Instructions for Form 1120S

U.S. Income Tax Return for an S Corporation

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

Paperwork Reduction Act Notice

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

The time needed to complete and file the following forms will vary depending on individual circumstances. The estimated average times are:

<table>
<thead>
<tr>
<th>Form</th>
<th>Recordkeeping</th>
<th>Learning about the law or the form</th>
<th>Preparing the form</th>
<th>Copying, assembling and sending the form to IRS</th>
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<td>1120S</td>
<td>62 hrs., 54 min.</td>
<td>19 hrs., 8 min.</td>
<td>34 hrs., 57 min.</td>
<td>4 hrs., 1 min.</td>
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<td>Sch. D (1120S)</td>
<td>7 hrs., 53 min.</td>
<td>4 hrs., 31 min.</td>
<td>9 hrs., 31 min.</td>
<td>1 hr., 20 min.</td>
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<td>Sch. K-1 (1120S)</td>
<td>19 hrs., 8 min.</td>
<td>10 hrs., 13 min.</td>
<td>14 hrs., 42 min.</td>
<td>1 hr., 4 min.</td>
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If you have comments concerning the accuracy of these time estimates or suggestions for making these forms more simple, we would be happy to hear from you. You can write to both the Internal Revenue Service, Washington, DC 20224, Attention: IRS Reports Clearance Officer, T:FP; and the Paperwork Reduction Project (1545-0130), Washington, DC 20503. DO NOT send the tax form to either of these offices. Instead, see the instructions below for information on where to file.

Voluntary Contributions To Reduce the Public Debt

Quite often, inquiries are received about how to make voluntary contributions to reduce the public debt. A corporation may contribute by enclosing with the tax return a check made payable to “Bureau of the Public Debt.”

Changes You Should Note

- New Form 8752, Required Payment or Refund Under Section 7519, has been developed to figure and report the amount the corporation must pay (or will receive as a refund) if the corporation has in effect an election under section 444 to have a tax year other than a required tax year. The new form eliminates the use of Form 720, Quarterly Federal Excise Tax Return, for this purpose.

In addition, the Computation Schedule for Required Payment Under Section 7519 is no longer needed and has been removed from these instructions.

- New Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation, has been developed to report income and expenses from rental real estate activities of the corporation. The new form, which provides space for up to eight rental properties, replaces former lines 2a and 2b of Schedule K on Form 1120S. The net income or loss from rental real estate activities from Form 8825 is carried to line 2 of Schedule K on Form 1120S.

- New Form 8826, Disabled Access Credit, has been developed as a result of the addition of section 44 by the Revenue Reconciliation Act of 1990. This allows eligible small businesses to claim a new nonrefundable income tax credit equal to 50% of expenses that are over $250 but not more than $10,250. These expenses must be paid or incurred after November 5, 1990, to enable a small business to comply with the requirements of the Americans With Disabilities Act of 1990. An "eligible small business” is one with gross receipts of $1 million or less in the previous tax year or one that had not more than 30 full-time employees in the previous tax year.

- Examples of expenses eligible for the credit include amounts paid or incurred: (1) to remove barriers that prevent a business from being accessible to, or usable by, individuals with disabilities; (2) to provide qualified interpreters or other methods of communicating with individuals with disabilities; (3) to provide qualified readers, taped texts, and other methods of making visual materials available to individuals with visual impairments; or (4) to acquire or modify equipment or devices for individuals with disabilities.

- Schedule M-1, Reconciliation of Income per Books With Income per Return, on page 4 is new. You must complete Schedule M-1 if the corporation’s total assets are $25,000 or more.

General Instructions

Note: In addition to the publications listed throughout these instructions, you may wish to get: Publication 334, Tax Guide for Small Business; Publication 533, Business Expenses; Publication 550, Investment Income and Expenses; Publication 556, Examination of Returns, Appeal Rights and Claims for Refund; and Publication 589, Tax Information on S Corporations.

The above publications and other publications referenced throughout these instructions may be obtained at most IRS offices. To order publications and forms, call our toll-free number 1-800-TAX-FORM (829-3676).

Purpose of Form

Form 1120S is used to report the income, deductions, gains, losses, etc., of a domestic corporation that has filed Form 2553, Election by a Small Business Corporation, to be treated as an S corporation and whose election is in effect for the tax year.

Who Must File

A corporation must file Form 1120S if: (a) it elected by filing Form 2553 to be treated as an S corporation, (b) IRS accepted the election, and (c) the election remains in effect. Do not file Form 1120S until the corporation has been notified by the IRS that the election has been accepted.

Termination of Election

Once the election is made, it stays in effect for all years until it is terminated. During the 5 years after the tax year the election has been terminated, the corporation may make another election on Form 2553 only with IRS consent. See section 1362(g).

The election terminates automatically in any of the following cases:

- a. The corporation is no longer a small business corporation as defined in section 1361(b). The termination of an election in this manner is effective as of the day on which the corporation ceases to be a small business corporation. See sections 1362(d)(2) and 1362(e) for more information.

- b. If, for each of three consecutive tax years, the corporation has both subchapter C earnings and gross receipts more than 25% of which are derived from passive investment income as defined in section 1362(d)(3)(D), the election terminates on the first day of the first tax year beginning after the third consecutive tax year. The corporation must pay a tax for each year it has excess net passive income. See specific instructions for line 22a for details on how to figure the tax.

- c. The election may be revoked if shareholders who collectively own a majority of the stock in the corporation on the day on which the revocation is made consent to the revocation. If the revocation specifies a date for revocation which is on or after the date on which the revocation is made, the revocation is effective as of the specified date. If no date is specified, the revocation is effective as of the beginning of the tax year it is made during the tax year and on or before the 15th day of the 3rd month of such tax year. If no date is specified and the revocation is made during the tax year but not the 15th day of the 3rd month, it is not effective until the beginning of the following tax year. See section 1362(d)(1) for more information.

When To File

In general, file Form 1120S by the 15th day of the 3rd month after the end of the tax year.

Use Form 7004, Application for Automatic Extension of Time To File Corporation Income Tax Return, to request an automatic 6-month extension of time to file Form 1120S.

Period To Be Covered by 1990 Return

File the 1990 return for calendar year 1990 and fiscal years beginning 1990 and ending in 1991. If the return is for a fiscal year, fill in the tax year space at the top of the form.
Generally, anyone paid to prepare Form 1120S must sign the return and fill in the other blanks in the Paid Preparer’s Use Only area of the return.

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

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

Accounting Methods

Figure ordinary income using the method of accounting regularly used in keeping the corporation’s books and records. Generally, permissible methods include the cash receipts and disbursements method, the accrual method, or any other method permitted by the Internal Revenue Code. In all cases, the method adopted must clearly reflect income. (See section 446.)

Generally, an S corporation may not use the cash method of accounting if the corporation is a tax shelter (as defined in section 448(d)(3)). See section 448 for details.

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year that all events have occurred that determine the liability, the amount of the liability can be determined with reasonable accuracy, and economic performance takes place with respect to the expense. There are exceptions for recurring items.

For long-term contracts (except certain real property construction contracts) entered into after July 10, 1989, taxpayers must generally use the percentage completion method described in section 460. However, for purposes of the percentage of completion method, the contractor is not required to postpone recognition of income and expense under a long-term contract entered into after July 10, 1989, until the first tax year as of the end of which at least 10% of the estimated total contract costs have been incurred.

Unless otherwise allowed by law, a corporation may change the method of accounting used to report income in earlier years (for income as a whole or for any material item) only by first getting consent from IRS. To do so, drop any amount less than 50 cents, and increase any amount of 50 cents through 99 cents to the next dollar amounts. To do so, drop any amount less than 50 cents, and increase any amount of 50 cents through 99 cents to the next dollar.

Change in Accounting Period

Generally, an S corporation may not change its accounting period to a tax year that is not a permitted year. A “permitted year” is a calendar year or any other accounting period for which the corporation can establish to the satisfaction of IRS that there is a business purpose for the tax year.

To change an accounting period, see Regulations section 1.442-1 and Form 1128, Application to Adopt, Change or Retain a Tax Year. Also see Publication 538, Election of a Tax Year Other Than a Required Tax Year.

Depositary Method of Tax Payment

The corporation must pay the tax due (line 25, page 1) in full, no later than the 15th day of the 3rd month after the end of the tax year.

Deposit corporation income tax payments (and estimated tax payments) with Form 8109, Federal Tax Deposit Coupon. Be sure to darken the “1120” box on the coupon. Make these tax deposits with either a financial institution qualified as a depository for Federal taxes or the Federal Reserve bank or branch servicing the geographic area where the corporation is located. Do not submit deposits directly to an IRS office; otherwise, the corporation may be subject to a penalty. Records of deposits will be sent to IRS for crediting to the corporation’s account. See the instructions contained in the coupon book (Form 8109 for more information).

To help ensure proper crediting to your account, write the corporation’s employer identification number, “Form 1120S,” and the tax year to which the deposit applies on the corporation’s check or money order.

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

For additional information concerning deposits, see Publication 583, Taxpayers Starting a Business.

Estimated Tax

Generally, the corporation must make estimated tax payments for the following taxes, if the total of these taxes is $500 or more: (a) the tax on certain capital gains, (b) the tax on built-in gains, (c) the excess net passive income tax, and (d) the section 47 recapture tax.

The amount of estimated tax required to be paid annually is the lesser of: (a) 90% of the total tax for the tax year (or if no return is filed, 90% of these taxes for the year); or (b) the sum of (i) 90% of the sum of the section 47 recapture tax and the built-in gains tax (or the tax on capital gains) shown on the return for the tax year (or if no return is filed, 90% of these taxes for the year), and (ii) 100% of any excess net passive income tax shown on the corporation’s return for the preceding tax year. If the preceding tax year was less than 12 months, the estimated tax must be determined under (a).

The estimated tax is generally payable in 4 equal installments. However, the corporation may be able to lower the amount of one or more installments by using the annualized income installment method or adjusted seasonal installment method under section 6655(e).

For a calendar year corporation, the installments are due by April 15, June 15, September 15, and December 15. For a fiscal year corporation, they are due by the 15th day of the 4th, 6th, 9th, and 12th months of the fiscal year.

The installments are made using the depositary method of tax payment.
Interest and Penalties

Interest.—Interest is charged on taxes not paid by the due date, even if an extension of time to file is granted. Interest is also charged on the failure to file penalty, the accuracy related penalty, and the fraud penalty 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—Form 1120S is required to be filed under sections 6037(a) and 6012. A corporation that does not file its tax return by the due date, including extensions, generally may have to pay a penalty of 5% of the tax liability, or fraction of a month, up to a maximum of 25%, for each month the return is not filed. The penalty is imposed on the net amount due. See section 6651(a)(1). A corporation that fails to file a return within 60 days of the due date for filing (including extensions) is the lesser of the underpayment of tax or $100.

Late Payment of Tax.—A corporation that does not pay the tax when due generally may have to pay a penalty of 1% of 1%, or fraction of a month, up to a maximum of 25%, for each month the tax is not paid. The penalty is imposed on the net amount due. See section 6651(a)(2).

Underpayment of Estimated Tax.—A corporation that fails to make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. Use Form 2220.

Failure To Furnish Information Timely.— Section 6037(b) requires an S corporation to furnish to each shareholder a copy of such information shown on Schedule K-1 (Form 1120S) that is attached to Form 1120S. The Schedule K-1 must be furnished to each shareholder on or before the day on which the Form 1120S was filed.

For each failure to furnish Schedule K-1 to a shareholder when due and each failure to include on Schedule K-1 all of the information required to be shown (or the inclusion of false or incorrect information), a penalty of $50 may be imposed with respect to each Schedule K-1 for which a failure occurs. The maximum penalty is $100,000 for all such failures for any year. If the requirement to report correct information is intentionally disregarded, each $50 penalty is increased to $100 or if greater than 10% of the aggregate amount of items required to be reported (and the $100,000 maximum does not apply). See sections 6722 and 6724 for more information.

These penalties will not be imposed if the corporation can show that not filing, not paying, or not furnishing information timely was due to reasonable cause and not to willful neglect.

Unresolved Tax Problems

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

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

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


Form 720, Quarterly Federal Excise Tax Return. A new 10% excise tax applies to the first retail sale of the following items sold after December 31, 1990, to the extent the sales price exceeds the amounts shown: (1) passenger vehicles, $30,000; (2) boats and yachts, $100,000; (3) aircraft, $250,000; and (4) jewelry and furs, $10,000. Form 720 is also used to report environmental excise taxes, community transportation taxes, fuel taxes, manufacturers taxes, ship passenger tax, and certain other excise taxes.

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 withholding tax on payments made to nonresident alien individuals, foreign partnerships, or foreign corporations to the extent such payments constitute gross income from sources within the U.S. (see section 864 through 865).

For more information, see sections 1441 and 1442, and Publication 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 interest paid by an individual of $600 or more of mortgage interest in the course of the corporation’s trade or business.

Forms 1099-A, B, DIV, INT, MISC, OID, PATR, S, and R. You may have to file these information returns to report abandons, acquisitions through foreclosure, proceeds from broker and barter exchange transactions, certain dividends, interest payments, medical and dental health care payments, miscellaneous income payments, original issue discount, patronage dividends, total distributions from profit-sharing plans, retirement plans, individual retirement arrangements, trusts, estates, contracts, etc., and proceeds from real estate transactions. Also use certain of these returns to report amounts that were received as a nominee on behalf of another person.

Use Form 1099-DIV to report actual dividends paid, distributions from accumulated earnings and profits are classified as dividends. Do not issue Form 1099-DIV for dividends received by the corporation that are allocated to shareholders of Form 1120S.

For more information, see the separate Instructions for Forms 1099, 1098, 5498, and W-2G.

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

Form 5713, International Boycott Report. Every corporation that had operations in, or related to, a "boycotting" country, company, or national of a country must file Form 5713. 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 foreign tax credit, the deferral of earnings of a controlled foreign corporation, IC-DISC benefits, and FSC benefits.

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

Form 8271, Investor Reporting of Tax Shelter Registration Number, is used by corporations that have acquired an interest in a tax shelter which is required to be registered, to report the tax shelter's registration number. Form 8271 must be attached to any return on which a deduction, credit, loss, or other amount attributable to a tax shelter is taken or any income attributable to a tax shelter is reported.

Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments. This form is used by issuers of publicly offered debt instruments having OID to provide the information required by section 1275(c).

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

Form 8697, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts. Certain S corporations that are not closely held may have to file Form 8697. Form 8697 is used to figure the interest due or to be refunded under the look-back method of section 466(b)(3) on certain long-term contracts entered into after February 28, 1986, that are accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method. Closely-held corporations should use the instructions for Form 8697, Schedule K-1 for details on the Form 8697 information they must provide to their shareholders.

Stock Ownership In Foreign Corporations.—If the corporation owned at least 5% in value of the outstanding stock of a foreign personal holding company, attach the statement required by section 551(c).

A corporation that controls a foreign corporation; or that is a 10%-or-more...
shareholder of a controlled foreign corporation; or acquires, disposes of, or owns 5% or more in value of 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.

Transfers to Corporation Controlled by Transferee.—If a person acquires stock of a corporation for property, and no gain or loss is recognized under section 351, the transferor and transferee must attach to their respective tax returns the information required by Regulations section 1.351-3.

Amended Return

To correct an error in a Form 1120S already filed, file an amended Form 1120S and check box F(4). If the amended return results in a change to income, or a change in the distribution of any income or other information provided to shareholders, an amended Schedule K-1 (Form 1120S) must also be filed with the amended Form 1120S and given to each shareholder. Be sure to check box F(2) on each Schedule K-1 to indicate that it is an amended Schedule K-1.

Note: If an S corporation does not meet the small S corporation exception under Temporary Regulations section 301.6241-1T or if it is a small S corporation that has made the election described in Temporary Regulations section 301.6241-1T(c)(2)(v), and such corporation files an amended return, the amended return will be a request for administrative adjustment and Form 8082, Notice of Inconsistent Treatment or Amended Return (Administrative Adjustment Request (AAR)), must be filed by the Tax Matters Person. See the Temporary Regulations under section 6241 for more information.

Attachments

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

To assist us in processing the return, please make each applicable entry space on Form 1120S and Schedule K-1. Do not attach schedules and write “See attached” in lieu of completing the entry spaces on Form 1120S and Schedule K-1.

If you need more space on the forms or schedules, attach separate sheets and show the same information in the same order as on the printed forms. But show your 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. Be sure to put the corporation’s name and employer identification number (EIN) on each sheet.

Net Operating Loss and Special Deductions

An S corporation may not take the deduction for net operating losses provided by section 172 or the special deductions in sections 241 through 250 (except the election to amortize organizational expenditures under section 248). Subject to limitations, the corporation’s net operating loss is allowed as a deduction from the shareholders’ gross income. (See section 1366.)

Passive Activity Limitations in general, section 469 limits the amount of losses, deductions, and credits that shareholders can claim from “passive activities.” The passive activity limitations do not apply to the S corporation. Instead, they apply to each shareholder’s share of any income or loss and credit attributable to a passive activity. Because the treatment of each shareholder’s share of S corporation income or loss depends upon the nature of the activity that generated it, the S corporation must report income or loss and credits separately for each activity.

The instructions below (pages 4 through 7) and the instructions to Schedules K and K-1 (pages 11 through 17) explain the applicable passive activity limitation rules and specify the type of information the S corporation must provide to its shareholders for each activity. If the corporation had more than one activity, it must report information for each activity on an attachment to Schedules K and K-1.

Generally, activities include: (a) activities that involve the conduct of a trade or business in which the shareholder does not materially participate; and (b) any rental activity (see definition below) even if the shareholder materially participates. The level of each shareholder’s participation in an activity must be determined by the shareholder.

The passive activity rules provide that losses and credits from passive activities generally can be applied only against income and tax from passive activities. Thus, passive losses and credits cannot be applied against income or tax from nonpassive activities, such as professional fees, or a business in which the shareholder materially participates. Against “portfolio income” (see definition on page 5), or against taxes related to any of these types of income.

Special provisions apply to certain activities. First, special transitional rules apply to losses with respect to corporate interests acquired and activities commenced before October 22, 1986. Second, special rules apply with respect to losses incurred by investors in qualified low-income housing projects. Third, special rules require that net income from certain activities that would otherwise be treated as passive income must be recharacterized as nonpassive income for purposes of the passive activity limitations.

To allow each shareholder to apply the passive activity limitations at the individual level, the corporation must report income or loss and credits separately for each of the following: trade or business activities, rental real estate activities, royalties other than rental real estate, and portfolio income. For definitions of each type of activity or income, see Types of Activities and Income, on page 5. For details on the special reporting requirements for passive activities, see Passive Activity Reporting Requirements on page 6.

Identifying Activities

Generally, each undertaking the corporation owns is a separate activity. An undertaking includes all the business or rental operations conducted at the same location. Operations not actually conducted at the same location are treated as conducted at the location with which they are most closely associated under all the facts and circumstances. For example, if a business sends employees from a central office to perform services at the customer’s home, the operations are treated as conducted at the customer’s home. If the corporation conducts all its business or rental operations at the same location directly or through one entity, the corporation has only one undertaking and one activity.

Rental undertakings.—If the corporation owns an undertaking that conducts both rental and nonrental operations, it must treat the two types of operations as two separate undertakings unless: (1) the rental operations, if treated as a separate activity, would not be a rental activity (see Rental activities on page 5); or (2) the rental activity produces more than 80% of the combined undertaking’s gross income.

Combining corporate undertakings into activities.—Once corporate undertakings are identified, treat each undertaking as a separate activity unless the following rules require or permits the corporation to combine undertakings into a larger activity:

1. Trade or business undertakings.—Generally, the corporation must combine trade or business undertakings into a larger activity if the undertakings are similar and commonly controlled. For details, see Temporary Regulations sections 1.469-4T(f) and (j). Trade or business undertakings include all nonrental and rental activities, except professional service undertakings (described in the next paragraph) and oil or gas wells treated as separate undertakings under Temporary Regulations section 1.469-4T(e).

Trade or business activities that constitute an integrated business may have to be combined into an even larger activity under Temporary Regulations section 1.469-4T(g).

2. Professional service undertakings.—Professional service undertakings principally provide services in the fields of health, law, engineering, architecture, accounting, actuarial science, the performing arts, or consulting. Generally, the corporation must combine its interests in professional service undertakings into a single activity if the undertakings provide services in the same field or earn more than 20% of their gross income from serving the same customers, or if the undertakings are controlled by the same interests. For details see Temporary Regulations section 1.469-4T(h).

The corporation can elect to treat combined nonrental undertakings acquired in 1990 as separate activities for purposes other than determining participation in activities. To make this election, the corporation must attach to Form 1120S a statement that: (a) gives the corporation name, address, and employer identification number; (b) declares that the election is being made under Temporary Regulations section 1.469-4T(o); (c) identifies the undertaking that is to be the single activity; and (d) identifies the rest of the activity from which the undertaking was separated.

If the corporation wants to treat as separate activities any undertakings it acquired in 1990 that these rules would otherwise combine into a larger activity, it must attach this statement to its 1990 return or it will not be able to treat the undertakings as separate activities for 1990 or any later year. For details, see Temporary Regulations section 1.469-4T(o).

If undertakings the corporation owned in 1989 were combined into a larger activity on its 1989 return, those undertakings cannot be divided into separate activities in 1990 or any later year.
undertakings. For details, see Temporary Regulations section 1.469-4T(k)(2)(iii).

Generally, the corporation must attach to Form 1120S if it combines separate rental real estate undertakings or portions of undertakings into the same activity or divides a single rental real estate undertaking into separate undertakings. If the corporation combined rental real estate undertaking it acquired in 1990 into separate undertakings, it must attach this statement to its 1990 Form 1120S or it will not be able to treat the undertaking as separate undertakings for 1990 or any later year.

If the corporation divided a single rental real estate undertaking it owned in 1989 into separate undertakings on its 1989 return, it must treat the undertakings as separate undertakings in 1990 and any later year. Futhermore, if the corporation combined rental real estate undertakings it owned in 1989 into a larger activity on its 1989 return, the larger activity cannot be divided into separate activities in 1990 or any later year.

Types of Activities and Income

1. Trade or business activities.—A trade or business activity involves the conduct of a trade or business within the meaning of section 162.

If the shareholder does not materially participate in the activity, a trade or business activity involves the conduct of a trade or business, including services performed by or on behalf of the corporation; (c) extraordinary personal services (see definition below) are provided by or on behalf of the corporation; (d) the rental of such property is treated as incidental to a nonrental activity of the corporation under Temporary Regulations section 1.469-1T(e)(3)(vi); or (e) the corporation customarily makes the property available during defined business hours only on a nonexclusive use by various customers. In addition, if a corporation owns an interest in a partnership that conducts a nonrental activity, and the corporation provides property for use in the partnership’s capacity as an owner of an interest in the partnership, the provision of the property is not a rental activity. Consequently, the corporation’s distributive share of income from the activity is not income from a rental activity. A guaranteed payment described in section 707(c) is not income from a rental activity under any circumstances.

Whether the corporation provides property used in an activity in a capacity of a partnership in the corporation’s capacity as an owner of an interest in the partnership, the provision of the property is not a rental activity. A guaranteed payment described in section 707(c) is not income from a rental activity under any circumstances.

Average period of customer use.—The average period of customer use is equal to the sum of the number of days in all rental periods during the tax year divided by the number of rentals during the tax year. If the activity includes renting more than one class of property, multiply the average period of customer use of each class by the ratio of the gross rental income from that class to the activity’s total gross rental income. The activity’s average period of customer use equals the sum of these class-by-class average periods weighted by gross income. See Temporary Regulations section 1.469-1T(e)(3)(iii).

Significant personal services.—Personal services include only services performed by individuals. In determining whether personal services are significant personal services, all of the relevant facts and circumstances are taken into consideration. Relevant facts and circumstances include the frequency that the services are provided, the type and amount of labor required to perform the services, and the value of the services in relation to the amount charged for use of the property. The following services are excluded from consideration in determining whether personal services are significant:

(a) Services necessary to lawfully use the property; (b) services provided in connection with improvements or repairs to the rental property that extend the useful life of the property; or are substantially beyond the average rental period; and (c) services provided in connection with the use of any improved real property that are similar to those commonly provided in connection with long-term rentals of high-grade commercial or residential property (e.g., cleaning and maintenance of common areas, routine repairs, trash collection, elevator service, and security services). If the corporation elects personal services, the personal services are provided to the extent that they are reasonable and necessary to allow the rental real estate property to be used for its intended purpose.

Extraordinary personal services.—Services provided in connection with making rental property available for customer use are extraordinary personal services only if the services are performed by individuals and the customers’ use of the rental property is incidental to their receipt of the services. For example, if a patient is not being taken to the hospital room generally incidental to the care that the patient receives from the hospital’s medical staff. Similarly, a student’s use of a dormitory room in a boarding school is incidental to the personal services provided by the school’s teaching staff.

Rental property incidental to a nonrental activity.—An activity is not a rental activity if the rental of the property is incidental to a nonrental activity, such as the activity of holding property for purposes other than trade or business activity, or the activity of dealing in property.

Rental property is incidental to an activity of holding property for purposes other than trade or business if the main purpose for holding the property is to realize a gain from the appreciation of the property and the gross rental income from such property for the taxable year is less than 5% of the smaller of the undepreciated basis of the property or the fair market value of the property.

Rental property is incidental to a trade or business activity if (a) the shareholder has an interest in the trade or business at all times during the year; (b) the rental property was mainly used in the trade or business activity during the tax year or during at least two of the five preceding tax years; and (c) the gross rental income from the property is less than 2% of the smaller of the undepreciated basis of the property or the fair market value of the property.

The sale or exchange of property that is also rental during the tax year (where the gain or loss is recognized) is treated as incidental to the activity of dealing in property if, at the time of the sale or exchange, the property was held primarily for sale to customers in the ordinary course of the corporation’s trade or business. See Temporary Regulations section 1.469-1T(e)(3) for more information on the definition of rental activities for purposes of the passive activity limitations.

2(a). Rental real estate activities.—Shareholders who actively participate in a rental real estate activity are considered to be tenants in common of the rental real estate losses and the deduction equivalent of rental real estate credits against income (or tax) from nonpassive activities. Generally, the combined amount of rental real estate losses and the deduction equivalent of rental real estate credits from all sources (including rental real estate activity losses held through the corporation) that may be claimed is limited to $25,000.

Special transitional rules apply to investors in qualified low-income housing projects. See section 5512 of the 1986 Act and Publication 925, Passive Activity and At-Risk Rules, for more information.

Rental real estate activity income (loss) is reported on line 2 of Schedule K-1 rather than on page 1 of Form 1120S.

Credits related to rental real estate activities are reported on lines 12c and 12d of Schedules K and K-1. Low-income housing credits are reported on line 12b of Schedules K and K-1.

2(b). Rental activities other than rental real estate activities.—Income (loss) from rental activities other than rental real estate is reported on line 3 of Schedule K-1 rather than on page 1 of Form 1120S.

3. Portfolio income.—Generally, portfolio income includes all gross income, other than income derived in the ordinary course of a trade or business, that is attributable to: interest; dividends; royalties; income from a real estate investment trust; a regulated investment company; a real estate mortgage investment conduit; a common trust fund, a controlled foreign corporation, a qualified electing fund, or a cooperative; income from the disposition of property that is income of a type defined as portfolio income; and income from the disposition of property held for investment.
Solely for purposes of the preceding paragraph, gross income derived in the ordinary course of a trade or business includes (and portfolio income, therefore, does not include) only the following types of income: (a) interest income on loans and investments made in the ordinary course of a trade or business of lending money; (b) interest on accounts receivable arising from the performance of such services or selling such property, but only if credit is customarily offered to customers of the business; (c) income from investments made in the ordinary course of a trade or business of furnishing insurance or annuity contracts in the ordinary course of a trade or business (recognized); (d) income or gain derived in the ordinary course of a trade or business of performing such services or dealing in any property if such activity constitutes a trade or business (unless the dealer held the property for investment at any time before such income or gain is recognized); (e) royalties derived by a taxpayer in the ordinary course of a trade or business of licensing intangible property; (f) amounts included in the gross income of a patron of a cooperative by reason of any payment made by the patron based on patronage occurring with respect to a trade or business of the patron; and (g) other income identified by the IRS as income derived by the taxpayer in the ordinary course of a trade or business.

See Temporary Regulations section 1.469-2T(c)(3) for more information on portfolio income.

### Recharacterization of Passive Income

Under the provisions of Temporary Regulations section 1.469-2T(f), net passive income from certain passive activities must be treated as nonpassive income. Income from the following activities is subject to recharacterization:

1. Significant participation passive activities,
2. Certain nondepreciable rental property activities,
3. Passive equity-financed lending activities,
4. Rental activities incidental to a development activity,
5. Activities involving property rented to a nonpassive activity,
6. Acquisition of an interest in a passthrough entity that licenses intangible property.

Any net passive income from an activity of renting substantially nondepreciable property from an equity-financed lending activity, or from an activity related to an interest in a passthrough entity that licenses intangible property that is recharacterized as nonpassive income, is treated as investment income for purposes of computing investment interest expense limitations. "Net passive income" means the excess of passive activity gross income from the activity over passive activity deductions (current year deductions and prior year unallowed losses) from the activity.

### 1. Significant participation passive activities

Significant participation passive activity is any trade or business activity in which the shareholder both participates for more than 100 hours during the tax year and does not materially participate. Because each shareholder must determine his or her level of participation, the corporation will not be able to identify significant participation passive activities.

### 2. Certain nondepreciable rental property activities

Net passive income from a rental activity is nonpassive income if less than 30% of the unadjusted basis of the property used or held for use by customers in the activity is subject to depreciation under section 167.

### 3. Passive equity-financed lending activities

If less than 30% of net passive income from a passive equity-financed lending activity is nonpassive income, the lesser of the net passive income or equity-financed interest income from the activity and income is nonpassive income.

#### Note

The amount of income from the activities in items 1 through 3, above, that any shareholder will be required to recharacterize as nonpassive income may be limited under Temporary Regulations section 1.469-2T(f)(8). Since the corporation will not have information regarding all of a shareholder's activities, it must identify all corporate activities meeting the definitions in items 1 through 3 as activities that may be subject to recharacterization.

### 4. Rental activities incidental to a development activity

Net rental activity income is nonpassive income for a shareholder if all of the following apply: (a) the corporation recognizes gain from the sale, exchange, or other disposition of the rental property during the tax year; (b) the use of the item of property in the rental activity started less than 12 months before the date of disposition (the use of an item of rental property begins when substantially all of the property is first held out for rent and in a state of readiness for rental); and (c) the shareholder materially participated or significantly participated for any tax year in an activity that performed services for the purpose of enhancing the value of the property or any other item of property, if the basis of the property disposed of is computed or in part by reference to the basis of that item of property.

Because the corporation cannot determine a shareholder's level of participation, the corporation must identify net income from property described in items (a) and (b) above as that may be subject to recharacterization.

### 5. Activities involving property rented to a nonpassive activity

If a taxpayer rents property to a trade or business activity in which the taxpayer materially participates, the taxpayer's net rental activity income from renting or disposing of property over passive activity deductions (current year deductions and prior year unallowed losses) that are reasonably allocable to the rented property is nonpassive income. If the corporation has net rental activity income from renting or disposing of property over passive activity deductions, the corporation is treated as if it made an election to be treated as a passive activity investment corporation. See Temporary Regulations section 1.469-2T(f)(7)(iii) for exceptions to this rule.

### Passive Activity Reporting Requirements

To allow shareholders to correctly apply the passive activity loss and credit limitation rules, any corporation that carries on more than one activity must:

1. Provide a schedule for each activity conducted through the corporation that identifies the type of activity conducted (trade or business, rental real estate, rental activity other than rental real estate, or investment).
2. On the attachment for each activity, provide a schedule, using the same line numbers as shown on Schedule K-1, detailing the net income (loss), credits, and all items required to be reported under section 1366(a)(1) from each trade or business activity, from each rental real estate activity, from each rental activity other than a rental real estate activity, and from investments.
3. With respect to each separately identified activity, identify any activity that is a pre-enactment activity conducted through the corporation. See the instructions for Form 8582 for rules applicable to pre-enactment interests in corporate activities.
4. Identify the net income (loss) and the shareholder's share of market interest expense from each activity of renting personal property to a tenant for personal purposes during the year for more than the greater of 14 days or 10% of the number of days that the residence is rented at fair rental value.
5. Identify the net income (loss) and the shareholder's share of interest expense from each activity of trading personal property conducted through the corporation.
6. With respect to any gain (loss) from the disposition of an interest in an activity or of an investment property used in an activity (including dispositions before 1987 from which gain is being recognized after 1986):
   a. Identify the activity in which the property was used at the time of disposition;
   b. If the property was used in more than one activity during the tax year preceding the disposition, identify the activities in which the property was used and the adjusted basis allocated to each activity; and
   c. With respect to gain only, if the property was substantially appreciated at the time of disposition and the applicable holding period specified in Temporary Regulations section 1.469-2T(c)(2)(iii)(A) was not satisfied, identify the amount of the nonpassive gain and indicate whether or not the gain is investment income under the provisions of Temporary Regulations section 1.469-2T(c)(2)(iii)(E).

7. Specify the amount of gross portfolio income, the interest expense allocable to portfolio income, and expenses other than interest expense that are clearly and directly allocable to portfolio income.
8. Identify the ratable portion of any section 481 adjustment (whether a net positive or a net negative adjustment) allocable to each corporate activity.
9. Identify any gross income from sources that are specifically excluded from passive activity gross income income from intangible property if the shareholder is an individual and the shareholder's personal efforts significantly contributed to the creation of the property income from a qualified low-income housing project (as defined in section...
502 of the 1986 Act) conducted through the corporation; income from state, local, or foreign income tax refunds; and income from a covenant not to compete (in the case of a shareholder who is an individual and who contributed the covenant to the corporation).

10. Identify any deductions that are not passive activity deductions.

11. If the corporation makes a full or partial disposition of its interest in another entity, identify the gain (loss) allocable to each activity conducted through the entity, and the gain allocable to a passive activity that would have been recharacterized as nonpassive gain had the corporation disposed of its interest in property used in the activity (because the property was substantially appreciated at the time of the disposition, and therefore represented more than 10% of the shareholder’s total gain from the disposition).

12. Identify the following items with respect to activities which may be subject to the recharacterization rules under Temporary Regulations section 1.469-2T(f):
(a) net income from an activity of renting substantially nondepreciable property;
(b) the lessor of equity-financed interest income or other income from an equity-financed lending activity;
(c) net rental activity income from property that was developed (by the corporation or the shareholder), rented, and sold within 12 months after the rental of the property commenced;
(d) net rental activity income from the rental of property by the corporation to a trade or business activity in which the shareholder had an interest (either directly or indirectly); and
(e) net royalty income from intangible property if the shareholder acquired the shareholder’s interest in the corporation after the corporation created the intangible property or performed substantial services or incurred substantial costs in developing or marketing the intangible property.

13. With respect to credits, identify separately the credits from the corporation that are associated with each activity conducted by or through the corporation.

14. With respect to credits being taken on a qualified progress expenditure basis, identify the activity in which the property will be placed in service upon completion of the expenditures.

Specific Instructions

Name, Address, and Employer Identification Number.—Use the label on the package that was mailed to the corporation. If the corporation’s name, address, or employer identification number is wrong, correct it through it and write the correct information on the label.

If the corporation does not have a package with a label, print or type the corporation’s true name (as set forth in the corporate charter or other legal document creating it), address, and employer identification number on the appropriate lines.

Include the suite, room, or other unit number after the street address. If a preaddressed label is used, please include the information on the label. If the Post Office does not deliver to the street address and the corporation has a P.O. box, show the P.O. box number instead of the street address.

Item B. Business Code No.—See Codes for Principal Business Activity on page 19 of these instructions.

Item E. Total Assets.—Enter the total assets, as determined by the accounting method regularly used in maintaining the corporation’s books and records, at the end of the corporation’s tax year. If there are no assets at the end of the corporation’s tax year, enter the total assets as of the beginning of the tax year.

Item F. Initial Return, Final Return, Change in Address, and Amended Return.—If this is the corporation’s first return, check box F(1). If the corporation has ceased to exist, check box F(2). Also check box F(1) on each Schedule K-1 to indicate that it is a final return. Indicate any change in address by checking box F(3). If the corporation has a change of mailing address after filing its return, it can notify IRS by filing Form 8822, Change of Address. If this amends a previously filed return, check box F(4).

Item G. Consolidated Audit Procedures.—With certain exceptions, the tax treatment of S corporation items is determined at the S corporation level in a consolidated audit proceeding, rather than in separate proceedings with individual shareholders. Check the box for item G if any of the following apply:
1. The S corporation had more than 5 shareholders at any time during the tax year (for this purpose a husband and wife, and their estates, are treated as one shareholder); or
2. Any shareholder was other than a natural person or estate; or
3. The small S corporation (5 or fewer shareholders) has elected as provided in Temporary Regulations section 301.6241-1T(c)(2)(v) to be subject to the filing requirements for S corporations.

Note: The S corporation does not make the section 301.6241-1T(c)(2)(v) election when it checks the box for item G. This election must be made separately.

For more information on the consolidated audit procedures, see sections 6241 through 6245, Temporary Regulations section 301.6241-1T, and Publication 556, Examination of Returns, Appeal Rights, and Claims for Refund.

Gross Income

Caution: Report only trade or business activity income or loss on lines 1a through 6. Do not report rental activity income or portfolio investment income on any other lines. (See the instructions on Passive Activity Limitations beginning on page 4 for definitions of rental income and portfolio income.) Rental activity income and portfolio income are reported on Schedules K and K-1 (rental real estate activities are also reported on Form 8825).

Note: Do not include any income that is tax exempt on lines 1 through 5, or any nondeductible expenses on lines 7 through 19. However, these income and expense items are used in figuring the accumulated adjustments account in Schedule M-1. See also, see instructions for line 18 of Schedule K and line 21 of Schedule K-1.

A corporation that receives any exempt income other than interest, or holds any property or engages in an activity that produces exempt income, must attach to its return an itemized statement showing the amount of each item of exempt income and the expenses allocated to each type.

Line 1 Gross receipts or sales
Enter gross receipts or sales from all trade or business operations except those you report on lines 4 and 5. For reporting advance payments, see Regulations section 1.451-5. To report income from long-term contracts, see section 460.

Generally, the installment method cannot be used for dealer dispositions of property. A “dealer disposition” means any disposition of personal property by a person who regularly sells or otherwise disposes of personal property of the same type on the installment plan or any disposition of real property held for sale to customers in the ordinary course of the taxpayer’s trade or business. The disposition of property used or produced in a farming business is not included as a dealer disposition. See section 453(c) for details and exceptions. For dealer dispositions of personal property before March 1, 1986, dispositions of property used or produced in the trade or business of farming, and certain dispositions of timeshare condominiums and residential lots reported under the installment method, enter on line 1a the gross profit on collections from installment sales and carry the same amount to line 3. Attach a schedule following the current year and the 3 preceding years: (a) gross sales, (b) cost of goods sold, (c) gross profits, (d) percentage of gross profits to gross sales, (e) amount collected, and (f) gross profit on amount collected.

Line 2 Cost of goods sold
See the instructions for Schedule A.

Line 4 Net gain (loss) from Form 4797
Caution: Include only ordinary gains or losses from the sale, exchange, or involuntary conversion of assets used in a trade or business activity. Ordinary gains or losses from the sale, exchange, or involuntary conversions of assets of rental activities must be reported separately on Schedule K as part of the net income (loss) from the rental activity in which the property was used.

In addition to the ordinary gains or losses reported on line 4 from the corporation’s attached Form 4797, Sales of Business Property, a corporation that is a partner in a partnership must include its partnership share of ordinary gains (losses) from sales, exchanges, or involuntary or compulsory conversions (other than casualties or thefts) of the partnership’s trade or business assets.

Do not include any recapture of expense deduction for recovery property (section 179). See the instructions for Schedule K-1, line 21, item e, and for Form 4797 for more information.

Line 5 Other Income
Enter on line 5 trade or business income (loss) that is not included on lines 1a through 4. Examples of such income include: (1) interest income derived in the ordinary course of the corporation’s trade or business, such as interest charged on receivable balances; (2) recoveries of bad debts deducted in earlier years under the specific charge-off method; (3) taxable income from insurance proceeds; and (4) the amount of credit figured on Form 6478, Credit for Alcohol Used as Fuel.

Also include on line 5 all section 481 income adjustments resulting from changes in accounting methods. Specific examples of section 481 adjustments required include those that result from: (1) a required change from the reserve method to the specific charge-off method of accounting for bad debts; (2) a required change to the reserve method of accounting for vacation pay; and (3) a required change to the capitalization of past service pension costs under the uniform capitalization rules of section 263A. Show the computation of the section 481 adjustment on an attached
schedule. Do not include items requiring separate computations by shareholders that must be reported on Schedule K. (See the instructions on Schedules K and K-1.) Do not offset current year’s taxes with tax refunds.

The corporation must include as other income the amount for section 280F(b)(3). To figure the recapture amount, the corporation must complete Part V of Form 4797.

If “other income” consists of only one item, identify it by showing the account caption in parentheses on line 5. A separate schedule need not be attached to the return in this case.

Do not net any expense item (such as interest) with a similar income item. Report all trade or business expenses on lines 7 through 19.

Deductions

Caution: Report only trade or business activity expenses on lines 7 through 19. Do not report rental activity expenses or deductions allocable to portfolio income on these activity expenses lines. Expenses are separately reported on Form 8825 or line 3 of Schedules K and K-1. Deductions allocable to portfolio income are separately reported on Schedules K and K-1. See the instructions on Passive Activity Limitations beginning on page 4 for more information on rental activities and portfolio income.

Limitations on deductions

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

Section 263A does not apply to personal property sold if the taxpayer’s average annual gross receipts are $10 million or less. It does not apply to timber or to most property produced under a long-term contract. Special rules apply to certain corporations engaged in farming (see below). The rules do not apply to property which is produced for use by the taxpayer if substantial construction occurred before March 1, 1986.

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

The costs required to be capitalized under section 263A are not deductible until the property to which the costs relate is sold, used, or otherwise disposed of by the corporation.

Research and experimental costs under section 174, intangible drilling costs for oil and gas and geothermal property, and mining exploration costs are separately reported to shareholders for purposes of determinations under section 59(e). Temporary Regulations section 1.263A-1T clarify that costs that may be currently deducted and those that must be capitalized with respect to production or resale activities. For more information, see Temporary Regulations section 1.263A-1T; Notice 88-86, 1988-2 C.B. 401; and Notice 89-67, 1989-1 C.B. 723.

Special rules for certain corporations engaged in farming.—For S corporations not required to use the accrual method of accounting, the rules of section 263A do not apply to expenses of raising: (a) any animal or (b) any plant that has a preproductive period of 2 years or less. Shareholders of S corporations not required to use the accrual method of accounting may elect to currently deduct the preproductive expenses of certain plants that have a preproductive period of more than 2 years. Because the election to deduct these expenses is made by the shareholder, the farming corporation then should not capitalize such preproductive expenses but should separately report these expenses on line 18 of Schedule K, and each shareholder must capitalize in Schedule K-1 of Schedule K-1. See sections 263A(d) and (e) and Temporary Regulations section 1.263A-1T(c) for definitions and other details. Also see Notice 88-24, 1988-1 C.B. 491 and Notice 89-67.

b. Transactions Between Related Taxpayers.—Generally, an accrual basis S corporation may deduct business expenses and interest owed to a related party (including any shareholder) only in the tax year of the corporation that includes the day on which the payment is includible in the income of the related party. See section 267 for details.

c. Section 291 Limitations.—If the S corporation was a C corporation for any of the 3 immediately preceding calendar years, the corporation may be required to adjust deductions allowed to the corporation for depreciation of iron ore and coal, and the amortizable balance in depreciable facilities. See section 291 to determine the amount of the adjustment.

d. Business Start-Up Expenses.—Business start-up expenses are required to be capitalized unless an election is made to amortize them over a period of not less than 60 months. See section 195.

Line 7

Compensation of officers

Enter on line 7 the total compensation of all officers except compensation reported elsewhere on the return, such as amounts included in cost of goods sold, elective contributions for a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement.

Line 8

Salaries and wages

Enter on line 8a the amount of salaries and wages paid or incurred for the tax year. Do not include amounts that were reported elsewhere on the return, such as amounts included in cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement.

Enter on line 8b the applicable jobs credit from Form 5884, Jobs Credit. See the instructions for Form 5884 for more information.

If a shareholder or a member of the family of one or more shareholders of the corporation renders services or furnishes capital to the corporation for reasonable compensation is not paid, the IRS may make adjustments in the items taken into account by such individuals and the amounts paid by such services or capital. See section 1366(e).

Line 9

Repairs

Enter the costs of incidental repairs, such as labor and supplies, that do not add to the value of the property, or appreciably prolong its life, but only to the extent that such repairs relate to a trade or business activity and are not claimed elsewhere on the return. New buildings, machinery, or permanent improvements that increase the value of the property are not deductible. They are considered to be capital expenditures and may be depreciated or amortized.

Do not include any section 179 expense deduction on this line. See instructions for line 8 of Schedules K and K-1 for details on reporting these items to shareholders.

Line 10

Bad debts

Enter the total debts that became worthless in whole or in part during the year, but only to the extent such debts relate to a trade or business activity.

Caution: Cash method taxpayers cannot take a bad debt deduction unless the amount was previously included in income.

Line 11

Rents

If the corporation rented or leased a vehicle, enter the total annual rental or lease expense paid or incurred in the trade or business activities of the corporation. Also complete Part V of Form 4562, Depreciation and Amortization. If the corporation leased a vehicle for a term of 30 days or more, the deduction for vehicle lease expense may have to be reduced by an amount called the inclusion amount. You may have an inclusion amount if—

And the vehicle’s fair market value on the first day of the lease exceeded:

<table>
<thead>
<tr>
<th>After 12/31/86</th>
<th>After 4/2/85 but before 1/1/87</th>
<th>After 6/18/84 but before 4/3/85</th>
</tr>
</thead>
<tbody>
<tr>
<td>$12,800</td>
<td>$23,000</td>
<td>$34,500</td>
</tr>
</tbody>
</table>

Note: If the corporation leased a vehicle during 1986, and the tax year beginning in 1990 is the first tax year the vehicle was used 50% or less for business, you will need to figure an additional inclusion amount. You must figure this additional amount even if the corporation had no inclusion amount using the table shown above.

See Publication 917, Business Use of a Car, for instructions on how to figure the inclusion amount and the additional inclusion amount.

Line 12

Taxes

Enter taxes paid or incurred in the trade or business activities of the corporation, if not reflected in cost of goods sold. Federal income taxes, import duties and Federal excise and stamp taxes are deductible only if paid or incurred in carrying on the trade or business of the corporation. Taxes incurred in the production or collection of income, or for the management, conservation, or maintenance of property held for the production of income are not deductible on line 12. Report these taxes separately on Schedules K and K-1, line 10.
Do not deduct taxes, including state and local sales taxes, paid or accrued in connection with the acquisition or disposition of business property, unless such tax must be added to the cost of the property, or in the case of a disposition, subtracted from the amount realized. See section 164.

Do not deduct taxes assessed against local benefits that increase the value of the property assessed (such as for paving, etc.); Federal income taxes; estate, inheritance, legacy, succession, and gift taxes; or taxes reported elsewhere on the return.

Do not deduct section 901 foreign taxes. These taxes are reported separately on line 15e, Schedule K.

See section 263A(a) for information on capitalization of allocable costs (including taxes) for any property.

Line 13
Interest
Include on line 13 only interest incurred in the trade or business activities of the corporation that is not claimed elsewhere on the return.

Do not include interest expense on debt used to purchase rental property or debt used in a rental activity. Interest allocable to a rental real estate activity is reported on Form 8825 and is used in arriving at net income (loss) from rental real estate activities. Interest allocable to a real estate activity other than a rental real estate activity is included on line 3b of Schedule K and is used in arriving at net income (loss) from a rental activity (other than a rental real estate activity). This net amount is reported on line 3c of Schedule K and line 3 of Schedule K-1.

Do not include interest expense that is clearly and directly allocable to portfolio or investment income. This interest expense is reported separately on line 11a of Schedule K.

Do not include interest on debt proceeds allocated to distributions made to shareholders during the tax year. Instead, report such interest on line 10 of Schedules K and K-1. To determine the amount to allocate to distributions to shareholders, see Notice 89-35, 1989-1 C.B. 675.

Do not include interest expense on debt required to be allocated to the production of qualified property. Interest that is allocable to certain property produced by an S corporation for its own use or for sale must be capitalized. The corporation must also capitalize any interest on debt that is allocable to an asset used to produce the above property. A shareholder may have to capitalize interest that the shareholder incurs during the tax year for the production expenditures of the S corporation. Similarly, interest incurred by an S corporation may have to be capitalized by a shareholder for the shareholder’s own production expenditures. Interest allocable required by the shareholder to properly capitalize interest for this purpose must be provided by the corporation in an attachment for line 21 of Schedule K-1 (see the instructions for Schedule K-1, line 21, item (i)). See section 263A(f) and Notice 88-99 for additional information.

Temporary Regulations section 1.163-8T gives special rules for allocating interest expense among activities so that the passive activity limitation, investment interest limitation, and the personal interest limitation can be properly figured. Generally, interest expense is allocated in the same manner as debt is allocated. Debt is allocated by tracing disbursements of the debt proceeds to specific expenditures. These regulations give rules for tracing debt proceeds to expenditures.

See Temporary Regulations section 1.163-8T for special rules on allocation of interest expense, transitional rules, and other details.

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

Generally, prepaid interest can only be deducted over the period to which the prepayment applies. See section 461(g) for details.

Line 14
Depreciation
Enter on line 14a only the depreciation claimed on assets used in a trade or business activity. See the Instructions for Form 4562 or Publication 534. Depreciation, to figure the amount of depreciation to enter on this line. For depreciation, you must complete and attach Form 4562 only if the corporation placed property in service during 1990 or claims depreciation on any car or other listed property.

Do not include any section 179 expense deduction on this line. This amount is not deductible by the corporation. Instead, it is passed through to the shareholders on line 8 of Schedule K-1.

Line 15
Depletion
If the corporation claims a deduction for timber depletion, complete and attach Form T, Forest Industries Schedules. Caution: Do not report depletion deductions for oil and gas properties on this line. Each shareholder figures depletion on these properties under section 613A(c)(13). See the instructions for line 21 of Schedule K-1 for information on oil and gas depletion that must be supplied to the shareholders by the corporation.

Line 17
Pension, profit-sharing, etc., plans
Enter the deductible contributions not claimed elsewhere on the return made by the corporation for its employees under a qualified pension, profit-sharing, annuity, or Simplified Employee Pension (SEP) plan, and under any other deferred compensation plan.

If the corporation contributes to an Individual Retirement Arrangement (IRA) for employees, include the contributions in salaries and wages on page 1, line 8a or Schedule A, line 3, and not on line 17.

Employers who maintain a pension, profit-sharing, or other funded deferred compensation plan, whether or not qualified under the Internal Revenue Code and whether or not a deduction is claimed for the current tax year, generally are required to file one of the forms listed below:

Form 5500, Annual Return/Report of Employee Benefit Plan (with 100 or more participants).

Form 5500-C/R, Return/Report of Employee Benefit Plan (with fewer than 100 participants).

Form 5500EZ, Annual Return of One-Participant (Owner and Their Spouses) Pension Benefit Plan. Complete this form for a one-participant plan.

There are penalties for failure to file these forms on time and for overstating the pension plan deduction.

Line 18
Employee benefit programs
Enter amounts for fringe benefits paid or incurred on behalf of employees owning 2% or less of the corporation’s stock. These fringe benefits include: (a) up to $5,000 paid by reason of an employee’s death to his estate or beneficiary, (b) employer contributions to certain dependent and health plans, (c) the cost of up to $50,000 of group-term life insurance on an employee’s life, and (d) meals and lodging furnished for the employee’s convenience.

Do not deduct amounts that are an incidental part of a pension, profit-sharing, etc. plan included on line 17 or amounts reported elsewhere on the return.

Report amounts paid on behalf of more than 2% shareholders separately on line 10 of Schedules K and K-1. A shareholder is considered to own more than 2% of the corporation’s stock if that person owns 5% of all the outstanding stock of the corporation or stock possessing more than 2% of the combined voting power of all stock of the corporation. See section 1372 for more information.

Line 19
Other deductions
Attach a separate sheet listing all allowable deductions related to any trade or business activity for which there is no line on page 1 of the return. Enter the total on line 19. Do not include those items that must be reported separately on Schedules K and K-1.

Do not include qualified expenditures to which an election under section 59(e) may apply. See instructions for lines 16a and 16b of Schedule K-1 for details on treatment of these items.

Include on line 19 the deduction taken for amortization. See instructions for Form 4562 for more information. You must complete and attach Form 4562 if the corporation is claiming amortization of costs that begins during its 1990 tax year.

In most cases, you may not take a deduction for any part of any item allocable to a class of exempt income. (See section 265 for exceptions.) Items directly attributable to wholly exempt income must be allocated to that income. Items directly attributable to any class of taxable income must be allocated to that taxable income.

If an item is indirectly attributable both to taxable income and to exempt income, allocate a reasonable proportion of the item to each, based on all the facts in each case. Attach a statement showing: (1) the amount of each class of income, and (2) the amount of expense items allocated to each such class. Show the amount allocated by apportionment separately.

Section 464(f) limits the deduction for certain expenditures of S corporations engaged in farming that use the cash method of accounting, and whose prepaid expenses for feed, seed, fertilizer, and other farm supplies, and the cost of inventory of more than 50% of other deductible farming expenses. Generally, any excess (amount over 50%) may be deducted only in the tax year the items are actually used or consumed. See section 464(f) for more information.

Generally, the corporation can deduct only 80% of the amount otherwise allowable for meals and entertainment expenses paid or incurred in its trade or business. 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 corporation must be present at the meal. See section 274(k)(2) for exceptions.

Additional limitations apply to deductions for gifts, skybox rentals, luxury water travel,
Worksheet for Line 22a

1. Enter gross receipts for the tax year (see section 1362(d)(3)(C) for gross receipts from the sale of capital assets)*.

2. Enter passive investment income as defined in section 1362(d)(3)(D)*.

3. Enter 25% of line 1 (if line 2 is less than line 3, stop here. You are not liable for this tax).

4. Excess passive investment income—Subtract line 3 from line 2

5. Enter deductions directly connected with the production of income on line 2 (see section 135(b)(2)).

6. Net passive income—Subtract line 5 from line 2

7. Divide amount on line 4 by amount on line 2

8. Excess net passive income—Multiply line 6 by line 7

9. Enter taxable income (see instructions for taxable income below)

10. Enter smaller of line 8 or line 9

11. Excess of net passive income tax—Enter 34% of line 10. Enter here and on line 22a, page 1, Form 1120S.

*Income and deductions on lines 1, 2, and 5 are from total operations for the tax year. This includes applicable income and expenses from page 1, Form 1120S, as well as those reported separately on Schedule K. See sections 1362(d)(3)(D) and 1375(b)(4) for exceptions regarding lines 2 and 5.

Line 9 of Worksheet.—Taxable income.

Line 9 taxable income is defined in Regulations section 1.1374-1(a)(d). Figure this income by completing lines 1 through 28 of Form 1120, U.S. Corporation Income Tax Return. Include the Form 1120 computation with the worksheet computation you attach to Form 1120S. You do not have to attach the schedules, etc., called for on Form 1120. However, you may want to complete certain Form 1120 schedules, such as Schedule D (Form 1120), if you have capital gains or losses.

Conventional expenses, and entertainment expenses. See section 274 and Publication 463, Travel, Entertainment, and Gift Expenses, for details.

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

Note: The corporation may be able to deduct 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.

Do not deduct penalties imposed on the corporation such as those included in the General Instruction on Interest and Penalties.

Line 21

Ordinary income (loss)

This is nontaxable computed income or loss as defined in section 1366(a)(2) attributable to trade or business activities of the corporation. The income or loss is entered on line 1 of Schedule K.

Line 21 income is not used in figuring the tax on line 22a or 22b. See instructions for line 22a for figuring taxable income for purposes of line 22a or 22b tax.

Line 22a

Excess net passive income tax

If the corporation has always been an S corporation, the excess net passive income tax does not apply to the corporation. If the corporation was an S corporation before 1987 or elected to be an S corporation during 1987 or 1988 and qualifies for transitional relief from the built-in gains tax), see instructions for Part III of Schedule D (Form 1120S) to determine if the corporation is liable for the Part III—Capital Gains Tax.

If the corporation made its election to be an S corporation after 1986, see the instructions for Part IV of Schedule D to determine if the corporation is liable for the Part IV—Built-In Gains Tax.

Note: For purposes of line 13 of Part III and line 17 of Part IV of Schedule D, taxable income is defined in section 1375(b)(1)(B) and is generally figured in the same manner as taxable income for line 9 of the worksheet above for line 22a of Form 1120S.

Line 22c

Include in the total for line 22c the following:

Section 47 recapture tax.—Section 1371(d) provides that an S corporation is liable for investment credit recapture attributable to credits allowed for tax years for which the corporation was an S corporation.

Include the corporation’s section 47 recapture tax in the total amount to be entered on line 22c. Write to the left of the line 22c total the amount of recapture tax and the words “section 47 tax.” and attach Form 4255, Recapture of Investment Credit, to Form 1120S.

LIFO recapture tax.—If the corporation used the LIFO inventory pricing method for its last tax year as a C corporation, the corporation may be liable for the additional tax due to LIFO recapture under section 1363(d).

The LIFO recapture tax is figured for the last tax year the corporation was a C corporation. See the instructions for Forms 1120 and 1120-A for details. The LIFO tax is paid in 4 equal installments. The first installment is due with the corporation’s Form 1120 (or 1120-A) for the corporation’s last tax year as a C corporation, and each of the remaining installments is paid with the corporation’s Form 1120S for the succeeding tax year. If the corporation’s last tax year as a C corporation was less than the corporation’s section 473 installment in the total amount to be entered on line 22c, page 1, Form 1120S. Write to the left of the total on line 22c the installment amount and the words “LIFO tax.”

Line 23d

If the S corporation is a beneficiary of a trust and the trust makes a section 643(g) election to credit its estimated tax overpayments to its beneficiaries, include the corporation’s share of the overpayment (reported to the corporation on Schedule K-1 (Form 1041)) in the total amount entered on line 23d. Also, to the left of the line 23d, write “T” and the amount of the overpayment.

Schedule A

Cost of Goods Sold

Inventory valuation methods

Inventories can be valued at: (a) cost, (b) cost or market value (whichever is lower), or (c) any other method approved by the Commissioner that conforms to the provisions of the applicable regulations cited below.

Taxpayers using erroneous valuation methods must change to a method permitted for Federal Income tax purposes. To make this change, file Form 3115. For more information, see Regulations section 1.446-1(a)(3) and Rev. Procs. 84-74, 1984-2 C.B. 736; Notice 88-78,1988-2 C.B. 394; and Notice 89-67.

On line 8a, check the method(s) used for valuing inventories. Under “lower of cost or market,” market generally applies to normal market conditions when there is a current bid price prevailing at the date the inventory is valued. When no regular open market exists or when quotations are nominal because of inactive market conditions, use fair market prices from the most reliable sales or purchase transactions that occurred near the date the inventory is valued. For additional requirements, see Regulations section 1.471-1 and Notice 88-86, 1988-2 C. B. 401 (IV)(N).

Inventory may be valued below cost when the merchandise is unsalable at normal prices or unusable in the normal way because the goods are “subnormal” (that is because of damage, imperfections, shop wear, etc.) within the meaning of Regulations section 1.471-2(c). Such goods may be valued at a current bona fide selling price less direct cost of disposition (but not less than scrap value) when the taxpayer can establish such a price, See Regulations section 1.471-1(c) for additional requirements.

If this is the first year the “last-in-first-out” (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method, as provided in section 472, attach Form 970, Application To Use LIFO Inventory Method, or a statement showing the information required by Form 970, with Form 1120S and check the LIFO box on line 8c. Enter the amount or percent (estimates may be used) of total closing inventories covered under section 472.
Form TD F 90-22.1 may be obtained from IRS Forms Distribution Centers.

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

### Item R

Complete item R if the corporation: (1) filed its election to be an S corporation after 1986; (2) was a C corporation before it elected to be an S corporation; or (3) acquired an asset with a basis determined by reference to its (or the basis of any other property) in the hands of a C corporation; and the unrealized built-in gain (defined below) in excess of the net recognized built-in gain from prior years.

The corporation is liable for section 1374 tax if (1), (2), and (3) above apply and it has a net recognized built-in gain (section 1374(d)(2)) for its tax year.

Section 633(d)(8) of the Tax Reform Act of 1986 provides transitional relief from the built-in gains for certain corporations that elected to be S corporations in 1987 or 1988. However, the relief rule does not apply to ordinary gains or losses (determined without regard to section 1239), gains or losses from the disposition of capital assets held 6 months or less, and gains from the disposition of any asset acquired by the corporation with a substituted basis if a principal purpose for acquiring the asset was to secure tax-free treatment from the built-in gain tax. See the instructions for Part IV of Schedule D (Form 1120S) for more information.

The corporation’s “net unrealized built-in gain” is the amount, if any, by which the fair market value of the assets of the corporation at the beginning of its first S corporation year (or as of the date the assets were acquired, for any asset with a basis determined by reference to its basis or the basis of any other property) in the hands of a C corporation) exceeds the aggregate adjusted basis of such assets at that time.

Enter in item R the corporation’s net unrealized built-in gain reduced by the net recognized built-in gain for prior years. See sections 1374(c)(2) and (d)(1).

### Item S

Check the box in item S if the corporation has a C corporation in a prior year and has subchapter C earnings and profits (E&P) at the close of its most recent tax year that was a C corporation.

For this purpose, “subchapter C E&P” means E&P of any corporation for any tax year when it was not an S corporation. See sections 1362(d)(3)(B) and 312 for other details. If the corporation has subchapter C E&P, it may be liable for tax imposed on excess net passive income. See the instructions for line 22a, page 1, of Form 1120S for details on this tax.

### Designation of Tax Matters Person (TMP)

If the S corporation is subject to sections 6241 through 6244 (relating to limited audit procedures), it may designate a shareholder as the TMP for the tax year for which the return is filed by completing the Designation of Tax Matters Person (page at the bottom of page 2 of Form 1120S). Temporary Regulations section 301.6241-1T provides an exception to the consolidated provisions for small S corporations with 50 or fewer shareholders of each of whom is a natural person or an estate. See the instructions for Item G, Consolidated Audit Procedures, on page 7, sections 6241 through 6245, and Temporary Regulations section 301.6241-1T for other details.

### Purpose of Schedules

Schedule K is a summary schedule of all the shareholders’ shares of the corporation’s income, deductions, credits, etc. Schedule K-1 shows each shareholder’s separate share. A copy of each shareholder’s Schedule K-1 must be attached to the Form 1120S filed with the IRS. A copy is kept as a part of the corporation’s records, and the corporation must give each shareholder a separate copy.

Be sure to give each shareholder a copy of the Shareholder’s Instructions for Schedule K-1 (Form 1120S). These instructions are available, separately from Schedule K-1, at most IRS offices.

Note: Instructions that apply only to line items reported on Schedule K-1 may be prepared and given to each shareholder in lieu of the instructions printed by IRS.

### General Instructions

The corporation is liable for taxes on lines 22a, b, and c, page 1, Form 1120S. Shareholders are liable for income tax on their shares of the corporation’s income (reduced by any taxes paid by the corporation on income) and must include their share of the income on their tax return whether or not it is distributed to them. Unlike most partnership income, S corporation income is not self-employment income and is not subject to self-employment tax.

The total pro rata share items (column (b)) of all Schedules K-1 should equal the amount reported on the same line on Schedule K. Lines 1 through 17 of Schedule K correspond to lines 1 through 17 of Schedule K-1. Other lines do not correspond, but instructions will explain the differences.

### Substitute Forms

You do not need IRS approval to use a substitute Schedule K-1 if it is an exact facsimile of the IRS schedule, or if it contains only those lines the taxpayer is required to use, and the lines have the same numbers and titles and are in the same order as on the comparable IRS Schedule K-1. In either case, your substitute schedule must include the OMB number (1) on the first page of the Shareholder’s Instructions for Schedule K-1 (Form 1120S), or (2) instructions that apply to the items reported on Schedule K-1 (Form 1120S).

Other substitute Schedules K-1 require approval. You may apply for approval of a substitute form by writing to: Internal Revenue Service, Attention: Substitute Forms Program Coordinator, R:R:R:1111 Constitution Avenue, NW, Washington, DC 20224.

You may be subject to a penalty if you file a substitute Schedule K-1 that does not conform to the specifications of Rev. Proc. 90-8, 1990-1 C.B. 434.

### Shareholder’s Pro Rata Share Items

Items of income, loss, deductions, etc., are allocated to a shareholder on a daily basis, according to the number of shares of stock held by the shareholder on each day during the tax year of the corporation. See item A on page 12.

A transferee shareholder (rather than the transferor) is considered to be the owner of stock on the day it is transferred.
Special rule—If a shareholder terminates his or her interest in a corporation during the tax year, the corporation, with the consent of all shareholders (including the one whose interest is terminated), may elect to allocate income and expenses, etc. as if the corporation’s tax year consisted of 2 tax years, the first of which ends on the date of the shareholder’s termination. To make the election, the corporation must file a statement of election with the return for the tax year of election and attach a statement of consent signed by all shareholders. If the election is made, write “Section 1377(a)(2) Election Made” at the top of each Schedule K-1. See section 1377(a)(2) and Temporary Regulations section 18.1377-1 for details.

Specific Instructions

Schedule K only

Enter the total pro rata share amount for each applicable line item on Schedule K.

Schedule K-1 only

On each Schedule K-1: complete the date spaces at the top; enter the names, addresses, and identification numbers of the shareholder and corporation; complete items A through F; and enter the shareholder’s pro rata share of each item. Schedule K-1 must be prepared and given to each shareholder on or before the day on which Form 1120S is filed.

Note: Space has been provided on line 21 (Supplemental Information) of Schedule K-1 for the corporation to provide additional information to shareholders. This space, if sufficient, should be used in place of any attached schedules required for any lines on Schedule K-1. The amounts on Schedule K-1 are reported on lines 1 through 20 of Schedule K-1. Please be sure to identify the applicable line number next to the information entered below line 21.

Item A.—If there was no change in shareholders or in the relative interest in stock the shareholders owned during the tax year, enter the percentage of total stock owned by each shareholder during the tax year. For example, if shareholders X and Y each owned 50% for the entire tax year, enter 50% in item A for each shareholder. Each shareholder’s pro rata share items (lines 1 through 21 of Schedule K-1) are figured by multiplying the Schedule K amount on the corresponding line of Schedule K-1, the amount on Schedule K-1, and the percentage in item A.

If there was a change in shareholders or in the relative interest in stock the shareholders owned during the tax year, each shareholder’s percentage of ownership is weighted for the number of days in the tax year that stock was owned. For example, A and B each held 50% for half the tax year and A, B, and C held 40%, 40%, and 20%, respectively, for the remaining half of the tax year. The percentage of ownership for the year for A, B, and C is figured as follows and is then entered in item A.

\[
\begin{align*}
\text{A} & \quad 50\% & \quad 50\% & \quad 25\% \\
\text{B} & \quad 50\% & \quad 50\% & \quad 20\% \\
\text{C} & \quad 50\% & \quad 40\% & \quad 10\% \\
\text{Total} & \quad 100\%
\end{align*}
\]

If there was a change in shareholders or in the relative interest in stock the shareholders owned during the tax year, each shareholder’s pro rata share items can also be figured on a daily basis, based on the percentage of stock held by the shareholder on each day. See sections 1377(a)(1) and (2) for details.

Item B.—Enter the Internal Revenue Service Center address where the Form 1120S was, to which a copy of this K-1 was attached, was or will be filed.

Item C.—If the corporation is a registration-required tax shelter, it must enter its tax shelter registration number in item C(1) and identify the type of tax shelter in C(2). If the corporation invested in a registration-required shelter, the corporation must also attach a copy of its Form 8271 to Schedule K-1. See Form 8271 for a list of the types of tax shelters and for more information.

Special reporting requirements for corporations with multiple activities.—If items of income, loss, deduction, or credit from more than one activity are determined for purposes of the passive activity loss and credit limitations) are reported on lines 1, 2, or 3 of Schedule K-1, the corporation must provide information for each activity to its shareholders. See Passive Activity Reporting Requirements under Passive Activity Limitations at the end of the General Instructions for details on the reporting requirements.

Special reporting requirements for at-risk activities.—If the corporation is involved in one or more at-risk activities for which a loss is reported on Schedule K-1, the corporation must report information separately for each at-risk activity. See section 465(c) for a definition of at-risk activities.

For each at-risk activity, the following information must be provided on an attachment to Schedule K-1:

1. A statement that the information is a breakdown of at-risk activity loss amounts.
2. The identity of the at-risk activity; the loss amount for the activity; other income deductions; and other information that relates to the activity.

Items D and E.—Section 469(m) provides for a phase-in of the disallowance of losses and credits from passive activities. However, the phase-in provisions only allow to losses and credits attributable to pre-enactment interests. Generally, a pre-enactment interest is a qualified interest in a pre-enactment activity. A "qualified interest" means stock in the corporation held on October 22, 1986, and at all times thereafter. However, stock acquired after October 22, 1986, and after an agreement to a binding written contract in effect on that date, is considered acquired on that date.

Except as stated above, an ownership interest attributable to stock acquired after October 22, 1986, is not a pre-enactment interest. Also, passive activity losses and credits attributable to an ownership interest acquired after October 22, 1986, do not qualify for the phase-in provisions.

A ‘pre-enactment activity’ is generally an activity that was conducted by the corporation on October 22, 1986. However, a pre-enactment activity also includes an activity that was acquired or constructed pursuant to a written binding contract in effect on August 22, 1986.

Item D.—Enter in item D the shareholder’s weighted percentage increase in stock ownership for the 1990 tax year. Generally, a shareholder has a percentage increase in his or her stock ownership at any time during the corporation’s 1990 tax year is figured as follows and is then entered in item A.

\[
\text{Percentage Increase} = \frac{\text{New Percentage of Ownership} - \text{Old Percentage of Ownership}}{\text{Old Percentage of Ownership}} \times 100%
\]

If a shareholder disposes of stock after October 22, 1986, and the percentage of ownership immediately after the disposition is less than that owned on that date, this lesser percentage is considered to be the percentage owned on that date. For example, in a calendar year corporation, if shareholder Z had 40% ownership on October 22, 1986, and later disposed of stock on December 1, 1989, which resulted in a 20% ownership immediately afterwards, then any additional ownership in 1990 that is above 20% would result in a percentage increase for Z for 1990.

Any percentage increase is weighted for the number of days in 1990 the increased percentage is held. In the case of Z above, if the 20% owned after December 1, 1989, was increased to 50% for the last 6 months of the corporation’s 1990 tax year, the 50% increase (50% less 20% = 30%) is weighted by 50% (6 months of tax year = 50%). The weighted percentage increase for item D would be 15% (30% x 50%).

Note: A shareholder does not have to acquire stock in the corporation’s 1990 tax year to have a percentage increase for 1990. For example, if stock acquired by shareholder Z in 1989, causes Z’s percentage of ownership after the acquisition to be greater than on October 22, 1986, Z’s 1989 increased ownership is held during any part of 1990, then Z will have a percentage increase for 1990, and item D of Schedule K-1 should be completed. The percentage increase is weighted for the number of days in 1990 the stock is held.

Item E.—Check the box in item E if any line 1, 2, or 3 activity was a passive investment activity (as defined above). Also, if item E is checked, enter the date of startup or acquisition in the date space on line 1, 2, or 3 (or on an attached schedule if income or loss from more than one activity is reported on line 1, 2, or 3). Unless an activity is a pre-enactment activity, the benefits of the phase-in provisions are not allowed regardless of when the shareholder acquires his or her stock. See Regulations sections 1.469-11T for other details.

Schedules K and K-1, unless otherwise noted

Lines 1 through 17

Reminder: Before entering income items on Schedule K or K-1, be sure to reduce the item by credits attributable to a pre-enactment activity. See regulations (for other details).

1. Built-in gains tax (Schedule D, Part IV, line 23).—Each recognized built-in gain item (within the meaning of section 1374(d)(3)) is reduced by its proportionate share of the built-in gains tax.

2. Capital gains tax (Schedule D, Part III, line 15).—The net long-term capital gain on line 6 of Schedule D or the section 1231 gain included on line 5 of Schedule K is reduced by this tax.

3. Excess net passive income tax (line 22a, page 1, Form 1120S).—Each item of passive investment income (within the meaning of section 1362(d)(3)(D)) is reduced by its proportionate share of the net passive income.

Line 1.—Ordinary income (loss) from trade or business activities.—Enter the amount from line 21, page 1. Enter the income or loss without reference to: (1) shareholders’ basis in the stock of the corporation and in any indebtedness of the corporation to the shareholders (section 1366(d)), (2) shareholders’ section 465 at-risk limitations, and (3) shareholders’ section 469 passive activity limitations. These limitations, if applicable, are determined at the shareholder level.
If the corporation is involved in more than one trade or business activity, see Passive Activity Reporting Requirements on page 6 for details on the information to be reported for each activity. If an at-risk activity loss is reported on line 1, see the Special reporting requirements for at-risk activities in the Specific Instructions for Schedules K and K-1.

Date space (line 1, Schedule K-1).—If item E is checked, and a trade or business activity was started after October 22, 1986, enter the date (month, day, year) specified in item E.

Line 2. Net Income (loss) from rental real estate activities.—Enter the net income or loss from rental real estate activities of the corporation from Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation. Each Form 8825 reports the income and expenses of up to 8 properties. If the corporation has income or loss from more than one rental real estate activity reported in line 2, see Passive Activity Reporting Requirements on page 6 for details on the information to be reported for each activity. If an at-risk activity loss is reported on line 1, see the Special reporting requirements for at-risk activities in the Specific Instructions for Schedules K and K-1.

If a loss from a qualified low-income housing project is reported on line 2, identify this loss on a statement attached to the Schedule K-1 of each shareholder who is a qualified investor in the project. Any loss sustained by a qualified investor in a qualified low-income housing project for any tax year in the relief period is not subject to the passive activity loss limitations under section 502 of the Tax Reform Act of 1986. See Act section 502 for definitions and other information on qualified low-income housing projects.

Date space (lines 2 and 3 of Schedule K-1).—If item E is checked and a rental activity was started or acquired after October 22, 1986, enter the date (month, day, year) specified in item E.

Line 3. Income and expenses of other rental activities.—Enter on lines 3a and 3b of Schedule K (line 3 of Schedule K-1) the income and expenses of rental activities other than the income and expenses reported on Form 8825. If the corporation has more than one rental activity reported on line 3, see Passive Activity Reporting Requirements on page 6 for details on the information to be reported for each activity. If an at-risk activity loss is reported on line 3, see the Special reporting requirements for at-risk activities. Also see Rental activities other than rental real estate activities under Passive Activity Limitations in the General Instructions for a definition and other details on other rental activities.

Lines 4a through 4f. Portfolio Income (loss).—Enter portfolio income (loss) on lines 4a through 4f under Passive Activity Limitations in the General Instructions for a definition of portfolio income. Do not reduce portfolio income by the net cost or expenses allocable to it. Such expenses (other than interest expense) are reported on line 9 of Schedules K and K-1. Interest expense allocable to portfolio income is general business interest expense and is reported on line 11a of Schedules K and K-1.

Lines 4a and 4b.—Enter only taxable interest and dividend income that is portfolio income. Interest income derived in the ordinary course of the corporation's trade or business, such as interest charged on receivable balances, is reported on line 5, page 1, Form 1120S. See Temporary Regulations section 1.469-2T(c)(3).

Lines 4d and 4e.—Enter on line 4d the net short-term capital gain or loss (reduced by any applicable taxes) from line 3 of Schedule D (Form 1120S) that is portfolio income. Enter on line 4e the net long-term capital gain or loss (reduced by any applicable taxes) from line 6 of Schedule D (Form 1120S) that is portfolio income. If any gain or loss from lines 4d and 4e is portfolio income (e.g., gain or loss from the disposition of nondepreciable personal property used in a trade or business), do not report this income or loss on lines 4d and 4e. Instead, report it on line 6 of Schedules K and K-1. If the income or loss is attributable to more than one activity, report the income or loss amount separately for each activity on an attachment to Schedule K-1 and identify the activity to which the income or loss relates.

Line 4f.—Enter any other portfolio income not reported on lines 4a through 4e.

If the corporation holds a residual interest in a REMIC, report on an attachment for line 4f each shareholder's share of taxable income (net loss) from the REMIC (line 1b of Schedule Q (Form 1066)); excess inclusion (line 2c of Form 1066); and a column 212 expenses (line 3b of Schedule Q (Form 1066)). Because Schedule Q (Form 1066) is a quarterly statement, the corporation must follow the Schedule Q (Form 1066) Residual Holder Instructions to figure the amounts to report to shareholders for the corporation's tax year.

Line 5.—Enter the gain (loss) under section 1231 shown on line 7 of Form 4797. Do not include net gains or losses from involuntary conversions due to casualties or thefts on this line. Instead, report them on line 6.

Line 6.—Enter any other item of income or loss not included on lines 1 through 5, such as:

a. Wagering gains and losses (section 165(d)).

b. Recovery of tax benefit items (section 111).

c. Any gain or loss from a section 1256 contract.

d. Net gain (loss) from involuntary conversions due to casualty or theft.

Line 7.—Enter the amount of charitable contributions paid by the corporation during its tax year. Attach an itemized list that separately shows the corporation's charitable contributions subject to the 50%, 30%, and 20% limitations.

If the corporation contributes property other than cash and the aggregate amount claimed exceeds $500, Form 8283, Noncash Charitable Contributions, must be completed and attached to Form 1120S. The corporation's share of its Form 8283 to every shareholder if the total deduction for any item or group of similar items of contributed property exceeds $5,000, even though the amount allocated to each shareholder is less.

If the property that does not meet the $5,000 filing requirement, the corporation does not have to furnish the shareholders with a copy of its Form 8283. The corporation must not provide shareholders with their share of the fair market value of contributed property to enable individual shareholders to complete their own Form 8283. See the Instructions for line 21 of Schedule K-1, item e, for any recapture of a section 179 amount.

Line 8.—An S corporation may elect under section 179 to expense part of the cost of certain tangible property that the corporation purchased during the tax year for use in its trade or business or for sale to customers. The total section 179 expense deduction is limited to $10,000. Certain other limitations also apply. See the instructions for Form 4562 for more information.

Complete Part I of Form 4562 to figure the corporation's section 179 expense deduction. The corporation does not deduct the expense itself but passes the expense through to its shareholders in the same manner as the total section 179 expense deduction on line 8 of Schedule K and attach Form 4562 to Form 1120S. The limitations of Part I of Form 4562 apply separately to the S corporation and to its shareholders.

Report each individual shareholder's pro-rata share of the total expense deduction on line 8 of Schedule K-1. Do not complete line 8 of Schedule K-1 for shareholders that are estates or trusts. In addition, show on an attachment to Schedule K-1 the following information:

a. The shareholder's pro-rata share of: (1) the items of section 179 property the corporation elects to treat as an expense, (2) the portion of the cost of each item treated as an expense, and (3) the portion of the cost of each item treated as a carryover amount.

b. If the shareholder's section 179 expense deduction is attributable to more than one activity, identify the activity and any section 179 property associated with the activities.

See the Instructions for line 21 of Schedule K-1, item e, for any recapture of a section 179 amount.

Line 9.—Enter on line 9 the deductions clearly and directly allocable to portfolio income (other than interest expense). Interest expense related to portfolio income is investment interest expense and is reported on line 11a of Schedules K and K-1. Generally, the line 9 expenses are section 212 expenses and are subject to section 212 limitations at the shareholder level.

Note: Section 274(h)(7) provides that no deduction is allowed under section 212 for expenses allocable to a convention, seminar, or similar meeting. Because these expenses are not deductible by shareholders, the corporation does not report these expenses on line 9 or line 10.

The expenses are nondeductible and are reported as such on line 21 of Schedule K and line 21 of Schedule K-1.

Line 10.—Enter any other deductions not included on lines 7, 8, 9, and 15e, such as:

a. Amounts (other than investment interest required to be reported on line 11a of Schedules K and K-1) paid by the corporation that would be allowed as itemized deductions on a shareholder's income tax return if they were paid directly by a shareholder for the use of the property.

b. Any penalty on early withdrawal of savings not reported on line 9 because the corporation withdrew funds from its time savings deposit before its maturity.

c. Costs and expenses of conservation expenditures (section 175).

d. Expenditures paid or incurred for the removal of architectural and transportation barriers to the elderly and disabled that the corporation has elected to treat as a current expense. See section 190.
Credits
Note: If the corporation has credits from more than one trade or business activity on line 12a or 12b, or more than one rental activity on line 12b, 12c, 12d, or 12e, it must report separately on an attachment to Schedule K-1, the amount of each credit and provide any other applicable information listed in Passive Activity Reporting Requirements under the General Instructions for Passive Activity Limitations.

Line 12a.—Enter on line 12a of Schedule K the credit for alcohol used as fuel computed by the corporation that is attributable to a trade or business activity. Enter on line 12d or 12e, the credit for alcohol used as fuel attributable to less than one trade or business activity. The credit for alcohol used as fuel is figured on Form 4678, Credit for Alcohol Used as Fuel, and the form is attached to Form 1120S. The credit must be included as income on page 1, line 5, of Form 1120S. See section 40(f) for an election the corporation can make to have the credit not apply.

Enter each shareholder's share of the credit for alcohol used as fuel on line 12a, 12d, or 12e of Schedule K-1.

Line 12b.—Section 42 provides for a low-income housing credit that may be claimed by owners of low-income residential rental buildings. If shareholders are eligible to claim the low-income housing credit, complete the applicable parts of Form 8586, Low-Income Housing Credit, and attach it to Form 1120S. Enter the credit figured by the corporation on line 12b and any low-income housing credit received from other entities in which the corporation is allowed to invest on the applicable line as explained below. The corporation must also complete and attach Form 8609, Low-Income Housing Credit Allocation Certification, and Schedule A (Form 8609), Annual Statement, to Form 1120S. See the Instructions for Form 8586 and Form 8609 for information on completing these forms.

Note: No credit may be claimed for any building in a qualified low-income housing project for which any person was allowed to claim a loss from the project by reason of not being subject to the passive activity limitations of section 469 (see section 502 of the Tax Reform Act of 1986 for details).

Line 12b(1).—If the corporation invested in a partnership that includes any of the provisions of section 42(g)(5) apply, report on line 12b(1) the credit the partnership reported to the corporation on line 13b(1) of Schedule K-1 (Form 1065). If the corporation invested before 1990 in a section 42(g)(5) partnership, also include on this line any credit the partnership reported to the corporation on line 13b(3) of Schedule K-1 (Form 1065).

Line 12b(2).—Report on line 12b(2) any low-income housing credit for property placed in service before 1990 and not reported on line 12b(1). This includes any credit from a building placed in service before 1990 in a project owned by the corporation and any credit from a partnership reported to the corporation on line 13b(4) of Schedule K-1 (Form 1065), if the corporation invested in that partnership before 1990.

Line 12b(3).—If the corporation invested after 1989 in a partnership to which the provisions of section 42(g)(5) apply, report on line 12b(3) the credit the partnership reported to the corporation on line 13b(3) of Schedule K-1 (Form 1065).

Line 12b(4).—Report on line 12b(4) any low-income housing credit for property placed in service after 1989 and not reported on any other line. This includes any credit from a building placed in service after 1989 in a project owned by the corporation and any credit from a partnership reported to the corporation on line 13b(4) of Schedule K-1 (Form 1065), if the corporation invested in that partnership after 1989.

Line 12c.—Enter total qualified rehabilitation expenditures related to real estate activities of the corporation, and for line 12c of Schedule K, complete the applicable lines of Form 3468. Investment interest expense allowed a deduction up to 25% of such expenditures is figured on line 12d. A more than 2% shareholder may be allocated a deduction up to 25% of such amounts.

h. Other fringe benefit expenditures for more than 2% shareholders. See the instructions for line 18, page 1, of Form 1120S for section 1372 fringe benefit expenditures to be separately reported.

i. If there was a gain (loss) from a casualty or theft to property not used in a trade or business or for income producing purposes, provide each shareholder with the needed information to complete Form 4684, Casualties and Thefts.
• Nonconventional source fuel credit. This credit is figured by the corporation on a separate schedule prepared by the corporation. This computation schedule must also be attached to Form 1120S. See section 29 for computation provisions and other special rules for figuring this credit.

• Unused regular or business energy investment credit of cooperatives. If the corporation is a member of a cooperative that passes an unused regular or business energy investment credit through to its members, the amounts are in turn passed through to the corporation’s shareholders.

• Credit for backup withholding on dividends, interest, or patronage dividends. See the instructions for line 18 (Schedule K) and line 21 (Schedule K-1) to report the corporation’s report in property qualifying for the regular or business energy investment credit (other than from cooperatives).

Adjustments and Tax Preference Items

Lines 14a through 14f.—Enter items of income and deductions that are adjustments or tax preference items. See Form 6251, Alternative Minimum Tax—Individuals, and Publication 909, Alternative Minimum Tax for Individuals, to determine the amounts to enter and for other information.

Do not include as a tax preference item any qualified intangible drilling costs to which an election under section 59(e) may apply. Because these expenditures are subject to an election by each shareholder, the corporation cannot compute the amount of any tax preference related to them. Instead, the corporation must pass through to each shareholder on lines 16a and 16b of Schedule K-1 (line 16c of Schedule K-1 if the election is not made) the separate amounts that are qualified intangible drilling costs and for all properties which are geothermal properties.

Give the shareholders a schedule that shows the separate amounts that are included in the computation of the amounts on lines 14e(1) and 14e(2).

Line 14c.—Figure the adjustment for line 14c based only on tangible property placed in service after 1986 (and tangible property placed in service after July 31, 1986 and before 1987 for which the corporation elected to use the General Depreciation System).

Refi re depreciation as follows: For property other than real property and property on which the straight line method was used, using the declining balance method, switching to straight line method for the 1st tax year when that method gives a better result. (For property on which the straight line method was used, use the straight line method.) Use the class life (instead of the recovery period) and the same conventions as the corporation used on Form 4562. For personal property having no class life, use 12 years. For residential rental and nonresidential real property, use the straight line method over 40 years. Determine the depreciation adjustment by subtracting the recomputed depreciation from the depreciation claimed on Form 4562. If the recomputed depreciation exceeds the depreciation claimed on Form 4562, enter the difference as a negative amount. See the instructions for Form 6251 and Form 4562 for more information.

Line 14d.—Do not include any depletion on oil and gas wells. The shareholders must compute their depletion deductions separately. See section 613A.

In the case of mines, wells, and other natural deposits, other than oil and gas wells, enter the amount by which the deduction for depletion under section 611 (including percentage depletion for geothermal deposits) is more than the adjusted basis of such property at the end of the tax year. Figure the adjusted basis without regard to the depletion deduction and figure the excess separately for each property.

Lines 14e(1) and 14e(2).—Generally, the amounts to be entered on these lines are only the income and deductions for oil, gas, and geothermal properties that are used to figure the amount on line 21, page 1, Form 1120S.

If there are any items of income or deductions for oil, gas, and geothermal properties included in the amounts that are required to be passed through separately to the shareholders on Schedule K-1, give each shareholder a schedule for the line on which the income or deduction is included and which shows the amount of income or deductions included in the total amount for that line. Do not include any of these direct pass-through amounts on line 14e(1) or 14e(2). The shareholder is told in the Shareholder’s Instructions for Schedule K-1 (Form 1120S) to adjust the amounts on lines 14e(1) and 14e(2) for any other income or deductions from oil, gas, or geothermal properties included on lines 2 through 10 and 21 of Schedule K-1 in order to determine the total income and deductions from oil, gas, and geothermal properties for the corporation.

Figure the amounts for lines 14e(1) and 14e(2) separately for oil and gas properties which are properties other than geothermal properties and for all properties which are geothermal properties.

Give the shareholders a schedule that shows the separate amounts that are included in the computation of the amounts on lines 14e(1) and 14e(2).

Line 14e(1).—Enter the aggregate amount of gross income (within the meaning of section 613(a)) from all oil, gas, and geothermal properties received or accrued during the tax year and included on page 1, Form 1120S.

Line 14e(2).—Enter the amount of any deductions allocable to oil, gas, and geothermal properties reduced by the excess intangible drilling costs that were included on page 1, Form 1120S, on properties for which the corporation made an election to expense intangible drilling costs in tax years beginning before 1983. Do not include nonproductive well costs included on page 1.

Figure excess intangible drilling costs as follows: From the allowable intangible drilling and development costs (except for costs in drilling a nonproductive well), subtract the amount that would have been allowable if the corporation had capitalized these costs and either amortized them over the 120 months that started when production began, or treated them according to any election the corporation made under section 57(b)(2).

See section 57(a)(2) for more information.

Line 14f.—Attach a schedule that shows each shareholder’s share of other items not shown on lines 14a through 14e(2) that are adjustments or tax preference items or that the shareholder needs to complete Form 6251 or Form 8656. See these forms and their instructions to determine the amount to enter. Other adjustments or tax preference items include the following:

• Amortization of certified pollution control facilities.—The deduction allowable under section 169 for any facility placed in service after 1986 must be computed using the alternative depreciation system under section 168(g).

• Long-term contracts entered into after February 28, 1986.—Except for certain home construction contracts, the taxable income from these contracts must be figured using the percentage of completion method of accounting for alternative minimum tax purposes.

• Installment sales of inventory or stock in trade after March 1, 1986.—Generally, the installment method may not be used for these sales in computing alternative minimum taxable income.

• Charitable contributions of appreciated property.—Generally, the installment method for charitable contributions claimed on line 7 of Schedules K and K-1 is reduced by the difference between the fair market value and the adjusted basis of the capital gain and section 1231 property donated to a charitable organization.

• Losses from tax shelter farm activities.—No loss from any tax shelter farm activity is allowed for alternative minimum tax purposes.

Foreign Taxes

Lines 15a through 15g.—In addition to the instructions below, see Form 1116, Foreign Tax Credit (Individual, Fiduciary, or Nonresident Alien Individual), and the related instructions.

Line 15a.—Enter the type of income from outside the U.S. as follows:

• Passive income
• High withholding tax interest
• Financial services income
• Shipping income
• Dividends from a DISC or former DISC
• Certain distributions from a foreign-sales corporation (FSC) or former FSC
• Dividends from each noncontrolled section 902 corporation
• Taxable income attributable to foreign trade income (within the meaning of section 923(b))
• General limitation income (all other income from sources outside U.S., including income from sources within U.S. possessions)

If, for the country or U.S. possession shown on line 15b, the corporation had more than one type of income, enter “See attached” and attach a schedule for each type of income for lines 15b through 15g.

Line 15b.—Enter the name of the foreign country or U.S. possession. If, for the type of income shown on line 15a, the corporation had income from, or paid taxes to, more than one foreign country or U.S. possession, enter “See attached” and attach a schedule for each country for lines 15a and 15c through 15g.

Line 15c.—Enter in U.S. dollars the total gross income from sources outside the U.S. Attach a schedule that shows each type of income listed in the instructions for line 15a.

Line 15d.—Enter in U.S. dollars the total applicable deductions and losses attributable to income on line 15c. Attach a schedule that shows each type of deduction or loss as follows:

• Expenses directly allocable to each type of income listed above
• Pro rata share of all other deductions not directly allocable to specific items of income
• Pro rata share of losses from other separation limitation categories

Line 15e.—Enter in U.S. dollars the total foreign taxes (described in section 901) that were paid or accrued by the corporation to foreign countries or U.S. possessions. Attach a schedule that shows the dates the taxes were paid or accrued, and the amount in both foreign currency and in U.S. dollars, as follows:
Other Items

Lines 16a and 16b.—Generally, section 59(e) allows each shareholder to make an election to deduct the shareholder’s pro rata share of the corporation’s otherwise deductible qualified expenditures (deductions) ratably over 10 years (3 years for circulation expenditures), beginning with the tax year in which the expenditures were made (or for intangible drilling and development costs, over the 60-month period beginning with the month in which such costs were paid or incurred). The term “qualified expenditures” includes only the following types of expenditures paid or incurred during the tax year: circulation expenditures, research and experimental expenditures, intangible drilling and development costs, and mining exploration and development costs. If a shareholder makes this election, these items are not treated as tax preference items. Because the shareholders are generally allowed to make this election, the corporation cannot deduct these amounts or include them as adjustments or tax preference items on Schedule K-1. Instead, on lines 16a and 16b of Schedule K-1, the corporation passes through the information the shareholders need to compute their separate deductions. Enter on line 16a the qualified expenditures paid or incurred during the tax year to which an election under section 59(e) may apply. Enter any amount for all shareholders whether or not any shareholder makes an election under section 59(e). On line 16b, enter the type of expenditure claimed on line 16a. If the expenditure is for intangible drilling and development costs, enter the month in which the expenditure was paid or incurred (after the type of expenditure on line 16b). If there is more than one type of expenditure included in the total shown on line 16a (or intangible drilling and development costs were paid or incurred for more than one month), report this information separately for each type of expenditure (or month) on an attachment to Schedules K and K-1.

Line 17 (Schedule K-1).—Enter total distributions made to each shareholder other than dividends reported on line 19 of Schedule K-1. Attach a schedule to Schedule K to report the corporation’s total income, expenditures, or other information for items a through n of the line 21 (Schedule K-1) instruction below.

Line 19 (Schedule K).—Enter total dividends paid to shareholders from accumulated earnings and profits. Report these dividends to shareholders on Form 1099-DIV. Do not report them on Schedule K-1.

Recapture of Tax Credits (Schedule K-1 only)

Lines 19a and 19b.—If recapture of part or all of the low-income housing credit is required because: (1) prior year qualified basis of a building decreased, or (2) the corporation disposed of a building or part of its interest in a building, see Form 8611. Recapture of Low-Income Housing Credit. The instructions for Form 8611 indicate when Form 8611 is completed by the corporation and what information is provided to shareholders when recapture is required. Note: If a shareholder’s ownership interest in a building decreased because of a transaction at the shareholder level, the corporation must provide the necessary information to the shareholder to enable the shareholder to compute the recapture. If the corporation posted a bond as provided in section 42j(j) to avoid recapture of the low-income housing credit, no entry should be made on line 19 of Schedule K-1. See Form 8586, Form 8611, and section 42 for more information.

Line 20.—Complete line 20 when regular or business energy investment credit property is disposed of or ceases to be qualified property, or if there is a decrease in the business percentage, before the end of the “life-years category” or “recuperation period” assigned. For more information, see Form 4255 and section 42q(b).

The corporation itself is liable for investment credit recapture in certain cases. See instructions for line 22c, page 1, Form 1120S, for details.

Supplemental Information

Line 21 (Schedule K-1).—Enter in the line 21 Supplemental information space of Schedule K-1, any attached schedule if more space is needed, each shareholder’s share of any information asked for on lines 1 through 20 that is required to be reported in detail, and items a through n below. Please identify the applicable line number next to the information entered in the Supplemental Information space. Show income or gains as a positive number. Show losses in parentheses.

a. Tax-exempt interest income. Include exempt-interest dividends the corporation received as a shareholder in a mutual fund or other regulated investment company.

b. Nondeletable expenses incurred by the corporation.

c. Taxes paid on undistributed capital gains by a regulated investment company.

The corporation will receive notice on Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains, that the company paid tax on undistributed capital gains.

d. Gross income and other information relating to oil and gas well properties that are reported to shareholders to allow them to figure the depletion deduction on oil and gas well properties. See section 613A(c)(13) for details.

The corporation cannot deduct depletion on oil and gas wells. Each shareholder must determine the allowable amount to report on his or her return. See Publication 535 for more information.

e. Recapture of section 179 expense deduction. For property placed in service after 1986, the section 179 deduction is recaptured at any time the business use of property drops to 50% or less. Enter the amount that was originally passed through and the corporation’s tax year in which it was passed through. Inform the shareholder if the recapture amount was for all of the disposition of the section 179 property. See section 179(d)(10) for more information. Do not include this amount on line 4 or 5, page 1, Form 1120S.

f. Investment in property qualifying for the regular or business energy investment credit. Complete the applicable parts of Form 3468 for property that qualifies for the regular or business energy investment credit. Attach Form 3468 to Form 1120S. See the Instructions for Form 3468 for information on eligible property. The corporation also must reduce the basis of regular and business energy investment credit property by any credit allowable for the property. See section 42q(q) for adjustments to be made to the basis of investment credit property as well as to the shareholders’ adjusted basis of stock in the corporation. Show on an attachment to Schedule K-1, what portion of each shareholder’s share of the amount of corporation’s investment in regular or business energy investment credit property for each activity. Indicate the lines of Form 3468 on which the shareholder should report each amount.

g. Recapture of certain mining exploration expenditures (section 617).

h. Any information of a shareholder’s basis in property that a corporation is required to furnish to shareholders to allow them to comply with requirements under section 6111 (registration of tax shelters) or section 6662(d)(2)/B(iii) (regarding adequate disclosure of items that may cause an understatement of income tax).

i. If the corporation is involved in farming or fishing activities, report the gross income from these activities to shareholders.

j. Any information needed by a shareholder to compute the interest due under section 453A(c). If an obligation arising from the disposition of property to which section 453A applies is outstanding at the close of the year, the shareholder’s tax liability must be increased by the tax due under section 453(c) on the shareholder’s pro rata share of the tax deferred under the installment method.

k. Any information needed by a shareholder to compute the interest due under section 453(i)(3). If the corporation elected to report the dispositions of certain tax shelters and their shareholders’ tax liability must be increased by the shareholder’s pro rata share of the interest on tax attributable to the installment payments received during the tax year.

l. Any information needed by a shareholder to properly capitalize interest as required by section 263A(c). See item a under Limitations on deductions on page 8 for additional information. See Notice 88-99 for more information.

m. If the corporation is a closely-held S corporation (defined in section 460(b) and it entered into any long-term contracts after February 28, 1986, that are accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method, it must attach a schedule to Form 1120S showing how the corporation determined in items (a), (b), and (c) of the line 2 instructions for Form 8697, Interest Computation Under the Look-Back Method for
Completed Long-Term Contracts. It must also report the line 2 amounts to its shareholders. See the instructions for Form 8897 for more information.

n. Any other information the shareholders need to prepare their tax returns.

Schedule L
Balance Sheets
The balance sheets should agree with the corporation's books and records. Include certificates of deposit as cash on line 1 of Schedule L.

Line 5 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 corporation.

Line 24 Retained earnings.—If the corporation maintains separate accounts for appropriated and unappropriated retained earnings, it may want to continue such accounting for purposes of preparing its financial balance sheet. Also, if the corporation converts to C corporation status in a subsequent year, it will be required to report its appropriated and unappropriated retained earnings on separate lines of Schedule L of Form 1120.

Schedule M-1
Reconciliation of Income per Books With Income per Return
Line 3b. 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 the face value of non-luxury box seat tickets; and the cost of skyboxes in excess of the face value of non-luxury box seat tickets. 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.

Schedule M-2
Worksheet

<table>
<thead>
<tr>
<th>Schedule M-2 Worksheet</th>
<th>(a) Accumulated adjustments account</th>
<th>(b) Other adjustments account</th>
<th>(c) Shareholders' undistributed taxable income previously taxed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Balance at beginning of tax year</td>
<td>-0-</td>
<td>-0-</td>
<td></td>
</tr>
<tr>
<td>2 Ordinary income from page 1, line 21</td>
<td>219,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Other additions</td>
<td>20,000</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>4 Loss from page 1, line 21</td>
<td>(5,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Other reductions</td>
<td>(36,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Combine lines 1 through 5</td>
<td>203,000</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>7 Distributions other than dividend distributions</td>
<td>65,000</td>
<td>-0-</td>
<td></td>
</tr>
<tr>
<td>8 Balance at end of tax year—subtruct line 7 from line 6</td>
<td>138,000</td>
<td>5,000</td>
<td></td>
</tr>
</tbody>
</table>

Distributions
Generally, property distributions (including cash) are applied in the following order to reduce accounts of the S corporation that are used to compute the tax effect of distributions made by the corporation to its shareholders:

a. Reduce AAA (but not below zero). If distributions during the tax year exceed the AAA at the close of the tax year, the AAA is reduced by distributions made during the tax year. See section 1368(c).

b. Reduce shareholders' PTI account for any section 1375(d) distributions. A distribution from the PTI account is tax free to the extent of a shareholder's basis in his or her stock in the corporation.

c. Reduce accumulated earnings and profits (E&P). Generally, the S corporation has accumulated E&P only if it has not distributed E&P accumulated in prior years when the S corporation was a C corporation (section 1361(a)(2)) or a small business corporation, prior to 1983 (section 1371 of prior law). See section 312 for information on E&P. The only adjustments that can be made to the accumulated earnings and profits of an S corporation are: (1) reductions for dividend distributions; (2) adjustments for redemptions, liquidations, reorganizations, etc.; and (3) reductions for section 47 recapture tax for which the shareholders are liable. See sections 1371(c) and (d)(3).

d. Reduce the other adjustments account.

e. Reduce any remaining shareholders' equity accounts.

If the corporation has accumulated E&P and wants to distribute this E&P before making distributions from the AAA, it may elect to do so with the consent of all its affected shareholders (section 1368(e)(3)). If the
corporation has PTI and wants to make distributions from retained earnings before making distributions from PTI, it may elect to do so with the consent of all its shareholders. The statement of election must be attached to a timely filed Form 1120S for the tax year during which the distributions are made. The election must be made separately for each tax year.

In the case of either election, after all accumulated earnings and profits in the retained earnings are distributed, the above general order of distributions applies except that item c is eliminated.

**Example**
The following example for a corporation that has accumulated E&P shows how the Schedule M-2 accounts are adjusted for items of income (loss), deductions, and distributions reported on Form 1120S.

**Items per return are:**
(1) page 1, line 21 income—$219,000
(2) Schedule K, line 2 loss—$(3,000)
(3) Schedule K, line 4a income—$4,000
(4) Schedule K, line 4b income—$16,000
(5) Schedule K, line 7 deduction—$24,000
(6) Schedule K, line 11a deduction—$3,000
(7) Schedule K, line 13 jobs credit—$6,000
(8) Schedule K, line 17 distributions—$65,000, and
(9) Schedule K, line 18 scheduled items: tax exempt income—$5,000 and nondeductible expense—$6,000 (reduction in salaries and wages for jobs credit).

**Note:** For the AAA account, the worksheet line 3—$20,000 amount is the total of the Schedule K, lines 4a and 4b incomes of $4,000 and $16,000. The worksheet line 5—$36,000 amount is the total of the Schedule K, line 2 loss of $3,000, line 7 deduction of $24,000, line 11a deduction of $3,000, and the line 18 nondeductible expense item of $6,000. For the other adjustments account, the worksheet line 3 amount is the Schedule K, line 18, tax exempt income of $5,000. Other worksheet amounts are self-explanatory.
Codes for Principal Business Activity

These codes for the Principal Business Activity are designed to classify enterprises by the type of activity in which they are engaged in facilitating the administration of the Internal Revenue Code. Though similar in format and structure to the Standard Industrial Classification Codes (SIC), they should not be used as SIC codes.

Using the list below, enter on page 1, under B, the code number for the specified industry group from which the largest percentage of “total receipts” is derived.

<table>
<thead>
<tr>
<th>Code</th>
<th>Code</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry, and Fishing</td>
<td>Code</td>
<td>Code</td>
</tr>
<tr>
<td>0400</td>
<td>Agricultural production.</td>
<td>0620</td>
</tr>
<tr>
<td>0630</td>
<td>Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping.</td>
<td></td>
</tr>
<tr>
<td>Mining</td>
<td>Code</td>
<td>Code</td>
</tr>
<tr>
<td>1010</td>
<td>Iron ores.</td>
<td>1070</td>
</tr>
<tr>
<td>1070</td>
<td>Copper, lead and zinc, gold and silver ores.</td>
<td>1098</td>
</tr>
<tr>
<td>1150</td>
<td>Other metal mining.</td>
<td></td>
</tr>
<tr>
<td>Oil and gas extraction</td>
<td>Code</td>
<td>Code</td>
</tr>
<tr>
<td>1330</td>
<td>Crude petroleum, natural gas, and natural gas liquids.</td>
<td>1380</td>
</tr>
<tr>
<td>1380</td>
<td>Oil and gas field services.</td>
<td></td>
</tr>
<tr>
<td>Nonmetallic minerals, except fuels:</td>
<td>Code</td>
<td>Code</td>
</tr>
<tr>
<td>1430</td>
<td>Dimension, crushed and broken stone, sand and gravel.</td>
<td>1498</td>
</tr>
<tr>
<td>1498</td>
<td>Other nonmetallic minerals, except fuels.</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>Code</td>
<td>Code</td>
</tr>
<tr>
<td>1711</td>
<td>Plumbing, heating, and air conditioning contractors.</td>
<td>1731</td>
</tr>
<tr>
<td>1731</td>
<td>Electrical work.</td>
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</tr>
<tr>
<td>1798</td>
<td>Other special trade contractors.</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Code</td>
<td>Code</td>
</tr>
<tr>
<td>1798</td>
<td>Food and kindred products.</td>
<td>2060</td>
</tr>
<tr>
<td>2010</td>
<td>Meat products.</td>
<td>2020</td>
</tr>
<tr>
<td>2020</td>
<td>Dairy products.</td>
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</tr>
<tr>
<td>2030</td>
<td>Preserved fruits and vegetables.</td>
<td>2400</td>
</tr>
<tr>
<td>2400</td>
<td>Grain mill products.</td>
<td></td>
</tr>
<tr>
<td>2430</td>
<td>Bakery products.</td>
<td>2460</td>
</tr>
<tr>
<td>2460</td>
<td>Sugar and confectionery products.</td>
<td></td>
</tr>
<tr>
<td>2481</td>
<td>Liquors and malt liquors.</td>
<td>2488</td>
</tr>
<tr>
<td>2488</td>
<td>Alcoholic beverages, except malt liquors and malt beverages.</td>
<td></td>
</tr>
<tr>
<td>2489</td>
<td>Roasted coffee and coffee products.</td>
<td></td>
</tr>
<tr>
<td>2496</td>
<td>Other food and kindred products.</td>
<td></td>
</tr>
<tr>
<td>2510</td>
<td>Tobacco manufacturers.</td>
<td></td>
</tr>
<tr>
<td>Textile mill products:</td>
<td>Code</td>
<td>Code</td>
</tr>
<tr>
<td>2228</td>
<td>Weaving mills and textile finishing.</td>
<td>2250</td>
</tr>
<tr>
<td>2250</td>
<td>Knitting mills.</td>
<td>2298</td>
</tr>
<tr>
<td>2298</td>
<td>Other textile mill products.</td>
<td></td>
</tr>
<tr>
<td>Paper and other textile products:</td>
<td>Code</td>
<td>Code</td>
</tr>
<tr>
<td>2315</td>
<td>Men’s and women’s clothing.</td>
<td>2345</td>
</tr>
<tr>
<td>2345</td>
<td>Women’s and children’s clothing.</td>
<td></td>
</tr>
<tr>
<td>2388</td>
<td>Other apparel and accessories.</td>
<td></td>
</tr>
<tr>
<td>2390</td>
<td>Miscellaneous fabricated textile products.</td>
<td></td>
</tr>
<tr>
<td>Lumber and wood products:</td>
<td>Code</td>
<td>Code</td>
</tr>
<tr>
<td>2415</td>
<td>Logging, sawmills, and planing mills.</td>
<td>2430</td>
</tr>
<tr>
<td>2430</td>
<td>Millwork, plywood, and related products.</td>
<td></td>
</tr>
<tr>
<td>2498</td>
<td>Other wood products, including wood buildings and mobile homes.</td>
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</tr>
<tr>
<td>2500</td>
<td>Furniture and fixtures.</td>
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</tr>
<tr>
<td>Paper and allied products:</td>
<td>Code</td>
<td>Code</td>
</tr>
<tr>
<td>2625</td>
<td>Pulp, paper, and board mills.</td>
<td>2699</td>
</tr>
<tr>
<td>2699</td>
<td>Other paper products.</td>
<td></td>
</tr>
<tr>
<td>Printing and publishing:</td>
<td>Code</td>
<td>Code</td>
</tr>
<tr>
<td>2710</td>
<td>Newspapers.</td>
<td>2720</td>
</tr>
<tr>
<td>2720</td>
<td>Periodicals.</td>
<td></td>
</tr>
<tr>
<td>2735</td>
<td>Books, greeting cards, and miscellaneous publishing.</td>
<td></td>
</tr>
<tr>
<td>2799</td>
<td>Commercial and other printing, and printing trades services.</td>
<td></td>
</tr>
</tbody>
</table>

“Total receipts” means the total of: gross receipts on line 1a, page 1; all other income on lines 4 and 5, page 1; all income on lines 2, 19, and 20 of Form 8825; and income (receipts only) on lines 3a and 4a through 4f of Schedule K.

On page 2, under J, state the principal business activity and principal product or service that account for the largest percentage of total receipts. For example, if the principal business activity is “Grain mill products,” the principal product or service may be “Cereal preparations.”

If, as its principal business activity, the corporation: (1) purchases raw materials, (2) subcontractors out for labor to make a finished product from the raw materials, and (3) retains title to the goods, the corporation is considered to be a manufacturer and must enter one of the codes (2010-3998) under “Manufacturing.”

Transportation and Public Utilities

<table>
<thead>
<tr>
<th>Code</th>
<th>Code</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation:</td>
<td>Code</td>
<td>Code</td>
</tr>
<tr>
<td>4000</td>
<td>Railroad transportation.</td>
<td>4100</td>
</tr>
<tr>
<td>4100</td>
<td>Local and interurban passenger transit.</td>
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</tr>
<tr>
<td>4200</td>
<td>Trucking and warehousing.</td>
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</tr>
<tr>
<td>4400</td>
<td>Water transportation.</td>
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</tr>
<tr>
<td>4500</td>
<td>Transportation by air.</td>
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</tr>
<tr>
<td>4600</td>
<td>Pipeline, interurban passenger transit.</td>
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</tr>
<tr>
<td>4700</td>
<td>Miscellaneous transportation services.</td>
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</tr>
<tr>
<td>Communication:</td>
<td>Code</td>
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<tr>
<td>4825</td>
<td>Telephone, telegraph, and other communication services.</td>
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</tr>
<tr>
<td>4830</td>
<td>Radio and television broadcasting.</td>
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</tr>
<tr>
<td>Electric, gas, and sanitary services:</td>
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<td>Code</td>
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<tr>
<td>4920</td>
<td>Electric services.</td>
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</tr>
<tr>
<td>4925</td>
<td>Gas production and distribution.</td>
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</tr>
<tr>
<td>4930</td>
<td>Combination utility services.</td>
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<tr>
<td>4990</td>
<td>Water supply and other sanitary services.</td>
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Wholesale Trade

<table>
<thead>
<tr>
<th>Code</th>
<th>Code</th>
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<tbody>
<tr>
<td>Durable:</td>
<td>Code</td>
<td>Code</td>
</tr>
<tr>
<td>5008</td>
<td>Machinery, equipment, and supplies.</td>
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</tr>
<tr>
<td>5010</td>
<td>Motor vehicles and automotive equipment.</td>
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</tr>
<tr>
<td>5020</td>
<td>Furniture and home furnishings.</td>
<td></td>
</tr>
<tr>
<td>5030</td>
<td>Lumber and construction materials.</td>
<td></td>
</tr>
<tr>
<td>5440</td>
<td>Sporting, recreational, photographic, and hobby goods, toys and supplies.</td>
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</tr>
<tr>
<td>5050</td>
<td>Metals and minerals, except petroleum and scrap.</td>
<td></td>
</tr>
<tr>
<td>5060</td>
<td>Electrical goods.</td>
<td></td>
</tr>
<tr>
<td>5070</td>
<td>Electrical and plumbing and heating equipment and supplies.</td>
<td></td>
</tr>
<tr>
<td>5096</td>
<td>Other durable goods.</td>
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<tr>
<td>Nondurable:</td>
<td>Code</td>
<td>Code</td>
</tr>
<tr>
<td>5110</td>
<td>Paper and paper products.</td>
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</tr>
<tr>
<td>5129</td>
<td>Drugs, drug proprietaries, and sundries.</td>
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</tr>
<tr>
<td>5130</td>
<td>Apparel, piece goods, and notions.</td>
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</tr>
<tr>
<td>5140</td>
<td>Groceries and related products.</td>
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</tr>
<tr>
<td>5150</td>
<td>Farm product raw materials.</td>
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<tr>
<td>5160</td>
<td>Chemicals and allied products.</td>
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<tr>
<td>5170</td>
<td>Petroleum and petroleum products.</td>
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<tr>
<td>5180</td>
<td>Alcoholic beverages.</td>
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</tr>
<tr>
<td>5190</td>
<td>Miscellaneous nondurable goods.</td>
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</table>

Retail Trade

<table>
<thead>
<tr>
<th>Code</th>
<th>Code</th>
<th>Code</th>
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</thead>
<tbody>
<tr>
<td>Building materials, garden supplies, and home decorative products:</td>
<td>Code</td>
<td>Code</td>
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<tr>
<td>5220</td>
<td>Building materials dealers.</td>
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<tr>
<td>5265</td>
<td>Garden supplies and mobile home dealers.</td>
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<tr>
<td>5300</td>
<td>General merchandise stores.</td>
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</tr>
<tr>
<td>Food stores:</td>
<td>Code</td>
<td>Code</td>
</tr>
<tr>
<td>5410</td>
<td>Grocery stores.</td>
<td></td>
</tr>
<tr>
<td>5490</td>
<td>Other food stores.</td>
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</tr>
<tr>
<td>Automotive dealers and service stations:</td>
<td>Code</td>
<td>Code</td>
</tr>
<tr>
<td>5515</td>
<td>Motor vehicle dealers.</td>
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</tr>
<tr>
<td>5541</td>
<td>Gasoline service stations.</td>
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<tr>
<td>5588</td>
<td>Other automotive dealers.</td>
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</tr>
<tr>
<td>5600</td>
<td>Apparel and accessory stores.</td>
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</tr>
<tr>
<td>5700</td>
<td>Furniture and home furnishings stores.</td>
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</tr>
<tr>
<td>5810</td>
<td>Eating and drinking places.</td>
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<tr>
<td>Misc. retail stores:</td>
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<td>Code</td>
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<tr>
<td>5912</td>
<td>Drugstores and proprietary stores.</td>
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</tr>
<tr>
<td>5921</td>
<td>Liquor stores.</td>
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<tr>
<td>5995</td>
<td>Other retail stores.</td>
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</tbody>
</table>

Finance, Insurance, and Real Estate

<table>
<thead>
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<th>Code</th>
<th>Code</th>
<th>Code</th>
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</thead>
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<td>Banking:</td>
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<tr>
<td>6030</td>
<td>Mutual savings banks.</td>
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</tr>
<tr>
<td>6060</td>
<td>Bank holding companies.</td>
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</tr>
<tr>
<td>6090</td>
<td>Banks, except mutual savings banks and bank holding companies.</td>
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<tr>
<td>Credit agencies other than banks:</td>
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<tr>
<td>6120</td>
<td>Savings and loan associations.</td>
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<tr>
<td>6140</td>
<td>Personal credit institutions.</td>
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<tr>
<td>6150</td>
<td>Business credit institutions.</td>
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<tr>
<td>6160</td>
<td>Other credit agencies.</td>
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<tr>
<td>Security, commodity brokers and services:</td>
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</tr>
<tr>
<td>6210</td>
<td>Security brokers, dealers, and futures commission merchants.</td>
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</tr>
<tr>
<td>6299</td>
<td>Commodity contracts brokers and dealers; security and commodity exchanges; and allied services.</td>
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<tr>
<td>Insurance:</td>
<td>Code</td>
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<tr>
<td>6310</td>
<td>Life insurance.</td>
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<tr>
<td>6356</td>
<td>Mutual insurance, except life or marine and certain fire or marine insurance.</td>
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</tr>
<tr>
<td>6359</td>
<td>Other insurance companies.</td>
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</tr>
<tr>
<td>6411</td>
<td>Insurance agents, brokers, and service.</td>
<td></td>
</tr>
</tbody>
</table>

Real estate: | Code | Code |
| 6511 | Real estate operators and lessors of buildings. |
| 6516 | Lessors of mining, oil, and similar properties. |
| 6518 | Lessors of railroad property and other real property. |
| 6530 | Condominium management and cooperative housing associations. |
| 6550 | Stockholders and developers. |
| 6599 | Other real estate. |
| Holding and other investment companies, except bank holding companies: | Code | Code |
| 6744 | Business holding companies. |
| 6749 | Holding and investment companies, except bank holding companies. |

Services

<table>
<thead>
<tr>
<th>Code</th>
<th>Code</th>
<th>Code</th>
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<tbody>
<tr>
<td>7000</td>
<td>Hotels and other lodging places.</td>
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</tr>
<tr>
<td>7200</td>
<td>Personal services.</td>
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<tr>
<td>Business services:</td>
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<tr>
<td>7310</td>
<td>Advertising.</td>
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<tr>
<td>7389</td>
<td>Business services, except advertising.</td>
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<tr>
<td>Auto repair: miscellaneous repair services;</td>
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<tr>
<td>7500</td>
<td>Auto repair and services.</td>
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<tr>
<td>7600</td>
<td>Misc. repair services.</td>
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<tr>
<td>Amusement and recreation services:</td>
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<tr>
<td>7812</td>
<td>Motion picture production, distribution, and services.</td>
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<tr>
<td>7830</td>
<td>Motion picture theaters.</td>
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<tr>
<td>7900</td>
<td>Amusement and recreation services, except motion pictures.</td>
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<tr>
<td>Other services:</td>
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<tr>
<td>8015</td>
<td>Offices of physicians, including osteopathic physicians.</td>
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</tr>
<tr>
<td>8030</td>
<td>Offices of dentists.</td>
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</tr>
<tr>
<td>8040</td>
<td>Offices of other health practitioners.</td>
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</tr>
<tr>
<td>8050</td>
<td>Nursing and personal care facilities.</td>
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<td>8060</td>
<td>Hospitals.</td>
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<tr>
<td>8071</td>
<td>Medical laboratories.</td>
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<tr>
<td>8099</td>
<td>Other medical services.</td>
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<tr>
<td>8111</td>
<td>Legal services.</td>
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<tr>
<td>8200</td>
<td>Security services.</td>
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<tr>
<td>8300</td>
<td>Social services.</td>
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<tr>
<td>8600</td>
<td>Membership organizations.</td>
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<tr>
<td>8911</td>
<td>Architectural and engineering services.</td>
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</tr>
<tr>
<td>8920</td>
<td>Accounting, auditing, and bookkeeping.</td>
<td></td>
</tr>
<tr>
<td>8980</td>
<td>Miscellaneous services (including veterinarians).</td>
<td></td>
</tr>
</tbody>
</table>