



# Instructions for Form 1120-IC-DISC

## Interest Charge Domestic International Sales Corporation Return

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

### 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 this 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.

The time needed to complete and file the following forms 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 IRS
1120-IC-DISC	96 hr., 8 min.	18 hr., 40 min.	27 hr., 34 min.	1 hr., 53 min.
Schedule K	4 hr., 4 min.	47 min.	54 min.	.....
Schedule P	11 hr., 58 min.	1 hr., 17 min.	1 hr., 34 min.	.....

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms more simple, we would be happy to hear from you. You can write to both the **Internal Revenue Service**, Washington, DC 20224, Attention: IRS Reports Clearance Officer, T:FP; and the **Office of Management and Budget**, Paperwork Reduction Project (1545-0938), Washington, DC 20503. **DO NOT** send the tax form to either of these offices. Instead, see *Where To File*, on page 2.

### Voluntary Contributions To Reduce the Public Debt

A corporation may make a contribution to reduce the public debt. If the corporation wishes to do so, enclose a check made payable to "Bureau of the Public Debt," with Form 1120-IC-DISC. These amounts are tax-deductible, subject to the rules and limitations for charitable contributions.

## General Instructions

### A. Purpose of Form

Form 1120-IC-DISC is an information return filed by interest charge domestic international sales corporations (IC-DISCs), former DISCs, and former IC-DISCs.

### B. What Is an IC-DISC?

An IC-DISC is a domestic corporation that has elected to be an IC-DISC and its election is still in effect. The IC-DISC election is made by filing **Form 4876-A, Election To Be Treated as an Interest Charge DISC**.

Generally, an IC-DISC is not taxed on its income. Shareholders of an IC-DISC are taxed on its income when the income is actually or deemed distributed. In addition, section 995(f) imposes an interest charge on shareholders for their share of DISC-related deferred tax liability. See

**Form 8404, Computation of Interest Charge on DISC-Related Deferred Tax Liability**, for details.

To be an IC-DISC, a corporation must be organized under the laws of a state or the District of Columbia and meet the following tests:

- At least 95% of its gross receipts during the tax year are qualified export receipts.
- At the end of the tax year, the adjusted basis of its qualified export assets is at least 95% of the sum of the adjusted basis of all its assets.
- It has only one class of stock, and its outstanding stock has a par or stated value of at least \$2,500 on each day of the tax year (or, for a new corporation, on the last day to elect IC-DISC status for the year and on each later day).
- It maintains separate books and records for a taxable year.
- It is not a member of any controlled group of which a foreign sales corporation (FSC) is a member.
- Its tax year must conform to the tax year of the principal shareholder who at the beginning of the tax year has the highest percentage of voting power. If two or more shareholders have the highest percentage of voting power, the IC-DISC must elect a tax year that conforms to that of any one of the principal

shareholders. (See section 441(h) and the regulations thereunder for additional information.)

- Its election to be treated as an IC-DISC is in effect for the tax year.

See section 992 and related regulations for details and Instruction D for definitions.

**Distribution to meet qualification requirements.**—An IC-DISC that does not meet the gross receipts test or qualified export asset test during the tax year will still be considered to have met them if, after the tax year ends, the IC-DISC makes a pro rata property distribution to its shareholders and specifies at the time that this is a distribution to meet the qualification requirements.

If the IC-DISC did not meet the gross receipts test, the distribution equals the part of its taxable income attributable to gross receipts that are not qualified export gross receipts. If it did not meet the qualified export asset test, the distribution equals the fair market value of the assets that are not qualified export assets on the last day of the tax year. If the IC-DISC did not meet either test, the distribution equals the sum of both amounts. Regulations section 1.992-3 explains how to figure the distribution.

**"Interest" on late distribution.**—If the IC-DISC makes this distribution after the date Form 1120-IC-DISC is due, interest must be paid to the Internal Revenue Service Center where you filed the form. The charge is 4½% of the distribution times the number of tax years that begin after the tax year to which the distribution relates until the date the IC-DISC made the distribution.

If you must pay this interest, send the payment to the Service Center within 30 days of making the distribution. On the payment write the IC-DISC's name, address, and employer identification number; the tax year involved; and a statement that the payment represents the interest charge under Regulations section 1.992-3(c)(4).

**Ineligible organizations.**—The following organizations are not eligible for IC-DISC status. File the return indicated below instead of Form 1120-IC-DISC:

- Tax-exempt organizations (section 501): File the appropriate return in the Form 990 series.

- Personal holding companies (section 542): File **Form 1120**, U.S. Corporation Income Tax Return, and **Schedule PH (Form 1120)**, U.S. Personal Holding Company Tax.
- Financial institutions affected by section 581 or 593: File Form 1120.
- Insurance companies (subchapter L): File **Form 1120L**, U.S. Life Insurance Company Income Tax Return, or **Form 1120-PC**, U.S. Property and Casualty Insurance Company Income Tax Return.
- Regulated investment companies (section 851(a)): File **Form 1120-RIC**, U.S. Income Tax Return for Regulated Investment Companies.
- Real estate investment trusts (section 856): File **Form 1120-REIT**, U.S. Income Tax Return for Real Estate Investment Trusts.
- S corporations (section 1361(a)): File **Form 1120S**, U.S. Income Tax Return for an S corporation.

## C. Filing Form 1120-IC-DISC

**1. Who Files Form 1120-IC-DISC.**—The corporation must file Form 1120-IC-DISC if it elected, by filing Form 4876-A, to be treated as an IC-DISC.

If the corporation is a former DISC or former IC-DISC, it must file Form 1120-IC-DISC in addition to any other return required. A former DISC is a corporation that was a DISC on or before December 31, 1984, but failed to qualify as a DISC sometime prior to December 31, 1984, or did not elect to be an IC-DISC after 1984; and at the beginning of the year, it had undistributed income that was previously taxed or accumulated DISC income. A former IC-DISC is a corporation that was an IC-DISC in an earlier year but did not qualify as an IC-DISC at the end of its 1990 tax year; and at the beginning of the year, it had undistributed income that was previously taxed or accumulated IC-DISC income. (See section 992 and related regulations.)

A former DISC or former IC-DISC need not complete page 1 and the Schedules for figuring taxable income, but must complete Schedules J, L, and M of Form 1120-IC-DISC and Schedule K (Form 1120-IC-DISC). Write "Former DISC" or "Former IC-DISC" across the top of the return.

**2. When To File.**—File Form 1120-IC-DISC by the 15th day of the 9th month after the tax year ends. No extensions are allowed for time to file.

**3. Period Covered by 1991 Return.**—File the 1991 return for calendar year 1991 and fiscal years that begin in 1991. If the return is for a fiscal year, fill in the tax year space at the top of the form.

**4. Initial or Final Return.**—If this is the IC-DISC's initial return or final return, check the applicable box in item F at the top of the form.

**5. Change of Address.**—If there has been a change in address from the previous year, check the box for Change in Address in item F at the top of Form 1120-IC-DISC.

**Form 8822**, Change of Address, can be filed to notify IRS of a change of address that occurs after the return is filed.

**6. Amended Return.**—To correct an error in a Form 1120-IC-DISC already filed, file an amended Form 1120-IC-DISC and check the box for Amended Return in item F at the top of the form. If the amended return changes the income or distributions of income to shareholders, an amended Schedule K (Form 1120-IC-DISC) must be filed with the amended Form 1120-IC-DISC and given to each shareholder. Write "AMENDED" across the top of the corrected Schedule K you give to each shareholder.

### 7. Where To File.—

If the main business, office, or agency is located in	Use the following Internal Revenue Service Center address
New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Florida, Georgia, South Carolina	Atlanta, GA 39901
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Minnesota, Missouri, Wisconsin	Kansas City, MO 64999
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia	Philadelphia, PA 19255

If the IC-DISC is one of a group of IC-DISCs controlled by a common parent, file with the service center where the common parent files.

A group of corporations in several service center regions may file their separate returns with the service center for

the principal office of the managing corporation that keeps all the books and records.

**8. Signature.**—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. A receiver, trustee, or assignee must sign and date any return required to be filed on behalf of a corporation.

If a corporate officer filled in Form 1120-IC-DISC, the Paid Preparer's space under Signature of Officer should remain blank. If someone prepares Form 1120-IC-DISC and does not charge the corporation, that person should not sign the return. Certain others who prepare Form 1120-IC-DISC should not sign. For example, a regular, full-time employee of the corporation such as a clerk or secretary does not have to sign.

Generally, anyone who is paid to prepare Form 1120-IC-DISC must sign the return and fill in the other blanks in the Paid Preparer's Use Only area of the return.

The preparer required to sign the return **MUST**:

- Complete the required preparer information.
- Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps or labels are not acceptable.)
- Give a copy of Form 1120-IC-DISC to the taxpayer in addition to the copy filed with IRS.

### 9. Other Forms and Statements That May Be Required.—

#### a. Financial statements.

The balance sheets should agree with your books and records. Reconcile any differences.

#### b. Stock in foreign corporation.

If, on the last day of your tax year, the corporation owned at least 5% in value of a foreign personal holding company's outstanding stock and the corporation was required to include in its gross income any undistributed foreign personal holding company income, attach a statement showing the foreign company's gross income, deductions, credits, taxable income, and undistributed foreign personal holding company income. See section 551(c).

A corporation that controls a foreign corporation; or that is a 10%-or-more shareholder of a controlled foreign corporation; or acquires, disposes of, or owns 5% or more ownership in the outstanding stock of a foreign corporation, may have to file **Form 5471**, Information Return of U.S. Persons With Respect to Certain Foreign Corporations.

#### c. Forms

The IC-DISC may also have to file any of the following:

**Forms W-2 and W-3**, Wage and Tax Statement; and Transmittal of Income and Tax Statements.

**Form 966**, Corporate Dissolution or Liquidation.

**Forms 1042 and 1042S.**—File **Form 1042**, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, and **Form 1042S**, Foreign Person's U.S. Source Income Subject to Withholding, to report tax withheld from amounts paid to nonresident aliens and foreign corporations (sections 1441 through 1443 and 1461). In addition, please inform those shareholders who are nonresident alien individuals or foreign corporations, trusts, or estates that if they have gains from disposal of stock in the IC-DISC, former DISC, or former IC-DISC, or distributions from accumulated IC-DISC income, including deemed distributions, they must treat these amounts as effectively connected with the conduct of a trade or business conducted through a permanent establishment in the U.S., and derived from sources within the U.S.

**Form 1096**, Annual Summary and Transmittal of U.S. Information Returns.

**Form 1098**, Mortgage Interest Statement. This form is used to report the receipt from any individual of \$600 or more of mortgage interest in the course of the corporation's trade or business for any calendar year.

**Forms 1099-A, B, DIV, INT, MISC, OID, R, and S**, Information returns for reporting abandonments, acquisitions through foreclosure, proceeds from broker and barter exchange transactions, certain dividends and distributions, interest payments, payments for certain fishing boat crew members, medical and dental health care payments, direct sales of consumer goods for resale, miscellaneous income payments, nonemployee compensation, original issue discount, and pensions, annuities, distributions from profit-sharing plans, retirement plans, individual retirement arrangements, insurance contracts, etc., and proceeds from real estate transactions. Also use these returns to report amounts that were received as a nominee on behalf of another person.

For more information, see **Pub. 937**, Business Reporting.

**Note:** Every corporation must file information returns if, in the course of its trade or business, it makes payments of rents, commissions, or other fixed or determinable income (see section 6041) totaling \$600 or more to any one person during the calendar year.

**Form 5452**, Corporate Report of Nondividend Distributions.

**Form 5713**, International Boycott Report, for persons having operations in or related to "boycotting" countries. In addition, persons who participate in or cooperate with an international boycott may have to complete Schedule A or Schedule B and Schedule C of Form 5713 to compute their loss of the following items: the foreign tax credit, the deferral of earnings of a controlled foreign corporation, IC-DISC benefits, and FSC benefits.

**Form 8264**, Application for Registration of a Tax Shelter. It is used by tax shelter organizers to register tax shelters with the IRS for the purpose of receiving a tax shelter registration number.

**Form 8271**, Investor Reporting of Tax Shelter Registration Number. It is used to report the tax shelter's registration number by taxpayers who have acquired an interest in a tax shelter that is required to be registered.

Form 8271 must be attached to any tax return (including an application for tentative refund (**Form 1139**, Corporation Application for Tentative Refund), and an amended Form 1120-IC-DISC) on which a deduction, credit, loss, or other tax benefit attributable to a tax shelter is reported or any income attributable to a tax shelter is reported.

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

## D. Definitions

1. The following definitions are based on section 993.

**a. Qualified export receipts** are any of the following:

(1) Gross receipts from selling, exchanging, or otherwise disposing of export property.

(2) Gross receipts from renting export property that the lessee uses outside the U.S.

(3) Gross receipts from supporting services related to any qualified sale, exchange, rental, or other disposition of export property by the corporation.

(4) Gross receipts, if there is a gain, from selling, exchanging, or otherwise disposing of qualified export assets that are not export property.

(5) Dividends or amounts includible in gross income regarding stock of a related foreign export corporation and under section 951 (relating to amounts included in the gross income of U.S. shareholders of controlled foreign corporations).

(6) Interest on any obligation that is a qualified export asset.

(7) Gross receipts for engineering or architectural services on construction projects outside the U.S.

(8) Gross receipts for managerial services performed for an unrelated IC-DISC.

For more information, see Regulations section 1.993-1.

**b. Qualified export assets** are any of the following:

(1) Export property.

(2) Assets used mainly in performing the engineering or architectural services listed under qualified export receipts, item (7) above, or managerial services that further the production of qualified export receipts, items (1), (2), (3), and (7) above; or assets

used mainly in assembling, servicing, handling, selling, leasing, packaging, transporting, or storing of export property.

(3) Accounts receivable produced by transactions listed under qualified export receipts, items (1)–(4), (7), or (8) above.

(4) Temporary investments, such as money and bank deposits, in an amount reasonable to meet the corporation's needs for working capital.

(5) Obligations related to a producer's loan.

(6) A related foreign export corporation's stock or securities that the IC-DISC holds.

(7) Certain obligations that are issued or insured by the U.S. Export-Import Bank or the Foreign Credit Insurance Association and that the IC-DISC acquires from the bank, the association, or the person who sold or bought the goods from which the obligations arose.

(8) Certain obligations, held by the IC-DISC that were issued by a domestic corporation organized to finance export property sales under an agreement with the Export-Import Bank, by which the corporation makes export loans that the bank guarantees.

(9) Other deposits in the U.S. used to acquire qualified export assets within the time provided by Regulations section 1.993-2(j).

See Regulations section 1.993-2 for more information.

**c. Export property** must be:

(1) Made, grown, or extracted in the U.S. by someone other than an IC-DISC.

(2) Neither excluded under section 993(c)(2) nor declared in short supply under section 993(c)(3).

(3) Held mainly for sale or rent in the ordinary course of trade or business, by or to an IC-DISC for direct use, consumption, or disposition outside the U.S.

(4) Property not more than 50% of the fair market value of which is attributable to articles imported into the U.S. and

(5) Neither sold nor leased by or to another IC-DISC that, immediately before or after the transaction, either belongs to the same controlled group (defined in section 993(a)(3)) as your IC-DISC or is related to your IC-DISC in a way that would result in losses being denied under section 267.

See Regulations section 1.993-3 for details.

**d. A producer's loan** must meet all the following terms:

(1) Satisfy sections 993(d)(2) and (3) limiting loans the IC-DISC makes to any one borrower.

(2) Not raise the unpaid balance due the IC-DISC on all its producer's loans above the level of accumulated IC-DISC income it had at the start of the month in which it made the loan.

(3) Be indicated by written evidence of debt, such as a note, that has a stated maturity date no more than five years after the date of the loan.

(4) Be made to a person in the U.S. in the trade or business of making, growing, or extracting export property.

(5) Be designated as a producer's loan when made.

For more information, see **Schedule Q (Form 1120-IC-DISC)**, Borrower's Certificate of Compliance with the Rules for Producer's Loans, and Regulations section 1.993-4.

**e. A related foreign export corporation** of any of the following kinds can pay dividends and interest to the IC-DISC without loss of IC-DISC status. The IC-DISC's investment must be related to exports from the U.S.

(1) A *foreign international sales corporation* is a related foreign export corporation if:

(i) The IC-DISC directly owns more than 50% of the total voting power of the foreign corporation's stock.

(ii) For the tax year that ends with your IC-DISC's tax year or ends within it, at least 95% of the foreign corporation's gross receipts consists of the qualified export receipts described in items (1)-(4) of definition **a** above (Qualified export receipts) and interest on the qualified export assets listed in items (3) and (4) of definition **b** above (Qualified export assets), and

(iii) The adjusted basis of the qualified export assets that are listed in items (1)-(4) of **b** above and that the foreign corporation held at the end of the tax year is at least 95% of the adjusted basis of all assets it held then.

(2) A *real property holding company* is a related foreign export corporation if:

(i) The IC-DISC directly owns more than 50% of the total voting power of the foreign corporation's stock, and

(ii) Applicable foreign law forbids the IC-DISC to hold title to real property; the foreign corporation's sole function is to hold the title; and only the IC-DISC uses the property, under lease or otherwise.

(3) An *associated foreign corporation* is a related foreign export corporation if:

(i) The IC-DISC or a controlled group of corporations to which the IC-DISC belongs owns less than 10% of the total voting power of the foreign corporation's stock (section 1563 defines a controlled group in this sense, and sections 1563(d) and (e) define ownership), and

(ii) The IC-DISC's ownership of the foreign corporation's stock or securities reasonably furthers transactions that lead to qualified export receipts for the IC-DISC.

See Regulations section 1.993-5 for more information about related foreign export corporations.

**f. Gross receipts** are the IC-DISC's total receipts from: (1) selling or renting property that the corporation holds for sale or rental in the course of its trade or business, and (2) all other sources. For commissions on selling or renting property, include gross receipts from selling or renting the property on which the commissions arose. See

Regulations section 1.993-6 for more information.

**g. United States**, as used in these instructions, includes Puerto Rico and U.S. possessions, as well as the 50 states and the District of Columbia.

**2. Inter-company pricing rules (section 994).**—If a related person described in section 482 sells export property to the IC-DISC, use the inter-company pricing rules to figure taxable income for the IC-DISC and the seller. These rules generally do not permit the related person to price at a loss. Under inter-company pricing, the IC-DISC's taxable income from the sale (regardless of the price actually charged) may not exceed the greatest of:

(a) 4% of qualified export receipts on the IC-DISC's sale of the property plus 10% of the IC-DISC's export promotion expenses attributable to the receipts,

(b) 50% of the IC-DISC's and the seller's combined taxable income from qualified export receipts on the property, derived from the IC-DISC's sale of the property plus 10% of the IC-DISC's export promotion expenses attributable to the receipts, or

(c) taxable income based on the sale price actually charged, provided that under section 482 the price actually charged clearly reflects the taxable income of the IC-DISC and the related person.

**Schedule P (Form 1120-IC-DISC)**, Inter-Company Transfer Price or Commission, explains the inter-company pricing rules in more detail.

**3. Export promotion expenses (section 994(c)).**—These expenses are incurred to help distribute or sell export property for use or distribution outside the U.S. These expenses do not include income tax, but do include 50% of the cost of shipping the export property on U.S.-owned and U.S.-operated aircraft or ships if U.S. law or regulations do not require that it be shipped on them.

## E. Penalties

The IC-DISC may have to pay the following penalties unless it can show that it had reasonable cause for not providing information or not filing a return:

- \$100 for each instance of not providing required information, up to \$25,000 during the calendar year.
- \$1,000 for not filing a return. See section 6686 for other details.

## Specific Instructions

### File a Complete Return

To assist us in processing the return, please complete every applicable entry space on Form 1120-IC-DISC. Do not attach statements and write "See attached" in lieu of completing the entry spaces on Form 1120-IC-DISC.

**Accounting methods.**—Compute taxable income by the accounting method regularly used to keep the IC-DISC's books and

records. The method used must clearly reflect taxable income. See section 446.

A member of a controlled group must avoid using an accounting method that would distort any group member's income, including its own. For example, an IC-DISC acts as a commission agent for property sales by a related corporation that uses the accrual method and pays the IC-DISC its commission more than 2 months after the sale. In this case, the IC-DISC should not use the cash method of accounting, because it materially distorts the income of the IC-DISC.

Unless the law specifically permits otherwise, the IC-DISC may change from the accounting method it used to report taxable income in earlier years (for income as a whole or for any material item) only by first getting consent on **Form 3115**, Application for Change in Accounting Method.

**Rounding off.**—The corporation may show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents, and increase any amount from 50 cents through 99 cents to the next higher dollar.

**Attachments.**—If more space is needed, attach separate sheets to the back of Form 1120-IC-DISC. Attach **Form 4136**, Credit for Federal Tax on Fuels, after page 6, Form 1120-IC-DISC. Attach schedules in alphabetical order and other forms in numerical order after the Form 4136. Be sure to put the IC-DISC's name and employer identification number on each sheet.

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**Address.**—Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address, show the P.O. box number instead of the street address.

**Employer Identification Number.**—Enter the IC-DISC's employer identification number (EIN). If the IC-DISC does not have an EIN, it should apply for one on **Form SS-4**, Application for Employer Identification Number. You can get this form at most IRS or Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center to which you send Form 1120-IC-DISC. If the corporation has not received the EIN by the time for filing Form 1120-IC-DISC, write "Applied for" in the space for the EIN.

**Item E.**—Total assets.—Enter the total assets of the IC-DISC. If there are no assets at the end of the tax year, enter the assets as of the beginning of the tax year.

**Question G(1).**—For rules of stock attribution, see section 267(c). If the owner of the voting stock of the IC-DISC was an alien individual or a foreign corporation, partnership, trust, or estate, check the "Yes" box in the "Foreign owner" column and enter the name of the owner's country, in parentheses, in the address column. "Owner's country" for individuals is their country of residence; for other foreign entities, it is the country in which organized

or otherwise created, or in which administered.

## Lines 1 through 8

An IC-DISC must figure its taxable income although it does not pay most taxes. Of the taxes imposed by sections 1 through 1563, an IC-DISC is subject only to the tax imposed by sections 1491 through 1494 on certain transfers to avoid tax. An IC-DISC is exempt from corporate income tax, alternative minimum tax, and accumulated earnings tax.

An IC-DISC and its shareholders are not entitled to the possessions corporation tax credit (section 936). An IC-DISC cannot claim the general business credit or the credit for fuel produced from a nonconventional source. In addition, these credits cannot be passed through to shareholders of an IC-DISC.

**Line 2. Cost of goods sold.**—See Instructions for Schedule A.

**Line 6a. Net operating loss deduction.**—The “net operating loss deduction” is the amount of the net operating loss carryovers and carrybacks that can be deducted in the tax year. See section 172 and **Pub. 536**, Net Operating Losses, for details.

A deficit in earnings and profits is chargeable in the following order:

- (1) First, to any earnings and profits other than accumulated IC-DISC income or previously taxed income;
- (2) Second, to any accumulated IC-DISC income; and
- (3) Finally, to previously taxed income.

Do not apply any deficit in earnings and profits against accumulated IC-DISC income that, as a result of the corporation’s revoking its election to be treated as an IC-DISC (or other disqualification), is deemed distributed to the shareholders. (See section 995(b)(2)(A).)

**Line 6b. Dividends-received deduction.**—See the instructions for Schedule C, line 9, Column (c) for details.

**Line 7. Taxable income.**—If the corporation uses either the gross receipts method or combined taxable income method to compute the IC-DISC’s taxable income attributable to any transactions involving products or product lines, attach Schedule P (Form 1120-IC-DISC). Show in detail the IC-DISC’s taxable income attributable to each such transaction or group of transactions.

**Line 8. Refundable credit for Federal tax on fuels.**—Enter the credit from Form 4136.

## Schedule A.—Cost of Goods Sold

If the corporation uses inter-company pricing rules, reflect in Schedule A actual purchases from a related supplier. See General Instruction D2 and use the transfer price computed in Part II of Schedule P (Form 1120-IC-DISC).

If the IC-DISC acts as another person’s commission agent on a sale, do not enter any amount in Schedule A for the sale. See Schedule P (Form 1120-IC-DISC).

**Section 263A Uniform Capitalization Rules.**—These rules are discussed in general in the instructions for “Limitations on deductions” in the Schedule E instructions. See those instructions before completing Schedule A.

**Line 4a.**—Complete this line only if the corporation elected a simplified method of accounting. For corporations electing the simplified production method, additional section 263A costs are generally those costs, other than interest, that were not capitalized or included in inventory costs under the corporation’s method of accounting immediately before the effective date in Temporary Regulations section 1.263A-1T that are now required to be capitalized under section 263A. If the corporation elected the simplified resale method, additional section 263A costs are generally costs incurred for the following categories: off-site storage or warehousing; purchasing; handling, processing, assembly and repackaging; and general and administrative costs (mixed service costs). Enter on line 4a the balance of section 263A costs paid or incurred during the tax year not included on lines 2 and 3. See Temporary Regulations section 1.263A-1T for more information.

**Line 4b.**—Enter on line 4b any other inventoriable costs paid or incurred during the tax year not entered on lines 2 through 4a.

**Line 6.**—See section 263A and Temporary Regulations section 1.263A-1T for details on figuring the amount of additional section 263A costs to be capitalized and added to ending inventory.

**Line 8a.—Valuation methods.**—Inventories can be valued at: (1) cost; (2) cost or market value (whichever is lower); or (3) any other method approved by the Commissioner of Internal Revenue that conforms to the provisions of the applicable regulations cited below.

Taxpayers using erroneous valuation methods must change to a method that is permitted. Such changes should be made by filing Form 3115. For more information about the change, see Regulations section 1.446-1(e)(3) and Rev. Proc. 84-74, 1984-2 C.B. 736 (as modified by Rev. Proc. 88-15, 1988-1 C.B. 683).

On line 8a, check the method(s) used for valuing inventories. Under “lower of cost or market,” market generally applies to normal market conditions when there is a current bid price prevailing at the date the inventory is valued. When no regular open market exists or when quotations are nominal because of inactive market conditions, use fair market prices from the most reliable sales or purchase transactions that occurred near the date the inventory is valued. See Regulations section 1.471-4.

Inventory may be valued below cost when the merchandise is: (1) unsalable at normal prices, or (2) unusable in the normal way because the goods are

“subnormal” (i.e., because of damage, imperfections, shop wear, etc.) within the meaning of Regulations section 1.471-2(c). Such goods may be valued at a current bona fide selling price minus direct cost of disposition (but not less than scrap value) if you can establish such a price. See Regulations section 1.471-2(c) for more requirements.

In (iv) of line 8a, indicate whether you used a method of inventory valuation other than those described in 8a (i) through (iii). Attach a statement describing the method used.

If this is the first year the “last-in first-out” (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method provided in section 472, attach **Form 970**, Application To Use LIFO Inventory Method, or a statement with the information required by Form 970. Also, check the LIFO box in line 8b. In line 8c, enter the amount or percent of total closing inventories valued using the LIFO method. Estimates are acceptable.

If the IC-DISC changed or extended its inventory method to LIFO and had to write up its opening inventory to cost in the year of election, report the effect of this writeup as income (line 3f, Schedule B) proportionately over the 3-year period that begins in the tax year the corporation made its LIFO election. (See section 472(d).)

## Schedule B.—Gross Income

If an income item falls into two or more categories, report each part on the applicable line. For example, if interest income consists of qualified interest from a foreign international sales corporation and nonqualified interest from a domestic obligation, enter the qualified interest on an attached schedule for line 2g and the nonqualified interest on an attached schedule for line 3f.

For gain from selling qualified export assets, attach a separate schedule in addition to the forms required for lines 2h and 2i.

Accrual basis taxpayers need not accrue certain amounts to be received from the performance of services which, on the basis of their experience, will not be collected (section 448(d)(5)). This provision does not apply to any amount if interest is required to be paid on such amount or if there is any penalty for failure to pay timely such amount. Corporations that fall under this provision should attach a schedule showing total gross receipts, amount not accrued as a result of the application of section 448(d)(5), and the net amount accrued. The net amount should be entered on the applicable line of Schedule B. For more information and guidelines on this “non-accrual experience method,” see Temporary Regulations section 1.448-2T.

**Commissions: special rule.**—If the IC-DISC received commissions on selling or renting property or furnishing services, list in column (b) the gross receipts from

the sales, rentals, or services on which the commissions arose, and in column (c), list the commissions earned. In column (d) report receipts from noncommissioned sales or rentals of property or furnishing of services, as well as all other receipts.

For purposes of completing line 1a and line 1b, related purchasers are members of the same controlled group (as defined in section 993(a)(3)) as the IC-DISC. All other purchasers are unrelated.

A qualified export sale or lease must meet a use test and a destination test in order to qualify.

The **use test** applies at the time of the sale or lease. If the property is used predominantly outside the U.S., and the sale or lease is not for ultimate use in the U.S., it is a qualified export sale or lease. Otherwise, if a reasonable person would believe that the property will be used in the U.S., the sale or lease is not a qualified export sale or lease. For example, if property is sold to a foreign wholesaler and it is known in trade circles that the wholesaler, to a substantial extent, supplies the U.S. retail market, the sale would not be a qualified export sale, and the receipts would not be qualified export receipts.

**Destination test.**—Regardless of where title or risk of loss shifts from the seller or lessor, the property must be delivered under one of the following conditions:

(a) Within the U.S. to a carrier or freight forwarder for ultimate delivery outside the U.S. to a buyer or lessee.

(b) Within the U.S. to a buyer or lessee who, within 1 year of the sale or lease, delivers it outside the U.S. or delivers it to another person for ultimate delivery outside the U.S.

(c) Within or outside the U.S. to an IC-DISC that is not a member of the same controlled group (as defined in section 993(a)(3)) as the IC-DISC that is making the sale or lease.

(d) Outside the U.S. by means of the seller's delivery vehicle (ship, plane, etc.).

(e) Outside the U.S. to a buyer or lessee at a storage or assembly site if the property was previously shipped from the U.S. by the IC-DISC.

(f) Outside the U.S. to a purchaser or lessee if the property was previously shipped by the seller or lessor from the U.S. and if the property is located outside the U.S. pursuant to a prior lease by the seller or lessor, and either: (a) the prior lease terminated at the expiration of its term (or by the action of the prior lessee acting alone), (b) the sale occurred or the term of the subsequent lease began after the time at which the term of the prior lease would have expired, or (c) the lessee under the subsequent lease is not a related person (a member of the same controlled group as defined in section 993(a)(3) or a relationship that would result in a disallowance of losses under section 267 or section 707(b)) immediately before or after the lease with respect to the lessor, and the prior lease was terminated

by the action of the lessor (acting alone or together with the lessee).

### Line-by-Line Instructions

Qualified export receipts to be entered in line 1 are received from the sale of property, such as inventory, that is produced in the U.S. for direct use, consumption, or disposition outside the U.S. These sales are qualified export sales.

**Line 1a.** Enter the IC-DISC's qualified export receipts from export property sold to foreign, unrelated buyers for delivery outside the U.S. Do not include amounts entered on line 1b.

**Line 1b.** Enter the IC-DISC's qualified export receipts from export property sold for delivery outside the U.S. to: (i) a related foreign entity for resale to a foreign, unrelated buyer, or (ii) an unrelated buyer when a related foreign entity acts as commission agent.

**Line 2a.** Enter the gross amount received from leasing or subleasing export property to unrelated persons for use outside the U.S.

Receipts from leasing export property may qualify in some years and not in others, depending on where the lessee uses the property. Enter only receipts that qualify during the tax year. (Use Schedule E to deduct expenses such as repairs, interest, taxes, and depreciation.)

**Line 2b.** A service connected to a sale or lease is related to it if the service is usually furnished with that type of sale or lease in the trade or business where it took place. A service is subsidiary if it is less important than the sale or lease.

**Line 2c.** Include receipts from engineering or architectural services on foreign construction projects abroad or proposed for location abroad. These services include feasibility studies, design and engineering, and general supervision of construction, but do not include services connected with mineral exploration.

**Line 2d.** Include receipts for export management services provided to unrelated IC-DISCs.

**Line 2f.** Include interest received on any loan that qualifies as a producer's loan.

**Line 2g.** Enter interest on any qualified export asset other than interest on producer's loans. For example, include interest on accounts receivable from sales in which the IC-DISC acted as a principal or agent and interest on certain obligations issued, guaranteed, or insured by the Export-Import Bank or the Foreign Credit Insurance Association.

**Line 2h.** On **Schedule D (Form 1120)**, Capital Gains and Losses, report in detail every sale or exchange of a capital asset, even if there is no gain or loss.

In addition to Schedule D (Form 1120), attach a separate schedule computing gain from the sale of qualified export assets.

**Line 2i.** Enter the net gain or loss from line 18, Part II, **Form 4797**, Sales of Business Property.

In addition to Form 4797, attach a separate schedule computing gain from the sale of qualified export assets.

**Line 2j.** Enter any other qualified export receipts for the tax year not reported on lines 2a through 2i. Such receipts include the IC-DISC's allocable portion of an adjustment to income required under section 481(a) because of a change in accounting method. For example, section 481(a) income must be reported as a result of the repeal of the installment method of reporting income if the IC-DISC reported income under the installment method for prior tax years.

**Line 3b.** Enter receipts from selling products subsidized under a U.S. program if they have been designated as excluded receipts.

**Line 3c.** Enter receipts from selling or leasing property or services for use by any part of the U.S. Government if law or regulations require U.S. products or services to be used.

**Line 3d.** Enter receipts from any IC-DISC that belongs to the same controlled group (as defined in section 993(a)(3)).

**Line 3f.** Include in an attached schedule any nonqualified gross receipts not reported on lines 3a through 3e. Do not offset an income item against a similar expense item.

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## 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. Preferred stock described in section 1504(a)(4) is not taken into account.

### Line 1, Column (a)

Enter dividends (except those received on debt-financed stock acquired after July 18, 1984—see section 246A and line 2, column (a)) that are received from less-than-20%-owned domestic corporations subject to income tax and that are eligible for the 70% deduction under section 243(a)(1). Include taxable distributions from an IC-DISC or former DISC that are designated as being eligible for the 70% deduction and certain dividends of Federal Home Loan Banks. (See section 246(a)(2).)

For dividends received from a regulated investment company, see section 854 for the amount subject to the 70% deduction.

So-called dividends or earnings received from mutual savings banks, etc., are really interest. Do not treat them as dividends.

### Line 2, Column (a)

Enter 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 eligible for the 80% deduction under section 243(c). Include on this line taxable distributions from an IC-DISC or former DISC that are

designated as being eligible for the 80% deduction.

**Line 3, Column (a)**

Enter dividends on debt-financed stock (acquired after July 18, 1984) that are received from domestic and foreign corporations subject to income tax and that would otherwise be eligible for the dividends-received deduction under section 243(a)(1), 243(c), or 245(a). Generally, debt-financed stock is stock that the corporation acquired and, in doing so, incurred a debt (i.e., it borrowed money to buy the stock).

**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. Before making this computation, see section 245(a) for an additional limitation that applies to dividends received from foreign corporations. Attach a schedule showing how the amount on line 3, column (c), was figured.

**Line 4, Column (a)**

Enter dividends received on the preferred stock of a less-than-20%-owned public utility that is subject to income tax and is allowed the deduction under 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 under 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 that 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. Also include dividends received from a less-than-20%-owned FSC that are attributable to income treated as effectively connected with the conduct of a trade or business within the U.S. (excluding foreign trade income) and that qualify for the 70% deduction under section 245(c)(1)(B).

**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). Also include dividends received from a 20%-or-more-owned FSC that are attributable to income treated as effectively connected with the conduct of a trade or business within the U.S. (excluding foreign trade income) and that qualify for the 80% deduction under section 245(c)(1)(B).

**Line 8, Column (a)**

Enter dividends received from wholly owned foreign subsidiaries that are eligible for the 100% deduction under section 245(b).

In general, the deduction under section 245(b) applies to dividends paid out of the earnings and profits of a foreign corporation for a tax year during which:

- 1. All of its outstanding stock is owned (directly or indirectly) by the domestic corporation receiving the dividends, and
- 2. All of its gross income from all sources is effectively connected with the conduct of a trade or business within the U.S.

**Line 9, Column (c)**

**Limitation on dividends-received deduction.**

Generally, column (c) of line 9 may not exceed the amount from the worksheet below. However, in a year in which a net operating loss occurs, this limitation does not apply even if the loss is created by the dividends-received deduction. (See sections 172(d) and 246(b).)

**Line 9, Column (c) Worksheet**

- 1. Refigure line 5, page 1, Form 1120-IC-DISC, without regard to any adjustment under section 1059 and without regard to any capital loss carryback to the tax year under section 1212(a)(1) . . . . . \_\_\_\_\_
- 2. Multiply line 1 by 80% . . . . . \_\_\_\_\_
- 3. Add lines 2, 5, 7, and 8 of column (c) and the portion of the deduction on line 3 of column (c) attributable to dividends received from 20%-or-more-owned corporations . . . . . \_\_\_\_\_
- 4. Enter the lesser of line 2 or line 3. (Do not complete the rest of this worksheet if line 3 is greater than line 2. Instead, enter the amount from line 4 in the margin next to line 9 of Schedule C and on line 6b, page 1, Form 1120-IC-DISC.) . . . . . \_\_\_\_\_
- 5. Enter amount of dividends received from 20%-or-more-owned corporations included on lines 2, 3, 5, 7, and 8 of column (a) . . . . . \_\_\_\_\_
- 6. Subtract line 5 from line 1 . . . . . \_\_\_\_\_
- 7. Multiply line 6 by 70% . . . . . \_\_\_\_\_
- 8. Subtract line 3 above from column (c) of line 9 . . . . . \_\_\_\_\_
- 9. Enter the lesser of line 7 or line 8 . . . . . \_\_\_\_\_
- 10. Dividends-received deduction after limitation. Add lines 4 and 9. (If this is less than line 9 of Schedule C, enter the lesser amount on line 6b, page 1, Form 1120-IC-DISC and in the margin next to line 9 of Schedule C.) . . . . . \_\_\_\_\_

**Line 15, column (a).**—"Qualified dividends" are dividends that qualify as qualified export receipts. They include all dividends includable in gross income that are attributable to stock of related foreign export corporations and amounts includable in income under section 951 (relating to amounts included in the gross income of U.S. shareholders of controlled foreign corporations). See General Instructions D(1)(a)(5) and D(1)(e) for more details.

**Schedule E.—Deductions**

**Limitations on deductions**

**a. Section 263A uniform capitalization rules.**—The uniform capitalization rules of section 263A require corporations to capitalize or include in inventory certain costs incurred in connection with the production of real and personal tangible property held in inventory or held for sale in the ordinary course of business. Tangible personal property produced by a taxpayer includes a film, sound recording, videotape, book, or similar property. The rules also apply to personal property (tangible and intangible) acquired for resale. Taxpayers subject to the rules are required to capitalize not only direct costs but an allocable portion of most indirect costs (including taxes) that relate to the assets produced or acquired for resale. Interest expense paid or incurred during the production period of certain property must be capitalized and is governed by special rules. For more information, see Notice 88-99, 1988-2 C.B. 422. The uniform capitalization rules also apply to the production of property constructed or improved by a taxpayer for use in its trade or business or in an activity engaged in for profit.

Section 263A does not apply to personal property acquired for resale if the taxpayer's annual average gross receipts are \$10 million or less. It does not apply to timber or to most property produced under a long-term contract. Special rules apply to farmers.

In the case of inventory, some of the indirect costs that must be capitalized are administration expenses; taxes; depreciation; insurance; compensation paid to officers attributable to services; rework labor; and contributions to pension, stock bonus, and certain profit-sharing, annuity, or deferred compensation plans.

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.

Current deductions may still be claimed for reasonable research and experimental costs under section 174, intangible drilling costs for oil and gas and geothermal property, and mining and exploration and development costs. Temporary Regulations section 1.263A-1T specifies other indirect costs that may be currently deducted and those that must be capitalized with respect to production or resale activities.

**b. Travel, meal, and entertainment expenses.**—Generally, the amount the corporation is allowed as a deduction for meal and entertainment expenses is limited to 80% of the amount that would otherwise be allowable under section 162, which permits a deduction for ordinary and necessary expenses, and after other limitations under section 274. Expenditures for meals or beverages are disallowed to the extent they are lavish or extravagant. See sections 274(k), (m), and (n) for exceptions.

**c. 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 section 267 for limitations on deductions for unpaid expenses and interest.

**d. Business startup expenses.**—Business startup expenses are required to be capitalized unless an election is made to amortize them over a period of 60 months. See section 195.

## Line-by-Line Instructions

**Line 1.** Enter export promotion expenses on lines 1a through 1m. Export promotion expenses are an IC-DISC's ordinary and necessary expenses paid or incurred to obtain qualified export receipts. Do not include income taxes. Any part of an expense not incurred to obtain qualified export receipts should be entered on lines 2a through 2g.

**Line 1c.** Attach **Form 4562**, Depreciation and Amortization, if you claim a deduction for depreciation, make the section 179 election to expense certain depreciable property, or provide information on the business use of an automobile or other listed property. Enter on line 1c the depreciation not claimed on Schedule A or elsewhere on the return.

See Form 4562 and its instructions for details.

**Line 1h.** Enter half the freight expenses (except insurance) for shipping export property aboard U.S. flagships and U.S.-owned and U.S.-operated aircraft, unless you are required to use U.S. ships or aircraft by law or regulations.

**Line 1i.** Attach a schedule showing the name, social security number, and amount of compensation paid to all officers.

An "officer" is a person, such as a regular officer or chairman of the board, who is elected or appointed to office or is designated as an officer in the corporation's charter or bylaws.

**Line 1j.** Enter the cost of incidental repairs, such as labor and supplies, that do not add to the property's value or appreciably prolong its life.

**Line 1k.** If the IC-DISC has any kind of funded deferred-compensation plan, such as a pension or profit-sharing plan, file one of the forms described below.

There are penalties for failure to file these forms on time.

**Form 5500.**—Complete this form for each plan with 100 or more participants.

**Form 5500-C/R.**—Complete the applicable form for each plan with fewer than 100 participants.

**Form 5500EZ.**—Complete this form for a one-participant plan.

**Line 1l.** Enter your contributions to employee benefit programs, such as insurance or health and welfare programs, that are not an incidental part of a plan included on line 1k. Also, include contributions to a qualified group legal services plan.

**Line 1m.** Enter any other allowable deduction not claimed elsewhere on the return. Include amortization expense from Part VI, Form 4562.

**Note:** Do not deduct penalties imposed on the corporation such as those included in General Instruction E.

**Line 2a.** The IC-DISC must use the specific charge-off method of accounting for bad debts and deduct business bad debts when they become wholly or partially worthless.

**Line 2b.** Enter taxes paid or accrued during the tax year.

Do not include state or local sales taxes that are paid or incurred in connection with an acquisition or disposition of property. Such 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.

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

**Line 2c.** Do not deduct interest on debts incurred or continued to buy or carry obligations on which the interest is wholly exempt from income tax. (See section 265.)

Certain interest paid or accrued by the corporation (directly or indirectly) to a related person may be limited to the corporation's excess interest expense for the tax year. See section 163(j) for more information.

Section 267 limits deductions for unpaid expenses and interest in transactions between related taxpayers. Section 461(g) limits a cash basis taxpayer's deduction for prepaid interest.

**Line 2d.** Enter contributions or gifts paid within the tax year to or for the use of charitable and governmental organizations described in section 170(c).

The IC-DISC may claim up to 10% of modified adjusted taxable income as contributions. The limit is 10% of the amount on line 7, page 1, figured without regard to the deduction for contributions, and before taking the dividends-received deduction (line 6b, page 1), or premiums paid on bond repurchases (section 249); and before figuring carrybacks to the 1991 tax year for a net operating loss (section 172) or a capital loss (section 1212(a)(1)). Do not deduct charitable contributions above the 10% limit for the 1991 tax year. Charitable contributions over the 10% limitation may be carried over to the next 5 tax years.

A corporation on the accrual basis may elect to deduct contributions paid by the 15th day of the 3rd month after the tax year ends if the board of directors authorized the contributions during the tax year. Attach to the return a declaration, signed by an officer, stating that the board of directors adopted the resolution authorizing the contributions during the tax year, and a copy of the resolution.

If a contribution is made in property other than money, attach a schedule describing the kind contributed and what

method was used to determine the fair market value.

**Special rules for contributions of certain property.**—For a charitable contribution of property, the corporation must reduce the contribution by the sum of:

1. The ordinary income, short-term capital gain that would have resulted if the property were sold at its fair market value; and

2. All of the long-term capital gain that would have resulted if the property were sold at its fair market value.

The reduction for the long-term capital gain applies to:

1. Contributions of tangible personal property for use by an exempt organization for a purpose or function unrelated to the basis for its exemption; and

2. Contributions of any property (except stock for which market quotations are readily available—see section 170(e)(5)) to or for the use of certain private foundations. (See section 170(e) and Regulations section 1.170A-4.)

For special rules for contributions of inventory and other property to certain organizations, see section 170(e)(3) and Regulations section 1.170A-4A.

**Line 2e.** Enter the freight expense not deducted on line 1h as an export promotion expense.

**Line 2g.** Enter any other allowable deduction not claimed on line 1 or lines 2a through 2f. Do not deduct any amount allocable to exempt income. Items directly attributable to wholly exempt income must be allocated to that income, and items directly attributable to any class of taxable income must be allocated to that income. If an item is indirectly attributable to both taxable and exempt income, allocate a reasonable proportion to each.

Attach a statement showing: (1) the amount of each class of exempt income, and (2) the amount of expense items allocated to each class. Show apportioned amounts separately.

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## Schedule J.—Part I Through Part V

### Part I.—Deemed Distributions Under Section 995(b)(1)

**Line 1.** Enter gross interest derived during the tax year from producer's loans (section 995(b)(1)(A)).

**Line 2.** Enter gain recognized during the tax year on the sale or exchange of property which in the hands of the IC-DISC was not a qualified export asset and which was previously transferred to the IC-DISC in a transaction in which the transferor realized gain but did not recognize the gain in whole or part. See section 995(b)(1)(B). Show the computation of the gain on a separate schedule. Include no more of the IC-DISC's gain than the amount of gain the transferor did not recognize on the earlier transfer.



**Line 3.** Enter gain recognized on the sale or exchange of property described in section 995(b)(1)(C). Show the computation of the gain on a separate schedule. Do not include any gain included in the computation of line 2. Include only the amount of the IC-DISC's gain that the transferor did not recognize on the earlier transfer and that would have been treated as ordinary income if the property had been sold or exchanged rather than transferred to the IC-DISC. Do not include gain on sale or exchange of the IC-DISC's stock-in-trade or other property that either would be included in inventory if on hand at the end of the tax year or is held primarily for sale in the normal course of business.

**Line 4.** Enter 50% of taxable income attributable to military property (section 995(b)(1)(D)). Show the computation of this income. To figure taxable income attributable to military property, use the gross income attributable to military property for the year and the deductions properly allocated to that income. See Regulations section 1.995-6.

**Line 9.** Line 9 provides for the computation of the one-seventeenth deemed distribution of section 995(b)(1)(F)(i). Line 9 only applies to shareholders of the IC-DISC that are C corporations. It does not apply to shareholders of the IC-DISC that are other than C corporations.

**Line 10.** An IC-DISC is deemed to distribute any income that resulted from cooperating with an international boycott (section 995(b)(1)(F)(iii)). See Form 5713 to compute this deemed distribution and for reporting requirements for any IC-DISC with operations related to a boycotting country.

**Line 11.** An IC-DISC is deemed to distribute the amount of any illegal payments, such as bribes or kickbacks, that it pays, directly or indirectly, to government officials, employees, or agents (section 995(b)(1)(F)(iii)).

**Line 14.** Attach a computation showing the earnings and profits for the tax year.

See section 312 for computation rules on figuring earnings and profits for the purpose of the section 995(b)(1) limitation.

**Line 17a.** To figure the amount for line 17a, attach a computation showing: (1) the IC-DISC's foreign investment in producer's loans during the tax year; (2) accumulated earnings and profits (including earnings and profits for the 1991 tax year) less the amount on line 15, Part I; and (3) accumulated IC-DISC income. Enter the least of these amounts (but not less than zero) on line 17a.

**Line 17b.** To figure the amount for line 17b, attach a computation showing: (1) the IC-DISC's foreign investment in producer's loans during the tax year; (2) accumulated earnings and profits (including earnings and profits for the 1991 tax year) less the amount on line 16, Part I; and (3) accumulated IC-DISC income. Enter the least of these amounts (but not less than zero) on line 17b.

For purposes of lines 17a and 17b, foreign investment in producer's loans is the least of:

(1) The net increase in foreign assets by members of the controlled group (defined in section 993(a)(3)) to which the IC-DISC belongs.

(2) The actual foreign investment by the group's domestic members.

(3) The IC-DISC's outstanding producer's loans to members of the controlled group.

"Net increase in foreign assets" and "actual foreign investment" are defined in sections 995(d)(2) and (3).

See Regulations section 1.995-5 for additional information on computing foreign investment attributable to producer's loans.

**Lines 20 and 21.** The percentages on lines 20 and 21 must add up to 100%.

**Lines 22 and 23.** Allocate the line 22 amount to shareholders that are individuals, partnerships, S corporations, trusts, and estates. Allocate the line 23 amount to shareholders that are C corporations.

## Part II.—Deemed Distribution Under Section 995(b)(1)(E)

Generally, any taxable income of the IC-DISC attributable to qualified export receipts that exceed \$10 million will be deemed distributed.

**Line 1.** If there were no commission sales, leases, rentals or services for the tax year, enter on line 1, Part II, the total of lines 1c and 2k, column (e), Schedule B.

If there were commission sales, leases, rentals or services for the tax year, the total qualified export receipts to be entered on line 1, Part II, are figured as follows (section 993(f)):

1. Add lines 1c and 2k, column (b), Schedule B . . . . . \_\_\_\_\_
2. Add lines 1c and 2k, column (d), Schedule B . . . . . \_\_\_\_\_
3. Add lines 1 and 2. Enter on line 1, Part II, Schedule J . . . . . \_\_\_\_\_

**Line 3.** If the IC-DISC is a member of a controlled group (as defined in section 993(a)(3)) that includes more than one IC-DISC, only one \$10 million limit is allowed to the group. If an allocation is required, a statement showing each member's portion of the \$10 million limit must be attached to Form 1120-IC-DISC. See Proposed Regulations section 1.995-8(f) for details.

**Lines 4 and 5.** The \$10 million limit (or the controlled group member's share) is prorated on a daily basis. Thus, for example, if for its 1991 tax year an IC-DISC has a short tax year of 73 days, and it is not a member of a controlled group, the limit that would be entered on line 5 of Part II is \$2 million (73/365 times \$10 million). Also, if your tax year included February 29, 1992, use 366 instead of 365 for the purpose of the computation for line 5.

**Line 7.** Enter the taxable income attributable to line 6 qualified export receipts. The IC-DISC may select the

qualified export receipts to which the line 5 limitation is allocated.

See Proposed Regulations section 1.995-8 for details on determining the IC-DISC's taxable income attributable to qualified export receipts in excess of the \$10 million amount. Special rules are provided for allocating the taxable income attributable to any related and subsidiary services, and for the ratable allocation of the taxable income attributable to the first transaction selected by the IC-DISC which exceeds the \$10 million amount. Deductions must be allocated and apportioned according to the rules of Regulations section 1.861-8. The selection of the excess receipts by the IC-DISC is intended to permit the IC-DISC to allocate the \$10 million limitation to the qualified export receipts of those transactions occurring during the tax year which permit the greatest amount of taxable income to be allocated to the IC-DISC under the inter-company pricing rules of section 994.

To avoid double counting of the deemed distribution, if an amount of taxable income for the tax year attributable to excess qualified export receipts is also deemed distributed under either line 1, 2, 3, or 4 of Part I, such amount of taxable income is only includable on that line of Part I, and must be subtracted from the amount otherwise reportable on line 7 of Part II and carried to line 5 of Part I. See Proposed Regulations section 1.995-8(d).

After filing the IC-DISC's 1991 tax return, the allocation of the \$10 million limitation and the computation of the line 7, Part II deemed distribution may be changed by filing an amended Form 1120-IC-DISC return only under the conditions specified in Proposed Regulations section 1.995-8(b)(1).

## Part III.—Deemed Distributions Under Section 995(b)(2)

If the corporation is a former DISC or a former IC-DISC that revoked IC-DISC status or lost IC-DISC status for failure to satisfy one or more of the conditions specified in section 992(a)(1) for 1991, each shareholder is deemed to have received a distribution taxable as a dividend on the last day of the 1991 tax year. The deemed distribution equals the shareholder's prorated share of the DISC's or IC-DISC's income accumulated during the years just before DISC or IC-DISC status ended. The shareholder will be deemed to receive the distribution in equal parts on the last day of each of the 10 tax years of the corporation following the year of the termination or disqualification of the IC-DISC (but in no case over more than twice the number of years the corporation was a DISC or IC-DISC).

## Part IV.—Actual Distributions

**Line 1.** If the corporation is required to pay interest under section 992(c)(2)(B) on the amount of a distribution to meet the qualification requirements of section 992(c), report this interest on line 2c, Schedule E. Also include the amount on line 1, Part IV of Schedule J and show the

computation of the interest on an attached schedule.

**Line 4a.** Report on line 4a all actual distributions of previously taxed income. Also, include any distributions of pre-1985 accumulated DISC income that are nontaxable. In the space to the left of the line 4a amount, enter the dollar amount of the distribution and identify it as "nontaxable pre-1985 DISC income." Do not include distributions of pre-1985 DISC income that are made under section 995(b)(2) because of prior year revocations or disqualifications.

### Part V.—Deferred DISC Income

In general, "deferred DISC income" is:

(1) Accumulated IC-DISC income (for periods after 1984) of the IC-DISC as of the close of the computation year, over

(2) The amount of "distributions-in-excess-of-income" for the tax year of the IC-DISC following the computation year.

For purposes of item (2) above, "distributions-in-excess-of-income" means the excess (if any) of:

(1) Actual distributions to shareholders out of accumulated IC-DISC income, over

(2) The amount of IC-DISC income (as defined in section 996(f)(1)) for the tax year following the computation year.

See section 995(f) and Proposed Regulations section 1.995(f)-1 for a definition of computation year and more information on figuring deferred DISC income.

The amount on line 3, Part V, is allocated to each shareholder on line 2, Part III, of Schedule K (Form 1120-IC-DISC).

### Schedule K.—Shareholder's Statement of IC-DISC Distributions

Attach a separate Copy A, Schedule K (Form 1120-IC-DISC), to Form 1120-IC-DISC for each shareholder who had an actual or deemed distribution or to whom you reported deferred DISC income during the IC-DISC's tax year.

### Schedule L.—Balance Sheets

**Line 12.** If the corporation was a qualified DISC as of December 31, 1984, the accumulated pre-1985 DISC income will generally be treated as previously taxed income (exempt from tax) when distributed to DISC shareholders after December 31, 1984.

**Exception:** *The exemption does not apply to distributions of accumulated pre-1985 DISC income of an IC-DISC or former DISC that was made taxable under section 995(b)(2) because of a prior revocation of the DISC election or disqualification of the DISC. For more details on these distributions, see Temporary Regulations section 1.921-1T(a)(7).*

**Line 13.** Accumulated IC-DISC income (for periods after 1984) is accounted for on line 13 of Schedule L. The balance of this account is used in figuring deferred DISC income in Part V of Schedule J.

### Schedule N.—Export Gross Receipts of the IC-DISC and Related U.S. Persons

**Line 1. Product Code and Percentage.—** Enter in line 1a the code number and percentage of total receipts for the product or service that accounts for the largest portion of the IC-DISC's gross receipts. The product codes are located on page 12 of these instructions. On line 1b enter the same information for the IC-DISC's next largest product or service.

**Example:** An IC-DISC has export gross receipts of \$10 million; selling agricultural chemicals accounts for \$4.5 million (45%) of that amount, which is the IC-DISC's largest product or service. The IC-DISC should enter "287" (the product code for agricultural chemicals) and "45%" in line 1a.

Selling industrial chemicals accounts for \$2 million (20% of the \$10 million total), and is the IC-DISC's second largest product or service. The IC-DISC should enter "281" (the product code for industrial chemicals) and "20%" in line 1b.

### Line 2. Columns (a), (b), and (c)

**Export Gross Receipts.—**These are receipts from any of the following:

(a) Selling for direct use, consumption, or disposition outside the U.S. property (such as inventory) produced in the U.S.,

(b) Renting this property to unrelated persons for use outside the U.S.,

(c) Providing services involved in such a sale or rental,

(d) Providing engineering or architectural services for construction projects located outside the U.S., and

(e) Providing export management services.

For commission sales, "export gross receipts" include the total receipts on which the IC-DISC earned the commission.

For purposes of line 2, Schedule N only, no reduction is to be made for receipts attributable to military property. Therefore, an IC-DISC's "export gross receipts" for purposes of line 2 is the total of the amounts from page 2, Schedule B, columns (b) and (d), lines 1c, 2a, 2b, 2c, and 2d.

**Related Persons.—**The following are "related persons":

(a) An individual, partnership, estate, or trust that controls the IC-DISC,

(b) A corporation that controls the IC-DISC or is controlled by it, and

(c) A corporation controlled by the same person or persons who control the IC-DISC.

"Control" means direct or indirect ownership of more than 50% of the total

voting power of all classes of stock entitled to vote. (See section 993(a)(3).)

**U.S. Person.—**A "U.S. person" is:

(a) A citizen or resident of the United States,

(b) A domestic corporation or partnership, or

(c) An estate or trust (other than a foreign estate or trust as defined in section 7701(a)(31)).

**U.S.—**U.S. includes the Commonwealth of Puerto Rico and possessions of the United States.

### Export Gross Receipts for 1991

**Column (a).**—All IC-DISCs should complete column (a) in line 2. If two or more IC-DISCs are related persons, only the IC-DISC with the largest export gross receipts should complete columns (b) and (c). If an IC-DISC acts as a commission agent for a related person, attribute the total amount of the transaction to the IC-DISC.

Complete column (a) to report the IC-DISC's export gross receipts from all sources (including the U.S.) for the 1991 tax year.

**Column (b).**—**Export gross receipts of related IC-DISCs.**—Complete column (b) to report related IC-DISCs' export gross receipts from all sources (including the U.S.).

**Column (c).**—**Export gross receipts of all other related U.S. persons.**—Complete column (c) to report other related U.S. persons' export gross receipts from all sources except the U.S.

**Line 3. Related U.S. Persons.**—Report the name, address, and identifying number of related U.S. persons in your controlled group.

If lines 2(b) and 2(c) are completed, show first in line 3(b) the name, address, and identifying number of the IC-DISC that completed 2(b) and 2(c).

### Additional Information

**Questions O and P.**—Check the "Yes" box, and enter the name of the foreign country if either (1) or (2) below applies.

(1) At any time during the year the IC-DISC had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account); AND

• The combined value of the accounts was more than \$10,000 at any time during the year; AND

• The account was NOT with a U.S. military banking facility operated by a U.S. financial institution.

(2) The IC-DISC owns more than 50% of the stock in any corporation that would answer the question "Yes" based on item (1) above.

Get form **TD F 90-22.1**, Report of Foreign Bank and Financial Accounts, to see if the corporation is considered to have an interest in or signature or other authority over a bank account, securities

account, or other financial account in a foreign country.

If question O is checked "Yes," file form TD F 90-22.1 by June 30, 1992, with the Department of the Treasury at the address shown on the form. **Form TD F 90-22.1 is not a tax return, so do not file it with the IRS.**

The corporation can get form TD F 90-22.1 from many IRS offices.

**Question Q.**—If the answer to question Q is checked "Yes," the IC-DISC may have to file **Form 3520**, United States Information Return—Creation of or Transfers to Certain Foreign Trusts; **Form 3520A**, Annual Return of Foreign

Trust With U.S. Beneficiaries; or **Form 926**, Return by a U.S. Transferor of Property to a Foreign Corporation, Foreign Estate or Trust, or Foreign Partnership.

**Question S.**—File Form 5713 if the IC-DISC or any member of its controlled group (defined in section 993(a)(3)) has operations in or related to a boycotting country (or with the government, a company, or a national of that country). An IC-DISC that cooperates with an international boycott is also deemed to distribute part of its income. See Form 5713 for more information.

**Question T.**—Report any tax-exempt interest received or accrued in the space provided. Include any exempt-interest

dividends received as a shareholder in a mutual fund or other regulated investment company.

## Schedule P (Form 1120-IC-DISC).—Inter-Company Transfer Price or Commission

Complete and attach a separate Schedule P (Form 1120-IC-DISC) for each transaction or group of transactions to which you apply the inter-company pricing rules of section 994(a)(1) and (2). (Please see General Instruction D2.)

## Codes for Principal Business Activity

These codes for the Principal Business Activity are designed to classify enterprises by the type of activity in which they are engaged to facilitate the administration of the Internal Revenue Code. Though similar in format and structure to the Standard Industrial Classification Codes (SIC), they should not be used for SIC codes. Also, certain activities such as manufacturing do not apply to an IC-DISC.

Using the list below, enter on page 1, under B, the code number for the specific industry group from which the largest

percentage of "total receipts" is derived. "Total receipts" means all income (line 1, page 1). On page 6, under item I, state the principal business activity and principal product or service that account for the largest percentage of total receipts. For example, if the principal business activity is "Wholesale trade: Machinery, equipment, and supplies," the principal product or service may be "Engines and turbines."

### TRANSPORTATION, COMMUNICATION, ELECTRIC, GAS, AND SANITARY SERVICES

*Code*  
**Transportation:**  
 4400 Water transportation  
 4700 Other transportation services Electric, gas, and sanitary services:  
 4910 Electric services  
 4920 Gas production and distribution  
 4930 Combination utility services

#### WHOLESALE TRADE

**Durable**  
 5008 Machinery, equipment, and supplies  
 5010 Motor vehicles and automotive equipment  
 5020 Furniture and home furnishings  
 5030 Lumber and construction materials  
 5040 Sporting, recreational, photographic, and hobby goods, toys, and supplies  
 5050 Metals and minerals, except petroleum and scrap  
 5060 Electrical goods  
 5070 Hardware, plumbing and heating equipment  
 5098 Other durable goods

#### Code

##### Nondurable

5110 Paper and paper products  
 5129 Drugs, drug proprietaries, and druggists sundries  
 5130 Apparel, piece goods, and notions  
 5140 Groceries and related products  
 5150 Farm-product raw materials  
 5160 Chemicals and allied products  
 5170 Petroleum and petroleum products  
 5180 Alcoholic beverages  
 5190 Miscellaneous nondurable goods

#### RETAIL TRADE

##### Building materials, hardware, garden supply, mobile home dealers, general merchandise, and food stores:

5220 Building materials dealers  
 5251 Hardware stores  
 5265 Garden supplies and mobile home dealers  
 5300 General merchandise stores  
 5410 Grocery stores  
 5490 Other food stores

##### Automotive dealers and service stations:

5515 Motor vehicle dealers  
 5541 Gasoline service stations  
 5598 Other automotive dealers

#### Code

5600 Apparel and accessory stores  
 5700 Furniture and home furnishings stores  
 5800 Eating and drinking places

##### Miscellaneous retail stores:

5912 Drugstores and proprietary stores  
 5921 Liquor stores  
 5995 Other miscellaneous retail stores

#### FINANCE, INSURANCE, AND REAL ESTATE

##### Credit agencies other than banks:

6199 Other credit agencies

#### SERVICES

##### Business services:

7389 Export management services

##### Auto repair and services; miscellaneous repair services:

7500 Lease or rental of motor vehicles

##### Amusement and recreation services:

7812 Motion picture production, distribution, and services

##### Other services:

8911 Architectural and engineering services  
 8930 Accounting, auditing, and bookkeeping  
 8980 Miscellaneous services

# Schedule N Product Code System

(These codes are used only with Schedule N, page 6, Form 1120-IC-DISC.)

Using the list below, enter on line 1 of Schedule N the product code number and percent of export gross receipts as explained in the Specific Instructions.

This product code system is divided into two categories—(1) nonmanufactured product groups and services, and (2) manufactured product groups.

NONMANUFACTURED PRODUCT GROUPS AND SERVICES		Code	Code
Code		237	Fur goods.
011	Grains and soybeans.	238	Miscellaneous apparel and accessories.
013	Cotton.	239	Miscellaneous fabricated textile products.
019	Crops, except cotton, grains and soybeans.		<b>Lumber and wood products, except furniture:</b>
021	Livestock and livestock products.	241	Logging camps and logging contractors.
070	Agricultural services.	242	Sawmills and planing mills.
090	Fishery products and services.	243	Millwork, veneer, plywood, and prefabricated structural wood products.
100	Metal mining, except iron ores, products and services.	244	Wooden containers.
101	Iron ores.	249	Miscellaneous wood products.
110	Coal mining (anthracite, bituminous and lignite) products and services.		<b>Furniture and fixtures:</b>
130	Crude petroleum and natural gas products and services.	251	Household furniture.
147	Chemical and fertilizer mineral products and services.	252	Office furniture.
149	Other nonmetallic mineral products and services.	253	Public building and related furniture.
400	Transportation services (land, air and water).	254	Partitions, shelving, lockers, and office and store fixtures.
490	Electric, gas, and sanitary services.	259	Miscellaneous furniture and fixtures.
600	Finance, insurance, and real estate services.		<b>Paper and allied products:</b>
730	Export management services.	261	Pulp mills.
780	Motion picture distribution.	262	Paper mills, except building paper mills.
850	Engineering and architectural services.	263	Paperboard mills.
990	Miscellaneous nonmanufactured products and services.	264	Converted paper and paperboard products, except containers and boxes.
		265	Paperboard containers and boxes.
		266	Building paper and building board mills.
			<b>Printing, publishing, and allied products:</b>
		271	Newspapers: publishing, publishing and printing.
		272	Periodicals: publishing, publishing and printing.
		273	Books.
		274	Miscellaneous publishing.
		275	Commercial printing.
		276	Manifold business forms.
		277	Greeting card publishing.
		278	Blankbooks, looseleaf binders, and bookbinding and related work.
		279	Service industries for the printing trade.
			<b>Chemicals and allied products:</b>
		281	Industrial inorganic and organic chemicals.
		282	Plastics materials and synthetic resins, synthetic rubber, synthetic and other man-made fibers, except glass.
		283	Drugs.
		284	Soap, detergents, and cleaning preparations, perfumes, cosmetics, and other toilet preparations.
		285	Paints, varnishes, lacquers, enamels, and allied products.
		286	Gum and wood chemicals.
		287	Agricultural chemicals.
		289	Miscellaneous chemical products.
			<b>Petroleum refining and related products:</b>
		291	Petroleum refining.
		295	Paving and roofing materials.
		299	Miscellaneous products of petroleum and coal.
			<b>Rubber and miscellaneous plastics products:</b>
		301	Tires and inner tubes.
		302	Rubber footwear.
		303	Reclaimed rubber.
		306	Fabricated rubber products, not elsewhere classified.
		307	Miscellaneous plastics products.
			<b>Leather and leather products:</b>
		311	Leather tanning and finishing.
		312	Industrial leather belting and packing.
		313	Boot and shoe cut stock and findings.
		314	Footwear, except rubber.
		315	Leather gloves and mittens.
		316	Luggage.
		317	Handbags and other personal leather goods.
		319	Leather goods, not elsewhere classified.
			<b>Stone, clay, glass, and concrete products:</b>
		321	Flat glass.
		322	Glass and glassware, pressed or blown.
		323	Glass products, made or purchased glass.
		324	Cement, hydraulic.
		325	Structural clay products.
			<b>Primary metal products:</b>
		331	Blast furnaces, steel works, and rolling and finishing mills.
		332	Iron and steel foundries.
		333	Primary smelting and refining of nonferrous metals.
		334	Secondary smelting and refining of nonferrous metals.
		335	Rolling, drawing, and extruding of nonferrous metals.
		336	Nonferrous foundries.
		339	Miscellaneous primary metal products.
			<b>Fabricated metal products, other than ordnance, machinery, and transportation equipment:</b>
		341	Metal cans.
		342	Cutlery, hand tools, and general hardware.
		343	Heating apparatus (except electric) and plumbing fixtures.
		344	Fabricated structural metal products.
		345	Screw machine products, and bolts, nuts, screws, rivets and washers.
		346	Metal stampings.
		347	Coating, engraving, and allied services.
		348	Miscellaneous fabricated wire products.
		349	Miscellaneous fabricated metal products.
			<b>Machinery other than electrical:</b>
		351	Engines and turbines.
		352	Farm machinery and equipment.
		353	Construction, mining, and materials handling machinery and equipment.
		354	Metalworking machinery and equipment.
		355	Special industry machinery, except metalworking machinery.
		356	General industrial machinery and equipment.
		357	Office, computing, and accounting machines.
		358	Service industry machines.
		359	Miscellaneous machinery, except electrical.
			<b>Electrical machinery, equipment, and supplies:</b>
		361	Electric transmission and distribution, equipment.
		362	Electrical industrial apparatus.
		363	Household appliances.
		364	Electric lighting and wiring equipment.
		365	Radio and television receiving sets, except communication types.
		366	Communication equipment.
		367	Electronic components and accessories.
		369	Miscellaneous electrical machinery, equipment, and supplies.
			<b>Transportation equipment:</b>
		371	Motor vehicles and motor vehicle equipment.
		372	Aircraft and parts.
		373	Ship and boat building and repairing.
		374	Railroad equipment.
		375	Motorcycles, bicycles, and parts.
		379	Miscellaneous transportation equipment.
			<b>Professional, scientific, and controlling instruments; photographic and optical goods; watches and clocks:</b>
		381	Engineering, laboratory, and scientific and research instruments and associated equipment.
		382	Instruments for measuring, controlling, and indicating physical characteristics.
		383	Optical instruments and lenses.
		384	Surgical, medical, and dental instruments and supplies.
		385	Ophthalmic goods.
		386	Photographic equipment and supplies.
		387	Watches and clocks.
			<b>Miscellaneous manufactured products:</b>
		391	Jewelry, silverware, and plated ware.
		393	Musical instruments.
		394	Toys, amusement, sporting and athletic goods.
		395	Pens, pencils, and other office and artists' materials.
		396	Costume jewelry, costume novelties, buttons, and miscellaneous notions, except precious metal.
		399	Miscellaneous manufactured products.