

1991



Department of the Treasury
Internal Revenue Service

Instructions for Form 1120-REIT

U.S. Income Tax Return for Real Estate Investment Trusts

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

Paperwork Reduction Act Notice

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

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

Recordkeeping	55 hr., 58 min.
Learning about the law or the form	17 hr., 53 min.
Preparing the form.	35 hr., 24 min.
Copying, assembling, and sending the form to the IRS.	4 hr., 33 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the **Internal Revenue Service**, Washington, DC 20224, Attention: IRS Reports Clearance Officer, T:FP; and the **Office of Management and Budget**, Paperwork Reduction Project (1545-1004), Washington, DC 20503. **DO NOT** send the tax form to either of these offices. Instead, see the instructions for **where to file** on page 2.

Important Change

Enhanced Oil Recovery Credit.—

Corporations may take a credit on **Form 8830**, Enhanced Oil Recovery Credit, for 15% of qualified enhanced oil recovery costs paid or incurred in tax years beginning after December 31, 1990. These costs generally include amounts paid or incurred in connection with a qualified enhanced oil recovery project for:

- certain tangible personal property for which the corporation can claim a deduction for depreciation or amortization,
- intangible drilling costs eligible for the election under section 263(c) or required to be capitalized under section 291(b)(1), and
- qualified tertiary injectant expenses for which a deduction is allowed under section 193.

If a corporation takes this credit, limitations apply to amounts otherwise deductible (or required to be capitalized and recovered through depreciation, depletion, or amortization), that were used in figuring the credit.

For more information, see section 43 and Form 8830.

General Instructions

Note: In addition to the publications listed throughout these instructions, taxpayers may wish to get: **Pub. 534**, *Depreciation*; **Pub. 535**, *Business Expenses*; and **Pub. 542**, *Tax Information on Corporations*.

Purpose of Form

Form 1120-REIT, U.S. Income Tax Return for Real Estate Investment Trusts, is used to report the income, gains, losses, deductions, credits, and to figure the income tax liability of real estate investment trusts (REIT) as defined in section 856.

Filing Requirements

Who Must File

A corporation, trust, or association that elects to be treated as a REIT for the tax year (or has made that election for a prior tax year and the election has not been terminated or revoked) and that meets the requirements listed below must file Form 1120-REIT. The election is made by computing taxable income as a REIT on Form 1120-REIT.

An electing REIT must be a corporation, trust, or association:

- (a) that is managed by one or more trustees or directors;
- (b) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest;
- (c) that would otherwise be taxed as a domestic corporation;
- (d) that is neither a financial institution referred to in section 582(c)(2), nor an insurance company to which subchapter L applies;
- (e) the beneficial ownership of which is held by 100 or more persons (except this rule does not apply for the first tax year in which the election is made to be taxed as a REIT);

(f) that is not closely held, as defined in section 856(h) (except this rule does not apply for the first tax year in which the election is made to be taxed as a REIT);

(g) that meets the gross income and diversification of investment requirements of section 856(c);

(h) that was treated as a REIT for all tax years beginning after February 28, 1986, or as of the end of the tax year, the corporation, trust, or association had no accumulated earnings and profits from any non-REIT year;

(i) that keeps the records required by Regulations section 1.857-8 to show the actual ownership of its outstanding stock or certificates of beneficial interest during the tax year;

(j) that has a tax year which is a calendar year, unless such corporation, trust, or association was considered to be a REIT for any tax year beginning on or before October 4, 1976; and

(k) for which the deduction for dividends paid (excluding any net capital gain dividends) equals or exceeds:

(1) the sum of:

(i) 95% of its REIT taxable income (determined without regard to the deduction for dividends paid and by excluding any net capital gain); and

(ii) 95% of the excess of its net income from foreclosure property over the tax imposed on such income by section 857(b)(4)(A);

(2) minus any excess noncash income as determined under section 857(e).

See sections 856 and 857 for details and exceptions.

Note: For income tax purposes, a corporation that is a qualified REIT subsidiary is not treated as a separate corporation. See section 856(i) for details.

Termination of Election

Once the election is made, it remains in effect until terminated or revoked. It terminates automatically for any tax year in which the corporation, trust, or association is not a qualified REIT as defined in section 856.

The election may also be revoked by the taxpayer for any tax year after the first tax year the election is effective by filing a statement with the Internal Revenue Service Center where the corporation, trust, or association files its income tax return. The statement must be filed on or before the 90th day after the first day of the tax year for which the revocation is to be effective. The statement must be signed by an official authorized to sign the income tax return of the taxpayer and must contain the name, address, and employer identification number of the taxpayer, specify the tax year for which the election was made, and state that the taxpayer, pursuant to section 856(g)(2), revokes its election under section 856(c)(1) to be a REIT.

During the 4 years after the first year for which the termination or revocation is effective, the corporation, trust, or

association may not make a new election to be taxed as a REIT, except as provided in section 856(g)(4).

When To File

Generally, a REIT must file its income tax return by the 15th day of the 3rd month after the end of the tax year. A new REIT filing a short-period return must generally file by the 15th day of the 3rd month after the short period ends. A REIT that has dissolved must generally file by the 15th day of the 3rd month after the date it dissolved.

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

Where To File

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

REITs having their principal place of business outside the United States must file with the Internal Revenue Service Center, Philadelphia, PA 19255.

If the principal office of the managing corporation of a group of corporations

located in several Service Center regions keeps all the books and records, the income tax returns of the corporations may be filed with the Service Center for the region in which this principal office is located.

Who Must Sign

The return must be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or any other corporate officer (such as tax officer) authorized to sign. A receiver, trustee, or assignee must sign and date any return required to be filed on behalf of a REIT.

If a corporate officer filled in the REIT tax return, the Paid Preparer's space under "Signature of officer" should remain blank. If someone prepares the tax return and does not charge the REIT, that person should not sign the return. Certain others who prepare the tax return should not sign. For example, a regular, full-time employee of the REIT, such as a clerk, secretary, etc., should not sign.

Generally, anyone who is paid to prepare the tax return must sign it and fill in the blanks in the Paid Preparer's Use Only area of the return.

The preparer required to sign the return **must** complete the required preparer information and:

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

Figuring and Paying the Tax

Accounting Information

Accounting methods.—Taxable income must be computed using the method of accounting regularly used in keeping the REIT's books and records. In all cases, the method adopted must clearly reflect taxable income. See section 446.

Generally, REITs with average annual gross receipts of more than \$5 million must use the accrual method of accounting. See section 448(c). A REIT changing to the accrual method because of this provision must complete **Form 3115**, Application for Change in Accounting Method, and attach it to Form 1120-REIT for the year of change. A REIT must also show on a statement accompanying Form 3115 the period over which the section 481(a) adjustment will be taken into account and the basis for that conclusion. See section 448 and Temporary Regulations sections 1.448-1T(g) and 1.448-1T(h) for more information. Include the amount reportable as income in 1991 under section 481(a) on line 7, page 1.

Unless the law specifically permits otherwise, the REIT may change the method of accounting used to report taxable income in earlier years (for income as a whole or for any material item) only by first getting consent on Form 3115. Also

see **Pub. 538**, Accounting Periods and Methods.

Change in accounting period.—A REIT may not change its accounting period to any accounting period other than the calendar year. Generally, before changing its accounting period, the REIT must obtain the Commissioner's approval by filing **Form 1128**, Application to Adopt, Change or Retain a Tax Year. (See Regulations section 1.442-1 and Pub. 538.) However, upon electing to be taxed as a REIT, an entity that has not engaged in any active trade or business may change its accounting period to a calendar year without the approval of the Commissioner.

Timing change in deducting accrued expenses.—Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year that (1) all events have occurred that determine the liability, and (2) the amount of the liability can be figured with reasonable accuracy. However, all the events that establish liability for the amount generally are treated as occurring only when economic performance takes place. There are exceptions for recurring items. See section 461(h).

Rule of 78's.—Taxpayers are reminded that, generally, the Rule of 78's is not an acceptable method for computing interest income or expense. Anyone using the Rule of 78's should see Rev. Procs. 84-27, 84-28, 84-29, and 84-30 (in C.B. 1984-1) to change their method.

Rounding Off to Whole-Dollar Amounts

Money items on the return and accompanying schedules may be shown as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

Depository Method of Tax Payment

The REIT must pay the tax due in full when the return is filed but no later than the 15th day of the 3rd month after the end of the tax year.

Deposit REIT income tax payments (and estimated tax payments) with **Form 8109**, Federal Tax Deposit Coupon. Do not submit deposits directly to an IRS office. Mail or deliver the completed Federal Tax Deposit Coupon (Form 8109) and the payment to a qualified depository for Federal taxes or to the Federal Reserve Bank (FRB) servicing your geographic area. Make checks or money orders payable to that depository or FRB. To help ensure proper crediting to your account, write your employer identification number, "Form 1120-REIT," and the tax period to which the deposit applies on your check or money order. Be sure to darken the "1120" box on the coupon. Records of deposits will be sent to the IRS for crediting to the REIT's account.

A penalty may be imposed for failure to deposit the required amount of tax. See section 6656. This penalty may also apply

if you mail or deliver deposits to IRS offices rather than to authorized depositories or FRBs.

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

Backup Withholding

If the REIT has had income tax withheld from any payments it received because, for example, it failed to give the payer its correct EIN, it may claim a credit on Form 1120-REIT for the total amount withheld. This type of withholding is called "backup withholding." Show the amount withheld in the blank space in the righthand column between lines 23 and 24h, page 1, and label the amount as "backup withholding." Also include the amount in the total for line 24h.

Estimated Tax Payments

Generally, a REIT must make installment payments of estimated tax if it expects its estimated tax to be \$500 or more. For estimated tax purposes, the estimated tax of the REIT is defined as its alternative minimum tax less the credit for Federal tax on fuels. Use the deposit coupons (Forms 8109) to make deposits of estimated tax.

If the REIT overpaid estimated tax, it may be able to get a "quick refund" by filing **Form 4466**, Corporation Application for Quick Refund of the Overpayment of Estimated Tax. The overpayment must be at least 10% of expected income tax liability and at least \$500. To apply for a quick refund, file Form 4466 before the 16th day of the 3rd month after the end of the tax year, but before the REIT files its income tax return. Do not file Form 4466 before the end of the REIT's tax year.

Interest and Penalties

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

Late filing of return.—A REIT that fails to file its return when due (including extensions of time for filing) may be subject to a penalty of 5% of the unpaid tax for each month or part of a month the return is late, up to a maximum of 25% of the unpaid tax. The minimum penalty for a return that is more than 60 days late is the smaller of the tax due or \$100. The penalty will not be imposed if the taxpayer can show that failure to file a timely return is due to reasonable cause. Those filing late (after the due date, including extensions), must attach a statement to the return explaining the reasonable cause.

Late payment of tax.—The penalty for late payment of taxes is usually ½ of 1% of the unpaid tax for each month or part of a month the tax is unpaid. The penalty

cannot exceed 25% of the amount due. This penalty may also apply to any additional tax not paid within 10 days of the date of the notice and demand for payment.

Estimated tax penalty.—A REIT that fails to pay estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. In general, to avoid the estimated tax penalty, the REIT must make estimated tax payments of at least the smaller of: 90% of its alternative minimum tax less the credit for Federal tax on fuels as shown on the return; or 100% of its prior year's tax (computed in the same manner). See section 6655 for details and exceptions.

Form 2220, Underpayment of Estimated Tax by Corporations, is used to see if the REIT owes a penalty and to figure the amount of the penalty. Generally, the REIT does not have to file this form because IRS can figure the amount of any penalty and bill the REIT for it. However, you must complete and attach Form 2220 even if the REIT does not owe the penalty if: **(a)** The annualized income or adjusted seasonal installment method is used, or **(b)** the REIT is a "large corporation" computing its first required installment based on the prior year's tax. (See the Instructions for Form 2220 for the definition of a "large corporation.") If you attach Form 2220, be sure to check the box on line 25, page 1, Form 1120-REIT, and enter the amount of any penalty on this line.

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

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

Forms

The REIT may have to file any of the following:

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

Form 966, Corporate Dissolution or Liquidation.

Forms 1042 and 1042S, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons; and Foreign Person's U.S. Source Income Subject to Withholding. Use these forms to report and transmit withheld tax on payments or distributions made to nonresident alien individuals, foreign partnerships, or foreign corporations to the extent such payments or distributions constitute gross income from sources within the U.S. (see sections 861 through 865). For more information, see sections 1441 and 1442, and **Pub. 515**, Withholding of Tax on Nonresident Aliens and Foreign Corporations.

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

Form 1098, Mortgage Interest Statement. This form is used to report the receipt from any individual of \$600 or more of mortgage

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

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

For more information, see the instructions for Form 1099 and **Pub. 937**, Business Reporting.

Note: Every REIT must file Form 1099-MISC if, in the course of its trade or business, it makes payments of rents, commissions, or other fixed or determinable income (see section 6041) totaling \$600 or more to any one person during the calendar year.

Form 5452, Corporate Report of Nondividend Distributions.

Form 5498, Individual Retirement Arrangement Information. Use this form to report contributions (including rollover contributions) to an individual retirement arrangement (IRA) and the value of an IRA or simplified employee pension account.

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

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

Forms 8288 and 8288-A, U.S. Withholding Tax Return for Dispositions by Foreign Persons of U.S. Real Property Interests; and Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interests. Use these forms to report and transmit withheld tax on the sale of U.S. real property by a foreign person. However, with respect to distributions described in Regulations section 1.1445-8, use Forms 1042 and 1042S. See section 1445 and the related regulations for additional information.

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

Form 8612, Return of Excise Tax on Undistributed Income of Real Estate Investment Trusts. If the REIT is liable for the 4% excise tax on undistributed income imposed under section 4981, it must file this return for the calendar year.

Form 8621, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund. A REIT that was a shareholder in a passive foreign investment company (as defined in section 1296) at any time during the tax year must complete and attach this form to its return.

Statements

Stock ownership in foreign corporations.—Attach the required statement to Form 1120-REIT if the REIT owned 5% or more in value of the outstanding stock of a foreign personal holding company and the REIT was required to include in its gross income any undistributed foreign personal holding company income. See section 551(c).

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

A domestic REIT controlled by a foreign person or a foreign corporation that is engaged in a trade or business in the U.S. may have to file **Form 5472**, Information Return of a Foreign-owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business.

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

Attachments

Attach **Form 4136**, Credit for Federal Tax on Fuels, after page 4, Form 1120-REIT. Attach schedules in alphabetical order and other forms in numerical order after Form 4136.

Please complete every applicable entry space on Form 1120-REIT. Do not attach statements and write "See attached" instead of completing the entry spaces.

If more space is needed on the forms or schedules, attach separate sheets showing at the top of each attachment the form number or schedule letter of the form or schedule being continued. Also, show the information called for on the form in the same order as on the printed forms. **Be sure to show the totals on the printed forms.** Please use sheets that are the same size as the forms and schedules. Attach these separate sheets after all the schedules and forms. Also, put the REIT's EIN on each sheet.

Specific Instructions

Period covered.—File the 1991 return for calendar year 1991 and fiscal years that begin in 1991 and end in 1992. For a fiscal year, fill in the tax year space at the top of the form.

Note: *The 1991 Form 1120-REIT may also be used if: (1) the REIT has a tax year of less than 12 months that begins and ends in 1992; and (2) the 1992 Form 1120-REIT is not available by the time the REIT is required to file its return. However, the REIT must show its 1992 tax year on the 1991 Form 1120-REIT and incorporate any tax law changes that are effective for tax years beginning after December 31, 1991.*

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

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

Item C. Employer identification number.—If the EIN on the label is wrong or if the REIT did not receive a label, enter the correct EIN. A REIT that does not have an EIN should apply for one on **Form SS-4**, Application for Employer Identification Number. This form may be obtained from most IRS and Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center to which Form 1120-REIT is mailed. If the EIN has not been received by the filing time for Form 1120-REIT, write "Applied for" in the space for the EIN.

For more information concerning an EIN, see Pub. 583.

Item D. Date REIT established.—If the REIT is a corporation under state or local law, enter the date incorporated. If a trust or association, enter the date organized.

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

Item F.—Indicate a final return, change in address, or amended return by checking the appropriate box.

Part I

Do not include income or deductions attributable to any prohibited transaction (as defined in section 857(b)(6)) resulting in a gain. In addition, exclude gross income, gains, losses, and deductions from foreclosure property (as defined in section 856(e)) if the aggregate of such amounts results in net income. To report these items of income and deduction, see the instructions for Parts II and IV.

Income

Line 1. Dividends.—Enter the total amount of dividends received during the tax year.

Line 2. Interest.—Enter interest on U.S. obligations and on loans, notes,

mortgages, bonds, bank deposits, corporate bonds, tax refunds, etc.

Do not offset interest expense against interest income.

Special rules apply to interest income from certain below-market rate loans. See section 7872 for more information.

Line 3. Gross rents from real property.—Include charges for services customarily furnished or rendered in connection with the rental of real property and rent from personal property leased under or in connection with a lease of real property (provided the rent from the personal property does not exceed 15% of the total rent for the tax year charged for both the real and personal property under such lease). See section 856(d)(2) for amounts excluded from the term "rents from real property."

Line 4. Other gross rents.—Enter the gross amount received for the rental of property not included on line 3.

Line 5. 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 though no gain or (loss) is indicated.

Line 7. Other income.—Enter any other taxable income not listed above, except amounts that must be reported in Parts II or IV, and explain its nature on an attached schedule. Examples of other income are any adjustment under section 481(a) required to be included in income during the current tax year due to a change in a method of accounting; amounts received or accrued as consideration for entering into agreements to make real property loans or to purchase or lease real property; recoveries of bad debts deducted in prior years under the specific charge-off method; the amount of credit for alcohol used as fuel (determined without regard to the limitation based on tax) that was entered on **Form 6478**, Credit for Alcohol Used as Fuel; and refunds of taxes deducted in prior years to the extent they reduced income subject to tax in the year deducted (see section 111). Do not offset current year's taxes with tax refunds.

If "other income" consists of only one item, describe it in parentheses on line 7.

Deductions

Limitations on deductions.

Transactions between related taxpayers. Generally, an accrual basis taxpayer may only deduct business expenses and interest owed to a related party in the year the payment is included in the income of the related party. See sections 163(j) and 267 for limitation on deductions for unpaid expenses and interest.

Direct and indirect costs (including taxes) allocable to real or tangible personal property constructed or improved by the taxpayer. These costs must be capitalized in accordance with section 263A.

Golden parachute payments. A portion of the payments made by a REIT to key personnel that exceeds their usual

compensation may not be deductible. This occurs when the REIT has an agreement (golden parachute) with these key employees to pay them these excessive amounts if control of the REIT changes. See section 280G.

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

Passive activity limitations. Limitations on passive activity losses and credits under section 469 apply to REITs that are closely held (as defined in section 856(h)). REITs subject to the passive activity limitations must complete **Form 8810**, Corporate Passive Activity Loss and Credit Limitations, to compute their allowable passive activity loss and credit.

Line 9. Compensation of officers.—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.

Line 10. Salaries and wages.—Enter the amount of total salaries and wages paid or incurred for the tax year. Do not include salaries and wages 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.

Caution: *If the REIT provided taxable fringe benefits to its employees, such as personal use of a car, do not deduct as wages the amount allocated for depreciation and other expenses claimed on lines 16 and 18.* Enter on line 10b the amount of jobs credit from **Form 5884**, Jobs Credit.

Line 11. Repairs.—Enter the cost of incidental repairs, such as labor and supplies, that do not add to the value of the property or appreciably prolong its life.

Line 12. Bad debts.—Enter the total debts that became worthless in whole or in part during the tax year.

Caution: *Cash method taxpayers may not claim a bad debt deduction unless the amount was previously included in income.*

Line 13. Rents.—If the REIT rented or leased a vehicle, enter the total annual rent or lease expense paid or incurred during the year. Also complete Part V of **Form 4562**, Depreciation and Amortization. If the REIT 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 called the **inclusion amount**. You may have an inclusion amount if:

The lease term began:	And the vehicle's fair market value on the first day of the lease exceeded:
After 12/31/90	\$13,400
After 12/31/86 but before 1/1/91	\$12,800
After 4/2/85 but before 1/1/87	\$28,000
After 6/18/84 but before 4/3/85	\$40,500

See **Pub. 917**, Business Use of a Car, for instructions on how to figure the inclusion amount.

Line 14. Taxes.—Enter taxes paid or incurred during the tax year, but do not include the following:

1. Federal income taxes;
2. Foreign or U.S. possession income taxes if a tax credit is claimed;
3. 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);
4. Excise taxes imposed under section 4981 on undistributed REIT income; or
5. Taxes not imposed on the REIT.

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

Line 15. Interest.—Do not include interest on indebtedness incurred or continued to purchase or carry obligations if the interest is wholly exempt from tax. For exceptions, see section 265(b).

Generally, a cash basis taxpayer cannot deduct prepaid interest allocable to years following the current tax year. For example, a cash basis calendar year taxpayer who in 1991 prepaid interest allocable to any period after 1991 can deduct only the amount allocable to 1991.

Generally, the interest and carrying charges on straddles must be capitalized. See section 263(g).

See section 163(e)(5), which provides special rules for the disqualified portion of original issue discount on a high yield discount obligation.

Certain interest paid or accrued by the REIT (directly or indirectly) to a related person may be limited if no tax is imposed on that interest. See section 163(j) for more detailed information.

Line 16. Depreciation.—Besides depreciation, include the part of the cost (up to \$10,000) that the REIT elected to expense for certain tangible property placed in service during tax year 1991 or carried over from 1990. See the instructions for Form 4562.

Line 18. Other deductions.—Attach a separate sheet listing all allowable deductions that are not deductible elsewhere on Form 1120-REIT. Enter the total on this line.

Include on this line contributions deductible under section 170; contributions to pension and profit-sharing plans, employee benefit programs, etc.; and amortization of organization expenses.

If a contribution deductible under section 170 is in property other than money and the total claimed deduction for all property contributed exceeds \$500, REITs (except those closely held) must attach a schedule describing the kind of property contributed and the method used to determine its fair market value. A closely held REIT must

complete **Form 8283**, Noncash Charitable Contributions, and attach it to its return. All other REITs generally must complete and attach Form 8283 to their returns for contributions of property other than money if the total claimed deduction for all property contributed was more than \$5,000.

Also include on line 18 the deduction for contributions to pension, profit-sharing, or other funded deferred compensation plans. Employers who maintain such a plan generally are required to file one of the forms listed below, even if the plan is not a "qualified" plan under the Internal Revenue Code. The filing requirement applies even if no deduction is claimed for the current tax year. There are penalties for failure to file these forms on time and for overstating the pension plan deduction. See sections 6652(e) and 6662(f).

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

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

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

Generally, a deduction may not be taken for the amount of any item or part thereof allocable to a class of exempt income. See section 265(b) for exceptions.

Generally, a REIT can deduct only 80% of the amount otherwise allowable for meals and entertainment expenses. In addition, meals must not be lavish or extravagant; a bona fide business discussion must occur during, immediately before, or immediately after the meal; and an employee of the REIT must be present at the meal. See section 274(k)(2) for exceptions. If a REIT claims a deduction for unallowable meal expenses, it may have to pay a penalty.

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

All other ordinary and necessary travel expenses paid or incurred in the trade or business of the REIT are generally fully deductible.

However, expenses paid or incurred for a facility (such as a yacht or hunting lodge) that is used for an activity that is usually considered entertainment, amusement, or recreation are not deductible. **Note:** *The REIT may be able to deduct the expense if the amount is treated as compensation and reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.*

Caution: *Do not deduct penalties such as those listed under Interest and Penalties on page 3 of the instructions.*

Line 20. Taxable income before net operating loss deduction, deduction for dividends paid, and section 857(b)(2)(E) deduction.—Special "at-risk" rules under section 465 generally apply to closely held REITs engaged in any activity as a trade or business or for the production of income. Such REITs may have to adjust the

amount on line 20. But, the "at-risk" rules do not apply to: (1) holding real property placed in service by the taxpayer before 1987; (2) equipment leasing under sections 465(c)(4), (5), and (6); and (3) any qualifying business of a qualified corporation under section 465(c)(7). However, the at-risk rules do apply to the holding of mineral property. For more information, see section 465 and **Form 6198**, At-Risk Limitations.

Line 21a. Net operating loss deduction.—The "net operating loss deduction" is the amount of the net operating loss (NOL) carryovers that can be deducted in the tax year. See section 172(a). If this deduction is taken, explain its computation on an attached schedule.

If capital gain dividends are paid during any tax year, the amount of the net capital gain for such tax year (to the extent of such capital gain dividends) is excluded in determining: (1) the NOL for the tax year, and (2) the amount of the NOL of any prior tax year that may be carried through such tax year to any succeeding tax year.

Generally, a REIT may carry an NOL over to each of the 15 years following the year of loss. REITs are not permitted to carry back an NOL to any year preceding the year of such loss. In addition, an NOL from a year that is not a REIT year may not be carried back to any year that is a REIT year.

After applying the NOL to the first tax year to which it may be carried, the portion of the loss the REIT may carry to each of the remaining tax years is the excess, if any, of the loss over the sum of the modified taxable income for each of the prior tax years to which the REIT may carry the loss. (See section 172(b).)

See section 172 and **Pub. 536**, Net Operating Losses, for more information.

See section 382 for the limitation on the amount of taxable income of a loss corporation for any tax year ending after a post-1986 ownership change that may be offset by pre-change NOL carryovers. Also see Temporary Regulations section 1.382-2T(a)(2)(ii), which requires that a loss corporation file an information statement with its income tax return for each tax year that it is a loss corporation.

See section 384 for the limitation on the use of preacquisition losses of one corporation to offset recognized built-in gains of another corporation.

Part II

Do NOT complete Part II unless the total of the gross income, gains, losses, and deductions from foreclosure property (as defined in section 856(e)) results in net income. If an overall net loss results, report the gross income, gains, losses, and deductions from foreclosure property on the appropriate lines in Part I.

Property may be treated as foreclosure property only if the property meets the requirements of section 856(e) and the REIT elects to so treat such property in the year the property was acquired. This election must be made by the due date for filing Form 1120-REIT (including

extensions) by attaching a statement indicating that the election under section 856(e) is being made and identifying the property to which the election applies. The statement must also set forth the name, address, and EIN of the REIT, the date the property was acquired, and a brief description of how the property was acquired (including the name of the person from whom the property was acquired and a description of the lease or debt with respect to which default occurred or was imminent). Once made, the election is irrevocable. See section 856(e) and Regulations section 1.856-6 for additional information.

Line 2. Gross income derived from foreclosure property.—Do NOT include amounts described in sections 856(c)(3)(A), (B), (C), (D), (E), or (G). These amounts must be reported in Part I.

Line 4. Deductions.—Only those expenses which have a proximate and primary relationship to the earning of the income shown on line 3 may be deducted to arrive at net income from foreclosure property. Such deductions include depreciation on foreclosure property, interest paid or accrued on debt of the REIT that is attributable to the carrying of such property, real estate taxes, and fees charged by an independent contractor to manage such property. Do not deduct general overhead and administrative expenses in Part II.

Part III

All REITs must complete lines 1a through 8 of Part III. If line 8 is zero, the tax imposed under section 857(b)(5) does not apply and the rest of Part III should not be completed. If line 8 is greater than zero, complete all of Part III and enter the tax from line 16 on Schedule J, line 3c.

Caution: *If line 8 is greater than zero, the REIT MUST:*

(a) attach a schedule listing the nature and amount of each item of its gross income described in sections 856(c)(2) and (3);

(b) not have fraudulently included any incorrect information in the schedule mentioned in (a) above; and

(c) have reasonable cause for not meeting the requirements of sections 856(c)(2) and (3).

Failure to meet these three conditions will terminate the election to be treated as a REIT effective for this tax year and all succeeding tax years.

Part IV

Section 857(b)(6) imposes a tax equal to 100% of the net income derived from prohibited transactions. The 100% tax is imposed to prevent a REIT from retaining any profit from ordinary retailing activities such as sales to customers of condominium units or subdivided lots in a development tract.

Line 1. Gain from the sale or other disposition of property.—Include only gains from the sale or other disposition of

property described in section 1221(1) that is not foreclosure property (as defined in section 856(e)) and that does not qualify as an exception under section 857(b)(6)(C).

Do not net losses from prohibited transactions against gains in determining the amount to enter on line 1. Enter losses from prohibited transactions on the appropriate line in Part I.

Line 2. Deductions.—Only those expenses which have a proximate and primary relationship to the earning of the income shown on line 1 may be deducted to arrive at net income from prohibited transactions. Do not deduct general overhead and administrative expenses in Part IV.

Tax on Certain Built-In Gains

IRS intends to issue regulations under section 337(d) that will impose a tax on the net built-in gain of C corporation assets in connection with: (1) the qualification of a corporation to be taxed as a REIT, or (2) the transfer of such assets to a REIT in a carryover basis transaction.

Generally, the net built-in gain equals the excess of total gains over total losses that would have been realized if the corporation had sold all of its assets at their respective fair market values on the relevant date described below and immediately liquidated. Unless the corporation makes the election described below, the gain must be recognized by the corporation as of: (a) the last day of the tax year immediately preceding the year in which it qualified as a REIT, in the case of (1) above; or (b) the day before the date of the transfer of assets, in the case of (2) above.

Election.—The regulations will allow the REIT to elect to pay the tax on any built-in gains recognized within a 10-year period on the assets held by the corporation before it was taxed as a REIT or before it transferred the assets in a carryover basis transaction to the REIT. The built-in gains of an electing REIT and the tax imposed on such gains will be subject to rules similar to the rules relating to net income from foreclosure property under section 857.

In the case of a corporation qualifying to be taxed as a REIT, the regulations will generally apply to tax years beginning after June 9, 1987. However, the regulations will not apply to any corporation that was taxed as a REIT for its tax year that included June 9, 1987. In the case of carryover basis transactions, the regulations will generally apply to transactions occurring after June 9, 1987.

For more information, see Notice 88-19, 1988-1 C.B. 486.

Note: *Details on how to compute and report this tax on Form 1120-REIT (if the REIT makes the election described above) were not available at the time these instructions were printed but will be announced by IRS after publication of the regulations under section 337(d). If the REIT is required to file Form 1120-REIT before these details are announced, the*

fund should not include the built-in gains tax on Form 1120-REIT at the time of original filing. Rather, the tax should be shown on an amended Form 1120-REIT filed after the announcement is issued by IRS.

Schedule A

Deduction for Dividends Paid. Lines 1 through 5.—Section 561 (taking into account sections 857(b)(8) and 858(a)) determines the deduction for dividends paid.

Line 3.—Dividends declared in October, November, or December and payable to shareholders of record on a specified date in such a month are treated as having been paid by the REIT and received by each shareholder on December 31 of such year provided the dividends are actually paid in January of the following year. Enter on line 3 all such dividends that are not already included on line 1 or 2.

Line 6.—If for any tax year the REIT has net income from foreclosure property (as defined in section 857(b)(4)(B)), the deduction for dividends paid to be entered on line 6 (and on line 21b, page 1) is determined by multiplying the amount on line 5 by the following fraction:

$$\frac{\text{REIT taxable income (determined without regard to the deduction for dividends paid)}}{\text{REIT taxable income (determined without regard to the deduction for dividends paid)} + (\text{Net income from foreclosure property minus the tax on net income from foreclosure property})}$$

Schedule J

Tax Computation

Lines 1 and 2

Members of a controlled group.—A member of a controlled group, as defined in section 1563, must check the box on line 1 and complete lines 2a(i) and 2a(ii) of Schedule J.

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

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

Equal apportionment plan. If no apportionment plan is adopted, the members of the controlled group must divide the amount in each taxable income bracket equally among themselves. For example, controlled group AB consists of corporation A and corporation B. They do not elect an apportionment plan. Therefore, both corporation A and corporation B are entitled to \$25,000 (one-half of \$50,000) in

the \$50,000 taxable income bracket on line 2a(i) and to \$12,500 (one-half of \$25,000) in the \$25,000 taxable income bracket on line 2a(ii).

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

Each member of a controlled group must compute the tax on its REIT taxable income as follows:

1. Enter REIT taxable income (line 22, page 1; Form 1120-REIT) _____
2. Enter line 1 or the REIT's share of the \$50,000 taxable income bracket, whichever is less, _____
3. Subtract line 2 from line 1 _____
4. Enter line 3 or the REIT's share of the \$25,000 taxable income bracket, whichever is less, _____
5. Subtract line 4 from line 3 _____
6. Enter 15% of line 2 _____
7. Enter 25% of line 4 _____
8. Enter 34% of line 5 _____
9. If the taxable income of the controlled group exceeds \$100,000, enter this member's share of the smaller of: (a) 5% of the excess over \$100,000 or (b) \$11,750. (See instructions for additional 5% tax, below.) _____
10. Total of lines 6 through 9. Enter this amount on line 3a, Schedule J, Form 1120-REIT _____

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

Line 3a.—A REIT must compute tax on REIT taxable income as follows (Members of a controlled group should see the instructions above for lines 1 and 2):

If taxable income (line 22, Form 1120-REIT), page 1 is:

Over—	But not over—	tax is:	Of the amount over—
\$0	\$50,000	15%	\$0
50,000	75,000	\$ 7,500 + 25%	50,000
75,000	100,000	13,750 + 34%	75,000
100,000	335,000	22,250 + 39%	100,000
335,000	-----	34%	0

Line 3e

Deferred tax amount under section 1291. If the REIT was a shareholder in a passive foreign investment company (PFIC) that received an excess distribution or disposed of its investment in the PFIC during the year, it must include the aggregate increase in taxes due under section 1291(c)(2) in the amount entered on line 3e, Schedule J. Write on the dotted line to the left of line 3e, Schedule J, "Sec. 1291—\$(amount)." Do not include on line 3e the interest charge due under section 1291(c)(3). Instead, write "Sec. 1291 interest" and the amount owed in the bottom margin of page 1, Form 1120-REIT. See Form 8621, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund, for details.

Line 4a. Foreign tax credit.—See Form 1118, Foreign Tax Credit—Corporations, for an explanation of when a REIT can take credit for payment of income tax to a foreign country or U.S. possession.

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

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

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

The REIT may not take an expense deduction for the part of the wages or salaries paid or incurred which is equal to the amount of the jobs credit (determined without regard to the limitation based on the tax (section 38(c))).

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

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

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

Enhanced oil recovery credit. A REIT may claim a credit for 15% of its qualified enhanced oil recovery costs. Use Form 8830 to figure the credit.

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

Line 4c. Credit for prior year minimum tax.—Use **Form 8827**, Credit for Prior Year Minimum Tax—Corporations, to figure the minimum tax credit and any carryforward of that credit.

Line 4d. Credit for fuel produced from a nonconventional source.—A credit is allowed for the sale of qualified fuels produced from a nonconventional source. Section 29 contains a definition of qualified fuels, provisions for figuring the credit, and other special rules. If the REIT qualifies for this credit, attach a separate schedule to the return showing the computation of the credit. Include the amount of the credit in the total for line 4d, Schedule J. Write next to the entry for line 4d the amount of the credit and identify it as “section 29 credit.”

Also see Form 8827 if any of the 1990 credit is disallowed solely because of the tentative minimum tax limitation.

Line 6. Personal holding company tax.—A REIT is taxed as a personal holding company under section 542 if:

- At least 60% of its adjusted ordinary gross income, defined in section 543(b)(2), for the tax year, is personal holding company income as defined in section 543(a), and
- At any time during the last half of the tax year more than 50% in value of its outstanding stock is owned, directly or indirectly, by not more than 5 individuals.

Use **Schedule PH (Form 1120)**, U.S. Personal Holding Company Tax, to figure this tax.

Line 7. Recapture taxes

- Recapture of investment credit. The REIT may owe the tax computed on **Form 4255**, Recapture of Investment Credit, if it disposed of investment credit property or changed its use before the end of its useful life or recovery period. See Form 4255 for details.

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

Line 8. Alternative minimum tax.—Attach **Form 4626**, Alternative Minimum Tax—Corporations, if the total of REIT taxable income or (loss) before the NOL deduction, net income from foreclosure property, and net income from prohibited transactions, plus adjustment items and tax preference items is more than the smaller of: (a) \$40,000 or (b) the allowable exemption amount. See Form 4626 for details. Reduce the alternative minimum tax by any amount on Form 3800, Schedule A, line 34. This is the credit allowed under section 38(c)(2) (as in effect before November 5, 1990, i.e., before the date of enactment of the Revenue Reconciliation Act of 1990). Write on the dotted line to the left of line 8, “Sec. 38(c)(2)—\$(amount).”

Line 9. Deferred tax and interest on undistributed earnings of a qualified electing fund under section 1294.—

Complete Form 8621 to determine the REIT’s share of tax attributable to the undistributed earnings of a qualified electing fund, or the deferred tax due, if any, as a result of the termination of a section 1294 election. Follow the instructions for Form 8621 to figure the amount of tax to include in or subtract from the total on line 9. Form 8621 also explains how to report any interest due under section 1294 on the deferred tax.

Interest on tax attributable to payments received on installment sales of certain timeshares and residential lots. If the REIT elected to pay interest on the amount of tax attributable to payments received on installment obligations arising from the disposition of certain timeshares and residential lots under section 453(l)(3), it must include the interest due in the amount to be entered on line 9, Schedule J. Write on the dotted line to the left of line 9, Schedule J, “Sec. 453(l)(3) interest—\$(amount).” Attach a schedule showing the computation.

Interest on tax deferred under the installment method for certain non-dealer installment obligations. If an obligation arising from the disposition of property to which section 453A applies is outstanding at the close of the year, the REIT must include the interest due under section 453A(c) in the amount to be entered on line 9, Schedule J. Write on the dotted line to the left of line 9, Schedule J, “Sec. 453A(c) interest—\$(amount).” Attach a schedule showing the computation.

Schedule K

Other Information

Be sure to answer questions 1 through 10 on page 3, Form 1120-REIT. The instructions that follow are keyed to these questions.

Question 4

Foreign person.—The term “Foreign person” means:

1. A foreign citizen or nonresident alien;
2. A foreign partnership;
3. A foreign corporation;
4. Any foreign estate or trust within the meaning of section 7701(a)(31).

“Owner’s country,” for individuals, is the owner’s country of residence. For all others, it is the country where incorporated, organized, created, or administered.

Question 6

Foreign financial accounts.—Check the “Yes” box if either **a** or **b**, below, applies to the REIT; otherwise, check the “No” box:

- a. At any time during the year the REIT had an interest in or signature or other authority over a financial account in a foreign country (such as a bank, securities, or other financial account); AND
- The combined value of the accounts was more than \$10,000 at any time during the year; AND

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

- b. The REIT owns more than 50% of the stock in any corporation that would answer “Yes” to item **a** above.

Get form **TD F 90-22.1**, Report of Foreign Bank and Financial Accounts, to see if the REIT is considered to have an interest in or signature or other authority over a financial account in a foreign country (such as a bank, securities, or other financial account).

If “Yes” is checked for this question, file form TD F 90-22.1 by June 30, 1992, with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return, so **do not** file it with Form 1120-REIT.

Form TD F 90-22.1 may be obtained from IRS Forms Distribution Centers.

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

Question 10

Tax-exempt interest.—In the space provided, show any tax-exempt interest received or accrued. Include any exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company.

Schedule L

Balance Sheets

Line 4. Tax-exempt securities.—Include on this line:

- (1) State and local government obligations, the interest on which is excludible from gross income under section 103(a), and

- (2) Stock in a mutual fund or other regulated investment company that distributed exempt-interest dividends during the tax year of the REIT.

Schedule M-1

Reconciliation of Income per Books With Income per Return

Line 5c. Travel and entertainment.—Include on this line: 20% of meals and entertainment not allowed under section 274(n); expenses for the use of an entertainment facility; the part of business gifts in excess of \$25; expenses of an individual allocable to conventions on cruise ships in excess of \$2,000; employee achievement awards in excess of \$400; the cost of entertainment tickets in excess of face value (also subject to 20% disallowance); the cost of skyboxes in excess of the face value of non-luxury box seat tickets; the part of the cost of luxury water travel not allowed under section 274(m); expenses for travel as a form of education; and other travel and entertainment expenses not allowed as a deduction.