



# Instructions for Form 1120-PC

## U.S. Property and Casualty Insurance Company Income Tax Return

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

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### Future Developments

For the latest information about developments related to Form 1120-PC and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form1120PC](https://www.irs.gov/Form1120PC).

Additional guidance may be issued subsequent to the publication of these instructions. Please review any additional information in the website prior to the completion of the form.

### What's New

**Tax rate.** The tax is 21 percent of taxable income. See section 11, as amended by P.L. 115-97.

**Alternative minimum tax.** The alternative minimum tax does not apply to corporations for tax years beginning after December 31, 2017. In addition, corporations may treat a portion of their prior year alternative minimum tax credit carryover as refundable. See Form 8827.

**Base erosion minimum tax (BEAT).** See Form 8991 and its instructions to determine whether the corporation is subject to the base erosion minimum tax under section 59A.

**Schedule I, Line 15.** New question 15 requires the corporation to report whether it has gross receipts of at least \$500 million in any one of the 3 preceding tax years. See the Instructions for Form 8991 for further guidance on the determination of gross receipts and, if so required, complete and attach Form 8991 to this return.

**Schedule I, Line 16.** Under section 267A, a deduction for certain interest or royalty paid or accrued to a related party pursuant to a hybrid transaction or by, or to, a hybrid entity may be disallowed to the extent the related party, under its tax laws, does not include the amount in income or is allowed a deduction with respect to the amount.

**Global intangible low-taxed income included in gross income of United States shareholders (GILTI).** Generally, each United States shareholder of any controlled foreign corporation must include in gross income global intangible low-taxed income for tax years of those foreign corporations beginning after 2017

that end with or within the shareholder's tax year. See section 951A, as added by P.L. 115-97, and Form 8992.

**Deduction for foreign-derived intangible income and global intangible low-taxed income.** A domestic corporation may be allowed a deduction related to the sum of its foreign-derived intangible income (FDII) and global intangible low-taxed income (GILTI) for tax years beginning after 2017. See section 250, as added by P.L. 115-97, and Form 8993.

**Special estimated tax payments.** P.L. 115-97 repealed section 847 (Special estimated tax payments) for tax years beginning after 2017. See Form 8816 and its instructions.

**Modification of proration rules for property and casualty insurance companies.** P.L. 115-97, modified the reduction of deduction under section 832(b)(5)(B) in Schedule F. See [Reduction of deduction under section 832\(b\)\(5\)\(B\)](#).

**Domestic production activities deduction (DPAD).** The DPAD has been repealed for tax years beginning after December 31, 2017, with limited exceptions. See [Schedule A, Line 31. Other deductions](#).

**Treatment of deferred foreign income upon transition to participation exemption system of taxation.** Direct and indirect U.S. owners of specified foreign corporations may have an inclusion under section 965 based on the accumulated post-1986 deferred foreign income of the specified foreign corporations. See section 965, as amended by P.L. 115-97.

**Limitation on business interest.** There are new business interest rules for tax years beginning after 2017. See section 163(j) and Form 8990.

**Deduction for foreign-source portion of dividends received by domestic corporations from specified 10%-owned foreign corporations.** P.L. 115-97 enacted new section 245A. Section 245A permits certain domestic corporations that are U.S. shareholders of specified 10%-owned foreign corporations a 100% deduction for the foreign source portion of any dividend received from that specified 10%-owned foreign corporation. Section

245A applies to all dividend distributions after December 31, 2017.



*At the time these instructions went to print, several credits and deductions available to corporations expired December 31, 2017. To find out if legislation extended the credits and deductions and made them available for 2018, go to [IRS.gov/Extenders](https://www.irs.gov/Extenders).*

## Reminders

**Patient-centered outcomes research institute fee.** The Patient-Centered Outcomes Research Institute fee is imposed on issuers of specified health insurance policies (section 4375) and plan sponsors of applicable self-insured health plans (section 4376) for policy and plan years ending on or after October 1, 2012.

See Form 720 and its instructions for more information.

**Foreign-owned domestic disregarded entities reporting.** A foreign-owned domestic disregarded entity may be required to file Form 5472 even if otherwise exempt from filing a return. See [Foreign-owned domestic disregarded entities](#) in the instructions for [Who Must File](#), later.

**Form 8975.** Certain U.S. persons that are the ultimate parent entity of a U.S. multinational enterprise group with annual revenue for the preceding reporting period of \$850 million or more are required to file Form 8975. Form 8975 and its Schedules A (Form 8975) must be filed with the income tax return of the ultimate parent entity of a U.S. multinational enterprise group for the tax year in or within which the reporting period covered by Form 8975 ends. For more information, see Form 8975 and Schedule A (Form 8975) and their instructions.

## Photographs of Missing Children

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

## The Taxpayer Advocate Service

The Taxpayer Advocate Service (TAS) is an **independent** organization within the IRS that helps taxpayers and protects taxpayer rights. TAS's job is to ensure that every taxpayer is treated fairly and knows

and understands their rights under the [Taxpayer Bill of Rights](#).

As a taxpayer, the corporation has rights that the IRS must abide by in its dealings with the corporation. TAS can help the corporation if:

- A problem is causing financial difficulty for the business,
- The business is facing an immediate threat of adverse action, and
- The corporation has tried repeatedly to contact the IRS but no one has responded, or the IRS hasn't responded by the date promised.

The TAS tax toolkit at [TaxpayerAdvocate.IRS.gov](#) can help the corporation understand these rights.

TAS has offices in every state, the District of Columbia, and Puerto Rico. Local advocates' numbers are in their local directories and at [TaxpayerAdvocate.IRS.gov/Contact-Us](#). The corporation also can call TAS at 1-877-777-4778.

TAS also works to resolve large-scale or systemic problems that affect many taxpayers. If the corporation knows of one of these broad issues, please report it to TAS through the Systemic Advocacy Management System at [IRS.gov/SAMS](#).

For more information, go to [IRS.gov/Advocate](#).

## How To Get Forms and Publications

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

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

**Tax forms and publications.** The corporation can download or print all of the forms and publications it may need on [IRS.gov/FormsPubs](#). Otherwise, the corporation can go to [IRS.gov/OrderForms](#) to place an order and have forms mailed to it. The corporation should receive its order within 10 business days.

## General Instructions

### Purpose of Form

Use Form 1120-PC, U.S. Property and Casualty Insurance Company Income Tax Return, to report the income, gains, losses, deductions, credits, and to figure the income tax liability of insurance

companies, other than life insurance companies.

## Who Must File

Every domestic nonlife insurance company and every foreign corporation that would qualify as a nonlife insurance company subject to taxation under section 831, if it were a U.S. corporation, must file Form 1120-PC. This includes organizations described in section 501(m)(1) that provide commercial-type insurance and organizations described in section 833.

**Exceptions.** A nonlife insurance company that is:

- Exempt under section 501(c)(15) should file Form 990, Return of Organization Exempt from Income Tax;
- Subject to taxation under section 831, and disposes of its insurance business and reserves, or otherwise ceases to be taxed under section 831, but continues its corporate existence while winding up and liquidating its affairs, should file Form 1120, U.S. Corporation Income Tax Return.

**Life insurance companies.** Life insurance companies should file Form 1120-L, U.S. Life Insurance Company Income Tax Return.

**Foreign-owned domestic disregarded entities.** For tax years beginning after 2016 and ending after December 12, 2017, if a foreign person, including a foreign corporation, wholly owns a domestic disregarded entity (DE), the domestic DE is treated as a domestic corporation separate from its owner (the foreign corporation) for purposes of the reporting requirements under section 6038A that apply to 25% foreign-owned domestic corporations. These rules apply to a domestic DE owned by a foreign insurance company that makes an election under section 953(c)(3)(C) but do not apply to a domestic DE owned by a foreign insurance company that makes an election under section 953(d) (for information on these elections, see the instructions for Item D). If a foreign insurance company electing under section 953(c)(3)(C) wholly owns a domestic DE, the DE may be required to file Form 5472. For additional information and coordination with Form 5472 filing by the domestic DE, see the Instructions for Form 5472.

## Electronic Filing

See [IRS.gov/Filing](#) for the latest information. Also, see [IRS.gov/MeF](#) and click on the link for "Modernized e-File Forms" for information on which forms the corporation can or must *e-file*.

## When To File

Generally, a corporation must file its income tax return by the 15th day of the 4th month after the end of its tax year. A new corporation filing a short-period return generally must file by the 15th day of the 4th month after the short period ends. A corporation that has dissolved generally must file by the 15th day of the 4th month after the date it dissolved.

However, a corporation with a fiscal tax year ending June 30 must file by the 15th day of the 3rd month after the end of its tax year. A corporation with a short tax year ending anytime in June will be treated as if the short year ended on June 30, and must file by the 15th day of the 3rd month after the end of its tax year.

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

## Private Delivery Services

Corporations can use certain private delivery services (PDS) designated by the IRS to meet the “timely mailing as timely filing” rule for tax returns. Go to [IRS.gov/PDS](https://www.irs.gov/PDS) for the current list of designated services.

The PDS can tell you how to get written proof of the mailing date.

For the IRS mailing address to use if you are using PDS, go to [IRS.gov/PDSstreetAddress](https://www.irs.gov/PDSstreetAddress).



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

## Extension of Time To File

File Form 7004, Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns, to request an extension of time to file. Generally, the corporation must file Form 7004 by the regular due date of the return. See the Instructions for Form 7004.

## Who Must Sign

The return must be signed and dated by:

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

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

## Where To File

File the corporation's return at the applicable IRS address listed below.

| If the corporation's principal business, office, or agency is located in: | Use the following addresses:   |
|---|--|
| The United States   | Department of the Treasury<br>Internal Revenue Service<br>Ogden, UT 84201-0012 |
| A foreign country or U.S. possession                                      | Internal Revenue Service<br>P.O. Box 409101<br>Ogden, UT 84409                 |

court authorizing signing of the return or form.

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

The paid preparer must complete the required preparer information and:

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

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

## Paid Preparer Authorization

If the corporation wants to allow the IRS to discuss its 2018 tax return with the paid preparer who signed it, check the “Yes” box in the signature area of the return. This authorization applies only to the individual whose signature appears in the “Paid Preparer Use Only” section of the return. It does not apply to the firm, if any, shown in that section.

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

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

The corporation is not authorizing the paid preparer to receive any refund check,

bind the corporation to anything (including any additional tax liability), or otherwise represent the corporation before the IRS.

The authorization will automatically end no later than the due date (excluding extensions) for filing the corporation's 2018 tax return. If the corporation wants to expand the paid preparer's authorization or revoke the authorization before it ends, see Pub. 947, Practice Before the IRS and Power of Attorney.

## Statements

**NAIC annual statement.** Regulations section 1.6012-2(c) requires that the NAIC annual statement be filed with Form 1120-PC. A foreign insurance company subject to tax under section 831 that is not required to file an annual statement must file a copy of the pro forma annual statement. A penalty for the late filing of a return may be imposed for not including the annual statement when the return is filed. However, see *Electronic filing*, next.

**Electronic filing.** If the domestic or foreign nonlife insurance company files Form 1120-PC electronically, do not attach the annual statement or pro forma annual statement to the electronically filed return. However, you must provide a copy of the annual statement or pro forma annual statement to the Internal Revenue Service if requested and retain it with your other tax records for the period required by the regulations.

**Reconciliation.** Corporations that do not file a Schedule M-3 (Form 1120-PC) with the Form 1120-PC must attach a statement that reconciles the NAIC Annual Statement to the Form 1120-PC.

## Assembling the Return

To ensure that the corporation's tax return is correctly processed, attach all schedules and other forms after page 9 of Form 1120-PC in the following order.

1. Schedule N (Form 1120), Foreign Operations of U.S. Corporations.
2. Schedule D (Form 1120), Capital Gains and Losses.

3. Schedule O (Form 1120), Consent Plan and Apportionment Schedule for a Controlled Group.

4. Form 8991, Tax on Base Erosion Payments of Taxpayers With Substantial Gross Receipts.

5. Form 8992, Global Intangible Low Tax Income (GILTI).

6. Form 8993, Section 250 Deduction for Foreign Derived Intangible Income (FDII) and Global Intangible Low Taxed Income (GILTI).

7. Form 8302, Electronic Deposit of Tax Refund of \$1 Million or More.

8. Form 4136, Credit for Federal Tax Paid on Fuels.

9. Form 8941, Credit for Small Employer Health Insurance Premiums.

10. Form 851, Affiliations Schedule.

11. Additional schedules in alphabetical order.

12. Additional forms in numerical order.

13. Supporting statements and attachments.

Complete every applicable entry space on Form 1120-PC. Do not enter "See Attached" or "Available Upon Request" instead of completing the entry spaces. If more space is needed on the forms or schedules, attach separate sheets using the same size and format as the printed forms. If there are supporting statements and attachments, arrange them in the same order as the schedules or forms they support and attach them last. Show the totals on the printed forms. Enter the corporation's name and EIN on each supporting statement or attachment.

## Tax Payments

Generally, the corporation must pay any tax due in full no later than the due date for filing its tax return (not including extensions). See the instructions for line 17. If the due date falls on a Saturday, Sunday, or legal holiday, the payment is due on the next day that isn't a Saturday, Sunday, or legal holiday.

## Electronic Deposit Requirement

Corporations must use electronic funds transfer to make all federal tax deposits (such as deposits of employment, excise, and corporate income tax). Generally, electronic funds transfers are made using the Electronic Federal Tax Payment System (EFTPS).

If the corporation does not want to use the EFTPS, it can arrange for its tax professional, financial institution, payroll service, or other trusted third party to make deposits on its behalf. Also, it can arrange for its financial institution to submit a same-day payment (discussed

later) on its behalf. EFTPS is a free service provided by the Department of the Treasury. Services provided by a tax professional, financial institution, payroll service, or other third party may have a fee.

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

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

**Same-day wire payment option.** If the corporation fails to submit a deposit transaction on EFTPS by 8 p.m. Eastern time the day before the date a deposit is due, it can still make the deposit on time by using the Federal Tax Collection Service (FTCS). Before using the same-day wire payment method, the corporation will need to make arrangements with its financial institution ahead of time regarding availability, deadlines, and costs. Financial institutions may charge a fee for payments made this way. To learn more about making a same-day wire payment, go to [IRS.gov/SameDayWire](http://IRS.gov/SameDayWire).

## Estimated Tax Payments

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

- The corporation must make installment payments of estimated tax if it expects its total tax for the year (less applicable credits) to be \$500 or more.
- The installments are due by the 15th day of the 4th, 6th, 9th, and 12th months of the tax year. If any date falls on a Saturday, Sunday, or legal holiday, the installment is due on the next regular business day.
- The corporation must use electronic funds transfer to make installment payments of estimated tax.
- Use Form 1120-W, Estimated Tax for Corporations, as a worksheet to compute estimated tax. See the Instructions for Form 1120-W.
- Penalties may apply if the corporation does not make required estimated tax payment deposits. See *Estimated tax penalty* below.
- If the corporation overpaid estimated tax, it may be able to get a quick refund by filing Form 4466, Corporation Application for Quick Refund of Overpayment of Estimated Tax.

See the instructions for lines 15c and 15e, Form 1120-PC, later.

**Estimated tax penalty.** A corporation that does not make estimated tax

payments when due may be subject to an underpayment penalty for the period of underpayment. Generally, a corporation is subject to the penalty if its tax liability is \$500 or more and it did not timely pay at least the smaller of:

- Its tax liability for the current year, or
- Its prior year tax.

See section 6655 for details and exceptions, including special rules for large corporations.

Use Form 2220, Underpayment of Estimated Tax by Corporations, to see if the corporation owes a penalty and to figure the amount of the penalty. If Form 2220 is completed, enter the penalty on line 16. See the instructions for line 16.



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

## Interest and Penalties



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

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

**Late filing of return.** A corporation that does not file its tax return by the due date, including extensions, may be penalized 5% of the unpaid tax for each month or part of a month the return is late, up to a maximum of 25% of the unpaid tax. The minimum penalty for a return that is over 60 days late is the smaller of the tax due or \$210 (adjusted for inflation). The penalty will not be imposed if the corporation can show that the failure to file on time was due to reasonable cause. See *Caution*, earlier.

**Late payment of tax.** A corporation that does not pay the tax when due generally may be penalized 1/2 of 1% of the unpaid tax for each month or part of a month the tax is not paid, up to a maximum of 25% of the unpaid tax. See *Caution*, earlier.

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

taxes are not paid. These taxes generally are reported on:

- Form 720, Quarterly Federal Excise Tax Return;
- Form 941, Employer's QUARTERLY Federal Tax Return;
- Form 944, Employer's ANNUAL Federal Tax Return; or
- Form 945, Annual Return of Withheld Federal Income Tax.

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

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

## Accounting Methods

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

The gross amounts of underwriting and investment income should be computed on the basis of the Statement of Income of the NAIC annual statement to the extent not inconsistent with the Internal Revenue Code and its Regulations. In all cases, the method used must clearly show taxable income.

### Change in accounting method.

Generally, the corporation must get IRS consent to change either an overall method of accounting or the accounting treatment of any material item. To do so, the corporation generally must file Form 3115, Application for Change in Accounting Method. See the Instructions for Form 3115 for more information and exceptions, including filing exceptions for qualified small business taxpayers and filing exceptions for certain first-year tangible property changes for small business taxpayers. Also, see Pub. 538.

### Safe harbor method of accounting for premium acquisition expenses.

Insurance companies subject to tax under section 831 are provided with a safe harbor method of accounting for premium acquisition expenses. Form 3115 must be filed in order to change to the safe harbor method. For more information, see the Instructions for Form 3115.

**Certain changes in method of accounting for organizations to which section 833 applies.** Blue Cross or Blue Shield organizations under section 833(c)(2), or organizations described in section 833(c)(3), can obtain automatic consent to change the method of accounting for unearned premiums resulting from either a failure to meet the medical loss ratio (MLR) requirements of section 833(c)(5), or meeting the MLR requirements after failing to do so in a prior year. Form 3115 must be filed in order to make this change in accounting method. See the Instructions for Form 3115.

See Rev. Proc. 2017-30.

## Accounting Period

An insurance company must figure its taxable income on the basis of a tax year. A tax year is the annual accounting period an insurance company uses to keep its records and report its income and expenses.

As a general rule under section 843, the tax year for every insurance company is the calendar year. However, if an insurance company joins in the filing of a consolidated return, it may adopt the tax year of the common parent corporation even if that year is not a calendar year.

## Rounding Off to Whole Dollars

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

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

## Recordkeeping

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

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

## Other Forms and Statements That May Be Required

**Form 8992.** Use Form 8992 to figure the domestic corporation's GILTI under section 951A and attach it to Form 1120-PC.

**Form 8993.** Use Form 8993 to figure the amount of the eligible deduction for FDII and GILTI under section 250 and attach it to Form 1120-PC.

**Reportable transaction disclosure statement.** Participants in any reportable transaction must file Form 8886, Reportable Transaction Disclosure Statement. See the Instructions for Form 8886.

**Reportable transactions by material advisors.** Material advisors to any reportable transaction must file Form 8918, Material Advisor Disclosure Statement. See the Instructions for Form 8918.

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

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

**Dual consolidated losses.** If a domestic corporation incurs a dual consolidated loss (as defined in Regulations section 1.1503-2(c)(5)), the corporation (or consolidated group) may need to attach an elective relief agreement and/or an annual certification as provided in Regulations section 1.1503-2(g)(2).

**Election to reduce basis under section 362(e)(2)(C).** If property is transferred to a corporation subject to section 362(e)(2), the transferor and the acquiring corporation may elect, under section 362(e)(2)(C), to reduce the transferor's basis in the stock received instead of reducing the acquiring corporation's basis in the property transferred. Once made, the election is irrevocable. For more information, see section 362(e)(2) and Regulations section 1.362-4. If an election is made, a statement must be filed in accordance with Regulations section 1.362-4(d)(3).

**Annual information statement for elections under section 108(i).** If the corporation made an election in 2009 or 2010 to defer income from cancellation of debt (COD) in connection with the reacquisition of an applicable debt instrument, the corporation must attach a statement to its return beginning with the tax year following the tax year for which the corporation made the election, and ending the first tax year all income deferred has been included in income. In addition, the corporation must annually include a copy of the election statement it filed to make the election to defer the income. For more information regarding the annual information statement, see Rev. Proc. 2009-37, 2009-36 I.R.B. 309.

For additional information on reporting the deferred COD income, see the instructions for *Line 13. Other Income*, later.

**Other forms and statements.** See Pub. 542, Corporations, for a list of other forms and statements a corporation may need to file in addition to the forms and statements discussed throughout these instructions.

## Specific Instructions

### Period Covered

Generally, file the 2018 return for calendar year 2018. However, if an insurance company joins in the filing of a consolidated return, it may adopt the tax year of the common parent corporation even if that year is not a calendar year. For a fiscal or short tax year return, fill in the tax year space at the top of the form.

### Name and Address

Enter the corporation's true name (as set forth in the charter or other legal document

creating it), address, and EIN on the appropriate lines. Enter the address of the corporation's principal office or place of business. 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.

**Note.** Do not use the address of the registered agent for the state in which the corporation is incorporated. For example, if a business is incorporated in Delaware or Nevada and the corporation's principal office is located in Little Rock, Arkansas, the corporation should enter the Little Rock address.

If the corporation has a foreign address, include the city or town, state or province, country, and foreign postal code. Do not abbreviate the country name. Follow the country's practice for entering the name of the state or province and postal code.

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

## Item A. Identifying Information

### Consolidated Return

If an affiliated group of corporations includes one or more domestic life insurance companies taxed under section 801, the common parent may elect to treat those companies as includible corporations. The life insurance companies 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).

Corporations filing a consolidated return must check box 1 of Item A and attach Form 851, Affiliations Schedule, and other supporting statements to the return. Also, for the first year a subsidiary corporation is being included in a consolidated return, attach Form 1122, Authorization and Consent of Subsidiary Corporation To Be Included in a Consolidated Income Tax Return, to the parent's consolidated return. Attach a separate Form 1122 for each new subsidiary being included in the consolidated return.

File supporting statements for each corporation included in the consolidated return. Do not use Form 1120-PC as a substitute for the supporting statement. On the supporting statement, use columns to show the following, both before and after adjustments.

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

Enter on Form 1120-PC the totals for each item of income, gain, loss, expense, or deduction, net of eliminating entries for intercompany transactions between corporations within the consolidated group. Attach consolidated balance sheets and a reconciliation of consolidated retained earnings.

For more information on consolidated returns, see the regulations under section 1502.

**Note.** If a nonlife insurance company is a member of an affiliated group, file Form 1120-PC as an attachment to the consolidated return in addition to the supporting statements discussed earlier. Across the top of page 1 of Form 1120-PC, write "Supporting Statement to Consolidated Return."

## Life-Nonlife Consolidated Return

If the corporation is the common parent of a life-nonlife consolidated group, check boxes 1 and 2 of Item A.

**Filing requirements.** The common parent of a life-nonlife consolidated group is required to do the following.

- File the applicable consolidated corporate income tax return: as a Form 1120-L, U.S. Life Insurance Company Income Tax Return, where the common parent is a life insurance company; a Form 1120-PC, U.S. Property and Casualty Insurance Company Income Tax Return, where the common parent is an insurance company, other than a life insurance company; or a Form 1120, U.S. Corporation Income Tax Return, where the common parent is any other type of corporation.
- Indicate clearly on the face of the return that the corporate tax return is a life-nonlife return. This requirement is satisfied by checking boxes 1 and 2 of Item A on page 1.
- Show any setoffs required by paragraphs (g), (m), and (n) of Regulations section 1.1502-47.
- Report separately the nonlife consolidated taxable income or loss, determined under Regulations section 1.1502-47(h), on a Form 1120 or 1120-PC (whether filed by the common parent or as an attachment to the consolidated return), for all nonlife members of the consolidated group.

- Report separately the consolidated partial Life Insurance Company Taxable Income (as defined by Regulations section 1.1502-47(d)(3)) determined under Regulations section 1.1502-47, on a Form 1120-L (whether filed by the common parent or as an attachment to the consolidated return), for all life members of the consolidated group.

### Schedule M-3 (Form 1120-PC)

A nonlife insurance company with total assets (non-consolidated or consolidated for all companies included within a tax consolidation group) of \$10 million or more on the last day of the tax year must file Schedule M-3 (Form 1120-PC), Net Income (Loss) Reconciliation for U.S. Property and Casualty Insurance Companies With Total Assets of \$10 Million or More, instead of Schedule M-1. A corporation filing Form 1120-PC that is not required to file Schedule M-3 may voluntarily file Schedule M-3 instead of Schedule M-1.

If you are filing Schedule M-3 (Form 1120-PC), check Item A, box 3 at the top of page 1 of Form 1120-PC. See the Instructions for Schedule M-3 (Form 1120-PC) for more details.

**Note.** If you do not file Schedule M-3 (Form 1120-PC) with Form 1120-PC, see *Reconciliation under Statements*, earlier.

### Item B. Employer Identification Number (EIN)

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

- Online—Go to [IRS.gov/EIN](http://IRS.gov/EIN). The EIN is issued immediately once the application information is validated.
- By faxing or mailing Form SS-4, Application for Employer Identification Number.



*Corporations located in the United States or U.S. possessions can use the online application. Foreign corporations should call 1-267-941-1099 (not a toll-free number) for more information on obtaining an EIN. See the Instructions for Form SS-4.*

**EIN applied for, but not received.** If the corporation has not received its EIN by the time the return is due, enter *Applied For* and the date the corporation applied in the space for the EIN. However, if the corporation is filing its return electronically, an EIN is required at the time the return is filed. An exception applies to subsidiaries of corporations whose returns are filed with the parent's electronically filed consolidated Form 1120. These subsidiaries should enter *Applied For* in

the space for the EIN on their returns. The subsidiaries' returns are identified under the parent corporation's EIN.

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

### Item D. Section 831(b) and Section 953 Elections

Check the 831(b) box if the insurance company elects to be taxed on taxable investment income in lieu of the tax otherwise applicable under section 831(a). Section 831(b) applies to a small company as defined under section 831(b)(2)(A) if such company meets the diversification requirements of section 831(b)(2)(B) and such corporation elects the application of section 831(b) for such taxable year under section 831(b)(2)(A)(iii). See the instructions for Schedule I, Question 14, later. See Regulations section 301.9100-8(a) for the rules regarding the timing and manner of making the election under section 831(b)(2)(A)(iii).

**Note.** The election under section 831(b)(2)(A)(iii) shall apply to the taxable year for which made and for all subsequent taxable years for which a corporation is a small company as defined under section 831(b)(2)(A) and such corporation meets the diversification requirements of section 831(b)(2)(B). Once made, an election under section 831(b)(2)(A)(iii) may only be revoked with the consent of the Secretary.

Check the applicable 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 United States, or
2. Section 953(d) to be treated as a domestic corporation.

Generally, a foreign corporation making either section 953 election must file its return by sending it to:

Internal Revenue Service Center  
P.O. Box 409101  
Ogden, UT 84409

See Notice 87-50, 1987-2 C.B. 357, and Rev. Proc. 2003-47, 2003-28 I.R.B. 55, for the procedural rules, election statement formats, and filing addresses for making the respective elections under section 953(c)(3)(C) or section 953(d).

**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 IRS. 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 may not be used to reduce the taxable income of any

other member of the affiliated group for this tax year or any other tax year.

**Note.** If a section 953(d) election is made, include the additional tax required to be paid on line 13, page 1. On the dotted line to the left of line 13, page 1, write "Section 953(d)" and the amount. Attach a statement showing the computation. See section 953(d) for more details.

### Item E. Final Return, Name Change, Address Change, or Amended Return

Indicate a final return, name change, address change, or amended return by checking the appropriate box.

**Note.** If a change in address or responsible party occurs after the return is filed, use Form 8822-B, Change of Address or Responsible Party—Business, to notify the IRS. See the Instructions for Form 8822-B for details.

### Taxable Income

**Line 1, Taxable income, and line 2, Taxable investment income.** If the corporation is a small company as defined in section 831(b)(2) and elects under section 831(b)(2)(A)(iii) to be taxed on taxable investment income, complete Schedule B (ignore Schedule A) and enter the amount from Schedule B, line 21, on line 2, page 1. Also, complete Question 14 on Schedule I. All other corporations should complete Schedule A (ignore Schedule B) and enter on line 1, page 1, the amount from Schedule A, line 37.

### Tax Computation and Payments



*P.L. 115-97 changed the corporation tax rates under section 11 for tax years beginning after 2017.*

#### Line 3

If the corporation is a member of a controlled group, check the box on line 3. Complete and attach Schedule O (Form 1120), Consent Plan and Apportionment Schedule for a Controlled Group. Component members of a controlled group must use Schedule O to report the apportionment of taxable income, income tax, and certain tax benefits between the members of the group. See Schedule O and the Instructions for Schedule O for more information.

#### Line 4

Corporations figure their tax by multiplying taxable income by 21% (0.21).

**Deferred tax under section 1291.** If the corporation was a shareholder in a

passive foreign investment company (PFIC) and received an excess distribution or disposed of its investment in the PFIC during the year, it must include the total increase in taxes due under section 1291(c)(2) from Form 8621 in the amount entered on line 4. On the dotted line next to line 4, enter "Section 1291" and the amount.

Do not include on line 4 any interest due under section 1291(c)(3). Instead, include the amount of interest owed on line 12.

For more information on reporting the deferred tax and interest, see the Instructions for Form 8621.

**Additional tax under section 197(f).** A corporation that elects to recognize gain and pay tax on the sale of a section 197 intangible under the related person exception to the anti-churning rules should include any additional tax due in the total for line 4. On the dotted line next to line 4, enter "Section 197" and the amount. See section 197(f)(9)(B)(ii).

**Line 5. Enter amount of tax that a reciprocal must include.** A mutual insurance company that is an interinsurer or reciprocal underwriter may elect, under section 835, to limit the deduction for amounts paid or incurred to a qualifying attorney-in-fact to the amount of the deductions of the attorney-in-fact allocable to the income received by the attorney-in-fact from the reciprocal. If this election is made, any increase in taxable income of a reciprocal as a result of this limitation is taxed at the highest rate of tax specified in section 11(b).

Make no entry on line 5 if the mutual insurance company's taxable income before including the section 835(b) amount is \$100,000 or more. Otherwise, this tax is 21% of the section 835(b) amount. If an entry is made on line 5, attach a statement showing how the tax was computed.

Reciprocal underwriters making the section 835(a) election are allowed a credit on line 15h for the amount of tax paid by the attorney-in-fact that is related to the income received by the attorney-in-fact from the reciprocal in the tax year.

See section 835 and the related regulations for special rules and information regarding the statements required to be attached to the return.

**Line 6. Base erosion minimum tax (BEAT).** If the corporation had gross receipts of at least \$500 million in any one of the 3 preceding tax years, see section 59A and the Instructions for Form 8991 for further guidance on the determination of the amount of base erosion minimum tax.

**Line 8a. Foreign tax credit.** To find out when a corporation can take the credit for payment of income tax to a foreign country or U.S. possession, see Form 1118, Foreign Tax Credit—Corporations.

**Line 8b. Credit from Form 8834.** Enter any qualified electric vehicle passive activity credits from prior years allowed for the current tax year from Form 8834, Qualified Electric Vehicle Credit. Attach Form 8834.

**Line 8c. General business credit.** Enter on line 8c the allowable credit from Form 3800, Part II, line 38.

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

**Line 8d. Credit for prior year minimum tax.** To figure the minimum tax credit and any carryforward of that credit, complete and attach Form 8827, Credit for Prior Year Minimum Tax—Corporations.

**Line 8e. Bond credits from Form 8912.** Enter the allowable credits from Form 8912, Credit to Holders of Tax Credit Bonds, line 12.

**Line 10. Foreign corporations.** A foreign corporation carrying on an insurance business in the United States is taxed as a domestic insurance company on its income effectively connected with the conduct of a trade or business in the United States (see sections 864(c) and 897 for definition).

Generally, any other U.S.-source income received by the foreign corporation is taxed at 30% (or at a lower treaty rate) under section 881. If the corporation has this income, attach a statement showing the kind and amount of income, the tax rate, and the amount of tax. Enter the tax on line 10. However, see *Reduction of section 881 tax*, later.

**Note.** Interest received from certain portfolio debt investments that were issued after July 18, 1984, is not subject to the tax. See section 881(c).

See section 842 for more information.

**Minimum effectively connected net investment income.** See section 842(b) and Notice 89-96, 1989-2 C.B. 417, for the general rules for computing this amount. Also, see Rev. Proc. 2018-45, 2018-37 I.R.B. 428, for the domestic asset/liability percentages and domestic investment yields needed to compute this amount.

Any additional income required by section 842(b) must be included in taxable income (for example, Schedule A, line 13).

**Reduction of section 881 tax.**  
Additional taxes resulting from the net

investment income adjustment may offset a corporation's section 881 tax on U.S.-source income. The tax reduction is determined by multiplying the section 881 tax by the ratio of the amount of income adjustment to income subject to the section 881 tax, computed without the exclusion for interest on state and local bonds or income exempted from taxation by treaty. See section 842(c)(2). Attach a statement showing how the reduction under section 881 was figured. Enter the net tax imposed by section 881 on line 10.

**Line 11. Personal holding company tax.** A corporation (other than a corporation described in section 542(c)) is taxed as a personal holding company (PHC) under section 542 if:

- At least 60% of its adjusted ordinary gross income for the tax year is PHC income, and
- At any time during the last half of the tax year more than 50% in value of its outstanding stock is directly or indirectly owned by five or fewer individuals.

See Schedule PH (Form 1120), U.S. Personal Holding Company (PHC) Tax, for definitions and details on how to figure the tax.

## Line 12. Other Taxes

Include any of the following taxes and interest in the total on line 12. Check the appropriate box(es) for the form, if any, used to compute the total.

**Recapture of investment credit.** If the corporation disposed of investment credit property or changed its use before the end of its useful life or recovery period, it may owe a tax. See Form 4255, Recapture of Investment Credit.

**Recapture of low-income housing credit.** If the corporation disposed of property (or there was a reduction in the qualified basis of the property) for which it took the low-income housing credit, and the corporation did not follow the procedures that would have prevented recapture of the credit, it may owe a tax. See Form 8611, Recapture of Low-Income Housing Credit.

**Other.** Additional taxes and interest amounts can be included in the total entered on line 12. Check the box for "Other" if the corporation includes any additional taxes and interest such as the items discussed below. See *How to report* below, for details on reporting these amounts on an attached statement.

- Recapture of Indian employment credit. Generally, if an employer terminates the employment of a qualified employee less than 1 year after the date of initial employment, any Indian employment credit allowed for a prior tax year because of wages paid or incurred to that employee



must be recaptured. See Form 8845 and section 45A.

- Recapture of new markets credit (see Form 8874, New Markets Credit, and Form 8874-B, Notice of Recapture Event for New Markets Credit).
- Recapture of employer-provided childcare facilities and services credit (see Form 8882).
- Interest on deferred tax attributable to certain nondealer installment obligations (section 453A(c)).
- Interest due on deferred gain (section 1260(b)).
- Interest due under section 1291(c)(3). See Form 8621 and its instructions.
- Alternative tax on qualifying shipping activities (see Form 8902).

**How to report.** If the corporation checked the “Other” box, attach a statement showing the computation of each item included in the total for line 12 and identify the applicable Code section and the type of tax or interest.

### Line 13. Total Tax

Include any deferred tax on the termination of a section 1294 election applicable to shareholders in a qualified electing fund in the amount entered on line 13.

Subtract any deferred tax on the corporation's share of undistributed earnings of a qualified electing fund (see Form 8621).

**How to report.** Attach a statement showing the computation of each item included in, or subtracted from, the total for line 13. On the dotted line next to line 13, specify (a) the applicable Code section, (b) the type of tax, and (c) the amount of tax.

**Line 14. 2018 Net 965 tax liability from Form 965-B, Part II, column (k), line 2.** Complete and attach Form 965-B.

**Line 15b. Prior year(s) special estimated tax payments to be applied.** The amount entered on line 15b must agree with the amount(s) from Form 8816, Part III, line 11. See Form 8816 for additional information.

**Line 15c. Estimated tax payments.** Enter any estimated tax payments the corporation made for the tax year.

**Line 15d. 2018 Net 965 tax liability from Form 965-B, Part I, column (d), line 2.** Complete and attach Form 965-B.

**Line 15e. Overpaid estimated tax.** If the corporation overpaid estimated tax, it may be able to get a quick refund by filing Form 4466. The overpayment must be at least 10% of the corporation's expected income tax liability and at least \$500. File Form 4466 after the end of the corporation's tax

year, and no later than the due date for filing the corporation's tax return. Form 4466 must be filed before the corporation files its tax return. See the Instructions for Form 4466.

**Line 15h. Credit by reciprocal for tax paid by attorney-in-fact under section 835(d).** Enter the amount of tax paid by an attorney-in-fact as a result of income received by the attorney-in-fact from the reciprocal during the tax year. For more information, see section 835, the related regulations, and the instructions for line 5, earlier.

**Line 15i. Other credits and payments.** Enter the amount of any other credits the corporation may take and/or payments made. Write an explanation of the entry to the left of the entry space.

**Backup withholding.** If the corporation had federal 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 15i. Write the amount withheld and the words “Backup Withholding” on the dotted line to the left of the entry space for line 15i.

**Line 15j. Refundable credits from Form 8827.** If the corporation elected to claim certain unused minimum tax credits instead of claiming any additional first-year special depreciation allowance for eligible property, see the Instructions for Form 8827. Enter on line 15j the amount from Form 8827, line 8c, if applicable. See the Instructions for Form 8827, for more information.

**Line 15k. Total payments.** Add the amounts on lines 15f through 15j and enter the total on line 15k.

**Line 16. Estimated tax penalty.** Generally, the corporation does not have to file Form 2220 with its income tax return because the IRS will figure the amount of any penalty and notify the corporation of any amount due. However, see the Instructions for Form 2220 at [IRS.gov/Form2220](https://www.irs.gov/Form2220) for circumstances where the corporation must file Form 2220 even if it owes no penalty.

If Form 2220 is attached, check the box on line 15 and enter any penalty on this line. See *Estimated tax penalty*, under *Estimated Tax Payments*, earlier.

**Line 17. Amount owed.** If the corporation cannot pay the full amount of tax owed, it can apply for an installment agreement online. See [IRS.gov/OPA](https://www.irs.gov/OPA) for the latest information.

**Line 19. Electronic deposit of tax refund of \$1 million or more.** If the corporation is due a refund of \$1 million or more and wants it electronically deposited into its checking or savings account at any

U.S. bank or other financial institution instead of having a check sent to the corporation, complete Form 8302 and attach it to the corporation's tax return.

## Schedule A—Taxable Income

**Gross income.** Under section 832, gross amounts of underwriting and investment income should be computed on the basis of the Statement of Income of the NAIC annual statement to the extent not inconsistent with the Internal Revenue Code and its Regulations.

**Income from qualifying shipping activities.** Gross income does not include income from qualifying shipping activities if the corporation makes an election under section 1354 to be taxed on its notional shipping income (as defined in section 1353) at the highest corporate tax rate specified in section 11. If the election is made, the corporation generally may not claim any loss, deduction, or credit with respect to qualifying shipping activities. A corporation making this election also may elect to defer gain on the disposition of a qualifying vessel.

Use Form 8902, Alternative Tax on Qualifying Shipping Activities, to figure the tax. Include the alternative tax on Form 1120-PC, page 1, line 12.

**Note.** In computing the amounts for lines 2, 3, and 4, take all interest, dividends, or rents received during the year, add interest, dividends, or rents due and accrued at the end of the tax year, and deduct interest, dividends, or rents due and accrued at the end of the preceding tax year. For rules regarding the accrual of dividends, see Regulations section 1.301-1(b).

**Line 3a, column (a). Gross interest.** Enter the gross amount of interest income, including all tax-exempt interest.

**Line 3b, column (a).** Section 103(a) excludes interest on state or local bonds from gross income.

This exclusion does not apply to any:

1. Private activity bond which is not a qualified bond as defined by section 141;
2. Arbitrage bond as defined by section 148; or
3. Bonds not meeting the requirements of section 149 (regarding the registration of tax-exempt bonds).

**Lines 3a and 3b, column (b). Amortization of premium.** Enter on line 3a, column (b), the total amortization of bond premium, including amortization on tax-exempt bonds. Enter on line 3b, column (b), the amortization of bond premium on tax-exempt bonds only.

**Note.** Insurance companies electing to amortize discount for tax purposes must reduce the amortization of premium by any amortization of discount.

**Line 4. Gross rents.** Enter gross rents, computed as indicated under the instructions for *Gross income*, earlier. Deduct expenses, such as repairs, interest, taxes, and depreciation, on the proper lines for deductions.

**Line 6. Capital gain net income.** Every sale or exchange of a capital asset must be reported in detail on Schedule D (Form 1120), Capital Gains and Losses, even if there is no gain or loss.

Generally, losses from sales or exchanges of capital assets are only allowed to the extent of gains. However, corporations taxed under section 831 may claim losses from capital assets sold or exchanged to get funds to meet abnormal insurance losses and to pay dividends and similar distributions to policyholders. Do not include those types of losses here, but instead, report them on Schedule G.

The net capital loss for these corporations is the amount by which losses for the year from sales or exchanges of capital assets exceed the gains from these sales or exchanges plus the smaller of:

1. Taxable income (computed without gains or losses from sales or exchanges of capital assets); or
2. Losses from the sale or exchange of capital assets sold or exchanged to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders.

Subject to the limitations in section 1212(a), a net capital loss can be carried back 3 years and forward 5 years as a short-term capital loss.

**Line 8. Certain mutual fire or flood insurance company premiums.** A mutual fire or flood insurance company whose principal business is the issuance of policies (1) for which the premium deposits are the same (regardless of the length of the term the policies are written for) and (2) under which the unabsorbed portion of such premium deposits not required for losses, expenses, or establishment of reserves is returned or credited to the policyholder on cancellation or expiration of the policy, must include in income an amount equal to 2% of the premiums earned on insurance contracts during the tax year with respect to such policies after deduction of premium deposits returned or credited during the same tax year. See section 832(b)(1)(D).

**Line 9. Income on account of special income and deduction accounts.**

Corporations which write the kinds of insurance below must maintain the following special accounts. A corporation which writes:

1. Mortgage guaranty insurance must maintain a mortgage guaranty account;
2. Lease guaranty insurance must maintain a lease guaranty account; and
3. Insurance on obligations the interest on which is excludable from gross income under section 103 must maintain an account with respect to insurance on state and local obligations.

Amounts required to be subtracted from these accounts under sections 832(e)(5) and 832(e)(6) must be reported as income on line 9. See section 832(e) for more information.

**Line 10. Income from protection against loss account.** Although section 1024 of P.L. 99-514 repealed section 824 relating to the protection against loss (PAL) account, PAL account balances are includible in income as though section 824 were still in effect. Attach a statement showing the computation.

**Line 11. Mutual interinsurers or reciprocal underwriters—decrease in subscriber accounts.** Enter the decrease for the tax year in savings credited to subscriber accounts of a mutual insurance company that is an interinsurer or reciprocal underwriter.

**Line 12. Income from a special loss discount account.** Enter the amount from Form 8816, Part II, line 6.

**Line 13. Other income.** Enter any other taxable income not reported on lines 1 through 12. List the type and amount of income on an attached statement. If the corporation has only one item of other income, describe it in parentheses on line 13. Examples of other income to report on line 13 include the following.

- The amount included in income from Form 6478, Biofuel Producer Credit, if applicable.
- The amount included in income from Form 8864, Biodiesel and Renewable Diesel Fuels Credit, if applicable.
- Refunds of taxes deducted in prior years to the extent they reduced income subject to tax imposed. See section 111 and the related regulations. Do not offset current year taxes against tax refunds.
- Ordinary income from trade or business activities of a partnership from Schedule K-1 (Form 1065). Do not offset ordinary losses against ordinary income. Instead, include the losses on line 31. Show the partnership's name, address, and EIN on a separate statement attached to this return. If the amount entered is from more than one partnership, identify the amount from each partnership.

- Section 91 Transferred Loss Amount. Enter the transferred loss amount and identify the amount as "Section 91 Transferred Loss Amount" required to be recognized under section 91 resulting from a transfer of substantially all the assets of a foreign branch (within the meaning of section 367(a)(3)(C), as in effect before its repeal) to a foreign corporation with respect to which you were a U.S. shareholder immediately after the transfer as other income. Under section 91(d), transferred loss amounts recognized are treated as derived from sources within the U.S.
- Part or all of the proceeds received from certain corporate-owned life insurance contracts issued after August 17, 2006. Corporations that own one or more employer-owned life insurance contracts issued after August 17, 2006, must file Form 8925, Report of Employer-Owned Life Insurance Contracts.
- Income from cancellation of debt (COD) for the repurchase of a debt instrument for less than its adjusted issue price.
- Any COD income deferred from 2009 or 2010 that is includible in income in 2018. See section 108(i), and Rev. Proc. 2009-37.
- NOL reduction amount that is includible in income if the corporation made an election under section 965(n). See [Line 36b. Net Operating Loss Deduction \(NOL\)](#), later.
- Any GILTI included under section 951A. Enter the amount from Form 8992, Part II, line 3. Attach Form 8992 to the corporation's return. If applicable, attach Form(s) 5471.
- One-eighth of any adjustment attributable to the application of the discount factors published in Rev. Proc. 2019-06 to unpaid losses for the taxable year preceding the first taxable year beginning after December 31, 2017. See section 13523(e) of P.L. 115-97.
- The corporation's share of the following income from Form 8621, Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund.
  1. Ordinary earnings of a qualified electing fund (QEF).
  2. Gain or loss from marking passive foreign investment company (PFIC) stock to market.
  3. Gain or loss from sale or other disposition of section 1296 stock.
  4. Excess distributions from a section 1291 fund allocated to the current year and pre-PFIC years, if any.See Form 8621 and its instructions for details.

## Deductions

### Limitations on Deductions

**Section 263A uniform capitalization rules.** The uniform capitalization rules of section 263A require corporations to capitalize certain costs.

See Regulations sections 1.263A-1 through 1.263A-3.

**Transactions between related taxpayers.** Generally, an accrual basis taxpayer can 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), and 267 for limitations on deductions for unpaid interest and expenses.

**Business interest.** Business interest expense is limited for tax years beginning after 2017. See section 163(j) for limitations on deductions for business interest.

**Section 291 limitations.** Corporations may be required to adjust certain deductions. See section 291 to determine the amount of the adjustment.

**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 excess amounts if control of the corporation changes. See section 280G and Regulations section 1.280G-1. Also, see the instructions for line 15.

**Business start-up and organizational costs.** A corporation can elect to deduct a limited amount of start-up and organizational costs it paid or incurred. Any remaining costs generally must be amortized over an 180-month period. See sections 195 and 248 and the related regulations.

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

For more details including special rules for costs paid or incurred before September 9, 2008, see the Instructions for Form 4562. Also, see Pub. 535, Business Expenses.

If the corporation timely filed its return for the year without making an election, it

can still make an election by filing an amended return within 6 months of the due date of the return (excluding extensions). Clearly indicate the election on the amended return and write "Filed pursuant to Regulations section 301.9100-2" at the top of the amended return. File the amended return at the same address the corporation filed its original return. The election applies when figuring taxable income for the current tax year and all subsequent years.

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

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

Report the deductible amount of such costs and any amortization on Schedule A, line 31. For amortization that begins during the 2018 tax year, complete and attach Form 4562, Depreciation and Amortization.

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

- Employment credits. See *Employment credits*, later.
- Credit for increasing research activities (Form 6765).
- Orphan drug credit (Form 8820).
- Disabled access credit (Form 8826).
- Employer credit for social security and Medicare taxes paid on certain employee tips (Form 8846).
- Credit for small employer pension plan start-up costs (Form 8881).
- Credit for employer-provided childcare facilities and services (Form 8882).
- Credit for small employer health insurance premiums (Form 8941).

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

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

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

If a corporation leases property to a governmental or other tax-exempt entity, the corporation cannot claim deductions

related to the property to the extent that they exceed the corporation's income from the lease payments. This disallowed tax-exempt use loss can be carried over to the next tax year and treated as a deduction with respect to the property for that tax year. See section 470(d) for exceptions.

**Limitation on tax benefits for remuneration under the Patient Protection and Affordable Care Act.** The \$1 million compensation limit is reduced to \$500,000 for remuneration for services provided by individuals for or on behalf of certain health insurance providers in tax years beginning after 2009. The \$500,000 limitation applies to remuneration that is deductible in the tax year during which the services were performed and remuneration for services during the year that is deductible in a future tax year (called "deferred deduction remuneration"). The \$500,000 limitation is reduced by any amounts disallowed as excess parachute payments. See section 162(m)(6) and Regulations section 1.162-31 for definitions and other special rules. Also, see Notice 2011-2, 2011-2 I.R.B. 260.

**Line 15. Compensation of officers.** Enter deductible officers' compensation on line 15. See *Employment credits*, later, for employment credits that may reduce your deduction for officers' compensation. Do not include compensation deductible elsewhere on the return, such as elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement or a SIMPLE IRA plan.

Include only the deductible part of each officer's compensation on line 15. (See *Disallowance of deduction for employee compensation in excess of \$1 million* below). Attach a statement 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.

If a consolidated return is filed, each member of an affiliated group must furnish this information.

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

- The principal 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 3 highest compensated officers for that tax year (other than the principal 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 disallowed as excess parachute payments under section 280G.

See section 162(m) and Regulations section 1.162-27. Also, see Notice 2007-49, 2007-25 I.R.B. 1429.

**Limitations on tax benefits for executive compensation under the Treasury Troubled Asset Relief Program (TARP).**

The \$1 million compensation limit is reduced to \$500,000 for executive remuneration and deferred deduction executive remuneration paid to covered executives by any entity that receives or has received financial assistance under TARP. The limit applies for each period in which obligations arising from financial assistance under TARP remain outstanding. The \$500,000 is reduced by any amounts disallowed as excess parachute payments. See section 162(m) (5) for definitions and other special rules. Also, see Notice 2008-94, 2008-44 I.R.B. 1070, for additional guidance.

In addition, a portion of any parachute payments made to a covered executive by an applicable employer participating in a TARP is not deductible as compensation if the payments are made because of a severance from employment during an applicable tax year. For this purpose, a parachute payment is any payment to a senior executive officer for departure from a company for any reason, except for payments for services performed or benefits accrued. These limits do not apply to a payment already treated as a parachute payment. See section 280G(e) and Notice 2008-94.

**Line 16. Salaries and wages.** Enter the total salaries and wages paid for the tax year. Do not include salaries and wages deductible elsewhere on the return, such as amounts included in officers' compensation, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed

under a salary reduction SEP agreement or a SIMPLE IRA plan.



*If the corporation provided taxable fringe benefits to its employees, such as the personal use of a car, do not deduct as wages the amount allocated for depreciation and other expenses that are claimed elsewhere on the return (for example, on Schedule A, line 22 or line 31).*

**Employment credits.** If the corporation claims a credit on any of the below forms, it may need to reduce its deduction for salaries and wages. See the applicable form, for details.

- Form 5884, Work Opportunity Credit;
- Form 8844, Empowerment Zone Employment Credit, if applicable;
- Form 8845, Indian Employment Credit, if applicable; and
- Form 8932, Credit for Employer Differential Wage Payments.

**Line 18. Rents.** If the corporation rented or leased a vehicle, enter the total annual rent or lease expense paid or incurred during the year. Also complete Form 4562, Depreciation and Amortization, Part V. If the corporation leased a vehicle for a term of 30 days or more, the deduction for the vehicle lease expense may have to be reduced by an amount includible in income called the inclusion amount. The corporation may have an inclusion amount if:

| The lease term began:                   | And the vehicle's FMV on the first day of the lease exceeded: |
|---|---|
| <b>Cars (excluding trucks and vans)</b> |   |
| After 12/31/17 but before 1/1/19        | \$50,000  |
| After 12/31/12 but before 1/1/18        | \$19,000  |
| After 12/31/07 but before 1/1/13        | \$18,500  |
| <b>Trucks and Vans</b>                  |   |
| After 12/31/17 but before 1/1/19        | \$50,000  |
| After 12/31/13 but before 1/1/18        | \$19,500  |
| After 12/31/09 but before 1/1/14        | \$19,000  |
| After 12/31/08 but before 1/1/10        | \$18,500  |
| After 12/31/07 but before 1/1/09        | \$19,000  |

See Pub. 463, Travel, Entertainment, Gift, and Car Expenses, for instructions on figuring the inclusion amount. The inclusion amount for lease terms that began in 2018 is published in Rev. Proc. 2018-25, 2018-18 I.R.B. 543. The inclusion amount for lease terms beginning in 2019 will be published in the Internal Revenue Bulletin in early 2019.

**Line 19. Taxes and licenses.** Enter taxes paid or accrued during the tax year, but do not include the following.

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

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

**Note.** Section 9010 of the Patient Protection and Affordable Care Act imposes a fee on each covered entity engaged in the business of providing health insurance for United States health risks. The fee is treated as a tax described in section 275 relating to taxes for which no deduction is allowed. For more information, see the final regulations and Revenue Ruling 2013-27.

**Line 20a. Interest.**

**Note.** Do not offset interest income against interest expense.

The corporation must make an interest allocation if the proceeds of a loan were used for more than one purpose (for example, to purchase a portfolio investment and to acquire an interest in a passive activity). See Temporary Regulations section 1.163-8T for the interest allocation rules.

Do not deduct the following interest.

- Interest on indebtedness incurred or continued to purchase or carry obligations if the interest is wholly exempt from income tax. See section 265(b) for special rules and exceptions for financial institutions. Also, see section 265(b)(7) for a temporary de minimis exception for financial institutions for certain tax-exempt bonds issued in 2009 and 2010.
- Interest and carrying charges on straddles. Generally, these amounts must be capitalized. See section 263(g).
- Interest on debt allocable to the production of designated property by a corporation for its own use or for sale. The corporation must capitalize this interest. Also capitalize any interest on debt allocable to an asset used to produce the property. See section 263A(f) and Regulations sections 1.263A-8 through

1.263A-15 for definitions and more information.

- Interest on unpaid taxes attributable to nondisclosed reportable transactions. See section 163(m).

**Limitation on deductions.** Business interest expense is limited to the sum of business interest income, 30% of the adjusted taxable income and floor plan financing interest. Business interest expense includes any interest paid or accrued on indebtedness properly allocable to a trade or business. A taxpayer, other than a tax shelter, that meets the gross receipts test is not required to limit business interest expense under section 163(j). A taxpayer meets the gross receipts test if the taxpayer has average annual gross receipts of \$25 million or less for the 3 prior tax years. Gross receipts include the aggregate gross receipts from all persons treated as a single employer such as a controlled group of corporations, commonly controlled partnerships or proprietorships, and affiliated service groups. If the corporation fails to meet the gross receipts test, Form 8990, Limitation on Business Interest Expense IRC 163(j), is generally required. Also, see the instructions for Schedule I, Questions 17 and 18, later.

**Special rules** apply to:

- Forgone interest on certain below-market-rate loans (see section 7872).
- Original issue discount (OID) on certain high-yield discount obligations. See section 163(e)(5) to determine the disqualified amount of the deduction for OID that is deferred and the amount that is disallowed on a high-yield discount obligation. The rules under section 163(e)(5) do not apply to certain high-yield discount obligations issued before January 1, 2011. See section 163(e)(5)(F), and Notice 2010-11, 2010-4 I.R.B. 326.
- Interest which is allocable to unborrowed policy cash values of life insurance, endowment, or annuity contracts issued after June 8, 1997. See section 264(f). Attach a statement showing the computation of the deduction.
- Section 108(i) deductions. If the corporation issued a debt instrument with OID that is subject to section 108(i)(2) because of an election to defer the income from the cancellation of debt (COD), the interest deduction for this OID is deferred until the COD is includible in income. The accrued OID is allowed as a deduction ratably over the 5-year period that the COD is includible in income. The deduction is limited to the amount of COD subject to the section 108(i) election. In addition, a deferred COD deduction may be allowed as a deduction in the current

year because of an accelerated event. See section 108(i)(5)(D).

**Line 20b. Less tax-exempt interest expense.** Enter interest paid or accrued during the tax year on indebtedness incurred or continued to purchase or carry obligations if the interest is wholly exempt from income tax. See section 265.

**Line 21. Charitable contributions.** Include charitable, etc., contributions, as provided in section 170. See section 170 and its regulations for limitations, carryover, exclusions, requirements, substantiation, and other rules.

See Pub. 526, Charitable Contributions, for more information.

**Note.** P.L. 115-97 amends section 170(f)(8) by increasing substantiation requirements effective for contributions made in tax years beginning after 2016.

**Note.** See Pub. 976, Disaster Relief, for the suspension of contribution limitations.

**Line 22. Depreciation.** Include on line 22 depreciation and the cost of certain property that the corporation elected to expense under section 179. See Form 4562 and the Instructions for Form 4562.

**Line 23. Depletion.** See sections 613 and 613A for percentage depletion rates applicable to natural deposits. Also, see section 291 for the limitation on the depletion deduction for iron ore and coal (including lignite).

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

There are special rules for intangible drilling and development costs incurred outside the United States. See section 263(i).

See Pub. 535 for more information on depletion.

**Line 24. Pension, profit-sharing, etc., plans.** Enter the deduction for contributions to qualified pension, profit-sharing, or other funded deferred compensation plans.

**Note.** Employers who maintain a plan generally are required to file Form 5500, Form 5500-SF, or Form 5500-EZ. See [www.efast.dol.gov](http://www.efast.dol.gov) and [IRS.gov/Form5500ez](http://IRS.gov/Form5500ez).

**Line 25. Employee benefit programs.** Enter contributions to employee benefit programs not claimed elsewhere on the return (for example, insurance, health and welfare programs, etc.) that are not an incidental part of a pension, profit-sharing, etc., plan included on line 24.

**Line 29. Dividends to policyholders.** Enter the total dividends and similar distributions paid or declared to

policyholders, as policyholders, except in the case of a mutual fire insurance company exclusively issuing perpetual policies. Whether dividends have been paid or declared should be determined according to the method of accounting employed by the insurance company.

**Dividends and similar distributions.**

Include amounts returned or credited to policyholders on cancellation or expiration of policies issued by a mutual fire or flood insurance company:

1. Where the premium deposits for the policy are the same (regardless of the length of the policy) and
2. The unabsorbed portion of the premium deposits not required for losses, expenses, or establishment of reserves is returned or credited to the policyholder on cancellation or expiration of the policy.

In the case of a qualified group self-insurers fund, the fund's deduction for policyholder dividends is allowed no earlier than the date the state regulatory authority determines the amount of the policyholder dividend that may be paid. See section 6076 of the Technical and Miscellaneous Revenue Act of 1988.

**Line 30. Mutual interinsurers or reciprocal underwriters—increase in subscriber accounts.** A mutual insurance company that is an interinsurer or reciprocal underwriter may deduct the increase in savings credited to subscriber accounts for the tax year.

Savings credited to subscriber accounts means the surplus credited to the individual accounts of subscribers before the 16th day of the 3rd month following the close of the tax year. This is true only if the corporation would be required to pay this amount promptly to a subscriber if the subscriber ended the contract when the corporation's tax year ends. The corporation must notify the subscriber as required by Regulations section 1.823-6(c)(2)(v). The subscriber must treat any savings credited to the subscriber's account as a dividend paid or declared.

**Line 31. Other deductions.** Attach a statement listing by type and amount all allowable deductions under sections 832(c)(1) and (10) (net of the annual statement change in undiscounted unpaid loss adjustment expenses) that are not deductible on lines 15 through 30.

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

- The domestic production activities deduction. P.L. 115-97 (as amended by the Consolidated Appropriations Act, 2018, P.L. 115-141, section 101(c), 131 Stat. 350, 1151, 1156), repealed Domestic

Production Activity Deduction (DPAD) for tax years beginning after December 31, 2017. However, if your tax year begins after December 31, 2017, and you are a recipient of the DPAD from a flow through entity (Partnership, S Corporation, Estate, Trust, or Cooperative) with a tax year beginning before January 1, 2018, the DPAD can be taken in limited circumstances. See Form 8903 and its instructions for details.

- Certain business start-up and organizational costs (discussed earlier under *Limitations on Deductions*).
- Legal and professional fees.
- Supplies used and consumed in the business.
- Travel, meals, and entertainment expenses. Special rules apply (discussed later).
- Utilities.
- Ordinary losses from trade or business activities of a partnership from Schedule K-1 (Form 1065). Do not offset ordinary income against ordinary losses. Instead, include the income on line 13. Show the partnership's name, address, and EIN on a separate statement attached to this return. If the amount entered is from more than one partnership, identify the amount from each partnership.
- Any extraterritorial income exclusion from Form 8873, Extraterritorial Income Exclusion.
- Deduction for certain energy efficient commercial building property placed in service during the tax year, if applicable.
- Dividends paid in cash on stock held by an employee stock ownership plan. However, a deduction may only be taken for the dividends above if, according to the plan, the dividends are:

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

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

Do not deduct the following.

- Fines or penalties paid to a government for violating any law. However, see exceptions discussed later.
- Lobbying expenses. However, see exceptions discussed later.

**Travel, meals, and entertainment.** Subject to limitations and restrictions discussed below, a corporation can

deduct ordinary and necessary travel, meals, and non-entertainment expenses paid or incurred in its trade or business. Generally, entertainment expenses, membership dues, and facilities used in connection with these activities cannot be deducted. Also, special rules apply to deductions for gifts, luxury water travel, and, convention expenses. See section 274 and Pub. 463.

**Travel.** The corporation cannot deduct travel expenses of any individual accompanying a corporate officer or employee, including a spouse or dependent of the officer or employee, unless:

- That individual is an employee of the corporation, and
- His or her travel is for a bona fide business purpose and would otherwise be deductible by that individual.

**Meals.** Generally, the corporation can deduct only 50% of the amount otherwise allowable for non-entertainment related meal expenses paid or incurred in its trade or business. Entertainment-related meals generally are not deductible. In addition (subject to exceptions under section 274(k)(2)):

- Meals must not be lavish or extravagant; and
- A bona fide business discussion must occur during, immediately before, or immediately after the meal; and
- An employee of the corporation must be present at the meal.

See section 274(n)(3) for a special rule that applies to expenses for meals consumed by an individual subject to the hours of service limits of the Department of Transportation.

**Membership dues.** The corporation cannot deduct amounts paid or incurred for membership dues in civic or public service organizations, professional organizations (such as bar and medical associations), business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards. This includes country clubs, golf and athletic clubs, airline and hotel clubs, and clubs operated to provide meals under conditions favorable to business discussion.

**Entertainment facilities.** The corporation cannot deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) used for an activity usually considered entertainment, amusement, or recreation.

**Amounts treated as compensation.** Generally, the corporation may be able to deduct otherwise nondeductible entertainment, amusement, or recreation expenses if the amounts are treated as compensation to the recipient and

reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.

However, if the recipient is an officer, director, beneficial owner (directly or indirectly), or other "specified individual" (as defined in section 274(e)(2)(B) and Regulations section 1.274-9(b)), special rules apply. See section 274(e)(2) and Regulations sections 1.274-9 and 1.274-10.

**Fines and penalties.** Generally, no deduction is allowed for fines and penalties paid to a government or specified nongovernmental entity for the violation of any law except:

- Amounts that constitute restitution,
- Amounts paid to come into compliance with the law,
- Amounts paid or incurred as the result of certain court orders in which no government or specified nongovernmental agency is a party, and
- Amounts paid or incurred for taxes due.

On or after December 22, 2017, no deduction is allowed for the restitution amount or amount paid to come into compliance with the law unless the amounts are specifically identified in the settlement agreement or court order. Also, any amount paid or incurred as reimbursement to the U.S. Government for the costs of any investigation or litigation are not eligible for the exceptions and are nondeductible. See section 162(f), as amended by P.L. 115-97, section 13306.

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

- Amounts paid of incurred in connection with influencing federal, or state, or local legislation (but not amounts paid or incurred before December 22, 2017, in connection with local legislation), or
- Amounts paid or incurred in connection with any communication with certain federal executive branch officials in an attempt to influence the official actions or positions of the officials. See Regulations section 1.162-29 for the definition of "influencing legislation."

Dues and other similar amounts paid to certain tax-exempt organizations may not be deductible. If certain in-house lobbying expenditures do not exceed \$2,000, they are deductible.

**Line 32. Total deductions.** Section 848 (capitalization of certain policy acquisition expenses) requires insurance companies to capitalize specified policy acquisition expenses and deduct them ratably over time. Attach a statement showing all computations. See section 848 and its regulations.

**Line 34b. Deduction on account of the special income and deduction accounts.** Enter the total of the amounts

required to be added under sections 832(e)(4) and (6). However, no deduction is permitted unless tax and loss bonds are purchased in an amount equal to the tax benefit of the deduction. See section 832(e).

**Note.** The deduction on account of the special income and deduction accounts is limited to taxable income for the tax year (computed without regard to this deduction or to any carryback of a net operating loss).

**Line 36b. Net operating loss deduction (NOL).** Section 172 provides for a NOL deduction, limitation, carryovers, and carrybacks. Attach a statement showing the computation of the NOL deduction.

The following special rules apply.

- A corporation may elect under section 965(n) to reduce the amount of the NOL for a taxable year determined under section 172 and the amount of taxable income reduced by NOL carryovers or carrybacks to such taxable year under section 172. The amount of the reduction (reduction amount) is equal to the amount of the section 965(a) inclusion (net of the section 965(c) deduction) plus, in the case of a domestic corporation that claims a credit for deemed paid foreign taxes, the section 78 gross up with respect to the foreign taxes deemed paid with respect to the section 965(a) inclusion. If, as a result of an election under section 965(n), the amount of the NOL for the taxable year is reduced, the reduction amount is included in other income on line 13. If, as a result of an election under 965(n), the taxable income reduced by NOL carryovers or carrybacks is reduced, the NOL deduction on line 36b is reduced by the reduction amount. See section 965(n) and the regulations thereunder for more information.

- Section 382 provides a limitation on NOL carryforwards and certain built-in losses following ownership change.

**Note.** P.L. 115-97 amended section 382 for tax years beginning after 2017

- If a corporation acquires control of another corporation (or acquires its assets in a reorganization), the amount of pre-acquisition losses that may offset recognized built-in gain may be limited (see section 384).

- If a corporation elects the alternative tax on qualifying shipping activities under section 1354, no deduction is allowed for an NOL attributable to the qualifying shipping activities to the extent that the loss is carried forward from a tax year preceding the first tax year for which the alternative tax election was made. See section 1358(b)(2).

- Section 831(b)(3) provides for a limitation on use of net operating losses.

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

**Line 37. Taxable income.** If line 37 (figured without regard to the items listed below under *Minimum taxable income*) is zero or less, the corporation may have an NOL.

**Minimum taxable income.** The corporation's taxable income cannot be less than the largest of the following amounts.

- The inversion gain of the corporation for the tax year, if the corporation is an expatriated entity or a partner in an expatriated entity. See section 7874(a).
- The sum of the corporation's excess inclusions from its residual interest in a REMIC from Schedules Q (Form 1066), line 2c, and the corporation's taxable income determined solely with respect to its ownership and high-yield interests in FASITs. See sections 860E(a) and 860J (repealed).

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## Schedule B, Part I—Taxable Investment Income of Electing Small Companies

**Note.** (1) Once an election under section 831(b) is made to be taxed only on investment income, it can only be revoked with the consent of the Secretary, and (2) a corporation making this election must include on line 8, Gross investment income, any amount subtracted from a protection against loss account.

### Income

**Line 1a, column (a). Gross interest.**

Enter the gross amount of interest income, including all tax-exempt interest income.

**Line 1b, column (a). Interest exempt under section 103.** Enter the amount of interest on state and local bonds that is exempt from taxation under section 103. See the instructions for Schedule A, line 3b, column (a), for more information.

**Lines 1a and 1b, column (b). Amortization of premium.** Enter on line 1a, column (b), the total amortization of premium on tax-exempt bonds.

Enter on line 1b, column (b), the amortization of bond premium on tax-exempt bonds.

**Note.** Insurance companies electing to amortize discount for tax purposes must reduce the amortization of premium by any amortization of discount.

**Line 3. Gross rents.** Enter the gross rents received or accrued during the tax year. Deduct rental expenses such as

repairs, interest, taxes, and depreciation on the proper lines in the *Deductions* section.

**Line 5. Gross income from a trade or business, other than an insurance business, and from Form 4797.** Enter the gross income from a trade or business, other than an insurance business, carried on by the insurance company or by a partnership of which the insurance company is a partner. Include section 1245 and section 1250 gains (as modified by section 291) and other gains from Form 4797, Sales of Business Property, on investment assets only.

**Line 6. Income from leases described in sections 834(b)(1)(B) and 834(b)(1)(C).** Enter gross income from entering into, changing, or ending any lease, mortgage, or other instrument or agreement from which the company earns interest, rents, or royalties.

**Line 8. Gross investment income.** If gross investment income includes an amount subtracted from the protection against loss account, write on the dotted line next to line 8, "PAL" and the amount.

### Deductions

**Line 9. Real estate taxes.** Enter taxes paid or accrued on real estate owned by the corporation and deductible under section 164.

**Line 10. Other real estate expenses.** Enter all ordinary and necessary real estate expenses, such as fire insurance, heat, light, and labor. Also, enter the cost of incidental repairs, such as labor and supplies, that do not add to the property's value or appreciably prolong its life. Do not include any amount paid for new buildings or for permanent improvements or betterments made to increase the value of any property or any amount spent on foreclosed property before the property is held for rent.

**Line 11. Depreciation.** Enter depreciation on assets only to the extent that the assets are used to produce gross investment income reported on Schedule B, lines 1 through 7. For more information, see the instructions for Schedule A, line 22.

**Note.** See section 834(d)(1) regarding the limitation of expenses on real estate owned and occupied in part or in whole by a mutual insurance company.

**Line 12. Depletion.** Enter any allowable depletion on royalty income reported on Schedule B, line 4. See the instructions for Schedule A, line 23, for more information.

**Line 13. Trade or business deductions.** Enter the total deductions related to any trade or business income included in gross investment income under section

834(b)(2). Do not include deductions for any insurance business. Do not include losses from sales or exchanges of capital assets or property used in the business, or from the compulsory or involuntary conversion of property used in the trade or business.

**Line 14. Interest.** See the instructions for Schedule A, lines 20a and 20b.

**Line 17. Investment expenses.** Enter expenses that are properly chargeable as investment expenses. If general expenses are allocated to investment expenses, the total deduction cannot be more than the amount on Schedule B, Part II, line 39. Attach a statement showing the kind and amount of general expenses. Minor items may be grouped together.

See section 267 for the limitation on deductions for unpaid expenses and interest in transactions between related taxpayers.

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## Schedule B, Part II—Invested Assets Book Values

Use Schedule B, Part II, to compute the limitation on investment expenses under section 834(c)(2) when any general expenses are in part assigned to, or included in, the investment expenses deducted on Schedule B, Part I, line 17.

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## Schedule C—Dividends, Inclusions, Dividends-Received Deduction, and Other Special Deductions

### Definitions

The acquisition date for investments acquired by direct purchase is the trade date rather than the settlement date. For investments not acquired by direct purchase (such as those acquired through transfers among affiliates, tax-free reorganizations, or the liquidation of a subsidiary, etc.), the actual acquisition date should be used regardless of the holding period determined under section 1223.

A special rule applies in determining the acquisition date of dividends received from affiliates. This rule provides that the portion of any 100% dividend which is related to prorated amounts be treated as received with respect to stock acquired on the later of:

- The date the payor acquired the stock or obligation to which the prorated amounts are attributable, or
- The first day on which the payor and payee were members of the same

affiliated group as defined in section 243(b).

Also, if the taxpayer is a member of an affiliated group filing a consolidated return, its determination of dividends received is made as if the group were not filing a consolidated return.

**Prorated amounts.** Prorated amounts mean tax-exempt interest and dividends for which a deduction is allowable under section 243, 244 (as affected by P.L. 113-295, Div. A, section 221(a)(41)(A), December 19, 2014, 128 Stat. 4043), or 245 (other than 100% dividends).

**100% dividend.** 100% dividend means any dividend if the percentage used for purposes of determining the deduction allowable under section 243, 244 (as affected by P.L. 113-295, Div. A, section 221(a)(41)(A), December 19, 2014, 128 Stat. 4043), or 245(b) is 100%. See section 243, section 244 as affected by P.L. 113-295, and section 245.

### Lines 1 through 25

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.

**Consolidated returns.** Corporations filing a consolidated return should see Regulations sections 1.1502-13, 1.1502-26, and 1.1502-27 before completing Schedule C.

**Lines 1 through 9, column (a).** Enter in column (a) of the appropriate line those dividends that are subject to the provisions of section 832(b)(5)(B). This will include:

1. All dividends (other than 100% dividends) received on stock acquired after August 7, 1986, and
2. 100% dividends received on stock acquired after August 7, 1986, to the extent that such dividends are attributable to prorated amounts (see definition earlier).

In the case of an insurance company that files a consolidated return, the determination with respect to any dividend paid by a member to another member of the affiliated group is made as if no consolidated return was filed. See section 832(g).

**Line 1.** Enter dividends (except those received on certain debt-financed stock acquired after July 18, 1984 (see section 246A)) that are:

- Received from less-than-20%-owned domestic corporations subject to income tax, and
- Qualified for the 50% deduction under section 243(a)(1).

See section 246 and section 854 for limitations and exclusions.

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

**Line 2.** Enter on line 2:

- Dividends (except those received on certain 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 65% deduction under section 243(c), and
- Taxable distributions from an IC-DISC or former DISC that are considered eligible for the 65% deduction.

**Line 3.** Enter the following.

- Dividends received on certain debt-financed stock acquired after July 18, 1984, from domestic and foreign corporations subject to income tax that would otherwise be subject to the dividends-received deduction under section 243(a)(1), 243(c), or 245(a). Generally, debt-financed stock is stock that the corporation acquired by incurring a debt (for example, it borrowed money to buy the stock).
- Dividends received from a RIC on certain 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 4.** Enter dividends received on preferred stock of a less-than-20%-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 (as affected by P.L. 113-295, Div. A, section 221(a)(41)(A), December 19, 2014, 128 Stat. 4043) for dividends paid.

**Line 5.** Enter dividends received on preferred stock of a 20%-or-more-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 (as affected by P.L. 113-295, Div. A, section 221(a)(41)(A), December 19, 2014, 128 Stat. 4043) for dividends paid.

**Line 6.** Enter the U.S.-source portion of dividends that:

- Are received from less-than-20%-owned foreign corporations, and
- Qualify for the 50% deduction under section 245(a). To qualify for the 50% 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 foreign sales corporation (FSC) that:



- Are attributable to income treated as effectively connected with the conduct of a trade or business within the United States (excluding foreign trade income), and
- Qualify for the 50% deduction under section 245(c)(1)(B).

**Line 7.** Enter the U.S.-source portion of dividends that:

- Are received from 20%-or-more-owned foreign corporations, and
- Qualify for the 65% deduction under sections 245(a) and 242 by reference.

Also include dividends received from a 20%-or-more-owned FSC that:

- Are attributable to income treated as effectively connected with the conduct of a trade or business within the United States (excluding foreign trade income), and
- Qualify for the 65% deduction provided in section 245(c)(1)(B).

**Line 8.** 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 directly or indirectly owned 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.

Also, include on line 8 dividends from FSCs that are attributable to foreign trade income and that are eligible for the 100% deduction provided in section 245(c)(1)(A).

**Line 9.** Enter only those dividends that qualify under section 243(b) for the 100% dividends-received deduction described in section 243(a)(3).

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

**Line 10.** Enter the foreign-source portion of dividends that:

- Are received from specified 10% owned foreign corporations (as defined in section 245A(b)), including gain from the sale of stock of a foreign corporation that is treated as a dividend for purposes of applying section 245A under section 1248(a) and (i), and
- Qualify for the 100% deduction under section 245A(a) (excluding any hybrid dividends; see instructions for line 11).

**Line 11, column (b).** Enter foreign dividends not reportable on line 3, 6, 7, 8, or 10 of column (b). Include on line 11 the corporation's share of distributions from a section 1291 fund from Form 8621, to the extent that the amounts are taxed as

**Worksheet for Schedule C, line 26**

Keep for Your Records



|  |       |
|--|-------|
| 1. Refigure the amount from Schedule A, line 35 or Schedule B, line 19, whichever applies, without any adjustment under section 1059, and without any capital loss carryback to the tax year under section 1212(a)(1) . . . . .  | _____ |
| 2. Enter the sum of the amounts from line 25, column (b) (without regard to wholly owned foreign subsidiary dividends) and line 9, column (b) . . . . .  | _____ |
| 3. Subtract line 2 from line 1 . . . . .   | _____ |
| 4. Multiply line 3 by 65% . . . . .  | _____ |
| 5. Add lines 19, 22, 24, and 25, column (b) (without regard to FSC dividends), and the portion of the deduction on line 20, column (b), 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; enter the amount from line 6 on line 26, column (b), and do not complete the rest of this worksheet . . . . .                             | _____ |
| 7. Enter the total amount of dividends received from 20%-or-more-owned corporations that are included on lines 2, 3, 5, 7, and 8, column (b) (without regard to FSC dividends), . . . . .  | _____ |
| 8. Subtract line 7 from line 3 . . . . .   | _____ |
| 9. Multiply line 8 by 50% . . . . .  | _____ |
| 10. Subtract line 5 from line 26, column (b) (without regard to FSC dividends) . . . . .   | _____ |
| 11. Enter the smaller of line 9 or line 10 . . . . .   | _____ |
| <b>12. Dividends-received deduction after limitation (section 246(b)).</b> Add lines 6 and 11. Enter the result here and on line 26, column (b) . . . . .  | _____ |

dividends under section 301. See Form 8621 and its instructions.

Also, include on line 11 any hybrid dividends from a controlled foreign corporation (CFC). Hybrid dividends are generally dividends received from a CFC that would otherwise be reported on line 10 except the CFC receives a deduction (or other tax benefit) with respect to any income, war profits, or excess profit taxes imposed by any foreign country or possession of the U.S.

**Line 12a, column (b).** Enter the foreign-source portion of any subpart F inclusions attributable to the sale or exchange by a CFC of stock in another foreign corporation described in section 964(e)(4). This should equal the U.S. shareholder's pro rata share of the amount reported on line 1a, Schedule I of the Information Return(s) of U.S. Persons with Respect to Certain Foreign Corporations (Form 5471).

**Line 12b, column (b).** Enter the pro rata share of subpart F inclusions attributable to hybrid dividends of tiered corporations under section 245A(e)(2). This should equal the U.S. shareholder's pro rata share of the amount reported on line 1b, Schedule I of Form(s) 5471.

**Line 12c, column (b).** Enter all other amounts included in income under section 951, other than amounts on line 15, which should equal the U.S. shareholder's pro rata share of the amount reported on lines 1c, 2, 3, and 4 of Schedule I of Form 5471, Information Return of U.S. Persons with Respect to Certain Foreign Corporations.

**Line 13, column (b).** Enter amounts included in income under the section 951A GILTI provision. See Form 8992, Part II, Line 3 and Form 8992 instructions. Also, consider the applicability of section 951A with respect to controlled foreign corporations owned by domestic partnerships in which the filer has an interest. If you also have a Form 5471 reporting requirement, please attach Form 5471.

**Line 15.** Enter the section 965(a) inclusions from Form 965, line 3. You also must complete and attach Form 965, Inclusion of Deferred Foreign Income Upon Transition to Participation Exemption System and applicable schedules. Also, complete and attach Form 965-B.

**Line 16, column (b).** Include the following.

1. Dividends (other than capital gain distributions reported on Schedule D (Form 1120) and exempt-interest dividends) that are received from RICs and that are not subject to the 50% deduction.

2. Dividends from tax-exempt organizations.

3. Dividends (other than capital gain distributions) received from a REIT that, for the tax year of the trust in which the dividends are paid, qualifies under sections 856 through 860.

4. Dividends not eligible for a dividends-received deduction, which include the following.

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

b. Dividends attributable to periods totaling more than 366 days that the corporation received on any share of preferred stock held for less than 91 days during the 181-day period that began 90 days before the ex-dividend date. When counting the number of days the corporation held the stock, you cannot count certain days during which the corporation's risk of loss was diminished. See section 246(c)(4) and Regulations section 1.246-5 for more details. Preferred dividends attributable to periods totaling less than 367 days are subject to the 46-day holding period rule above.

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

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

**Line 20.** Dividends received on certain debt-financed stock acquired after July 18, 1984, are not entitled to the full 50% or 65% dividends-received deduction. The 50% or 65% 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 statement showing how the amount on line 20 was figured.

**Line 26, column (b).** Generally, line 26, column (b), cannot exceed the amount from the *Worksheet for Schedule C, line 26*, above. However, in a year in

which an NOL occurs, this limitation does not apply even if the loss is created by the dividends-received deduction. See sections 172(d) and 246(b).

**Line 28, column (b).** Enter the section 250 deduction claimed for FDII and GILTI. This should equal the sum of line 8 and line 9 of Form 8993, Part IV.

**Line 29.** Enter the section 965(c) deduction from Form 965, line 17.

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## Schedule E—Premiums Earned

### Definitions

#### Undiscounted unearned premiums.

Undiscounted unearned premiums means the unearned premiums shown in the annual statement filed for the year ending with or in the tax year.

**Applicable interest rate.** Applicable interest rate means the annual rate determined under section 846(c)(2) for the calendar year the premiums are received.

**Applicable statutory premium recognition pattern.** Applicable statutory premium recognition pattern means the statutory premium recognition pattern in effect for the calendar year the premiums are received, and is based on the statutory premium recognition pattern which applies to premiums received by the corporation in that calendar year. For purposes of the preceding sentence, premiums received during any calendar year will be treated as received in the middle of such year.

**Medical loss ratio.** Section 833(c)(5) limits the 100% deduction of unearned premiums by Blue Cross and Blue Shield organizations described in section 833(c)(2), and other organizations described in section 833(c)(3), to those with an MLR of 85% or more. Organizations with an MLR less than 85% are allowed to deduct only 80% of unearned premiums. See section 833(c)(5), Regulations section 1.833-1, and Notice 2010-79 for more information. Also, see Notice 2012-37 applicable to the first tax year beginning after December 31, 2012. See Regulations section 1.833-1(c)(2) for transition rules applicable to the first tax year beginning after December 31, 2013 and December 31, 2014.

**Line 1.** Enter gross premiums written on insurance contracts during the tax year, less return premiums and premiums paid for reinsurance. See Regulations section 1.832-4.

**Lines 2a and 4a.** Include on lines 2a and 4a the following.

1. All life insurance reserves, as defined in section 816(b) (but determined under section 807).

2. Generally, all section 833 organizations with an MLR of 85% or more (discussed earlier) are permitted to enter 100% of unearned premiums on lines 2a and 4a. Section 833 organizations with an MLR of less than 85% must change to an 80% Unearned Premium Reserve. For more information, see *Accounting Methods*, earlier.

**Lines 2b and 4b.** Include on lines 2b and 4b, 90% of unearned premiums for insurance against default in the payment of principal or interest on securities described in section 165(g)(2)(C) (relating to worthless securities) with maturities of more than 5 years. See section 832(b)(7)(B).

**Lines 2c and 4c.** The amount of discounted unearned premiums at the end of any tax year must be the present value of those premiums (as of such time and separately with respect to premiums received in each calendar year) determined by using:

1. The amount of the undiscounted unearned premiums at such time;
2. The applicable interest rate; and
3. The applicable statutory premium recognition pattern.

**Lines 2d and 4d.** Include on lines 2d and 4d, 80% of the total of all unearned premiums not reported on lines 2a through 2c, or 4a through 4c, respectively.

A reciprocal or interinsurer required under state law to reflect unearned premiums on its annual statement net of premium acquisition expenses should increase its unearned premiums by the amount of such acquisition expenses prior to making the computation on lines 2d and 4d. See section 832(b)(7)(E).

**Line 6.** Transitional adjustments apply to companies which become taxable under section 831(a). See section 832(b)(7)(D).

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## Schedule F—Losses Incurred

**Line 1. Losses paid.** Enter the total losses paid on insurance contracts during the tax year less salvage and reinsurance recovered during the tax year. Attach a statement that reconciles the amount entered on line 1 to the amount reported on the corporation's annual statement.

**Lines 2a and 4a. Unpaid losses on life insurance contracts.** Unpaid losses must be adjusted for recoveries of reinsurance. The amounts of expected recoveries should be estimated based on the facts in each case and the corporation's experience with similar cases. See Regulations section 1.832-4(b).

**Lines 2b and 4b. Discounted unpaid losses outstanding.** Enter all discounted unpaid losses as defined in section 846.

Section 846 provides that the amount of discounted unpaid losses must be figured 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
- 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.

Generally, the amount of undiscounted unpaid losses means the unpaid losses and unpaid loss adjustment expenses shown in the annual statement. However, see Regulations section 1.846-1(a)(1) referring to Regulations section 1.832-4(b) relating to the determination of unpaid losses.

Under section 832(b)(5)(A), unpaid losses must be adjusted to take into account estimated recoveries due to salvage and reinsurance for those losses. If the amounts shown in the annual statement were determined on a discounted basis and if the extent to which these losses were discounted can be determined on the basis of information disclosed on or with the annual statement, the amount of the undiscounted unpaid losses must be recomputed to eliminate any reduction caused by such discounting. In no event can the amount of discounted unpaid losses with respect to any line of business for an accident year exceed the total amount of unpaid losses with respect to any line of business for an accident year as reported on the annual statement. Also see Regulations section 1.832-4(d) regarding increasing unpaid losses shown on the annual statement by salvage recoverable. Also see Rev. Proc. 92-77, 1992-2 C.B. 454.

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 IRS. The applicable interest rate and loss payment patterns for 2017, for use in taxable years beginning on or before December 31, 2017, are published in Rev. Proc. 2018-31, 2018-7 I.R.B. 356. The applicable interest rate and loss payment patterns for 2018 and prior years, for use in taxable years beginning after December 31, 2017, are published in Rev. Proc. 2019-06, 2019-02 I.R.B. 284.



*The discount factors in Rev. Proc. 2019-06 were determined under proposed regulations published in the Federal Register (83 FR 55646) on November 7, 2018. After final regulations are published, revised discount factors may be published for the 2018 accident year for use in taxable years ending on or after the date the final regulations are published.*

*If revised discount factors are published, taxpayers using the discount factors in Rev. Proc. 2019-06 in taxable years ending before the date final regulations are published may be required to report a related adjustment in one or more taxable years ending on or after that date.*

**Note.** P.L. 115-97 repealed the election to use the taxpayer's historical loss payment pattern for the loss payment pattern published by IRS.

P.L. 115-97 amended rules in section 846 regarding the determination of the applicable interest rate for each calendar year and the applicable loss payment pattern for each accident year for each line of business. Under the transition rule in section 13523(e) of P.L. 115-97, for the first taxable year beginning after December 31, 2017, the unpaid losses at the end of the preceding year are discounted using the discount factors applicable to the accident years ending with the calendar year 2018. Any resulting adjustment is included ratably over 8 years starting with the first taxable year beginning after December 31, 2017.

Additionally, for subsequent tax years, the discount factors applicable to accident years ending with the calendar year 2018 are to be applied for accident years ending with or before calendar year 2018.

**Note.** There is a special application of the "fresh start" provision for an insurance company that is not subject to tax under section 831(a) for its first tax year beginning after December 31, 1986, because (1) it is described in section 501(c) or (2) it is subject to tax under section 831(b) on its investment income.

If the insurance company later becomes subject to tax under section 831(a), the rules relating to the fresh start under the discounting provisions are applied by treating the last tax year before

the year in which the insurance company becomes subject to tax under section 831(a) as the insurance company's last tax year beginning before 1987. See section 1010(e) of the Technical and Miscellaneous Revenue Act of 1988 and Notice 88-100, 1988-2 C.B. 439.

**Lines 6 and 7. Estimated salvage and reinsurance recoverable.** Enter on lines 6 and 7 the amount of estimated salvage and reinsurance recoverable. The salvage discount factors for 2018 are published in Rev. Proc. 2019-06, 2019-02 I.R.B. 284. The salvage discount factors for 2019 will be published in the Internal Revenue Bulletin when available. Also, see Regulations section 1.832-4.



*Revised discount factors may be published after the publication of final regulations. See the instructions for Schedule F, Lines 2b and 4b.*

*If revised discount factors are published, taxpayers using the discount factors in Rev. Proc. 2019-06 in taxable years ending before the date final regulations are published may be required to report a related adjustment in one or more taxable years ending on or after that date.*

**Line 9. Tax-exempt interest subject to section 832(b)(5)(B).** Enter the amount of tax-exempt interest received or accrued during the tax year on investments made after August 7, 1986. For information regarding the determination of the acquisition date of an investment, see the instructions for Schedule C.

**Line 13. Reduction of deduction under section 832(b)(5)(B).** Multiply line 12 by the applicable percentage, which is 25% for 2018 (5.25% divided by the highest corporate tax rate). See section 832(b)(5)(B).

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## Schedule G—Other Capital Losses

Capital assets are considered sold or exchanged to provide funds to meet abnormal insurance losses and to pay dividends and make similar distributions to policyholders to the extent that the gross receipts from their sale or exchange are not more than the amount by which the sum of dividends and similar distributions paid to policyholders, losses paid, and expenses paid for the tax year is more than the total on line 9, Schedule G.

Total gross receipts from sales of capital assets (line 12, column (c)) must not be more than line 10. If necessary, the corporation may report part of the gross receipts from a particular sale of a capital asset on this schedule and the rest on Schedule D (Form 1120). Otherwise, do

not include on Schedule D (Form 1120) any sales reported on this schedule.

## Schedule H—Special Deduction and Ending Adjusted Surplus for Section 833 Organizations

Section 833(c)(5) provides that section 833(a)(2) and section 833(a)(3) do not apply to any organization with an MLR of less than 85%. See section 833(c)(5), Regulations section 1.833-1, and Notice 2010-79 for more information. Also, see Notice 2012-37 applicable to the first tax year beginning after December 31, 2012. See Regulations section 1.833-1(c)(2) for transition rules applicable to the first tax year beginning after December 31, 2013 and December 31, 2014.

**Line 5. Beginning adjusted surplus.** If the corporation was a section 833 organization in 2017, it should enter the amount from its 2017 Form 1120-PC, Schedule H, line 10.

Generally, the adjusted surplus as of the beginning of any tax year is an amount equal to the adjusted surplus as of the beginning of the preceding tax year:

1. Increased by the amount of any adjusted taxable income for the preceding tax year or
2. Decreased by the amount of any adjusted net operating loss for the preceding tax year.

If 2018 is the first tax year the taxpayer qualifies as a section 833 organization, see section 833(c)(3)(C) to determine the adjusted surplus as of the beginning of the 2018 tax year.

For purposes of the computation of the adjusted surplus, the terms “adjusted taxable income” and “adjusted net operating loss” mean the taxable income or the net operating loss, respectively, determined with the following modifications:

1. Without regard to the deduction determined under section 833(b)(1);
2. Without regard to any carryover or carryback to that tax year; and
3. By increasing gross income by an amount equal to the net exempt income for the tax year.

**Line 6. Special deduction.** The special deduction under section 833(b) cannot be taken if the MLR is less than 85%. If the MLR is less than 85%, enter zero on line 6 and Schedule A, line 34a.

**Note.** The deduction for any tax year is limited to taxable income for that tax year determined without regard to this deduction.

**Note.** Under section 833(b)(4), any determination under section 833(b) must be made by only taking into account items from the health-related business of the corporation.

**Line 8a. Adjusted tax-exempt income.** Reduce the total tax-exempt interest received or accrued during the tax year by any amount (not otherwise deductible) which would have been allowable as a deduction for the tax year if such interest were not tax-exempt. Enter the result on line 8a.

**Line 8b. Adjusted dividends-received deduction.** Reduce the total amount allowed as a deduction under sections 243, 244 (as affected by P.L. 113-295, Div. A, section 221(a)(41)(A), December 19, 2014, 128 Stat. 4043), and 245 by the amount of any decrease in deductions allowable for the tax year because of section 832(b)(5)(B) when the decrease is caused by the deductions under sections 243, 244 (as affected by P.L. 113-295, Div. A, section 221(a)(41)(A), December 19, 2014, 128 Stat. 4043), and 245. Enter the result on line 8b.

## Schedule I—Other Information

The following instructions apply to Form 1120-PC, page 7. Complete all items that apply to the corporation.

### Question 4

Check the “Yes” box if:

- The corporation is a subsidiary in an affiliated group (defined later), but is not filing a consolidated return for the tax year with that group, or
- The corporation is a subsidiary in a parent-subsidiary controlled group. For a definition of parent-subsidiary controlled group, see the Instructions for Schedule O (Form 1120).

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 definition in the Instructions for Schedule O (Form 1120)), it is still considered a member of a controlled group for this purpose.

**Affiliated group.** An affiliated group is 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 one or more of the other includible corporations.

For this purpose, the term “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).

### Question 6

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 6a the percentage owned by the foreign person specified in question 6. On line 6b, enter the name of the owner’s country.

**Note.** If there is more than one 25%-or-more foreign owner, complete lines 6a and 6b for the foreign person with the highest percentage of ownership.

**Foreign person.** The term “foreign person” means:

- An individual who is not a citizen or resident of the United States;
- An individual who is a citizen or resident of a U.S. possession who is not otherwise a citizen or resident of the United States;
- Any partnership, association, company, or corporation that is not created or organized in the United States;
- 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.

However, the term “foreign person” does not include any foreign person who consents to the filing of a joint income tax return.

**Owner’s country.** 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,” 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. See the Instructions for Form 5472 for filing instructions and penalties for failure to file.

### Item 9

Show any tax-exempt interest received or accrued. Include any exempt-interest dividends received as a shareholder in a mutual fund or other RIC.

### Item 10

If the corporation has an NOL, it generally can elect under section 172(b)(3) to waive the entire carryback period for the NOL and instead carry the NOL forward to future tax years. To do so, check the box on line 10 and file the tax return by its due date, including extensions. Do not attach the statement described in Temporary Regulations section 301.9100-12T. Once made, the election is irrevocable.

Corporations filing a consolidated return that elect to waive the entire carryback period for the group also must attach the statement required by Regulations section 1.1502-21(b)(3) or the election will not be valid.

### Item 11

Enter the amount of the NOL carryover to the tax year from prior years, even if some of the loss is used to offset income on this return. The amount to enter is the total of all NOLs generated in prior years but not used to offset income (either as a carryback or carryover) in a tax year prior to 2018. Do not reduce the amount by any NOL deduction reported on Schedule A, line 36b.

### Question 12

A corporation that files Form 1120-PC must file Schedule UTP (Form 1120), Uncertain Tax Position Statement, with its 2018 income tax return if:

- For 2018, the corporation's total assets equal or exceed \$50 million;
- The corporation or a related party issued audited financial statements reporting all or a portion of the corporation's operations for all or a portion of the corporation's tax year; and
- The corporation has one or more tax positions that must be reported on Schedule UTP.

For details, see the Instructions for Schedule UTP.

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

### Question 13

Section 833(c)(5) provides that section 833(a)(2) and section 833(a)(3) do not apply to a Blue Cross or Blue Shield organization described in section 833(c)(2), or other organization described in section 833(c)(3), unless it has an MLR of 85% or more for the tax year.

For purposes of section 833(c)(5), the MLR is equal to the amount expended on reimbursement for clinical services provided to enrollees (as defined in 45 C.F.R. 158.140) and for activities that improve health care quality (as defined in 45 C.F.R. 158.150) under its policies during the tax year (section 833(c)(5) MLR numerator) divided by the total premium revenue (section 833(c)(5) MLR denominator). See section 833(c)(5), Regulations section 1.833-1 and Notice 2010-79 for more information. Also, see Notice 2012-37 applicable to the first tax year beginning after December 31, 2012. See Regulations section 1.833-1(c)(2) for transition rules applicable to the first tax year beginning after December 31, 2013 and December 31, 2014.

Check the “Yes” box if the corporation is a Blue Cross or Blue Shield organization described in section 833(c)(2), or other organization described in section 833(c)(3), that has satisfied the MLR requirements of section 833(c)(5).

If you checked “Yes,” you must enter the following:

- The section 833(c)(5) MLR numerator on line 13(a),
- The section 833(c)(5) MLR denominator on line 13(b), and
- The section 833(c)(5) percentage on line 13(c).

If you checked “No,” enter zero on Schedule H, line 6, and Schedule A, line 34a. You cannot take the special deduction. See the instructions for Schedule H.

Also, if you checked “No,” your deduction of unearned premiums is limited. See the instructions for Schedule E for more information.

### Question 14

Only a corporation that qualifies as a small company under section 831(b)(2) is eligible to elect to be taxed on taxable investment income under section 831(b) in lieu of the tax otherwise applicable under section 831(a). See section 831(b)(2)(A)(iii). Section 831(b)(2)(A)(ii) provides that a corporation must meet the diversification

requirements in section 831(b)(2)(B) to qualify as a small company. A corporation meets the diversification requirements if under section 831(b)(2)(B)(i)(I) no more than 20 percent of the net written premiums (or, if greater, direct written premiums) of such corporation for the taxable year is attributable to any one policyholder. However, a corporation that does not meet this 20-percent test can meet the diversification requirement under section 831(b)(2)(B) if no person who holds (directly or indirectly) an interest in such insurance company is a specified holder who holds (directly or indirectly) aggregate interest in such insurance company which constitutes a percentage of the entire interests in such insurance company which is more than 2% higher than the percentage of interests in the specified assets with respect to such insurance company held (directly or indirectly) by such specified holder under section 831(b)(2)(B)(i)(II).

A corporation making an election under section 831(b)(2)(A)(iii) must complete Question 14 to indicate whether it qualifies as a small company, and, therefore, is eligible to make the election to be taxed on taxable investment income because it meets the diversification requirements of the 20-percent test in section 831(b)(2)(B)(i)(I). If the corporation answers “No” on Question 14(a), then the corporation must satisfy the specified holder/specified asset test in section 831(b)(2)(B)(i)(II) to qualify to make the section 831(b)(2)(A)(iii) election to be taxed on taxable investment income. If the corporation satisfies the specified holder/specified asset test in section 831(b)(2)(B)(i)(II), the corporation should answer “Yes” on question 14(b). If the corporation does not satisfy either the diversification requirements of section 831(b)(2)(B)(i)(I) or section 831(b)(2)(B)(i)(II) for the taxable year (answering “No” for both 14(a) and 14(b)), the corporation is not a small company and, therefore, is not eligible to be taxed on taxable investment income under section 831(b) in lieu of the tax otherwise applicable under section 831(a).

### Item 15

If the corporation had gross receipts of at least \$500 million in any one of the 3 preceding tax years, complete Form 8991 and attach it to this return. For this purpose, the corporation's gross receipts include the gross receipts of all persons aggregated with the corporation as specified in section 59A(e)(3). See the Instructions for Form 8991 to determine if the corporation is subject to the base erosion minimum tax.

### Item 16

Section 267A disallows a deduction for certain interest and royalty payments or

accruals. In general, section 267A applies when:

1. The interest or royalty is paid or accrued to a related party.
2. Under its tax laws, the related party either:
  - a. Does not include the full amount in income; or
  - b. Is allowed a deduction with respect to the amount.
3. The amount is paid or accrued pursuant to a hybrid transaction or by, or to, a hybrid entity.

When section 267A applies, the deduction generally is disallowed to the extent the related party does not include the amount in income or is allowed a deduction with respect to the amount. However, the deduction is not disallowed to the extent the amount is included in the gross income of a U.S. shareholder under section 951(a). For definitions of terms, see section 267A.

### Question 17

For tax years beginning after 2017, the limitation on business interest expense applies to every taxpayer with a trade or business, unless the taxpayer meets certain specified exceptions. A taxpayer may elect out of the limitation for certain businesses otherwise subject to the business interest expense limitation. Certain real property trades or businesses and farming businesses qualify to make an election not to limit business interest expense. This is an irrevocable election. If you make this election, you are required to use the alternative depreciation system to depreciate any property with a recovery period of 10 years or more. Also, you are not entitled to the special depreciation allowance for that property. For a taxpayer with more than one qualifying business, the election is made with respect to each business. Check "Yes" if the taxpayer has an election in effect to exclude a real property trade or business or a farming business from section 163(j). For more information, see section 163(j) and the Instructions for Form 8990.

### Question 18

Generally, a taxpayer with a trade or business must file Form 8990 to claim a deduction for business interest. In addition, Form 8990 must be filed by any taxpayer that owns an interest in a partnership with current year, or prior year carryover, excess business interest expense allocated from the partnership.

**Exclusions from filing.** A taxpayer is not required to file Form 8990 if the taxpayer is a small business taxpayer and does not have excess business interest expense from a partnership. A taxpayer is also not required to file Form 8990 if the

taxpayer only has business interest expense from these excepted trades or businesses:

- An electing real property trade or business,
- An electing farming business, or
- Certain utility businesses.

**Small business taxpayer.** A small business taxpayer is not subject to the business interest expense limitation and is not required to file Form 8990. A small business taxpayer is a taxpayer that (a) is not a tax shelter (as defined in section 448(d)(3)) and (b) meets the gross receipts test of section 448(c), discussed next.

**Gross receipts test.** A taxpayer meets the gross receipts test if the taxpayer has average annual gross receipts of \$25 million or less for the 3 prior tax years. A taxpayer's average annual gross receipts for the 3 prior tax years is determined by adding the gross receipts for the 3 prior tax years and dividing the total by 3. Gross receipts include the aggregate gross receipts from all persons treated as a single employer, such as a controlled group of corporations, commonly controlled partnerships, or proprietorships, and affiliated service groups. See section 448(c) and the Instructions for Form 8990 for additional information.

## Schedule L—Balance Sheets per Books

**Note.** All insurance companies required to file Form 1120-PC must complete Schedule L.

The balance sheets should agree with the corporation's books and records.

If filing a consolidated return, report total consolidated assets, liabilities, and shareholder's equity for all corporations joining in the return. See *Consolidated Return*, earlier.

Corporations with total assets (non-consolidated or consolidated for all corporations included within the tax consolidation group) of \$10 million or more on the last day of the tax year must file Schedule M-3 (Form 1120-PC) instead of Schedule M-1. See the separate Instructions for Schedule M-3 (Form 1120-PC) for provisions that also affect Schedule L.

**Line 1. Cash.** Include certificates of deposit as cash on this line.

**Line 5. Tax-exempt securities.** Include on this line:

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

**Line 18. Insurance liabilities.** Include on this line:

- Undiscounted unpaid losses,
- Loss adjustment expenses, and
- Unearned premiums.

See section 846 for more information.

**Line 27. Adjustments to shareholders' equity.** Some examples of adjustments to report on this line include:

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

If the total adjustment to be entered on line 27 is a negative amount, enter the amount in parentheses.

## Schedule M-1—Reconciliation of Income (Loss) per Books With Income (Loss) per Return

All insurance companies required to file Form 1120-PC, with total assets (non-consolidated or consolidated for all corporations included within the tax consolidation group) of \$10 million or more on the last day of the tax year must file Schedule M-3 (Form 1120-PC) instead of Schedule M-1. See *Schedule M-3 (Form 1120-PC)*, earlier. A corporation filing Form 1120-PC that is not required to file Schedule M-3 (Form 1120-PC) may voluntarily file Schedule M-3 (Form 1120-PC) instead of Schedule M-1. See the Instructions for Schedule M-3 (Form 1120-PC) for more information.

**Line 5c. Travel and entertainment.** Include on line 5c any of the following.

- Entertainment expenses not deductible under section 274(a).
- Entertainment-related meal expenses.
- Non-entertainment meal expenses not deductible under section 274(n).
- Expenses for the use of an entertainment facility.
- The part of business gifts over \$25.
- Expenses of an individual over \$2,000 which are allocable to conventions on cruise ships.
- Employee achievement awards of nontangible or tangible property over \$400 (\$1,600 if part of a qualified plan).
- The cost of skyboxes.
- Nondeductible club dues.
- The part of luxury water travel expenses not deductible under section 274(m).
- Expenses for travel as a form of education.

- Other nondeductible travel and entertainment expenses.

For more information, see Pub. 535.

**Line 7a. Tax-exempt interest.** Report any tax-exempt interest received or accrued, including any exempt-interest

dividends received as a shareholder in a mutual fund or other RIC. Also, report this same amount on Schedule I, item 10.

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

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

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for business taxpayers filing this form is approved under OMB control number 1545-0123 and is included in the estimates shown in the instructions for their business income tax return.

If you have comments or suggestions for making this form and related schedule simpler, we would be happy to hear from you. You can send us comments through [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or you can write to:

Internal Revenue Service  
Tax Forms and Publications  
1111 Constitution Ave. NW, IR-6526  
Washington, DC 20224

Do not send the tax form to this address. Instead, see *Where To File*, earlier.

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