SCHEDULE PH (Form 1120)

Department of the Treasury
Internal Revenue Service

Computation of U.S. Personal Holding Company Tax

▶ **Attach to your tax return.**

OMB No. 1545-0123

1984

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	Total—Add lines 1 through 3		4	
5	Federal and foreign income, war profits, and excess profits taxes not deducted in figuring line 1 (attach schedule)		5	
6	Contributions deductible under section 545(b)(2) (see line 6 instructions for limitation)		6	
7	Net operating loss for the preceding tax year (deductible under section 545(b)(4))		7	
8	a Net capital gain (from separate Schedule D (Form 1120), line 10)	8a		
	b **Less:** Income tax on this net capital gain (see section 545(b)(5)—attach computation)	8b	8c	
9	Amounts used or irrevocably set aside to pay or retire qualified indebtedness (see instructions for			

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.

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)

a. Kind of property	b. Date acquired	c. Cost or other basis	d. Depreciation	e. Repairs, insurance, and other expenses (section 162) (attach schedule)	f. Total of columns d and e	g. Income from rent or other compensation	h. Excess (col. f less col. g)
1							

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 10)

1	Taxable dividends paid (do not include dividends considered as paid in the preceding tax year under section 563, or deficiency dividends as defined in section 547)	1	
2	Consent dividends (attach Forms 972 and 973)	2	
3	Taxable distributions—Add lines 1 and 2	3	
4	Dividend carryover from first and second preceding tax years (attach computation)	4	
5	Deduction for dividends paid—Add lines 3 and 4. Enter here and on line 10, page 1	5	

General Instructions

(References are to the Internal Revenue Code, unless otherwise noted.)

Purpose of Form

This schedule is used to figure personal holding company tax.

Who Must File

Every personal holding company must have this schedule attached to its income tax return.

Definitions

Personal Holding Company.—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 as defined in section 543(a); **and**
- 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 not more than 5 individuals.

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

Certain personal holding companies may now elect to be treated as a regulated investment company and be taxed at the highest corporate rate (46%) on their undistributed taxable income. For definitions, limitations, and procedures, see sections 851 and 852.

Individual.—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 purpose described in section 642(c) is also considered an individual, except as provided in section 701(o) of Public Law 95-600. See section 542(a)(2).

Foreign Corporation.—A foreign corporation 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. An exception is a foreign corporation that has income to which section 543(a)(7) applies.

Foreign Corporations Must File a Return.—If a foreign corporation that is a personal holding company does not file Schedule PH as required, the corporation will be charged a penalty. The penalty is 10% of the corporation's Federal income taxes (including the personal holding company tax) and is in addition to any other penalties charged the corporation. See section 6683.

Note: *For a foreign corporation all of whose outstanding stock during the last half of the tax year is owned directly or indirectly by nonresident alien individuals, taxable income for section 545(a) is only income received under a contract for personal services as described in section 543(a)(7). This income must be reduced by deductions for that income, and have special adjustments made to the income, as provided in section 545(b).*

Specific Instructions

These instructions are numbered to correspond with the line numbers on page 1 of Schedule PH (Form 1120). Other line items on the form are self-explanatory.

Additions

Line 1—Taxable income before net operating loss deduction.—Enter the amount shown on Form 1120, page 1, line 28. If you figured the income on line 28 using section 443(b), (placing the income on an annual basis), refigure it without that section. However, adjust it for sections 189, 280, and 465.

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

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

Section 465 contains special at risk rules that generally limit a personal holding company's losses. The at risk rules may apply to a personal holding company engaged in any activity as a trade or business or for the production of income. However, the rules do not apply to the holding of real property other than mineral property.

Section 465(d) losses are generally limited to the total for which the personal holding company is at risk for each separate activity at the end of the tax year. Generally, 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 they are excluded under sections 465(b)(3) and (4).

If the corporation is involved in one, or more than one, activity, one or more of which incurs a loss for the year, report the losses for each activity separately. Attach **Form 6198**, Computation of Deductible Loss From an Activity Described in Section 465(c), showing the amount at risk and gross income and deductions for the activities with the losses.

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 of that loss that is included on line 28 of Form 1120 cannot be more than the amount at risk for the activity.

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.

Treat any loss from an activity not allowed for the corporation's 1983 tax year by section 465 as a deduction for the activity in 1984. Include this deduction on line 26 of Form 1120. See section 465(a).

If you are a foreign corporation (whether or not engaged in a trade or business within the United States) that qualifies as a personal holding company under section 542 but not as a foreign personal holding company under section 552, enter on line 1 the amount figured under section 861 and not under section 881(a).

Line 2—Contributions.—See instructions for Form 1120.

Line 3—Expenses and depreciation.—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.

You must make this adjustment unless you establish, according to section 545(b)(6), that the rent or other compensation the corporation received was the highest obtainable. If none was received, you must show that none was obtainable. The property must be held in the course of a business carried on for profit. There must be a reasonable expectation that the property's operation would result in a profit, or that the property was necessary to conduct the business.

The burden of proof is on the corporation. For a corporation with excess deductions you must, instead of completing Schedule A, attach a statement reporting the deductions with the complete facts, circumstances, and arguments to support them. The statement must include the information required by Regulations section 1.545-2(h)(2).

Deductions

Line 5—Federal and foreign income, war profits, and excess profits taxes.—Attach a schedule showing the kind of tax, the tax year, and the amount. Under section 545(b)(1), the company can deduct Federal income taxes accrued during the tax year, but not the accumulated earnings tax under section 531 or the personal holding company tax under 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 considered paid under sections 902(a) or 960(a)(1)) during the tax year to foreign countries and U.S. possessions. This is true if the corporation claims a credit for the taxes in figuring its income tax.

Line 6—Contributions.—Section 545(b)(2) provides a different limitation for charitable contributions for figuring the personal holding company tax than the 10% 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 10% limitation applied. However, figure taxable income without deducting the amount disallowed under section 545(b)(6), (excess expenses and depreciation).

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

Line 7—Net operating loss.—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.

Line 9—Amounts used or irrevocably set aside.—Subject to the limitations 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 taking this deduction must provide detailed information and any necessary computation showing 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 must adjust its qualified indebtedness to take this indebtedness into account.

The corporation must establish that the amount reported as a deduction is reasonable. Attach a statement giving a description of the indebtedness, date incurred or assumed, date due, and 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, include a copy of the indenture or agreement by which the fund was established and under which it is maintained.

The statement must also include:

- Amount of indebtedness on January 1, 1964; **and**
- Total amounts used or irrevocably set aside to pay or retire the indebtedness in earlier tax years beginning on and after January 1, 1964; **and**
- Amount actually used during the tax year to pay or retire the indebtedness; **and**
- 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.

Also, the statement must indicate if the deduction claimed represents:

- An amount actually used during the tax year to pay or retire the indebtedness; **or**
- An amount irrevocably set aside during the tax year to pay or retire the indebtedness; **or**
- A combination of the two.

If the amount reported as a deduction on line 9 represents an amount irrevocably set aside, and not used to pay or retire the indebtedness, attach a statement explaining the circumstances and method by which it was irrevocably set aside.

The corporation must also provide a schedule for amounts described in section 545(c)(5) that reduce the amounts used or irrevocably set aside to pay or retire qualified indebtedness.

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 that are otherwise deductible under section 545(c)(1). See Regulations section 1.545-3(e) for time and manner of making the election.

Line 10—Deduction for dividends paid.— Enter this deduction from Schedule B. The rules in section 562 apply in determining the deduction for dividends paid.

Line 13—Dividends paid after the end of the tax year.—Enter on line 13, and not in Schedule B, the dividends paid after the end of the tax year and before the 16th day of the third month following the end of the tax year, if the corporation elects to have the dividends considered as paid during that tax year.

Do not include on line 10 or line 13 deficiency dividends paid under section 547.

Line 14—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 determined by multiplying the undistributed personal holding company income (determined without this instruction) by the percentage in value of the corporation's outstanding stock. This percentage is figured by using the greatest percentage in value of its outstanding stock owned by the U.S. persons on any one day during the period.