



# Instructions

Section references are to the Internal Revenue Code.

## Purpose of Form

Complete Form 5452 if the corporation made nondividend distributions to shareholders under section 301, section 1368(c)(3), or section 1371(e).

## Who Must File

All corporations that have made nondividend distributions to their shareholders must file Form 5452. If the corporation is a member of a consolidated group, the parent corporation must file Form 5452.

An S corporation should file this form only for distributions made under section 1368(c)(3). However, a corporation making cash distributions under section 1371(e) during the post-termination transition period from being an S corporation should file this form.

## How and When To File

A **calendar tax year** corporation must attach Form 5452 and the items listed under *Supporting Information* to its income tax return due for the tax year in which the nondividend distributions were made.

A **fiscal tax year** corporation must attach Form 5452 and the items listed under *Supporting Information* to its income tax return due for the first fiscal year ending after the calendar year in which the nondividend distributions were made.

## Nondividend Distributions

Nondividend distributions are distributions made to shareholders in the normal course of business.

They are considered fully or partially nontaxable as dividends only because the paying corporation's current and accumulated earnings and profits are less than the distributions. Nondividend distributions do not include tax-free stock dividends or distributions exchanged for stock in liquidations or redemptions.

## Supporting Information

1. Attach the following information to Form 5452. See Revenue Procedure 75-17, 1975-1 C.B. 677.
  - A computation of earnings and profits for the tax year (see the example of a filled-in worksheet on page 3 and a blank worksheet on page 4). If the corporation was required to complete Schedule M-1 (Form 1120) or Schedule M-3 (Form 1120) for the tax year, also attach a schedule of the differences between the earnings and profits computation and the Schedule M-1 or Schedule M-3.
  - A year-by-year computation of the accumulated earnings and profits, and a schedule of differences since the origin of the company, February 28, 1913, or the last year that information was furnished, whichever is later.
  - If the corporation was required to complete Schedule L (Form 1120) for the tax year, a tax basis balance sheet. Show application of the net differences to the balance sheet items as shown on Schedule L. Explain any further adjustments necessary to figure the balance sheet on a tax

basis. If the corporation used an accelerated method of depreciation, attach a schedule of the depreciation (and any amortization) figured under the straight line method. Also attach a reconciliation of any difference between that amount and the amount deducted on Form 1120 or other comparable return. See Exhibits B and C in Rev. Proc. 75-17.

2. The parent of a consolidated group must also attach the following information.

- A schedule that shows the allocation of the consolidated tax liability and identifies the method used. (Indicate if an intercompany agreement is in effect.)
- A schedule that shows the taxable income or loss of each member of the consolidated group.
- For each member of a consolidated group that made nondividend distributions, provide the information requested in Item 1 above.

## E. Corporate Distributions

Complete **Part E**, Corporate Distributions, showing the taxable and nontaxable status of distributions reported to shareholders. The percent of distributions that is taxable and the percent that is nontaxable are based on the amounts shown on each line in the column labeled "Total Amount Paid." If noncash distributions were made, attach a statement and show both the tax bases and fair market values.

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

<b>Recordkeeping</b> . . . . .	28 hr., 13 min.
<b>Learning about the law or the form</b> . . . . .	58 min.
<b>Preparing the form</b> . . . . .	2 hr., 24 min.
<b>Copying, assembling, and sending the form to the IRS</b> . . . . .	16 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

**Example of a Filled-In Worksheet for Figuring Current Year Earnings and Profits**  
**XYZ Corporation, EIN 00-000000**  
**123 Main Street**  
**Anycity, Yourstate 20200**

Date Incorporated: <u>1/1/99</u> Method of Accounting: <u>Accrual</u>	Retained Earnings Shown in Books		Earnings and Profits Current Year		Accumulated Earnings and Profits Credit Balance	Key
	Debit	Credit	Debit	Credit		
<b>Balance forward 12/31/04</b>		\$225,000			\$20,900	
<b>2005</b>						
<b>1</b> Taxable income* from Form 1120, line 28 (or comparable line of other income tax return) . . . . .		214,700		\$214,700		a
<b>2</b> Federal income taxes per books and tax return	\$60,000		\$60,000			a
<b>3</b> Excess of capital losses over capital gains (tax basis)	3,600		3,600			a
<b>4</b> Depreciation adjustment on earnings and profits (section 312(k)) . . . . .				24,000		
<b>5</b> Depreciation adjustment on sale of property . . . . .			4,000			
<b>6</b> Total itemized expenses from line 5, Schedule M-1	11,050					
<b>a</b> Travel and entertainment . . . . .	\$200		200			a
<b>b</b> Life insurance premium greater than cash surrender value (CSV) . . . . .	9,500		9,500			a
<b>c</b> Nondeductible interest paid for tax-exempt bonds	850		850			a
<b>d</b> Contributions carryover . . . . .	500		500			a
<b>e</b> Other (list separately) . . . . .						
<b>7</b> Total itemized income from line 7, Schedule M-1		14,500				
<b>a</b> Life insurance proceeds greater than CSV . . . . .	6,000			6,000		a
<b>b</b> Bad debt recovery (not charged against taxable income) . . . . .	3,500					b
<b>c</b> Tax-exempt interest on municipal bonds . . . . .	5,000			5,000		a
<b>d</b> Other (list separately) . . . . .						
<b>8</b> Refund of prior year Federal income taxes . . . . .						
<b>9</b> Reserve for contingencies . . . . .	10,000					c
<b>10</b> Additional adjustments: ..... .....						
<b>11</b> Totals . . . . .			78,650	249,700		
<b>Current Year Earnings and Profits</b> . . . . .				171,050		
<b>Cash Distributions:</b>						
<i>Preferred stock:</i> 3/15/05, 6/15/05, 9/15/05, 12/15/05 10,000 Shares at \$1.00/Share × 4 quarters = \$40,000	40,000		40,000			a
<i>Common stock:</i>						
1. 3/31/05 - 90,000 Shares at \$1.00 = \$90,000						
From current year earnings and profits . . . . . 72.81% 65,525			65,525			a
From accumulated earnings and profits . . . . . 23.22% 20,900					(20,900)	a
Total distribution from earnings and profits . . . . . 96.03% 86,425						
From other distribution . . . . . 3.97% 3,575						
Total distribution . . . . . 100% 90,000						
2. 9/30/05 - 90,000 Shares at \$1.00 = \$90,000						
From current year earnings and profits . . . . . 72.81% 65,525			65,525			a
From other distribution . . . . . 27.19% 24,475						
Total distribution . . . . . 100% 90,000						
Total cash distributions . . . . .		220,000				
Totals . . . . .		304,650	229,200	171,050	171,050	
Current year change . . . . .		75,450			(20,900)	
<b>Balance forward 12/31/05</b> . . . . .		\$149,550			\$—0—	

**Explanation of Key**

- a - Identical items on the same line.
- b - Item offset in 2003. Bad debt reserve method used for book accounting.
- c - Item partially offset.
- \* Taxable income before net operating loss deduction and special deductions.

## Worksheet for Figuring Current Year Earnings and Profits

	Retained Earnings Shown in Books		Earnings and Profits Current Year		Accumulated Earnings and Profits Credit Balance	Key
	Debit	Credit	Debit	Credit		
Date Incorporated: _____						
Method of Accounting: _____						
<b>Balance forward 12/31/</b> _____						
<b>Year</b> _____						
<b>1</b> Taxable income* from Form 1120, line 28 (or comparable line of other income tax return) . . .						
<b>2</b> Federal income taxes per books and tax return. . .						
<b>3</b> Excess of capital losses over capital gains (tax basis)						
<b>4</b> Depreciation adjustment on earnings and profits (section 312(k)) . . . . .						
<b>5</b> Depreciation adjustment on sale of property . . .						
<b>6</b> Total itemized expenses from line 5, Schedule M-1						
<b>a</b> Travel and entertainment . . . . .						
<b>b</b> Life insurance premium greater than cash surrender value (CSV) . . . . .						
<b>c</b> Nondeductible interest paid for tax-exempt bonds						
<b>d</b> Contributions carryover . . . . .						
<b>e</b> Other (list separately) . . . . .						
<b>7</b> Total itemized income from line 7, Schedule M-1						
<b>a</b> Life insurance proceeds greater than CSV . . .						
<b>b</b> Bad debt recovery (not charged against taxable income) . . . . .						
<b>c</b> Tax-exempt interest on municipal bonds . . .						
<b>d</b> Other (list separately) . . . . .						
<b>8</b> Refund of prior year Federal income taxes . . .						
<b>9</b> Reserve for contingencies . . . . .						
<b>10</b> Additional adjustments: ..... .....						
<b>11</b> Totals . . . . .						
<b>Current Year Earnings and Profits</b> . . . . .						
<b>Cash Distributions:</b>						
From current year earnings and profits . . . . . %						
From accumulated earnings and profits . . . . . %						
Total distribution from earnings and profits . . . . . %						
From other distribution . . . . . %						
Total distribution . . . . . 100%						
Total cash distributions . . . . .						
Totals . . . . .						
Current year change . . . . .						
<b>Balance forward 12/31/</b> _____						

\* Taxable income before net operating loss deduction and special deductions.

