

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

▶ Attach to your tax return.

1981

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—see instructions for line 1)	1	
	2 Contributions deducted in figuring line 1 (Form 1120, line 19)	2	
	3 Excess expenses and depreciation under section 545(b)(6) (Schedule A, line 2)	3	
	4 Amount added to taxable income when a lien in favor of the U.S. is satisfied or released	4	
	5 Total—Add lines 1 through 4	5	
DEDUCTIONS	6 Federal and foreign income, war profits, and excess profits taxes not deducted in figuring line 1 (attach schedule)	6	
	7 Contributions deductible under section 545(b)(2) (attach schedule—see line 7 instructions for limitation)	7	
	8 Net operating loss for the preceding tax year (deductible under section 545(b)(4))	8	
	9 a Net capital gain (from separate Schedule D (Form 1120), line 10)	9a	
	b Less: Income tax on this net capital gain (see section 545(b)(5)—attach computation)	9b	
	10 Amounts used or irrevocably set aside to pay or retire qualified indebtedness (Schedule C-1, line 5)	10	
	11 Deduction for dividends paid (other than dividends paid after the end of the tax year (Schedule B, line 5))	11	
	12 Total—Add lines 6 through 11	12	
	13 Subtract line 12 from line 5	13	
	14 Dividends paid after the end of the tax year (other than deficiency dividends defined in section 547(d)) but not more than the smaller of line 13 or 20% of Schedule B, line 1	14	
15 Undistributed personal holding company income—Subtract line 14 from line 13. Foreign corporations—see instructions for line 15	15		
TAX	If your tax year ends after 12/31/81 complete line 17, do NOT complete line 16		
	16 Personal holding company tax for tax years ending on or before 12/31/81 (70% of line 15)	16	
	17 Personal holding company tax for tax years beginning before 1/1/82 and ending after 12/31/81		
	(a) 70% of line 15	17a	
	(b) Multiply (a) by the fraction $\frac{\text{number of days in tax year before 1/1/82}}{\text{number of days in tax year}}$	17b	
	(c) 50% of line 15	17c	
(d) Multiply (c) by the fraction $\frac{\text{number of days in tax year after 12/31/81}}{\text{number of days in tax year}}$	17d		
(e) Tax, add lines (b) and (d)	17e		

INFORMATION REQUIRED UNDER SECTION 6501(f). If the information on income and stock ownership is not submitted with the corporation's return, the limitation period for assessment and collection of personal holding company tax is 6 years.

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 received, Amounts received under contracts, Amounts received from estates/trusts, Total personal holding company income.

Stock Ownership. Enter the names and addresses of the individuals who together owned, 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 for line 3)

Table for Schedule A with columns: a. Kind of property, b. Date acquired, c. Cost or other basis, d. Depreciation, e. Repairs, insurance, and other expenses, f. Total of columns d and e, g. Income from rent or other compensation, h. Excess (col. f less col. g).

2 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 for line 11)

Table for Schedule B with 5 rows: Taxable dividends paid, Consent dividends, Taxable distributions, Dividend carryover, 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 for line 10)

Table for Schedule C-1 with 5 rows: Amount actually used, Amount irrevocably set aside, Total, Reduction for amounts described, Subtract line 2 from line 1c, Part of amount shown on line 3, 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 at 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.

1 Enter indebtedness incurred after 1933 and before 1964 that was outstanding on the first day of the first tax year beginning after 1963	
2 Amounts included in line 1 that were irrevocably set aside before the first day of the first tax year beginning after 1963 to pay or retire indebtedness for a contract (section 545(c)(3)(C))	
3 Subtract line 2 from line 1	
4 Total indebtedness incurred after 1963 and before this tax year for making a payment or set-aside in the same tax year. Enter this indebtedness only if the deduction otherwise allowed in section 545(c)(1) for this payment or set-aside was treated as nondeductible by the election in section 545(c)(4). (See section 545(c)(3)(A)(ii).)	
5 Total—Add lines 3 and 4	
6 a Total amounts actually used or irrevocably set aside (including amounts treated as nondeductible by the election in section 545(c)(4)) to pay or retire qualified indebtedness in tax years beginning after 1963 (not including this tax year)	
b Total pro rata reductions in tax years beginning after 1963 (not including this tax year) for the disposition of certain property after 1963 (section 545(c)(6))	
c Total amounts that ceased to be outstanding during tax years beginning after 1963 (not including this tax year) other than by a payment or set-aside (attach statement)	
7 Subtract line 6 from line 5	
8 Total indebtedness incurred during the tax year for making a payment or set-aside in the same tax year. Enter indebtedness only if the deduction otherwise allowed in section 545(c)(1) for the payment or set-aside is treated as nondeductible by the election in section 545(c)(4). (See section 545(c)(3)(A)(ii).)	
9 Total—Add lines 7 and 8	
10 a Amounts included in line 9 that, after 1963 and before payment or set-aside, were owed to a person who then owned (or was considered as owning under section 318(a)) more than 10% in value of your outstanding stock. NOTE:—If you were a personal holding company for the preceding tax year, enter amounts that were owed at any time on or after the first day of this tax year	
b Pro rata reduction for the disposition of certain property during the tax year under section 545(c)(6)	
11 Subtract line 10 from line 9	
12 Amounts in line 11 which ceased to be outstanding during the tax year other than by a payment or set-aside (attach statement)	
13 Qualified indebtedness before payments and set-asides—Subtract line 12 from line 11	
14 Amounts used or irrevocably set aside (including amounts treated as nondeductible by the election in section 545(c)(4)) during the tax year to pay or retire an amount shown on line 13	
15 Qualified indebtedness at the end of the tax year—Subtract line 14 from line 13	

General Instructions

(References are to the Internal Revenue Code.)

New Law.—Effective for tax years beginning after 12/31/81, the tax rate for personal holding companies has been reduced from 70% to 50%. See instruction for line 17 for more details.

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 (defined in section 543(b)(2)) for the tax year is personal holding company income (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 5 or fewer individuals.

An organization described in section 401(a), 501(c)(17), or 509(a), or a part of a trust permanently set aside or to be used exclusively for the purposes described in section 642(c) is considered an individual, except as provided in section 701(o) of P.L. 95-600. (See section 542(a)(2).)

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

A foreign corporation (except one that 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 nonresident alien individuals, directly or indirectly. See section 542(c)(7).

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

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 (directly or indirectly), taxable income for section 545(a) is personal holding company income described in section 543(a)(7), reduced by deductions for that income, and adjusted for the income, as provided in section 545(b).

1. Taxable income before net operating loss deduction and special deductions.—

Enter the amount shown on Form 1120, page 1, line 28, figured without section 443 (b) (income placed on an annual basis) but adjusted for sections 189, 280, and 465.

Section 465 contains special "at risk" rules which limit the losses of a Personal Holding Company. The "at risk" rules apply to a Personal Holding Company engaged in any activity (except the holding of real property, other than mineral property) as a trade or business or for the production of income.

Section 465(d) losses are limited to the total amount for which the personal holding company is "at risk" for each separate activity at the end of the tax year. The corporation is "at risk" for an activity for amounts described in sections 465(b)(1) and (2). The amounts borrowed are not considered to be "at risk" if the amounts are excluded under sections 465(b)(3) and (4).

If the corporation is involved in more than one activity, and one or more of the activities incurs a loss for the year, the losses must be reported separately. The corporation should attach a schedule showing the amount "at risk" and gross income and

deductions for the activity(ies) with the loss(es).

If a loss from an activity is more than the amount the Personal Holding Company is "at risk" for the activity 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.)

If the Personal Holding Company disposes of an asset in, or its interest in (either total or partial) an activity to which the "at risk" rules apply, combine the gain or loss on the disposition with the profit or loss from the activity to determine the net profit or loss from the activity. If the Personal Holding Company has a net loss, it may be limited because of the "at risk" rules.

Any loss from an activity not allowed for the corporation's 1980 tax year by section 465 is treated as a deduction for the activity in 1981. This deduction is entered on line 26 of Form 1120. (See section 465(a).)

If taxable income includes coal or domestic iron ore royalties, see section 631(c).

See section 189 for limitations on the deductions for real property construction period interest and taxes (other than low-income housing).

See section 280 for certain expenditures incurred in the production of films, books, or similar property.

A foreign corporation (whether or not engaged in a trade or business within the U.S.) that qualifies as a personal holding company under section 542 but not as a foreign personal holding company under section 552, enters on line 1 the amount figured under section 861 and not under section 881(a).

3. Expenses and depreciation in excess of amount allowable under section 545(b)(6).—If the corporation earned rent or other compensation for the use of, or right to use, property that was less than the total 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. If none was received, the corporation must show that none was obtainable. The property must be held in the course of a business carried on bona fide for profit. There must be 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. A corporation claiming excess deductions must, instead of completing Schedule A, attach a statement claiming the deductions with a complete statement of facts, circumstances, and arguments to support the deductions. The statement must show the information required by regulations section 1.545-2(h)(2).

4. Amount added to taxable income when a 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, for a lien that is satisfied or released in a tax year beginning on or after January 1, 1977, the amount deducted must be included in income under section 545. (See P.L. 94-455, sections 1951(b)(9)(A) and (B).)

If an amount is added, the shareholders may elect to figure the tax on dividends from

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 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) or 960(a)(1)(C)) during the tax year to foreign countries and U.S. possessions if the corporation claims a credit for the taxes in figuring its income tax.

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

The contribution carryover under section 170(d) is not allowed for figuring the personal holding company tax.

8. Net operating loss for the preceding tax 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 figured 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 irrevocably set aside (to the extent reasonable), 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). To the extent that it succeeds to the deduction by 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).

A corporation succeeding to the deduction by section 381(c)(15) must make necessary adjustments to Schedule C-2 to take the indebtedness into account.

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

The corporation must 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) total amounts used or irrevocably set aside to pay or retire the indebtedness in earlier 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 must show if 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 regulations section 1.545-3(e) for time and manner of making the election.

11. Deduction for dividends paid.—Enter the amount of the dividends-paid deduction from Schedule B. The rules in section 562 apply in determining the deduction for dividends paid.

14. Dividends paid after the end of the tax year (other than deficiency dividends defined in section 547(d)).—Enter on line 14, and not in Schedule B, the dividends paid after the end of the tax year and by the 15th day of the third month after the end of the tax year if the corporation elects to have the dividends considered as paid during that tax year.

Neither line 11 nor line 14 should include deficiency dividends paid under 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 tax year by U.S. persons, undistributed personal holding company income is the amount determined by multiplying the undistributed personal holding company income (determined without this instruction) by the percentage in value of the corporation's outstanding stock which is the greatest percentage in value of its outstanding stock owned by U.S. persons on any one day during the period.

17. The personal holding company tax rate was reduced from 70% to 50% by the Economic Recovery Tax Act of 1981, effective for tax years beginning after 12/31/81. Since this reduction is a change in tax rates to which the proration rules of section 21 apply, fiscal year 1981-82 corporations that owe personal holding company tax must prorate their tax to reflect this change.