

**Computation of U.S.
Personal Holding Company Tax**

1978

▶ Attach to your tax return.

Name

Employer identification number

Computation of Undistributed Personal Holding Company Income

ADDITIONS	1 Taxable income before net operating loss deduction and special deductions (Form 1120, line 28 as modified for section 465 losses, section 189 limitations, or section 280 limitations where applicable—see “Note” in General Instructions)	
	2 Contributions deducted in computing line 1 (Form 1120, line 19)	
	3 Excess of expenses and depreciation under section 545(b)(6) (Schedule A)	
	4 Amount added to taxable income where lien in favor of the U.S. is satisfied or released	
	5 Total—Add lines 1 through 4	
DEDUCTIONS	6 Federal and foreign income, war profits, and excess profits taxes not deducted in computing line 1 (attach schedule)	
	7 Contributions deductible under section 545(b)(2) (attach schedule—see instructions for limitation)	
	8 Net operating loss for the preceding tax year deductible under section 545(b)(4)	
	9 (a) Net capital gain (from separate Schedule D (Form 1120), line 8)	
	(b) Less: Income tax attributable to such net capital gain (see section 545(b)(5)—attach computation)	
	10 Amounts used or irrevocably set aside to pay or retire qualified indebtedness (Schedule C-1)	
	11 Deduction for dividends paid (excluding dividends paid after close of tax year (Schedule B))	
	12 Total—Add lines 6 through 11	
	13 Undistributed personal holding company income before the deduction on line 14—Subtract line 12 from line 5	
	14 Less: Dividends paid after close of tax year (excluding deficiency dividends as defined in section 547(d)) but not in excess of the lesser of line 13 or 20% of line 1, Schedule B	
15 Undistributed personal holding company income—Subtract line 14 from line 13. Foreign corporations—see instruction 15		
TAX	16 Personal holding company tax (70% of line 15)	

INFORMATION REQUIRED UNDER SECTION 6501(f). Section 6501(f) provides that if the information in (1) and (2) below is not submitted with the corporation's return, the limitation period for assessment and collection of personal holding company tax shall be 6 years.

(1) Personal Holding Company Income

Table with 12 rows for income items: Dividends, Interest, Royalties, Annuities, Rents, Mineral/oil/gas royalties, Copyright royalties, Produced film rents, Compensation, Service contracts, Estates/trusts, and Total personal holding company income.

(2) Stock Ownership. Enter the names and addresses of the individuals who owned, in the aggregate, directly or indirectly, at any time during the last half of the tax year, more than 50% in value of the outstanding stock of the corporation.

Table for Stock Ownership with columns: Name, Address, Highest percentage of shares owned during last half of tax year (Preferred, Common).

SCHEDULE A.—Excess of Expenses and Depreciation Over Income From Property Not Allowable Under Section 545(b)(6) (See instruction 3)

Table with 8 columns: 1. Kind of property, 2. Date acquired, 3. Cost or other basis, 4. Depreciation, 5. Repairs, insurance, and other expenses, 6. Total of columns 4 and 5, 7. Income from rent or other compensation, 8. Excess (col. 6 less col. 7).

Total excess of expenses and depreciation over rent or other compensation. Enter here and on line 3, page 1. NOTE: Attach a statement showing the names and addresses of persons from whom rent or other compensation was received for the use of, or the right to use, each property.

SCHEDULE B.—Deduction for Dividends Paid (See instruction 11)

Table with 5 rows for dividend-related items: Taxable dividends paid, Consent dividends, Taxable distributions, Dividend carryover, and Deduction for dividends paid.

SCHEDULE C-1.—Computation of Deduction for Amounts Used or Irrevocably Set Aside to Pay or Retire Qualified Indebtedness (See instruction 10)

Table with 5 rows for indebtedness computation: 1. Indicate separately (a, b, c), 2. Reduction for amounts described in section 545(c)(5), 3. Subtract line 2 from line 1(c), 4. Portion of amount shown on line 3 which is treated as nondeductible, 5. Amount claimed as a deduction.

SCHEDULE C-2.—Computation of Qualified Indebtedness. NOTE.—If you were a personal holding company for the preceding tax year, omit lines 1 through 6 and enter on line 7 the amount of qualified indebtedness as of the beginning of the tax year covered by this return. If you were not a personal holding company for the preceding tax year, complete all applicable lines.

Table with 15 numbered rows for calculating qualified indebtedness. Rows include: 1. Enter amount of indebtedness... 2. Less: Amounts included in line 1... 3. Subtract line 2 from line 1... 4. Aggregate amount of indebtedness... 5. Total—Add lines 3 and 4... 6. Less: (a) Aggregate of amounts actually used... (b) Aggregate amount of pro rata reductions... (c) Aggregate of amounts which ceased... 7. Subtract line 6 from line 5... 8. Total indebtedness incurred during the tax year... 9. Total—Add lines 7 and 8... 10. Less: (a) Amounts included in line 9... (b) Pro rata reduction... 11. Subtract line 10 from line 9... 12. Less: Amounts included in line 11... 13. Qualified indebtedness before payments... 14. Amounts used or irrevocably set aside... 15. Qualified indebtedness as of end of tax year...

General Instructions

(References are to the Internal Revenue Code.)

Note: Line 28 of Form 1120.—The amount to be entered on line 28 of Form 1120 of a Personal Holding Company is to be adjusted for certain section 465 losses.

- Section 465 contains special "at risk" rules which limit the losses of a Personal Holding Company for the following activities:
(a) holding, producing, or distributing motion picture films or video tapes,
(b) farming (as defined in section 464 (e)),
(c) leasing section 1245 property to others, or
(d) exploring for, or exploiting, oil and gas resources.

The losses of these section 465 activities are limited to the aggregate amount with respect to which the personal holding company is "at risk" for each separate activity at the close of the tax year. The corporation is considered "at risk" for an activity with respect to the amounts described in section 465(b)(1) and (2). The amounts borrowed are not considered to be "at risk" if such amounts are excluded under section 465(b)(3) and (4).

Where the corporation is involved in more than one activity, and one or more of the activities is a section 465 activity with a loss for the year, then each section 465 activity profit and loss is to be computed separately. The corporation must attach a schedule reflecting the amount "at risk" and gross income and deductions for each section 465 activity.

If a loss from a section 465 activity exceeds the amount the Personal Holding Company is "at risk" at the end of the tax year, the amount that would otherwise be entered on line 28 of Form 1120 is to be modified for the excess. (Attach schedule.)

See section 204(c)(2) and (3) of the Tax Reform Act of 1976 concerning special transitional rules relating to movies, video tapes, and leasing activities.

Line 26 of Form 1120, Other Deductions.—A personal holding company is allowed a deduction in its 1978 tax year for the amount of loss disallowed for the corporation's 1977 tax year by reason of section 465. This deduction is entered on line 26 of Form 1120. (See section 465(a).)

Also, see section 189 which provides for limitations on the deductions for real property construction period interest and taxes

(other than low-income housing) and section 280 for rules concerning certain expenditures incurred in the production of films, books, or similar property.

Who must file Schedule PH.—Every personal holding company must attach Schedule PH (Form 1120) to its income tax return. A corporation is a "personal holding company" if at least 60% of its adjusted ordinary gross income (as defined in section 543(b)(2)) for the tax year is personal holding company income (as defined in section 543(a)), and if at any time during the last half of the tax year more than 50% in value of its outstanding stock is owned, directly or indirectly, by or for not more than 5 individuals.

For purposes of determining stock ownership, an organization described in section 401(a), 501(c)(17), or 509(a) or a portion of a trust permanently set aside or to be used exclusively for the purposes described in section 642(c) or a corresponding provision of a prior income tax law is considered an individual except as provided for in section 701(o) of the Revenue Act of 1978. (See section 542(a)(2).)

For exceptions to the term "personal holding company," see section 542(c).

A foreign corporation (except one which has income to which section 543(a)(7) applies) is not a personal holding company if all of its outstanding stock during the last half of the tax year is owned by non-resident alien individuals, whether directly or indirectly through foreign estates, foreign trusts, foreign partnerships, or other foreign corporations. See section 542(c)(7).

Failure of foreign corporations to file.—If a foreign corporation which is a personal holding company fails to file or cause to be filed a true and accurate return of the tax imposed by section 541, a penalty (in addition to any other applicable penalties) shall be imposed equal to 10% of the taxes imposed by chapter 1 of the Code (including personal holding company tax). See section 6683.

Personal holding company income.—Personal holding company income is that portion of adjusted ordinary gross income (as defined in section 543(b)(2) that consists of the items of income described in section 543(a).

Specific Instructions

(Numbered to correspond with line numbers on page 1 of this schedule.)

Note: For a foreign corporation all of whose outstanding stock during the last half of the tax year is owned by nonresident alien individuals (whether directly or indirectly through foreign estates, foreign trusts, foreign partnerships, or other foreign corporations), taxable income for purposes of section 545(a) is that personal holding company income described in section 543(a)(7), reduced by deductions attributable to that income, and adjusted with respect to the income, in the manner provided in section 545(b). See section 545(d).

1. Taxable income before net operating loss deduction and special deductions.—Enter the amount shown on Form 1120, page 1, line 28, computed without regard to section 443(b) (relating to income placed on an annual basis) but as adjusted for sections 465, 189, or 280 as explained in the "Note" at the beginning of the General Instructions. If such taxable income includes any amount with respect to coal or domestic iron ore royalties, see section 631(c).

In the case of a foreign corporation (whether or not engaged in a trade or business within the U.S.) which qualifies as a personal holding company under section 542 but not as a foreign personal holding company under section 552, the amount to be entered on line 1 must be computed under section 861 rather than under section 881(a).

3. Expenses and depreciation in excess of amount allowable under section 545(b)(6).—If the corporation derived rent or other compensation for the use of, or right to use, property which was less than the sum of the allowable expenses and depreciation, complete Schedule A and enter the excess on line 3.

This adjustment must be made unless the corporation establishes, according to section 545(b)(6), that the rent or other compensation received was the highest obtainable, or if none was received, that none was obtainable; that the property was held in the course of a business carried on bona fide for profit; and either that there was reasonable expectation that the operation of the property would result in a profit, or that the property was necessary to the conduct of the business.

The burden of proof is on the corporation to sustain the excess deductions. A corporation claiming excess deductions must, instead of completing Schedule A, attach a statement claiming the deductions together with a complete statement of facts, circumstances, and arguments to support the de-

ductions. The statement must show the information required by section 1.545-2(h)(2) of the regulations.

4. Amount added to taxable income where lien in favor of the U.S. is satisfied or released.—If any amount was deducted under section 545(b)(9) in a tax year beginning before January 1, 1977, on account of a lien which is satisfied or released in a tax year beginning on or after January 1, 1977, the amount so deducted shall be included in income for purposes of section 545 as provided in section 545(b)(9). (See Public Law 94-455, section 1951(b)(9)(A) and (B).)

Where an amount is so added, the shareholders may elect to compute the tax on dividends attributable to the added income as though they were received ratably over the period the lien was in effect.

6. Federal and foreign income, war profits, and excess profits taxes.—Attach a schedule showing the nature of the tax, the tax year, and the amount. Section 545(b)(1) allows a deduction for Federal income taxes accrued during the tax year but not including the accumulated earnings tax imposed by section 531 or the personal holding company tax imposed by section 541.

The foreign tax credit is not allowed against personal holding company tax. A deduction is allowed, however, for income, war profits, and excess profits taxes accrued (or deemed paid under section 902(a)(1) or 960(a)(1)(C)) during the tax year to foreign countries and U.S. possessions if the corporation claims a credit for such taxes in computing its income tax.

7. Contributions deductible under section 545(b)(2).—For purposes of the personal holding company tax, section 545(b)(2) provides a different limitation for charitable contributions than the 5% limitation used in determining the corporate income tax. The limitations on charitable deductions of individuals are applicable but are to be applied to the amount of taxable income to which the 5% limitation applied. (See instruction 19, Form 1120.) However, taxable income shall be computed without the deduction of the amount disallowed under section 545(b)(6) (excess expenses and depreciation).

For purposes of the personal holding company tax, the contribution carryover under section 170(d) is not allowed.

8. Net operating loss for the preceding year.—Section 545(b)(4) provides that instead of the net operating loss deduction provided in section 172, a deduction is allowed for the net operating loss (as defined in section 172(c)) for the preceding tax year computed without the deductions provided in part VIII (except section 248) of subchapter B.

10. Amounts used or irrevocably set aside to pay or retire qualified indebtedness.—Subject to the limitations described in section 545(c), section 545(c)(1) allows a deduction for amounts used, or amounts irrevocably set aside (to the extent reasonable with reference to the size and terms of the indebtedness), to pay or retire qualified indebtedness (as defined in section 545(c)(3)). This deduction applies only to corporations described in section 545(c)(2).

Any corporation that claims this deduction must provide detailed information and any necessary computation showing that it is a corporation described in section 545(c)(2)(A) or to the extent that it succeeds to the deduction by reason of section 381(c)(15), it must submit detailed information showing that the distributor or transferor corporation was a corporation described in section 545(c)(2)(A).

Corporation succeeding to the deduction by reason of section 381(c)(15) must make

necessary adjustments to Schedule C-2 to take into account the indebtedness.

Complete Schedule C-2 in all cases where qualified indebtedness has changed during the tax year, even though no payments or set-asides were made and no deduction is claimed.

The corporation must furnish all of the facts and circumstances upon which it relies to establish the reasonableness of the amount claimed as a deduction.

Attach a statement showing a description of the indebtedness, the date incurred or assumed, the date due, and the plan for payment or retirement of the obligations (indicating date and method of adoption). If the plan is covered by a mandatory sinking fund agreement or similar arrangement, submit a copy of the indenture or agreement by which the fund was established and under which it is maintained.

The statement must also include: (1) the amount of indebtedness on January 1, 1964; (2) aggregate of amounts used or irrevocably set aside to pay or retire the indebtedness in prior tax years beginning on and after January 1, 1964; (3) amount actually used during the tax year to pay or retire the indebtedness; and (4) amount irrevocably set aside during the tax year to pay or retire the indebtedness but not actually used during the tax year for that purpose. In addition, the statement shall indicate whether the deduction claimed represents (a) an amount actually used during the tax year to pay or retire the indebtedness, (b) an amount irrevocably set aside during the tax year to pay or retire the indebtedness, or (c) a combination of both (a) and (b).

If the amount claimed as a deduction on line 10 represents an amount irrevocably set aside to pay or retire the indebtedness, attach a statement explaining the circumstances and method by which it was irrevocably set aside.

Section 545(c)(4) allows corporations to elect to treat as nondeductible certain amounts used or irrevocably set aside to pay or retire qualified indebtedness which are otherwise deductible under section 545(c)(1). See section 1.545-3(e) of the regulations for time and manner of making the election.

11. Deduction for dividends paid.—Enter the amount of the dividends-paid deduction as computed in Schedule B. (Section 561.)

In determining the deduction for dividends paid, the rules in section 562 apply.

14. Dividends paid after close of tax year (excluding deficiency dividends as defined in section 547(d)).—Enter on line 14 and not in Schedule B, the amount of the dividends paid after the close of the tax year and on or before the 15th day of the third month thereafter, if the corporation elects in its return for the tax year to have the dividends considered as paid during that tax year.

Neither line 11 nor line 14 should include deficiency dividends (those dividends which are paid pursuant to a specific procedure set forth in section 547).

15. Undistributed personal holding company income of certain foreign corporations.—If 10% or less in value of the outstanding stock of a foreign corporation is owned (see section 958(a)) during the last half of the taxable year by U.S. persons, undistributed personal holding company income is the amount determined by multiplying the undistributed personal holding company income (as determined without regard to this instruction) by the percentage in value of the corporation's outstanding stock which is the greatest percentage in value of its outstanding stock so owned by U.S. persons on any one day during such period. (Section 545(a).)