



# Instructions for Form 1120-L

## U.S. Life Insurance Company Income Tax 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 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.

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

Recordkeeping . . . . .	87 hr., 32 min.
Learning about the law or the form . . . . .	26 hr., 29 min.
Preparing the form. . . . .	43 hr., 2 min.
Copying, assembling, and sending the form to the IRS . . . . .	4 hr., 1 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to both the **Internal Revenue Service**, Attention: Tax Forms Committee, PC:FP, Washington, DC 20224; and the **Office of Management and Budget**, Paperwork Reduction Project (1545-0128), Washington, DC 20503.

**DO NOT** send the tax form to either of these offices. Instead, see **Where To File** on page 2.

### Changes To Note

- Five new lines were added to page 1 for section 847, special estimated tax payments. The new lines are lines 7, 18, 30b, 30d, and 30f.
- Instructions were added to Schedule G for line 14.
- The signature area has been moved to page 8 of the form in order to accommodate the new lines on page 1.
- Some corporations may be required to use a new method of depositing taxes for taxes due after 1994. Generally, the requirement applies to corporations whose total deposits of certain taxes during calendar year 1993 exceeded \$78 million. Other corporations may use the new method voluntarily. For details, see **Depositary Method of Tax Payment** on page 2.
- Final regulations under section 263A have been adopted. These regulations, which require the capitalization and inclusion in inventory of certain costs, generally are effective for tax years beginning after 1993. Changes in

accounting methods may be necessary as a result of the issuance of the final regulations. These changes must be made under Rev. Proc. 94-49, 1994-30 I.R.B. 31.

The Revenue Reconciliation Act of 1993 (the Act) made changes to the tax law for corporations.

Some of the changes are highlighted below.

- Corporations that are located in an area designated by the Federal government as an "empowerment zone" may be able to claim the credit figured on **Form 8844**, Empowerment Zone Employment Credit. See page 14.
- The deductible portion of business meals and entertainment expenses has been reduced from 80% to 50%. See page 7.
- Generally, a publicly held corporation cannot deduct compensation paid to certain "covered employees" to the extent the compensation exceeds \$1 million. For details, see the instructions for line 19 on page 6.

### General Instructions

#### Purpose of Form

**Form 1120-L**, U.S. Life Insurance Company Income Tax Return, is used to report income, gains, losses, deductions, credits, and to figure the income tax liability of life insurance companies (LIC).

**Who Must File.**—Every domestic LIC and every foreign corporation carrying on an insurance business in the U.S. that would qualify as a LIC if it were a U.S. corporation must file Form 1120-L. This includes organizations described in section 501(m)(1) that provide commercial-type life insurance.

**Mutual savings banks conducting life insurance business.**—Mutual savings banks conducting life insurance business and meeting the requirements of section 594 are subject to an alternative tax consisting of the sum of: **(1)** a partial tax computed on **Form 1120**, U.S. Corporation Income Tax Return, on the taxable income of the bank determined without regard to income or deductions allocable to the life insurance department, and **(2)** a partial tax on the taxable income computed on Form 1120-L of the life insurance department. Enter the combined tax on line 3 of Schedule J, Form 1120. Attach and identify Form 1120-L as a schedule.

**Foreign life insurance companies.**—A foreign LIC that sells a U.S. real property interest must file Form 1120-L and Schedule D (Form 1120) to report the sale. Gain or loss from the sale of a U.S. real

property interest is considered effectively connected with the conduct of a U.S. business, even though the foreign life insurance company does not carry on any insurance business in the U.S. and is not otherwise required to file a U.S. income tax return.

**Insurance companies other than life insurance companies.**—Insurance companies, other than life insurance companies, should file **Form 1120-PC**, U.S. Property and Casualty Insurance Company Income Tax Return. A burial or funeral benefit insurance company that directly manufactures funeral supplies or performs funeral services is taxable under section 831 and should file Form 1120-PC.

#### Definitions

**Insurance company** means any corporation if more than half of its business during the tax year is from the issuance of insurance or annuity contracts or the reinsuring of risks underwritten by insurance companies.

A **life insurance company (LIC)** is an insurance company in the business of issuing life insurance and annuity contracts either separately or combined with health and accident insurance, or noncancelable contracts of health and accident insurance that meets the reserves test specified in section 816(a). Guaranteed renewable life, health, and accident insurance that the corporation cannot cancel but reserves the right to adjust premium rates by classes, according to experience under the kind of policy involved, are treated as noncancelable.

The **reserves test** requires that life insurance reserves, as defined in section 816(b), plus unearned premiums and unpaid losses (whether or not ascertained) on noncancelable life, health, or accident policies not included in life insurance reserves, must make up more than 50% of total reserves as defined in section 816(c). In determining whether a corporation meets the reserves test, the following modifications must be made: **(1)** life insurance reserves and total reserves must each be reduced by an amount equal to the mean of the aggregates, at the beginning and end of the tax year, of the policy loans outstanding with respect to contracts for which life insurance reserves are maintained; **(2)** amounts set aside and held at interest to satisfy obligations under contracts which do not contain permanent guarantees with respect to life, accident, or health contingencies must not be included in either life insurance reserves (section 816(c)(1)) or other reserves required by law (section 816(c)(3)); and **(3)** deficiency

reserves must not be included in either life insurance reserves or total reserves.

## When To File

In general, a corporation must file its income tax return by the 15th day of the 3rd month after the end of the tax year. 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 it dissolved. A foreign corporation that does not maintain an office or place of business in the U.S. has until the 15th day of the 6th month after the end of its tax year to file.

If the due date falls on a Saturday, Sunday, or legal holiday, the corporation may file on the next business day.

**Extension.**—File **Form 7004**, Application for Automatic Extension of Time To File Corporation Income Tax Return, to request a 6-month extension of time to file.

## Where To File

If the corporation's principal 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

Corporations having their principal place of business outside the United States or claiming a possessions corporation tax credit (section 936) must file with the Internal Revenue Service Center, Philadelphia, PA 19255.

A group of corporations located in several service center regions will often keep all the books and records at the principal office of the managing corporation. If this is the case, the income tax returns of the corporations may be filed with the service center region in which this principal office is located.

## 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. Receivers, trustees, or assignees must sign and date any return filed on behalf of a corporation.

If a corporate officer completes Form 1120-L, the Paid Preparer's space should remain blank. Anyone who prepares Form 1120-L but does not charge the corporation should not sign the return. Generally, anyone who is paid to prepare the return must sign it and fill in the Paid Preparer's Use Only area.

The paid preparer MUST complete the required preparer information and:

- Sign the return, by hand, in the space provided for the preparer's signature (signature stamps and labels are not acceptable).
- Give a copy of the return to the taxpayer.

## Accounting methods

The return must be filed using the accrual method of accounting or, to the extent permitted under regulations, a combination of the accrual method with any other method, except the cash receipts and disbursements method.

Generally, the corporation may change the method of accounting used to report taxable income (for income as a whole or for any material item) only by getting consent on **Form 3115**, Application for Change in Accounting Method. For more information, see **Pub. 538**, Accounting Periods and Methods.

An accrual basis taxpayer can deduct accrued expenses in the tax year in which all events that determine the liability have occurred, the amount of the liability can be figured with reasonable accuracy, and economic performance takes place with respect to the expense. There are exceptions to the economic performance rule for certain items, including recurring expenses. See section 461(h) and the related regulations for the rules for determining when economic performance takes place.

**Rounding Off to Whole Dollars.**—The corporation may show amounts on the return and accompanying schedules as whole dollars. 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.

## Recordkeeping

The corporation's records should be kept 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 also keep copies of any returns it has filed. They help in preparing future returns and in making computations when filing an amended return.

## Depository Method of Tax Payment.

—The corporation must pay the tax due in full no later than the 15th day of the 3rd month after the end of the tax year. Deposit corporation income tax payments (and estimated tax payments) with **Form 8109**, Federal Tax Deposit Coupon. Do not send deposits directly to an IRS office. Mail or deliver the completed Form 8109 with the payment to a qualified depository for Federal taxes or to the Federal Reserve bank (FRB) servicing the corporation's geographic area. Make checks or money orders payable to that depository or FRB.

To help ensure proper crediting, write the corporation's employer identification number, the tax period to which the deposit applies, and "Form 1120-L" on the check or money order. Be sure to darken the "1120" box on the coupon. Records of these deposits will be sent to the IRS.

A penalty may be imposed if the deposits are mailed or delivered to an IRS office rather than to an authorized depository or FRB.

For more information on deposits, see the instructions in the coupon booklet (Form 8109) and **Pub. 583**, Taxpayers Starting a Business.

**Caution:** *If the corporation owes tax when it files Form 1120-L, do not include the payment with the tax return. Instead, mail or deliver the payment with Form 8109 to a qualified depository or FRB. Generally, corporations whose total deposits of withheld income, social security, and Medicare taxes during calendar year 1993 exceeded \$78 million are required to deposit all depository taxes due after 1994 by electronic funds transfer (EFT). TAXLINK, an electronic remittance processing system, must be used to make deposits by EFT. Corporations who are not required to make deposits by EFT may voluntarily participate in TAXLINK. For more details on TAXLINK, see Rev. Proc. 94-48, 1994-29 I.R.B. 31. You may also call the toll-free TAXLINK HELPLINE at 1-800-829-5469.*

**Estimated Tax Payments.**—Generally, a corporation must make installment payments of estimated tax if it expects its estimated tax (income tax minus credits) to be \$500 or more. For a calendar or fiscal

year corporation, 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. Use the deposit coupons (Form 8109) to make deposits of estimated tax. For more information on estimated tax payments, including penalties that apply if the corporation fails to make required payments, see the instructions for line 31.

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 expected income tax liability, and at least \$500. To apply for a quick refund, file Form 4466 before the 16th day of the 3rd month after the end of the tax year, but before the corporation files its income tax return. Do not file Form 4466 before the end of the corporation's tax year.

**Caution:** *Foreign insurance companies see Notice 90-13, 1990-1 C.B. 321, before computing estimated tax.*

## Interest and Penalties

**Interest.**—Interest is charged on taxes not paid by the due date, even if an extension of time to file is granted. Interest is also charged on penalties imposed for failure to file, negligence, fraud, gross valuation overstatements, and substantial understatements of tax from the due date (including extensions) to the date of payment. The interest charge is figured at a rate determined under section 6621.

**Late filing of return.**—A corporation that does not file its tax return by the due date, including extensions, may have to pay a penalty of 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 more than 60 days late is the smaller of the tax due or \$100. The penalty will not be imposed if the corporation can show that the failure to file on time was due to reasonable cause. Corporations that file late must attach a statement explaining the reasonable cause.

**Late payment of tax.**—A corporation that does not pay the tax when due may have to pay a penalty of 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. This penalty may also apply to any additional tax not paid within 10 days of the date of the notice and demand for payment. The penalty will not be imposed if the corporation can show that the failure to pay on time was due to reasonable cause.

**Other penalties.**—Other penalties can be imposed for negligence, substantial understatement of tax, and fraud. See sections 6662 and 6663.

## Unresolved Tax Problems

The IRS has a Problem Resolution Program for taxpayers who have been unable to resolve their problems with the IRS. If the corporation has a tax problem it has been unable to resolve through normal channels, write to the corporation's local IRS district director or call the corporation's local IRS office and ask for Problem Resolution Assistance. Hearing-impaired persons who have access to TDD equipment may call 1-800-829-4059 to ask for help. The Problem Resolution office will ensure that your problem receives proper attention. Although the office cannot change the tax law or make technical decisions, it can help clear up problems that resulted from previous contacts.

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

**Forms.**—The corporation may have to file the following:

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

**Form 940 or Form 940-EZ**, Employer's Annual Federal Unemployment (FUTA) Tax Return. The corporation may be liable for FUTA tax and may have to file Form 940 or 940-EZ if it paid wages of \$1,500 or more in any calendar quarter during the calendar year (or the preceding calendar year) or one or more employees worked for the corporation for some part of a day in any 20 different weeks during the calendar year (or the preceding calendar year).

**Form 941**, Employer's Quarterly Federal Tax Return. Employers must file this form quarterly to report income tax withheld and employer and employee social security and Medicare taxes.

**Caution:** *The trust fund recovery penalty may apply if income, social security, and Medicare taxes that must be withheld are not withheld or are not paid to the IRS. The penalty is equal to the unpaid trust fund tax. The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to be responsible for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so. See Circular E, Employer's Tax Guide, for details including the definition of responsible person.*

**Form 945**, Annual Return of Withheld Federal Income Tax. Form 945 is used to report income tax withholding from nonpayroll distributions or payments. Nonpayroll payments include pensions, annuities, IRAs, military retirement, gambling winnings, and backup withholding.

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

**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. Use these forms to report and transmit withheld tax on payments or distributions made to nonresident alien

individuals, foreign partnerships, or foreign corporations to the extent such payments or distributions constitute gross income from sources within the U.S. (see sections 861 through 865). For more information, see sections 1441 and 1442, and **Pub. 515**, Withholding of Tax on Nonresident Aliens and Foreign Corporations.

**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 and points in the course of the corporation's trade or business for any calendar year.

**Forms 1099-A, B, C, DIV, INT, MISC, OID, PATR, R, and S.** These information returns are for reporting abandonments, acquisitions through foreclosure, proceeds from brokers and barter exchange transactions, discharges of indebtedness, 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, patronage dividends, 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 the instructions for Forms 1099, 1098, 5498, and W-2G, and **Pub. 937**, Employment Taxes.

**Note:** *Every corporation must file Form 1099-MISC 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 5498**, Individual Retirement Arrangement Information. Use this form to report contributions (including rollover contributions) to an individual retirement arrangement (IRA) and the value of an IRA or simplified employee pension (SEP) account.

**Form 5713**, International Boycott Report, for persons having operations in or related to "boycotting" countries. Also, 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. This form 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. Taxpayers

who have acquired an interest in a tax shelter, which is required to be registered, use this form to report the tax shelter's registration number. Form 8271 must be attached to any tax return (including an application for tentative refund (Form 1139) or an amended return) on which a deduction, credit, loss, or other tax benefit attributable to a tax shelter is taken, or any income attributable to a tax shelter is reported.

**Form 8275**, Disclosure Statement. Form 8275 is used by taxpayers and income tax return preparers to disclose items or positions (except those contrary to a regulation see **Form 8275-R**, below), that are not otherwise adequately disclosed on a tax return. The disclosure is made to avoid parts of the accuracy-related penalty imposed for disregard of rules or substantial understatement of tax. Form 8275 is also used for disclosures relating to preparer penalties for understatements due to unrealistic positions or for willful or reckless conduct.

**Form 8275-R**, Regulation Disclosure Statement, is used to disclose any item on a tax return for which a position has been taken that is contrary to Treasury regulations.

**Form 8281**, Information Return for Publicly Offered Original Issue Discount Instruments. This form is generally required to be filed by issuers of public offerings of debt instruments within 30 days of the issuance of the debt instrument.

**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).

Cashier's checks, bank drafts, and money orders with face amounts of \$10,000 or less are considered cash under certain circumstances. For more information, see Form 8300 and Regulations section 1.6050I-1(c).

**Form 8390**, Information Return for Determination of Life Insurance Company Earnings Rate Under Section 809. This form is filed by all mutual LICs and the 50 largest stock LICs, as determined by the Secretary, to gather information to compute the "differential earnings rate."

**Form 8594**, Asset Acquisition Statement Under Section 1060, is to be filed by both the purchaser and seller of a group of assets constituting a trade or business if goodwill or a going concern value attaches, or could attach, to such assets and if the purchaser's basis in the assets is determined only by the amount paid for the assets.

**Form 8816**, Special Loss Discount Account and Special Estimated Tax Payments for Insurance Companies. This form must be filed by any insurance company that elects to take an additional deduction under section 847.

**Form 8842**, Election To Use Different Annualization Periods for Corporate Estimated Tax. Corporations use Form 8842 for each year they want to elect one of the annualization periods in section

6655(e)(2)(C) for figuring estimated tax payments under the annualized income installment method.

**Consolidated Returns.**—If an affiliated group of corporations includes one or more domestic LICs taxed under section 801, the common parent may elect to treat those LICs as includible corporations. The LICs must have been members of the group for the 5 tax years immediately preceding the tax year for which the election is made. See section 1504(c)(2) and Regulations section 1.1502-47(d)(12).

**Note:** *If an election under section 1504(c)(2) is in effect for an affiliated group for the tax year, all items of members of the group that are not LICs must not be taken into account in figuring the tentative LICTI of members that are LICs.*

The parent corporation of an affiliated group of corporations must attach **Form 851**, Affiliations Schedule, to the consolidated return. For the first year a consolidated return is filed, each subsidiary must attach **Form 1122**, Authorization and Consent of Subsidiary Corporation to be Included in a Consolidated Income Tax Return.

File supporting statements for each corporation included in the consolidated return. Use columns to show the following, both before and after adjustments:

- Items of gross income and deductions.
- A computation of taxable income.
- Balance sheets as of the beginning and end of the tax year.
- A reconciliation of income per books with income per return.
- A reconciliation of retained earnings.

Enter the totals for the consolidated group on Form 1120-L. Attach consolidated balance sheets and a reconciliation of consolidated retained earnings.

**Note:** *If a non-life insurance company (non-LIC) is a member of an affiliated group, file Form 1120-PC as an attachment to the consolidated return in lieu of filing a supporting statement. Write across the top of page 1 of Form 1120-PC, "Supporting Statement to Consolidated Returns."*

**Pension, profit-sharing, etc. plans.**—Employers who maintain a qualified pension, profit-sharing, or other funded deferred compensation plan generally must file one of the forms listed below, 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).

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

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

**Form 5500-EZ.**—Complete this form for a one-participant plan. The term "one-participant plan" also means a plan that covers the owners and their spouses or a plan that covers partners in a

business partnership (or the partners and their spouses).

## Statements

**NAIC Annual Statement.**—Regulations section 1.6012-2(c) requires that the NAIC Annual Statement be filed with Form 1120-L. A late filing of return penalty may be imposed for not including the annual statement when the return is filed.

**Reconciliation.**—All filers of Form 1120-L must attach a schedule which reconciles their NAIC Annual Statement to their Form 1120-L.

**Stock ownership in foreign corporations.**—Attach the statement required by section 551(c) if (a) the corporation owned 5% or more in value of the outstanding stock of a foreign personal holding company and (b) the corporation was required to include in its gross income any undistributed foreign personal holding company income.

A corporation may have to file **Form 5471**, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, if any of the following applies:

1. It controls a foreign corporation.
2. It acquires, disposes of, or owns 5% or more in value of the outstanding stock of a foreign corporation.
3. It owns stock in a foreign corporation that is a controlled foreign corporation for an uninterrupted period of 30 days or more during the tax year of the foreign corporation that ends with or within its tax year, and it owned that stock on the last day of the foreign corporation's tax year.

**Foreign ownership in a domestic corporation.**—A domestic corporation that is 25% or more foreign-owned or a foreign corporation that is engaged in a trade or business in the United States may have to file **Form 5472**, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. See the instructions on page 15 for more information.

**Transfers to a corporation controlled by the transferor.**—If a person receives stock of a corporation in exchange for property, and no gain or loss is recognized under section 351, the person (transferor) and the transferee must attach to their respective tax returns the information required by Regulations section 1.351-3.

**Attachments.**—Attach **Form 4136**, Credit for Federal Tax on Fuels, after page 8. Attach schedules in alphabetical order and other forms in numerical order after Form 4136.

To assist us in processing the return, please complete every applicable entry space on Form 1120-L. Do not write "See attached" instead of completing the entry spaces. If you need more space on the forms or schedules, attach separate sheets. Use the same size and format as on the printed forms. But show totals on the printed forms. Attach these separate sheets after all the schedules and forms. Be sure to put the corporation's name and EIN on each sheet.

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## Specific Instructions

**Period Covered.**—File the 1994 return for calendar year 1994. Section 843 requires all insurance companies to file on a calendar year basis, unless they join in the filing of a consolidated return. If a consolidated return is filed, the parent corporation's return would indicate the period covered.

### Address and Employer Identification Number

**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 and the corporation has a P.O. box, show the box number instead of the street address.

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

### Item A(2)

Check the box if this is a consolidated return and non-LIC's are included. See Regulation section 1.1502-47(s) for the filing requirements of a life-nonlife consolidated return.

### Item B

**Employer identification number (EIN).**—If the corporation does not have an EIN, it should apply for one on **Form SS-4**, Application for Employer Identification Number. Form SS-4 can be obtained at most IRS and Social Security Administration offices. If the corporation has not received its EIN by the time the return is due, write "Applied for" in the space for the EIN. See Pub. 583 for more information.

### Item E

Check the appropriate box if the corporation is a foreign corporation and elects under: (1) section 953(c)(3)(C) to treat its related person insurance income as effectively connected with the conduct of a trade or business in the U.S., or (2) section 953(d) to be treated as a domestic corporation. Generally, a foreign corporation making either election should file its return with the Internal Revenue Service Center, Philadelphia, PA 19255. See Notice 87-50, 1987-2 C.B. 357, and Notice 89-79, 1989-2 C.B. 392, for the procedural rules for making the respective elections under Section 953(c)(3)(C) or section 953(d). To make a valid election, the corporation must file an election statement at the addresses given in Notices 87-50 and 89-79. These notices provide the formats for the election statements.

**Note:** *Once either election is made, it will apply to the tax year for which made and all subsequent tax years unless revoked with the consent of the Secretary. Also, any loss of a foreign corporation electing to be treated as a domestic insurance*

*company, under section 953(d), will be treated as a dual consolidated loss and will not be allowed to reduce the taxable income of any other member of the affiliated group for the tax year or any other tax year.*

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## Life Insurance Company Taxable Income (LICTI)

### Income

**Line 1.**—Enter gross premiums and other consideration received on insurance and annuity contracts less return premiums and premiums and other consideration paid for indemnity reinsurance.

**Gross premiums and other consideration** includes advance premiums, deposits, fees, assessments, consideration received for assuming liabilities under contracts not issued by the corporation, and any amount treated as premiums received under section 808(e) (see Schedule E instructions).

**Return premiums** include amounts rebated or refunded due to policy cancellations or incorrectly computed premiums, but do not include amounts returned to policyholders when such amounts are not fixed in the contract but instead depend on the corporation's experience or the management's discretion.

**Line 2. Net decrease in reserves.**—If there is a decrease in reserves, complete line 2 by doing the following: (1) pencil in the amount from line 8, Schedule F, on line 2, to tentatively compute life insurance company gross income (LICGI); (2) use this tentative LICGI figure to complete Schedule F. After completing steps 1 and 2 above, erase the numbers penciled in for step 1 and then enter on line 2, the net decrease in reserves shown on line 37, Schedule F.

**Line 3. 10% of certain decreases in reserves.**—If the amount of any item referred to in section 807(c) decreases as a result of a change in the basis used to determine that item, 10% of the decrease must be included in LICGI for each of the 10 succeeding tax years. See section 807(f)(1).

**Note:** *If a corporation ceases to qualify as a LIC, the balance of any adjustments under section 807(f) must be taken into account in the last tax year the corporation is qualified to file Form 1120-L. See section 807(f)(2).*

**Line 4. 3½% of year end balance of reserves under section 807(e)(7)(B).**—For tax years beginning on or after September 30, 1990, and before September 30, 1996, LIC's are required to include in gross income an amount equal to 3½% of the company's closing balance for unearned premiums and premiums received in advance under insurance contracts not described in section 816(b)(1)(B) for its most recent tax year beginning before September 30, 1990. See section 807(e)(7)(B).

**Line 5. Investment income.**—Enter the amount from Schedule B, line 8 plus

interest received on securities acquisition loans as defined in section 133(b).

**Line 6. Net capital gain.**—Unless specifically excluded by section 1221, each asset held by a corporation (whether or not it is connected with its business) is a "capital asset." Under section 1221 **capital asset** does not include:

1. inventory or property held primarily for sale to customers in the ordinary course of the corporation's trade or business;
2. depreciable or real property used in the corporation's trade or business;
3. certain copyrights, literary, musical or artistic compositions;
4. accounts or notes receivable acquired in the ordinary course of a trade or business for services rendered or from the sale of property described in (1) above; and
5. certain publications of the U.S. Government.

Section 818(b) modifies the above definition so only property used in carrying on an insurance business will be considered as "depreciable or real property used in the corporation's trade or business." For LIC's, gains or losses from the sale or exchange of depreciable assets of any business other than an insurance business will be treated as gains or losses from the sale or exchange of capital assets.

See section 818(c) and the related regulations for how to limit the gain from the sale or exchange of any section 818(c) property.

**Line 7. Income from a special loss discount account.**—Enter the total from line 6, Part I, Form 8816. See section 847(5) and the instructions for Form 8816 for more information.

**Line 8. Other income.**—Enter any other income not included on lines 1 through 7, if those items are includable in LICGI. List the type and amount of income on an attached schedule.

**Noninsurance income.**—Include the total amount of income for noninsurance business (defined in section 806(b)(3)). Income from noninsurance should be listed separately from all other income.

**Recomputed differential earnings amount.**—For mutual LIC's, if the recomputed differential earnings amount (determined under section 809(f)(3)) for the preceding tax year exceeds the differential earnings amount (determined under section 809(a)(3)) for that tax year, include the excess on line 8 as other income for the current tax year.

**Sales of business property and involuntary conversions.**—Use **Form 4797**, Sales of Business Property, to report gains and losses from sales or exchanges of assets used in a trade or business and from involuntary conversions.

For LIC's, section 818(b)(1) provides that, for section 1231(a), "property used in a trade or business" includes only:

1. Property used in carrying on an insurance business that is either real or depreciable property held for more than 1 year.

2. Timber, coal, and domestic iron ore to which section 631 applies.

For paragraph 1 above, **property used in a trade or business** does not include property includible in inventory, property held primarily for sale to customers, or certain copyrights, literary, musical or artistic compositions, letters, memoranda, and similar property.

Include ordinary gains and losses from Form 4797.

## Deductions

**Line 10. Death benefits, etc.**—Enter all claims and benefits accrued and losses incurred (whether or not ascertained) during the year on insurance and annuity contracts.

**Losses incurred (whether or not ascertained)** includes a reasonable estimate both of losses incurred but not reported and of losses that have been reported, where the amount of the losses cannot be determined by the end of the tax year. Losses incurred must be adjusted to take into account recoveries, e.g., for reinsurance, for those losses together with estimates of those recoveries that may be recovered on those losses in future years.

**Note:** Section 807(c) provides that the amount of the unpaid losses (other than losses on life insurance contracts) must be the amount of the discounted unpaid losses as defined in section 846. See the instructions for Schedule F, line 2 for more information on the discounting provisions.

**Line 12. 10% of certain increases in reserves.**—If the amount of any item referred to in section 807(c) increases as a result of a change in the basis used to determine that item, then 10% of the increase will be allowed as a deduction in computing LICTI for each of the 10 succeeding tax years. See section 807(f)(1).

**Note:** If a corporation ceases to qualify as a LIC, the balance of any adjustments under section 807(f) must be taken into account in the last year that the corporation is qualified to file Form 1120-L. See section 807(f)(2).

**Line 14. Consideration paid for assumption by another person of liabilities under insurance, etc., contracts.**—Enter the total consideration paid by the corporation to another person (other than for indemnity reinsurance) for the assumption by that person of liabilities under insurance and annuity contracts (including supplementary contracts).

**Line 15. Dividends reimbursable by taxpayer.**—Enter the amount of policyholder dividends paid or accrued by another insurance company for policies this corporation has reinsured and that are reimbursable by the corporation under the terms of the reinsurance contract.

**Line 16a. Interest.**—Enter all interest paid or accrued during the tax year. No deduction is allowed under section 163 for interest on the items described in section 807(c). Also, do not include interest included on Schedule G, line 9 (general deductions).

**Line 16b. Less tax-exempt interest expense.**—Enter interest paid or accrued on indebtedness incurred or continued to purchase or carry obligations, the interest on which is wholly tax exempt.

**Line 18. Additional deduction.**—Any insurance company required to discount unpaid losses under section 846 is allowed an additional deduction not to exceed the excess of:

- The amount of certain undiscounted unpaid losses over
- The amount of the related discounted unpaid losses, to the extent the amount was not deducted in a preceding tax year.

Enter the amount of the additional deduction on this line and attach Form 8816.

Any insurance company taking the additional deduction is required to:

- Make special estimated tax payments equal to the tax benefit from the deduction, and
- Establish and maintain a Special Loss Discount Account. See section 847 and Form 8816 for details.

**Line 19. Other deductions.**—Attach a schedule, listing by type and amount, all allowable deductions (including the amortization of premiums under section 811(b)) not included on lines 10 through 18, to the extent they are deductible in computing LICTI.

**Salaries and wages.**—Enter the amount of salaries and wages paid for the tax year, less the amount of any jobs credit from Form 5884, empowerment zone credit from Form 8844, and Indian employment credit from Form 8845. Also see **Disallowance of deduction for employee compensation in excess of \$1 million** below. See the instructions for these forms for more information.

**Noninsurance deductions.**—Include the total amount of deductions for a noninsurance business (defined in section 806(b)(3)). Deductions from noninsurance business should be listed separately from all other deductions.

**Differential earnings amount.**—For mutual LICs, if the differential earnings amount (determined under section 809(a)(3)) for the preceding tax year exceeds the recomputed differential earnings amount (determined under section 809(f)(3)) for that tax year, include the excess on line 19.

**Depreciation, etc.**—If the corporation claims a deduction for depreciation or amortization, attach **Form 4562**, Depreciation and Amortization.

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 671 for details.

Attach **Form T (Timber)**, Forest Industries Schedules, if a deduction for depletion of timber is taken.

**Note:** Do not deduct fines or penalties paid to a government for violating any law.

**Compensation of officers.**—Attach a schedule for all officers using the following columns:

1. Name of officer.
2. Social security number.
3. Percentage of time devoted to business.
4. Amount of compensation.

This information must be submitted by each member of an affiliated group included in a consolidated return.

**Disallowance of deduction for employee compensation in excess of \$1 million.**—Publicly-held corporations may not deduct compensation to a "covered employee" to the extent that the compensation exceeds \$1 million. Generally, a covered employee is:

- The chief executive officer of the corporation (or an individual acting in that capacity) as of the end of the tax year, or
- An employee whose total compensation must be reported to shareholders under the Securities Exchange Act of 1934 because the employee is among the four highest compensated officers for that tax year (other than the chief executive officer).

For this purpose, compensation does not include the following:

- Income from certain employee trusts, annuity plans, or pensions;
- Any benefit paid to an employee that is excluded from the employee's income.

The deduction limit does not apply to:

- Commissions based on individual performance;
- Qualified performance-based compensation; and
- Income payable under a written, binding contract in effect on February 17, 1993.

The \$1 million limit is reduced by amounts that are disallowed as excess parachute payments under section 280G.

For details, see section 162(m) and Notice 94-68, 1994-26 I.R.B. 12.

**Line 21. Operations loss deduction.**—The operations loss deduction (OLD) to enter on line 21 is the total of the operations loss carryovers from prior tax years. However, the OLD cannot exceed the corporation's LICTI (after the dividends-received deduction). See section 810(c). If this deduction is taken, show its computation on an attached schedule.

Generally, a LIC may carry an operating loss back to each of the 3 years preceding the year of the loss and carry it over to each of the 15 years following the year of the loss.

There is also an election to carry an operating loss over to each of the 15 years following the year of the loss. To make this election, check the box in question 15, Schedule M. The return must be timely filed (including extensions). The election is irrevocable. If the LIC is a new company for the loss year, the loss may be carried over to each of the 18 years following the year of the loss.

After applying the operating loss to the first tax year to which it may be carried, the portion of the loss the corporation may carry to each of the remaining tax years is

the excess, if any, of the loss over the sum of the offsets for each of the prior tax years to which the corporation may carry the loss. See section 810(b)(2).

See section 810 for special rules, limitations, and definitions pertaining to operating loss carrybacks and carryovers.

See section 382 for the limitation on the amount of taxable income of a loss corporation for any tax year ending after a post-1986 ownership change that may be offset by pre-change operations loss carryovers. Also see Temporary Regulations section 1.382-2T(a)(2)(ii), which requires that a loss corporation file an information statement with its income tax return for each tax year that it is a loss corporation and certain shifts in ownership occurred. Also see Regulations section 1.382-6(b) for details on how to make the closing-of-the-books election.

See section 844 for special loss carryover rules for an insurance company that has changed its form of organization or has had a change in the nature of its insurance business.

## Limitations on Deductions

**Charitable contributions.**—Enter contributions or gifts actually paid in 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.

The total amount claimed may not be more than 10% of LICTI computed without regard to:

- Any deduction for charitable contributions,
- The deduction for policyholder dividends,
- The deduction for dividends received,
- The small LIC deduction,
- Any operations loss carryback to the tax year under section 810, and
- Any capital loss carryback to the tax year under section 1212(a)(1).

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

A contributions carryover is not allowed, however, to the extent that it increases an operating loss. See section 170(d)(2)(B).

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

**Contributions of property other than cash.**—If a contribution is in property other than money and the total claimed deduction of all property contributed exceeds \$500, the corporation must attach a schedule describing the kind of property contributed and the method used in determining its fair market value. If the corporation includes a contribution

carryover, show the amount and how it was determined. Generally, corporations must complete and attach **Form 8283**, Noncash Charitable Contributions, to their returns for all contributions of property other than money if the total claimed deduction for all property contributed was more than \$5,000.

If the corporation made a “qualified conservation contribution” under section 170(h), include the fair market value of the underlying property before and after the donation, as well as the type of legal interest contributed, and describe the conservation purpose benefited by the donation.

If a contribution carryover is included, show the amount and how it was determined.

**Substantiation requirements.**—New substantiation rules apply for contributions of \$250 or more. Generally, no deduction is allowed for any contribution of \$250 or more unless the corporation obtains a written acknowledgment from the donee organization that shows the amount of cash contributed, describes any property contributed, and gives an estimate of the value of any goods or services 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. These rules apply in addition to the filing requirements for Form 8283 described below.

For more information on substantiation and recordkeeping requirements, see the regulations under section 170 and **Pub. 526**, Charitable Contributions.

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

- The ordinary income or short-term capital gain that would have resulted if the property had been sold at its fair market value, and
- For certain contributions, all of the long-term capital gain that would have resulted if the property had been sold at its fair market value.

The reduction for long-term capital gain applies to:

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

**Charitable contributions of scientific property used for research.**—A corporation (other than a personal holding company or a service organization) can

receive a larger deduction for contributing scientific property used for research to an institution of higher education. For further information, see section 170(e).

## Contributions to organizations conducting lobbying activities.—

Contributions made to an organization that conducts lobbying activities are not deductible if:

- The lobbying activities relate to matters of direct financial interest to the donor’s trade or business, and
- The principal purpose of the contribution was to avoid Federal income tax by obtaining a deduction for activities that would have been nondeductible under the lobbying expense rules if conducted directly by the donor.

**Section 263A uniform capitalization rules.**—These rules 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. For more information, see Regulations sections 1.263A-1 through 1.263A-3.

**Meals, travel, and entertainment.**—A corporation can generally deduct only 50% of the amount otherwise allowable for meals and entertainment expenses paid or incurred in its trade or business. Also, 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(k)(2) for exceptions. If the corporation claims a deduction for unallowable meal expenses, it may have to pay a penalty.

Additional limitations apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets. See section 274 and **Pub. 463**, Travel, Entertainment, and Gift Expenses.

No deduction is allowed for dues paid or incurred for membership in any club organized for business, pleasure, recreation, or other social purpose. This rule applies to all types of clubs, including business, social, athletic, luncheon, sporting, airline, and hotel clubs.

Also, no deduction is allowed for travel expenses paid or incurred for a spouse, dependent, or other individual accompanying an officer or employee of the corporation on business travel, unless that spouse, dependent, or other individual is an employee of the corporation and the travel is for a bona fide business purpose and would otherwise be deductible by that person.

Generally, a corporation can deduct all other ordinary and necessary travel and entertainment expenses paid or incurred in its trade or business. However, it cannot deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) that is used for an activity that is usually considered entertainment, amusement, or recreation.

**Note:** *The corporation may be able to deduct otherwise nondeductible meals,*



travel, and entertainment expense if the amounts are treated as compensation and reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.

**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. However, if certain in-house expenditures do not exceed \$2,000, they are deductible. Dues and other similar amounts paid to certain tax-exempt organizations may not be deductible. See section 162(e) and Temporary Regulations section 1.162-20T(d). Also, see above,

**Contributions to organizations conducting lobbying activities.**

**Reducing certain expenses for which credits are allowable.**—For each of the credits listed below, the corporation must reduce the otherwise allowable deductions for expenses used to figure the credit by the amount of the current year credit:

1. The orphan drug credit.
2. The credit for increasing research activities.
3. The enhanced oil recovery credit.
4. The disabled access credit.
5. The jobs credit.
6. The employer credit for social security and Medicare taxes paid on tips.
7. The empowerment zone employment credit.
8. The Indian employment credit.

If the corporation has any of these credits, be sure to figure each current year credit before figuring the deduction for expenses on which the credit is based.

**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.

**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.

**Golden parachute payments.**—A portion of the payments made by a corporation to key personnel that exceeds their usual compensation may not be deductible. This occurs when the corporation has an agreement (golden parachute) with these key employees to pay them these excessive amounts if control of the corporation changes. See section 280G.

**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 30b. Prior year(s) special estimated tax payments to be applied.**—Enter the portion of the special estimated tax payments made in earlier tax years being applied this year. The amount entered must agree with the amount(s) from line 10, Part II, Form 8816. See Form 8816 and section 847(2) for additional information.

**Line 30c. 1994 Estimated tax payments.**—Enter the corporation's estimated tax payments for 1994. Do not include any amount being applied on line 30d as a "Special estimated tax payment."

**Line 30d. 1994 Special estimated tax payments.**—If the deduction under section 847 is claimed on line 18, page 1, special estimated tax payments must be made in an amount equal to the tax benefit of the deduction. These payments must be made on or before the due date (without regard to extensions) of this tax return. See Form 8816 and section 847(2) for additional information.

**Line 30k. Total payments.**—Add the amounts on lines 30f through 30j and enter the total on line 30k.

**Backup withholding.**—If the corporation had income tax withheld from any payments it received because, for example, it failed to give the payer its correct EIN, include the amount withheld in the total for line 30k. This type of withholding is called backup withholding. On Form 1120-L, show the amount withheld in the blank space in the right-hand column above line 30k, and write "backup withholding."

**Line 31. 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 the smaller of (a) 100% of its tax liability for 1994, or (b) 100% of its prior year's tax. See section 6655 for details and exceptions.

Mutual LICs may use the smaller of (1) the differential earnings rate of the second tax year preceding the taxable year for which the installment is made, or (2) the differential earnings rate for the taxable year for which the installment is made. See Section 809(c)(3) for more information.

**Form 2220, Underpayment of Estimated Tax by Corporations,** is used to see if the corporation owes a penalty and to figure the amount of the penalty. Generally, the corporation does not have to file this form because the IRS can figure the amount of any penalty and bill the corporation for it. However, you must complete and attach Form 2220 even if the corporation does not owe the penalty if any of the following apply:

- The annualized income or adjusted seasonal installment method is used.
- The corporation is a large corporation computing its first required installment based on the prior year's tax. (See the

Form 2220 instructions for the definition of a large corporation.)

If you attach Form 2220, check the box on line 31, and enter the amount of any penalty on that line.

## Schedule A—Dividend Income and Dividends-Received Deduction

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. Corporations filing a consolidated return should see Regulations sections 1.1502-14, 1.1502-26, and 1.1502-27 before completing Schedule A.

**Line 1, column (a).**—Enter dividends (except those received on debt-financed stock acquired after July 18, 1984—see Section 246A) received from less-than-20%-owned domestic corporations subject to income tax and that qualify for the deduction allowable under section 243(a)(1). Include on this line 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)).

Also include on line 1 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 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). Include on this line taxable distributions from an IC-DISC or former DISC that are considered 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 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).

Include on line 3 dividends received from a regulated investment company (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 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 provided in section 247 for dividends paid.

**Line 5, column (a).**—Enter dividends received on the 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.

**Line 6, column (a).**—Enter the U.S. source portion of dividends 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 provided in section 245(c)(1)(B).

**Line 7, column (a).**—Enter the U.S.-source portion of dividends received from 20%-or-more-owned foreign corporations that qualify for the 80% deduction under section 245(a). Also include dividends received from a 20%-or-more-owned FSC that are related to income treated as effectively connected with the conduct of a trade or business within the U.S. (excluding foreign trade income) and qualify for the 80% deduction provided in 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:

- All of its outstanding stock is owned (directly or indirectly) by the domestic corporation receiving the dividends, and
- All of its gross income from all sources is effectively connected with the conduct of a trade or business within the United States. Do not include dividends received from a life insurance company.

**Line 9, column (a).**—Enter only those dividends that qualify under section 243(b) for the 100% dividends-received deduction described in section 243(a)(3). Corporations taking this deduction are subject to the

provision of section 1561. Do not include dividends received from a LIC.

**Note:** *The 100% deduction does not apply to affiliated group members that are joining in the filing of a consolidated return.*

### Line 10, column (c)

#### Limitation on dividends-received deduction

Generally, line 10 of column (c) may not exceed the amount from the worksheet below. However, in a year in which a loss from operations occurs, this limitation does not apply even if the loss is created by the dividends-received deduction. (See sections 246(b) and 810.)

#### Worksheet for Schedule A, line 10, col. (c) (Keep for your records.)

1. Add lines 9 and 26, page 1, less the total of lines 10 through 19, page 1, and without: the small LIC deduction, the operations loss deduction, the dividends-received deduction (sections 243(a)(1), 244(a), and 245), any adjustment under section 1059, and any capital loss carryback to the current tax year (section 1212(a)(1)) . . . . . \_\_\_\_\_
2. Add lines 9 and 13, column (c) . . . . . \_\_\_\_\_
3. Subtract line 2 from line 1 . . . . . \_\_\_\_\_
4. Multiply line 3 by 80% . . . . . \_\_\_\_\_
5. Add lines 2, 5, 7, and 8, column (c) and the portion of the deduction on line 3, column (c) that is attributable to dividends received from 20%-or-more-owned corporations . . . . . \_\_\_\_\_
6. Enter the smaller of line 4 or line 5. (If line 5 is greater than line 4 stop here; and enter the amount from line 6 on line 10 column (c)). Do not complete the rest of worksheet . . . . . \_\_\_\_\_
7. Enter the total amount of dividends from 20% - or - more - owned corporations that are included on lines 2, 3, 5, 7, and 8 of column (a) . . . . . \_\_\_\_\_
8. Subtract line 7 from line 3 . . . . . \_\_\_\_\_
9. Multiply line 8 by 70% . . . . . \_\_\_\_\_
10. Subtract line 5 above from line 10 of column (c) . . . . . \_\_\_\_\_
11. Enter the smaller of line 9 or line 10. . . . . \_\_\_\_\_
12. **Dividends-received deduction after limitation (section 246(b)).** Add lines 6 and 11. Enter the result on line 10, column (c) . . . . . \_\_\_\_\_

**Line 13, column (a).**—Enter dividends that qualify for the 100% dividends-received deduction and that are not reported on line 8 or 9 because they were not distributed out of tax-exempt interest or out of dividends that do not qualify as 100% dividends, or because they were paid by a LIC.

**Note:** *Certain dividends received by a foreign corporation are not subject to proration. Attach a schedule showing computations.*

**Line 14, column (a).**—Enter the total of other dividends received. Attach a schedule showing separately:

- Foreign dividends not reportable on lines 6, 7, 8, or 13. Include on line 14 the corporation's share of the ordinary earnings of a qualified electing fund from Form 8621, line 6c, or the amount of any excess distribution from a passive foreign investment company from Form 8621, line

11b. Exclude distributions of amounts constructively taxed in the current year or in prior years under Subpart F (sections 951 through 964).

- Income constructively received from controlled foreign corporations under Subpart F. This amount should equal the total Subpart F income reported on Schedule I, Form 5471.
- Gross-up of dividends for taxes deemed paid under sections 902 and 960.
- Dividends (other than capital gain and exempt-interest dividends) received from regulated investment companies that do not qualify for the dividends-received deduction.
- Dividends from tax-exempt organizations.
- Dividends (other than capital gain dividends) received from a real estate investment trust that, for the tax year of the trust in which the dividends are paid, qualify under sections 856 through 860.
- Dividends not eligible for the dividends-received deduction because of the holding period of the stock or an obligation to make corresponding payments with respect to similar stock.
- Two situations in which the dividends-received deduction will not be allowed on any share of stock are: **(1)** if the corporation held the stock with regard to which the dividends were issued for 45 days or less; or **(2)** to the extent that the corporation is under an obligation to make related payments for substantially similar or related property.
- Any other taxable dividend income not properly reported above, including distributions under section 936(h)(4).

## Schedule B—Gross Investment Income

**Line 1. Interest.**—Enter the total taxable interest received or accrued during the tax year, less any amortization of premium, plus any accrual of discount required by section 811(b). The appropriate amortization of premium and accrual of discount for the tax year on bonds, notes, debentures, or other evidence of indebtedness held by a LIC should be determined: **(a)** under the method regularly employed by the company, if reasonable, and **(b)** in all other cases, under the regulations. Market discount is not required to be accrued under section 811(b). Attach a statement showing the method and computation used.

**Line 3. Gross rents.**—Enter the gross rents received or accrued during the tax year. Related expenses, such as repairs, taxes, and depreciation should be reported as "Other deductions" on line 19, page 1.

**Line 4. Gross royalties.**—Enter the gross royalties received or accrued during the tax year. Report the depletion deduction on line 19, page 1.

**Line 5. Leases, terminations, etc.**— Enter the gross income received from entering into, altering, or terminating any lease, mortgage, or other instrument from which

the corporation derives interest, rents, or royalties.

**Line 6. Excess of net short-term capital gain over net long-term capital loss.**— See the instructions for line 6, page 1, for a definition of capital assets.

**Line 7. Gross income from a trade or business other than insurance.**— Enter the gross income from a trade or business other than insurance carried on by the LIC, or by a partnership of which the LIC is a partner. Include on this line section 1245, section 1250, and other ordinary gains on assets used in a noninsurance business from Form 4797. See the instructions under "Sales of business property and involuntary conversions," on page 5. Report expenses related to any trade or business other than insurance on line 19, page 1.

**Line 9. Tax-exempt interest.**— Enter the total tax-exempt interest income received or accrued during the tax year. Tax-exempt interest does not include interest received on securities acquisition loans as defined in section 133(b).

**Line 11. 100% qualifying dividends.**— Enter the total amount of dividends for which the percentage used to determine the deduction allowable under sections 243, 244, and 245(b) is 100%. Do not include dividends to the extent they are funded with tax-exempt interest or dividends that would not qualify as 100% dividends in the hands of the corporation. See section 812(e).

**Note:** *Multi-tiered corporate arrangements cannot be used to change the character of the tax-exempt interest and dividends received in an attempt to avoid exclusion.*

## Schedule C—Differential Earnings Amount

The differential earnings rate and the recomputed differential earnings rate for each tax year are computed by the Secretary on the basis of information submitted by the 50 largest domestic stock LICs and all mutual LICs. Neither rate can be negative. See Regulations section 1.809-9. The differential earnings rate for 1993 is zero. The recomputed differential earnings rate for 1992 is zero. See Rev. Rul. 94-53, 1994-36 I.R.B. 12.

To figure the differential earnings amount for 1994, multiply the average equity base (line 12, Schedule C) by the differential earnings rate for 1993. Enter the result on line 13, Schedule C. When determining the equity base, no item should be taken into account more than once.

See section 809 for definitions, computational information, transitional rules, and special adjustments that may be required.

## Schedule E—Policyholder Dividends

**Policyholder dividend** is any dividend or similar distribution to policyholders in their capacity as such. Policyholder dividends include all amounts paid or credited

(including an increase in benefits) where the amount is not fixed in the contract but depends on the corporation's experience or management's discretion, plus all excess interest, premium adjustments, and experience-rated refunds. Also, under section 808(e), any policyholder dividend which increases either the cash surrender value of the contract or other benefits payable under the contract, or which reduces the premium that otherwise has to be paid, is treated as having been paid to and returned by the policyholder to the company as a premium. When this happens, these amounts must be included in income on line 1, page 1.

Generally, a deduction for policyholder dividends is the amount actually paid or accrued during the tax year. However, mutual LICs must reduce this amount (but not below zero) by the differential earnings amount as determined under section 809. If a mutual LIC's differential earnings amount exceeds total policyholder dividends for the tax year, the company must reduce its ending reserves by the amount of the excess.

## Schedule F—Increase (Decrease) in Reserves and Company/Policyholder Share

Schedule F is used to compute: (1) the company's share percentage used in determining the company's share of the dividends-received deduction under section 805(a)(4); (2) the policyholders' share percentage used in determining the policyholders' share of tax-exempt interest for determining the increase or decrease in reserves under section 807; and (3) to determine if, under section 807, certain reserves decreased or increased for the tax year. A net decrease will be treated as includible in gross income, while a net increase will be treated as a deduction in computing LICTI.

The net increase or net decrease in reserves is figured by comparing the opening balance for reserves to the closing balance for reserves reduced by: (1) the policyholders' share of tax-exempt interest, and (2) for mutual LICs, the excess, if any (shown on line 8, Schedule E) of the differential earnings amount over deductible policyholder dividends determined without regard to section 809. For rules dealing with the method of computing reserves on contracts where interest is guaranteed beyond the end of the tax year, see section 811(d).

Reserve adjustments are not treated as interest expenses for allocation purposes under section 864(c). See section 818(f).

There are special rules for computing reserves of unearned premiums of certain non-life contracts. See section 807(e)(7)(A).

**Note:** *If the basis for determining the amount of any item referred to in section 807(c) (life insurance reserves, etc.) at the end of the tax year differs from the basis for the determination at the beginning of the tax year, see section 807(f).*

**Line 1. Life insurance reserves.**— For rules dealing with the method of computing life insurance reserves, see sections 807(d) and (e). Section 807(d)(2)(B) provides that the interest rate used to compute life insurance reserves is the greater of the applicable Federal interest rate (AFIR) or the prevailing state assumed interest rate (SAIR). See Rev. Rul. 94-11, 1994-7 I.R.B. 51.

**Line 2. Unearned premiums and unpaid losses.**— For sections 807 and 805(a)(1) the amount of the unpaid losses (other than losses on life insurance contracts) must be the amount of the discounted unpaid losses determined under section 846.

In general, section 846 provides that the amount of the discounted unpaid losses must be computed separately by each line of business (multiple peril lines must be treated as a single line of business) and by each accident year and must be equal to the present value of those losses determined by using the: (1) amount of the undiscounted unpaid losses; (2) applicable interest rate; and (3) applicable loss payment pattern. Special rules apply with respect to unpaid losses related to disability insurance (other than credit disability insurance), noncancelable accident and health insurance, cancelable accident and health insurance, and to the international and reinsurance lines of business. With regard to the special rules for discounting unpaid losses on accident and health insurance (other than disability income insurance), unpaid losses are assumed to be paid in the middle of the year following the accident year.

As a general rule, the amount of undiscounted unpaid losses means the unpaid losses shown in the annual statement. The amount of discounted unpaid losses determined under section 846 with respect to any line of business for an accident year cannot exceed the total amount of unpaid losses with respect to any line of business for an accident year as reported on the annual statement.

The applicable interest rate for each calendar year and the applicable loss payment pattern for each accident year for each line of business are determined by the Secretary. The applicable interest rate for 1994 is 7.45%, Rev. Proc. 94-47, 1994-31, I.R.B. 76. Also published in Rev. Proc. 94-47 are the applicable loss payment patterns for 1994. The applicable interest rates and applicable loss payment patterns for 1993 and 1992 are published in Rev. Rul. 92-104, 1992-2 C.B. 212, Rev. Proc. 93-29, 1993-2 C.B. 344, and Rev. Proc. 92-47, 1992-1 C.B. 980.

However, under section 846(e), corporations having sufficient historical experience to determine a loss payment pattern may, under certain circumstances, elect to use their own historical experience. If this election is made, the loss payment patterns will be based on the most recent calendar year for which an annual statement was filed before the beginning of the accident year. No election under section 846(e) will apply to any international or reinsurance line of

business. If the corporation elects to use its own loss payment pattern, be sure to check the "Yes" column for question 12 in Schedule M, Other Information. For more information regarding this election, see section 846(e) and Notice 88-100, 1988-2 C.B. 439.

Section 807(d)(4)(A)(ii) permits an election to recompute Federal interest rate every 5 years. In general, a LIC would apply the greater of the AFIR or the SAIR for the calendar year in which the contract is issued and the following 4 calendar years. In the fifth calendar year after the calendar year in which the contract was issued, they would begin using the AFIR in effect for that fifth calendar year or the prevailing SAIR for the calendar year in which the contract was issued, whichever is greater. This rate would then remain in effect for the 4 years after that. For each subsequent 5 year period, a similar recomputation would be required. Once made, the election is effective for contracts issued during that calendar year and any subsequent years, and may only be revoked with the consent of the Secretary.

**Line 3. Supplementary contracts.**—Enter the amount (discounted at the appropriate rate of interest) necessary to satisfy the obligations under insurance and annuity contracts, but only if the obligations do not involve (at the time the computation is made) life, accident, or health contingencies.

For this item, the appropriate rate of interest is the higher of the prevailing SAIR at the time the obligation first did not involve life, accident, or health contingencies or the rate of interest assumed by the corporation (at that time) in determining the guaranteed benefit. In no case, however, may the amount so determined for any contract be less than the net surrender value of the contract.

**Line 4. Dividend accumulations and other amounts.**—Enter the total dividend accumulations and other amounts held at interest in connection with insurance and annuity contracts.

**Line 5. Advance premiums.**—Enter the total premiums received in advance and liabilities for premium deposit funds. See section 807(e)(7)(A) for special rules for treatment of certain non-life reserves.

**Line 6. Special contingency reserves.**—Enter the total reasonable special contingency reserves under contracts of group term life insurance or group accident and health insurance which are established and maintained for the provision of insurance on retired lives, for premium stabilization, or for a combination thereof.

**Line 8. Increase (decrease) in reserves.**—In figuring the amount shown on line 8, any decrease in reserves must be computed without any reduction of the closing balance of section 807 reserves by the policyholders' share of tax-exempt interest. See the instructions for line 2, page 1.

**Note:** *In figuring the company's and policyholders' share percentages, carry the computations to enough decimal places to ensure substantial accuracy and to*

*eliminate any significant error in the resulting tax.*

**Lines 9–17.**—Lines 9 through 17 are used to compute the investment income ratio. The investment income ratio is the ratio that gross investment income less policy interest bears to LICGI including tax-exempt interest (excluding interest received on securities acquisition loans as defined in section 133(b)) less the amount of any increase in reserves.

**Note:** *In computing the amount entered on line 16, any decrease in reserves must be computed without any reduction of the closing balance of section 807 reserve items by the policyholders' share of tax-exempt interest.*

**Line 28.**—Multiply gross investment income (line 9) by 90% or, in the case of gross investment income related to assets held in segregated asset accounts under variable contracts, by 95%. Enter the result on line 28.

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## Schedule G—Policy Acquisition Expenses

For purposes of Section 848(b) all LIC members of the same controlled group are treated as one company. Any deduction determined for the group must be allocated among the LICs in the group in such a manner as the Secretary may prescribe.

**Line 1. Gross premiums and other consideration.**—**Gross premiums and other consideration**, generally is the total of: **(a)** all premiums and other consideration (other than amounts on reinsurance agreements), and **(b)** net positive consideration for any reinsurance agreement (see Regulations section 1.848-2(b)).

Include on this line: **(1)** advanced premiums; **(2)** amounts in a premium deposit fund or similar account, as permitted by Regulations section 1.848-2(b)(3); **(3)** fees; **(4)** assessments; **(5)** amounts that the insurance company charges itself representing premiums with respect to benefits for its employees (including full-time insurance salesmen treated as employees under section 7701(a)(20)); and **(6)** the value of a new contract issued in an exchange described in Regulations section 1.848-2(c)(2) or (3).

**Line 2. Return premiums and premiums and other consideration incurred for reinsurance.**—For purposes of section 848(d)(1)(B) and Regulations section 1.848-2(e), **return premiums** means amounts (other than policyholder dividends or claims and benefit payments) returned or credited to the policyholder. See Regulations sections 1.848-2(f) and 1.848-3 for how to treat amounts returned to another insurance company under a reinsurance agreement.

**Line 5.** The entries in columns 5(a), (b), or (c) may be positive or negative.

**Line 6.** If the sum of items in columns 5(a), (b), and (c) is negative, enter here. The result is a negative capitalization amount under section 848(f).

**Line 8.** If the amount on line 6 is negative, or if the unused balance of negative capitalization amounts from prior years (line 7) exceeds the positive amount on line 6, enter zero on line 8.

**Line 9. General deductions.**—**General deductions** means the deductions under sections 161 through 197, relating to itemized deductions, and sections 401 through 424, relating to pension, profit sharing, stock bonus plans, etc. Also include in general deductions, ceding commissions incurred for the reinsurance of a specified insurance contract. Do not include amortization deductions of specified policy acquisition expenses under sections 848(a) or (b). Skip line 9 if the corporation has elected out of the general deductions limitation. See Regulations section 1.848-2(g)(8).

**Note:** *If interest expense is included on line 9, do not also include it on page 1, line 16a.*

**Line 14. Deductible negative capitalization amount.**—The currently deductible negative capitalization amount from current or prior years, if any, is included here.

**Line 16. Phase-out amount.**—The amount of amortization for members of a controlled group and the phase-out of the group's specified policy acquisition expenses under section 848(b) must be allocated to each member in proportion to that member's specified policy acquisition expenses for the taxable year.

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## Schedule H—Small Life Insurance Company Deduction

To qualify for the small LIC deduction, a LIC must have less than: **(a)** \$15 million of tentative LICTI, **and (b)** \$500 million in assets.

The deduction for qualifying small LICs is 60% of the tentative LICTI for the tax year that does not exceed \$3 million. To the extent that tentative LICTI exceeds \$3 million, the deduction is phased out. The reduction in the deduction is equal to 15% of the tentative LICTI for the tax year that exceeds \$3 million.

In computing the small LIC deduction, all LIC members of the same controlled group are treated as one company. Any small LIC deduction determined with respect to the group must be allocated among the LICs in the group in proportion to their respective tentative LICTI.

In computing the small LIC deduction, the tentative LICTI for any tax year must be determined without regard to all items from noninsurance businesses.

**Noninsurance business** generally means any activity which is not an insurance business. However, under section 806(b)(3)(B), any activity which is not an insurance business shall be treated as an insurance business if: **(1)** it is of a type traditionally carried on by LICs for investment purposes, but only if the carrying on of the activity (other than real estate) does not constitute the active

conduct of a trade or business, or (2) it involves the performance of administrative services in connection with plans providing life insurance, pension, or accident and health benefits.

For the assets test, the assets of all members of a controlled group, as defined in section 806(c)(3), must be included, whether or not they are LICs. For information regarding the valuation of assets, see the instructions for Schedule L, Part I.

## Schedule I—Limitation on Noninsurance Losses

Section 806(b)(3)(C) provides that, in computing LICTI, any loss from noninsurance business is limited to the smaller of 35% of the loss or 35% of LICTI (computed by excluding any noninsurance loss included in arriving at LICTI on line 24, page 1). For more information on either the computation of the allowable loss deduction or on applicable carryback provisions, see section 1503(c).

## Schedule J, Part I—Shareholders Surplus Account

Section 815(c)(1) provides that each stock LIC (domestic or foreign) that had a policyholders surplus account on December 31, 1983, will continue to maintain a shareholders surplus account.

**Line 4.**—In determining the tax liability shown on this line, proper adjustments must be made for any year in which the alternative minimum tax is imposed or the minimum tax credit has been taken.

**Line 6.**—Enter all amounts treated under section 815 as distributions to shareholders. Any distribution to shareholders is treated as having been made first out of the shareholders surplus account, to the extent thereof.

## Schedule J, Part II—Policyholders Surplus Account

Section 815(d)(1) provides that every stock LIC (domestic or foreign) that had an existing policyholders surplus account on December 31, 1983, will continue to maintain the account. No additions can be made to this account; however, the account must be decreased by the amounts specified in section 815(d)(3). In addition, section 815(f) provides that, in general, the provisions of subsections (d), (e), (f), and (g) of section 815 as in effect before the enactment of the Tax Reform Act of 1984 ("Act of 1984") continue to be applicable to any policyholders surplus account for which there was a balance as of December 31, 1983.

Amounts subtracted from the policyholders surplus account for a tax year are added to LICTI and are subject to the tax imposed by section 801.

**Line 8.**—If the balance at the end of the preceding tax year differs from the balance at the beginning of the current tax year (for example, due to section 815(d)(5) as in effect prior to the Act of 1984), attach a schedule showing the adjustments made. Prior to the Act of 1984, section 815(d)(5) provided that if any addition to the policyholders surplus account increases or creates a loss from operations and part or all of the loss cannot be used in any other year to reduce the LIC's taxable income, then the loss will reduce the policyholders surplus account at the time that the addition was made. In this case, the beginning balance of the policyholders surplus account must be adjusted before any subtractions for the current tax year are made.

**Line 9a.**—If the total direct and indirect distributions to shareholders during the tax year exceeds the amount on Schedule J, Part I, line 5, enter the excess on line 9a.

**Line 9b.**—To figure the tax increase due to the amount entered on line 9a:

(1) subtract the corporation's tax rate from 100%; (2) divide the distributions on line 9a by the result of step 1; (3) subtract the amount on line 9a from the result of step 2; and (4) enter the result of step 3 on line 9b.

**Line 9c.**—To figure the amount to enter on line 9c: (1) determine the total amount to be subtracted from the policyholders surplus account under sections 815(d)(1) and 815(d)(4) as in effect prior to the Act of 1984 (do this only after the amounts on lines 9a and 9b are subtracted from the beginning balance in the policyholders surplus account); (2) add 100% to the corporation's tax rate; (3) divide the result of step 1 by the result of step 2; and (4) enter the result of step 3 on line 9c. The amount entered on line 9c must be added to the shareholders surplus account at the beginning of the next tax year.

**Line 9d.**—Subtract the result of step 3, line 9c, from the result of step 1, line 9c. Enter the result on line 9d.

**Line 9e.**—Enter the total amount to be subtracted from the policyholders surplus account under section 815(d)(2) as in effect prior to the Act of 1984. At that time, section 815(d)(2) provided that if, for any tax year, a corporation was not an insurance company, or if for any two successive tax years a corporation was not a LIC, then any balance remaining in the policyholders surplus account at the end of the last tax year that the corporation was a LIC must be included in taxable income for that tax year.

## Schedule K—Tax Computation

**Line 3.**—Most corporations figure their tax by using the Tax Rate Schedule below. Exceptions apply to members of a controlled group. See the instructions below the Tax Rate Schedule for more information.

## Tax Rate Schedule

If the amount on line 28, page 1 is:

Over—	But not over—	Its 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	-----	6,416,667 + 35%	18,333,333

### Members of a controlled group.—A

member of a controlled group, as defined in section 1563, must check the box on line 1 and complete lines 2a and 2b.

Members of a controlled group are entitled to one \$50,000, one \$25,000, and one \$9,925,000 taxable income bracket amount (in that order) on line 2a.

When a controlled group adopts or later amends an apportionment plan, each member must attach to its tax return a copy of its consent to this plan. The copy (or an attached statement) must show the part of the amount in each taxable income bracket apportioned to that member. See Regulations section 1.1561-3(b) for other requirements and for the time and manner of making the consent.

**Equal apportionment plan.**—If no apportionment plan is adopted, members of a controlled group must divide the amount in each taxable income bracket equally among themselves. For example, Controlled Group AB consists of Corporation A and Corporation B. They do not elect an apportionment plan. Therefore, Corporation A and Corporation B are entitled to \$25,000 (one-half of \$50,000) in the \$50,000 taxable income bracket on line 2a(1) and to \$12,500 (one-half of \$25,000) in the \$25,000 taxable income bracket on line 2a(2), and \$4,962,500 (one-half of \$9,925,000) in the \$9,925,000 taxable income bracket on line 2a(3).

**Unequal apportionment plan.**—Members of a controlled group may elect an unequal apportionment plan and divide the taxable income brackets as they wish. There is no need for consistency among taxable income brackets. Any member of the controlled group may be entitled to all, some, or none of the taxable income bracket. However, the total amount for all members of the controlled group cannot be more than the total amount in each taxable income bracket.

**Additional 5% tax.**—Members of a controlled group are treated as one corporation for purposes of figuring the applicability of the additional 5% tax that must be paid by the corporation with taxable income in excess of \$100,000. If the additional tax applies, each member of the controlled group will pay that tax based on the part of the amount that is used in each taxable income bracket to reduce that member's tax. See section 1561(a). Each member of the group must enter its share of the additional 5% tax on line 2b(1) and attach to its tax return a schedule that shows the taxable income of

## Worksheet for Members of a Controlled Group

**Note:** Each member of a controlled group must compute the tax using this worksheet.

1. Enter taxable income (line 28, page 1) . . . . . \_\_\_\_\_
2. Enter line 1 or the corporation's share of the \$50,000 taxable income bracket, whichever is less . . . . . \_\_\_\_\_
3. Subtract line 2 from line 1 . . . . . \_\_\_\_\_
4. Enter line 3 or the corporation's share of the \$25,000 taxable income bracket, whichever is less . . . . . \_\_\_\_\_
5. Subtract line 4 from line 3 . . . . . \_\_\_\_\_
6. Enter line 5 or the corporation's share of the \$9,925,000 taxable income bracket, whichever is less . . . . . \_\_\_\_\_
7. Subtract line 6 from line 5 . . . . . \_\_\_\_\_
8. Multiply line 2 by 15% . . . . . \_\_\_\_\_
9. Multiply line 4 by 25% . . . . . \_\_\_\_\_
10. Multiply line 6 by 34% . . . . . \_\_\_\_\_
11. Multiply line 7 by 35%. . . . . \_\_\_\_\_
12. If the taxable income of the controlled group exceeds \$100,000, enter this member's share of the smaller of: 5% of the taxable income in excess of \$100,000, or \$11,750. (See **Additional 5% tax** on page 12) . . . . . \_\_\_\_\_
13. If the taxable income of the controlled group exceeds \$15 million, enter this member's share of the smaller of 3% of the taxable income in excess of \$15 million, or \$100,000. (See **Additional 3% tax** on page 13) . . . . . \_\_\_\_\_
14. Add lines 8 through 13. Enter here and on line 3, Schedule K . . . . . \_\_\_\_\_

source. Section 29 contains a definition of qualified fuels, provisions for figuring the credit, and other special rules. Attach a separate schedule to the return showing the computation of the credit.

Also see Form 8827 if any of the 1993 credit is disallowed solely because of the tentative minimum tax limitation. Also see section 53(d).

**Qualified electric vehicle credit.**—Include on line 4b any credit from **Form 8834**, Qualified Electric Vehicle Credit. Vehicles that qualify for this credit are not eligible for the deduction for clean-fuel vehicles under section 179A.

**Orphan drug credit.**—To find out when a corporation can take this credit and how it is figured, see section 28 and **Form 6765**, Credit for Increasing Research Activities (or for claiming the orphan drug credit).

**Line 4c. General business credit.**—Complete this line if the corporation can take any of the following credits. Complete **Form 3800**, General Business Credit, if the corporation has two or more of these credits, a credit carryforward or carryback (including an ESOP credit), or a passive activity credit. Enter the amount of the general business credit on line 4c, and check the box for Form 3800. If the corporation has only one credit, enter on line 4c the amount of the credit from the form. Also be sure to check the appropriate box for that form.

**Investment credit.**—The investment credit was generally repealed for property placed in service after 1985. See **Form 3468**, Investment Credit, for exceptions.

**Jobs credit.**—The corporation may qualify to take this credit if it hired members of special targeted groups during the tax year. See **Form 5884**, Jobs Credit, for more information.

**Credit for alcohol used as fuel.**—A corporation may be able to take a credit for alcohol used as fuel. Use **Form 6478**, Credit for Alcohol Used As Fuel, to figure the credit.

**Credit for increasing research activities.**—See **Form 6765**, Credit for Increasing Research Activities, and section 41.

**Low-income housing credit.**—See **Form 8586**, Low-Income Housing Credit, and section 42.

**Enhanced oil recovery credit.**—A corporation may claim a credit for 15% of its qualified enhanced oil recovery costs. Use **Form 8830**, Enhanced Oil Recovery Credit, to figure the credit.

**Disabled access credit.**—A corporation may be able to take a credit for certain expenditures paid or incurred to assist individuals with disabilities. See **Form 8826**, Disabled Access Credit, and section 44.

**Renewable electricity production credit.**—A corporation may be able to take a credit for electricity produced by the corporation using closed-loop biomass or wind and sold to an unrelated person. See **Form 8835**, Renewable Electricity Production Credit, for details.

**Indian employment credit.**—A corporation may be able to claim a credit of 20% of a

the entire group as well as how its share of the additional tax was figured.

**Additional 3% tax.**—Members of a controlled group are treated as one corporation for purposes of figuring the additional 3% tax that must be paid by corporations with taxable income in excess of \$15 million. If the additional tax applies, each member of the controlled group will pay that tax based on the part of the amount that is used in each taxable income bracket to reduce that member's tax. See section 1561(a). Each member of the group must enter its share of the additional 3% tax on line 2b(2) and attach to its tax return a schedule that shows the taxable income of the entire group as well as how its share of the additional 3% tax is figured.

**Note:** Any gain recognized by any LIC from the redemption of any market discount bond issued before July 19, 1984, and acquired on or before September 25, 1985, is taxed at a rate of 31.6% only if it is less than the tax that otherwise would be imposed. See section 1011(d) of the Act of 1986 as amended by The Technical and Miscellaneous Revenue Act of 1988. Write on the dotted line to the left of line 3, "Tax differential rate of 31.8% used" and the amount.

**Deferred tax amount of a shareholder in a passive foreign investment company (section 1291).**—If the corporation was a shareholder in a passive foreign investment company (PFIC), and the corporation received an excess distribution or disposed of its investment in the PFIC during the year, it must include the total increases in taxes due under section 1291(c)(2) in the amount to be entered on line 3. Write on

the dotted line to the left of line 3, "Sec. 1291" and the amount.

Do not include on line 3 any interest due under section 1291(c)(3). Instead, show the amount of interest owed in the bottom margin of page 1, Form 1120-L and write "Section 1291 interest." For details, see **Form 8621**, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund.

**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 amount entered on line 3. On the dotted line next to line 3, write "Section 197" and the amount. For more information, see **Pub. 535**, Business Expenses.

**Line 4a. Foreign tax credit.**—To find out when a corporation can take this credit for payment of income tax to a foreign country or U.S. possession, see **Form 1118**, Foreign Tax Credit—Corporations.

**Line 4b. Other credits.**—**Possessions tax credit.**—For rules on how to elect to claim the possessions tax credit (section 936) see **Form 5712**, Election To Be Treated as a Possessions Corporation Under Section 936. Figure the credit on **Form 5735**, Possessions Corporation Tax Credit Allowed Under Section 936. Include the credit in the amount shown on line 4b. On the line to the left of the entry space, write the amount of the credit and identify it as a section 936 credit.

**Nonconventional source fuel credit.**—A credit is allowed for the sale of qualified fuels produced from a nonconventional

limited amount of the wages and health insurance costs paid or incurred by the corporation for qualified employees. A qualified employee is a member of an enrolled Indian tribe (or their spouse), who also meets certain other qualifications. See **Form 8845**, Indian Employment Credit, and section 45A.

**Credit for employer social security and Medicare taxes paid on certain employee tips.**—Food and beverage establishments may claim a credit equal to the employer's social security and Medicare obligations attributable to tips in excess of those treated as wages for purposes of the minimum wage laws. See **Form 8846**, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips, and section 45B.

**Credit for contributions to selected community development corporations.**—Corporations may claim a credit of 5% of qualified cash contributions to certain community development corporations (CDCs) selected by the Secretary of Housing and Urban Development. See **Form 8847**, Credit for Contributions to Selected Community Development Corporations.

**Note:** *The empowerment zone employment credit (described below) is a component of the general business credit, but is figured separately and is not carried to Form 3800.*

**Empowerment zone employment credit.**—A corporation that has employees that live and work for the corporation in an area designated by the Federal government as an "empowerment zone" may be able to take a credit for wages paid to certain employees. The credit is equal to 20% of the first \$15,000 of qualified wages and is limited to \$3,000 per year per employee. See **Form 8844**, Empowerment Zone Employment Credit, and section 1396.

**Line 4d. Credit for prior year minimum tax.**—To figure the minimum tax credit and any carryover of that credit, use **Form 8827**, Credit for Prior Year Minimum Tax—Corporations.

**Line 7. Foreign corporations.**—A foreign corporation carrying on an insurance business in the U.S. is taxed as a domestic LIC on its income effectively connected with the conduct of a trade or business in the U.S. See sections 842 and 897, and Notice 89-96, 1989-2 C.B. 417, for more information. See Rev. Proc. 92-27, 1992-1 C.B. 745, for the domestic asset/liability percentages and domestic investment yields needed by foreign insurance companies to compute their minimum effectively connected net investment income under section 842(b). Income from sources outside the U.S. from U.S. business is treated as effectively connected with the conduct of a trade or business in the U.S. For a definition of effectively connected income, see sections 864(c) and 897.

Generally, any other U.S. source income received by a foreign corporation that is not effectively connected with the conduct of a business in the U.S. is taxed at 30% (or at a lower treaty rate). See section 881. If the corporation has this income, attach a

schedule showing the kind and amount of income, the tax rate and the amount of tax.

**Note:** *Interest received from certain portfolio debt investments that were issued after July 18, 1984, is not subject to the tax.*

Additional taxes resulting from the net investment income adjustment may offset a corporation's 30% tax on U.S. source income. The tax reduction is determined by multiplying the 30% tax by the ratio of the amount of income adjustment to income subject to the 30% tax, computed without the exclusion for interest on state and local bonds or income exempted from taxation by treaty (section 842(c)(3)). Attach a statement showing how the reduction of section 881 tax was figured. Enter the net tax imposed by section 881 on line 7.

**Note:** *Section 842(c)(1) requires that foreign LICs make the investment income adjustment before claiming a small LIC deduction.*

Foreign mutual LICs are required to determine the amount of their policyholder dividends deduction by increasing their yearend equity base (under section 809) by the excess of their required U.S. assets over the mean of the assets held in the U.S. during that year. See section 842(c)(3).

**Note:** *Section 953(d) allows a foreign LIC to elect to be taxed as a domestic corporation. If this election is made, include the additional tax required to be paid, on line 10. Write on the dotted line to the left of line 10, "Sec. 953(d)" and the amount. See section 953(d) for more details.*

#### **Line 8. Recapture taxes.**—

**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 it may owe a tax. See **Form 4255**, Recapture of Investment Credit, for details.

**Recapture of low-income housing credit.**—If the corporation disposed of property (or there was a reduction in the qualified basis of the property) on which it took the low-income housing credit, it may owe a tax. See **Form 8611**, Recapture of Low-Income Housing Credit, and section 42(j) for details.

**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 by reason of wages paid or incurred to that employee must be recaptured. For details, see **Form 8845**, Indian Employment Credit, and section 45A. Include the amount of the recapture in the total for line 8, Schedule K. On the dotted line next to the entry space, write "IEC recapture" and the amount.

**Recapture of qualified electric vehicle (QEV) credit.** The corporation must recapture part of the QEV credit it claimed in a prior year, if, within 3 years of the date the vehicle was placed in service, it ceases

to qualify for the credit. Get Pub. 535 to see how to figure the recapture. Include the amount of the recapture in the total for line 8, Schedule K. On the dotted line next to the entry space, write "QEV recapture" and the amount.

**Line 9a. Alternative minimum tax.**—The corporation may owe the alternative minimum tax if it has any of the adjustments and tax preference items listed on **Form 4626**, Alternative Minimum Tax—Corporations. The corporation must file Form 4626 if its taxable income (loss) 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).

Reduce alternative minimum tax by any amount on Form 3800, Schedule A, line 34 (or Form 8844, line 20). On the dotted line to the left of line 9a, write "Sec. 38(c)(3) (or "EZE")" and the amount(s).

**Note:** *See section 56(g)(4)(B)(ii) for special rules for LICs for the computation of adjusted current earnings.*

**Line 9b. Environmental tax.**—The corporation may be liable for the environmental tax if the modified alternative minimum taxable income of the corporation exceeds \$2 million. See Form 4626 for details.

**Line 10. Total tax.—Interest on tax deferred under the installment method for certain nondealer installment obligations.** If an obligation arising from the disposition of property to which section 453A applies is outstanding at the close of the tax year, the corporation must include the interest due under section 453A(c) on line 10, Schedule K. Write on the dotted line to the left of line 10, Schedule K, "Section 453A(c) interest" and the amount. Attach a schedule showing the computation.

#### **Deferred tax and interest on undistributed earnings of a qualified electing fund under section 1294.**

Complete Form 8621 to determine the corporation's share of tax attributable to the undistributed earnings of a qualified electing fund, or the deferred tax due, if any, as a result of the termination of a section 1294 election. See the instructions for Form 8621 to figure the amount of tax to include in, or subtract from, the total on line 10. Form 8621 also explains how to report any interest due under section 1294 on the deferred tax.

## **Schedule L**

All filers must complete Parts I and II of Schedule L.

**Note:** *Foreign LICs should report assets and insurance liabilities for their U.S. business only.*

### **Part I—Total Assets**

For Schedule L, **assets** means all assets of the corporation. In valuing real property and stocks, use fair market value; for other assets, use the adjusted basis as

determined under section 1011, and related sections, without regard to section 818(c). An interest in a partnership or trust is not itself treated as an asset of the corporation. Instead, the corporation is treated as actually owning its proportionate share of the assets held by the partnership or trust. The value of the corporation's share of these assets should be listed on line 3.

## Part II—Total Assets and Total Insurance Liabilities

Foreign LICs must maintain a certain surplus of U.S. assets over their U.S. insurance liabilities. The minimum required surplus is determined by multiplying their U.S. insurance liabilities by a percentage determined by the Secretary. The Secretary determines the percentage from data supplied by domestic LICs in Schedule L, Part II. See section 842.

For Schedule L, **total insurance liabilities** means the sum of the following amounts as of the end of the tax year: (1) total reserves as defined in section 816(c); plus (2) the items referred to in paragraphs (3), (4), (5), and (6) of section 807(c), to the extent such amounts are not included in total reserves.

Foreign LICs, see Notice 89-96, 1989-2 C.B. 417, for more information on determining total insurance liabilities on U.S. business.

## Schedule M—Other Information

The following instructions apply to questions 1 through 16 on page 8, Form 1120-L. Be sure to answer all of the questions that apply to the corporation.

**Question 6.**—Check the “Yes” box for question 6 if either 1 or 2 below applies to the corporation:

1. The corporation is a subsidiary in an affiliated group (defined below), but is not filing a consolidated return for the tax year with that group.

2. The corporation is a subsidiary in a parent-subsidiary controlled group (defined below).

Any corporation that meets either of the requirements above should check the “Yes” box. This applies even if the corporation is a subsidiary member of one group and the parent corporation of another.

**Note:** *If the corporation is an “excluded member” of a controlled group (see section 1563(b)(2)), it is still considered a member of a controlled group for this purpose.*

**Affiliated group.**—**Affiliated group** means one or more chains of includible corporations (section 1504(a)) connected through stock ownership with a common parent corporation. The common parent must be an includible corporation and the following requirements must be met:

1. The common parent must own directly stock that represents at least 80% of the total voting power and at least 80% of the

total value of the stock of at least one of the other includible corporations.

2. Stock that represents at least 80% of the total voting power, and at least 80% of the total value of the stock of each of the other corporations (except for the common parent) must be owned directly by at least one of the other includible corporations.

For this purpose, **stock** generally does not include any stock that (a) is nonvoting, (b) is nonconvertible, (c) is limited and preferred as to dividends and does not participate significantly in corporate growth, and (d) has redemption and liquidation rights that do not exceed the issue price of the stock (except for a reasonable redemption or liquidation premium). See section 1504(a)(4).

**Parent-subsidiary controlled group.**—The term **parent-subsidiary controlled group** means one or more chains of corporations connected through stock ownership (section 1563(a)(1)). Both of the following requirements must be met:

1. 80% of the total combined voting power of all classes of stock entitled to vote or at least 80% of the total value of all classes of stock of each corporation in the group (except the parent) must be owned by one or more of the other corporations in the group.

2. The common parent must own at least 80% of the total combined voting power of all classes of stock entitled to vote or at least 80% of the total value of all classes of stock of at least one of the other corporations in the group. Stock owned directly by other members of the group is not counted when computing the voting power or value.

See section 1563(d)(1) for the definition of “stock” for purposes of determining stock ownership above.

**Question 8.**—Check the “Yes” box if one foreign person owned at least 25% of (a) the total voting power of all classes of stock of the corporation entitled to vote or (b) the total value of all classes of stock of the corporation.

The constructive ownership rules of section 318 apply in determining if a corporation is foreign-owned. See section 6038A(c)(5) and the related regulations.

Enter on line 8a the percentage owned by the foreign person specified in question 8. On line 8b, write the name of the owner's country.

**Note:** *If there is more than one 25%-or-more foreign owner, complete lines 8a and 8b for the foreign person with the highest percentage of ownership.*

**Foreign person.**—The term **Foreign person** means:

- A foreign citizen or nonresident alien,
- An individual who is a citizen of a U.S. possession (but who is not a U.S. citizen or resident),
- A foreign partnership,
- A foreign corporation,
- Any foreign estate or trust within the meaning of section 7701(a)(31), or
- A foreign government (or one of its agencies or instrumentalities) to the extent that it is engaged in the conduct of a

commercial activity as described in section 892.

For individuals, the term “Owner's country” means the country of residence. For all others, it is the country where incorporated, organized, created, or administered.

**Requirement to file Form 5472.**—If the corporation checked “Yes” to Question 8, it may have to file **Form 5472**, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Generally, a 25% foreign-owned corporation that had a reportable transaction with a foreign or domestic related party during the tax year must file Form 5472. Form 5472 must be filed by the due date of the corporation's income tax return (including extensions). Attach Form 5472 to the tax return and file a copy of Form 5472 with the Internal Revenue Service Center, Philadelphia, PA 19255.

If the corporation's tax return is not filed when due, Form 5472 must nevertheless be timely filed at the service center where the tax return is due (with a copy to Philadelphia). When the tax return is filed, attach a copy of the previously filed Form 5472.

**Penalties for failure to file Form 5472.**—If a corporation doesn't file Form 5472 as described above, a \$10,000 penalty applies. The penalty also applies for failure to maintain records as required by Regulations section 1.6038A-3. For details, see Form 5472.

**Question 10. Foreign financial accounts.**—Check the “Yes” box if either 1 or 2 below applies to the corporation; otherwise, check the “No” box:

1. At any time during the calendar year 1994 the corporation had an interest in or signature or other authority over a bank, securities, or other financial account in a foreign country; and

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

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

2. The corporation owns more than 50% of the stock in any corporation that would answer “Yes” to 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 financial account in a foreign country.

If “Yes” is checked for this question, file Form TD F 90-22.1 by June 30, 1995, 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 Form 1120-L.

You may get Form TD F 90-22.1 from an IRS Forms Distribution Center or by calling 1-800-TAX-FORM (1-800-829-3676).

Also, if “Yes” is checked for this question, write the name of the foreign country or countries. Attach a separate sheet if more space is needed.



**Question 15.**—Check the box on line 15 if the corporation elects under section 810(b)(3) to forgo the carryback period for an operating loss.

**Question 16.**—Enter the amount of the operations loss carryover to the tax year

from prior years, regardless of whether any of the loss is used to offset income on this return. The amount to enter is the total of all operating losses generated in prior

years but not used to offset income (either as a carryback or carryover) in a tax year prior to 1994. Do not reduce the amount by any OLD reported on line 21, page 1.

