



# Instructions for Form 1120-F

## U.S. Income Tax Return of a Foreign Corporation

Section references are to the Internal Revenue Code unless otherwise noted.

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### Future Developments

For the latest information about developments related to Form 1120-F and its instructions, such as legislation enacted after they were published, go to [www.irs.gov/form1120f](http://www.irs.gov/form1120f).

### What's New

**New Schedule W**, Overpayment Resulting From Tax Deducted and Withheld Under Chapter 3, on page 7 of the form, replaces the Worksheet for line 8b that previously appeared in these instructions.

**Form 8949 and Schedule D (Form 1120)**. For 2012, many transactions that, in previous years, were reported on Schedule D (Form 1120) are now reported on Form 8949, Sales and Other Dispositions of Capital Assets. Form 8949 must be completed and attached to Schedule D (Form 1120), which is required as an attachment to Form 1120-F, Section II, line 8. See Form 8949, Schedule D (Form 1120), and the related instructions.

**Principal Business Activity Codes**. The Principal Business Activity Codes (PBA's), located at the end of these instructions, have been updated and revised to reflect updates to the North American Industry Classification System (NAICS).

### Photographs of Missing Children

The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in instructions on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

### Unresolved Tax Issues

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should. The service is free, confidential, tailored to meet your needs, and is available for businesses, as well as individuals.

The corporation can contact the TAS as follows:

- Call the TAS toll-free line at 1-877-777-4778 to see if the corporation is eligible for assistance. Individuals who are deaf, hard of hearing, or have a speech disability and who have access to TTY/TDD equipment can call 1-800-829-4059.
- Call or write the corporation's local taxpayer advocate, whose phone number and address are listed in the local telephone directory and in Pub. 1546, Taxpayer Advocate Service – Your Voice at the IRS.
- File Form 911, Request for Taxpayer Advocate Service Assistance (And Application for Taxpayer Assistance Order), or ask an IRS employee to complete it on the corporation's behalf.
- For more information, go to [www.irs.gov/advocate](http://www.irs.gov/advocate).

### How To Get Forms and Publications

**Internet**. You can access the IRS website 24 hours a day, 7 days a week, at IRS.gov to:

- Download forms, instructions, and publications;
- Order IRS products online;
- Research your tax questions online;
- Search publications online by topic or keyword;
- View Internal Revenue Bulletins (IRBs) published in the last few years; and
- Sign up to receive local and national tax news by email.

**IRS Tax Products DVD**. You can order Pub. 1796, IRS Tax Products DVD, and obtain the following:

- Current-year forms, instructions, and publications.

- Prior-year forms, instructions, and publications.
- Internal Revenue Code – Title 26 of the U.S. Code.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions (FAQs).
- Tax Topics from the IRS telephone response system.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.
- Two releases during the year.
- The first release will ship early in January.
- The final release will ship early in March.

Buy the DVD from the National Technical Information Service (NTIS) at [www.irs.gov/cdorders](http://www.irs.gov/cdorders) for \$30 (no handling fee) or call 1-877-233-6767 toll-free to buy the DVD for \$30 (plus a \$6 handling fee).

**By phone and in person.** You can order forms and publications by calling 1-800-TAX-FORM (1-800-829-3676). You can also get most forms and publications at your local IRS office.

## General Instructions

### Purpose of Form

Use Form 1120-F to report the income, gains, losses, deductions, credits, and to figure the U.S. income tax liability of a foreign corporation. Also, use Form 1120-F to claim any refund that is due, to transmit Form 8833, Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b), or to calculate and pay a foreign corporation's branch profits tax liability and tax on excess interest, if any, under section 884.

### Who Must File

Unless one of the exceptions under *Exceptions From Filing*, below, applies or a special return is required (see *Special Returns for Certain Organizations*, later), a foreign corporation must file Form 1120-F if, during the tax year, the corporation:

- Was engaged in a trade or business in the United States, whether or not it had U.S. source income from that trade or business, and whether or not income from such trade or business is exempt from United States tax under a tax treaty. See also *Protective Return Filers*, later.
- Had income, gains, or losses treated as if they were effectively connected with the conduct of a U.S. trade or business. (See *Section II*, later.)
- Was not engaged in a trade or business in the United States, but had income from any U.S. source, if its tax liability has not been fully satisfied by the withholding of tax at source under chapter 3 of the Code.

This form is also required to be filed by:

- A foreign corporation making a claim for the refund of an overpayment of tax for the tax year. See *Simplified Procedure for Claiming a Refund of U.S. Tax Withheld at Source*, later.
- A foreign corporation claiming the benefit of any deductions or credits. See *Other Filing Requirements*, later.
- A foreign corporation making a claim that an income treaty overruled or modified any provision of the Internal Revenue Code with respect to income derived by the foreign corporation at any time during the tax year, and such position is required to be disclosed on Form 8833. See the instructions for Form 8833 for who must file Form 8833, and who is exempt from filing by reason of a waiver provided under section 6114 and the regulations thereunder. If Form 8833 is required, complete item W on page 2 of the form.

Others that must file Form 1120-F include:

- A Mexican or Canadian branch of a U.S. mutual life insurance company. The branch must file Form 1120-F on the same basis as a foreign corporation if the U.S. company elects to exclude the branch's income and expenses from its own gross income.
- A receiver, assignee, or trustee in dissolution or bankruptcy, if that person has or holds title to virtually all of a foreign corporation's property or business. Form 1120-F is due whether or not the property or business is being operated (see *Who Must Sign*, later, for additional information).
- An agent in the United States, if the foreign corporation has no office or place of business in the United States when the return is due.

**Treaty or Code exemption.** If the corporation does not have any gross income for the tax year because it is claiming a treaty or Code exemption, it must still file Form 1120-F to show that the income was exempted by treaty or Code. In this case the corporation should only complete the identifying information (including items A through M) at the top of page 1 of Form 1120-F and a statement that indicates the nature and amount of the exclusions claimed. In the case of a treaty exemption, the corporation may complete item W at the top of page 2 of Form 1120-F, which includes completing and attaching Form 8833, if required in lieu of attaching a statement. In the case of a Code exemption under section 883, the corporation must attach Schedule S (Form 1120-F) in lieu of attaching a statement.

**Note.** If the corporation does not have any gross income for the tax year because it is claiming a treaty or Code exemption, and there was withholding at source, the

corporation must complete the *Computation of Tax Due or Overpayment* section at the bottom of page 1 of Form 1120-F (in addition to the information specified in the previous paragraph) to claim a refund of the amounts withheld.

**Entities electing to be taxed as foreign corporations.** A foreign eligible entity that elected to be classified as a corporation must file Form 1120-F under the same circumstances as a per se corporation and an entity that defaults into corporate status unless it is required to file a special return listed under *Special Returns for Certain Organizations*, later. The entity must also have filed Form 8832, Entity Classification Election. A foreign corporation filing Form 1120-F for the year of the election must attach a copy of Form 8832 to its Form 1120-F. See *Form 8832*, later, for additional information.

**Protective return.** If a foreign corporation conducts limited activities in the United States in a tax year that the foreign corporation determines does not give rise to gross income which is effectively connected with the conduct of a trade or business within the United States, the foreign corporation should follow the instructions for filing a protective return to safeguard its right to receive the benefit of the deductions and credits attributable to that gross income under Regulations section 1.882-4(a)(3)(vi) in the event that it is subsequently determined that the original determination was incorrect. A foreign corporation should also file a protective return if it determines initially that it has no U.S. tax liability under the provisions of an applicable income tax treaty (for example, because its income is not attributable to a permanent establishment in the United States). See *Protective Return Filers*, later. A foreign corporation that does not file a return will lose the right to take deductions and credits against effectively connected income. See *Other Filing Requirements*, later.

### Exceptions From Filing

A foreign corporation does not have to file Form 1120-F if any of the following apply:

- It did not engage in a U.S. trade or business during the year, and its full U.S. tax was withheld at source.
- Its only U.S. source income is exempt from U.S. taxation under section 881(c) or (d).
- It is a beneficiary of an estate or trust engaged in a U.S. trade or business, but would itself otherwise not need to file.

### Electronic Filing

Foreign corporations may generally electronically file (*e-file*) Form 1120-F, related forms, schedules, and attachments, Form 7004 (automatic

extension of time to file), and Forms 940 and 941 (employment tax returns). If there is a balance due, the corporation may authorize an electronic funds withdrawal while e-filing. Form 1099 and other information returns may also be electronically filed.

For more information, visit [www.irs.gov/Filing](http://www.irs.gov/Filing). Click on the links for *Self-Employed & Small Businesses* and *Corporations*.

**Exceptions.** The option to e-file generally does not apply to certain returns, including:

- Returns with precomputed penalty and interest,
- Returns with reasonable cause for failing to file timely,
- Returns with reasonable cause for failing to pay timely, and
- Returns with requests for overpayments to be applied to another account.

**Required e-filers.** Certain corporations with total assets of \$10 million or more that file at least 250 returns a year are required to e-file Form 1120-F, even if any of the above exceptions applies. See Regulations section 301.6011-5. However, these corporations can request a waiver of the electronic filing requirements. See Notice 2010-13, 2010-4 I.R.B. 327.

## Special Returns for Certain Organizations

Instead of filing Form 1120-F, certain foreign organizations must file special returns:

- Form 1120-L, U.S. Life Insurance Company Income Tax Return, as a foreign life insurance company.
- Form 1120-PC, U.S. Property and Casualty Insurance Company Income Tax Return, as a foreign nonlife insurance company.
- Form 1120-FSC, U.S. Income Tax Return of a Foreign Sales Corporation, if the corporation elected to be treated as a FSC and the election is still in effect.

**Consolidated returns.** A foreign corporation, regardless of whether it files a special return, may not belong to an affiliated group of corporations that files a consolidated return. However, a Canadian or Mexican corporation described in section 1504(d), maintained solely for complying with the laws of Canada or Mexico for title and operation of property may elect to be treated as a domestic corporation and thereby file as part of an affiliated group.

## Claim for Refund or Credit

If the corporation is filing Form 1120-F **only** as a claim for refund or credit of tax paid or withheld at source, the simplified procedure described below may be used.

## Simplified Procedure for Claiming a Refund of U.S. Tax Withheld at Source

To make a claim for a refund, complete Form 1120-F as follows.

**Page 1.** Enter the complete name, address, and employer identification number of the corporation. Check the applicable box to indicate the type of filing. Provide all the information required in items A through M.

**Refund amount.** Enter on lines 1 and 4, page 1, the amount from line 11, page 2. Enter on lines 5i and 5j the amount from line 12, page 2. Enter the excess of line 5j over line 4 on lines 8a and 9. This is the amount to be refunded to you.

**Signature.** An authorized officer of the corporation must sign and date the return.

**Page 2. Additional information.** Complete all items at the top of page 2 of Form 1120-F that apply to the corporation.

**Section I.** Enter in column (b) the gross amount of each type of income received that is required to be reported in Section I (see *Section I*, later, for details). Include income from foreign sources that was subject to backup withholding. Do not include income from which no U.S. tax was withheld. If the corporation is subject to backup withholding on gross proceeds from sales of securities or transactions in regulated futures contracts, enter the gross proceeds on line 10.

Enter in columns (c) and (d), respectively, the correct rate and amount of U.S. income tax liability for each type of income reported in column (b). If the corporation is claiming a refund of U.S. tax withheld in excess of the rate provided in a tax treaty with the United States, enter the applicable treaty rate in column (c) and figure the correct U.S. income tax liability on the gross income reported in column (b).

Enter in column (e) the U.S. tax actually withheld at source (and not refunded by the payor or the withholding agent) from each type of income reported. If multiple rates of tax are applicable to a type of income, attach a statement showing the gross amounts of income, applicable rate and amount of liability and withholding imposed for the respective amounts at each tax rate (e.g., if a corporation receives subsidiary dividends subject to tax at 5% and portfolio dividends subject to tax at 15%, a statement must be attached for Section I, line 2, to show the amount of dividend and tax liability for each respective rate).

Enter on line 11 the total U.S. tax liability for the reported income.

Enter on line 12 the total U.S. tax actually withheld from such income.

Check the appropriate box on line 13. A fiscally transparent entity is one that is not itself generally subject to income tax but one whose tax attributes flow through to its owners.

## Additional Documentation Required

The corporation **must** attach to Form 1120-F the following:

1. Proof of the withholding (e.g., Form 1042-S),
2. A statement that describes the basis for the claim for refund,
3. Any required tax certifications (e.g., Form W-8BEN), and
4. Any additional documentation to support the claim.

**Refund of backup withholding tax.** If the corporation is claiming a refund of backup withholding tax based on its status as a non-U.S. resident, it must:

- Provide a copy of the Form 1099 that shows the amount of reportable payment and backup withholding and
- Attach a statement signed under penalties of perjury that the corporation is exempt from backup withholding because it is not a U.S. corporation or other U.S. resident (e.g., Form W-8BEN).

**Refunds of U.S. withholding.** If any of the following apply, attach the information requested:

- If claiming a refund of U.S. withholding tax on U.S. source income, provide a copy of the Form 1042-S that shows the income and actual amount of U.S. tax withheld.
- If claiming a refund of U.S. tax withheld from portfolio interest, include a description of the relevant debt obligation, including the name of the issuer, CUSIP number (if any), interest rate, scheduled maturity date, and the date the debt was issued. Also include a statement, signed under penalties of perjury, that the corporation is the beneficial owner of the interest income and not a U.S. corporation or other U.S. resident (e.g., Form W-8BEN).
- If claiming a reduced rate of, or exemption from, tax based on a tax treaty, provide a certificate of entitlement to treaty benefits (e.g., Form W-8BEN). A separate statement should be provided that contains any additional representations necessary to explain the basis for the claim. The corporation may complete Item W on page 2 of the form (which includes completing and attaching Form 8833, if required) in lieu of attaching a statement.

**Note.** To claim a reduced rate of, or exemption from, tax based on a tax treaty,

the corporation must generally be a resident of the particular treaty country within the meaning of the treaty and satisfy the limitation on benefits article, if any, in the treaty with that country.

- If claiming a refund for overwithholding on a distribution from a U.S. corporation with respect to its stock because the corporation has insufficient earnings and profits to support ordinary dividend treatment, provide a statement that identifies the distributing corporation and provides the basis for the claim.
- If claiming a refund for overwithholding on a distribution from a mutual fund or a real estate investment trust (REIT) with respect to its stock because the distribution was designated as long-term capital gain or a return of capital, provide a statement that identifies the mutual fund or REIT and provide the basis for the claim.
- If claiming a refund for overwithholding on a distribution from a U.S. corporation with respect to its stock because, in the foreign corporation's particular circumstances, the transaction qualifies as a redemption of stock under section 302, provide a statement that describes the transaction and presents the facts necessary to establish that the payment was (a) a complete redemption, (b) a disproportionate redemption, or (c) not essentially equivalent to a dividend.

**Use of foreign nominees.** If the corporation received income through a foreign intermediary or nominee acting on its behalf (and a Form 1042-S or 1099 is not received), the corporation may substitute a statement from the intermediary or nominee. The statement should include the following information:

- The gross amount(s) and type(s) of income subject to withholding,
- The name(s) and address(es) of the U.S. withholding agent(s),
- The U.S. taxpayer identification number of the U.S. withholding agent or payor, and
- The name in which the tax was withheld, if different from the name of the beneficial owner claiming the refund.

## When To File

### Foreign Corporation With An Office or Place of Business in the U.S.

A foreign corporation that maintains an office or place of business in the United States must generally file Form 1120-F by the 15th day of the 3rd month after the end of its tax year.

**Extension of time to file.** The corporation must generally file Form 7004, Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns, by the 15th day of the 3rd month after the end

of its tax year to request a 6-month extension. However, there is an exception that applies under Regulations section 1.6081-5. See the Instructions for Form 7004 for additional information.

### Foreign Corporation With No Office or Place of Business in the U.S.

A foreign corporation that does **not** maintain an office or place of business in the United States must generally file Form 1120-F by the 15th day of the 6th month after the end of its tax year.

**Extension of time to file.** File Form 7004 by the 15th day of the 6th month after the end of the tax year to request a 6-month extension of time to file. See the Instructions for Form 7004 for additional information.

### Other Filing Requirements

- A new corporation filing a short-period return must generally file by the 15th day of the 3rd month after the short period ends.
- A corporation that has dissolved must generally file by the 15th day of the 3rd month after the date it dissolved.
- If the due date of any filing falls on a Saturday, Sunday, or legal holiday, the corporation may file on the next business day.
- Form 1120-F must be filed on a timely basis and in a true and accurate manner in order for a foreign corporation to take deductions and credits against its effectively connected income. For these purposes, Form 1120-F is generally considered to be timely filed if it is filed no later than 18 months after the due date of the current year's return. An exception may apply to foreign corporations that have yet to file Form 1120-F for the preceding tax year. These filing deadlines may be waived, in limited situations based on the facts and circumstances, where the foreign corporation establishes to the satisfaction of the Commissioner that the foreign corporation acted reasonably and in good faith in failing to file Form 1120-F. See Regulations section 1.882-4(a)(3)(ii) for more information about the waiver.

A foreign corporation is allowed the following deductions and credits regardless of whether Form 1120-F is timely filed.

1. The charitable contributions deduction (page 3, Section II, line 19).
2. The credit from Form 2439 (page 1, line 5f).
3. The credit for federal tax on fuels (page 1, line 5g).
4. U.S. income tax paid or withheld at source (page 1, line 5i).

See Regulations section 1.882-4 for details.

### Private Delivery Services

Corporations may use certain private delivery services designated by the IRS to meet the "timely mailing as timely filing" rule for tax returns. These private delivery services include only the following.

- DHL Express (DHL): DHL Same Day Service.
- Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2Day, FedEx International Priority, and FedEx International First.
- United Parcel Service (UPS): UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, UPS 2nd Day Air A.M., UPS Worldwide Express Plus, and UPS Worldwide Express.

For the IRS mailing address to use if you are using a private delivery service, go to [IRS.gov](http://IRS.gov) and enter "private delivery service" in the search box.

The private delivery service can tell you how to get written proof of the mailing date.



*Private delivery services cannot deliver items to P.O. boxes. You must use the U.S. Postal Service to mail any item to an IRS P.O. box address.*

### Where To File

File Form 1120-F with the Internal Revenue Service Center, P.O. Box 409101, Ogden, UT 84409.

### Who Must Sign

The return must be signed and dated by:

- The president, vice president, treasurer, assistant treasurer, chief accounting officer or
- Any other corporate officer (such as tax officer) authorized to sign.

If a return is filed on behalf of a corporation by a receiver, trustee, or assignee, the fiduciary must sign the return, instead of the corporate officer. Returns and forms signed by a receiver or trustee in bankruptcy on behalf of a corporation must be accompanied by a copy of the order or instructions of the court authorizing signing of the return or form.

If an employee of the corporation completes Form 1120-F, the paid preparer space should remain blank. Anyone who prepares Form 1120-F but does not charge the corporation should not complete that section. Generally, anyone who is paid to prepare the return must sign it and fill in the "Paid Preparer Use Only" area.

The paid preparer must complete the required preparer information and—

- Sign the return in the space provided for the preparer's signature.
- Give a copy of the return to the taxpayer.

**Note.** A paid preparer may sign original or amended returns by rubber stamp, mechanical device, or computer software program.

## Paid Preparer Authorization

If the corporation wants to allow the IRS to discuss its 2012 tax return with the paid preparer who signed it, check the "Yes" box in the signature area of the return. This authorization applies only to the individual whose signature appears in the "Paid Preparer Use Only" section of the return. It does not apply to the firm, if any, shown in that section.

If the "Yes" box is checked, the corporation is authorizing the IRS to call the paid preparer to answer any questions that may arise during the processing of its return. The corporation is also authorizing the paid preparer to:

- Give the IRS any information that is missing from the return,
- Call the IRS for information about the processing of the return or the status of any related refund or payment(s), and
- Respond to certain IRS notices about math errors, offsets, and return preparation.

The corporation is not authorizing the paid preparer to receive any refund check, bind the corporation to anything (including any additional tax liability), or otherwise represent the corporation before the IRS.

The authorization will automatically end no later than the due date (excluding extensions) for filing the corporation's 2013 tax return. If the corporation wants to expand the paid preparer's authorization or revoke the authorization before it ends, see Pub. 947, Practice Before the IRS and Power of Attorney.

## Other Forms, Schedules, and Statements That May Be Required

### Forms

A foreign corporation may have to file some of the following forms and schedules. See the form or schedule for more information.

For a list of additional forms the corporation may need to file (most notably, forms pertaining to the reporting of various types of income, and any related withholding, to U.S. persons, foreign persons, and the IRS), see Pub. 542, Corporations.

**Form 5472**, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. This form is filed by or for a foreign corporation engaged in a U.S. trade or business that had certain reportable transactions with a related party. See the Instructions for Form 5472 for filing instructions and information for failure to file and maintain records.

**Form 8275**, Disclosure Statement, and **Form 8275-R**, Regulation Disclosure Statement. Use these forms to disclose items or positions taken on a tax return that are not otherwise adequately disclosed on a tax return or that are contrary to Treasury regulations (to avoid parts of the accuracy-related penalty or certain preparer penalties).

**Form 8300**, Report of Cash Payments Over \$10,000 Received in a Trade or Business. Use this form to report the receipt of more than \$10,000 in cash or foreign currency in one transaction or a series of related transactions.

**Form 8302**, Electronic Deposit of Tax Refund of \$1 Million or More. The form must be filed to request an electronic deposit of a tax refund of \$1 million or more.

**Form 8832**, Entity Classification Election. This form is filed by an eligible entity to elect how it will be classified for federal tax purposes. If the corporation filed Form 8832 to make an initial classification election to be a corporation or to change its classification to be a corporation effective during the current tax year, **the corporation must attach a copy of the Form 8832 to its Form 1120-F**. If the corporation owns a direct or indirect interest in an entity that is not required to file a return, but for which a Form 8832 was filed to make a change in the classification of the entity that is effective during the current tax year, **the corporation must attach a copy of the Form 8832 with respect to that entity to its Form 1120-F** for the current tax year. Examples of when the corporation must attach a copy of the Form 8832 for an entity in which it has an interest include the corporation's ownership of:

- An entity that elected to be a disregarded entity;
- A foreign entity that elected to be a partnership but does not itself have a Form 1065 filing requirement; and
- A foreign corporation that owns a foreign entity that elected to be a disregarded entity.

The corporation does not need to attach the Form 8832 for an entity in which it has an indirect interest if an entity in which it has an interest is already attaching a copy of the Form 8832 with its

return. See Regulations section 301.7701-3(c)(1)(ii).

**Form 8833**, Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b). Use this form to make the treaty-based return position disclosure required by section 6114.

**Form 8848**, Consent To Extend the Time To Assess the Branch Profits Tax Under Regulations Sections 1.884-2(a) and (c). Use this form to execute a waiver of period of limitations in regard to a termination or incorporation of a U.S. trade or business or liquidation or reorganization of a foreign corporation or its domestic subsidiary. See instructions for Section III, Part I, of Form 1120-F.

**Form 8886**, Reportable Transaction Disclosure Statement. Use this form to disclose information for each reportable transaction in which the corporation participated. Form 8886 must be filed for each tax year that the federal income tax liability of the corporation is affected by its participation in the transaction. The following are reportable transactions:

1. Any listed transaction, which is a transaction that is the same as or substantially similar to one of the types of transactions that the IRS has determined to be a tax avoidance transaction and identified by notice, regulation, or other published guidance as a listed transaction.
2. Any transaction offered under conditions of confidentiality for which the corporation (or a related party) paid an advisor a fee of at least \$250,000.
3. Certain transactions for which the corporation (or a related party) has contractual protection against disallowance of the tax benefits.
4. Certain transactions resulting in a loss of at least \$10 million in any single year or \$20 million in any combination of years.
5. Any transaction identified by the IRS by notice, regulation, or other published guidance as a "transaction of interest."

For more information, see Regulations section 1.6011-4. Also see the Instructions for Form 8886.

**Penalties.** The corporation may have to pay a penalty if it is required to disclose a reportable transaction under section 6011 and fails to properly complete and file Form 8886. Penalties may also apply under section 6707A if the corporation fails to file Form 8886 with its corporate return, fails to provide a copy of Form 8886 to the Office of Tax Shelter Analysis (OTSA), or files a form that fails to include all the information required (or includes incorrect information). Other penalties,

such as an accuracy-related penalty under section 6662A, may also apply. See the Instructions for Form 8886 for details on these and other penalties.

**Reportable transactions by material advisors.** Material advisors to any reportable transaction must disclose certain information about the reportable transaction by filing Form 8918, Material Advisor Disclosure Statement, with the IRS. For details, see the Instructions for Form 8918.

## Schedules

**Schedule H, Deductions Allocated to Effectively Connected Income Under Regulations Section 1.861-8.** This schedule is required to be attached to report certain deductions of the corporation that are allocable to effectively connected income. If the corporation has any deductions reportable on Form 1120-F, Section II, lines 12 through 27, then Schedule H is required to be attached. See the separate instructions for Schedule H for details.

**Note.** Line 20 of Schedule H is reportable on Form 1120-F, Section II, line 26.

**Schedule I, Interest Expense Allocation Under Regulations Section 1.882-5.** This schedule is required to be attached to report any interest expense allocable to effectively connected income under Regulations section 1.882-5. The schedule must be attached whether or not such allocable interest is deductible against effectively connected income in the current year. See the separate instructions for Schedule I for identification of elective allocation methods and computation of the allocable and deductible amounts of interest expense.

**Note.** Line 25 of Schedule I is reportable on Form 1120-F, Section II, line 18.

**Schedule P, List of Foreign Partner Interests in Partnerships.** This schedule is required to be attached to report all effectively connected income included in Schedules K-1 the foreign corporation receives for each of its directly held partnership interests. Schedule P is also required to report the corporation's adjusted outside basis in its directly held partnership interest and the amount of the outside basis of each such interest apportioned to effectively connected income under Regulations section 1.884-1(d)(3). See the separate instructions for Schedule P for the reconciliation of effectively connected income and distributive share of expenses reported on Schedules K-1. Do not file Schedule P if the corporation has no partnership interests that give rise to effectively connected income that is

included in the income reported to the corporation on Schedules K-1.

**Note.** If the corporation has been subjected to partnership withholding under section 1446 and has received Form 8804, Annual Return for Partnership Withholding Tax, it will have effectively connected income includible in its Schedule K-1 that is required to be reported on Schedule P.

**Schedule S, Exclusion of Income From the International Operation of Ships or Aircraft Under Section 883.** This schedule is required to be attached to claim a Code exemption under section 883. This schedule incorporates the information required under Regulations sections 1.883-1 through 1.883-4. See the separate instructions for Schedule S for details.

**Schedule V, List of Vessels or Aircraft, Operators, and Owners.** This schedule is required to be attached if the corporation is required to report gross transportation income in Section I, line 9, column (b). See the separate instructions for Schedule V for details.

## Statements

**Transfers to a corporation controlled by the transferor.** Every significant transferor (as defined in Regulations section 1.351-3(d)) that receives stock of a corporation in exchange for property in a nonrecognition event must include the statement required by Regulations section 1.351-3(a) on or with the transferor's tax return for the tax year of the exchange. The transferee corporation must include the statement required by Regulations section 1.351-3(b) on or with its return for the tax year of the exchange, unless all the required information is included in any statement(s) provided by a significant transferor that is attached to the same return for the same section 351 exchange. If the transferor or transferee corporation is a controlled foreign corporation, each U.S. shareholder (within the meaning of section 951(b)) must include the required statement on or with its return.

**Distributions under section 355.** Every corporation that makes a distribution of stock or securities of a controlled corporation, as described in section 355 (or so much of section 356 as relates to section 355), must include the statement required by Regulations section 1.355-5 on or with its return for the year of the distribution. If the distributing corporation is a controlled foreign corporation, each U.S. shareholder (within the meaning of section 951(b)), must include the statement on or with its return.

**Election to reduce basis under section 362(e)(2)(C).** The transferor may make

an election under section 362(e)(2)(C) to limit the transferor's basis in the stock received instead of the transferor's basis in the transferred property. The transferor can make the election by including the certification provided in Notice 2005-70, 2005-2 C.B. 694, on or with its tax return filed by the due date (including extensions) for the tax year in which the transaction occurred. If the transferor is a controlled foreign corporation, its controlling U.S. shareholder(s) may make the election. The common parent of a consolidated group may make the election for the group.

If the election is made as described above, no election needs to be made by the transferee (or any controlling U.S. shareholder thereof).

Once made, the election is irrevocable. See section 362(e)(2)(C) and Notice 2005-70.

**Annual information statement for elections under section 108(i).** If the corporation made an election in 2009 or 2010 to defer income from cancellation of debt (COD) in connection with the reacquisition of an applicable debt instrument, the corporation must attach a statement to its return beginning with the tax year following the tax year for which the corporation made the election, and ending the first tax year all income deferred has been included in income. The statement must be labeled "Section 108(i) Information Statement" and must clearly identify, for each applicable debt instrument to which an election under section 108(i) applies, any deferred:

1. COD income that is included in income in the current tax year.
2. COD income that has been accelerated because of an event described in section 108(i)(5)(D) and must be included in income in the current tax year. Include a description and the date of the acceleration event.
3. COD income that has not been included in income in the current or prior tax years.
4. Original issue discount (OID) deduction allowed as a deduction in the current tax year.
5. OID deduction that is allowed as a deduction in the current tax year because of an accelerated event described in section 108(i)(5)(D).
6. OID deduction that has not been deducted in the current or prior tax years.

In addition, annually include a copy of the election statement the corporation filed to make the election to defer the income.

For more information regarding the annual information statement, see Rev. Proc. 2009-37, 2009-36 I.R.B. 309. For more information on deferring COD

income, see the instructions for Section II, line 10.

**Foreign corporation with income excluded from gross income.** If the foreign corporation has income excluded from gross income for the tax year, do not complete the Form 1120-F schedules. Instead, attach a statement to the return showing the types and amounts of income excluded from gross income. See *Treaty or Code exemption*, earlier, for more information.

**Election to reduce liabilities under Regulations section 1.884-1(e)(3).** If a taxpayer has a dividend equivalent amount that is subject to the branch profits tax under section 884(a), it may elect to reduce its U.S. liabilities under the branch profits tax regulations to treat its effectively connected earnings and profits as reinvested rather than remitted. A taxpayer may elect to reduce the amount of its liabilities by an amount that does not exceed the lesser of the amount of U.S. liabilities or the amount of U.S. liability reduction needed to reduce a dividend equivalent amount to zero. The election is made by attaching a statement to a timely filed tax return (including the extension due date) indicating the amount of U.S. liabilities reduced for branch profits tax purposes and the corresponding amount also reduced from U.S.-connected liabilities for interest expense allocation purposes. See Regulations section 1.884-1(e)(3).

## Assembling the Return

To ensure that the corporation's tax return is correctly processed, attach all schedules and other forms after page 7 of Form 1120-F, in the following order:

1. Form 4136.
2. Form 8913.
3. Form 8941.
4. Form 5884-B.
5. Form 3800.
6. Additional schedules in alphabetical order.
7. Additional forms in numerical order.
8. Supporting statements and attachments.

Complete every applicable entry space on Form 1120-F. Do not enter "See Attached" or "Available Upon Request" instead of completing the entry spaces. If more space is needed on the forms or schedules, attach separate sheets using the same size and format as the printed forms.

If there are supporting statements and attachments, arrange them in the same order as the schedules or forms they support and attach them last. Show the totals on the printed forms. Enter the

corporation's name and EIN on each supporting statement or attachment.

## Accounting Methods

Figure taxable income using the method of accounting regularly used in keeping the corporation's books and records. In all cases, the method used must clearly show taxable income. Permissible methods include cash, accrual, or any other method authorized by the Internal Revenue Code.

Generally, the following rules apply. For more information, see Pub. 538, Accounting Periods and Methods.

- A corporation (other than a qualified personal service corporation) must use the accrual method of accounting if its average annual gross receipts exceed \$5 million. However, see *Nonaccrual experience method for service providers*, later.
- Unless it is a qualifying taxpayer or a qualifying small business taxpayer, a corporation must use the accrual method for sales and purchases of inventory items. See the instructions for Form 1125-A, Cost of Goods Sold.
- A corporation engaged in farming must use the accrual method. For exceptions, see section 447.
- Special rules apply to long-term contracts. See section 460.
- Dealers in securities must use the mark-to-market accounting method. Dealers in commodities and traders in securities and commodities may elect to use the mark-to-market accounting method. See section 475.

### Change in accounting method.

Generally, the corporation must get IRS consent to change the method of accounting used to report taxable income (for income as a whole or for the treatment of any material item). To do so, the corporation generally must file Form 3115, Application for Change in Accounting Method. For more information, see the Instructions for Form 3115, and Pub. 538.

There are some instances when the corporation can obtain automatic consent from the IRS to change to certain accounting methods. See Rev. Proc. 2011-14, 2011-4 I.R.B. 330, as modified and clarified by Rev. Proc. 2012-19, 2012-14 I.R.B. 689, and Rev. Proc. 2012-20, 2012-14 I.R.B. 700, or any successor.

**Section 481(a) adjustment.** If the corporation's taxable income for the current tax year is figured under a method of accounting different from the method used in the preceding tax year, the corporation may have to make an adjustment under section 481(a) to prevent amounts of income or expense from being duplicated or omitted. The section 481(a) adjustment period is

generally 1 year for a net negative adjustment and 4 years for a net positive adjustment. However, in some cases, a corporation can elect to modify the section 481(a) adjustment period. The corporation must complete the appropriate lines of Form 3115 to make this election. See the instructions for Form 3115. If the net section 481(a) adjustment is positive, report it on page 3, Section II, line 10 as other income. If the net section 481(a) adjustment is negative, report it on line 27 of Section II as a deduction.

## Accounting Period

A corporation must figure its taxable income on the basis of a tax year. A tax year is the annual accounting period a corporation uses to keep its records and report its income and expenses. Generally, corporations may use a calendar year or a fiscal year. Personal service corporations, however, must generally use a calendar year unless they meet one of the exceptions discussed under *Personal Service Corporation*, later. Furthermore, special rules apply to specified foreign corporations. See *Specified Foreign Corporations* below.

**Change of tax year.** Generally, a corporation, including a personal service corporation, must get the consent of the IRS before changing its tax year by filing Form 1128, Application To Adopt, Change, or Retain a Tax Year.

See the Instructions for Form 1128 and Pub. 538 for more information on accounting periods and tax years.

## Specified Foreign Corporations

The annual accounting period of a specified foreign corporation (defined below) is generally required to be the tax year of its majority U.S. shareholder. If there is more than one majority shareholder, the required tax year will be the tax year that results in the least aggregate deferral of income to all U.S. shareholders of the foreign corporation. For more information, see section 898 and Rev. Procs. 2006-45, 2006-45, I.R.B. 851, and 2002-39, 2002-22 I.R.B. 1046, as modified by Notice 2002-72, 2002-46 I.R.B. 843.

**Specified foreign corporation.** A specified foreign corporation is any foreign corporation that is treated as a controlled foreign corporation (CFC) under subpart F (sections 951 through 964) and with respect to which more than 50% of the total voting power or value of all classes of stock of the corporation is treated as owned by a U.S. shareholder.

## Rounding Off to Whole Dollars

The corporation may round off cents to whole dollars on its return and schedules. If the corporation does round to whole dollars, it must round all amounts. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, \$1.39 becomes \$1 and \$2.50 becomes \$3.

If two or more amounts must be added to figure the amount to enter on a line, include cents when adding the amounts and round off only the total.

## Recordkeeping

Keep the corporation's records for as long as they may be needed for the administration of any provision of the Internal Revenue Code. Usually, records that support an item of income, deduction, or credit on the return must be kept for 3 years from the date the return is due or filed, whichever is later. Keep records that verify the corporation's basis in property for as long as they are needed to figure the basis of the original or replacement property.

The corporation should keep copies of all filed returns. They help in preparing future and amended returns and in the calculation of earnings and profits.

## Payment of Tax Due

The requirements for payment of tax depend on whether the foreign corporation has an office or place of business in the United States.

Foreign corporations that **do not** maintain an office or place of business in the United States must pay any tax due (page 1, line 7) in full no later than the 15th day of the 6th month after the end of the tax year. If the foreign corporation files Form 1120-F electronically, it may pay the tax due by initiating an electronic funds withdrawal (direct debit). It does so by checking the box on line 6c of Form 8453-I, Foreign Corporation Income Tax Declaration for an IRS *e-file* Return. If the foreign corporation does not file Form 1120-F electronically, or if it files Form 1120-F electronically and does not choose the direct debit option, the foreign corporation may use the Electronic Federal Tax Payment System (EFTPS) to pay the tax due if it has a U.S. bank account. If the foreign corporation does not have a U.S. bank account, it may arrange for its financial institution to initiate a same-day payment on its behalf or it can arrange for either a qualified intermediary, tax professional, payroll service, or other trusted third party to make a deposit on its behalf using a master account. In addition, the foreign corporation still has the option to pay by check or money order, payable

to the United States Treasury. To help ensure proper crediting, write the corporation's employer identification number (EIN), "Form 1120-F," and the tax period to which the payment applies on the check or money order. Enclose the payment when the corporation files Form 1120-F.

Foreign corporations that **do** maintain an office or place of business in the United States must generally pay any tax due (page 1, line 7) in full no later than the 15th day of the 3rd month after the end of the tax year. However, see Regulations section 1.6081-5 for an exception. If the foreign corporation files Form 1120-F electronically, it may pay the tax due by initiating an electronic funds withdrawal (direct debit). It does so by checking the box on line 6c of Form 8453-I. If the foreign corporation does not file Form 1120-F electronically, or if it files Form 1120-F electronically and does not choose the direct debit option, the tax may be paid as follows. The foreign corporation may pay the tax using EFTPS or it can arrange for its tax professional, financial institution, payroll service, or other trusted third party to make deposits on its behalf. In addition, the foreign corporation also has the option to arrange for its financial institution to initiate a same-day payment.

### Electronic deposit requirement.

Foreign corporations with an office or place of business in the United States must use electronic funds transfer to make all federal tax deposits (such as deposits of employment, excise, and corporate income tax). Generally, electronic funds transfers are made using EFTPS. However, if the corporation does not want to use EFTPS, it can arrange for its tax professional, financial institution, payroll service, or other trusted third party to make deposits on its behalf. Also, it may arrange for its financial institution to initiate a same-day payment (discussed below) on its behalf. EFTPS is a free service provided by the Department of the Treasury. Services provided by a tax professional, financial institution, payroll service, or other third party may have a fee.

To get more information about EFTPS or to enroll in EFTPS, visit [www.eftps.gov](http://www.eftps.gov), or call 1-800-555-4477 (TTY/TDD 1-800-733-4829).

**Depositing on time.** For deposits made by EFTPS to be on time, the corporation must initiate the deposit by 8 p.m. Eastern time the day before the date the deposit is due. If the corporation uses a third party to make deposits on its behalf, they may have different cutoff times.

**Same-day payment option.** If the corporation fails to initiate a deposit transaction on EFTPS by 8 p.m. Eastern time the day before the date a deposit is

due, it can still make the deposit on time by using the Federal Tax Application (FTA). Before using the same-day payment option, the corporation will need to make arrangements with its financial institution ahead of time. Please check with the financial institution regarding availability, deadlines, and costs. To learn more about making a same-day payment and download the Same-Day Payment Worksheet, visit [www.eftps.gov](http://www.eftps.gov).

## Estimated Tax Payments

Generally, the following rules apply to a foreign corporation's payments of estimated tax.

- The corporation must make installment payments of estimated tax if it expects its total tax for the year (less applicable credits) to be \$500 or more.
- The installments are due by the 15th day of the 4th, 6th, 9th, and 12th months of the tax year. If any date falls on a Saturday, Sunday, or legal holiday, the installment is due on the next regular business day.
- Use Form 1120-W, Estimated Tax for Corporations, as a worksheet to compute estimated tax. See the Instructions for Form 1120-W.
- If the foreign corporation maintains an office or place of business in the United States, it must use electronic funds transfer to make installment payments of estimated tax.
- If the foreign corporation does not maintain an office or place of business in the United States, it may pay the estimated tax by EFTPS providing it has a U.S. bank account. The foreign corporation may also arrange for its financial institution to initiate a same-day payment on its behalf or can arrange for its qualified intermediary, tax professional, payroll service, or other trusted third party to make a deposit on its behalf using a master account. In addition, the foreign corporation still has the option to pay the estimated tax due by check or money order. See Form 1120-W, Estimated Tax for Corporations, for additional payment information.
- Penalties may apply if the corporation does not make required estimated tax payment deposits. See *Estimated tax penalty*, below.
- If the corporation overpaid estimated tax, it may be able to get a quick refund by filing Form 4466, Corporation Application for Quick Refund of Overpayment of Estimated Tax. See the Instructions for Form 1120-F, page 1, line 5c, later.

**Estimated tax penalty.** A corporation that does not make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. Generally, a corporation is subject to the penalty if its tax liability is

\$500 or more and it did not timely pay at least the smaller of:

- Its tax liability for the current year or
- Its prior year's tax.

No estimated tax payments are required with respect to a foreign corporation's liability for the branch profits tax. See Regulations section 1.884-1(a).

Use Form 2220, Underpayment of Estimated Tax by Corporations, to see if the corporation owes a penalty and to figure the amount of the penalty. If Form 2220 is completed, enter the penalty on Form 1120-F, page 1, line 6. See the Instructions for line 6, estimated tax penalty, later.

## Interest and Penalties



*If the corporation receives a notice about penalties after it files its return, send the IRS an explanation and we will determine if the corporation meets reasonable-cause criteria. Do not attach an explanation when the corporation's return is filed.*

**Interest.** Interest is charged on taxes paid late even if an extension of time to file is granted. Interest is also charged on penalties imposed for failure to file, negligence, fraud, substantial valuation misstatements, substantial understatements of tax, and reportable transaction understatements from the due date (including extensions) to the date of payment. The interest charge is figured at a rate determined under section 6621.

**Penalty for late filing of return.** A corporation that does not file its tax return by the due date, including extensions, may be penalized 5% of the unpaid tax for each month or part of a month the return is late, up to a maximum of 25% of the unpaid tax. The minimum penalty for a return that is over 60 days late is the smaller of the tax due or \$135. The penalty will not be imposed if the corporation can show that the failure to file on time was due to reasonable cause. See *Caution* above.

**Penalty for late payment of tax.** A corporation that does not pay the tax when due generally may be penalized  $\frac{1}{2}$  of 1% of the unpaid tax for each month or part of a month the tax is not paid, up to a maximum of 25% of the unpaid tax. See *Caution* above.

**Trust fund recovery penalty.** This penalty may apply if certain excise, income, social security, and Medicare taxes that must be collected or withheld are not collected or withheld, or these taxes are not paid. These taxes are generally reported on:

- Form 720, Quarterly Federal Excise Tax Return;

- Form 941, Employer's QUARTERLY Federal Tax Return;
- Form 943, Employer's Annual Federal Tax Return for Agricultural Employees;
- Form 944, Employer's ANNUAL Federal Tax Return; or
- Form 945, Annual Return of Withheld Federal Income Tax.

The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to have been responsible for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so. The penalty is equal to the full amount of the unpaid trust fund tax. See the Instructions for Form 720, Pub. 15 (Circular E), Employer's Tax Guide, or Pub. 51 (Circular A), Agricultural Employer's Tax Guide, for details, including the definition of responsible persons.

**Other penalties.** Other penalties may be imposed for negligence, substantial understatement of tax, reportable transaction understatements, and fraud. See sections 6662, 6662A, and 6663.

## Special Rules for Foreign Corporations

### Source of Income Rules

The source of income is important in determining the extent to which income is taxable to foreign corporations. Each type of income has its own sourcing rules.

### Interest Income

The source of interest income is usually determined by the residence of the obligor.

For example, interest paid by an obligor who is a resident of the United States is U.S. source income, and interest paid by an obligor who is a resident of a country other than the United States is foreign source income. Interest paid by a foreign partnership that is predominantly engaged in the active conduct of a trade or business outside the United States is treated as U.S.-source income only if the interest is paid by a U.S. trade or business conducted by the partnership or is allocable to income that is treated as effectively connected with the conduct of a U.S. trade or business. See section 861(a)(1)(B).

**Exceptions.** The following types of interest income are treated as foreign source income:

- Interest income received from foreign branches of U.S. banks and savings and loan associations and
- In the case of a foreign partnership that is predominantly engaged in the active conduct of a trade or business outside the United States, any interest not paid by a

trade or business engaged in by the partnership in the United States and not allocable to income that is effectively connected (or treated as effectively connected) with the conduct of a U.S. trade or business.

The following types of interest income are treated as domestic source income even though paid by a foreign corporation.

- For a foreign corporation engaged in a U.S. trade or business, interest paid by the U.S. trade or business (branch interest) is treated as if paid by a domestic corporation to the actual recipient of the interest. See section 884(f)(1)(A) and regulations thereunder. Interest paid from a U.S. trade or business is only treated as branch interest to the extent the interest is allocable to effectively connected income under the interest expense allocation rules in Regulations section 1.882-5. Amounts paid but not allocable to effectively connected income are not branch interest. See Regulations section 1.884-4(b)(6).
- If the foreign corporation has allocable interest in excess of branch interest (excess interest), the foreign corporation must treat that interest as if paid by a wholly owned domestic corporation to the foreign corporation. See section 884(f)(1)(B) and the instructions for Section III, Part II, later.

### Dividend Income

The source of dividend income is usually determined by the residence of the payer. For example, dividends paid by a corporation that was incorporated in the United States are generally U.S. source income and dividends paid by a corporation that was incorporated in a foreign country are generally foreign source income.

### Exceptions:

- Dividends paid by a U.S. corporation are foreign source income:
  1. If the U.S. corporation has made a valid election under section 936 (or section 30A), relating to certain U.S. corporations operating in a U.S. possession or
  2. To the extent the dividends are from qualified export receipts described in section 993(a)(1) (other than interest and gains described in section 995(b)(1)).
- Dividends paid by a foreign corporation are U.S. source income:
  1. If the dividend is treated under section 243(e) as a distribution from the accumulated profits of a predecessor U.S. corporation or
  2. To the extent the foreign corporation's effectively connected gross income for the testing period (defined below) bears to all of the foreign corporation's gross income for the testing

period, but only if 25% or more of the foreign corporation's gross income during the testing period was effectively connected with the conduct of a U.S. trade or business.

The **testing period** is generally the 3 tax years of the foreign corporation payer preceding the tax year during which it declared the dividend. If the foreign corporation existed for fewer than 3 years before the tax year of declaration, the testing period is the term of the foreign corporation's existence before the current year. If the foreign corporation declared the dividend in its first tax year, that year is the testing period. Regardless of source, however, there is no tax imposed on any dividends paid by a foreign corporation out of earnings and profits for a tax year in which the foreign corporation was subject to the branch profits tax (determined after application of any income tax treaty). See Regulations section 1.1441-1(b)(4)(vii).

### Rent and Royalty Income

The source of rent and royalty income for the use of property is determined based on where the property is located.

### Income From the Sale or Exchange of Real Estate

Gain from the disposition of a U.S. real property interest (a USRPI) is U.S. source. A USRPI includes, but is not limited to, real property situated in the United States, an interest in real property other than solely as a creditor (such as a contingent interest in real property), and an interest in a United States real property holding corporation (USRPHC). See section 897 and the regulations thereunder.

### Income From the Sale or Exchange of Personal Property

Income from the sale of personal property by a foreign corporation is generally treated as foreign source under section 865(a). However, special rules may apply to source such income as follows:

- Income from the purchase and sale of inventory property is generally sourced under section 861(a)(6) as U.S. source if the property is purchased without the United States and sold within the United States and under section 862(a)(6) as foreign source if the property is purchased within the United States and sold without the United States. See also U.S. source treatment of inventory sales attributable to a U.S. office or fixed place of business under section 865(e)(2).
- Income from the production and sale of inventory property is generally sourced as mixed U.S. and foreign source under section 863(b)(2).

- Income from the sale of depreciable property is generally sourced as mixed U.S. and foreign source under section 865(c).

- Income from the sale of certain intangibles is generally subject to the source rules applicable to royalties, found in section 861(a)(4). See section 865(d).

**Foreign corporations with an office or fixed place of business in the United States.** Income from the sale of personal property attributable to an office or fixed place of business is U.S. source income regardless of any of the above rules relating to the source of income from the sale or exchange of personal property, except that this source rule is not applicable for purposes of defining an export trade corporation (see sections 865(e)(2)(A) and 971).

**Exception.** Income from the sale of inventory property is foreign source income if the goods were sold for use, disposition, or consumption outside the United States and a foreign office of the corporation materially participated in the sale.

### Income on Guarantees

With respect to guarantees issued after September 27, 2010:

- The following income is U.S. source: Amounts received directly or indirectly from (1) a noncorporate resident or domestic corporation for the provision of a guarantee of any indebtedness of such resident or corporation or (2) any foreign person for the provision of a guarantee of any indebtedness of such person, if such amount is connected with income which is effectively connected (or treated as effectively connected) with the conduct of a trade or business in the United States. See section 861(a)(9).
- The following income is foreign source: Amounts received, directly or indirectly, from a foreign person for the provision of a guarantee of indebtedness of such person other than amounts which are derived from sources within the United States as provided in section 861(a)(9). See section 862(a)(9).

### Other Special Rules

#### Basis of Property and Inventory Costs for Property Imported by a Related Person

If property is imported into the United States by a related person in a transaction and the property has a customs value, the basis or inventory cost to the importer may not exceed the customs value. See section 1059A.

## Income of Foreign Governments and International Organizations

Income of foreign governments and international organizations from the following sources is generally not subject to tax or withholding:

- Investments in the United States in stocks, bonds, or other domestic securities owned by such foreign government or international organization;
- Interest on deposits in banks in the United States of money belonging to such foreign government or international organization; and
- Investments in the United States in financial instruments held (by a foreign government) in executing governmental financial or monetary policy.

**Exception.** The income described in section 892(a)(2) that is received directly or indirectly from commercial activities is subject to both tax and withholding.

## Specific Instructions

### Period Covered

File the 2012 return for calendar year 2012 and fiscal years that begin in 2012 and end in 2013. For a fiscal or short tax year return, fill in the tax year space at the top of the form.

The 2012 Form 1120-F may also be used if:

- The corporation has a tax year of less than 12 months that begins and ends in 2013 and
- The 2013 Form 1120-F is not available at the time the corporation is required to file its return.

The corporation must show its 2013 tax year on the 2012 Form 1120-F and take into account any tax law changes that are effective for tax years beginning after December 31, 2012.

### Address

Include the room, suite, or other unit number after the street address. If the post office does not deliver mail to the street address and the corporation has a P.O. box, show the box number instead.

If the corporation receives its mail in care of a third party (such as an accountant or an attorney), enter on the street address line "C/O" followed by the third party's name and street address or P.O. box.

If a foreign address, enter the information in the following order: city, province or state, and country. Follow the country's practice for entering the postal code. **Do not** abbreviate the country's name.

## Employer Identification Number (EIN)

Enter the corporation's EIN. If the corporation does not have an EIN, it must apply for one. An EIN may be applied for:

- Online—Click on the EIN link at [www.irs.gov/businesses](http://www.irs.gov/businesses). The EIN is issued immediately once the application information is validated.
- By telephone at 1-800-829-4933, or at 1-800-829-4059 for individuals who are deaf, hard of hearing, or have a speech disability and who have access to TTY/TDD equipment.
- By faxing or mailing Form SS-4, Application for Employer Identification Number.



*Only corporations located in the United States or U.S. possessions can use the online application. Foreign corporations must use one of the other methods to apply.*

**EIN applied for, but not received.** If the corporation has not received its EIN by the time the return is due, enter “Applied For” and the date the corporation applied in the space for the EIN. However, if the corporation is filing its return electronically, an EIN is required at the time the return is filed.

For more information, see the Instructions for Form SS-4.

## Initial Return, Name or Address Change, Final Return, First Post-Merger Return, Amended Return, Schedule M-3 Attached, Protective Return

Check all of the applicable box(es).

**Address change.** If the corporation has changed its address since it last filed Form 1120-F (including a change to an “in care of” address), check the box for “Name or address change.”

**Note.** If a change in address occurs after the return is filed, use Form 8822-B, Change of Address — Business, to notify the IRS of the new address.

**First Post-Merger Return.** Check the “First post-merger return” box if, due to a corporate merger, the foreign corporation has acquired a new employer identification number. Check the “First post-merger return” box if the foreign corporation has merged with a foreign or domestic corporation with United States operations. Do not check the “First post-merger return” box if the foreign corporation has merged with another foreign corporation and the merger has no effect on the filer's United States operations.

**Schedule M-3 attached.** A corporation with total assets reportable on Form 1120-F, Schedule L of \$10 million or more on the last day of the tax year must complete Schedule M-3 (Form 1120-F), Net Income (Loss) Reconciliation for Foreign Corporations With Reportable Assets of 10 Million or More, instead of Schedule M-1. A corporation filing Form 1120-F that is not required to file Schedule M-3 may voluntarily file Schedule M-3 instead of Schedule M-1.

If you are filing Schedule M-3, check the “Schedule M-3 attached” box at the top of page 1 of Form 1120-F. See the Instructions for Schedule M-3 for more details.

**Protective Return Filers.** Check the “Protective return” box if the foreign corporation is filing a protective return. See *Protective return*, earlier, for information concerning who should file a protective return.

If the corporation is filing a protective return, complete Form 1120-F as follows:

**Page 1.** Enter the complete name, address, and employer identification number of the corporation. Check the “Protective return” box. Provide all the information required in items A through M.

**Note.** If the corporation is filing Form 1120-F to claim a refund for overwithholding reported in Section I on page 2, the return may also assert protective return status for the right to claim deductions and credits attributable to effectively connected income by also checking the “Protective return” box at the top of page 1.

**Refund amount.** Enter on lines 1 and 4, page 1, the amount from line 11, page 2. Enter on lines 5i and 5j the amount from line 12, page 2. Enter the excess of line 5j over line 4 on lines 8a and 9. This is the amount to be refunded to you.

**Signature.** An authorized officer of the corporation must sign and date the return. If the protective return is being filed pursuant to an income tax treaty exemption, attach a completed Form 8833 to the return.

**Page 2.** At the top of page 2, provide all the information required in items N, O, Q, T, V, W, X, Y, AA, and any other applicable questions. With respect to item Y, it is not necessary for the corporation to file Schedule P, even if the answer to item Y(1) is “Yes.” However, a corporation that files a protective tax return may voluntarily file Schedules I and P to preserve certain timely elections.

At the bottom of page 2, complete all applicable portions of Section I, Income From U.S. Sources Not Effectively

Connected With the Conduct of a Trade or Business in the United States.

## Information Requested at Top of Page 1 of Form

Complete items A through M.

**Item A.** Enter the foreign corporation's country of incorporation or organization. If the corporation is incorporated or organized in more than one country, list all countries.

**Item B.** Enter the foreign country or countries under whose laws the income reported on Form 1120-F is also subject to tax. This may include the country where the corporation is managed and controlled, as well as the country or countries in which the corporation is incorporated or organized.

**Item F.** See the list of Principal Business Activity Codes at the end of these instructions. Using the list of codes and activities, determine from which activity the corporation derives the highest percentage of its total receipts. Enter on lines F(1), F(2), and F(3) the principal business activity code number, the corporation's principal business activity, and a description of the principal product or service of the corporation.

**Item K(1).** If the foreign corporation was not engaged in a U.S. trade or business at any time during the tax year, or was engaged in a U.S. trade or business but did not derive any gross income effectively connected to such trade or business, answer “No” to item K(1).

If the foreign corporation had gross income effectively connected with or treated as effectively connected with the conduct of a trade or business in the United States, answer “Yes” to item K(1).

**Item L.** Skip item L (leave blank), if the foreign corporation is a resident of a country that does not have an income tax treaty with the United States. If the foreign corporation is a resident of a country that has an income tax treaty with the United States:

- Answer “Yes” if the corporation had a permanent establishment in the United States at any time during the tax year or in any prior tax year to which income was attributable, and enter the name of the country of residence of the foreign corporation.
- Answer “No” if the corporation does not have a permanent establishment in the United States.

If the answer to item L is “No” and the answer to item K(1) is “Yes,” complete item W on page 2 of the form and attach a completed Form 8833 to the return, including a statement indicating the nature and amount (or reasonable estimate thereof) of gross receipts of the foreign

corporation exempt by reason of not having a permanent establishment in the United States.

**Item M.** See *Form 5472*, earlier.

## Computation of Tax Due or Overpayment

### Line 5b. Estimated Tax Payments

Enter any estimated tax payments the corporation made for the tax year.

**Beneficiaries of trusts.** 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 5b. Enter "T" and the amount on the dotted line next to the entry space.

### Line 5c. 2012 Refund Applied for on Form 4466

If the corporation overpaid estimated tax, it may be able to get a quick refund by filing Form 4466, Corporation Application for Quick Refund of Overpayment of Estimated Tax. The overpayment must be at least 10% of the corporation's expected income tax liability and at least \$500. File Form 4466 after the end of the corporation's tax year, and no later than the 15th day of the third month after the end of the tax year. Form 4466 must be filed before the corporation files its tax return.

### Line 5f. Credit for Tax Paid on Undistributed Capital Gains

Enter any credit from Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains, for the corporation's share of the tax paid by a regulated investment company or a real estate investment trust on undistributed long-term capital gains included in the corporation's income. Attach Form 2439 to Form 1120-F.

### Line 5g. Credit for Federal Tax on Fuels

Enter the total income tax credit claimed on Form 4136, Credit for Federal Tax Paid on Fuels. Attach Form 4136 to Form 1120-F.

**Credit for tax on ozone-depleting chemicals.** Include on line 5g any credit the corporation is claiming under section 4682(g)(2) for tax on ozone-depleting chemicals. Enter "ODC" on the dotted line to the left of the entry space.

### Line 5h. Refundable Credits from Form 8827

If the corporation elected to claim certain unused minimum tax credits instead of claiming any additional first-year special

depreciation allowance for eligible property, see the instructions for Form 8827. Enter on line 5h the amounts from Form 8827, line 8c.

### Line 5j. Total Payments

**Backup withholding.** If the corporation had income tax withheld from any payments it received due to backup withholding, include the amount withheld in the total for line 5j. Do **not** include these amounts on line 5i. (Include on line 5i only amounts withheld under Chapter 3 of the Code.) Enter the amount withheld and the words "Backup Withholding" in the blank space in the right-hand column between lines 4 and 5j.

### Line 6. Estimated Tax Penalty

Generally, the corporation does not have to file Form 2220 because the IRS can figure the penalty amount, if any, and bill the corporation. However, even if the corporation does not owe the penalty, it must complete and attach Form 2220 if:

- The annualized income or adjusted method is used, or
- The corporation is a large corporation (as defined in the Instructions for Form 2220) computing its first required installment based on the prior year's tax.

If Form 2220 is attached, check the box on line 6, and enter any penalty on this line.

### Line 8b

Enter on line 8b the amount of overpayment on line 8a resulting from tax deducted and withheld under Chapter 3. This amount is computed by completing Schedule W on page 7 of Form 1120-F.

### Line 9

Enter the portion of line 8a you want credited to your 2013 estimated tax and the portion of line 8a you want refunded.

**Note.** This election to apply some or all of the overpayment amount to the corporation's 2013 estimated tax cannot be changed at a later date.

**Note.** You can credit any or all of the line 8a overpayment to your 2013 estimated tax, even those amounts on line 8b resulting from tax deducted and withheld under Chapter 3.

**Note.** Refunds of certain overpayments (for example, those which pertain to tax withheld and reported on Forms 1042-S, 8805, and 8288-A) may require additional time to be processed. Therefore, please allow up to 6 months for these refunds to be issued.

**Electronic deposit of refund.** If the corporation has a refund of \$1 million or more and wants it electronically 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 8302 and attach it to Form 1120-F.

## Additional Information Requested at Top of Page 2 of Form

Complete items N through AA.

### Item O — Personal Service Corporation

A personal service corporation is a corporation whose principal activity (defined below) for the testing period for the tax year is the performance of personal services. The services must be substantially performed by employee-owners.

**Testing period.** Generally, the testing period for a tax year is the prior tax year. However, the testing period for a new corporation starts with the first day of its first tax year and ends on the **earlier** of:

- The last day of its first tax year or
- The last day of the calendar year in which the first tax year began.

**Principal activity.** The principal activity of a corporation is considered to be the performance of personal services if, during the testing period, the corporation's compensation costs for the performance of personal services (defined below) are more than 50% of its total compensation costs.

#### Performance of personal services.

The term "performance of personal services" includes any activity involving the performance of personal services in the field of: health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting (as defined in Temporary Regulations section 1.448-1T(e)).

**Accounting period.** A personal service corporation must use a calendar tax year unless:

- It elects to use a 52-53-week tax year that ends with reference to the calendar year or tax year elected under section 444;
- It can establish a business purpose for a different tax year and obtains the approval of the IRS (see the Instructions for Form 1128 and Pub. 538); or
- It elects under section 444 to have a tax year other than a calendar year. To make the election, use Form 8716, Election To Have a Tax Year Other Than a Required Tax Year.

If a corporation makes the section 444 election, its deduction for certain amounts paid to employee-owners may be limited. See Schedule H (Form 1120), Section 280H Limitations for a Personal Service

Corporation (PSC), to figure the maximum deduction.

If a section 444 election is terminated and the termination results in a short tax year, type or print at the top of the first page of Form 1120-F for the short tax year "SECTION 444 ELECTION TERMINATED." See Temporary Regulations section 1.444-1T(a)(5) for more information.

**Other rules.** For other rules that apply to personal service corporations, see *Passive activity limitations*, later.

### Item P

Enter any tax-exempt interest received or accrued. Include any exempt-interest dividends received as a shareholder in a mutual fund or other RIC. Also, if required, include the same amount on Schedule M-1, line 7a, or Schedule M-3, Part II, line 4a.

### Item R

If the corporation has a net operating loss (NOL), it generally may elect to waive the entire carryback period for the NOL and instead carry the NOL forward to future tax years. To do so, check the box in item R and file the tax return by its due date, including extensions. Do not attach the statement described in Temporary Regulations section 301.9100-12T. Once made, the election is irrevocable.

### Item S

Enter the amount of the NOL carryover to the tax year from prior years, even if some of the loss is used to offset income on this return. The amount to enter is the total of all NOLs generated in prior years but not used to offset income (either as a carryback or carryover) to a tax year prior to 2012. Do not reduce the amount by any NOL deduction reported on page 3, Section II, line 30a.

### Item T

Check the "Yes" box for item T if the corporation is a subsidiary in a parent-subsidiary controlled group. This applies even if the corporation is a subsidiary member of one group and the parent corporation of another. For a definition of a parent-subsidiary controlled group, see the Instructions for Schedule O (Form 1120).

**Note.** If the corporation is an "excluded member" of a controlled group (see definition in the Instructions for Schedule O (Form 1120)), it is still considered a member of a controlled group for this purpose.

### Item W

If a foreign corporation claims that a treaty overrules or modifies any provision of the Internal Revenue Code and thereby

effects a reduction of any tax with respect to an item reported on this Form 1120-F, check the "Yes" box. Check the "Yes" box, for example, if a treaty benefit has been claimed based on:

- The nondiscrimination provision of a treaty.
- The business profits article of a treaty. If expenses are claimed in determining the business profits of the foreign corporation, notwithstanding an inconsistent provision of the Code.
- The gains article, if a treaty benefit is claimed relating to gain or loss on the disposition of a United States real property interest.
- The branch profits tax article (or portion of the dividends article relating to the branch profits tax) and tax on excess interest.
- A waiver of insurance excise tax under section 4371 (if the foreign corporation has not entered into a closing agreement with the IRS and has not filed an annual Form 720).
- The interest, dividends, or royalty article, if a refund of withholding tax is due.

### Item Y(1)

For more information regarding a corporation's distributive share of income from a directly owned partnership interest that is ECI or treated as ECI by the partnership or the corporation (partner), see *Who Must Complete Schedule P* in the separate instructions for Schedule P (Form 1120-F).

### Item Y(2)

If the corporation owned at least a 10% interest, directly or indirectly, in any foreign partnership, attach a statement listing the following information for each foreign partnership. For this purpose, a foreign partnership includes an entity treated as a foreign partnership under Regulations section 301.7701-2 or 301.7701-3.

- Name and EIN (if any) of the foreign partnership;
- Identify which, if any, of the following forms the foreign partnership filed for its tax year ending with or within the corporation's tax year: Form 1042, 1065 or 1065-B, or 8804;
- Name of tax matters partner (if any); and
- Beginning and ending dates of the foreign partnership's tax year.

In addition, report any effectively connected income included on Schedule K-1 reported by the foreign partnership to the corporation, and the ECI apportionment of the corporation's outside basis in the foreign partnership as required in Schedule P.

### Item Z(2)

If the answer to item Z(2) is "Yes," attach a statement explaining whether the interbranch transactions are recognized under Proposed Regulations section 1.863-3(h) (Global Dealing Regulations) or some other proposed regulation. If interbranch transactions are recognized pursuant to a U.S. income tax treaty other than one that, in its text or accompanying documents (including an exchange of notes), allows for such recognition by explicitly incorporating an arm's length method applying the OECD Transfer Pricing Guidelines, then such treaty-based position should be disclosed on Form 8275-R, in addition to the treaty disclosure required on Form 8833.

### Item AA

A corporation filing Form 1120-F must complete and attach Schedule UTP (Form 1120) if:

- For 2012, the corporation has assets that equal or exceed \$50 million;
- The corporation or a related party issued audited financial statements reporting all or a portion of the corporation's operations for all or a portion of the corporation's tax year; and
- The corporation has one or more tax positions that must be reported on Schedule UTP.

Attach Schedule UTP to the corporation's income tax return. Do not file it separately. A taxpayer that files a protective Form 1120-F must also file Schedule UTP if it satisfies the requirements set forth above.

For details, see the Instructions for Schedule UTP.

## Section I—Income From U.S. Sources Not Effectively Connected With the Conduct of a Trade or Business in the United States

**Note.** Complete Section I only if you derived U.S. source income not effectively connected with the conduct of a trade or business in the United States and either your withholding tax liability was not correctly withheld at source or not correctly reported on Form 1042-S, or you are claiming a refund of an amount withheld at source.

Only report amounts on these lines if:

- The amount received is fixed or determinable, annual or periodic (FDAP) (see definition below).
- The amount received is includible in the gross income of the foreign corporation. Therefore, receipts that are excluded from income (e.g., interest income received on state and local bonds that is excluded

under section 103) would not be included as income in Section I.

- The amount received is from U.S. sources (see *Source of Income Rules*, earlier).
- The amount received is not effectively connected with the conduct of a U.S. trade or business (see *Section II*, later).
- The amount received is not exempt (by Code) from taxation. For example, interest on deposits that are exempted by section 881(d) would not be included as income in Section I. In addition, certain portfolio interest is not taxable for obligations issued after July 18, 1984. See section 881(c) for more details.

Such income (except as indicated below) will generally be subject to tax at a 30% rate. See section 881(a).

**Amounts fixed or determinable, annual or periodic** include:

1. Interest (other than OID as defined in section 1273), dividends, rents, royalties, salaries, wages, premiums, annuities, compensation, and other FDAP gains, profits, and income.

**Note.** Item 1 above includes dividend equivalents described in section 871(m).

2. Gains described in section 631(b) or (c), relating to disposal of timber, coal, or domestic iron ore with a retained economic interest.

3. On a sale or exchange of an OID obligation, the amount of the OID accruing while the obligation was held by the foreign corporation, unless this amount was taken into account on a payment.

4. On a payment received on an OID obligation, the amount of the OID accruing while the obligation was held by the foreign corporation, if such OID was not previously taken into account and if the tax imposed on the OID does not exceed the payment received less the tax imposed on any interest included in the payment received. This rule applies to payments received for OID obligations issued after March 31, 1972.

Certain OID is not taxable for OID obligations issued after July 18, 1984. See section 881(c) for more details.

For rules that apply to other OID obligations, see Pub. 515.

5. Gains from the sale or exchange of patents, copyrights, and other intangible property if the gains are from payments that are contingent on the productivity, use, or disposition of the property or interest sold or exchanged.

For more information, see section 881(a) and Regulations section 1.881-2.

**Note.** For purposes of determining whether its income is taxable under section 881(a), a corporation created or organized in Guam, American Samoa, the

Northern Mariana Islands, or the U.S. Virgin Islands will not be treated as a foreign corporation if it meets the rules of section 881(b). For dividends paid after October 22, 2004, a corporation created or organized in Puerto Rico will be taxed under section 881(a) at a rate of 10% with respect to such dividends received during the tax year in the circumstances outlined in section 881(b)(2).

### Line 9. Gross Transportation Income

A 4% tax is imposed on a foreign corporation's U.S. source gross transportation income for the tax year. U.S. source gross transportation income generally is any gross income that is transportation income if such income is treated as from U.S. sources.

Transportation income is any income from or connected with:

- The use (or hiring or leasing for use) of a vessel or aircraft or
- The performance of services directly related to the use of a vessel or aircraft. For this purpose, the term "vessel or aircraft" includes any container used in connection with a vessel or aircraft.

Generally, 50% of all transportation income that is attributable to transportation that either begins or ends in the United States is treated as from U.S. sources. See section 863(c)(2)(B) for a special rule for personal service income.

**Exceptions.** U.S. source gross transportation income does **not** include income that is:

- Effectively connected with the conduct of a U.S. trade or business or
- Taxable in a possession of the United States under the provisions of the Internal Revenue Code as applied to that possession.

Transportation income of the corporation will not be treated as effectively connected income unless:

- The corporation has a fixed place of business in the United States involved in the earning of transportation income and
- Substantially all of the corporation's U.S. source gross transportation income (determined without regard to the rule that such income does not include effectively connected income) is attributable to regularly scheduled transportation (or, in the case of income from the leasing of a vessel or aircraft, is attributable to a fixed place of business in the United States).

For more information, see section 887.

Enter the foreign corporation's U.S. source gross transportation income on line 9, column (b). Also, attach Schedule V (Form 1120-F).

See *Exclusion from gross income for certain income from ships and aircraft*, later.

### Line 13

Check the "Yes" box if you received an item of income during the tax year with respect to which you are treated as fiscally transparent under the laws where you are organized. In such a case, you may not claim a reduced rate of tax under a treaty with respect to that item. See Regulations section 1.894-1(d)(1).

If the item of income has been withheld upon, your interest holders may, however, be able to claim treaty benefits, but only if the tax jurisdiction in which your interest holders qualify for treaty benefits treats you as fiscally transparent and the interest holders are not fiscally transparent with respect to that item of income. An interest holder claiming a benefit should file a separate Form 1120-F, if appropriate. See Regulations section 1.894-1(d)(3) for the definition of fiscally transparent and Regulations section 1.894-1(d)(5) for examples.

## Section II—Income Effectively Connected With the Conduct of a Trade or Business in the United States

### Foreign Corporations Engaged in a U.S. Trade or Business

These corporations are taxed on their effectively connected income using the same graduated tax rate schedule (see *Tax Rate Schedule*, later) that applies to domestic corporations. Effectively connected income can be U.S. source or foreign source income as explained below.

### U.S. Source Effectively Connected Income

U.S. source income derived by a foreign corporation engaged in a U.S. trade or business other than FDAP and capital gains is effectively connected income. See Regulations section 1.864-4(b).

**Note.** For purposes of the preceding paragraph, U.S. source income includes income with respect to activities related to the exploration and exploitation of natural resources in continental shelf areas (see section 638). For more information, see *Industry Director's Directive #1 - United States Outer Continental Shelf Activity*, which may be accessed at IRS.gov.

FDAP items are generally effectively connected income (and are therefore includible in Section II) if the asset-use test, the business-activities test, or both tests (explained below) are met.

If neither test is met, FDAP items are generally not effectively connected income (and are therefore includible in Section I instead of Section II). For more information, see section 864(c)(2) and Regulations section 1.864-4(c).

**Finance business.** See Regulations section 1.864-4(c)(5) for special rules relating to banking, financing, or similar business activities. Such rules apply to certain stocks and securities of a banking, financing, or similar business in lieu of the asset use and business activities tests.

**Asset-use test.** The FDAP items are from assets used in, or held for use in, the conduct of U.S. trade or business. For example, the following items are effectively connected income:

- Income earned on a trade or note receivable acquired in the conduct of the U.S. trade or business and
- Interest income earned from the temporary investment of funds needed in the foreign corporation's U.S. trade or business.

**Business-activities test.** The activities of the U.S. trade or business were a material factor in the realization of the FDAP items.

### Foreign Source Effectively Connected Income

Foreign source income is generally not effectively connected income. However, if the foreign corporation has an office or other fixed place of business in the United States, the following types of foreign source income it receives from that U.S. office are effectively connected income:

- Rents or royalties received for the use outside the United States of intangible personal property described in section 862(a)(4) if derived from the active conduct of a U.S. trade or business;
- Gains or losses on the sale or exchange of intangible personal property located outside the United States or from any interest in such property, if such gains or losses are derived in the active conduct of the trade or business in the United States;
- Dividends, interest, amounts received for the provision of a guarantee of indebtedness, issued after September 27, 2010, from any transaction, or gains or losses on the sale or exchange of stock or securities from foreign sources if derived from the active conduct of a U.S. banking, financing, or similar business **or** if the principal business of the foreign corporation is trading in stocks or securities for its own account;
- Income from the sale or exchange of inventory outside the United States through the U.S. office, unless the property is sold or exchanged for use, consumption, or disposition outside the United States and an office of the foreign

corporation in a foreign country materially participated in the sale; or

- Any income or gain that is equivalent to any item of income or gain listed above must be treated in the same manner as such item for purposes of determining whether that income is foreign source effectively connected income.

See section 864(c)(5)(A) and Regulations section 1.864-7 for the definition of office or other fixed place of business in the United States. See sections 864(c)(5)(B) and (C) and Regulations section 1.864-6 for special rules for determining when foreign source income received by a foreign corporation is from an office or other fixed place of business in the United States.

**Foreign insurance companies.** Foreign source income of a foreign insurance company that is attributable to its U.S. trade or business is effectively connected income. See section 864(c)(4)(C) and Regulations section 1.864-5(c).

### Excluded foreign source income.

Foreign source income that would otherwise be effectively connected income under any of the above rules for foreign source income is excluded if:

- It is foreign source dividends, interest, or royalties paid by a foreign corporation in which the taxpayer owns or is considered to own (within the meaning of section 958) more than 50% of the total combined voting power of all classes of stock entitled to vote or
- The taxpayer is a controlled foreign corporation (as defined in section 957) and the foreign source income is subpart F income (as defined in section 952).

For more information, see section 864(c)(4)(D) and Regulations section 1.864-5(d).

### Foreign Corporations Not Engaged in a U.S. Trade or Business

If a foreign corporation is not engaged in a U.S. trade or business during the tax year, it will complete Section II only if such corporation:

- Had current year income or gain from a sale or exchange of property or from performing services (or any other transaction) in any other tax year that would have been effectively connected income in that other tax year (see section 864(c)(6));
- Had current year income or gain from a disposition of property that is no longer used or held for use in conducting a U.S. trade or business within the 10-year period before the disposition that would have been effectively connected income immediately before such cessation (see section 864(c)(7));

- Elected to treat real property income as effectively connected income (see below);
- Was created or organized and was conducting a banking business in a U.S. possession, and received interest on U.S. obligations that is not portfolio interest (see section 882(e)); or
- Had gain or loss from disposing of a U.S. real property interest (see *Disposition of U.S. Real Property Interest by a Foreign Corporation*, later).

### Election To Treat Real Property Income as Effectively Connected Income

A foreign corporation that derives, during the tax year, any income from real property located in the United States, or from any interest in such real property, may elect, for the tax year, to treat all such income as effectively connected income. See section 871(d). Income to which this election applies includes:

- Gains from the sale or exchange of real property or an interest therein,
- Rents or royalties from mines, wells, or other natural deposits, and
- Gain described in sections 631(b) or (c).

The election may be made whether or not the corporation is engaged in a U.S. trade or business during the tax year for which the election is made or whether or not the corporation has income from real property that, for the tax year, is effectively connected with the conduct of a U.S. trade or business.

To make the election, attach a statement that includes the information required in Regulations section 1.871-10(d)(1)(ii) to Form 1120-F for the first tax year for which the election is to apply. Use Section II to figure the tax on this income.

### Disposition of U.S. Real Property Interest by a Foreign Corporation

A foreign corporation that disposes of a U.S. real property interest (as defined in section 897(c)) must treat the gain or loss from the disposition as effectively connected income, even if the corporation is not engaged in a U.S. trade or business. Figure this gain or loss on Schedule D (Form 1120), Capital Gains and Losses. Carry the result to Section II, line 8, on page 3 of Form 1120-F.

A foreign corporation may elect to be treated as a domestic corporation for purposes of sections 897 and 1445. See section 897(i).

See Temporary Regulations section 1.897-5T for the applicability of section 897 to reorganizations and liquidations.

If the corporation had income tax withheld on Form 8288-A, include the amount withheld on line 5i, page 1.

## Income

### Line 1. Gross Receipts or Sales

**Line 1a.** Enter gross income effectively connected with the conduct of a U.S. trade or business (except for those income items that must be reported on lines 4 through 10). Include on line 1a effectively connected gross receipts or sales.

Special rules apply to certain income, as discussed below.

**Advance payments.** In general, advance payments are reported in the year of receipt. For exceptions to this general rule for corporations that use the accrual method of accounting, see the following.

- To report income from long-term contracts, see section 460.
- For special rules for reporting certain advance payments for goods and long-term contracts, see Regulations section 1.451-5.
- For rules that allow a limited deferral of advance payments beyond the current tax year, see Rev. Proc. 2004-34, 2004-22 I.R.B. 991, as modified and clarified by Rev. Proc. 2011-18, 2011-5 I.R.B. 443, for advance payments from the sale of certain gift cards.
- For information on adopting or changing to a permissible method for reporting advance payments for services and certain goods by an accrual method corporation, see the Instructions for Form 3115.

**Exclusion from gross income for certain income from ships and aircraft.** A foreign corporation engaged in the international operation of ships or aircraft and organized in a qualified foreign country may exclude qualified income from its gross income, provided that the corporation can satisfy certain ownership requirements. See Schedule S (Form 1120-F) and its separate instructions for additional information.

**Income from qualifying shipping activities (tonnage tax).** The corporation's gross income does not include income from qualifying shipping activities (as defined in section 1356) if the corporation makes an election under section 1354 to be taxed on its notional shipping income (as defined in section 1353) at the highest corporate tax rate (35%). If the election is made, the corporation generally may not claim any loss, deduction, or credit with respect to qualifying shipping activities. A corporation making this election also may elect to defer gain on certain dispositions of qualifying vessels under section 1359.

Use Form 8902, Alternative Tax on Qualifying Shipping Activities, to figure the tax. Include the alternative tax from Form 8902, line 30, on Schedule J, line 8, and be sure to check the "Form 8902" box on that line.

**Installment sales.** Generally, the installment method may not be used for dealer dispositions of property. A "dealer disposition" is any disposition of: (a) personal property by a person who regularly sells or otherwise disposes of personal property of the same type on the installment plan or (b) real property held for sale to customers in the ordinary course of the taxpayer's trade or business.

The restrictions on using the installment method do not apply to the following.

- Dealer dispositions of property before March 1, 1986.
- Dispositions of property used or produced in the trade or business of farming.
- Certain dispositions of timeshares and residential lots reported under the installment method for which the corporation elects to pay interest under section 453(l)(3).

Enter on line 1a (and carry to line 3), the gross profit on collections from these installment sales. Attach a schedule showing the following information for the current and the 3 preceding years: (a) gross sales, (b) cost of goods sold, (c) gross profits, (d) percentage of gross profits to gross sales, (e) amount collected, and (f) gross profit on the amount collected.

For sales of timeshares and residential lots reported under the installment method, if the corporation elects to pay interest under section 453(l)(3), the corporation's income tax is increased by the interest payable under section 453(l)(3). Report this addition to the tax on Schedule J, line 8, and be sure to check the "Other" box.

**Nonaccrual experience method for service providers.** Accrual method corporations are not required to accrue certain amounts to be received from the performance of services that, on the basis of their experience, will not be collected, if:

- The services are in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting, or
- The corporation's average annual gross receipts have not exceeded \$5 million for any prior 3-tax-year period. For more details, see Regulations sections 1.448-2(a)(2) and 1.448-1T(f)(2).

This provision does not apply to any amount if interest is required to be paid on the amount or if there is any penalty for failure to timely pay the amount. See

Regulations section 1.448-2 for information on the nonaccrual experience method, including information on safe harbor methods. See Rev. Proc. 2011-46, 2011-42 I.R.B. 518, for information on a book safe harbor method of accounting for corporations that use the nonaccrual experience method of accounting. Also, see Rev. Proc. 2011-46, for procedures to obtain automatic consent to change to this method or make certain changes within this method.

Corporations that qualify to use the nonaccrual experience method should attach a schedule showing total gross receipts, the amount not accrued as a result of the application of section 448(d)(5), and the net amount accrued. Enter the net amount on line 1a.

### Line 1b. Returns and allowances.

Enter cash and credit refunds the corporation made to customers for returned merchandise, rebates, and other allowances made on gross receipts or sales.

### Line 2. Cost of Goods Sold

Complete Form 1125-A, Cost of Goods Sold. Enter on Form 1120-F, line 2, the amount from Form 1125-A, line 8. See Form 1125-A and its instructions.

### Line 4. Dividends

See the instructions for Schedule C, later. Then, complete Schedule C and enter on line 4 the amount from Schedule C, line 14.

### Line 5. Interest

Enter taxable interest on U.S. obligations and on loans, notes, mortgages, bonds, bank deposits, corporate bonds, tax refunds, etc. Do not offset interest expense against interest income. Special rules apply to interest income from certain below-market-rate loans. See section 7872 for details.

**Note.** Report tax-exempt interest income on Form 1120-F, page 2, item P. Also, if required, include the same amount on Schedule M-1, line 7a, or Schedule M-3, Part II, line 4a.

### Line 6. Gross Rents

Enter the gross amount received for the rental of property. Deduct expenses such as repairs, interest, taxes, and depreciation on the proper lines for deductions. A rental activity held by a closely held corporation or a personal service corporation may be subject to the passive activity loss rules. See *Passive activity limitations*, later.

## Line 8. Capital Gain Net Income

Every effectively connected sale or exchange of a capital asset must be reported in detail on Schedule D (Form 1120), Capital Gains and Losses, even if there is no gain or loss.

## Line 10. Other Income

Enter any other taxable income not reported on lines 1 through 9. List the type and amount of income on an attached statement. If the corporation has only one item of other income, describe it in parentheses on line 10.

Examples of other income to report on line 10 are:

- Recoveries of bad debts deducted in prior years under the specific charge-off method.
- The amount included in income from Form 6478, Alcohol and Cellulosic Biofuel Fuels Credit.
- The amount included in income from Form 8864, Biodiesel and Renewable Diesel Fuels Credit.
- Refunds of taxes deducted in prior years to the extent they reduced the amount of tax imposed. See section 111 and the related regulations. Do not offset current year taxes against tax refunds.
- Ordinary income from trade or business activities of a partnership (from Schedule K-1 (Form 1065 or 1065-B)). Do not offset ordinary losses against ordinary income. Instead, include the losses on Section II, line 27. Show the partnership's name, address, and EIN on Schedule P (Form 1120-F). If the amount entered is from more than one partnership, identify the amount from each partnership on Schedule P.
- Any net positive section 481(a) adjustment.
- Part or all of the proceeds received from certain corporate-owned life insurance contracts issued after August 17, 2006. Corporations that own one or more employer-owned life insurance contracts issued after this date must file Form 8925, Report of Employer-Owned Life Insurance Contracts. See section 101(j) for details.
- Net income from notional principal contracts.
- Interest and dividend equivalents (e.g., confirmation and acceptance letter of credit fees and other guarantee fees).
- Income from cancellation of debt (COD) for the repurchase of a debt instrument for less than its adjusted issue price. However, if a corporation elected under section 108(i), to defer the income from COD in connection with the reacquisition of an applicable debt instrument in 2009 and 2010, the income is deferred and ratably included in income over the 5-year period beginning with:

1. For a reacquisition that occurred in 2009, the fifth tax year following the tax year in which the reacquisition occurred, and

2. For a reacquisition that occurred in 2010, the fourth tax year following the tax year in which the reacquisition occurred.

Once made, the election is irrevocable and the exclusions for COD income under section 108(a)(1)(A), (B), (C), and (D) do not apply for the tax year of the election or any later tax year. An annual information statement, discussed earlier under *Annual information statement for elections under section 108(i)*, is required. Also, any deferred COD income that has been accelerated because of certain events under section 108(i)(5)(D) must be included in income in the current year.

For more information, see section 108(i) and Rev. Proc. 2009-37. If the corporation is a direct or indirect partner in a partnership, other special rules apply. See Temporary Regulations section 1.108(i)-2T.

## Deductions

**Important.** In computing the taxable income of a foreign corporation engaged in a U.S. trade or business, deductions are allowed only if they are connected with income effectively connected with the conduct of a trade or business in the United States. Charitable contributions, however, may be deducted whether or not they are so connected. See section 882(c) and Regulations section 1.882-4(b) for more information.

## Apportionment of Expenses

In general, expenses that are definitely related to a class of gross income (including tax-exempt income) must be allocated to that class of gross income. Expenses not definitely related to a class of gross income should be allocated to all classes of income based on the ratio of gross income in each class of income to total gross income, or some other ratio that clearly relates to the classes of income. See Regulations section 1.861-8 and Temporary Regulations section 1.861-8T for more information.

Attach Schedule H (Form 1120-F) to show the definitely related and indirect allocation and apportionment of expenses to effectively connected income. The amount on Schedule H, Part II, line 20 is reportable on Form 1120-F, Section II, line 26.

**Note.** The allocation and apportionment of bad debt deductions is not included on Schedule H but is reported only on Form 1120-F, Section II, line 15.

## Limitations on Deductions

**Uniform capitalization rules.** The uniform capitalization rules of section 263A require corporations to capitalize, or include in inventory, certain costs.

Corporations subject to the section 263A uniform capitalization rules are required to capitalize:

1. Direct costs, and
2. An allocable part of most indirect costs (including taxes) that (a) benefit the assets produced or acquired for resale, or (b) are incurred by reason of the performance of production or resale activities.

The costs required to be capitalized under section 263A are not deductible until the property (to which the costs relate) is sold, used, or otherwise disposed of by the corporation. You recover these costs through depreciation, amortization, or costs of goods sold. See the Instructions for Schedule I (Form 1120-F), line 24c.

For more details, including exceptions to the uniform capitalization rules, see Pub. 538. Also, see Regulations sections 1.263A-1 through 1.263A-3. See Regulations section 1.263-4 for rules for property produced in a farming business.

**Transactions between related taxpayers.** Generally, an accrual basis taxpayer may only deduct business expenses and interest owed to a related party in the year the payment is included in the income of the related party. See sections 163(e)(3), 163(j), and 267 for limitations on deductions for unpaid interest and expenses. See the Instructions for Schedule I (Form 1120-F), line 24b for limitations under these sections of the interest expense allocable under Regulations section 1.882-5.

Corporations use Form 8926, Disqualified Corporate Interest Expense Disallowed Under Section 163(j) and Related Information, to figure the amount of any corporate interest expense disallowed by section 163(j).

**Section 291 limitations.** Corporations may be required to adjust deductions for depletion of iron ore and coal, intangible drilling and exploration and development costs, certain deductions for financial institutions, and the amortizable basis of pollution control facilities. See section 291 to determine the amount of the adjustment. Also see section 43.

**Election to deduct business start-up and organizational costs.** For 2012, a corporation can elect to deduct up to \$5,000 of business start-up and up to \$5,000 of organizational costs paid or incurred after October 22, 2004. Any remaining costs must be amortized ratably

over an 180-month period. The \$5,000 deduction is reduced (but not below zero) by the amount the total costs exceed \$50,000. If the total costs are \$55,000 or more, the deduction is reduced to zero. See sections 195(b) and 248(a).

**Time for making an election.** The corporation generally elects to deduct start-up or organizational costs by claiming the deduction on its income tax return filed by the due date (including extensions) for the tax year in which the active trade or business begins. However, for start-up or organizational costs paid or incurred before September 9, 2008, the corporation may be required to attach a statement to its return to elect to deduct such costs.

If the corporation timely filed its return for the year without making an election, it can still make an election by filing an amended return within 6 months of the due date of the return (excluding extensions). Clearly indicate the election on the amended return and write "Filed pursuant to section 301.9100-2" at the top of the amended return. File the amended return at the same address the corporation filed its original return. The election applies when figuring taxable income for the current tax year and all subsequent years.

The corporation can choose to forgo the elections above by affirmatively electing to capitalize its start-up or organizational costs on its income tax return filed by the due date (including extensions) for the tax year in which the active trade or business begins.

**Note.** The election to either amortize or capitalize start-up costs is irrevocable and applies to all start-up costs that are related to the trade or business.

Report the deductible amount of start-up and organizational costs and any amortization on line 27. For amortization that begins during the 2012 tax year, complete and attach Form 4562, Depreciation and Amortization.

For more details on business start-up and organizational costs, see the Instructions for Form 4562. Also see Pub. 535, Business Expenses.

**Passive activity limitations.** Limitations on passive activity losses and credits under section 469 apply to personal service corporations (for definition, see *Item O—Personal Service Corporation*, earlier) and closely held corporations (see definition below).

Generally, the two kinds of passive activities are:

- Trade or business activities in which the corporation did not materially participate for the tax year and

- Rental activities, regardless of its participation.

For exceptions, see Form 8810, Corporate Passive Activity Loss and Credit Limitations.

Corporations subject to the passive activity limitations must complete Form 8810 to compute their allowable passive activity loss and credit. Before completing Form 8810, see Temporary Regulations section 1.163-8T, which provides rules for allocating interest expense among activities. If a passive activity is also subject to the earnings stripping rules of section 163(j), the at-risk rules of section 465, or the tax-exempt use loss rules of section 470, those rules apply before the passive loss rules.

For more information, see section 469, the related regulations, and Pub. 925, Passive Activity and At-Risk Rules.

**Closely held corporations.** A corporation is a closely held corporation if:

- At any time during the last half of the tax year more than 50% in value of its outstanding stock is directly or indirectly owned by or for not more than five individuals and
- The corporation is not a personal service corporation.

Certain organizations are treated as individuals for purposes of this test. See section 542(a)(2). For rules for determining stock ownership, see section 544 (as modified by section 465(a)(3)).

**Reducing certain expenses for which credits are allowable.** If the corporation claims certain credits, it may need to reduce the otherwise allowable deductions for expenses used to figure the credit. This applies to credits such as the following:

- Work opportunity credit (Form 5884).
- Credit for increasing research activities (Form 6765).
- Orphan drug credit (Form 8820).
- Disabled access credit (Form 8826).
- Empowerment zone employment credit (Form 8844).
- Indian employment credit (Form 8845).
- Credit for employer social security and Medicare taxes paid on certain employee tips (Form 8846).
- Credit for small employer pension plan startup costs (Form 8881).
- Credit for employer-provided childcare facilities and services (Form 8882).
- Low sulfur diesel fuel production credit (Form 8896).
- Agricultural chemicals security credit (Form 8931).
- Mine rescue team training credit (Form 8923).
- Credit for employer differential wage payments (Form 8932).

- Credit for small employer health insurance premiums (Form 8941).

If the corporation has any of these credits, figure the current year credit before figuring the deduction for expenses on which the credit is based. If the corporation capitalized any costs on which it figured the credit, it may need to reduce the amount capitalized by the credit attributable to these costs.

If the corporation has qualified investment taken into account in determining the qualifying therapeutic discovery project credit or grant, it may need to reduce the otherwise allowable deductions for such qualified investment. See section 280C(g).

See the instructions for the form used to figure the applicable credit for more details.

#### **Limitations on deductions related to property leased to tax-exempt entities.**

If a corporation leases property to a governmental or other tax-exempt entity and the lease does not meet the requirements of section 470(d), the corporation may not claim deductions related to the property to the extent that they exceed the corporation's income from the lease payments. This disallowed tax-exempt use loss may be carried over to the next tax year and treated as a deduction with respect to the property for that tax year. See section 470 for more details and exceptions.

**Contributions.** See the instructions for line 19, later, for limitations that apply to contributions.

#### **Line 12. Compensation of Officers**

Enter deductible officers' compensation on line 12. Do not include compensation deductible elsewhere on the return, such as amounts included in cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement or a SIMPLE IRA plan.

If the corporation's total receipts (line 1a, plus lines 4 through 10) are \$500,000 or more, complete Form 1125-E, Compensation of Officers. Enter on line 12 the amount from Form 1125-E, line 4.

#### **Line 13. Salaries and Wages**

Enter the total salaries and wages paid for the tax year. Do not include salaries and wages deductible elsewhere on the return, such as amounts included in officers' compensation, cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement or a SIMPLE IRA plan.

If the corporation claims a credit for any wages paid or incurred, it may need to reduce its deduction for officers' compensation and salaries and wages. See *Reducing certain expenses for which credits are allowable*, earlier.

If the corporation provided taxable fringe benefits to its employees, such as personal use of a car, do not deduct as wages the amount allocated for depreciation and other expenses claimed on lines 20 and 27.

#### Line 14. Repairs and Maintenance

Enter the cost of incidental repairs and maintenance not claimed elsewhere on the return, such as labor and supplies, that do not add to the value of the property or appreciably prolong its life. New buildings, machinery, or permanent improvements that increase the value of the property are not deductible. They must be depreciated or amortized.

#### Line 15. Bad Debts

Enter the total debts that became worthless in whole or in part during the tax year. A small bank or thrift institution using the reserve method of section 585 should attach a schedule showing how it figured the current year's provision. A corporation that uses the cash method of accounting cannot claim a bad debt deduction unless the amount was previously included in income.

**Specific Charge Off Method.** Attach to the return a list of each debtor and the amount of the bad debt deduction where the amount of the loans charged off (or treated as charged off under Regulations section 1.166-2) for that debtor total in excess of \$500,000 in the tax year.

#### Line 16. Rents

If the corporation rented or leased a vehicle, enter the total annual rent or lease expense paid or incurred during the year. Also complete Part V of Form 4562, Depreciation and Amortization. If the corporation leased a vehicle for a term of 30 days or more, the deduction for vehicle lease expense may have to be reduced by an amount includible in income called the inclusion amount. The corporation may have an inclusion amount if:

| The lease term began:                   | And the vehicle's FMV on the first day of the lease exceeded: |
|---|---|
| <b>Cars (excluding trucks and vans)</b> |   |
| After 12/31/07 but before 1/1/13        | \$18,500  |
| <b>Trucks and vans</b>                  |   |
| After 12/31/09 but before 1/1/13        | \$19,000  |
| After 12/31/08 but before 1/1/10        | \$18,500  |
| After 12/31/07 but before 1/1/09        | \$19,000  |

See Pub. 463, Travel, Entertainment, Gift and Car Expenses, for instructions on figuring the inclusion amount. The inclusion amount for lease terms beginning in 2013 will be published in the Internal Revenue Bulletin in early 2013.

#### Line 17. Taxes and Licenses

Enter taxes paid or accrued during the tax year, but do not include the following:

- Federal income taxes.
- Foreign or U.S. possession income taxes if a foreign tax credit is claimed.
- Taxes not imposed on the corporation.
- Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (these taxes must be treated as a part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition).
- Taxes assessed against local benefits that increase the value of the property assessed (such as for paving, etc.).
- Taxes deducted elsewhere on the return, such as those reflected in cost of goods sold.

See section 164(d) for information on apportionment of taxes on real property between seller and purchaser.

See section 906(b)(1) for rules concerning certain foreign taxes imposed on income from U.S. sources that may not be deducted or credited.

#### Line 18. Interest Expense from Schedule I, line 25

Enter the interest expense from Schedule I (Form 1120-F), line 25. Attach Schedule I to the Form 1120-F. See Schedule I and its separate instructions for additional information relating to the allocation of interest expense to effectively connected income and the amount that may be claimed as a deduction on Form 1120-F, Section II, line 18.

**Treaty-based interest expense allocation methods.** Except as expressly provided by or pursuant to a U.S. income tax treaty or accompanying documents

(such as an exchange of notes), the three-step formula under Regulations section 1.882-5 provides the exclusive rules for determining the interest expense attributable to the business profits of a permanent establishment under a U.S. income tax treaty. U.S. income tax treaties that expressly provide the right to determine the attribution of business profits to a U.S. permanent establishment by application of the OECD Transfer Pricing Guidelines, by analogy, are those with the United Kingdom (2004), Japan (2005), Germany (2008), Belgium (2008), Canada (2009), Bulgaria (2009), and Iceland (2009). See Article 7 (Business Profits) of these treaties and the relevant Exchange of Notes and Treasury Department Technical Explanations for guidance on how to attribute capital to a permanent establishment under these treaties.

**Protective elections under section 1.882-5.** If a taxpayer uses the provisions of an applicable treaty to allocate interest expense rather than Regulations section 1.882-5, it remains subject to the time, place, and manner provisions of Regulations section 1.882-5(a)(7) for making its interest expense allocation elections for any subsequent year that it chooses to use the three-step allocation formula of the regulations instead of the treaty. Protective interest expense allocation elections under Regulations section 1.882-5(a)(7) may be made for a year in which a treaty method is used in lieu of the rules of Regulations section 1.882-5 by completing and filing Schedule I on a timely filed income tax return for any year that the election would be required to be made under the rules of Regulations section 1.882-5. If a corporation uses an applicable treaty, rather than the rules of Regulations section 1.882-5, to allocate interest expense and does not file Schedule I, then the taxpayer has forfeited its right to make the Regulations section 1.882-5 method elections for such applicable year or years. In this case, under certain circumstances, the Director of Field Operations may make any or all of the binding elections provided under Regulations section 1.882-5 in accordance with Regulations section 1.882-5(a)(7)(ii) (and may make the binding partnership basis apportionments election under Regulations section 1.884-1(d)(3)(v)) on behalf of the corporation.

#### Line 19. Charitable Contributions

**Note.** This deduction is allowed for all contributions, whether or not connected with income that is effectively connected with the conduct of a trade or business in

the United States. See section 882(c)(1)(B).

Enter contributions or gifts actually paid within the tax year to or for the use of charitable and governmental organizations described in section 170(c) and any unused contributions carried over from prior years. Special rules and limits apply to contributions to organizations conducting lobbying activities. See section 170(f)(9).

Corporations reporting taxable income on the accrual method may elect to treat as paid during the tax year any contributions paid by the 15th day of the 3rd month after the end of the tax year if the contributions were authorized by the board of directors during the tax year. Attach a declaration to the return stating that the resolution authorizing the contributions was adopted by the board of directors during the tax year. The declaration must include the date the resolution was adopted. See Regulations section 1.170A-11.

**Limitation on deduction.** The total amount claimed may not exceed 10% of taxable income (line 31) computed without regard to the following:

- Any deduction for contributions.
- The special deductions on line 30b.
- The limitation under section 249 on the deduction for bond premium.
- The domestic production activities deduction under section 199.
- Any net operating loss (NOL) carryback to the tax year under section 172.
- Any capital loss carryback to the tax year under section 1212(a)(1).

**Suspension of 10% limitation for farmers and ranchers.** A corporation that is a qualified farmer or rancher (as defined in section 170(b)(1)(E)) that does not have publicly traded stock, can deduct contributions of qualified conservation property without regard to the general 10% limit. The total amount of the contribution claimed for the qualified conservation property cannot exceed 100% of the excess of the corporation's taxable income (as computed above, substituting "100%" for "10%") over all other allowable charitable contributions. Any excess qualified conservation contributions can be carried over to the next 15 years, subject to the 100% limitation. See section 170(b)(2)(B).

**Carryover.** Charitable contributions over the 10% limitation may not be deducted for the tax year but may be carried over to the next 5 tax years.

Special rules apply if the corporation has an NOL carryover to the tax year. In figuring the charitable contributions deduction for the current tax year, the 10% limit is applied using the corporation's

taxable income after taking into account any deduction for the NOL.

To figure the amount of any remaining NOL carryover to later years, taxable income must be modified (see section 172(b)). To the extent that contributions are used to reduce taxable income for this purpose and increase an NOL carryover, a contributions carryover is not allowed. See section 170(d)(2)(B).

**Cash contributions.** For contributions of cash, check, or other monetary gifts (regardless of the amount), the corporation must maintain a bank record, or a receipt, letter, or other written communication from the donee organization indicating the name of the organization, the date of the contribution, and the amount of the contribution.

**Contributions of \$250 or more.** A corporation can deduct a contribution of \$250 or more only if it gets a written acknowledgment from the donee organization that shows the amount of cash contributed, describes any property contributed (but not its value), and either gives a description and a good faith estimate of the value of any goods or services provided in return for the contribution or states that no goods or services were provided in return for the contribution. The acknowledgment must be obtained by the due date (including extensions) of the corporation's return, or, if earlier, the date the return is filed. Do not attach the acknowledgment to the tax return, but keep it with the corporation's records.

**Contributions of property other than cash.** If a corporation (other than a closely held or personal service corporation) contributes property other than cash and claims a deduction of more than \$500 for the property, it must attach a statement to the return describing the kind of property contributed and the method used to determine its fair market value (FMV). Closely held corporations and personal service corporations must complete Form 8283, Noncash Charitable Contributions, and attach it to their returns. All other corporations generally must complete and attach Form 8283 to their returns for contributions of property (other than money) if the total claimed deduction for all property contributed was more than \$5,000. Special rules apply to the contribution of certain property. See the Instructions for Form 8283.

**Qualified conservation contributions.** Special rules apply to qualified conservation contributions, including contributions of certain easements on buildings located in a registered historic district. See section 170(h) and Pub. 526, Charitable Contributions.

**Other special rules.** The corporation must reduce its deduction for contributions of certain capital gain property. See sections 170(e)(1) and 170(e)(5).

A larger deduction is allowed for certain contributions, including the following.

- Inventory and other property to certain organizations for use in the care of the ill, needy, or infants, including qualified contributions of "apparently wholesome food." See section 170(e)(3).
- Contributions of qualified book inventory to public schools made before January 1, 2012. See section 170(e)(3)(D).
- Scientific equipment used for research to institutions of higher learning or to certain scientific research organizations (other than by personal holding companies and service organizations). See section 170(e)(4).

For more information on charitable contributions, including substantiation and recordkeeping requirements, see section 170 and the related regulations and Pub. 526. For other special rules that apply to corporations, see Pub. 542.

## Line 20. Depreciation

Include on line 20 depreciation and the cost of certain property that the corporation elected to expense under section 179. See Form 4562 and the Instructions for Form 4562.

## Line 21. Depletion

See sections 613 and 613A for percentage depletion rates applicable to natural deposits. Also, see section 291 for the limitation on the depletion deduction for iron ore and coal (including lignite).

Attach Form T (Timber), Forest Activities Schedule, if a deduction for depletion of timber is claimed.

Foreign intangible drilling costs and foreign exploration and development costs must either be added to the corporation's basis for cost depletion purposes or be deducted ratably over a 10-year period. See sections 263(i), 616, and 617 for details.

See Pub. 535 for more information on depletion.

## Line 23. Pension, Profit-Sharing, etc., Plans

Enter the deduction for contributions to qualified pension, profit-sharing, or other funded deferred compensation plans. Employers who maintain such a plan generally must file one of the forms listed below unless exempt from filing under regulations or other applicable guidance,

even if the plan is not a qualified plan under the Internal Revenue Code. The filing requirement applies even if the corporation does not claim a deduction for the current tax year. There are penalties for failure to file these forms on time and for overstating the pension plan deduction. See sections 6652(e) and 6662(f). Also see the instructions for the applicable form.

**Form 5500**, Annual Return/Report of Employee Benefit Plan.

**Form 5500-SF**, Short Form Annual Return/Report of Small Employee Benefit Plan, instead of Form 5500, generally if under 100 participants at the beginning of the plan year.

**Note.** 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](http://www.efast.dol.gov).

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

## Line 24. Employee Benefit Programs

Enter contributions to employee benefit programs not claimed elsewhere on the return (e.g., insurance, health, and welfare programs, etc.) that are not an incidental part of a pension, profit-sharing, etc., plan included on line 23.

## Line 26. Deductions Allocated and Apportioned to ECI from Schedule H, line 20

Enter the total home office deductions allocated and apportioned to ECI from Schedule H (Form 1120-F), line 20. See Schedule H and its separate instructions for additional information. Attach Schedule H to the Form 1120-F.

Deductions definitely related and indirectly allocated and apportioned to effectively connected income that are not includible on Form 1120-F, Section II, lines 12 through 14, 16 and 17, 19 through 25, and 27 are reported on Schedule H, line 20 and on Form 1120-F, line 26. Deductions that are includible on Form 1120-F, Section II, lines 12 through 14, 16 and 17, 19 through 25, and 27 are those derived from set(s) of books and records required to be reported on Form 1120-F, Schedule L.

**Note.** The books and records of a U.S. office where a trade or business is carried on do not necessarily constitute all of the books and records required to be reported on Schedule L. See the instructions for Schedule L, later. Deductions that are reported on Form 1120-F, Section II, lines 12 through 14, lines 16 and 17, lines 19 through 25, and line 27 are also reconciled to effectively connected income on Schedule H (Form 1120-F), Part IV, lines 38 through 41.

## Line 27. Other Deductions

Attach a statement, listing by type and amount, all allowable deductions that are not deductible elsewhere on Form 1120-F. Enter the total on line 27.

Examples of other deductions include the following. See Pub. 535 for details on other deductions that may apply to corporations.

- Amortization (see Part VI of Form 4562).
- Certain costs of qualified film or television productions that the corporation elects to deduct. See section 181 and the related Regulations.
- Certain business start-up and organizational costs (discussed under *Limitations on Deductions*, earlier).
- Reforestation costs. The corporation may elect to deduct up to \$10,000 of qualifying reforestation expenses for each qualified timber property. The corporation may elect to amortize over 84 months any amount not deducted. See Pub. 535.
- Insurance premiums.
- Legal and professional fees.
- Supplies used and consumed in the business.
- Travel, meals, and entertainment expenses. Special rules apply (discussed below).
- Utilities.
- Ordinary losses from trade or business activities of a partnership (from Schedule K-1 (Form 1065 or 1065-B)). Do not offset ordinary income against ordinary losses. Instead, include the income on line 10. Show the partnership's name, address, and EIN on Schedule P (Form 1120-F). If the amount is from more than one partnership, identify the amount from each partnership on Schedule P.
- Any negative net section 481(a) adjustment. See *Section 481(a) adjustment*, earlier.
- Deduction for certain energy efficient commercial building property placed in service during the tax year. See section 179D. Also see Notice 2006-52, 2006-26 I.R.B. 1175, as amplified and clarified by Notice 2008-40, 2008-14 I.R.B. 725, and as modified by Notice 2012-26, 2012-17 I.R.B. 847.

• Dividends paid in cash on stock held by an employee stock ownership plan. However, a deduction may only be taken for these dividends if, according to the plan, the dividends are:

1. Paid in cash directly to the plan participants or beneficiaries;
2. Paid to the plan, which distributes them in cash to the plan participants or their beneficiaries no later than 90 days after the end of the plan year in which the dividends are paid;
3. At the election of such participants or their beneficiaries (a) payable as provided under (1) or (2) above or (b) paid to the plan and reinvested in qualifying employer securities; or
4. Used to make payments on a loan described in section 404(a)(9).

See section 404(k) for more details and the limitation on certain dividends.

**Do not** deduct the following.

- Fines or penalties paid to a government for violating any law.
- Any amount that is allocable to a class of exempt income. See section 265(b) for exceptions.
- Lobbying expenses. However, see exceptions (discussed later).

**Special rules** apply to the following expenses.

### Travel, meals, and entertainment.

Subject to limitations and restrictions discussed below, a corporation may deduct ordinary and necessary travel, meals, and entertainment expenses paid or incurred in its trade or business. Also, special rules apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets. See section 274 and Pub. 463 for details.

**Travel.** The corporation may not 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
- His or her travel is for a bona fide business purpose and would otherwise be deductible by that individual.

**Meals and entertainment.** Generally, the corporation may deduct only 50% of the amount otherwise allowable for meals and entertainment 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;

- A bona fide business discussion must occur during, immediately before, or immediately after the meal; 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.

**Membership dues.** The corporation can 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 may not 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 may not deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) used for an activity usually considered amusement, entertainment, or recreation.

**Amounts treated as compensation.** Generally, 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-MISC for an independent contractor.

However, if the recipient is an officer, director, or beneficial owner (directly or indirectly) of more than 10% of any class of stock, the deductible expense is limited. See section 274(e)(2) and Notice 2005-45, 2005-24 I.R.B. 1228. For tax years beginning after August 1, 2012, see Regulations sections 1.274-9 and 1.274-10.

**Lobbying expenses.** Generally, lobbying expenses are not deductible. These expenses include:

- Amounts paid or incurred in connection with influencing federal or state legislation (but not 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. See section 162(e)(3).

If certain in-house lobbying expenditures do not exceed \$2,000, they are deductible.

## Line 29. Taxable Income Before NOL Deduction and Special Deductions

**At-risk rules.** Generally, special at-risk rules under section 465 apply to closely held corporations (see *Passive activity limitations*, earlier) engaged in any activity as a trade or business or for the production of income. These corporations may have to adjust the amount on line 29 (see below).

The at-risk rules do not apply to:

- Holding real property placed in service by the taxpayer before 1987;
- Equipment leasing under sections 465(c)(4), (5), and (6); or
- Any qualifying business of a qualified corporation described in section 465(c)(7).

However, the at-risk rules do apply to the holding of mineral property.

If the at-risk rules apply, adjust the amount on line 29 for any section 465(d) losses. These losses are limited to the amount for which the corporation is at risk for each separate activity at the close of the tax year. If the corporation is involved in one or more activities, any of which incurs a loss for the year, report the loss for each activity separately. Attach Form 6198, At-Risk Limitations, showing the amount at risk and gross income and deductions for the activities with the losses.

If the corporation sells or otherwise disposes of an asset or its interest (either total or partial) in an activity to which the at-risk rules apply, determine the net profit or loss from the activity by combining the gain or loss on the sale or disposition with the profit or loss from the activity. If the corporation has a net loss, it may be limited because of the at-risk rules.

Treat any loss from an activity not allowed for the tax year as a deduction allocable to the activity in the next tax year.

## Line 30a. Net Operating Loss Deduction

A corporation may use the NOL incurred in one tax year to reduce its taxable income in another tax year. Enter on line 30a the total NOL carryovers from other tax years, but do not enter more than the corporation's taxable income (after special deductions). Attach a schedule showing the computation of the NOL

deduction. Also complete Item S at the top of page 2 of the form.

The following special rules apply.

- A personal service corporation may not carry back or forward an NOL to or from any tax year to which an election under section 444 (to have a tax year other than a required tax year) applies.
- A corporate equity reduction interest loss may not be carried back to a tax year preceding the year of the equity reduction transaction (see section 172(b)(1)(E)).
- If an ownership change (described in section 382(g)) occurs, the amount of the taxable income of a loss corporation that may be offset by the pre-change NOL carryovers may be limited. See section 382 and the related regulations. A loss corporation must include the information statement as provided in Regulations section 1.382-11(a) with its income tax return for each tax year that it is a loss corporation in which an ownership shift, equity structure shift, or other transaction described in Temporary Regulations section 1.382-2T(a)(2)(i) occurs. If the corporation makes the closing-of-the-books election, see Regulations section 1.382-6(b).

The limitations under section 382 do not apply to certain ownership changes after February 17, 2009, made pursuant to a restructuring plan under the Emergency Economic Stabilization Act of 2008. See section 382(n).

For guidance in applying section 382 to loss corporations whose instruments were acquired by Treasury under certain programs under the Emergency Economic Stabilization Act of 2008, see Notice 2010-2, 2010-2 I.R.B. 251.

- If a corporation acquires control of another corporation (or acquires its assets in a reorganization), the amount of pre-acquisition losses that may offset recognized built-in gain may be limited (see section 384).
- If a corporation elects the alternative tax on qualifying shipping activities under section 1354, no deduction is allowed for an NOL attributable to the qualifying shipping activities to the extent that the loss is carried forward from a tax year preceding the first tax year for which the alternative tax election was made. See section 1358(b)(2).
- If a corporation has a loss attributable to a disaster, special rules apply. See the Instructions for Form 1139.

For more details on the NOL deduction, see section 172 and the Instructions for Form 1139.

## Line 30b. Special Deductions

See the instructions for Schedule C.

**Line 31. Taxable Income or (Loss)**

**Net operating loss (NOL).** If line 31 is zero or less, the corporation may have an NOL that may be carried back or forward as a deduction to other tax years.

Generally, a corporation first carries back an NOL 2 tax years. However, the corporation may elect to waive the carryback period and instead carry the NOL forward to future tax years. See the instructions for Item R, earlier.

Special rules and exceptions to the 2-year carryback period apply to certain NOLs. See the Instructions for Form 1139 for details on these special rules and other elections that may be available.

**Schedule C—Dividends and Special Deductions**

For purposes of the 20% ownership test on lines 1 through 7, the percentage of stock owned by the corporation is based on voting power and value of the stock.

**Line 1, Column (a)**

Enter dividends (except those received on debt-financed stock acquired after July 18, 1984—see section 246A) that:

- Are received from less-than-20%-owned domestic corporations subject to income tax, and
- Qualify for the 70% deduction under section 243(a)(1).

Also include on line 1 the following:

- Taxable distributions from an IC-DISC or former DISC that are designated as eligible for the 70% deduction and certain dividends of Federal Home Loan Banks. See section 246(a)(2).
- Dividends (except those received on debt-financed stock acquired after July 18, 1984) from a regulated investment company (RIC). The amount of dividends eligible for the dividends-received deduction under section 243 is limited by section 854(b). The corporation should receive a notice from the RIC specifying the amount of dividends that qualify for the deduction.

Report so-called dividends or earnings received from mutual savings banks, etc., as interest. Do not treat them as dividends.

**Line 2, Column (a)**

Enter on line 2:

- Dividends (except those received on debt-financed stock acquired after July 18, 1984) that are received from 20%-or-more-owned domestic corporations subject to income tax and that are subject to the 80% deduction under section 243(c) and

- Taxable distributions from an IC-DISC or former DISC that are considered eligible for the 80% deduction.

**Line 3, Column (a)**

Enter the following:

- Dividends received on debt-financed stock acquired after July 18, 1984, from domestic and foreign corporations subject to income tax that would otherwise be subject to the dividends-received deduction under section 243(a)(1), 243(c), or 245(a). Generally, debt-financed stock is stock that the corporation acquired by incurring a debt (e.g., it borrowed money to buy the stock).
- Dividends received from a RIC on debt-financed stock. The amount of dividends eligible for the dividends-received deduction is limited by section 854(b). The corporation should receive a notice from the RIC specifying the amount of dividends that qualify for the deduction.

**Line 3, Columns (b) and (c)**

Dividends received on debt-financed stock acquired after July 18, 1984, are not entitled to the full 70% or 80% dividends-received deduction. The 70% or 80% deduction is reduced by a percentage that is related to the amount of debt incurred to acquire the stock. See section 246A. Also, see section 245(a) before making this computation for an additional limitation that applies to dividends received from foreign corporations. Attach a schedule to Form 1120-F showing how the amount on line 3, column (c), was figured.

**Line 4, Column (a)**

Enter dividends received on preferred stock of a less-than-20%-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

**Line 5, Column (a)**

Enter dividends received on preferred stock of a 20%-or-more-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

**Line 6, Column (a)**

Enter the U.S.-source portion of dividends that:

- Are received from less-than-20%-owned foreign corporations, and
- Qualify for the 70% deduction under section 245(a). To qualify for the 70% deduction, the corporation must own at least 10% of the stock of the foreign corporation by vote and value.

**Line 7, Column (a)**

Enter the U.S.-source portion of dividends that are received from 20%-or-more-owned foreign corporations and that qualify for the 80% deduction under section 245(a).

**Line 8, Column (c)**

**Limitation on dividends-received deduction.** Generally, line 8, column (c), may not exceed the amount from the worksheet below. However, in a year in which an NOL occurs, this limitation does not apply, even if the loss is created by the dividends-received deduction. See sections 172(d) and 246(b).

**Worksheet for Schedule C,  
line 8  
Keep for Your Records**

1. Refigure Section II, line 29, without any domestic production activities deduction, without any adjustment under section 1059, and without any capital loss carryback to the tax year under section 1212(a) (1) . . . . . 1. \_\_\_\_\_
2. Multiply line 1 by 80% . . . . . 2. \_\_\_\_\_
3. Add lines 2, 5, and 7, column (c), and the part of the deduction on line 3, column (c), that is attributable to dividends from 20%-or-more-owned corporations . . . . . 3. \_\_\_\_\_
4. Enter the smaller of line 2 or 3. If line 3 is greater than line 2, stop here; enter the amount from line 4 on line 8, column (c), and do not complete the rest of this worksheet . . . . . 4. \_\_\_\_\_
5. Enter the total amount of dividends from 20%-or-more-owned corporations that are included on lines 2, 3, 5, and 7, column (a) . . . . . 5. \_\_\_\_\_
6. Subtract line 5 from line 1 . . . . . 6. \_\_\_\_\_
7. Multiply line 6 by 70% . . . . . 7. \_\_\_\_\_
8. Subtract line 3 above from line 8, column (c) . . . . . 8. \_\_\_\_\_
9. Enter the smaller of line 7 or line 8 . . . . . 9. \_\_\_\_\_
10. **Dividends-received deduction after limitation** (sec. 246(b)). Add lines 4 and 9. Enter the result here and on line 8, column (c) . . . . . 10. \_\_\_\_\_

**Line 10, Column (a)**

If the corporation claims the foreign tax credit, include the tax that is deemed paid under sections 902 and 960. See sections 78 and 906(b)(4).

## Line 11, Column (a)

Enter taxable distributions from an IC-DISC or former DISC that are designated as not eligible for a dividends-received deduction.

No deduction is allowed under section 243 for a dividend from an IC-DISC or former DISC (as defined in section 992(a)) to the extent the dividend:

- Is paid out of the corporation's accumulated IC-DISC income or previously taxed income or
- Is a deemed distribution under section 995(b)(1).

## Line 12, Column (a)

Include the following:

- Dividends (other than capital gain distributions reported on Schedule D (Form 1120) and exempt-interest dividends) that are received from RICs and that are not subject to the 70% deduction.
- Dividends from tax-exempt organizations.
- Dividends (other than capital gain distributions) received from a REIT that qualifies, for the tax year of the trust in which the dividends are paid, under sections 856 through 860.
- Dividends not eligible for a dividends-received deduction, which include the following.

1. Dividends received on any share of stock held for less than 46 days during the 91-day period beginning 45 days before the ex-dividend date. When counting the number of days the corporation held the stock, you may not count certain days during which the corporation's risk of loss was diminished. See section 246(c)(4) and Regulations section 1.246-5 for more details.

2. 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 counting the number of days the corporation held the stock, you may not count certain days during which the corporation's risk of loss was diminished.

## Tax Rate Schedule

If taxable income (Section II, line 31) on page 3 is:

| Over—      | But not over— | Tax is:         | Of the amount over— |
|------------|---------------|-----------------|---------------------|
| \$0        | \$50,000      | 15%             | \$0                 |
| 50,000     | 75,000        | \$ 7,500 + 25%  | 50,000              |
| 75,000     | 100,000       | 13,750 + 34%    | 75,000              |
| 100,000    | 335,000       | 22,250 + 39%    | 100,000             |
| 335,000    | 10,000,000    | 113,900 + 34%   | 335,000             |
| 10,000,000 | 15,000,000    | 3,400,000 + 35% | 10,000,000          |
| 15,000,000 | 18,333,333    | 5,150,000 + 38% | 15,000,000          |
| 18,333,333 | -----         | 35%             | 0                   |

See section 246(c)(4) and Regulations section 1.246-5 for more details. Preferred dividends attributable to periods totaling less than 367 days are subject to the 46-day holding period rule discussed above.

3. Dividends on any share of stock to the extent the corporation is under an obligation (including a short sale) to make related payments with respect to positions in substantially similar or related property.

- Any other taxable dividend income not properly reported elsewhere on Schedule C.

If patronage dividends or per-unit retain allocations are included on line 12, identify the total of these amounts in a schedule and attach it to Form 1120-F.

## Line 13, Column (c)

Section 247 allows public utilities a deduction of 40% of the smaller of:

- Dividends paid on their preferred stock during the tax year or
- Taxable income computed without regard to this deduction.

In a year in which an NOL occurs, compute the deduction without regard to section 247(a)(1)(B). See section 172(d).

## Schedule J—Tax Computation

### Line 1

If the corporation is a member of a controlled group, check the box on line 1 and complete and attach Schedule O (Form 1120), Consent Plan and Apportionment Schedule for a Controlled Group. Component members of a controlled group must use Schedule O to report the apportionment of taxable income, income tax, and certain tax benefits between the members of the group. See Schedule O and the Instructions for Schedule O for more information.

### Line 2. Income Tax

If the corporation is a member of a controlled group and is filing Schedule O (Form 1120), enter the corporation's tax

from Part III of Schedule O. Most corporations that are not members of a controlled group should figure their tax using the Tax Rate Schedule below. Qualified personal service corporations should see the instructions below.

**Qualified personal service corporation.** A qualified personal service corporation is taxed at a flat rate of 35% on its taxable income. If the corporation is a qualified personal service corporation, check the box on line 2, even if the corporation has no tax liability.

A corporation is a qualified personal service corporation if it meets **both** of the following tests:

- Substantially all of the corporation's activities involve the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting, and
- At least 95% of the corporation's stock, by value, is owned, directly or indirectly, by (a) employees performing the services, (b) retired employees who had performed the services listed above, (c) any estate of an employee or retiree described above, or (d) any person who acquired the stock of the corporation as a result of the death of an employee or retiree (but only for the 2-year period beginning on the date of the employee's or retiree's death).

**Additional tax under section 197(f).** A corporation that elects to pay tax on the gain from the sale of an intangible under the related person exception to the anti-churning rules should include any additional tax due under section 197(f)(9)(B) in the total for line 2. On the dotted line next to line 2, enter "Section 197" and the amount.

### Line 3. Alternative Minimum Tax (AMT)

 *A corporation that is not a small corporation exempt from the AMT may be required to file Form 4626, Alternative Minimum Tax—Corporations, if it claims certain credits, even though it does not owe any AMT. See the Instructions for Form 4626 for details.*

Unless the corporation is treated as a small corporation exempt from the AMT, it may owe the AMT if it has any of the adjustments and tax preference items listed on Form 4626. The corporation must file Form 4626 if its taxable income (or loss) before the NOL deduction, combined with these adjustments and tax preference items is more than the smaller of \$40,000 or the corporation's allowable exemption amount (from Form 4626). For this purpose, taxable income does not include the NOL deduction.

See the Instructions for Form 4626 for definitions and details on how to figure the tax.

### Line 5a. Foreign Tax Credit

A foreign corporation engaged in a U.S. trade or business during the tax year may take a credit for income, war profits, and excess profits taxes paid, accrued, or deemed paid to any foreign country or U.S. possession for income effectively connected with the conduct of a trade or business in the United States. See section 906 and Form 1118, Foreign Tax Credit—Corporations.

### Line 5b. General Business Credit

Include on line 5b the corporation's allowable credit from Form 3800, Part II, line 38.

The corporation is required to file Form 3800, General Business Credit, to claim any of the business credits. See the Instructions for Form 3800 for exceptions. For a list of allowable credits, see Form 3800. Also, see the applicable credit form and its instructions.

Also include on line 5b the amount of any qualified electric vehicle passive activity credits from prior years allowed for the current tax year from Form 8834, Qualified Plug-in Electric and Electric Vehicle Credit, line 30.

### Line 5c. Credit for Prior Year Minimum Tax

To figure the minimum tax credit and any carryforward of the credit, complete and attach Form 8827, Credit for Prior Year Minimum Tax—Corporations.

### Line 5d. Bond Credits from Form 8912

Enter the allowable credits from Form 8912, Credit to Holders of Tax Credit Bonds, line 12.

### Line 8. Other Taxes

Include any of the following taxes and interest. Check the appropriate box(es) for the form, if any, used to compute the total.

**Recapture of investment credit.** If the corporation disposed of investment credit property or changed its use before the end of its useful life or recovery period, or is required to recapture a qualifying therapeutic discovery project grant, enter the increase in tax from Form 4255, Recapture of Investment Credit.

**Recapture of low-income housing credit.** If the corporation disposed of property (or there was a reduction in the qualified basis of the property) for which it

took the low-income housing credit, it may owe a tax. See Form 8611, Recapture of Low-Income Housing Credit.

**Interest due under the look-back method-completed long-term contracts.** If the corporation used the percentage-of-completion method for certain long-term contracts, see Form 8697, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, for information on figuring the interest the corporation may have to include.

**Income due under the look-back method-income forecast method.** If the corporation used the look-back method for property depreciated under the income forecast method, see Form 8866, Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method.

**Alternative tax on qualifying shipping activities.** Enter any alternative tax on qualifying shipping activities from Form 8902. Check the box for Form 8902.

**Other.** Include on line 8 additional taxes and interest such as the following. Attach a statement showing the computation of each item included in the total for line 8 and identify the applicable Code section and the type of tax or interest.

- Recapture of Indian employment credit. Generally, if an employer terminates the employment of a qualified employee less than 1 year after the date of initial employment, any Indian employment credit allowed for a prior tax year because of wages paid or incurred to that employee must be recaptured. For details, see Form 8845 and section 45A.
- Recapture of new markets credit (see Form 8874, New Markets Credit, and Form 8874-B, Notice of Recapture Event for New Markets Credit).
- Recapture of employer-provided childcare facilities and services credit (see Form 8882).
- Interest on deferred tax attributable to (a) installment sales of certain timeshares and residential lots (section 453(l)(3)) and (b) certain nondealer installment obligations (section 453A(c)).
- Interest due on deferred gain (section 1260(b)).

## Section III—Branch Profits Tax and Tax on Excess Interest

### Part I—Branch Profits Tax

Section 884(a) imposes a 30% branch profits tax on the after-tax earnings of a foreign corporation's U.S. trade or business (i.e., effectively connected earnings and profits (ECEP)) that are not reinvested in a U.S. trade or business by

the close of the tax year, or are disinvested in a later tax year. Changes in the value of the equity of the foreign corporation's U.S. trade or business (i.e., U.S. net equity) are used as a measure of whether earnings have been reinvested in, or disinvested from, a U.S. trade or business. An increase in U.S. net equity during the tax year is generally treated as a reinvestment of earnings for the current tax year. A decrease in U.S. net equity is generally treated as a disinvestment of prior year's earnings that have not previously been subject to the branch profits tax.

The amount subject to the branch profits tax for the tax year is the dividend equivalent amount. See Regulations section 1.884-1(b).

### Other entities subject to the branch profits tax.

- A foreign corporate partner of a partnership engaged in a U.S. trade or business is subject to the branch profits tax on its ECEP attributable to its distributive share of effectively connected income.
- A foreign government is subject to both the branch profits tax and the branch-level interest taxes. However, no branch profits tax or branch-level interest tax will be imposed on ECEP and interest accrued prior to September 11, 1992. See Regulations section 1.884-0.

### Line 2

Attach a schedule showing the following adjustments (based on the principles of section 312) to the corporation's line 1 effectively connected taxable income (ECTI) (before the NOL deduction and special deductions) to get ECEP:

- Positive adjustments for certain effectively connected income items that are excluded from ECTI but that must be included in computing ECEP (such as tax-exempt interest income).
- Positive adjustments for certain items deducted in computing ECTI but that may not be deducted in computing ECEP. Include adjustments for certain deductions claimed in computing ECTI, such as:
  1. Excess of percentage depletion over cost depletion,
  2. Excess of accelerated depreciation over straight line depreciation (but only if 20% or more of the foreign corporation's gross income from all sources is U.S. source), and
  3. Capital loss carrybacks and carryovers.
- Negative adjustments for certain deductible items (that are allocable to effectively connected income) that may not be deducted in computing ECTI but that must be deducted in computing ECEP

(e.g., federal income taxes, capital losses in excess of capital gains, and interest and expenses that are not deductible under section 265).

**Note.** Do not reduce ECEP by any dividends or other distributions made by the foreign corporation to its shareholders during the year.

See Temporary Regulations section 1.884-2T for any adjustments to ECEP due to a reorganization, liquidation, or incorporation.

**Exceptions.** Do not include the following types of income when computing ECEP:

- Income from the operation of ships or aircraft exempt from taxation under section 883(a)(1) or (2).
- FSC income and distributions treated as effectively connected income under section 921(d) or 926(b), as in effect before their repeal, that are not otherwise effectively connected income.
- Gain on the disposition of an interest in a domestic corporation that is a U.S. real property interest under section 897(c)(1)(A)(ii) if the gain is not otherwise effectively connected income.
- Related person insurance company income that a taxpayer elects to treat as effectively connected income under section 953(c)(3)(C) if the income is not otherwise effectively connected income.
- Income that is exempt from tax under section 892.
- Interest income derived by a possession bank from U.S. obligations if the interest is treated as effectively connected income under section 882(e) and is not otherwise effectively connected income.

**Note.** Deductions and other adjustments attributable (under the principles of Regulations section 1.861-8) to the types of income not includible in ECEP listed above do not reduce ECEP.

### Lines 4a and 4b. U.S. Net Equity

**U.S. net equity** is U.S. assets reduced by U.S. liabilities. U.S. net equity may be less than zero. See Temporary Regulations section 1.884-2T for specific rules regarding the computation of the foreign corporation's U.S. net equity due to a reorganization, liquidation, or incorporation.

**U.S. assets.** In general, property is a U.S. asset if all income from its use and all gain from its disposition (if used or sold on the last day of the tax year) are or would be effectively connected income. The amount of property taken into account as a U.S. asset is the adjusted basis (for purposes of computing earnings and profits) of the property. Special rules exist for specific types of property, such as depreciable property, inventory, and installment

obligations. Special rules also exist to determine the amount of a partnership interest that is treated as a U.S. asset. See Regulations section 1.884-1(d).

**U.S. liabilities.** In general, U.S. liabilities are U.S.-connected liabilities of a foreign corporation (determined under Regulations section 1.882-5), computed as of the end of the tax year, rather than as an average, as required under Regulations section 1.882-5. Special rules may apply to foreign insurance companies. For more details, see Regulations section 1.884-1(e).

If the corporation is electing to reduce liabilities under Regulations section 1.884-1(e)(3), attach a statement that it is making the election and indicate the amount of the reduction of U.S. liabilities and the corresponding reduction in interest expense. The aggregate amount of the corporation's liability reduction elections is also required to be reported on Schedule I (Form 1120-F), line 7b.

**Reporting requirements.** In the schedules required for lines 4a and 4b, report U.S. assets according to the categories of U.S. assets in Regulations section 1.884-1(d). For U.S. liabilities, show the formula used to calculate the U.S. liabilities figure.

### Line 6. Branch Profits Tax

**Qualification for treaty benefits.** In general, a foreign corporation must be a qualified resident (see definition later) in the tax year in which it has a dividend equivalent amount to obtain treaty benefits for the branch profits tax. It must also meet the requirements of any limitation on benefits article in the treaty. However, a foreign corporation is not required to be a qualified resident if it meets the requirements of a limitation on benefits article of an income tax treaty that entered into force after December 31, 1986. Treaties other than income tax treaties do not exempt a foreign corporation from the branch profits tax.

**Foreign corporations that meet the requirements of the limitation on benefits article of an income tax treaty that entered into force after December 31, 1986.** Most limitation on benefits articles of treaties that entered into force after December 31, 1986, include a series of objective tests including ownership tests (generally describing the circumstances under which individuals, publicly-traded corporations, subsidiaries of publicly traded corporations, etc., will be treated as qualified residents under a treaty), a base erosion test and a trade or business test. These tests are self-executing. A person that does not meet these objective tests may still be granted benefits under the treaty (and may be treated as a qualified

resident for branch profits tax purposes) at the discretion of the competent authority. See Rev. Proc. 2006-54, 2006-49 I.R.B. 1035, or its successor.

**Foreign corporations that do not meet the requirements of a limitation on benefits article of an income tax treaty that entered into force after December 31, 1986.** A foreign corporation that does not meet the requirements of a limitation on benefits article of an income tax treaty that entered into force after December 31, 1986, is a **qualified resident** of a country if it meets one of the three tests explained in the regulations under section 1.884-5. See these regulations for details on these tests and certain circumstances in which a foreign corporation that does not meet these tests may request a ruling to be treated as a qualified resident.

**Rate of tax.** If treaty benefits apply, the rate of tax is the rate on branch profits specified in the treaty. If the treaty does not specify a rate for branch profits, the rate of tax is the rate specified in the treaty for dividends paid by a wholly owned domestic corporation to the foreign corporation. See Regulations section 1.884-1(g) for applicable rates of tax. Benefits other than a rate reduction may be available under certain treaties, such as the Canadian income tax treaty.

**Note.** Many treaties listed in Regulations section 1.884-1(g)(3) and (g)(4) are no longer in force and have been replaced by more recently ratified treaty agreements. The corporation should use the applicable rate of tax specified in the treaty agreement currently in force with the United States.

**Effect of complete termination.** If the foreign corporation has completely terminated its U.S. trade or business (within the meaning of Temporary Regulations section 1.884-2T(a)) during the tax year, enter zero on line 6, and complete line 11 at the bottom of page 5 of Form 1120-F.

In general, a foreign corporation has terminated its U.S. trade or business if it no longer has any U.S. assets, except those retained to pay off liabilities. The foreign corporation (or a related corporation) may not use assets from the terminated U.S. trade or business or the proceeds from their sale in a U.S. trade or business within 3 years after the complete termination. The foreign corporation must also attach Form 8848 extending the period for assessment for the year of complete termination to a date not earlier than the close of the 6th year following the close of that tax year.

**Effect of complete liquidation or reorganization.** If a foreign corporation transfers its U.S. assets in a liquidation or

reorganization described in section 381(a), see Temporary Regulations section 1.884-2T(c). If the transferee is a domestic corporation, the foreign corporation must also file Form 8848. See Temporary Regulations section 1.884-2T(c) and Regulations section 1.884-2(c)(2)(iii).

**Effect of incorporation under section 351.** If a foreign corporation transfers all or a part of its U.S. assets to a domestic corporation in a transaction that qualifies under section 351, see Temporary Regulations section 1.884-2T(d) for the rules for determining the foreign corporation's branch profits tax liability in the year of the transfer, and other rules applicable to the domestic transferee corporation. If a foreign corporation transfers its U.S. assets to another foreign corporation, the foreign corporation must compute its branch profits tax liability under Regulations section 1.884-1.

**Coordination with withholding tax.** If a foreign corporation is subject to the branch profits tax in a tax year, it will not be subject to withholding at source (sections 871(a), 881(a), 1441, or 1442) on dividends paid out of earnings and profits for the tax year.

## Part II—Tax on Excess Interest

If a foreign corporation is engaged in a U.S. trade or business, has effectively connected gross income, or has U.S. assets for purposes of Regulations section 1.882-5, it is subject to the tax on excess interest.

Excess interest is the interest apportioned to effectively connected income of the foreign corporation (including capitalized and nondeductible interest) under Regulations section 1.882-5, less branch interest. Branch interest is the interest paid by the U.S. trade or business of the foreign corporation (including capitalized and other nondeductible interest).

**Important:** See the instructions for line 10 on page 26 to determine if the foreign corporation is exempt from the tax on excess interest. If it is exempt from the tax, and not simply subject to a reduced rate of tax, **do not** complete Part II of Section III. However, be sure to complete Item W at the top of page 2 of Form 1120-F.

### Line 7a

Enter the amount of interest expense deduction allocable to effectively connected income under Regulations section 1.882-5, from Section II, line 18.

### Lines 7b and 7c

Lines 7b and 7c reconcile the deduction claimed in Section II, line 18 with the amount of interest expense allocable to effectively connected income under Regulations section 1.882-5. Amounts that increase or decrease the amount allocable to effectively connected income are reported on line 7b from Schedule I (Form 1120-F), line 24d. Line 7c reconciles to the amount of interest expense reported on Schedule I (Form 1120-F), line 23. Lines 7b and 7c are completed as follows:

**Line 7b.** Enter the inverse of the amount reported on Schedule I (Form 1120-F), line 24d. For example, if line 24d is negative, enter as a positive number. If line 24d is positive, enter as a negative number. This is the total amount of interest expense included in the amount allocable under Regulations section 1.882-5 that is deferred, capitalized, and disallowed under other sections after application of the interest expense allocation rules. The number on line 24d will be negative if the corporation has only disallowed and capitalized expense on lines 24a and 24c. If the corporation has currently deductible interest in the current year reportable on Schedule I (Form 1120-F), line 24b, that was deferred in a prior year (e.g., under section 163(j)), line 24d may be positive.

**Line 7c.** Combine lines 7a and 7b. The combined amount is the amount of interest expense allocable to effectively connected income for the year under Regulations section 1.882-5. The amount on line 7c must equal the amount on Schedule I (Form 1120-F), line 23.

### Line 8. Branch Interest

**Foreign banks.** Enter from Schedule I (Form 1120-F), the sum of line 9, column (c), and line 22, which is the amount of interest expense included on books that give rise to U.S. booked liabilities and that which is directly allocable to effectively connected income under Regulations section 1.882-5(a)(1)(ii). The sum of these two amounts is the amount of book interest expense paid or accrued on U.S. booked liabilities defined in Regulations section 1.882-5(d)(2).

**Definition of branch interest.** The term "branch interest" means interest that is:

1. Paid by a foreign corporation with respect to a liability that is (A) a U.S. booked liability within the meaning of Regulations section 1.882-5(d)(2) (other than a U.S. booked liability of a partner within the meaning of Regulations section 1.882-5(d)(2)(vii)); or (B) described in Regulations section 1.884-1(e)(2) (relating to insurance liabilities on U.S. business and liabilities giving rise to interest expense that is directly allocated to income from a U.S. asset); or

2. In the case of a foreign corporation other than a bank (as defined in section 585(a)(2)(B) without regard to the second sentence thereof), a liability specifically identified as a liability of a U.S. trade or business of the foreign corporation on or before the earlier of the date on which the first payment of interest is made with respect to the liability or the due date (including extensions) of the foreign corporation's income tax return for the tax year provided that (A) the amount of such interest does not exceed 85% of the amount of interest of the foreign corporation that would be excess interest before taking into account interest treated as branch interest; (B) certain recipient notification requirements are satisfied; and (C) the liability was not incurred in the ordinary course of a foreign business or secured by foreign assets, or is not a U.S. booked liability, or is not an insurance liability on a U.S. business, or is not a liability giving rise to interest expense that is directly allocated to income from a U.S. asset. See Regulations section 1.884-4(b).

**All other foreign corporations.** In general, branch interest of foreign corporations (other than banks) includes:

1. Interest on liabilities shown on the books and records of the U.S. trade or business for purposes of Regulations section 1.882-5(d)(2);

2. Interest on liabilities that are secured predominantly by U.S. assets or that cause certain nondeductible interest (such as capitalized interest) related to U.S. assets; and

3. Interest on liabilities identified as liabilities of the U.S. trade or business on or before the earlier of the date on which the first interest payment is made or the due date (including extensions) of the foreign corporation's income tax return for the tax year.

However, a liability may not be identified under 3 above if the liability is incurred in the ordinary course of the foreign corporation's trade or business, or if the liability is secured predominantly by assets that are not U.S. assets. The interest on liabilities identified in 3 above that will be treated as interest paid by the U.S. trade or business is capped at 85% of the interest of the foreign corporation that would be excess interest before considering interest on liabilities identified in 3 above. See Regulations section 1.884-4.

**Interbranch interest.** Any interest paid for interbranch liabilities is disregarded in computing branch interest of any corporation.

**Eighty-percent rule.** If 80% or more of a foreign corporation's assets are U.S.

assets, the foreign corporation's branch interest will generally equal the interest reported on line 7c. However, any interest included on line 7c that has accrued but has not been paid will not be treated as branch interest on line 8 unless an election is made under Regulations section 1.884-4(c)(1) to treat such interest as paid in that year for all purposes of the Code.

If this 80% rule applies, check the box on line 8.

**Note.** Branch interest of a foreign corporation is treated as if paid by a domestic corporation. A foreign corporation is thus required to withhold on interest paid by its U.S. trade or business to foreign persons (unless the interest is exempt from withholding under a treaty or the Code) and is required to file Forms 1042 and 1042-S for the payments.

Special treaty shopping rules apply if the recipient of the interest paid by the U.S. trade or business is a foreign corporation.

### Line 9b

A foreign bank may treat a percentage of its excess interest as if it were interest on deposits and thus exempt from tax. Multiply the amount on line 9a by the greater of 85% or the ratio of the foreign bank's worldwide interest-bearing deposits to its worldwide interest-bearing liabilities as of the close of the tax year.

### Line 10. Tax on Excess Interest

The rate of tax on excess interest is the same rate that would apply to interest paid to the foreign corporation by a wholly owned domestic corporation. The tax on excess interest is not prohibited by any provision in any treaty to which the United States is a party. The corporation may qualify for treaty benefits if it meets certain requirements. See *Line 6, Branch Profits Tax*, earlier. The corporation is exempt from the tax on excess interest if the rate of tax that would apply to interest paid to the foreign corporation by a wholly owned domestic corporation is zero and the foreign corporation qualifies for treaty benefits.

## Schedule L—Balance Sheets per Books

The balance sheet assets, liabilities and equity amounts required to be reported on Schedule L are either the worldwide assets, liabilities and equity of the corporation, or, at the taxpayer's election, the set(s) of books that contain assets located in the United States and other assets used in the trade or business conducted in the United States. See Regulations section 1.6012-2(g)(1)(iii). If a corporation (including a foreign bank) chooses worldwide reporting on

Schedule L, the profit and loss results from the same set(s) of books must be used to report the adjusted worldwide net income (loss) results in Part I, line 11 of Schedule M-3 (Form 1120-F).

**Set(s) of books based on Regulations section 1.882-5(d)(2).** If the corporation chooses to limit the Schedule L reporting to the books that give rise to effectively connected income from assets located in the United States and other assets used in the trade or business conducted in the United States, the total assets, liabilities and equity on the sets of books that contain these characteristics must be reported on Schedule L. These are the total assets, liabilities, and equity amounts reflected on the same set(s) of books that give rise to U.S. effectively connected income and U.S. booked liabilities (as defined in Regulations sections 1.882-5(d)(2)(ii)(A) (foreign corporations other than banks) and 1.882-5(d)(2)(iii) (foreign banking corporations)).

The set(s) of books required to be reported on Schedule L by a foreign bank are the same set(s) of books the foreign bank must use to derive the net book income on Schedule M-3 (Form 1120-F), Part I, line 11. The total assets and liabilities required to be reported include the interbranch assets and liabilities and the noneffectively connected assets reflected on such books. The set(s) of books that give rise to U.S. booked liabilities under Regulations section 1.882-5(d)(2) generally will be the set(s) of books maintained within the United States by the corporation's U.S. trade or business. However, one or more sets of books required to be reported on Schedule L do not have to be maintained within the United States so long as the totality of the books reflects a substantial effectively connected income activity that gives rise to inclusion of the books' third party liabilities as U.S. booked liabilities under Regulations section 1.882-5(d)(2). This determination is made under the facts and circumstances pertaining to materiality of the effectively connected income activities reflected on the set of books in accordance with the requirements of the interest expense allocation regulations. See Regulations section 1.882-5(d)(6), example 5. This standard is used to determine U.S. booked liability qualification regardless of whether the foreign corporation uses the Adjusted U.S. Booked Liabilities Method or the Separate Currency Pools Method to allocate interest expense under Regulations section 1.882-5.

A Schedule L set of books does not include a book whose only assets are those that give rise to effectively connected income under section 864(c)(6) or (c)(7). A set of books that has only ECI assets under section 864(c)(6) and (c)(7)

is not a set of books that gives rise to U.S. booked liabilities under the applicable test for a bank or a corporation other than a bank in Regulations section 1.882-5(d)(2). Books and records of this type are generally books maintained in a foreign location that include assets either originated through the material activities of the U.S. trade or business or assets formerly held in connection with a U.S. trade or business that are no longer held or used for that purpose. Transferred assets from a set of books of the U.S. trade or business generally will reflect assets described in section 864(c)(6) or (c)(7). See Regulations section 1.884-1(d)(2)(xi), example 5. Securities that are attributable to a U.S. office of a banking, financing, or similar business that are transferred to a foreign location of a continuing U.S. banking office remain attributable to such U.S. office under Regulations section 1.864-4(c)(5)(iii) and do not constitute assets described in section 864(c)(6) or (c)(7). However, a foreign set of books and records that reflects securities of a banking, financing, or similar business that gives rise to ECI, may or may not constitute books that give rise to U.S. booked liabilities under the facts and circumstances. Generally, a relatively small number of securities reflected on the books and records of the home office of a foreign bank that reflects predominantly noneffectively connected assets of the same type will not cause the foreign book to give rise to U.S. booked liabilities under Regulations section 1.882-5(d)(2)(iii).

If the foreign corporation has more than one set of books and records that give rise to U.S. booked liabilities under Regulations section 1.882-5(d)(2), it must report the combined amounts shown on all such books and records on Schedule L. For example, the books and records of a foreign insurance company required to file Form 1120-F include, but are not limited to, amounts reported on statements (e.g., NAIC statements) filed with a domestic state insurance authority. If a foreign bank maintains a consolidation of two or more sets of books that collectively give rise to U.S. booked liabilities, the corporation may report the financial consolidation of such set of books on Schedule L. See Regulations section 1.882-5(d)(6), example 5. However, if the foreign corporation has a set of books from a disregarded entity that is not included in a U.S. trade or business consolidation and such other set of books gives rise to U.S. booked liabilities under Regulations section 1.882-5(d)(2), then such set of books must be included in the consolidation of books reported on Schedule L. Combined books reported on Schedule L must be adjusted to eliminate transactions recorded between the

reportable books. However, amounts recorded between the set(s) of books and other divisions of the foreign corporation or disregarded entities whose books do not give rise to U.S. booked liabilities, are not eliminated unless the taxpayer chooses worldwide reporting under the general rule in Regulations section 1.6012-2(g)(1)(iii).

**Line 1. Cash.** Corporations other than banks include certificates of deposit as cash on line 1. Foreign banks include certificates of deposit as current or non-current assets, as the case may be, in their appropriate interbranch, U.S. asset or non-U.S. asset categories.

**Line 5. Tax-exempt securities.** Include:

- State and local government obligations, the interest on which is excludable from gross income under section 103(a) and
- Stock in a mutual fund or other regulated investment company that distributed exempt-interest dividends during the tax year of the corporation.

**Line 6. Current Assets.** On line 6a, enter all current interbranch assets (in accordance with the corporation's accounting practices) reflected on the combined sets of books that are transacted with other books of the corporation that are not reportable on Schedule L (including books of disregarded entities, if applicable). On line 6b, enter the current non-U.S. assets on the sets of books reportable on Schedule L. Non-U.S. assets are third-party assets (whether with related or unrelated parties) that give rise only to noneffectively connected income. On line 6c, enter the current U.S. assets on the Schedule L reportable books. U.S. assets are assets that give rise to effectively connected income and constitute U.S. assets in whole or in part under Regulations section 1.884-1(d). Enter assets held for trading or dealing to customers in the applicable category on line 6. Attach a schedule to indicate the amount for each category of current assets included in line 6, such as money market deposits of banks, trading assets held for the taxpayer's own account, dealing assets held for customers including amounts recorded on the books of a global dealing operation that are allocated between ECI and non-ECI under Proposed Regulations section 1.863-3(h) and Proposed Regulations section 1.864-4(c)(2)(iv).

**Line 9. Other loans and investments.** On line 9a, enter the amount of other non-U.S. asset loans and investments to third parties (whether related or unrelated parties). Non-U.S. assets in this category are loans and investments that give rise to non-effectively connected income. If a taxpayer has investments that give rise to ECI in part and non-ECI in part, enter the

proportionate amount of the investment asset that gives rise to non-ECI on line 9a. Do not include interbranch amounts on line 9a. On line 9b, report the U.S. asset loans and investments to third parties (whether related or unrelated parties). U.S. asset loans and investments are assets that give rise to ECI. If an investment asset gives rise to ECI in part and non-ECI in part, enter the proportionate amount of the investment asset that gives rise to ECI on line 9b. See Regulations section 1.884-1(d)(2)(vii). Attach a schedule indicating the amount for each category of loans and investment assets held by the corporation that give rise to non-ECI (line 9a) and ECI (line 9b) (e.g., loans to customers, securities described in Regulations section 1.864-4(c)(5)(ii)(b)(3)).

**Line 15. Other non-current interbranch assets.** Include on line 15 non-current interbranch amounts on the Schedule L books recorded with other non-Schedule L books of the corporation (including disregarded entities whose books are not reportable on Schedule L). Non-current assets are determined in accordance with the accounting practices of the corporation on its books and records.

**Line 16. Other non-current third-party assets.** Report on line 16a, other non-current, non-U.S. assets on the Schedule L books with third-parties (whether related or unrelated parties). Non-U.S. assets are those that give rise to noneffectively connected income. Attach a schedule to indicate the amount for each category of non-U.S. assets (e.g., foreign-related party assets that give rise to non-ECI under section 864(c)(4)(D)). Report on line 16b, other non-current U.S. assets on the Schedule L books with third parties (whether related or unrelated parties). U.S. assets are those that give rise to effectively connected income in accordance with Regulations section 1.884-1(d). Attach a schedule indicating the amount for each category of assets that give rise to ECI.

**Line 19. Mortgages, notes, bonds payable in less than 1 year.** Enter on line 19a, interbranch liabilities on the Schedule L books that are payable in less than one year to books of the corporation that are not reportable on Schedule L (including books of disregarded entities that are not reportable on Schedule L). Report only interbranch liabilities that accrue or pay interest on the Schedule L books and records to other books of the corporation in accordance with the corporation's internal accounting practices. Attach a schedule indicating the amount for each category of interbranch liabilities (e.g., money market deposit liabilities, other short-term liabilities, etc.). On line 19b, enter liabilities on the

Schedule L books that are payable in less than one year to third parties (whether related or unrelated). Attach a schedule indicating the amount for each category of liability owed to third parties (e.g., money market deposit liabilities, other short-term borrowings, Vostro accounts, etc.).

**Line 22. Mortgages, notes, bonds payable in 1 year or more.** Enter on line 22a, interbranch liabilities on the Schedule L books that are payable in one year or more to books of the corporation that are not reportable on Schedule L (including books of disregarded entities that are not reportable on Schedule L). Report only interbranch liabilities that accrue or pay interest on the Schedule L books and records to other books of the corporation in accordance with the corporation's internal accounting practices. Attach a schedule indicating the amounts for each category of liability (e.g., long-term interbranch borrowings). Enter on line 22b, liabilities on the Schedule L books that are payable in one year or more to third parties (whether related or unrelated parties). Attach a schedule indicating the amounts for each category of liability (e.g., long-term certificates of deposit, other long-term borrowings, etc.).

**Line 24. Other liabilities.** Enter on line 24a, other interbranch liability amounts on the Schedule L books owed to other books of the corporation (including to books of disregarded entities) not reportable on Schedule L, including amounts that do not give rise to interest accruals or payments in accordance with the corporation's internal accounting practices. Attach a schedule indicating the amount for each category of interbranch liability reported on line 24a. Enter on line 24b, other liability amounts on the Schedule L books owed to third parties (whether related or unrelated parties) including amounts that do not give rise to interest accruals or payments in accordance with the corporation's accounting practices. Attach a schedule indicating the amount for each category of third-party liability reported on line 24b.

**Line 29. Adjustments to shareholders' equity.** Some examples of adjustments to report on this line include:

- Unrealized gains and losses on securities held "available for sale."
- Foreign currency translation adjustments.
- The excess of additional pension liability over unrecognized prior service cost.
- Guarantees of employee stock (ESOP) debt.
- Compensation related to employee stock award plans.

If the total adjustment to be entered on line 29 is a negative amount, enter the amount in parentheses.

**Adaptation of Schedule L for treaty-based reporting.** The set(s) of books reported on Schedule L for treaty-based reporting purposes will generally be the same set(s) of books reported on Schedule L as described below. However, certain books that give rise to effectively connected income might not necessarily give rise to treaty-based reporting. For example, the assets on a set of books could still be attributed to a U.S. office for effectively connected income reporting purposes even when transferred away from the U.S. permanent establishment for treaty reporting purposes (see, for example, Regulations section 1.864-4(c)(5)(iii)) if under the facts and circumstances, such assets also constitute a set of books that give rise to U.S. booked liabilities under Regulations section 1.882-5(d)(2). Under such circumstances, the set of books would remain reportable on Schedule L for Code-based reporting purposes, but for treaty-based reporting purposes, such transfer may effect attribution to another part of the corporate enterprise under a functional and factual analysis and no longer be reportable on Schedule L as part of the U.S. permanent establishment after the transfer is made. Additionally, a set of books having no effectively connected income or U.S. booked liabilities under Regulations section 1.882-5(d)(2) might still constitute a set of books of the U.S. permanent establishment because the items recorded thereon are primarily attributable to the U.S. permanent establishment under the application by analogy of the OECD Transfer Pricing Guidelines as authorized by the relevant treaty (e.g., see Article 7 (Business Profits) and the accompanying Exchange of Notes to the U.S. income tax

treaties with the United Kingdom (2004), Japan (2005), Germany (2008), Belgium (2008), Canada (2009), Bulgaria (2009), and Iceland (2009), each of which provides for application of the OECD Transfer Pricing Guidelines in the determination of the attribution of business profits to a U.S. permanent establishment). In such cases, the set(s) of books that must be reported on Schedule L are those of the U.S. permanent establishment as determined under the OECD Transfer Pricing Guidelines.

**Schedules M-1 and M-3**

A corporation with total assets of \$10 million or more on the last day of the tax year that are reportable on Schedule L, must complete Schedule M-3 (Form 1120-F) instead of Schedule M-1. A corporation filing Form 1120-F that is not required to file Schedule M-3 may voluntarily file Schedule M-3 instead of Schedule M-1. See the Instructions for Schedule M-3 (Form 1120-F) for more information.

**Note.** If Schedule M-3 is completed in lieu of Schedule M-1, the corporation is still required to complete Schedule M-2.

If Schedule M-3 is not required, the foreign corporation must report on line 1 of Schedule M-1 the net income (loss) per the set of books taken into account on Schedule L.

The foreign corporation must report on line 1 of Schedule M-2 the balance of unappropriated retained earnings per the set(s) of books taken into account on Schedule L.

Do not complete Schedules M-1 and M-2 (Form 1120-F) if total assets at the end of the tax year (line 17, column (d) of Schedule L) are less than \$25,000.

**Schedule W**

**General guidelines for computing the amount to be entered on Schedule W, line 3.**

The amount to be entered on line 3 may be computed as follows:

- a. Tax on ECI per the tax return.** Enter the amount from Form 1120-F, page 1, line 2. . . . . **a.** \_\_\_\_\_
- b.** Refigure the taxable income on Form 1120-F, Section II, line 31, by excluding from Section II, line 8 any amount from the disposition of a U.S. real property interest necessary to properly compute the overpayment described in section 6611(e)(4), and by excluding from Section II, line 10 any partnership ECTI allocable to the corporation under the rules of Regulations section 1.1446-2 necessary to properly reflect the overpayment described in section 6611(e)(4) (attach explanation of amounts excluded). . . . . **b.** \_\_\_\_\_
- c. Refigured tax on ECI.** Using the refigured taxable income from line b, refigure the tax for Schedule II of Form 1120-F on Schedule J and enter the refigured tax from Schedule J, line 9 here. . . . . **c.** \_\_\_\_\_
- d.** Subtract line c from line a. Enter the result here and on Schedule W, line 3 . . . . . **d.** \_\_\_\_\_

**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 times are:

| Form                            | Recordkeeping    | Learning about the law or the form | Preparing the form | Copying, assembling, and sending the form to the IRS |
|---------------------------------|------------------|------------------------------------|--------------------|--|
| 1120-F                          | 82 hrs., 30 min. | 38 hrs., 34 min.                   | 59 hrs., 18 min.   | 5 hrs., 5 min.                                       |
| Sch. H (Form 1120-F)            | 15 hrs., 18 min. | 3 hrs., 37 min.                    | 8 hrs., 41 min.    | 1 hr., 20 min.                                       |
| Sch. I (Form 1120-F)            | 19 hrs., 36 min. | 10 hrs., 57 min.                   | 13 hrs., 37 min.   | 32 min.  |
| Sch. P (Form 1120-F)            | 7 hrs., 10 min.  | 2 hrs., 47 min.                    | 3 hrs., 1 min.     | -----  |
| Schs. M-1 and M-2 (Form 1120-F) | 8 hrs., 7 min.   | 12 min.                            | 20 min.            | -----  |
| Sch. M-3 (Form 1120-F)          | 96 hrs., 8 min.  | 13 hrs., 3 min.                    | 26 hrs., 22 min.   | 3 hrs., 13 min.                                      |
| Sch. S (Form 1120-F)            | 9 hrs., 34 min.  | 4 hrs., 58 min.                    | 5 hrs. 20 min.     | -----  |
| Sch. V (Form 1120-F)            | 9 hrs., 19 min.  | 24 min.                            | 33 min.            | -----  |

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms simpler, we would be happy to hear from you. You may write to Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:M:S, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. **Do not** send the tax form to this office. Instead, see *Where To File*, earlier.

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**Form 1120-F  
Principal Business Activity Codes**

This list of principal business activities and their associated codes is designed to classify an enterprise by the type of activity in which it is engaged to facilitate the administration of the Internal Revenue Code. These principal business activity codes are based on the North American Industry Classification System.

Using the list of activities and codes below, determine from which activity the company derives the largest percentage of its "total receipts." Total receipts is defined as the sum of gross receipts or sales (page 3, line 1a) plus all other income (page 3, lines 4 through 10). If the company purchases raw materials and supplies them to a subcontractor to produce the finished product, but retains title to the product, the company is

considered a manufacturer and must use one of the manufacturing codes (31110-339900).

Once the principal business activity is determined, entries must be made on page 1, items F(1), F(2), and F(3). For Item F-1, enter the six-digit code selected from the list below. For item F(2), enter the company's business activity. For item F(3), enter a brief description of the principal product or service of the company.

|  |  |  |  |
|--|--|--|--|
| <p><b>Agriculture, Forestry, Fishing and Hunting</b></p> <p><b>Crop Production</b></p> <p>111100 Oilseed &amp; Grain Farming</p> <p>111210 Vegetable &amp; Melon Farming (including potatoes &amp; yams)</p> <p>111300 Fruit &amp; Tree Nut Farming</p> <p>111400 Greenhouse, Nursery, &amp; Floriculture Production</p> <p>111900 Other Crop Farming (including tobacco, cotton, sugarcane, hay, peanut, sugar beet &amp; all other crop farming)</p>   | <p>238290 Other Building Equipment Contractors</p> <p>238300 Building Finishing Contractors (including drywall, insulation, painting, wallcovering, flooring, tile, &amp; finish carpentry)</p> <p>238900 Other Specialty Trade Contractors (including site preparation)</p>   | <p>325500 Paint, Coating, &amp; Adhesive Mfg</p> <p>325600 Soap, Cleaning Compound, &amp; Toilet Preparation Mfg</p> <p>325900 Other Chemical Product &amp; Preparation Mfg</p>  | <p>336300 Motor Vehicle Parts Mfg</p> <p>336410 Aerospace Product &amp; Parts Mfg</p> <p>336510 Railroad Rolling Stock Mfg</p> <p>336610 Ship &amp; Boat Building</p> <p>336990 Other Transportation Equipment Mfg</p>   |
| <p><b>Animal Production</b></p> <p>112111 Beef Cattle Ranching &amp; Farming</p> <p>112112 Cattle Feedlots</p> <p>112120 Dairy Cattle &amp; Milk Production</p> <p>112210 Hog &amp; Pig Farming</p> <p>112300 Poultry &amp; Egg Production</p> <p>112400 Sheep &amp; Goat Farming</p> <p>112510 Aquaculture (including shellfish &amp; finfish farms &amp; hatcheries)</p> <p>112900 Other Animal Production</p> <p><b>Forestry and Logging</b></p> <p>113110 Timber Tract Operations</p> <p>113210 Forest Nurseries &amp; Gathering of Forest Products</p> <p>113310 Logging</p>  | <p><b>Manufacturing</b></p> <p><b>Food Manufacturing</b></p> <p>311110 Animal Food Mfg</p> <p>311200 Grain &amp; Oilseed Milling</p> <p>311300 Sugar &amp; Confectionery Product Mfg</p> <p>311400 Fruit &amp; Vegetable Preserving &amp; Specialty Food Mfg</p> <p>311500 Dairy Product Mfg</p> <p>311610 Animal Slaughtering and Processing</p> <p>311710 Seafood Product Preparation &amp; Packaging</p> <p>311800 Bakeries, Tortilla &amp; Dry Pasta Mfg</p> <p>311900 Other Food Mfg (including coffee, tea, flavorings &amp; seasonings)</p>   | <p><b>Plastics and Rubber Products Manufacturing</b></p> <p>326100 Plastics Product Mfg</p> <p>326200 Rubber Product Mfg</p> <p><b>Nonmetallic Mineral Product Manufacturing</b></p> <p>327100 Clay Product &amp; Refractory Mfg</p> <p>327210 Glass &amp; Glass Product Mfg</p> <p>327300 Cement &amp; Concrete Product Mfg</p> <p>327400 Lime &amp; Gypsum Product Mfg</p> <p>327900 Other Nonmetallic Mineral Product Mfg</p> <p><b>Primary Metal Manufacturing</b></p> <p>331110 Iron &amp; Steel Mills &amp; Ferroalloy Mfg</p> <p>331200 Steel Product Mfg from Purchased Steel</p> <p>331310 Alumina &amp; Aluminum Production &amp; Processing</p> <p>331400 Nonferrous Metal (except Aluminum) Production &amp; Processing</p> <p>331500 Foundries</p>  | <p><b>Furniture and Related Product Manufacturing</b></p> <p>337000 Furniture &amp; Related Product Manufacturing</p> <p><b>Miscellaneous Manufacturing</b></p> <p>339110 Medical Equipment &amp; Supplies Mfg</p> <p>339900 Other Miscellaneous Manufacturing</p>   |
| <p><b>Fishing, Hunting and Trapping</b></p> <p>114110 Fishing</p> <p>114210 Hunting &amp; Trapping</p> <p><b>Support Activities for Agriculture and Forestry</b></p> <p>115110 Support Activities for Crop Production (including cotton ginning, soil preparation, planting, &amp; cultivating)</p> <p>115210 Support Activities for Animal Production</p> <p>115310 Support Activities For Forestry</p>   | <p><b>Beverage and Tobacco Product Manufacturing</b></p> <p>312110 Soft Drink &amp; Ice Mfg</p> <p>312120 Breweries</p> <p>312130 Wineries</p> <p>312140 Distilleries</p> <p>312200 Tobacco Manufacturing</p> <p><b>Textile Mills and Textile Product Mills</b></p> <p>313000 Textile Mills</p> <p>314000 Textile Product Mills</p> <p><b>Apparel Manufacturing</b></p> <p>315100 Apparel Knitting Mills</p> <p>315210 Cut &amp; Sew Apparel Contractors</p> <p>315220 Men's &amp; Boys' Cut &amp; Sew Apparel Mfg</p> <p>315240 Women's, Girls' and Infants' Cut &amp; Sew Apparel Mfg</p> <p>315280 Other Cut &amp; Sew Apparel Mfg</p> <p>315990 Apparel Accessories &amp; Other Apparel Mfg</p>  | <p><b>Machinery Manufacturing</b></p> <p>332110 Forging &amp; Stamping</p> <p>332210 Cutlery &amp; Handtool Mfg</p> <p>332300 Architectural &amp; Structural Metals Mfg</p> <p>332400 Boiler, Tank, &amp; Shipping Container Mfg</p> <p>332510 Hardware Mfg</p> <p>332610 Spring &amp; Wire Product Mfg</p> <p>332700 Machine Shops; Turned Product; &amp; Screw, Nut, &amp; Bolt Mfg</p> <p>332810 Coating, Engraving, Heat Treating, &amp; Allied Activities</p> <p>332900 Other Fabricated Metal Product Mfg</p>  | <p><b>Wholesale Trade</b></p> <p><b>Merchant Wholesalers, Durable Goods</b></p> <p>423100 Motor Vehicle &amp; Motor Vehicle Parts &amp; Supplies</p> <p>423200 Furniture &amp; Home Furnishings</p> <p>423300 Lumber &amp; Other Construction Materials</p> <p>423400 Professional &amp; Commercial Equipment &amp; Supplies</p> <p>423500 Metal &amp; Mineral (except Petroleum)</p> <p>423600 Household Appliances and Electrical &amp; Electronic Goods</p> <p>423700 Hardware, &amp; Plumbing &amp; Heating Equipment &amp; Supplies</p> <p>423800 Machinery, Equipment, &amp; Supplies</p> <p>423910 Sporting &amp; Recreational Goods &amp; Supplies</p> <p>423920 Toy &amp; Hobby Goods &amp; Supplies</p> <p>423930 Recyclable Materials</p> <p>423940 Jewelry, Watch, Precious Stone, &amp; Precious Metals</p> <p>423990 Other Miscellaneous Durable Goods</p> |
| <p><b>Mining</b></p> <p>211110 Oil &amp; Gas Extraction</p> <p>212110 Coal Mining</p> <p>212200 Metal Ore Mining</p> <p>212310 Stone Mining &amp; Quarrying</p> <p>212320 Sand, Gravel, Clay, &amp; Ceramic &amp; Refractory Minerals Mining &amp; Quarrying</p> <p>212390 Other Nonmetallic Mineral Mining &amp; Quarrying</p> <p>213110 Support Activities for Mining</p>  | <p><b>Leather and Allied Product Manufacturing</b></p> <p>316110 Leather &amp; Hide Tanning &amp; Finishing</p> <p>316210 Footwear Mfg (including rubber &amp; plastics)</p> <p>316990 Other Leather &amp; Allied Product Mfg</p> <p><b>Wood Product Manufacturing</b></p> <p>321110 Sawmills &amp; Wood Preservation</p> <p>321210 Veneer, Plywood, &amp; Engineered Wood Product Mfg</p> <p>321900 Other Wood Product Mfg</p>  | <p><b>Machinery Manufacturing</b></p> <p>333100 Agriculture, Construction, &amp; Mining Machinery Mfg</p> <p>333200 Industrial Machinery Mfg</p> <p>333310 Commercial &amp; Service Industry Machinery Mfg</p> <p>333410 Ventilation, Heating, Air-Conditioning, &amp; Commercial Refrigeration Equipment Mfg</p> <p>333510 Metalworking Machinery Mfg</p> <p>333610 Engine, Turbine &amp; Power Transmission Equipment Mfg</p> <p>333900 Other General Purpose Machinery Mfg</p>  | <p><b>Merchant Wholesalers, Nondurable Goods</b></p> <p>424100 Paper &amp; Paper Products</p> <p>424210 Drugs &amp; Druggists' Sundries</p> <p>424300 Apparel, Piece Goods, &amp; Notions</p> <p>424400 Grocery &amp; Related Products</p> <p>424500 Farm Product Raw Materials</p> <p>424600 Chemical &amp; Allied Products</p> <p>424700 Petroleum &amp; Petroleum Products</p> <p>424800 Beer, Wine, &amp; Distilled Alcoholic Beverages</p> <p>424910 Farm Supplies</p> <p>424920 Book, Periodical, &amp; Newspapers</p> <p>424930 Flower, Nursery Stock, &amp; Florists' Supplies</p> <p>424940 Tobacco &amp; Tobacco Products</p> <p>424950 Paint, Varnish, &amp; Supplies</p> <p>424990 Other Miscellaneous Nondurable Goods</p>  |
| <p><b>Utilities</b></p> <p>221100 Electric Power Generation, Transmission &amp; Distribution</p> <p>221210 Natural Gas Distribution</p> <p>221300 Water, Sewage &amp; Other Systems</p> <p>221500 Combination Gas &amp; Electric</p>   | <p><b>Leather and Allied Product Manufacturing</b></p> <p>316110 Leather &amp; Hide Tanning &amp; Finishing</p> <p>316210 Footwear Mfg (including rubber &amp; plastics)</p> <p>316990 Other Leather &amp; Allied Product Mfg</p> <p><b>Wood Product Manufacturing</b></p> <p>321110 Sawmills &amp; Wood Preservation</p> <p>321210 Veneer, Plywood, &amp; Engineered Wood Product Mfg</p> <p>321900 Other Wood Product Mfg</p>  | <p><b>Computer and Electronic Product Manufacturing</b></p> <p>334110 Computer &amp; Peripheral Equipment Mfg</p> <p>334200 Communications Equipment Mfg</p> <p>334310 Audio &amp; Video Equipment Mfg</p> <p>334410 Semiconductor &amp; Other Electronic Component Mfg</p> <p>334500 Navigational, Measuring, Electromedical, &amp; Control Instruments Mfg</p> <p>334610 Manufacturing &amp; Reproducing Magnetic &amp; Optical Media</p>  | <p><b>Wholesale Electronic Markets and Agents and Brokers</b></p> <p>425110 Business to Business Electronic Markets</p> <p>425120 Wholesale Trade Agents &amp; Brokers</p>   |
| <p><b>Construction</b></p> <p><b>Construction of Buildings</b></p> <p>236110 Residential Building Construction</p> <p>236200 Nonresidential Building Construction</p> <p><b>Heavy and Civil Engineering Construction</b></p> <p>237100 Utility System Construction</p> <p>237210 Land Subdivision</p> <p>237310 Highway, Street, &amp; Bridge Construction</p> <p>237990 Other Heavy &amp; Civil Engineering Construction</p> <p><b>Specialty Trade Contractors</b></p> <p>238100 Foundation, Structure, &amp; Building Exterior Contractors (including framing carpentry, masonry, glass, roofing, &amp; siding)</p> <p>238210 Electrical Contractors</p> <p>238220 Plumbing, Heating, &amp; Air-Conditioning Contractors</p> | <p><b>Paper Manufacturing</b></p> <p>322100 Pulp, Paper, &amp; Paperboard Mills</p> <p>322200 Converted Paper Product Mfg</p> <p><b>Printing and Related Support Activities</b></p> <p>323100 Printing &amp; Related Support Activities</p> <p><b>Petroleum and Coal Products Manufacturing</b></p> <p>324110 Petroleum Refineries (including integrated)</p> <p>324120 Asphalt Paving, Roofing, &amp; Saturated Materials Mfg</p> <p>324190 Other Petroleum &amp; Coal Products Mfg</p> <p><b>Chemical Manufacturing</b></p> <p>325100 Basic Chemical Mfg</p> <p>325200 Resin, Synthetic Rubber, &amp; Artificial &amp; Synthetic Fibers &amp; Filaments Mfg</p> <p>325300 Pesticide, Fertilizer, &amp; Other Agricultural Chemical Mfg</p> <p>325410 Pharmaceutical &amp; Medicine Mfg</p> | <p><b>Computer and Electronic Product Manufacturing</b></p> <p>334110 Computer &amp; Peripheral Equipment Mfg</p> <p>334200 Communications Equipment Mfg</p> <p>334310 Audio &amp; Video Equipment Mfg</p> <p>334410 Semiconductor &amp; Other Electronic Component Mfg</p> <p>334500 Navigational, Measuring, Electromedical, &amp; Control Instruments Mfg</p> <p>334610 Manufacturing &amp; Reproducing Magnetic &amp; Optical Media</p> <p><b>Electrical Equipment, Appliance, and Component Manufacturing</b></p> <p>335100 Electric Lighting Equipment Mfg</p> <p>335200 Household Appliance Mfg</p> <p>335310 Electrical Equipment Mfg</p> <p>335900 Other Electrical Equipment &amp; Component Mfg</p> <p><b>Transportation Equipment Manufacturing</b></p> <p>336100 Motor Vehicle Mfg</p> <p>336210 Motor Vehicle Body &amp; Trailer Mfg</p> | <p><b>Wholesale Electronic Markets and Agents and Brokers</b></p> <p>425110 Business to Business Electronic Markets</p> <p>425120 Wholesale Trade Agents &amp; Brokers</p> <p><b>Retail Trade</b></p> <p><b>Motor Vehicle and Parts Dealers</b></p> <p>441110 New Car Dealers</p> <p>441120 Used Car Dealers</p> <p>441210 Recreational Vehicle Dealers</p> <p>441222 Boat Dealers</p> <p>441228 Motorcycle, ATV, and All Other Motor Vehicle Dealers</p> <p>441300 Automotive Parts, Accessories, &amp; Tire Stores</p> <p><b>Furniture and Home Furnishings Stores</b></p> <p>442110 Furniture Stores</p> <p>442210 Floor Covering Stores</p> <p>442291 Window Treatment Stores</p>  |

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| 442299 All Other Home Furnishings Stores  | <b>Transportation and Warehousing</b><br><b>Air, Rail, and Water Transportation</b><br>481000 Air Transportation<br>482110 Rail Transportation<br>483000 Water Transportation<br><b>Truck Transportation</b><br>484110 General Freight Trucking, Local<br>484120 General Freight Trucking, Long-distance<br>484200 Specialized Freight Trucking<br><b>Transit and Ground Passenger Transportation</b><br>485110 Urban Transit Systems<br>485210 Interurban & Rural Bus Transportation<br>485310 Taxi Service<br>485320 Limousine Service<br>485410 School & Employee Bus Transportation<br>485510 Charter Bus Industry<br>485990 Other Transit & Ground Passenger Transportation<br><b>Pipeline Transportation</b><br>486000 Pipeline Transportation<br><b>Scenic &amp; Sightseeing Transportation</b><br>487000 Scenic & Sightseeing Transportation<br><b>Support Activities for Transportation</b><br>488100 Support Activities for Air Transportation<br>488210 Support Activities for Rail Transportation<br>488300 Support Activities for Water Transportation<br>488410 Motor Vehicle Towing<br>488490 Other Support Activities for Road Transportation<br>488510 Freight Transportation Arrangement<br>488990 Other Support Activities for Transportation<br><b>Couriers and Messengers</b><br>492110 Couriers<br>492210 Local Messengers & Local Delivery<br><b>Warehousing and Storage</b><br>493100 Warehousing & Storage (except lessors of miniwarehouses & self-storage units) | <b>Nondepository Credit Intermediation</b><br>522210 Credit Card Issuing<br>522220 Sales Financing<br>522291 Consumer Lending<br>522292 Real Estate Credit (including mortgage bankers & originators)<br>522293 International Trade Financing<br>522294 Secondary Market Financing<br>522298 All Other Nondepository Credit Intermediation<br><b>Activities Related to Credit Intermediation</b><br>522300 Activities Related to Credit Intermediation (including loan brokers, check clearing, & money transmitting)<br><b>Securities, Commodity Contracts, and Other Financial Investments and Related Activities</b><br>523110 Investment Banking & Securities Dealing<br>523120 Securities Brokerage<br>523130 Commodity Contracts Dealing<br>523140 Commodity Contracts Brokerage<br>523210 Securities & Commodity Exchanges<br>523900 Other Financial Investment Activities (including portfolio management & investment advice)<br><b>Insurance Carriers and Related Activities</b><br>524140 Direct Life, Health, and Medical Insurance and Reinsurance Carriers<br>524150 Direct Insurance and Reinsurance (except Life, Health, and Medical) Carriers<br>524210 Insurance Agencies & Brokerages<br>524290 Other Insurance Related Activities (including third-party administration of insurance and pension funds)<br><b>Funds, Trusts, and Other Financial Vehicles</b><br>525100 Insurance & Employee Benefit Funds<br>525910 Open-End Investment Funds (Form 1120-RIC)<br>525920 Trusts, Estates, & Agency Accounts<br>525990 Other Financial Vehicles (including mortgage REITs & closed-end investment funds)<br>"Offices of Bank Holding Companies" and "Offices of Other Holding Companies" are located under <b>Management of Companies (Holding Companies)</b> , later. | <b>Lessors of Nonfinancial Intangible Assets (except copyrighted works)</b><br>533110 Lessors of Nonfinancial Intangible Assets (except copyrighted works)<br><b>Professional, Scientific, and Technical Services</b><br><b>Legal Services</b><br>541110 Offices of Lawyers<br>541190 Other Legal Services<br><b>Accounting, Tax Preparation, Bookkeeping, and Payroll Services</b><br>541211 Offices of Certified Public Accountants<br>541213 Tax Preparation Services<br>541214 Payroll Services<br>541219 Other Accounting Services<br><b>Architectural, Engineering, and Related Services</b><br>541310 Architectural Services<br>541320 Landscape Architecture Services<br>541330 Engineering Services<br>541340 Drafting Services<br>541350 Building Inspection Services<br>541360 Geophysical Surveying & Mapping Services<br>541370 Surveying & Mapping (except Geophysical) Services<br>541380 Testing Laboratories<br><b>Specialized Design Services</b><br>541400 Specialized Design Services (including interior, industrial, graphic, & fashion design)<br><b>Computer Systems Design and Related Services</b><br>541511 Custom Computer Programming Services<br>541512 Computer Systems Design Services<br>541513 Computer Facilities Management Services<br>541519 Other Computer Related Services<br><b>Other Professional, Scientific, and Technical Services</b><br>541600 Management, Scientific, & Technical Consulting Services<br>541700 Scientific Research & Development Services<br>541800 Advertising & Related Services<br>541910 Marketing Research & Public Opinion Polling<br>541920 Photographic Services<br>541930 Translation & Interpretation Services<br>541940 Veterinary Services<br>541990 All Other Professional, Scientific, & Technical Services |
| <b>Electronics and Appliance Stores</b><br>443141 Household Appliance Stores<br>443142 Electronics Stores (including Audio, Video, Computer, and Camera Stores)<br><b>Building Material and Garden Equipment and Supplies Dealers</b><br>444110 Home Centers<br>444120 Paint & Wallpaper Stores<br>444130 Hardware Stores<br>444190 Other Building Material Dealers<br>444200 Lawn & Garden Equipment & Supplies Stores<br><b>Food and Beverage Stores</b><br>445110 Supermarkets and Other Grocery (except Convenience) Stores<br>445120 Convenience Stores<br>445210 Meat Markets<br>445220 Fish & Seafood Markets<br>445230 Fruit & Vegetable Markets<br>445291 Baked Goods Stores<br>445292 Confectionery & Nut Stores<br>445299 All Other Specialty Food Stores<br>445310 Beer, Wine, & Liquor Stores<br><b>Health and Personal Care Stores</b><br>446110 Pharmacies & Drug Stores<br>446120 Cosmetics, Beauty Supplies, & Perfume Stores<br>446130 Optical Goods Stores<br>446190 Other Health & Personal Care Stores<br><b>Gasoline Stations</b><br>447100 Gasoline Stations (including convenience stores with gas)<br><b>Clothing and Clothing Accessories Stores</b><br>448110 Men's Clothing Stores<br>448120 Women's Clothing Stores<br>448130 Children's & Infants' Clothing Stores<br>448140 Family Clothing Stores<br>448150 Clothing Accessories Stores<br>448190 Other Clothing Stores<br>448210 Shoe Stores<br>448310 Jewelry Stores<br>448320 Luggage & Leather Goods Stores<br><b>Sporting Goods, Hobby, Book, and Music Stores</b><br>451110 Sporting Goods Stores<br>451120 Hobby, Toy, & Game Stores<br>451130 Sewing, Needlework, & Piece Goods Stores<br>451140 Musical Instrument & Supplies Stores<br>451211 Book Stores<br>451212 News Dealers & Newsstands<br><b>General Merchandise Stores</b><br>452110 Department Stores<br>452900 Other General Merchandise Stores<br><b>Miscellaneous Store Retailers</b><br>453110 Florists<br>453210 Office Supplies & Stationery Stores<br>453220 Gift, Novelty, & Souvenir Stores<br>453310 Used Merchandise Stores<br>453910 Pet & Pet Supplies Stores<br>453920 Art Dealers<br>453930 Manufactured (Mobile) Home Dealers<br>453990 All Other Miscellaneous Store Retailers (including tobacco, candle, & trophy shops)<br><b>Nonstore Retailers</b><br>454110 Electronic Shopping & Mail-Order Houses<br>454210 Vending Machine Operators<br>454310 Fuel Dealers (including Heating Oil and Liquefied Petroleum)<br>454390 Other Direct Selling Establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers) |   |  |  |
|   | <b>Finance and Insurance</b><br><b>Depository Credit Intermediation</b><br>522110 Commercial Banking<br>522120 Savings Institutions<br>522130 Credit Unions<br>522190 Other Depository Credit Intermediation  |  | <b>Management of Companies (Holding Companies)</b><br>551111 Offices of Bank Holding Companies<br>551112 Offices of Other Holding Companies<br><b>Administrative and Support and Waste Management and Remediation Services</b><br><b>Administrative and Support Services</b><br>561110 Office Administrative Services<br>561210 Facilities Support Services<br>561300 Employment Services<br>561410 Document Preparation Services<br>561420 Telephone Call Centers<br>561430 Business Service Centers (including private mail centers & copy shops)<br>561440 Collection Agencies<br>561450 Credit Bureaus<br>561490 Other Business Support Services (including repossession services, court reporting, & stenotype services)<br>561500 Travel Arrangement & Reservation Services<br>561600 Investigation & Security Services<br>561710 Exterminating & Pest Control Services<br>561720 Janitorial Services<br>561730 Landscaping Services<br>561740 Carpet & Upholstery Cleaning Services   |

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| 561790 Other Services to Buildings & Dwellings   | 621498 All Other Outpatient Care Centers  | <b>Amusement, Gambling, and Recreation Industries</b><br>713100 Amusement Parks & Arcades<br>713200 Gambling Industries<br>713900 Other Amusement & Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, & bowling centers)   | change & lubrication shops & car washes)   |
| 561900 Other Support Services (including packaging & labeling services, & convention & trade show organizers)  | <b>Medical and Diagnostic Laboratories</b><br>621510 Medical & Diagnostic Laboratories  |  | 811210 Electronic & Precision Equipment Repair & Maintenance   |
| <b>Waste Management and Remediation Services</b><br>562000 Waste Management & Remediation Services   | <b>Home Health Care Services</b><br>621610 Home Health Care Services  | <b>Accommodation and Food Services</b><br><b>Accommodation</b><br>721110 Hotels (except Casino Hotels) & Motels<br>721120 Casino Hotels<br>721191 Bed & Breakfast Inns<br>721199 All Other Traveler Accommodation<br>721210 RV (Recreational Vehicle) Parks & Recreational Camps<br>721310 Rooming & Boarding Houses<br><b>Food Services and Drinking Places</b><br>722300 Special Food Services (including food service contractors & caterers)<br>722410 Drinking Places (Alcoholic Beverages)<br>722511 Full-Service Restaurants<br>722513 Limited-Service Restaurants<br>722514 Cafeterias and Buffets<br>722515 Snack and Non-alcoholic Beverage Bars | 811310 Commercial & Industrial Machinery & Equipment (except Automotive & Electronic) Repair & Maintenance   |
| <b>Educational Services</b><br>611000 Educational Services (including schools, colleges, & universities)   | <b>Other Ambulatory Health Care Services</b><br>621900 Other Ambulatory Health Care Services (including ambulance services & blood & organ banks)   |  | 811410 Home & Garden Equipment & Appliance Repair & Maintenance  |
| <b>Health Care and Social Assistance</b><br><b>Offices of Physicians and Dentists</b><br>621111 Offices of Physicians (except mental health specialists)<br>621112 Offices of Physicians, Mental Health Specialists<br>621210 Offices of Dentists<br><b>Offices of Other Health Practitioners</b><br>621310 Offices of Chiropractors<br>621320 Offices of Optometrists<br>621330 Offices of Mental Health Practitioners (except Physicians)<br>621340 Offices of Physical, Occupational & Speech Therapists, & Audiologists<br>621391 Offices of Podiatrists<br>621399 Offices of All Other Miscellaneous Health Practitioners | <b>Hospitals</b><br>622000 Hospitals<br><b>Nursing and Residential Care Facilities</b><br>623000 Nursing & Residential Care Facilities<br><b>Social Assistance</b><br>624100 Individual & Family Services<br>624200 Community Food & Housing, & Emergency & Other Relief Services<br>624310 Vocational Rehabilitation Services<br>624410 Child Day Care Services  | 811420 Reupholstery & Furniture Repair<br>811430 Footwear & Leather Goods Repair<br>811490 Other Personal & Household Goods Repair & Maintenance   |  |
| <b>Outpatient Care Centers</b><br>621410 Family Planning Centers<br>621420 Outpatient Mental Health & Substance Abuse Centers<br>621491 HMO Medical Centers<br>621492 Kidney Dialysis Centers<br>621493 Freestanding Ambulatory Surgical & Emergency Centers   | <b>Arts, Entertainment, and Recreation</b><br><b>Performing Arts, Spectator Sports, and Related Industries</b><br>711100 Performing Arts Companies<br>711210 Spectator Sports (including sports clubs & racetracks)<br>711300 Promoters of Performing Arts, Sports, & Similar Events<br>711410 Agents & Managers for Artists, Athletes, Entertainers, & Other Public Figures<br>711510 Independent Artists, Writers, & Performers<br><b>Museums, Historical Sites, and Similar Institutions</b><br>712100 Museums, Historical Sites, & Similar Institutions | <b>Food Services and Drinking Places</b><br>722300 Special Food Services (including food service contractors & caterers)<br>722410 Drinking Places (Alcoholic Beverages)<br>722511 Full-Service Restaurants<br>722513 Limited-Service Restaurants<br>722514 Cafeterias and Buffets<br>722515 Snack and Non-alcoholic Beverage Bars   | <b>Personal and Laundry Services</b><br>812111 Barber Shops<br>812112 Beauty Salons<br>812113 Nail Salons<br>812190 Other Personal Care Services (including diet & weight reducing centers)<br>812210 Funeral Homes & Funeral Services<br>812220 Cemeteries & Crematories<br>812310 Coin-Operated Laundries & Drycleaners<br>812320 Drycleaning & Laundry Services (except Coin-Operated)<br>812330 Linen & Uniform Supply<br>812910 Pet Care (except Veterinary) Services<br>812920 Photofinishing<br>812930 Parking Lots & Garages<br>812990 All Other Personal Services |
|  |   | <b>Other Services</b><br><b>Repair and Maintenance</b><br>811110 Automotive Mechanical & Electrical Repair & Maintenance<br>811120 Automotive Body, Paint, Interior, & Glass Repair<br>811190 Other Automotive Repair & Maintenance (including oil   | <b>Religious, Grantmaking, Civic, Professional, and Similar Organizations</b><br>813000 Religious, Grantmaking, Civic, Professional, & Similar Organizations (including condominium and homeowners associations)   |