



Instructions for Form 1120-ND (November 1986)

Return for Nuclear Decommissioning Funds and Certain Related Persons

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

Tax Highlights

The Tax Reform Act of 1984 added section 468A to the Internal Revenue Code. This section sets out the rules for creating nuclear decommissioning funds by public utilities. The cash contributed to these funds and the income accumulated by the funds will be used to pay future costs of decommissioning nuclear power plants and to pay the administrative costs of the funds each year. The income on the investments of these funds is taxed at the highest tax rate that applies to corporations.

The Act also sets out rules making trustees of the fund and certain related persons liable for excise taxes on acts of self-dealing as defined in section 4951.

The Tax Reform Act of 1986 provides that nuclear decommissioning funds will be treated as corporations. This law also changes the tax rates for corporations. The new law reduces the highest tax rate from 46% to 34% and becomes effective on July 1, 1987. The change in tax rates means that certain funds having tax years beginning in 1986 and 1987 must make a dual computation to determine their tax on modified gross income. All funds using a calendar year accounting period must make the dual computation for 1987. The dual computation is explained in the instructions for Part II.

The Tax Reform Act of 1986 also requires nuclear decommissioning funds to pay estimated taxes. The method for determining estimated tax is explained in the General Instructions.

General Instructions

Purpose

The Form 1120-ND is used by nuclear decommissioning funds to report contributions received, income earned, the administrative expenses of operating the fund, and the tax on the income earned. If there are initial taxes on self-dealers or trustees of the fund, the return is also used to report and pay the section 4951 taxes on self-dealing.

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Filing Form 1120-ND

A. Who Must File.—All section 468A nuclear decommissioning funds must file Form 1120-ND. A disqualified person engaging in self-dealing must file Form 1120-ND to report the initial tax under section 4951. A trustee who meets the conditions set out in section 4951(a)(2) also must file Form 1120-ND to report the initial tax under that section.

Each person liable for filing a return to pay any tax reportable on this form must file a separate return.

When a return is filed by a self-dealer or trustee it must show the EIN of the related fund in the heading.

A self-dealer or trustee filing this form to report and pay the tax under section 4951 should complete only the following parts of the form:

- The heading;
- The signature, and, if applicable, the paid preparer's section;
- Part V, lines 5a(1), (2), (3), and (5); and
- The appropriate lines in Part VI, Sections A and B.

B. Accounting Period and Method of the fund.—The return must be on the same tax year as that of the creating public utility. If the utility changes its tax year, the fund must make the same change to its tax year. Gross income and deductions must be figured on the cash basis of accounting.

C. Self-dealing Period To Be Covered by the Return.—Report acts of self-dealing for the tax year of the self-dealer. The principles for reporting acts of self-dealing are set out in Rev. Rul. 75-391, 1975-2 C.B. 446.

D. When and Where To File.—The return of the fund must be filed by the 15th day of the third month following the close of the fund's tax year. Returns of trustees or self-dealers who owe tax under section 4951 must be filed by the same date as the fund's return if their tax years are the same as the fund's. The returns of trustees or self-dealers having different tax years must be filed by the 15th day of the third month after the close of the tax year of the trustee or self-dealer.

If the fund's principal business office is located in

New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)

Use the following Internal Revenue Service Center address

Holtsville, NY 00501

New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
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Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101
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Michigan, Kentucky, Ohio, West Virginia	Cincinnati, OH 45999
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Arkansas, Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
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Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra, 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, Minnesota, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
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California (all other counties), Hawaii	Fresno, CA 93888
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Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
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Indiana, North Carolina, Tennessee, Virginia	Memphis, TN 37501
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Delaware, District of Columbia, Maryland, Pennsylvania, foreign countries and U.S. possessions	Philadelphia, PA 19255
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E. Extension of Time To File.—File Form 7004 to request an automatic 6-month extension of time to file Form 1120-ND.

Taxpayer Identification Number.—Use social security numbers to identify individual persons. Use employer identification numbers to identify trusts, corporations, and similar nonindividual persons.

Signature

The return of the fund must be signed and dated by an authorized trustee. The return of any individual who engaged in an act of self-dealing must be signed and dated by that individual.

If a fund trustee fills in Form 1120-ND, the Paid Preparer's space under "Signature of person filing return" should remain blank. If someone prepares Form 1120-ND and does not charge the fund, that person should not sign the return. Certain others who prepare Form 1120-ND also should not sign; for example, a regular, full-time employee of the fund such as a clerk, secretary, etc., does not have to sign in the paid preparer's space.

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

The preparer required to sign the return MUST complete the required preparer information and:

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

Tax return preparers should be familiar with their responsibilities. See **Publication 1045**, Information and Order Blanks for Preparers of Federal Income Tax Returns, for more details.

Rounding Off to Whole-Dollar Amounts

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

Depository Method of Tax Payment

The fund must pay the tax due in full within 2½ months after the end of the tax year. "Tax due" is the amount on line 16.

The depository method does not apply to the penalty taxes reported in Part VI. Pay those taxes with the return when it is filed.

Deposit income tax payments (and estimated tax payments) with a Federal Tax Deposit Coupon (**Form 8109**).

Make these deposits with either a financial institution qualified as a Depository for Federal taxes or the Federal Reserve Bank or Branch serving the geographical area where the fund is located. Do not submit deposits directly to an IRS office. Otherwise, the fund may be subject to a 10% Federal Tax Deposit penalty. Records of deposits will be sent to IRS for crediting to the fund's account. See the instructions contained in the coupon book (Form 8109) for more information.

To get more deposit forms use the reorder form (**Form 8109A**) provided in the coupon book.

For more information concerning deposits, see **Publication 583**, Information for Business Taxpayers.

Estimated Tax

A fund must make estimated tax payments if it can expect its estimated tax (modified gross income tax minus credits) to be \$40 or more for the year.

The penalty taxes under section 4951 are not subject to the estimated tax provisions.

For a tax year ending before July 1, 1987, multiply the estimated taxable income for the year by 46%.

For a tax year that ends on or before May 31, 1988, and that includes the date July 1, 1987, follow the instructions for line 13 and complete the worksheet (the amount on line (e) is the estimated tax for such a year).

For a tax year that begins after June 30, 1987, multiply the estimated taxable income for the year by 34%.

To determine how many installment payments the fund must make under the depository method, see the chart on the back of **Form 1120-W**, Corporation Estimated Tax. Divide your estimated tax by the number of installments the fund is required to make to determine the amount of each installment. In addition, Form 1120-W provides information on how and where to make estimated tax payments.

If the fund overpaid estimated tax, it may be able to get a "quick refund" by filing **Form 4466**, Corporation Application for Quick Refund of Estimated Tax. The overpayment must be both: (1) at least 10% of expected modified income tax liability, and (2) at least \$500. To apply, file Form 4466 within 2½ months after the end of the tax year and before the fund files its tax return.

Penalties

A fund may avoid penalties and interest by correctly filing a return and paying the tax when due. The fund may have to pay the following penalties unless it can show that failure to file or to pay was due to reasonable cause and not willful neglect. (These penalties are in addition to the interest charge on unpaid tax at a rate under section 6621.)

- A fund that fails to file its tax return when due (including any extensions of time for filing) may be subject to a penalty of 5% a month or fraction of a month, up to a maximum of 25%, for each month the return is not filed. (The penalty is imposed on the net amount due.) The minimum penalty for failure to file a tax return within 60 days of the due date for filing (including extensions) is the lesser of the underpayment of tax or \$100.

- In general, the penalty for late payment of tax is ½% for each month (or part of a month) the tax remains unpaid. The maximum penalty is 25% of the unpaid tax.

If a fund does not file its return on time, the Service may charge both the late filing penalty and the late payment penalty.

Other Forms That May Be Required

The fund may have to file the following:

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

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

Attachments.—Use the entry spaces contained on the official form unless there are not enough entry spaces for your needs. Attachments must: (1) show the form number and tax year, (2) contain the name and employer identification number of the organization, (3) include the information required by the form, (4) follow the format and line sequence of the form, and (5) be on the same size paper as the form.

Specific Instructions Employer Identification Number

A fund that does not have an EIN should apply for one on **Form SS-4**, Application for Employer Identification Number. Obtain this form at most IRS or Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center

to which Form 1120-ND is mailed. If the EIN has not been received by the filing time for Form 1120-ND, write "Applied for" in the space for the EIN.

For more information concerning an EIN, see Publication 583.

A. Completing the heading.—The name and employer identification number of the fund must be entered on every Form 1120-ND that is filed. If the return is filed by a trustee or disqualified person liable for tax under section 4951 then that person's name and social security number must also be entered in the appropriate spaces.

The address block should show the address of the fund or, if applicable, the address of any other person filing the return.

B. "Return filed by" section.—Check only the box that applies to you.

(1) When filed by a fund, check the "Fund" box.

(2) When filed by a trustee because of liability for taxes under section 4951, check the "Trustee" box.

(3) When filed by a disqualified person who is liable for section 4951 tax, check the "Disqualified person" box.

(4) File the return as directed in General Instruction A.

Part I.—Income and Deductions of Fund

Numbers for Part I correspond to line numbers on the form.

Line 1—Interest.—Enter the total taxable interest income received for the year including any original issue discount. Do not include any tax-exempt interest here; report it in Part V as an item of information.

Line 2—Net gain, if any, from sale or other disposition of assets.—The fund must recognize gain (or loss) upon the actual or deemed distribution of assets held by the fund. The amount realized is the fair market value of the asset as of the date of distribution.

Report the net gain on this line. Any losses from the sale or other disposition of assets may be used to offset gains, but only to the extent of the gains. If losses exceed gains enter a "0" on this line (see sections 165(f) and 1211(a)).

Line 3—Other income.—Enter the total amount of taxable income from other sources not listed above. Attach a schedule showing the amounts and sources of any other income.

Line 4—Gross income.—Add lines 1 through 3 and enter the total amount.

Deductions

Note: No deduction is allowed for certain expenses that are allocable to tax-exempt income (see section 265). In addition, no deduction is allowed for expenses paid to the creating public utility. Such payments, however, must be reported in Part V, line 1b.

Line 5—Compensation of trustees.—Enter the total amount of compensation paid to the trustees during the year.

Line 6—Other salaries and wages.—Enter the total amount of salaries and wages paid to others during the year.

Line 7—Accounting and legal services.—Enter the total amount paid for accounting and legal services during the year. Attach a schedule detailing the amounts for each kind of service.

Line 8—Investment expenses.—Enter the total amount paid for investment advice or other expenses related to investments during the year.

Line 9—Actuarial expenses.—Enter the total amount paid to actuaries during the year.

Line 10—Other administrative costs.—Enter the total amount of other administrative costs including state and local taxes paid during the year.

Line 11—Total deductions.—Enter the total of lines 5 through 10.

Line 12a—Modified gross income before net operating loss deductions.—Subtract line 11 from line 4.

Line 12b—Net operating loss deduction.—Enter the amount of any net operating loss allowed by regulations section 1.468A-4T(b)(4). If this deduction is taken, explain its computation on an attached schedule.

Line 12c—Modified gross income.—Subtract line 12b from line 12a. This is the amount used to figure the tax on income.

Part II.—Figuring and Paying the Tax

Line 13—Total Income Tax.—Funds whose tax year is the 1986 calendar year and funds whose tax year is a fiscal year ending before July 1, 1987, complete line 13 for 1986 by multiplying the amount on line 12c by 46%.

Funds whose tax year is a fiscal year ending on or before May 31, 1988, that includes the date July 1, 1987, and funds whose tax year is the 1987 calendar year, must make a tax computation according to section 15. The computation is necessary because of changes in the tax rate made by the Tax Reform Act of 1986. There are two tax rates for different parts of the tax year. The 46% rate applies to that part of the tax year occurring before July 1, 1987, and the 34% rate applies to that part of the tax year occurring after June 30, 1987. Use the worksheet to figure the correct amount of tax. This worksheet may also be used to figure the fund's estimated taxes for this particular tax period.

Funds whose tax year begins on or after July 1, 1987, multiply the amount on line 12c by 34% to determine their tax.

Tax Computation Worksheet

- (a) Multiply amount from line 12c, Form 1120-ND by 46% _____
- (b) Multiply amount from line 12c, Form 1120-ND by 34% _____
- (c) Multiply amount on line (a) by a fraction: $\frac{\# \text{ days before } 7/1/87}{\# \text{ days in year}}=$ _____
- (d) Multiply amount on line (b) by a fraction: $\frac{\# \text{ days after } 6/30/87}{\# \text{ days in year}}=$ _____
- (e) Total (add (c) and (d)) (carry amount to line 13, Form 1120-ND) _____

Line 14—Credits and payments.—No credits are allowed other than those on lines 14a through 14d.

a. Overpayment of tax from prior year.—Enter the amount of tax overpayment from prior year allowed as a credit.

b. Estimated tax payments.—Enter the amount of estimated tax payments made during the year.

c. Refund of prior year estimated tax.—If the fund overpaid its estimated tax, it may file Form 4466, for a "quick refund." Enter the amount of prior year estimated tax refunded, from Form 4466. Subtract this amount from lines 14a and 14b and enter the net amount in the center column.

d. Tax deposited with Form 7004.—Enter the amount of tax paid with application for extension of time to file.

e. Total credits and payments.—Enter the total of lines 14a through 14d.

Line 15—Penalty for underpayment of estimated tax.—Enter amount of any penalty from Form 2220.

Line 16—Tax due.—Add the amounts on lines 13 and 15. If the total is more than line 14e, enter the tax owed.

Line 17—Overpayment.—If line 14e is more than the total of lines 13 and 15, enter the overpayment.

Line 18—Overpayment to be credited or refunded.—Any overpayment on line 17 can be all refunded, all credited to next year's estimated tax, or allocated between the two. In the spaces provided, enter the amount(s) to be credited to next year's estimated tax or refunded.

Part III.—Total Assets and Capital Account

Complete this part of the return on the basis of the accounting method regularly used by the fund in keeping its books and records.

Part IV.—Compensation of Trustees

Enter the name, social security number, expense account and other allowances, and compensation for each trustee of the fund.

The fund's trustees should include all payments and allowances made to them or on their behalf in their income unless the payments are specifically excluded by some provision of the Code.

Part V.—Questionnaire

Except for line 1 which requires entries of cash amounts, every question should be answered "Yes," "No," or "N/A," when the return is filed by the fund. Trustees and self-dealers see the instructions under "Who Must File." The purpose of these questions is to determine whether there have been any acts of self-dealing between the fund and one or more trustees or other disqualified persons for which an initial tax should be imposed, and whether the fund meets the qualification requirements of the Code and regulations.

Part VI.—Initial Taxes on Self-Dealing (Section 4951)

Initial taxes on self-dealer.—An initial tax of 10% of the amount involved is imposed on each act of self-dealing between a disqualified person and a nuclear decommissioning fund covering each year (or part of a year) in the taxable period. The tax will be paid by any disqualified person (other than a trustee acting only as such) who participated in the act of self-dealing.

Initial Taxes on Trustee.—When a tax is imposed on an act of self-dealing, a tax of 2½% of the amount involved is imposed on any trustee who participated in the act, knowing that it was such an act (except those trustees whose participation was not willful and was due to reasonable cause), for each year (or part of a year) in the taxable period. The tax will be paid by any trustee who participated in the act of self-dealing. The line items in this Part are self-explanatory.