

	a	b	c (a × b)	
	% of total stock owned	% of tax year held	% of ownership for the year	
A	50 40	50 50	25 +20	45
B	50 40	50 50	25 +20	45
C	20	50	10	10
Total.....				100%

Item H

Report the number of shares for purposes of allocating items of income, loss, or deduction at the beginning and end of the S corporation's tax year. An entity without stock, such as an LLC, should enter the number of units or other equivalent to S corporation stock (including ownership percentages). Round the number of shares to the nearest whole number (but not below zero). For example, round 0.6315 up to 1.

Example. If shareholders X and Y each owned 50 shares for the entire tax year, enter 50 in item H for both the beginning and ending amounts for each shareholder.

However, if A and B each owned 50 shares of stock for the first half of the tax year and C purchased 10 shares of A's and B's stock during the year, A's and B's beginning of tax year number of shares is 50, while C's is 0, and the end of tax year number of shares for A and B is 40, while C's is 20.

Item I

Report the amount of debt owed by the S corporation directly to the shareholder as of the beginning and end of the S corporation's tax year. Generally, the amount reported on Schedule L, line 19, Loans from shareholder, should reconcile to the sum of all amounts reported on Schedules K-1. Do not include amounts for which the shareholder is a co-borrower or guarantor of corporate level debt. Also do not include any intercompany debt.

Specific Instructions (Schedules K and K-1, Part III)

Income (Loss)

Reminder. Before entering income items on Schedule K or K-1, reduce each item of passive investment income (within the meaning of section 1362(d)(3)(C)) by its proportionate share of the net passive income tax (Form 1120-S, page 1, line 23a).

Line 1. Ordinary Business Income (Loss)

Enter the amount from Form 1120-S, page 1, line 22. Enter the income (loss) without reference to the shareholder's:

- Basis in the stock of the corporation and in any indebtedness of the corporation to the shareholders (section 1366(d)),
- At-risk limitations, and
- Passive activity limitations.

These limitations, if applicable, are determined at the shareholder level.

Line 1 shouldn't include rental activity income (loss) or portfolio income (loss).

Schedule K-1. Enter each shareholder's pro rata share of ordinary business income (loss) in box 1 of Schedule K-1. Identify on statements attached to Schedule K-1 any additional information the shareholder needs to correctly apply the passive activity limitations. For example, if the corporation

has more than one trade or business activity, identify the amount from each activity. See *Passive Activity Reporting Requirements*, earlier.

Line 2. Net Rental Real Estate Income (Loss)

Enter the net income (loss) from rental real estate activities of the corporation from Form 8825. Attach the form to Form 1120-S.

Schedule K-1. Enter each shareholder's pro rata share of net rental real estate income (loss) in box 2 of Schedule K-1. Identify on statements attached to Schedule K-1 any additional information the shareholder needs to correctly apply the passive activity limitations. For example, if the corporation has more than one rental real estate activity, identify the amount from each activity. Also, for example, identify certain items from any rental real estate activities that may be subject to the recharacterization rules. See

Passive Activity Reporting Requirements, earlier.

Line 3. Other Net Rental Income (Loss)

Enter on line 3a gross income from rental activities other than those reported on Form 8825. Include on line 3a gain (loss) from line 17 of Form 4797 that is attributable to the sale, exchange, or involuntary conversion of an asset used in a rental activity other than a rental real estate activity.

Enter on line 3b the deductible expenses of the activity. Attach a statement of these expenses to Form 1120-S.

Enter on line 3c the net income (loss).

See Rental Activities, earlier, and Pub. 925, for more information on rental activities.

Schedule K-1. Enter in box 3 of Schedule K-1 each shareholder's pro rata share of other net rental income (loss) reported on line 3c of Schedule K. Identify on statements attached

to Schedule K-1 any additional information the shareholder needs to correctly apply the passive activity limitations. For example, if the corporation has more than one rental activity reported in box 3, identify the amount from each activity. See Passive Activity Reporting Requirements, earlier.

Portfolio Income

See Portfolio Income, earlier, for a definition of portfolio income.

Don't reduce portfolio income by deductions allocated to it. Report such deductions (other than interest expense) on line 12d of Schedule K. Report each shareholder's pro rata share of deductions in box 12 of Schedule K-1 using codes I or L.

Interest expense allocable to portfolio income is generally investment interest expense reported on line 12b of Schedule K. Report each shareholder's pro rata share of interest

expense allocable to portfolio income in box 12 of Schedule K-1 using code H.

Line 4. Interest Income

Enter only taxable portfolio interest on this line. Taxable interest is interest from all sources except interest exempt from tax and interest on tax-free covenant bonds.

Schedule K-1. Enter each shareholder's pro rata share of interest income in box 4 of Schedule K-1.

Line 5a. Ordinary Dividends

Enter only taxable ordinary dividends on line 5a, including any qualified dividends reported on line 5b. An S corporation that directly or indirectly (through pass-through entities only) owns (within the meaning of section 958(a)) stock in a foreign corporation may have income inclusions (for example, subpart F income and GILTI inclusions) with respect to the foreign corporation and, as a result, previously taxed earnings and profits (PTEP)

in annual PTEP accounts with respect to the foreign corporation. Do not include ordinary dividends or qualified dividends received from a foreign corporation to the extent that they are attributable to PTEP in annual PTEP accounts of the S corporation with respect to the foreign corporation. See Notice 2019-01. The amount by which ordinary dividends and qualified dividends are attributable to PTEP in annual PTEP accounts of a person other than the S corporation (for example, a shareholder) is not relevant for purposes of determining the ordinary dividends to be entered on line 5a.

Note. An annual PTEP account of the S corporation is different than the shareholders' undistributed taxable income previously taxed account, as discussed in the instructions to Schedule M-2, column (b).

Schedule K-1. Enter each shareholder's pro rata share of ordinary dividends in box 5a of Schedule K-1.

Line 5b. Qualified Dividends

Enter qualified dividends on line 5b. Except as provided below, qualified dividends are dividends received from domestic corporations and qualified foreign corporations. Do not include qualified dividends to the extent that they are attributable to PTEP in annual PTEP accounts of the S corporation. See Notice 2019-01. The amount by which qualified dividends are attributable to PTEP in annual PTEP accounts of a person other than the S corporation (for example, a shareholder) is not relevant for purposes of determining the qualified dividends to be entered on line 5b.

Note. An annual PTEP account of the S corporation is different than the shareholders' undistributed taxable income previously taxed account, as discussed in the instructions to Schedule M-2, column (b). **Exceptions.** The following dividends aren't qualified dividends.

- Dividends the corporation received on any share of stock held for less than 61 days during the 121-day period that began 60 days before the ex-dividend date. When determining the number of days the corporation held the stock, don't count certain days during which the corporation's risk of loss was diminished. The ex-dividend date is the first date following the declaration of a dividend on which the purchaser of a stock isn't entitled to receive the next dividend payment. When counting the number of days the corporation held the stock, include the day the corporation disposed of the stock but not the day the corporation acquired it.
- 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 determining the number of days the corporation held the stock, don't count certain days during which the corporation's risk of loss was diminished. Preferred dividends attributable to periods totaling less than 367 days are subject to the 61-day holding period rule above.

- Dividends that relate to payments that the corporation is obligated to make with respect to short sales or positions in substantially similar or related property.
- Dividends paid by a regulated investment company that aren't treated as qualified dividend income under section 854.
- Dividends paid by a real estate investment trust that aren't treated as qualified dividend income under section 857(c).

See Pub. 550, Investment Income and Expenses, for more details.

Qualified foreign corporation. A foreign corporation is a qualified foreign corporation if it is:

1. Incorporated in a territory of the United States, or
2. Eligible for benefits of a comprehensive income tax treaty with the United States that the Secretary determines is satisfactory for this purpose and that includes an exchange of information program. See Notice 2011-64, 2011-37 I.R.B. 231, for details.

If the foreign corporation doesn't meet either (1) or (2), then it may be treated as a qualified foreign corporation for any dividend paid by the corporation if the stock associated with the dividend paid is readily tradable on an established securities market in the United States.

However, qualified dividends don't include dividends paid by an entity that was a passive foreign investment company (defined in section 1297) in either the tax year of the distribution or the preceding tax year.

See Notice 2004-71, 2004-45 I.R.B. 793, and Notice 2006-3, 2006-3 I.R.B. 306, for more details.

Schedule K-1. Enter each shareholder's pro rata share of qualified dividends in box 5b of Schedule K-1.



If any amounts from line 5b are from foreign sources, see the instructions for Schedule K-2 (Form 1120-S) and Schedule K-3 (Form 1120-S).

Line 6. Royalties

Enter the royalties received by the corporation.

Schedule K-1. Enter each shareholder's pro rata share of royalties in box 6 of Schedule K-1.

Line 7. Net Short-Term Capital Gain (Loss)

Enter the gain (loss) that is portfolio income (loss) from Schedule D (Form 1120-S), line 7.

Schedule K-1. Enter each shareholder's pro rata share of net short-term capital gain (loss) in box 7 of Schedule K-1.

Line 8a. Net Long-Term Capital Gain (Loss)

Enter the gain or loss that is portfolio income (loss) from Schedule D (Form 1120-S), line 15.

Schedule K-1. Enter each shareholder's pro rata share of net long-term capital gain (loss) in box 8a of Schedule K-1.



If any gain or loss from line 7 or 15 of Schedule D is from the disposition of nondepreciable personal property used in a trade or business, it may not be treated as portfolio income. Instead, report it on line 10 of Schedule K and report each shareholder's pro rata share in box 10 of Schedule K-1 using code ZZ.

Line 8b. Collectibles (28%) Gain (Loss)

Figure the amount attributable to collectibles from the amount reported on Schedule D (Form 1120-S), line 15. A collectibles gain (loss) is any long-term gain or deductible long-term loss from the sale or exchange of a collectible that is a capital asset.

Collectibles include works of art, rugs, antiques, metal (such as gold, silver, or platinum bullion), gems, stamps, coins, alcoholic beverages, and certain other tangible property.

Also include gain (but not loss) from the sale or exchange of an interest in a partnership or trust held for more than 1 year and attributable to unrealized appreciation of collectibles. For details, see Regulations section 1.1(h)-1. Also attach the statement required under Regulations section 1.1(h)-1(e).

Schedule K-1. Report each shareholder's pro rata share of the collectibles (28%) gain (loss) in box 8b of Schedule K-1.

Line 8c. Unrecaptured Section 1250 Gain

The three types of unrecaptured section 1250 gain must be reported separately on an attached statement to Form 1120-S.

From the sale or exchange of the corporation's business assets. Figure this amount in Part III of Form 4797 for each section 1250 property (except property for which gain is reported using the installment method on Form 6252) for which you had an

entry in Part I of Form 4797. Subtract line 26g of Form 4797 from the smaller of line 22 or line 24. Figure the total of these amounts for all section 1250 properties. Generally, the result is the corporation's unrecaptured section 1250 gain. However, if the corporation is reporting gain on the installment method for a section 1250 property held more than 1 year, see the next paragraph.

The total unrecaptured section 1250 gain for an installment sale of section 1250 property held more than 1 year is figured in a manner similar to that used in the preceding paragraph. However, the total unrecaptured section 1250 gain must be allocated to the installment payments received from the sale. To do so, the corporation must generally treat the gain allocable to each installment payment as unrecaptured section 1250 gain until all such gain has been used in full. Figure the unrecaptured section 1250 gain for

installment payments received during the tax year as the smaller of (a) the amount from line 26 or line 37 of Form 6252 (whichever applies), or (b) the total unrecaptured section 1250 gain for the sale reduced by all gain reported in prior years (excluding section 1250 ordinary income recapture).



If the corporation chose not to treat all of the gain from payments received after May 6, 1997, and before August 24, 1999, as unrecaptured section 1250 gain, use only the amount the corporation chose to treat as unrecaptured section 1250 gain for those payments to reduce the total unrecaptured section 1250 gain remaining to be reported for the sale. See Regulations section 1.453-12.

From the sale or exchange of an interest in a partnership. Also report as a separate amount any gain from the sale or exchange of an interest in a partnership attributable to unrecaptured section 1250 gain. See

Regulations section 1.1(h)-1 and attach the statement required under Regulations section 1.1(h)-1(e).

From an estate, trust, REIT, or RIC. If the corporation received a Schedule K-1 or Form 1099-DIV from an estate, a trust, a real estate investment trust (REIT), or a regulated investment company (RIC) reporting “unrecaptured section 1250 gain,” don't add it to the corporation's own unrecaptured section 1250 gain. Instead, report it as a separate amount. For example, if the corporation received a Form 1099-DIV from a REIT with unrecaptured section 1250 gain, report it as “Unrecaptured section 1250 gain from a REIT.”

Schedule K-1. Report each shareholder's pro rata share of unrecaptured section 1250 gain from the sale or exchange of the corporation's business assets in box 8c of Schedule K-1. If the corporation is reporting unrecaptured section 1250 gain from an estate, trust, REIT,

or RIC, or from the corporation's sale or exchange of an interest in a partnership (as explained above), enter "STMT" in box 8c and an asterisk (*) in the left column of the box and attach a statement that separately identifies the amount of unrecaptured section 1250 gain from:

- The sale or exchange of the corporation's business assets;
- The sale or exchange of an interest in a partnership; and
- An estate, trust, REIT, or RIC.



If any amounts from line 8c are from foreign sources, see the instructions for Schedule K-2 (Form 1120-S) and
CAUTION *Schedule K-3 (Form 1120-S).*

Line 9. Net Section 1231 Gain (Loss)

Enter the net section 1231 gain (loss) from Form 4797, line 7.

Don't include net gain or loss from involuntary conversions due to casualty or theft. Report net loss from involuntary conversions due to casualty or theft on line 10 of Schedule K (box 10, code B, of Schedule K-1). See the instructions for line 10 on how to report net gain from involuntary conversions.

Schedule K-1. Report each shareholder's pro rata share of net section 1231 gain (loss) in box 9 of Schedule K-1. If the corporation has more than one rental, trade, or business activity, identify on an attachment to Schedule K-1 the amount of section 1231 gain (loss) from each separate activity. See Passive Activity Reporting Requirements, earlier.



If any amounts from line 9 are from foreign sources, see the instructions for Schedule K-2 (Form 1120-S) and Schedule K-3 (Form 1120-S).

Line 10. Other Income (Loss)

Enter any other item of income or loss not included on lines 1 through 9. On the line to the left of the entry space for line 10, identify the type of income. If there is more than one type of income, attach a statement to Form 1120-S that separately identifies each type and amount of income for each of the following categories. The codes needed for Schedule K-1 reporting are provided for each category.

Other portfolio income (loss) (code A).

Portfolio income not reported on lines 4 through 8.

Report and identify other portfolio income or loss on an attachment for line 10.

If the corporation holds a residual interest in a Real Estate Mortgage Investment Conduit (REMIC), report on an attachment the shareholder's share of the following.

- Taxable income (net loss) from the REMIC (line 1b of Schedules Q (Form 1066)).
- Excess inclusion (line 2c of Schedules Q (Form 1066)).
- Section 212 expenses (line 3b of Schedules Q (Form 1066)).

Because Schedule Q (Form 1066) is a quarterly statement, the corporation must follow the Schedule Q instructions to figure the amounts to report to shareholders for the corporation's tax year.

Involuntary conversions (code B). Report net loss from involuntary conversions due to casualty or theft. The amount for this item is shown on Form 4684, Casualties and Thefts, line 38a or 38b.

Each shareholder's pro rata share must be entered on Schedule K-1.

Enter the net gain from involuntary conversions of property used in a trade or business (line 39 of Form 4684) on line 3 of Form 4797.

If there was a gain (loss) from a casualty or theft to property not used in a trade or business or for income-producing purposes, notify the shareholder. The corporation shouldn't complete Form 4684 for this type of casualty or theft. Instead, each shareholder will complete the shareholder's own Form 4684.

Section 1256 contracts and straddles (code C). Report any net gain or loss from section 1256 contracts from Form 6781, Gains and Losses From Section 1256 Contracts and Straddles.

Mining exploration costs recapture (code D). Provide the information shareholders need to recapture certain mining exploration expenditures. See Regulations section 1.617-3.

Section 951A(a) income inclusions (code E). If the S corporation elected to be treated as owning stock of a CFC within the meaning of section 958(a) under Proposed Regulations section 1.958-1(e)(2), and the S corporation is a U.S. shareholder of a CFC, then the S corporation determines its section 951A inclusion amount. Report the corporation's section 951A inclusion and its shareholders' pro rata shares of the section 951A inclusions using code E. See Form 8992, Part II, line 5.