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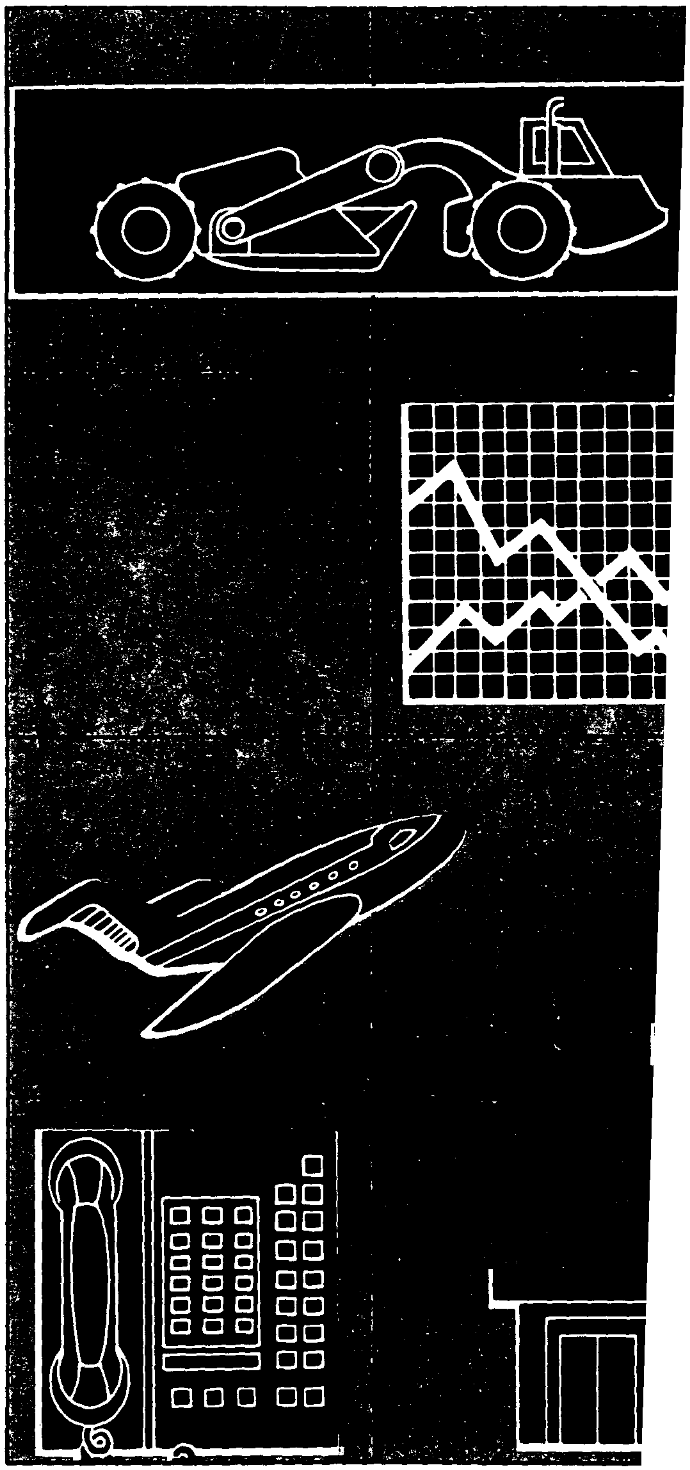

Department of the Treasury

In

1986 Statistics of Income

Corporation Income Tax Returns

Publication 16 (Rev. 11-89)

Department of the Treasury
Internal Revenue Service

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This report contains data by industry on assets, liabilities, receipts, deductions, net income, income subject to tax, credits, distributions to stockholders and additional tax for tax preferences. Data are also classified by size of total assets and by size of business receipts. Other classifications include "returns with net income" and "S Corporations taxed through shareholders."

More detailed statistics for the industries shown in table 1 of this report are available in Publication 1053, ***Source Book of Statistics of Income—1986.*** A general description of the Source Book, including ordering information, is available from the Director, Statistics of Income Division R:S, Internal Revenue Service, Washington, DC 20224.

In addition, special Statistics of Income tabulations based on corporation income tax returns for 1986 can be produced upon request on a reimbursable basis. Requests for this service should be addressed to the Director, Statistics of Income Division, at the address shown above.

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SOI STATISTICAL SERVICES

(Available from Statistics of Income Division)

As part of the Statistics of Income program a series of special services is now being offered to data users (see below). Detailed information on these statistical services can be obtained by writing to Director, Statistics of Income Division (R:S), Internal Revenue Service, 1111 Constitution Avenue, N.W., Washington, DC 20224. Purchase is by check made payable to the IRS Accounting Section.

Studies of International Income and Taxes, Publication 1267 — Price $45.00

Purchase price includes a 516-page document for 1979–83 that presents information from 13 Statistics of Income studies in the international area, including:

- Foreign activity of U.S. corporations
- Activity of foreign corporations in the U.S.
- Foreign interests in U.S. corporations
- Statistics related to individuals, trusts, and estates
- Data presented by— geographical area or industrial activity, as well as other classifiers

Purchasers of this service also will be provided with additional information for one year as it becomes available. The one year period for receiving additional information can be extended at a cost of $35.00 per year. A long-term subscription ($150) includes the compendium and additional information as it becomes available through August 1990. (The next compendium is scheduled for release in September 1990.)

Individual Income Tax Returns, Publication 1304 — Price $32.00

Statistics of Income data presents information on:

- Sources of income
- Exemptions
- Itemized deductions
- Tax computations
- Data presented by— size of adjusted gross income, marital status

Purchasers of this service also will be provided with additional articles relating to 1986 data and preliminary 1987 data as they become available and will be notified of future statistical releases relating to individual income tax returns.

Partnership Returns, Publication 369 — Price $22.00

Purchase price includes a 314-page document for 1978–82 presenting previously unpublished Statistics of Income data for 1980, 1981 and 1982, as well as data previously issued in other publications. Features include:

- Number of partnerships
- Limited partnerships
- Receipts
- Cost of sales and operations
- Deductions
- Net income
- Capital gains
- Data presented by—
  industry
  size of total assets
  state
  number of partners

Purchasers of this service also will be provided with data for 1983–1985 as they become available and will also be notified of future statistical releases relating to partnership returns.

Other Services — Price dependent on the request

- Unpublished tabulations from SOI program are available. Includes detailed tables underlying those published in SOI Bulletin.
- Special tabulations produced to user specifications.
- Public use tape files, including the Individual Tax Model (1978–1985), among others. (Earlier files are available from the Machine Readable Branch (NNSR) of the National Archives, Washington, DC 20408.)

BUSINESS SOURCE BOOKS

(Available from Statistics of Income Division)

In addition to the Corporation Source Book, two others are now being offered by the Statistics of Income Division (see below). Information can be obtained by writing to Director, Statistics of Income Division (R:S) at the address above. Purchase of Source Books is by check made payable to the IRS Accounting Section.

Corporation Source Book, 1986, Publication 1053 — Price $175.00

This is a 480-page document that presents detailed income statement, balance sheet, tax and investment credit items by major and minor industries and size of total assets. This report is part of an annual series and can be purchased for $175 (issues prior to 1982 are for sale at $150). A magnetic tape containing the tabular statistics for 1986 can be purchased for $1,500.

Partnership Source Book, Publication 1289 — Price $30.00

This is a 291-page document showing key partnership data for 1957 through 1983, at the minor, major and division industry level. Includes a historical definition of terms section and a summary of legislative changes affecting partnerships during that period. Tables feature:

- Number of partnerships
- Number of partners
- Business receipts
- Depreciation
- Taxes paid deduction
- Interest paid
- Payroll
- Payments to partners
- Net income

Purchasers of this service also will be advised of the release of subsequent years' data. A magnetic tape containing the tabular statistics can be purchased for an additional $200.

Sole Proprietorship Source Book, Publication 1323 — Price $95.00

This Source Book is a companion to that for partnerships, shown above. It is a 244-page document showing key proprietorship data for 1957 through 1984. Each page contains statistics for a particular industry. Included will be data on:

- Number of business
- Business receipts
- Interest paid
- Depreciation
- Taxes paid deduction
- Payroll
- Net income

As with Partnerships, a magnetic tape containing the tabular statistics can be purchased for $245.

OTHER PUBLICATIONS

(Available from Superintendent of Documents GPO, Washington, D.C. 20402)

The Statistics of Income (SOI) Bulletin (Quarterly) — Publication No. 1136
Subscription price $20.00; Single copy price $7.50

The SOI Bulletin provides the earliest published financial statistics from the various types of tax and information returns filed with the Internal Revenue Service. The Bulletin also includes information from periodic or special analytical studies of particular interest to tax administrators and economists.

Statistics of Income—1986, Corporation Income Tax Returns, Publication No. 16

Presents information on—

- Receipts
- Deductions
- Net income
- Taxable income
- Income tax
- Tax credits
- Distribution to stockholders
- Assets
- Liabilities

Data classified by—

- industry
- accounting period
- size of total assets
- size of business receipts

Statistics of Income

SOI BULLETIN

The SOI Bulletin provides the earliest published annual financial statistics from the various types of tax and information returns filed with the Internal Revenue Service. The Bulletin also includes information from periodic or special analytical studies of particular interest to tax administrators. In addition, historical data from 1970 to the present are provided for selected types of taxpayers, as well as on tax rates for individuals and gross internal revenue collections.

The following topics are among those described and analyzed in the SOI Bulletin:

- Controlled foreign corporations
- Corporation income tax returns
- International Boycott
- Fiduciary income tax returns
- Estate tax returns
- International income and taxes
- Individual income by ZIP code area
- Individual income tax returns
- Corporate foreign tax credit
- Individual income tax rates
- Nonprofit charitable organizations
- Partnership returns
- Private foundations
- Projections of return filings
- Nonresident alien income and tax
- Private activity tax-exempt bonds
- Sales of capital assets
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CONTENTS

GUIDE TO TABLES

This report contains 16 basic tables. The major classification is industrial activity. This guide provides a reference for the major selected items and subjects available in the report. See page 19 to determine the appropriate page number(s) for specific tables.

Section 1 INTRODUCTION

This report presents statistical estimates derived from a stratified sample of approximately 85,100 returns selected from the approximately 3.4 million active corporate returns filed for the 1986 Income Year.*

The report is divided into 6 sections. The first section provides statistics summarizing overall corporate activity for Income Year 1986. Section 2 discusses changes in law and regulations between this report and that for Income Year 1985. Section 3 describes in detail the sample of income tax returns upon which the statistics were based, as well as the method of estimation used, the sampling variability of the data, and other limitations.

Section 4 presents the basic tables that contain detailed statistics on 1986 income tax liability, tax credits, net income, and other financial data. Section 5 contains detailed explanations of the terms used in the report. In most instances, the explanations include definitions of terms used as well as adjustments made in preparing the statistics and any limitations inherent in the data.

Section 6 consists of the return forms and instructions. Following Section 6 is a user survey designed to help the Statistics of Income Division better determine the needs of users of this report. The user's cooperation in completing this form would be much appreciated.

The statistics in this report provide additional detail on the data contained in "Corporation Income Tax Returns, 1986" in the *Statistics of Income Bulletin,* Volume 9, Number 1, Summer 1989. [1]

OVERALL CORPORATE SUMMARY

Figure A presents corporation summary statistics for Income Years 1985 and 1986. Shown are the number of returns, total assets, total receipts, net income (less deficit), income subject to tax, and total income tax before and after credits. The total number of returns increased by 4.6 percent from 1985 to 1986, slightly greater than the 3.4 percent increase between 1984 and 1985.

Total assets increased by 10.9 percent to $14.2 trillion for 1986. Total receipts showed an increase of only 3.2 percent, much less than the 6.8 percent increase in 1985. Net income (less deficit) rose by 12.2 percent, a much greater increase than the 3.1 percent increase from 1984 to 1985. Income subject to tax rose by 3.8 percent and total income tax increased by less than one percent from 1985 to 1986. As a result of the decline in total tax credits, total income tax after credits increased nearly 16.6 percent from $63.3 billion to $73.9 billion for 1986.

Returns with total assets of $250 million or more represented less than one percent of the total returns; nonetheless, for 1986, these 4,471 returns accounted for 50.5 percent of the total receipts and 53.9 percent of the total income tax after credits. In contrast for 1985 there were 4,052 such returns and they accounted for 50.3 percent of total receipts and 50.6 percent of total income tax after credits.

ACTIVITIES COVERED

The estimates in this report encompass corporate business activities in the United States as well as certain foreign activities as reported on returns of "domestic" corporations, and foreign corporations with U.S. business activities. The term "domestic corporations" refers to companies incorporated in the United States, but does not necessarily imply that all their activities are domestic. For instance, data for a U.S. corporation conducting business abroad through foreign subsidiaries may include dividends remitted from those subsidiaries and, to a certain extent, their undistributed earnings. [2]

For foreign corporations (defined as those organized abroad) engaged in trade or business in the United States, only income that was considered "effectively connected" [3] with the conduct of a trade or business in the United

*** Joyce Willingham, Glenn Hentz, Victor Rehula, and Janice Washington were responsible for the overall production of this report and also prepared the text and tables for sections 1, 2, 4, and 5. The report was prepared under the direction of Karen L. Cys, Chief, Corporation Statistics Branch.**

Figure A.—Returns of Active Corporations: Number of Returns, Total Assets, Total Receipts, Net Income (Less Deficit), Income Subject to Tax, Total Income Tax, and Total Income Tax After Credits by Size of Total Assets, Income Years 1985 and 1986

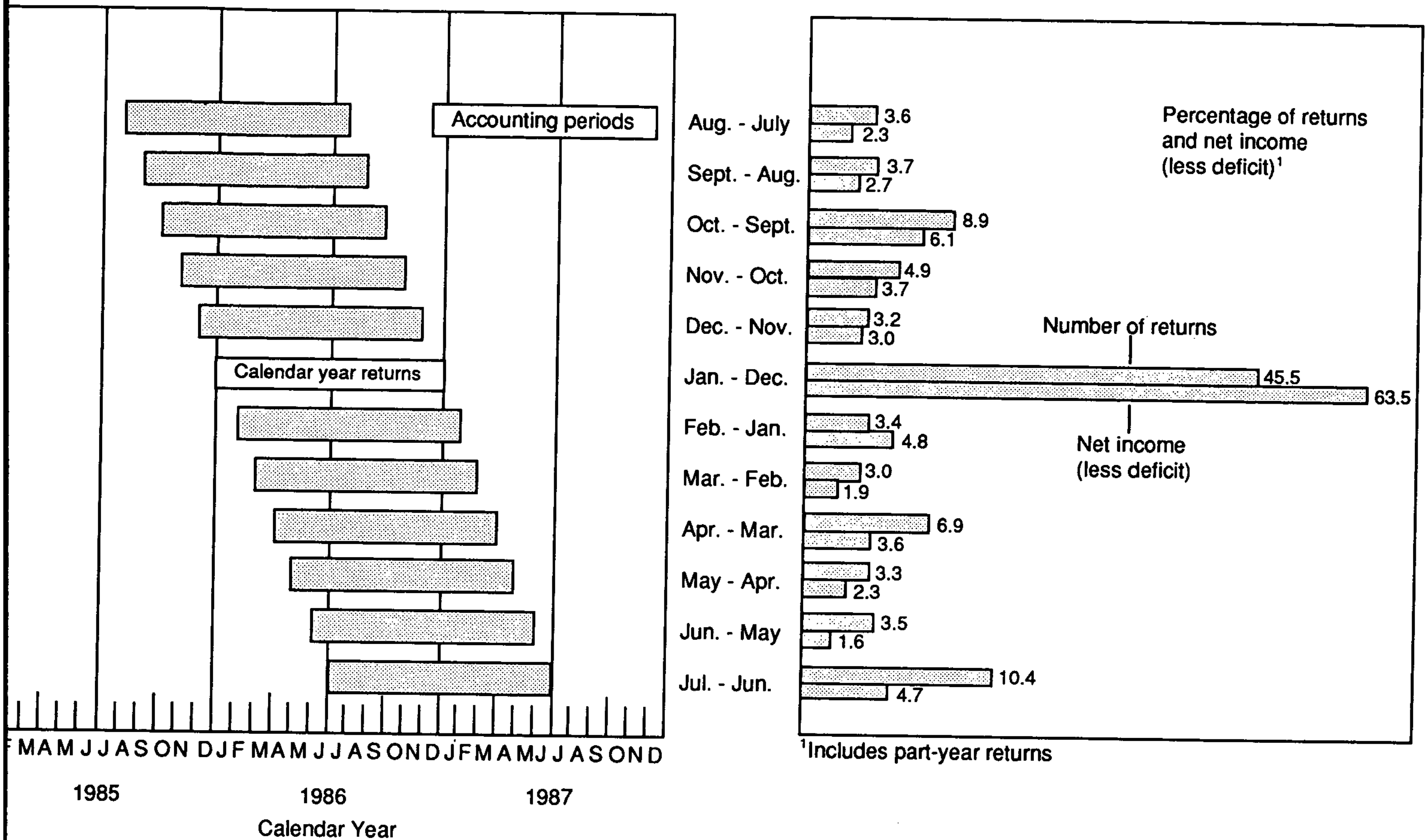
[All figures are estimates based on samples—money amounts are in thousands of dollars and size of total income tax after credits are in whole dollars]

Year and size of total assets	Number of returns	Total assets	Total receipts	Net income (less deficit) [1]	Income subject to tax [2]	Total income tax [3]	Total income tax after credits [4]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1985							
Total	3,277,219	12,773,093,888	8,398,278,426	240,119,020	266,060,609	111,340,839	63,348,204
Zero assets	141,720	—	119,659,188	2,353,360	7,184,372	3,374,629	2,863,781
$1 under $100,000	1,691,731	57,338,285	275,540,367	−633,536	4,347,917	737,697	557,323
$100,000 under $250,000	593,156	95,799,427	276,036,845	2,368,181	5,986,081	1,107,099	843,428
$250,000 under $500,000	338,200	119,781,108	287,189,508	3,404,973	6,555,779	1,426,688	1,105,564
$500,000 under $1,000,000	221,125	155,093,396	349,213,000	3,387,904	7,230,658	1,925,169	1,499,192
$1,000,000 under $5,000,000	215,730	443,209,527	959,773,722	11,981,786	18,496,199	6,699,742	5,534,636
$5,000,000 under $10,000,000	29,622	206,840,158	385,062,352	4,792,273	8,121,482	3,474,090	2,926,756
$10,000,000 under $25,000,000	20,920	325,747,315	432,615,174	8,052,437	11,525,059	5,054,425	4,184,545
$25,000,000 under $50,000,000	10,354	366,883,129	313,101,687	5,786,436	9,486,620	4,240,677	3,288,500
$50,000,000 under $100,000,000	6,200	440,358,429	299,726,112	6,854,224	9,486,103	4,241,789	3,418,337
$100,000,000 under $250,000,000	4,391	710,189,800	474,942,981	14,212,417	15,541,873	6,993,554	5,071,374
$250,000,000 or more	4,052	9,851,852,669	4,224,395,372	177,232,099	162,092,657	72,062,620	32,052,484
1986							
Total	3,428,515	14,163,209,894	8,669,378,501	269,530,240	276,172,502	111,140,137	73,876,301
Zero assets	210,160	—	172,977,785	1,344,130	7,929,858	3,299,818	2,775,612
$1 under $100,000	1,736,486	57,950,198	286,794,530	−211,922	4,435,338	773,215	669,452
$100,000 under $250,000	606,676	97,775,053	291,763,668	2,574,407	6,198,295	1,173,863	1,033,114
$250,000 under $500,000	348,276	123,669,775	304,406,534	3,298,835	6,395,000	1,405,970	1,228,978
$500,000 under $1,000,000	225,453	158,061,127	352,466,111	3,983,044	6,946,352	1,804,376	1,592,147
$1,000,000 under $5,000,000	223,619	458,542,021	985,805,877	13,461,925	18,384,542	6,588,400	5,963,489
$5,000,000 under $10,000,000	30,994	214,879,695	395,189,883	5,797,751	8,185,398	3,456,218	3,159,020
$10,000,000 under $25,000,000	21,094	328,002,609	436,225,299	8,957,186	11,347,440	4,948,765	4,323,991
$25,000,000 under $50,000,000	9,879	349,687,829	300,744,306	7,114,002	9,494,016	4,171,060	3,583,150
$50,000,000 under $100,000,000	6,592	464,711,768	313,271,054	9,192,843	10,989,143	4,844,299	3,964,356
$100,000,000 under $250,000,000	4,815	769,995,239	452,585,941	16,519,207	15,798,193	7,013,531	5,754,023
$250,000,000 or more	4,471	11,139,934,581	4,377,147,511	197,498,831	170,068,927	71,660,623	39,828,969

[1] Includes taxable income before net operating loss deduction and special deductions.
[2] Includes long-term gain taxed at alternative rates, taxable income less net operating loss deduction and special deductions.
[3] Includes regular and alternative tax, personal holding company tax, tax from recomputing prior-year investment credit, minimum tax, and excessive net passive income tax (Form 1120S).
[4] Credits include foreign tax, U.S. possessions tax, nonconventional source fuel, orphan drug, and general business credits.
NOTE: Detail may not add to total because of rounding and the deletion of data. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

igure B

orporation Income Tax Returns and Net Income (less Deficit), by ccounting Periods, Income Year 1986



[1]Includes part-year returns

igure C.—Returns of Active Corporations: Number of Returns, Total Assets, Total Receipts, Net Income (Less Deficit), Income Subject to Tax, Total come Tax, and Total Income Tax After Credits, by Accounting Periods for Income Year 1986

l figures are estimates based on samples—money amounts are in thousands of dollars]

Accounting period ended [1]	Number of returns	Total assets	Total receipts	Net income (less deficit) [2]	Income subject to tax [3]	Total income tax [4]	Total income tax after credits [5]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
otal	**3,428,515**	**14,163,209,894**	**8,669,378,501**	**269,530,240**	**276,172,502**	**111,140,137**	**73,876,301**
cember 1986	1,559,233	11,017,992,740	5,194,005,200	171,145,598	188,705,903	77,279,864	45,957,000
ncalendar year, total	1,869,283	3,145,217,154	3,475,373,300	98,384,642	87,466,599	33,860,273	27,919,301
uly 1986	121,932	159,642,342	199,575,697	6,202,403	5,027,292	1,955,357	1,572,787
ugust 1986	125,668	167,364,115	193,497,643	7,153,753	4,809,980	1,834,564	1,542,160
eptember 1986	305,017	623,236,345	550,282,718	16,354,751	14,299,163	5,603,191	4,500,553
ctober 1986	167,580	251,351,916	274,383,956	10,097,603	6,885,197	2,670,247	2,227,217
ovember 1986	109,051	232,349,914	180,627,213	8,074,803	5,642,475	2,249,734	1,478,208
anuary 1987	115,534	255,468,151	381,580,328	12,844,963	12,226,252	4,902,849	4,176,122
ebruary 1987	101,362	160,086,447	173,998,845	5,059,616	4,158,800	1,571,847	1,393,602
arch 1987	236,262	382,643,400	488,878,905	9,638,897	10,174,078	3,815,020	3,312,234
pril 1987	111,490	204,747,571	195,739,459	6,188,871	4,644,954	1,775,487	1,503,189
ay 1987	119,486	155,564,460	217,036,207	4,180,367	4,398,695	1,672,069	1,498,072
une 1987	355,901	552,762,493	619,772,329	12,588,616	15,199,712	5,809,907	4,715,155

Includes part-year returns.
Includes taxable income before net operating loss deduction and special deductions.
Includes net long-term gain taxed at alternative rates, taxable income less net operating loss deduction and special deductions.
Includes regular and alternative tax, personal holding company tax, tax from recomputing prior-year investment credit, minimum tax, and excessive net passive income tax (Form 1120S).
Credits include foreign tax, U.S. possessions tax, nonconventional source fuel, orphan drug, and general business credits.
OTE: Detail may not add to total because of rounding. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

States was included in the statistics and any investment income from U.S. sources was excluded from the data. Other foreign corporations, organized abroad and not engaged in trade or business in the United States, were liable for tax only on investment income from U.S. sources and these returns were excluded from this report. [4]

The effect of foreign activity on the statistics varies by type of industry and by size of assets. Some industries may have higher incidences of foreign activity than others and foreign income is reflected in their statistics to a greater extent. Also, foreign activity is almost totally concentrated on returns with assets $250 million or more.

Section 6012 of the Internal Revenue Code required that all corporations in existence at any time during the income year file returns, regardless of whether they had income or not. This applied to active and inactive domestic corporations unless they were expressly exempt from filing, as well as to active foreign corporations with insufficient taxes withheld at the source to satisfy their U. S. tax liability on income earned in the United States. (It should be noted however that inactive corporations have been excluded from the statistics. See section 3.)

In addition to legally defined corporations, the Internal Revenue Code recognized many types of businesses as corporations, including joint stock companies, and unincorporated associations, such as business trusts, savings and loan associations, certain partnerships, mutual savings banks, and cooperative banks. These organizations possess characteristics typical of the corporate form, such as continuity of life, centralization of management apart from ownership, limited liability of owners, and transferability of shares of capital ownership.

Included in the statistics are financial data estimated from the following number of active corporation tax returns:

Form 1120 (U.S. Corporations)	2,331,809
Form 1120–A (U.S. Short-Form Corporations)	251,012
Form 1120S (U.S. S Corporations) [5]	826,216
Form 1120L (U.S. Life Insurance Companies)	2,335
Form 1120M (U.S. Mutual Insurance Companies)	1,466
Form 1120F (U.S. Returns of Foreign Corporations)	11,336
Form 1120–IC–DISC (Domestic International Sales Corporations) [6]	1,443
Form 1120–FSC (Foreign Sales Corporations)	2,900
Total *	3,428,515

* Detail may not add to total due to rounding.

In addition to inactive corporations, the statistics specifically exclude foreign corporations with no income "effectively connected" with a U.S. trade or business; information returns of certain joint undertakings; returns filed by political organizations under Code Section 527; returns filed by General Stock Ownership Corporations (corporations established by a state for the benefit of the residents of a state); information returns reporting no tax because of a tax treaty or convention under Code Section 894; nonprofit corporations (educational, charitable, and similar organizations) exempt from income tax under Code Section 501; and mutual insurance companies (except life or marine and certain fire or flood insurance companies), with gross receipts that did not exceed $150,000, which were exempt from income tax under Code Section 501.

TIME PERIOD EMPLOYED

The estimates in this report are based on data from returns with accounting periods that coincided with the calendar year and returns with accounting periods that were for noncalendar years ended during the span of months July 1986 through June 1987. This span, in effect, defines the income year in such a way that the noncalendar year accounting periods are centered at the calendar year ended December.

The 12 accounting periods covered by the report are presented in figure B. Code section 441 specified that, in general, a taxpayer's accounting period end on the last day of the month. Thus, figure B shows a span of 23 months between the first-included accounting period, which began on August 1, 1985, and closed on July 31, 1986, and the start of the last-included accounting period, which began on July 1, 1986, and closed on June 30, 1987. This report, therefore, shows income received or expenses incurred during any or all of the months in the 23-month span. For balance sheet items, such as total assets and inventories, the report shows a corporation's position only at a given time, namely, at the end of its accounting period. Corporations were required by Code section 441 to file returns for the accounting period customarily used in keeping their books. Figure B also presents the percentage of the total that each accounting period represents for the number of returns and the net income (less deficit).

Figure C shows that 45.5 percent of the 1986 returns were filed for the calendar year; and, since they included most of the larger corporations, these returns had approximately 77.8 percent of total assets, 59.9 percent of total receipts, 63.5 percent of net income (less deficit), 68.3 percent of income subject to tax, and 62.2 percent of total income tax after credits.

Corporation returns were usually required to be filed within two-and-one-half months after the close of the corporate accounting period. However, in accordance with Code section 6081, most corporations could receive filing extensions of 6 months.

In addition to returns with accounting periods that spanned 12 months, the total number of active corporations includes returns with accounting periods of shorter duration. Such returns are referred to as part-year returns and were filed, for the most part, by continuing corporations changing their accounting periods, new corporations in existence less than 12 months, merging corporations, and liquidating corporations.

NOTES AND REFERENCES

[1] Frequencies and amounts will not differ between this report and the *Statistics of Income Bulletin* because no additional returns and corrections are included in this report.

[2] See *Statistics of Income*, "A Compendium of Studies of International Income and Taxes, 1979-1983", September 1985, for information on, among other things, the foreign activities of U.S. Corporations.

[3] "Effectively connected" income is defined in Code Section 864(c). See also the reference in [2] above.

[4] See Skelly, Daniel F. and Hobbs, James R., "Statistics of Income Studies of International Income and Taxes", *Statistics of Income Bulletin*, Fall 1986, pp. 01-17.

[5] Previously referred to as "U.S. Small Business Corporations."

[6] The pre-1985 system for Domestic International Sales Corporations (DISC's) has been largely replaced by a system of Foreign Sales Corporations (FSC's). DISC's were not entirely abolished, however, since DISC's, as well as non-DISC's, could elect to become an Interest Charge DISC (IC-DISC). See specific definitions in Section 5, Explanation of Terms.

CHANGES IN LAW AND REGULATIONS

The statistics in this report reflect, in general, changes in law and regulations that became effective during the accounting periods covered. Depending on the accounting period used and the effective date of the change in law, the changes may have been fully applicable for some corporations, only partially applicable for others, and not applicable at all for still others.

The information that follows highlights the major changes (listed alphabetically) that affected substantially the comparability of the statistics in this report with those for prior years. These changes resulted from the Tax Reform Act of 1986 which represents one of the most comprehensive revisions of the Federal income tax system since its inception.

Many of the provisions of the Tax Reform Act of 1986 affecting corporations were not scheduled to take effect until after the tax periods covered in this report (i.e., after June 30, 1987) and, therefore, these provisions are not discussed here.

More detail on changes in law and regulations are contained in the Explanation of Terms section of this report. The facsimiles of the tax forms and instructions, included as section 6, may also prove helpful.

Depreciation

The Tax Reform Act of 1986 introduced the Modified Accelerated Cost Recovery System (MACRS) and changed the rules for section 179 property[1] for property placed in service after December 31, 1986. Corporations could also elect to use the new rules for property placed in service between July 31, 1986, and January 1, 1987.

Under prior law, the Accelerated Cost Recovery System (ACRS) cost of eligible property was recovered over 3-, 5-, 10-, 15-, 18-, or 19-year period, depending on the type of property and date placed in service. The depreciation method for property in the 3-, 5- and 10-recovery periods was 150 percent declining balance and for 15-, 18- and 19-year recovery periods it was 175 percent declining balance. The maximum amount of section 179 expense that could be claimed was $5,000.

There were eight classes of recovery property under MACRS. They included: 3-, 5-, 7-, 10-, 15-, 20-year property, residential rental property and nonresidential real property. The depreciation method for property in the 3-, 5-, 7-, and 10-year classes is 200 percent declining balance, with a switch to straight line for the first taxable year in which that method resulted in a higher deduction. The depreciation method for 15- and 20-year property is 150 percent declining balance prescribed method. The nonresidential real property was depreciated over 31.5 years using the straight line method and a mid-month convention. The residential rental property was depreciated over 27.5 years using the straight line method and a mid-month convention.

The maximum amount of section 179 expense that can be claimed has been increased to $10,000. Also, if total cost for section 179 property placed in service after December 31, 1986, was more than $200,000, then the total expense deduction must be reduced by the amount by which the cost exceeded $200,000.

Investment Tax Credit

The Tax Reform Act of 1986 made extensive changes to the tax law covering investment credit for 1986 and later years. The most significant of these changes is the repeal of the regular investment credit. Under the new law, the regular investment tax credit was repealed for property placed in service after December 31, 1985. However, the investment tax credit continues to be available for transition property, certain qualified progress expenditures for periods before January 1, 1986, and certain qualified timber property. The business energy portion of the investment credit was extended, and the rehabilitation portion of the credit was modified through lower percentages. The investment credit carryover rules continue to apply for property placed in service before 1986.

[1] Under section 179, a corporation could elect to expense a portion of the cost of certain property used in the trade or business in the year the property was first used, rather than to write that cost off over a period of years.

New Low-Income Housing Credit

The Tax Reform Act of 1986 introduced new credits for owners of residential rental property providing low-income housing. These credits replace existing tax incentives for low-income housing such as preferential depreciation, five-year amortization of rehabilitation expenditures and special treatment of construction period interest and taxes. The Tax Reform Act of 1986 provides a credit of 70 percent of the qualified basis of each new low-income building placed in service during 1987 (30 percent in the case of certain Federally subsidized new buildings or certain existing buildings purchased and placed in service). This credit is taken over a 10-year period so that the present value of the 10 annual credit amounts at the beginning of the credit period equals 70 percent (or 30 percent) of the qualified basis.

The maximum annual credit percentage for new buildings placed in service during 1987 is 9 percent for each of the 10 years in the credit period (4 percent for Federally subsidized new buildings, and existing buildings). For buildings placed in service after 1987 the credit percentage will be determined by the Internal Revenue Service.

Research Credit

The research credit, which was scheduled to expire on December 31, 1985, was reinstated for three years by provisions of the Tax Reform Act of 1986. The credit was reduced to 20 percent of the increase in research expenses, and the definition of qualified research was narrowed considerably. In addition, the research credit (but not the orphan drug credit) was redesignated as a general business credit, and is now subject to the general business credit tax liability limitations.

Under prior law, the credit was 25 percent of the excess of qualified research expenses over average research expenses in the base period (generally, the three preceding tax years). Sixty-five percent of contract research expenses (for work done by others, including basic research by universities and tax exempt research organizations) counted as research expenses.

Jobs Credit

The Tax Reform Act of 1986 made several major changes to the jobs credit for employees who began work after December 31, 1985. The new law extended the jobs credit for three years so that it applies to wages paid individuals who begin work before January 1, 1989.

Under prior law, the jobs tax credit was provided to employers who hired individuals from certain target groups. The credit was taken with respect to wages paid to eligible individuals who began work before January 1, 1986. The credit was 50 percent of the first $6,000 of qualified first-year wages and 25 percent of the first $6,000 of qualified second-year wages paid to each employee who falls into the qualifying target group.

The 25 percent credit for qualified wages paid in the second year of a targeted-group individual's employment was repealed and the 50 percent credit for qualified first-year wages generally was reduced to a 40 percent credit. The Act reduced the maximum credit per employee from $4,500 (50 percent of $6,000 plus 25 percent of $6,000) to $2,400 (40 percent of $6,000). However, it does not reduce the credit for wages of economically disadvantaged summer youth employees (85 percent of up to $3,000 of qualified first-year wages).

Section 3

DESCRIPTION OF THE SAMPLE AND LIMITATIONS OF THE DATA*

This section describes the 1986 Corporate Sample design, including the methods used in the selection of returns, data capture, data cleaning, and data completion. Also discussed are the techniques used to produce estimates and an assessment of the data limitations, including measures of sampling variability.

BACKGROUND

The 1916 Revenue Act requires the annual publication of "facts deemed pertinent and valuable" with respect to the operation of the income tax law. The Internal Revenue Service (IRS) has been publishing statistics on corporate income tax returns since 1918 beginning with data from 1916. Prior to 1918, limited information on corporate taxes appeared in the Commissioner's Annual Report [1, 2, 3].

From 1916 through 1950 data were extracted for the Statistics of Income (SOI) program from each corporate return filed. Stratified probability sampling was introduced in 1951. Since then, the size of the samples has generally decreased while the population has increased. For example, for Tax Year 1951 the sample comprised 41.5 percent of the population, or 285,000 of the 687,000 returns filed. For 1986, the sample proportion had decreased to 2.5 percent, or 85,100 returns selected from a population of over 3.4 million.

In 1951 stratification was by size of total assets and industry. From 1952 through 1967, the stratification was by size only, either volume of business (1953-1958) or total assets (1952 and 1959-1967). From 1968 to the present, both total assets and a measure of income have been the major stratifiers [4].

POPULATION

This annual SOI corporation study includes corporations of all types that are organized for profit. For a list of the federal income tax returns and the estimated numbers that were subjected to sampling for 1986, see Section 1. The following chart gives the estimated number of active corporations by form type that filed during Tax Years 1983 through 1985.

FORM TYPE	YEAR**			
	1983	1984	1985	1986
Form 1120	2,329,650	2,277,675	2,294,081	2,331,809
Form 1120-A	*	164,816	239,255	251,012
Form 1120S	648,267	701,339	724,749	826,216
Form 1120L	1,798	2,042	2,269	2,335
Form 1120M	1,463	1,490	1,464	1,466
Form 1120F	7,996	10,900	11,678	11,336
Form 1120 IC-DISC	9,898	12,480	1,383	1,443
Form 1120 FSC	*	*	2,341	2,900
TOTAL	2,999,071	3,170,743	3,277,219	3,428,515

* Form not in existence at that time.

** Figures exclude out-of-scope returns (inactives, duplicates, etc.)

SAMPLE DESIGN

The current sample design is a stratified probability sample based on form type with one or both of the stratifiers: size of total assets and a measure of income. Forms 1120, 1120-A, 1120-FSC, and 1120-IC-DISC were stratified according to size of total assets and size of proceeds where proceeds is the measure of income and is defined to be the larger of the absolute value of net income (or deficit) or absolute value of "Cash Flow" (depreciation + depletion + net income.) Forms 1120F, 1120L, and 1120M were stratified by size of total assets only, and Form 1120S was stratified according to size of total assets and size of taxable income as the measure of income.

The design differs from a typical stratified sample in that sample rates, not sample sizes, are set initially. This approach is taken since stratum population totals are known only after all tax returns have been filed for a particular year. The design process begins with projected population totals derived from those used to estimate administrative workloads [5]. Using projected population totals by sampling strata, a constrained optimization, ignoring cost, is carried

* Homer Jones and Richard Collins designed the sample for this report. Jeri Mulrow prepared the text and Richard Collins prepared the tables in this section under the direction of Yahia Ahmed, Chief, Mathematical Statistics Section, Coordination and Publication Staff.

out to assign sample sizes such that the overall projected sample size is 90,000 [6]. Figures D, E1, and E2 give stratum boundary limits, population and sample sizes, and sample rates for all form types. The final sample size for Tax Year 1986 was 88,923 returns for all form types.

Since 1981, the population has increased in size from 2.8 million to over 3.7 million in 1986. The sample size, on the other hand, has remained fixed at around 90,000. As a consequence, sampling rates have gone down considerably in recent years. The overall sampling percentage for all returns was 3.04% in 1981 and decreased to 2.35% in 1986. Issues raised by keeping the sample size relatively fixed over the years include the effects on cross-sectional estimates, the effects on short year-to-year changes and longitudinal sample composition. Research is currently being conducted on these issues and the findings will be used as a basis for future sample designs [7].

SAMPLE SELECTION

Corporation income tax returns are filed at the ten IRS Service Centers located throughout the country. All corporate returns are processed initially to determine tax liability and are then available to other parts of IRS, including the SOI Division. Except for Form 1120–IC–DISC, all tax data are transmitted and updated on a weekly basis to the IRS's Business Master File (BMF) System located in Martinsburg, West Virginia. Form 1120–IC–DISC returns are processed on a separate system maintained in Detroit, Michigan. Together, these two systems serve as the point of selection for the sample for the corporation study. The sample was selected on a weekly basis from each system.

Sample selections for the 1986 corporation study took place during the period from July 1986 through June 1988. A twenty-four month sampling period is needed for two reasons. First, over half of all corporations have non-calendar year accounting periods (See figure B.) To allow for this, the 1986 SOI file represents all corporations filing returns with accounting periods ending during the period from July 1986 to June 1987. Second, many corporations, including some of the largest, request six-month filing extensions. The combination of non-calendar year filing and filing extensions means that returns that might first be due to be received by IRS in September of 1987 (1986 accounting period ending June 1987), could be timely filed as late as March 1988. Normal administrative processing time lags require that the sampling process remain open for the 1986 study until June 30, 1988. However, a few very large returns for Tax Year 1986 were added to the sample as late as December 1988.

Each corporation is assigned a permanent and unique Employer Identification Number (EIN) similar to a Social Security Number for an individual. The EIN is used as the basis for random selection. A pseudo-random number (PRN) is generated using the EIN as the seed. The last four digits of the PRN called the transformed taxpayer identification number (TTIN) are compared to the sampling rates; a corporation with a value of its TTIN below 1000 x sampling rate is selected to be in the sample, all others are not selected. Since a corporation generally uses the same EIN from year-to-year, use of this identifier to select the sample over the years facilitates the selection of many of the same corporations over time. This results in a reduction of the sample variance for estimates of year-to-year change. EIN's were used as the basis for random selection from 1968–1978. TTIN's have been in use as the basis for random selection from 1979 through the present [8, 9].

DATA CAPTURE

Data processing for SOI begins with information already abstracted for administrative purposes; approximately 80 items are available from the BMF system. An additional 600 to 700 items are abstracted from the tax return, and at this time, the administrative data are checked and corrected as necessary.

The SOI data capture process can take as little time as one-half hour for a small single entity corporation filing on Form 1120–A or as long as a week for a large consolidated corporation filing several hundred attachments and schedules with the return. The process is further complicated by several factors:

- First, as already noted, over 800 separate data items may be abstracted from any tax return. These items may require totals to be constructed from various other parts of the forms and schedules.
- Second, each different form type has a different layout with different types of schedules and attachments.
- Third, there is no legal requirement for a corporation to meet its tax return filing requirements by filling in, line for line, the U.S. tax return form. Therefore, many corporate taxpayers report much of their financial details in their own format.
- Fourth, there is no single accepted method of corporate accounting used throughout the country, but rather several accepted accounting "guidelines", many of which are unique to geographic locations.
- Finally, different companies may report the same data item, such as other current liabilities, on different lines of the tax form.

In order to help overcome these complexities and standardize reporting, SOI prepares extremely detailed instruc-

Figure D.—Corporation Returns: Number Filed, Number in Sample, Prescribed and Achieved Sampling Rates, by Sample Selection Class, Income Year 1986

Sample Class Number	Description of Sample Selection Classes (See Notes)				Number of Returns		Sampling Rates (Percent)	
	Size of Total Assets	Size of Proceeds**	Industry Class	Year Sampled	Estimated ‡ Populat'n	Sample ‡ Size	Pre-scribed	Achieved
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	All Returns, Total		*	*	3,778,533	88,923	2.34%	2.35%
	Forms 1120, 1120A, and 1120S with Form 5735 attached, Total		*	*	707	636	100.00	89.96
1	Under $50,000,000		B	All	610	539	100.00	88.36
	Under $100,000,000		A	All				
2	$50,000,000 or more		B	All	97	97	100.00	100.00
	$100,000,000 or more		A	All				
	Forms 1120, 1120A, and 1120S (no Form 5735 attached), Total		*	*	3,755,411	81,091	2.15	2.16
3	Under $50,000	Under $25,000	All	All	1,497,314	4,885	0.32	0.33
4	$50,000 under $100,000	$25,000 under $50,000	All	All	568,980	2,799	0.45	0.49
5	$100,000 under $250,000	$50,000 under $100,000	All	All	688,421	4,815	0.67	0.70
6	$250,000 under $500,000	$100,000 under $250,000	All	All	411,714	6,488	1.53	1.58
7	$500,000 under $1,000,000	$250,000 under $500,000	All	All	254,824	7,041	2.70	2.76
8	$1,000,000 under $2,500,000	$500,000 under $1,000,000	All	All	181,714	11,457	6.30	6.30
9	$2,500,000 under $5,000,000	$1,000,000 under $1,500,000	All	All	65,734	5,900	9.00	8.98
10	$5,000,000 under $10,000,000	$1,500,000 under $2,500,000	All	All	34,891	6,149	18.00	17.62
11	$10,000,000 under $25,000,000	$2,500,000 under $5,000,000	All	All	23,966	7,570	31.50	31.59
12	$25,000,000 under $50,000,000	$5,000,000 under $10,000,000	A	All	5,882	2,326	40.50	39.54
13	$50,000,000 under $100,000,000	$10,000,000 or more	A	6	101	90	100.00	89.11
	$25,000,000 under $50,000,000	$5,000,000 or more	B	6				
14	$25,000,000 under $50,000,000	$5,000,000 or more	B	7,8	10,023	9,754	100.00	97.32
	$50,000,000 under $100,000,000	$10,000,000 or more	A	7,8				
15	$100,000,000 under $250,000,000		A	7,8	7,284	7,254	100.00	99.59
	$50,000,000 under $250,000,000		B	7,8				
16	$50,000,000 or more		B	6	90	90	100.00	100.00
	$100,000,000 or more		A	6				
17	$250,000,000 or more		All	7,8	4,473	4,473	100.00	100.00
	Forms 1120L and 1120M, Total		*	*	3,727	2,141	57.26	57.45
18	Under $50,000,000		All	All	3,186	1,661	50.00	52.13
19	$50,000,000 or more		All	6	—	—	100.00	100.00
20	$50,000,000 under $100,000,000 (1120M)		All	7,8	264	203	100.00	76.89
	$50,000,000 under $250,000,000 (1120L)		All	7,8				
21	$100,000,000 or more (1120M)		All	7,8	277	277	100.00	100.00
	$250,000,000 or more (1120L)		All	7,8				
	Forms 1120F (with effectively connected income in U.S.), Total		*	*	13,619	3,666	27.32	26.92
22	Under $25,000,000		B	All	13,198	3,265	25.00	24.74
	Under $50,000,000		A	All				
23	$25,000,000 under $50,000,000		B	All	124	104	100.00	83.87
	$50,000,000 under $100,000,000		A	All				
24	$50,000,000 or more		B	All	297	297	100.00	100.00
	$100,000,000 or more		A	All				
	Forms 1120-IC-DISC, (See Figure E1)		*	*	1,681	734	45.81	43.66
	Forms 1120-FSC, (See Figure E2)		*	*	3,388	655	22.45	19.33

Notes: * Not Applicable
** Proceeds is defined as the larger of absolute value of net income (deficit) or absolute of cash flow (depreciation + depletion + net income)
‡ Figures include out-of-scope returns (inactives, duplicates, etc.)

Appendix—Corporation Industry Class by Principal Business Activity Code by Year Sampled

There are two classes of industries used in this design as indicated in Column (4). The following listing of PBA Codes was used to assign industries to the two classes, by calendar year:

Industry Code	0400	1150	1330	1380	1510	1600	1798	2010	2030	2096	2228	2298	2315	2345	2415	2430	2699	2799	3070
1986–87 Class	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
1988 Class	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A

Industry Code	3370	3440	3490	3550	3670	3698	3998	4200	5008	5050	5060	5098	5140	5150	5170	5190	5300	5410	5515
1986–87 Class	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
1988 Class	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A

Industry Code	5995	6030	6060	6090	6120	6140	6150	6199	6210	6359	6411	6511	6550	6599	6742	6749	7000	7389	7900	Other
1986–87 Class	B	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	B	B	B	B
1988 Class	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	B

Notes: Returns were classified according to either size of total assets or size of proceeds, whichever sample class is higher. (This rule also applies to Figures E1 and E2 following).
The prescribed and achieved sampling rates for sample classes 3 through 11, are composite figures of possibly different sampling rates used during the three calendar years of sampling. All other sample classes had the same prescribed sampling rates for the sampling period indicated.

EXAMPLE #1: A Form 1120S return with total assets of $750,000 and having a cash flow of $75,000 is in sample class 7 (based on total assets) rather than in sample class 5 (based on cash flow).

EXAMPLE #2: A General Merchandise Store files a 1986 Form 1120 return and is sampled in 1986. The principal Business Activity (PBA) Code is listed as 5300. Reported total assets are $7,500,000 and reported Net Deficit is $3,000,000. The Industry Class is B and the year is 6. The sample class is 11 based on size of proceeds for Industry Class B and Sampled Year 6 rather than 10 based on size of total assets for all years and Industry Classes.

Figure E1.—Interest Charge Domestic International Sales Corporation Returns: Number Filed, Number in Sample, Prescribed and Achieved Sampling Rates, by Sample Selection Class, Income Year 1986

Description of Sample Selection Class		Number of Returns		Sampling Rates (Percent)	
Size of Total Assets	Size of Proceeds	Estimated Population	Sample	Prescribed	Achieved
(1)	(2)	(3)	(4)	(5)	(6)
All Forms 1120-IC-DISC Returns		1,681	734	45.8%	45.7%
MCS under $10,000,000 & IC-DISC under $25,000	Under $10,000	279	13	5.0	4.7
MCS under $10,000,000 & IC-DISC $25,000 under $50,000	$10,000 under $25,000	137	15	10.0	10.9
MCS $10,000,000 under $25,000,000 & IC-DISC under $50,000	Under $25,000				
MCS under $25,000,000 & IC-DISC $50,000 under $100,000	$25,000 under $50,000	185	30	20.0	16.2
MCS $25,000,000 under $50,000,000 & IC-DISC under $100,000	Under $50,000				
MCS under $50,000,000 & IC-DISC $100,000 under $250,000	$50,000 under $100,000	335	92	30.0	27.5
MCS $50,000,000 under $100,000,000 & IC-DISC under $250,000	Under $100,000				
MCS under $100,000,000 & IC-DISC $250,000 under $500,000	$100,000 under $200,000	281	141	50.0	50.2
MCS $100,000,000 under $250,000,000 & IC-DISC under $500,000	Under $200,000				
MCS under $250,000,000 & IC-DISC $500,000 under $1,000,000	$200,000 under $500,000	253	232	100.0	91.7
MCS under $250,000,000 & IC-DISC $1,000,000 or more	$500,000 or more	211	211	100.0	100.00
MCS $250,000,000 or more & IC-DISC any amount	Any amount				

Notes: The abbreviations used in the table above are:
MCS—Majority Corporate Stockholder
IC-DISC—Interest Charge Domestic International Sales Corporation

Figure E2.—Foreign Sales Corporation Returns: Number Filed, Number in Sample, Prescribed and Achieved Sampling Rates, by Sample Selection Class, Income Year 1986

Description of Sample Selection Class		Number of Returns		Sampling Rates (Percent)	
Size of Total Assets	Size of Proceeds	Estimated Population	Sample	Prescribed	Achieved
(1)	(2)	(3)	(4)	(5)	(6)
All Forms 1120-FSC Returns		3,388	655	22.5%	19.3%
MCS under $10,000,000 & FSC under $500,000	Under $200,000	1,626	48	5.0	3.0
MCS under $10,000,000 & FSC $500,000 under $1,000,000	$200,000 under $500,000	530	50	10.0	9.4
MCS $10,000,000 under $25,000,000 & FSC under $1,000,000	Under $500,000				
MCS under $25,000,000 & FSC $1,000,000 under $2,500,000	$500,000 under $1,000,000	378	55	20.0	14.6
MCS $25,000,000 under $50,000,000 & FSC under $2,500,000	Under $1,000,000				
MCS under $50,000,000 & FSC $2,500,000 under $5,000,000	$1,000,000 under $1,500,000	290	61	30.0	21.0
MCS $50,000,000 under $100,000,000 & FSC under $5,000,000	Under $1,500,000				
MCS under $100,000,000 & FSC $5,000,000 under $10,000,000	$1,500,000 under $2,500,000	201	82	50.0	40.8
MCS $100,000,000 under $250,000,000 & FSC under $10,000,000	Under $2,500,000				
MCS under $100,000,000 & FSC $10,000,000 under $25,000,000	$2,500,000 under $5,000,000	16	12	100.0	75.0
MCS under $250,000,000 & FSC $25,000,000 or more	$5,000,000 or more	347	347	100.0	100.00
MCS $250,000,000 or more & FSC any amount	Any amount				

Notes: The abbreviations used in the table above are:
MCS—Majority Corporate Stockholder
FSC—Foreign Sales Corporation

tions for each tax year. For Tax Year 1986, these instructions consisted of over 500 pages covering normal and straightforward procedures and instructions for exceptions and non-standard situations that might be encountered [10].

DATA CLEANING

After the data are entered into a computer system at the service centers, they are sent to the Detroit Computing Center (DCC) for further processing. At this stage, the data are subjected to about 1100 consistency tests. These tests look for:

- Impossible conditions, such as incorrect tax data for a particular form type;
- Internal inconsistencies, such as items not adding to shown totals;
- Questionable values, such as a bank with an extremely large amount of cost of goods sold; and
- Improper sample class codes, such as in the case where a return has $10,000 total assets but was selected as if it had $1 million total assets.

In certain cases, test resolution is performed automatically by computer. In other cases, it is done manually. The data are subjected to several cycles of testing until the questionable items are corrected or verified as correct. After completion of data testing and correction, the data are written to a computer file which is the basis of the annual corporate Statistics of Income report [11].

DATA COMPLETION

Several more steps are needed to complete the information in the file. Missing data must be addressed and returns that are to be excluded from the tabulations must be identified. The data completion process focuses on these issues.

Missing data is handled in several different ways depending on the cause. For example, certain data items may not be available from the tax return and are thus missing in the file. If the missing data items are from Schedule L, the Balance Sheet, then imputation procedures are used. Imputation is a process of developing estimates for missing data.

In other instances, data for a whole return is missing because the return is unavailable to SOI during the data capture process. These types of returns will be referred to as 'unavailable returns.' Again, in certain cases, imputation procedures are used.

Sometimes the data are available on the tax return but SOI chooses not to capture it. This type of data is missing by design. Since 1981, SOI has opted to leave some of the attached schedules out of the data capture process, whether data are available on these schedules or not. This procedure has been used as a cost saving measure since reviewing supplementary schedules adds significantly to the cost of preparing the file. Once again, imputation is employed to handle the missing data.

A ratio-based imputation procedure is used to fill in missing balance sheet items from all 1120 form types excluding Form 1120–IC–DISC/FSC. Missing balance sheet items are imputed for returns with 12 month accounting periods. Imputation is not used on returns with less than 12 month accounting periods. The ratios are determined by major industry group from the previous year's data. The imputed amounts are calculated from these ratios and the business or total receipts available from the return [12]. A total of 454 returns in 1986 had balance sheet items imputed.

Data for unavailable critical corporations, corporations whose total assets are greater than or equal to two percent of their minor industry's total assets or whose total assets are over a specified limit (dependent on form type), are imputed in two ways. First, for those corporations selected in the sample but unavailable to SOI during the time needed, the ratio-based imputation procedure, as described above, is applied to the balance sheet data. Four (4) corporations fell into this category in 1986. Second, for those corporations not selected in the sample, data from the previous year's return is used with adjustments for tax law changes. There were twenty-four (24) of these cases in 1986.

The third imputation method is used to fill in data for one or more of the following schedules: Other Income Schedule, Other Deductions Schedule, and Other Costs of Goods Sold Schedule filed with Forms 1120 and 1120–A. Only corporations with total assets and net income both under $50 million are candidates for this imputation procedure. During sample selection, a random process is used to determine which returns will not have one or more of these schedules included in the data capture process. The imputation procedure uses schedules with data as "donors" to impute data for the designed missing schedules. For Tax Year 1986, 27,798 returns were subjected to this type of imputation. Of these, 17,463 had "other income" schedules imputed, 18,845 had "other deduction" schedules imputed, and 11,595 had "other cost of goods sold" schedules imputed. It was estimated that SOI realized an annual cost savings of over $300,000 using this technique [13, 14].

Another part of the data cleaning process includes identifying sampled returns that will not be used in the tabulations. The BMF and the IC-DISC systems, used for sample selection, can include duplicate tax returns and other out-of-scope returns, such as returns for non-profit oriented corporations and prior-year tax returns. These types of returns are identified and marked and during the estimation process they are considered to have zero money amounts. The following list identifies such returns:

- Inactive returns having neither income nor deductions;
- Duplicate returns;
- Amended returns not associated with the original returns and which were not earlier removed by the selection process;
- Tentative returns not associated with the revised returns and which were not earlier removed by the selection process;
- Returns exempt under Section 936 of the Internal Revenue Code (IRC);
- Returns exempt under Section 1247 of the IRC;
- Returns exempt under Section 883 of the IRC;
- Cost corporation returns exempt under Revenue Ruling 52-542;
- Form 1120M Corporation returns exempt from tax under Section 501(c)(15) of the IRC;
- Returns of non-resident foreign corporations having no income effectively connected with a trade or business within the U.S.;
- U.S. Virgin Island returns exempt under Section 934 of the IRC;
- Returns of political organizations filing under IRC Section 527;
- Returns filed by general stock ownership corporations exempt from tax;
- Returns filed by homeowners associations under IRC Section 528;
- Information returns reporting no tax due to tax treaty or convention according to IRC Section 894; and finally
- Prior year returns, returns with total assets under $250,000,000 which used basic tax forms prior to 1985 and having ending accounting periods before July 1986.

The chart below gives the estimated population of returns excluded from the tabulations.

Type of Return	Year				
	1982	1983	1984	1985	1986
Inactive	121,302	120,104	155,778	152,945	186,524
Duplicate	53,159	43,999	59,106	64,110	72,090
Prior Year	28,119	32,305	46,234	67,848	90,637
Other	2,668	1,784	1,576	2,587	767
Total	205,248	198,192	262,694	287,490	350,018

ESTIMATION

The estimates produced in this report of the total number of corporations and associated money amounts are based on weighted sample results. A one-step process was used to determine the weights for Forms 1120L, 1120M, 1120-FSC, 1120-IC-DISC, and Form 1120 with Form 5735 attached. A two-step process was used to determine the weights for Forms 1120, 1120-A, 1120F and 1120S.

The one-step process determines weights as the reciprocal of the achieved sample rate. For example, the weight associated with an 1120L return having total assets under $50 million would be 1/0.5213 = 1.92. These weights are used to produce the aggregated total frequencies and money amounts published in this report for Forms 1120L, 1120M, 1120-FSC, 1120-IC-DISC, and Form 1120 with Form 5735 attached.

The two-step process is needed because industry estimates are desired. The first stage is identical to the one-step process as described above and provides an initial weight for the record. The second stage involves post-stratification by industry. During post-stratification certain cells have small sample sizes, to handle this problem, a raking ratio estimation approach to post-stratification is employed to determine the final weights [15, 16]. These final weights are used to produce the aggregated frequencies and money amounts published in this report for Forms 1120, 1120-A, 1120F and 1120S.

DATA LIMITATIONS AND MEASURES OF VARIABILITY

Before any estimates were produced for this report, several extensive quality review processes were implemented. The review processes began at the sample selection stage with weekly monitoring of the sample to ensure that the proper number of returns were being selected. They continued through the data collection, data cleaning, and data completion procedures with consistency testing. Part of the review process included extensive comparisons of the 1986 data with the 1985 data. A great amount of effort was made at every stage to ensure data integrity.

Since the SOI Corporation estimates were based on a sample, they may differ from figures that would have been

Figure F—Coefficient of Variation of Estimated Number of Returns, Income Year 1986

Estimated number of returns	Tables showing the classification by size of total assets								Tables not showing classes by size of total assets	Forms 1120–IC–DISC/FSC tables
	Under $100,000 [1]	$100,000 under $250,000	$250,000 under $500,000	$500,000 under $1,000,000	$1,000,000 under $5,000,000	$5,000,000 under $10,000,000	$10,000,000 under $50,000,000	$50,000,000 under $100,000,000 [2]		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	(Percent) [2 3]									
200	123.49	84.29	55.71	41.96	27.24	15.30	10.39	1.00	123.49	40.55
300	100.83	68.82	45.49	34.26	22.24	12.49	8.49	0.82	100.83	33.11
400	87.32	59.60	39.40	29.67	19.26	10.82	7.35	0.71	87.32	28.67
500	78.10	53.31	35.24	26.54	17.23	9.67	6.57	0.63	78.10	25.64
600	71.30	48.66	32.17	24.22	15.73	8.83	6.00	0.58	71.30	23.41
700	66.01	45.05	29.78	22.43	14.56	8.18	5.55	0.53	66.01	21.67
800	61.75	42.14	27.86	20.98	13.62	7.65	5.20	0.50	61.75	20.27
900	58.22	39.73	26.26	19.78	12.84	7.21	4.90	0.47	58.22	19.11
1,000	55.23	37.69	24.92	18.76	12.18	6.84	4.65	0.45	55.23	18.13
1,200	50.42	34.41	22.74	17.13	11.12	6.24	4.24	0.41	50.42	16.55
1,400	46.68	31.86	21.06	15.86	10.30	5.78	3.93	0.38	46.68	15.33
1,600	43.66	29.80	19.70	14.83	9.63	5.41	3.67	0.35	43.66	14.34
1,800	41.16	28.10	18.57	13.99	9.08	5.10	3.46	0.33	41.16	13.52
2,000	39.05	26.65	17.62	13.27	8.61	4.84	3.29	0.32	39.05	12.82
2,500	34.93	23.84	15.76	11.87	7.70	4.33	2.94	0.28	34.93	11.47
3,000	31.89	21.76	14.39	10.83	7.03	3.95	2.68	0.26	31.89	10.47
4,000	27.61	18.85	12.46	9.38	6.09	3.42	2.32	0.22	27.61	9.07
5,000	24.70	16.86	11.14	8.39	5.45	3.06	2.08	0.20	24.70	8.11
7,000	20.87	14.25	9.42	7.09	4.60	2.59	1.76	0.17	20.87	6.85
10,000	17.46	11.92	7.88	5.93	3.85	2.16	1.47	0.14	17.46	(4)
15,000	14.26	9.73	6.43	4.84	3.15	1.77	1.20	(4)	14.26	(4)
25,000	11.05	7.54	4.98	3.75	2.44	1.37	0.93	(4)	11.05	(4)
35,000	9.34	6.37	4.21	3.17	2.06	1.16	0.79	(4)	9.34	(4)
50,000	7.81	5.33	3.52	2.65	1.72	(4)	(4)	(4)	7.81	(4)
75,000	6.38	4.35	2.88	2.17	1.41	(4)	(4)	(4)	6.38	(4)
100,000	5.52	3.77	2.49	1.88	1.22	(4)	(4)	(4)	5.52	(4)
150,000	4.51	3.08	2.03	1.53	0.99	(4)	(4)	(4)	4.51	(4)
250,000	3.49	2.38	1.58	1.19	0.77	(4)	(4)	(4)	3.49	(4)
500,000	2.47	1.69	1.11	(4)	(4)	(4)	(4)	(4)	2.47	(4)
700,000	2.09	1.42	(4)	(4)	(4)	(4)	(4)	(4)	2.09	(4)
1,000,000	1.75	(4)	(4)	(4)	(4)	(4)	(4)	(4)	1.75	(4)
1,500,000	1.43	(4)	(4)	(4)	(4)	(4)	(4)	(4)	1.43	(4)
2,000,000	1.23	(4)	(4)	(4)	(4)	(4)	(4)	(4)	1.23	(4)

[1] Includes zero assets and assets not reported.
[2] Coefficient of variation is zero for returns with total assets of $100,000,000 or more
[3] This percentage should normally not be used for estimates designated by a single asterisk (*) because the approximation shown here is inapplicable when the sample is too small to yield reliable confidence interval estimates.
[4] Not applicable because the estimated number of returns is greater than the population count.
NOTE: To determine the coefficient of variation (CV) for an estimated number of returns not listed, divide desired number by 100, look up CV of divided number, then divide CV by 10 to obtain new CV. For example, to find the CV for 60,000 returns having assets of $300,000, divide 60,000 by 100 = 600, look up CV for 600 in column (3), CV = 32.17%, divide CV by 10 = 3.22% for 60,000 returns.

obtained if a complete census of all income tax returns had been taken using the same procedures employed in the sample. The particular sample used to produce the results in this report is one of a large number of possible samples that could have been selected under the same sample design. Estimates derived from one of the possible samples could differ from any other and from the population aggregates. The deviation of a sample estimate from the average of all possible similarly selected samples is called the sampling error. The standard error (SE) is a measure of the average magnitude of the sampling errors over all possible samples.

The standard error is the most commonly used measure of the sampling error and can be estimated from the sample. Sometimes, for convenience, the standard error is expressed as a percent of the value being estimated. This is called the Coefficient of Variation (CV) of the estimate. The coefficient of variation can be used in assessing the reliability of an estimate.

The estimated coefficient of variation of an estimate is calculated by dividing the estimated standard error by the estimate. Estimated coefficients of variations for selected money amount estimates are shown in Table 1. Estimated coefficients of variations for the estimated number of returns are given in Figure F. Estimated coefficients of variations for post-stratified variables are computed from conditional variances [16, 17].

The coefficient of variation, CV(X), of the estimate, X, may be used to construct interval estimates that have a prescribed confidence that the interval includes the average of the estimates derived from all possible samples. To illustrate, if all possible samples were selected under essentially the same general conditions and using the same sample design, and if an estimate and its standard error were calculated from each sample, then approximately 95 percent of the intervals from two standard errors below the estimate to two standard errors above the estimate would include the average estimate derived from all possible samples. Thus, for a particular sample, one can say with the appropriate level of confidence, that the average of all possible samples is included in the constructed interval.

For example, assume a 95 percent confidence interval for the number of returns having total assets $2.5 million under $5 million is desired. The estimated population from Figure D is

$$X = 65{,}734 \text{ returns.}$$

A coefficient of variation (CV) of 1.52 percent for this frequency is obtained by using column 5 of Figure F and interpolating as indicated in the footnote found there.

The standard error of the estimate, needed to construct the interval, is the product of the estimate and its coefficient of variation:

$$\begin{aligned} SE(X) &= X * CV(X) \\ &= 65{,}734(.0152) \\ &= 999 \text{ returns} \end{aligned}$$

The 95 percent confidence interval is constructed by multiplying the value of the SE(X) by 2, then adding and subtracting this value from the estimate. Based on the data for this example, the 95 percent confidence interval is:

$$\begin{gathered} (X - 2 * SE(X),\ X + 2 * SE(X)) \\ (65{,}734 - 2 * 999,\ 65{,}734 + 2 * 999) \\ (65{,}734 - 1{,}998,\ 65{,}734 + 1{,}998) \end{gathered}$$

Thus, the interval estimate is from 63,736 returns to 67,732 returns.

In addition to sampling error, another type of error called nonsampling error can affect the estimates. Nonsampling errors can be classified into two groups: random errors whose effects may cancel out and systematic errors whose effects tend to remain somewhat fixed and result in bias.

Nonsampling errors can be categorized into coverage errors; nonresponse errors; processing errors; and response errors. These errors can be the result of the inability to obtain information about all returns in the sample, differing interpretations of tax terms and tax instructions; inability of a corporation to provide accurate information (data are collected before auditing), inability to obtain all tax schedules and attachments, errors in recording or coding the data, errors in collecting or cleaning the data, errors made in estimating values for missing data, and failure to represent all population units.

Coverage errors in the SOI corporation study can result from the difference between the time frame for sampling and the actual time needed for filing and processing of returns. Many of the largest returns receive extensions to their filing periods and as a result end up filing after sample selection has ended for that tax year. The effect on the estimates due to this type of coverage error is minimized by the use of imputation procedures.

Coverage problems within industry divisions in the SOI corporation study result from the way consolidated returns may be filed. The Internal Revenue Code permits a parent corporation to file a single return which includes the combined financial data of the parent and all its subsidiaries. These data are not separated into the different industries but are entered into only one industry. Thus, there is an undercoverage of financial data within certain industries and overcoverage in others [18]. Coverage problems within industry divisions present a limitation on any analyses done with the sample results.

Unit nonresponse for SOI occurs when a sampled return is unavailable for SOI processing. For example, other areas of the IRS such as Audit, or Collection, or a District Office may have the return during the time SOI needs it. These returns are termed unavailable returns. In 1986, there were 354 unavailable returns in the corporation study, which constituted about four-tenths of one percent of the sample.

The following chart contains the number of unavailable returns for years 1984–1986.

Year	1984	1985	1986
Total	3,460	1,488	354

Errors in recording, coding or processing the data can cause a return to be sampled in the wrong sampling class. This is called a mis-stratification error. One example of the way a return may be mis-stratified is the following: A corporation files a return with total assets of $10,000.00 and net income of $5,000.00, a processing error causes the return to be classified according to $1,000,000 total assets and $5,000 net income. The return would be mis-stratified according to the incorrect value of total assets. There were 2,264 mis-stratified returns in the sample in Tax Year 1986 compared to 3,849 in the 1985 Tax Year sample.

Mis-stratified returns in the sample were reclassified into their proper sampling classes after complete data capture. The population of returns that needed to be reclassified was estimated from the sample and the stratum population sizes were adjusted accordingly [19]. Population and sample totals were minimally affected by the reclassification and an analysis of the sample results tended to confirm that mis-stratified returns were randomly distributed.

Response errors are due to data being captured before auditing. For example, arithematical errors made by the taxpayer would be considered a taxpayer error. Many of these errors when detected are corrected during the data capture and cleaning processes. Amendments to a return are not incorporated into the SOI file. Because of time and budget constraints it is not feasible to collect the data after audit nor to include amended data.

TABLE NOTATION

All money amounts and frequencies in the following tables are subject to rounding error. As a result, a row or column of frequencies or amounts may fail to add exactly to the corresponding total amount. Money amounts are rounded to the nearest $1,000 at the table level. Amounts of $500 or more were rounded up to the next thousand. Total amounts under $500 are entered as zero and footnoted to indicate that an amount was present and greater than zero but less than $500.

Whenever a cell frequency was less than three, the estimate was combined or deleted in order to avoid disclosure of information about specific corporations. Combinations or deletions are indicated by a double asterisk (**) or a triple asterisk (***) respectively. In all other cases, an estimate based on fewer than ten returns, not all selected at 100 percent is indicated by an asterisk (*) and should be considered statistically unreliable. These estimates should typically be used in combination with other tabulated values due to the small sample size.

The statistical reliability of each cell in the tables is determined separately from all other cells. Thus, it is possible to see a total figure with an asterisk (*) indicating statistical unreliability and see a subset of that total not so identified. For example, an industrial division amount could be based on seven returns, three not sampled at 100 percent. This amount would received an asterisk. However, a major group within the division may have all of the four returns s'ampled at 100 percent and not receive an asterisk.

A dash (—) in place of a frequency or an amount can indicate one of two things. If returns were sampled at 100 percent, then no returns had that particular characteristic. If returns were sampled at less than 100 percent, then either no returns in the population had that characteristic or the characteristic was so rare that it did not appear in any of the sampled returns.

INDUSTRIAL CLASSIFICATION

The industry classification used in this report generally conforms to the Enterprise Standard Industrial Classification (ESIC) authorized by The Office of Information and Regulatory Affairs in The Office of Management and Budget (OMB). This classification was designed to classify companies which are often engaged in more than one industry activity into only one industry category. It follows closely the detailed Standard Industrial Classification (SIC) Manual which is authorized by OMB. Some departures from the ESIC system were made by SOI for financial industries in order to reflect particular provisions of the Internal Revenue Code. For a comparison of the ESIC and SIC industries with the SOI industries used in this report, see the complete report, *Statistics of Income—1977, Corporation Income Tax Returns* [18, 20].

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BASIC TABLES

RETURNS OF ACTIVE CORPORATIONS

Table 1—Number of Returns, Selected Receipts, Cost of Sales and Operations, Net Income, Deficit, Income Subject to Tax, Total Income Tax, Selected Credits, Total Assets, Depreciable Assets, Depreciation Deduction, and Coefficients of Variation, by Minor Industry

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Minor industry	Number of returns: Total	Number of returns: With net income	Total receipts: All returns	Total receipts: Returns with net income	Business receipts	Cost of sales and operations	Net income	Deficit	Income subject to tax
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total returns of active corporations	**3,428,515**	**1,907,738**	**8,669,378,501**	**6,679,365,666**	**7,535,482,221**	**4,922,763,967**	**408,860,760**	**139,330,520**	**276,172,502**
Agriculture, forestry, and fishing	**106,634**	**57,810**	**77,502,215**	**59,093,294**	**71,787,552**	**50,971,455**	**3,676,645**	**2,527,960**	**1,883,473**
Agricultural production	71,391	39,966	49,979,405	38,421,611	45,289,331	30,928,982	2,898,748	1,805,813	1,540,081
Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping	35,243	17,844	27,522,810	20,671,684	26,498,220	20,042,473	777,898	722,147	343,392
Mining	**40,354**	**18,150**	**98,577,216**	**40,136,793**	**86,873,761**	**58,115,191**	**5,352,717**	**8,475,282**	**3,241,899**
Metal mining	1,186	174	8,240,453	2,736,604	7,379,281	5,428,635	276,405	679,448	185,037
Iron ores	*28	*23	*1,356,375	*676,474	*1,177,239	*936,040	*91,363	*45,954	*80,701
Copper, lead and zinc, gold and silver ores	487	64	2,347,069	1,337,763	2,037,940	1,445,088	153,654	365,384	*77,148
Other metal mining	671	*87	4,537,009	*722,367	4,164,102	3,047,507	*31,387	268,110	*27,188
Coal mining	3,982	2,015	21,143,932	12,677,295	19,606,313	13,515,392	775,134	485,279	261,740
Oil and gas extraction	30,899	12,514	57,404,466	14,745,623	49,067,856	32,544,519	3,294,544	7,144,436	2,060,122
Crude petroleum, natural gas, and natural gas liquids	16,440	5,907	36,563,418	9,779,418	30,515,550	20,532,988	2,647,079	3,268,581	1,833,978
Oil and gas field services	14,459	6,607	20,841,048	4,966,205	18,552,306	12,011,531	647,465	3,875,856	226,143
Nonmetallic minerals, except fuels	4,288	3,447	11,788,366	9,977,271	10,820,312	6,626,645	1,006,633	166,118	735,000
Dimension, crushed, and broken stone; sand and gravel	3,220	2,559	7,916,933	6,796,506	7,523,690	4,560,174	653,567	59,199	492,539
Other nonmetallic minerals, except fuels	1,068	888	3,871,433	3,180,765	3,296,621	2,066,471	353,066	106,919	242,461
Construction	**341,816**	**194,446**	**412,477,214**	**298,333,255**	**399,436,063**	**314,065,258**	**12,443,085**	**6,661,363**	**7,578,399**
General building contractors and operative builders	142,594	77,214	195,317,559	138,552,171	187,264,489	158,098,506	5,316,506	3,438,191	3,048,205
General building contractors	139,185	75,380	189,285,221	133,707,490	182,694,398	155,382,047	4,944,653	3,267,541	2,815,365
Operative builders	3,409	1,834	6,032,337	4,844,681	4,570,091	2,716,459	371,852	170,650	232,840
Heavy construction contractors	19,021	11,119	63,119,978	45,643,366	60,266,264	47,462,244	2,445,511	1,034,056	1,549,136
Special trade contractors	180,201	106,113	154,039,677	114,137,717	151,905,311	108,504,508	4,681,068	2,189,116	2,981,058
Plumbing, heating, and air conditioning	36,572	24,194	33,541,913	25,372,151	33,178,070	24,428,886	905,552	386,121	593,881
Electrical work	27,641	15,420	26,972,671	19,651,086	26,584,369	19,697,076	667,337	437,138	454,933
Other special trade contractors and contractors not allocable	115,988	66,499	93,525,093	69,114,481	92,142,872	64,378,546	3,108,180	1,365,857	1,932,244
Manufacturing	**285,119**	**163,161**	**2,810,713,781**	**2,209,090,505**	**2,614,526,752**	**1,746,954,429**	**136,081,206**	**34,253,935**	**116,666,065**
Food and kindred products	17,240	9,636	309,672,902	255,346,344	296,285,417	206,540,226	11,919,976	1,900,505	10,250,323
Meat products	2,226	1,520	54,423,081	40,492,745	53,918,193	46,453,272	844,576	155,655	662,112
Dairy products	2,051	1,056	31,955,914	28,855,508	30,796,037	22,730,582	1,016,235	118,564	951,228
Preserved fruits and vegetables	556	226	19,706,184	16,507,136	18,857,072	13,017,510	763,188	125,360	626,139
Grain mill products	1,508	1,215	51,814,909	48,621,338	49,705,400	33,278,245	2,133,990	66,499	1,859,185
Bakery products	2,560	1,073	11,618,051	10,198,447	11,409,013	6,247,385	446,773	100,054	350,528
Sugar and confectionery products	1,719	564	20,498,451	18,453,936	19,745,736	12,413,364	930,901	115,883	769,625
Malt liquors and malt	67	32	16,549,547	15,578,111	16,133,383	9,219,309	841,545	*18,195	834,542
Alcoholic beverages, except malt liquors and malt	958	515	8,607,023	6,602,724	7,857,659	4,859,305	564,595	105,441	435,038
Bottled soft drinks, and flavorings	1,031	857	38,704,676	34,443,672	35,668,356	20,114,933	2,684,107	418,497	2,294,904
Other food and kindred products	4,563	2,580	55,795,066	35,592,725	52,194,568	38,206,321	1,694,066	676,358	1,467,022
Tobacco manufactures	150	81	53,832,926	53,746,173	51,181,595	26,884,565	2,870,266	*22,276	2,716,852
Textile mill products	5,017	3,218	50,539,925	44,471,479	49,339,696	36,614,148	2,394,545	288,932	1,918,739
Weaving mills and textile finishing	997	876	17,110,582	16,166,066	16,672,412	12,160,315	816,562	97,557	672,518
Knitting mills	878	602	6,651,437	5,445,210	6,583,683	4,758,520	391,570	29,716	282,521
Other textile mill products	3,142	1,740	26,777,906	22,860,203	26,083,601	19,695,313	1,186,413	161,659	963,700
Apparel and other textile products	15,996	9,617	62,019,114	48,826,952	60,828,561	42,951,597	2,531,184	864,860	1,789,080
Men's and boys' clothing	1,625	1,237	16,928,470	14,262,597	16,455,391	11,475,865	677,080	80,980	479,031
Women's and children's clothing	5,262	2,391	24,949,970	19,026,905	24,517,831	17,228,693	1,165,078	433,482	753,677
Other apparel and accessories	4,436	2,612	8,232,989	5,622,592	8,127,117	5,906,360	230,461	196,080	178,337
Miscellaneous fabricated textile products; textile products, not elsewhere classified	4,673	3,376	11,907,685	9,914,858	11,728,222	8,340,680	458,565	154,318	378,035
Lumber and wood products	16,823	10,298	75,472,319	57,024,785	71,936,340	54,195,209	2,861,966	1,014,962	2,252,364
Logging, sawmills, and planing mills	5,901	3,878	27,438,785	25,501,592	25,655,981	18,979,027	1,263,711	224,405	983,762
Millwork, plywood, and related products	6,034	3,906	32,384,751	21,354,951	31,327,730	23,993,237	1,068,024	453,555	847,119
Other wood products, including wood buildings and mobile homes	4,888	2,514	15,648,784	10,168,241	14,952,629	11,222,945	530,231	337,002	421,483
Furniture and fixtures	7,677	4,660	31,569,511	26,479,070	30,767,887	20,910,223	1,903,002	381,104	1,695,209
Paper and allied products	3,916	1,898	84,664,659	73,692,202	81,247,095	53,998,723	4,193,149	348,388	3,567,853
Pulp, paper, and board mills	446	165	46,819,575	41,121,532	44,527,469	29,480,638	1,733,010	189,614	1,310,660
Other paper products	3,469	1,733	37,845,085	32,570,670	36,719,626	24,518,085	2,460,139	158,773	2,257,193
Printing and publishing	43,634	23,235	127,622,480	102,380,613	120,560,673	58,781,986	9,820,320	1,516,821	8,759,735
Newspapers	5,548	3,655	45,567,930	38,274,248	42,356,431	17,123,652	4,812,723	482,623	4,456,811
Periodicals	4,185	1,868	15,035,967	11,871,165	13,966,608	6,367,913	949,347	230,122	771,840
Books, greeting cards, and miscellaneous publishing	6,821	2,828	21,156,987	17,963,288	19,434,293	7,436,490	2,036,970	198,650	1,846,573
Commercial and other printing and printing trade services	27,081	14,884	45,861,596	34,271,913	44,803,341	27,853,932	2,021,280	605,427	1,684,511
Chemicals and allied products	10,978	6,186	289,983,468	260,879,447	266,650,941	159,917,606	22,678,268	1,792,706	20,638,912
Industrial chemicals, plastics materials and synthetics	4,767	2,684	141,628,998	128,095,363	130,797,518	83,482,805	8,687,000	723,118	7,642,736
Drugs	897	296	62,211,513	59,257,261	54,993,563	24,910,948	9,598,238	291,523	9,447,952
Soap, cleaners, and toilet goods	1,620	1,085	54,349,467	47,774,426	50,840,746	32,027,671	2,625,682	252,751	2,161,454
Paints and allied products	705	553	9,449,286	8,854,620	9,223,424	5,630,850	541,116	41,600	474,521
Agriculture and other chemical products	2,989	1,567	22,344,204	16,897,776	20,795,691	13,865,331	1,226,232	483,714	912,248
Petroleum (including integrated) and coal products	2,463	1,296	359,519,073	239,021,625	325,729,272	228,078,784	19,704,831	7,070,518	18,508,443
Petroleum refining (including integrated)	752	252	352,054,558	233,851,732	318,766,428	222,942,954	19,320,660	7,009,240	18,240,318
Petroleum and coal products, not elsewhere classified	1,710	1,044	7,464,515	5,169,893	6,962,843	5,135,831	384,171	61,278	268,124
Rubber and miscellaneous plastics products	12,630	8,405	63,107,628	52,558,801	60,777,337	41,012,943	2,652,820	594,493	2,162,428
Rubber products; plastics footwear, hose and belting	1,893	1,164	32,052,275	29,375,809	30,383,297	20,239,599	1,254,524	141,537	1,042,306
Miscellaneous plastics products	10,737	7,241	31,055,353	23,182,992	30,394,040	20,773,343	1,398,297	452,957	1,120,122
Leather and leather products	2,034	1,369	13,078,616	10,336,718	12,491,574	8,787,868	687,076	190,280	419,347
Footwear, except rubber	396	271	9,620,777	7,831,950	9,080,686	6,195,246	576,072	134,127	348,308
Leather and leather products, not elsewhere classified	1,639	1,098	3,457,839	2,504,768	3,410,888	2,592,622	111,004	56,153	71,040

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 1—Number of Returns, Selected Receipts, Cost of Sales and Operations, Net Income, Deficit, Income Subject to Tax, Total Income Tax, Selected Credits, Total Assets, Depreciable Assets, Depreciation Deduction, and Coefficients of Variation, by Minor Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Minor industry	Number of returns: Total	Number of returns: With net income	Total receipts: All returns	Total receipts: Returns with net income	Business receipts	Cost of sales and operations	Net income	Deficit	Income subject to tax
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Manufacturing—Continued									
Stone, clay, and glass products	10,613	6,871	65,935,767	54,551,968	62,833,000	40,928,365	4,252,413	727,854	3,442,435
Glass products	1,368	1,051	22,487,895	19,683,859	21,227,921	13,325,719	1,617,980	89,250	1,346,792
Cement, hydraulic	191	98	6,313,942	4,177,517	5,794,811	3,646,255	342,724	266,402	239,599
Concrete, gypsum, and plaster products	5,201	3,301	22,683,851	19,414,597	21,763,891	14,682,975	1,548,260	200,705	1,217,021
Other nonmetallic mineral products	3,853	2,421	14,450,079	11,275,995	14,046,376	9,273,416	743,450	171,497	639,023
Primary metal industries	4,377	3,035	116,424,525	59,173,105	108,946,419	84,660,404	2,294,296	1,891,623	1,599,720
Ferrous metal industries; miscellaneous primary mineral products	2,293	1,329	65,063,298	27,775,850	62,324,363	46,595,071	1,317,470	1,365,486	1,078,480
Nonferrous metal industries	2,085	1,707	51,361,227	31,397,255	46,622,055	38,065,333	976,826	526,137	521,239
Fabricated metal products	47,524	27,584	153,118,293	112,792,131	146,990,197	101,094,424	7,002,023	2,198,235	5,547,768
Metal cans and shipping containers	245	68	10,167,786	9,557,355	9,469,974	6,690,305	497,079	*25,850	430,506
Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products	4,071	2,362	17,384,180	15,050,992	16,530,866	10,367,962	1,034,679	83,678	839,347
Plumbing and heating, except electric and warm air	957	687	8,828,797	7,388,901	8,400,498	5,359,263	693,538	59,760	611,447
Fabricated structural metal products	9,418	5,696	36,426,036	26,393,707	35,244,607	25,750,255	1,412,945	504,559	1,093,180
Metal forgings and stampings	3,340	2,218	15,153,645	9,537,222	14,755,383	10,378,693	575,143	272,332	453,083
Coating, engraving, and allied services	2,283	1,328	4,496,129	3,533,558	4,402,867	2,775,060	245,143	91,548	193,954
Ordnance and accessories, except vehicles and guided missiles	248	188	1,581,089	1,453,673	1,549,023	1,048,882	101,851	*21,314	86,437
Miscellaneous fabricated metal products	26,962	15,038	59,080,632	39,876,722	56,636,979	38,724,003	2,441,646	1,139,195	1,839,815
Machinery, except electrical	25,179	13,834	213,188,265	148,735,674	179,573,940	113,435,958	11,778,148	4,479,890	10,581,848
Farm machinery	1,954	1,142	10,698,454	4,452,613	9,912,439	7,132,048	197,265	382,077	140,683
Construction and related machinery	1,763	682	28,939,101	18,184,863	26,695,039	18,888,175	806,087	1,015,564	570,939
Metalworking machinery	6,501	4,172	17,938,644	11,453,294	17,292,159	11,284,943	722,600	397,166	548,515
Special industry machinery	4,338	2,231	17,860,399	12,636,829	17,011,829	11,172,863	820,045	475,893	599,562
General industry machinery	4,006	2,379	20,694,613	12,325,117	19,898,303	13,068,061	853,643	484,342	700,458
Office, computing, and accounting machines	997	231	93,003,380	72,812,847	65,622,478	35,917,120	7,277,513	1,333,983	7,113,133
Other machinery, except electrical	5,620	2,996	24,053,673	16,870,112	23,141,692	15,972,749	1,100,995	390,865	908,558
Electrical and electronic equipment	22,426	13,046	249,064,290	208,457,937	230,436,162	148,153,578	11,156,036	4,723,877	9,591,522
Household appliances	257	251	15,323,283	11,674,603	14,653,448	10,434,723	734,585	132,684	676,421
Radio, television, and communication equipment	2,422	1,288	44,478,169	36,337,655	39,323,175	24,758,004	1,610,536	677,399	1,248,388
Electronic components and accessories	11,776	6053	93,172,460	73,665,406	88,899,774	57,556,336	3,805,647	2,794,685	3,186,856
Other electrical equipment	7,972	5,454	96,090,378	86,780,274	87,559,766	55,404,515	5,005,266	1,119,109	4,479,857
Motor vehicles and equipment	2,592	1,318	257,885,315	232,950,683	237,212,148	171,603,317	5,870,254	707,766	5,183,676
Transportation equipment, except motor vehicles	4,385	2,118	115,070,912	86,716,117	107,513,827	79,047,614	4,431,803	975,863	2,134,903
Aircraft, guided missiles and parts	1,467	780	98,868,935	75,239,430	91,926,429	66,955,794	3,824,450	608,806	1,757,009
Ship and boat building and repairing	1,589	755	6,587,889	4,363,934	6,359,798	4,947,262	230,299	233,932	120,157
Other transportation equipment, except motor vehicles	1,329	583	9,614,088	7,112,753	9,227,601	7,144,558	377,053	133,126	257,737
Instruments and related products	8,435	5,092	60,684,383	39,099,555	57,708,130	32,968,785	2,480,843	1,026,827	2,127,302
Scientific instruments and measuring devices; watches and clocks	2,403	1,963	22,973,183	19,022,190	21,934,329	12,906,735	1,058,924	393,503	909,065
Optical, medical, and ophthalmic goods	4,913	2,312	21,288,084	16,358,381	20,200,043	10,728,066	1,275,000	464,667	1,110,578
Photographic equipment and supplies	1,120	818	16,423,116	3,718,984	15,573,758	9,333,985	146,919	*168,657	107,659
Miscellaneous manufacturing and manufacturing not allocable	21,030	10,363	58,259,408	41,849,127	55,516,540	36,388,106	2,597,987	1,536,156	1,777,608
Transportation and public utilities	**138,428**	**68,517**	**762,231,202**	**551,978,231**	**717,929,024**	**338,754,789**	**41,098,014**	**19,294,351**	**36,663,610**
Transportation	109,839	53,168	280,728,355	182,232,153	261,854,817	127,583,587	8,214,041	9,484,991	5,991,374
Railroad transportation	400	186	48,875,233	37,068,278	43,978,191	22,739,605	1,435,201	4,117,403	1,127,172
Local and interurban passenger transit	8,232	4,379	9,860,696	7,823,175	8,537,477	3,603,317	352,700	124,859	270,928
Trucking and warehousing	51,563	28,626	90,187,666	68,526,692	87,482,076	35,888,403	3,131,616	949,604	2,395,226
Water transportation	7,450	2,394	18,459,056	9,743,454	16,611,149	10,708,044	555,033	1,246,773	254,280
Transportation by air	9,650	1,485	67,198,771	35,556,373	61,538,565	25,577,131	1,340,015	2,048,844	836,315
Pipelines, except natural gas	126	64	7,265,197	2,310,338	7,010,102	4,789,263	666,558	*134,281	636,423
Transportation services, not elsewhere classified	32,418	16,035	38,881,737	21,203,844	36,697,257	24,277,824	732,919	863,226	471,029
Communication	15,801	6,920	194,932,160	171,664,600	182,558,619	62,979,384	15,457,173	3,327,775	14,268,089
Telephone, telegraph, and other communication services	9,254	4,432	168,418,222	152,075,555	159,738,829	53,206,591	13,360,352	1,924,495	12,779,459
Radio and television broadcasting	6,547	2,488	26,513,938	19,589,045	22,819,790	9,772,793	2,096,821	1,403,280	1,488,630
Electric, gas, and sanitary services	12,789	8,429	286,570,687	198,081,478	273,515,589	148,191,817	17,426,800	6,481,585	16,404,148
Electric services	518	248	106,959,369	86,965,478	102,404,381	44,809,871	9,286,078	2,622,500	8,705,958
Gas production and distribution	1,782	1,271	95,598,915	35,653,269	89,935,322	66,273,101	1,247,157	2,388,081	1,053,516
Combination utility services	322	304	70,897,607	63,692,707	68,458,176	31,933,807	5,769,002	*1,346,801	5,671,163
Water supply and other sanitary services	10,168	6,606	13,114,796	11,770,023	12,717,710	5,175,038	1,124,564	124,202	973,510
Wholesale and retail trade	**939,159**	**527,779**	**2,547,440,986**	**2,000,097,928**	**2,472,495,351**	**1,895,237,380**	**55,246,479**	**20,326,531**	**43,982,615**
Wholesale trade	314,115	193,027	1,202,368,046	964,754,596	1,169,998,313	960,326,784	25,558,066	8,771,265	19,666,427
Groceries and related products	25,483	14,852	178,161,090	149,889,448	174,798,796	150,666,179	2,038,060	550,540	1,608,059
Machinery, equipment, and supplies	51,275	31,425	129,402,238	99,575,265	124,639,114	93,299,646	3,554,074	1,775,450	2,746,650
Miscellaneous wholesale trade	237,357	146,749	894,804,718	715,289,883	870,560,403	716,360,960	19,965,932	6,445,275	15,311,718
Motor vehicles and automotive equipment	19,753	13,779	104,620,486	92,202,410	102,432,451	84,910,365	3,423,768	445,787	3,096,707
Furniture and home furnishings	10,039	5,402	13,516,928	10,210,653	13,231,565	9,318,074	305,291	151,149	212,621
Lumber and construction materials	11,456	7,938	45,644,612	37,994,055	44,983,009	37,046,733	1,030,922	172,123	774,030
Sporting, recreational, photographic, and hobby goods, toys, and supplies	8,144	5,269	16,525,288	13,002,973	16,231,057	11,861,552	490,158	211,352	344,270
Metals and minerals, except petroleum and scrap	7,579	4,913	91,852,192	75,872,545	83,382,035	76,823,590	1,066,212	525,695	784,365
Electrical goods	18,805	12,299	71,985,793	52,804,034	70,733,673	53,438,325	1,823,298	943,717	1,508,177
Hardware, plumbing, and heating equipment and supplies	12,136	7,450	39,620,285	31,247,320	38,868,377	29,243,740	1,006,751	244,756	793,452
Other durable goods	53,310	30,652	91,403,708	71,396,702	89,440,783	69,750,980	2,153,712	1,107,249	1,538,918
Paper and paper products	8,670	5,396	23,216,068	18,354,453	22,870,441	17,686,802	470,274	130,802	365,877
Drugs, drug proprietaries, and druggists' sundries	3,342	2,126	28,201,596	25,517,517	27,776,228	23,012,012	661,042	103,066	572,915
Apparel, piece goods, and notions	14,818	9,131	45,444,926	27,312,319	44,728,585	35,915,822	1,198,576	345,487	811,863
Farm-product raw materials	8,528	6,047	67,759,674	61,268,650	66,148,493	59,125,282	765,410	238,842	451,558
Chemicals and allied products	7,229	4,263	23,359,739	19,700,919	22,937,396	17,945,303	684,132	171,344	575,676
Petroleum and petroleum products	13,787	9,955	120,191,647	94,062,704	117,647,226	105,603,561	2,233,380	735,924	1,764,071
Alcoholic beverages	4,852	3,082	38,538,633	32,477,767	37,910,962	28,570,019	1,001,098	155,186	547,638
Miscellaneous nondurable goods; wholesale trade not allocable	34,909	19,047	72,923,142	51,864,863	71,238,119	56,108,801	1,651,908	762,795	1,169,580

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 1—Number of Returns, Selected Receipts, Cost of Sales and Operations, Net Income, Deficit, Income Subject to Tax, Total Income Tax, Selected Credits, Total Assets, Depreciable Assets, Depreciation Deduction, and Coefficients of Variation by Minor Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Minor industry	Number of returns: Total	Number of returns: With net income	Total receipts: All returns	Total receipts: Returns with net income	Business receipts	Cost of sales and operations	Net income	Deficit	Income subject to tax
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Wholesale and retail trade—Continued									
Retail trade	620,956	332,985	1,340,896,432	1,032,357,027	1,298,421,838	932,067,748	29,592,013	11,482,098	24,255,197
Building materials, garden supplies, and mobile home dealers	42,149	25,900	73,384,375	54,792,536	71,542,924	51,841,745	2,072,897	750,897	1,614,029
Building materials dealers	20,303	11,884	52,722,673	39,227,703	51,615,490	37,765,486	1,500,963	516,212	1,188,966
Hardware stores	12,213	7,855	11,118,866	8,328,578	10,870,503	7,303,433	311,158	107,093	245,345
Garden supplies and mobile home dealers	9,633	6,161	9,542,836	7,236,256	9,056,931	6,772,826	260,776	127,591	179,719
General merchandise stores	11,107	5,863	205,565,043	184,670,209	192,227,510	122,823,657	6,528,304	882,727	6,238,456
Food stores	51,653	25,486	259,370,186	206,754,270	254,646,821	195,434,948	3,851,040	878,443	3,437,037
Grocery stores	30,594	16,871	242,395,419	195,690,782	237,927,264	184,155,771	3,544,965	575,495	3,229,266
Other food stores	21,059	8,616	16,974,766	11,063,488	16,719,557	11,279,176	306,074	302,947	207,771
Automotive dealers and service stations	89,876	55,944	376,618,311	273,526,780	368,844,494	315,455,735	4,064,645	1,680,148	2,890,601
Motor vehicle dealers	40,898	25,296	302,194,191	218,181,700	295,782,071	258,857,046	2,795,762	1,104,346	1,896,818
Gasoline service stations	18,577	11,565	41,373,985	31,258,184	40,811,601	33,745,897	610,591	172,929	471,382
Other automotive dealers	30,402	19,084	33,050,134	24,086,897	32,250,822	22,852,792	658,292	402,873	522,401
Apparel and accessory stores	46,593	24,792	62,102,792	49,881,828	60,473,661	35,855,408	2,366,011	902,044	2,039,317
Furniture and home furnishings stores	36,218	22,069	46,605,726	36,679,361	45,071,942	28,654,155	1,606,415	526,255	1,284,720
Eating and drinking places	136,344	58,579	113,499,990	75,663,550	106,564,423	46,999,286	3,731,388	2,830,717	2,772,403
Miscellaneous retail stores	207,016	114,352	203,750,009	150,388,491	199,050,063	135,002,815	5,371,314	3,030,868	3,978,633
Drug stores and proprietary stores	26,393	18,935	58,468,925	44,842,068	57,399,309	41,778,252	1,348,377	521,965	1,215,632
Liquor stores	14,499	8,492	11,755,124	8,205,374	11,567,476	9,360,695	174,691	109,082	93,397
Other retail stores	166,124	86,925	133,525,960	97,341,049	130,083,279	83,863,867	3,848,247	2,399,821	2,669,604
Wholesale and retail trade not allocable	4,088	1,767	4,176,509	2,986,305	4,075,200	2,842,847	96,400	73,168	60,992
Finance, insurance, and real estate	**537,384**	**296,921**	**1,365,095,368**	**1,104,534,156**	**618,646,549**	**320,622,944**	**131,284,234**	**31,475,326**	**50,679,641**
Banking	12,431	8,230	363,833,518	305,605,128	38,595,954	2,020,367	16,131,953	5,072,390	13,313,259
Mutual savings banks	375	357	24,871,498	23,477,314	1,607,028	219,179	2,714,358	161,704	1,378,035
Bank holding companies	5,177	3,368	273,921,986	234,669,988	32,198,826	1,546,127	10,497,523	3,131,383	9,476,361
Banks, except mutual savings banks and bank holding companies	6,879	4,504	65,040,034	47,457,827	4,790,100	255,061	2,920,071	1,779,303	2,458,863
Credit agencies other than banks	25,576	14,609	225,346,852	178,155,227	82,052,420	56,765,691	10,256,185	6,702,717	5,471,596
Savings and loan associations	3,529	2,628	123,808,710	97,031,836	11,784,083	1,718,901	8,652,845	5,153,415	4,376,206
Personal credit institutions	2,723	2,288	3,577,160	1,425,301	2,050,826	88,134	198,601	193,373	156,064
Business credit institutions	2,433	909	4,217,838	2,332,050	700,298	260,798	129,792	203,555	66,056
Other credit agencies; finance not allocable	16,891	8,783	93,743,143	77,366,040	67,517,213	54,697,858	1,274,948	1,152,375	873,270
Security, commodity brokers and services	16,551	8,366	58,355,572	49,258,777	33,525,833	5,874,617	4,792,616	886,714	3,942,592
Security brokers, dealers, and flotation companies	7,952	4,132	48,603,390	41,564,555	25,468,614	2,490,136	3,935,038	536,922	3,313,039
Commodity contracts brokers and dealers; security and commodity exchanges; and allied services	8,599	4,235	9,752,182	7,694,222	8,057,219	3,384,481	857,578	349,793	629,553
Insurance	9,057	6,206	452,171,741	378,616,019	324,224,770	195,924,570	22,169,323	5,291,644	15,726,494
Life insurance	2,335	1,681	272,231,749	231,306,830	179,702,270	111,425,776	13,705,660	1,768,776	10,854,503
Mutual insurance, except life or marine and certain fire or flood insurance companies	1,466	1,045	74,231,290	59,217,714	62,052,237	43,328,609	2,843,222	1,629,215	1,828,475
Other insurance companies	5,256	3,479	105,708,702	88,091,475	82,470,263	41,170,184	5,620,440	1,893,653	3,043,515
Insurance agents, brokers, and service	63,791	41,948	36,573,149	24,908,925	32,496,387	7,025,968	2,722,064	1,536,951	1,933,216
Real estate	366,317	191,868	99,508,463	63,543,276	62,331,043	22,728,816	11,002,743	9,123,032	6,233,626
Real estate operators and lessors of buildings	152,829	85,439	34,238,203	22,460,736	19,927,932	7,365,591	4,595,595	3,032,404	3,264,501
Lessors of mining, oil, and similar property	1,584	946	486,875	279,680	164,945	*81,909	171,983	53,308	128,524
Lessors of railroad property, and of real property, not elsewhere classified	4,885	3,285	477,501	299,256	230,580	108,661	100,595	54,010	73,274
Condominium management and cooperative housing associations	24,849	12,036	5,463,435	2,434,970	2,777,076	466,379	128,637	496,549	82,982
Subdividers and developers	51,295	21,787	18,905,374	12,011,437	9,049,496	5,047,896	2,736,100	2,608,017	882,496
Other real estate	130,876	68,375	39,937,075	26,057,198	30,181,014	9,658,380	3,269,834	2,878,745	1,801,847
Holding and other investment companies, except bank holding companies	43,660	25,694	129,306,074	104,446,804	45,420,144	30,282,915	64,209,349	2,861,877	4,058,859
Regulated investment companies	3,851	3,102	67,639,136	64,264,077	23,343	—	57,598,177	74,262	28,461
Real estate investment trusts	179	148	2,358,680	1,929,020	15,844	—	744,069	49,615	*4,502
Small business investment companies	5,934	2,786	423,380	309,709	194,218	—	76,579	98,896	29,015
Other holding and investment companies, except bank holding companies	33,696	19,659	58,884,877	37,943,998	45,186,739	30,282,915	5,790,525	2,639,104	3,996,881
Services	**1,012,178**	**575,016**	**591,849,715**	**414,540,017**	**550,590,929**	**196,127,453**	**23,450,664**	**16,002,641**	**15,326,352**
Hotels and other lodging places	22,277	11,270	34,892,684	23,893,900	30,658,841	13,729,327	1,523,126	1,347,620	1,041,844
Personal services	66,000	30,730	22,938,171	16,217,279	21,832,958	8,541,221	962,282	529,829	730,006
Business services	321,372	173,463	201,980,091	142,844,466	186,411,015	86,346,538	8,447,236	6,411,835	5,526,762
Advertising	32,525	17,554	30,892,941	22,862,017	29,984,245	17,100,549	961,659	496,927	675,537
Business services, except advertising	288,847	155,909	171,087,150	119,982,449	156,426,770	69,245,989	7,485,577	5,914,908	4,851,225
Auto repair; miscellaneous repair services	95,432	54,694	49,526,666	33,011,491	45,587,605	22,126,898	1,778,720	1,093,377	1,068,219
Auto repair and services	59,881	34,630	35,703,979	23,488,618	31,988,249	14,629,889	1,192,346	797,151	732,224
Miscellaneous repair services	35,551	20,064	13,822,687	9,522,872	13,599,356	7,497,010	586,374	296,225	335,996
Amusement and recreation services	72,115	31,557	51,279,093	36,132,158	45,950,018	18,055,725	2,623,219	1,968,657	1,585,180
Motion picture production, distribution, and services	12,776	6,149	18,683,603	16,255,029	16,574,061	7,868,639	763,810	421,889	518,562
Motion picture theaters	3,225	1,483	3,944,514	1,911,201	3,428,303	1,090,747	241,074	115,723	141,329
Amusement and recreation services, except motion pictures	56,114	23,924	28,650,976	17,965,928	25,947,655	9,096,339	1,618,335	1,431,046	925,289
Other services	434,982	273,303	231,233,009	162,440,724	220,150,491	47,327,745	8,116,081	4,651,324	5,374,340
Offices of physicians, including osteopathic physicians	123,542	85,719	60,292,433	44,985,550	58,719,195	5,226,728	1,919,639	603,594	1,495,021
Offices of dentists	42,446	33,385	15,429,097	12,259,508	15,128,044	1,820,010	592,684	86,205	432,815
Offices of other health practitioners	17,256	10,590	4,051,219	2,560,377	3,989,631	642,499	158,579	117,715	87,597
Nursing and personal care facilities	9,327	4,707	16,334,617	10,848,878	15,560,653	2,955,400	560,762	409,210	278,983
Hospitals	1,049	763	19,544,750	14,346,517	18,140,816	3,336,582	429,637	281,979	354,500
Medical laboratories	7,263	4,434	3,388,950	2,175,721	3,252,153	941,322	175,678	197,602	106,101
Other medical services	27,591	14,845	22,710,616	12,744,309	20,070,743	7,054,527	812,809	835,772	575,719
Legal services	43,849	31,984	23,576,430	17,964,978	22,227,787	1,731,007	895,162	269,827	579,425
Educational services	15,782	6,222	6,266,332	4,002,278	5,925,594	1,545,919	275,519	236,292	155,243
Social services	9,209	4,982	1,520,679	1,285,600	1,407,185	171,655	94,232	59,543	39,472
Membership organizations	13,199	6,992	4,678,823	3,390,851	3,865,802	1,727,097	180,453	125,726	107,472
Architectural and engineering services	47,180	26,326	30,790,778	20,691,904	29,878,755	11,944,507	1,083,153	792,256	673,842
Accounting, auditing, and bookkeeping services	28,184	17,862	7,555,168	4,957,362	7,445,752	866,200	322,537	130,588	162,897
Miscellaneous services (including veterinarians), not elsewhere classified	49,105	24,490	15,093,118	10,226,891	14,538,383	7,364,293	615,236	505,016	325,255
Nature of business not allocable	**27,443**	**5,939**	**3,490,803**	**1,561,486**	**3,196,240**	**1,915,069**	**227,716**	**313,131**	**150,447**

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 1—Number of Returns, Selected Receipts, Cost of Sales and Operations, Net Income, Deficit, Income Subject to Tax, Total Income Tax, Selected Credits, Total Assets, Depreciable Assets, Depreciation Deduction, and Coefficients of Variation, by Minor Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Minor industry	Total income tax	Foreign tax credit	U.S. possessions tax credit	Nonconventional source fuel credit	General business credit	Total income tax after credits [1]	Total assets	Depreciable assets	Depreciation deduction
	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
Total returns of active corporations	**111,140,137**	**21,480,508**	**2,907,256**	**63,544**	**12,805,999**	**73,876,301**	**14,163,209,894**	**3,382,556,559**	**312,582,789**
Agriculture, forestry, and fishing	**589,887**	**12,641**	**1**	**—**	**101,639**	**475,606**	**53,478,288**	**36,388,420**	**3,537,822**
Agricultural production	484,246	12,641	1	—	79,802	391,801	43,489,525	28,999,719	2,717,207
Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping	105,641	—	—	—	21,837	83,804	9,988,764	7,388,701	820,615
Mining	**1,453,090**	**618,542**	**—**	**7,137**	**132,721**	**694,690**	**206,122,125**	**96,209,849**	**7,039,541**
Metal mining	82,445	*47,478	—	—	*586	34,381	20,789,144	9,388,576	485,629
Iron ores	*36,926	*36,069	—	—	—	*857	*3,279,347	*2,245,164	*50,655
Copper, lead and zinc, gold and silver ores	32,630	—	—	—	*586	32,044	6,925,256	2,800,883	206,754
Other metal mining	*12,890	11,409	—	—	—	*1,481	10,584,541	4,342,529	228,220
Coal mining	146,200	1,790	—	*508	34,360	109,542	24,942,579	14,810,489	1,196,496
Oil and gas extraction	896,865	567,707	—	5,899	47,924	275,336	148,183,949	61,129,158	4,569,338
Crude petroleum, natural gas, and natural gas liquids	812,264	564,550	—	5,188	29,985	212,540	109,717,754	36,289,830	2,294,134
Oil and gas field services	84,601	*3,156	—	*711	17,938	62,796	38,466,194	24,839,328	2,275,203
Nonmetallic minerals, except fuels	327,580	*1,567	—	*730	49,852	275,432	12,206,453	10,881,626	788,078
Dimension, crushed, and broken stone; sand and gravel	205,398	49	—	*250	19,680	185,419	6,672,148	6,501,950	563,600
Other nonmetallic minerals, except fuels	122,182	*1,518	—	480	30,172	90,012	5,534,306	4,379,676	224,478
Construction	**2,525,994**	**71,340**	**6**	***441**	**270,387**	**2,183,820**	**218,880,512**	**71,322,700**	**7,516,637**
General building contractors and operative builders	1,016,603	*10,656	6	*335	82,997	922,609	121,862,704	22,944,183	2,356,160
General building contractors	921,688	*10,656	6	*335	79,519	831,172	107,472,440	21,623,053	2,263,472
Operative builders	94,915	—	—	—	3,478	91,437	14,390,264	1,321,130	92,688
Heavy construction contractors	632,980	55,982	—	96	92,968	483,934	41,845,953	23,034,962	2,032,687
Special trade contractors	876,411	*4,702	—	*10	94,422	777,277	55,171,854	25,343,555	3,127,790
Plumbing, heating, and air conditioning	171,482	—	—	—	13,993	157,489	12,146,362	3,983,128	527,610
Electrical work	128,245	4,597	—	—	8,589	115,058	9,912,671	3,642,223	447,545
Other special trade contractors and contractors not allocable	576,684	*105	—	*10	71,840	504,730	33,112,820	17,718,204	2,152,634
Manufacturing	**50,222,612**	**17,340,711**	**2,702,270**	**37,519**	**4,373,632**	**25,761,951**	**2,931,610,462**	**1,250,584,823**	**124,986,991**
Food and kindred products	4,463,451	755,382	283,869	*403	392,097	3,031,701	240,149,853	94,413,155	8,962,896
Meat products	292,648	180	17,169	—	19,492	255,807	12,118,368	7,495,549	653,850
Dairy products	411,097	*70,615	352	*16	47,724	292,390	15,879,991	8,951,026	1,216,155
Preserved fruits and vegetables	282,610	37,391	233	—	34,256	210,729	15,524,052	7,414,560	585,222
Grain mill products	795,601	139,474	5,774	—	74,181	576,173	34,266,289	15,245,600	1,450,032
Bakery products	148,522	*23	309	—	14,579	133,610	5,531,777	3,778,591	381,890
Sugar and confectionery products	325,009	44,452	8,625	(2)	18,465	253,467	19,105,864	7,927,351	721,516
Malt liquors and malt	379,660	195	—	383	68,963	310,120	11,670,968	9,017,501	744,726
Alcoholic beverages, except malt liquors and malt	175,980	36,193	21,109	—	5,891	112,786	21,192,031	2,076,617	141,145
Bottled soft drinks, and flavorings	1,011,297	*373,799	170,079	—	69,093	398,326	49,190,814	15,619,341	1,478,518
Other food and kindred products	641,028	53,059	60,219	4	39,454	488,292	55,669,698	16,887,018	1,589,842
Tobacco manufactures	1,227,333	268,650	23,342	—	125,308	810,034	64,331,816	13,996,523	2,889,259
Textile mill products	855,454	29,499	1,944	—	97,964	726,046	32,657,758	19,862,192	1,731,399
Weaving mills and textile finishing	305,441	16,435	—	—	36,632	252,374	11,844,048	7,877,291	665,350
Knitting mills	123,597	7	50	—	8,407	115,132	3,612,061	1,969,874	194,363
Other textile mill products	426,417	13,057	1,894	—	52,925	358,540	17,201,649	10,015,027	871,686
Apparel and other textile products	764,112	7,401	46,804	—	25,042	684,864	38,202,831	9,268,124	923,118
Men's and boys' clothing	211,196	2,379	16,253	—	13,253	179,311	13,171,095	3,126,406	297,388
Women's and children's clothing	328,907	*3,713	19,146	—	3,733	302,315	15,007,777	2,875,769	268,080
Other apparel and accessories	68,926	467	9,335	—	820	58,304	4,283,409	1,167,203	102,495
Miscellaneous fabricated textile products; textile products, not elsewhere classified	155,083	*842	2,071	—	7,235	144,935	5,740,550	2,098,746	255,156
Lumber and wood products	852,531	*41,986	—	—	136,954	673,591	55,924,580	33,877,033	2,655,373
Logging, sawmills, and planing mills	347,516	*34,273	—	—	84,139	229,105	26,251,898	16,265,843	1,010,901
Millwork, plywood, and related products	336,663	7,687	—	—	46,892	282,085	19,368,928	13,186,477	1,257,384
Other wood products, including wood buildings and mobile homes	168,352	27	—	—	5,924	162,401	10,303,754	4,424,713	387,088
Furniture and fixtures	744,167	9,494	402	—	31,268	703,003	16,340,735	8,028,035	739,825
Paper and allied products	1,510,949	275,948	2,794	*79	266,315	965,813	77,487,682	56,069,357	5,159,025
Pulp, paper, and board mills	503,631	75,771	—	72	143,816	283,972	52,641,555	38,756,898	3,492,799
Other paper products	1,007,318	200,177	2,794	*7	122,500	681,840	24,846,127	17,312,460	1,666,226
Printing and publishing	3,629,475	129,943	7,989	—	253,606	3,237,936	109,572,061	48,553,905	5,496,825
Newspapers	1,877,024	42,380	1,590	—	113,938	1,719,116	52,569,703	20,253,897	2,275,716
Periodicals	302,190	41,454	—	—	23,891	236,845	10,662,860	3,566,502	426,010
Books, greeting cards, and miscellaneous publishing	761,459	39,290	2,598	—	29,073	690,498	20,258,015	6,339,675	802,602
Commercial and other printing and printing trade services	688,802	6,819	3,801	—	86,704	591,478	26,081,482	18,393,831	1,992,497
Chemicals and allied products	8,741,178	3,070,986	1,538,607	*2,148	758,626	3,364,281	290,296,874	123,052,827	12,864,761
Industrial chemicals, plastics materials and synthetics	3,219,406	1,845,819	38,612	2,128	454,602	878,246	137,686,518	72,459,948	8,123,775
Drugs	3,979,968	747,497	1,462,934	*20	179,701	1,584,205	78,083,375	23,424,038	2,142,576
Soap, cleaners, and toilet goods	940,672	364,405	19,962	—	51,840	504,212	49,874,186	14,113,515	1,458,540
Paints and allied products	213,761	9,591	1,143	—	9,563	193,464	4,798,122	2,033,732	187,145
Agriculture and other chemical products	387,371	103,674	*15,957	—	62,921	204,154	19,854,674	11,021,594	952,725
Petroleum (including integrated) and coal products	8,086,591	7,071,083	38,833	32,349	237,073	707,253	558,622,859	260,432,870	20,923,605
Petroleum refining (including integrated)	7,974,583	7,063,632	38,833	32,349	222,087	617,682	552,004,640	257,010,151	20,625,544
Petroleum and coal products, not elsewhere classified	112,008	7,450	—	—	14,986	89,571	6,618,219	3,422,720	298,061
Rubber and miscellaneous plastics products	903,296	136,324	22,160	*109	71,058	673,645	45,492,429	27,104,814	2,136,772
Rubber products; plastics footwear, hose and belting	449,497	129,530	7,119	*109	34,287	278,453	26,402,562	15,613,408	1,017,679
Miscellaneous plastics products	453,799	6,794	15,042	—	36,771	395,193	19,089,867	11,491,407	1,119,093
Leather and leather products	182,460	20,899	12,648	—	8,396	140,517	8,966,947	2,652,250	227,457
Footwear, except rubber	155,102	20,681	10,374	—	6,435	117,612	7,386,299	2,111,392	182,903
Leather and leather products, not elsewhere classified	27,358	218	2,274	—	1,960	22,905	1,580,649	540,858	44,554

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 1—Number of Returns, Selected Receipts, Cost of Sales and Operations, Net Income, Deficit, Income Subject to Tax, Total Income Tax, Selected Credits, Total Assets, Depreciable Assets, Depreciation Deduction, and Coefficients of Variation, by Minor Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Minor industry	Total income tax	Foreign tax credit	U.S. possessions tax credit	Nonconventional source fuel credit	General business credit	Total income tax after credits [1]	Total assets	Depreciable assets	Depreciation deduction
	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
Manufacturing—Continued									
Stone, clay, and glass products	1,483,534	229,511	1,715	2	175,621	1,076,685	77,712,421	38,736,063	3,197,366
Glass products	579,088	169,838	211	—	73,497	335,541	41,424,594	14,934,330	1,186,084
Cement, hydraulic	92,785	*4,398	—	—	33,279	55,107	8,245,270	6,184,529	447,010
Concrete, gypsum, and plaster products	536,046	10,469	1,505	—	44,673	479,400	17,865,380	10,511,852	963,904
Other nonmetallic mineral products	275,615	44,805	—	2	24,171	206,636	10,177,177	7,105,352	600,369
Primary metal industries	664,099	119,105	—	143	113,696	431,155	125,390,788	66,669,223	4,557,039
Ferrous metal industries; miscellaneous primary mineral products	445,577	57,679	—	143	79,947	307,808	53,857,307	40,951,990	2,622,875
Nonferrous metal industries	218,522	61,426	—	—	33,750	123,347	71,533,481	25,717,233	1,934,164
Fabricated metal products	2,283,574	302,961	8,205	*490	140,986	1,830,931	122,552,113	55,039,698	5,017,441
Metal cans and shipping containers	178,790	13,396	3,450	—	*11,632	150,311	12,803,197	2,946,866	271,435
Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products	366,366	156,641	771	408	14,343	194,202	15,578,665	7,156,790	698,009
Plumbing and heating, except electric and warm air	271,496	12,248	—	—	12,491	246,757	9,750,921	3,129,892	252,217
Fabricated structural metal products	445,657	59,780	—	(2)	26,966	358,911	23,865,341	12,670,566	956,698
Metal forgings and stampings	191,342	302	102	—	13,421	177,516	9,045,770	5,699,203	546,047
Coating, engraving, and allied services	76,528	*1,094	—	—	5,550	69,883	2,529,816	1,894,181	168,889
Ordnance and accessories, except vehicles and guided missiles	38,222	18	—	—	*2,754	*35,450	910,873	352,238	44,656
Miscellaneous fabricated metal products	715,174	59,482	3,882	*82	53,828	597,901	48,066,928	21,189,962	2,079,490
Machinery, except electrical	4,772,139	3,092,437	107,711	—	184,531	1,387,459	225,052,906	99,170,869	9,552,809
Farm machinery	59,931	*569	—	—	8,500	50,862	11,803,786	4,468,857	367,675
Construction and related machinery	256,453	122,413	—	—	22,520	111,520	31,207,771	14,615,278	1,485,152
Metalworking machinery	221,803	6,406	1,151	—	25,265	188,981	14,068,959	7,799,422	706,293
Special industry machinery	255,443	25,675	2,208	—	13,137	214,422	13,574,176	5,910,537	506,648
General industry machinery	304,383	40,949	16,166	—	21,613	225,656	17,462,432	8,797,821	721,815
Office, computing, and accounting machines	3,298,177	2,830,643	87,408	—	61,259	318,866	115,137,645	48,692,068	4,931,033
Other machinery, except electrical	375,949	65,782	778	—	32,237	277,152	21,798,136	8,886,885	834,192
Electrical and electronic equipment	4,017,956	751,449	375,004	492	620,445	2,270,566	296,894,137	105,475,303	12,491,461
Household appliances	294,942	9,268	—	—	35,234	250,441	15,440,009	4,305,996	416,885
Radio, television, and communication equipment	575,293	112,112	85,044	—	139,239	238,899	53,816,788	15,031,184	1,799,069
Electronic components and accessories	1,401,386	294,639	134,568	492	181,753	789,934	79,301,824	33,423,541	3,914,502
Other electrical equipment	1,746,335	335,431	155,392	—	264,220	991,292	148,335,516	52,714,583	6,361,005
Motor vehicles and equipment	2,417,811	591,351	7,463	*1,064	406,956	1,410,978	334,416,694	100,240,407	16,277,603
Transportation equipment, except motor vehicles	906,183	211,316	5,376	—	183,401	506,090	104,160,255	42,990,794	4,545,937
Aircraft, guided missiles and parts	739,638	209,804	1,401	—	168,874	359,559	93,572,980	38,310,735	4,110,718
Ship and boat building and repairing	53,471	11	190	—	5,791	47,479	4,506,907	2,290,701	212,197
Other transportation equipment, except motor vehicles	113,074	*1,502	3,785	—	8,736	99,052	6,080,367	2,389,357	223,022
Instruments and related products	959,788	180,805	166,637	238	81,184	530,924	56,620,610	27,567,047	2,917,333
Scientific instruments and measuring devices; watches and clocks	404,676	99,821	46,387	238	30,886	227,344	20,071,775	8,753,183	812,972
Optical, medical, and ophthalmic goods	499,645	71,531	119,425	—	41,779	266,910	21,333,651	6,593,783	630,477
Photographic equipment and supplies	55,466	9,453	826	—	8,519	36,669	15,215,183	12,220,082	1,473,884
Miscellaneous manufacturing and manufacturing not allocable	756,531	44,182	50,767	—	63,103	598,478	50,764,111	17,384,332	1,719,687
Transportation and public utilities	**16,156,499**	**232,474**	**79,338**	**16,731**	**4,822,922**	**11,005,034**	**1,310,227,440**	**1,102,617,516**	**73,840,838**
Transportation	2,390,469	58,258	—	4,288	638,778	1,689,144	282,469,098	223,716,191	18,222,264
Railroad transportation	438,475	13,378	—	4,260	181,009	239,828	94,886,512	81,368,603	4,132,265
Local and interurban passenger transit	93,683	21,663	—	28	23,572	48,420	9,718,919	5,249,317	703,106
Trucking and warehousing	959,999	*9,703	—	—	150,760	799,536	46,766,043	38,314,106	5,040,324
Water transportation	102,095	5	—	—	28,553	73,537	25,546,953	18,316,017	1,314,482
Transportation by air	344,155	*2,867	—	—	210,669	130,618	74,198,808	57,734,207	5,285,425
Pipelines, except natural gas	291,638	*4,553	—	—	2,084	285,001	6,972,357	7,767,351	342,156
Transportation services, not elsewhere classified	160,424	6,089	—	—	42,131	112,204	24,379,507	14,966,590	1,404,507
Communication	6,453,311	154,343	79,338	18	1,791,183	4,428,429	400,442,308	296,465,663	27,011,810
Telephone, telegraph, and other communication services	5,878,740	*83,592	68,897	18	1,735,190	3,991,043	359,191,360	283,614,398	25,284,339
Radio and television broadcasting	574,572	70,751	10,441	—	55,993	437,386	41,250,948	12,851,266	1,727,471
Electric, gas, and sanitary services	7,312,719	19,872	—	12,425	2,392,961	4,887,460	627,316,034	582,435,662	28,606,764
Electric services	3,869,183	2,458	—	1	1,556,533	2,310,191	321,781,242	313,905,508	15,516,640
Gas production and distribution	485,143	1,573	—	11,022	57,733	414,814	121,064,635	87,686,574	4,778,569
Combination utility services	2,542,559	11,638	—	222	733,402	1,797,297	169,214,798	167,474,825	7,254,491
Water supply and other sanitary services	415,834	4,204	—	*1,179	45,293	365,158	15,255,359	13,368,756	1,057,064
Wholesale and retail trade	**17,097,449**	**632,765**	**96,649**	**541**	**1,201,408**	**15,166,086**	**1,073,523,697**	**337,486,238**	**37,840,513**
Wholesale trade	7,781,984	280,896	32,620	*422	342,803	7,125,243	503,719,685	122,172,911	13,744,364
Groceries and related products	638,859	*267	368	154	34,813	603,258	35,926,290	14,424,001	1,481,845
Machinery, equipment, and supplies	1,052,661	*22,584	146	154	76,985	952,793	68,102,284	21,146,245	2,698,244
Miscellaneous wholesale trade	6,090,464	258,046	32,106	*114	231,005	5,569,193	399,691,111	86,602,666	9,564,275
Motor vehicles and automotive equipment	1,318,260	43,331	—	—	42,443	1,232,486	40,195,619	9,627,269	1,685,708
Furniture and home furnishings	78,310	*110	—	—	4,876	73,323	5,204,412	1,144,818	139,349
Lumber and construction materials	294,325	*269	—	—	12,999	281,057	14,008,376	4,357,601	431,870
Sporting, recreational, photographic, and hobby goods, toys, and supplies	133,009	124	—	—	4,709	128,176	7,579,052	1,423,878	157,781
Metals and minerals, except petroleum and scrap	321,067	724	100	—	15,019	305,225	108,946,261	6,005,802	553,723
Electrical goods	618,831	16,397	4,312	—	19,792	578,330	31,374,684	5,775,790	682,638
Hardware, plumbing, and heating equipment and supplies	291,550	*29	—	—	8,216	283,306	15,071,259	3,541,589	366,837
Other durable goods	534,890	14,612	215	—	27,782	492,281	39,563,413	8,965,472	1,022,855
Paper and paper products	130,023	263	—	—	5,141	124,619	7,717,884	2,056,318	221,284
Drugs, drug proprietaries, and druggists' sundries	244,431	2,773	—	—	5,216	236,442	9,988,712	1,934,282	210,853
Apparel, piece goods, and notions	325,293	*6,320	(2)	—	4,448	314,525	14,904,736	1,986,949	252,312
Farm-product raw materials	165,489	6,599	—	—	13,529	145,362	22,992,271	8,899,896	830,039
Chemicals and allied products	238,668	17,534	—	—	5,482	215,652	7,924,753	2,424,456	268,607
Petroleum and petroleum products	729,677	143,748	27,045	17	36,777	522,091	35,965,179	15,178,267	1,474,913
Alcoholic beverages	226,044	*32	258	*20	6,331	219,404	11,647,533	5,145,657	412,563
Miscellaneous nondurable goods; wholesale trade not allocable	440,598	5,183	178	77	18,245	416,915	26,606,965	8,134,623	852,943

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 1—Number of Returns, Selected Receipts, Cost of Sales and Operations, Net Income, Deficit, Income Subject to Tax, Total Income Tax, Selected Credits, Total Assets, Depreciable Assets, Depreciation Deduction, and Coefficients of Variation, by Minor Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Minor industry	Total income tax	Foreign tax credit	U.S. possessions tax credit	Nonconventional source fuel credit	General business credit	Total income tax after credits 1	Total assets	Depreciable assets	Depreciation deduction
	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
Wholesale and retail trade—Continued									
Retail trade	9,296,057	351,868	64,030	*120	857,600	8,022,439	567,922,765	214,752,981	24,025,063
Building materials, garden supplies, and mobile home dealers	589,195	9,212	—	*113	21,986	557,884	34,544,390	12,432,434	1,095,220
Building materials dealers	460,718	9,212	—	*113	17,638	433,756	25,186,319	9,222,116	795,848
Hardware stores	74,009	—	—	—	1,914	72,095	4,796,345	1,589,211	141,658
Garden supplies and mobile home dealers	54,468	—	—	—	2,434	52,034	4,561,726	1,621,107	157,714
General merchandise stores	2,645,840	97,171	—	—	308,256	2,240,414	179,829,908	46,091,640	4,700,185
Food stores	1,360,985	61,364	2,998	—	151,621	1,145,002	58,571,130	37,107,344	4,148,065
Grocery stores	1,292,777	59,159	2,998	—	143,853	1,086,768	53,648,848	33,333,445	3,730,701
Other food stores	68,208	2,206	—	—	7,768	58,234	4,922,282	3,773,899	417,364
Automotive dealers and service stations	1,000,285	37	—	—	84,939	915,309	89,776,693	29,539,177	4,273,912
Motor vehicle dealers	693,353	36	—	—	55,563	637,753	68,649,043	19,452,582	3,086,979
Gasoline service stations	155,012	—	—	—	11,600	143,412	7,238,388	4,637,252	505,443
Other automotive dealers	151,920	1	—	—	17,776	134,143	13,889,261	5,449,343	681,489
Apparel and accessory stores	813,140	4,122	—	—	26,812	782,207	29,889,751	10,449,792	1,175,249
Furniture and home furnishings stores	460,922	—	—	—	9,140	451,782	22,781,251	5,798,833	610,570
Eating and drinking places	1,039,096	176,898	483	7	172,371	689,338	64,744,347	43,238,113	4,605,650
Miscellaneous retail stores	1,386,593	3,066	60,549	—	82,475	1,240,504	87,785,295	30,095,648	3,416,212
Drug stores and proprietary stores	468,011	1,366	60,526	—	27,573	378,546	25,764,584	8,368,300	779,272
Liquor stores	25,898	—	—	—	1,514	24,384	3,085,850	1,279,160	131,459
Other retail stores	892,684	*1,700	22	—	53,388	837,574	58,934,861	20,448,188	2,505,481
Wholesale and retail trade not allocable	19,408	—	—	—	1,005	18,403	1,881,247	560,346	71,086
Finance, insurance, and real estate	**18,091,479**	**2,254,655**	**14,884**	**306**	**1,155,859**	**14,665,774**	**7,985,641,912**	**263,329,811**	**28,990,058**
Banking	5,462,019	1,767,721	—	—	519,961	3,174,337	3,551,085,491	72,031,063	12,370,650
Mutual savings banks	588,882	341	—	—	6,759	581,782	251,383,947	3,254,480	269,114
Bank holding companies	3,810,234	1,642,109	—	—	465,624	1,702,500	2,880,577,789	59,022,259	10,774,461
Banks, except mutual savings banks and bank holding companies	1,062,904	125,271	—	—	47,578	890,054	419,123,755	9,754,324	1,327,075
Credit agencies other than banks	2,377,689	116,709	11,775	—	96,697	2,152,508	1,444,992,909	25,381,715	2,816,851
Savings and loan associations	1,967,148	*4,890	10,166	—	61,684	1,890,409	1,102,172,582	18,452,302	1,704,279
Personal credit institutions	50,141	*6	1,076	—	2,992	46,067	16,030,449	508,155	122,795
Business credit institutions	27,044	30	534	—	467	26,013	35,775,440	576,970	239,492
Other credit agencies; finance not allocable	333,356	*111,783	—	—	31,554	190,019	291,014,438	5,844,289	750,284
Security, commodity brokers and services	1,624,410	42,567	842	24	237,711	1,343,266	392,056,171	6,227,441	1,189,188
Security brokers, dealers, and flotation companies	1,363,127	41,961	801	24	222,498	1,097,843	370,813,273	4,610,726	988,846
Commodity contracts brokers and dealers; security and commodity exchanges; and allied services	261,283	*606	41	—	15,213	245,424	21,242,898	1,616,715	200,342
Insurance	4,638,199	230,262	303	(2)	153,591	4,254,042	1,310,194,707	20,000,683	4,080,051
Life insurance	3,308,843	100,332	303	(2)	104,483	3,103,724	866,795,328	13,160,953	2,658,504
Mutual insurance, except life or marine and certain fire or flood insurance companies	513,679	15,080	—	—	21,351	477,248	139,344,177	1,955,194	559,447
Other insurance companies	815,677	114,850	—	—	27,757	673,070	304,055,202	4,884,535	862,101
Insurance agents, brokers, and service	720,805	43,746	—	(2)	25,794	651,265	64,338,480	6,024,022	886,273
Real estate	1,922,998	6,709	633	*84	53,470	1,862,103	271,810,111	107,687,915	5,744,801
Real estate operators and lessors of buildings	994,016	5,385	90	*82	25,037	963,422	95,951,161	59,200,924	3,201,565
Lessors of mining, oil, and similar property	46,335	5	—	1	13	46,315	2,072,462	432,674	28,552
Lessors of railroad property, and of real property, not elsewhere classified	20,766	—	—	—	*823	19,943	1,720,600	783,933	61,895
Condominium management and cooperative housing associations	16,200	—	—	—	*481	15,720	19,717,088	16,659,561	484,761
Subdividers and developers	316,446	*1,243	542	—	9,528	305,133	77,307,944	13,535,947	722,408
Other real estate	529,234	*75	—	—	17,589	511,571	75,040,856	17,074,875	1,245,620
Holding and other investment companies, except bank holding companies	1,345,358	46,941	1,331	*198	68,636	1,228,253	951,164,042	25,976,972	1,902,244
Regulated investment companies	1,384	111	—	—	1	1,272	779,555,823	23,152	373
Real estate investment trusts	1,245	—	—	—	*45	1,200	20,659,001	6,482,089	178,910
Small business investment companies	9,105	—	—	—	*1,982	7,123	2,339,882	258,059	16,244
Other holding and investment companies, except bank holding companies	1,333,624	46,830	1,331	*198	66,607	1,218,659	148,609,336	19,213,672	1,706,717
Services	**4,942,317**	**317,281**	**14,107**	***868**	**746,497**	**3,863,565**	**381,609,099**	**223,689,614**	**28,721,936**
Hotels and other lodging places	367,117	*39,023	5,235	—	43,691	279,168	41,785,184	27,018,245	2,007,385
Personal services	238,759	22,763	—	—	18,284	197,712	13,008,504	9,550,516	1,057,080
Business services	1,960,958	138,237	*5,984	*868	232,311	1,583,558	123,763,458	62,905,280	9,614,905
Advertising	253,193	42,725	549	*2	15,217	194,701	17,273,465	5,251,013	551,252
Business services, except advertising	1,707,765	95,512	*5,435	867	217,094	1,388,857	106,489,993	57,654,268	9,063,653
Auto repair; miscellaneous repair services	333,516	*558	91	—	100,983	231,884	36,640,263	30,784,392	5,113,640
Auto repair and services	237,018	547	91	—	96,217	140,163	31,431,491	27,463,378	4,696,724
Miscellaneous repair services	96,499	*12	—	—	4,767	91,720	5,208,771	3,321,015	416,916
Amusement and recreation services	609,507	100,275	142	—	145,767	363,322	60,047,973	29,015,897	3,744,298
Motion picture production, distribution, and services	198,113	58,346	—	—	70,317	69,450	30,071,606	5,421,915	1,478,255
Motion picture theaters	52,037	—	—	—	1,199	50,838	4,729,555	3,256,077	229,139
Amusement and recreation services, except motion pictures	359,357	41,929	142	—	74,251	243,034	25,246,812	20,337,906	2,036,904
Other services	1,432,460	16,426	2,654	—	205,460	1,207,920	106,363,716	64,415,283	7,184,630
Offices of physicians, including osteopathic physicians	303,887	—	(2)	—	43,737	260,150	12,679,666	9,944,951	1,257,345
Offices of dentists	74,944	—	—	—	13,341	61,604	3,274,483	3,338,185	391,631
Offices of other health practitioners	16,085	—	—	—	2,087	13,997	1,343,558	1,039,207	134,219
Nursing and personal care facilities	102,362	—	—	—	15,641	86,722	12,301,711	8,512,238	633,045
Hospitals	151,076	2,733	—	—	49,741	98,602	27,149,913	16,790,216	1,645,877
Medical laboratories	33,938	—	—	—	2,798	31,140	2,312,854	1,118,591	137,549
Other medical services	194,052	5,069	59	—	15,835	173,089	11,805,152	4,725,739	601,221
Legal services	121,194	—	—	—	16,522	104,672	6,042,943	3,748,258	524,000
Educational services	49,702	*1,945	—	—	7,294	40,463	3,972,449	2,127,772	265,903
Social services	9,660	—	—	—	*994	8,666	1,325,704	768,493	66,601
Membership organizations	32,684	—	—	—	2,202	30,482	3,134,149	1,823,611	149,286
Architectural and engineering services	215,605	*6,486	577	—	20,688	187,854	11,203,115	5,459,819	710,540
Accounting, auditing, and bookkeeping services	38,805	—	(2)	—	6,087	32,717	2,388,585	1,484,078	230,908
Miscellaneous services (including veterinarians), not elsewhere classified	88,465	*192	2,017	—	8,493	77,762	7,429,434	3,534,126	436,503
Nature of business not allocable	**60,809**	**99**	**—**	**—**	***934**	**59,776**	**2,116,359**	**927,587**	**108,453**

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 1—Number of Returns, Selected Receipts, Cost of Sales and Operations, Net Income, Deficit, Total Income Tax, Selected Credits, Total Assets, Depreciable Assets, Depreciation Deduction, and Coefficients of Variation, by Minor Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Coefficient of variation (Percent): Number of returns: Total	Number of returns: With net income	Total receipts: All returns	Total receipts: Returns with net income	Business receipts	Cost of sales and operations	Net income	Deficit	Income subject to tax
	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)
Total returns of active corporations	**0.22**	**0.67**	**0.36**	**0.48**	**0.38**	**0.49**	**0.45**	**0.72**	**0.59**
Agriculture, forestry, and fishing	**3.00**	**4.21**	**7.73**	**9.99**	**8.32**	**11.39**	**3.08**	**4.30**	**3.47**
Agricultural production	2.85	4.20	4.95	6.27	5.37	7.50	3.34	5.11	3.61
Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping	7.00	9.87	19.84	26.08	20.59	26.56	7.57	7.99	9.99
Mining	**5.16**	**8.61**	**1.26**	**2.51**	**1.39**	**1.45**	**1.76**	**1.48**	**1.87**
Metal mining	33.51	45.40	1.44	3.75	1.55	1.46	4.35	4.40	4.93
Iron ores	32.15	42.86	4.70	9.33	5.26	5.47	4.89	2.21	5.54
Copper, lead and zinc, gold and silver ores	23.23	57.05	2.46	1.92	2.69	2.70	6.60	6.75	8.92
Other metal mining	42.94	71.59	1.79	10.61	1.89	1.52	14.77	6.20	14.61
Coal mining	18.28	24.90	3.87	5.28	4.12	4.29	4.73	7.99	7.92
Oil and gas extraction	5.62	10.44	1.38	4.10	1.54	1.59	2.18	1.57	2.11
Crude petroleum, natural gas, and natural gas liquids	7.58	14.99	1.39	3.67	1.55	1.84	2.08	2.47	1.89
Oil and gas field services	8.35	14.51	2.92	9.90	3.20	2.91	7.14	2.02	11.72
Nonmetallic minerals, except fuels	15.58	18.79	4.02	4.43	4.25	4.93	4.63	16.38	4.75
Dimension, crushed, and broken stone; sand and gravel	15.49	18.04	5.11	5.75	5.22	6.06	6.49	21.39	6.40
Other nonmetallic minerals, except fuels	30.00	39.37	6.41	6.51	7.31	8.46	5.61	22.53	6.26
Construction	**1.58**	**2.44**	**1.22**	**1.57**	**1.25**	**1.36**	**1.63**	**2.51**	**1.97**
General building contractors and operative builders	1.73	3.47	1.82	2.47	1.89	2.05	2.45	3.38	3.03
General building contractors	1.70	3.48	1.87	2.55	1.93	2.08	2.57	3.50	3.20
Operative builders	19.31	27.23	5.32	6.19	6.41	8.03	7.60	11.60	6.94
Heavy construction contractors	6.12	7.95	2.19	2.81	2.27	2.39	3.17	5.40	3.87
Special trade contractors	2.59	3.58	2.13	2.56	2.14	2.31	2.90	4.88	3.38
Plumbing, heating, and air conditioning	6.47	7.88	4.72	5.58	4.73	4.94	6.62	10.80	7.82
Electrical work	7.65	9.89	5.10	6.02	5.13	5.28	7.53	10.99	8.82
Other special trade contractors and contractors not allocable	2.94	4.38	2.70	3.28	2.72	3.02	3.57	6.29	4.14
Manufacturing	**1.98**	**2.55**	**0.24**	**0.27**	**0.27**	**0.30**	**0.26**	**0.82**	**0.25**
Food and kindred products	7.99	9.49	1.14	1.23	1.18	1.45	0.91	3.72	0.88
Meat products	12.41	16.06	4.80	5.92	4.82	5.14	4.74	10.65	5.03
Dairy products	20.74	24.70	3.92	4.16	4.03	4.52	3.64	18.80	3.72
Preserved fruits and vegetables	18.01	23.36	2.89	2.50	2.99	3.40	3.24	17.33	3.08
Grain mill products	20.26	23.28	1.34	1.37	1.37	1.68	1.25	23.82	1.26
Bakery products	21.49	26.72	6.00	6.10	6.05	6.70	7.37	31.01	7.05
Sugar and confectionery products	27.80	26.46	2.32	2.16	2.37	2.72	2.73	16.33	2.25
Malt liquors and malt	51.40	53.06	0.77	0.77	0.78	1.17	0.86	14.00	0.82
Alcoholic beverages, except malt liquors and malt	36.90	55.80	4.51	5.52	4.84	4.91	2.45	16.64	3.00
Bottled soft drinks, and flavorings	11.63	12.80	2.12	2.34	2.26	3.01	2.08	2.81	2.01
Other food and kindred products	15.04	18.92	1.83	2.54	1.93	2.08	2.86	5.98	2.80
Tobacco manufactures	52.25	52.91	0.27	0.27	0.27	0.33	0.31	14.00	0.33
Textile mill products	14.80	16.16	2.42	2.54	2.46	2.60	2.68	13.18	2.60
Weaving mills and textile finishing	25.11	28.87	3.52	3.45	3.57	3.86	3.44	29.32	3.19
Knitting mills	17.20	18.54	9.21	9.94	9.24	9.90	8.75	34.19	8.14
Other textile mill products	18.21	16.43	3.23	3.53	3.29	3.42	3.94	14.29	3.99
Apparel and other textile finishing	8.89	10.79	2.92	3.40	2.96	3.10	3.44	8.17	3.68
Men's and boys' clothing	22.43	24.38	4.15	4.68	4.24	4.59	5.48	17.25	5.79
Women's and children's clothing	11.51	12.94	4.96	5.98	5.02	5.22	5.21	13.38	5.41
Other apparel and accessories	19.19	22.46	9.05	11.82	9.11	9.48	12.88	13.02	14.00
Miscellaneous fabricated textile products; textile products, not elsewhere classified	14.44	17.45	7.06	7.74	7.10	7.44	8.91	18.96	9.35
Lumber and wood products	8.29	10.02	1.98	2.38	2.05	2.17	2.82	5.19	2.58
Logging, sawmills, and planing mills	12.66	14.56	2.91	3.03	3.07	3.28	4.18	15.38	3.70
Millwork, plywood, and related products	13.82	16.16	2.84	4.01	2.90	3.08	4.73	6.22	4.28
Other wood products, including wood buildings and mobile homes	13.51	17.27	5.56	7.11	5.73	5.96	6.56	8.56	6.45
Furniture and fixtures	10.44	12.64	2.93	3.48	2.97	3.28	2.79	7.41	2.84
Paper and allied products	14.99	10.78	1.19	1.16	1.22	1.38	1.14	6.42	1.16
Pulp, paper, and board mills	26.97	27.04	0.66	0.62	0.68	0.77	0.92	6.26	1.12
Other paper products	12.42	11.53	2.40	2.50	2.44	2.71	1.84	11.97	1.72
Printing and publishing	5.19	7.18	1.20	1.32	1.26	1.58	1.01	5.19	0.87
Newspapers	14.85	17.98	1.34	1.31	1.41	2.08	1.13	6.39	0.98
Periodicals	17.41	24.24	4.48	4.59	4.74	5.82	4.21	16.32	2.86
Books, greeting cards, and miscellaneous publishing	18.20	22.84	2.75	3.06	2.94	4.00	1.91	16.06	1.43
Commercial and other printing and printing trade services	5.80	8.35	2.37	2.89	2.41	2.57	3.05	9.00	3.11
Chemicals and allied products	10.48	11.64	0.44	0.46	0.47	0.55	0.51	3.45	0.53
Industrial chemicals, plastics materials and synthetics	15.20	17.15	0.55	0.58	0.59	0.65	0.62	4.65	0.62
Drugs	15.87	17.72	0.75	0.66	0.77	1.22	0.92	11.25	0.92
Soap, cleaners, and toilet goods	19.47	23.01	0.82	0.88	0.85	0.87	1.38	9.78	1.44
Paints and allied products	15.41	18.16	5.16	5.26	5.22	5.77	5.28	33.71	4.72
Agriculture and other chemical products	22.93	26.56	2.75	3.43	2.83	3.22	2.37	5.94	2.42
Petroleum (including integrated) and coal products	22.80	27.02	0.42	0.22	0.46	0.63	0.18	0.38	0.15
Petroleum refining (including integrated)	35.12	57.51	0.40	0.07	0.44	0.62	0.08	0.35	0.05
Petroleum and coal products, not elsewhere classified	25.52	30.53	7.12	9.63	7.44	8.11	8.53	16.71	10.09
Rubber and miscellaneous plastics products	8.79	11.35	1.97	2.21	2.02	2.14	3.07	8.92	3.20
Rubber products; plastics footwear, hose and belting	17.27	20.35	1.90	1.92	1.98	2.15	3.02	19.35	3.02
Miscellaneous plastics products	8.60	10.93	3.50	4.40	3.52	3.66	5.17	10.04	5.51
Leather and leather products	23.93	31.22	3.94	4.27	4.10	4.68	3.19	10.32	3.58
Footwear, except rubber	20.06	23.02	2.29	2.37	2.38	2.66	2.20	9.70	3.02
Leather and leather products, not elsewhere classified	26.81	33.62	13.49	16.01	13.61	14.52	16.07	26.22	15.04

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 1—Number of Returns, Selected Receipts, Cost of Sales and Operations, Net Income, Deficit, Total Income Tax, Selected Credits, Total Assets, Depreciable Assets, Depreciation Deduction, and Coefficients of Variation, by Minor Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Coefficient of variation (Percent)								
	Number of returns		Total receipts		Business receipts	Cost of sales and operations	Net income	Deficit	Income subject to tax
	Total	With net income	All returns	Returns with net income					
	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)
Manufacturing—Continued									
Stone, clay, and glass products	10.33	11.95	1.72	1.89	1.78	1.92	1.82	6.55	1.97
Glass products	22.95	21.86	1.95	2.10	2.05	2.16	1.88	17.52	1.53
Cement, hydraulic	33.35	38.70	2.92	4.40	3.14	3.59	3.29	0.31	3.86
Concrete, gypsum, and plaster products	12.75	14.94	3.61	4.00	3.70	3.87	3.84	16.52	4.52
Other nonmetallic mineral products	17.83	21.10	4.29	4.43	4.36	4.74	4.99	17.24	5.05
Primary metal industries	11.84	15.19	0.88	1.45	0.93	0.97	2.02	2.46	2.14
Ferrous metal industries; miscellaneous primary mineral products	14.95	18.95	0.92	1.66	0.95	0.98	2.24	2.54	2.10
Nonferrous metal industries	17.01	20.59	1.59	2.27	1.73	1.77	3.64	5.90	4.93
Fabricated metal products	4.38	5.95	1.38	1.68	1.42	1.51	1.77	4.09	1.72
Metal cans and shipping containers	29.56	34.82	2.53	1.89	2.66	2.81	2.67	31.69	2.09
Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products	16.40	19.58	3.12	2.98	3.20	3.51	3.56	22.11	3.15
Plumbing and heating, except electric and warm air	27.84	20.63	4.81	5.28	4.99	5.29	3.95	23.62	3.63
Fabricated structural metal products	10.77	12.79	3.30	4.12	3.37	3.58	4.34	9.31	4.25
Metal forgings and stampings	12.49	15.80	4.77	6.63	4.83	4.90	7.85	10.05	6.23
Coating, engraving, and allied services	16.47	16.70	10.63	12.23	10.71	11.38	11.85	26.05	11.81
Ordnance and accessories, except vehicles and guided missiles	51.49	40.26	14.20	15.40	14.42	15.11	16.19	4.50	14.94
Miscellaneous fabricated metal products	5.37	8.15	2.20	2.93	2.27	2.35	3.22	5.51	3.27
Machinery, except electrical	6.60	8.10	0.75	0.95	0.87	0.95	0.85	2.19	0.78
Farm machinery	23.00	21.40	3.18	7.15	3.36	3.35	12.98	5.52	11.14
Construction and related machinery	21.51	26.95	1.60	2.11	1.70	1.71	2.86	4.00	2.82
Metalworking machinery	12.55	16.08	4.16	5.77	4.24	4.33	6.88	8.58	7.56
Special industry machinery	13.71	16.83	3.99	4.95	4.12	4.24	5.49	9.09	6.40
General industry machinery	16.68	20.79	3.25	4.89	3.32	3.57	4.91	5.86	4.92
Office, computing, and accounting machines	25.61	22.48	0.38	0.40	0.52	0.61	0.29	3.92	0.26
Other machinery, except electrical	12.63	15.64	3.12	4.02	3.20	3.23	4.29	8.02	4.35
Electrical and electronic equipment	7.12	9.73	0.60	0.64	0.64	0.68	0.94	2.55	0.89
Household appliances	34.86	36.43	1.33	1.72	1.36	1.22	2.19	0.55	1.79
Radio, television, and communication equipment	27.26	36.37	1.01	1.07	1.11	1.19	2.74	6.42	2.65
Electronic components and accessories	8.53	11.53	1.13	1.28	1.16	1.23	1.85	3.10	1.71
Other electrical equipment	11.45	13.54	0.96	0.98	1.04	1.15	1.24	6.42	1.24
Motor vehicles and equipment	20.59	30.09	0.29	0.26	0.57	0.32	0.62	4.46	0.61
Transportation equipment, except motor vehicles	16.50	20.27	0.73	0.88	0.77	0.79	1.21	4.81	1.86
Aircraft, guided missiles and parts	25.75	30.52	0.40	0.51	0.42	0.38	0.91	4.47	1.33
Ship and boat building and repairing	29.50	38.80	8.37	11.21	8.55	8.59	9.16	9.91	13.49
Other transportation equipment, except motor vehicles	27.97	35.03	5.16	6.27	5.29	5.27	9.19	23.24	10.73
Instruments and related products	13.42	16.03	1.22	1.73	1.26	1.37	2.36	5.61	2.34
Scientific instruments and measuring devices; watches and clocks	18.47	22.45	2.17	2.35	2.23	2.28	3.65	11.12	3.58
Optical, medical, and ophthalmic goods	19.27	24.07	2.19	2.62	2.27	2.55	3.25	7.98	3.26
Photographic equipment and supplies	38.92	50.05	1.69	7.40	1.77	2.21	9.19	3.22	9.43
Miscellaneous manufacturing and manufacturing not allocable	7.21	11.12	3.15	4.26	3.29	4.54	2.52	4.71	2.66
Transportation and public utilities	**3.27**	**4.57**	**0.50**	**0.57**	**0.52**	**0.81**	**0.39**	**1.09**	**0.31**
Transportation	3.69	5.24	1.25	1.55	1.32	2.08	1.46	2.02	1.49
Railroad transportation	34.44	43.62	0.30	0.38	0.31	0.44	1.19	0.26	1.36
Local and interurban passenger transit	14.66	18.22	7.25	8.05	8.22	12.64	9.27	25.32	9.60
Trucking and warehousing	4.72	6.35	2.62	2.73	2.67	4.72	2.73	6.97	2.75
Water transportation	14.82	23.95	3.96	5.50	4.14	4.99	7.16	4.22	7.93
Transportation by air	14.47	20.39	1.05	1.44	1.12	1.71	2.76	7.71	2.78
Pipelines, except natural gas	28.02	29.70	1.06	2.96	1.07	0.89	3.27	1.52	3.38
Transportation services, not elsewhere classified	8.22	10.86	5.97	9.06	6.19	7.80	6.89	7.50	7.85
Communication	9.41	12.40	0.43	0.43	0.44	0.70	0.55	2.54	0.42
Telephone, telegraph, and other communication services	13.33	15.82	0.40	0.42	0.42	0.62	0.39	3.01	0.30
Radio and television broadcasting	11.98	19.95	1.91	1.89	2.04	3.05	3.20	4.37	3.05
Electric, gas, and sanitary services	10.80	13.20	0.42	0.55	0.44	0.42	0.38	0.43	0.25
Electric services	18.36	16.01	0.16	0.20	0.17	0.18	0.44	0.42	0.14
Gas production and distribution	21.22	25.20	0.65	1.13	0.68	0.80	2.36	0.66	2.15
Combination utility services	22.24	24.11	0.19	0.21	0.19	0.28	0.16	0.14	0.16
Water supply and other sanitary services	12.66	15.66	7.60	8.31	7.80	5.68	3.52	16.39	3.02
Wholesale and retail trade	**1.03**	**1.49**	**0.49**	**0.58**	**0.50**	**0.55**	**0.61**	**1.42**	**0.61**
Wholesale trade	2.02	2.49	0.79	0.90	0.80	0.84	0.97	2.17	1.00
Groceries and related products	6.16	7.89	2.38	2.62	2.42	2.48	3.26	9.55	3.13
Machinery, equipment, and supplies	4.31	5.42	1.76	2.15	1.80	1.88	2.58	4.96	2.76
Miscellaneous wholesale trade	2.42	2.93	0.91	1.04	0.93	0.97	1.10	2.49	1.14
Motor vehicles and automotive equipment	8.29	9.75	1.82	1.87	1.84	1.87	1.48	9.44	1.41
Furniture and home furnishings	13.74	18.05	8.20	9.16	8.25	8.81	11.42	19.49	12.43
Lumber and construction materials	9.87	11.07	5.23	5.48	5.26	5.59	6.11	15.17	6.70
Sporting, recreational, photographic, and hobby goods, toys, and supplies	14.54	17.33	5.34	6.42	5.36	5.53	7.61	16.07	8.88
Metals and minerals, except petroleum and scrap	13.55	16.10	1.99	1.66	2.17	2.16	3.36	5.76	4.08
Electrical goods	8.30	9.97	2.72	3.32	2.74	2.86	3.47	6.40	3.45
Hardware, plumbing, and heating equipment and supplies	9.25	9.97	4.15	4.95	4.16	4.14	6.21	14.15	6.79
Other durable goods	5.02	6.57	2.78	3.29	2.81	2.99	3.96	6.52	4.68
Paper and paper products	13.09	15.89	6.17	7.06	6.20	6.45	7.10	22.14	7.36
Drugs, drug proprietaries, and druggists' sundries	18.87	21.35	3.74	3.79	3.74	3.75	5.40	21.22	4.95
Apparel, piece goods, and notions	10.39	12.08	3.65	5.72	3.67	3.64	5.09	11.64	5.48
Farm-product raw materials	10.58	12.63	4.19	4.41	4.25	4.49	4.95	16.31	6.27
Chemicals and allied products	14.10	16.17	5.39	5.98	5.43	5.93	5.86	18.04	5.82
Petroleum and petroleum products	8.28	9.16	3.04	3.58	3.08	3.15	2.91	5.19	2.83
Alcoholic beverages	12.69	11.71	5.11	5.69	5.14	5.30	6.61	12.51	7.71
Miscellaneous nondurable goods; wholesale trade not allocable	6.72	8.60	3.37	4.37	3.41	3.68	4.35	7.36	4.62

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 1—Number of Returns, Selected Receipts, Cost of Sales and Operations, Net Income, Deficit, Total Income Tax, Selected Credits, Total Assets, Depreciable Assets, Depreciation Deduction, and Coefficients of Variation by Minor Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Coefficient of variation (Percent): Number of returns: Total	Number of returns: With net income	Total receipts: All returns	Total receipts: Returns with net income	Business receipts	Cost of sales and operations	Net income	Deficit	Income subject to tax
	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)
Wholesale and retail trade—Continued									
Retail trade	1.18	1.87	0.61	0.74	0.63	0.72	0.76	1.90	0.73
Building materials, garden supplies, and mobile home dealers	5.08	6.21	2.61	3.25	2.64	2.79	3.66	7.32	3.91
Building materials dealers	6.97	8.26	2.98	3.79	3.01	3.21	4.17	8.72	4.36
Hardware stores	9.11	11.27	6.85	8.34	6.87	7.05	10.45	19.32	11.06
Garden supplies and mobile home dealers	11.41	14.14	8.28	9.67	8.55	8.97	10.90	19.22	13.20
General merchandise stores	11.22	13.86	0.54	0.47	0.57	0.65	0.61	3.37	0.51
Food stores	4.97	7.09	1.39	1.52	1.40	1.47	1.66	7.42	1.48
Grocery stores	5.72	7.56	1.39	1.51	1.40	1.46	1.58	8.67	1.39
Other food stores	8.45	14.12	7.75	10.07	7.82	9.06	9.90	13.95	11.54
Automotive dealers and service stations	3.19	4.10	1.51	1.95	1.52	1.57	2.60	4.70	2.97
Motor vehicle dealers	3.58	4.38	1.58	2.11	1.59	1.64	3.06	5.57	3.53
Gasoline service stations	8.31	10.69	6.50	7.65	6.54	6.75	7.87	15.30	6.70
Other automotive dealers	5.97	7.74	4.38	5.15	4.43	4.69	6.12	10.46	6.59
Apparel and accessory stores	3.20	6.14	1.67	2.10	1.69	1.76	2.51	7.34	2.64
Furniture and home furnishings stores	5.15	6.45	3.04	3.69	3.12	3.50	3.61	8.43	3.47
Eating and drinking places	1.87	4.62	1.57	2.25	1.65	1.78	2.41	4.15	2.15
Miscellaneous retail stores	2.16	3.35	1.68	2.12	1.71	1.99	2.12	3.80	2.30
Drug stores and proprietary stores	6.93	8.22	2.13	2.47	2.15	2.10	3.21	4.92	3.06
Liquor stores	9.95	12.52	14.46	18.85	14.62	16.71	13.64	24.51	18.49
Other retail stores	2.29	3.82	2.04	2.65	2.08	2.42	2.67	4.54	3.07
Wholesale and retail trade not allocable	21.16	26.91	14.30	17.50	14.51	16.41	18.47	19.66	21.49
Finance, insurance, and real estate	**1.45**	**2.06**	**0.31**	**0.33**	**0.56**	**0.85**	**0.34**	**0.93**	**0.77**
Banking	1.66	2.38	0.49	0.58	0.40	0.28	0.77	1.16	0.93
Mutual savings banks	1.30	1.36	0.14	0.15	0.11	0.21	0.21	0.28	0.37
Bank holding companies	1.56	1.99	0.13	0.14	0.12	0.16	0.17	1.21	0.15
Banks, except mutual savings banks and bank holding companies	1.54	2.08	2.67	3.64	3.11	2.00	4.23	2.53	5.02
Credit agencies other than banks	7.41	8.98	0.77	0.52	1.13	1.42	0.56	0.95	0.87
Savings and loan associations	1.98	1.36	1.17	0.11	0.43	0.11	0.15	0.74	0.24
Personal credit institutions	12.05	13.98	3.25	7.72	4.29	26.65	13.12	9.68	12.45
Business credit institutions	26.70	24.69	5.53	5.18	14.62	35.69	8.47	12.81	12.57
Other credit agencies; finance not allocable	10.26	13.49	0.98	1.16	1.33	1.45	3.78	3.42	4.71
Security, commodity brokers and services	10.86	13.71	3.69	4.26	6.39	34.45	1.32	7.41	1.21
Security brokers, dealers, and flotation companies	15.22	19.05	4.02	4.68	7.63	74.55	1.22	8.42	1.25
Commodity contracts brokers and dealers; security and commodity exchanges; and allied services	15.26	19.12	9.32	10.25	11.19	23.83	4.78	13.63	3.82
Insurance	9.67	11.78	0.21	0.21	0.23	0.29	0.39	2.44	0.29
Life insurance	1.33	1.82	0.22	0.22	0.22	0.33	0.34	5.82	0.29
Mutual insurance, except life or marine and certain fire or flood insurance companies	1.88	2.43	0.47	0.51	0.47	0.51	1.13	3.63	0.88
Other insurance companies	16.46	20.69	0.62	0.60	0.70	0.92	1.14	2.69	0.91
Insurance agents, brokers, and service	2.37	4.73	2.77	3.69	3.06	8.23	2.96	3.73	3.03
Real estate	1.84	2.69	1.89	2.47	2.77	4.10	2.87	2.08	4.56
Real estate operators and lessors of buildings	2.63	3.75	2.64	3.26	4.04	6.56	2.95	3.64	4.09
Lessors of mining, oil, and similar property	29.87	38.32	11.68	18.18	16.18	8.16	17.26	35.56	19.05
Lessors of railroad property, and of real property, not elsewhere classified	19.64	24.28	14.40	21.49	23.45	33.42	23.37	21.62	21.94
Condominium management and cooperative housing associations	8.30	12.52	7.33	13.70	10.23	16.48	15.07	7.22	18.43
Subdividers and developers	4.97	7.19	3.37	4.06	6.17	8.74	4.08	3.56	6.16
Other real estate	3.18	4.84	3.67	4.81	4.61	6.82	7.91	4.05	13.46
Holding and other investment companies, except bank holding companies	5.23	6.76	1.11	1.09	3.03	3.44	0.38	4.78	5.31
Regulated investment companies	12.84	13.77	0.15	0.16	3.58	—	0.16	11.86	62.33
Real estate investment trusts	9.34	8.81	1.22	1.42	2.31	—	1.59	10.36	42.55
Small business investment companies	17.53	27.88	17.10	20.57	28.68	—	19.64	22.11	29.96
Other holding and investment companies, except bank holding companies	5.79	7.65	2.43	2.99	3.04	3.44	3.95	5.10	5.37
Services	**1.26**	**1.76**	**1.22**	**1.42**	**1.27**	**2.03**	**1.26**	**1.69**	**1.39**
Hotels and other lodging places	6.56	9.92	2.20	2.73	2.29	1.90	3.68	4.70	3.74
Personal services	4.43	7.34	4.29	5.33	4.45	7.11	5.10	9.24	5.32
Business services	2.07	3.13	2.09	2.50	2.23	3.44	2.04	2.69	2.24
Advertising	8.98	11.71	5.85	6.73	5.97	7.75	5.61	8.85	5.71
Business services, except advertising	2.13	3.25	2.23	2.69	2.40	3.84	2.18	2.82	2.42
Auto repair; miscellaneous repair services	3.71	5.37	2.98	3.76	3.20	4.22	4.56	5.20	5.16
Auto repair and services	4.35	6.47	3.10	4.15	3.40	4.63	4.97	5.58	5.71
Miscellaneous repair services	6.73	9.42	7.08	8.05	7.13	8.59	9.43	11.98	10.70
Amusement and recreation services	4.16	7.14	5.55	5.90	6.04	9.19	3.15	4.64	3.32
Motion picture production, distribution, and services	11.80	16.85	10.51	11.96	11.61	4.69	5.24	8.87	4.14
Motion picture theaters	24.61	35.34	7.13	10.27	7.49	9.13	9.22	13.69	9.96
Amusement and recreation services, except motion pictures	4.41	8.07	7.14	4.73	7.65	17.75	4.25	5.71	4.96
Other services	2.14	2.65	2.07	2.37	2.05	3.69	2.43	3.45	2.71
Offices of physicians, including osteopathic physicians	3.73	4.52	4.33	5.09	4.40	13.71	5.39	10.01	5.94
Offices of dentists	7.22	8.03	8.48	9.31	8.53	11.94	9.92	22.66	10.82
Offices of other health practitioners	14.79	18.08	13.29	18.72	13.35	21.65	20.50	24.84	23.29
Nursing and personal care facilities	11.27	14.03	5.72	6.87	5.85	10.79	8.54	12.22	8.70
Hospitals	38.96	44.96	2.01	2.63	2.13	3.64	4.31	8.02	3.13
Medical laboratories	17.43	22.17	11.90	14.77	12.14	16.59	17.29	16.76	19.94
Other medical services	8.70	11.85	8.88	9.03	7.44	12.19	6.76	8.22	6.96
Legal services	6.50	7.51	7.58	7.89	7.80	14.02	8.33	14.77	9.47
Educational services	14.53	19.16	10.21	13.70	10.56	19.54	14.01	17.86	15.11
Social services	17.00	22.70	15.16	17.10	15.62	27.55	20.97	31.59	27.67
Membership organizations	13.75	18.43	10.76	12.27	12.24	20.12	12.61	20.30	15.57
Architectural and engineering services	6.59	8.53	5.43	7.02	5.50	6.14	6.75	8.46	7.29
Accounting, auditing, and bookkeeping services	10.00	11.53	14.53	12.81	14.70	21.28	13.65	25.83	15.67
Miscellaneous services (including veterinarians), not elsewhere classified	6.75	9.33	8.16	10.50	8.29	12.01	8.67	10.62	10.93
Nature of business not allocable	**11.11**	**20.67**	**16.41**	**24.07**	**17.33**	**19.72**	**22.27**	**15.97**	**27.44**

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 1—Number of Returns, Selected Receipts, Cost of Sales and Operations, Net Income, Deficit, Total Income Tax, Selected Credits, Total Assets, Depreciable Assets, Depreciation Deduction, and Coefficients of Variation, by Minor Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Coefficient of variation (Percent)								
	Total income tax	Foreign tax credit	U.S. possessions tax credit	Nonconventional source fuel credit	General business credit	Total income tax after credits [1]	Total assets	Depreciation assets	Depreciation deduction
	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)
Total returns of active corporations	**0.58**	**2.11**	**3.98**	**15.29**	**1.12**	**0.63**	**0.13**	**0.30**	**0.35**
Agriculture, forestry, and fishing	**3.50**	**1.79**	**(4)**	**—**	**5.53**	**4.03**	**1.37**	**2.13**	**2.34**
Agricultural production	3.60	1.79	(4)	—	5.68	4.15	1.39	2.28	2.52
Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping	10.50	—	—	—	15.25	12.05	4.16	5.50	5.66
Mining	**1.72**	**1.47**	**—**	**19.41**	**4.77**	**3.03**	**0.38**	**0.78**	**1.09**
Metal mining	4.55	4.47	—	—	14.60	7.96	0.94	1.57	1.64
Iron ores	5.53	3.91	—	—	—	81.08	1.61	5.21	7.08
Copper, lead and zinc, gold and silver ores	8.15	—	—	—	14.60	8.11	2.21	1.85	1.88
Other metal mining	13.03	(4)	—	—	—	36.89	1.01	1.63	2.50
Coal mining	6.44	(4)	—	12.76	8.78	7.08	1.20	2.12	2.73
Oil and gas extraction	1.90	1.56	—	23.19	8.75	4.80	0.41	0.91	1.31
Crude petroleum, natural gas, and natural gas liquids	1.77	1.57	—	24.70	4.79	5.08	0.43	0.84	1.44
Oil and gas field services	10.98	20.03	—	67.43	21.95	12.16	0.98	1.88	2.20
Nonmetallic minerals, except fuels	4.60	8.13	—	28.70	7.36	5.14	2.82	3.35	4.37
Dimension, crushed, and broken stone; sand and gravel	6.59	(4)	—	83.89	17.97	6.82	4.32	5.07	5.26
Other nonmetallic minerals, except fuels	5.50	8.40	—	1.60	3.25	7.15	3.42	3.60	7.79
Construction	**2.07**	**0.66**	**(4)**	**52.02**	**4.00**	**2.30**	**0.66**	**1.35**	**1.50**
General building contractors and operative builders	3.16	1.56	(4)	68.39	6.78	3.39	0.77	2.07	2.15
General building contractors	3.39	1.56	(4)	68.39	7.07	3.66	0.83	2.15	2.20
Operative builders	7.65	—	—	—	4.98	7.92	2.03	7.36	9.71
Heavy construction contractors	3.89	0.77	—	(4)	7.11	4.78	1.23	2.43	2.94
Special trade contractors	3.78	1.74	—	49.81	6.84	4.09	1.74	2.47	2.61
Plumbing, heating, and air conditioning	8.89	—	—	—	13.14	9.48	4.09	5.42	5.51
Electrical work	9.43	(4)	—	—	16.74	10.30	4.24	6.02	6.40
Other special trade contractors and contractors not allocable	4.65	77.96	—	49.81	8.38	5.05	2.13	3.08	3.28
Manufacturing	**0.24**	**0.05**	**1.14**	**2.23**	**0.37**	**0.43**	**0.10**	**0.15**	**0.15**
Food and kindred products	0.87	0.59	1.45	3.71	1.38	1.22	0.37	0.74	0.76
Meat products	4.89	(4)	(4)	—	9.11	5.24	3.10	4.03	4.10
Dairy products	3.42	6.28	(4)	91.04	3.55	4.28	2.11	3.09	2.14
Preserved fruits and vegetables	2.99	(4)	(4)	—	3.18	3.88	1.54	1.93	2.18
Grain mill products	1.28	(4)	(4)	—	1.49	1.71	0.64	1.13	1.28
Bakery products	6.50	35.04	(4)	—	11.97	6.88	4.70	6.52	6.72
Sugar and confectionery products	2.13	(4)	(4)	(4)	4.55	2.69	1.00	1.80	1.86
Malt liquors and malt	0.72	(4)	—	(4)	1.14	0.80	0.64	0.50	0.52
Alcoholic beverages, except malt liquors and malt	3.09	(4)	(4)	—	7.99	4.73	0.79	4.14	4.00
Bottled soft drinks, and flavorings	2.04	—	(4)	—	4.61	5.05	0.69	1.78	1.82
Other food and kindred products	2.80	0.57	3.39	(4)	6.34	3.52	0.72	1.95	2.03
Tobacco manufactures	0.30	(4)	(4)	—	(4)	0.45	0.11	0.35	0.10
Textile mill products	2.56	1.07	(4)	—	3.99	2.86	1.59	1.90	2.01
Weaving mills and textile finishing	3.13	(4)	—	—	—	3.62	2.15	2.58	2.76
Knitting mills	8.15	(4)	(4)	—	5.38	8.49	7.25	8.29	8.01
Other textile mill products	3.98	2.36	(4)	—	6.83	4.46	2.16	2.66	2.76
Apparel and other textile finishing	3.62	3.06	5.41	—	7.10	3.98	1.76	2.85	2.92
Men's and boys' clothing	5.64	5.11	7.02	—	10.38	6.44	2.26	3.70	3.02
Women's and children's clothing	5.43	1.90	8.36	—	17.32	5.85	2.87	4.99	5.70
Other apparel and accessories	13.69	(4)	(4)	—	18.97	15.84	6.06	7.39	8.65
Miscellaneous fabricated textile products; textile products, not elsewhere classified	9.56	20.07	(4)	—	12.64	10.12	5.80	8.07	7.21
Lumber and wood products	2.71	(3)	—	—	3.56	3.25	1.00	1.38	1.79
Logging, sawmills, and planing mills	4.12	(3)	—	—	4.01	5.91	1.26	2.16	3.69
Millwork, plywood, and related products	4.43	(4)	—	—	7.30	4.91	1.69	1.65	1.73
Other wood products, including wood buildings and mobile homes	6.17	(4)	—	—	14.43	6.31	3.02	4.94	5.18
Furniture and fixtures	2.80	5.15	(4)	—	6.45	2.88	2.18	2.57	2.87
Paper and allied products	1.16	0.22	(4)	14.88	0.84	1.74	0.58	0.60	0.60
Pulp, paper, and board mills	1.28	0.35	—	(4)	0.74	2.12	0.34	0.43	0.40
Other paper products	1.62	0.27	(4)	82.49	1.61	2.30	1.64	1.67	1.66
Printing and publishing	0.86	0.66	(4)	—	1.91	0.93	0.64	1.10	1.11
Newspapers	1.03	0.32	(4)	—	1.06	1.10	0.64	1.22	1.09
Periodicals	3.06	(4)	—	—	5.15	3.73	2.32	3.82	4.09
Books, greeting cards, and miscellaneous publishing	1.19	0.33	(4)	—	4.22	1.27	1.45	2.88	2.34
Commercial and other printing and printing trade services	3.00	12.24	(4)	—	5.01	3.32	1.85	2.25	2.47
Chemicals and allied products	0.45	0.12	1.69	0.76	0.44	0.84	0.31	0.33	0.31
Industrial chemicals, plastics materials and synthetics	0.64	0.09	5.63	(4)	0.47	2.24	0.27	0.37	0.31
Drugs	0.70	0.37	1.76	80.70	0.68	0.63	0.95	0.87	1.02
Soap, cleaners, and toilet goods	1.43	0.40	(4)	—	2.84	2.55	0.40	0.78	0.85
Paints and allied products	4.60	1.07	(4)	—	9.61	4.97	4.34	4.62	4.75
Agriculture and other chemical products	2.35	1.18	20.64	—	2.31	3.77	1.26	1.51	1.56
Petroleum (including integrated) and coal products	0.15	(3)	(4)	(4)	0.29	1.70	0.04	0.09	0.11
Petroleum refining (including integrated)	0.04	(3)	(4)	(4)	0.16	0.53	0.03	0.08	0.08
Petroleum and coal products, not elsewhere classified	10.56	(4)	—	—	3.85	12.94	2.75	3.93	5.02
Rubber and miscellaneous plastics products	3.29	0.94	10.16	15.07	5.37	4.22	1.34	1.69	2.26
Rubber products; plastics footwear, hose and belting	3.00	0.64	(4)	15.07	4.54	4.64	1.11	1.25	1.78
Miscellaneous plastics products	5.85	14.32	8.08	—	9.49	6.42	2.81	3.63	4.00
Leather and leather products	3.12	5.27	13.54	—	8.64	3.55	2.24	3.05	2.84
Footwear, except rubber	3.08	(4)	15.75	—	8.42	3.41	1.66	2.09	1.96
Leather and leather products, not elsewhere classified	11.34	(4)	(4)	—	24.63	12.95	10.09	12.52	12.03

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 1—Number of Returns, Selected Receipts, Cost of Sales and Operations, Net Income, Deficit, Total Income Tax, Selected Credits, Total Assets, Depreciable Assets, Depreciation Deduction, and Coefficients of Variation, by Minor Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Coefficient of variation (Percent)								
	Total income tax	Foreign tax credit	U.S. possessions tax credit	Nonconventional source fuel credit	General business credit	Total income tax after credits [1]	Total assets	Depreciable assets	Depreciation deduction
	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)
Manufacturing—Continued									
Stone, clay, and glass products	1.96	0.52	(4)	(4)	2.88	2.57	0.71	1.28	1.46
Glass products	1.37	0.03	(4)	—	1.74	2.26	0.47	0.75	1.17
Cement, hydraulic	4.26	(4)	—	—	0.26	7.13	1.21	1.59	0.90
Concrete, gypsum, and plaster products	4.52	0.21	(4)	—	8.81	4.84	2.18	3.76	4.00
Other nonmetallic mineral products	4.83	2.57	—	14.00	12.05	5.99	3.15	3.63	3.59
Primary metal industries	2.17	0.19	—	(4)	2.04	3.21	0.37	0.61	0.73
Ferrous metal industries; miscellaneous primary mineral products	2.14	0.39	—	(4)	2.59	2.89	0.59	0.77	0.85
Nonferrous metal industries	4.95	0.08	—	—	3.10	8.56	0.47	1.00	1.29
Fabricated metal products	1.70	0.78	11.10	12.29	4.35	2.04	0.82	1.34	1.46
Metal cans and shipping containers	2.44	(4)	(4)	—	0.88	2.82	0.88	3.09	3.35
Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products	3.01	1.36	(4)	(4)	9.08	5.33	1.93	3.37	3.24
Plumbing and heating, except electric and warm air	3.65	2.01	—	—	4.38	3.91	2.28	3.65	3.56
Fabricated structural metal products	4.16	0.55	—	(4)	7.03	5.04	2.06	2.37	3.16
Metal forgings and stampings	8.31	(4)	(4)	—	14.98	8.66	3.99	5.27	5.36
Coating, engraving, and allied services	11.95	14.12	—	—	13.29	12.69	9.39	10.78	11.45
Ordnance and accessories, except vehicles and guided missiles	15.06	(4)	—	—	11.71	15.60	13.37	15.22	14.27
Miscellaneous fabricated metal products	3.29	1.50	14.03	73.61	9.61	3.77	1.35	2.31	2.41
Machinery, except electrical	0.73	0.07	4.39	—	2.35	2.37	0.41	0.61	0.61
Farm machinery	10.66	8.41	—	—	4.92	12.35	1.91	2.35	2.20
Construction and related machinery	2.46	0.26	—	—	4.32	5.36	0.92	1.31	1.34
Metalworking machinery	7.79	3.38	(4)	—	9.88	8.75	3.07	4.39	4.57
Special industry machinery	6.40	7.32	(4)	—	15.58	7.10	3.04	3.98	4.68
General industry machinery	4.83	2.41	(4)	—	5.47	6.21	2.01	2.50	2.70
Office, computing, and accounting machines	0.25	0.02	(4)	—	2.06	2.06	0.24	0.27	0.35
Other machinery, except electrical	4.42	0.80	(4)	—	6.47	5.79	1.74	3.23	2.94
Electrical and electronic equipment	0.92	0.29	3.10	(4)	0.80	1.45	0.27	0.39	0.42
Household appliances	1.86	(4)	—	—	0.51	2.16	0.63	0.85	1.01
Radio, television, and communication equipment	2.61	1.22	8.48	—	0.70	5.23	0.51	0.76	0.87
Electronic components and accessories	1.69	0.33	4.98	(4)	2.15	2.61	0.74	0.98	0.95
Other electrical equipment	1.35	0.43	3.97	—	1.10	2.18	0.33	0.42	0.53
Motor vehicles and equipment	0.57	0.15	(4)	77.94	0.33	0.92	0.11	0.19	0.17
Transportation equipment, except motor vehicles	1.92	0.34	(4)	—	1.22	3.32	0.42	0.67	0.60
Aircraft, guided missiles and parts	1.32	0.34	(4)	—	0.78	2.55	0.27	0.44	0.40
Ship and boat building and repairing	13.52	(4)	(4)	—	12.72	15.07	5.64	8.23	6.40
Other transportation equipment, except motor vehicles	11.06	0.57	(4)	—	18.84	12.24	4.01	5.97	7.56
Instruments and related products	2.18	1.66	4.09	(4)	4.12	3.42	0.78	0.80	0.86
Scientific instruments and measuring devices; watches and clocks	3.31	2.93	8.60	(4)	7.21	5.00	1.61	1.73	2.02
Optical, medical, and ophthalmic goods	3.11	0.66	4.62	—	5.90	5.10	1.31	2.23	2.82
Photographic equipment and supplies	7.31	4.56	(4)	—	4.66	10.37	0.75	0.48	0.42
Miscellaneous manufacturing and manufacturing not allocable	2.57	2.48	11.62	—	4.36	2.98	1.05	1.86	2.04
Transportation and public utilities	**0.28**	**1.89**	**(4)**	**0.35**	**0.26**	**0.38**	**0.10**	**0.13**	**0.23**
Transportation	1.42	7.53	—	(4)	1.74	1.81	0.37	0.52	0.84
Railroad transportation	1.44	(4)	—	(4)	0.61	2.51	0.23	0.21	0.21
Local and interurban passenger transit	10.20	(4)	—	(4)	19.07	15.84	2.83	5.94	6.11
Trucking and warehousing	2.60	0.22	—	—	4.86	2.91	1.43	2.07	2.15
Water transportation	8.16	(4)	—	—	10.19	10.02	1.58	2.86	3.46
Transportation by air	2.82	14.54	—	—	1.91	6.11	0.50	0.59	0.96
Pipelines, except natural gas	3.38	90.42	—	—	6.43	3.13	1.10	1.73	1.37
Transportation services, not elsewhere classified	7.63	23.84	—	—	11.55	9.16	2.02	2.98	5.16
Communication	0.41	0.01	(4)	(4)	0.27	0.56	0.15	0.18	0.22
Telephone, telegraph, and other communication services	0.29	0.01	(4)	(4)	0.22	0.41	0.12	0.15	0.19
Radio and television broadcasting	3.51	(4)	(4)	—	5.35	4.35	0.94	2.33	2.18
Electric, gas, and sanitary services	0.21	0.32	—	0.48	0.16	0.29	0.09	0.10	0.16
Electric services	0.11	(4)	—	(4)	0.06	0.15	0.12	0.12	0.07
Gas production and distribution	1.89	(4)	—	(4)	1.35	2.15	0.18	0.26	0.37
Combination utility services	0.15	(4)	—	(4)	0.16	0.20	0.06	0.06	0.08
Water supply and other sanitary services	2.70	(4)	—	4.73	7.33	2.75	2.21	2.81	3.64
Wholesale and retail trade	**0.58**	**1.04**	**2.11**	**5.85**	**1.07**	**0.64**	**0.28**	**0.46**	**0.52**
Wholesale trade	0.99	2.30	6.21	6.52	2.55	1.05	0.47	0.87	0.90
Groceries and related products	3.14	10.86	(4)	(4)	6.18	3.27	1.60	2.36	2.63
Machinery, equipment, and supplies	2.80	1.52	(4)	(4)	5.14	3.03	1.23	1.97	2.11
Miscellaneous wholesale trade	1.12	2.51	6.30	15.05	3.25	1.19	0.53	1.06	1.07
Motor vehicles and automotive equipment	1.30	(4)	—	—	4.86	1.34	1.46	2.29	1.72
Furniture and home furnishings	13.89	96.71	—	—	33.44	14.47	6.76	9.06	5.73
Lumber and construction materials	7.26	19.12	—	—	12.30	7.49	4.10	5.09	5.35
Sporting, recreational, photographic, and hobby goods, toys, and supplies	9.05	(4)	—	—	15.57	9.33	4.49	10.00	9.12
Metals and minerals, except petroleum and scrap	3.85	5.21	(4)	—	14.52	3.88	0.48	3.63	3.89
Electrical goods	3.42	1.29	(4)	—	11.67	3.56	2.03	3.00	3.06
Hardware, plumbing, and heating equipment and supplies	7.22	62.22	—	—	15.69	7.37	3.86	4.75	5.26
Other durable goods	4.71	25.07	(4)	—	9.76	4.97	2.10	3.81	4.04
Paper and paper products	7.69	(4)	—	—	28.74	7.84	4.68	7.53	7.55
Drugs, drug proprietaries, and druggists' sundries	4.99	(4)	—	—	9.77	5.14	3.03	4.18	6.05
Apparel, piece goods, and notions	5.37	79.36	(4)	—	22.29	5.27	3.45	6.50	8.05
Farm-product raw materials	5.90	6.17	—	—	20.15	6.16	1.95	3.43	3.81
Chemicals and allied products	5.57	4.09	—	—	23.85	6.08	4.54	7.15	7.63
Petroleum and petroleum products	2.63	0.01	(4)	(4)	8.02	3.55	1.72	2.73	2.87
Alcoholic beverages	8.10	94.57	(4)	74.24	22.61	8.27	4.07	4.72	6.86
Miscellaneous nondurable goods; wholesale trade not allocable	4.69	30.31	(4)	(4)	11.39	4.86	2.54	3.84	3.98

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 1—Number of Returns, Selected Receipts, Cost of Sales and Operations, Net Income, Deficit, Total Income Tax, Selected Credits, Total Assets, Depreciable Assets, Depreciation Deduction, and Coefficients of Variation, by Minor Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Coefficent of variation (Percent)								
	Total income tax	Foreign tax credit	U.S. possessions tax credit	Nonconventional source fuel credit	General business credit	Total income tax after credits [1]	Total assets	Depreciable assets	Depreciation deduction
	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)
Wholesale and retail trade—Continued									
Retail trade	0.67	0.38	(4)	13.09	1.10	0.76	0.33	0.53	0.63
Building materials, garden supplies, and mobile home dealers	3.99	(4)	—	13.86	11.66	4.13	1.94	2.71	2.88
Building materials dealers	4.33	(4)	—	13.86	13.79	4.50	2.05	2.81	3.08
Hardware stores	12.71	—	—	—	22.74	12.93	6.30	8.73	8.02
Garden supplies and mobile home dealers	14.94	—	—	—	28.02	15.46	6.69	10.16	10.40
General merchandise stores	0.46	(3)	—	—	0.23	0.53	0.21	0.39	0.33
Food stores	1.36	(4)	(4)	—	2.46	1.55	1.00	1.23	1.22
Grocery stores	1.31	(4)	(4)	—	2.29	1.50	0.95	1.16	1.11
Other food stores	11.11	(4)	—	—	22.57	12.17	5.80	6.52	6.92
Automotive dealers and service stations	3.19	(4)	—	—	6.31	3.40	1.18	1.80	2.23
Motor vehicle dealers	3.87	(4)	—	—	7.11	4.14	1.25	1.93	2.50
Gasoline service stations	9.12	—	—	—	16.97	9.48	5.08	5.79	6.09
Other automotive dealers	6.56	(4)	—	—	17.07	6.89	3.66	4.85	6.97
Apparel and accessory stores	2.20	(4)	—	—	6.16	2.27	1.35	1.65	1.64
Furniture and home furnishings stores	3.42	—	—	—	11.95	3.47	2.00	3.21	5.46
Eating and drinking places	1.85	0.12	(4)	(4)	2.69	2.62	0.79	1.39	1.47
Miscellaneous retail stores	2.16	2.14	(4)	—	4.61	2.36	1.04	1.65	1.92
Drug stores and proprietary stores	2.11	(4)	(4)	—	6.01	2.45	1.31	1.67	2.31
Liquor stores	21.16	—	—	—	34.59	22.08	8.20	10.10	10.97
Other retail stores	3.11	3.87	(4)	—	6.34	3.25	1.38	2.24	2.45
Wholesale and retail trade not allocable	23.95	—	—	—	46.27	24.89	11.11	16.28	17.40
Finance, insurance, and real estate	**0.72**	**0.15**	**3.85**	**12.50**	**0.58**	**0.89**	**0.06**	**0.56**	**0.37**
Banking	1.04	0.03	—	—	0.31	1.79	0.09	0.12	0.13
Mutual savings banks	0.36	(4)	—	—	1.12	0.36	0.14	0.18	0.24
Bank holding companies	0.16	0.02	—	—	0.27	0.30	0.09	0.10	0.12
Banks, *except mutual* savings banks and bank holding companies	5.33	0.30	—	—	2.18	6.36	0.39	0.61	0.57
Credit agencies other than banks	0.70	0.06	(4)	—	3.13	0.76	0.09	0.87	1.35
Savings and loan associations	0.23	1.18	(4)	—	0.21	0.24	0.09	0.14	0.99
Personal credit institutions	14.52	37.41	(4)	—	15.00	15.70	2.27	5.49	3.78
Business credit institutions	10.46	(4)	(4)	—	42.53	10.79	0.91	18.04	10.85
Other credit agencies; finance not allocable	4.25	0.03	—	—	9.45	7.21	0.24	3.27	2.88
Security, commodity brokers and services	1.19	0.62	(4)	(4)	0.65	1.42	0.14	1.72	1.63
Security brokers, dealers, and flotation companies	1.25	0.60	-(4)	(4)	0.65	1.53	0.11	1.50	1.67
Commodity contracts brokers and dealers; security and commodity exchanges; and allied services	3.50	12.51	(4)	—	3.78	3.66	1.59	5.03	5.16
Insurance	0.40	0.05	(4)	(4)	0.36	0.43	0.09	0.38	0.26
Life insurance	0.39	0.11	(4)	(4)	0.26	0.42	0.11	0.18	0.13
Mutual insurance, except life or marine and certain fire or flood insurance companies	1.18	0.04	—	—	2.08	1.25	0.33	1.07	0.76
Other insurance companies	1.44	0.01	—	—	0.63	1.75	0.17	1.43	1.01
Insurance agents, brokers, and service	3.05	4.23	—	(4)	8.51	3.32	0.75	2.79	3.36
Real estate	4.67	25.24	(4)	15.40	7.86	4.80	0.76	1.29	1.45
Real estate operators and lessors of buildings	4.39	26.48	(4)	15.67	10.79	4.50	1.30	1.78	2.01
Lessors of mining, oil, and similar property	20.46	(4)	—	(4)	(4)	20.47	6.23	10.43	16.75
Lessors of railroad property, and of real property, not elsewhere classified	24.48	—	—	—	67.96	25.29	10.26	22.06	21.85
Condominium management and cooperative housing associations	24.43	—	—	—	44.50	25.10	3.44	3.89	4.57
Subdividers and developers	6.23	73.50	(4)	—	14.41	6.39	1.42	2.56	3.03
Other real estate	14.18	8.43	—	—	16.21	14.65	1.37	2.96	3.26
Holding and other investment companies, except bank holding companies	4.84	4.98	(4)	18.14	4.01	5.28	0.15	1.48	1.95
Regulated investment companies	13.04	(4)	—	—	(4)	14.14	0.12	9.09	11.42
Real estate investment trusts	46.17	—	—	—	83.16	44.94	1.09	2.18	2.48
Small business investment companies	34.31	—	—	—	89.84	31.02	8.98	24.49	28.46
Other holding and investment companies, except bank holding companies	4.88	4.99	(4)	18.14	3.15	5.32	0.69	1.82	2.14
Services	**1.32**	**2.08**	**11.51**	**12.48**	**1.82**	**1.60**	**0.49**	**0.75**	**0.79**
Hotels and other lodging places	3.88	6.36	(4)	—	3.82	4.89	1.08	1.80	1.87
Personal services	4.46	(4)	—	—	9.10	5.14	3.09	4.04	4.23
Business services	2.15	4.03	19.72	12.48	3.87	2.49	0.92	1.48	1.45
Advertising	5.38	1.02	(4)	96.54	8.97	6.87	2.13	4.19	4.83
Business services, except advertising	2.34	5.81	21.45	(4)	4.09	2.68	1.01	1.57	1.50
Auto repair; miscellaneous repair services	4.94	0.21	(4)	—	4.45	6.58	1.51	1.75	1.98
Auto repair and services	4.76	(4)	(4)	—	4.59	6.91	1.49	1.76	2.07
Miscellaneous repair services	12.46	9.93	—	—	17.65	12.84	5.72	7.22	7.06
Amusement and recreation services	3.21	1.51	(4)	—	2.26	5.20	0.93	2.16	1.94
Motion picture production, distribution, and services	3.10	1.19	—	—	2.93	7.96	0.85	4.66	3.05
Motion picture theaters	12.02	—	—	—	5.98	12.27	3.79	5.96	5.32
Amusement and recreation services, except motion pictures	4.86	3.21	(4)	—	3.47	6.98	1.84	2.65	2.72
Other services	2.74	10.33	(4)	—	3.99	3.11	1.06	1.43	1.59
Offices of physicians, including osteopathic physicians	7.13	—	(4)	—	11.00	7.94	3.64	4.52	4.68
Offices of dentists	11.63	—	—	—	20.77	13.09	7.62	8.66	9.08
Offices of other health practitioners	22.28	—	—	—	53.32	23.70	12.92	15.05	15.79
Nursing and personal care facilities	8.46	—	—	—	8.32	9.79	3.26	3.90	3.72
Hospitals	2.85	(4)	—	—	0.99	4.15	0.64	0.84	0.78
Medical laboratories	20.93	—	—	—	31.02	22.60	8.79	11.93	13.41
Other medical services	6.32	(4)	(4)	—	17.35	6.78	3.12	5.39	6.43
Legal services	10.83	—	—	—	16.18	11.86	5.79	7.25	7.34
Educational services	15.53	76.51	—	—	20.52	18.14	6.01	8.46	8.47
Social services	19.32	(3)	—	—	30.03	20.86	7.65	14.45	12.98
Membership organizations	16.59	—	—	—	30.27	17.53	7.52	11.33	11.70
Architectural and engineering services	7.66	12.31	(4)	—	15.36	8.41	3.77	5.27	5.63
Accounting, auditing, and bookkeeping services	17.92	—	(4)	—	30.49	20.17	8.76	10.95	10.84
Miscellaneous services (including veterinarians), not elsewhere classified	12.01	(4)	(4)	—	19.65	13.29	5.09	8.05	7.76
Nature of business not allocable	**31.96**	**(4)**	**—**	**—**	**67.47**	**33.43**	**11.39**	**17.24**	**19.66**

* Estimate should be used with caution because of the small number of sample returns on which it is based.
1 Credits include foreign tax, U.S. possessions tax, nonconventional source fuel, orphan drug, and general business credits.
2 Less than $500 per return.
3 Coefficient of variation is less than .005 but greater than zero.
4 Estimate is based on returns sampled at a 100 percent rate and coefficient of variation is zero.
NOTE: Detail may not add to total because of rounding. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 2—Balance Sheets, Income Statements, Tax, and Selected Other Items, by Major Industry

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	All industries	Major industry: Agriculture, forestry, and fishing	Mining: Total	Mining: Metal mining	Mining: Coal mining	Mining: Oil and gas extraction	Mining: Nonmetallic minerals, except fuels
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Number of returns, total	3,428,515	106,634	40,354	1,186	3,982	30,899	4,288
Total assets	14,163,209,894	53,478,288	206,122,125	20,789,144	24,942,579	148,183,949	12,206,453
Cash	762,946,878	3,999,870	7,671,424	493,973	1,033,772	5,203,359	940,320
Notes and accounts receivable	3,593,528,670	4,934,052	20,026,538	1,328,060	3,919,057	13,026,048	1,753,372
Less: Allowance for bad debts	74,228,426	117,323	477,123	28,412	48,348	359,591	40,771
Inventories	732,587,518	4,932,107	7,335,578	1,462,464	1,149,909	3,808,254	914,950
Investments in Government obligations	1,058,718,859	245,457	1,482,199	107,311	384,047	861,099	129,742
Other current assets	739,043,506	1,825,069	5,567,913	857,572	714,005	3,661,498	334,839
Loans to stockholders	63,653,862	1,524,139	2,662,169	*1,207,321	86,564	1,313,797	54,487
Mortgage and real estate loans	1,377,441,452	853,907	860,873	*4,444	*6,002	818,941	31,487
Other investments	2,847,727,452	4,753,679	83,381,001	6,368,282	5,144,649	71,043,387	824,684
Depreciable assets	3,382,556,559	36,388,420	96,209,849	9,388,576	14,810,489	61,129,158	10,881,626
Less: Accumulated depreciation	1,342,114,626	22,236,756	50,229,040	4,484,825	7,750,122	32,221,573	5,772,520
Depletable assets	116,010,459	798,064	29,126,995	1,365,244	4,239,909	22,942,306	579,536
Less: Accumulated depletion	44,083,149	508,936	12,141,727	317,047	1,081,335	10,630,435	112,910
Land	149,522,450	13,159,686	3,325,671	246,151	393,859	1,567,536	1,118,126
Intangible assets (amortizable)	212,265,625	201,254	6,032,803	907,522	736,524	4,275,826	112,931
Less: Accumulated amortization	46,696,699	76,837	1,891,812	141,444	101,210	1,629,705	19,454
Other assets	634,329,507	2,802,436	7,178,814	2,023,953	1,304,808	3,374,044	476,009
Total liabilities	14,163,209,894	53,478,288	206,122,125	20,789,144	24,942,579	148,183,949	12,206,453
Accounts payable	909,090,964	2,719,391	12,901,731	803,305	1,381,111	9,714,708	1,002,607
Mortgages, notes, and bonds payable in less than one year	1,083,947,776	9,049,217	13,341,252	908,442	2,814,742	8,973,715	644,352
Other current liabilities	4,599,886,537	2,171,595	10,557,238	1,263,970	1,537,914	6,738,017	1,017,338
Loans from stockholders	185,034,570	4,801,101	7,661,306	1,800,626	1,531,235	4,081,375	248,070
Mortgages, notes, and bonds payable in one year or more	1,958,477,161	15,481,615	45,823,514	4,802,500	4,499,320	34,191,576	2,330,119
Other liabilities	1,728,638,194	2,192,748	17,232,815	2,484,439	2,500,688	10,842,817	1,404,872
Capital stock	1,190,628,800	8,691,060	10,861,610	1,521,737	402,722	8,311,986	625,165
Paid-in or capital surplus	1,725,785,087	6,117,435	79,210,772	5,884,699	7,751,799	64,766,722	807,552
Retained earnings, appropriated	64,975,012	139,079	750,799	104,577	*303,554	275,649	*67,019
Retained earnings, unappropriated	1,313,686,600	5,231,045	10,577,398	1,445,270	2,227,941	2,664,116	4,240,072
Retained earnings, 1120S	15,584,590	−2,228,435	−284,078	*−105,335	229,151	−768,948	361,053
Less: Cost of treasury stock	612,525,394	887,563	2,512,232	125,085	237,597	1,607,784	541,765
Total receipts	8,669,378,501	77,502,215	98,577,216	8,240,453	21,143,932	57,404,466	11,788,366
Business receipts	7,535,482,221	71,787,552	86,873,761	7,379,281	19,606,313	49,067,856	10,820,312
Interest	635,093,073	578,356	2,935,512	234,334	462,686	2,101,475	137,018
Interest on Government obligations: State and local	23,578,340	20,444	33,974	—	14,316	18,572	1,086
Nonqualifying interest and dividends	3,431,878	121,605	184,846	*159	50,435	124,368	9,884
Rents	93,972,214	431,790	563,881	18,098	173,472	307,828	64,482
Royalties	16,411,642	116,313	625,781	16,385	64,720	530,132	14,544
Net short-term capital gain reduced by net long-term capital loss	11,797,841	17,854	67,735	*9,415	2,481	55,156	*684
Net long-term capital gain reduced by net short-term capital loss	93,297,600	730,314	1,366,876	98,361	218,821	810,972	238,723
Net gain, noncapital assets	44,149,399	403,591	1,155,559	13,558	86,148	820,042	235,811
Dividends received from domestic corporations	15,156,098	54,656	403,766	114,117	39,688	224,903	25,059
Dividends received from foreign corporations	22,747,046	45,745	580,456	*40,155	11,919	511,587	16,794
Other receipts	174,261,151	3,193,995	3,785,070	316,590	412,933	2,831,576	223,971
Total deductions	8,394,932,819	76,330,943	102,093,971	8,661,950	20,877,946	61,606,100	10,947,975
Cost of sales and operations	4,922,763,967	50,971,455	58,115,191	5,428,635	13,515,392	32,544,519	6,626,645
Compensation of officers	185,395,342	1,473,367	1,347,867	29,246	152,916	891,632	274,072
Repairs	83,848,507	1,112,652	1,040,535	56,823	313,437	421,436	248,839
Bad debts	53,419,371	185,126	632,541	47,933	42,696	498,458	43,453
Rent paid on business property	145,188,558	1,699,013	1,483,246	117,936	372,108	861,443	131,759
Taxes paid	203,491,687	1,497,542	2,967,429	376,664	894,755	1,359,387	336,623
Interest paid	572,973,834	2,570,846	6,395,032	491,332	660,790	4,853,794	389,116
Contributions or gifts	5,178,918	34,966	36,297	*4,083	6,302	15,247	10,664
Amortization	14,005,202	32,722	201,104	6,087	30,819	151,227	12,971
Depreciation	312,582,789	3,537,822	7,039,541	485,629	1,196,496	4,569,338	788,078
Depletion	9,035,885	259,422	1,935,058	229,428	405,433	1,004,350	295,847
Advertising	98,959,857	312,932	145,801	9,104	18,521	82,259	35,916
Pension, profit-sharing, stock bonus, and annuity plans	48,242,217	164,061	364,728	35,644	57,196	187,735	84,152
Employee benefit programs	73,633,515	286,849	1,010,260	88,999	350,415	465,892	104,954
Net loss, noncapital assets	12,859,566	244,661	772,890	35,937	171,373	552,458	13,123
Other deductions	1,653,353,611	11,947,507	18,606,454	1,218,471	2,689,297	13,146,925	1,551,762
Total receipts less total deductions	274,445,682	1,171,272	−3,516,755	−421,497	265,986	−4,201,634	840,391
Constructive taxable income from related foreign corporations	19,038,861	*5,705	445,528	*18,454	38,186	387,678	1,210
Net income (less deficit)	269,530,240	1,148,686	−3,122,565	−403,043	289,855	−3,849,893	840,515
Income subject to tax	276,172,502	1,883,473	3,241,899	185,037	261,740	2,060,122	735,000
Income tax, total	111,140,137	589,887	1,453,090	82,445	146,200	896,865	327,580
Regular and alternative tax	108,773,260	579,120	1,339,161	76,190	95,232	862,619	305,120
Tax from recomputing prior-year investment credit	1,319,525	7,682	21,389	495	1,156	16,732	3,007
Additional tax for tax preferences	1,026,194	3,085	86,903	5,761	49,811	11,878	19,454
Foreign tax credit	21,480,508	12,641	618,542	*47,478	1,790	567,707	*1,567
U.S. possessions tax credit	2,907,256	1	—	—	—	—	—
Orphan drug credit	6,530	—	—	—	—	—	—
Nonconventional source fuel credit	63,544	—	7,137	—	*508	5,899	*730
General business credit	12,805,999	101,639	132,721	*586	34,360	47,924	49,852

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 2—Balance Sheets, Income Statements, Tax, and Selected Other Items, by Major Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Major industry—Continued								
	Construction				Manufacturing				
	Total	General building contractors and operative builders	Heavy construction contractors	Special trade contractors	Total	Food and kindred products	Tobacco manufactures	Textile mill products	Apparel and other textile products
	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Number of returns, total	341,816	142,594	19,021	180,201	285,119	17,240	150	5,017	15,996
Total assets	218,880,512	121,862,704	41,845,953	55,171,854	2,931,610,462	240,149,853	64,331,816	32,657,758	38,202,831
Cash	20,460,013	9,820,915	3,432,460	7,206,638	82,651,314	7,288,013	102,470	1,458,354	1,699,398
Notes and accounts receivable	57,729,966	27,994,207	9,619,383	20,116,376	668,206,701	42,276,768	8,578,995	7,389,916	7,914,567
Less: Allowance for bad debts	538,721	162,384	103,529	272,807	12,518,768	620,304	79,544	125,347	194,267
Inventories	32,351,852	24,333,499	1,990,987	6,027,367	309,880,755	24,319,016	5,604,756	6,931,750	10,432,202
Investments in Government obligations	3,276,443	2,600,800	463,421	212,222	29,777,175	1,908,490	11,425	56,727	61,092
Other current assets	23,458,369	14,881,881	3,274,108	5,302,380	155,373,129	11,292,209	982,312	1,809,332	1,951,446
Loans to stockholders	3,537,670	1,648,090	593,624	1,295,956	18,007,499	1,775,419	*875,817	538,919	203,061
Mortgage and real estate loans	8,881,787	8,460,632	134,852	286,303	19,627,535	435,447	2,467	9,838	22,548
Other investments	19,297,125	7,260,111	9,867,767	2,169,247	643,641,793	69,950,284	34,200,464	4,214,349	5,614,074
Depreciable assets	71,322,700	22,944,183	23,034,962	25,343,555	1,250,584,823	94,413,155	13,996,523	19,862,192	9,268,124
Less: Accumulated depreciation	40,366,979	10,753,952	14,019,095	15,593,931	580,493,274	40,713,055	4,669,092	10,992,879	4,535,402
Depletable assets	1,466,039	772,727	577,645	115,667	69,850,924	173,090	—	*5,575	*11,410
Less: Accumulated depletion	277,725	137,814	94,628	45,283	24,309,453	*11,861	—	*2,637	*10,162
Land	7,104,991	5,230,348	896,736	977,906	31,346,178	3,847,281	432,949	235,582	281,152
Intangible assets (amortizable)	1,419,927	952,620	78,113	389,194	118,445,221	15,921,494	1,274,807	302,295	2,011,103
Less: Accumulated amortization	373,921	198,076	24,362	151,482	28,988,480	661,466	253,035	81,292	161,125
Other assets	10,130,975	6,214,918	2,123,510	1,792,547	180,527,391	8,555,873	3,270,500	1,045,082	3,633,609
Total liabilities	218,880,512	121,862,704	41,845,953	55,171,854	2,931,610,462	240,149,853	64,331,816	32,657,758	38,202,831
Accounts payable	40,574,873	23,160,716	5,698,162	11,715,995	274,160,461	29,830,494	2,764,951	3,718,408	5,006,800
Mortgages, notes, and bonds payable in less than one year	30,057,380	19,301,713	4,752,546	6,003,121	282,692,061	17,502,494	3,949,897	1,882,325	5,462,353
Other current liabilities	33,212,774	18,150,330	5,490,249	9,572,196	288,243,449	20,624,772	5,288,206	2,908,933	3,090,016
Loans from stockholders	7,451,892	4,464,729	610,695	2,376,468	50,163,702	4,781,388	1,021,959	920,807	675,667
Mortgages, notes, and bonds payable in one year or more	38,200,198	26,698,900	5,208,160	6,293,138	581,898,174	48,761,288	13,521,134	7,026,237	8,304,285
Other liabilities	16,602,115	9,899,108	3,637,725	3,065,282	330,053,119	20,787,942	3,029,955	1,640,498	1,551,544
Capital stock	8,052,829	3,715,209	1,546,132	2,791,488	138,351,988	10,672,967	1,862,740	1,781,053	2,002,707
Paid-in or capital surplus	16,324,763	5,838,131	8,428,430	2,058,202	437,772,826	44,525,745	17,870,607	2,845,541	5,848,655
Retained earnings, appropriated	195,659	44,332	22,916	128,411	9,230,934	1,264,485	341,893	*14,952	*21,714
Retained earnings, unappropriated	28,627,042	10,583,969	6,474,096	11,568,977	587,691,861	46,682,482	15,085,862	9,817,741	5,581,088
Retained earnings, 1120S	3,060,620	1,325,287	648,824	1,086,509	12,416,071	1,157,206	—	710,022	1,382,661
Less: Cost of treasury stock	3,479,632	1,319,720	671,981	1,487,932	61,064,183	6,441,413	*405,388	608,759	724,659
Total receipts	412,477,214	195,317,559	63,119,978	154,039,677	2,810,713,781	309,672,902	53,832,926	50,539,925	62,019,114
Business receipts	399,436,063	187,264,489	60,266,264	151,905,311	2,614,526,752	296,285,417	51,181,595	49,339,696	60,828,561
Interest	3,632,278	2,574,139	585,671	472,468	49,130,776	3,926,240	955,653	263,226	184,161
Interest on Government obligations: State and local	95,321	54,712	20,568	20,041	1,211,878	33,887	*628	5,778	4,914
Nonqualifying interest and dividends	253,860	162,555	33,950	57,355	406,876	51,100	—	17,612	28,155
Rents	1,760,754	1,107,708	400,467	252,578	31,942,910	1,880,081	368,538	74,041	130,944
Royalties	27,189	5,547	17,128	4,514	11,312,372	710,618	326,236	30,397	176,943
Net short-term capital gain reduced by net long-term capital loss	78,064	37,815	31,736	8,513	691,850	71,933	1	5,857	1,011
Net long-term capital gain reduced by net short-term capital loss	1,132,342	725,283	245,802	161,257	24,564,317	1,770,143	*191,229	134,096	77,037
Net gain, noncapital assets	1,533,484	992,948	338,676	201,860	9,439,899	746,368	31,836	161,214	65,023
Dividends received from domestic corporations	135,413	63,789	45,200	26,424	4,312,921	404,756	*30,698	30,860	57,542
Dividends received from foreign corporations	99,440	29,280	57,732	12,427	18,906,008	906,216	287,561	73,689	27,534
Other receipts	4,293,007	2,299,295	1,076,783	916,929	44,267,222	2,886,144	458,951	403,459	437,287
Total deductions	406,663,574	193,398,329	61,733,123	151,532,122	2,723,698,904	300,361,103	51,318,488	48,506,610	60,392,878
Cost of sales and operations	314,065,258	158,098,506	47,462,244	108,504,508	1,746,954,429	206,540,226	26,884,565	36,614,148	42,951,597
Compensation of officers	14,037,111	5,198,953	1,330,049	7,508,110	28,970,927	2,021,156	141,606	717,151	1,425,940
Repairs	1,829,226	528,548	488,031	812,647	29,059,006	2,583,153	296,915	347,794	179,993
Bad debts	990,093	353,713	135,432	500,948	9,025,221	384,827	71,130	98,469	155,286
Rent paid on business property	3,205,978	1,085,683	518,041	1,602,253	32,107,553	2,595,322	364,260	399,525	858,567
Taxes paid	8,132,918	2,651,129	1,218,794	4,262,995	71,939,993	6,667,644	1,914,592	1,196,096	1,356,115
Interest paid	6,869,790	4,123,873	1,198,914	1,547,002	102,372,701	8,968,590	2,904,975	1,081,249	1,469,983
Contributions or gifts	131,437	55,687	30,395	45,355	2,665,876	319,928	112,240	37,168	31,359
Amortization	135,523	78,757	13,091	43,675	5,330,602	399,965	362,435	33,597	139,506
Depreciation	7,516,637	2,356,160	2,032,687	3,127,790	124,986,991	8,962,896	2,889,259	1,731,399	923,118
Depletion	359,935	87,466	70,012	202,457	5,180,615	78,352	494	10,663	40,896
Advertising	1,133,039	557,791	64,500	510,748	46,016,326	12,497,373	4,366,141	356,435	828,884
Pension, profit-sharing, stock bonus, and annuity plans	1,706,301	575,048	350,075	781,178	18,178,076	1,177,376	212,803	268,139	266,403
Employee benefit programs	1,950,470	555,142	334,119	1,061,209	36,846,039	2,620,112	804,449	368,492	400,255
Net loss, noncapital assets	173,461	114,884	27,824	30,753	2,696,867	141,443	10,538	24,702	24,338
Other deductions	44,426,398	16,976,989	6,458,917	20,990,493	461,367,682	44,402,741	9,982,086	5,221,584	9,340,639
Total receipts less total deductions	5,813,639	1,919,229	1,386,855	2,507,555	87,014,878	9,311,798	2,514,439	2,033,315	1,626,236
Constructive taxable income from related foreign corporations	69,632	19,605	45,588	4,438	16,049,445	741,620	334,180	78,077	45,050
Net income (less deficit)	5,781,722	1,878,315	1,411,455	2,491,952	101,827,271	10,019,471	2,847,991	2,105,614	1,666,324
Income subject to tax	7,578,399	3,048,205	1,549,136	2,981,058	116,666,065	10,250,323	2,716,852	1,918,739	1,789,080
Income tax, total	2,525,994	1,016,603	632,980	876,411	50,222,612	4,463,451	1,227,333	855,454	764,112
Regular and alternative tax	2,484,009	1,004,640	615,350	864,019	49,025,411	4,371,653	1,215,154	842,407	760,657
Tax from recomputing prior-year investment credit	28,275	8,775	8,320	11,180	653,088	54,531	*10,163	12,878	3,361
Additional tax for tax preferences	12,240	2,935	8,092	1,212	543,146	37,266	2,016	*169	*93
Foreign tax credit	71,340	*10,656	55,982	*4,702	17,340,711	755,382	268,650	29,499	7,401
U.S. possessions tax credit	6	6	—	—	2,702,270	283,869	23,342	*1,944	46,804
Orphan drug credit	—	—	—	—	6,530	—	—	—	—
Nonconventional source fuel credit	*441	*335	96	*10	37,519	*403	—	—	—
General business credit	270,387	82,997	92,968	94,422	4,373,632	392,097	125,308	97,964	25,042

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 2—Balance Sheets, Income Statements, Tax, and Selected Other Items, by Major Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Major industry—Continued								
	Manufacturing—Continued								
	Lumber and wood products	Furniture and fixtures	Paper and allied products	Printing and publishing	Chemicals and allied products	Petroleum (including integrated) and coal products	Rubber and miscellaneous plastics products	Leather and leather products	Stone, clay, and glass products
	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)
Number of returns, total	**16,823**	**7,677**	**3,916**	**43,634**	**10,978**	**2,463**	**12,630**	**2,034**	**10,613**
Total assets	**55,924,580**	**16,340,735**	**77,487,682**	**109,572,061**	**290,296,874**	**558,622,859**	**45,492,429**	**8,966,947**	**77,712,421**
Cash	2,045,804	890,418	1,518,103	5,103,152	8,241,787	6,965,123	1,678,656	1,106,522	2,084,217
Notes and accounts receivable	7,724,519	4,107,583	9,608,439	20,554,598	47,427,206	84,393,292	9,550,818	1,941,895	18,236,517
Less: Allowance for bad debts	139,412	96,812	250,254	1,099,261	959,787	954,416	240,713	42,226	349,378
Inventories	7,216,526	3,957,714	8,332,918	7,052,334	30,530,267	19,134,257	6,972,456	2,290,366	6,606,426
Investments in Government obligations	251,886	147,533	426,546	1,470,743	1,343,722	676,821	224,552	*32,993	348,573
Other current assets	3,557,267	669,343	2,074,925	5,547,656	12,019,100	23,337,072	1,545,284	506,869	2,642,187
Loans to stockholders	221,851	88,122	189,827	1,314,716	3,841,557	2,424,668	347,479	24,990	821,437
Mortgage and real estate loans	1,339,282	28,672	138,951	101,545	63,529	129,823	16,101	7,128	52,626
Other investments	7,391,883	1,180,372	15,389,483	17,072,682	81,605,257	182,517,963	7,701,455	1,290,014	17,171,537
Depreciable assets	33,877,033	8,028,035	56,069,357	48,553,905	123,052,827	260,432,870	27,104,814	2,652,250	38,736,063
Less: Accumulated depreciation	17,115,385	3,769,363	23,079,117	20,957,583	56,260,380	114,234,629	12,538,554	1,427,679	18,669,077
Depletable assets	5,413,739	*5,801	2,493,908	337,310	2,290,197	53,553,199	*894,138	*171	958,424
Less: Accumulated depletion	169,234	371	451,091	*96,565	1,190,383	20,386,324	298,804	*137	289,059
Land	957,245	252,595	875,508	1,646,130	3,758,515	6,567,012	570,159	65,456	1,502,034
Intangible assets (amortizable)	326,844	252,785	799,358	13,650,933	12,115,579	41,504,658	886,434	35,273	1,366,928
Less: Accumulated amortization	41,322	36,680	159,998	1,369,462	1,303,766	20,346,350	160,544	11,529	161,148
Other assets	3,066,055	634,990	3,510,817	10,689,229	23,721,648	32,907,821	1,238,697	494,591	6,654,113
Total liabilities	**55,924,580**	**16,340,735**	**77,487,682**	**109,572,061**	**290,296,874**	**558,622,859**	**45,492,429**	**8,966,947**	**77,712,421**
Accounts payable	4,207,124	1,988,672	6,147,229	8,578,187	25,986,614	45,471,520	5,321,797	1,005,842	5,654,273
Mortgages, notes, and bonds payable in less than one year	5,148,372	1,512,689	3,296,206	6,115,643	18,384,793	25,307,148	5,017,485	672,569	5,173,297
Other current liabilities	4,566,628	1,586,252	5,416,470	11,747,197	29,682,420	32,841,337	3,341,828	861,034	4,041,094
Loans from stockholders	809,681	233,474	644,627	4,688,742	7,853,086	2,771,428	1,029,195	131,217	4,607,124
Mortgages, notes, and bonds payable in one year or more	13,970,910	2,661,417	16,469,985	24,208,900	54,562,058	97,923,430	9,838,850	2,736,763	26,919,909
Other liabilities	3,282,634	657,226	6,844,962	9,562,985	26,306,053	110,054,344	2,650,013	417,761	5,367,876
Capital stock	3,962,369	975,949	6,302,703	4,986,187	15,283,870	16,260,882	1,886,519	566,038	3,636,506
Paid-in or capital surplus	7,697,620	1,428,132	11,115,023	10,066,660	52,741,389	113,142,604	6,720,965	795,177	10,683,758
Retained earnings, appropriated	35,683	*8,057	*53,106	144,224	458,822	749,122	*48,208	*5,457	187,810
Retained earnings, unappropriated	12,249,402	5,343,519	23,092,839	30,999,995	68,087,231	131,765,020	10,069,593	1,908,252	12,203,074
Retained earnings, 1120S	625,996	258,422	451,990	760,726	445,117	* – 135,559	632,781	202,429	405,340
Less: Cost of treasury stock	631,837	313,074	2,347,456	2,287,385	9,494,580	17,528,416	1,064,805	335,591	1,167,641
Total receipts	**75,472,319**	**31,569,511**	**84,664,659**	**127,622,480**	**289,983,468**	**359,519,073**	**63,107,628**	**13,078,616**	**65,935,767**
Business receipts	71,936,340	30,767,887	81,247,095	120,560,673	266,650,941	325,729,272	60,777,337	12,491,574	62,833,000
Interest	996,046	116,689	566,038	1,473,052	3,481,080	8,857,105	570,425	73,283	675,844
Interest on Government obligations: State and local	4,614	23,447	17,843	35,846	69,728	39,380	11,661	6,851	5,594
Nonqualifying interest and dividends	36,579	7,162	7,858	41,713	13,542	*3,695	10,867	2,936	7,414
Rents	155,993	115,610	200,962	476,262	1,317,679	2,347,477	191,836	37,551	166,087
Royalties	41,611	14,785	272,993	298,115	1,747,736	1,105,762	93,223	23,382	156,286
Net short-term capital gain reduced by net long-term capital loss	5,986	4,734	4,451	39,891	47,607	11,699	12,527	*374	35,961
Net long-term capital gain reduced by net short-term capital loss	1,062,531	95,207	1,111,525	1,913,134	5,931,714	4,012,423	367,952	59,599	590,730
Net gain, noncapital assets	270,727	54,580	202,512	384,907	1,491,410	2,403,054	111,723	84,767	251,749
Dividends received from domestic corporations	25,907	17,937	198,607	142,718	983,578	817,007	35,340	165,418	144,098
Dividends received from foreign corporations	86,747	13,058	310,759	160,064	3,184,377	5,807,785	346,376	*20,080	363,045
Other receipts	849,238	338,415	524,017	2,096,104	5,064,074	8,384,415	578,359	112,803	705,959
Total deductions	**73,654,055**	**30,028,976**	**81,036,374**	**119,366,013**	**272,225,483**	**352,152,711**	**61,211,720**	**12,614,775**	**62,608,735**
Cost of sales and operations	54,195,209	20,910,223	53,998,723	58,781,986	159,917,606	228,078,784	41,012,943	8,787,868	40,928,365
Compensation of officers	1,031,875	679,133	724,101	3,490,476	2,002,269	532,963	1,205,321	188,005	950,262
Repairs	1,251,098	128,115	1,800,000	851,706	3,984,559	4,687,502	736,523	61,571	1,354,933
Bad debts	192,641	103,884	122,924	822,527	647,533	813,694	194,756	43,821	244,210
Rent paid on business property	827,150	357,009	752,060	2,116,193	3,479,857	3,780,117	726,143	277,323	800,876
Taxes paid	1,680,893	823,715	1,873,336	3,755,333	5,659,688	15,541,959	1,311,548	270,362	1,773,812
Interest paid	1,982,463	504,223	2,101,799	4,007,267	8,952,062	18,879,531	1,737,881	314,677	1,862,775
Contributions or gifts	61,706	28,504	113,873	252,580	380,649	113,495	42,299	10,070	61,638
Amortization	30,523	57,676	45,705	830,834	539,087	808,993	81,275	9,273	164,520
Depreciation	2,655,373	739,825	5,159,025	5,496,825	12,864,761	20,923,605	2,136,772	227,457	3,197,366
Depletion	715,452	*1,393	215,907	174,085	326,785	2,730,260	41,909	(1)	251,268
Advertising	339,216	429,018	940,979	2,356,627	8,973,758	987,304	727,372	261,579	389,221
Pension, profit-sharing, stock bonus, and annuity plans	341,405	222,866	452,292	1,025,989	1,784,094	1,302,501	364,637	77,856	363,679
Employee benefit programs	671,519	290,864	1,197,272	1,546,202	3,458,739	2,373,807	843,144	109,153	883,877
Net loss, noncapital assets	30,884	32,639	11,166	81,257	376,422	679,991	25,605	18,920	173,555
Other deductions	7,646,647	4,719,886	11,527,211	33,776,127	58,877,615	49,918,205	10,023,592	1,956,841	9,208,378
Total receipts less total deductions	1,818,265	1,540,536	3,628,285	8,256,467	17,757,986	7,366,362	1,895,908	463,841	3,327,032
Constructive taxable income from related foreign corporations	45,551	4,809	234,319	95,442	3,197,305	5,307,332	174,080	39,806	203,122
Net income (less deficit)	1,847,003	1,521,898	3,844,761	8,303,499	20,885,562	12,634,313	2,058,327	496,796	3,524,559
Income subject to tax	2,252,364	1,695,209	3,567,853	8,759,735	20,638,912	18,508,443	2,162,428	419,347	3,442,435
Income tax, total	852,531	744,167	1,510,949	3,629,475	8,741,178	8,086,591	903,296	182,460	1,483,534
Regular and alternative tax	830,998	739,662	1,472,009	3,590,166	8,502,281	7,871,924	882,220	180,221	1,449,316
Tax from recomputing prior-year investment credit	10,922	3,610	16,785	32,892	80,083	97,749	9,787	2,051	11,978
Additional tax for tax preferences	10,612	*896	21,655	6,347	158,814	116,918	11,289	187	22,240
Foreign tax credit	*41,986	9,494	275,948	129,943	3,070,986	7,071,083	136,324	20,899	229,511
U.S. possessions tax credit	—	402	*2,794	*7,989	1,538,607	38,833	22,160	12,648	1,715
Orphan drug credit	—	—	—	—	6,530	—	—	—	—
Nonconventional source fuel credit	—	—	*79	—	*2,148	32,349	*109	—	2
General business credit	136,954	31,268	266,315	253,606	758,626	237,073	71,058	8,396	175,621

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 2—Balance Sheets, Income Statements, Tax, and Selected Other Items, by Major Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Major industry—Continued							
	Manufacturing—Continued							
	Primary metal industries	Fabricated metal products	Machinery, except electrical	Electrical and electronic equipment	Motor vehicles and equipment	Transportation equipment, except motor vehicles	Instruments and related products	Miscellaneous manufacturing and manufacturing not allocable
	(26)	(27)	(28)	(29)	(30)	(31)	(32)	(33)
Number of returns, total	**4,377**	**47,524**	**25,179**	**22,426**	**2,592**	**4,385**	**8,435**	**21,030**
Total assets	**125,390,788**	**122,552,113**	**225,052,906**	**296,894,137**	**334,416,694**	**104,160,255**	**56,620,610**	**50,764,111**
Cash	3,479,216	5,862,172	9,030,974	11,001,188	4,742,146	2,541,210	3,119,711	2,692,679
Notes and accounts receivable	25,606,044	26,617,821	57,242,842	75,912,654	167,859,762	20,299,306	13,865,772	11,097,387
Less: Allowance for bad debts	633,121	639,610	1,247,468	1,990,763	1,736,392	288,041	271,141	560,514
Inventories	14,470,208	23,141,010	36,381,618	39,188,359	16,480,982	22,557,465	9,466,432	8,813,691
Investments in Government obligations	703,908	729,067	6,509,171	6,027,710	8,088,597	*115,665	422,960	218,994
Other current assets	4,882,643	5,155,811	11,284,614	37,420,592	9,408,138	11,751,986	2,785,500	4,748,843
Loans to stockholders	284,796	642,437	1,157,806	2,125,740	441,289	235,768	211,876	239,923
Mortgage and real estate loans	31,406	860,185	953,718	336,774	14,837,457	77,813	87,823	94,402
Other investments	22,247,315	22,363,946	40,176,587	40,468,338	43,602,212	14,475,863	7,495,914	7,511,803
Depreciable assets	66,669,223	55,039,698	99,170,869	105,475,303	100,240,407	42,990,794	27,567,047	17,384,332
Less: Accumulated depreciation	33,171,620	27,602,480	50,737,575	51,476,967	47,221,365	20,575,111	13,117,770	7,628,191
Depletable assets	1,450,317	270,416	917,991	802,199	45,765	*100,135	*13,689	*113,449
Less: Accumulated depletion	604,253	92,916	350,078	302,594	5,294	*14,387	*2,924	*30,380
Land	1,317,156	1,579,667	2,109,076	2,129,531	1,138,630	833,034	714,856	532,611
Intangible assets (amortizable)	1,998,507	4,201,688	3,976,912	4,595,908	5,431,460	2,604,546	2,189,453	2,998,258
Less: Accumulated amortization	308,389	610,368	1,025,586	1,077,256	385,309	199,851	311,645	322,357
Other assets	16,967,433	5,033,569	9,501,435	26,257,420	11,448,211	6,654,060	2,383,057	2,859,180
Total liabilities	**125,390,788**	**122,552,113**	**225,052,906**	**296,894,137**	**334,416,694**	**104,160,255**	**56,620,610**	**50,764,111**
Accounts payable	11,595,223	13,187,285	20,285,533	33,253,931	28,883,110	9,930,153	6,260,648	5,082,668
Mortgages, notes, and bonds payable in less than one year	16,482,502	10,966,472	20,355,595	35,449,171	83,505,939	7,559,001	4,440,522	4,507,587
Other current liabilities	9,799,717	17,828,969	35,211,977	27,303,351	35,714,201	24,309,532	6,921,642	5,157,870
Loans from stockholders	3,415,222	2,157,367	1,597,073	4,656,850	4,469,135	1,598,692	1,073,021	1,027,947
Mortgages, notes, and bonds payable in one year or more	31,596,718	22,756,038	41,721,206	41,791,746	81,120,658	18,133,118	6,985,070	10,888,453
Other liabilities	17,004,730	9,978,385	15,729,438	53,280,982	20,945,844	10,776,976	2,882,816	7,300,156
Capital stock	7,539,949	6,731,384	18,171,307	16,589,800	6,571,630	4,995,887	4,022,621	3,548,919
Paid-in or capital surplus	21,371,447	14,977,624	30,244,026	34,638,728	25,567,435	6,159,935	9,529,680	9,802,078
Retained earnings, appropriated	153,379	136,782	1,977,333	275,917	2,323,486	51,372	883,789	95,343
Retained earnings, unappropriated	7,143,722	24,952,091	41,619,216	52,330,774	45,853,552	23,078,730	16,205,767	3,621,913
Retained earnings, 1120S	457,539	1,921,350	979,595	956,730	172,869	317,128	184,869	528,858
Less: Cost of treasury stock	1,169,360	3,041,634	2,839,392	3,633,841	711,165	2,750,270	2,769,836	797,682
Total receipts	**116,424,525**	**153,118,293**	**213,188,265**	**249,064,290**	**257,885,315**	**115,070,912**	**60,684,383**	**58,259,408**
Business receipts	108,946,419	146,990,197	179,573,940	230,436,162	237,212,148	107,513,827	57,708,130	55,516,540
Interest	2,505,671	1,524,039	3,987,924	5,224,191	10,352,180	2,297,124	511,607	589,198
Interest on Government obligations: State and local	12,313	66,803	512,228	65,047	182,904	41,556	54,393	16,462
Nonqualifying interest and dividends	12,000	52,213	34,476	35,114	*5,843	7,871	5,969	24,758
Rents	560,395	800,731	12,713,693	3,436,976	5,255,164	1,017,341	495,711	199,836
Royalties	79,972	170,452	4,481,765	774,182	118,054	173,284	332,906	183,670
Net short-term capital gain reduced by net long-term capital loss	20,089	95,580	74,972	73,804	113,399	57,037	4,157	10,778
Net long-term capital gain reduced by net short-term capital loss	771,565	827,116	750,581	3,106,170	435,488	628,472	351,602	376,004
Net gain, noncapital assets	374,151	354,163	530,604	709,135	674,021	145,256	208,208	184,491
Dividends received from domestic corporations	149,473	166,747	271,854	272,685	190,052	85,810	52,715	69,119
Dividends received from foreign corporations	314,525	516,494	3,379,509	1,074,924	1,096,696	600,691	220,672	115,207
Other receipts	2,677,951	1,553,759	6,876,720	3,855,900	2,249,366	2,502,644	738,314	973,346
Total deductions	**116,178,496**	**148,501,024**	**208,446,347**	**243,333,383**	**253,295,260**	**111,779,151**	**59,463,448**	**57,223,876**
Cost of sales and operations	84,660,404	101,094,424	113,435,958	148,153,578	171,603,317	79,047,614	32,968,785	36,388,106
Compensation of officers	734,176	4,254,720	2,793,985	2,745,826	570,661	622,948	834,717	1,303,636
Repairs	2,786,968	1,072,353	1,400,650	1,694,932	1,740,620	845,095	949,606	304,922
Bad debts	454,525	699,416	791,572	1,312,432	1,241,796	202,185	184,140	243,454
Rent paid on business property	1,315,200	1,682,596	3,186,436	3,417,321	2,485,346	1,162,098	814,602	709,550
Taxes paid	2,075,453	3,719,765	5,537,004	6,132,749	5,421,478	2,444,596	1,460,115	1,323,739
Interest paid	5,139,827	4,265,486	7,267,089	9,575,120	15,027,033	2,892,036	1,519,727	1,918,910
Contributions or gifts	21,797	106,507	321,197	217,327	204,977	109,143	83,600	35,819
Amortization	115,219	286,424	427,726	352,677	122,656	282,537	113,096	126,878
Depreciation	4,557,039	5,017,441	9,552,809	12,491,461	16,277,603	4,545,937	2,917,333	1,719,687
Depletion	193,233	128,062	179,721	45,322	11,146	24,630	*6,931	4,105
Advertising	436,789	1,306,565	1,934,803	3,021,037	2,189,914	397,325	1,800,102	1,475,883
Pension, profit-sharing, stock bonus, and annuity plans	1,156,408	1,121,402	1,852,634	1,648,096	2,819,483	820,401	617,549	282,065
Employee benefit programs	1,763,795	2,231,838	4,246,333	4,370,081	5,552,862	1,551,100	882,018	680,129
Net loss, noncapital assets	186,264	83,648	274,633	230,794	39,890	81,798	47,423	120,959
Other deductions	10,581,400	21,430,377	55,243,798	47,924,628	27,986,477	16,749,710	14,263,705	10,586,035
Total receipts less total deductions	246,029	4,617,269	4,741,918	5,730,908	4,590,056	3,291,761	1,220,935	1,035,533
Constructive taxable income from related foreign corporations	168,957	253,624	3,068,569	766,297	755,336	205,734	287,474	42,761
Net income (less deficit)	402,673	4,803,788	7,298,259	6,432,158	5,162,488	3,455,939	1,454,016	1,061,832
Income subject to tax	1,599,720	5,547,768	10,581,848	9,591,522	5,183,676	2,134,903	2,127,302	1,777,608
Income tax, total	664,099	2,283,574	4,772,139	4,017,956	2,417,811	906,183	959,788	756,531
Regular and alternative tax	648,118	2,245,045	4,679,488	3,899,050	2,300,487	869,688	925,696	749,171
Tax from recomputing prior-year investment credit	6,352	29,114	61,967	47,609	116,284	10,873	28,736	5,362
Additional tax for tax preferences	9,628	9,407	30,307	71,297	1,040	25,621	5,356	1,988
Foreign tax credit	119,105	302,961	3,092,437	751,449	591,351	211,316	180,805	44,182
U.S. possessions tax credit	—	8,205	107,711	375,004	7,463	*5,376	166,637	50,767
Orphan drug credit	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	143	*490	—	492	*1,064	—	238	—
General business credit	113,696	140,986	184,531	620,445	406,956	183,401	81,184	63,103

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 2—Balance Sheets, Income Statements, Tax, and Selected Other Items, by Major Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Major industry—Continued								
	Transportation and public utilities				Wholesale and retail trade				
						Wholesale trade			
	Total	Transportation	Communication	Electric, gas, and sanitary services	Total	Total	Groceries and related products	Machinery, equipment, and supplies	Miscellaneous wholesale trade
	(34)	(35)	(36)	(37)	(38)	(39)	(40)	(41)	(42)
Number of returns, total	**138,428**	**109,839**	**15,801**	**12,789**	**939,159**	**314,115**	**25,483**	**51,275**	**237,357**
Total assets	**1,310,227,440**	**282,469,098**	**400,442,308**	**627,316,034**	**1,073,523,697**	**503,719,685**	**35,926,290**	**68,102,284**	**399,691,111**
Cash	26,611,886	11,247,758	8,250,381	7,113,747	63,781,972	29,624,370	2,408,031	4,371,080	22,845,258
Notes and accounts receivable	117,096,819	36,224,832	41,562,777	39,309,210	241,592,845	140,004,829	10,299,879	20,208,235	109,496,715
Less: Allowance for bad debts	3,152,247	1,082,476	1,291,601	778,170	5,623,244	3,267,195	285,021	561,465	2,420,709
Inventories	30,517,206	5,774,904	8,391,872	16,350,431	303,014,310	143,253,062	9,501,965	19,848,430	113,902,667
Investments in Government obligations	10,812,129	3,082,673	520,946	7,208,510	36,707,171	26,357,105	59,727	83,078	26,214,300
Other current assets	46,564,384	17,189,346	9,036,677	20,338,361	56,886,652	28,912,563	1,518,628	3,886,487	23,507,448
Loans to stockholders	2,970,636	1,258,417	1,124,163	588,056	10,873,701	4,007,745	495,652	808,797	2,703,295
Mortgage and real estate loans	2,242,884	1,446,354	59,688	736,842	11,349,870	4,735,031	89,767	203,313	4,441,951
Other investments	190,107,371	43,115,836	94,639,250	52,352,286	84,500,805	37,908,772	1,890,526	4,766,555	31,251,690
Depreciable assets	1,102,617,516	223,716,191	296,465,663	582,435,662	337,486,238	122,172,911	14,424,001	21,146,245	86,602,666
Less: Accumulated depreciation	318,414,238	81,922,618	90,633,606	145,858,014	153,038,196	60,503,463	7,022,417	10,201,657	43,279,390
Depletable assets	9,029,953	1,269,656	*10,889	7,749,409	2,484,459	1,832,707	*5,657	65,335	1,761,715
Less: Accumulated depletion	4,910,500	524,043	*3,128	4,383,330	992,345	835,930	*3,948	27,011	804,972
Land	9,052,306	3,058,157	2,361,830	3,632,319	22,328,122	6,663,297	662,113	790,247	5,210,937
Intangible assets (amortizable)	24,714,182	6,736,008	14,838,209	3,139,965	17,843,275	5,655,922	596,465	691,675	4,367,781
Less: Accumulated amortization	3,613,638	1,832,444	1,216,361	564,833	3,909,581	1,359,967	135,391	170,877	1,053,699
Other assets	67,980,791	13,710,547	16,324,660	37,945,584	48,237,643	18,557,928	1,420,653	2,193,817	14,943,458
Total liabilities	**1,310,227,440**	**282,469,098**	**400,442,308**	**627,316,034**	**1,073,523,697**	**503,719,685**	**35,926,290**	**68,102,284**	**399,691,111**
Accounts payable	75,399,038	26,328,823	24,562,197	24,508,018	169,963,851	95,071,546	9,651,663	13,788,408	71,631,475
Mortgages, notes, and bonds payable in less than one year	52,793,349	16,258,804	12,823,888	23,710,657	198,241,424	115,444,932	3,767,591	11,718,495	99,958,846
Other current liabilities	109,041,244	31,700,993	28,344,383	48,995,868	138,645,665	68,990,036	2,853,730	6,786,356	59,349,951
Loans from stockholders	11,057,796	4,922,350	3,803,728	2,331,718	37,396,403	14,324,098	1,139,466	2,336,299	10,848,332
Mortgages, notes, and bonds payable in one year or more	400,851,705	77,643,674	103,217,446	219,990,585	184,334,941	62,989,197	6,585,372	10,627,856	45,775,968
Other liabilities	158,597,488	28,970,561	53,864,140	75,762,786	44,837,974	17,076,429	1,392,628	3,388,501	12,295,301
Capital stock	161,637,748	16,961,118	43,556,195	101,120,435	53,740,426	25,047,864	1,756,756	3,614,406	19,676,703
Paid-in or capital surplus	187,104,546	43,141,500	88,432,361	55,530,684	69,793,609	27,840,540	1,951,905	4,804,463	21,084,173
Retained earnings, appropriated	2,420,784	466,202	281,865	1,672,718	1,539,171	568,141	59,842	64,377	443,922
Retained earnings, unappropriated	159,235,240	40,763,720	44,452,848	74,018,672	182,348,647	75,634,025	7,024,705	11,433,330	57,175,991
Retained earnings, 1120S	−1,760,376	−927,816	−813,418	−19,142	7,735,916	7,624,704	487,788	913,142	6,223,773
Less: Cost of treasury stock	6,151,121	3,760,832	2,083,324	306,965	15,054,328	6,891,828	745,156	1,373,348	4,773,324
Total receipts	**762,231,202**	**280,728,355**	**194,932,160**	**286,570,687**	**2,547,440,986**	**1,202,368,046**	**178,161,090**	**129,402,238**	**894,804,718**
Business receipts	717,929,024	261,854,817	182,558,619	273,515,589	2,472,495,351	1,169,998,313	174,798,796	124,639,114	870,560,403
Interest	11,755,036	4,520,299	2,326,212	4,908,524	21,396,617	12,169,772	290,253	1,093,800	10,785,719
Interest on Government obligations:									
State and local	204,446	60,007	44,040	100,399	1,081,803	166,368	19,048	24,686	122,634
Nonqualifying interest and dividends	91,362	54,565	31,638	5,159	786,021	341,714	22,412	85,280	234,022
Rents	8,286,435	4,061,362	2,665,012	1,560,061	10,153,301	3,279,565	336,889	990,311	1,952,365
Royalties	293,022	146,074	81,055	65,893	1,311,823	520,376	31,173	88,314	400,888
Net short-term capital gain reduced by net long-term capital loss	277,827	138,166	57,311	82,351	352,566	145,093	8,130	39,207	97,756
Net long-term capital gain reduced by net short-term capital loss	6,694,919	2,251,393	2,054,046	2,389,479	6,057,131	2,207,397	178,950	379,826	1,648,621
Net gain, noncapital assets	4,788,383	2,696,026	1,344,751	747,606	2,786,170	976,093	76,846	274,406	624,841
Dividends received from domestic corporations	1,114,987	392,745	325,280	396,962	1,023,268	510,021	22,742	62,473	424,806
Dividends received from foreign corporations	324,701	136,574	161,499	26,628	819,447	411,161	*3,195	48,262	359,704
Other receipts	10,471,060	4,416,329	3,282,696	2,772,036	29,177,489	11,642,174	2,372,656	1,676,558	7,592,960
Total deductions	**740,718,131**	**282,062,827**	**183,019,409**	**275,635,895**	**2,512,081,940**	**1,185,653,448**	**176,659,878**	**127,611,994**	**881,381,576**
Cost of sales and operations	338,754,789	127,583,587	62,979,384	148,191,817	1,895,237,380	960,326,784	150,666,179	93,299,646	716,360,960
Compensation of officers	5,893,062	3,895,952	994,984	1,002,126	40,068,428	19,089,890	1,732,073	3,257,214	14,100,603
Repairs	30,974,085	5,571,086	15,281,164	10,121,835	9,824,878	3,249,385	531,013	398,728	2,319,644
Bad debts	4,150,869	960,553	2,212,489	977,827	6,814,387	3,298,082	284,936	553,744	2,459,402
Rent paid on business property	22,008,563	12,755,280	6,651,196	2,602,087	42,535,723	9,881,263	1,260,764	1,409,704	7,210,794
Taxes paid	36,109,355	10,204,444	9,925,126	15,979,785	37,975,611	13,793,931	1,400,912	1,698,686	10,694,333
Interest paid	47,070,426	9,513,682	11,731,985	25,824,759	39,961,980	19,451,038	1,050,310	2,218,656	16,182,073
Contributions or gifts	525,638	122,532	248,583	154,524	759,200	301,957	36,409	35,690	229,858
Amortization	1,728,618	357,187	928,986	442,445	1,893,140	653,730	71,192	71,479	511,059
Depreciation	73,840,838	18,222,264	27,011,810	28,606,764	37,840,513	13,744,364	1,481,845	2,698,244	9,564,275
Depletion	783,799	237,268	1,797	544,734	233,157	132,670	*2,131	15,035	115,504
Advertising	4,997,826	2,156,311	2,500,686	340,828	31,254,592	7,967,811	633,074	869,140	6,465,597
Pension, profit-sharing, stock bonus, and annuity plans	6,746,496	2,367,770	2,603,332	1,775,394	6,782,364	3,085,672	362,809	456,792	2,266,072
Employee benefit programs	9,752,601	3,874,590	3,892,258	1,985,753	10,388,228	3,540,603	518,397	601,787	2,420,419
Net loss, noncapital assets	4,672,172	3,258,345	933,151	480,677	976,198	345,283	17,109	58,435	269,739
Other deductions	152,708,994	80,981,978	35,122,478	36,604,538	349,536,163	126,790,985	16,610,726	19,969,014	90,211,245
Total receipts less total deductions	21,513,071	−1,334,472	11,912,751	10,934,792	35,359,047	16,714,598	1,501,212	1,790,244	13,423,143
Constructive taxable income from related foreign corporations	496,711	123,528	261,035	112,147	673,671	249,062	5,356	14,006	229,700
Net income (less deficit)	21,803,663	−1,270,950	12,129,398	10,945,215	34,919,948	16,786,801	1,487,519	1,778,625	13,520,657
Income subject to tax	36,663,610	5,991,374	14,268,089	16,404,148	43,982,615	19,666,427	1,608,059	2,746,650	15,311,718
Income tax, total	16,156,499	2,390,469	6,453,311	7,312,719	17,097,449	7,781,984	638,859	1,052,661	6,090,464
Regular and alternative tax	15,807,771	2,328,854	6,277,333	7,201,583	16,862,842	7,694,330	630,512	1,018,858	6,044,959
Tax from recomputing prior-year investment credit	212,432	20,094	140,708	51,630	179,319	73,791	6,595	28,476	38,720
Additional tax for tax preferences	134,608	41,489	34,181	58,938	54,324	13,429	1,737	5,226	6,466
Foreign tax credit	232,474	58,258	154,343	19,872	632,765	280,896	*267	22,584	258,046
U.S. possessions tax credit	79,338	—	79,338	—	96,649	32,620	368	146	32,106
Orphan drug credit	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	16,731	4,288	18	12,425	541	*422	154	154	*114
General business credit	4,822,922	638,778	1,791,183	2,392,961	1,201,408	342,803	34,813	76,985	231,005

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 2—Balance Sheets, Income Statements, Tax, and Selected Other Items, by Major Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Major industry—Continued: Wholesale and retail trade—Continued: Retail trade: Total	Building materials, garden supplies, and mobile home dealers	General merchandise stores	Food stores	Automotive dealers and service stations	Apparel and accessory stores	Furniture and home furnishings stores	Eating and drinking places	Miscellaneous retail stores	Wholesale and retail trade not allocable
	(43)	(44)	(45)	(46)	(47)	(48)	(49)	(50)	(51)	(52)
Number of returns, total	**620,956**	**42,149**	**11,107**	**51,653**	**89,876**	**46,593**	**36,218**	**136,344**	**207,016**	**4,088**
Total assets	**567,922,765**	**34,544,390**	**179,829,908**	**58,571,130**	**89,776,693**	**29,889,751**	**22,781,251**	**64,744,347**	**87,785,295**	**1,881,247**
Cash	33,944,090	2,180,918	5,088,810	4,146,792	6,385,558	2,435,156	1,911,484	4,888,540	6,906,833	213,512
Notes and accounts receivable	101,170,234	6,629,732	50,443,750	4,748,296	11,906,799	4,603,952	5,503,245	4,639,100	12,695,359	417,783
Less: Allowance for bad debts	2,331,765	215,982	824,051	40,256	305,689	143,410	192,502	103,903	505,973	24,284
Inventories	159,252,513	11,662,666	34,106,450	14,856,054	44,639,363	11,112,985	8,402,188	2,605,914	31,866,892	508,735
Investments in Government obligations	10,350,067	198,243	9,201,067	380,658	90,358	14,253	*34,964	60,802	369,721	—
Other current assets	27,828,826	925,974	14,011,221	2,194,310	2,714,812	1,231,011	721,933	3,200,667	2,828,897	145,262
Loans to stockholders	6,791,464	332,045	686,948	627,842	1,100,832	494,706	248,462	2,356,437	944,193	74,492
Mortgage and real estate loans	6,612,004	249,418	4,999,614	133,822	234,335	40,157	43,770	395,466	515,422	*2,835
Other investments	46,418,684	2,057,095	19,776,935	3,191,813	2,268,971	2,514,892	1,919,987	6,322,406	8,366,584	173,349
Depreciable assets	214,752,981	12,432,434	46,091,640	37,107,344	29,539,177	10,449,792	5,798,833	43,238,113	30,095,648	560,346
Less: Accumulated depreciation	92,248,043	6,069,290	17,017,516	15,209,586	13,947,957	4,540,341	2,691,256	17,778,166	14,993,933	286,689
Depletable assets	651,705	*27,037	—	*270,706	80,701	*5,189	*69	98,626	169,376	*47
Less: Accumulated depletion	156,386	*2,598	—	*14,210	31,938	*3,003	—	*47,821	56,816	*30
Land	15,597,870	1,398,320	2,688,584	2,576,467	2,562,656	265,860	343,055	4,273,242	1,489,686	66,955
Intangible assets (amortizable)	12,177,339	223,003	1,423,154	1,678,829	693,825	563,678	161,943	4,251,548	3,181,359	10,014
Less: Accumulated amortization	2,547,761	41,499	169,354	404,523	184,271	156,621	51,614	773,230	766,649	1,853
Other assets	29,658,942	2,556,872	9,322,656	2,326,771	2,029,159	1,001,493	626,688	7,116,607	4,678,696	20,773
Total liabilities	**567,922,765**	**34,544,390**	**179,829,908**	**58,571,130**	**89,776,693**	**29,889,751**	**22,781,251**	**64,744,347**	**87,785,295**	**1,881,247**
Accounts payable	74,569,166	4,770,773	19,271,387	11,969,051	8,060,934	4,813,612	3,630,317	6,464,997	15,588,096	323,139
Mortgages, notes, and bonds payable in less than one year	82,521,071	3,522,639	21,024,795	2,778,328	38,015,294	1,623,626	2,529,192	4,372,339	8,654,858	275,421
Other current liabilities	69,498,728	2,536,103	36,882,049	5,535,359	6,286,668	2,888,861	2,549,059	5,672,425	7,148,204	156,901
Loans from stockholders	22,900,705	1,184,902	1,313,784	1,776,763	3,389,727	1,597,389	914,441	6,423,016	6,300,682	171,600
Mortgages, notes, and bonds payable in one year or more	121,079,335	8,748,675	37,057,206	14,009,418	12,899,445	4,593,266	3,174,945	22,687,109	17,909,272	266,408
Other liabilities	27,698,089	836,288	12,655,992	3,006,765	1,880,119	823,781	1,588,662	3,469,690	3,436,791	63,455
Capital stock	28,589,858	2,016,426	5,121,956	3,034,773	4,767,379	2,444,519	1,147,181	3,664,204	6,393,421	102,704
Paid-in or capital surplus	41,520,810	3,012,640	12,117,445	4,635,681	2,615,245	2,600,029	1,761,271	7,424,309	7,354,191	432,258
Retained earnings, appropriated	971,030	60,661	267,032	37,240	66,957	*20,936	249,699	133,543	134,963	—
Retained earnings, unappropriated	106,660,990	7,955,801	34,273,596	12,821,795	12,407,131	8,886,960	5,497,582	7,929,352	16,888,772	53,632
Retained earnings, 1120S	27,485	572,364	364,755	97,037	915,922	23,126	435,397	−1,901,958	−479,157	*83,727
Less: Cost of treasury stock	8,114,503	672,881	520,089	1,131,080	1,528,128	426,353	696,493	1,594,679	1,544,799	47,997
Total receipts	**1,340,896,432**	**73,384,375**	**205,565,043**	**259,370,186**	**376,618,311**	**62,102,792**	**46,605,726**	**113,499,990**	**203,750,009**	**4,176,509**
Business receipts	1,298,421,838	71,542,924	192,227,510	254,646,821	368,844,494	60,473,661	45,071,942	106,564,423	199,050,063	4,075,200
Interest	9,210,808	394,824	4,694,560	469,559	1,277,607	427,946	294,027	824,049	828,236	16,036
Interest on Government obligations: State and local	915,144	14,459	736,357	22,485	22,551	9,261	47,665	27,278	35,087	*292
Nonqualifying interest and dividends	443,806	39,607	6,433	22,962	206,437	10,662	31,958	52,571	73,175	*501
Rents	6,848,596	319,163	1,757,356	669,188	1,296,237	166,068	175,503	1,531,217	933,864	25,141
Royalties	791,177	25,151	22,036	12,462	4,517	157,162	*803	400,827	168,219	*270
Net short-term capital gain reduced by net long-term capital loss	205,357	1,869	32,695	32,413	24,667	3,101	9,622	16,406	84,585	*2,117
Net long-term capital gain reduced by net short-term capital loss	3,838,817	109,622	1,282,645	897,402	308,127	104,341	42,070	768,884	325,725	*10,917
Net gain, noncapital assets	1,809,242	121,478	212,111	214,007	503,443	35,591	55,721	443,448	223,443	*836
Dividends received from domestic corporations	509,733	22,286	253,557	55,407	35,807	65,312	7,204	30,774	39,387	*3,514
Dividends received from foreign corporations	404,439	15,537	117,923	88,806	*584	*1,512	289	151,882	27,905	*3,847
Other receipts	17,497,476	777,454	4,221,860	2,238,673	4,093,840	648,175	868,922	2,688,232	1,960,319	37,839
Total deductions	**1,322,275,507**	**72,056,174**	**199,344,117**	**256,427,362**	**374,212,827**	**60,633,689**	**45,477,901**	**112,740,075**	**201,383,363**	**4,152,985**
Cost of sales and operations	932,067,748	51,841,745	122,823,657	195,434,948	315,455,735	35,855,408	28,654,155	46,999,286	135,002,815	2,842,847
Compensation of officers	20,771,847	1,773,310	817,830	1,602,357	4,855,094	1,405,171	1,403,943	3,019,391	5,894,750	206,691
Repairs	6,558,224	358,191	1,129,226	1,390,118	890,806	235,446	220,755	1,486,267	847,416	17,269
Bad debts	3,501,023	356,934	1,181,217	181,278	482,695	260,003	251,680	191,618	595,599	15,282
Rent paid on business property	32,585,128	1,092,606	6,042,686	4,305,208	3,529,533	3,683,276	1,600,713	6,187,978	6,143,128	69,333
Taxes paid	24,107,415	1,388,220	4,778,166	3,461,215	3,946,485	1,399,262	933,047	4,412,641	3,788,380	74,265
Interest paid	20,452,429	1,225,476	7,277,409	1,631,287	3,648,194	739,193	602,586	2,631,819	2,696,466	58,512
Contributions or gifts	456,249	21,294	142,572	80,688	48,628	48,937	17,257	31,279	65,592	995
Amortization	1,238,397	33,556	183,603	106,155	93,546	96,817	32,533	312,809	379,378	1,014
Depreciation	24,025,063	1,095,220	4,700,185	4,148,065	4,273,912	1,175,249	610,570	4,605,650	3,416,212	71,086
Depletion	100,487	*4,091	5,958	8,719	15,258	2,207	761	3,323	60,171	—
Advertising	23,240,669	1,087,475	5,393,847	2,747,104	3,945,886	1,609,709	1,967,928	2,846,925	3,641,796	46,112
Pension, profit-sharing, stock bonus, and annuity plans	3,660,147	240,242	1,017,032	645,791	411,498	178,423	169,791	306,125	691,245	36,545
Employee benefit programs	6,832,811	322,358	1,126,798	2,124,056	1,224,555	290,534	169,006	665,340	910,164	14,813
Net loss, noncapital assets	626,184	14,673	37,749	80,067	80,692	41,436	92,544	184,840	94,182	4,731
Other deductions	222,051,688	11,200,787	42,686,181	38,480,306	31,310,312	13,612,616	8,750,632	38,854,785	37,156,068	693,489
Total receipts less total deductions	18,620,925	1,328,202	6,220,926	2,942,824	2,405,484	1,469,104	1,127,825	759,915	2,366,647	23,524
Constructive taxable income from related foreign corporations	424,609	8,259	161,009	52,258	1,565	4,123	—	188,495	*8,901	—
Net income (less deficit)	18,109,915	1,322,001	5,645,577	2,972,597	2,384,497	1,463,966	1,080,160	900,671	2,340,446	23,232
Income subject to tax	24,255,197	1,614,029	6,238,456	3,437,037	2,890,601	2,039,317	1,284,720	2,772,403	3,978,633	60,992
Income tax, total	9,296,057	589,195	2,645,840	1,360,985	1,000,285	813,140	460,922	1,039,096	1,386,593	19,408
Regular and alternative tax	9,149,195	582,018	2,622,060	1,330,408	973,873	810,254	456,828	1,002,012	1,371,742	19,317
Tax from recomputing prior-year investment credit	105,436	6,807	12,995	22,895	24,685	2,815	3,327	18,587	13,326	*91
Additional tax for tax preferences	40,895	370	10,785	7,682	1,636	*70	767	18,059	1,526	—
Foreign tax credit	351,868	9,212	97,171	61,364	37	4,122	—	176,898	3,066	—
U.S. possessions tax credit	*64,030	—	—	2,998	—	—	—	483	60,549	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*120	*113	—	—	—	—	—	7	—	—
General business credit	857,600	21,986	308,256	151,621	84,939	26,812	9,140	172,371	82,475	1,005

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 2—Balance Sheets, Income Statements, Tax, and Selected Other Items, by Major Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Major Industry—Continued							
	Finance, insurance, and real estate							
	Total	Banking	Credit agencies other than banks	Security, commodity brokers and services	Insurance	Insurance agents, brokers, and service	Real estate	Holding and other investment companies, except bank holding companies
	(53)	(54)	(55)	(56)	(57)	(58)	(59)	(60)
Number of returns, total	**537,384**	**12,431**	**25,576**	**16,551**	**9,057**	**63,791**	**366,317**	**43,660**
Total assets	**7,985,641,912**	**3,551,085,491**	**1,444,992,909**	**392,056,171**	**1,310,194,707**	**64,338,480**	**271,810,111**	**951,164,042**
Cash	521,578,576	383,575,364	63,595,359	7,790,778	18,109,196	8,009,674	16,920,499	23,577,705
Notes and accounts receivable	2,415,754,876	1,956,346,664	161,705,918	123,815,817	49,971,340	11,852,747	23,054,567	89,007,823
Less: Allowance for bad debts	48,949,625	33,252,231	13,994,029	264,485	354,084	170,139	566,602	348,056
Inventories	27,914,055	558,760	1,668,675	474,479	2,954,790	22,148	16,761,346	5,473,858
Investments in Government obligations	973,839,076	448,793,594	77,270,782	33,927,580	222,308,574	8,363,131	2,232,093	180,943,322
Other current assets	424,938,378	110,318,669	38,674,512	116,237,849	91,677,972	4,698,705	19,264,821	44,065,850
Loans to stockholders	15,122,707	2,321,394	3,626,987	688,937	930,426	745,496	4,270,328	2,539,138
Mortgage and real estate loans	1,331,025,420	245,443,614	864,365,405	1,442,406	186,393,189	953,902	18,632,472	13,794,432
Other investments	1,773,693,198	257,170,598	168,082,068	93,478,759	641,958,841	19,254,811	39,652,652	554,095,469
Depreciable assets	263,329,811	72,031,063	25,381,715	6,227,441	20,000,683	6,024,022	107,687,915	25,976,972
Less: Accumulated depreciation	79,670,594	24,209,041	7,525,936	2,142,638	3,198,754	2,760,945	31,910,767	7,922,513
Depletable assets	2,673,486	63,144	146,550	*27,318	220,449	*14,288	1,263,485	938,253
Less: Accumulated depletion	753,825	21,540	32,539	*9,301	*123,747	*4,321	314,163	248,214
Land	51,057,767	5,477,508	4,778,480	98,525	1,318,982	195,830	34,992,465	4,195,977
Intangible assets (amortizable)	28,097,267	6,621,573	10,403,359	858,123	2,159,307	2,761,624	2,887,869	2,405,413
Less: Accumulated amortization	3,732,157	932,461	819,190	198,919	285,536	525,157	621,138	349,755
Other assets	289,723,498	120,778,821	47,664,792	9,603,501	76,153,079	4,902,664	17,602,271	13,018,370
Total liabilities	**7,985,641,912**	**3,551,085,491**	**1,444,992,909**	**392,056,171**	**1,310,194,707**	**64,338,480**	**271,810,111**	**951,164,042**
Accounts payable	301,109,909	69,049,722	34,523,405	116,508,539	27,743,347	18,577,246	12,305,413	22,402,237
Mortgages, notes, and bonds payable in less than one year	459,641,411	184,014,374	158,419,192	31,776,894	25,499,339	3,985,448	36,280,476	19,665,687
Other current liabilities	3,976,122,419	2,661,634,791	914,802,922	165,376,123	173,220,463	8,018,353	15,761,497	37,308,270
Loans from stockholders	48,593,437	12,251,958	7,623,187	939,468	3,950,997	619,337	18,496,216	4,712,274
Mortgages, notes, and bonds payable in one year or more	570,555,962	157,290,594	212,626,291	19,033,233	22,815,682	4,807,225	109,797,583	44,185,354
Other liabilities	1,127,419,944	169,836,497	52,673,577	32,720,587	829,046,736	10,611,151	18,248,510	14,282,886
Capital stock	786,664,412	52,734,888	12,262,810	2,338,664	13,187,893	2,339,508	18,443,404	685,357,245
Paid-in or capital surplus	879,411,334	109,592,375	33,907,435	13,170,532	82,306,812	6,975,207	39,068,172	594,390,801
Retained earnings, appropriated	50,074,534	3,959,899	6,681,376	130,387	32,378,001	165,588	691,241	6,068,041
Retained earnings, unappropriated	302,099,485	132,562,411	12,129,194	10,008,177	101,771,015	9,034,610	7,382,627	29,211,450
Retained earnings, 1120S	−543,021	*−50	16,174	440,714	36,372	169,196	−1,748,242	542,814
Less: Cost of treasury stock	515,507,912	1,841,968	672,654	387,147	1,761,950	964,391	2,916,786	506,963,017
Total receipts	**1,365,095,368**	**363,833,518**	**225,346,852**	**58,355,572**	**452,171,741**	**36,573,149**	**99,508,463**	**129,306,074**
Business receipts	618,646,549	38,595,954	82,052,420	33,525,833	324,224,770	32,496,387	62,331,043	45,420,144
Interest	539,516,097	280,016,632	126,081,381	14,374,742	74,584,690	1,517,756	5,834,805	37,106,091
Interest on Government obligations: State and local	20,642,927	8,891,508	442,074	307,943	5,058,323	338,611	129,570	5,474,898
Nonqualifying interest and dividends	1,132,523	—	95,769	101,292	8,422	75,153	664,812	187,074
Rents	30,621,918	7,505,455	1,586,862	597,806	6,283,700	272,602	11,976,901	2,398,593
Royalties	568,992	30,800	6,854	11,821	33,965	*7,419	239,199	238,934
Net short-term capital gain reduced by net long-term capital loss	10,159,903	277,090	456,316	468,601	2,788,038	26,277	233,296	5,910,285
Net long-term capital gain reduced by net short-term capital loss	49,739,250	4,216,150	1,048,268	950,241	15,262,465	322,210	5,426,538	22,513,378
Net gain, noncapital assets	21,573,249	5,046,864	6,841,912	3,776,945	349,161	58,532	5,048,600	451,235
Dividends received from domestic corporations	7,631,047	639,799	314,356	409,411	3,515,262	107,992	241,097	2,403,130
Dividends received from foreign corporations	1,549,681	808,651	73,472	30,560	210,757	67,784	13,607	344,851
Other receipts	63,313,232	17,804,615	6,347,167	3,800,377	19,852,188	1,282,428	7,368,995	6,857,461
Total deductions	**1,245,473,109**	**344,455,452**	**221,482,734**	**54,159,536**	**430,461,683**	**35,104,434**	**97,361,309**	**62,447,961**
Cost of sales and operations	320,622,944	2,020,367	56,765,691	5,874,617	195,924,570	7,025,968	22,728,816	30,282,915
Compensation of officers	28,523,956	10,277,527	2,296,954	3,524,455	1,757,652	4,171,427	5,240,756	1,255,184
Repairs	5,007,720	1,978,564	573,885	125,640	143,951	143,790	1,788,675	253,215
Bad debts	29,367,793	20,287,399	6,982,480	153,175	632,160	269,507	628,157	414,915
Rent paid on business property	18,436,329	6,701,448	1,944,441	1,551,014	2,968,074	1,168,478	3,043,317	1,059,557
Taxes paid	25,298,921	6,365,162	2,311,966	1,196,528	7,677,244	1,232,906	5,136,113	1,379,003
Interest paid	351,936,465	200,572,006	108,717,361	12,418,386	10,239,020	935,551	13,257,445	5,796,696
Contributions or gifts	772,074	323,145	73,019	91,431	111,046	32,181	83,549	57,703
Amortization	2,761,907	778,178	315,961	112,392	612,273	193,404	503,596	246,103
Depreciation	28,990,058	12,370,650	2,816,851	1,189,188	4,080,051	886,273	5,744,801	1,902,244
Depletion	238,891	26,144	7,043	3,491	63,129	*1,323	74,531	63,231
Advertising	8,114,392	2,252,325	1,501,212	660,416	1,592,514	314,547	1,355,059	438,319
Pension, profit-sharing, stock bonus, and annuity plans	5,098,306	1,653,765	432,207	394,661	1,310,033	515,728	557,288	234,624
Employee benefit programs	7,269,031	3,438,998	790,353	339,033	1,370,930	439,728	457,002	432,987
Net loss, noncapital assets	2,464,672	705,913	818,077	70,444	36,323	141,200	549,261	143,454
Other deductions	410,569,651	74,703,861	35,135,235	26,454,665	201,942,715	17,632,423	36,212,943	18,487,810
Total receipts less total deductions	119,622,259	19,378,066	3,864,117	4,196,036	21,710,058	1,468,715	2,147,155	66,858,113
Constructive taxable income from related foreign corporations	1,051,273	573,005	131,623	18,688	225,944	55,009	5,387	41,616
Net income (less deficit)	99,808,908	11,059,562	3,553,468	3,905,902	16,877,679	1,185,113	1,879,711	61,347,472
Income subject to tax	50,679,641	13,313,259	5,471,596	3,942,592	15,726,494	1,933,216	6,233,626	4,058,859
Income tax, total	18,091,479	5,462,019	2,377,689	1,624,410	4,638,199	720,805	1,922,998	1,345,358
Regular and alternative tax	17,799,986	5,341,905	2,359,778	1,610,767	4,599,268	716,453	1,865,307	1,306,508
Tax from recomputing prior-year investment credit	115,785	49,325	8,691	3,480	17,138	3,821	27,494	5,835
Additional tax for tax preferences	165,786	70,489	8,628	10,163	21,670	*531	24,597	29,707
Foreign tax credit	2,254,655	1,767,721	116,709	42,567	230,262	43,746	6,709	46,941
U.S. possessions tax credit	14,884	—	*11,775	842	303	—	*633	1,331
Orphan drug credit	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	306	—	—	24	(1)	(1)	*84	*198
General business credit	1,155,859	519,961	96,697	237,711	153,591	25,794	53,470	68,636

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 2—Balance Sheets, Income Statements, Tax, and Selected Other Items, by Major Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Major industry—Continued							
	Services							Nature of business not allocable
	Total	Hotels and other lodging places	Personal services	Business services	Auto repair, miscellaneous repair services	Amusement and recreation services	Other services	
	(61)	(62)	(63)	(64)	(65)	(66)	(67)	(68)
Number of returns, total	**1,012,178**	**22,277**	**66,000**	**321,372**	**95,432**	**72,115**	**434,982**	**27,443**
Total assets	**381,609,099**	**41,785,184**	**13,008,504**	**123,763,458**	**36,640,263**	**60,047,973**	**106,363,716**	**2,116,359**
Cash	35,924,305	2,276,827	1,653,073	12,261,166	2,534,251	3,108,535	14,090,453	267,519
Notes and accounts receivable	67,897,828	2,693,842	1,961,631	28,172,262	5,853,801	14,156,155	15,060,137	289,044
Less: Allowance for bad debts	2,849,121	131,621	51,139	723,392	164,216	224,172	1,554,582	2,254
Inventories	16,327,613	651,324	939,985	5,189,377	2,912,069	4,613,349	2,021,510	314,041
Investments in Government obligations	2,566,372	149,879	90,008	1,077,383	84,815	162,496	1,001,791	*12,836
Other current assets	24,365,323	2,187,372	646,722	10,227,022	1,303,883	3,656,701	6,343,622	64,291
Loans to stockholders	8,905,428	465,016	277,682	2,593,752	391,655	650,532	4,526,791	49,913
Mortgage and real estate loans	2,539,518	700,348	88,185	918,746	136,727	222,141	473,372	59,658
Other investments	48,190,355	7,913,493	1,020,756	17,538,606	1,329,485	8,054,647	12,333,368	162,126
Depreciable assets	223,689,614	27,018,245	9,550,516	62,905,280	30,784,392	29,015,897	64,415,283	927,587
Less: Accumulated depreciation	97,232,642	9,014,839	5,145,011	31,544,435	11,855,160	12,617,374	27,055,822	432,907
Depletable assets	565,614	*233,031	*5,797	211,888	*19,202	33,744	61,952	*14,925
Less: Accumulated depletion	186,101	*38,139	*2,260	111,659	*7,423	*1,662	24,958	*2,537
Land	11,948,117	3,164,702	532,643	1,755,507	969,191	2,269,439	3,256,635	199,612
Intangible assets (amortizable)	15,467,315	1,136,679	570,769	5,587,835	1,221,020	2,707,976	4,243,036	44,381
Less: Accumulated amortization	4,101,431	232,641	164,424	1,269,976	116,803	1,404,718	912,869	8,842
Other assets	27,590,991	2,611,667	1,033,573	8,974,093	1,243,372	5,644,288	8,083,998	156,967
Total liabilities	**381,609,099**	**41,785,184**	**13,008,504**	**123,763,458**	**36,640,263**	**60,047,973**	**106,363,716**	**2,116,359**
Accounts payable	31,877,611	1,387,220	992,628	15,107,081	3,386,888	4,872,359	6,131,434	384,100
Mortgages, notes, and bonds payable in less than one year	37,985,725	2,817,695	1,137,198	15,153,719	5,978,636	3,831,613	9,066,869	145,957
Other current liabilities	41,669,666	2,789,923	975,353	14,571,943	4,193,925	5,681,350	13,457,171	222,486
Loans from stockholders	17,500,902	2,445,113	735,534	5,484,956	1,263,708	3,053,496	4,518,095	408,032
Mortgages, notes, and bonds payable in one year or more	120,911,882	18,859,678	3,277,141	31,472,550	11,421,981	22,242,860	33,637,672	419,171
Other liabilities	31,473,260	2,566,700	1,080,874	11,788,181	1,824,968	6,782,955	7,429,582	228,732
Capital stock	22,287,286	2,657,034	960,225	8,366,597	1,638,433	3,251,376	5,413,622	341,441
Paid-in or capital surplus	49,774,074	6,370,845	1,055,273	16,818,456	3,050,634	8,679,493	13,799,372	275,728
Retained earnings, appropriated	623,441	42,868	*26,968	205,410	*66,613	50,827	230,755	*611
Retained earnings, unappropriated	37,973,724	3,783,691	3,423,904	7,204,977	4,132,968	3,709,167	15,719,017	-97,841
Retained earnings, 1120S	-2,628,464	-987,598	-100,014	-75,309	316,772	-1,296,444	-485,870	-183,642
Less: Cost of treasury stock	7,840,007	947,985	556,575	2,335,103	635,263	811,078	2,554,003	*28,416
Total receipts	**591,849,715**	**34,892,684**	**22,938,171**	**201,980,091**	**49,526,666**	**51,279,093**	**231,233,009**	**3,490,803**
Business receipts	550,590,929	30,658,841	21,832,958	186,411,015	45,587,605	45,950,018	220,150,491	3,196,240
Interest	6,129,153	609,601	173,165	2,659,797	251,872	642,207	1,792,511	19,248
Interest on Government obligations:								
State and local	287,548	22,823	11,251	147,380	15,531	10,905	79,658	—
Nonqualifying interest and dividends	454,643	51,570	18,932	151,903	18,449	107,177	106,613	*142
Rents	10,171,996	958,848	203,226	5,159,901	1,999,161	821,683	1,029,175	39,229
Royalties	2,155,765	327,377	121,574	669,645	33,923	963,676	39,569	*387
Net short-term capital gain reduced by net long-term capital loss	152,042	10,025	12,182	45,877	17,165	31,033	35,759	(1)
Net long-term capital gain reduced by net short-term capital loss	2,997,412	895,052	123,581	691,564	95,746	427,808	763,660	15,038
Net gain, noncapital assets	2,381,842	259,558	72,952	665,275	755,877	231,081	397,100	87,222
Dividends received from domestic corporations	473,142	29,817	23,488	158,042	11,602	74,919	175,273	*6,898
Dividends received from foreign corporations	409,415	*129,445	*25,441	146,861	70,756	20,584	16,328	12,152
Other receipts	15,645,829	939,724	319,421	5,072,831	668,980	1,998,000	6,646,872	114,247
Total deductions	**584,295,930**	**34,694,214**	**22,515,897**	**199,905,063**	**48,829,671**	**50,631,316**	**227,719,769**	**3,576,317**
Cost of sales and operations	196,127,453	13,729,327	8,541,221	86,346,538	22,126,898	18,055,725	47,327,745	1,915,069
Compensation of officers	64,930,947	574,060	1,632,834	13,985,802	2,390,470	3,943,319	42,404,462	149,677
Repairs	4,965,301	622,591	273,882	1,338,181	545,858	548,864	1,635,925	35,105
Bad debts	2,251,117	150,751	93,439	722,462	195,462	183,345	905,658	2,224
Rent paid on business property	23,565,896	1,808,723	1,073,472	6,812,916	2,182,614	1,772,836	9,915,335	146,257
Taxes paid	19,478,706	1,516,227	920,365	6,002,477	1,666,791	1,582,254	7,790,593	91,211
Interest paid	15,718,343	2,422,030	405,196	5,082,184	1,693,531	1,883,755	4,231,647	78,252
Contributions or gifts	253,108	20,829	17,346	68,233	12,404	35,057	99,239	322
Amortization	1,918,917	106,116	55,232	539,741	49,755	641,889	526,183	2,669
Depreciation	28,721,936	2,007,385	1,057,080	9,614,905	5,113,640	3,744,298	7,184,630	108,453
Depletion	44,991	4,366	*2,092	14,087	11,566	6,139	6,741	*17
Advertising	6,929,271	729,015	440,331	2,421,330	636,623	1,238,847	1,463,126	55,678
Pension, profit-sharing, stock bonus, and annuity plans	9,179,608	94,461	185,815	1,772,687	192,822	343,666	6,590,158	*22,277
Employee benefit programs	6,119,850	312,372	170,693	1,878,147	355,770	315,150	3,087,718	10,187
Net loss, noncapital assets	855,748	58,773	20,101	475,745	64,418	59,991	176,721	*2,895
Other deductions	203,234,738	10,537,188	7,626,798	62,829,629	11,591,048	16,276,184	94,373,891	956,024
Total receipts less total deductions	7,553,785	198,470	422,274	2,075,028	696,995	647,777	3,513,240	-85,514
Constructive taxable income from related foreign corporations	246,797	33,482	21,429	118,774	4,898	*34,929	33,284	99
Net income (less deficit)	7,448,023	175,507	432,453	2,035,401	685,343	654,562	3,464,756	-85,415
Income subject to tax	15,326,352	1,041,844	730,006	5,526,762	1,068,219	1,585,180	5,374,340	150,447
Income tax, total	4,942,317	367,117	238,759	1,960,958	333,516	609,507	1,432,460	60,809
Regular and alternative tax	4,818,018	352,150	235,431	1,904,269	324,432	600,046	1,401,690	56,943
Tax from recomputing prior-year investment credit	97,697	10,827	3,011	53,134	8,991	3,828	17,907	*3,858
Additional tax for tax preferences	26,094	3,759	*317	3,524	*94	5,627	12,773	*9
Foreign tax credit	317,281	*39,023	22,763	138,237	*558	100,275	16,426	99
U.S. possessions tax credit	14,107	*5,235	—	*5,984	91	142	*2,654	—
Orphan drug credit	—		—	—	—	—	—	—
Nonconventional source fuel credit	*868	—	—	*868	—	—	—	—
General business credit	746,497	43,691	18,284	232,311	100,983	145,767	205,460	*934

* Estimate should be used with caution because of the small number of sample returns on which it is based.
[1] Less than $500 per return.
NOTE: Detail may not add to total because of rounding and the deletion of data. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS WITH NET INCOME

Table 3—Balance Sheets, Income Statements, Tax, and Selected Other Items, by Major Industry

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	All industries	Major industry: Agriculture, forestry, and fishing	Mining: Total	Mining: Metal mining	Mining: Coal mining	Mining: Oil and gas extraction	Mining: Nonmetallic minerals, except fuels
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Number of returns with net income	**1,907,738**	**57,810**	**18,150**	**174**	**2,015**	**12,514**	**3,447**
Total assets	**10,985,800,509**	**34,110,028**	**55,897,298**	**5,719,391**	**13,043,238**	**27,297,540**	**9,837,129**
Cash	619,712,042	3,087,663	3,811,677	158,613	790,194	2,059,892	802,977
Notes and accounts receivable	2,918,194,906	3,488,919	7,718,619	341,764	2,546,729	3,425,814	1,404,312
Less: Allowance for bad debts	56,302,618	49,920	101,267	*2,740	25,172	39,667	33,688
Inventories	536,138,778	3,410,927	2,233,139	334,057	601,868	589,323	707,891
Investments in Government obligations	861,886,987	120,918	964,343	91,925	294,852	447,824	129,742
Other current assets	577,455,833	1,162,256	2,254,951	332,205	467,922	1,226,037	228,787
Loans to stockholders	42,961,370	1,008,161	814,073	*8,605	68,387	707,114	29,968
Mortgage and real estate loans	1,055,519,996	489,193	249,357	1,063	*155	216,652	31,487
Other investments	2,277,878,768	3,087,139	13,708,423	2,792,781	1,604,428	8,688,271	622,943
Depreciable assets	2,433,181,749	22,235,301	32,127,449	2,888,227	8,276,086	11,842,986	9,120,150
Less: Accumulated depreciation	967,826,272	13,685,134	17,361,917	1,752,612	4,126,143	6,515,588	4,967,574
Depletable assets	55,176,861	204,955	6,997,269	223,566	1,434,749	4,912,710	426,244
Less: Accumulated depletion	19,652,776	61,165	2,653,560	*59,156	213,179	2,279,737	101,487
Land	91,672,525	7,809,492	1,944,501	26,876	248,804	625,902	1,042,919
Intangible assets (amortizable)	131,852,078	113,327	1,746,628	*24,269	348,188	1,343,514	30,657
Less: Accumulated amortization	30,157,179	45,559	788,838	*9,526	58,221	711,128	9,964
Other assets	458,107,463	1,733,555	2,232,451	319,475	783,591	757,620	371,766
Total liabilities	**10,985,800,509**	**34,110,028**	**55,897,298**	**5,719,391**	**13,043,238**	**27,297,540**	**9,837,129**
Accounts payable	704,483,923	1,879,919	3,646,426	325,361	637,428	1,893,017	790,621
Mortgages, notes, and bonds payable in less than one year	779,407,348	5,010,207	4,110,947	106,564	1,861,782	1,722,986	419,615
Other current liabilities	3,717,811,520	1,436,254	3,289,223	246,226	984,876	1,170,440	887,682
Loans from stockholders	97,979,181	1,725,514	914,310	*61,870	158,834	546,851	146,756
Mortgages, notes, and bonds payable in one year or more	1,272,180,861	7,973,584	9,934,642	1,074,795	3,038,064	4,236,529	1,585,253
Other liabilities	1,337,378,407	1,295,048	5,952,881	487,917	1,727,112	2,566,280	1,171,572
Capital stock	957,693,424	4,992,383	2,765,293	506,551	226,545	1,622,789	409,408
Paid-in or capital surplus	1,267,464,731	2,681,248	12,693,525	1,424,549	1,664,020	9,044,093	560,863
Retained earnings, appropriated	54,653,229	99,213	272,032	103,485	*260	101,268	*67,019
Retained earnings, unappropriated	1,285,931,002	7,064,302	11,938,787	1,380,691	2,315,557	4,324,594	3,917,945
Retained earnings, 1120S	43,936,548	601,164	1,283,904	*6,490	578,530	293,279	405,605
Less: Cost of treasury stock	533,119,663	648,808	904,671	*5,108	149,770	224,584	525,210
Total receipts	**6,679,365,666**	**59,093,294**	**40,136,793**	**2,736,604**	**12,677,295**	**14,745,623**	**9,977,271**
Business receipts	5,768,884,132	54,924,453	34,410,397	2,408,211	11,632,393	11,267,141	9,102,651
Interest	508,381,045	436,969	904,842	72,760	287,972	431,293	112,816
Interest on Government obligations: State and local	16,864,959	18,905	21,648	—	*7,547	13,050	1,051
Nonqualifying interest and dividends	2,599,161	75,462	164,408	—	45,145	110,410	8,853
Rents	72,494,370	258,435	247,881	2,299	122,350	80,230	43,002
Royalties	13,643,623	99,650	284,440	*1,489	33,830	240,038	9,083
Net short-term capital gain reduced by net long-term capital loss	10,689,832	16,539	52,494	*5,802	*2,445	43,660	*587
Net long-term capital gain reduced by net short-term capital loss	84,322,859	647,356	1,167,097	55,294	191,550	686,955	233,298
Net gain, noncapital assets	35,020,219	307,933	766,993	2,861	64,377	468,258	231,497
Dividends received from domestic corporations	13,050,162	49,229	312,132	112,533	22,885	153,743	22,971
Dividends received from foreign corporations	21,242,178	45,475	280,311	*22,513	132	254,350	3,316
Other receipts	132,173,129	2,212,887	1,524,150	52,841	266,670	996,494	208,145
Total deductions	**6,271,644,380**	**55,402,633**	**35,099,475**	**2,477,272**	**11,902,326**	**11,749,080**	**8,970,797**
Cost of sales and operations	3,725,032,388	39,261,565	19,892,823	1,571,573	8,064,419	4,802,021	5,454,809
Compensation of officers	138,169,279	1,009,843	669,288	*11,301	100,941	335,804	221,241
Repairs	65,646,573	746,752	484,923	*9,618	105,568	138,327	231,411
Bad debts	35,069,426	93,158	148,475	*1,328	21,012	94,208	31,927
Rent paid on business property	102,106,424	1,059,764	508,760	20,546	191,753	183,982	112,480
Taxes paid	155,610,068	1,000,409	1,304,670	167,626	510,932	330,120	295,993
Interest paid	415,954,107	1,386,663	1,461,416	84,896	375,293	725,166	276,062
Contributions or gifts	5,084,003	31,699	35,496	*4,083	6,288	14,461	10,664
Amortization	8,141,472	23,472	53,709	1,013	12,509	30,132	10,055
Depreciation	226,578,111	2,132,729	2,375,844	131,937	676,253	936,674	630,980
Depletion	5,519,730	64,167	945,529	124,155	282,354	264,322	274,698
Advertising	77,371,200	219,109	64,018	*950	8,895	22,578	31,595
Pension, profit-sharing, stock bonus, and annuity plans	38,823,547	132,860	167,857	*20,608	24,687	47,076	75,486
Employee benefit programs	56,031,922	209,854	404,129	*13,309	221,779	77,061	91,979
Net loss, noncapital assets	3,094,221	29,349	80,959	280	*18,412	50,720	11,547
Other deductions	1,213,411,915	8,001,238	6,501,580	314,049	1,281,231	3,696,429	1,209,871
Total receipts less total deductions	407,721,287	3,690,661	5,037,318	259,332	774,969	2,996,543	1,006,474
Constructive taxable income from related foreign corporations	18,103,446	*5,705	337,046	*17,073	7,712	*311,051	1,210
Net income	408,860,760	3,676,645	5,352,717	276,405	775,134	3,294,544	1,006,633
Income subject to tax	275,717,187	1,883,105	3,237,308	185,037	261,740	2,055,530	735,000
Income tax, total	110,795,967	588,258	1,429,586	81,530	144,402	877,032	326,623
Regular and alternative tax	108,681,758	578,753	1,334,569	76,190	95,232	858,028	305,120
Tax from recomputing prior-year investment credit	1,114,032	6,558	6,808	288	837	2,699	2,983
Additional tax for tax preferences	980,538	2,948	82,572	5,052	48,331	10,670	18,520
Foreign tax credit	21,473,247	12,641	618,542	*47,478	1,790	567,707	*1,567
U.S. possessions tax credit	2,907,256	1	—	—	—	—	—
Orphan drug credit	6,530	—	—	—	—	—	—
Nonconventional source fuel credit	63,527	—	7,137	—	*508	5,899	*730
General business credit	12,799,214	101,639	132,721	*586	34,360	47,924	49,852

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS WITH NET INCOME

Table 3—Balance Sheets, Income Statements, Tax, and Selected Other Items, by Major Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Major industry—Continued: Construction: Total	Construction: General building contractors and operative builders	Construction: Heavy construction contractors	Construction: Special trade contractors	Manufacturing: Total	Manufacturing: Food and kindred products	Manufacturing: Tobacco manufactures	Manufacturing: Textile mill products	Manufacturing: Apparel and other textile products
	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Number of returns with net income	**194,446**	**77,214**	**11,119**	**106,113**	**163,161**	**9,636**	**81**	**3,218**	**9,617**
Total assets	**151,909,277**	**81,168,727**	**30,859,359**	**39,881,191**	**2,221,425,770**	**184,470,069**	**64,312,395**	**27,756,356**	**29,278,921**
Cash	16,048,189	7,519,727	2,732,864	5,795,598	62,970,811	6,456,855	97,668	1,327,044	1,403,827
Notes and accounts receivable	40,322,577	19,001,415	6,619,430	14,701,732	519,449,856	35,868,107	8,578,898	6,625,464	6,146,094
Less: Allowance for bad debts	370,310	111,136	56,743	202,431	9,413,001	488,475	79,544	106,062	129,475
Inventories	21,445,306	15,415,959	1,556,872	4,472,474	228,164,039	19,607,574	5,602,686	5,956,742	7,730,370
Investments in Government obligations	2,666,219	2,116,938	375,348	173,934	28,268,300	1,853,051	11,425	50,954	*30,201
Other current assets	14,558,434	9,321,701	1,831,903	3,404,830	115,707,724	9,783,174	981,351	865,534	1,471,199
Loans to stockholders	2,345,027	1,050,332	387,406	907,290	13,591,597	1,033,600	*874,787	517,308	171,623
Mortgage and real estate loans	7,741,749	7,440,888	99,729	201,132	18,354,378	166,462	2,467	9,238	11,611
Other investments	14,871,316	4,940,054	8,371,127	1,560,135	509,377,710	48,654,958	34,200,108	3,418,757	5,002,880
Depreciable loans	48,390,751	14,047,915	16,503,643	17,839,193	926,040,669	77,574,356	13,937,425	17,495,553	6,885,635
Less: Accumulated depreciation	27,913,979	6,973,447	9,990,993	10,949,539	433,607,331	34,153,455	4,619,434	9,700,054	3,391,922
Depletable assets	666,866	67,260	549,704	49,903	40,261,898	169,228	—	*5,575	*11,410
Less: Accumulated depletion	111,351	10,563	81,949	*18,838	14,300,527	*9,338	—	*2,637	*10,162
Land	4,393,063	3,055,810	602,153	735,099	22,929,773	3,332,799	432,289	177,062	182,631
Intangible assets (amortizable)	610,738	325,975	50,433	234,330	80,353,472	8,333,939	1,274,351	280,691	790,042
Less: Accumulated amortization	213,326	82,973	14,071	116,281	19,919,611	393,579	*252,579	73,036	115,568
Other assets	6,458,008	4,042,873	1,322,502	1,092,633	133,196,013	6,680,812	3,270,498	908,225	3,088,524
Total liabilities	**151,909,277**	**81,168,727**	**30,859,359**	**39,881,191**	**2,221,425,770**	**184,470,069**	**64,312,395**	**27,756,356**	**29,278,921**
Accounts payable	28,385,023	16,118,470	4,197,366	8,069,186	207,257,288	26,842,055	2,753,415	2,870,892	3,837,925
Mortgages, notes, and bonds payable in less than one year	17,434,927	11,073,793	2,809,810	3,551,325	218,620,323	12,958,271	3,919,682	1,533,493	3,862,861
Other current liabilities	21,763,797	11,493,665	3,667,122	6,603,010	212,447,039	16,178,861	5,266,166	2,426,247	2,352,041
Loans from stockholders	3,653,339	2,140,772	340,145	1,172,422	31,941,466	3,331,600	1,021,959	784,749	377,512
Mortgages, notes, and bonds payable in one year or more	23,643,062	16,603,836	3,239,909	3,799,317	417,960,997	35,331,802	13,521,115	5,669,279	5,288,132
Other liabilities	10,982,578	6,263,822	2,586,270	2,132,486	217,108,984	15,210,780	3,024,141	1,394,768	1,154,950
Capital stock	5,398,234	2,490,636	1,066,468	1,841,130	93,286,560	8,595,940	1,833,984	1,439,594	1,167,464
Paid-in or capital surplus	10,439,769	3,008,092	6,242,096	1,189,581	304,366,924	24,434,046	17,855,351	2,244,827	5,270,294
Retained earnings, appropriated	159,045	41,072	*15,171	102,802	7,502,328	1,256,940	341,893	*4,612	*21,075
Retained earnings, unappropriated	28,843,048	11,090,817	6,639,150	11,113,081	548,070,598	45,019,821	15,154,373	9,173,508	5,250,281
Retained earnings, 1120S	3,861,413	1,816,633	606,288	1,438,492	13,763,522	1,459,562	—	734,917	1,297,861
Less: Cost of treasury stock	2,654,957	972,881	550,436	1,131,640	50,900,258	6,149,609	*379,685	520,528	601,475
Total receipts	**298,333,255**	**138,552,171**	**45,643,366**	**114,137,717**	**2,209,090,505**	**255,346,344**	**53,746,173**	**44,471,479**	**48,826,952**
Business receipts	288,706,314	132,621,667	43,550,948	112,533,699	2,044,560,560	245,116,301	51,095,488	43,527,578	47,857,586
Interest	2,809,210	2,003,434	452,219	353,557	38,017,313	1,838,840	955,441	172,870	152,598
Interest on Government obligations: State and local	81,511	45,596	17,679	18,236	1,095,553	32,840	*628	5,330	3,942
Nonqualifying interest and dividends	189,312	113,103	29,912	46,297	356,699	44,497	—	17,612	24,483
Rents	1,074,106	672,702	234,546	166,859	27,998,871	1,700,535	368,538	55,304	91,674
Royalties	20,857	4,639	13,716	2,502	9,527,423	677,519	326,236	27,810	153,129
Net short-term capital gain reduced by net long-term capital loss	65,165	29,823	30,291	5,052	562,009	41,995	1	5,855	*774
Net long-term capital gain reduced by net short-term capital loss	934,776	586,264	213,614	134,898	22,687,562	1,665,567	*191,229	86,228	68,458
Net gain, noncapital assets	1,188,341	770,810	261,479	156,052	7,495,528	705,399	31,836	150,423	60,179
Dividends received from domestic corporations	109,681	54,387	34,227	21,068	3,619,788	369,207	*30,698	16,484	55,672
Dividends received from foreign corporations	70,603	*3,768	*54,631	*12,204	17,952,285	780,825	287,561	73,245	18,440
Other receipts	3,083,379	1,645,980	750,105	687,294	35,216,914	2,372,820	458,517	332,741	340,016
Total deductions	**285,865,137**	**133,199,328**	**43,223,329**	**109,442,481**	**2,087,389,990**	**244,132,916**	**51,209,458**	**42,149,681**	**46,336,566**
Cost of sales and operations	222,616,762	109,893,699	33,621,327	79,101,737	1,337,134,530	168,408,666	26,800,648	32,098,012	33,277,408
Compensation of officers	10,309,691	3,729,744	1,023,759	5,556,189	21,927,931	1,631,785	138,945	619,131	1,150,278
Repairs	1,311,618	360,875	360,255	590,488	21,892,325	2,265,502	296,833	314,511	147,613
Bad debts	609,855	195,199	74,453	340,204	6,656,110	312,706	71,079	78,234	102,742
Rent paid on business property	2,099,685	654,432	346,741	1,098,512	23,984,155	2,107,387	363,654	318,860	617,725
Taxes paid	5,861,490	1,836,374	901,134	3,123,982	56,370,465	5,590,129	1,911,606	1,052,410	1,053,924
Interest paid	4,364,995	2,642,115	752,126	970,755	73,029,485	5,231,916	2,901,372	816,896	1,075,569
Contributions or gifts	128,974	54,700	30,321	43,953	2,632,961	312,520	112,240	37,168	31,043
Amortization	85,074	46,223	9,725	29,126	3,464,634	257,964	362,235	29,250	117,847
Depreciation	5,135,152	1,446,355	1,463,132	2,225,665	95,484,751	7,364,472	2,887,697	1,541,077	732,216
Depletion	280,714	58,369	60,758	161,587	3,501,491	47,488	494	10,447	15,471
Advertising	786,390	374,730	49,604	362,056	39,373,563	11,092,475	4,365,968	322,611	631,151
Pension, profit-sharing, stock bonus, and annuity plans	1,312,377	456,960	198,699	656,717	14,721,707	1,066,881	210,821	255,048	241,227
Employee benefit programs	1,339,313	359,480	210,540	769,294	28,390,691	2,226,195	804,036	287,885	283,681
Net loss, noncapital assets	51,077	19,459	11,540	20,077	690,057	57,716	10,526	17,922	14,168
Other deductions	29,571,968	11,070,614	4,109,215	14,392,139	358,135,135	36,159,114	9,971,307	4,350,220	6,844,503
Total receipts less total deductions	12,468,118	5,352,843	2,420,038	4,695,237	121,700,515	11,213,428	2,536,714	2,321,798	2,490,386
Constructive taxable income from related foreign corporations	60,392	13,154	43,171	4,067	15,489,108	739,424	334,180	78,077	44,788
Net income	12,443,085	5,316,506	2,445,511	4,681,068	136,081,206	11,919,976	2,870,266	2,394,545	2,531,184
Income subject to tax	7,578,390	3,048,197	1,549,136	2,981,058	116,655,408	10,250,323	2,716,852	1,918,739	1,789,080
Income tax, total	2,519,534	1,013,888	630,757	874,888	50,095,330	4,460,571	1,227,333	854,007	763,709
Regular and alternative tax	2,483,920	1,004,563	615,338	864,019	49,020,446	4,371,653	1,215,154	842,407	760,657
Tax from recomputing prior-year investment credit	22,144	6,243	6,200	9,701	558,923	52,415	*10,163	11,440	3,051
Additional tax for tax preferences	11,999	2,830	8,000	1,168	515,003	36,503	2,016	*160	1
Foreign tax credit	71,340	*10,656	55,982	*4,702	17,335,808	755,382	268,650	29,499	7,401
U.S. possessions tax credit	6	6	—	—	2,702,270	283,869	23,342	*1,944	46,804
Orphan drug credit	—	—	—	—	6,530	—	—	—	—
Nonconventional source fuel credit	*441	*335	96	*10	37,519	*403	—	—	—
General business credit	270,387	82,997	92,968	94,422	4,373,632	392,097	125,308	97,964	25,042

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS WITH NET INCOME

Table 3—Balance Sheets, Income Statements, Tax, and Selected Other Items, by Major Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Major industry—Continued								
	Manufacturing—Continued								
	Lumber and wood products	Furniture and fixtures	Paper and allied products	Printing and publishing	Chemicals and allied products	Petroleum (including integrated) and coal products	Rubber and miscellaneous plastics products	Leather and leather products	Stone, clay, and glass products
	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)
Number of returns with net income	**10,298**	**4,660**	**1,898**	**23,235**	**6,186**	**1,296**	**8,405**	**1,369**	**6,871**
Total assets	**42,139,031**	**13,253,899**	**69,886,435**	**85,937,444**	**252,161,800**	**328,763,294**	**37,172,744**	**7,504,186**	**67,029,683**
Cash	1,555,095	730,007	1,321,322	3,502,955	7,403,399	3,728,596	1,315,042	1,039,411	1,835,506
Notes and accounts receivable	5,782,425	3,484,064	8,469,892	16,639,915	41,318,515	38,863,698	7,615,633	1,552,020	16,560,249
Less: Allowance for bad debts	102,256	77,978	224,940	923,307	823,795	618,624	171,632	27,295	288,736
Inventories	5,369,422	3,025,544	7,297,860	5,410,109	26,648,242	11,631,064	5,471,188	1,809,735	5,162,467
Investments in Government obligations	232,904	141,163	414,135	1,398,523	1,319,826	565,977	222,513	*20,787	337,201
Other current assets	3,328,894	577,232	1,711,412	4,526,116	9,244,409	7,870,174	1,232,826	397,182	2,326,850
Loans to stockholders	175,743	77,590	172,061	1,174,181	3,356,346	1,738,255	287,481	14,593	246,058
Mortgage and real estate loans	1,026,370	25,785	135,048	56,382	63,470	54,805	9,815	7,128	37,011
Other investments	6,282,829	1,071,663	14,860,867	14,650,898	72,164,394	132,998,434	6,907,051	1,171,704	15,013,446
Depreciable loans	26,572,152	6,615,849	50,199,597	38,568,522	107,496,747	151,586,420	22,696,095	2,122,595	32,097,451
Less: Accumulated depreciation	14,459,416	3,148,727	20,765,153	16,770,496	50,253,717	67,377,380	10,569,723	1,117,040	15,423,664
Depletable assets	3,162,944	*5,776	2,137,954	*130,480	1,665,326	29,790,666	*894,138	*171	554,033
Less: Accumulated depletion	160,740	371	400,219	*7,607	975,908	11,606,406	298,804	*137	87,792
Land	729,897	193,808	760,759	1,246,959	2,039,559	5,035,234	452,678	46,551	1,112,887
Intangible assets (amortizable)	237,176	139,250	663,490	8,954,428	10,601,293	27,547,440	381,209	25,268	1,335,278
Less: Accumulated amortization	15,722	23,782	133,726	685,499	1,152,110	13,693,618	94,528	7,193	150,188
Other assets	2,421,314	417,024	3,266,077	8,064,885	22,045,804	10,648,558	821,763	448,706	6,361,626
Total liabilities	**42,139,031**	**13,253,899**	**69,886,435**	**85,937,444**	**252,161,800**	**328,763,294**	**37,172,744**	**7,504,186**	**67,029,683**
Accounts payable	2,973,539	1,485,609	5,335,952	6,368,168	22,326,562	32,321,696	4,117,834	799,259	4,782,311
Mortgages, notes, and bonds payable in less than one year	3,523,484	677,964	2,221,058	3,945,037	14,016,151	11,025,466	3,717,774	349,658	3,979,677
Other current liabilities	3,735,641	1,322,744	5,004,266	9,727,168	26,432,686	14,447,131	2,661,032	685,298	3,550,883
Loans from stockholders	580,346	101,192	437,891	2,026,805	3,529,222	1,300,060	813,804	31,942	3,734,977
Mortgages, notes, and bonds payable in one year or more	9,366,347	1,796,933	13,606,032	16,570,882	46,074,522	52,862,070	7,075,392	2,433,743	24,359,161
Other liabilities	1,723,492	513,379	6,293,607	8,274,898	20,503,487	42,486,030	2,369,386	365,346	4,862,966
Capital stock	2,091,515	746,050	5,487,592	4,082,325	13,480,069	11,048,190	1,469,068	424,109	2,872,145
Paid-in or capital surplus	6,487,875	997,217	10,276,340	7,812,018	46,227,617	74,564,251	5,149,608	545,201	7,961,310
Retained earnings, appropriated	*28,881	*3,775	*48,125	76,676	326,981	718,889	*46,526	*1	185,071
Retained earnings, unappropriated	11,386,191	5,538,932	23,020,962	27,881,582	67,917,009	101,112,214	9,901,221	1,903,352	11,475,746
Retained earnings, 1120S	724,713	340,891	408,134	1,080,915	570,214	*81,090	726,902	218,762	366,268
Less: Cost of treasury stock	482,993	270,786	2,253,522	1,909,030	9,242,720	13,203,793	875,804	252,486	1,100,832
Total receipts	**57,024,785**	**26,479,070**	**73,692,202**	**102,380,613**	**260,879,447**	**239,021,625**	**52,558,801**	**10,336,718**	**54,551,968**
Business receipts	54,358,649	25,803,069	70,613,204	96,260,827	239,128,632	212,992,920	50,492,430	9,815,352	51,887,382
Interest	790,776	105,720	507,227	1,191,685	2,953,994	6,102,123	521,461	61,494	484,334
Interest on Government obligations:									
State and local	4,435	23,446	17,516	34,847	48,803	5,722	11,172	6,505	5,182
Nonqualifying interest and dividends	31,994	6,647	7,813	34,600	11,816	*3,683	10,219	2,936	6,829
Rents	88,313	105,052	186,336	434,470	1,083,033	1,548,225	172,257	35,847	149,052
Royalties	29,194	13,689	267,913	217,728	1,668,369	333,444	87,728	13,008	136,221
Net short-term capital gain reduced by net long-term capital loss	5,108	4,505	3,713	23,460	41,941	11,323	11,236	*251	35,905
Net long-term capital gain reduced by net short-term capital loss	907,096	66,572	1,041,418	1,869,177	5,861,644	3,725,660	324,637	42,027	574,261
Net gain, noncapital assets	135,111	48,143	124,002	346,254	1,426,625	1,626,296	98,470	78,361	233,979
Dividends received from domestic corporations	21,998	15,729	196,577	130,612	967,874	517,507	30,681	164,294	141,885
Dividends received from foreign corporations	45,330	13,058	299,381	153,324	3,071,493	5,739,085	345,430	*20,080	336,052
Other receipts	606,780	273,439	427,104	1,683,629	4,615,224	6,415,637	453,082	96,562	560,885
Total deductions	**54,201,597**	**24,557,432**	**69,707,438**	**92,605,223**	**241,308,486**	**224,469,655**	**50,067,080**	**9,674,397**	**50,491,102**
Cost of sales and operations	40,258,035	17,260,866	46,189,787	45,433,301	142,162,538	147,626,373	33,637,436	6,755,131	33,175,148
Compensation of officers	819,103	578,116	551,488	2,584,303	1,685,396	365,654	905,997	141,071	760,826
Repairs	834,487	109,764	1,607,423	667,480	3,661,603	3,308,939	690,205	49,081	1,213,060
Bad debts	106,529	78,847	105,834	626,852	535,899	470,779	148,530	28,655	173,051
Rent paid on business property	593,354	294,494	658,198	1,651,592	3,037,004	2,534,372	611,733	210,436	602,472
Taxes paid	1,303,194	707,848	1,642,646	3,085,392	5,158,473	10,088,288	1,092,970	211,768	1,463,489
Interest paid	1,358,746	274,012	1,631,155	2,844,564	7,543,904	10,995,533	1,358,411	236,456	1,359,760
Contributions or gifts	61,694	28,504	113,869	252,256	378,010	113,477	40,194	10,070	61,395
Amortization	14,624	11,501	36,600	507,465	445,184	470,818	34,668	1,866	118,711
Depreciation	1,869,406	623,234	4,528,153	4,365,468	11,399,924	11,693,896	1,724,821	181,926	2,578,957
Depletion	641,777	*1,393	185,164	105,272	217,246	1,592,254	34,721	−0	216,994
Advertising	246,625	358,510	890,780	2,028,346	8,015,151	842,270	563,467	184,957	343,457
Pension, profit-sharing, stock bonus, and annuity plans	285,700	209,563	426,578	874,954	1,675,053	746,059	338,554	65,303	297,277
Employee benefit programs	493,111	229,281	1,091,508	1,244,565	3,146,021	1,371,840	690,378	86,192	736,365
Net loss, noncapital assets	16,125	3,859	7,947	37,743	170,390	30,697	8,912	1,720	14,779
Other deductions	5,299,086	3,787,638	10,040,309	26,295,671	52,076,691	32,218,407	8,186,083	1,509,765	7,375,361
Total receipts less total deductions	2,823,188	1,921,639	3,984,764	9,775,390	19,570,961	14,551,970	2,491,721	662,321	4,060,867
Constructive taxable income from related foreign corporations	43,213	4,809	225,901	92,341	3,156,110	5,158,583	172,271	31,260	196,728
Net income	2,861,966	1,903,002	4,193,149	9,820,320	22,678,268	19,704,831	2,652,820	687,076	4,252,413
Income subject to tax	2,252,364	1,695,209	3,567,853	8,759,735	20,638,912	18,508,443	2,162,428	419,347	3,442,435
Income tax, total	848,634	744,090	1,505,931	3,624,978	8,735,618	8,043,125	902,772	182,347	1,480,936
Regular and alternative tax	830,935	739,662	1,472,009	3,590,166	8,502,281	7,871,924	882,220	180,221	1,449,316
Tax from recomputing prior-year investment credit	7,465	3,550	11,882	28,653	74,941	69,553	9,314	1,946	10,891
Additional tax for tax preferences	10,234	*878	21,540	6,088	158,395	101,649	11,238	179	20,729
Foreign tax credit	*41,986	9,494	275,948	129,943	3,070,986	7,071,083	136,324	20,899	229,511
U.S. possessions tax credit	—	402	*2,794	*7,989	1,538,607	38,833	22,160	12,648	1,715
Orphan drug credit	—	—	—	—	6,530	—	—	—	—
Nonconventional source fuel credit	—	—	*79	—	*2,148	32,349	*109	—	2
General business credit	136,954	31,268	266,315	253,606	758,626	237,073	71,058	8,396	175,621

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS WITH NET INCOME

Table 3—Balance Sheets, Income Statements, Tax, and Selected Other Items, by Major Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Major Industry—Continued: Manufacturing—Continued: Primary metal industries	Fabricated metal products	Machinery, except electrical	Electrical and electronic equipment	Motor vehicles and equipment	Transportation equipment, except motor vehicles	Instruments and related products	Miscellaneous manufacturing and manufacturing not allocable
	(26)	(27)	(28)	(29)	(30)	(31)	(32)	(33)
Number of returns with net income	**3,035**	**27,584**	**13,834**	**13,046**	**1,318**	**2,118**	**5,092**	**10,363**
Total assets	**75,080,302**	**82,806,152**	**144,326,658**	**254,765,246**	**315,661,685**	**75,182,222**	**33,985,392**	**29,951,857**
Cash	1,855,784	4,801,826	5,697,371	8,399,948	4,155,278	2,130,269	2,284,800	1,928,809
Notes and accounts receivable	15,580,020	15,676,565	31,845,188	66,751,545	162,179,575	13,990,895	8,881,057	7,040,035
Less: Allowance for bad debts	401,219	486,615	623,719	1,641,564	1,655,418	199,943	148,846	193,560
Inventories	6,892,575	14,453,555	23,924,838	31,539,740	13,493,129	15,782,203	5,928,537	5,426,458
Investments in Government obligations	256,514	676,793	6,200,473	5,864,309	8,064,037	*113,984	339,314	154,215
Other current assets	3,009,455	3,810,270	8,202,964	34,901,986	8,478,074	8,975,401	1,226,729	2,786,490
Loans to stockholders	144,137	444,774	300,815	1,944,219	434,476	190,221	127,847	165,482
Mortgage and real estate loans	26,914	669,500	906,323	326,692	14,605,328	73,840	*87,147	53,042
Other investments	15,171,261	17,161,468	23,781,432	34,835,475	41,086,929	11,619,798	4,685,457	4,637,904
Depreciable loans	31,041,096	36,259,443	68,179,387	88,407,379	93,448,731	31,251,332	13,572,384	10,032,521
Less: Accumulated depreciation	15,024,737	18,220,725	34,076,645	44,086,352	44,637,701	14,936,548	6,185,471	4,688,971
Depletable assets	644,037	105,745	58,198	801,735	4,351	*92,307	*6,234	*21,590
Less: Accumulated depletion	353,816	*27,721	*29,335	302,499	2,967	*14,374	*2,924	*6,770
Land	589,671	1,086,109	1,449,908	1,662,057	991,923	538,256	515,646	353,092
Intangible assets (amortizable)	1,437,293	3,145,679	2,713,527	2,971,630	5,269,573	2,082,027	1,210,634	959,255
Less: Accumulated amortization	236,997	359,422	756,719	856,546	340,586	176,316	227,916	173,980
Other assets	14,448,314	3,608,908	6,552,651	23,245,491	10,086,954	3,668,872	1,684,762	1,456,243
Total liabilities	**75,080,302**	**82,806,152**	**144,326,658**	**254,765,246**	**315,661,685**	**75,182,222**	**33,985,392**	**29,951,857**
Accounts payable	3,665,896	8,372,447	9,693,843	28,855,178	26,367,480	6,578,457	3,719,694	3,189,077
Mortgages, notes, and bonds payable in less than one year	13,432,835	6,513,284	10,386,224	31,369,482	81,237,486	5,335,169	2,293,705	2,321,561
Other current liabilities	5,311,136	8,523,069	23,723,461	22,432,486	33,760,197	16,805,177	4,528,450	3,572,897
Loans from stockholders	2,397,772	1,143,044	684,424	3,424,851	4,299,376	947,357	654,129	318,453
Mortgages, notes, and bonds payable in one year or more	17,182,840	13,952,673	23,439,439	33,018,350	74,765,204	12,669,291	3,588,422	5,389,368
Other liabilities	7,588,022	6,988,775	11,877,806	50,091,648	19,681,272	9,096,926	1,595,353	2,011,953
Capital stock	3,419,474	4,251,690	13,922,620	7,098,225	3,508,635	2,765,110	1,893,085	1,689,677
Paid-in or capital surplus	11,133,429	8,671,561	12,356,039	25,019,413	21,853,177	4,510,771	5,645,930	5,350,651
Retained earnings, appropriated	*31,712	124,916	1,766,120	273,443	*2,063,833	*33,371	68,726	80,760
Retained earnings, unappropriated	11,210,050	24,519,503	37,498,589	55,368,017	48,532,918	18,734,252	11,437,370	6,034,707
Retained earnings, 1120S	417,812	2,021,481	964,051	1,016,014	*185,964	362,516	169,219	616,237
Less: Cost of treasury stock	710,676	2,276,291	1,985,958	3,201,860	593,859	2,656,175	1,608,691	623,484
Total receipts	**59,173,105**	**112,792,131**	**148,735,674**	**208,457,937**	**232,950,683**	**86,716,117**	**39,099,555**	**41,849,127**
Business receipts	54,085,266	108,495,914	119,907,824	191,661,573	213,506,539	80,726,440	37,245,576	39,982,010
Interest	1,721,584	929,600	2,145,289	4,792,946	9,941,051	1,974,419	291,637	382,227
Interest on Government obligations: State and local	5,038	60,204	491,789	55,775	181,808	41,417	49,896	9,260
Nonqualifying interest and dividends	9,680	44,045	29,925	31,969	*3,941	7,579	4,571	21,858
Rents	469,256	413,994	12,073,639	3,243,633	4,957,513	502,908	177,740	141,552
Royalties	41,476	135,995	4,204,930	645,334	100,643	81,617	236,712	128,727
Net short-term capital gain reduced by net long-term capital loss	16,623	57,662	60,653	59,859	113,256	55,445	3,018	9,426
Net long-term capital gain reduced by net short-term capital loss	416,348	727,066	582,785	2,973,717	430,750	578,564	217,628	336,730
Net gain, noncapital assets	177,719	269,563	313,245	634,388	562,579	116,650	194,996	161,310
Dividends received from domestic corporations	56,839	144,069	210,147	248,999	183,202	61,309	25,053	30,951
Dividends received from foreign corporations	248,837	499,925	3,261,889	940,234	1,081,576	483,205	208,628	44,686
Other receipts	1,924,437	1,014,093	5,453,560	3,169,510	1,887,825	2,086,564	444,100	600,390
Total deductions	**57,026,256**	**105,982,071**	**139,381,877**	**197,946,528**	**227,620,628**	**82,409,051**	**36,833,275**	**39,279,274**
Cost of sales and operations	41,004,037	72,401,912	73,209,725	120,611,671	151,953,209	58,908,476	20,389,817	25,572,334
Compensation of officers	481,740	3,165,543	1,963,371	1,970,367	455,971	440,306	610,402	908,137
Repairs	875,878	776,343	809,305	1,457,127	1,607,678	655,936	306,718	236,840
Bad debts	278,744	420,698	438,733	1,090,759	1,172,490	136,310	127,046	151,593
Rent paid on business property	608,187	1,168,239	2,054,154	2,633,858	2,158,338	758,246	538,669	463,184
Taxes paid	1,055,271	2,777,686	3,988,018	5,255,937	5,052,054	1,844,837	1,063,386	971,139
Interest paid	3,278,939	2,433,565	3,842,908	8,265,949	14,132,460	1,847,125	590,252	1,009,990
Contributions or gifts	21,621	103,413	312,572	211,342	203,855	109,027	83,300	35,393
Amortization	49,237	160,924	263,349	217,195	88,279	142,391	58,034	76,493
Depreciation	2,217,854	3,370,098	6,514,632	10,625,174	15,462,096	3,453,342	1,266,266	1,084,043
Depletion	126,593	104,704	114,486	40,421	11,040	*24,626	*6,931	3,970
Advertising	341,551	1,100,153	1,261,557	2,378,308	1,826,493	290,847	1,271,207	1,017,678
Pension, profit-sharing, stock bonus, and annuity plans	322,998	857,901	1,558,471	1,508,976	2,601,470	583,438	397,580	197,855
Employee benefit programs	636,859	1,637,672	2,512,804	3,725,178	5,057,726	1,145,104	527,090	457,201
Net loss, noncapital assets	21,456	30,729	78,223	101,091	13,748	3,633	16,553	32,121
Other deductions	5,705,292	15,472,491	40,459,568	37,853,174	25,823,720	12,065,409	9,580,024	7,061,304
Total receipts less total deductions	2,146,849	6,810,059	9,353,797	10,511,410	5,330,055	4,307,066	2,266,280	2,569,853
Constructive taxable income from related foreign corporations	152,485	252,384	2,916,140	700,401	722,007	166,153	264,458	37,394
Net income	2,294,296	7,002,023	11,778,148	11,156,036	5,870,254	4,431,803	2,480,843	2,597,987
Income subject to tax	1,599,720	5,547,768	10,571,190	9,591,522	5,183,676	2,134,903	2,127,302	1,777,608
Income tax, total	662,686	2,279,912	4,746,483	4,012,681	2,415,756	900,612	948,680	754,471
Regular and alternative tax	648,118	2,245,045	4,674,585	3,899,050	2,300,487	869,688	925,696	749,171
Tax from recomputing prior-year investment credit	5,387	25,939	45,511	43,008	114,261	6,468	19,542	3,544
Additional tax for tax preferences	9,182	8,928	26,009	70,622	1,008	24,455	3,443	1,746
Foreign tax credit	119,105	302,961	3,087,535	751,449	591,351	211,316	180,805	44,182
U.S. possessions tax credit	—	8,205	107,711	375,004	7,463	*5,376	166,637	50,767
Orphan drug credit	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	143	*490	—	492	*1,064	—	238	—
General business credit	113,696	140,986	184,531	620,445	406,956	183,401	81,184	63,103

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS WITH NET INCOME

Table 3—Balance Sheets, Income Statements, Tax, and Selected Other Items, by Major Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Major industry—Continued								
	Transportation and public utilities				Wholesale and retail trade				
						Wholesale trade			
	Total	Transportation	Communication	Electric, gas, and sanitary services	Total	Total	Groceries and related products	Machinery, equipment, and supplies	Miscellaneous wholesale trade
	(34)	(35)	(36)	(37)	(38)	(39)	(40)	(41)	(42)
Number of returns, with net income	**68,517**	**53,168**	**6,920**	**8,429**	**527,779**	**193,027**	**14,852**	**31,425**	**146,749**
Total assets	**965,044,658**	**177,576,572**	**343,839,685**	**443,628,400**	**836,809,288**	**401,460,362**	**30,132,778**	**45,433,788**	**325,893,796**
Cash	19,715,576	7,994,083	7,149,179	4,572,314	52,250,139	24,521,503	2,118,781	3,313,597	19,089,124
Notes and accounts receivable	82,727,991	23,912,479	37,503,221	21,312,291	194,025,997	112,288,349	8,571,910	14,259,918	89,456,521
Less: Allowance for bad debts	2,337,263	758,038	1,022,224	557,001	3,897,839	2,216,002	224,015	337,994	1,653,993
Inventories	20,876,942	3,532,319	6,426,719	10,917,904	233,545,571	114,335,314	8,026,357	13,432,120	92,876,837
Investments in Government obligations	7,034,579	2,125,024	365,189	4,544,366	36,324,388	26,087,693	58,533	71,058	25,958,102
Other current assets	29,433,173	10,667,303	6,731,437	12,034,433	43,002,037	22,741,537	1,224,846	1,881,214	19,635,478
Loans to stockholders	1,746,847	727,370	914,925	104,552	8,405,234	2,926,506	309,786	638,919	1,977,801
Mortgage and real estate loans	868,497	660,641	53,569	154,286	10,040,357	3,765,985	85,994	121,686	3,558,306
Other investments	136,020,194	27,444,001	82,167,446	26,408,747	66,852,375	29,252,721	1,561,878	2,995,054	24,695,789
Depreciable loans	854,409,124	144,415,639	267,052,741	442,940,743	248,612,520	88,385,305	12,017,571	13,722,614	62,645,121
Less: Accumulated depreciation	245,315,015	55,961,206	81,407,448	107,946,361	112,098,366	43,581,443	5,774,700	6,618,328	31,188,415
Depletable assets	4,049,371	826,724	*5,630	3,217,016	1,199,162	736,906	*5,548	*23,670	707,689
Less: Accumulated depletion	1,584,694	383,248	*2,170	1,199,277	456,905	368,493	*3,940	*2,396	362,157
Land	6,723,391	1,865,048	1,876,375	2,981,968	17,203,783	4,948,068	587,160	489,378	3,871,530
Intangible assets (amortizable)	12,364,170	4,193,571	6,134,338	2,036,261	10,488,699	3,463,607	386,173	301,635	2,775,800
Less: Accumulated amortization	2,296,998	1,471,848	400,891	424,259	2,372,526	841,144	95,152	90,179	655,813
Other assets	40,608,776	7,786,712	10,291,649	22,530,415	33,684,662	15,013,948	1,276,047	1,231,824	12,506,077
Total liabilities	**965,044,658**	**177,576,572**	**343,839,685**	**443,628,400**	**836,809,288**	**401,460,362**	**30,132,778**	**45,433,788**	**325,893,796**
Accounts payable	52,538,457	16,493,639	21,934,877	14,109,941	127,605,848	70,986,732	7,900,377	9,584,165	53,502,190
Mortgages, notes, and bonds payable in less than one year	31,355,300	8,176,935	9,687,413	13,490,952	148,863,461	92,178,346	2,741,593	6,671,573	82,765,181
Other current liabilities	74,199,574	20,132,483	24,061,255	30,005,836	116,909,648	58,822,212	2,294,624	4,413,076	52,114,512
Loans from stockholders	4,383,560	1,736,197	2,022,519	624,844	19,557,492	8,299,504	668,663	1,264,631	6,366,211
Mortgages, notes, and bonds payable in one year or more	267,247,209	41,709,264	73,910,814	151,627,131	119,429,089	41,577,722	5,445,280	6,279,194	29,853,248
Other liabilities	125,017,578	18,849,214	48,237,722	57,930,643	31,964,924	11,756,579	1,107,729	1,592,448	9,056,402
Capital stock	128,842,401	8,506,860	40,063,651	80,271,890	35,435,261	17,184,585	1,372,893	2,071,616	13,740,075
Paid-in or capital surplus	138,395,587	23,670,337	77,716,215	37,009,035	45,946,833	16,872,654	1,443,822	2,518,147	12,910,686
Retained earnings, appropriated	1,849,580	418,974	261,115	1,169,491	1,301,788	493,552	52,276	47,076	394,200
Retained earnings, unappropriated	144,989,566	39,985,000	47,478,124	57,526,442	186,561,118	79,971,528	7,006,397	10,894,557	62,070,574
Retained earnings, 1120S	1,459,436	1,141,563	180,239	137,634	14,722,833	8,528,749	662,339	1,067,052	6,799,358
Less: Cost of treasury stock	5,233,591	3,243,893	1,714,260	275,438	11,489,006	5,211,801	563,215	969,746	3,678,840
Total receipts	**551,978,231**	**182,232,153**	**171,664,600**	**198,081,478**	**2,000,097,928**	**964,754,596**	**149,889,448**	**99,575,265**	**715,289,883**
Business receipts	521,685,752	170,265,882	160,857,803	190,562,067	1,938,881,072	937,480,135	146,765,737	96,341,319	694,373,079
Interest	6,800,330	2,944,134	1,842,507	2,013,690	17,652,088	10,936,413	259,113	733,449	9,943,851
Interest on Government obligations:									
State and local	192,013	57,141	43,182	91,690	1,046,616	150,693	17,213	22,046	111,434
Nonqualifying interest and dividends	68,664	42,792	22,230	3,642	592,897	253,620	20,227	33,566	199,827
Rents	6,454,148	2,615,974	2,560,847	1,277,328	8,058,608	2,447,981	315,008	576,228	1,556,745
Royalties	254,802	135,178	71,584	48,039	1,023,329	411,933	*265	48,525	363,143
Net short-term capital gain reduced by net long-term capital loss	109,574	40,497	39,270	29,807	290,651	124,067	7,839	37,747	78,480
Net long-term capital gain reduced by net short-term capital loss	4,984,771	1,441,265	1,706,437	1,837,069	5,443,626	1,917,335	167,742	346,525	1,403,069
Net gain, noncapital assets	3,479,352	1,792,850	1,122,347	564,156	2,073,865	720,573	61,952	190,355	468,265
Dividends received from domestic corporations	856,487	256,937	291,301	308,249	821,611	446,346	20,268	46,156	379,922
Dividends received from foreign corporations	283,170	108,252	158,650	16,268	746,492	383,213	811	39,971	342,432
Other receipts	6,809,167	2,531,251	2,948,443	1,329,474	23,467,075	9,482,287	2,253,272	1,159,378	6,069,637
Total deductions	**511,087,283**	**174,041,662**	**156,424,552**	**180,621,069**	**1,944,400,456**	**939,260,233**	**147,835,595**	**96,011,755**	**695,412,882**
Cost of sales and operations	224,967,857	74,561,535	57,798,610	92,607,713	1,483,531,216	768,746,928	126,624,211	72,099,835	570,022,882
Compensation of officers	4,045,719	2,559,983	739,041	746,694	30,246,947	14,868,222	1,344,104	2,415,976	11,108,143
Repairs	27,087,605	3,759,270	14,715,948	8,612,387	7,197,171	2,408,349	430,637	267,141	1,710,571
Bad debts	2,997,782	583,339	1,674,209	740,234	4,581,174	2,094,267	194,731	307,651	1,591,885
Rent paid on business property	15,241,892	8,025,241	5,770,297	1,446,353	30,324,330	6,988,615	1,017,198	896,916	5,074,502
Taxes paid	29,439,038	6,952,999	9,087,961	13,398,078	29,024,908	10,624,661	1,154,186	1,198,422	8,272,053
Interest paid	30,753,020	5,408,597	8,755,164	16,589,259	28,666,395	15,042,017	818,789	1,363,280	12,859,948
Contributions or gifts	514,945	112,058	248,501	154,386	751,922	299,237	36,273	35,570	227,394
Amortization	811,044	159,001	313,230	338,813	1,009,102	421,744	52,388	43,099	326,257
Depreciation	54,927,037	10,991,507	23,342,884	20,592,646	27,585,462	10,312,039	1,218,309	1,852,433	7,241,296
Depletion	437,952	212,604	1,447	223,902	108,130	73,755	*907	12,196	60,652
Advertising	3,567,304	1,280,118	2,088,501	198,685	23,350,115	5,905,554	468,683	596,421	4,840,449
Pension, profit-sharing, stock bonus, and annuity plans	5,636,367	1,650,477	2,470,650	1,515,240	5,915,772	2,650,805	317,422	388,190	1,945,194
Employee benefit programs	7,641,646	2,500,552	3,619,288	1,521,805	8,196,245	2,662,661	432,549	415,961	1,814,150
Net loss, noncapital assets	955,395	21,356	820,375	113,664	391,689	214,983	13,578	35,607	165,798
Other deductions	102,062,681	55,263,024	24,978,446	21,821,210	263,519,881	95,946,396	13,711,631	14,083,057	68,151,709
Total receipts less total deductions	40,890,947	8,190,491	15,240,048	17,460,409	55,697,472	25,494,363	2,053,852	3,563,510	19,877,001
Constructive taxable income from related foreign corporations	400,753	80,691	260,656	59,406	625,984	224,654	1,420	13,551	209,684
Net income	41,098,014	8,214,041	15,457,173	17,426,800	55,246,479	25,558,066	2,038,060	3,554,074	19,965,932
Income subject to tax	36,663,610	5,991,374	14,268,089	16,404,148	43,979,010	19,666,260	1,608,059	2,746,650	15,311,551
Income tax, total	16,119,068	2,387,469	6,440,317	7,291,281	17,070,005	7,773,677	638,438	1,049,085	6,086,154
Regular and alternative tax	15,807,771	2,328,854	6,277,333	7,201,583	16,861,772	7,694,288	630,512	1,018,858	6,044,917
Tax from recomputing prior-year investment credit	181,196	18,396	129,073	33,727	154,882	66,279	6,272	25,164	34,843
Additional tax for tax preferences	129,791	40,188	33,910	55,692	52,479	12,677	1,639	4,963	6,075
Foreign tax credit	232,474	58,258	154,343	19,872	631,737	280,896	*267	22,584	258,046
U.S. possessions tax credit	79,338	—	79,338	—	96,649	32,620	368	146	32,106
Orphan drug credit	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	16,731	4,288	18	12,425	525	*405	154	154	*97
General business credit	4,822,922	638,778	1,791,183	2,392,961	1,201,408	342,803	34,813	76,985	231,005

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS WITH NET INCOME

Table 3—Balance Sheets, Income Statements, Tax, and Selected Other Items, by Major Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Major industry—Continued									
	Wholesale and retail trade—Continued									
	Retail trade									Wholesale and retail trade not allocable
	Total	Building materials, garden supplies, and mobile home dealers	General mechandise stores	Food stores	Automotive dealers and service stations	Apparel and accessory stores	Furniture and home furnishings stores	Eating and drinking places	Miscellaneous retail stores	
	(43)	(44)	(45)	(46)	(47)	(48)	(49)	(50)	(51)	(52)
Number of returns, with net income	**332,985**	**25,900**	**5,863**	**25,486**	**55,944**	**24,792**	**22,069**	**58,579**	**114,352**	**1,767**
Total assets	**434,023,511**	**21,937,235**	**156,316,034**	**47,632,578**	**62,596,594**	**23,929,483**	**16,213,078**	**46,127,494**	**59,271,015**	**1,325,414**
Cash	27,605,573	1,813,808	4,592,707	3,289,088	5,067,449	1,953,461	1,457,103	3,854,295	5,577,661	123,063
Notes and accounts receivable	81,488,247	4,352,862	44,337,122	4,094,947	8,458,799	3,968,287	4,051,413	3,200,590	9,024,227	249,401
Less: Allowance for bad debts	1,677,175	136,228	633,361	31,875	190,661	124,485	136,266	66,426	357,874	4,661
Inventories	118,855,041	8,101,889	30,248,517	11,882,124	31,022,301	8,633,014	6,411,705	1,468,484	21,087,008	355,216
Investments in Government obligations	10,236,695	192,076	9,166,908	368,356	75,391	*3,945	*34,396	55,314	340,310	—
Other current assets	20,141,677	719,950	9,902,279	1,818,724	1,914,115	985,533	557,703	2,259,752	1,983,621	118,823
Loans to stockholders	5,439,941	149,801	668,166	521,007	740,707	437,018	184,820	2,058,570	679,851	*38,786
Mortgage and real estate loans	6,271,536	125,374	4,997,873	95,437	191,386	38,913	42,354	305,304	474,895	*2,835
Other investments	37,465,867	899,374	17,385,006	2,823,389	1,621,276	2,289,544	728,221	4,962,735	6,756,321	133,788
Depreciable loans	159,773,415	8,224,215	40,766,621	30,047,966	19,430,421	8,285,547	4,105,039	28,187,091	20,726,515	453,800
Less: Accumulated depreciation	68,282,820	4,023,212	14,850,290	12,400,062	9,163,285	3,492,058	1,933,764	11,705,935	10,714,215	234,103
Depletable assets	462,209	*24,386	—	*270,308	41,178	*3,860	*69	*18,254	104,154	*47
Less: Accumulated depletion	88,382	*2,176	—	*14,210	*12,703	*2,772	—	*8,698	47,823	*30
Land	12,190,884	993,355	2,342,679	2,095,279	1,875,730	173,859	245,621	3,363,808	1,100,554	64,831
Intangible assets (amortizable)	7,015,306	114,926	891,004	1,280,087	356,004	297,725	96,260	2,638,580	1,340,720	*9,785
Less: Accumulated amortization	1,529,543	26,513	151,629	308,623	116,795	80,447	26,093	452,942	366,501	*1,839
Other assets	18,655,041	413,348	6,652,430	1,800,636	1,265,280	558,540	394,497	5,988,718	1,561,592	15,673
Total liabilities	**434,023,511**	**21,937,235**	**156,316,034**	**47,632,578**	**62,596,594**	**23,929,483**	**16,213,078**	**46,127,494**	**59,271,015**	**1,325,414**
Accounts payable	56,422,522	3,228,839	16,847,611	9,587,431	5,713,545	3,589,399	2,497,135	4,387,946	10,570,615	196,594
Mortgages, notes, and bonds payable in less than one year	56,488,735	2,311,556	17,637,131	2,015,873	24,929,214	908,914	1,393,845	2,328,871	4,963,331	196,379
Other current liabilities	57,998,372	1,649,909	34,205,558	4,501,624	4,464,819	2,444,698	1,843,006	3,736,661	5,152,097	89,064
Loans from stockholders	11,200,050	707,263	1,087,980	848,928	2,020,104	900,667	531,211	2,638,461	2,465,435	57,938
Mortgages, notes, and bonds payable in one year or more	77,635,056	3,357,434	27,514,442	10,337,033	7,581,896	3,045,586	1,875,303	14,980,481	8,942,881	216,311
Other liabilities	20,184,586	510,912	9,623,906	2,581,531	1,201,106	642,422	893,235	2,592,996	2,138,478	23,759
Capital stock	18,181,943	1,230,059	4,033,172	2,304,335	3,000,937	1,739,127	740,882	1,750,782	3,382,649	68,734
Paid-in or capital surplus	28,964,224	1,157,823	11,620,580	3,866,589	1,388,371	1,838,007	761,343	4,028,259	4,303,252	109,955
Retained earnings, appropriated	808,236	*23,985	267,032	*25,021	54,754	*20,914	244,023	107,872	64,636	—
Retained earnings, unappropriated	106,266,760	7,406,784	33,513,788	12,011,983	11,854,311	8,748,284	5,329,924	10,305,327	17,096,359	322,830
Retained earnings, 1120S	6,110,357	877,709	378,847	451,633	1,532,409	312,598	602,757	567,573	1,386,832	*83,727
Less: Cost of treasury stock	6,237,328	525,039	414,012	899,403	1,144,871	261,132	499,586	1,297,736	1,195,550	*39,876
Total receipts	**1,032,357,027**	**54,792,536**	**184,670,209**	**206,754,270**	**273,526,780**	**49,881,828**	**36,679,361**	**75,663,550**	**150,388,491**	**2,986,305**
Business receipts	998,500,003	53,554,665	173,510,150	202,840,886	267,845,352	48,550,441	35,472,277	69,799,329	146,926,904	2,900,933
Interest	6,705,623	240,116	3,229,499	419,792	989,707	371,091	236,349	634,576	584,493	10,053
Interest on Government obligations:										
State and local	895,631	14,156	735,628	20,194	16,578	8,959	40,292	26,880	32,945	*292
Nonqualifying interest and dividends	338,776	27,352	4,957	9,825	162,812	9,963	26,325	38,838	58,704	*501
Rents	5,587,177	238,125	1,609,078	552,397	931,928	105,845	127,614	1,340,447	681,743	23,449
Royalties	611,126	13,829	6,786	9,623	4,379	151,444	*801	301,747	122,516	*270
Net short-term capital gain reduced by net long-term capital loss	164,615	1,419	19,651	18,898	23,510	2,758	8,590	15,998	73,791	*1,969
Net long-term capital gain reduced by net short-term capital loss	3,515,374	90,690	1,238,566	848,373	272,285	58,493	35,889	734,424	236,655	*10,917
Net gain, noncapital assets	1,352,456	76,776	137,825	179,711	376,903	19,589	43,475	350,782	167,395	*836
Dividends received from domestic corporations	374,234	17,233	154,050	41,829	33,124	63,226	5,592	25,786	33,394	*1,031
Dividends received from foreign corporations	361,146	12,873	106,109	83,806	*584	*1,512	—	*151,242	*5,019	*2,133
Other receipts	13,950,865	505,304	3,917,911	1,728,936	2,869,619	538,507	682,157	2,243,501	1,464,932	33,922
Total deductions	**1,002,250,610**	**52,713,742**	**177,547,388**	**202,935,042**	**269,447,122**	**47,508,007**	**35,032,654**	**72,073,600**	**144,993,055**	**2,889,613**
Cost of sales and operations	712,732,597	38,689,453	110,108,352	155,436,174	228,038,480	28,583,132	22,581,079	29,702,705	99,593,223	2,051,690
Compensation of officers	15,260,907	1,366,038	664,113	1,086,130	3,768,241	983,651	1,126,881	1,897,903	4,367,950	117,818
Repairs	4,774,895	244,076	1,003,876	1,057,224	649,931	170,792	141,342	919,523	588,129	13,928
Bad debts	2,479,245	240,509	1,022,170	134,918	279,876	215,002	153,310	72,267	361,192	7,662
Rent paid on business property	23,294,993	726,401	5,408,569	3,175,528	2,428,928	2,760,202	1,144,069	3,739,741	3,911,556	40,721
Taxes paid	18,350,246	1,008,354	4,358,647	2,683,949	2,871,013	1,111,271	733,161	2,905,655	2,678,195	50,000
Interest paid	13,587,518	644,523	5,635,269	1,178,811	2,238,743	494,082	362,090	1,542,593	1,491,406	36,861
Contributions or gifts	451,691	21,184	142,488	80,381	48,035	47,904	17,239	30,966	63,494	995
Amortization	586,403	9,466	123,356	65,070	53,891	55,411	15,295	128,748	135,165	955
Depreciation	17,218,154	782,050	3,742,107	3,292,567	2,759,221	933,018	426,026	2,945,371	2,337,794	55,269
Depletion	34,374	*3,251	*5,576	8,719	8,248	*1,989	*749	1,717	4,125	—
Advertising	17,407,326	695,705	4,816,917	2,092,280	2,745,074	1,234,279	1,497,216	1,827,465	2,498,391	37,235
Pension, profit-sharing, stock bonus, and annuity plans	3,242,948	195,736	990,832	533,945	349,555	146,222	149,981	275,091	601,585	22,019
Employee benefit programs	5,520,934	205,079	1,000,251	1,879,236	903,536	240,859	122,563	466,236	703,174	12,650
Net loss, noncapital assets	175,520	4,738	13,218	17,018	18,144	14,844	33,832	40,012	33,714	*1,186
Other deductions	167,132,859	7,877,178	38,511,647	30,213,090	22,286,207	10,515,346	6,527,821	25,577,608	25,623,963	440,625
Total receipts less total deductions	30,106,417	2,078,795	7,122,822	3,819,228	4,079,658	2,373,822	1,646,707	3,589,950	5,395,436	96,692
Constructive taxable income from related foreign corporations	401,329	8,259	*141,110	52,006	1,565	1,148	—	188,404	8,838	—
Net income	29,592,013	2,072,897	6,528,304	3,851,040	4,064,645	2,366,011	1,606,415	3,731,388	5,371,314	96,400
Income subject to tax	24,251,758	1,614,029	6,238,456	3,437,037	2,890,601	2,039,317	1,284,720	2,772,403	3,975,195	60,992
Income tax, total	9,276,919	587,796	2,643,447	1,356,682	997,240	812,922	459,166	1,036,785	1,382,880	19,408
Regular and alternative tax	9,148,167	582,018	2,622,060	1,330,408	973,873	810,254	456,828	1,002,012	1,370,714	19,317
Tax from recomputing prior-year investment credit	88,512	5,453	11,018	18,599	21,830	2,633	1,589	16,569	10,821	*91
Additional tax for tax preferences	39,802	*325	*10,368	7,676	1,538	*35	749	17,766	*1,345	—
Foreign tax credit	350,840	9,212	97,171	61,364	37	4,122	—	176,898	2,037	—
U.S. possessions tax credit	*64,030	—	—	2,998	—	—	—	483	60,549	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*120	*113	—	—	—	—	—	7	—	—
General business credit	857,600	21,986	308,256	151,621	84,939	26,812	9,140	172,371	82,475	1,005

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS WITH NET INCOME

Table 3—Balance Sheets, Income Statements, Tax, and Selected Other Items, by Major Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Major industry—Continued: Finance, insurance, and real estate: Total	Banking	Credit agencies other than banks	Security, commodity brokers and services	Insurance	Insurance agents, brokers, and service	Real estate	Holding and other investment companies, except bank holding companies
	(53)	(54)	(55)	(56)	(57)	(58)	(59)	(60)
Number of returns with net income	**296,921**	**8,230**	**14,609**	**8,386**	**6,206**	**41,948**	**191,868**	**25,694**
Total assets	**6,480,525,058**	**3,029,862,482**	**1,039,044,066**	**352,499,191**	**1,109,633,452**	**32,495,297**	**117,028,447**	**799,962,123**
Cash	435,690,851	328,305,324	49,758,373	5,964,552	14,634,808	5,955,296	11,232,759	19,839,739
Notes and accounts receivable	2,021,816,204	1,656,043,201	107,627,707	114,361,476	45,626,489	7,777,511	10,425,823	79,953,996
Less: Allowance for bad debts	38,062,884	27,396,822	9,705,209	198,627	313,491	96,901	195,788	156,044
Inventories	14,914,573	464,911	1,240,446	441,872	2,948,378	7,221	7,069,929	2,741,816
Investments in Government obligations	784,420,801	365,120,778	63,971,193	31,108,994	191,690,182	1,879,921	1,448,126	129,201,607
Other current assets	356,190,470	100,236,220	29,690,267	101,014,947	74,436,537	1,865,266	9,988,127	38,959,105
Loans to stockholders	8,794,844	730,705	2,686,720	434,499	837,202	557,772	2,475,421	1,072,526
Mortgage and real estate loans	1,016,120,364	226,506,576	608,885,576	946,889	158,889,965	881,551	8,487,424	11,522,383
Other investments	1,503,569,174	229,302,654	130,903,541	86,445,392	535,579,268	7,918,787	15,094,688	498,324,845
Depreciable loans	167,870,864	58,074,056	18,082,298	5,110,331	17,927,471	4,196,993	49,122,846	15,356,869
Less: Accumulated depreciation	55,901,790	19,460,536	5,371,871	1,799,899	2,942,304	2,077,739	19,412,886	4,836,555
Depletable assets	1,489,766	39,433	*3,466	*20,544	213,915	*3,927	826,478	382,004
Less: Accumulated depletion	436,405	*17,796	*591	*8,888	123,492	*1,722	141,744	142,173
Land	23,850,513	3,929,259	2,879,957	67,976	1,182,835	162,833	13,346,969	2,280,686
Intangible assets (amortizable)	18,676,670	5,281,312	6,991,102	629,714	1,970,907	2,091,527	923,793	788,315
Less: Accumulated amortization	2,443,392	739,257	510,862	146,653	245,174	416,936	228,636	155,874
Other assets	223,964,435	103,442,463	31,911,954	8,106,071	67,319,957	1,789,990	6,565,120	4,828,880
Total liabilities	**6,480,525,058**	**3,029,862,482**	**1,039,044,066**	**352,499,191**	**1,109,633,452**	**32,495,297**	**117,028,447**	**799,962,123**
Accounts payable	262,389,374	62,312,165	31,245,208	111,512,944	24,902,056	9,594,759	5,573,164	17,249,078
Mortgages, notes, and bonds payable in less than one year	334,366,826	173,351,771	86,027,605	27,704,827	23,847,994	1,565,714	12,498,197	9,370,719
Other current liabilities	3,262,345,899	2,238,751,913	695,617,340	142,613,414	143,622,491	4,240,243	7,661,555	29,838,943
Loans from stockholders	29,484,855	11,719,170	5,932,416	776,633	3,592,248	233,887	5,778,704	1,451,798
Mortgages, notes, and bonds payable in one year or more	359,535,983	145,425,528	116,348,054	16,555,020	20,861,844	3,125,392	36,720,181	20,499,965
Other liabilities	925,500,582	141,682,287	42,497,762	29,828,470	689,607,200	3,801,047	9,208,575	8,875,240
Capital stock	675,935,736	43,288,409	6,946,534	1,891,503	10,741,652	920,268	7,476,667	604,670,703
Paid-in or capital surplus	728,446,273	92,625,275	23,906,222	11,591,555	67,447,369	3,625,488	12,798,321	516,452,044
Retained earnings, appropriated	43,041,147	3,581,621	4,485,752	*88,338	28,525,664	54,434	535,417	5,769,921
Retained earnings, unappropriated	310,607,148	118,542,155	26,366,961	9,844,486	98,134,121	5,703,374	18,323,807	33,692,244
Retained earnings, 1120S	4,056,362	—	87,105	394,137	38,277	487,256	2,524,015	525,572
Less: Cost of treasury stock	455,185,127	1,417,811	416,891	302,136	1,687,465	856,563	2,070,156	448,434,105
Total receipts	**1,104,534,156**	**305,605,128**	**178,155,227**	**49,258,777**	**378,616,019**	**24,908,925**	**63,543,276**	**104,446,804**
Business receipts	498,113,433	33,277,579	74,557,535	27,763,709	271,908,222	22,727,707	39,339,396	28,539,284
Interest	437,507,748	233,881,987	89,805,934	12,165,126	63,119,394	779,714	2,870,274	34,885,318
Interest on Government obligations:								
State and local	14,170,859	6,602,806	386,123	283,131	4,536,595	45,759	102,518	2,213,927
Nonqualifying interest and dividends	802,210	—	71,677	61,809	*6,207	59,620	447,387	155,511
Rents	21,575,790	6,592,926	921,388	577,311	4,653,355	124,059	7,000,500	1,706,250
Royalties	474,006	27,396	4,944	11,396	29,767	*7,419	170,597	222,488
Net short-term capital gain reduced by net long-term capital loss	9,471,722	262,472	394,162	436,769	2,336,275	12,458	159,469	5,870,117
Net long-term capital gain reduced by net short-term capital loss	45,905,256	4,023,143	859,262	931,321	13,255,283	174,980	4,438,127	22,223,140
Net gain, noncapital assets	17,821,342	4,063,906	6,037,621	3,164,890	277,321	50,894	3,916,930	309,780
Dividends received from domestic corporations	6,869,968	592,623	286,380	384,248	2,990,835	46,735	206,357	2,362,789
Dividends received from foreign corporations	1,507,773	807,298	70,513	30,060	201,126	51,712	12,487	334,577
Other receipts	50,314,051	15,472,992	4,759,687	3,449,008	15,301,638	827,869	4,879,234	5,623,622
Total deductions	**960,009,280**	**283,441,812**	**167,580,527**	**44,201,718**	**352,129,869**	**22,189,522**	**52,428,450**	**38,037,382**
Cost of sales and operations	260,709,768	1,811,969	55,370,608	4,839,611	163,435,113	3,412,183	13,605,979	18,234,304
Compensation of officers	22,154,699	8,297,109	1,660,410	2,944,046	1,454,934	3,382,520	3,506,161	909,518
Repairs	3,595,229	1,611,920	444,295	110,103	121,564	109,428	1,044,922	152,997
Bad debts	18,654,841	13,906,656	3,722,054	96,680	398,085	173,694	213,392	144,280
Rent paid on business property	13,635,337	5,640,179	1,401,772	1,187,415	2,424,233	783,087	1,538,889	659,764
Taxes paid	19,384,277	5,435,362	1,854,388	1,023,346	6,408,741	769,138	2,962,958	930,343
Interest paid	267,499,438	166,722,453	73,435,379	10,482,950	8,522,266	462,364	5,114,433	2,759,594
Contributions or gifts	739,877	317,962	72,848	91,408	106,158	32,136	73,475	45,890
Amortization	1,667,414	632,521	178,297	77,633	414,997	125,639	151,583	86,744
Depreciation	21,439,967	10,647,391	1,913,453	1,049,715	3,314,237	616,432	2,755,482	1,143,256
Depletion	151,881	18,217	978	3,275	62,233	*1,282	27,814	38,083
Advertising	5,846,841	1,886,240	1,206,340	575,299	919,377	205,573	830,590	223,421
Pension, profit-sharing, stock bonus, and annuity plans	4,230,511	1,459,850	343,209	335,409	1,138,054	414,379	390,739	148,871
Employee benefit programs	5,769,623	2,897,818	579,872	258,241	1,215,958	290,555	266,269	260,910
Net loss, noncapital assets	628,851	168,005	204,603	23,253	19,833	33,200	127,949	52,008
Other deductions	313,909,725	61,988,160	25,192,021	21,103,333	162,174,084	11,377,912	19,817,816	12,247,397
Total receipts less total deductions	144,524,876	22,163,317	10,574,700	5,057,059	26,486,150	2,719,403	11,114,826	66,409,421
Constructive taxable income from related foreign corporations	969,029	571,442	67,807	18,688	219,768	48,420	4,179	38,725
Net income	131,284,234	16,131,953	10,256,185	4,792,616	22,169,323	2,722,064	11,002,743	64,209,349
Income subject to tax	50,243,556	13,305,775	5,471,596	3,939,498	15,390,377	1,933,116	6,144,335	4,058,859
Income tax, total	17,993,500	5,451,973	2,376,905	1,621,952	4,586,362	720,407	1,891,789	1,344,111
Regular and alternative tax	17,719,960	5,339,120	2,359,778	1,609,344	4,549,300	716,427	1,839,483	1,306,508
Tax from recomputing prior-year investment credit	102,621	44,148	8,196	2,494	15,775	3,449	23,674	4,885
Additional tax for tax preferences	161,035	68,444	8,339	10,114	21,164	*531	23,032	29,411
Foreign tax credit	2,253,325	1,767,721	116,709	42,567	228,939	43,739	6,709	46,941
U.S. possessions tax credit	14,884	—	*11,775	842	303	—	*633	1,331
Orphan drug credit	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	306	—	—	24	(1)	(1)	*84	*198
General business credit	1,149,074	519,652	96,697	236,637	148,208	25,775	53,470	68,636

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS WITH NET INCOME

Table 3—Balance Sheets, Income Statements, Tax, and Selected Other Items, by Major Industry—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Major industry—Continued: Services: Total	Hotels and other lodging places	Personal services	Business services	Auto repair, miscellaneous repair services	Amusement and recreation services	Other services	Nature of business not allocable
	(61)	(62)	(63)	(64)	(65)	(66)	(67)	(68)
Number of returns with net income	**575,016**	**11,270**	**30,730**	**173,463**	**54,694**	**31,557**	**273,303**	**5,939**
Total assets	**239,232,194**	**21,548,638**	**9,111,445**	**77,584,052**	**20,998,823**	**42,553,381**	**67,435,855**	**846,938**
Cash	26,023,029	1,652,379	1,221,072	8,662,041	1,725,666	2,168,010	10,593,860	114,107
Notes and accounts receivable	48,496,054	1,503,135	1,476,748	19,627,652	3,669,777	12,361,850	9,856,891	148,690
Less: Allowance for bad debts	2,069,445	83,434	42,959	455,508	114,933	163,434	1,209,177	*688
Inventories	11,375,354	330,352	689,914	3,305,743	2,001,937	3,925,047	1,122,361	172,929
Investments in Government obligations	2,087,273	116,287	90,007	835,651	*81,767	108,286	855,275	*165
Other current assets	15,107,887	956,563	482,844	6,564,684	851,345	2,309,392	3,943,060	38,901
Loans to stockholders	6,239,151	255,962	189,658	1,661,414	255,732	429,407	3,446,978	*16,437
Mortgage and real estate loans	1,651,584	429,803	52,264	614,104	88,251	164,286	302,875	*4,517
Other investments	30,295,475	4,299,288	767,903	10,132,931	770,859	6,334,562	7,989,932	96,962
Depreciable loans	133,208,261	13,653,494	6,450,069	36,021,891	16,643,024	17,514,629	42,925,153	286,811
Less: Accumulated depreciation	61,821,946	5,171,976	3,640,725	18,748,082	6,825,641	8,167,279	19,268,243	120,794
Depletable assets	307,574	*189,402	*4,747	44,036	*13,896	*11,359	44,134	—
Less: Accumulated depletion	48,169	*7,510	*2,229	17,512	*3,667	85	17,165	—
Land	6,784,437	1,647,045	389,811	1,098,209	552,411	1,221,473	1,875,488	*33,571
Intangible assets (amortizable)	7,487,253	363,702	364,849	2,894,410	876,951	1,026,305	1,961,037	*11,121
Less: Accumulated amortization	2,075,025	116,835	89,119	820,145	98,704	369,154	581,068	*1,904
Other assets	16,183,448	1,530,981	706,592	6,162,533	510,152	3,678,727	3,594,463	46,115
Total liabilities	**239,232,194**	**21,548,638**	**9,111,445**	**77,584,052**	**20,998,823**	**42,553,381**	**67,435,855**	**846,938**
Accounts payable	20,649,940	899,262	623,197	9,901,638	1,987,406	3,753,803	3,484,634	131,648
Mortgages, notes, and bonds payable in less than one year	19,558,521	705,503	676,527	9,250,548	2,891,666	1,446,651	4,587,626	86,836
Other current liabilities	25,343,725	1,238,290	670,244	9,238,661	1,628,027	4,252,935	8,315,570	76,359
Loans from stockholders	6,222,632	450,147	212,399	1,886,572	552,240	1,147,516	1,973,757	96,014
Mortgages, notes, and bonds payable in one year or more	66,323,518	9,351,961	1,830,167	14,944,052	6,705,734	15,285,212	18,206,393	132,777
Other liabilities	19,529,558	1,167,574	767,414	7,414,699	1,017,459	4,570,184	4,592,229	26,275
Capital stock	10,946,252	997,761	646,488	3,747,953	968,795	1,742,267	2,842,988	91,304
Paid-in or capital surplus	24,442,722	2,607,916	626,547	7,614,752	1,382,936	5,399,773	6,810,977	51,851
Retained earnings, appropriated	427,580	*41,379	*14,844	144,802	*5,025	46,074	175,455	*517
Retained earnings, unappropriated	47,710,063	4,491,713	3,368,101	13,646,658	3,739,909	5,015,569	17,448,112	146,372
Retained earnings, 1120S	4,174,487	307,483	159,790	1,667,264	576,312	415,155	1,048,483	*13,428
Less: Cost of treasury stock	6,096,804	710,351	484,272	1,873,367	456,686	521,757	2,050,371	*6,441
Total receipts	**414,540,017**	**23,893,900**	**16,217,279**	**142,844,466**	**33,011,491**	**36,132,158**	**162,440,724**	**1,561,486**
Business receipts	386,269,989	20,912,466	15,290,067	131,747,157	30,491,243	32,028,974	155,800,081	1,332,163
Interest	4,242,621	341,152	128,479	1,915,436	179,802	459,157	1,218,594	9,924
Interest on Government obligations:								
State and local	237,853	20,759	10,942	132,263	2,226	8,098	63,566	—
Nonqualifying interest and dividends	349,509	29,288	12,702	114,080	16,816	92,669	83,955	—
Rents	6,806,839	566,256	167,628	3,564,668	1,242,944	572,243	693,100	*19,691
Royalties	1,958,879	307,995	121,138	606,227	*8,484	885,206	29,828	*237
Net short-term capital gain reduced by net long-term capital loss	121,678	9,981	12,103	30,070	16,220	27,664	25,640	[1]
Net long-term capital gain reduced by net short-term capital loss	2,537,461	748,952	111,774	578,957	85,532	382,864	629,382	*14,953
Net gain, noncapital assets	1,808,871	199,075	66,653	492,015	559,476	180,055	311,597	77,994
Dividends received from domestic corporations	404,367	29,366	22,116	140,622	10,313	56,250	145,700	*6,898
Dividends received from foreign corporations	343,918	*129,104	*25,364	141,244	18,774	*16,933	12,500	12,152
Other receipts	9,458,033	599,505	248,313	3,381,727	379,660	1,422,047	3,426,780	87,474
Total deductions	**391,056,255**	**22,383,440**	**15,265,485**	**134,358,762**	**31,229,527**	**33,534,644**	**154,284,397**	**1,333,868**
Cost of sales and operations	136,118,097	10,790,183	6,165,080	60,837,524	14,957,411	12,086,176	31,281,724	799,770
Compensation of officers	47,764,395	356,704	1,027,107	10,061,334	1,576,075	3,287,365	31,455,809	40,767
Repairs	3,322,374	368,199	185,829	940,232	327,020	344,033	1,157,060	8,576
Bad debts	1,327,553	61,654	66,780	356,257	105,015	110,879	626,967	*478
Rent paid on business property	15,209,838	1,109,480	598,065	4,171,883	1,489,073	1,016,444	6,824,892	42,663
Taxes paid	13,196,452	889,469	637,659	4,149,837	1,106,199	1,033,006	5,380,282	28,357
Interest paid	8,759,497	1,056,944	255,444	2,994,464	914,910	1,009,833	2,527,902	33,197
Contributions or gifts	248,047	20,771	16,947	65,631	11,889	34,957	97,852	*81
Amortization	1,026,896	39,820	23,064	268,214	34,443	378,130	283,226	*125
Depreciation	17,465,021	1,002,111	699,240	5,708,450	2,602,826	2,561,652	4,890,741	32,148
Depletion	29,847	3,752	*2,092	9,503	*5,595	*2,708	6,197	*17
Advertising	4,139,997	418,937	279,659	1,335,223	352,616	827,965	925,597	23,863
Pension, profit-sharing, stock bonus, and annuity plans	6,683,893	58,328	117,717	1,410,357	148,672	249,361	4,699,457	*22,204
Employee benefit programs	4,074,750	204,740	124,671	1,259,645	258,875	210,116	2,016,703	5,671
Net loss, noncapital assets	266,784	18,305	9,543	171,120	9,456	22,372	35,989	*60
Other deductions	131,422,816	5,984,043	5,056,587	40,619,089	7,329,451	10,359,648	62,073,998	295,891
Total receipts less total deductions	23,483,762	1,510,460	951,794	8,485,704	1,781,964	2,597,514	8,156,327	227,617
Constructive taxable income from related foreign corporations	215,330	33,426	21,429	101,243	—	*33,803	25,430	99
Net income	23,450,664	1,523,126	962,282	8,447,236	1,778,720	2,623,219	8,116,081	227,716
Income subject to tax	15,326,352	1,041,844	730,006	5,526,762	1,068,219	1,585,180	5,374,340	150,447
Income tax, total	4,919,877	364,792	238,623	1,949,020	332,274	608,122	1,427,045	60,809
Regular and alternative tax	4,817,624	352,150	235,431	1,903,875	324,432	600,046	1,401,690	56,943
Tax from recomputing prior-year investment credit	77,041	8,562	2,875	41,908	7,754	3,299	12,643	*3,858
Additional tax for tax preferences	24,703	3,699	*317	3,205	*89	4,772	12,622	*9
Foreign tax credit	317,281	*39,023	22,763	138,237	*558	100,275	16,426	99
U.S. possessions tax credit	14,107	*5,235	—	*5,984	91	142	*2,654	—
Orphan drug credit	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*868	—	—	*868	—	—	—	—
General business credit	746,497	43,691	18,284	232,311	100,983	145,767	205,460	*934

* Estimate should be used with caution because of the small number of sample returns on which it is based.
[1] Less than $500 per return.
NOTE: Detail may not add to total because of rounding and the deletion of data. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 4.—Balance Sheets, Income Statements, and Selected Other Items by Size of Total Assets

[All figures are estimates based on samples—money amounts are in thousands of dollars and size of total assets are in whole dollars]

Item	Total returns of active corporations	Size of total assets: Zero assets	$1 under $100,000	$100,000 under $250,000	$250,000 under $500,000	$500,000 under $1,000,000
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns	**3,428,515**	**210,160**	**1,736,486**	**606,676**	**348,276**	**225,453**
Total assets	**14,163,209,894**	**—**	**57,950,198**	**97,775,053**	**123,669,775**	**158,061,127**
Cash	762,946,878	—	12,953,694	17,049,855	18,539,961	19,633,378
Notes and accounts receivable	3,593,528,670	—	6,591,254	14,977,534	21,891,440	31,668,364
Less: Allowance for bad debts	74,228,426	—	179,017	199,281	334,893	567,915
Inventories	732,587,518	—	7,042,361	15,313,820	20,471,831	30,307,852
Investments in Government obligations	1,058,718,859	—	95,063	150,591	520,141	666,558
Other current assets	739,043,506	—	2,645,179	4,551,281	6,122,813	7,575,286
Loans to stockholders	63,653,862	—	4,294,641	5,317,022	4,502,876	3,753,971
Mortgage and real estate loans	1,377,441,452	—	423,852	1,116,347	1,729,765	2,295,046
Other investments	2,847,727,452	—	1,583,964	4,407,313	6,430,249	7,967,190
Depreciable assets	3,382,556,559	—	50,202,837	60,469,044	72,644,240	84,889,304
Less: Accumulated depreciation	1,342,114,626	—	33,301,959	35,885,047	42,108,605	47,592,621
Depletable assets	116,010,459	—	273,452	452,736	495,767	605,855
Less: Accumulated depletion	44,083,149	—	121,140	158,139	202,390	262,569
Land	149,522,450	—	1,747,825	4,414,447	7,017,420	10,372,163
Intangible assets (amortizable)	212,265,625	—	1,632,580	2,236,525	2,159,318	2,366,801
Less: Accumulated amortization	46,696,699	—	763,217	968,784	877,471	817,765
Other assets	634,329,507	—	2,828,829	4,529,789	4,667,314	5,200,229
Total liabilities	**14,163,209,894**	**—**	**57,950,198**	**97,775,053**	**123,669,775**	**158,061,127**
Accounts payable	909,090,964	—	8,574,141	13,023,384	16,794,663	23,765,366
Mortgages, notes, and bonds payable in less than one year	1,083,947,776	—	7,914,078	10,341,287	14,553,438	20,004,690
Other current liabilities	4,599,886,537	—	6,781,206	8,209,910	9,984,088	12,474,034
Loans from stockholders	185,034,570	—	18,467,166	14,191,852	13,299,380	11,574,550
Mortgages, notes, and bonds payable in one year or more	1,958,477,161	—	14,004,086	19,841,226	25,735,436	32,386,509
Other liabilities	1,728,638,194	—	2,174,660	3,276,969	3,841,327	5,443,690
Capital stock	1,190,628,800	—	13,079,805	12,231,981	12,914,470	14,171,478
Paid-in or capital surplus	1,725,785,087	—	8,997,096	6,867,845	8,608,063	10,360,346
Retained earnings, appropriated	64,975,012	—	164,106	323,790	797,332	554,877
Retained earnings, unappropriated	1,313,686,600	—	−10,027,972	16,143,398	23,488,660	32,084,250
Retained earnings, 1120S	−15,584,590	—	−9,550,737	−2,916,150	−2,506,034	−264,153
Less: Cost of treasury stock	612,525,394	—	2,627,437	3,760,440	3,841,048	5,022,816
Total receipts	**8,669,378,501**	**172,977,785**	**286,794,530**	**291,763,668**	**304,406,534**	**352,466,111**
Business receipts	7,535,482,221	121,451,895	278,268,674	281,627,746	293,008,149	340,674,949
Interest	635,093,073	36,105,549	806,579	1,412,811	2,841,662	1,851,413
Interest on Government obligations:						
State and local	23,578,340	253,582	28,446	49,752	75,649	66,010
Nonqualifying interest and dividends	3,431,878	134,210	195,163	196,820	228,922	219,340
Rents	93,972,214	1,844,098	1,359,605	1,697,061	2,237,082	2,331,129
Royalties	16,411,642	106,609	288,582	102,499	184,766	185,224
Net short-term capital gain reduced by net long-term capital loss	11,797,841	176,980	77,536	28,534	46,341	54,967
Net long-term capital gain reduced by net short-term capital loss	93,297,600	3,126,119	531,469	671,073	653,113	936,157
Net gain, noncapital assets	44,149,399	3,887,057	807,572	618,694	904,241	1,325,846
Dividends received from domestic corporations	15,156,098	322,289	68,296	82,185	128,257	169,536
Dividends received from foreign corporations	22,747,046	331,657	*123	*5,891	*614	10,939
Other receipts	174,261,151	5,237,740	4,362,484	5,270,601	4,097,737	4,640,600
Total deductions	**8,394,932,819**	**171,452,572**	**286,962,362**	**289,116,756**	**301,025,219**	**348,364,744**
Cost of sales and operations	4,922,763,967	81,571,172	120,581,609	151,209,804	176,339,675	222,979,052
Compensation of officers	185,395,342	2,929,411	39,292,352	28,027,619	19,964,240	17,111,295
Repairs	83,848,507	1,095,158	2,234,949	2,412,216	2,424,157	2,433,780
Bad debts	53,419,371	2,045,422	575,643	647,428	961,747	1,159,016
Rent paid on business property	145,188,558	2,673,999	11,952,463	9,423,452	7,539,774	7,529,912
Taxes paid	203,491,687	3,490,589	8,783,315	8,181,413	7,981,651	8,535,803
Interest paid	572,973,834	34,806,151	2,792,076	3,625,836	5,686,443	5,547,746
Contributions or gifts	5,178,918	95,054	58,945	73,770	78,041	119,044
Amortization	14,005,202	383,860	271,973	295,346	261,940	372,567
Depreciation	312,582,789	3,778,773	6,707,534	7,184,018	7,918,833	8,478,831
Depletion	9,035,885	88,201	80,772	159,249	158,759	205,085
Advertising	98,959,857	1,579,242	2,879,714	2,502,204	2,719,747	3,126,880
Pension, profit-sharing, stock bonus, and annuity plans	48,242,217	543,854	3,617,235	3,134,348	2,112,926	2,102,313
Employee benefit programs	73,633,515	1,726,045	1,451,688	1,492,436	1,533,083	1,659,367
Net loss, noncapital assets	12,859,566	3,710,169	353,809	216,065	219,110	156,421
Other deductions	1,653,353,611	30,935,473	85,328,286	70,531,552	65,125,095	66,847,634
Total receipts less total deductions	274,445,682	1,525,213	−167,832	2,646,913	3,381,315	4,101,366
Constructive taxable income from related foreign corporations	19,038,861	155,302	—	—	—	*1,901
Net income (less deficit), total	269,530,240	1,344,130	−211,922	2,574,407	3,298,835	3,983,044
Net income	408,860,760	12,149,709	10,477,013	9,630,085	9,770,921	10,568,005
Deficit	139,330,520	10,805,579	10,688,936	7,055,678	6,472,085	6,584,961
Income subject to tax	276,172,502	7,929,858	4,435,338	6,198,295	6,395,000	6,946,352
Income tax, total	111,140,137	3,299,818	773,215	1,173,863	1,405,970	1,804,376
Regular and alternative tax	108,773,260	3,110,081	760,677	1,159,195	1,385,049	1,784,289
Tax from recomputing prior-year investment credit	1,319,525	176,236	10,418	13,143	18,772	16,545
Additional tax for tax preferences	1,026,194	12,429	*1,799	*254	*1,312	1,481
Foreign tax credit	21,480,508	273,018	*260	*1	2,729	737
U.S. possessions tax credit	2,907,256	94,877	*4	*119	*1,376	3,003
Orphan drug credit	6,530	—	—	—	—	—
Nonconventional source fuel credit	63,544	*12	—	—	—	—
General business credit	12,805,999	156,299	103,499	140,629	172,887	208,489

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 4.—Balance Sheets, Income Statements, and Selected Other Items by Size of Total Assets—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars and size of total assets are in whole dollars]

Item	Size of total assets—Continued						
	$1,000,000 under $5,000,000	$5,000,000 under $10,000,000	$10,000,000 under $25,000,000	$25,000,000 under $50,000,000	$50,000,000 under $100,000,000	$100,000,000 under $250,000,000	$250,000,000 or more
	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Number of returns	**223,619**	**30,994**	**21,094**	**9,879**	**6,592**	**4,815**	**4,471**
Total assets	**458,542,021**	**214,879,695**	**328,002,609**	**349,687,829**	**464,711,768**	**769,995,239**	**11,139,934,581**
Cash	44,266,948	17,610,307	25,335,759	24,479,473	30,865,902	44,082,570	508,129,032
Notes and accounts receivable	100,099,217	49,062,123	84,376,346	103,649,172	131,711,777	181,340,201	2,868,161,243
Less: Allowance for bad debts	2,184,952	1,293,397	2,148,818	2,790,507	3,381,364	5,286,703	55,861,580
Inventories	99,280,227	42,742,741	47,563,405	33,002,569	32,993,311	46,155,235	357,714,166
Investments in Government obligations	3,022,041	4,139,591	19,336,872	37,503,019	56,035,620	76,550,252	860,699,111
Other current assets	26,352,570	13,119,286	20,051,245	17,109,846	23,125,530	34,185,515	584,204,954
Loans to stockholders	6,734,744	2,297,479	1,829,256	1,303,655	1,552,345	3,682,205	28,385,668
Mortgage and real estate loans	5,974,521	3,003,444	9,104,273	21,390,491	46,235,633	112,877,239	1,173,290,839
Other investments	28,335,864	16,736,106	34,303,173	38,167,608	60,047,928	127,617,237	2,522,130,819
Depreciable assets	211,479,673	90,995,736	111,831,748	88,834,033	91,692,476	152,326,585	2,367,190,883
Less: Accumulated depreciation	108,527,695	42,264,762	49,718,684	37,696,147	36,305,157	59,993,651	848,720,298
Depletable assets	2,549,443	1,581,894	2,923,547	2,807,655	3,176,140	5,845,207	95,298,763
Less: Accumulated depletion	1,216,910	590,873	1,276,159	1,341,196	1,662,114	2,148,622	35,103,036
Land	24,536,508	8,746,675	10,523,385	7,568,376	7,364,012	9,375,388	57,856,252
Intangible assets (amortizable)	6,132,332	3,318,428	4,879,897	5,409,690	7,434,667	14,306,814	162,388,574
Less: Accumulated amortization	2,123,627	957,507	1,286,130	1,151,868	1,539,732	2,422,108	33,788,490
Other assets	13,831,119	6,632,423	10,373,494	11,441,959	15,364,793	31,501,877	527,957,680
Total liabilities	**458,542,021**	**214,879,695**	**328,002,609**	**349,687,829**	**464,711,768**	**769,995,239**	**11,139,934,581**
Accounts payable	72,035,709	31,446,759	35,689,000	26,472,168	26,574,910	38,556,316	616,158,548
Mortgages, notes, and bonds payable in less than one year	75,429,885	35,351,272	41,589,427	29,286,305	30,140,467	43,322,915	776,014,013
Other current liabilities	44,036,148	25,665,808	76,576,430	138,549,234	211,230,655	333,348,370	3,733,030,653
Loans from stockholders	22,096,174	5,471,413	5,758,305	3,935,173	3,868,472	7,802,015	78,570,069
Mortgages, notes, and bonds payable in one year or more	90,798,036	43,254,662	59,123,981	51,010,179	59,562,625	97,339,418	1,465,421,003
Other liabilities	17,475,669	10,700,107	16,357,678	18,745,643	23,901,654	51,390,456	1,575,330,342
Capital stock	32,240,272	13,840,994	20,822,683	17,461,606	25,198,915	43,860,328	984,806,268
Paid-in or capital surplus	32,871,217	19,494,667	30,876,698	34,911,083	51,467,092	101,356,834	1,419,974,144
Retained earnings, appropriated	1,448,444	443,849	647,915	1,181,535	1,807,140	3,335,691	54,270,332
Retained earnings, unappropriated	73,642,439	26,996,356	37,602,949	27,440,782	35,758,059	61,400,132	989,157,548
Retained earnings, 1120S	7,856,738	6,161,020	7,474,105	3,670,271	2,770,243	1,628,361	732,619
Less: Cost of treasury stock	11,388,709	3,947,209	4,516,562	2,976,152	7,568,465	13,345,599	553,530,957
Total receipts	**985,805,877**	**395,189,883**	**436,225,299**	**300,744,306**	**313,271,054**	**452,585,941**	**4,377,147,511**
Business receipts	953,482,351	379,862,804	409,927,827	272,477,959	274,741,043	389,597,995	3,540,360,829
Interest	5,287,068	3,068,499	8,658,660	14,472,730	22,094,586	36,325,693	502,167,822
Interest on Government obligations:							
State and local	217,566	108,799	443,765	748,216	1,250,693	1,870,181	18,465,680
Nonqualifying interest and dividends	830,488	384,713	454,412	282,402	181,037	226,219	98,151
Rents	6,301,436	2,750,593	3,647,267	2,553,486	2,648,923	4,379,188	62,222,348
Royalties	357,178	225,624	461,156	247,001	330,472	744,038	13,178,492
Net short-term capital gain reduced by net long-term capital loss	230,641	112,673	175,870	207,876	338,690	709,159	9,638,575
Net long-term capital gain reduced by net short-term capital loss	2,899,589	1,567,213	2,421,539	2,142,227	2,984,067	5,410,503	69,954,532
Net gain, noncapital assets	2,925,705	1,322,442	1,861,631	1,117,966	1,529,080	2,243,992	25,605,173
Dividends received from domestic corporations	509,576	237,018	406,358	437,386	465,451	848,047	11,481,699
Dividends received from foreign corporations	62,369	54,743	99,832	119,281	209,946	614,389	21,237,259
Other receipts	12,701,911	5,494,764	7,666,982	5,937,776	6,497,067	9,616,538	102,736,952
Total deductions	**972,109,402**	**389,243,157**	**426,821,510**	**292,964,210**	**302,967,942**	**434,513,126**	**4,179,391,818**
Cost of sales and operations	692,650,132	284,330,469	300,991,183	193,331,253	194,892,606	269,480,955	2,234,406,058
Compensation of officers	30,463,679	8,082,827	7,234,326	4,260,172	3,769,361	4,173,057	20,087,004
Repairs	5,143,873	1,703,326	1,989,820	1,497,917	1,586,142	2,876,327	58,450,844
Bad debts	3,173,349	1,370,944	2,082,966	2,147,220	2,531,439	3,310,353	33,413,842
Rent paid on business property	13,878,047	4,690,233	5,661,961	3,695,617	4,296,537	6,113,672	67,732,890
Taxes paid	19,097,465	6,899,490	8,296,980	5,708,032	6,118,316	8,988,793	111,409,839
Interest paid	15,656,558	7,138,412	11,968,128	14,128,258	18,822,242	31,255,724	421,546,260
Contributions or gifts	296,422	131,832	192,237	167,347	191,877	276,882	3,497,468
Amortization	767,792	419,363	546,299	554,649	621,319	1,015,835	8,494,259
Depreciation	20,016,540	8,600,079	10,530,339	8,346,987	8,747,211	14,360,374	207,913,270
Depletion	552,093	223,953	381,065	228,796	469,780	405,557	6,082,574
Advertising	7,737,867	3,555,097	4,360,285	3,338,595	3,427,128	5,724,900	58,008,199
Pension, profit-sharing, stock bonus, and annuity plans	4,581,755	1,419,091	1,473,619	1,024,975	1,146,335	1,916,581	25,169,184
Employee benefit programs	5,118,703	2,224,355	2,721,438	2,280,194	2,469,465	4,040,639	46,916,103
Net loss, noncapital assets	689,397	280,643	480,274	312,409	374,069	775,825	5,291,376
Other deductions	152,285,731	58,173,043	67,910,590	51,941,791	53,504,116	79,797,651	870,972,648
Total receipts less total deductions	13,696,475	5,946,726	9,403,789	7,780,096	10,303,112	18,072,815	197,755,693
Constructive taxable income from related foreign corporations	38,739	13,444	55,371	104,714	143,999	316,574	18,208,818
Net income (less deficit), total	13,461,925	5,797,751	8,957,186	7,114,002	9,192,843	16,519,207	197,498,831
Net income	28,397,653	12,475,634	16,917,620	13,328,062	15,683,787	24,387,783	245,074,489
Deficit	14,935,728	6,677,883	7,960,434	6,214,061	6,490,944	7,868,575	47,575,658
Income subject to tax	18,384,542	8,185,398	11,347,440	9,494,016	10,989,143	15,798,193	170,068,927
Income tax, total	6,588,400	3,456,218	4,948,765	4,171,060	4,844,299	7,013,531	71,660,623
Regular and alternative tax	6,506,142	3,413,138	4,894,664	4,123,035	4,779,763	6,929,403	69,927,824
Tax from recomputing prior-year investment credit	64,682	28,994	34,537	29,199	41,075	55,235	830,690
Additional tax for tax preferences	14,986	11,412	18,054	16,978	23,356	23,300	900,834
Foreign tax credit	32,337	25,251	54,871	68,819	140,156	406,908	20,475,422
U.S. possessions tax credit	40,860	39,164	257,681	277,654	453,762	344,170	1,394,586
Orphan drug credit	—	—	—	—	—	—	6,530
Nonconventional source fuel credit	*379	729	2,673	1,973	2,469	2,486	52,823
General business credit	551,335	232,054	309,549	239,464	283,556	505,944	9,902,293

*Estimate should be used with caution because of the small number of sample returns on which it is based.
NOTE: Detail may not add to total because of rounding. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS WITH NET INCOME

Table 5—Balance Sheets, Income Statements, and Selected Other Items by Size of Total Assets

[All figures are estimates based on samples—money amounts are in thousands of dollars and size of total assets are in whole dollars]

Item	Total returns with net income	Size of total assets				
		Zero assets	$1 under $100,000	$100,000 under $250,000	$250,000 under $500,000	$500,000 under $1,000,000
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns	**1,907,738**	**83,281**	**857,503**	**382,006**	**225,657**	**154,239**
Total assets	**10,985,800,509**	**—**	**32,161,329**	**61,584,012**	**80,405,060**	**108,344,981**
Cash	619,712,042	—	8,701,398	12,857,381	14,525,340	15,838,167
Notes and accounts receivable	2,918,194,906	—	3,630,922	9,661,035	15,199,261	22,795,779
Less: Allowance for bad debts	56,302,618	—	119,311	125,480	191,495	411,723
Inventories	536,138,778	—	3,760,327	9,119,089	12,869,804	21,643,443
Investments in Government obligations	861,886,987	—	52,665	108,015	377,633	557,209
Other current assets	577,455,833	—	1,438,876	2,851,876	3,778,356	5,036,728
Loans to stockholders	42,961,370	—	2,800,060	3,750,450	3,092,368	2,616,176
Mortgage and real estate loans	1,055,519,996	—	218,165	808,927	1,147,754	1,748,729
Other investments	2,277,878,768	—	876,274	3,056,100	4,447,364	5,342,130
Depreciable assets	2,433,181,749	—	25,766,213	35,995,746	44,152,185	55,157,408
Less: Accumulated depreciation	967,826,272	—	17,489,554	22,333,974	26,755,178	32,455,008
Depletable assets	55,176,861	—	102,015	135,278	171,040	201,935
Less: Accumulated depletion	19,652,776	—	47,045	53,706	69,118	99,652
Land	91,672,525	—	737,062	2,525,430	4,285,332	6,329,150
Intangible assets (amortizable)	131,852,078	—	649,811	1,157,358	1,107,743	1,137,445
Less: Accumulated amortization	30,157,179	—	309,955	546,491	502,140	493,982
Other assets	458,107,463	—	1,393,406	2,616,977	2,768,811	3,401,047
Total liabilities	**10,985,800,509**	**—**	**32,161,329**	**61,584,012**	**80,405,060**	**108,344,981**
Accounts payable	704,483,923	—	3,369,672	6,836,596	10,483,233	15,677,757
Mortgages, notes, and bonds payable in less than one year	779,407,348	—	3,273,475	4,853,303	7,213,916	11,829,829
Other current liabilities	3,717,811,520	—	3,510,963	5,011,501	6,369,046	8,607,419
Loans from stockholders	97,979,181	—	5,485,338	5,601,218	5,177,246	5,190,528
Mortgages, notes, and bonds payable in one year or more	1,272,180,861	—	4,832,294	9,430,506	12,504,091	16,992,911
Other liabilities	1,337,378,407	—	842,121	1,867,652	2,057,354	3,351,678
Capital stock	957,693,424	—	5,264,254	6,576,516	6,984,910	8,401,528
Paid-in or capital surplus	1,267,464,731	—	2,828,410	2,662,454	3,275,622	4,662,738
Retained earnings, appropriated	54,653,229	—	145,845	166,033	283,499	422,335
Retained earnings, unappropriated	1,285,931,002	—	4,130,144	18,970,947	26,140,748	33,802,273
Retained earnings, 1120S	43,936,548	—	63,132	2,047,163	2,662,426	3,179,546
Less: Cost of treasury stock	533,119,663	—	1,584,319	2,439,875	2,747,031	3,773,564
Total receipts	**6,679,365,666**	**125,175,060**	**176,491,951**	**197,681,381**	**215,860,082**	**265,475,416**
Business receipts	5,768,884,132	86,299,303	170,941,624	191,476,341	208,526,545	256,681,033
Interest	508,381,045	26,543,129	502,350	1,093,351	1,134,513	1,467,531
Interest on Government obligations:						
State and local	16,864,959	148,757	27,251	44,002	57,654	60,700
Nonqualifying interest and dividends	2,599,161	104,521	140,546	141,812	172,989	163,614
Rents	72,494,370	1,068,039	785,155	1,129,927	1,646,431	1,656,056
Royalties	13,643,623	50,199	177,964	86,744	138,908	157,385
Net short-term capital gain reduced by net long-term capital loss	10,689,832	162,247	54,998	22,966	43,131	37,593
Net long-term capital gain reduced by net short-term capital loss	84,322,859	2,764,821	434,999	559,673	534,640	802,609
Net gain, noncapital assets	35,020,219	3,439,478	599,422	439,736	614,979	1,054,499
Dividends received from domestic corporations	13,050,162	288,761	65,242	71,498	119,193	159,180
Dividends received from foreign corporations	21,242,178	242,281	*123	*5,891	*614	4,855
Other receipts	132,173,129	4,063,523	2,762,277	2,609,418	2,870,483	3,230,361
Total deductions	**6,271,644,380**	**112,996,913**	**165,960,381**	**187,996,130**	**206,022,887**	**254,841,824**
Cost of sales and operations	3,725,032,388	57,911,426	68,600,030	98,654,090	123,759,240	167,547,516
Compensation of officers	138,169,279	1,880,523	26,458,751	20,521,158	14,855,098	13,359,612
Repairs	65,646,573	626,644	1,184,320	1,468,463	1,611,186	1,649,315
Bad debts	35,069,426	869,822	185,590	335,930	548,389	752,964
Rent paid on business property	102,106,424	1,570,010	6,500,591	5,830,769	5,002,212	5,171,748
Taxes paid	155,610,068	2,306,180	4,811,823	5,447,995	5,414,293	6,237,111
Interest paid	415,954,107	24,050,816	1,231,760	1,948,593	2,397,948	3,218,517
Contributions or gifts	5,084,003	90,883	54,130	70,076	75,527	114,775
Amortization	8,141,472	202,759	99,793	147,730	134,035	147,372
Depreciation	226,578,111	2,022,736	3,383,385	4,357,198	4,913,699	5,587,912
Depletion	5,519,730	35,415	32,223	76,222	107,752	133,592
Advertising	77,371,200	1,004,225	1,481,755	1,526,175	1,760,573	1,993,871
Pension, profit-sharing, stock bonus, and annuity plans	38,823,547	426,001	2,299,345	2,382,738	1,664,052	1,764,156
Employee benefit programs	56,031,922	1,375,101	870,480	973,197	1,016,194	1,132,395
Net loss, noncapital assets	3,094,221	63,571	55,081	50,483	80,155	54,959
Other deductions	1,213,411,915	18,560,801	48,711,325	44,205,312	42,682,533	45,976,008
Total receipts less total deductions	407,721,287	12,178,147	10,531,570	9,685,232	9,837,196	10,633,592
Constructive taxable income from related foreign corporations	18,103,446	120,461	—	—	—	*1,901
Net income	408,860,760	12,149,709	10,489,048	9,618,476	9,772,711	10,567,579
Income subject to tax	275,717,187	7,854,916	4,435,338	6,198,652	6,396,429	6,941,225
Income tax, total	110,795,967	3,242,398	770,166	1,170,949	1,402,356	1,796,625
Regular and alternative tax	108,681,758	3,089,103	760,677	1,159,326	1,385,683	1,779,388
Tax from recomputing prior-year investment credit	1,114,032	141,449	7,368	10,098	14,524	14,296
Additional tax for tax preferences	980,538	10,774	*1,799	*254	*1,312	888
Foreign tax credit	21,473,247	273,018	*260	*1	2,729	737
U.S. possessions tax credit	2,907,256	94,877	*4	*119	*1,376	3,003
Orphan drug credit	6,530	—	—	—	—	—
Nonconventional source fuel credit	63,527	*12	—	—	—	—
General business credit	12,799,214	156,297	103,499	140,629	172,887	208,489

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

Table 5—Balance Sheets, Income Statements, and Selected Other Items by Size of Total Assets—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars and size of total assets are in whole dollars]

Item	Size of total assets—Continued						
	$1,000,000 under $5,000,000	$5,000,000 under $10,000,000	$10,000,000 under $25,000,000	$25,000,000 under $50,000,000	$50,000,000 under $100,000,000	$100,000,000 under $250,000,000	$250,000,000 or more
	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Number of returns	152,963	20,486	13,860	6,559	4,513	3,427	3,243
Total assets	313,144,703	142,163,902	216,945,083	240,625,455	325,681,853	553,218,189	8,911,525,942
Cash	35,073,052	13,320,917	18,681,433	17,662,018	21,893,972	32,802,836	428,355,527
Notes and accounts receivable	74,942,552	35,406,158	56,639,174	73,123,798	89,950,418	126,557,690	2,410,288,120
Less: Allowance for bad debts	1,449,485	823,296	1,222,608	1,916,224	2,070,127	3,533,294	44,439,576
Inventories	70,271,835	30,046,716	33,121,071	23,593,218	23,137,968	32,532,567	276,042,741
Investments in Government obligations	2,153,837	3,051,240	14,125,193	27,891,820	41,554,901	58,536,467	713,478,007
Other current assets	17,027,639	8,429,506	13,128,072	11,108,257	16,005,717	24,021,277	474,629,530
Loans to stockholders	4,639,820	1,515,497	1,232,568	646,134	997,309	1,225,802	20,445,187
Mortgage and real estate loans	3,827,891	2,232,349	6,310,720	16,534,230	35,987,415	91,365,629	895,338,186
Other investments	19,841,230	10,723,273	24,350,129	26,097,533	45,967,283	97,041,580	2,040,135,871
Depreciable assets	139,014,602	57,419,381	72,815,364	58,473,667	60,978,624	104,394,047	1,779,014,513
Less: Accumulated depreciation	76,222,745	28,902,445	35,394,369	26,326,526	25,902,608	42,561,371	633,482,494
Depletable assets	1,027,985	476,861	768,715	843,121	1,163,475	2,462,431	47,824,003
Less: Accumulated depletion	480,415	177,679	274,353	337,542	511,404	718,542	16,883,321
Land	13,184,641	4,356,961	5,151,595	3,988,535	4,089,164	6,273,822	40,750,833
Intangible assets (amortizable)	3,068,685	1,653,331	2,565,243	2,644,061	3,856,673	6,599,397	107,412,332
Less: Accumulated amortization	1,003,150	543,109	772,864	682,037	887,305	1,135,697	23,280,447
Other assets	8,226,728	3,978,240	5,720,000	7,281,394	9,470,380	17,353,548	395,896,930
Total liabilities	313,144,703	142,163,902	216,945,083	240,625,455	325,681,853	553,218,189	8,911,525,942
Accounts payable	50,429,843	22,459,834	24,988,084	19,731,241	18,771,651	27,471,161	504,264,852
Mortgages, notes, and bonds payable in less than one year	44,929,208	20,750,256	22,919,098	15,745,212	16,651,744	24,963,962	606,277,345
Other current liabilities	30,214,112	16,852,232	49,799,735	96,268,341	149,019,681	245,265,407	3,106,893,081
Loans from stockholders	10,020,377	2,289,533	1,976,473	1,856,369	1,798,191	2,145,632	56,438,275
Mortgages, notes, and bonds payable in one year or more	47,623,277	21,768,581	29,712,951	27,698,527	31,155,541	53,142,073	1,017,320,110
Other liabilities	10,395,403	6,717,223	10,495,508	12,003,987	16,504,342	36,065,217	1,237,077,923
Capital stock	18,460,147	7,490,468	13,135,714	10,410,419	18,011,215	31,271,490	831,686,761
Paid-in or capital surplus	12,724,191	7,749,543	15,260,269	18,787,192	34,910,570	72,046,770	1,092,556,971
Retained earnings, appropriated	1,144,502	316,969	645,319	814,230	1,527,735	2,903,845	46,282,916
Retained earnings, unappropriated	82,972,765	31,752,085	44,044,535	35,925,920	41,695,276	67,626,747	898,869,562
Retained earnings, 1120S	12,644,714	6,940,668	7,518,394	3,973,134	2,571,848	1,532,042	803,481
Less: Cost of treasury stock	8,413,836	2,923,489	3,550,997	2,589,120	6,935,941	11,216,157	486,945,335
Total receipts	765,485,854	302,368,965	326,838,873	225,391,202	237,592,409	341,100,440	3,499,904,053
Business receipts	741,699,327	291,603,374	308,668,914	204,419,440	208,778,086	292,817,400	2,806,972,744
Interest	3,904,137	2,102,608	5,905,420	10,318,311	15,965,601	27,236,043	412,208,050
Interest on Government obligations:							
State and local	186,746	82,003	346,365	531,450	890,349	1,322,211	13,167,470
Nonqualifying interest and dividends	636,770	311,353	343,273	223,608	107,066	156,317	97,292
Rents	4,237,210	1,747,688	2,261,025	1,944,339	1,855,519	2,919,666	51,243,315
Royalties	265,652	187,212	377,662	148,538	262,901	582,261	11,208,195
Net short-term capital gain reduced by net long-term capital loss	196,160	97,721	114,018	190,225	314,284	673,014	8,783,473
Net long-term capital gain reduced by net short-term capital loss	2,499,215	1,281,370	2,012,160	1,986,719	2,653,151	5,170,828	63,622,676
Net gain, noncapital assets	2,304,711	982,302	1,493,540	893,525	1,116,020	1,900,295	20,181,711
Dividends received from domestic corporations	487,492	207,388	365,100	404,244	530,194	748,928	9,602,942
Dividends received from foreign corporations	52,050	50,277	92,039	150,589	209,111	485,428	19,948,921
Other receipts	9,016,384	3,715,669	4,859,358	4,180,214	4,910,127	7,088,050	82,867,264
Total deductions	736,880,542	289,808,676	309,517,649	211,377,948	220,826,764	314,879,648	3,260,535,021
Cost of sales and operations	537,218,694	217,918,347	224,014,635	142,507,812	145,674,843	199,128,251	1,742,097,505
Compensation of officers	24,285,358	6,241,422	5,412,768	3,098,539	2,733,069	3,001,507	16,321,473
Repairs	3,757,497	1,218,046	1,437,357	1,104,324	1,166,197	2,195,639	48,227,587
Bad debts	2,026,859	750,418	1,038,494	1,001,056	1,142,649	1,702,732	24,714,522
Rent paid on business property	9,662,404	3,138,105	3,767,590	2,567,070	3,014,627	3,988,897	51,892,399
Taxes paid	14,422,999	5,110,362	6,189,682	4,351,155	4,757,223	6,836,555	89,724,688
Interest paid	9,181,534	4,043,909	6,797,231	9,005,125	12,140,056	20,590,145	321,348,472
Contributions or gifts	290,199	131,022	185,431	169,539	199,875	277,054	3,425,490
Amortization	388,632	207,792	272,724	276,211	293,187	505,567	5,465,671
Depreciation	13,635,112	5,505,365	6,793,060	5,632,703	5,832,534	9,644,419	159,269,986
Depletion	443,326	134,655	328,335	109,400	244,025	291,879	3,582,905
Advertising	5,448,439	2,451,138	3,052,750	2,611,873	2,674,637	4,394,040	48,971,723
Pension, profit-sharing, stock bonus, and annuity plans	3,992,917	1,211,033	1,254,879	861,183	952,644	1,589,353	20,425,246
Employee benefit programs	3,708,221	1,590,932	2,057,375	1,619,679	1,763,409	2,849,635	37,075,305
Net loss, noncapital assets	221,507	73,846	110,694	90,766	186,499	223,369	1,883,291
Other deductions	108,196,845	40,082,284	46,804,642	36,371,511	38,051,290	57,660,606	686,108,758
Total receipts less total deductions	28,605,313	12,560,289	17,321,224	14,013,255	16,765,645	26,220,793	239,369,032
Constructive taxable income from related foreign corporations	48,703	12,855	42,158	98,729	164,685	260,176	17,353,779
Net income	28,431,469	12,488,894	17,009,292	13,579,503	16,039,979	25,158,758	243,555,341
Income subject to tax	18,399,048	8,198,461	11,430,593	9,712,745	11,241,132	16,554,008	168,354,640
Income tax, total	6,583,362	3,457,028	4,980,774	4,250,744	4,947,296	7,347,849	70,846,421
Regular and alternative tax	6,512,395	3,419,119	4,932,600	4,204,042	4,887,254	7,263,135	69,289,036
Tax from recomputing prior-year investment credit	54,120	25,239	30,535	22,282	34,545	48,384	711,192
Additional tax for tax preferences	14,257	10,088	17,219	22,572	25,392	30,766	845,217
Foreign tax credit	32,408	25,251	88,834	90,543	161,052	399,442	20,398,973
U.S. possessions tax credit	40,860	39,164	257,681	277,654	453,762	344,170	1,394,586
Orphan drug credit	—	—	—	—	—	—	6,530
Nonconventional source fuel credit	*379	729	2,673	1,973	2,469	2,912	52,380
General business credit	551,957	232,054	309,462	251,611	300,718	525,749	9,845,862

* Estimate should be used with caution because of the small number of sample returns on which it is based.
NOTE: Detail may not add to total because of rounding. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

Table 6—Selected Balance Sheet, Income Statement, and Tax Items, by Industrial Division, by Size of Total Assets

[All figures are estimates based on samples—money amounts are in thousands of dollars and size of total assets are in whole dollars]

Industrial division, item	Total returns of active corporations	Size of total assets											
		Zero assets	$1 Under $100,000	$100,000 under $250,000	$250,000 under $500,000	$500,000 under $1,000,000	$1,000,000 under $5,000,000	$5,000,000 under $10,000,000	$10,000,000 under $25,000,000	$25,000,000 under $50,000,000	$50,000,000 under $100,000,000	$100,000,000 under $250,000,000	$250,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
All Industries													
Number of returns	3,428,515	210,160	1,736,486	606,676	348,276	225,453	223,619	30,994	21,094	9,879	6,592	4,815	4,471
Total assets	14,163,209,894	—	57,950,198	97,775,053	123,669,775	158,061,127	458,542,021	214,879,695	328,002,609	349,687,829	464,711,768	769,995,239	11,139,934,581
Notes and accounts receivable, net	3,519,300,244	—	6,412,237	14,778,253	21,556,547	31,100,449	97,914,265	47,768,726	82,227,528	100,858,665	128,330,413	176,053,498	2,812,299,663
Inventories	732,587,518	—	7,042,361	15,313,820	20,471,831	30,307,852	99,280,227	42,742,741	47,563,405	33,002,569	32,993,311	46,155,235	357,714,166
Cash, Government obligations and other current assets	2,560,709,243	—	15,693,936	21,751,727	25,182,915	27,875,222	73,641,559	34,869,184	64,723,876	79,092,338	110,027,052	154,818,337	1,953,033,097
Other investments and loans	4,288,822,766	—	6,302,457	10,840,682	12,662,890	14,016,207	41,045,129	22,037,029	45,236,702	60,861,754	107,835,906	244,176,681	3,723,807,326
Depreciable assets	3,382,556,559	—	50,202,837	60,469,044	72,644,240	84,889,304	211,479,673	90,995,736	111,831,748	88,834,033	91,692,476	152,326,585	2,367,190,883
Less: Accumulated depreciation	1,342,114,626	—	33,301,959	35,885,047	42,108,605	47,592,621	108,527,695	42,264,762	49,718,684	37,696,147	36,305,157	59,993,651	848,720,298
Other capital assets less reserves	387,018,686	—	2,769,500	5,976,785	8,592,644	12,264,485	29,877,746	12,098,617	15,764,540	13,292,657	14,772,973	24,956,679	246,652,063
Accounts and notes payable	1,993,038,740	—	16,488,219	23,364,671	31,348,101	43,770,056	147,465,594	66,798,031	77,278,427	55,758,473	56,715,377	81,879,231	1,392,172,561
Other current liabilities	4,599,886,537	—	6,781,206	8,209,910	9,984,088	12,474,034	44,036,148	25,665,808	76,576,430	138,549,234	211,230,655	333,348,370	3,733,030,653
Mortgages, notes, and bonds payable in one year or more	1,958,477,161	—	14,004,086	19,841,226	25,735,436	32,386,509	90,798,036	43,254,662	59,123,981	51,010,179	59,562,625	97,339,418	1,465,421,003
Net worth	3,698,134,695	—	34,861	28,890,424	39,461,443	52,412,288	136,670,401	62,989,677	92,907,788	81,689,125	109,432,984	198,235,747	2,895,409,954
Cost of property used for investment credit	122,807,277	766,278	577,644	795,909	817,622	981,250	2,794,665	1,371,805	2,153,574	1,789,709	2,177,230	3,709,525	104,872,068
Total receipts	8,669,378,501	172,977,785	286,794,530	291,763,668	304,406,534	352,466,111	985,805,877	395,189,883	436,225,299	300,744,306	313,271,054	452,585,941	4,377,147,511
Business receipts	7,535,482,221	121,451,895	278,268,674	281,627,746	293,008,149	340,674,949	953,482,351	379,862,804	409,927,827	272,477,959	274,741,043	389,597,995	3,540,360,829
Cost of sales and operations	4,922,763,967	81,571,172	120,581,609	151,209,804	176,339,675	222,979,052	692,650,132	284,330,469	300,991,183	193,331,253	194,892,606	269,480,955	2,234,406,058
Taxes paid	203,491,687	3,490,589	8,783,315	8,181,413	7,981,651	8,535,803	19,097,465	6,899,490	8,296,980	5,708,032	6,118,316	8,988,793	111,409,839
Interest paid	572,973,834	34,806,151	2,792,076	3,625,836	5,686,443	5,547,746	15,656,558	7,138,412	11,968,128	14,128,258	18,822,242	31,255,724	421,546,260
Depreciation	312,582,789	3,778,773	6,707,534	7,184,018	7,918,833	8,478,831	20,016,540	8,600,079	10,530,339	8,346,987	8,747,211	14,360,374	207,913,270
Pension, profit-sharing, stock bonus, and annuity plans	48,242,217	543,854	3,617,235	3,134,348	2,112,926	2,102,313	4,581,755	1,419,091	1,473,619	1,024,975	1,146,335	1,916,581	25,169,184
Employee benefit programs	73,633,515	1,726,045	1,451,688	1,492,436	1,533,083	1,659,367	5,118,703	2,224,355	2,721,438	2,280,194	2,469,465	4,040,639	46,916,103
Net income (less deficit)	269,530,240	1,344,130	−211,922	2,574,407	3,298,835	3,983,044	13,461,925	5,797,751	8,957,186	7,114,002	9,192,843	16,519,207	197,498,831
Income subject to tax, total	276,172,502	7,929,858	4,435,338	6,198,295	6,395,000	6,946,352	18,384,542	8,185,398	11,347,440	9,494,016	10,989,143	15,798,193	170,068,927
Income tax, total	111,140,137	3,299,818	773,215	1,173,863	1,405,970	1,804,376	6,588,400	3,456,218	4,948,765	4,171,060	4,844,299	7,013,531	71,660,623
Additional tax for tax preferences	1,026,194	12,429	*1,799	*254	*1,312	1,481	14,986	11,412	18,054	16,978	23,356	23,300	900,834
Foreign tax credit	21,480,508	273,018	*260	1	2,729	737	32,337	25,251	54,871	68,819	140,156	406,908	20,475,422
U.S. possessions tax credit	2,907,256	94,877	4	*119	*1,376	3,003	40,860	39,164	257,681	277,654	453,762	344,170	1,394,586
Orphan drug credit	6,530	—	—	—	—	—	—	—	—	—	—	—	6,530
Nonconventional source fuel credit	63,544	*12	—	—	—	—	*379	729	2,673	1,973	2,469	2,486	52,823
General business credit	12,805,999	156,299	103,499	140,629	172,887	208,489	551,335	232,054	309,549	239,464	283,556	505,944	9,902,293
Agriculture, Forestry, and Fishing													
Number of returns	106,634	5,733	39,977	20,403	18,046	13,063	8,565	517	203	67	39	16	6
Total assets	53,478,288	—	1,443,088	3,505,625	6,450,453	9,147,190	15,539,138	3,479,211	3,172,221	2,319,810	2,770,490	2,710,414	2,940,650
Notes and accounts receivable, net	4,816,729	—	105,288	178,091	368,618	587,995	1,246,644	476,828	291,299	299,993	467,397	406,758	387,816
Inventories	4,932,107	—	63,933	165,594	340,063	610,643	1,339,894	359,544	509,389	367,375	376,355	236,058	563,258
Cash, Government obligations, and other current assets	6,070,396	—	317,506	545,997	844,045	960,817	1,680,775	369,986	298,683	273,265	334,121	133,777	311,421
Other investments and loans	7,131,725	—	124,319	359,122	625,723	812,041	1,610,802	424,277	569,696	426,814	355,384	1,076,441	747,107
Depreciable assets	36,388,420	—	2,254,357	3,553,476	5,920,066	6,343,727	9,679,819	1,965,043	1,667,147	1,103,491	1,237,514	1,203,797	1,459,984
Less: Accumulated depreciation	22,236,756	—	1,685,405	2,281,571	3,902,310	4,187,614	5,891,586	1,065,843	846,256	518,863	553,238	576,994	727,078
Other capital assets less reserves	13,573,231	—	201,258	876,276	1,926,724	3,358,770	4,936,928	813,570	606,287	249,407	338,349	146,909	118,751
Accounts and notes payable	11,768,608	—	638,567	624,894	1,167,793	1,428,090	3,566,882	823,069	773,007	712,922	840,188	750,592	442,602
Other current liabilities	2,171,595	—	52,990	80,933	156,503	206,206	558,552	130,416	137,189	200,925	197,937	153,294	296,649
Mortgages, notes, and bonds payable in one year or more	15,481,615	—	370,164	883,860	2,111,555	2,766,140	4,896,819	1,001,210	1,117,557	541,228	772,259	362,321	658,500
Net worth	17,062,621	—	−293,814	993,082	2,045,350	3,657,941	4,633,124	1,130,661	860,224	738,863	655,277	1,306,927	1,334,990
Cost of property used for investment credit	477,963	*6,325	*9,833	41,699	34,186	44,252	150,747	22,361	15,754	33,996	24,996	35,377	58,434
Total receipts	77,502,215	1,069,732	5,217,630	10,297,214	11,479,157	9,092,163	16,719,470	3,992,340	4,005,177	2,630,421	5,110,633	3,572,445	4,315,834
Business receipts	71,787,552	745,613	4,907,741	9,841,085	10,738,835	8,207,866	15,308,523	3,686,313	3,789,622	2,441,666	4,771,464	3,332,870	4,015,954
Cost of sales and operations	50,971,455	370,026	2,703,722	7,884,894	8,100,163	5,233,814	10,726,901	2,723,329	3,052,290	1,743,043	4,050,050	1,946,916	2,436,306
Taxes paid	1,497,542	38,782	149,549	137,652	226,772	218,610	349,330	71,377	48,568	40,827	46,305	93,570	76,201
Interest paid	2,570,846	130,250	133,756	172,583	324,775	411,223	767,959	122,218	138,532	98,369	128,792	74,761	67,628
Depreciation	3,537,822	83,402	259,022	373,289	572,082	585,690	858,048	173,080	155,929	95,689	119,927	140,573	121,090
Pension, profit-sharing, stock bonus, and annuity plans	164,061	*5,195	*6,190	*4,117	17,790	24,234	54,130	12,530	6,842	6,184	7,234	9,624	9,990
Employee benefit programs	286,849	2,495	37,471	16,368	27,121	39,154	48,939	15,977	9,136	13,480	18,192	25,869	32,648
Net income (less deficit)	1,148,686	49,994	−103,747	84,324	100,117	216,835	340,914	57,376	41,862	50,059	−26,735	76,722	260,966
Income subject to tax, total	1,883,473	66,541	64,958	135,027	194,190	249,949	407,444	127,225	90,404	77,715	108,225	103,170	258,626
Income tax, total	589,887	19,023	12,828	21,940	37,277	50,539	129,728	47,473	39,038	33,101	42,447	46,688	109,806
Additional tax for tax preferences	3,085	—	—	—	—	*61	*660	*330	*298	130	999	51	556
Foreign tax credit	12,641	—	—	—	—	*175	1	(1)	3	13	—	1,287	11,161
U.S. possessions tax credit	1	—	1	—	—	—	—	—	—	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	—	—	—	—	—	—	—	—	—	—	—	—	—
General business credit	101,639	*1,741	1,757	5,553	9,476	13,460	27,240	4,899	2,965	5,931	6,996	9,563	12,059

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 6—Selected Balance Sheet, Income Statement, and Tax Items, by Industrial Division, by Size of Total Assets—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars and size of total assets are in whole dollars]

Industrial division, item	Total returns of active corporations	Size of total assets: Zero assets	$1 Under $100,000	$100,000 under $250,000	$250,000 under $500,000	$500,000 under $1,000,000	$1,000,000 under $5,000,000	$5,000,000 under $10,000,000	$10,000,000 under $25,000,000	$25,000,000 under $50,000,000	$50,000,000 under $100,000,000	$100,000,000 under $250,000,000	$250,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Mining													
Number of returns	40,354	2,906	17,466	6,892	5,074	2,867	3,516	679	486	197	113	89	69
Total assets	206,122,125	—	584,227	1,104,069	1,833,805	2,072,045	7,355,742	4,545,279	7,378,513	6,871,492	7,936,113	23,108,007	143,332,833
Notes and accounts receivable, net	19,549,415	—	61,764	271,569	360,277	398,267	1,208,355	587,519	987,591	953,669	953,275	2,161,581	11,605,546
Inventories	7,335,578	—	*27,359	35,347	90,984	37,955	240,052	105,950	319,161	309,846	388,166	1,677,084	4,103,673
Cash, Government obligations and other current assets	14,721,536	—	119,366	164,504	338,530	504,818	1,357,484	946,910	1,246,224	1,033,575	1,113,370	1,861,182	6,035,577
Other investments and loans	86,904,043	—	77,170	142,522	246,431	248,792	1,005,558	628,126	1,084,824	1,089,288	1,304,411	5,718,603	75,358,322
Depreciable assets	96,209,849	—	680,528	1,083,228	1,730,615	1,849,482	5,183,797	2,966,246	4,874,587	4,300,150	4,232,915	12,365,854	56,942,445
Less: Accumulated depreciation	50,229,040	—	501,244	736,544	1,181,861	1,352,368	3,278,679	1,918,778	2,965,653	2,632,835	2,142,117	5,912,245	27,606,716
Other capital assets less reserves	24,451,930	—	69,021	107,073	192,480	304,560	1,134,409	1,054,743	1,615,480	1,398,597	1,511,490	3,425,806	13,638,272
Accounts and notes payable	26,242,983	—	460,022	535,185	495,858	611,657	2,143,377	1,151,907	1,600,095	1,489,811	1,554,390	2,431,002	13,769,678
Other current liabilities	10,557,238	—	68,184	96,629	69,823	176,989	632,857	310,484	578,055	483,474	708,173	1,793,820	5,638,750
Mortgages, notes, and bonds payable in one year or more	45,823,514	—	394,503	348,742	400,900	511,829	1,607,057	783,576	2,059,358	1,896,224	1,823,982	6,563,403	29,433,940
Net worth	98,604,269	—	-609,171	-256,400	543,011	497,300	1,601,368	1,422,556	2,375,933	1,735,672	3,145,626	7,311,451	80,836,919
Cost of property used for investment credit	1,253,963	5,133	*2,933	41,621	12,528	9,467	69,419	25,455	64,737	36,915	50,831	209,541	725,384
Total receipts	98,577,216	1,314,148	1,762,672	2,011,017	2,596,261	2,945,136	7,413,602	3,476,106	5,230,170	4,829,657	4,223,182	12,743,545	50,031,721
Business receipts	86,873,761	920,378	1,552,350	1,881,381	2,338,286	2,701,760	6,635,389	3,010,013	4,594,082	4,161,081	3,731,022	11,625,845	43,722,174
Cost of sales and operations	58,115,191	467,367	916,956	767,693	763,375	1,293,573	4,027,474	1,872,346	3,177,612	2,707,412	2,443,504	7,970,985	31,706,893
Taxes paid	2,967,429	38,249	53,547	75,759	97,074	102,845	233,465	135,418	179,279	133,919	128,230	543,910	1,245,733
Interest paid	6,395,032	169,039	37,170	85,598	64,722	133,734	252,615	142,525	294,980	295,932	247,104	777,990	3,893,624
Depreciation	7,039,541	108,645	81,377	131,393	198,420	179,163	495,304	272,428	451,597	385,402	352,048	834,759	3,549,004
Pension, profit-sharing, stock bonus, and annuity plans	364,728	3,610	—	*14	8,223	*10,445	28,914	12,170	15,305	17,333	16,221	51,153	201,339
Employee benefit programs	1,010,260	18,248	*2,616	13,751	20,313	15,620	59,706	17,859	33,293	23,712	37,424	135,900	631,818
Net income (less deficit)	-3,122,565	-198,771	-31,169	-160,657	-79,406	-178,084	-236,026	-74,368	-265,540	-166,546	-284,902	-186,520	-1,260,577
Income subject to tax, total	3,241,899	91,707	42,916	44,445	56,989	37,470	197,325	117,223	139,324	161,650	128,534	609,680	1,614,635
Income tax, total	1,453,090	38,987	9,949	9,641	12,737	14,615	75,332	53,916	64,410	70,970	61,220	266,162	775,153
Additional tax for tax preferences	86,903	*593	*551	—	*114	*615	5,259	3,701	6,310	3,451	4,545	4,189	57,576
Foreign tax credit	618,542	*463	—	—	*645	3	*10	(1)	*1,788	*295	333	123,313	491,691
U.S. possessions tax credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	7,137	1	—	—	—	—	*303	*673	*2,495	306	1,694	1,047	618
General business credit	132,721	*1,146	*3,659	*2,680	3,295	*628	10,612	6,708	10,643	4,227	7,393	10,953	70,778
Construction													
Number of returns	341,816	16,015	174,583	58,813	37,466	25,662	24,523	2,799	1,319	369	158	69	40
Total assets	218,880,512	—	5,763,920	9,429,776	13,313,425	17,977,179	49,153,260	19,236,246	19,509,155	12,567,225	10,975,614	11,674,229	49,280,482
Notes and accounts receivable, net	57,191,245	—	1,010,760	2,199,601	3,496,495	4,875,813	14,297,152	5,742,458	5,398,663	3,599,513	2,704,121	3,429,585	10,437,085
Inventories	32,351,852	—	499,293	1,359,469	1,952,009	2,942,427	9,243,310	3,702,106	3,692,962	2,069,088	1,791,502	1,449,499	3,650,188
Cash, Government obligations, and other current assets	47,194,825	—	1,592,985	2,280,397	3,077,114	4,328,081	11,408,901	4,716,438	4,860,031	3,241,541	2,672,944	2,082,072	6,934,320
Other investments and loans	31,716,582	—	621,667	844,293	1,142,697	1,297,351	3,575,418	1,279,579	1,546,470	1,137,952	1,372,964	1,729,096	17,169,095
Depreciable assets	71,322,700	—	4,955,542	5,337,183	6,900,674	8,358,862	17,448,714	6,224,254	5,507,682	3,803,427	3,101,800	2,256,067	7,428,495
Less: Accumulated depreciation	40,366,979	—	3,269,387	3,249,899	4,193,066	5,124,665	10,095,498	3,617,380	3,072,719	2,162,644	1,544,613	1,055,016	2,982,090
Other capital assets less reserves	9,339,311	—	184,454	322,377	587,102	912,482	1,703,376	683,747	889,859	457,002	358,843	572,727	2,667,339
Accounts and notes payable	70,632,253	—	2,163,527	2,945,191	4,461,145	6,147,526	18,626,397	7,128,252	6,711,124	3,964,941	2,943,310	3,469,981	12,070,859
Other current liabilities	33,212,774	—	775,267	829,805	1,363,447	2,241,558	8,445,780	3,872,826	3,896,678	2,685,388	2,277,391	2,175,589	4,649,045
Mortgages, notes, and bonds payable in one year or more	38,200,198	—	1,140,674	1,490,433	2,069,016	2,393,726	6,411,300	2,574,596	3,044,444	1,661,526	2,255,175	2,186,362	12,972,946
Net worth	52,781,281	—	243,945	2,699,920	3,753,965	5,508,119	11,385,233	3,731,687	3,577,822	2,785,631	2,127,349	2,439,266	14,528,341
Cost of property used for investment credit	1,047,474	15,863	70,231	84,125	76,215	87,013	240,161	85,237	48,769	66,028	56,798	27,609	189,425
Total receipts	412,477,214	4,978,122	38,751,146	32,819,455	36,899,988	45,192,566	106,525,445	34,292,591	29,156,613	19,617,801	13,049,122	16,368,418	34,825,946
Business receipts	399,436,063	4,630,323	38,513,332	32,354,385	36,147,269	44,382,702	104,078,638	33,220,181	28,161,583	18,925,676	12,415,146	15,785,210	30,821,618
Cost of sales and operations	314,065,258	3,656,222	25,148,197	22,433,044	26,070,162	33,430,173	84,239,368	28,394,853	24,015,466	16,415,976	10,705,446	14,256,644	25,299,706
Taxes paid	8,132,918	97,273	1,099,948	903,971	973,073	1,119,083	2,047,308	525,464	422,369	252,780	175,594	123,074	392,981
Interest paid	6,869,790	91,178	340,234	343,460	513,635	514,345	1,183,246	417,284	392,816	236,901	254,982	290,812	2,290,897
Depreciation	7,516,637	82,371	770,669	737,768	836,032	938,775	1,796,608	530,089	451,274	336,240	267,888	192,755	576,168
Pension, profit-sharing, stock bonus, and annuity plans	1,706,301	12,926	49,262	114,761	128,791	263,107	567,971	121,558	117,298	51,218	29,635	38,952	210,821
Employee benefit programs	1,950,470	42,681	146,375	110,630	211,527	256,548	548,263	126,835	129,486	102,821	41,352	33,071	200,881
Net income (less deficit)	5,781,722	67,138	244,216	340,129	580,388	772,920	1,756,808	653,527	582,528	420,249	253,615	21,813	88,391
Income subject to tax, total	7,578,399	124,330	453,252	606,367	823,538	995,289	1,933,714	697,077	636,965	389,289	271,968	170,492	476,118
Income tax, total	2,525,994	46,178	73,621	111,122	185,297	270,947	678,643	288,454	278,794	171,635	122,672	77,115	221,515
Additional tax for tax preferences	12,240	*358	—	—	—	*118	724	1,373	861	1,856	331	418	6,200
Foreign tax credit	71,340	488	—	—	*49	1	*88	*474	*17	*258	239	4,614	65,111
U.S. possessions tax credit	6	—	—	6	—	—	—	—	—	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*441	—	—	—	—	—	—	8	*21	*398	4	—	10
General business credit	270,387	3,774	9,043	16,608	25,297	30,906	72,254	24,967	24,603	25,876	9,681	7,495	19,884

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

Table 6—Selected Balance Sheet, Income Statement, and Tax Items, by Industrial Division, by Size of Total Assets—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars and size of total assets are in whole dollars]

Industrial division, item	Total returns of active corporations	Size of total assets											
		Zero assets	$1 Under $100,000	$100,000 under $250,000	$250,000 under $500,000	$500,000 under $1,000,000	$1,000,000 under $5,000,000	$5,000,000 under $10,000,000	$10,000,000 under $25,000,000	$25,000,000 under $50,000,000	$50,000,000 under $100,000,000	$100,000,000 under $250,000,000	$250,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Manufacturing													
Number of returns	285,119	14,741	102,428	44,795	37,406	29,567	39,775	7,176	4,920	1,750	993	743	823
Total assets	2,931,610,462	—	3,699,325	7,429,036	13,489,251	21,262,570	85,664,704	50,327,503	76,016,382	60,724,469	71,168,221	126,261,472	2,415,567,528
Notes and accounts receivable, net	655,687,933	—	758,976	1,923,305	3,553,719	5,694,130	22,253,910	12,108,420	17,749,772	13,558,370	14,783,365	26,001,810	537,302,156
Inventories	309,880,755	—	632,364	1,135,454	2,395,744	4,733,912	20,461,687	12,334,523	18,165,473	13,284,066	14,859,328	22,326,391	199,551,813
Cash, Government obligations and other current assets	267,801,618	—	798,609	1,297,487	2,381,136	3,291,748	12,149,834	6,401,352	9,721,852	7,350,915	9,694,330	14,559,171	200,155,183
Other investments and loans	681,276,827	—	218,075	445,792	722,529	1,174,789	4,263,592	2,960,257	5,258,020	4,824,905	6,996,895	15,309,813	639,102,163
Depreciable assets	1,250,584,823	—	3,456,984	5,780,209	10,229,443	14,110,334	51,849,337	28,126,420	39,479,632	30,931,661	33,023,855	59,380,120	974,216,828
Less: Accumulated depreciation	580,493,274	—	2,378,627	3,688,374	6,536,436	8,828,639	29,750,184	14,606,970	19,419,089	14,275,519	14,611,143	25,626,374	440,771,919
Other capital assets less reserves	166,344,390	—	101,349	211,889	404,612	540,110	2,559,573	1,680,094	2,597,732	2,720,289	3,268,868	7,256,804	145,003,069
Accounts and notes payable	556,852,522	—	1,253,597	2,214,456	3,880,331	6,300,783	25,523,874	13,843,256	19,162,434	13,849,478	13,213,929	20,079,279	437,531,105
Other current liabilities	288,243,449	—	478,671	843,599	1,119,321	1,699,833	8,557,801	4,591,360	7,140,265	5,427,874	6,752,342	12,946,254	238,686,126
Mortgages, notes, and bonds payable in one year or more	581,898,174	—	1,025,111	1,484,276	2,404,945	3,788,247	14,044,194	9,115,886	14,319,728	11,945,004	14,534,161	28,462,761	480,773,860
Net worth	1,124,399,497	—	-719,383	1,664,354	4,754,401	7,862,407	32,412,143	20,134,285	31,856,303	24,877,732	31,939,346	54,697,079	914,920,829
Cost of property used for investment credit	53,755,545	384,535	36,373	93,037	134,461	252,210	796,183	555,646	1,030,149	750,746	888,333	1,680,917	47,152,955
Total receipts	2,810,713,781	42,973,055	15,581,629	20,876,148	34,286,681	49,644,236	183,737,922	93,860,780	130,592,001	94,537,554	97,901,081	156,913,665	1,889,809,030
Business receipts	2,614,526,752	40,112,264	15,216,228	20,563,554	33,772,036	48,692,832	180,741,658	91,993,695	127,744,992	91,777,163	94,378,590	150,620,512	1,718,913,227
Cost of sales and operations	1,746,954,429	28,262,663	8,486,306	12,017,971	20,780,894	32,420,779	126,134,124	65,222,147	91,224,547	65,166,749	64,884,456	101,416,555	1,130,937,238
Taxes paid	71,939,993	967,055	492,813	660,638	1,011,144	1,304,684	4,281,871	2,032,121	2,792,568	1,801,358	2,284,864	3,285,714	51,025,162
Interest paid	102,372,701	990,585	202,691	312,413	512,706	777,706	2,935,739	1,600,191	2,396,789	1,791,806	1,910,864	3,676,662	85,264,548
Depreciation	124,986,991	1,195,766	402,084	631,206	1,049,543	1,336,955	4,532,415	2,445,956	3,581,612	2,879,881	3,171,992	5,706,040	98,053,541
Pension, profit-sharing, stock bonus, and annuity plans	18,178,076	194,027	53,391	160,870	238,590	375,705	1,084,499	439,994	590,450	435,134	493,353	946,663	13,165,400
Employee benefit programs	36,846,039	473,839	77,513	143,988	254,486	331,640	1,426,074	813,063	1,178,136	1,037,816	1,188,152	2,116,580	27,804,752
Net income (less deficit)	101,827,271	1,646,364	-422,687	12,374	298,140	259,501	3,435,157	2,138,756	3,952,544	3,298,057	4,549,833	6,330,570	76,328,664
Income subject to tax, total	116,666,065	2,165,898	215,371	506,060	752,637	1,099,367	4,682,127	2,841,224	4,830,154	4,006,158	5,192,399	7,130,104	83,244,566
Income tax, total	50,222,612	974,029	39,624	115,121	162,191	301,721	1,791,164	1,242,926	2,164,786	1,804,962	2,324,052	3,195,752	36,106,283
Additional tax for tax preferences	543,146	1,386	—	—	—	*186	631	633	2,278	3,638	6,576	7,698	520,121
Foreign tax credit	17,340,711	62,261	—	—	*45	*14	20,236	4,829	14,957	29,628	107,517	188,696	16,912,526
U.S. possessions tax credit	2,702,270	83,206	3	—	*1,319	2,494	35,182	38,097	253,058	262,467	447,942	286,198	1,292,306
Orphan drug credit	6,530	—	—	—	—	—	—	—	—	—	—	—	6,530
Nonconventional source fuel credit	37,519	4	—	—	—	—	*63	*16	*47	*1,065	501	314	35,508
General business credit	4,373,632	75,934	6,056	15,611	35,096	41,569	154,352	77,999	137,208	94,074	131,161	234,324	3,370,248
Transportation and Public Utilities													
Number of returns	138,428	7,935	69,741	24,301	14,626	9,247	9,262	1,478	878	312	176	144	328
Total assets	1,310,227,440	—	2,287,939	3,923,035	5,313,184	6,506,605	19,138,050	10,271,904	13,692,314	11,244,849	12,378,072	22,485,259	1,202,986,230
Notes and accounts receivable, net	113,944,572	—	306,102	704,529	901,672	1,433,597	3,577,698	1,665,760	2,397,583	1,674,947	1,476,718	2,292,623	97,513,342
Inventories	30,517,206	—	45,845	66,726	145,922	82,822	496,362	239,268	251,537	277,973	228,840	498,694	28,183,217
Cash, Government obligations, and other current assets	83,988,399	—	512,831	637,449	1,167,531	1,095,214	3,160,672	1,514,687	2,078,787	1,285,118	1,726,821	1,987,682	68,821,611
Other investments and loans	195,320,891	—	189,805	422,142	341,933	333,171	1,421,707	768,671	1,351,128	1,181,189	1,107,435	1,958,523	186,245,184
Depreciable assets	1,102,617,516	—	3,000,510	4,325,281	5,675,861	6,661,526	17,028,620	8,815,836	10,449,290	9,067,783	8,871,863	17,566,867	1,011,154,079
Less: Accumulated depreciation	318,414,238	—	2,000,421	2,693,802	3,409,780	3,678,100	8,608,975	3,939,143	4,421,135	3,676,373	3,145,177	6,284,652	276,556,679
Other capital assets less reserves	34,272,303	—	57,663	167,918	225,750	251,907	1,024,391	587,301	823,221	929,498	1,324,696	2,309,090	26,570,866
Accounts and notes payable	128,192,387	—	769,073	1,072,546	1,389,959	1,920,386	4,934,915	2,237,433	2,931,408	2,168,659	1,895,562	2,552,406	106,320,039
Other current liabilities	109,041,244	—	212,550	307,370	426,539	465,247	1,684,930	821,048	1,147,073	997,430	983,851	1,668,306	100,326,900
Mortgages, notes, and bonds payable in one year or more	400,851,705	—	785,382	1,166,697	1,482,338	1,918,708	5,794,742	3,522,865	4,579,289	4,064,560	4,843,752	9,162,205	363,531,168
Net worth	502,486,821	—	-491,736	659,601	1,273,201	1,428,743	4,585,855	2,738,774	3,655,681	2,686,854	3,220,084	6,149,208	476,580,553
Cost of property used for investment credit	47,337,032	107,952	*10,943	40,623	57,814	116,886	356,379	176,816	260,364	310,319	403,162	468,407	45,027,367
Total receipts	762,231,202	7,982,357	10,337,738	12,872,037	14,806,113	16,299,773	34,740,808	13,838,665	18,185,688	11,182,034	11,775,789	17,065,505	593,144,696
Business receipts	717,929,024	6,851,633	10,010,988	12,530,885	14,397,639	15,744,036	33,610,996	13,165,307	16,221,188	10,450,331	11,140,868	15,830,889	557,974,264
Cost of sales and operations	338,754,789	3,134,613	4,627,262	7,196,471	7,030,823	7,565,856	16,972,971	7,126,382	8,527,267	5,292,126	5,076,680	8,068,195	258,136,142
Taxes paid	36,109,355	229,027	278,332	419,911	477,309	569,526	1,185,590	526,804	646,826	384,222	400,118	610,212	30,381,479
Interest paid	47,070,426	423,906	142,261	195,315	236,495	305,507	798,644	417,135	678,576	420,046	499,575	1,009,418	41,943,547
Depreciation	73,840,838	413,514	503,695	571,365	759,348	866,957	1,927,281	879,593	994,263	782,195	908,953	1,306,152	63,927,522
Pension, profit-sharing, stock bonus, and annuity plans	6,746,496	19,362	*16,127	18,723	72,697	66,907	168,861	61,410	75,047	59,263	78,810	99,742	6,009,550
Employee benefit programs	9,752,601	36,430	32,169	54,270	96,572	125,965	258,220	137,163	182,463	100,422	161,692	185,218	8,382,018
Net income (less deficit)	21,803,663	-2,885,133	-191,647	9,031	147,462	78,408	422,727	170,764	370,653	372,184	153,069	460,410	22,695,735
Income subject to tax, total	36,663,610	452,441	135,574	180,309	267,323	291,659	891,840	436,135	491,777	494,113	533,338	769,265	31,719,837
Income tax, total	16,156,499	222,170	22,872	37,185	63,093	78,651	334,821	181,714	218,338	218,744	230,169	346,500	14,202,243
Additional tax for tax preferences	134,608	*1,278	—	—	—	—	*210	*414	*415	860	1,595	1,821	128,014
Foreign tax credit	232,474	1,098	—	—	*403	—	*4,518	*2,001	*488	3,478	720	854	218,915
U.S. possessions tax credit	79,338	10,397	—	—	—	—	44	—	—	—	—	—	68,897
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	16,731	—	—	—	—	—	—	—	*68	46	—	141	16,476
General business credit	4,822,922	14,244	2,544	11,259	15,137	22,136	63,197	29,561	24,851	23,456	29,405	69,341	4,517,791

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 6—Selected Balance Sheet, Income Statement, and Tax Items, by Industrial Division, by Size of Total Assets—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars and size of total assets are in whole dollars]

Industrial division, item	Total returns of active corporations	Size of total assets: Zero assets	$1 Under $100,000	$100,000 under $250,000	$250,000 under $500,000	$500,000 under $1,000,000	$1,000,000 under $5,000,000	$5,000,000 under $10,000,000	$10,000,000 under $25,000,000	$25,000,000 under $50,000,000	$50,000,000 under $100,000,000	$100,000,000 under $250,000,000	$250,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Wholesale and Retail Trade													
Number of returns	939,159	48,151	401,486	200,303	117,166	78,479	77,310	9,198	4,538	1,257	607	368	295
Total assets	1,073,523,697	—	15,642,369	32,284,782	41,637,433	54,980,634	156,975,750	62,878,991	67,426,121	43,527,219	43,522,862	59,052,083	495,595,451
Notes and accounts receivable, net	235,969,601	—	1,774,209	4,802,411	7,775,854	11,578,930	36,480,033	16,042,892	17,458,708	10,880,003	9,891,934	12,021,149	107,263,478
Inventories	303,014,310	—	4,850,739	11,073,550	13,853,139	19,804,705	61,432,509	23,288,415	21,420,854	13,050,058	11,882,736	15,697,623	106,659,982
Cash, Government obligations, and other current assets	157,375,795	—	3,115,026	5,518,449	6,745,110	7,854,751	18,673,532	7,020,497	7,405,586	4,704,835	5,213,059	6,824,891	84,300,057
Other investments and loans	106,724,376	—	910,423	2,120,663	2,803,005	2,914,205	7,715,669	2,872,683	4,369,340	3,181,005	3,429,496	5,617,612	70,790,276
Depreciable assets	337,486,238	—	10,671,745	15,147,323	17,773,495	21,661,275	52,620,175	19,849,926	22,444,596	14,811,301	15,058,771	23,304,040	124,143,591
Less: Accumulated depreciation	153,038,196	—	7,061,440	9,040,948	10,204,830	12,134,638	27,842,351	9,568,890	10,099,263	6,247,436	5,647,213	9,578,455	45,612,733
Other capital assets less reserves	37,753,930	—	538,489	1,149,803	1,484,769	1,950,916	4,860,147	2,022,003	2,794,572	1,691,572	2,080,294	3,034,929	16,146,437
Accounts and notes payable	368,205,275	—	5,167,600	9,027,161	12,486,240	18,502,569	66,446,457	28,933,779	28,576,823	16,518,730	15,004,936	18,829,354	148,711,626
Other current liabilities	138,645,665	—	1,368,998	2,101,043	2,840,729	3,847,133	12,008,536	5,084,505	6,015,151	3,807,034	3,868,427	4,859,418	92,844,691
Mortgages, notes, and bonds payable in one year or more	184,334,941	—	4,592,854	6,304,748	7,388,813	8,632,774	20,463,567	8,334,238	11,132,166	7,781,164	9,068,405	11,940,445	88,695,767
Net worth	300,103,441	—	−2,578,215	8,871,380	13,672,653	19,348,523	49,015,506	17,920,941	18,639,597	13,061,035	13,044,238	19,465,317	129,642,464
Cost of property used for investment credit	7,421,060	80,661	106,411	195,104	197,888	221,561	733,895	251,867	359,465	303,080	384,601	555,267	4,031,262
Total receipts	2,547,440,986	51,794,456	81,616,383	114,950,858	136,046,282	171,244,997	526,847,477	205,422,369	188,303,403	111,294,448	106,197,619	142,053,950	711,668,743
Business receipts	2,472,495,351	50,054,489	80,294,541	113,522,086	133,702,839	168,422,158	517,877,648	201,442,528	183,886,584	108,562,456	103,424,685	138,472,877	672,832,461
Cost of sales and operations	1,895,237,380	39,253,211	48,828,747	76,439,179	94,212,492	124,489,575	411,409,881	163,397,930	146,995,595	84,650,306	82,286,880	109,713,906	513,559,679
Taxes paid	37,975,611	689,879	2,150,061	2,541,063	2,650,656	3,002,402	7,110,749	2,356,335	2,410,408	1,553,738	1,389,678	1,934,031	10,186,610
Interest paid	39,961,980	495,001	724,173	1,126,775	1,395,799	1,718,994	5,097,993	2,016,879	2,198,875	1,328,643	1,321,605	1,867,892	20,669,350
Depreciation	37,840,513	613,483	1,375,297	1,844,435	2,009,608	2,318,859	5,727,648	2,330,901	2,499,092	1,619,050	1,565,107	2,568,605	13,368,428
Pension, profit-sharing, stock bonus, and annuity plans	6,782,364	157,958	164,449	356,560	391,784	566,633	1,563,091	469,674	384,053	214,215	192,917	273,904	2,047,127
Employee benefit programs	10,388,228	876,489	204,067	303,772	376,494	474,737	1,764,797	723,073	639,618	437,526	413,492	705,916	3,468,249
Net income (less deficit)	34,919,948	423,960	−824,214	220,948	981,636	1,620,028	5,679,954	2,445,512	2,600,837	1,882,330	1,702,173	2,250,346	15,936,438
Income subject to tax, total	43,982,615	960,328	833,611	1,632,002	2,048,567	2,445,350	6,514,226	2,577,701	2,866,704	2,155,034	1,968,814	2,526,083	17,454,194
Income tax, total	17,097,449	399,962	164,671	298,979	426,133	608,625	2,296,178	1,095,885	1,273,339	969,359	890,961	1,154,952	7,518,406
Additional tax for tax preferences	54,324	57	*1,115	—	—	8	1,333	1,700	1,584	1,565	2,868	1,135	42,959
Foreign tax credit	632,765	*65,534	*260	1	*130	*27	1,463	13,430	8,317	2,552	7,931	12,634	520,486
U.S. possessions tax credit	96,649	368	—	(1)	57	*220	*767	100	511	8,678	5,511	57,502	22,936
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	541	—	—	—	—	—	3	*16	—	60	154	126	182
General business credit	1,201,408	13,643	17,275	29,150	39,611	46,389	126,915	58,166	65,164	42,735	38,769	69,466	654,127
Finance, Insurance, and Real Estate													
Number of returns	537,384	52,522	237,760	87,743	55,664	37,109	37,322	6,525	7,211	5,370	4,187	3,185	2,784
Total assets	7,985,641,912	—	7,604,521	14,380,868	19,647,657	25,677,080	78,979,894	46,344,439	116,704,528	192,960,097	293,934,067	493,682,747	6,695,726,015
Notes and accounts receivable, net	2,366,805,251	—	632,034	1,624,619	1,873,634	3,036,769	9,879,278	7,577,259	33,433,752	66,463,333	93,768,825	124,489,877	2,024,025,868
Inventories	27,914,055	—	56,061	289,602	555,326	953,278	3,647,933	1,864,099	2,236,151	2,657,479	2,352,420	3,405,071	9,896,636
Cash, Government obligations, and other current assets	1,920,356,030	—	2,347,197	3,888,709	4,920,034	5,532,554	16,743,851	11,060,827	34,799,980	57,746,479	85,842,336	122,555,903	1,574,918,159
Other investments and loans	3,119,841,325	—	1,230,028	2,260,363	3,780,303	5,008,888	16,371,045	11,292,216	27,537,106	46,232,503	90,094,842	206,768,519	2,709,265,509
Depreciable assets	263,329,811	—	4,840,705	6,909,896	8,836,058	10,856,929	27,979,202	11,755,386	14,707,838	14,809,485	15,070,998	22,789,788	124,773,526
Less: Accumulated depreciation	79,670,594	—	2,854,950	3,401,291	4,022,853	4,390,177	9,328,814	3,138,565	4,107,091	4,029,632	4,356,509	6,302,448	33,738,264
Other capital assets less reserves	77,342,538	—	1,000,810	2,159,595	2,766,641	3,623,294	10,633,551	4,153,839	4,839,744	4,462,159	4,161,870	5,570,921	33,970,115
Accounts and notes payable	760,751,320	—	1,395,115	2,453,659	3,087,934	4,359,923	15,302,180	7,953,309	11,976,595	13,059,754	16,777,734	28,868,337	655,516,780
Other current liabilities	3,976,122,419	—	733,074	922,644	1,365,836	1,573,102	6,351,144	8,959,682	54,825,719	122,676,014	194,162,016	306,555,799	3,277,997,389
Mortgages, notes, and bonds payable in one year or more	570,555,962	—	1,806,272	3,370,934	5,075,724	7,245,564	24,006,811	12,361,807	15,781,372	16,761,709	19,153,015	27,661,472	437,331,281
Net worth	1,502,198,832	—	875,380	4,716,847	6,704,805	8,363,651	22,845,186	12,465,357	25,737,148	31,062,077	49,243,483	98,053,035	1,242,131,863
Cost of property used for investment credit	6,267,428	115,515	55,195	39,977	59,674	33,398	77,351	53,132	89,845	79,302	150,852	229,834	5,283,353
Total receipts	1,365,095,368	50,878,067	18,245,842	13,340,232	14,987,877	13,382,505	33,327,216	16,268,627	30,699,144	35,324,794	51,916,306	78,287,762	1,008,436,995
Business receipts	618,646,549	8,305,572	15,821,503	10,705,249	10,615,926	9,404,155	23,258,698	11,070,382	18,150,478	16,772,900	24,207,339	31,701,837	438,632,512
Cost of sales and operations	320,622,944	2,607,694	2,936,287	2,044,876	1,711,542	2,774,026	8,974,380	5,547,061	9,989,354	9,051,824	14,856,544	15,978,012	244,151,342
Taxes paid	25,298,921	1,055,919	626,886	590,005	621,417	675,775	1,381,915	540,608	902,927	840,893	1,021,680	1,596,307	15,444,588
Interest paid	351,936,465	32,040,248	394,252	566,830	1,854,042	919,857	2,760,959	1,687,282	4,924,089	9,178,905	13,604,566	22,338,438	261,666,997
Depreciation	28,990,058	847,036	493,789	515,692	590,997	631,064	1,455,473	649,548	866,296	1,020,103	1,126,478	1,754,364	19,039,217
Pension, profit-sharing, stock bonus, and annuity plans	5,098,306	67,490	171,312	169,175	196,271	122,291	335,611	65,052	144,091	130,531	198,261	324,715	3,173,507
Employee benefit programs	7,269,031	190,454	98,229	92,451	87,401	68,627	184,124	87,152	209,902	216,933	310,967	529,621	5,193,169
Net income (less deficit)	99,808,908	1,607,141	225,034	619,041	490,547	909,746	1,659,638	302,513	1,403,799	1,053,900	2,535,893	6,780,686	82,220,971
Income subject to tax, total	50,679,641	3,296,621	531,536	793,498	842,648	928,468	2,202,141	870,381	1,530,482	1,524,150	2,071,551	3,345,065	32,743,101
Income tax, total	18,091,479	1,271,153	95,375	160,573	183,084	242,339	722,986	325,388	574,314	595,481	851,872	1,415,473	11,653,441
Additional tax for tax preferences	165,786	7,775	—	*254	*347	*492	5,368	2,935	5,312	5,050	5,194	6,129	126,931
Foreign tax credit	2,254,655	131,558	—	—	—	*29	330	*2,341	7,347	3,241	4,768	27,713	2,077,328
U.S. possessions tax credit	14,884	88	—	—	—	3	1,416	—	*1,618	534	308	469	10,448
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	306	7	—	—	—	—	8	*16	*41	—	115	89	30
General business credit	1,155,859	18,390	7,918	8,329	8,409	9,338	22,155	4,317	14,858	19,266	21,055	47,036	974,789

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 6—Selected Balance Sheet, Income Statement, and Tax Items, by Industrial Division, by Size of Total Assets—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars and size of total assets are in whole dollars]

Industrial division, item	Total returns of active corporations	Size of total assets											
		Zero assets	$1 Under $100,000	$100,000 under $250,000	$250,000 under $500,000	$500,000 under $1,000,000	$1,000,000 under $5,000,000	$5,000,000 under $10,000,000	$10,000,000 under $25,000,000	$25,000,000 under $50,000,000	$50,000,000 under $100,000,000	$100,000,000 under $250,000,000	$250,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Services													
Number of returns	1,012,178	56,262	676,232	160,084	61,939	29,108	23,202	2,616	1,535	557	317	201	126
Total assets	381,609,099	—	20,648,602	25,202,756	21,665,842	20,206,849	145,357,725	17,764,263	23,992,522	19,472,666	21,771,453	31,021,028	134,505,393
Notes and accounts receivable, net	65,048,707	—	1,741,673	3,045,726	3,196,147	3,481,521	8,897,749	3,549,487	4,483,616	3,428,836	4,209,466	5,250,116	23,764,369
Inventories	16,327,613	—	813,000	1,112,952	1,114,149	1,130,719	2,302,900	848,836	967,742	986,686	1,080,416	864,814	5,105,399
Cash, Government obligations, and other current assets	62,856,000	—	6,816,176	7,331,980	5,612,152	4,292,586	8,433,280	2,835,391	4,307,167	3,456,610	3,400,230	4,813,657	11,556,769
Other investments and loans	59,635,301	—	2,919,262	4,187,395	2,970,480	2,174,699	4,997,754	1,808,970	3,493,977	2,788,100	3,166,919	5,998,073	25,129,670
Depreciable assets	223,689,614	—	20,175,347	18,014,882	15,422,486	14,922,131	29,632,294	11,274,580	12,653,917	10,006,736	11,055,255	13,460,051	67,071,935
Less: Accumulated depreciation	97,232,642	—	13,453,700	10,624,271	8,596,687	7,849,472	13,707,114	4,395,964	4,784,408	4,152,845	4,285,895	4,657,467	20,724,819
Other capital assets less reserves	23,693,514	—	595,940	910,347	996,332	1,271,716	3,020,543	1,099,848	1,589,609	1,384,131	1,648,341	2,639,494	8,537,212
Accounts and notes payable	69,863,336	—	4,596,932	4,338,661	4,312,213	4,461,308	10,771,565	4,725,288	5,521,095	3,994,181	4,433,943	4,898,279	17,809,872
Other current liabilities	41,669,666	—	3,070,245	2,957,290	2,612,791	2,238,013	5,745,645	1,888,504	2,835,145	2,271,095	2,263,945	3,195,892	12,591,103
Mortgages, notes, and bonds payable in one year or more	120,911,882	—	3,841,977	4,637,338	4,733,406	5,059,918	13,509,973	5,558,754	7,079,508	6,358,762	7,108,255	11,000,448	52,023,542
Net worth	100,190,054	—	3,640,359	9,530,807	6,635,080	5,695,018	10,202,664	3,424,793	6,133,806	4,741,263	5,938,808	8,813,463	35,433,995
Cost of property used for investment credit	5,218,540	50,294	285,723	259,376	220,821	216,464	367,522	200,408	284,491	209,322	217,658	502,573	2,403,888
Total receipts	591,849,715	11,688,357	114,293,559	83,470,104	53,049,927	44,581,108	75,790,539	24,023,809	30,045,569	21,327,596	23,083,951	25,580,651	84,914,545
Business receipts	550,590,929	9,633,594	110,995,328	79,154,704	51,063,461	43,048,619	71,307,937	22,274,385	27,377,711	19,386,687	20,671,930	22,227,955	73,448,618
Cost of sales and operations	196,127,453	3,686,044	26,340,109	21,863,003	17,575,523	15,750,722	29,655,223	10,046,421	14,009,052	8,303,818	10,589,046	10,129,742	28,178,752
Taxes paid	19,478,706	367,558	3,911,738	2,813,951	1,917,291	1,534,066	2,498,585	711,174	893,141	700,295	671,845	801,976	2,657,085
Interest paid	15,718,343	457,102	810,008	799,354	776,024	761,141	1,838,663	734,490	940,413	777,655	854,072	1,219,751	5,749,671
Depreciation	28,721,936	424,305	2,796,916	2,338,422	1,884,046	1,615,852	3,218,785	1,316,870	1,528,071	1,228,426	1,234,817	1,857,126	9,278,301
Pension, profit-sharing, stock bonus, and annuity plans	9,179,608	83,286	3,156,482	2,295,186	1,058,780	672,992	777,983	230,158	140,461	111,097	129,904	171,830	351,450
Employee benefit programs	6,119,850	85,408	851,531	753,743	457,104	347,076	825,844	303,053	339,375	347,484	298,194	308,466	1,202,570
Net income (less deficit)	7,448,023	599,804	969,965	1,483,780	788,740	316,455	399,945	103,351	271,443	203,768	297,348	785,181	1,228,243
Income subject to tax, total	15,326,352	677,454	2,146,151	2,280,937	1,404,484	897,530	1,550,914	518,111	761,630	685,906	701,053	1,144,333	2,557,850
Income tax, total	4,942,317	283,482	352,470	414,624	335,383	236,738	557,884	220,322	335,745	306,808	314,198	510,889	1,073,776
Additional tax for tax preferences	26,094	*972	133	—	*852	—	802	326	995	428	1,249	*1,858	18,478
Foreign tax credit	317,281	*11,516	—	—	*1,457	*488	*5,691	2,175	21,953	29,354	18,647	47,796	178,204
U.S. possessions tax credit	14,107	819	(1)	*113	—	*287	*3,450	968	*2,494	5,975	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*868	—	—	—	—	—	2	—	1	98	—	768	—
General business credit	746,497	27,428	55,249	51,439	35,900	43,863	74,601	25,381	29,258	23,898	39,096	57,767	282,618
Nature of Business not Allocable													
Number of returns	27,443	5,894	16,812	3,342	887	351	143	6	5	**	3	**	—
Total assets	2,116,359	—	276,208	515,106	318,724	230,975	377,758	*31,860	*110,853	**	254,875	**	—
Notes and accounts receivable, net	286,790	—	21,429	28,400	*30,131	*13,427	73,445	*18,103	*26,544	—	75,312	**	—
Inventories	314,041	—	53,766	75,127	*24,495	*11,390	*115,579	—	*136	—	33,548	**	—
Cash, Government obligations, and other current assets	344,646	—	74,239	86,755	97,263	14,653	33,231	*3,096	*5,566	—	29,845	—	—
Other investments and loans	271,697	—	*11,711	*58,389	*29,790	*52,272	*83,584	*2,248	26,141	—	7,562	—	—
Depreciable assets	927,587	—	167,120	317,565	155,542	*125,037	*57,714	*18,045	*47,059	**	39,505	—	—
Less: Accumulated depreciation	432,907	—	96,785	168,347	60,782	*46,947	*24,494	*13,229	*3,070	**	19,252	—	—
Other capital assets less reserves	247,539	—	*20,513	*71,508	*8,232	*50,729	*4,829	*3,473	*8,031	—	80,222	—	—
Accounts and notes payable	530,057	—	43,785	152,916	*66,627	*37,814	149,947	*1,735	*25,847	—	51,384	—	—
Other current liabilities	222,486	—	21,227	70,597	29,098	*25,952	*50,903	*6,983	*1,154	**	16,573	**	—
Mortgages, notes, and bonds payable in one year or more	419,171	—	47,148	154,197	*68,739	*69,602	*63,574	*1,731	10,560	**	3,620	—	—
Net worth	307,881	—	−32,505	10,836	78,976	*50,587	−10,677	*20,619	*71,277	—	118,772	—	—
Cost of property used for investment credit	*28,272	—	—	*347	*24,034	—	*3,008	*883	—	—	—	—	—
Total receipts	3,490,803	299,491	987,931	1,126,605	254,249	83,627	703,398	*14,597	*7,535	**	13,371	—	—
Business receipts	3,196,240	198,029	956,664	1,074,416	231,857	*70,822	662,864	—	1,588	**	—	—	—
Cost of sales and operations	1,915,069	133,331	594,023	562,674	*94,700	*20,533	*509,810	—	—	—	—	—	—
Taxes paid	91,211	6,846	20,440	38,463	6,914	*8,813	8,653	*189	*894	**	—	—	—
Interest paid	78,252	8,843	7,531	23,506	*8,244	*5,238	20,740	*407	3,058	**	683	—	—
Depreciation	108,453	*10,250	24,686	40,447	18,757	*5,515	*4,978	*1,614	*2,205	**	—	—	—
Pension, profit-sharing, stock bonus, and annuity plans	*22,277	—	*22	*14,942	—	—	*695	*6,545	73	**	—	—	—
Employee benefit programs	10,187	(1)	*1,716	*3,462	*2,064	—	*2,736	*179	29	**	—	—	—
Net income (less deficit)	−85,415	33,634	−77,672	−34,562	−8,789	−12,765	2,809	*321	*−939	**	12,548	**	—
Income subject to tax, total	150,447	94,537	*11,969	*19,651	*4,625	*1,271	*4,813	*321	—	—	13,261	—	—
Income tax, total	60,809	44,834	*1,807	*4,677	*776	*200	*1,663	*140	—	—	6,710	—	—
Additional tax for tax preferences	9	9	—	—	—	—	—	—	—	—	—	—	—
Foreign tax credit	99	99	—	—	—	—	—	—	—	—	—	—	—
U.S. possessions tax credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	—	—	—	—	—	—	—	—	—	—	—	—	—
General business credit	*934	—	—	—	*666	*200	*10	*58	—	—	—	—	—

* Estimate should be used with caution because of the small number of sample returns on which it is based.

** Data were deleted to avoid disclosure of information for specific corporations and combined with data in another size class.

1 Less than $500 per return.

NOTE: Detail may not add to total because of rounding and the deletion of data. See text for "Explanation of Terms" and Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 7—Selected Balance Sheet, Income Statement, and Tax Items, by Industrial Division, by Size of Business Receipts

[All figures are estimates based on samples—money amounts are in thousands of dollars and size of business receipts are in whole dollars]

Industrial division, item	Total returns of active corporations	Size of business receipts: Under $100,000 [1]	Under $25,000 [1]	$25,000 under $50,000	$50,000 under $100,000	$100,000 under $250,000	$250,000 under $500,000	$500,000 under $1,000,000	$1,000,000 under $2,500,000	$2,500,000 under $5,000,000	$5,000,000 under $10,000,000	$10,000,000 under $50,000,000	$50,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
All Industries													
Number of returns	3,428,515	1,354,864	765,269	244,153	345,442	630,556	510,506	370,392	304,868	122,555	67,652	55,285	11,837
Total assets	14,163,209,894	185,634,257	119,724,918	24,161,043	41,748,296	91,985,580	115,668,643	149,066,308	310,092,949	356,036,423	465,375,155	1,320,829,883	11,168,520,697
Notes and accounts receivable, net	3,519,300,245	16,874,609	11,447,243	1,452,431	3,974,935	8,988,462	15,647,066	25,565,267	74,346,267	106,069,078	139,485,490	315,764,078	2,816,559,929
Inventories	732,587,518	10,768,568	7,096,412	1,305,934	2,366,222	8,150,598	13,539,868	19,865,841	40,182,927	38,495,442	42,940,486	105,436,324	453,207,464
Cash, Government obligations, and other current assets	2,560,709,243	38,806,561	27,271,055	4,265,354	7,270,152	21,437,498	24,489,520	30,926,355	70,704,169	85,122,834	112,387,398	291,840,236	1,884,994,672
Other investments and loans	4,288,822,766	43,924,732	27,310,743	6,113,700	10,500,289	15,795,553	17,439,295	22,362,772	45,376,475	56,106,278	96,997,753	407,221,398	3,583,598,508
Depreciable assets	3,382,556,559	69,071,621	39,056,190	10,794,917	19,220,514	49,338,099	63,104,910	77,743,395	119,870,845	101,987,207	99,060,149	236,910,634	2,565,469,698
Less: Accumulated depreciation	1,342,114,626	30,210,907	16,034,829	4,982,818	9,193,260	25,935,545	33,222,835	42,649,265	63,785,816	51,391,849	48,927,551	106,332,009	939,658,849
Other capital assets less reserves	387,018,686	24,362,894	15,303,969	3,410,371	5,648,554	10,199,076	9,822,884	9,248,929	13,152,793	10,346,925	12,995,831	31,620,163	265,269,192
Accounts and notes payable	1,993,038,740	32,716,056	22,316,930	3,821,908	6,577,218	17,347,693	24,931,946	33,809,788	66,878,987	65,028,803	76,519,910	199,547,012	1,476,258,545
Other current liabilities	4,599,886,537	11,933,180	7,886,742	2,116,149	1,930,289	6,620,627	11,365,164	18,869,289	75,733,651	139,460,069	215,027,619	574,281,888	3,546,595,050
Mortgages, notes, and bonds payable in one year or more	1,958,477,161	55,490,687	33,934,779	7,611,043	13,944,865	24,185,479	28,938,998	34,022,773	54,119,976	47,341,815	46,987,850	137,896,355	1,529,493,228
Net worth	3,698,134,694	44,616,951	29,359,992	4,886,523	10,370,436	28,521,437	33,116,076	45,622,380	88,190,530	84,432,337	106,482,960	340,904,053	2,926,247,970
Cost of property used for investment credit	122,807,277	759,807	531,485	70,103	158,218	540,853	778,280	867,499	1,518,977	1,405,837	1,710,919	4,267,006	110,958,100
Total receipts	8,669,378,501	60,849,580	23,185,509	10,374,891	27,289,180	109,637,004	189,367,281	268,490,762	484,650,061	437,810,179	477,748,462	1,129,508,447	5,511,316,725
Business receipts	7,535,482,221	34,863,047	3,793,355	7,814,648	23,255,044	101,025,568	179,015,483	255,903,932	460,856,645	409,853,724	439,453,524	1,017,977,454	4,636,532,846
Cost of sales and operations	4,922,763,967	12,235,263	1,677,260	2,693,446	7,864,556	37,122,108	75,652,466	130,110,065	276,914,180	270,153,212	308,734,407	755,545,814	3,056,296,453
Taxes paid	203,491,687	2,835,853	1,069,136	511,065	1,255,652	4,307,164	6,485,471	8,267,081	12,490,317	9,690,498	9,499,240	19,297,478	130,618,585
Interest paid	572,973,834	4,754,959	2,766,537	705,158	1,283,265	3,302,684	4,349,838	5,816,665	12,141,810	15,117,552	20,277,081	57,460,687	449,752,557
Depreciation	312,582,789	5,732,106	3,005,933	958,545	1,767,628	5,002,671	6,715,830	8,336,690	12,322,664	10,392,712	9,984,174	23,555,085	230,540,857
Pension, profit-sharing, stock bonus, and annuity plans	48,242,217	502,558	283,536	67,838	151,184	1,254,902	2,862,729	2,469,136	3,616,531	2,387,670	2,240,570	4,037,184	28,870,938
Employee benefit programs	73,633,515	393,940	211,888	45,205	136,847	623,845	1,056,514	1,429,839	2,655,930	2,356,434	2,664,977	6,633,108	55,818,927
Net income (less deficit)	269,530,240	-7,068,910	-5,656,649	-911,319	-500,942	182,046	1,497,364	3,129,457	6,311,629	6,913,700	8,774,026	29,876,969	219,913,959
Income subject to tax, total	276,172,502	4,401,180	2,560,487	589,846	1,250,847	3,585,353	5,248,774	6,724,805	10,363,793	8,881,654	10,368,154	27,044,237	199,554,551
Income tax, total	111,140,137	1,265,819	922,210	113,191	230,418	721,116	1,105,684	1,597,399	2,886,288	3,032,647	4,007,107	11,667,061	84,857,015
Additional tax for tax preferences	1,026,194	6,794	6,210	*324	*259	1,703	1,634	3,983	9,416	8,385	11,736	39,586	942,957
Foreign tax credit	21,480,508	38,186	36,383	*12	*1,791	435	25,156	1,464	9,078	17,730	24,390	133,628	21,230,441
U.S. possessions tax credit	2,907,256	18,388	16,152	8	*2,228	88	*37	1,003	58,935	73,158	143,031	597,396	2,015,219
Orphan drug credit	6,530	—	—	—	—	—	—	—	—	—	—	—	6,530
Nonconventional source fuel credit	63,544	*5	*5	—	—	*164	*14	28	*478	*58	*2,603	3,720	56,472
General business credit	12,805,999	69,201	46,327	7,086	15,789	65,973	107,965	180,460	300,452	269,648	291,824	687,676	10,832,799
Agriculture, Forestry, and Fishing													
Number of returns	106,634	52,837	30,607	8,531	13,699	21,044	14,889	7,696	6,297	2,148	883	758	82
Total assets	53,478,288	9,950,374	5,109,605	1,613,613	3,227,156	7,326,872	6,139,318	5,369,609	5,716,820	3,525,744	3,548,434	4,612,351	7,288,768
Notes and accounts receivable, net	4,816,729	463,652	249,081	40,060	174,511	204,817	339,102	376,844	495,938	503,402	582,105	721,173	1,129,696
Inventories	4,932,107	215,393	117,583	24,310	73,501	274,705	322,901	464,791	674,066	343,133	511,893	789,247	1,335,978
Cash, Government obligations, and other current assets	6,070,396	1,195,722	611,477	223,954	360,291	727,823	681,943	566,987	771,727	423,849	515,041	503,158	684,146
Other investments and loans	7,131,725	1,189,522	686,706	178,506	324,310	1,194,512	678,835	535,324	611,313	367,281	358,116	781,490	1,415,333
Depreciable assets	36,388,420	4,741,013	2,372,963	760,732	1,607,318	5,366,886	5,216,305	4,592,865	4,795,489	2,901,869	2,328,068	2,466,061	3,979,864
Less: Accumulated depreciation	22,236,756	2,930,908	1,400,123	472,236	1,058,550	3,564,864	3,399,683	3,019,380	2,954,792	1,711,005	1,276,641	1,351,647	2,027837
Other capital assets less reserves	13,573,231	4,400,134	2,090,725	732,914	1,576,494	2,707,149	1,913,471	1,480,009	1,037,178	579,289	442,616	527,592	485,794
Accounts and notes payable	11,768,608	1,104,790	568,483	230,605	305,702	879,436	1,210,566	1,247,192	1,544,663	1,100,389	1,018,299	1,575,269	2,088,004
Other current liabilities	2,171,595	237,939	161,134	28,287	48,519	183,817	149,796	134,421	192,176	159,117	327,081	298,574	488,673
Mortgages, notes, and bonds payable in one year or more	15,481,615	2,488,221	1,237,004	434,404	816,812	2,346,929	2,010,284	1,997,559	1,925,632	1,217,840	918,487	1,018,136	1,558,526
Net worth	17,062,622	3,344,122	1,305,341	567,902	1,470,880	3,089,949	2,008,048	1,346,169	1,355,234	882,891	935,363	1,421,951	2,678,893
Cost of property used for investment credit	477,963	18,486	7,157	*439	10,889	56,529	40,155	21,228	88,422	47,155	36,850	29,426	139,711
Total receipts	77,502,215	2,988,550	1,168,040	512,411	1,308,100	4,413,509	5,943,958	5,978,991	9,959,177	8,001,129	6,324,078	17,722,093	16,170,729
Business receipts	71,787,552	1,470,738	196,744	320,395	953,599	3,546,060	5,236,866	5,461,000	9,461,021	7,771,982	6,052,180	17,291,137	15,496,569
Cost of sales and operations	50,971,455	795,548	182,129	176,021	437,397	1,622,490	2,600,842	2,831,192	6,247,373	5,696,434	4,567,137	15,443,873	11,166,567
Taxes paid	1,497,542	173,162	76,590	31,388	65,184	178,820	169,127	197,954	205,325	146,288	102,489	95,690	228,687
Interest paid	2,570,846	343,722	166,955	57,304	119,463	367,441	336,673	356,831	325,351	194,480	171,039	215,153	260,156
Depreciation	3,537,822	424,518	203,924	71,703	148,891	499,114	530,988	439,782	478,962	295,112	236,438	240,383	392,525
Pension, profit-sharing, stock bonus, and annuity plans	164,061	12,082	*6,116	*2,766	*3,199	5,632	13,840	18,942	22,296	16,254	23,466	18,245	33,304
Employee benefit programs	286,849	23,548	13,256	3,265	7,027	26,477	30,292	29,619	17,961	30,591	19,638	20,027	88,696
Net income (less deficit)	1,148,686	-303,254	-242,495	-50,489	-10,270	176,210	198,835	114,380	147,734	136,134	93,529	180,404	404,713
Income subject to tax, total	1,883,473	234,194	117,013	24,455	92,726	205,751	189,254	167,652	171,010	139,320	110,137	151,579	514,576
Income tax, total	589,887	50,373	28,474	4,217	17,682	39,581	39,958	42,687	45,258	47,253	39,324	63,207	222,245
Additional tax for tax preferences	3,085	*367	*367	—	—	—	*90	*159	*72	*425	*624	*298	1,050
Foreign tax credit	12,641	*42	(3)	—	*42	—	—	*133	—	*1	*3	13	12,449
U.S. possessions tax credit	1	1	1	—	—	—	—	—	—	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	—	—	—	—	—	—	—	—	—	—	—	—	—
General business credit	101,639	6,122	4,054	*41	2,028	6,861	9,293	8,961	13,098	10,623	7,874	6,824	31,984

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

Table 7—Selected Balance Sheet, Income Statement, and Tax Items, by Industrial Division, by Size of Business Receipts—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars and size of business receipts are in whole dollars]

Industrial division, item	Total returns of active corporations	Size of business receipts: Under $100,000[1]	Under $25,000[1]	$25,000 under $50,000	$50,000 under $100,000	$100,000 under $250,000	$250,000 under $500,000	$500,000 under $1,000,000	$1,000,000 under $2,500,000	$2,500,000 under $5,000,000	$5,000,000 under $10,000,000	$10,000,000 under $50,000,000	$50,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Mining													
Number of returns	40,354	22,398	16,433	3,258	2,707	5,255	4,090	3,533	2,663	1,072	671	508	165
Total assets	206,122,125	6,745,057	5,393,472	471,248	880,337	2,053,030	1,952,005	2,870,688	5,027,963	4,453,570	5,952,285	16,233,146	160,834,381
Notes and accounts receivable, net	19,549,415	1,047,682	901,122	70,005	76,555	250,142	249,316	457,455	776,253	708,425	711,667	1,855,561	13,492,914
Inventories	7,335,578	120,154	96,452	*1,962	*21,740	32,190	54,519	74,863	157,526	148,546	211,899	709,624	5,826,256
Cash, Government obligations, and other current assets	14,721,537	892,208	749,751	59,228	83,229	466,896	291,067	484,316	1,130,273	903,789	1,113,586	2,037,958	7,401,444
Other investments and loans	86,904,043	1,805,182	1,404,352	102,968	297,862	393,797	250,784	482,240	626,052	536,882	995,398	3,279,343	78,534,365
Depreciable assets	96,209,849	2,355,056	1,745,639	238,353	371,064	945,888	1,649,455	2,004,771	3,512,867	2,971,803	3,722,107	10,844,035	68,203,867
Less: Accumulated depreciation	50,229,040	1,327,334	1,003,023	162,806	161,505	536,497	1,140,391	1,423,350	2,189,198	1,871,663	2,291,839	6,471,812	32,976,956
Other capital assets less reserves	24,451,930	1,437,457	1,151,686	129,784	155,987	394,883	491,975	635,667	825,650	918,051	1,093,510	3,057,845	15,596,891
Accounts and notes payable	26,242,982	1,563,358	1,219,321	146,026	198,011	562,127	926,639	703,905	1,371,105	1,080,931	1,587,532	2,943,066	15,504,319
Other current liabilities	10,557,238	416,249	345,269	23,226	47,754	119,003	139,054	266,091	385,007	285,777	514,032	1,235,241	7,196,784
Mortgages, notes, and bonds payable in one year or more	45,823,514	1,899,587	1,503,910	164,052	231,625	337,698	652,529	789,519	1,355,585	889,296	1,378,217	4,514,024	34,007,061
Net worth	98,604,268	946,690	865,531	6,428	74,731	709,305	-429,156	639,021	1,370,799	1,781,910	1,734,286	4,726,343	87,125,071
Cost of property used for investment credit	1,253,963	84,309	82,870	*189	*1,250	18,203	7,707	23,993	27,980	25,349	24,771	126,848	914,802
Total receipts	98,577,216	1,394,359	964,392	173,398	256,569	1,163,278	1,747,345	2,920,227	4,785,324	4,108,126	5,297,052	10,929,655	66,231,850
Business receipts	86,873,761	367,168	68,594	110,565	188,010	850,100	1,482,130	2,539,794	4,169,817	3,751,992	4,724,417	9,783,869	59,204,475
Cost of sales and operations	58,115,191	154,789	36,487	32,328	85,973	301,507	606,056	1,294,979	1,860,414	1,694,472	3,199,339	5,997,215	43,006,419
Taxes paid	2,967,429	47,571	28,876	6,756	11,939	41,011	68,773	98,729	177,636	156,671	158,870	380,965	1,837,203
Interest paid	6,395,032	180,300	129,693	19,542	31,065	85,741	102,632	154,609	207,590	182,411	239,386	709,801	4,532,563
Depreciation	7,039,541	163,170	103,663	18,837	40,669	110,701	192,392	216,432	366,711	302,886	334,567	980,083	4,372,598
Pension, profit-sharing, stock bonus, and annuity plans	364,728	*1,805	*1,066	*730	*10	11,422	*7,237	1,073	11,787	19,656	8,014	37,973	265,762
Employee benefit programs	1,010,260	2,888	2,541	*198	*149	14,988	7,944	19,793	26,711	27,875	23,896	93,705	792,460
Net income (less deficit)	-3,122,565	-476,893	-347,471	-41,269	-88,153	-198,434	-176,178	-165,834	-209,339	-144,006	-166,231	-446,615	-1,139,035
Income subject to tax, total	3,241,899	116,341	78,947	*5,909	31,485	66,436	27,904	59,736	163,302	78,960	102,867	437,825	2,188,529
Income tax, total	1,453,090	43,425	33,876	*1,229	8,321	19,777	8,064	20,434	58,035	33,250	45,438	189,932	1,034,735
Additional tax for tax preferences	86,903	2,815	*2,507	*142	*167	*380	*2	*872	3,157	1,851	3,995	8,945	64,886
Foreign tax credit	618,542	*1,141	*492	—	*649	*3	—	—	132	145	*4	*15,833	601,284
U.S. possessions tax credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	7,137	*1	*1	—	—	*156	—	—	*473	*54	*2,374	*2,359	1,720
General business credit	132,721	4,143	*3,118	*136	*890	*1,703	*1,530	6,645	3,904	3,731	5,985	18,487	86,593
Construction													
Number of returns	341,816	104,748	54,300	18,333	32,116	66,893	55,670	46,653	39,680	15,577	7,739	4,383	472
Total assets	218,880,512	13,627,255	10,466,707	1,170,479	1,990,069	5,668,938	8,475,626	13,370,989	26,096,024	21,667,772	22,168,533	38,639,330	69,166,044
Notes and accounts receivable, net	57,191,246	1,732,195	1,300,365	85,773	346,058	839,483	1,473,262	2,993,857	6,259,496	6,365,140	6,783,122	12,433,110	18,311,582
Inventories	32,351,852	2,480,678	1,989,042	152,740	338,896	1,058,331	1,265,010	2,109,553	4,921,416	4,154,300	4,468,362	5,507,892	6,386,312
Cash, Government obligations, and other current assets	47,194,825	2,961,420	2,060,083	329,297	572,040	1,355,655	2,092,358	3,250,022	6,649,342	5,260,156	5,194,249	9,422,746	11,008,877
Other investments and loans	31,716,582	2,724,431	2,324,714	190,374	209,343	660,285	898,300	1,130,090	1,960,690	1,364,002	1,702,706	3,408,200	17,867,878
Depreciable assets	71,322,700	3,167,421	1,860,510	462,203	844,708	3,373,591	4,613,431	6,976,977	10,857,552	8,312,014	6,994,336	12,927,497	14,099,880
Less: Accumulated depreciation	40,366,979	1,638,458	806,521	280,084	551,853	2,051,744	2,665,536	4,243,592	6,408,775	4,996,544	4,124,216	7,497,774	6,740,341
Other capital assets less reserves	9,339,311	1,138,075	856,872	137,206	143,997	262,548	480,273	644,924	1,102,827	663,612	538,639	1,375,452	3,132,961
Accounts and notes payable	70,632,253	4,546,731	3,358,078	523,253	665,400	1,561,280	2,501,623	4,567,751	8,565,122	7,999,266	8,222,014	13,548,423	19,120,043
Other current liabilities	33,212,774	1,439,459	1,052,429	190,209	196,821	553,251	1,028,976	1,620,739	4,065,086	3,877,472	4,501,558	7,175,195	8,951,038
Mortgages, notes, and bonds payable in one year or more	38,200,198	2,705,855	2,093,900	306,169	305,787	1,275,160	1,773,189	2,022,593	4,264,308	2,678,894	2,565,913	5,202,938	15,711,347
Net worth	52,781,280	2,230,108	2,025,597	-237,752	442,264	1,077,797	1,773,004	3,662,520	6,450,199	5,192,885	4,980,366	8,853,008	18,561,392
Cost of property used for investment credit	1,047,474	34,805	18,034	*2,318	*14,454	25,474	69,555	99,663	123,514	117,586	119,612	147,529	309,735
Total receipts	412,477,214	5,234,389	1,870,620	768,660	2,595,109	11,767,109	20,423,712	33,766,938	62,933,131	55,016,028	54,252,571	83,077,559	86,005,777
Business receipts	399,436,063	3,381,425	298,561	661,147	2,421,717	11,382,709	19,998,439	33,234,263	61,902,142	54,105,844	53,381,188	81,114,408	80,935,647
Cost of sales and operations	314,065,258	1,639,354	160,103	320,263	1,158,987	6,076,223	12,017,655	22,612,447	45,465,423	42,659,640	44,122,602	69,407,756	70,064,157
Taxes paid	8,132,918	267,383	121,369	31,384	114,629	443,947	667,374	949,883	1,514,244	1,172,708	996,994	1,221,188	899,196
Interest paid	6,869,790	354,743	261,119	36,979	56,644	216,124	318,417	464,036	830,243	598,801	518,584	813,926	2,754,917
Depreciation	7,516,637	316,863	157,976	56,018	102,869	440,420	601,990	845,030	1,255,103	909,368	761,569	1,172,435	1,213,859
Pension, profit-sharing, stock bonus, and annuity plans	1,706,301	26,268	18,825	*5,509	*1,934	10,664	59,684	103,713	348,245	244,835	232,838	353,224	326,831
Employee benefit programs	1,950,470	35,973	20,614	*2,086	13,272	55,354	84,849	114,727	348,917	287,153	258,216	379,770	385,510
Net income (less deficit)	5,781,722	-255,787	-139,921	-129,113	13,248	114,121	106,577	499,879	1,012,184	1,033,861	848,546	1,637,927	784,413
Income subject to tax, total	7,578,399	244,694	181,763	7,071	55,860	243,523	385,316	756,837	1,363,996	942,549	885,702	1,558,465	1,197,318
Income tax, total	2,525,994	65,067	52,650	1,194	11,222	46,406	68,958	159,203	358,692	300,122	316,801	665,412	545,335
Additional tax for tax preferences	12,240	*286	*286	—	—	—	*86	—	*407	*132	771	2,196	8,362
Foreign tax credit	71,340	*49	*49	—	—	—	—	—	*4	—	*559	*310	70,418
U.S. possessions tax credit	6	—	—	—	—	—	—	—	6	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*441	—	—	—	—	—	—	—	*2	—	*5	—	*433
General business credit	270,387	6,548	4,789	*41	1,718	4,748	8,058	22,943	39,645	39,866	31,479	60,058	57,043

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 7—Selected Balance Sheet, Income Statement, and Tax Items, by Industrial Division, by Size of Business Receipts—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars and size of business receipts are in whole dollars]

Industrial division, item	Total returns of active corporations	Size of business receipts: Under $100,000 [1]	Under $25,000 [1]	$25,000 under $50,000	$50,000 under $100,000	$100,000 under $250,000	$250,000 under $500,000	$500,000 under $1,000,000	$1,000,000 under $2,500,000	$2,500,000 under $5,000,000	$5,000,000 under $10,000,000	$10,000,000 under $50,000,000	$50,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Manufacturing													
Number of returns	285,119	69,904	41,273	11,892	16,740	45,851	35,410	38,088	45,249	21,220	13,502	12,343	3,551
Total assets	2,931,610,462	12,648,531	10,666,556	809,633	1,172,342	4,946,162	7,531,354	13,605,943	35,619,111	40,784,194	52,483,194	153,766,791	2,610,225,181
Notes and account receivable, net	655,687,933	1,386,687	1,184,020	79,985	122,682	871,174	1,417,700	3,071,491	8,884,545	9,929,596	12,467,602	35,179,770	582,479,367
Inventories	309,880,755	1,099,233	806,296	111,906	181,031	790,148	1,229,402	2,333,581	7,509,434	9,172,045	11,864,242	34,462,099	241,420,571
Cash, Government obligations, and other current assets	267,801,617	2,044,042	1,587,347	179,641	277,054	909,798	1,320,586	2,452,819	5,334,371	5,779,008	7,014,197	20,664,956	222,281,840
Other investments and loans	681,276,827	2,412,400	2,023,635	174,551	214,213	480,569	676,796	827,602	2,334,723	2,549,766	3,507,645	13,280,473	655,206,853
Depreciable assets	1,250,584,823	5,681,606	4,551,835	450,641	679,131	3,413,735	5,107,174	9,863,233	23,233,713	23,637,424	29,069,516	76,896,580	1,073,681,843
Less: Accumulated depreciation	580,493,274	2,255,973	1,594,638	236,858	424,476	2,028,224	2,936,890	5,999,771	13,851,417	12,897,155	15,804,556	38,009,936	486,709,353
Other capital assets less reserves	166,344,389	923,147	819,417	32,152	71,577	284,415	337,569	465,804	1,138,024	1,293,231	3,053,221	6,179,210	152,669,769
Accounts and notes payable	556,852,522	3,037,314	2,661,863	160,323	215,128	1,143,064	1,767,506	3,313,490	9,857,995	10,966,778	14,283,297	38,047,712	474,435,367
Other current liabilities	288,243,449	1,531,392	1,372,783	73,779	84,830	398,970	643,692	1,216,848	2,984,028	3,415,162	5,026,296	13,875,892	259,151,169
Mortgages, notes, and bonds payable in one year or more	581,898,174	2,212,207	1,790,576	182,210	239,421	1,218,051	2,000,550	2,981,467	6,546,728	8,401,970	9,335,853	28,406,138	520,795,210
Net worth	1,124,399,497	3,557,039	3,202,782	118,282	235,976	1,199,617	1,941,055	4,753,166	13,104,047	14,514,162	21,254,319	65,364,970	998,711,121
Cost of property used for investment credit	53,755,545	94,769	92,026	*208	*2,535	86,982	85,166	186,269	391,749	370,767	489,552	1,739,943	50,310,347
Total receipts	2,810,713,781	3,520,017	1,612,334	548,221	1,359,462	7,815,490	13,231,704	27,960,921	72,497,285	76,287,308	96,063,894	256,587,930	2,256,749,233
Business receipts	2,614,526,752	1,916,714	239,847	427,654	1,249,214	7,545,455	12,855,966	27,183,160	70,986,629	74,883,782	93,939,663	249,311,620	2,075,903,762
Cost of sales and operations	1,746,954,429	1,041,946	212,790	230,243	598,913	3,744,734	6,872,817	15,770,291	46,080,056	49,731,834	64,703,549	175,531,622	1,383,477,579
Taxes paid	71,939,993	141,132	68,706	20,824	51,602	290,666	457,678	932,751	2,017,282	1,878,575	2,260,710	5,458,183	58,503,016
Interest paid	102,372,701	209,450	154,258	16,610	38,582	190,871	286,374	500,845	1,255,004	1,272,204	1,657,227	5,057,188	91,943,538
Depreciation	124,986,991	326,656	214,897	34,228	77,531	320,349	514,396	1,008,669	2,170,064	2,043,132	2,512,970	7,139,537	108,951,218
Pension, profit-sharing, stock bonus, and annuity plans	18,178,076	6,604	1,807	*3,375	*1,421	19,212	114,355	210,201	536,895	506,326	554,398	1,192,999	15,037,085
Employee benefit programs	36,846,039	16,593	8,839	2,107	5,647	56,292	90,369	204,849	557,011	586,651	836,587	2,385,583	32,112,105
Net income (less deficit)	101,827,271	-652,890	-419,650	-103,943	-129,296	-319,154	-401,306	-31,470	561,182	1,532,539	2,367,029	8,538,714	90,232,627
Income subject to tax, total	116,666,065	594,922	507,131	39,255	48,536	224,077	267,230	738,418	1,748,254	2,112,281	3,066,868	9,800,760	98,113,256
Income tax, total	50,222,612	254,530	233,023	10,480	11,027	45,624	52,810	181,764	513,693	764,715	1,239,443	4,338,426	42,831,607
Additional tax for tax preferences	543,146	*368	*186	*182	—	—	*17	*146	*9	*364	588	6,278	535,375
Foreign tax credit	17,340,711	*22,229	*22,229	—	—	—	*104	*45	*5,235	*2,182	9,530	44,789	17,256,596
U.S. possessions tax credit	2,702,270	*18,308	*16,091	—	2,217	3	20	732	50,643	32,049	140,527	569,872	1,890,118
Orphan drug credit	6,530	—	—	—	—	—	—	—	—	—	—	—	6,530
Nonconventional source fuel credit	37,519	—	—	—	—	—	—	—	—	—	*63	*1,118	36,338
General business credit	4,373,632	4,211	3,036	*552	*624	6,607	7,831	29,754	61,249	70,071	90,485	247,376	3,856,046
Transportation and Public Utilities													
Number of returns	138,428	61,540	35,614	9,763	16,163	19,729	16,863	15,198	13,565	6,088	2,859	1,917	669
Total assets	1,310,227,440	7,346,535	5,346,732	833,251	1,166,552	2,648,506	4,214,263	6,785,137	11,345,140	11,129,767	11,190,418	32,527,992	1,223,039,681
Notes and account receivable, net	113,944,572	677,532	501,235	45,403	130,895	349,006	458,927	769,896	1,905,583	1,891,938	2,069,127	5,411,026	100,411,538
Inventories	30,517,206	54,294	30,833	*830	*22,630	25,027	73,162	116,020	245,281	283,279	220,715	561,396	28,938,032
Cash, Government obligations, and other current assets	83,988,399	1,103,987	788,479	124,381	191,127	446,468	716,790	1,119,139	1,965,605	1,647,127	1,657,169	4,235,968	71,096,147
Other investments and loans	195,320,890	1,185,542	1,057,731	68,252	59,558	227,826	336,364	1,050,972	1,016,286	761,657	777,174	3,665,953	186,299,116
Depreciable assets	1,102,617,516	5,279,746	3,093,631	791,738	1,394,377	2,629,757	4,041,680	6,679,973	10,431,315	10,139,975	9,262,843	22,635,182	1,031,517,045
Less: Accumulated depreciation	318,414,238	2,207,665	1,048,737	371,697	787,230	1,359,566	1,950,973	3,702,493	5,412,463	5,093,435	4,395,567	9,006,324	285,285,753
Other capital assets less reserves	34,272,303	495,541	421,106	32,634	41,801	208,149	247,112	341,961	521,804	741,606	1,090,965	3,219,723	27,405,440
Accounts and notes payable	128,192,386	1,434,737	1,153,929	120,396	160,413	675,936	860,797	1,316,221	2,760,653	2,380,994	2,765,257	5,883,030	110,114,761
Other current liabilities	109,041,244	462,088	383,081	35,914	43,094	156,097	313,452	361,414	755,137	835,041	993,821	3,858,005	101,306,189
Mortgages, notes, and bonds payable in one year or more	400,851,705	2,905,222	1,972,877	315,248	617,097	1,042,009	1,519,345	2,060,576	3,677,118	3,981,632	3,740,471	11,936,760	369,988,572
Net worth	502,486,821	442,622	275,317	184,666	-17,361	292,516	701,006	2,095,837	2,691,816	3,000,246	2,587,875	8,081,195	482,593,709
Cost of property used for investment credit	47,337,032	108,145	102,915	*841	*4,389	*39,652	59,954	76,284	194,616	278,121	277,748	554,942	45,747,570
Total receipts	762,231,202	3,876,718	2,069,436	428,155	1,379,127	3,447,409	6,321,447	11,436,296	22,515,735	21,190,136	19,806,575	38,884,582	634,752,305
Business receipts	717,929,024	1,851,685	208,586	370,136	1,272,963	3,209,215	6,055,811	11,047,016	21,793,268	20,584,786	19,099,138	36,804,298	597,483,807
Cost of sales and operations	338,754,789	617,611	90,280	108,118	419,213	986,912	2,265,536	4,673,644	10,510,476	9,238,832	10,914,633	19,792,578	279,754,567
Taxes paid	36,109,355	132,949	61,431	18,625	52,893	144,285	259,536	458,091	830,090	730,999	595,291	1,290,764	31,667,350
Interest paid	47,070,426	247,586	176,755	17,195	53,635	128,912	209,700	276,487	537,691	433,589	500,078	1,499,583	43,236,799
Depreciation	73,840,838	563,996	299,895	72,583	191,517	376,003	474,066	793,063	1,278,293	1,104,426	984,696	2,196,512	66,069,784
Pension, profit-sharing, stock bonus, and annuity plans	6,746,496	4,819	*1,920	*498	*2,401	21,385	16,632	27,935	88,410	108,558	91,161	164,870	6,222,726
Employee benefit programs	9,752,601	11,574	5,892	*867	4,814	14,031	35,375	76,396	166,581	153,874	111,073	379,096	8,804,601
Net income (less deficit)	21,803,663	-532,247	-412,872	6,840	-126,214	-60,508	49,204	55,775	304,072	315,463	302,380	599,442	20,770,081
Income subject to tax, total	36,663,610	253,041	213,179	18,083	21,779	133,651	173,680	334,607	548,629	457,053	511,625	1,272,797	32,978,525
Income tax, total	16,156,499	104,709	97,241	3,051	4,417	30,452	40,713	93,718	172,530	170,025	209,505	556,228	14,778,619
Additional tax for tax preferences	134,608	*124	*124	—	—	*96	—	175	*240	*112	*147	2,813	130,901
Foreign tax credit	232,474	*891	*488	—	*403	—	—	1	*1,215	*4,518	*774	*3,577	221,498
U.S. possessions tax credit	79,338	—	—	—	—	—	—	—	44	—	—	10,397	68,897
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Research activities credit	16,731	—	—	—	—	—	—	28	—	—	*68	18	16,617
General business credit	4,822,922	9,356	9,140	*12	*204	6,591	9,634	18,977	29,714	32,584	36,964	70,907	4,608,196

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

Table 7—Selected Balance Sheet, Income Statement, and Tax Items, by Industrial Division, by Size of Business Receipts—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars and size of business receipts are in whole dollars]

Industrial division, item	Total returns of active corporations	Size of business receipts: Under $100,000 [1]	Under $25,000 [1]	$25,000 under $50,000	$50,000 under $100,000	$100,000 under $250,000	$250,000 under $500,000	$500,000 under $1,000,000	$1,000,000 under $2,500,000	$2,500,000 under $5,000,000	$5,000,000 under $10,000,000	$10,000,000 under $50,000,000	$50,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Wholesale and Retail Trade													
Number of returns	939,159	237,368	113,737	49,857	73,774	162,743	161,368	142,031	122,130	53,771	29,793	26,116	3,839
Total assets	1,073,523,697	18,013,712	12,266,090	1,827,571	3,920,052	13,067,406	24,059,524	37,150,600	67,444,583	60,484,525	64,053,598	152,153,476	637,096,272
Notes and account receivable, net	235,969,601	2,667,144	1,952,517	219,019	495,607	1,474,809	3,703,214	6,273,656	14,329,924	14,274,917	15,411,701	36,871,976	140,962,260
Inventories	303,014,310	2,904,415	1,560,356	394,721	949,338	3,996,534	8,173,951	12,677,548	23,719,627	21,942,089	23,351,169	55,945,673	150,303,305
Cash, Government obligations, and other current assets	157,375,794	3,055,146	2,083,171	357,998	613,977	2,293,102	3,706,765	5,875,081	9,903,417	7,982,909	7,761,681	17,517,485	99,280,208
Other investments and loans	106,724,377	3,001,086	2,440,559	211,493	349,035	946,170	1,540,006	2,622,637	4,020,836	3,295,328	3,626,351	8,044,033	79,627,930
Depreciable assets	337,486,238	6,805,182	4,082,732	810,154	1,912,296	6,775,548	11,176,858	16,740,609	26,706,659	22,354,397	22,282,779	48,175,419	176,468,788
Less: Accumulated depreciation	153,038,196	2,811,155	1,499,971	378,197	932,987	3,764,223	6,372,756	9,643,012	15,438,642	12,364,970	11,892,458	22,810,936	67,940,043
Other capital assets less reserves	37,753,930	1,116,778	756,137	127,768	232,873	650,917	1,060,424	1,365,168	2,457,666	1,739,681	2,192,939	4,871,188	22,299,170
Accounts and notes payable	368,205,276	4,912,313	3,690,655	397,496	824,161	3,327,330	6,625,899	11,210,099	22,572,209	22,863,656	26,246,971	67,927,048	202,519,751
Other current liabilities	138,645,665	1,253,960	956,209	90,753	206,998	838,244	1,445,627	2,647,222	4,501,955	4,782,451	5,179,771	13,246,631	104,749,804
Mortgages, notes, and bonds payable in one year or more	184,334,941	5,719,038	4,426,142	389,924	902,971	2,898,346	4,929,845	7,022,336	11,164,874	8,837,384	8,804,410	21,989,992	112,968,716
Net worth	300,103,440	260,742	−156,789	−25,143	442,674	2,004,314	5,820,695	11,696,724	23,797,632	20,060,116	20,369,041	42,279,068	173,815,109
Cost of property used for investment credit	7,421,060	99,718	71,289	*17,023	*11,406	87,582	113,990	215,463	252,021	276,235	389,789	786,908	5,199,354
Total receipts	2,547,440,986	12,071,614	3,950,770	2,200,520	5,920,324	28,188,158	60,107,709	103,130,427	194,443,890	192,427,427	210,187,913	524,100,507	1,222,783,341
Business receipts	2,472,495,351	8,036,667	677,374	1,879,423	5,479,870	27,320,040	58,655,952	101,203,817	191,029,311	189,143,276	206,651,823	514,471,782	1,175,982,682
Cost of sales and operations	1,895,237,380	4,398,159	437,497	1,041,201	2,919,461	14,935,381	35,176,271	63,885,725	132,602,660	139,588,406	161,055,356	418,608,070	924,987,353
Taxes paid	37,975,611	394,087	121,975	73,605	198,508	940,872	1,638,586	2,562,959	3,780,596	3,128,638	2,947,995	6,432,006	16,149,871
Interest paid	39,961,980	558,684	383,291	45,601	129,791	514,115	863,423	1,285,270	2,193,428	2,027,268	2,092,671	5,187,861	25,239,260
Depreciation	37,840,513	551,667	252,771	86,109	212,787	811,105	1,330,027	1,907,826	2,940,812	2,499,485	2,491,216	5,658,002	19,650,374
Pension, profit-sharing, stock bonus, and annuity plans	6,782,364	52,972	26,440	*6,460	20,072	93,905	195,195	273,439	758,677	652,343	648,058	1,153,785	2,953,988
Employee benefit programs	10,388,228	45,557	13,670	10,019	21,868	76,357	189,579	318,871	590,959	629,528	682,225	1,775,102	6,080,050
Net income (less deficit)	34,919,948	−588,368	−103,496	−236,018	−248,855	−629,511	−168,838	402,808	2,151,586	2,118,079	2,477,735	6,176,158	22,980,300
Income subject to tax, total	43,982,615	809,639	631,910	49,312	128,418	441,497	1,046,992	1,771,976	3,135,049	2,717,462	2,849,553	6,466,114	24,744,333
Income tax, total	17,097,449	290,615	257,956	8,273	24,386	83,093	198,009	367,006	753,075	837,875	1,023,961	2,715,235	10,828,579
Additional tax for tax preferences	54,324	*2,204	*2,204	—	—	—	*70	*36	*113	*824	*592	2,396	48,088
Foreign tax credit	632,765	*6,104	*6,095	*9	—	—	*6	*123	*155	*1,016	3,510	14,206	607,646
U.S. possessions tax credit	96,649	—	—	—	—	—	—	*190	*5,630	*34,085	607	8,520	47,617
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	541	—	—	—	—	—	—	—	—	*3	16	*16	506
General business credit	1,201,408	12,390	10,326	*696	1,368	8,377	17,547	32,767	57,789	56,867	61,031	141,343	813,297
Finance, Insurance, and Real Estate [2]													
Number of returns	537,384	337,934	213,507	57,264	67,162	83,919	46,651	26,603	19,583	8,603	5,773	5,864	2,455
Total assets	7,985,641,912	84,684,409	48,105,835	13,547,007	23,031,567	39,052,087	38,881,419	45,975,733	126,603,533	188,245,477	284,418,964	877,156,406	6,300,623,884
Notes and account receivable, net	2,366,805,250	4,834,915	2,206,492	622,209	2,006,214	3,479,879	5,034,638	8,249,063	36,338,866	67,373,174	96,608,805	214,362,905	1,930,523,006
Inventories	27,914,055	3,259,882	2,200,107	515,642	544,133	1,333,653	1,419,180	972,071	1,240,569	1,452,236	1,164,224	5,207,122	11,865,119
Cash, Government obligations, and other current assets	1,920,356,029	21,124,714	15,283,342	2,102,491	3,738,881	10,717,997	8,855,149	11,475,174	37,850,616	59,026,002	85,038,517	230,120,002	1,456,147,858
Other investments and loans	3,119,841,324	24,232,590	11,961,022	4,180,309	8,091,259	9,155,024	9,370,217	12,620,908	31,139,378	44,866,492	83,665,884	368,899,580	2,535,891,249
Depreciable assets	263,329,811	20,901,358	8,367,823	4,676,513	7,857,023	13,617,254	13,441,668	12,351,122	17,313,420	12,495,282	13,553,477	36,832,597	122,823,632
Less: Accumulated depreciation	79,670,594	6,463,302	2,051,103	1,560,421	2,851,778	5,189,518	4,729,806	4,526,291	5,482,251	3,915,270	4,025,500	10,561,017	34,777,639
Other capital assets less reserves	77,342,539	12,608,966	7,788,396	2,006,054	2,814,516	4,665,044	4,137,899	3,031,874	4,418,354	3,117,660	3,341,678	9,114,001	32,907,063
Accounts and notes payable	760,751,320	10,192,267	5,366,798	1,549,126	3,276,343	6,400,325	6,281,663	6,665,960	13,134,618	12,116,811	16,477,110	59,420,691	630,061,877
Other current liabilities	3,976,122,419	4,552,608	2,219,526	1,394,384	938,697	2,426,567	4,865,657	9,858,861	58,535,260	121,941,678	195,565,119	529,298,645	3,049,078,023
Mortgages, notes, and bonds payable in one year or more	570,555,962	25,327,843	11,702,124	4,632,913	8,992,806	10,471,796	10,354,428	10,653,772	16,390,549	14,263,626	14,750,808	50,241,378	418,101,762
Net worth	1,502,198,831	31,337,143	21,320,495	3,593,172	6,423,476	15,501,171	13,324,059	14,325,220	31,123,228	33,286,441	49,585,301	198,290,755	1,115,425,514
Cost of property used for investment credit	6,267,428	102,367	34,435	3,517	64,415	69,821	42,253	40,103	114,087	59,888	117,202	289,273	5,432,435
Total receipts	1,365,095,368	8,388,130	1,468,150	2,084,416	4,835,564	13,480,260	16,449,653	18,581,919	31,142,178	30,672,706	40,330,947	126,432,801	1,079,616,773
Business receipts	618,646,549	4,150,793	560,704	919,598	2,670,491	9,274,281	11,994,754	12,595,518	17,747,720	11,754,692	12,463,055	42,658,358	496,007,378
Cost of sales and operations	320,622,944	460,420	52,866	113,432	294,122	1,147,723	1,599,701	2,649,260	4,944,941	3,397,151	3,736,015	19,993,575	282,694,157
Taxes paid	25,298,921	845,424	281,294	188,835	375,295	766,010	834,597	794,289	1,081,215	856,250	973,890	2,447,726	16,699,519
Interest paid	351,936,465	1,612,685	603,441	363,363	645,880	1,176,853	1,351,414	1,757,155	5,383,741	9,350,709	14,215,403	42,135,048	274,953,457
Depreciation	28,990,058	942,532	275,811	243,054	423,667	825,141	806,452	793,255	1,143,209	929,620	1,119,836	2,798,517	19,631,495
Pension, profit-sharing, stock bonus, and annuity plans	5,098,306	36,574	4,318	12,930	19,326	159,737	224,897	234,140	260,063	160,646	218,973	483,335	3,319,941
Employee benefit programs	7,269,031	31,731	8,168	7,373	16,190	96,323	90,601	121,403	187,225	204,860	280,306	739,310	5,517,272
Net income (less deficit)	99,808,908	−2,341,670	−2,268,775	−172,774	99,880	424,895	597,727	1,149,054	1,721,367	1,598,960	2,371,932	11,981,147	82,305,496
Income subject to tax, total	50,679,641	977,052	189,269	278,040	509,744	1,126,201	1,085,734	1,219,508	1,713,563	1,579,657	2,061,825	5,706,025	35,210,077
Income tax, total	18,091,479	178,179	31,487	55,442	91,250	254,425	281,239	355,993	580,006	597,228	821,517	2,415,246	12,607,647
Additional tax for tax preferences	165,786	*93	(3)	—	*93	*380	1,367	2,465	4,879	4,153	4,731	14,334	133,383
Foreign tax credit	2,254,655	*15	(3)	*3	*11	139	*221	*1,163	1,317	9,331	270	36,411	2,205,789
U.S. possessions tax credit	14,884	3	—	—	3	85	—	—	*1,333	1,865	681	2,330	8,587
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	306	*4	*4	—	—	*8	*14	—	—	*2	76	*111	91
General business credit	1,155,859	4,234	*189	2,489	1,556	8,856	8,897	11,188	22,174	13,064	19,089	67,045	1,001,312

Footnotes at end of table. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 7—Selected Balance Sheet, Income Statement, and Tax Items, by Industrial Division, by Size of Business Receipts—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars and size of business receipts are in whole dollars]

Industrial division, item	Total returns of active corporations	Size of business receipts											
		Under $100,000 [1]	Under $25,000 [1]	$25,000 under $50,000	$50,000 under $100,000	$100,000 under $250,000	$250,000 under $500,000	$500,000 under $1,000,000	$1,000,000 under $2,500,000	$2,500,000 under $5,000,000	$5,000,000 under $10,000,000	$10,000,000 under $50,000,000	$50,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Services													
Number of returns	1,012,178	447,532	243,642	81,894	121,995	221,487	173,648	89,602	55,488	14,038	6,420	3,360	605
Total assets	381,609,099	31,493,849	21,392,037	3,835,749	6,266,064	16,987,434	24,234,316	23,750,368	32,100,890	25,664,623	21,511,585	45,619,546	160,246,488
Notes and account receivable, net	65,048,707	3,945,143	3,041,281	283,314	620,547	1,504,704	2,951,533	3,342,439	5,324,316	4,981,628	4,838,451	8,910,928	29,249,565
Inventories	16,327,613	559,665	239,254	95,604	224,807	600,440	963,922	1,086,024	1,700,185	975,705	1,120,648	2,189,133	7,131,891
Cash, Government obligations, and other current assets	62,855,999	6,220,402	3,916,034	881,465	1,422,903	4,469,929	6,786,451	5,680,348	7,086,806	4,098,040	4,092,001	7,327,872	17,094,152
Other investments and loans	59,635,301	7,179,844	5,233,818	998,815	947,211	2,736,272	3,666,944	3,081,655	3,633,896	2,364,795	2,364,479	5,851,633	28,755,784
Depreciable assets	223,689,614	19,778,471	12,680,662	2,581,925	4,515,884	13,048,428	17,723,218	18,425,894	22,917,091	19,161,043	11,831,884	26,108,804	74,694,781
Less: Accumulated depreciation	97,232,642	10,439,712	6,511,708	1,509,674	2,418,330	7,351,863	9,955,623	10,035,102	11,990,607	8,536,716	5,108,578	10,613,513	23,200,928
Other capital assets less reserves	23,693,515	2,047,327	1,262,084	203,048	582,195	1,009,020	1,154,161	1,254,264	1,650,258	1,289,179	1,242,262	3,274,939	10,772,104
Accounts and notes payable	69,863,336	5,731,785	4,120,143	682,989	928,653	2,760,296	4,683,593	4,716,699	7,025,441	6,492,096	5,904,028	10,134,976	22,414,423
Other current liabilities	41,669,666	1,910,651	1,276,893	277,316	356,441	1,898,793	2,768,680	2,758,557	4,299,957	4,161,267	2,912,437	5,285,954	15,673,370
Mortgages, notes, and bonds payable in one year or more	120,911,882	12,050,077	9,069,635	1,184,499	1,795,943	4,533,146	5,659,198	6,425,384	8,747,604	7,066,836	5,493,238	14,574,366	56,362,033
Net worth	100,190,054	2,319,495	369,738	659,012	1,290,745	4,615,855	7,956,840	7,087,321	8,307,637	5,696,086	5,014,266	11,855,393	47,337,161
Cost of property used for investment credit	5,218,540	215,977	121,528	45,568	48,881	156,609	344,864	195,096	326,587	230,610	255,395	589,255	2,904,146
Total receipts	591,849,715	22,883,025	9,787,490	3,535,140	9,560,395	38,784,473	64,480,410	63,947,425	86,034,709	49,961,896	45,423,080	71,327,979	149,006,718
Business receipts	550,590,929	13,445,936	1,498,831	3,002,425	8,944,680	37,324,739	62,074,566	61,881,938	83,438,240	47,712,193	43,079,841	66,114,950	135,518,526
Cost of sales and operations	196,127,453	3,018,111	493,364	608,962	1,915,785	7,997,533	14,065,551	15,960,352	29,093,492	18,019,998	16,388,845	30,437,917	61,145,655
Taxes paid	19,478,706	816,168	296,766	137,398	382,004	1,489,724	2,374,451	2,252,697	2,865,920	1,619,384	1,460,820	1,965,801	4,633,742
Interest paid	15,718,343	1,225,401	875,450	144,713	205,238	614,214	876,598	1,002,081	1,396,552	1,057,498	882,339	1,831,793	6,831,866
Depreciation	28,721,936	2,411,603	1,480,189	368,560	562,854	1,591,495	2,242,702	2,317,090	2,683,508	2,308,184	1,542,208	3,366,142	10,259,004
Pension, profit-sharing, stock bonus, and annuity plans	9,179,608	341,288	202,920	35,569	102,799	932,944	2,229,527	1,599,693	1,590,085	679,051	462,968	632,753	711,300
Employee benefit programs	6,119,850	223,490	136,803	19,290	67,397	283,001	527,317	540,701	760,197	435,903	451,300	859,708	2,038,233
Net income (less deficit)	7,448,023	−1,903,019	−1,733,478	−168,736	−805	704,091	1,298,023	1,120,164	647,157	327,363	478,444	1,200,436	3,575,364
Income subject to tax, total	15,326,352	1,063,592	534,356	167,721	361,515	1,137,177	2,053,145	1,672,222	1,512,450	853,908	778,915	1,647,004	4,607,938
Income tax, total	4,942,317	229,608	138,307	29,305	61,996	200,703	411,275	375,935	401,538	282,103	310,998	721,910	2,008,247
Additional tax for tax preferences	26,094	528	528	—	—	*847	—	*130	538	*524	288	2,326	20,913
Foreign tax credit	317,281	7,616	6,931	—	*686	*293	*24,825	—	*1,019	*537	9,740	18,490	254,761
U.S. possessions tax credit	14,107	*77	60	8	9	—	18	81	*1,280	*5,159	1,216	6,276	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*868	—	—	—	—	—	—	—	*3	—	—	98	768
General business credit	746,497	21,938	11,416	3,120	7,402	22,228	45,109	48,628	72,880	42,832	38,918	75,636	378,328
Nature of Business not Allocable													
Number of returns	27,443	20,603	16,156	3,361	*1,085	3,635	1,917	987	*213	*40	*12	*37	—
Total assets	2,116,359	1,124,535	977,885	*52,492	*94,158	235,143	180,817	187,241	*138,884	*80,751	*48,142	*120,845	—
Notes and account receivable, net	286,790	119,658	111,130	*6,664	*1,865	*14,449	*19,374	*30,565	*31,347	*40,859	*12,911	*17,627	—
Inventories	314,041	74,855	56,490	*8,219	*10,146	*39,569	*37,822	*31,391	*14,824	*24,109	*27,333	*64,137	—
Cash, Government obligations, and other current assets	344,646	208,920	191,371	*6,899	*10,650	49,831	38,410	*22,470	*12,014	*1,953	*956	*10,092	—
Other investments and loans	271,696	194,136	178,205	*8,433	*7,498	*1,097	*21,049	*11,346	*33,301	*74	—	*10,693	—
Depreciable assets	927,587	361,768	300,396	*22,659	*38,713	167,011	135,120	*107,952	*102,739	*13,400	*15,139	*24,460	—
Less: Accumulated depreciation	432,907	136,400	119,005	*10,845	*6,550	89,047	71,176	*56,275	*57,672	*5,091	*8,197	*9,049	—
Other capital assets less reserves	247,538	195,469	157,545	*8,810	*29,114	*16,950	—	*29,258	*1,032	*4,615	—	*214	—
Accounts and notes payable	530,056	192,761	177,660	*11,694	*3,407	37,900	73,662	*68,472	*47,180	*27,881	*15,402	*66,798	—
Other current liabilities	222,486	128,834	119,419	*2,280	*7,135	45,884	*10,231	*5,134	*15,044	*2,104	*7,503	*7,751	—
Mortgages, notes, and bonds payable in one year or more	419,171	182,637	138,611	*1,623	*42,403	*62,345	*39,631	*69,568	*47,579	*4,337	*453	*12,622	—
Net worth	307,881	178,990	151,982	*19,957	*7,051	30,915	20,525	16,400	*−10,061	*17,599	*22,143	*31,369	—
Cost of property used for investment credit	*28,272	*1,231	*1,231	—	—	—	*14,635	*9,399	—	*125	—	*2,883	—
Total receipts	3,490,803	492,778	294,277	123,972	*74,530	577,318	661,343	767,617	*338,632	*145,424	*62,351	*445,341	—
Business receipts	3,196,240	241,920	44,115	123,304	*74,501	572,971	660,999	757,424	*328,497	*145,177	*62,219	*427,033	—
Cost of sales and operations	1,915,069	109,325	11,742	*62,879	*34,704	309,606	448,036	432,174	*109,346	*126,444	*46,931	*333,208	—
Taxes paid	91,211	17,976	12,128	*2,249	*3,599	11,829	15,350	19,729	*18,008	*985	*2,180	*5,153	—
Interest paid	78,252	22,388	15,574	*3,848	*2,966	8,414	*4,607	19,352	*12,210	*593	*354	*10,334	—
Depreciation	108,453	31,101	16,806	*7,453	*6,842	28,343	22,816	15,543	*6,001	*499	*676	*3,474	—
Pension, profit-sharing, stock bonus, and annuity plans	*22,277	*20,146	*20,124	—	*22	—	*1,362	—	73	—	*695	—	—
Employee benefit programs	10,187	*2,588	*2,105	—	*484	*1,022	*186	*3,480	*368	—	*1,735	*807	—
Net income (less deficit)	−85,415	−14,782	11,508	−15,815	*−10,476	−29,664	−6,681	−15,301	*−24,313	*−4,692	*663	*9,356	—
Income subject to tax, total	150,447	107,705	106,921	—	*784	*7,040	*19,519	*3,850	*7,540	*463	*663	*3,668	—
Income tax, total	60,809	49,313	49,196	—	*118	*1,056	*4,657	*660	*3,462	*76	*118	*1,467	—
Additional tax for tax preferences	*9	*9	*9	—	—	—	—	—	—	—	—	—	—
Foreign tax credit	99	99	99	—	—	—	—	—	—	—	—	—	—
U.S. possessions tax credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	—	—	—	—	—	—	—	—	—	—	—	—	—
General business credit	*934	*258	*258	—	—	*3	*66	*598	—	*10	—	—	—

* Estimate should be used with caution because of the small number of sample returns on which it is based.
[1] Includes returns with zero receipts and receipts not reported.
[2] Size of total receipts was used in lieu of business receipts to classify statistics for the "Finance, insurance, and real estate" industrial division.
[3] Less than $500 per return.
NOTE: Detail may not add to total because of rounding. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

Table 8—Total Receipts, Net Income, Statutory Special Deductions, Income Tax, Selected Credits, and Taxpayment Items, by Accounting Period Ended

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	Total returns of active corporations: Number of returns	Total returns of active corporations: Amount	Accounting period ended[1]: July 1986	August 1986	September 1986	October 1986	November 1986	December 1986	January 1987	February 1987	March 1987	April 1987	May 1987	June 1987
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Returns With and Without Net Income														
Number of returns	3,428,515	—	121,932	125,668	305,017	167,580	109,051	1,559,233	115,534	101,362	236,262	111,490	119,486	355,901
Total receipts	3,279,746	8,669,378,501	199,575,697	193,497,643	550,282,718	274,383,956	180,627,213	5,194,005,200	381,580,328	173,998,845	488,878,905	195,739,459	217,036,207	619,772,329
Net income (less deficit)	3,406,573	269,530,240	6,202,403	7,153,753	16,354,751	10,097,603	8,074,803	171,145,598	12,844,963	5,059,616	9,638,897	6,188,871	4,180,367	12,588,616
Total income tax	1,264,292	111,140,137	1,955,357	1,834,564	5,603,191	2,670,247	2,249,734	77,279,864	4,902,849	1,571,847	3,815,020	1,775,487	1,672,069	5,809,907
Returns With and Without Net Income, Other Than Forms 1120S, 1120-IC-DISC and 1120-FSC														
Number of returns	2,597,959	—	107,830	110,683	257,452	143,594	90,841	973,775	94,976	87,818	212,348	97,779	104,181	316,683
Total receipts	2,505,189	8,162,241,593	180,719,947	181,958,283	514,368,824	253,359,237	166,048,397	4,888,297,769	367,140,390	161,522,943	468,980,647	185,762,680	206,846,163	587,236,312
Net income (less deficit)	2,578,680	259,761,844	5,806,454	6,648,985	14,853,173	9,562,938	7,811,736	168,836,270	12,078,338	4,551,463	8,615,208	5,786,534	3,674,856	11,535,888
Statutory special deductions, total	566,578	53,601,349	1,073,201	888,682	2,857,966	1,427,288	1,146,424	35,575,089	1,132,666	1,154,826	2,760,110	1,151,289	1,115,484	3,318,325
Net operating loss deduction	458,901	41,420,853	812,690	721,302	2,568,192	1,195,480	993,829	25,899,400	922,544	918,977	2,472,349	949,984	1,008,765	2,957,340
Total special deductions	122,203	12,180,496	260,511	167,380	289,774	231,807	152,594	9,675,689	210,122	235,849	287,761	201,305	106,719	360,984
Income subject to tax, total	1,218,266	274,798,559	5,016,132	4,786,732	14,260,737	6,845,271	5,633,382	187,614,951	12,209,998	4,156,575	10,149,689	4,636,778	4,369,016	15,119,297
Net long-term capital gain taxed at alternative rates	35,969	50,047,541	379,477	382,200	989,643	434,735	418,009	41,503,419	2,575,468	377,090	1,125,979	346,924	422,497	1,092,101
Income taxed at regular rates	1,216,420	224,751,018	4,636,656	4,404,532	13,271,094	6,410,536	5,215,373	146,111,533	9,634,530	3,779,485	9,023,710	4,289,854	3,946,519	14,027,196
Income tax, total	1,257,713	110,502,539	1,950,251	1,823,419	5,585,897	2,648,247	2,245,993	76,774,318	4,895,804	1,570,972	3,804,662	1,771,947	1,658,423	5,772,607
Regular and alternative tax	1,218,262	108,156,481	1,902,041	1,797,483	5,489,943	2,583,411	2,215,768	74,989,858	4,823,228	1,548,573	3,751,050	1,744,218	1,620,382	5,690,525
Personal holding company tax	2,763	10,248	*1,925	*326	*1,258	*353	223	3,873	—	*254	*811	*136	*20	*1,070
Tax from recomputing prior-year investment credit	147,972	1,311,615	32,730	19,853	71,575	54,321	26,885	913,755	35,047	17,279	33,785	20,395	24,419	61,570
Additional tax for tax preferences	6,416	1,024,195	13,555	5,757	23,120	10,162	3,117	866,832	37,528	4,865	19,016	7,198	13,602	19,443
Foreign tax credit	4,436	21,480,221	138,818	57,710	400,891	149,073	96,311	19,652,556	243,603	39,295	173,279	76,528	14,910	437,248
U.S. possessions tax credit	520	2,907,256	27,226	24,589	78,719	67,728	508,103	1,807,033	80,371	*10,214	44,312	73,654	*12,397	172,910
Orphan drug credit	5	6,530	—	4,411	—	—	—	1,866	—	—	—	—	—	252
Nonconventional source fuel credit	277	63,544	—	*20	3,833	*714	*161	52,351	*11	*3	*656	1,260	*407	*4,128
General business credit	389,033	12,805,999	216,526	205,673	619,196	225,514	166,692	9,809,031	402,743	128,734	284,538	120,856	146,283	480,214
Total income tax after credits[2]	1,102,658	73,238,991	1,567,681	1,531,015	4,483,259	2,205,217	1,474,726	45,451,482	4,169,076	1,392,727	3,301,877	1,499,649	1,484,426	4,677,856
Returns With Net Income, Other Than Forms 1120S, 1120-IC-DISC and 1120-FSC														
Number of returns	1,507,572	—	62,970	63,300	151,415	87,239	54,849	540,280	60,612	50,557	124,372	56,111	61,189	194,676
Total receipts	1,507,572	6,302,922,445	131,491,257	137,606,169	386,097,662	186,939,940	129,120,807	3,820,347,319	307,154,442	118,413,974	341,403,961	144,842,630	163,427,478	436,076,806
Net income	1,507,572	383,436,250	8,516,918	9,321,030	23,210,378	13,734,646	10,506,790	240,398,729	15,434,628	7,626,503	18,621,899	8,179,961	6,495,910	21,388,856
Statutory special deductions, total	547,057	51,900,914	1,041,659	870,256	2,810,547	1,415,154	1,129,221	34,148,630	1,114,190	1,142,629	2,730,843	1,133,851	1,100,216	3,263,719
Net operating loss deduction	458,878	41,403,647	812,690	721,302	2,568,192	1,195,480	993,829	25,882,315	922,544	918,977	2,472,229	949,984	1,008,765	2,957,340
Total special deductions	102,690	10,497,267	228,969	148,954	242,355	219,674	135,392	8,266,314	191,646	223,652	258,614	183,867	91,451	306,379
Income subject to tax, total	1,218,218	274,437,591	5,016,132	4,786,732	14,260,737	6,844,934	5,633,372	187,257,846	12,209,998	4,156,575	10,146,250	4,636,778	4,369,016	15,119,219
Net long-term capital gain taxed at alternative rates	35,962	49,850,855	379,477	382,200	989,643	434,735	418,009	41,306,733	2,575,468	377,090	1,125,979	346,924	422,497	1,092,101
Income taxed at regular rates	1,216,372	224,586,736	4,636,656	4,404,532	13,271,094	6,410,198	5,215,364	145,951,113	9,634,530	3,779,485	9,020,272	4,289,854	3,946,519	14,027,118
Income tax, total	1,223,019	110,192,248	1,934,310	1,820,294	5,575,437	2,637,391	2,240,713	76,552,183	4,891,404	1,568,295	3,794,194	1,767,856	1,650,255	5,759,917
Regular and alternative tax	1,218,218	108,096,331	1,902,041	1,797,483	5,489,943	2,583,321	2,215,766	74,930,845	4,823,228	1,548,573	3,750,022	1,744,218	1,620,382	5,690,508
Personal holding company tax	2,720	9,820	*1,925	*326	*1,258	*353	223	3,444	—	*254	*811	*136	*20	*1,070
Tax from recomputing prior-year investment credit	113,912	1,107,509	17,168	17,010	63,741	45,079	21,714	786,127	31,214	14,868	25,677	16,521	17,833	50,558
Additional tax for tax preferences	5,436	978,588	13,176	5,475	20,495	8,639	3,009	831,767	36,962	4,600	17,684	6,980	12,021	17,780
Foreign tax credit	4,430	21,472,960	138,818	57,710	400,891	149,073	96,311	19,646,323	243,603	39,295	172,251	76,528	14,910	437,248
U.S. possessions tax credit	520	2,907,256	27,226	24,589	78,719	67,728	508,103	1,807,033	80,371	*10,214	44,312	73,654	*12,397	172,910
Orphan drug credit	5	6,530	—	4,411	—	—	—	1,866	—	—	—	—	—	252
General business credit	389,014	12,799,214	216,526	205,673	619,196	225,514	166,691	9,802,247	402,743	128,734	284,538	120,856	146,283	480,214
Total income tax after credits[2]	1,067,974	72,942,763	1,551,740	1,527,891	4,472,799	2,194,362	1,469,447	45,242,363	4,164,677	1,390,050	3,292,436	1,495,557	1,476,259	4,665,183
Estimated tax payments:														
1985 overpayments claimed as a credit	321,954	6,488,999	143,422	118,676	480,054	157,084	110,483	4,076,488	237,281	99,266	315,584	117,308	140,293	493,059
1986 estimated tax payments	512,731	56,627,688	1,237,598	1,169,391	3,378,318	1,534,065	1,138,161	35,888,204	2,512,669	994,511	2,429,404	1,351,865	1,189,397	3,804,105
Less: Refund of estimated tax payments	5,941	2,345,832	50,015	57,199	83,450	79,952	25,203	1,590,757	37,943	19,204	95,846	32,523	72,536	201,204
Payments with applications for: Extension of filing time	186,054	15,662,631	252,934	339,146	851,186	523,033	241,897	9,753,267	1,368,287	299,805	775,609	254,309	221,592	781,566
Other credits and payments, total[3]	21,712	82,068	1,659	1,594	4,790	3,203	1,280	48,914	1,339	1,675	3,488	1,879	7,787	4,460
Tax due at time of filing	654,518	6,692,962	191,734	189,516	532,152	368,493	202,086	3,181,934	417,250	163,270	413,891	209,250	229,337	594,049
Tax overpayment	436,883	10,194,520	223,333	230,714	683,332	308,256	196,929	6,087,507	330,720	147,112	542,940	404,101	236,143	803,431

* Estimate should be used with caution because of the small number of sample returns on which it is based.
[1] Includes full and part-year returns.
[2] Credits include foreign tax, U.S. possessions tax, nonconventional source fuel, orphan drug, and general business credits.
[3] Includes credit for tax paid by regulated investment companies, federal tax on special fuels and oils, and overpaid windfall profit tax.
NOTE: Detail may not add to total because of rounding. See text for "Explanation of Terms" and "Description of the Sample and Limitation of the Data."

RETURNS OF ACTIVE S CORPORATIONS, FORM 1120S

Table 9—Balance Sheets and Income Statements, by Industrial Division

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	All industrial divisions	Industrial division								
		Agriculture, forestry, and fishing	Mining	Construction	Manufacturing	Transportation and public utilities	Wholesale and retail trade	Finance, insurance, and real estate	Services	Nature of business not allocable
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Number of returns, total	**826,214**	**34,671**	**10,197**	**79,452**	**57,945**	**40,705**	**236,451**	**121,857**	**238,837**	**6,098**
With net income	**396,377**	**15,318**	**4,296**	**46,815**	**27,415**	**16,221**	**110,806**	**56,611**	**117,523**	***1,371**
Total assets	**250,975,543**	**10,357,262**	**5,339,003**	**23,727,431**	**36,941,095**	**11,355,029**	**69,667,313**	**56,919,299**	**36,228,785**	**440,327**
Cash	24,405,166	831,203	740,367	2,641,209	3,825,171	930,313	7,386,053	4,126,312	3,883,289	41,250
Notes and accounts receivable	41,833,523	736,904	866,315	4,935,186	9,111,836	1,707,014	13,374,220	6,357,513	4,658,937	85,597
Less: Allowance for bad debts	752,344	3,889	7,443	48,852	203,792	24,708	282,376	94,730	85,211	*1,343
Inventories	44,173,919	733,304	183,975	5,265,455	7,966,122	193,588	23,474,827	4,833,953	1,460,528	62,168
Investments in Government obligations	2,618,685	37,754	*207,649	198,279	492,238	162,356	299,684	986,725	233,999	—
Other current assets	15,665,361	223,986	155,306	2,960,360	1,646,048	498,740	2,218,092	5,989,796	1,953,084	*19,949
Loans to shareholders	5,080,325	388,274	114,280	604,274	486,505	185,165	1,123,182	971,180	1,182,637	*24,828
Mortgage and real estate loans	5,786,865	222,544	*33,350	485,733	183,524	55,060	513,981	3,717,824	521,924	*52,925
Other investments	16,127,275	377,978	675,026	1,043,989	2,038,176	472,062	2,484,209	6,707,365	2,327,463	*1,008
Depreciable assets	122,518,645	8,408,652	3,873,692	7,757,683	20,095,302	10,726,359	28,032,221	15,781,126	27,694,193	149,416
Less: Accumulated depreciation	58,606,792	5,100,817	2,473,943	4,429,084	11,203,896	5,210,082	14,096,012	4,017,993	12,011,228	63,736
Depletable assets	1,491,281	274,799	775,358	42,481	90,699	*19,515	195,617	50,017	42,794	—
Less: Accumulated depletion	598,849	*190,404	265,582	*7,686	17,134	*737	94,325	*3,298	19,683	—
Land	16,876,824	2,883,505	147,876	1,148,781	767,307	281,871	1,722,898	7,889,388	2,000,509	*34,690
Intangible assets (amortizable)	5,742,917	40,803	39,728	150,806	883,079	741,596	1,869,226	848,495	1,145,232	*23,953
Less: Accumulated amortization	1,790,855	19,524	15,227	96,243	271,841	169,152	555,904	262,391	397,291	*3,282
Other assets	10,403,598	512,191	288,274	1,075,061	1,051,753	786,068	2,001,720	3,038,019	1,637,610	12,903
Total liabilities	**250,975,543**	**10,357,262**	**5,339,003**	**23,727,431**	**36,941,095**	**11,355,029**	**69,667,313**	**56,919,299**	**36,228,785**	**440,327**
Accounts payable	31,710,247	486,436	487,374	3,863,645	5,252,912	1,220,414	13,044,578	4,194,467	3,058,309	102,112
Mortgages, notes, and bonds payable in less than one year	36,372,720	1,845,733	537,216	3,841,111	3,529,827	1,464,977	11,695,483	8,808,377	4,639,259	*10,737
Other current liabilities	20,511,644	231,279	312,177	3,641,029	2,946,590	618,492	5,190,166	4,377,501	3,122,713	71,696
Loans from shareholders	35,314,775	2,155,731	955,777	2,263,788	2,650,111	2,678,281	10,018,883	7,201,843	7,278,221	112,140
Mortgages, notes, and bonds payable in one year or more	65,243,714	3,629,325	1,093,462	4,194,880	5,324,208	4,393,902	12,641,094	20,973,531	12,919,798	*73,514
Other liabilities	11,698,761	398,006	368,565	1,721,510	1,178,806	468,337	1,375,509	3,985,197	2,135,018	67,812
Capital stock	16,662,036	2,041,748	357,373	698,414	1,919,590	910,087	4,966,344	3,051,682	2,641,932	74,866
Paid-in or capital surplus	21,581,655	1,954,552	1,639,127	775,932	2,537,178	1,509,716	4,133,046	5,214,355	3,706,657	111,091
Shareholders' undistributed taxable income previously taxed[1]	-3,980,348	-810,060	-468,522	86,870	195,848	-796,087	-104,869	-839,477	-1,222,780	*-21,272
Accumulated adjustments account[1]	-9,331,826	-1,427,069	-1,043,389	677,977	1,141,275	-2,152,186	-1,891,790	-923,921	-3,586,520	-126,204
Other adjustments account[1]	846,485	23,582	95,943	6,305	317,044	117,650	186,413	38,372	62,299	*-1,122
Other retained earnings[1]	28,050,279	-14,888	1,131,890	2,289,468	10,761,904	1,070,247	9,546,161	1,182,005	2,118,537	*-35,045
Less: Cost of treasury stock	3,704,598	157,115	127,990	333,498	814,199	148,802	1,133,706	344,632	644,657	—
Total receipts	**483,986,301**	**16,499,232**	**4,593,054**	**47,887,133**	**74,924,302**	**19,295,458**	**231,564,327**	**21,764,366**	**66,719,390**	**739,038**
Business receipts	466,712,837	15,440,043	4,103,540	46,760,755	73,591,776	18,591,253	227,877,066	15,647,953	64,006,373	694,078
Nonqualifying interest and dividends	3,431,878	121,605	184,846	253,860	406,876	91,362	786,021	1,132,523	454,643	*142
Rents	2,779,168	75,950	20,963	154,718	128,091	198,055	484,068	1,154,663	556,380	*6,280
Royalties	317,683	9,175	46,407	*817	62,107	*115	80,734	105,260	13,069	—
Net long-term capital gain reduced by net short-term capital loss	375,963	*7,848	*17,365	*6,229	*25,173	*1,673	30,966	221,698	*65,012	—
Net gain, noncapital assets	2,891,688	116,218	60,914	252,174	117,649	177,036	198,286	1,663,004	305,203	*1,204
Other receipts	7,477,085	728,394	159,020	458,580	592,631	235,965	2,107,186	1,839,265	1,318,710	*37,334
Total deductions	**475,317,097**	**16,703,257**	**4,480,849**	**46,448,111**	**71,233,081**	**19,505,622**	**229,004,372**	**21,407,548**	**65,726,921**	**807,336**
Cost of sales and operations	306,147,915	11,681,260	2,158,331	34,877,944	49,666,428	9,381,527	171,332,338	4,035,184	22,587,585	427,319
Compensation of officers	19,774,733	246,829	128,924	1,835,379	2,996,445	517,451	5,535,689	1,848,907	6,617,725	*47,385
Repairs	3,168,734	207,521	49,713	205,830	378,169	402,419	1,002,413	233,341	676,510	12,820
Bad debts	1,139,723	39,176	22,798	82,931	204,223	60,316	425,516	134,691	169,066	*1,007
Rent paid on business property	10,827,675	393,553	44,769	366,793	871,353	556,642	4,688,161	653,562	3,226,766	26,076
Taxes paid	10,833,878	281,623	174,819	1,003,490	1,706,435	636,014	3,862,787	918,100	2,239,039	11,570
Interest paid	8,758,641	604,894	158,396	629,967	827,688	558,879	2,278,177	1,995,312	1,690,448	14,880
Amortization	732,138	6,860	5,480	27,514	74,556	73,828	242,466	125,562	175,425	*448
Depreciation	12,855,970	828,605	371,249	884,821	1,948,145	1,512,986	3,150,407	1,007,584	3,121,973	30,199
Depletion	96,447	*271	80,799	*3,052	*4,792	*5	4,838	*2,200	*489	—
Advertising	5,155,965	45,784	14,459	153,932	730,922	121,161	2,812,692	337,764	929,947	9,305
Pension, profit-sharing, stock bonus, and annuity plans	1,762,926	22,282	8,352	178,939	440,818	76,974	471,787	156,545	393,650	*13,580
Employee benefit programs	2,181,589	40,993	58,431	220,658	527,807	109,668	632,162	114,077	477,184	*609
Net loss, noncapital assets	284,202	13,305	*3,145	11,501	3,733	19,640	80,790	109,748	40,729	*1,612
Other deductions	91,596,562	2,290,299	1,201,188	5,965,360	10,851,568	5,478,111	32,484,151	9,734,972	23,380,385	210,528
Total receipts less total deductions	8,669,204	-204,025	112,205	1,439,022	3,691,221	-210,163	2,559,955	356,817	992,470	-68,298
Net income (less deficit)	8,293,241	-211,872	94,840	1,432,793	3,666,048	-211,837	2,528,988	135,119	927,458	-68,298
Net income	23,942,506	786,593	531,627	2,358,563	5,163,373	1,069,752	6,397,430	3,231,495	4,371,136	*32,537

*Estimate should be used with caution because of the small number of sample returns on which it is based.
[1] These items are reflected in the statistics for "Retained earnings, 1120S" and "Net worth" in other tables which show these items.
NOTE: Active S Corporations filing Form 1120S returns reported "Income subject to tax" of $113,484,000 and "Income tax" of $67,081,000, including "Additional tax for tax preferences" of $1,998,000. Detail may not add to total because of rounding. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS, FORM 1120-A

Table 10—Balance Sheets, Income Statements, and Tax Items by Industrial Division

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	All industrial divisions	Industrial division: Agriculture, forestry, and fishing	Mining	Construction	Manufacturing	Transportation and public utilities	Wholesale and retail trade	Finance, insurance, and real estate	Services	Nature of business not allocable
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Number of returns, total	**251,012**	**4,523**	**4,078**	**24,520**	**12,888**	**9,257**	**47,867**	**43,170**	**99,193**	**5,516**
With net income	**112,354**	**2,334**	**2,375**	**10,142**	**6,570**	**2,902**	**20,563**	**19,906**	**47,047**	***515**
Total assets	**8,651,394**	**209,445**	**211,480**	**767,768**	**511,205**	**352,937**	**1,916,556**	**1,868,780**	**2,691,723**	**121,499**
Cash	1,659,655	28,124	39,728	195,206	83,722	27,104	260,582	381,291	622,784	21,114
Notes and accounts receivable	884,783	*4,467	*34,547	128,841	103,911	45,318	203,997	137,743	224,561	*1,399
Less: Allowance for bad debts	4,969	—	—	*1,739	—	—	*381	*2,055	*770	*24
Inventories	1,008,635	*3,639	*1,523	63,908	95,173	*21,917	680,663	—	136,326	*5,485
Investments in Government obligations	*20,378	—	—	*1,139	*1,070	—	*548	*1,530	*16,083	*8
Other current assets	550,555	*4,681	30,465	45,687	47,673	*12,578	40,320	109,409	259,159	*584
Loans to stockholders	612,470	*9,392	*35,150	87,463	18,097	*44,427	53,038	138,098	215,749	*11,056
Mortgage and real estate loans	123,130	*4,418	—	*13,159	—	*2,604	*11,873	62,216	*28,529	*331
Depreciable, depletable, and intangible assets	6,045,045	166,122	128,886	500,160	531,589	328,811	1,023,413	1,186,333	2,139,438	*40,293
Less: Accumulated depreciation, depletion, and amortization	3,577,830	114,151	84,117	315,902	415,995	224,692	556,860	583,551	1,266,348	*16,215
Land	652,383	*84,199	*1,702	29,868	*10,733	*7,689	57,784	303,631	130,824	*25,953
Other assets	677,160	18,552	23,597	19,978	35,234	87,181	141,580	134,135	185,388	*31,514
Total liabilities	**8,651,394**	**209,445**	**211,480**	**767,768**	**511,205**	**352,937**	**1,916,556**	**1,868,780**	**2,691,723**	**121,499**
Accounts payable	759,582	*4,840	*5,525	67,459	40,778	50,323	305,172	76,746	190,321	*18,418
Other current liabilities	641,357	*9,989	*48,508	45,169	36,544	23,035	136,122	121,213	216,132	*4,646
Loans from stockholders	1,778,582	*92,039	*64,993	95,984	105,104	58,721	609,829	203,555	507,120	*41,238
Mortgages, notes, and bonds payable in one year or more	2,433,512	*80,460	*33,548	195,973	178,170	142,270	562,355	462,600	752,102	*26,034
Other liabilities	357,830	*16,506	*5,887	17,877	25,429	*2,126	54,776	118,083	101,802	*15,345
Capital stock	1,863,317	152,964	70,856	*77,445	103,237	83,955	465,566	401,770	459,282	48,242
Paid-in or capital surplus	695,483	*9,357	*26,018	35,835	52,718	*16,389	129,476	227,437	197,628	*625
Retained earnings, unappropriated	376,398	−156,710	−43,520	233,065	44,790	−23,882	−278,389	304,902	329,191	−33,048
Less: Cost of treasury stock	254,668	—	*335	*1,038	*75,565	—	68,350	47,525	61,855	—
Total receipts	**16,537,771**	**260,215**	**113,765**	**1,846,568**	**1,214,158**	**471,626**	**4,365,087**	**1,506,433**	**6,691,270**	**68,649**
Business receipts	15,862,561	222,088	86,543	1,814,443	1,202,289	462,806	4,279,950	1,271,125	6,456,030	67,287
Interest	118,057	*2,219	*2,592	13,122	4,881	*2,046	16,718	35,814	40,066	*600
Interest on Government obligations: State and local	*1,268	—	—	—	*305	*893	—	—	*70	—
Rents	205,823	*2,689	*1,173	*1,993	*1,124	*3,572	*12,415	140,436	42,322	*100
Royalties	*6,141	—	*5,539	—	—	—	*149	*183	*271	—
Net short-term capital gain reduced by net long-term capital loss	*1,513	—	—	*9	—	—	—	*1,161	*343	—
Net long-term capital gain reduced by net short-term capital loss	68,694	*958	*9,176	*2,955	*1,022	—	*20,179	16,922	17,482	—
Net gain, noncapital assets	52,051	*2,207	*6,915	*11,141	*169	*1,911	*4,318	*16,663	*8,728	—
Dividends received from domestic corporations	6,070	—	—	—	*813	—	*12	*1,169	*4,076	—
Other receipts	215,593	*30,055	*1,827	2,903	3,556	*398	31,346	22,962	121,883	*663
Total deductions	**16,717,441**	**248,590**	**104,391**	**1,861,159**	**1,226,316**	**490,227**	**4,474,116**	**1,476,413**	**6,743,987**	**92,242**
Cost of sales and operations	5,883,589	128,097	*26,489	905,556	610,478	130,768	2,407,857	136,106	1,497,156	*41,082
Compensation of officers	2,042,716	*23,907	*5,602	191,333	102,364	*36,596	262,295	193,720	1,222,721	*4,178
Repairs	236,352	10,845	*2,647	15,134	11,003	22,617	47,930	38,846	86,754	*575
Bad debts	29,279	—	—	*1,689	*2,371	*321	2,205	*3,095	19,198	*400
Rent paid on business property	957,875	*6,612	*2,341	38,133	50,821	12,424	280,777	132,212	422,718	*11,838
Taxes paid	606,658	5,884	4,568	77,830	36,141	19,919	123,441	77,735	259,271	1,870
Interest paid	283,387	10,961	*7,000	20,362	25,415	17,135	64,409	49,755	85,535	*2,816
Contributions or gifts	6,680	*41	—	*251	*563	*16	1,841	908	3,046	*14
Amortization	21,219	*179	*145	*1,240	*778	*405	7,083	2,923	7,807	*659
Depreciation	675,560	18,014	*13,663	76,424	57,210	37,077	132,288	82,336	254,624	*3,923
Net loss, noncapital assets	−8,718	—	—	—	*−217	*−699	*−1,262	*−872	*−5,667	—
Other deductions	5,965,408	44,050	41,936	533,208	328,955	212,251	1,142,727	757,905	2,879,490	24,886
Total receipts less total deductions	−179,670	11,626	9,374	−14,591	−12,158	−18,601	−109,029	30,020	−52,717	−23,593
Net income (less deficit)	−180,938	11,626	9,374	−14,591	−12,463	−19,495	−109,029	30,020	−52,787	−23,593
Net income	731,278	26,080	18,627	62,004	64,212	18,530	111,317	129,032	299,874	*1,601
Income tax, total	80,212	*205	*2,086	6,718	6,757	*1,790	10,130	17,449	34,837	*240
Regular and alternative tax	79,991	*205	*2,086	6,623	6,757	*1,742	10,130	17,398	34,811	*240
Tax from recomputing prior year investment credit	*220	—	—	*95	—	*48	—	*52	*26	—
Additional tax for tax preferences	—	—	—	—	—	—	—	—	—	—
General business credit	6,933	*150	*88	*1,059	*427	*302	1,464	*380	3,064	—

* Estimate should be used with caution because of the small number of sample returns on which it is based.

NOTE: Active Corporations filing Form 1120-A reported "Income subject to tax" of $521,363,000. Detail may not add to total because of rounding. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS, CONSOLIDATED RETURNS

Table 11—Balance Sheets, Income Statements, Tax, and Selected Other Items, by Selected Industrial Divisions

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	All industrial divisions [1]	Selected industrial divisions									
		Agriculture, forestry, and fishing	Mining	Construction	Manufacturing	Transportation and public utilities	Wholesale and retail trade			Finance, insurance, and real estate	Services
							Total [2]	Wholesale trade	Retail trade		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Returns of active corporations, consolidated returns:											
Number of returns, total	**81,956**	**1,218**	**2,051**	**5,387**	**15,085**	**4,140**	**20,044**	**10,663**	**9,307**	**22,033**	**11,879**
Total assets	**11,180,942,929**	**12,012,022**	**177,390,760**	**92,555,438**	**2,647,535,000**	**1,201,256,072**	**652,962,238**	**295,097,999**	**357,196,037**	**6,183,341,017**	**213,786,517**
Cash	555,789,667	565,794	4,761,921	4,679,079	55,114,709	20,659,034	23,513,354	10,194,643	13,218,933	436,677,033	9,815,852
Notes and accounts receivable	3,068,277,132	1,717,977	15,856,722	24,331,342	600,120,402	104,950,110	141,598,129	70,367,176	71,117,137	2,139,157,507	40,503,971
Less: Allowance for bad debts	63,924,777	58,579	397,138	246,595	11,078,243	2,947,598	3,261,751	1,664,799	1,575,476	43,810,150	2,124,522
Inventories	473,320,304	1,646,243	6,442,780	8,955,120	247,926,692	28,231,693	152,393,844	77,968,506	74,291,378	18,817,143	8,906,730
Investments in Government obligations	757,739,603	77,948	890,623	2,773,644	27,434,524	9,710,843	35,670,744	25,660,382	10,010,362	679,600,313	1,580,965
Other current assets	571,418,570	627,783	4,503,315	8,246,312	143,796,959	43,077,609	42,744,128	20,877,436	21,742,585	314,457,089	13,951,581
Loans to stockholders	31,341,064	213,614	2,100,370	459,769	15,234,098	1,749,533	4,432,890	1,213,182	3,218,513	5,857,278	1,293,514
Mortgage and real estate loans	1,131,426,597	211,818	757,791	7,189,307	19,051,908	2,032,672	9,727,770	4,105,382	5,620,553	1,091,574,135	881,196
Other investments	2,138,241,288	2,465,469	79,579,748	14,424,023	624,052,469	183,293,715	69,774,056	29,605,977	40,078,448	1,129,520,503	35,120,127
Depreciable assets	2,659,165,335	5,820,573	76,102,315	21,950,842	1,094,236,476	1,005,324,440	189,617,278	63,382,197	126,037,434	160,772,879	105,265,555
Less: Accumulated depreciation	992,252,807	3,050,115	37,961,494	11,098,661	497,803,180	283,295,853	74,931,095	28,278,089	46,549,908	47,657,421	36,413,636
Depletable assets	105,598,767	295,726	22,222,888	1,259,642	68,768,765	8,775,559	1,840,956	1,459,551	381,405	2,098,663	336,567
Less: Accumulated depletion	40,422,992	246,489	9,734,049	221,161	24,076,867	4,843,489	685,779	655,548	30,230	536,396	78,763
Land	80,638,385	1,126,000	2,507,415	2,689,049	26,556,031	7,489,011	13,231,731	3,320,496	9,890,454	20,933,452	6,104,967
Intangible assets (amortizable)	189,394,825	77,593	5,240,886	896,318	113,651,312	22,220,956	11,232,125	3,903,120	7,322,993	25,069,310	11,006,292
Less: Accumulated amortization	39,356,440	25,728	1,559,473	136,784	27,710,222	2,975,804	1,885,424	788,603	1,096,177	2,826,192	2,236,803
Other assets	554,548,410	546,395	6,076,141	6,404,191	172,259,168	57,803,641	37,949,283	14,426,991	23,517,636	253,635,870	19,872,924
Total liabilities	**11,180,942,929**	**12,012,022**	**177,390,760**	**92,555,438**	**2,647,535,000**	**1,201,256,072**	**652,962,238**	**295,097,999**	**357,196,037**	**6,183,341,017**	**213,786,517**
Accounts payable	689,379,771	818,471	9,933,509	15,654,748	234,224,618	67,486,367	82,586,832	39,324,860	43,185,608	262,515,691	16,124,016
Mortgages, notes, and bonds payable in less than one year	805,606,640	1,952,555	10,096,253	10,745,243	251,953,122	44,283,411	121,788,976	81,637,165	40,042,166	347,982,158	16,789,695
Other current liabilities	4,053,256,665	895,337	8,710,466	12,192,685	263,181,127	103,062,665	106,664,343	52,792,067	53,801,037	3,536,271,023	22,269,986
Loans from stockholders	90,879,917	199,570	4,638,292	775,006	40,746,245	5,932,402	9,228,234	3,954,267	5,230,690	26,893,688	2,464,772
Mortgages, notes, and bonds payable in one year or more	1,538,730,810	2,983,046	38,923,960	20,765,427	534,240,086	352,358,441	122,178,434	38,633,372	83,425,948	390,609,519	76,638,968
Other liabilities	1,558,343,172	695,297	15,384,023	8,235,464	321,802,780	151,347,172	36,171,235	13,253,308	22,902,166	1,002,307,247	22,399,953
Capital stock	393,479,402	1,288,507	8,192,929	3,034,432	114,227,593	152,672,972	24,206,402	12,174,146	12,000,962	80,563,440	9,285,835
Paid-in or capital surplus	1,030,548,246	1,706,050	71,634,587	12,908,387	411,290,716	177,972,532	51,565,100	19,297,216	31,907,084	268,155,854	35,312,979
Retained earnings, appropriated	50,976,363	*7,187	566,761	58,724	8,627,636	2,171,843	623,723	68,714	555,009	38,773,432	147,057
Retained earnings, unappropriated	1,044,425,018	1,610,887	11,121,037	8,985,620	519,973,116	149,169,604	102,935,618	35,957,722	67,136,708	235,115,036	15,507,546
Less: Cost of treasury stock	74,683,074	144,885	1,811,057	800,300	52,732,039	5,201,335	4,986,659	1,994,839	2,991,341	5,846,070	3,154,288
Total receipts	**5,458,478,956**	**18,659,966**	**73,458,502**	**115,187,653**	**2,276,405,887**	**641,716,810**	**1,150,992,538**	**531,075,143**	**618,795,958**	**986,268,078**	**195,474,112**
Business receipts	4,598,120,996	17,402,103	64,482,161	108,276,080	2,091,837,485	602,840,697	1,099,561,438	509,128,089	589,365,138	439,067,325	174,392,975
Interest	503,536,761	184,522	2,628,082	2,526,366	46,628,933	10,652,283	17,441,274	10,426,194	7,006,602	419,890,188	3,582,352
Interest on Government obligations: State and local	15,357,489	2,643	16,785	34,013	1,091,276	179,528	913,631	74,661	838,690	12,934,327	185,287
Nonqualifying interest and dividends	—	—	—	—	—	—	—	—	—	—	—
Rents	72,505,364	80,515	427,363	875,885	30,974,324	7,323,959	7,094,298	2,011,605	5,079,836	19,675,238	6,053,783
Royalties	14,787,222	63,143	333,179	22,729	11,018,236	292,496	1,049,913	429,000	620,642	197,288	1,810,238
Net short-term capital gain reduced by net long-term capital loss	5,078,726	9,738	32,243	38,617	631,173	263,709	247,720	99,020	146,851	3,757,140	98,385
Net long-term capital gain reduced by net short-term capital loss	61,688,772	226,732	1,093,704	612,646	23,452,517	6,424,441	4,835,304	1,630,141	3,195,432	23,164,005	1,879,403
Net gain, noncapital assets	32,647,874	52,781	885,957	436,672	8,398,705	3,822,852	1,327,368	506,171	821,007	16,497,557	1,204,961
Dividends received from domestic corporations	10,768,554	10,358	257,192	75,891	3,818,259	1,086,797	759,384	350,373	408,927	4,479,025	281,647
Dividends received from foreign corporations	22,084,608	*41,208	551,289	99,086	18,676,874	322,230	791,733	392,879	396,721	1,227,651	362,384
Other receipts	121,902,593	586,223	2,750,547	2,189,667	39,878,105	8,507,819	16,970,475	6,027,010	10,916,112	45,378,336	5,622,697
Total deductions	**5,302,699,776**	**18,246,030**	**76,409,049**	**114,284,729**	**2,207,506,255**	**620,990,788**	**1,130,878,407**	**523,782,693**	**605,977,649**	**941,085,041**	**193,013,907**
Cost of sales and operations	2,963,725,459	12,323,697	45,843,323	91,152,224	1,392,044,291	282,138,677	845,667,287	434,193,063	410,639,768	218,662,041	75,708,724
Compensation of officers	40,994,907	120,440	536,468	1,505,516	10,433,798	2,215,123	5,895,076	3,012,921	2,865,785	16,572,971	3,708,872
Repairs	65,418,567	192,408	588,160	404,411	26,197,472	28,391,450	4,621,899	1,429,734	3,186,519	3,184,241	1,836,975
Bad debts	41,650,656	39,799	473,912	262,984	7,335,837	3,753,730	3,355,521	1,257,015	2,095,748	25,263,546	1,165,281
Rent paid on business property	87,252,102	195,251	1,108,690	877,385	26,192,701	18,521,715	19,111,351	3,642,010	15,456,666	14,472,693	6,763,938
Taxes paid	135,633,933	303,409	2,037,440	1,605,855	59,092,778	31,833,784	16,252,585	4,840,784	11,393,162	18,337,532	6,158,924
Interest paid	462,118,309	471,777	5,256,155	3,495,106	93,875,042	42,338,092	26,704,481	13,488,830	13,194,897	280,759,790	9,208,833
Contributions or gifts	4,131,316	15,883	26,530	47,458	2,356,935	499,705	473,264	167,442	305,311	599,923	111,619
Amortization	10,841,949	16,301	159,616	58,005	4,738,549	1,447,626	1,073,006	414,649	657,846	2,115,760	1,233,082
Depreciation	240,647,752	534,923	5,175,123	1,906,045	110,390,026	65,066,808	21,123,294	7,216,638	13,883,688	22,481,503	13,963,700
Depletion	7,296,362	222,684	1,358,608	79,256	4,573,492	768,256	109,238	92,806	16,432	166,516	18,311
Advertising	71,438,214	145,480	106,980	337,014	40,933,992	4,406,299	16,301,781	3,882,714	12,401,917	6,449,197	2,753,863
Pension, profit-sharing, stock bonus, and annuity plans	29,670,837	39,364	298,908	450,561	14,974,038	6,267,607	2,968,130	875,635	2,090,600	3,657,128	1,015,028
Employee benefit programs	57,680,046	87,021	807,239	577,843	32,470,247	8,820,538	6,225,262	1,773,045	4,446,679	6,180,243	2,510,957
Net loss, noncapital assets	−10,312,782	−126,569	−628,766	−76,597	−2,397,454	−4,477,433	−517,592	−225,136	−288,096	−1,696,100	−392,270
Other deductions	1,073,886,584	3,411,024	12,003,131	11,448,469	379,499,603	120,043,945	160,478,642	47,270,270	113,054,534	320,485,857	66,463,528
Total receipts less total deductions	155,779,180	413,936	−2,950,547	902,924	68,899,632	20,726,022	20,114,131	7,292,451	12,818,309	45,183,037	2,460,205
Constructive taxable income from related foreign corporations	18,834,887	3,807	442,812	69,632	15,933,481	495,732	664,422	243,177	421,246	1,019,985	204,917
Net income (less deficit), total	159,256,578	415,100	−2,524,520	938,543	83,741,838	21,042,226	19,864,922	7,460,967	12,400,864	33,268,694	2,479,836
Income subject to tax, total	199,676,731	579,489	2,176,976	1,940,017	95,254,203	33,253,332	23,906,941	9,231,102	14,654,767	36,536,542	6,002,265
Income tax, total	84,520,550	243,417	1,016,070	842,053	41,390,925	14,853,579	10,311,604	4,029,168	6,274,160	13,274,144	2,575,007
Regular and alternative tax	82,480,526	239,135	924,390	822,273	40,250,517	14,533,765	10,154,701	3,976,482	6,169,948	13,052,225	2,491,097
Tax from recomputing prior-year investment credit	1,074,048	2,522	15,780	9,097	602,287	187,430	107,572	40,797	66,769	87,772	60,262
Additional tax for tax preferences	963,079	1,760	75,900	10,683	538,041	131,793	49,038	11,595	37,442	132,217	23,648
Foreign tax credit	20,962,833	*12,465	464,156	71,194	17,207,331	225,481	625,659	274,676	350,983	2,084,961	271,488
U.S. possessions tax credit	31,882	—	—	—	*23,902	—	7,677	4,679	2,998	303	—
Orphan drug credit	2,119	—	—	—	2,119	—	—	—	—	—	—
Nonconventional source fuel credit	60,816	—	5,580	*433	36,532	16,663	539	*422	117	202	867
General business credit	11,115,568	34,843	104,976	92,542	3,892,168	4,626,999	848,365	191,264	656,784	1,068,458	447,218

1 Includes "Nature of business not allocable" which is not shown separately.
2 Includes "Wholesale and retail trade not allocable" which is not shown separately.
* Estimate should be used with caution because of the small number of sample returns on which it is based.
NOTE: Detail may not add to total because of rounding and the deletion of data. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE FOREIGN CORPORATIONS WITH U.S. BUSINESS OPERATIONS, FORM 1120F

Table 12—Income Statements and Selected Tax Items, by Industrial Division

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	All industrial divisions	Industrial division: Agriculture, forestry, and fishing	Mining	Construction	Manufacturing	Transportation and public utilities	Wholesale and retail trade	Finance, insurance, and real estate	Services	Nature of business not allocable
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Number of returns of active foreign corporations with U.S. business operations, total	**11,342**	**309**	**551**	**77**	**204**	**144**	**413**	**8,970**	**592**	**82**
With net income	3,631	75	155	*25	62	60	160	2,796	252	47
Total receipts	**43,625,980**	**86,315**	**318,406**	**125,979**	**1,305,108**	**1,232,267**	**7,510,200**	**32,244,709**	**782,098**	**20,898**
Business receipts	15,751,678	67,509	293,971	115,215	1,260,288	1,186,518	7,467,765	4,772,429	577,263	*10,720
Interest	24,292,785	5,383	2,704	3,479	6,501	*3,719	8,465	24,247,782	14,715	*39
Interest on Government obligations: State and local	26,164	*9	*290	*38	—	—	*82	25,744	*1	—
Rents	563,983	5,860	*271	*2,623	7,802	*2,795	*3,055	431,407	110,170	—
Royalties	25,368	*35	*29	—	5	—	*432	8,316	*16,551	—
Net short-term capital gain reduced by net long-term capital loss	142,820	—	139	—	82	—	—	142,587	*12	—
Net long-term capital gain reduced by net short-term capital loss	1,298,709	*1,341	4,544	—	3,042	*21,195	*4,268	1,226,363	27,938	*10,019
Net gain, noncapital assets	168,785	*528	*1,984	*2,610	*110	*4,999	*2,904	153,906	*1,744	—
Dividends received from domestic corporations	66,369	—	*98	—	—	—	*278	65,993	—	—
Dividends received from foreign corporations	*186	—	*10	—	—	—	—	*175	*1	—
Other receipts	1,289,132	5,651	14,367	*2,014	27,278	13,042	22,952	1,170,007	33,703	*120
Total deductions	**43,739,001**	**126,960**	**535,025**	**153,273**	**1,384,786**	**1,462,864**	**7,552,494**	**31,712,717**	**807,187**	**3,696**
Cost of sales and operations	11,802,435	23,225	149,867	108,132	1,018,521	835,915	7,014,183	2,393,305	256,576	*2,710
Compensation of officers	293,124	*211	*7,771	*942	6,414	*1,025	17,254	246,843	12,664	—
Repairs	103,177	1,418	4,329	*90	2,423	2,921	6,477	67,157	18,354	*7
Bad debts	520,403	*21	*2,344	*4	6,488	*3,643	18,135	486,690	2,943	*135
Rent paid on business property	404,371	3,820	11,393	*1,221	11,805	18,214	36,797	258,236	62,813	*71
Taxes paid	493,106	3,258	6,263	3,325	23,944	7,858	16,074	404,488	27,859	*37
Interest paid	23,561,904	30,111	108,140	6,680	50,921	50,763	36,746	23,216,551	61,984	*7
Contributions or gifts	39,136	*694	(3)	*1	*55	6	*662	32,388	5,330	—
Amortization	57,025	661	1,469	*7	1,330	*153	553	50,105	2,747	(3)
Depreciation	684,194	30,909	51,483	4,786	43,846	32,260	17,195	438,862	64,849	*4
Depletion	30,482	*15	21,170	(3)	*1,168	—	*71	8,058	—	—
Advertising	84,549	*332	*2,636	*258	8,473	1,333	37,102	26,108	8,189	*117
Pension, profit-sharing, stock bonus, and annuity plans	31,350	—	*2,167	*20	*3,151	*622	1,950	19,252	4,189	—
Employee benefit programs	125,949	*82	*3,895	*961	10,231	*3,166	7,571	86,957	13,085	—
Net loss, noncapital assets	108,869	*6,044	11,074	*15	*2,701	(3)	7,385	81,433	*80	*136
Other deductions	5,398,927	26,157	151,022	26,828	193,315	504,985	334,339	3,896,283	265,523	474
Total receipts less total deductions	-113,021	-40,645	-216,619	-27,294	-79,678	-230,597	-42,294	531,992	-25,089	17,202
Foreign dividend income resulting from foreign taxes deemed paid	—	—	—	—	—	—	—	—	—	—
Net income (less deficit)	-139,186	-40,654	-216,909	-27,332	-79,678	-230,597	-42,376	506,248	-25,090	17,202
Net income	2,492,836	5,673	8,010	*610	61,783	36,112	56,879	2,251,735	54,392	17,643
Deficit	-2,632,022	-46,326	-224,919	-27,942	-141,461	-266,709	-99,255	-1,745,487	-79,482	*-441
Income subject to tax, total	1,817,909	*3,627	1,153	*290	50,818	26,065	24,267	1,648,834	45,196	17,659
Total income tax	687,783	*1,307	423	*148	23,081	10,370	10,093	620,392	15,685	6,285
Additional tax for tax preferences	6,327	—	*9	—	12	*117	42	6,134	*5	*9
Foreign tax credit	118,341	—	—	—	—	—	*49	118,291	*1	—
U.S. possessions tax credit	—	—	—	—	—	—	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*5	—	*1	—	—	—	—	*4	—	—
General business credit	5,789	*87	*14	—	*184	*70	*75	5,025	334	—
Tax from Section I [1]	12,907	—	*7	*58	*164	*1,870	3	10,712	*9	*84
Tax from Section II [2]	557,764	*1,221	399	*148	22,885	10,275	9,927	491,301	15,333	6,276
U.S. income tax paid or withheld	135,120	*69	1,485	*162	*165	*3,675	46	124,471	2,737	*2,310

* Estimate should be used with caution because of the small number of sample returns on which it is based.
1 Tax from Section I is excluded from total income tax amounts since the income from U.S. sources is not effectively connected with the conduct of a trade or business in the U.S.
2 Tax from Section II is the total tax from Schedule J-Tax Computation on effectively connected income with the conduct of a trade or business in the U.S.
3 Less than $500 per return.
NOTE: Detail may not add to total because of rounding. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS

Table 13—Tax Items: Number of Returns by Selected Types of Tax, Dividend Items, Net Income or Deficit, Statutory Special Deductions, Income Subject to Tax, Income Tax, Credits, Payments, and Selected Items of Corporations (Form 1120S), by Selected Industrial Divisions

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	All industrial divisions [1]	Selected industrial divisions									
		Agriculture, forestry, and fishing	Mining	Construction	Manufacturing	Transportation and public utilities	Wholesale and retail trade			Finance, insurance, and real estate	Services
							Total [2]	Wholesale trade	Retail trade		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Number of Returns With Income Tax											
Number of returns with—											
Income tax, total	1,264,292	32,132	11,029	126,344	113,373	41,979	352,755	137,234	214,385	196,267	387,105
Form 1120S	4,022	166	50	228	586	269	1,100	539	557	710	913
Regular and alternative tax before credits	1,221,581	31,245	9,652	120,513	108,135	40,274	341,695	132,009	208,553	191,344	375,415
Tax from recomputing prior-year investment credit	150,759	4,625	2,399	18,249	21,026	6,793	48,054	22,674	25,199	15,706	33,892
Total income tax after—											
Nonconventional source fuel, orphan drug, and general business credits	1,110,010	25,161	9,592	111,501	98,415	33,919	315,957	125,727	189,156	186,996	325,259
Foreign tax, U.S. possessions tax, nonconventional source fuel, orphan drug, and general business credits	1,109,203	25,121	9,547	111,496	98,049	33,898	315,882	125,656	189,152	186,949	325,050
Returns With and Without Net Income											
Number of returns	3,428,515	106,634	40,354	341,816	285,119	138,428	939,159	314,115	620,956	537,384	1,012,178
Dividends received from domestic corporations, total	15,156,098	54,656	403,766	135,413	4,312,921	1,114,987	1,023,268	510,021	509,733	7,631,047	473,142
Amount qualifying for Sect. 243(a)(1) deduction	13,569,915	54,107	320,452	134,274	3,312,530	1,095,633	944,507	439,852	501,142	7,257,796	443,717
Amount on certain preferred stock of public utility	21,068	63	*17	*408	5,135	*72	1,356	*608	748	11,829	2,187
Intragroup dividends qualifying for 100 percent deduction	665,825	(3)	*80,914	*81	290,920	364	19,505	14,169	5,336	261,609	12,432
Amounts received from IC-DISCS or former DISCS	490,874	*485	*1,493	519	397,171	3,531	48,054	47,355	*699	30,158	9,463
Dividends received from foreign corporations, total	22,747,046	45,745	580,456	99,440	18,906,008	324,701	819,447	411,161	404,439	1,549,681	409,415
Amount qualifying for Sec. 245(a) deduction	42,676	1	*7	*266	26,116	*7,624	*290	*290	—	8,306	*65
Intragroup dividends qualifying for 100 percent deduction	1,764,065	*4,828	*9,018	*3,121	1,561,500	*39,084	38,519	33,485	*2,901	88,397	19,598
Other foreign dividends	20,940,305	*40,916	571,431	96,052	17,318,392	277,993	780,638	377,386	401,539	1,452,977	389,753
Constructive taxable income from related foreign corporations, total	19,038,861	*5,705	445,528	69,632	16,049,445	496,711	673,671	249,062	424,609	1,051,273	246,797
Includable income of Controlled Foreign Corporations	4,766,865	976	216,809	29,167	3,445,899	321,706	221,429	81,025	140,404	439,848	91,030
Foreign dividend income resulting from foreign taxes deemed paid	14,271,996	*4,730	228,718	40,465	12,603,546	175,005	452,242	168,037	284,205	611,425	155,767
Net income (less deficit)	269,530,240	1,148,686	−3,122,565	5,781,722	101,827,271	21,803,663	34,919,948	16,786,801	18,109,915	99,808,908	7,448,023
Statutory special deductions, total	53,603,316	1,016,062	1,718,966	2,539,670	15,176,845	3,631,049	4,947,520	2,706,838	2,219,424	20,682,013	3,846,559
Net operating loss deduction	41,422,810	965,914	1,357,510	2,424,376	10,295,720	2,599,705	4,092,945	2,286,900	1,787,774	16,207,524	3,440,350
Dividends received deduction	12,146,695	50,149	361,456	115,294	4,880,607	998,111	854,575	419,938	431,650	4,474,431	406,210
Deduction for dividends paid on certain public utility stock	33,810	—	—	(3)	*518	33,233	—	—	—	*58	—
Income subject to tax	276,172,502	1,883,473	3,241,899	7,578,399	116,666,065	36,663,610	43,982,615	19,666,427	24,255,197	50,679,641	15,326,352
Income tax, total	111,140,137	589,887	1,453,090	2,525,994	50,222,612	16,156,499	17,097,449	7,781,984	9,296,057	18,091,479	4,942,317
Regular and alternative tax	108,773,260	579,120	1,339,161	2,484,009	49,025,411	15,807,771	16,862,842	7,694,330	9,149,195	17,799,986	4,818,018
Personal holding company tax	10,248	—	*72	*191	*965	*600	*438	*346	*92	7,970	*12
Tax from recomputing prior-year investment credit	1,319,525	7,682	21,389	28,275	653,088	212,432	179,319	73,791	105,436	115,785	97,697
Additional tax for tax preferences	1,026,194	3,085	86,903	12,240	543,146	134,608	54,324	13,429	40,895	165,786	26,094
Foreign tax credit	21,480,508	12,641	618,542	71,340	17,340,711	232,474	632,765	280,896	351,868	2,254,655	317,281
U.S. possessions tax credit	2,907,256	1	—	6	2,702,270	79,338	96,649	32,620	*64,030	14,884	14,107
Orphan drug credit	6,530	—	—	—	6,530	—	—	—	—	—	—
Nonconventional source fuel credit	63,544	—	7,137	*441	37,519	16,731	541	*422	*120	306	*868
General business credit	12,805,999	101,639	132,721	270,387	4,373,632	4,822,922	1,201,408	342,803	857,600	1,155,859	746,497
Total income tax after											
Nonconventional source fuel, orphan drug, and general business credits	98,264,064	488,248	1,313,232	2,255,166	45,804,931	11,316,846	15,895,499	7,438,759	8,438,337	16,935,314	4,194,953
Foreign tax, U.S. possessions tax, nonconventional source fuel, orphan drug, and general business credits	73,876,301	475,606	694,690	2,183,820	25,761,951	11,005,034	15,166,086	7,125,243	8,022,439	14,665,774	3,863,565
Estimated tax payments:											
1985 overpayments claimed as a credit	7,022,354	41,033	104,952	191,665	2,566,494	770,599	1,494,366	735,746	754,787	1,408,714	442,878
1986 estimated tax payments	58,418,536	304,687	459,646	1,253,852	21,989,126	9,018,321	11,603,408	5,784,326	5,804,893	11,103,043	2,678,998
Less: Refund of 1986 estimated tax payments	3,053,365	15,453	23,104	78,361	1,297,753	485,731	380,890	220,552	160,338	606,515	164,989
Payments with application for extension of filing time	15,967,131	111,848	211,705	670,346	4,678,350	2,760,904	3,363,247	1,260,388	2,101,237	3,227,583	922,922
Credit for tax paid by regulated investment companies	21,140	*14	5	*24	9,350	152	1,334	*95	*1,154	9,799	*461
Credit for tax on special fuels, nonhighway gasoline, and lubricating oil	86,803	11,260	5,602	6,868	16,503	21,115	10,451	6,435	4,015	2,270	6,226
Tax from Section 1 (1120 F only)	12,907	—	*7	*58	*164	*1,870	3	3	—	10,712	*9
U.S. tax paid or withheld at source	135,120	*69	1,485	*162	*165	*3,675	46	46	—	124,471	2,737
Overpaid windfall profit tax	34,136	*15	2,042	*174	30,591	611	279	277	3	339	*85
Tax due at time of filing	6,810,852	129,773	80,611	569,422	1,548,188	280,578	1,450,190	673,394	772,815	1,891,084	831,139
Tax overpayment	11,359,385	106,793	146,221	422,184	3,764,069	1,357,797	2,358,398	1,105,424	1,247,673	2,355,227	843,334
Returns of S Corporations, Form 1120S											
Number of returns	826,214	34,671	10,197	79,452	57,945	40,705	236,451	56,632	179,308	121,857	238,837
Net income:											
Number of returns	396,377	15,318	4,296	46,815	27,415	16,221	110,806	31,856	78,439	56,611	117,523
Amount	23,942,506	786,593	531,627	2,358,563	5,163,373	1,069,752	6,397,430	3,126,425	3,255,004	3,231,495	4,371,136
Deficit	15,649,265	998,466	436,786	925,769	1,497,325	1,281,589	3,868,442	729,739	3,138,703	3,096,375	3,443,678
Income subject to corporation tax	113,484	*367	*4,592	*803	*37	*931	*6,643	*89	*6,554	*92,172	*7,938
Income tax, total	67,081	414	10,267	2,154	5,845	1,676	5,184	1,933	3,210	35,625	5,917
Regular and alternative tax	46,265	*367	*4,592	*311	*3,469	*289	*2,322	*964	*1,357	*32,303	*2,612

* Estimate should be used with caution because of the small number of sample returns on which it is based.
1 Includes "Nature of business not allocable" which is not shown separately.
2 Includes "Wholesale and retail trade not allocable" which is not shown separately.
3 Less than $500 per return.
NOTE: Detail may not add to total because of rounding. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS, OTHER THAN FORMS 1120S, 1120-IC-DISC, AND 1120-FSC

Table 14—Number of Returns, Selected Income, Tax, Credits, and General Business Credit Items, by Selected Industrial Divisions

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	All industrial divisions [1]	Selected industrial divisions									
		Agriculture, forestry, and fishing	Mining	Construction	Manufacturing	Transportation and public utilities	Wholesale and retail trade			Finance, insurance, and real estate	Services
							Total [2]	Wholesale trade	Retail trade		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Returns of active corporations other than Forms 1120S, 1120-IC-DISC and 1120-FSC:											
Number of returns	2,597,959	71,963	30,158	262,363	227,167	97,722	698,463	253,283	441,617	415,527	773,253
Net income	383,436,250	2,890,052	4,821,090	10,084,522	130,917,110	40,028,003	47,383,553	20,971,351	26,332,062	128,052,739	19,064,149
Income subject to tax	274,798,559	1,883,105	3,237,308	7,577,595	116,665,305	36,662,421	42,726,482	18,417,097	24,248,393	50,587,470	15,308,427
Income tax before credits:											
Total	110,502,539	589,473	1,442,824	2,523,840	50,216,434	16,154,704	16,526,611	7,214,512	9,292,731	18,055,854	4,931,990
Regular and alternative tax	108,156,481	578,753	1,334,569	2,483,697	49,021,609	15,807,363	16,294,868	7,127,828	9,147,723	17,767,684	4,810,995
Credits:											
Foreign tax credit	21,480,221	12,641	618,542	71,340	17,340,711	232,474	632,477	280,609	351,868	2,254,655	317,281
U.S. possessions tax credit	2,907,256	1	—	6	2,702,270	79,338	96,649	32,620	*64,030	14,884	14,107
Nonconventional source fuel credit	63,544	—	7,137	*441	37,519	16,731	541	*422	*120	306	*868
Orphan drug credit	6,530	—	—	—	6,530	—	—	—	—	—	—
General business credit	12,805,999	101,639	132,721	270,387	4,373,632	4,822,922	1,201,408	342,803	857,600	1,155,859	746,497
General business credit items:											
Tentative general business credit	49,157,483	527,902	2,308,988	1,048,198	19,086,330	15,248,603	3,394,296	1,389,920	1,999,441	3,727,990	3,806,263
Current year regular investment credit	12,158,444	39,463	119,479	93,630	5,225,258	4,738,833	689,656	267,712	421,525	676,281	573,317
Tentative business energy investment credit	186,206	*24	*577	*2,132	85,037	55,205	14,305	2,894	11,411	19,083	9,841
Total allowable research credit	1,292,012	4,762	1,804	1,635	1,062,873	101,646	30,906	26,178	4,710	21,699	66,689
Total jobs credit for current year	289,094	1,074	2,287	2,524	92,495	6,860	137,623	7,153	130,331	12,553	33,679
Current year alcohol fuel credit	4,472	—	—	—	1,800	1	*707	*191	*516	—	*1,965
Current year employee stock ownership credit	1,391,341	960	7,993	4,103	812,066	329,516	130,072	11,272	118,800	77,243	29,388
Current year low-income housing credit	—	—	—	—	—	—	—	—	—	—	—
Carryforward of general business credit from prior years	33,822,235	481,672	2,176,859	944,224	11,794,264	10,016,620	2,390,511	1,074,423	1,311,729	2,920,624	3,091,075
Income tax after credits	73,238,991	475,192	684,424	2,181,666	25,755,773	11,003,239	14,595,535	6,558,058	8,019,114	14,630,149	3,853,237

* Estimate should be used with caution because of the small number of sample returns on which it is based.
[1] Includes "Nature of business not allocable" which is not shown separately.
[2] Includes "Wholesale and retail trade not allocable" which is not shown separately.
NOTE: Detail may not add to total because of rounding. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS, OTHER THAN FORMS 1120S, 1120-IC-DISC and 1120-FSC

Table 15—Tax Preference Items: Number of Returns, and Tax Preference and Related Items, by Selected Industrial Divisions

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	All industrial divisions [1]	Selected industrial divisions									
		Agriculture, forestry, and fishing	Mining	Construction	Manufacturing	Transportation and public utilities	Wholesale and retail trade			Finance, insurance, and real estate	Services
							Total [2]	Wholesale trade	Retail trade		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Number of returns of active corporations, other than Forms 1120S, 1120-IC-DISC and 1120-FSC	**2,597,959**	**71,963**	**30,158**	**262,363**	**227,167**	**97,722**	**698,463**	**253,283**	**441,617**	**415,527**	**773,253**
Returns with tax preference items:											
Number of returns	24,487	524	1,813	1,245	4,212	883	3,882	1,804	2,075	9,749	2,167
Total assets	8,500,729,295	5,915,246	121,428,943	50,420,317	2,226,645,165	1,020,558,565	424,240,093	174,224,808	249,924,725	4,539,426,061	112,063,046
Business receipts	3,171,810,903	7,358,452	49,425,623	49,983,727	1,679,258,597	478,460,966	575,341,353	226,663,652	348,649,183	252,528,349	79,453,836
Bad debts	28,966,812	19,555	216,933	98,440	5,483,172	2,759,537	1,855,999	485,261	1,370,672	17,973,065	559,769
Depreciation	189,863,471	260,839	3,392,566	1,009,108	95,330,275	55,343,182	11,885,937	3,090,110	8,795,215	15,936,892	6,703,059
Amortization	6,926,027	2,619	82,707	35,694	3,495,615	914,932	571,933	166,052	405,866	1,150,966	671,561
Depletion	6,251,716	11,653	953,292	69,867	4,286,628	707,582	71,693	62,482	9,211	144,592	6,391
Net income	185,450,052	542,587	1,821,652	1,641,552	90,858,025	31,569,784	16,423,429	6,121,502	10,298,702	38,751,856	3,838,152
Regular and alternative tax before credits [3]	67,957,683	184,967	503,134	523,881	34,404,043	13,086,679	6,510,086	2,400,949	4,108,042	11,368,036	1,376,033
Tax from recomputing prior-year investment credit	849,450	1,459	13,712	5,539	519,566	167,493	63,191	22,484	40,702	59,937	18,471
Additional tax for tax preferences	1,006,991	3,083	86,798	11,863	536,592	133,430	51,894	12,989	38,905	158,961	24,361
Additional tax for tax preferences deferred from prior years	41,274	46	7,728	3,166	18,350	515	2,210	1,306	904	7,148	2,111
Income tax after credits [3]	40,538,813	152,030	464,413	414,560	15,344,124	8,842,898	5,558,510	2,213,829	3,343,582	8,812,918	948,502
Tax preference items:											
Accelerated depreciation on—											
Low income rental housing	124,278	7	12,631	717	91,268	*85	*1,031	82	*949	17,548	*992
Other real property	2,414,359	9,485	16,445	24,045	1,193,060	289,955	362,900	66,946	295,953	322,152	196,317
Amortization	87,542	*12	2	—	4,759	77,121	113	3	110	5,290	*246
Reserves for losses on bad debts of financial institutions	1,317,112	8	—	1,121	6,143	56	4,366	4,311	54	1,299,840	5,577
Depletion	1,581,106	4,308	568,007	53,862	743,777	132,098	19,735	17,966	1,770	54,680	4,621
Capital gains	14,464,699	68,753	153,461	101,279	6,335,153	1,504,856	1,409,564	425,382	983,430	4,480,577	410,228
Leased personal property	25,994	*30	*109	*343	10,801	485	3,256	1,089	*2,167	10,828	141
Mining exploration and development costs	*9,200	—	*137	—	4,021	1,162	*12	*12	—	*3,804	*65
Circulation, research and experimental expenditures	43,001	—	—	—	*20,756	—	—	—	—	*6,480	*15,765
Intangible drilling costs	26,480	*2,598	*10,594	—	*3,764	206	6,265	6,229	36	1,235	*1,818
Total items of tax preference	20,041,694	85,201	815,189	181,367	8,303,690	2,009,974	1,807,242	522,019	1,284,470	6,202,416	635,770

* Estimate should be used with caution because of the small number of sample returns on which it is based.
[1] Includes "Nature of business not allocable" which is not shown separately.
[2] Includes "Wholesale and retail trade not allocable" which is not shown separately.
[3] Credits include foreign tax, U.S. possessions tax, nonconventional source fuel, orphan drug, and general business credits.
NOTE: Detail may not add to total because of rounding. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS, OTHER THAN FORMS 1120S, 1120-IC-DISC, AND 1120-FSC

Table 16—Number of Returns and Selected Tax Items, by Size of Total Income Tax After Credits

[All figures are estimates based on samples—money amounts are in thousands of dollars and size of total income tax after credits are in whole dollars]

Size of total income tax after credits	Number of returns of active corporations, other than Forms 1120S, 1120-IC-DISC, and 1120-FSC	Total income subject to tax	Income tax before credits[1]: Total	Income tax before credits[1]: Regular and alternative tax	Foreign tax credit	U.S. possessions tax credit	Nonconventional source fuel credit	Orphan drug credit	General business credit	Income tax after credits[1]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Total	**2,597,959**	**274,798,559**	**110,502,539**	**108,156,481**	**21,480,221**	**2,907,256**	**63,544**	**6,530**	**12,805,999**	**73,238,991**
Returns with net income	1,507,572	274,437,591	110,192,248	108,096,331	21,472,960	2,907,256	63,527	6,530	12,799,214	72,942,763
Returns without net income	1,090,387	[2]360,968	310,291	60,150	7,261	—	17	—	6,785	296,228
Returns with total income tax before credits[1]	1,257,713	274,795,172	110,502,539	108,156,481	21,480,221	2,907,256	63,544	6,530	12,805,999	73,238,991
Returns with total income tax after credits[1]	1,102,498	267,326,407	107,743,354	105,397,296	20,827,653	1,174,339	63,527	6,530	12,432,315	73,238,991
Under $6,000	788,911	11,373,747	2,260,376	2,212,393	552,405	70,239	*154	—	352,957	1,284,622
$6,000 under $10,000	98,635	4,718,065	868,105	847,626	3,586	*18,640	—	—	94,125	751,754
$10,000 under $15,000	52,261	3,450,537	753,334	735,976	12,420	*16,221	*156	—	81,244	643,292
$15,000 under $20,000	25,836	2,318,669	611,518	598,825	*2,516	89,325	—	—	71,625	448,053
$20,000 under $25,000	19,581	2,077,365	577,332	565,309	15,330	67,159	*35	—	57,004	437,804
$25,000 under $50,000	43,541	5,757,768	1,877,489	1,820,833	43,037	114,123	*2,693	—	185,499	1,532,138
$50,000 under $75,000	17,743	3,561,119	1,297,066	1,278,532	61,206	32,311	*327	—	119,683	1,083,538
$75,000 under $100,000	9,744	2,506,332	963,047	945,829	42,530	459	306	—	77,779	841,972
$100,000 under $250,000	24,375	11,719,731	4,780,927	4,704,394	492,873	165,420	1,604	—	300,460	3,820,570
$250,000 under $500,000	9,611	10,656,485	4,592,185	4,518,465	764,263	238,622	*663	—	255,888	3,332,749
$500,000 under $1,000,000	5,479	10,719,755	4,648,671	4,557,277	471,611	23,373	*2,299	—	315,900	3,835,488
$1,000,000 under $10,000,000	5,872	49,769,306	21,449,416	20,886,744	3,400,055	338,145	18,582	666	1,977,110	15,714,858
$10,000,000 under $50,000,000	725	66,618,195	28,542,688	27,879,639	10,261,403	—	23,086	4,725	3,504,789	14,748,684
$50,000,000 under $100,000,000	109	29,901,952	12,788,007	12,459,507	2,964,029	—	6,600	886	2,016,890	7,799,602
$100,000,000 or more	76	52,177,380	21,733,193	21,385,948	1,740,390	305	7,021	252	3,021,360	16,963,867

[1] Credits include foreign tax, U.S. possessions tax, nonconventional source fuel, orphan drug, and general business credits.
[2] Amount was reported by life insurance companies and banks with life insurance departments taxable under special provision of the Internal Revenue Code.
NOTE: Detail may not add to total because of rounding. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

INDEX TO EXPLANATION OF TERMS

* Definition has been modified from prior year reports to reflect processing or tax law changes as well as clarification of the explanations.

The following explanations include definitions and limitations of terms used, and adjustments made in preparing the statistics. These explanations are designed to aid the user in interpreting the statistical content of this report and should not be construed as interpretations of the Internal Revenue Code or policies. Code sections cited were those in effect for the Income Years of the report. Whenever a year is cited, it refers to the calendar year, unless otherwise stated.

The instructions for the tax forms in section 6 will provide additional information about many items. Finally, definitions marked with the symbol (#) have been modified from prior year reports to reflect processing or tax law changes as well as clarifications of the explanations.

Accounting Periods

Among the several classifications used in this report, tax return data are classified according to the accounting periods used by corporations. For a detailed discussion of this classification, see "Time Period Employed" in section 1, Introduction.

Accounts and Notes Payable

This item consisted of accounts payable and mortgages, notes, and bonds payable in less than one year. Each is described separately under its own heading below.

Accounts Payable (#)

Relatively short-term liabilities arising from the conduct of trade or business which were not secured by promissory notes were generally included under this heading. Banks and savings institutions may have reported deposits and withdrawable shares in accounts payable.

Accumulated Adjustments Account

The Subchapter S Revision Act of 1982 established this new balance sheet account for S corporations for the most recent continuous period during which the corporation was an S corporation for taxable years beginning after December 31, 1982. The accumulated adjustments account was determined by taking into account all items of income, loss and deductions for the tax year (including nontaxable income and nondeductible losses and expenses). After the year-end income and expense adjustments were made, the account was reduced by distributions made during the tax year.

At the end of the tax year, if the corporation had a balance in its retained earnings account, the accumulated adjustments account was determined by taking into account only the taxable income and deductible losses and expenses for the current tax year.

Additional Tax for Tax Preferences (#)

Additional tax for tax preferences, the so-called "minimum tax," was intended to make possible the taxation, to some extent, of selected income and deduction items (described by law as "tax preferences") afforded special tax treatment in the computation of taxable income.

For the most part, the 15 percent tax was levied on the sum of a corporation's tax preferences which exceeded $10,000 or the current-year income tax (including tax from recomputing prior-year investment credit) reduced by foreign tax credit, U.S. possessions tax credit, nonconventional source fuel credit, orphan drug credit and general business credit. For tax years beginning after 1984, the tax benefits of certain corporate tax preference items were subject to a 20 percent reduction under Section 291 and then adjusted by including a limited amount of the reduced tax preference items in the minimum tax base. This was done in order to prevent the combination of incentive cutbacks and minimum tax from reducing the tax benefits from these preferences even further.

Members of a controlled group of corporations filing separate returns were required to apportion a single $10,000 statutory exclusion among the members of the group in proportion to the members' respective regular tax deductions.

Tax preference items were: (1) accelerated depreciation (depreciation in excess of the amount computed under the straight-line method allowed on real property); (2) amortization of certified pollution control facilities (special rapid write-offs in excess of what otherwise would have been a depreciation deduction under Code section 167); (3) reserves for losses on bad debts of financial institutions (additions to reserves for bad debts in excess of actual bad debt losses, based on prescribed rules); (4) depletion (depletion deduction in excess of the cost or other basis of the property, reduced by depletion taken in prior years); and (5) capital gains (net long-term capital gain in excess of net short-term capital loss) when this amount was taxed at the special lower capital gains rate; the preference item applied only if the alternative tax under Code section 1201 applied. (The preference item equaled the tax if alternative tax had not been used minus the alternative tax, divided by 0.46). Other tax preference items that personal holding companies took into account included (1) accelerated depreciation on leased property; (2) mining exploration and development costs; (3) circulation and research and experimental expenditures; and (4) intangible drilling costs. There were also special rules in effect for timber income, including both gains from the cutting of timber and the long-term gains from the sale of timber.

In general, all corporations, other than Interest Charge Domestic International Sales Corporations (IC-DISC's), were liable for the additional tax. However, regulated investment companies and real estate investment trusts were subject to the tax only on the net long-term capital gain in excess of the net short-term capital loss that was not taken into account as income by stockholders. S corporations were subject to the minimum tax only on capital gains imposed by section 1374. All other items of tax preference for these corporations were divided among the stockholders and included in their income.

Advertising

Advertising expenses were allowable as a deduction under Code section 162, if they were ordinary and necessary and bore a reasonable relation to the trade or business of the corporation. The amount shown in the statistics includes advertising identified as a cost of sales and operations as well as advertising reported separately as a business deduction. However, for corporations whose principal business activity was the printing and publishing of newspapers and periodicals or engaging in radio and television broadcasting, the statistics do not include advertising expenses incurred in the preparation of customers' advertising; if identified, these amounts were treated as part of the cost of sales and operations.

The types of expenditures covered by the advertising deduction may have varied somewhat from company to company and a few companies did not separately identify advertising when it was included in the cost of sales and operations. In addition, certain kinds of advertising expenditures, such as for billboards, were capitalized and recovered only as part of depreciation.

Alcohol Fuel Credit (#)

The Windfall Profit Tax Act of 1980 contained provisions for an alcohol fuel credit. If alcohol (other than alcohol produced from petroleum, natural gas, or coal) was used as a fuel (whether partially or completely comprised of alcohol) of a type suitable for use in internal combustion engines, a nonrefundable income tax credit was provided. In general, the credit was available to the blender in the case of blended fuels and to the user or retail seller in the case of pure alcohol fuels. The amount of the credit was 60 cents per gallon for alcohol of at least 190 proof and 45 cents (1984) per gallon for alcohol between 150 and 190 proof. No credit was available for alcohol of less than 150 proof.

The credits were generally available for alcohol sold or used after September 30, 1980, and before January 1, 1993. The Economic Recovery Tax Act of 1981 extended the carryforward provision of unused credits from 7 years to 15 years; the carryback provision of 3 years was not changed. The 1984 Act changed the manner in which alcohol fuel credit was reported. The credit was computed as in prior years, but was claimed as one of the components of the general business credit under Code Section 38. As a component of the general business credit, the alcohol fuel credit was subject to the net tax liability limitation of Code section 38.

The alcohol fuel credit is not shown separately in the tables in this report; however, it is included as a component of the general business credit.

Allowance for Bad Debts

Most corporations identified on their balance sheet the allowance or reserve set aside to cover uncollectible or doubtful notes, accounts, and loans as an adjustment to notes and accounts receivable. A few corporations, however, reported only net receivables and, thus, did not show their allowance for bad debts. In addition, tax return balance sheets used by life and certain mutual insurance companies did not require the allowance to be reported. The statistics for both the allowance and for the gross amount of "Notes and Accounts Receivable" are understated by these unidentified amounts.

Since corporation tax return balance sheets did not provide for the separate reporting of reserves for uncollectible mortgage and real estate loans, many banks and savings and loan associations may have included the item in the allowance for bad debts. If, on the other hand, these reserves were reported in supporting schedules, they were later added to the allowance for bad debts during statistical processing. However, in some cases, the supporting schedules were not attached to the return and the amount may be understated.

Alternative Tax

See "Income Tax."

Amortization (#)

Amortization was a deduction for recovery of certain expenditures over a certain period of time in a manner similar to straight-line depreciation. Typically, the period of time over which the expenditure was written off was much shorter than if depreciation had been used; often, depending on the specific provision of the law, the period of time was only 60 months. The following types of amortization, applicable to the statistics in this report, were specifically mentioned in the Code as allowable deductions:

- bond premiums (Code section 171)
- certain business startup costs paid or incurred (Code section 195)
- child care facilities (Code section 188)
- construction period interest and taxes on real property (except low-income housing) (Code section 189)
- forestation and reforestation expenditures (Code section 194)
- lessee's improvements to leased property, leasehold improvements (Code section 178)
- motion picture film, videotape, sound recording and books (Code section 280)
- organizational expenditures of corporations (Code section 248)
- pollution control facilities (Code section 169 limited by Code section 291)
- railroad rolling stock (Code section 184)
- railroad tunnel bores and grading (Code section 185)
- research and experimental expenditures (Code section 174)
- trademark and trade name expenditures (Code section 177).

The amounts shown in the statistics include any identifiable amortization (as described above) reported as part of the cost of sales and operations or in the schedule in support of depreciation as described below.

On Forms 1120 prior to 1982, amortization was shown on a separate line of the income statement on page 1. However, since l982, amortization has been shown separately only on Form 4562, Depreciation, and that amount was carried forward and included in line 26, other deductions, on page 1; Form 1120 (see Form 1120 return facsimile in section 6 of this report). Because some corporations may not have identified amortization separately on Form 4562, the statistics for "Amortization" may be understated and "Other Deductions" may be overstated by the same amounts.

Beginning with the 1986 statistics, all deduction amounts identified as amortization by the taxpayer were included in amortization with the following exceptions: (1) When the property appeared to actually be depreciable rather than amortizable property, and (2) when the amortization was for intangible drilling costs.

See also "Additional Tax for Tax Preferences."

Bad Debts

Bad debts occurring during the year, or a reasonable addition to an allowance or reserve for bad debts, were allowable as a deduction under Code section 166.

Commercial banks, mutual savings banks, savings and loan associations, small business investment companies and other financial institutions were permitted to take a deduction for a reasonable addition to their bad debt balance which was far greater than that allowed other businesses. Unlike other businesses, which could deduct additions to their reserves only to the extent justified by their actual loss experience, these financial institutions could elect to increase their reserves based on percentages of outstanding loans. However, certain restrictions were introduced in 1969 to begin to bring these institutions in line with other businesses.

For commercial banks, beginning with 1969, deductible additions to the reserves were to decrease in three transitional steps. These steps were to be completed by 1988, at which time the deduction would have to be based on actual losses for the current and 5 preceding years, the same as for other businesses. For taxable years beginning after 1975, but before 1982, the percentage for eligible loans outstanding used as the basis for the deduction was 1.2 percent; 1.0 percent was used for taxable years beginning in 1982 and 0.6 percent for taxable years beginning after 1982.

For small business investment companies, deductions for additions to the reserves, using an industry average as the norm, were permitted during the first 10 years of a company's existence. Thereafter, additions to the reserves had to be based on a corporation's own experience.

For mutual savings banks, savings and loan associations, cooperative banks and certain stock associations, the deduction was 40 percent of an adjusted taxable income figure before reduction by the bad debts deduction, provided it did not increase the reserve beyond 6 percent of qualifying loans.

For banks and other financial institutions, corporate or government debts evidenced by certain bonds which became worthless during the year were chargeable as bad debts under Code section 582. For other corporations, such losses were subject to the special capital gain or loss provisions of the law. See the explanation for "Net Capital Gains" in this section.

Amounts of recovered bad debts reported by corporations which deducted actual bad debts were included in "Other Receipts."

See also "Additional Tax for Tax Preferences."

Business Receipts (#)

Business receipts were, in general, the gross operating receipts of the corporation reduced by the cost of returned goods and allowances.

Business receipts included rents reported as a principal business income by real estate operators and by certain types of manufacturing, public utility, and service corporations. The latter corporations included manufacturers that frequently rented rather than sold products, such as automatic data processing equipment; lessors of public utility facilities, such as docks, warehouses, and pipelines; and companies engaged in rental services, such as the rental of automobiles or clothing.

Some corporations treated sales taxes and excise and related taxes which were included in the sales price of their products as part of their gross receipts from sales; others reported their receipts after adjustment for these taxes. When treated as receipts, sales taxes and excise and related taxes were deducted on the tax return as part of the cost of sales and operations or were included in the separately itemized deduction for taxes paid. In any case, the receipts as reported by the taxpayer were included in the statistics. See also "Cost of Sales and Operations" and "Taxes Paid."

In the finance, insurance, and real estate industries, business receipts included such banking items as fees, commissions, trust department earnings, exchange collections, discounts, and service charges, when identified in schedules attached to the return. Business receipts also included interest which could not be separately identified as such. (Interest, the principal operating income of banking and savings institutions, is shown separately in the statistics under "Interest" and is, therefore, excluded from business receipts.) Special statistical treatment was required for the few banking institutions which reported the purchase and sale of Federal funds as part of cost of sales and operations and business receipts, respectively. For the statistics, the amount paid by the banking institutions for these funds was excluded from the "Cost of Sales and Operations" and a corresponding amount was excluded from business receipts.

Also in the finance, insurance, and real estate industries, premium income of most insurance companies was included in business receipts. However, certain mutual insurance companies with total receipts of less than $500,000 were not required to report premium income. Therefore, total business receipts for insurance carriers are slightly understated.

Generally, in the finance, insurance, and real estate industries, income from investments, when identified in schedules attached to the return, was allocated to one of the specific types of investment income for which statistics are shown separately. Rent reported by real estate operators, however, was accepted as business receipts.

Business receipts reported by stock and commodity brokers, dealers, and exchanges, by condominium management and cooperative housing associations, and by real estate subdividers, developers, and operative builders required special statistical treatment. For these operations, net profit or loss from the sale of stocks, commodities, or real estate, when identifiable, was allocated to the statistics for net gain or loss from sales or exchanges of noncapital assets.

For Interest Charge Domestic International Sales Corporations (IC-DISC's), business receipts included only export receipts which were "qualified" according to Code Section 993(a), i.e., the sum of (1) gross receipts from noncommission sales of export property, leasing or renting of export property, services related and subsidiary to a qualified export sale or lease, engineering and architectural services, and export management services, and (2) commissions earned by IC-DISC's acting as commission agents for someone else (rather than the gross receipts on which the commissions were earned). In other words, certain "qualified" receipts were those which were considered to be export-related and as such were the only receipts included in the statistics for business receipts. Nonqualifying receipts were included in "Other Receipts."

For Foreign Sales Corporations (FSC's), business receipts included unique FSC income amounts from the sale of (or services related to the sale of) export property for noncommission FSC's. For commission FSC's, the amount represented only the commission earned by the FSC activity as an agent rather than the gross sales amount.

In addition to the income types described above which were uniquely treated by law, by the tax return, or for the statistics, there were certain other kinds of income from sales and operations that are not reflected in business receipts. In general, this income was included as part of the much broader category, sales of property used in trade or business. For additional information about this income, see "Net Capital Gains" and "Net Gain (or Loss), Noncapital Assets."

Calendar Year Returns

Calendar year returns were those filed for the 12-month period beginning in January and ending in December. Most of the larger corporations filed for this period. Figure B in section 1 shows the percentage of returns filed for each of the accounting periods covered in this report.

Capital Stock

This end-of-year balance sheet equity item included amounts shown for outstanding shares of both common and preferred stock.

Cash

This balance sheet asset item included the amount of actual money or instruments and claims which were usable and acceptable as money on hand at the end of the taxable year.

For Interest Charge Domestic International Sales Corporations (IC–DISC's), this item was the sum of the following accounts shown separately on the tax return: working capital (i.e., cash and necessary temporary investments) and funds awaiting investment (i.e., cash in U.S. banks in excess of working capital needed to acquire other qualified assets).

Compensation of Officers

Salaries, wages, stock bonuses, bonds, and other forms of compensation were included in this deduction item if they were identified as having been paid to officers for personal services rendered. Understatement was possible to the extent compensation was reported as part of another deduction item (such as an overall employee compensation figure) and, if not clearly identified, was included in the statistics for "Cost of Sales and Operations" or "Other Deductions."

Consolidated Returns

Consolidated returns were income tax returns which contained the combined financial data of two or more corporations meeting the following requirements: (1) a common parent corporation owned at least 80 percent of the voting power of all classes of stock and at least 80 percent of each class of nonvoting stock (except stock which was limited and preferred as to dividends) of at least one member of the group; and (2) these same proportions of stock of each other member of the group were owned within the group.

Corporations electing to file consolidated returns in one year had to file consolidated returns in subsequent years, with certain exceptions. The consolidated filing privilege could be granted to all affiliated domestic corporations connected through stock ownership with a common parent corporation except: (1) regulated investment companies; (2) real estate investment trusts; (3) corporations for which an election to be treated as a possessions corporation under Code section 936(e) was in effect; (4) corporations designated tax-exempt under Code section 501; and (5) Interest Charge Domestic International Sales Corporations (IC–DISC's) or Former DISC's; and (6) life and mutual insurance companies (and affiliates under sections 802 and 821 (Section 1504(c)). Foreign Sales Corporations (FSC's) are also denied the privilege of filing a consolidated return.

A consolidated return, filed by the common parent company, was treated as a unit, each statistical classification being determined on the basis of the combined data of the affiliated group. Therefore, filing changes to or from a consolidated return basis affect year-to-year comparability of certain statistics (such as data classified by industry and size of total assets).

Constructive Taxable Income from Related Foreign Corporations (#)

This item represented the sum of (1) "Includable Income from Controlled Foreign Corporations" identified as "Income from Controlled Foreign Corporations under Subpart F" on the Form 1120 tax form and (2) "Foreign Dividend Income Resulting from Foreign Taxes Deemed Paid," identified as "Foreign Dividend Gross-Up (section 78)" on the Form 1120 tax form.

Includable income from Controlled Foreign Corporations represented amounts, not actually received, which a domestic corporation owning at least 10 percent of a Controlled Foreign Corporation was required by Code section 951 to include in its gross income. For most purposes, the foreign corporation was considered controlled if more than 50 percent of its voting stock was controlled by U.S. persons, including domestic corporations, each of whom owned at least 10 percent of its voting stock.

The includable income consisted of:
(1) subpart F income, defined below;

(2) any previously excluded subpart F income which had been invested in qualified assets in "less developed countries," but which was now either withdrawn from these countries or remitted to the U.S. stockholders and was thereupon taxable;
(3) any previously excluded subpart F income which had been withdrawn from foreign base company shipping operations; and
(4) any increase in Controlled Foreign Corporation earnings due to investment in U.S. property.

Subpart F income, defined in Code section 952, included:
(1) income attributable to premiums received by foreign insurance companies that were Controlled Foreign Corporations whose insurance business was on U.S. risks (as determined under Code section 953); and
(2) "foreign base company income," which included:
   (a) "foreign personal holding company income" (income derived from portfolio investments or from "passive" investments);
   (b) "foreign base company sales income" (generally from the sale of property produced in the United States or a foreign country by one corporation and sold by a related corporation, generally a trading company, organized in another country having a low rate of taxation, for use outside that country);
   (c) "foreign base company services income" (in general, income from services performed or furnished for a related person, which included corporations, outside the country of incorporation of the Controlled Foreign Corporation, but with certain exceptions);
   (d) "foreign base company shipping income" (in general, income derived from use of aircraft or vessels in foreign commerce or income derived in connection with the performance of services directly related to any such aircraft or vessel); and
   (e) "foreign base company oil-related income" (in general, this is foreign oil related income other than income derived from a source within a foreign country in connection with oil or gas which was extracted within such country, or oil or gas or derived products, which were sold by the foreign corporation for use or consumption within such country).
(3) international boycott income;
(4) illegal bribes, kickbacks, or other payments to a government official.

Foreign dividend income resulting from foreign taxes deemed paid related to certain foreign taxes on profits of companies which were 10 percent or more owned by domestic corporations. If dividends were actually or constructively distributed to a domestic corporation (from these foreign profits), the domestic corporation was required to increase (or "gross-up") such dividends by a proportionate amount of the foreign taxes deemed paid on the foreign profits for which the domestic corporation claimed a foreign tax credit. See also "Foreign Tax Credit."

Analysis of returns of some of the larger corporations revealed instances where amounts reported as foreign dividend income resulting from foreign taxes deemed paid were actually dividends received from foreign corporations, and instances where amounts reported as dividends received from foreign corporations were actually the gross-up of foreign taxes deemed paid. (Both of these items were reportable on the dividends received schedule of the income tax return.) If these amounts were so identified on supporting schedules, they were transferred to the correct item for the statistics.

Foreign dividend income resulting from foreign taxes deemed paid and includable income from controlled foreign corporations are combined in the tables and shown under the statistics for constructive taxable income from related foreign corporations.

Contributions or Gifts

Contributions or gifts to charitable, religious, educational, and similar organizations were deductible under Code sections 170, 809, and 882. In general, the deduction was limited to 10 percent of taxable income computed without regard to:
(1) the deduction for contributions;
(2) special deductions for dividends received and for dividends paid on certain preferred stock of public utilities;
(3) any net operating loss carryback; and
(4) any capital loss carryback to the tax year.

Also, certain additional adjustments were required in the case of life insurance companies. Charitable contributions over the 10 percent limitation could be carried forward to the next 5 tax years; however, the carryover was not allowed if it increased a net operating loss carryover.

Cost of Property Used for Investment Credit

Amounts included under this heading are estimates for the total cost or basis of depreciable property (defined in Code section 48 and described under "Investment Credit" in this section) reported in connection with the computation of the investment credit. Only property with a useful life of 3 years or more was eligible for investment credit.

Although corporations generally reported their investments at cost, most corporations claiming the investment credit for leased property used the fair market value instead.

The statistics include amounts reported but not used for the computation of the investment credit. A limitation, for instance, was placed on the amount of used property which could be taken into account in the computation of the credit. (See "Investment Credit" as a component of the general business credit.) Also included were amounts which were ultimately used in the computation of the credit by end-of-the-year shareholders of S corporations electing to be taxed through those shareholders.

Cost of Sales and Operations

Cost of sales and operations generally consisted of the direct costs incurred by the corporation in producing goods or providing services. Included were costs of materials used in manufacturing; costs of goods purchased for resale; direct labor; and certain overhead expenses, such as rent, utilities, supplies, maintenance, and repairs. The valuation methods the corporation used to value its inventories consisted of

(1) cost;
(2) cost or market value (whichever was lower); or
(3) any other method that was approved by the Commissioner of Internal Revenue.

Corporations with manufacturing or production operations were required to compute taxable income in accordance with the "full absorption" method of inventory costing as prescribed by the income tax regulations. In general, under full absorption costing, certain indirect production costs as well as direct production costs were allocated to goods produced during the taxable year, whether included as costs of the taxable year or as inventory at the close of the year determined in accordance with the corporation's method of identifying goods in inventory. In determining inventory costs, indirect production costs were: (1) always included, such as for repairs, indirect labor, and indirect materials and supplies; (2) not required to be included, such as for marketing expenses, selling or other distribution expenses, and interest; or (3) included or excluded from the cost of sales and operations depending on how such costs were treated in the corporation's books of account. These costs included insurance costs, taxes paid, and depletion expenses. Thus, the statistics also include certain indirect production costs reported by corporations as a cost of sales.

Sales taxes and excise and related taxes may have been reported in cost of goods sold schedules when corporations treated these taxes as part of the sales price of products. When taxes were identified in cost of goods sold schedules, they were added to the statistics shown for the separate deduction for "Taxes Paid." Similarly, expenses for depreciation, depletion, amortization, rent of buildings or real estate, advertising, contributions to pension plans, contributions to employee benefit programs, bad debts, compensation of officers, contributions to charitable organizations, intangible drilling costs and interest were transferred to their respective deduction categories when identified in cost of goods sold schedules.

The income or loss from sales of securities, commodities, or real estate by stock and commodity brokers, dealers, and exchanges, and by real estate subdividers, developers, and operative builders was transferred from business receipts, and the net profit or loss from these transactions included in net gain or loss from sales or exchanges of noncapital assets.

See also "Business Receipts."

Cost of Treasury Stock

This item was the total value of issued common or preferred stock which had been reacquired and was held at the end of the accounting year by issuing corporations. The stock, which was available again for resale or cancellation, may have been purchased by the corporation or acquired through donation or as settlement of a debt. Treasury stock was not a part of capital stock outstanding and did not include unissued capital stock.

The amounts shown may be somewhat understated. Treasury stock intended for resale may have been reported as an asset on some tax returns and, if not clearly identified as for resale, would have been included in the statistics for "Other Investments." When identified, though, such stock was transferred to the statistics for "Cost of Treasury Stock."

Credit for Tax on Special Fuels, Nonhighway Gasoline and Lubricating Oil

Code section 39 allowed a credit in full or in stated amounts for excise taxes on:

(1) gasoline used on farms for farming purposes (Code section 6420);
(2) gasoline used for nonhighway purposes or by local transit systems (Code section 6421); and
(3) fuel not used for taxable purposes (Code section 6427).

These taxes could be applied as a credit against income tax liability or could have been, under certain conditions, refunded directly.

Credit for Tax Paid by Regulated Investment Companies

Regulated investment companies were required to pay a tax (at capital gains rates) on amounts of undistributed net long-term capital gain less net short-term capital loss. Stockholder corporations, for their part, were required to include in the computation of their long-term capital gains any such gains designated by the parent as undistributed dividends. The stockholder corporations were then deemed to have paid the tax on the undistributed long-term capital gain dividends and were allowed a credit (or a refund) for the tax they were deemed to have paid. It is this credit which comprises this item.

Deficit

See "Net Income (or Deficit)."

Depletable Assets

Depletable assets represented, in general, the gross end-of-year value of mineral property, oil and gas wells, other natural deposits, standing timber, intangible development and drilling costs capitalized, and leases and leaseholds, each subject to depletion. Accumulated depletion represented the cumulative adjustment to these assets shown on the corporation's books of account. In some instances, depletable assets may have been included with "Depreciable Assets," or may have been reported as land or as "Other Investments" by the taxpayer, and could not be identified for this report.

The value of depletable assets and accumulated depletion may not be closely related to the current year depletion deduction. The depletable assets and accumulated depletion balance sheet accounts reflected book values; the depletion reflected the amount claimed for tax purposes.

Depletion

This deduction was allowed for the exhaustion of mines, oil and gas wells, other natural deposits and timber. For standing timber, depletion was computed on the basis of cost. In the case of natural deposits, the depletion could be computed either on the basis of cost or upon a fixed percentage of the gross income, less rents and royalties, from the depletable property. Generally, for gas and oil wells the gross income was the actual sales price, or representative market or field price if the gas or oil was later converted or manufactured prior to sale. For other natural deposits, gross income was the gross income from mining, defined to include extractive and certain treatment processes. Also included as gross income were exploration expenditures, previously deducted, that were required under provisions of Code section 617 to be recaptured when the mine reached the production stage.

Under elective provisions of the Code, exploration and development expenditures connected with certain domestic natural deposits (except gas and oil) could be deducted currently, treated as deferred expenses, or capitalized. The write-offs of amounts deferred or capitalized were not included as part of depletion.

Percentage depletion, though based on percentages of gross income from depletable property, was limited. Generally, it could not exceed 50 percent of the taxable income from the property computed without the depletion deduction. Percentage rates of gross income for each type of natural deposit were listed in Code section 613 and ranged from 5 to 22 percent.

Generally, percentage depletion could not be used for oil and gas wells. However, independent producers (and royalty owners) could have used percentage depletion, provided they did not refine more than the taxpayer's depletable oil quantity of domestic crude oil in any day and that the taxpayer's average daily production of domestic natural gas does not exceed the taxpayer's depletable natural gas quantity. The depletion rate for small producers was 15 percent for a maximum daily average of 1,000 barrels.

As explained under "Net capital gains", the cutting of timber was eligible for net long term capital gain treatment under Code section 1231. If timber depletion was used in the computation of gain (or loss), it could not be identified for the statistics. Because of taxpayer reporting variations involving the computation of gain or loss, or of gross receipts from sales (and the cost of sales and operations or depletion deduction), the depletion statistics may be incomplete for industries in which sales of cut timber or of lumber or wood products are a major source of income.

The amounts shown in the statistics include any identifiable depletion reported as part of the cost of sales and operations.

See also "Additional Tax for Tax Preferences."

Depreciable Assets

Depreciable assets, reported on the corporation's end-of-year balance sheet, consisted of tangible property (such as buildings and equipment) which was used in the trade or business or held for the production of income and which had a useful life of one year or more. The statistics for this item could include fully depreciated assets still in use and partially completed assets for which no deduction was allowed, when the corporation reported them as depreciable in its balance sheet. The statistics for depreciable assets exclude those intangible assets which were depreciable or amortizable only for tax purposes. Such assets, patents and copyrights for example, were includable in "Intangible Assets." The amounts shown as accumulated depreciation represent the portion of the assets that were written off in the current year, as well as in prior years.

The amounts shown for depreciable assets are, in general, the gross amounts before adjustments for depreciation or amortization charged in current and prior years. Some corporations, however, reported only the net amount of depreciable assets after adjusting for these depreciation or amortization charges. Among the corporations reporting only a net amount of depreciable assets were many insurance carriers reporting balance sheet information in the format required by State insurance regulations. This format usually provided for the reporting of only net depreciable assets and only the home and branch office buildings and equipment were included. Other real estate holdings of these corporations were reported as "other investments."

The value of depreciable assets and accumulated depreciation may not be closely related to the current-year depreciation deduction. The depreciable assets and accumulated depreciation balance sheet accounts reflected book values; the depreciation deduction reflected the amount claimed for tax purposes.

On the Form 1120-A balance sheet, depreciable assets are combined with depletable and intangible assets, however, the majority of this item represents depreciable assets.

Depreciation (#)

Depreciation on tangible assets first placed in service after 1980 and before 1987 was to be determined under the Accelerated Cost Recovery System (ACRS), except to the extent that the property did not qualify as recovery property.

Post-1980 depreciation on tangible assets first placed in service before 1981 was computed under the method elected for the years they were placed in service. For assets placed in service after 1970 and before 1981, the taxpayer had a choice of the Asset Depreciation Range (ADR) System or the general depreciation rules. For tangible assets first placed in service before 1971, the taxpayer could have elected the Class Life System (CLS) for pre-1971 assets or the general depreciation rules.

Form 4562, Depreciation and Amortization, is used to compute the recovery allowance for post-1980 assets and the depreciation deduction for pre-1981 assets. Under ACRS, the cost of eligible property was recovered over a 3-, 5-, 10-, 15-, 18-, or 19-year period, depending on the type of property. The deduction was determined by applying the statutory percentage for the appropriate class of property to its unadjusted basis. An Alternate Depreciation System, a straight-line method, could have been used for 3-, 5-, and 10-year property using a half-year convention. The Alternate System could have also been elected for 15-, 18-, 19-year real property and low income housing property, but the mid-month convention applied. Salvage value was treated as zero.

There were four types of property that had to be depreciated using the straight-line method: 1) property used mainly outside the U.S., 2) retirement-replacement-betterment property, 3) qualified leased property, and 4) property financed by tax-exempt obligations.

The Tax Reform Act of 1986 introduced the Modified Accelerated Cost Recovery System (MACRS) and changed the rules for section 179 property for property placed in service after December 31, 1986. Corporations could also elect to use the new rules for property placed in service between July 31, 1986 and January 1, 1987. The maximum amount of section 179 expense that can be claimed had been increased to $10,000. However, if total cost for 179 property placed in service after December 31, 1986 was more than $200,000, then the total expense deduction must be reduced by the amount by which the cost exceeded $200,000.

There were eight classes of recovery property under MACRS and reported on Form 4562-A—Depreciation of Property Placed in Service After December 31, 1986. They included: 3-, 5-, 7-, 10-, 15-, 20-year property, Residential Rental property and Nonresidential Real Property. The last two classifications were "real property", which generally means buildings, and the first six were for depreciable property, generally other then buildings.

The 3-year class included tangible depreciable property with a class life of 4 years or less, 5-year property included property with a class life of more than 4 years, but less than 10 years. The 7-year property had a class life of 10 years or more, but less than 16 years; this class also included any property which did not have a class life and which had not been designated by law is being in any other class. The property in the 10-year class included property with a class life of 16 years or more, but less than 20 years. The 15-year property had class lives of 20 years or more, but less than 25 years; and the 20-year property included class lives of 25 years or more.

The prescribed method for property in the 3-, 5-, 7-, or 10-year classes was a method called "200 percent declining balance" over 3, 5, 7, or 10 years, switching to the straight-line method for the first taxable year in which that method resulted in a higher deduction. For property in the

15- or 20-year class, the 150 percent declining balance method over 15 or 20 years was prescribed. In both cases, a half-year convention (half-year's depreciation for the first year in service, no matter when in the tax year the property was acquired) had to be used.

If more than 40 percent of the total cost or other basis of all property placed in service during the tax year was placed in service during the last 3 months of that year, then the mid-quarter convention must be used for all property placed in service during the year. This rule did not apply to nonresidential real or residential rental property. For residential rental property the prescribed method was straight-line over 27.5 years and for non-residential real property, straight-line over 31.5 years. The applicable convention was the mid-month convention which treated all property placed in service during any month as placed in service on the mid-point of such month.

Instead of using the declining balance method, the straight-line method could be elected over the recovery period for 3-, 5-, 7-, 10-, 15-, or 20-year classes. The election to use the straight-line method for a class of property applied to all property in that class that was placed in service during the tax year of the election. For all classes, salvage value was treated as zero.

Taxpayers who use the new depreciation rules also had to recompute their depreciation for purposes of figuring their minimum tax.

Dividends Received from Domestic Corporations (#)

Dividends received from domestic corporations represented most distributions from current as well as accumulated earnings and profits of companies incorporated in the United States. (For a discussion of other distributions of domestic corporations, see "Other Receipts" in this section.) For the most part, dividends received from domestic corporations represented those recognized in computing the special deduction from net income for domestic intercorporate dividends received. (See also "Statutory Special Deductions.")

Certain domestic dividends, although not deductible, were nevertheless included in dividends received from domestic corporations. These were dividends received by regulated investment companies, real estate investment trusts, and S corporations electing to be taxed through shareholders. Dividends from Interest Charge Domestic International Sales Corporations (IC–DISC's) were also included as domestic dividends received, but were not deductible. Certain other dividends, not deductible, were treated for the statistics as "Other Receipts."

For most of the domestic dividends received, the deductible portion was equal to 85 percent (80 percent after December 31, 1986) (about 60 percent for dividends received on certain preferred stock of public utilities). However, a 100-percent deduction was allowed for dividends received by members of a controlled group from other members of the same controlled group when a consolidated return was not used to report for the group as a whole. This deduction was allowed when the group did not elect to file a consolidated return and agreed instead to apportion a single tax bracket amount exemption among the group members in computing income tax.

Dividend distributions among member corporations electing to file a consolidated return were eliminated from the statistics as part of the consolidated reporting of tax accounts. For tax purposes, dividends reported on these returns represented amounts received from corporations that were outside the tax-defined affiliated group.

Under provisions of the 1984 Act, corporate shareholders reduced the deduction for dividends received on debt-financed portfolio stock. The provision generally reduced the deduction for dividends received on debt-financed portfolio stock so that the deduction was available, in effect, only with respect to dividends attributable to that portion of the stock which is not debt financed. Generally, this was accomplished by determining the percentage of the cost of an investment in stock which is debt financed and by reducing the otherwise allowable dividends received deduction with respect to any dividends received on that stock by that percentage. The reduction in the amount allowable as a dividends received deduction could not exceed the amount of interest deduction allocable to the dividend.

For a discussion of the dividends received from an IC–DISC see "Domestic International Sales Corporation Returns."

Dividends Received from Foreign Corporations (#)

These dividends were paid from current as well as accumulated earnings and profits of companies incorporated in foreign countries.

Dividends received from foreign corporations consisted of:

(1) dividends, subject to the 85-percent (80 percent after December 31, 1986) deduction, received by U.S. corporations from those foreign corporations at least 50 percent or more of whose gross income was "effectively connected" with business conducted in the United States;
(2) dividends, subject to the 100-percent deduction, received by U.S. corporations from wholly-owned

foreign subsidiaries all of whose gross income was "effectively connected" with the conduct of a U.S. trade or business, or received from a FSC when the dividends were from earnings and profits attributable to foreign trade income; and

(3) any other foreign dividends, not subject to a deduction, which included: certain gains from the sale, exchange, or redemption of Controlled Foreign Corporation stock and foreign dividends received by S corporations electing to be taxed through shareholders.

Excluded from the dividend statistics was the "gross-up" of foreign taxes deemed paid on the profits from which the dividends of foreign subsidiaries were distributed. This was done even though "foreign dividend income resulting from foreign taxes deemed paid" (gross-up) was considered by law to be part of the dividends received. Dividends only constructively received from foreign subsidiaries, reported on the tax returns as "includable income from Controlled Foreign Corporations," were also excluded. If these amounts were actually distributed at a later date, they were neither retaxed nor reported. For the statistics, both items were combined and shown under "Constructive Taxable Income from Related Foreign Corporations."

The foreign dividend statistics presented in this report are subject to certain limitations. Some corporations reported certain foreign dividends as "includable income from Controlled Foreign Corporations," while others did the reverse, since both were reported in the schedule for dividends received. Also, some corporations included as foreign dividends the gross-up of dividends by foreign taxes paid or deemed paid while others did the reverse. Where these variations in taxpayer reporting were identified, the amounts were transferred to the correct item for the statistics.

Domestic International Sales Corporation Returns

The pre-1985 system for Domestic International Sales Corporations (DISC's) has largely been replaced by a system of Foreign Sales Corporations (FSC's). DISC's were not entirely abolished, however, since a DISC has the option of electing to be an Interest Charge DISC (IC–DISC). The IC–DISC form is geared toward smaller exporters.

Generally, an IC–DISC is not taxed on its income. Shareholders of an IC–DISC are taxed on its income when the income is actually or deemed distributed. In addition, section 995 (f) imposes an interest charge on shareholders for their share of DISC-related deferred tax liability.

To qualify as an IC–DISC, a corporation must have been organized under the laws of any State or the District of Columbia, have only one class of stock, issued outstanding capital stock with a par or stated value of at least $2,500, and satisfied the "gross receipts" and "gross assets" tests.

The gross receipts test required that at least 95 percent of the corporation's gross receipts consist of "qualified export receipts." Qualified export receipts were: gross receipts from the sale, exchange, or other disposition of "export property" (described below); gross receipts from the lease or rental of export property, which were used by the lessee of such property outside the United States; gross receipts from the sale, exchange, or other disposition of "qualified export assets" (other than export property); gross receipts from services which were related and subsidiary to any qualified sale, exchange, lease, rental, or other disposition of export property; dividends with respect to stock of a related foreign export corporation; interest on any obligation which was a qualified export asset; gross receipts from engineering or architectural services for construction projects located (or proposed for location) outside the United States; and gross receipts from the performance of managerial services performed for an unrelated IC–DISC.

The gross assets test required that at least 95 percent of the corporation's assets be "qualified export assets." In general, qualified export assets were inventories of "export property" (i.e., property which: (1) had been manufactured, produced, grown or extracted in the United States by other than an IC–DISC; (2) was held primarily for sale or lease in the ordinary course of business for direct use, consumption, or disposition outside the United States; and (3) had at the time of sale or lease by the IC–DISC not more than one-half of its fair market value attributable to imported articles); necessary operational equipment and supplies; trade receivables from export sales (including commissions receivable); producer's loans (i.e., loans of the IC–DISC's profits to a U.S. export producer whether or not related to the IC–DISC); working capital (i.e., cash and necessary temporary investments); investments in related foreign export corporations (including real property holding companies and associated foreign corporations); obligations issued, guaranteed, or insured by the Export Import Bank or the Foreign Credit Insurance Association; and, obligations of the Private Export Funding Corporation.

An IC–DISC, which for a taxable year failed to satisfy the gross receipts test or the gross assets test, could nevertheless satisfy these qualification requirements by making a "deficiency distribution" for such a year, whereby the IC–DISC made a distribution to its stockholders after the close of the taxable year. The IC–DISC, at this time, had to demonstrate that the failure to make these distributions prior to the close of the year was due to reasonable cause. If the IC–DISC makes this distribution after the date Form 1120–IC–DISC is due, an interest charge must be paid, equal to 4.5 percent of the distribution times the number of tax years that begin after the tax year to which the distribution relates until the date the IC–DISC made the distribution. No dividend received deduction was allowed for a deficiency distribution. However, a deduction was permitted for dividends received from domestic corporations subject to 85 percent deduction and from debt-financed stock of domestic corporations.

To qualify as an IC–DISC, a new or previously existing corporation had to file an election requesting to be treated as an IC–DISC on the Form 4876A, Election To Be Treated as an Interest Charge DISC.

An IC–DISC usually acquired export property from its parent or an affiliated corporation ("related suppliers") and then sold the property abroad; however, it could act simply as a commission agent on export sales of related suppliers. The method used for allocating income between an IC–DISC and its related suppliers was achieved through special intercompany pricing rules. This allocation of income was affected to the extent that the IC–DISC itself incurred "export promotion expenses" (i.e., the ordinary and necessary expenses incurred to obtain qualified export receipts).

The types of corporate organizations not eligible to be treated as an IC–DISC were: (1) tax-exempt corporations; (2) Personal Holding Companies; (3) banks and trust companies; (4) mutual savings and other banks, domestic building and loan associations, and cooperative banks; (5) insurance companies; (6) regulated investment companies; and (7) S corporations electing to be taxed through their shareholders.

If a corporation is an IC–DISC or former IC–DISC, a Form 1120–IC–DISC must be filed under certain conditions. The term "former DISC" means, with respect to any taxable year, a corporation which is not a DISC for such year but was a DISC in a preceding taxable year and at the beginning of the taxable year had undistributed previously taxed income or accumulated DISC income.

Employee Benefit Programs (#)

Contributions made by employers to such plans as death benefit plans, health plans, accident and sickness plans, and other welfare plans were deductible under Code section 162. The statistics for this item also include amounts identified in the cost of sales and operations schedules.

Employee Stock Ownership (ESOP) Credit (#)

The Tax Reform Act of 1986 repealed the ESOP credit for compensation paid or accrued after December 31, 1986, in tax years ending after that date. However, credits to which an employer became entitled prior to January 1, 1987, were not affected.

A tax-credit ESOP is an ESOP under which an employer contributed employer securities (or cash with which to acquire employer securities) under prior law in order to qualify for a credit against income tax liability.

Under prior law, for taxable years ending after December 31, 1982, an electing employer was allowed an income tax credit for contributions to a tax-credit ESOP limited to a prescribed percentage of the aggregate compensation of all employees under the plan. The tax credit was limited to 1/2 of 1 percent of compensation for compensation paid or accrued in calendar years 1983 through 1987. A tax credit was not permitted for compensation paid or accrued in calendar years beginning after 1987.

The ESOP credit is not shown separately in the tables in this report; however, it is included as a component of the general business credit.

Estimated Tax Payments (#)

Corporations subject to taxation under Code sections 11, 1201(a) or subchapter L of Chapter 1 (relating to insurance companies) were required to make quarterly tax payments if the estimated tax for the taxable year was expected to be $40 or more. Estimated tax was the excess of the income tax (estimated) imposed by Code sections 11, 1201(a), or Subchapter L of Chapter 1 (excluding minimum tax on tax preferences) over the amount the corporation estimated as the sum of credits against tax (including foreign tax, possessions tax, nonconventional source fuel, orphan drug and general business credits). Also, the Tax Equity and Fiscal Responsibility Act of 1982 increased the percentage of current year tax liability which corporations had to pay in estimated tax payment from 80 to 90 percent for taxable years beginning after 1982.

Estimated tax payments shown in this report may be somewhat less than the legal maximum percentages of tax due because, under the provisions of Code section 6655, certain tolerances were allowed in the relationship of the installment payments to the tax. For example, a corporation was not required to pay an estimated tax greater than the amount of tax liability for the previous year provided that the corporation had a tax liability for the previous year. Besides the limitations based on law, payments shown in the statistics may be slightly understated because of taxpayer reporting variations and the inability to identify all of the amounts from the tax returns.

Separate statistics are presented for the components of net estimated tax payments which include 1985 overpayments claimed as a credit, 1986 estimated tax payments, and refund of estimated tax payments.

Excessive Net Passive Income Tax

In general, under prior law (Code section 1372), an S corporation was not allowed to have passive investment income greater than 20 percent of its gross receipts unless that taxable year was the first or second year the corporation commenced the active conduct of any trade or business or the passive investment income for such taxable year was less than $3,000.

Effective for tax years beginning in 1982, the Subchapter S Revision Act of 1982, Public Law 97-354 repealed the old 20 percent limitation on passive income for S corporations. The new law increased the limit on passive income to 25 percent for S corporations that had accumulated earnings or profits from prior subchapter C status and provided for a 46 percent tax on excessive net passive income. Passive investment income, in general, was gross receipts derived from royalties, rents, dividends, interest, annuities, or the sales or exchange of stock or securities.

Foreign Sales Corporation

Domestic International Sales Corporations (DISC's) have largely been replaced by Foreign Sales Corporations (FSC's). Under the FSC system, a portion of foreign trade income was exempt from corporate tax.

To be a FSC or small FSC (as defined below), a corporation must be created or organized under the laws of a qualifying foreign country or U.S. possession. The FSC cannot have more than 25 shareholders nor can it have preferred stock.

A FSC, other than a small FSC, must also meet certain foreign management and foreign economic process requirements which require that certain activities take place outside the U.S.

FSC's must maintain an office in a qualifying foreign country or U.S. possession where it maintains a permanent set of books, and must also maintain a location in the U.S. for financial records. At least one FSC director must not be a U.S. resident, and a FSC may not be a member of a controlled group of which an IC-DISC is a member.

The tax year of a FSC must conform to the tax year of the principal shareholder who at the beginning of the FSC's tax year has the highest percentage of voting power. Furthermore, each shareholder must consent to the election to be a FSC or small FSC.

A corporation can elect to be a FSC or small FSC. In order to qualify as a small FSC, a corporation must have filed Form 8279 as part of its election and cannot be a member of a controlled group which includes a FSC unless it is a small FSC. A small FSC is treated as a FSC on the first $5,000,000 of its foreign trading gross receipts without meeting the foreign economic process requirements. Any gross receipts in excess of the limitation are treated as non-foreign trading gross receipts.

Foreign Tax Credit (#)

Code section 901 allowed a credit against the U.S. income tax for income, war profits and excess profits taxes paid or accrued to foreign countries or U.S. possessions including Puerto Rico. Credit was also allowed against the U.S. tax under Code sections 902 and 960 for foreign taxes "deemed paid" including taxes deemed paid on distributions constructively received from controlled foreign corporations under Code section 951. The credit was allowed for these distributions if the domestic corporation owned 10 percent or more of the voting stock of the first-tier controlled foreign corporation. Moreover, creditable foreign taxes included amounts paid by partnerships that were allocated directly to the partners (including those that were corporations).

The credit could be claimed by domestic corporations, and also by foreign corporations engaged in trade or business in the United States for foreign taxes on income "effectively connected" with the U.S. business.

However, the credit was not allowed for S Corporations electing to be taxed through shareholders even when these corporations were taxed on certain capital gains income. These corporations had to deduct from gross income any foreign taxes they paid and could not pass them on to their shareholders for their use as a foreign tax credit. The credit was also not allowed for regulated investment companies which elected under Code section 853 to allow their stockholders to claim the credit for the foreign taxes paid by these companies. Since Interest Charge Domestic International Sales Corporations (IC-DISC's) themselves were not taxable, the foreign tax credit was not applicable; however, IC-DISC stockholders could claim a credit for foreign taxes paid by an IC-DISC.

A corporation that claimed the foreign tax credit could not also claim a business deduction for foreign taxes paid. The U.S. income tax which could be reduced by the credit excluded the tax from recomputing prior-year investment credit, the additional tax for tax preferences (minimum tax), and the Personal Holding Company tax.

For purposes of computing the foreign tax credit, a corporation had to allocate its foreign source income taxes to one of five categories of income. These categories included certain interest income, dividends from a IC-DISC or former DISC, foreign trade income of a FSC, distribution from a FSC or former FSC, and all other income from sources without the U.S. The corporation had to compute a separate foreign tax credit limitation for each category of income.

Foreign taxes in excess of the limitation for any one year could be carried back, chronologically, to the 2 preceding years and then carried over to the 5 succeeding years to reduce income tax, subject to the foreign tax credit limitation of the years to which they were carried. (Excess taxes carried back or carried over were applied against the amount by which a limitation exceeded the creditable foreign taxes in a given year.)

General Business Credit (#)

Tax Reform Act of 1986 made several changes to the general business credit. This credit is now a combination of six individual credits—investment credit (Form 3468), jobs credit (Form 5884), alcohol fuel credit (Form 6478), employee stock ownership plan (ESOP) credit (Form 8007), research credit (Form 6765) and the new low-income housing credit (new Form 8586). The last two are additions for 1986. The orphan drug credit, which is also reported on Forms 6765 is not included as part of the general business credit. The Tax Reform Act of 1986 extended the research credit beyond 1985 and made a reduction in the credit to 20 percent of the increase in research expenses. The definition of qualified research has been narrowed. The research credit, since it is now part of the general business credit, is now subject to the general business credit tax liability limitations. If a taxpayer claimed more than one of these credits, on their tax return, Form 3800 was to be filed with the return. The purpose of the new general business credit was to provide a uniform limitation on the amount that may be offset against tax liability and uniform rules for carrybacks and carryforwards. Each of the six credits were computed separately and then the total of these credits became the general business credit for the purpose of applying the maximum tax liability rules and the carryback and carryforward rules.

Effective for tax years beginning after December 31, 1985, the general business credit reduces the tax liability to the extent of 100 percent of the first $25,000 of net tax liability and 75 percent of the net tax liability over $25,000. When the credit exceeds the $25,000-plus-75 percent limitation in any year, the excess is an unused business credit. An unused business credit could be carried back to the three years preceding the unused credit year and forward to the 15 years following that year.

Income Subject to Tax

The 1954 Code provided different tax bases upon which tax was levied for different types of corporations. These were the "taxable income" bases defined by Code section 63, used by the majority of corporations, and to which the tax rates applied; a variation of this base in combination with long-term capital gain when the lower capital gains rate was applicable; the special capital gains tax base of S corporations electing to be taxed through their shareholders; the several tax bases applicable to insurance companies; and the amounts taxable to regulated investment companies and real estate investment trusts. All of these tax bases are under the heading, Income Subject to Tax. However, small amounts of regulated investment company undistributed long-term capital gains (described below) were excluded. Since Interest Charge Domestic International Sales Corporations (IC–DISC's) themselves were not taxable, income subject to tax for these corporations was not applicable (see "Domestic International Sales Corporation Returns").

For most corporations, income subject to tax consisted of net income minus certain "statutory special deductions" (described in this report under a separate heading). However, there were certain exceptions. In some cases, the statutory special deductions for dividends received and for dividends paid on certain preferred stock of public utilities exceeded net income. For these returns, income subject to tax was reduced to zero and the excess of the two special deductions became the statutory loss for the year, available for net operating loss deduction purposes over the prescribed carryback and carryover periods.

Also, the tax bases applicable to S corporations electing to be taxed through their shareholders, life insurance companies, regulated investment companies, and real estate investment trusts were not defined as net income less statutory special deductions.

Depending on which resulted in the lowest tax, the tax base for S corporations electing to be taxed through their shareholders was: (1) net income; (2) net long-term capital gain in excess of $25,000, when net long-term capital gain was more than 50 percent of a net income that was over $25,000; or (3) the amount attributed to gain from the disposition of property using a "substituted basis" (i.e., the basis that was transferred from another corporation which was not a S corporation electing to be taxed through its shareholders). No net operating loss or "special deductions" were available. In addition, effective for tax years beginning in 1982, S corporations were subject to a 46 percent tax on excessive net passive income, which is described in this section.

For the life insurance company statistics, net income was derived from gain or loss from operations to which statutory special deductions were added back; income subject to tax was the smaller of gain from operations (which included statutory special deductions) or taxable investment income. To this amount the following were added: (1) when taxable investment income was smaller than gain from operations, 50 percent of the difference between these two amounts, and (2) amounts subtracted from the policyholders' surplus account (which contained income nontaxable in the year earned, but taxable later on when withdrawn from this reserve account, even if the company had no current-year net income). In addition, the life insurance company provisions applied to life insurance departments of mutual savings banks, where the departments were separately taxed from the remainder of the banks. However, data for the banking and life insurance departments were combined in the statistics.

In the case of regulated investment companies and real estate investment trusts, any net long-term capital gain (reduced by net short-term capital loss) which was not distributed to stockholders was taxed to the companies at the capital gains rate, even though the alternative tax method was not allowed. The balance of undistributed income was taxed at the normal tax rates. Undistributed net long-term capital gain taxed at the capital gains rate was not available from the income tax computation schedule of the return form and no attempt was made to obtain it from attached schedules for the statistics.

See also "Income Tax."

Income Tax (#)

Income tax was the gross amount of income tax liability before deducting the foreign tax, U.S. possessions tax, orphan drug, nonconventional source fuel, and general business credits.

Effective for taxable years beginning after December 31, 1982, the corporate tax rates were:

Taxable income	Tax rate
Under $25,000	15 percent
$25,000 to $50,000	18 percent
$50,000 to $75,000	30 percent
$75,000 to $100,000	40 percent
Over $100,000	46 percent

For tax years beginning after 1983, a corporation with taxable income over $1,000,000, besides paying its regular tax, paid an additional tax equal to the lesser of; 5% of its taxable income that exceeds 1,000,000, or $20,250. Component members of a controlled group of corporations are treated as one corporation for the additional tax. The taxable income of all component members is taken into account, and the new tax is divided among them in the same manner as they share the group's single taxable income amount in each tax bracket.

For corporations with net long-term capital gains, an alternative method of tax computation was advantageous if using the alternative method resulted in a lower tax liability than the regular method. For these corporations the excess of net long-term capital gain over net short-term capital loss was taxed at the capital gains rate while the balance of income was taxed at the regular tax rate. This method of computing income tax was not available to regulated investment companies and real estate investment trusts. The alternative capital gains rate was 28 percent. (See "Net Capital Gains" in this section.)

In addition to the regular and alternative taxes, the statistics for income tax also include:

(1) an additional tax for tax preferences ("minimum tax" described under a separate heading);
(2) the tax from recomputing a prior-year investment credit (described under a separate heading);
(3) the personal holding company tax (described under a separate heading);
(4) the excessive net passive income tax for S corporations (described under a separate heading);
(5) the 28-percent tax on certain long-term capital gains of S corporations electing to be taxed through their shareholders; and
(6) the 28-percent tax on undistributed net long-term capital gain (reduced by net short-term capital loss), and the regular tax and surtax on the balance of undistributed income of regulated investment companies and real estate investment trusts.

Income tax shown in this report for returns without net income was attributable to the small number of returns showing:

(1) income tax under special provisions of the Internal Revenue Code applicable to life insurance businesses;
(2) tax from recomputing a prior-year investment credit;
(3) additional tax for tax preferences ("minimum tax");
(4) personal holding company tax; and

Statistics for income tax do not reflect any adjustments to the tax liability such as those resulting from:

(1) recomputation of the current year taxable income to reflect the carryback of net operating losses and certain capital losses for future years;
(2) reduction of income tax by foreign tax, U.S. possessions tax, orphan drug, nonconventional source fuel, research, and general business credits recomputed to take account of the carryback of unused general business credits and of unused foreign taxes, of certain future years; and
(3) audit examinations and other enforcement activities.

Therefore, the statistics differ somewhat from the actual income tax collections and the final income tax liability of corporations for the Tax Year. Publication 55, *Annual Report of the Commissioner and Chief Counsel of Internal Revenue,* contains income tax collection data on a fiscal year basis as opposed to the income year basis used in this publication. Publication 55 is available from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC, 20402.

Intangible Assets (#)

The total gross value (before the reduction by amounts of accumulated amortization) of contracts, copyrights, formulas, licenses, patents, registered trademarks, research or experimental expenditures and similar assets were included in this category only if amortization (or depreciation) was actually being taken. These assets could be amortized only if they had a definite life and value.

Accumulated amortization represented the cumulative adjustment to these intangible assets as shown on the corporation's books of account. Amounts of accumulated depreciation shown as adjustments to intangible assets are included in the statistics with "Accumulated Amortization."

Interest

Taxable interest, a component of total receipts, was received from obligations issued by the United States, its agencies, or its instrumentalities.

Also included in this item were amounts received on loans, notes, mortgages, bonds, bank deposits, and corporate bonds. The amounts shown for this item were reduced by the amortizable bond premium. For installment sales, interest received included amounts stated in the contract and certain unstated amounts of interest, as provided in Code section 483.

For Interest Charge Domestic International Sales Corporations (IC-DISC's), this item included "Interest on Producer's Loans" and "Other Interest". See the explanation of "Domestic International Sales Corporation Returns" in this section.

Interest on Government Obligations: State and Local

The interest on tax-exempt obligations issued by States, municipalities and other local Governments, the District of Columbia, and U.S. possessions, including Puerto Rico, was not subject to the income tax. The amounts shown for this item are reduced by the amortizable bond premium.

For statistical presentation, this interest is shown as part of the income statement and is included in "Total Receipts." Most corporations reported this tax-exempt interest in the "Reconciliation of income per books with income per returns" (see Schedule M-1 on the Form 1120 tax return facsimile in section 6 of this report). Because of taxpayer reporting variations this item could not always be identified and therefore the state and local interest statistics may be understated.

Interest Paid

These amounts include interest paid by corporations on business indebtedness including amounts paid on installment purchases if they were stated in the contract, as well as certain "unstated" amounts under Code section 483. For banking and savings institutions the amounts also included interest paid on deposits and withdrawable shares.

Inventories

Based on amounts reported on the balance sheet, inventories included such items as raw materials, finished and partially finished goods (work in progress), merchandise on hand or in transit, and growing crops reported as assets by agricultural concerns. Inventories were generally valued at cost or at the lower of cost or market price. When valued at cost, inventories were generally identified by first-in, first-out (FIFO) or last-in, first-out (LIFO) methods.

Amounts reported by mutual life insurance companies, life insurance companies and life insurance departments of mutual savings banks were excluded from inventories and included in the statistics for "Other Current Assets." Amounts reported by nonconsolidated security and commodity brokers, dealers and exchanges, and holding and other investment companies (except bank holding companies) were excluded from inventories and included in "Other Investments." For other nonconsolidated corporations within the "Finance, Insurance, and Real Estate" industrial division and for all bank holding companies, amounts reported as inventories were excluded and included in "Other Current Assets."

See also "Cost of Sales and Operations."

Investment Credit (#)

The Tax Reform Act of 1986 repealed the investment credit for most taxpayers. For property placed in service after December 31, 1985, no investment credit could be claimed unless the property was:

(1) Transition property, for example, construction in progress on December 31, 1985;
(2) Qualified progress expenditure property;
(3) Qualified timber property treated as section 38 property under section 48(a)(1)(F);
(4) Certain rehabilitation property; or
(5) Business energy property.

No investment credit for property, such as, automobiles, delivery trucks, office equipment, and farm equipment could be claimed unless it was transition property on December 31, 1985, or it fell into one of the other categories listed above. The business energy portion of the investment credit was extended, and the rehabilitation portion of the credit was modified through lower percentages. Credit could be taken for certain capital costs incurred for additions or improvements to qualified existing buildings and for rehabilitation of certain historic structures.

Generally, investment credit property included the following:
(1) tangible personal property defined in Code section 48(a)(1). Tangible personal property comprised all property contained in or attached to a building, such as, machinery or equipment. Certain types of property, even though physically located outside a building or accessory to a building, were also considered tangible personal property;
(2) elevators and escalators;
(3) other tangible property, including certain real property, used as an integral part of manufacturing, production, or extraction, or used as a research facility or bulk storage facility;
(4) livestock other than horses as long as not sold and replaced by substantially identical animals during a relatively short period of time;
(5) certain single-purpose agricultural or horticultural structures defined in Code section 48(p);
(6) rehabilitation expenditures for qualified 30-year buildings, 40-year buildings, and certified historic structures;
(7) forestation and reforestation expenditures that are amortizable under Code section I94; and
(8) petroleum storage facilities.

Property ineligible for the investment credit were:
(1) property used for lodging, except for coin-operated machines in apartment buildings;
(2) property used predominately outside the United States, except for commercial communication satellites, submarine telephone cable used exclusively in communication links between the United States and foreign countries, and drilling equipment used in international or territorial waters;
(3) property used by certain tax-exempt organizations;
(4) property used by governmental units, or international organizations;
(5) amortized or depreciated pollution control facilities, railroad rolling stock, coal mine safety equipment, on-the-job training and child care facilities, and expenditures for the rehabilitation of low-income rental housing;
(6) certain property acquired or constructed from grants made after September 30, I979 under any program listed in Code section 126(a) or by grants under the Energy Security Act.

Property eligible for investment credit also included "qualified progress expenditures" property the corporation elected to claim advance credits for taxable years before the qualified property was placed in service. The investment credit (before limitations) was equal to 10 percent for "investment qualified for credit" (total qualified investment in 10 percent property) for all corporate taxpayers.

Generally a corporation could claim an investment credit of half of the regular investment credit for certain vessels, as specified in Code sections 46(g)(1) through (6).

Certain limitations on the credit were applicable to special classes or kinds of corporations. Code section 46(e) limited the applicability of the credit for mutual savings banks, regulated investment companies and real estate investment trusts. Also, Code section 48(k) placed limitations on figuring investment credit for movie and television films or tapes.

The income tax available for investment credit did not include the tax from recomputing prior-year investment credit, the additional tax for tax preferences, the Personal Holding Company tax, and the special capital gains tax on S corporations electing to be taxed through their shareholders. (Since these corporations were not eligible to claim the investment credit, their investment was allocated among the stockholders who then claimed the credit.)

As a component of the general business credit, the investment credit was subject to the net tax liability limitation of Code Section 38 and the carryback and carryforward rules of Code Section 39.

The investment credit is not shown separately in the tables in this report; however, it is included as a component of the general business credit.

Investment Credit Carryover

The 1984 Act provided that unexpired investment credit from each pre-1984 taxable year will be combined with other credits into the general business credit carryforward from each unused credit year to be carried to post-1983 years. The carryforward period will not exceed 15 years from the year of the original unused credit. The unused credit was applied first to the earliest of the years to which it could be carried, and then to each of the other tax years, in chronological order. Because the data in this book do not include any information from amended returns, the statistics will not reflect any changes in tax liability due to investment credit carryback.

Investment Qualified for Credit

See "Investment Credit."

Investments in Government Obligations

This balance sheet asset item comprised (1) bonds or other obligations of a State or U.S. possession (including Puerto

Rico), including obligations of political subdivisions and of the District of Columbia, and (2) U.S. obligations, including those of instrumentalities of the Federal Government.

Jobs Credit (#)

The credit was allowed to taxpayers who hired individuals from any of the following targeted groups: (1) vocational rehabilitation referrals; (2) economically disadvantaged young adults; (3) Vietnam era veterans from an economically disadvantaged family; (4) federal, state, and local welfare recipients; (5) general assistance recipients; (6) economically-disadvantaged former felons; (7) youths participating in a qualified cooperative education program; (8) eligible work incentive employees; or (9) qualified summer youth employees, age 16 or 17, who first worked for the corporation between May 1 and September 15, 1986.

The credit was taken with respect to wages paid to employees who began work after December 31, 1985. The credit was limited to the sum of 40 percent of the first $6,000 of "qualified first-year wages" and no credit for "qualified second-year wages" and 85 percent of the first $3,000 of "qualified summer youth employee wages," for work done in any 90-day period between May 1 and September 15.

The jobs credit was combined with the credits for investment tax, alcohol fuels, research, low-income housing, and employee stock ownership under the rules of the general business credit. As a component of the general business credit, the jobs credit was subject to the net tax liability limitation of Code Section 38 and carryback and carryforward rules of Code section 39.

The jobs credit is not shown separately in the tables in this report; however, it is included as a component of the general business credit.

Land

Land, which was reported as a separate capital asset on the balance sheet, may be understated in this report because it could not always be identified. Some corporations may have included land as part of depreciable or depletable assets or included it in "other investments." Whenever corporations included and identified land as part of depreciable assets, the amount was reclassified as land.

Loans from Stockholders

This balance sheet liability item was regarded as long-term in duration and included loans to the company from holders of the company's stock.

Loans to Stockholders

This balance sheet asset item was regarded as long-term in duration and included loans to persons who held stock in the corporation.

Low-Income Housing Credit (#)

The Tax Reform Act of 1986 introduced new credits for owners of residential rental property providing low-income housing. These credits replace existing tax incentives for low-income housing such as preferential depreciating, five-year amortization of rehabilitation expenditures and special treatment of construction period interest and taxes.

The Tax Reform Act of 1986 provided a credit of 70 percent of the qualified basis of each new low-income building placed in service during 1987 (30 percent in the case of certain Federally subsidized new buildings or certain existing buildings purchased and placed in service). This credit is taken over a 10-year period so that the present value of the 10 annual credit amounts at the beginning of the credit period equals 70 percent (or 30 percent) of the qualified basis.

The maximum annual credit percentage for new buildings placed in service during 1987 was 9 percent for each of the 10 years in the' credit period (4 percent for Federally subsidized new buildings, and existing buildings). For buildings placed in service after 1987 the credit percentage was determined by the Internal Revenue Service.

The low-income housing credit can only be claimed for residential rental projects that meet the requirements of one of the following tests:

(1) 20 percent or more of the residential units in the project must be both rent restricted and occupied by individuals whose income is 50 percent or less of the area median gross income, or
(2) 40 percent or more of the residential units in the project must be both rent restricted and occupied by individuals whose income is 60 percent or less of the area median gross income.

A unit is "rent restricted" if the gross rent does not exceed 30 percent of the income limitation in (1) or (2) above for individuals occupying the unit. You may choose to meet either test for the project, but once made, the election is irrevocable.

The low-income housing credit is not shown separately in the tables in this report; however, it is included as a component of the general business credit.

Members of Controlled Groups

Members of controlled groups were those corporations related to one another generally through 80 percent or more common stock ownership and which could file separate tax returns, under special provisions of the Code.

These provisions also effectively covered the filing prerequisites for most consolidated returns since the stock ownership requirement used to define an affiliated group eligible to file a consolidated return was similar to the controlled group ownership requirements. In computing income tax, Code section 1561 limited the taxable income brackets to a maximum amount in such brackets, whether or not the group was included in a consolidated return. (See "Consolidated Returns.")

The controlled group provisions applied when (1) a common parent corporation had 80 percent or more control of one or more chains of subsidiaries (parent-subsidiary group), or (2) five or fewer persons (individuals, estates, or trusts), individually or in combination, had 80 percent or more control of each of two or more corporations, but where the sum of each person's "identical" ownership in the group totaled more than 50 percent (brother-sister group). "Identical" ownership was considered to be the lowest common percent of ownership of an individual owner in each of the corporations comprising the group. Thus, if a company had ownership in each corporation in a given group and the smallest percent ownership was, for example, 5 percent of corporation A, that company's identical ownership in the entire group was considered to be 5 percent. Combination groups were possible when a person or persons controlled two or more corporations, one of which was the parent of one or more subsidiary corporations.

Under prior law, two or more related life insurance companies were required to be treated as a controlled group separate from any other corporation to which they have been related. Starting with taxable years beginning after December 31, 1980, insurance companies were allowed to be included with noninsurance companies as long as the noninsurance companies had been members of the affiliated group for 5 taxable years (see "Consolidated Returns"). Interest Charge Domestic International Sales Corporations (IC–DISC's) were generally members of controlled groups, however, control was defined in terms of 50 percent stock ownership. Foreign Sales Corporations (FSC's) were also likely to be controlled group members, however a FSC could not be a member of a controlled group of corporations of which an IC–DISC was a member at any time during the taxable year.

Mortgage and Real Estate Loans

In general, mortgage and real estate loans were the total amount a, corporation loaned on a long-term basis, accepting mortgages, deeds of trust, land contracts, or other liens on real estate as security.

Because the return form did not provide a separate place for reporting any reserve for uncollectible mortgage and real estate loan accounts, such reserves may have been included in the "Allowance for Bad Debts," shown in this report as an adjustment to "Notes and Accounts Receivable." If a corporation reported an uncollectible mortgage and real estate loan reserve on a separate schedule, those amounts were moved, in this report, to "Allowance for Bad Debts."

Mortgages, Notes, and Bonds Payable

These liabilities were separated on the balance sheet according to the length of time to maturity of the obligations payable in less than one year or payable in more than one year. The length of time to maturity was based on the date of the balance sheet rather than on the date of issue of the obligations. Accordingly, long-term obligations, maturing within the coming year were included together with short-term obligations in the statistics for mortgages, notes, and bonds payable in less than one year.

Deposits and withdrawable shares may have been reported in mortgages, notes, and bonds payable by banks and savings institutions. When identified, such amounts were transferred to "Other Current Liabilities."

Net Capital Gains

Net capital gains represented the excess of gains over losses from the sales or exchanges of capital assets subject to the limitations described below. For assets acquired after June 22, 1984, the 1984 Act decreased the long-term capital gain holding period to "more than 6 months" from the prior law's "more than one year" requirement. The "more than a one year" holding period was scheduled to be effective again for assets acquired after December 31, 1987. For assets purchased within this time period, any recognized gain or loss eligible for capital gain or loss treatment will qualify for long-term treatment only if the asset has been held for more than six months. If the asset was held for six months or less, the gain or loss will be short-term.

Net short-term gains (reduced by net long-term losses) were taxed as ordinary income. However, net long-term gains (reduced by net short-term losses) were taxed at a rate of 28 percent.

Excess net losses could be carried back as short-term losses to be applied against the net capital gains of the 3 preceding years; any losses remaining after carryback were carried over the 5 succeeding years. Use of the carryback for excess net losses was limited; it was not allowed to increase or cause a deductible "net operating loss" for prior years and was not allowed for foreign expropriation capital losses (although a special carryover period of 10 years for such losses was allowed instead) or for capital losses of S corporations electing to be taxed through their shareholders. If the unused capital loss carryover was not eliminated within the prescribed span of years, it could not be taken. Regardless of origin, all carrybacks and carryovers are treated as short-term capital losses for carryback and carryover purposes.

In general, "capital assets" for tax purposes meant property regarded or treated as an investment, such as stocks and bonds. Code section 1221 defined the capital assets (or transactions) to which special treatment applied as all property held by the corporation except:

(1) stock in trade, or property of a kind includable in inventories;
(2) property held for sale to customers in the ordinary course of business;
(3) notes and accounts receivable acquired in the ordinary course of business;
(4) certain short-term Government obligations sold at a discount;
(5) depreciable property used in the trade or business;
(6) real property used in the trade or business; and
(7) certain copyrights, literary, musical, or artistic compositions or similar properties.

Net gains from dispositions of some of the property types excluded from the definition of capital assets under Code section 1221 could receive capital gain treatment under special conditions set forth in other sections, while net gains from some of the property types included under the definition could be denied capital gain treatment under still other sections. The latter are referred to under the heading, "Net Gain (or Loss), Noncapital Assets."

Property used in trade or business, excluded from the tax definition of capital assets, received special treatment under Code section 1231. Gains and losses from sales or other dispositions of this property had to be aggregated first. If the overall result was a net gain, it was included in the computation of net long-term capital gain or loss. If the overall result was a net loss, it was included in the computation of net gain or loss from sales of property other than capital assets. Thus, a net gain under section 1231 could receive the more beneficial treatment of a long-term capital gain taxable at the alternative tax rate, while a net loss under section 1231 could receive the more beneficial treatment as an ordinary loss fully deductible against all types of income and not just against capital gain income.

The types of property (or transactions) to which Code section 1231 applied were:

(1) real and depreciable property used in the trade or business, held for more than 12 months (six months for property acquired after June 22, 1984) and not includable in inventory or not held for sale in the ordinary course of business;
(2) timber cut by the taxpayer during the year, if owned, or held under contract to cut, for more than 12 months (six months for property acquired after June 22, 1984) and if an election was made under Code section 631 to treat the cutting as a sale or exchange of property used in trade or business (the holding period was measured up to the time of cutting);
(3) domestic iron ore, timber, or coal, held for more than 12 months (six months for property acquired after June 22, 1984), if disposed of under a royalty contract whereby the owner retained an economic interest in the property, so that under Code section 631, the net gain or loss on the royalty income was treated as a net gain or loss on a sale or exchange of property used in trade or business;
(4) unharvested crops disposed of with the land on which they were growing and used in the business of farming if the land was held for more than 12 months (six months for property acquired after June 22, 1984); and
(5) certain livestock.

The amounts of gain eligible for capital gains treatment under Code section 1231 was reduced in the case of certain real and depreciable property by Code sections 1245, 1251, 1252, and 1254, and in the case of certain mining property, by section 617.

Net gains and certain net losses under Code section 1231 also resulted from "involuntary conversions," not only of the property types or transactions otherwise covered by Code section 1231, but also of the capital assets defined in Code section 1221, if they were held for more than 6 months. Gain or loss from involuntary conversions such as by condemnation were included in the regular consolidation of Code section 1231 gains and losses previously described. However, a separate netting of gains and losses was required for involuntary conversions by theft, or from fire, storm, shipwreck or other casualty, whether insured or uninsured. If the result was a net loss, it was treated as a fully deductible loss (without regard to other Code section 1231 transactions) and was excluded from the capital gain statistics. If, on the other hand, the result was a net gain, then it was consolidated with other gains and losses under Code section 1231. See the discussions of "Net Gain (or Loss), Noncapital Assets" and "Other Deductions."

See also, "Additional Tax for Tax Preferences."

Net Gain (or Loss), Noncapital Assets (#)

In general, "noncapital assets" related to property of a business nature. The computation of net gain or loss, noncapital assets, resulted mostly from the sale or exchange of: (1) certain depreciable, depletable, and real property (described below); (2) notes and accounts receivable acquired in the ordinary course of business for services rendered or from the sale of property includable in inventory, or ordinarily held for sale; (3) certain copyrights, literary, musical, or artistic compositions or similar properties; (4) securities by dealers; (5) securities, including Government obligations, and other evidence of indebtedness, such as convertible debentures, by banking, savings, and certain other financial institutions; (6) certain patents, inventions or designs, secret formulas or processes, and similar property rights by domestic corporations to their more-than-50-percent owned foreign subsidiaries; and (7) qualified export assets by Domestic International Sales Corporations (DISC's). Also included in the computation were amounts resulting from certain "involuntary conversions" including net losses from casualty and theft, and amounts resulting from certain sales, exchanges, or redemptions of Controlled Foreign Corporation stock (see "Dividends Received from Foreign Corporations").

As explained under "Net Capital Gains," a net gain from dispositions of (or certain transactions involving) specified types of business assets that were considered noncapital assets based on Code section 1221 could receive capital gains treatment under section 1231. Gains and losses from these dispositions or transactions first had to be aggregated. If the overall result was a net gain, it was included in the computation of net long-term capital gain, but if the overall result was a net loss, it was included in the computation of net gain or loss, noncapital assets. The special treatment in this computation of gains and losses resulting from involuntary conversions, due mostly to casualty and theft, is described under "Net Capital Gains." Form 4797, Supplemental Schedule of Gains and Losses, called for net losses from casualty and theft to be included in the computation of "net gain or loss, noncapital assets" (although some corporations reported them in "other deductions").

The amount of gains (but not losses) on dispositions of property includable in the computation of net gain or loss under Code section 1231, was limited as a result of sections 1245, 1250, 1252, 1254 (described below), and 617. To the extent the amount eligible for capital gains treatment was thereby reduced, the amount included in the statistics for net gain or loss, noncapital assets, was increased.

Code sections 1245 and 1250 applied to certain depreciable property. Section 1252 prescribed additional rules for much of this same property if it was used in the business of farming, as well as for certain other types of property used in farming and covered under section 1231. Section 617 applied to certain depletable property.

Code sections 1245 and 1250:

The depreciable property to which Code section 1245 applied was: (1) personal property other than livestock, whether tangible (such as machinery and equipment) or intangible (such as patents and copyrights); and (2) other tangible property including certain realty other than buildings and their structural components, if it was an integral part of specified business activities, or which constituted research or storage facilities used in connection with such activities. The business activities qualifying were manufacturing, production, or the providing of transportation, communications, electrical energy, gas, water, or sewage disposal services.

The depreciable property to which Code section 1250 applied was real property not already covered by section 1245. In general, this property consisted of buildings and their structural components, in the case of tangible property; or leaseholds of land, in the case of intangible property. The Tax Reform Act of 1984 changed the recovery period for property defined as section 1250 class property. The Act extended the recovery period from 15 to 18 years for certain realty placed in service after March 15, 1984. A further explanation of section 1250 property is contained in the Explanation of Terms section of this report under "Depreciation."

The amount of gain on dispositions of depreciable property under Code sections 1245 and 1250, treated as ordinary income and included in the statistics for net gain or loss, noncapital assets, generally depended upon the amount of depreciation claimed on the asset after a certain date prior to its disposition, although other factors were also considered in the case of section 1250 dispositions.

Under Code section 1245, the amount of gain treated as ordinary income was based on the depreciation (or amortization in the case of defense "emergency facilities") allowed or allowable after 1961 (after 1963 for elevators and escalators and after 1969 for livestock (including fur-bearing animals such as chinchillas, minks, and foxes)). This "depreciation recapture" applied to dispositions of property made during taxable years beginning after 1962 (after 1963 for elevators and escalators and after 1969 for livestock).

Under Code section 1250, the amount of gain treated as ordinary income was based, in general, on the excess of accelerated over straight-line depreciation allowed or allowable after 1963. However, this "depreciation recapture" was further qualified in the case of depreciation taken during 1963-69 so that if the property was held for more than 20 months, the "recapture" was further reduced to a proportion of this difference until, when the property was held for 10 years, the "recapture" as ordinary gain was not applicable at all. For depreciation taken after 1969, these qualifications were rescinded (with certain exceptions for residential rental housing, housing rehabilitation expenditures, and Government subsidized housing), so that the entire amount of post-1969 excess depreciation was "recaptured" as ordinary income.

Code sections 1252:

Under Code section 1252, net gain or loss from noncapital assets included ordinary gains from the sale or other disposition of certain types of farm lands which would otherwise have been eligible for long-term capital gain treatment under section 1231. Dispositions already regarded as ordinary gain or loss using section 1250 rules were excluded.

This recapture was based on a declining annual percentage of total post-1969 deductions for expenditures. The percentage was reduced to zero when land was held for 10 years or more, at which time the additional recapture did not apply.

Code section 1254:

Code section 1254 required recapture of amounts deducted for intangible drilling expenses on productive wells to the extent that those amounts deducted exceeded the amounts which were allowable had the intangible drilling expenses been capitalized and amortized over the useful life of the well. This was in addition to the requirement that the gain on the sale of oil and gas property be recognized as ordinary income to the extent of depreciation of tangible personal property.

Code section 617:

Under Code section 617, corporations engaged in domestic mining operations that elected to claim unlimited deductions for exploration and development expenses (except for oil and gas) had to "repay" their post-1969 deductions when the mine reached the producing stage or when it was sold. If the mine was sold, the profit was treated as an ordinary net gain from a noncapital asset to the extent that the gain was equal to or less than any post-1969 deductions not already "recaptured" prior to the sale. Such gains are reflected in the statistics for net gain (or loss), noncapital assets. Any net gain in excess of the deductions was a net gain under section 1231, and eligible for capital gains treatment.

Net Income (or Deficit) (#)

This was the difference between gross receipts and the ordinary and necessary business deductions allowed by the Code, and reflected not only actual receipts but "constructive" receipts (i.e., certain income from Controlled Foreign Corporations and foreign dividend income resulting from foreign taxes deemed paid) as well. Interest from State and local government obligations was excluded from this item.

Because certain statutory special deductions including the net operating loss deduction were allowed most corporations in computing their income subject to tax, the statistics for net income are generally larger than the amounts shown for "Income Subject to Tax." Included in the net income statistics are amounts for S corporations (only certain long-term capital gains were taxable to these corporations). Also, included are amounts from Interest Charge Domestic International Sales Corporations (IC-DISC's); these corporations were not taxable. Net income from Foreign Sales Corporations (FSC's) also was included. For FSC's net income (or deficit) represents the amount after an exemption of certain foreign trade income and Subpart F income taxable to its corporate owners.

These statistics also include foreign corporations with income effectively connected in the United States. Income is considered effectively connected if the corporation has a fixed place of business in the United States and the income is attributable to that place of business.

For mutual insurance companies other than life or marine and other than certain fire or flood insurance companies, the net income (or deficit) in this report is the sum of the net investment income or loss, the statutory underwriting income or loss, and the subtractions from the "protection against loss" (PAL) account before reduction by the statutory special deductions allowed corporations in general. Consequently, net income (or deficit) reflects not only the ordinary business deductions, but the statutory deductions from underwriting income allowed only to these mutual insurance companies. Net income (or deficit) also reflects the additions (if any) to taxable income of amounts in the PAL account previously deferred from taxation. Further, for some small mutual insurance companies electing to report under Code section 821(c), net income was net investment income only. (Electing companies were not required to report underwriting income.) The section 821(c) provisions were applicable only to companies with income from investments (other than capital gains), with premiums of less than $500,000, and with no reserve in the PAL account.

For life insurance companies, the net income (or deficit) used for statistical purposes comprised the gain or loss from operations adjusted by adding back the dividends received and the operations loss deductions. Gain or loss from operations (which included both underwriting and investment income) represented gross taxable receipts reduced by ordinary and necessary business deductions and by additions to required reserves, certain other statutory deductions pertinent only to these companies, and by the dividends received and operations loss deductions.

Net Long-Term Capital Gain Reduced by Net Short-Term Capital Loss

See "Net Capital Gains" in this section.

Net Long-Term Capital Gain Taxed at Alternative Rate

This part of the tax base was used for the tax computation for those returns using the alternative tax rate. The alternative method, allowed under Code section 1201, was used if it provided a lower tax liability than did the use of the tax rates on total taxable income. See the discussions of "Income Subject to Tax" and "Income Tax."

Income subject to tax for returns with alternative tax was the sum of (1) net long-term capital gain (reduced by net short-term capital loss), and (2) income taxed at regular rates (the balance of taxable income).

For most corporations, use of the alternative tax did not affect the amount shown as "Income Subject to Tax." However, when net long-term capital gain (reduced by net short-term capital loss) was greater than taxable income (net income minus statutory special deductions), the alternative rate (28 percent) applied to the capital gains was less than the regular rates applied to taxable income. Therefore, the capital gains, rather than taxable income, became the tax base and was used for the "Income Subject to Tax" statistics.

Net Short-Term Capital Gain Reduced by Net Long-Term Capital Loss

See "Net Capital Gains" in this section.

Net Worth (#)

Net worth represented the stockholders' equity in the corporation (total assets minus the claims of creditors). In the statistics, net worth comprises the net sum of the following items:
(1) capital stock;
(2) paid-in or capital surplus;
(3) retained earnings, appropriated;
(4) retained earnings, unappropriated;
(5) less the cost of treasury stock;

Four additional items are included in net worth for corporations filing Form 1120S:
(6) accumulated adjustments account;
(7) other adjustments account;
(8) retained earnings, 1120S; and
(9) shareholders' undistributed taxable income.

Each of these items is explained under its own heading in this section.

Noncalendar Year Returns

Returns filed for a 12-month accounting period ending in other than December were included in this classification. Figure B in section 1 shows the percentage of returns filed for each of the accounting periods covered in this report.

Nonconventional Source Fuel Credit

Prior to 1980, no income tax credit was available for the production and sale of fuel derived from energy sources other than oil and conventional sources of natural gas. Congress believed that the use of fuels derived from other energy sources should be encouraged by providing a tax incentive for their production and sale. Currently a credit is allowed for the sale of qualified fuels produced from a nonconventional source. Because these alternative fuels frequently compete with oil and gas, Congress believed that production incentives should be linked to the uncontrolled price of domestic oil and should phase out as that price rose to the level where efficiently produced alternative fuels could compete effectively with oil.

In general, the amount of credit is equal to $3 for each quantity of fuel that would yield energy equal to that of a barrel of oil, the so-called barrel-of-oil equivalent which is approximately 5.8 million British Thermal Units (BTU's). The Crude Oil Windfall Profit Tax Act of 1980 provided a tax credit for the domestic production and sale of qualified fuels to unrelated persons. Such fuels generally had to be produced and sold after December 31, 1979, and before January 1, 2001, from facilities placed in service after December 31, 1979, and before January 1, 1990, or from wells drilled after December 31, 1979, and before January 1, 1990, on properties which began production after December 31, 1979. Only production within the U.S. or a U.S. possession is taken into account.

The credit was available for production and sale of the following:
(1) fuel produced from shale and tar sands;
(2) gas produced from geopressurized brine, Devonian shale, coal seams, or a tight formation;
(3) gas produced from biomass;
(4) liquid, gaseous, or solid synthetic fuel (including alcohol) produced from coal (including lignite), including such fuels when used as feedstocks;
(5) qualifying processed wood fuels; and
(6) steam from solid agricultural byproducts (not including timber byproducts).

The tax credit was to be phased out proportionately as the annual average wellhead price for a barrel of uncontrolled domestic oil (the "reference price") rose, adjusted for inflation. The reference price was to be estimated by the Secretary of the Treasury and published, together with the inflation adjustment factor, by April of the year following that for which the credit was to be computed. The inflation adjustment factor is a fraction of which the numerator is the gross national product (GNP) implicit price deflator for the calendar year and the denominator is the GNP implicit price deflator for 1979.

Nonqualifying Interest and Dividends

This was an income item for an S corporation. Nonqualifying interest was taxable interest that was included in ordinary income from all sources. It did not include interest exempt from tax and interest on tax-free convenant bonds. Nonqualifying dividends were taxable dividends that were included in ordinary income and for which the individual shareholder was not entitled to an exclusion under section 116. These include taxable dividends from controlled foreign corporations, exempt organizations, farmer's cooperatives, regulated investment companies and real estate investment trusts.

Notes and Accounts Receivable

In general, notes and accounts receivable were the gross amounts arising from business sales or services to customers on credit during the ordinary course of trade or business which would normally be converted to cash within 1 year. Current nontrade receivables were generally included in "Other Current Assets." This category includes certificates of deposit, commercial paper, charge accounts, current intercompany receivables, property improvement loans, and trade acceptances. For Form 1120-FSC, notes and accounts receivable include commissions receivable.

The balance sheets on most corporation income tax forms called for the reporting of both "gross" receivables and the "allowance for bad debts" (explained under a separate heading in this section). However, some corporations reported only the net amount. In the case of insurance companies filing balance sheets in the form required under State law, only the net amount was reported.

Loans and mortgages may have been reported in notes and accounts receivable by savings and loan associations. When identified, such mortgage loans were transferred to "Mortgage and Real Estate Loans."

The "Allowance for Bad Debts," shown as an adjustment, may also include the reserves for the separate account "Mortgage and Real Estate Loans." As a result, it was possible for the "Allowance for Bad Debts" to exceed the amount of notes and accounts receivable.

In those tables where the item "Notes and Accounts Receivable, Net" appears, the amount shown includes a deduction of "Allowance for Bad Debts."

Number of Returns

Returns of inactive corporations were excluded from the statistics. (See "Returns of Inactive Corporations.") The number of Form 1120-IC-DISC 1120-FSC and Form 1120S returns filed, respectively, by Interest Charge Domestic International Sales Corporations, Foreign Sales Corporations and S corporations are included in each total number (except for those tables which specifically exclude these returns) and are also shown separately in some of the tables.

See also "Consolidated Returns" and "Returns of Active Corporations."

Orphan Drug Credit

Orphan drug credit was a credit against tax for an amount equal to 50 percent of the qualified clinical testing expenses of certain drugs for rare disease or conditions. In order to claim the credit, the expenses must have been for a drug that was designated as an orphan drug under Section 526 of the Federal Food, Drug and Cosmetic Act. Form 6765 is used for claiming the orphan drug credit. The income tax against which the credit was applied was after reduction by foreign tax and possessions tax credits.

Other Adjustments Account

The other adjustments account was maintained only by S corporations that had retained earnings at year end. The account was adjusted for tax-exempt income and nondeductible expenses of the corporation. After these adjustments the account was reduced for distributions made during the tax year.

Other Assets (#)

In general, other assets comprised noncurrent assets which were not allocable to a specific account on the balance sheet, and certain accounts for which no distinction could be made between current and noncurrent status. Both tangible and intangible assets are included in this category.

Includable were items such as deposits on contracts reported as noncurrent by the corporation, interest discounts when reported as noncurrent by the corporation, and guaranty deposits. Other assets of life insurance companies included the market value of real estate and that portion of stock and bond holdings in excess of book value. For Interest Charge Domestic International Sales Corporations (IC–DISC's), this item also included "nonqualified assets" (i.e., assets that were not export-related or that failed to meet the requirements indicated for "qualified export assets" in Code section 993). It does not include any asset with a life of less than one year, nor any asset properly considered an investment.

Other Capital Assets Less Reserves

This item, shown in tables 6 and 7, consisted of depletable assets less accumulated depletion, land and intangible assets less accumulated amortization. Each is described separately under its own heading in this section.

Other Credits and Payments

This amount, shown in table 8, was the total of overpaid windfall profits tax, credit for tax paid by regulated investment companies and federal tax on special fuels and oils. Each is explained under its own heading in this section.

Other Current Assets

Other current assets included assets not allocable to a specific current account on the balance sheet, and assets specifically reported as short-term by the corporation.

Includable were marketable securities, prepaid expenses (unless reported as long-term), nontrade receivables, coupons and dividends receivable, and similar items. For construction corporations, amounts reported as current for contract work in progress in excess of billings were includable.

Also includable in other current assets were amounts reported as inventories on nonconsolidated returns of banks, credit agencies, insurance companies, insurance agents, brokers, real estate operators, lessors, condominium management and cooperative housing associations. Also, inventories for all bank holding companies were included.

Other Current Liabilities

Other current liabilities included certain amounts due and payable within the coming year. The account comprised accrued expenses, as well as current payables not arising from the purchase of goods and services. Examples of other current liabilities were taxes accrued or payable, accrued employee accounts such as for payrolls and contributions to benefit plans, dividends payable, overdrafts, accrued interest or rent, and deposits and withdrawable shares of banking and savings institutions, if not reported as long-term by the corporation.

For construction corporations, amounts for uncompleted contracts or jobs in progress were included in this item, if reported as current.

Other Deductions (#)

Other deductions comprised (1) business expenses which were not allocable to a specific deduction item on the return form, or which were not included elsewhere on the return form, and (2) certain amounts which were given special treatment in the course of statistical processing.

The first category included such items as administrative, general, and selling expenses; bonuses and commissions (unless reported as cost of goods or salaries and wages); delivery, freight, and shipping expenses; sales discounts; travel and entertainment expenses; utility expenses not reported as part of the cost of goods sold; and similar items.

The second category included amortization of intangible drilling costs, unrealized profit on current-year installment sales, direct pensions (paid by a company to an individual but not to pension plans), employee welfare (but not payments to welfare or benefit plans), moving expenses (for employees), partnership net losses, and patronage dividends paid. Also included were itemized business deductions and other deductions unique to Interest Charge Domestic International Sales Corporations (IC–DISC's), Foreign Sales Corporations (FSC's), life and most mutual insurance companies. In the case of IC–DISC's, the statistics include deductions such as those for market studies, sales commissions, and freight and other expenses (whether or not they were considered export promotion expenses). For corporations filing a Form 1120–A, depletion, pension, profit-sharing and employee benefit plans are included in Other Deductions.

The statistics for other deductions may include losses resulting from involuntary conversions by theft, or from fire, storm, shipwreck, or other casualty, if these losses were reported in the taxpayer's own schedule for other deductions. For the statistics, no attempt was made to transfer the data to the ordinary gains or losses computation. Losses from involuntary conversions which were reported as ordinary losses derived from Form 4797, Supplemental Schedule of Gains and Losses, were included in the estimates for "Net Gain (or Loss), Noncapital Assets." See also the discussion under "Net Capital Gains" in this section.

Other Investments (#)

This category generally included long-term non-Government investments and certain investments for which no distinction could be made as to their current or long-term nature. Non-Government investments generally not held for conversion to another form within the coming year included stocks, bonds, loans on notes or bonds, loans to subsidiaries, and other types of financial securities. Also included in this category were investments unique to Interest Charge Domestic International Sales Corporations (IC–DISC's), such as investments in related foreign export corporations, Export-Import Bank obligations, and producer's loans.

Real estate not reported as a fixed asset could also be included. In certain instances, land and buildings owned by real estate operators (except lessors of real property other than buildings), and real holdings of insurance carriers (other than their home office and branch office buildings and equipment), were reported as "other investments."

In one respect the statistics may be somewhat overstated. Treasury stock held for resale or for future distribution may have been reported as an asset on some tax returns and would have been included in the statistics for "Other Investments."

Also includable in other investments were amounts reported as inventories on nonconsolidated returns of holding and other investment companies (except operating holding companies); and security and commodity brokers, dealers, and exchanges.

Other Investments and Loans

This item, shown in tables 6, 7 and 10, is the sum of loans to stockholders, mortgage and real estate loans, and other investments. Each is described separately under its own heading in this section.

Other Liabilities

Other liabilities were obligations which were not allocable to a specific account on the balance sheet and which were either noncurrent accounts, in general not due within 1 year, or accounts which could not be identified as either current or long-term. Included are the excess of reserves for amortization, depreciation, depletion over the asset accounts they are shown against.

Examples of other liabilities were deferred or unearned income not reported as part of a current account, provisions for future taxes based on the effects of either accelerated depreciation or possible income tax adjustments such as for the investment credit, and principal amounts of employee and similar funds. Accounts and notes payable, borrowed securities, commissions, intercompany accounts, loans, overdrafts, and unearned income are also included.

Other Receipts

Other receipts included amounts not elsewhere reported on the return form, such as: profits from sales of commodities other than the principal commodity in which the corporation dealt; income from minor operations; cash discounts; income from claims, license rights, judgments, and joint ventures; net amount earned under operating agreements; profit from commissaries; profit on prior-years' collections (installment basis); profit on the purchase of a corporation's own bonds; recoveries of losses and bad debts previously claimed for tax purposes; refunds for the cancellation of contracts; and income from sales of scrap, salvage, or waste. Also regarded as other receipts were certain dividends received, such as from Federal Reserve and Federal Home Loan Banks, and from the following special classes of corporations: corporations deriving a large percent of their gross income from sources within a U.S. possession; and tax-exempt charitable, educational, religious, scientific and literary organizations, and mutual and cooperative societies including farmers' cooperatives.

For Interest Charge Domestic International Sales Corporations (IC–DISC's), other receipts comprised all "nonqualified" gross receipts reported on the return except nonqualified dividends. In addition, in the case of IC–DISC's acting as commission agents for someone else, only the commissions earned and not the underlying gross receipts on which the commissions were earned were included in the statistics. Nonqualified gross receipts thus took into account: (1) sales of goods and services for ultimate use or consumption in the United States; (2) exports subsidized by the U.S. Government; (3) certain direct or indirect sales or leases for use by the U.S. Government; and (4) sales to other IC–DISC's in the same controlled group of corporations.

See also "Business Receipts."

Overpaid Windfall Profits Tax

A corporation that overpaid its windfall profit tax could claim a tax credit for such overpayment as a credit on its income tax return. The windfall profit tax was a federal excise tax on the "windfall" profit from domestically produced crude oil. Although the producer of oil was liable for the tax, the first purchaser of the oil generally withheld the tax and deposited it. The producer could claim any overwithholding as a credit against its income tax. For newly discovered oil, the tax rate ranges from 22.5 percent in 1985, to 15 percent after 1988.

Overpaid windfall profits tax credit is shown in table 13.

Overpayments Claimed as a Credit (#)

This was the amount of the 1985 overpayment the corporation specifically requested to be credited to the 1986 year's estimated tax, in lieu of requesting a refund in 1985. The credit is reflected in the amount shown as estimated tax payments in table 8.

Paid-In or Capital Surplus

This balance sheet item comprised additions to the corporation's capital from sources other than earnings. These sources included appreciation of assets, receipts from the sale of capital stock in excess of stated value, stock redemptions or conversions, and similar transactions. The amounts shown are after deducting any negative amounts.

Part-Year Returns

Part-year returns were those filed for accounting periods of less than 12 months. Such returns were filed as a result of business liquidations, reorganizations, mergers, and changes to new accounting periods. Figure B in section 1 shows the percentage of returns filed for each of the accounting periods covered in this report. Data from part-year returns are included in the statistics.

Payments With Applications for Extension of Filing Time (Form 7004) (#)

These statistics were derived from the income tax returns rather than from the application for extension of time to file, Form 7004. The automatic extension of time to file a corporate tax return is 6 months.

Requesting the extension of time to file the return did not postpone the payment of tax. When an extension was filed on Form 7004, the full amount of tax liability was due.

The statistics may be slightly understated because of taxpayer reporting variations and because of the inability to identify the total amount from the tax returns.

Pension, Profit-Sharing, Stock Bonus, and Annuity Plans

Employers who maintain a pension, profit-sharing or other funded deferred compensation plan are required to file a Form 5500, 5500-C or 5500-R depending on the number of participants. Contributions made by employers to these plans were deductible under Code section 404 allowing deductible employer contributions made to benefit plans established for U.S. citizens and for certain citizens employed by foreign subsidiaries and branches of domestic corporations. Affiliated corporations eligible to file a consolidated return may establish and maintain a joint profit sharing or stock bonus plan. The statistics for this item include such amounts identified in the cost of sales and operations schedules. Excess contributions may be carried over to succeeding years.

Personal Holding Company Tax

In addition to being subject to regular income tax and additional tax for tax preferences, corporations classified as personal holding companies were subject to another tax equal to 50 percent of their "undistributed personal holding company income." A corporation is taxed as a personal holding company under Section 542 if at least 60 percent of its adjusted ordinary gross income for the tax year is personal holding company income and at any time during the last half of the tax year more than 50 percent in value of its outstanding stock is owned directly or indirectly by not more than five individuals.

The personal holding company tax is a tax on undistributed personal holding company income which is taxable income with certain adjustments, minus the dividends paid deduction. Since most personal holding companies distribute all of their personal holding company income, only a small number were actually subject to the tax. In addition, the tax is slightly understated because the personal holding company tax was not always reported separately from the regular income tax.

The tax appears in the statistics for industries other than "Holding and Other Investment Companies" because a personal holding company could be a subsidiary included in a consolidated return classified in some other industry. The following corporations are exempt from personal holding tax: corporations exempt from income tax, banks, domestic building and loan associations, life insurance and security companies, certain lending and finance companies, foreign personal holding companies, and certain small business investment companies.

Refunds of Estimated Tax Payments (#)

A corporation which determined that it had overpaid its estimated tax could file for a quick refund or adjustment of the overpayment even before it filed its return. The estimated tax overpayment had to be at least $500 and be at least 10 percent of the expected "final" income tax liability reported on the tax return.

The application for refund had to be made within 2-1/2 months after the close of the taxable year and before the corporation had filed its income tax return.

Rent Paid on Business Property

This deduction consisted of rents paid for the use of land or structures, and rents paid for leased roads, rolling stock, and work equipment for railroad companies. Identifiable amounts of taxes paid and other expenses of lessees in connection with rent paid were included in their respective deduction headings.

Rents

These were the gross amounts received for the use or occupancy of property. Expenses related to rental property, such as depreciation, repairs, interest paid, and taxes paid, were not deducted directly from the rental income, but were reported as business deductions from total receipts. The rental income of manufacturing, public utility, and service corporations, which frequently leased rather than sold their products, was included in the "Business Receipts" rather than in rents.

Repairs

Repairs reported as an ordinary and necessary business expense were the costs of maintenance and incidental repairs and could include the cost of labor, supplies and other items which did not add to the value or appreciably prolong the life of the property. Expenditures for new buildings, machinery or equipment, or for permanent improvements which increased the cost or basis of the property were not deductible currently and were charged to capital expenditures, which were generally depreciable.

Research Activities Credit (#)

The Tax Reform Act of 1986 extended the research credit beyond 1985 and made several major changes. The credit will be available for eligible expenses paid or incurred through December 31, 1988. The credit has been reduced from 25 percent to 20 percent of the increase in research expenses, and the definition of qualified research has been narrowed considerably. Also, the research credit (but not the orphan drug credit) has been redesignated as a general business credit, and is now subject to the general business credit tax liability limitations.

The credit was limited to 20 percent of the excess of current year expenses over the average research expenses in the base period. In most cases the base period was the three taxable years preceeding the tax year for which the credit was being determined. The base period research expenses could never comprise less than half of the qualified research expenses for the current tax year. In the case of a short taxable year, research expenditures were annualized.

Two types of research were considered to be qualified for this credit. The first type consisted of the expenses incurred for the taxpayer's own wages and supplies for research, plus certain other charges for the use of research equipment. The other type consisted of the expenses paid to qualified organizations, such as colleges and other tax-exempt organizations, for basic research. The taxpayer was allowed a credit on 65 percent of this latter type of expense. Qualified research involves the development of a pilot or experimental model, process, product, formula, invention or an improvement. Starting in 1986, research has been limited to research undertaken to discover information technological in nature and useful in the development of a new or improved business component. It must be done within the United States and may not involve the social sciences or humanities. Research funded by another person, by a grant, or by a government agency were also ineligible for the credit.

The research activities credit is not shown separately in the tables in this report; however, it is included as a component of the general business credit.

Retained Earnings, Appropriated (#)

Earnings set aside for specific purposes and not available for distribution to stockholders were included under this heading. Included were guaranty funds (for certain finance companies), reserves for plant expansion, bond retirements, contingencies for extraordinary losses and general loss reserves. Also included were the total amount of all the companies' reserves not defined as valuation reserves or reserves included in other liabilities. Specifically excluded were the reserves for bad debts, depreciation, depletion, and amortization, which are shown separately in this report. Unrealized profits were included in other liabilities. Unearned income, if not current, was also included in other liabilities. Any amount of retained earnings not identified as appropriated or unappropriated was considered unappropriated for purposes of these statistics.

Retained Earnings, Unappropriated (#)

Retained earnings, unappropriated, consisted of the retained earnings and profits of the corporation less any reserves (these reserves are shown in the statistics as "Retained Earnings, Appropriated"). These accumulated earnings include income from normal and discontinued operations, extraordinary gains or losses and prior period adjustments. Also included were undistributed earnings (income or profits) and undivided earnings (income or profits). For railroads;, funded debt retired through income and surplus, and additions to property through income and surplus were included. Dividends and distributions to stockholders are paid from this account. The statistics shown are net figures after deduction of any negative amounts.

For Interest Charge Domestic International Sales Corporations (IC-DISC's), this item included previously taxed income, accumulated IC-DISC income, accumulated pre-1985 DISC income, and other earnings and profits.

Retained Earnings, 1120S (#)

The retained earnings, 1120S, include the appropriated and unappropriated retained earnings accumulated in prior years when the S Corporation was a C corporation or a "small business corporation" prior to 1983. Generally, the S Corporation will have a balance in Retained Earnings, 1120S only if it had ending balances in appropriated or unappropriated retain earnings prior to the current tax year.

Returns of Active Corporations

These returns were the basis for all financial statistics presented in the report. They comprised the vast majority of the returns filed, and were defined for the statistics as returns of corporations reporting any income or deduction items including tax-exempt interest.

Returns of Inactive Corporations (#)

Corporations in existence during any portion of the taxable year were required to file a return even though they may have been inactive (Code section 6012(a)(2)). Inactive corporations are defined for this report as returns showing no item of income or deduction. Financial data from these returns were excluded from the statistics.

Returns With Book Net Income or Deficit (#)

Returns with book net income or deficit were those which reported tax return schedules reconciling their income per books with income as reported on the tax return. (See "Book Net Income (or Deficit).")

Returns With Net Income

Returns with net income were those showing gross taxable receipts exceeding the ordinary and necessary business deductions allowed by the Code. (See "Net Income (or Deficit).")

Returns Without Net Income

Returns without net income were those for which ordinary and necessary business deductions allowed by the Code exceeded gross taxable receipts. In addition to deficit returns, this classification also included returns whose gross taxable receipts and business deductions were equal. (See "Net Income (or Deficit).")

Royalties

Royalties were gross payments received, generally on an agreed percentage basis, for the use of property rights. Included were amounts received from such properties as copyrights, patents, and trademarks; and from natural resources such as timber, mineral mines, and oil wells. Expenses relating to royalties, depletion or taxes, were not deducted directly from this income, but were reported among the various business deductions from total gross income.

Excluded from the statistics were certain royalties received under a lease agreement on timber, coal deposits, and domestic iron ore deposits, which were allowed special tax treatment. Under elective provisions of Code section 631, the net gain or loss on such royalties was included in the computation of net gain or loss on sales or exchanges of certain business property under section 1231. If the overall result of this computation was a net gain, it was eligible for treatment as a long-term capital gain, taxable at the capital gains rates. If the overall result was a net loss, it was fully deductible in the current year as an ordinary noncapital loss. See the discussions of "Net Capital Gains" and "Net Gain (or Loss), Noncapital Assets."

S Corporation Returns (#)

Form 1120S, U.S. Income Tax Return for an S Corporation, was filed by corporations electing to be taxed through shareholders under section 1372 of the Code.

To qualify as an S corporation, a firm had to be a domestic corporation which was not a member of an affiliated group (as defined by Code section 1504) and did not:

(1) have more than 35 shareholders;
(2) have as a shareholder a person (other than an estate or trust) who was not an individual;
(3) have a nonresident alien as a shareholder;
(4) have more than one class of stock; or
(5) for each of three consecutive tax years, have both Subchapter C earnings and profits, and gross receipts more than 25 percent of which are derived from passive investment income as defined in Section 1362(d)(3)(D).

An S corporation also could not be a financial institution that is allowed a bad debt deduction, an insurance company (other than certain stock casualty companies), a corporation electing a possessions tax credit, or an IC–DISC or former DISC.

Net income of S corporations was computed in the same manner as for most corporations. However, the net operating loss deduction and other statutory special deductions allowed most corporations, such as for dividends received, could not be taken.

An electing S corporation was generally not taxed. Only capital gains are a taxable preference item for S corporations. Other tax preference items realized pass through proportionately to the shareholders. However, an existing corporation that elected (under Code section 1362) to become an S corporation was subject to a special tax for the first 3 taxable years of the election. On the other hand, a new corporation which had been in existence for less than 4 years and which was an electing S corporation for each year of its existence was not subject to the special tax at all. Section 1374 of the Code provided that the amount of the tax was the lower of the following: (1) 28 percent of the excess of net long-term capital gain (reduced by net short-term capital loss) over $25,000 when net long-term capital gain was more than 50 percent of a net income that was over $25,000; (2) 30 percent of the gain from the disposition of property using a "substituted basis" (i.e., the basis that was transferred from another corporation which was not also an electing S corporation); or (3) the tax rates applied to net income. Foreign tax credit, U.S. possessions tax credit, orphan drug credit, nonconventional source fuel credit, and general business credit were not available to the corporation to reduce this tax (although the cost of investment credit property was allocated to shareholders for their use in computing their credits). Also, see "Excessive Net Passive Income Tax."

Every S corporation was required to file a return on Form 1120S even though it may not be subject to tax. The corporation reported gross income and allowable deductions as well as information about the shareholders. The corporation's ordinary income is passed through (deemed distributed) as one amount. Generally, each shareholder's share of the income (loss) and expenses of the corporation is passed through pro-rata on a per-share, daily basis. Dividends are paid from prior year earnings (retained earnings).

As a result of the Tax Reform Act of 1986, for tax years which begin after December 31, 1986, all S corporations regardless of when they became S corporations are required to use a permitted tax year. A permitted tax year is a tax year ending December 31 (a calendar tax year) or any other accounting period for which the corporation establishes a business purpose to the satisfaction of the Internal Revenue Service.

Also added by the Act, new Code section 469 limits losses and credits from passive activities. These limitations require that fiscal year corporations report income or loss separately on Schedule K for each of the following types of passive activities: (1) rental real estate activity, (2) rental activity other than real and estate rental, and (3) portfolio income and related expenses not derived in the ordinary course of a trade or business.

Shareholders' Undistributed Taxable Income Previously Taxed (#)

Shareholders' undistributed taxable income previously taxed is a balance sheet item unique to S corporations. It represents accumulated taxable income, i.e., net income (or deficit), earned by S corporations since they had first elected to be taxed through their shareholders, to the extent that the taxable income had not yet been distributed to the shareholders. Taxable income, whether distributed or not to the shareholders, was taxable to the shareholders in the year earned so that later distributions from this account were nontaxable. (See "S Corporation Returns.") This item is reflected in the statistics for "Retained Earnings, 1120S" and "Net Worth" in tables which show these items.

Size of Business Receipts

Size of business receipts was based on the gross amounts from sales and operations for industries except those in the finance, insurance, and real estate divisions. For these industries, total receipts, which is the sum of business receipts and investment income, were used as the basis for classification. See the discussions of "Business Receipts" and "Total Receipts."

Size of Income Tax After Credits (#)

This classification is based on the net amount of income tax liability after deducting the foreign tax, possessions tax, orphan drug, nonconventional source fuel, and general business credits. It included the regular tax and alternative tax, personal holding company tax, tax from recomputing prior-year investment credit, additional tax for tax preferences, and excessive net passive income tax.

Size of Total Assets

Size of total assets was based on the amount reported in the end-of-year balance sheet. Returns with zero assets were used as a classification for returns of: (1) liquidating or dissolving corporations which had disposed of all their assets and whose income tax returns were final returns; (2) merging corporations whose assets and liabilities were included in the returns of the acquiring corporations; (3) corporations filing a part-year tax return because of a change in accounting period; and (4) foreign corporations with income effectively connected with the conduct of a trade or business within the United States (except foreign insurance companies providing balance sheet information for U.S. branches). See also "Total Assets and Total Liabilities."

Statutory Special Deductions (#)

Statutory special deductions is the term used for the statistics to describe the deductions for: (1) net operating losses of prior years, and (2) total "special deductions" as defined by the Code, i.e., the sum of deductions for intercorporate dividends received and for dividends paid on certain preferred stock of public utilities. Since these deductions were allowed by law, in addition to ordinary and necessary business deductions, they are shown as deductions from net income.

In general, net income less statutory special deductions equaled income subject to tax. However, the two dividend deductions were not restricted to returns with net income, nor, in general, to the amount of net income, and thus became part of the statutory "net operating loss" for some corporations. Statutory special deductions were not allowed to S corporations for which an election was made to be taxed through shareholders, nor to regulated investment companies and real estate investment trusts.

Although Interest Charge Domestic International Sales Corporations (IC–DISC's) were not taxable, in order to compute "tax deferred income and income taxable to stockholders," two of the statutory special deductions, i.e., net operating loss deduction and intercorporate dividends received deduction, discussed below, were allowed.

Definitions for the statutory special deductions contained in the statistics are as follows:

(1) *Net operating loss deduction* (NOLD).—The total net operating loss deduction was based on statutory net operating losses of prior or subsequent years which could be used to reduce taxable income for a specified number of years. The amount shown in this report, however, consists only of losses from prior years actually used to reduce taxable income for the current year. Losses incurred after the current year and carried back to that year at a later date could not be reported on the returns used for this report. In general, losses were carried back over a 3-year period, chronologically, and any amount not offset against income during that time could then be carried forward against income for a period not exceeding 15 years. Real Estate Investment Trusts (REIT's) and Regulated Investment Companies (RIC's) cannot carry back a NOLD. Instead, a fifteen year carryover is allowed for REIT's and an eight year carryover is allowed for RIC's. Banks have a ten year carryback and a five year carryover period.

Net operating losses on which the current year deduction was based included: (a) the excess of ordinary and necessary business expenses over income in the previous loss years, and (b) statutory special deductions claimed in the loss year for dividends received and for dividends paid on certain preferred stock of public utilities (or any excess of such deductions over net income).

The net operating loss deducted for the current year was the excess of allowable deductions over gross income with certain adjustments: no NOLD is allowed, and capital losses are only deductible to the extent of capital gains. A deduction for dividends received is allowed without regard to limitations.

Net operating losses incurred by Interest Charge Domestic International Sales Corporations (IC–DISC's) were deductible from net income only if the IC–DISC had been a corporation prior to its election to become a IC–DISC (or former DISC) and only for losses incurred prior to the election. The statistics are overstated to the extent small amounts of net operating loss deductions were reported by DISC's without net income; no attempt was made to suppress these amounts for the statistics.

(2) *Total special deductions.*—The total special deductions contained in this report were the sum of the following deductions:

(a) *Intercorporate dividends received deduction*—The intercorporate dividends received deduction, under Code sections 243–246, was the sum of the following components:

(1) A deduction equal to 85 percent (80 percent after December 31, 1986) of dividends received from domestic corporations which were themselves subject to the income tax. This particular deduction accounted for the major portion of the intercorporate dividends received deduction. Since IC–DISC's were not subject to tax, the intercorporate dividends received deduction was not allowed for dividends received by their stockholders. However, if the dividends were paid out of earnings and profits from a year before the election was made to become an IC–DISC, the stockholders were entitled to the deduction for such dividends.

(2) A deduction limited to the percentage of the dividend determined by computing the product of (a) 85 percent (80 percent after December 31, 1986), and (b) 100 percent minus the average indebtedness percentage. The average indebtedness percentage is obtained by dividing the (a) average amount of portfolio indebtedness with respect to stock during the base period, by (b) the corporations average amount of the adjusted basis of stock during the same period.

(3) A deduction equal to 85 percent (80 percent after December 31, 1986) of certain dividends received from foreign corporations (a) which had been engaged in a trade or business within the United States for at least 3 years, and (b) which also had at least 50 percent of their gross income "effectively connected" with the U.S. trade or business.

(4) A deduction equal to 100 percent of certain intragroup dividends allowed members of controlled

groups not electing to file consolidated returns, but sharing instead, one $25,000 amount in each of the four income tax brackets under Code section 1561.

(5) A deduction equal to 100 percent of dividends received from wholly-owned foreign subsidiaries whose entire gross income was "effectively connected" with the conduct of a trade or business within the United States.

(6) A deduction equal to about 59.13 percent (55.65 percent after December 31, 1986) of dividends received on certain preferred stock of public utilities for which a dividends paid deduction, described below, was also allowed the distributing corporation. The applicable percentage was based on the income tax rate.

(7) A deduction equal to 100 percent of dividends received by small business investment companies. For tax returns with net income for the taxable year, there was a limitation on the deduction, based on net income, for dividends received not subject to the 100 percent deduction (Code section 246). For these returns the deduction could not exceed 85 percent (80 percent after December 31, 1986) of net income less any 100 percent deduction for domestic intragroup dividends. This limitation was not applicable if the corporation had no net income for the year. In this case, the deduction became part of the statutory net operating loss previously described. In the case of life insurance companies, the above percentage deductions were further reduced by the ratio of investment yield less total exclusions (operations) to investment yield.

(b) *Deduction for dividends paid on certain preferred stock of public utilities.*—For public utility companies, as defined by law, a special deduction was allowable under Code section 247 for dividends if paid on certain preferred cumulative stock deemed issued prior to October 1, 1942. This deduction, based on the income tax rate, amounted to about 30.4 percent of the dividends paid on such stock.

If the dividends paid were greater than net income reduced (in general) by all other statutory special deductions for the year, the deduction could not exceed the above-described percentage of net income after this adjustment.

Taxable Income

See "Income Subject to Tax."

Tax Due at Time of Filing (#)

Tax due was the amount of income tax liability reported as due at the time the return was filed. To show the amount of tax due the return had to have income tax after foreign tax, possessions tax, orphan drug, nonconventional source fuel, and general business credits. For this purpose, the income tax included tax from recomputing prior-year investment credit, additional tax for tax preferences, tax on undistributed personal holding company income, and excess net passive income tax. Tax due based on this total tax was the amount payable after taking into account (a) credit for taxes deemed paid by regulated investment companies on undistributed capital gain dividends; (b) payments with applications for extension of time in which to file; (c) payments and refunds on estimated tax; (d) credit for taxes on special fuels, nonhighway gasoline, and lubricating oil; and (e) overpaid windfall profit tax.

The entire tax due could be paid with the return at the time of filing, or the corporation could elect to pay the tax due in two equal installments. One installment had to be paid at the prescribed time of filing. The balance was due not later than 3 months after that date.

The amounts shown do not reflect adjustments made after the return was filed. The results of tax audit, the carryback of net operating losses, the carryback of foreign taxes paid or accrued in future years, the carryback of unused tax credits or the carryback of certain capital losses, may affect the final tax liability and the tax due.

Tax from Recomputing Prior Year Investment Credit

This tax, a recapture of investment credit, was required when depreciable (or amortizable) property used in computing the investment credit of a prior year was either disposed of or ceased to be qualifying property before the end of its useful life assumed at the time the credit was originally computed.

The tax was payable for the year in which the property was disposed of or became disqualified. It amounted to the difference between the credit originally claimed based on the intended life in the year of acquisition and the credit that would have been allowed based on the actual life in the year of disposition or disqualification.

For investment credit property placed in service after 1980, a new "2-percent" recapture rule applied. The regular credit was computed upon early disposition by allowing a 2 percent credit for each year the property was held. Therefore, no recapture was required for eligible 5-year, 10-year, or 15-year recovery property held for at least 5 years or for eligible 3-year property held for at least 3 years. If certain "listed property" such as transportation, entertainment, recreation or amusement property placed in service after June 18, 1984 ceased to be used predominantly for business corporations may have to recapture the investment credit taken on the property.

Unless otherwise indicated, tax from recomputing prior-year investment credit is included in the statistics for "Income Tax" in this report.

See also "Investment Credit" in this section.

Tax Overpayment (#)

This was the amount reported as the excess of payments and credits for the tax already paid over total income tax liability at the time the return was filed. For this purpose, the income tax liability included tax from recomputing prior-year investment credit, additional tax for tax preferences, and tax on undistributed personal holding company income; but it was after reduction by the foreign tax, possessions tax, nonconventional source fuel, orphan drug, and general business credits. Overpayment then, was the excess of payments and credits over total tax liability after taking into account (a) credit for taxes deemed paid by regulated investment companies on undistributed capital gain dividends; (b) payments with applications for extension of time in which to file; (c) payments and refunds on estimated tax; (d) credit for taxes on special fuels, nonhighway gasoline, and lubricating oil, and (e) overpaid windfall profits tax.

The overpayment could be credited toward the following year's estimated tax, refunded, or partially refunded and partially credited.

The amounts shown do not reflect adjustments made after the return was filed. The results of audit, the carryback of net operating losses incurred in future years, the carryback of certain foreign taxes paid or accrued in future years used to increase the current year foreign tax credit, the carryback of unused tax credits, or the carryback of certain capital losses, may affect the final tax liability and the tax overpayment.

Also, see "Tax Due at Time of Filing."

Tax Preference Items

See "Additional Tax for Tax Preferences."

Taxes Paid

Taxes paid included the amounts reported as an ordinary and necessary business deduction as well as identifiable amounts reported in the cost of sales and operations schedules. Included among the deductible taxes were ordinary State and local taxes paid or accrued during the year; social security and payroll taxes; unemployment insurance taxes; import and tariff duties; and business, license and privilege taxes. Income and profit taxes paid to foreign countries or U.S. possessions were also deductible unless claimed as a credit against income tax. However, S corporations electing to be taxed through their shareholders had to deduct from gross income any foreign taxes they paid. They could not claim a foreign tax credit, nor could they pass these taxes on to their shareholders for their use as a foreign tax credit. (See "Foreign Tax Credit.")

Taxes not deductible included Federal income and excess profits taxes, gift taxes and taxes assessed against local benefits.

Some corporations included sales taxes and excise and related taxes, which were part of the sales price of their products, as receipts. When this occurred, an equal and offsetting amount was usually included in the cost of sales and operations or as part of the separate deduction for taxes paid. When included in the cost of sales and operations, these taxes often were not identifiable and, therefore, could not be included in the statistics for taxes paid.

Total Assets and Total Liabilities

Total assets and total liabilities were those reported in the end-of-year balance sheet in the corporations' books of account. Total assets were net amounts after reduction by accumulated depreciation, accumulated amortization, accumulated depletion, and the reserve for bad debts. When reserves for bad debts were reported as liabilities, they were treated as reductions from the asset accounts to which they related and the totals of assets and liabilities were adjusted accordingly. When used in this report, the term total liabilities includes both the claims of creditors and stockholders' equity (see "Net Worth"). In addition, total liabilities were net amounts after reduction by the cost of Treasury stock.

Asset and liability estimates for returns of corporations that failed to provide complete balance sheet information were imputed from data in other schedules on the return form or by using either reference books or relationships between income statement and balance sheet items on similar returns in the same industrial group.

Because Forms 1120L and 1120M used by life insurance companies and certain mutual insurance companies did not provide for the complete reporting of balance sheet information, asset and liability data for these companies were obtained from reference books or from balance sheets filed with the returns in the form required by State law. These sources were also used for any other insurance companies, not filing returns on Forms 1120L or 1120M, which filed balance sheets in the form required by State law in lieu of the income tax return schedule. (See also "Size of Total Assets.")

Total Deductions

As presented in the tables of this publication, total deductions comprised (1) the cost of sales and operations,

(2) the ordinary and necessary business deductions from gross income, and (3) net loss from sales of noncapital assets. Components of total deductions are shown in the income statement segment of various tables throughout this report.

For certain mutual insurance companies, with total receipts under $500,000, total deductions represents only investment expenses; business expenses were excluded by law. (See also "Total Receipts.")

Total Income Tax

See "Income Tax."

Total Qualified Investment in 10 Percent Property

See "Investment Credit."

Total Receipts

The components of total receipts are shown in the income statement segment of various tables throughout this report. This amount was derived as follows:

Included items—(1) Gross taxable receipts (before deduction of cost of sales and operations, ordinary and necessary business expenses, and net loss from sales of noncapital assets), and (2) Nontaxable interest received from State and local Government obligations.

Excluded items—(1) Other nontaxable income recognized by the corporation, and (2) Certain taxable income from related foreign corporations only constructively received.

For certain mutual insurance companies, with total receipts under $500,000, the gross taxable receipts included in the statistics represent only the receipts from investments; operating income was excluded by law. (See also "Total Deductions.")

Total Receipts Less Total Deductions

This item differed from net income (less deficit) for tax purposes in that it included nontaxable "Interest on State and local Government Obligations" and excluded "Constructive Taxable Income from Related Foreign Corporations." As such, it included all of the income "actually" (as opposed to "constructively") received by the corporation and reported on the income tax return.

U.S. Possessions Tax Credit

In order to provide a tax incentive for domestic corporations to invest in Puerto Rico and U.S. possessions (including American Samoa, Guam, Johnston Island, Midway Islands, and Wake Island), the Tax Reform Act of 1976 added a tax credit—the U.S. possessions tax credit in lieu of the ordinary foreign tax credit. Under Code section 936, the U.S. possessions tax credit was equal to the U.S. tax on the corporations' income from sources within a possession in which the corporations actively conducted a trade or business. Qualification for the credit is generally effective ten years and cannot be revoked except by IRS consent.

Before the U.S. possessions tax credit could be claimed, a domestic corporation had to make an election and satisfy two tests: (1) receive for the "applicable" period immediately preceding the close of the taxable year at least 80 percent of its gross income from sources within a U.S. possession, and (2) receive for the "applicable" period at least 65 percent of its gross income from the active conduct of a trade or business within a U.S. possession. "Applicable" period was the lesser of 3 years or the period during which the corporation was engaged in the active conduct of a trade or business within a U.S. possession. IC-DISC's and FSC's were ineligible for the credit. A possessions corporation cannot claim a foreign tax credit for the same taxes credited under the possessions tax credit. In addition, if the possessions tax credit is taken, a corporation is prohibited from joining in a consolidated return.

Zero Assets

In general, returns in this total assets-size class were:

(1) final returns of liquidating or dissolving corporations which had disposed of all assets;
(2) final returns of merging corporations whose assets and liabilities were reported in the returns of the acquiring corporations;
(3) part-year returns of corporations (except initial returns of newly incorporated businesses); and
(4) returns of foreign corporations with income "effectively connected" with the conduct of a trade or business in the United States (however, balance sheet data for U.S. branches of foreign insurance companies are included in the statistics and are classified by the size of total assets of these branches). See also "Size of Total Assets".

Section 6

FORMS AND INSTRUCTIONS

Contents

Form **1120** Department of the Treasury Internal Revenue Service

U.S. Corporation Income Tax Return

For calendar 1986 or tax year beginning ...., 1986, ending ...., 19 ....
▶ For Paperwork Reduction Act Notice, see page 1 of the instructions.

OMB No. 1545-0123

1986

Check if a—
A Consolidated return ☐
B Personal Holding Co. ☐
C Business Code No. (See the list in the instructions)

Use IRS label. Other-wise please print or type.

Name

Number and street

City or town, state, and ZIP code

D Employer identification number

E Date incorporated

F Total assets (see Specific Instructions) Dollars | Cents $

G Check box if there has been a change in address from the previous year ▶ ☐

Income

1a	Gross receipts or sales .... b Less returns and allowances .... Balance ▶	1c		
2	Cost of goods sold and/or operations (Schedule A)	2		
3	Gross profit (line 1c less line 2)	3		
4	Dividends (Schedule C)	4		
5	Interest	5		
6	Gross rents	6		
7	Gross royalties	7		
8	Capital gain net income (attach separate Schedule D)	8		
9	Net gain or (loss) from Form 4797, line 17, Part II (attach Form 4797)	9		
10	Other income (see instructions—attach schedule)	10		
11	TOTAL income—Add lines 3 through 10 and enter here ▶	11		

Deductions

12	Compensation of officers (Schedule E)	12		
13a	Salaries and wages .... b Less jobs credit .... Balance ▶	13c		
14	Repairs	14		
15	Bad debts (Schedule F if reserve method is used)	15		
16	Rents	16		
17	Taxes	17		
18	Interest	18		
19	Contributions (**see instructions for 10% limitation**)	19		
20	Depreciation (attach Form 4562) 20			
21	Less depreciation claimed in Schedule A and elsewhere on return 21a	21b		
22	Depletion	22		
23	Advertising	23		
24	Pension, profit-sharing, etc., plans	24		
25	Employee benefit programs	25		
26	Other deductions (attach schedule)	26		
27	TOTAL deductions—Add lines 12 through 26 and enter here ▶	27		
28	Taxable income before net operating loss deduction and special deductions (line 11 less line 27)	28		
29	**Less: a** Net operating loss deduction (see instructions) 29a / b Special deductions (Schedule C) 29b	29c		

Tax and Payments

30	Taxable income (line 28 less line 29c)	30		
31	TOTAL TAX (Schedule J)	31		
32	**Payments: a** 1985 overpayment credited to 1986			
b	1986 estimated tax payments			
c	Less 1986 refund applied for on Form 4466 ( )			
d	Tax deposited with Form 7004			
e	Credit from regulated investment companies (attach Form 2439)			
f	Credit for Federal tax on gasoline and special fuels (attach Form 4136)	32		
33	Enter any **PENALTY** for underpayment of estimated tax—check ▶ ☐ if Form 2220 is attached	33		
34	**TAX DUE**—If the total of lines 31 and 33 is larger than line 32, enter AMOUNT OWED	34		
35	**OVERPAYMENT**—If line 32 is larger than the total of lines 31 and 33, enter AMOUNT OVERPAID	35		
36	Enter amount of line 35 you want: **Credited to 1987 estimated tax** ▶ Refunded ▶	36		

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Signature of officer | Date | ▶ Title

Paid Preparer's Use Only

Preparer's signature ▶ | Date | Check if self-employed ☐ | Preparer's social security number

Firm's name (or yours, if self-employed) and address ▶ | E.I. No. ▶ | ZIP code ▶

Form 1120 (1986) Page **2**

Schedule A Cost of Goods Sold and/or Operations (See instructions for line 2, page 1)

1	Inventory at beginning of year	1	
2	Purchases	2	
3	Cost of labor	3	
4	Other costs (attach schedule)	4	
5	Total—Add lines 1 through 4	5	
6	Inventory at end of year	6	
7	Cost of goods sold and/or operations—Line 5 less line 6. Enter here and on line 2, page 1	7	

8a Check all methods used for valuing closing inventory:
(i) ☐ Cost (ii) ☐ Lower of cost or market as described in Regulations section 1.471-4 (see instructions)
(iii) ☐ Writedown of "subnormal" goods as described in Regulations section 1.471-2(c) (see instructions)
(iv) ☐ Other (Specify method used and attach explanation) ▶ ....
b Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ☐
c If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO | 8c |
d If you are engaged in manufacturing, did you value your inventory using the full absorption method (Regulations section 1.471-11)? ☐ Yes ☐ No
e Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation. ☐ Yes ☐ No

Schedule C Dividends and Special Deductions (See Schedule C instructions)

		(a) Dividends received	(b) %	(c) Special deductions: multiply (a) X (b)
1	Domestic corporations subject to section 243(a) deduction (other than debt-financed stock)		see instructions	
2	Debt-financed stock of domestic and foreign corporations (section 246A)		see instructions	
3	Certain preferred stock of public utilities		see instructions	
4	Foreign corporations and certain FSCs subject to section 245 deduction		see instructions	
5	Wholly-owned foreign subsidiaries and FSCs subject to 100% deduction (sections 245(b) and (c))		100	
6	Total—Add lines 1 through 5. See instructions for limitation			
7	Affiliated groups subject to the 100% deduction (section 243(a)(3))		100	
8	Other dividends from foreign corporations not included in lines 4 and 5			
9	Income from controlled foreign corporations under subpart F (attach Forms 5471)			
10	Foreign dividend gross-up (section 78)			
11	IC-DISC or former DISC dividends not included in lines 1 and/or 2 (section 246(d))			
12	Other dividends			
13	Deduction for dividends paid on certain preferred stock of public utilities (see instructions)			
14	Total dividends—Add lines 1 through 12. Enter here and on line 4, page 1 ▶			
15	Total deductions—Add lines 6, 7, and 13. Enter here and on line 29b, page 1 ▶			

Schedule E Compensation of Officers (See instructions for line 12, page 1)

Complete Schedule E only if total receipts (line 1a, plus lines 4 through 10, of page 1, Form 1120) are $150,000 or more.

(a) Name of officer	(b) Social security number	(c) Percent of time devoted to business	Percent of corporation stock owned (d) Common	(e) Preferred	(f) Amount of compensation
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
Total compensation of officers—Enter here and on line 12, page 1					

Schedule F Bad Debts—Reserve Method (See instructions for line 15, page 1)

(a) Year	(b) Trade notes and accounts receivable outstanding at end of year	(c) Sales on account	Amount added to reserve (d) Current year's provision	(e) Recoveries	(f) Amount charged against reserve	(g) Reserve for bad debts at end of year
1981						
1982						
1983						
1984						
1985						
1986						

Form 1120 (1986) Page 3

Schedule J **Tax Computation** (See instructions) (Fiscal year corporations see page 12 of instructions before completing Schedule J)

1 Check if you are a member of a controlled group (see sections 1561 and 1563) . . . . ▶ ☐

2a If line 1 is checked, see instructions. Enter your portion of each $25,000 taxable income bracket amount:
(i) $ ________ *(ii)* $ ________ *(iii)* $ ________ *(iv)* $ ________

b If your tax year includes July 1, 1987, see instructions and enter share of tax bracket amounts
(i) ________ *(ii)* ________

3 Income tax (see instructions to figure the tax; enter this tax or alternative tax, whichever is less). Check if alternative tax is used ▶ ☐		3	
4a Foreign tax credit (attach Form 1118)	4a		
b Possessions tax credit (attach Form 5735)	b		
c Orphan drug credit (attach Form 6765)	c		
d Credit for fuel produced from a nonconventional source (see instructions)	d		
e General business credit. Enter here and check which forms are attached ☐ Form 3800 ☐ Form 3468 ☐ Form 5884 ☐ Form 6478 ☐ Form 8007 ☐ Form 6765 ☐ Form 8586	e		
5 Total—Add lines 4a through 4e		5	
6 Line 3 less line 5		6	
7 Personal holding company tax (attach Schedule PH (Form 1120))		7	
8 Tax from recomputing prior-year investment credit (attach Form 4255)		8	
9 Minimum tax on tax preference items (see instructions—attach Form 4626)		9	
10 Total tax—Add lines 6 through 9. Enter here and on line 31, page 1		10	

Additional Information (See instruction F) Yes No

H Did the corporation claim a deduction for expenses connected with:
(1) Entertainment facility (boat, resort, ranch, etc.)?
(2) Living accommodations (except employees on business)?
(3) Employees attending conventions or meetings outside the North American area? (See section 274(h).)
(4) Employees' families at conventions or meetings?
If "Yes," were any of these conventions or meetings outside the North American area? (See section 274(h).)
(5) Employee or family vacations not reported on Form W-2?

I (1) Did the corporation at the end of the tax year own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).)
If "Yes," attach a schedule showing: (a) name, address, and identifying number; (b) percentage owned; (c) taxable income or (loss) before NOL and special deductions (e.g., If a Form 1120: from Form 1120, line 28, page 1) of such corporation for the tax year ending with or within your tax year; (d) highest amount owed by the corporation to such corporation during the year; and (e) highest amount owed to the corporation by such corporation during the year.
(2) Did any individual, partnership, corporation, estate, or trust at the end of the tax year own, directly or indirectly, 50% or more of the corporation's voting stock? (For rules of attribution, see section 267(c).) If "Yes," complete (a) through (e)
(a) Attach a schedule showing name, address, and identifying number.
(b) Enter percentage owned ▶ ________
(c) Was the owner of such voting stock a person other than a U.S. person? (See instructions.) **Note:** *If "Yes," the corporation may have to file Form 5472.*
If "Yes," enter owner's country ▶ ________
(d) Enter highest amount owed by the corporation to such owner during the year ▶ ________
(e) Enter highest amount owed to the corporation by such owner during the year ▶ ________
Note: *For purposes of I(1) and I(2), "highest amount owed" includes loans and accounts receivable/payable.*

J Refer to the list in the instructions and state the principal:
Business activity ▶ ________
Product or service ▶ ________

K Was the corporation a U.S. shareholder of any controlled foreign corporation? (See sections 951 and 957.)
If "Yes," attach Form 5471 for each such corporation.

L At any time during the tax year, did the corporation have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)?
(See instruction F and filing requirements for form TD F 90-22.1.)
If "Yes," enter name of foreign country ▶ ________

M Was the corporation the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not the corporation has any beneficial interest in it?
If "Yes," the corporation may have to file Forms 3520, 3520-A, or 926.

N During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.)
If "Yes," file Form 5452. If this is a consolidated return, answer here for parent corporation and on Form 851, Affiliations Schedule, for each subsidiary.

O During this tax year did the corporation maintain any part of its accounting/tax records on a computerized system?

P Check method of accounting:
(1) ☐ Cash
(2) ☐ Accrual
(3) ☐ Other (specify) ▶ ________

Q Check this box if the corporation issued publicly offered debt instruments with original issue discount . . . . . . ☐
If so, the corporation may have to file Form 8281.

Form 1120 (1986) Page 4

Schedule L **Balance Sheets**

Assets	Beginning of tax year (a)	(b)	End of tax year (c)	(d)
1 Cash				
2 Trade notes and accounts receivable				
a Less allowance for bad debts				
3 Inventories				
4 Federal and state government obligations				
5 Other current assets (attach schedule)				
6 Loans to stockholders				
7 Mortgage and real estate loans				
8 Other investments (attach schedule)				
9 Buildings and other depreciable assets				
a Less accumulated depreciation				
10 Depletable assets				
a Less accumulated depletion				
11 Land (net of any amortization)				
12 Intangible assets (amortizable only)				
a Less accumulated amortization				
13 Other assets (attach schedule)				
14 Total assets				
Liabilities and Stockholders' Equity				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities (attach schedule)				
18 Loans from stockholders				
19 Mortgages, notes, bonds payable in 1 year or more				
20 Other liabilities (attach schedule)				
21 Capital stock: a Preferred stock				
b Common stock				
22 Paid-in or capital surplus				
23 Retained earnings—Appropriated (attach schedule)				
24 Retained earnings—Unappropriated				
25 Less cost of treasury stock		( )		( )
26 Total liabilities and stockholders' equity				

Schedule M-1 **Reconciliation of Income per Books With Income per Return**
Do not complete this schedule if the total assets on line 14, column (d), of Schedule L are less than $25,000.

1 Net income per books		7 Income recorded on books this year not included in this return (itemize)	
2 Federal income tax		a Tax-exempt interest $ ________	
3 Excess of capital losses over capital gains			
4 Income subject to tax not recorded on books this year (itemize) ________		8 Deductions in this tax return not charged against book income this year (itemize)	
5 Expenses recorded on books this year not deducted in this return (itemize)		a Depreciation $ ________	
a Depreciation $ ________		b Contributions carryover $ ________	
b Contributions carryover $ ________			
		9 Total of lines 7 and 8	
6 Total of lines 1 through 5		10 Income (line 28, page 1)—line 6 less line 9	

Schedule M-2 **Analysis of Unappropriated Retained Earnings per Books (line 24, Schedule L)**
Do not complete this schedule if the total assets on line 14, column (d), of Schedule L are less than $25,000.

1 Balance at beginning of year		5 Distributions: a Cash	
2 Net income per books		b Stock	
3 Other increases (itemize) ________		c Property	
		6 Other decreases (itemize) ________	
		7 Total of lines 5 and 6	
4 Total of lines 1, 2, and 3		8 Balance at end of year (line 4 less line 7)	

Form **1120-A**

Department of the Treasury
Internal Revenue Service

U.S. Corporation Short-Form Income Tax Return

To see if you qualify to file Form 1120-A, see instructions.

1235

OMB No. 1545-0890

1986

For calendar 1986 or tax year beginning ______, 1986, ending ______, 19 ___

▶ Fiscal Year Corporations See Instructions Before Computing Tax.

See Instructions for list of principal business: A Activity; B Product or service; C Code

Use IRS label. Otherwise, please type or machine print: Name; Number and street; City or town, state, and ZIP code

D Employer identification number (EIN)

E Date incorporated

F Total assets (see Specific Instructions) Dollars | Cents $

G Check method of accounting: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

H Check box if there has been a change in address from the previous year ▶

Income	1a Gross receipts or sales ____ b Less returns and allowances ____ Balance ▶	1c	
	2 Cost of goods sold and/or operations (see instructions)	2	
	3 Gross profit (line 1c less line 2)	3	
	4 Domestic corporation dividends subject to the Section 243(a)(1) deduction	4	
	5 Interest	5	
	6 Gross rents	6	
	7 Gross royalties	7	
	8 Capital gain net income (attach separate Schedule D (Form 1120))	8	
	9 Net gain or (loss) from Form 4797, line 17, Part II (attach Form 4797)	9	
	10 Other income (see instructions)	10	
	11 TOTAL income—Add lines 3 through 10	11	
Deductions	12 Compensation of officers (see instructions)	12	
	13a Salaries and wages ____ b Less jobs credit ____ Balance ▶	13c	
	14 Repairs	14	
	15 Bad debts (if reserve method is used, answer Question K on page 2)	15	
	16 Rents	16	
	17 Taxes	17	
	18 Interest	18	
	19 Contributions (see instructions for 10% limitation)	19	
	20 Depreciation (attach Form 4562) ... 20		
	21 Less depreciation claimed elsewhere on return ... 21a	21b	
	22 Other deductions (attach schedule)	22	
	23 TOTAL deductions—Add lines 12 through 22	23	
	24 Taxable income before net operating loss deduction and special deductions (line 11 less line 23)	24	
	25 Less: a Net operating loss deduction (see instructions) ... 25a		
	b Special deductions (see instructions) ... 25b	25c	
Tax and Payments	26 Taxable income (line 24 less line 25c)	26	
	27 TOTAL TAX (from Part I, line 6 on page 2)	27	
	28 Payments:		
	a 1985 overpayment allowed as a credit		
	b 1986 estimated tax payments		
	c Less 1986 refund applied for on Form 4466 ( )		
	d Tax deposited with Form 7004		
	e Credit from regulated investment companies (attach Form 2439)		
	f Credit for Federal tax on gasoline and special fuels (attach Form 4136)	28	
	29 Enter any PENALTY for underpayment of estimated tax—Check ▶ ☐ if Form 2220 is attached	29	
	30 TAX DUE—If the total of lines 27 and 29 is larger than line 28, enter AMOUNT OWED	30	
	31 OVERPAYMENT—If line 28 is larger than the total of lines 27 and 29, enter AMOUNT OVERPAID	31	
	32 Enter amount of line 31 you want: Credited to 1987 estimated tax ▶ ____ Refunded ▶	32	

Please Sign Here — Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Signature of officer | Date | ▶ Title

Paid Preparer's Use Only — Preparer's signature ▶ | Date | Check if self-employed ▶ ☐ | Preparer's social security number

Firm's name (or yours, if self-employed) and address ▶ | E.I. No. ▶ | ZIP code ▶

For Paperwork Reduction Act Notice, see page 1 of the Instructions. Form **1120-A** (1986)

Form 1120-A (1986) Page 2 Enter EIN ▶

Part I Tax Computation (See Instructions)

1 Income tax (See instructions to figure the tax. Enter lesser of this tax or alternative tax.) Check if alternative tax was used ▶ ☐	1	
2 Credits. Check if from ☐ Form 3800 ☐ Form 3468 ☐ Form 5884 ☐ Form 6478 ☐ Form 8007 ☐ Form 6765 ☐ Form 8586	2	
3 Line 1 less line 2	3	
4 Tax from recomputing prior-year investment credit (attach Form 4255)	4	
5 Minimum tax on tax preference items (see instructions—attach Form 4626)	5	
6 Total tax—Add lines 3 through 5. Enter here and on line 27, page 1	6	

Additional Information (See instruction F)

I Was a deduction taken for expenses connected with:
(1) An entertainment facility (boat, resort, ranch, etc.)? Yes ☐ No ☐
(2) Employees' families at conventions or meetings? Yes ☐ No ☐

J Did any individual, partnership, estate, or trust at the end of the tax year own, directly or indirectly, 50% or more of the corporation's voting stock? (For rules of attribution, see section 267(c).) If "Yes," complete (1) and (2) Yes ☐ No ☐
(1) Attach a schedule showing name, address, and identifying number.
(2) Enter "highest amount owed;" include loans and accounts receivable/payable:
(a) Enter highest amount owed by the corporation to such owner during the year ▶
(b) Enter highest amount owed to the corporation by such owner during the year ▶

K If the reserve method is used for bad debts, complete (1) and (2) for the current year:
(1) Amount added to the reserve account:
(a) Current year's provision ▶
(b) Recoveries ▶
(2) Amount charged against the reserve account ▶

L If an amount for cost of goods sold and/or operations is entered on line 2, page 1, complete (1) and (2):
(1) Purchases ▶
(2) Other costs (attach schedule) ▶

M At any time during the tax year, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See instruction F for filing requirements for Form TD F 90-22.1.) Yes ☐ No ☐
If "Yes," write in the name of the foreign country ▶

N During this tax year was any part of your accounting/tax records maintained on a computerized system? Yes ☐ No ☐

O Enter amount of cash distributions and the book value of property (other than cash) distributions made in this tax year ▶

Part II Balance Sheets

		(a) Beginning of tax year	(b) End of tax year
Assets	1 Cash		
	2 Trade notes and accounts receivable		
	a Less: allowance for bad debts	( )	( )
	3 Inventories		
	4 Federal and State government obligations		
	5 Other current assets (attach schedule)		
	6 Loans to stockholders		
	7 Mortgage and real estate loans		
	8 Depreciable, depletable, and intangible assets		
	a Less: accumulated depreciation, depletion, and amortization	( )	( )
	9 Land (net of any amortization)		
	10 Other assets (attach schedule)		
	11 Total assets		
Liabilities and Stockholders' Equity	12 Accounts payable		
	13 Other current liabilities (attach schedule)		
	14 Loans from stockholders		
	15 Mortgages, notes, bonds payable		
	16 Other liabilities (attach schedule)		
	17 Capital stock (Preferred and Common stock)		
	18 Paid-in or capital surplus		
	19 Retained earnings		
	20 Less cost of treasury stock	( )	( )
	21 Total liabilities and stockholders' equity		

Part III Reconciliation of Income Per Books With Income Per Return (See Instructions)

1 Enter net income per books		5 Income recorded on books this year not included in this return (itemize)	
2 Federal income tax		6 Deductions in this tax return not charged against book income this year (itemize)	
3 Income subject to tax not recorded on books this year (itemize)		7 Income (line 24, page 1). Enter the sum of lines 1, 2, 3, and 4 less the sum of lines 5 and 6	
4 Expenses recorded on books this year not deducted in this return (itemize)			

1 1 1 1 1 1 2 2 2 3 3 3 3 3 3 3 4 4 4 4 4 5 5 5 5 5 6 6 6 6 6 7 8

1 1 1 1 1 2 2 2 2 2 3 3 3 3 3 3 3 4 4 5 6 6 7 7 7 7 7 8 9 10 11

U.S. GPO 1986 0 493 5

1986 Department of the Treasury Internal Revenue Service

Instructions for Forms 1120 and 1120-A

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

Changes You Should Note

The Tax Reform Act of 1986 made several changes to the way corporations compute their taxable income and their tax liability. See pages 10 and 11 for information on how the Tax Reform Act of 1986 affects calendar year, fiscal year, and 1987 corporations.

Form 1120-A

If a corporation meets **all** the qualifications under General Instruction B, Who May File Form 1120-A, it can file **Form 1120-A**, U.S. Corporation Short-Form Income Tax Return, instead of **Form 1120**, U.S. Corporation Income Tax Return.

Form 1120-A is printed in a special colored ink to permit processing by optical character recognition (OCR) equipment. This equipment cannot process photocopies. Therefore, please file the original Form 1120-A, rather than a copy.

Voluntary Contributions To Reduce the Public Debt

Quite often inquiries are received about how voluntary contributions to reduce the public debt may be made. A corporation may contribute by enclosing a **separate** check, payable to "Bureau of the Public Debt," with the tax return. These amounts are tax deductible subject to the rules and limitations for charitable contributions. Please keep the contribution to reduce the public debt **separate** from any amount payable with the tax return. Tax remittances should be made payable to "Internal Revenue Service."

Paperwork Reduction Act Notice

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

General Instructions

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

A. Purpose of Form

In general, Form 1120 and Form 1120-A are used to report income, gains, losses, deductions, and credits of U.S. corporations.

B. Filing Form 1120 and Form 1120-A

Who Must File

The organizations listed below must file Form 1120, unless they qualify to file Form 1120-A (**Note:** *If an organization more nearly resembles a corporation than a partnership or trust, it will be considered an association taxed as a corporation.*):

- Domestic corporations, whether or not they have any taxable income, unless exempt under section 501.
- Real estate investment trusts defined in section 856.
- Regulated investment companies defined in section 851.
- Insurance companies described in section 831.

Who May File Form 1120-A

Form 1120-A may be filed by a corporation if it meets **all** of the following requirements:

- Its gross receipts (line 1a on page 1) must be under $250,000;
- Its total income (line 11 on page 1) must be under $250,000;
- Its total assets (line 11, column (b), Part II on page 2) must be under $250,000;
- It does not have any ownership in a foreign corporation;
- It does not have foreign shareholders who own, directly or indirectly, 50% or more of its stock;
- It is not a member of a controlled group of corporations (sections 1561 and 1563);
- It is not a personal holding company (sections 541 through 547);
- It is not a consolidated corporate return filer;
- It is not a corporation undergoing a dissolution or liquidation;
- It is not filing its final tax return;
- Its only dividend income is from domestic corporations (none of which represents debt-financed securities), and those dividends qualify for the 85% deduction (80% for dividends received after 1986).
- It has no nonrefundable tax credits other than the general business credit, which is the sum of the investment credit, jobs credit, alcohol fuel credit, employee stock ownership plan credit, research credit, and low-income housing credit.
- It is not required to file a special tax return as stated below under Special Returns for Certain Organizations.

Form 1120-A Filers

To make it easier for us to process Form 1120-A, we ask all filers to:

- Keep all entries inside the entry boxes;
- Not use dollar signs;
- If possible, type or machine print all entries on the tax return; and
- File the original form instead of a copy.

Special Returns for Certain Organizations

Certain organizations, listed below, have to file special returns.

- Foreign corporations other than life and mutual insurance companies filing Forms 1120L and 1120M: File Form 1120F.
- Foreign sales corporations (section 922): File Form 1120-FSC.
- Life insurance companies (section 801): File Form 1120L.
- Mutual insurance companies (section 821): File Form 1120M.
- Farmers' cooperatives (section 1381): File Form 990-C.
- Exempt organizations with unrelated trade or business income: File Form 990-T.
- S corporations (section 1361): File Form 1120S.
- Interest Charge Domestic International Sales Corporations (section 992): File Form 1120-IC-DISC.
- Political organizations (section 527): File Form 1120-POL.
- Homeowners' associations (section 528): File Form 1120-H.
- Funds set up to pay for nuclear decommission costs (section 468A): File Form 1120-ND.

When To File

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

Extension.—File **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.

Period covered.—File the 1986 return for calendar year 1986 and fiscal years that begin in 1986 and end in 1987. For a fiscal year, fill in the tax year space at the top of the form.

Final return.—If the corporation ceases to exist, write "Final return" at the top of the form. Do not file Form 1120-A; use Form 1120.

Where To File

Use the preaddressed envelope. If you do not use the envelope, file your return at the applicable IRS address listed below.

If the corporation's principal business, office, or agency is located in ▼	Use the following Internal Revenue Service Center address ▼
New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, Minnesota, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101
Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
Arkansas, Indiana, North Carolina, Tennessee, Virginia	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania	Philadelphia, PA 19255

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

The separate income tax returns of a group of corporations located in several Service Center regions may be filed with the Service Center for the area in which the principal office of the managing corporation that keeps all the books and records is located.

Signature

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

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

Generally, anyone who is paid to prepare the tax return must sign it 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 the tax return to the taxpayer in addition to the copy filed with IRS.

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

C. Figuring and Paying the Tax

1. Accounting

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

Generally, corporations engaged in farming operations must use the accrual method of accounting. See section 447 for exceptions.

Unless the law specifically permits otherwise, the corporation may change the method of accounting used to report taxable income in earlier years (for income as a whole or for any material item) only by first getting consent on **Form 3115**, Application for Change in Accounting Method. Also see **Publication 538**, Accounting Periods and Methods.

See page 10 for treatment of costs related to long-term contracts entered into after February 28, 1986, and see page 11 for mandatory use of accrual method.

Change in accounting period.—Generally, before changing an accounting period, the Commissioner's approval must be obtained (Regulations section 1.442-1) by filing **Form 1128**, Application for Change in Accounting Period. Also see Publication 538.

2. Rounding Off to Whole-Dollar Amounts

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

3. Depositary Method of Tax Payment

The corporation must pay the tax due in full when the return is filed but no later than 2½ months after the end of the tax year.

Deposit corporation income tax payments (and estimated tax payments) with a Federal Tax Deposit Coupon (**Form 8109**). Make these tax deposits with either a financial institution qualified as a Depositary 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 failure to deposit 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

In order for us to better process your deposits, please write your employer identification number, type of tax paid, and the tax period to which the deposit applies on your check.

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

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

Backup Withholding

If a person receives certain payments and does not give the payor the correct employer identification number, the payor will withhold taxes from those payments. This type of withholding is called "backup withholding." If the corporation has had any backup withholding withheld from payments, the corporation should show this amount in the blank space in the right-hand column between lines 31 and 32, page 1, Form 1120, and label the amount as backup withholding. The corporation should then include the amount in the total for line 32. On Form 1120-A, include the amount of backup withholding in line 28, page 1, and write "backup withholding" in the margin and the amount.

4. Estimated Tax

A corporation must make estimated tax payments if it can expect its estimated tax (income tax minus credits) to be $40 or more. Use **Form 1120-W**, Corporation Estimated Tax, as a worksheet to compute estimated tax. Use the Payment Coupons (Forms 8109) in making deposits of estimated tax.

For changes that affect the computation of estimated tax for 1987, see pages 10 and 11.

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

5. Timing Change in Deducting Accrued Expenses

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

6. Rule of 78's Not an Acceptable Method of Figuring Interest

Taxpayers are reminded that, generally, the Rule of 78's is not an acceptable method for computing interest income and expense. Anyone using the Rule of 78's should see Revenue Procedures 84-27, 84-28, 84-29 and 84-30, (which are in Cumulative Bulletin 1984-1) to change their method.

D. Penalties

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

- A corporation that fails to file its tax return when due (including any extensions of time for filing) may be subject to a penalty of 5% a month or fraction of a month, up to a maximum of 25%, for each month the return is not filed. (The penalty is imposed on the net amount due.) The minimum penalty for failure to file a tax return within 60 days of the due date for filing (including extensions) is the lesser of the underpayment of tax or $100.
- A corporation that fails to pay the tax when due generally may be subject to a penalty of ½% a month 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.)

- A corporation that fails to pay the proper estimated tax when due may be subject to an underpayment penalty for the period of underpayment. To avoid the estimated tax penalty, the amount of estimated tax payments required by a corporation is 90%. See sections 6655(b)(1) and (d)(3).

Underpaid estimated tax.—If the corporation underpaid estimated tax, attach **Form 2220**, Underpayment of Estimated Tax by Corporations, to show how the corporation figured the penalty or which exceptions the corporation believes it meets. Also be sure to check the box on line 33, Form 1120 or line 29, Form 1120-A. If the corporation owes a penalty, enter the amount of the penalty on this line.

Penalty for overstated tax deposits.—If deposits are overstated, the corporation may be subject to a penalty. See section 6656(b).

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

1. Forms

The corporation may have to file any of the following:

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

Form W-2P. Statement for Recipients of Annuities, Pensions, Retired Pay, or IRA Payments.

Form 966. Corporate Dissolution or Liquidation.

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

Form 1098. Mortgage Interest Statement. This form is used to report the receipt from any individual of $600 or more of mortgage interest in the course of the corporation's trade or business for any calendar year.

Forms 1099-A, B, DIV, INT, MISC, OID, PATR, and **R.** Information returns for reporting abandonments, acquisitions through foreclosure, proceeds from brokers and barter exchange transactions, certain dividends and distributions, interest payments, payments for certain fishing boat crew members, medical and dental health care payments, direct sales of consumer goods for resale, miscellaneous income payments, nonemployee compensation, original issue discount, patronage dividends, and total distributions from profit-sharing plans, retirement plans, and individual retirement arrangements. Also use these returns to report amounts that were received as a nominee on behalf of another person.

For more information, see **Publication 916**, Information Returns.

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

Form 5452. Corporate Report of Nontaxable Dividends.

Form 5498. Individual Retirement Arrangement Information. It is to be used to provide IRS with contribution information on individual retirement arrangements, simplified employee pensions, and deductible voluntary employee contributions.

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

Form 8264. Application for Registration of a Tax Shelter. It 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. It is used by taxpayers who 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 tax return (including an application for tentative refund (Form 1139) and an amended return (Form 1120X)) on which a deduction, credit, loss, or other tax benefit attributable to a tax shelter is taken or any income attributable to a tax shelter is reported.

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

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

2. Consolidated Return

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

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

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

Attach consolidated balance sheets and a reconciliation of consolidated retained earnings.

3. Real Estate Investment Trusts

Attach the appropriate schedules to Form 1120. See sections 856 through 860 for special rules.

4. Statements

Stock ownership in foreign corporations.—Attach the required statement to Form 1120 if the corporation owned 5% or more in value of the outstanding stock of a foreign personal holding company and the corporation was required to include in its gross income any undistributed foreign personal holding company income from a foreign personal holding company. See 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 ownership in the outstanding stock of a foreign corporation may have to file **Form 5471**, Information Return with Respect to a Foreign Corporation.

A domestic corporation or a foreign corporation that is engaged in a trade or business in the United States and is controlled by a foreign person may have to file **Form 5472**, Information Return of a Foreign Owned Corporation.

Transfers to a corporation controlled by the transferor.—If a person receives stock or securities of a corporation in exchange for property, and no gain or loss is recognized under section 351, the person (transferor) and the transferee must attach to Form 1120 the information required by Regulations section 1.351-3.

Corporations that liquidate within one calendar month under section 333.—These corporations must attach to Form 1120 a computation of accumulated earnings and profits, including all items of income and expense accrued up to the date the transfer of all property is completed. Use the format in Rev. Proc. 75-17, 1975-1 C.B. 677. Section 333 has been repealed. See sections 631 and 633 of the Tax Reform Act of 1986 for more information.

5. Amended Return

Use **Form 1120X**, Amended U.S. Corporation Income Tax Return, to correct any error in a previously filed Form 1120 or Form 1120-A.

6. Financial Statements

Do not complete Schedules M-1 and M-2 (Form 1120 only) if the corporation's total assets at the end of the tax year (line 14, column (d) of Schedule L, Form 1120) are less than $25,000.

A corporation that files Form 1120-A must complete all applicable lines of the return including Part III, Reconciliation of Income per Books with Income per Return. The less than $25,000 assets exception noted in the previous paragraph does not apply to Form 1120-A.

7. Attachments

Attach **Form 4136**, Computation of Credit for Federal Tax on Gasoline and Special Fuels, after page 4, Form 1120 or page 2, Form 1120-A. Attach schedules in alphabetical order and other forms in numerical order after the Form 4136.

In order to process the return we ask that you complete every applicable entry space on Form 1120. Please do not attach statements and write "See attached" in lieu of completing the entry spaces on Form 1120.

If more space is needed on the forms or schedules, attach separate sheets indicating at the top of each attachment the form number or schedule letter of the form

or schedule being continued. Also, show the same information called for on the form in the same order as on the printed forms. **Be sure to show totals on the printed forms.** Please use sheets that are the same size as the forms and schedules. Attach these separate sheets after all the schedules and forms. Also, put the corporation's name and employer identification number (EIN) on each sheet.

F. Additional Information

Be sure to answer questions H through R on page 3, Form 1120, or questions I through O on page 2, Form 1120-A. The instructions that follow are keyed to these questions.

1. Question I(2)(c), Form 1120 only

U.S. person.—The term "U.S. person" means:

1. A citizen or resident of the United States;
2. A domestic partnership;
3. A domestic corporation; or
4. Any estate or trust (other than a foreign estate or trust within the meaning of section 7701(a)(31)).

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

2. Question L, Form 1120, and Question M, Form 1120-A

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

a. At any time during the year the corporation had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account); AND

- The combined value of the accounts was more than $10,000 at any time during the year; AND
- The account was NOT with a U.S. military banking facility operated by a U.S. financial institution.

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

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

If Yes is checked for this question, file form TD F 90-22.1 by June 30, 1987, with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return, so do not file it with Form 1120.

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

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

Specific Instructions

Employer identification number. If the employer identification number (EIN) on the label is wrong or if the corporation did not receive a label, enter the correct number at the top of the return. Also, filers of Form 1120-A should enter their EIN at the top of page 2 of the return.

A corporation that does not have an EIN should apply for one on **Form SS-4**, Application for Employer Identification Number. This form may be obtained from most IRS and Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center to which Form 1120 or Form 1120-A is mailed. If the EIN has not been received by the filing time for the corporation return, write "Applied for" in the space for the EIN.

For more information concerning an EIN, see Publication 583.

Total Assets. Enter the total assets of the corporation. If there are no assets at the end of the tax year, enter the total assets as of the beginning of the tax year.

Income

Line 1

Gross receipts

Enter gross receipts or sales from all business operations except those that must be reported in lines 4 through 10. For reporting advance payments and long-term contracts, see Regulations sections 1.451–3 and 1.451–5. Also, see page 10.

If the installment method is used, enter on line 1 the gross profit on collections from installment sales, and carry the same amount to line 3. Attach a schedule showing the following for 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.

Also, see page 10 for certain changes regarding installment sales.

Line 2

Cost of goods sold and/or operations

Both Form 1120 and Form 1120-A filers must enter their cost of goods sold and/or operations on line 2, page 1, of their respective forms. However, a Form 1120 filer must also complete Schedule A on page 2 of the form.

While there is not a similar schedule on Form 1120-A to compute this entry, the following worksheet is provided to help in figuring this amount.

Note: *If a corporation is using either Schedule A, Form 1120 or the following worksheet to figure cost of operations, where inventories are not an income-determining factor, it should do so by entering a zero on lines 1 and 6 of the schedule or worksheet.*

Worksheet

1.	Inventory at start of year (enter here and on page 2, Part II, line 3, Column (a), Form 1120-A)	______
2.	Purchases (enter here and on page 2, Item L(1), Form 1120-A)	______
3.	Cost of labor (enter here and include in total on page 2, Item L(2), Form 1120-A)	______
4.	Other costs (enter here and include in total on page 2, Item L(2), Form 1120-A) . .	______
5.	Subtotal—Add lines 1 through 4	______
6.	Inventory at end of year (enter here and on page 2, Part II, line 3, Column (b), Form 1120-A)	______
7.	Total–Line 5 less line 6 (enter here and on page 1, line 2, Form 1120-A) . . .	______

Inventory valuation methods. Inventories can be valued at: **1.** cost; **2.** cost or market value (whichever is lower); or **3.** any other method that is approved by the Commissioner of Internal Revenue and 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. Such a change should be made by filing Form 3115. For more information about the change, see Regulations section 1.446-1(e)(3) and Rev. Proc. 84-74, 1984-2 C.B. 738.

In line 8a of Schedule A, Form 1120 only, check the method(s) used for valuing inventories. Under "lower of cost or market," market generally applies to normal market conditions where 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 more requirements, see Regulations section 1.471–4.

Inventory may be valued below cost when the merchandise is **1.** unsalable at normal prices or **2.** 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 minus direct cost of disposition (but not less than scrap value) if such a price can be established. See Regulations section 1.471–2(c) for more 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 provided in section 472, attach **Form 970**, Application To Use LIFO Inventory Method, or a statement with the information required by Form 970. Also check the LIFO box in line 8b of Schedule A, Form 1120 only. Enter the amount or percent of total closing inventories covered under section 472 in line 8c. Estimates are acceptable.

If the corporation changed or extended its inventory method to LIFO and had to "write up" its opening inventory to cost in the year of election, report the effect of this writeup as income (line 10, page 1) proportionately over a 3-year period that begins in the tax year you made this election. (Section 472(d))

Full absorption method of inventory costing. For a corporation engaged in manufacturing or production operations, use the full absorption method of inventory costing. If the corporation is not using the full absorption method, it must change to it. Under this method, both direct and certain indirect production costs are included for inventory valuation purposes. Change to full absorption by filing Form 3115. For more details, see: Rev. Proc. 75-40, 1975-2 C.B. 571; Regulations section 1.471-11; and Rev. Rul. 81-272, 1981-2 C. B. 116.

Line 4

Dividends

Form 1120-A filers.—Because Form 1120-A can be filed by corporations that only received dividends from domestic corporations (which are not from debt-financed stock) which qualify for the 85% (80% for dividends received after 1986) dividends-received deduction for dividends received in 1986, they should enter the total of those dividends on line 4, page 1, Form 1120-A.

Form 1120 filers.—See the instructions for Schedule C, Form 1120.

Line 5

Interest

Enter interest on U.S. obligations and on loans, notes, mortgages, bonds, bank deposits, corporate bonds, tax refunds, etc.

Do not offset interest income against interest expense.

Line 6

Gross rents

Enter the gross amount received for the rent of property. Deduct expenses such as repairs, interest, taxes, and depreciation in the proper lines for deductions.

Line 8

Capital gain net income

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

If the net long-term capital gain is more than the net short-term capital loss, or if there is only a net long-term capital gain, compute the alternative tax to see if it produces a smaller tax.

Fiscal year corporations who use the alternative method of computing their tax liability, see pages 12 and 13 for computation of the alternative tax.

Line 9

Net gain or (loss)

Enter the net gain or (loss) from line 17, Part II, **Form 4797**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions.

Line 10

Other income

Enter any other taxable income not listed above, and explain its nature on an attached schedule. Examples of other income are recoveries of bad debts deducted in prior years under the specific charge-off method; the amount of credit for alcohol used as fuel (determined without regard to the limitation based on tax) that was entered on **Form 6478**, Credit for Alcohol Used as Fuel; and refunds of taxes deducted in prior years to the extent they reduced income subject to tax in the year deducted (see section 111). Do not offset current year's taxes with tax refunds.

If "other income" consists of only one item, explain what it is in parentheses on line 10.

Deductions

Limitations on deductions

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

2. Limitation on deductions for tax preference items. Corporations may be required to reduce deductions for the following tax preference items by 20% except where noted:

a. Depletion of iron ore and coal (including lignite)(15%);

b. Section 1250 capital gain;

c. Amortizable basis of pollution control facilities;

d. Intangible drilling, and exploration and development costs; (30% for costs paid or incurred after 1986); and

e. Bad debt deductions for financial institutions.

3. Real property construction period interest and taxes. For construction started after 1982, no deduction (except as allowed under section 189(d)) shall be allowed for real property construction period interest and taxes. Section 189 has been repealed for costs incurred after 1986.

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

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

Line 12

Compensation of officers

Besides entering the total officer's compensation on line 12, Form 1120 filers must complete Schedule E on page 2 if their total receipts (line 1a, plus lines 4 through 10, of page 1, Form 1120) are $150,000 or more.

Complete Schedule E, columns (a) through (f), for all officers. The corporation determines who is an officer under the laws of the state where incorporated.

In a consolidated return, each member of an affiliated group must furnish this information.

Line 13

Salaries and wages

Enter on line 13a the amount of total salaries and wages paid or incurred for the tax year. Do not include salaries and wages deducted elsewhere on the return, such as contributions to a simplified employee pension.

Caution: If you provided taxable fringe benefits to your employees, such as personal use of a car, do not deduct as wages the amount allocated for depreciation and other expenses that you claimed on lines 20 and 26, Form 1120 or lines 20 and 22, Form 1120-A.

Enter on line 13b the amount of jobs credit from **Form 5884**, Jobs Credit.

The jobs credit has been extended through 1988. See page 10 for more information.

Line 14

Repairs

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

Line 15

Bad debts

Bad debts may be treated either:

1. As a deduction for debts that become worthless in whole or in part, or

2. As a deduction for a reasonable addition to a reserve for bad debts. (See section 166.)

Financial institutions should see section 291 for the limitation on the amount that may be deducted.

Generally, use Form 3115 to apply for a change in the method of computing bad debts.

For most corporations the reserve method of computing bad debts has been repealed. See page 11 for new rules for computing bad debts for tax years beginning after 1986.

Line 17

Taxes

Enter taxes paid or accrued during the tax year, but do not include the following:

1. Federal income taxes;

2. Foreign or U.S. possession income taxes if a tax credit is claimed; or

3. Taxes not imposed on the corporation.

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

Line 18

Interest

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

Mutual savings banks, building and loan associations, and cooperative banks can deduct the amounts paid or credited to the accounts of depositors as dividends, interest, or earnings. (See section 591.)

Generally, a cash basis taxpayer cannot deduct prepaid interest allocable to years following the current tax year. For example, a cash basis calendar year taxpayer who in 1986 prepaid interest allocable to any period after 1986 can deduct only the amount allocable to 1986. See **Publication 545**, Interest Expense.

Generally, the interest and carrying charges on straddles cannot be deducted and must be capitalized. (See section 263(g).)

Line 19

Contributions

Enter contributions or gifts actually paid within the tax year to or for the use of charitable and governmental organizations described in section 170(c) and any unused contributions carried over from prior years.

The total amount claimed may not be more than 10% of taxable income (line 30, Form 1120 or line 26, Form 1120-A) computed without regard to the following:

1. Any deduction for contributions;

2. The special deductions in line 29b, Form 1120 or line 25b, Form 1120-A;

3. Deductions allowed under sections 249 and 250;

4. Any net operating loss carryback to the tax year under section 172; and

5. Any capital loss carryback to the tax year under section 1212(a)(1).

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

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

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

If a contribution is in property other than money and the total claimed value of all property contributed exceeds $500, corporations (except closely held and personal service corporations) shall attach a schedule describing the kind of property contributed and the method used in determining its fair market value.

Closely held corporations and personal service corporations must complete **Form 8283**, Noncash Charitable Contributions, and attach it to their returns.

Also, a corporation must keep records, as required by the regulations for section 170, for all of its charitable contributions.

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

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

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

1. The ordinary income, short-term capital gain that would have resulted if the property were sold at its fair market value; and

2. For contributions made in tax years beginning in 1986, 60.87% of the long-term capital gain that would have resulted if the property were sold at its fair market value.

The reduction for 60.87% of the long-term capital gain applies to:

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

2. Contributions of any property (except stock for which market quotations are readily available—see section 170(e)(5)) to or for the use of certain private foundations. (See section 170(e) and regulations section 1.170A-4.)

For special rules for contributions of inventory and other property to certain organizations, see section 170(e)(3) and Regulations section 1.170A-4A.

Charitable contributions of scientific property used for research. A corporation (other than a personal holding company or a personal service organization) can receive a larger deduction for contributing scientific property used for research to an institution of higher education. For further information, see section 170(e).

Line 20

Depreciation

Besides depreciation, include in line 20 the part of the cost that the corporation elected to expense for certain recovery property placed in service during tax year 1986. See the instructions for **Form 4562**, Depreciation and Amortization.

The rules for depreciation for property placed in service in 1987 have been changed. Also, the taxpayer may elect to apply the new rules to property placed in service after July 31, 1986. Effective for property placed in service after December 31, 1986, the amount the taxpayer may expense under section 179 has been raised from $5,000 to $10,000. See Form 4562-A for more information.

The deduction for amortization of trademark and trade name expenses has been repealed for expenses paid or incurred after 1986.

Line 22, Form 1120 only

Depletion

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

See page 10 for rules concerning foreign intangible drilling costs and mining and development costs paid or incurred after 1986.

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

Line 24, Form 1120 only

Pension, profit-sharing, etc., plans

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 described below. There are penalties for failure to file these forms on time.

In addition, there is a new penalty for overstating the pension plan deduction for returns filed after October 22, 1986. See new section 6659A.

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

Form 5500-C or 5500-R.—Complete the applicable form for each plan with fewer than 100 participants.

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

Line 25, Form 1120 only

Employee benefit programs

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

Line 26, Form 1120, and Line 22, Form 1120-A

Other deductions

Include in this line the deduction taken for amortization of pollution control facilities, organization expenses, etc. See Form 4562.

A corporation may deduct dividends it pays in cash on stock held by an employee stock ownership plan. However, a deduction may only be taken if, according to the plan, the dividends are:

1. Paid in cash directly to the plan participants; or

2. Paid to the plan, which distributes them in cash to the plan participants no later than 90 days after the end of the plan year in which the dividends are paid. (See section 404(k).)

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

Generally, a corporation can deduct all 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.*)

See **Publication 463**, Travel, Entertainment, and Gift Expenses, for more details.

Note: *Do not deduct penalties imposed on corporations such as those included in General Instruction D.*

Form 1120-A filers.—These filers should also include on line 22 of Form 1120-A the expenses described above for lines 22, 24, and 25 of Form 1120 and any other deductible expense not discussed above.

Line 28, Form 1120, and Line 24, Form 1120-A

Taxable income before NOL deduction and special deductions

Special "at risk" rules under section 465 generally apply to closely held corporations engaged in any activity as a trade or business or for the production of income. Such corporations may have to adjust the amount on line 28, Form 1120 or line 24, Form 1120-A. (See below.) However, the "at risk" rules do not apply to: 1. holding real property (acquired before 1987) other than mineral property; 2. equipment leasing under sections 465(c)(4), (5), and (6); and 3. any qualifying business of a qualified corporation under section 465(c)(7).

The "at risk" rules generally apply to real property acquired after 1986. See page 11 for details.

Personal service corporations. Adjust the amount on this line for section 465(d) losses. These losses are limited to the amount for which such corporation is "at risk" for each separate activity at the close of the tax year. A corporation involved in more than one activity that incurs a loss for the year should report each loss separately and file **Form 6198**, Computation of Deductible Loss From an Activity Described in Section 465(c), for each "at risk" activity.

If the corporation sells or otherwise disposes of an asset or its interest (either total or partial) in an activity to which the "at risk" rules apply, determine the net profit or loss from the activity by combining the gain or loss on the sale or disposition with the profit or loss from the activity. If the corporation has a net loss, it may be limited because of the "at risk" rules.

Treat any loss from an activity not allowed for the tax year as a deduction allocable to the activity in the next tax year.

Personal holding companies. For the amount to enter on line 28, Form 1120 only, see **Schedule PH (Form 1120)**, Computation of U.S. Personal Holding Company Tax, Specific Instructions for line 1, regarding section 465 losses.

Line 29a, Form 1120, and Line 25a, Form 1120-A

Net operating loss deduction

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

Generally, a corporation may carry a net operating loss back to each of the 3 years preceding the year of the loss and carry it over to each of the 15 years following the year of the loss. A corporation may carry back 10 years the part of the net operating loss attributable to a product liability loss. (See section 172(b)(1)(I).) See regulations section 1.172-13(c) for the required statement that must be attached to Form 1120 when claiming the 10 year carryback on product liability losses.

There is also an available election to carry a net operating loss over to just each of the 15 years following the year of the loss. The election may be made by attaching a statement to a return that is filed on time (including extensions). The election is irrevocable. In addition, the 15 year carryforward election does not apply to losses described in section 172(b)(1)(C) through (H) and (J).

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

If there is a carryback of a net operating loss, net capital loss, or an unused credit, file **Form 1139**, Corporation Application for Tentative Refund, within 12 months after the close of the tax year for a "quick refund" of taxes. (See section 6411.)

See section 172 for special rules, limitations, and definitions pertaining to net operating loss carrybacks and carryovers. Also see **Publication 536**, Net Operating Losses and the At-Risk Limits.

See page 11 for new limitations on NOL carryovers.

Line 29b, Form 1120, and Line 25b, Form 1120-A

Special deductions

Form 1120 filers.— See the instructions for Line 6, Column (c) under Schedule C, Form 1120.

Form 1120-A filers.—Enter 85% of line 4, page 1, on line 25b for dividends received in 1986. For dividends received after 1986, the dividends-received deduction is 80%.

Fiscal year filers multiply the dividends received in each period by the proper percentage to determine the correct dividends-received deduction. However, this deduction may not be more than 85% of line 24, page 1. For this purpose, compute line 24 without regard to any adjustment under section 1059, and without regard to any capital loss carryback to the tax year under section 1212(a)(1).

In a year in which a net operating loss occurs, this 85% limitation does not apply even if the loss is created by the dividends-received deduction. (See sections 172(d) and 246(b).)

Line 32e, Form 1120, and Line 28e, Form 1120-A

Credit for overpaid windfall profit tax

A corporation that has overpaid its windfall profit tax may claim a credit on its income tax return. Use **Form 6249**, Computation of Overpaid Windfall Profit Tax, to figure the credit. Include the amount of the credit in the total for this line. Write in the margin, next to the entry on this line, the amount of the credit and identify it as "Overpaid Windfall Profit Tax."

Schedule C Form 1120 Only

Dividends and Special Deductions

Line 1, Column (a)

Enter dividends (except those received on debt-financed stock acquired after July 18, 1984—see section 246A and line 2, column (a)) that are received from domestic corporations subject to income tax and that are subject to the deduction under section 243(a)(1). Include on this line taxable distributions from an IC-DISC or former DISC that are designated as being eligible for the section 243(a)(1) deduction and certain dividends of Federal Home Loan Banks. (See section 246(a)(2).)

Small business investment companies must enter dividends received from domestic corporations subject to income tax even though a deduction is allowed for the entire amount of such dividends in line 1, column (c). For dividends received from a regulated investment company, see section 854 for the amount subject to the section 243(a)(1) deduction.

So-called dividends or earnings received from mutual savings banks, etc., are really interest. Do not treat them as dividends.

Line 2, Column (a)

Enter dividends on debt-financed stock (acquired after July 18, 1984) that are received from domestic corporations subject to income tax and that would otherwise be subject to the dividends-received deduction under section 243(a)(1). Generally, debt-financed stock is stock that the corporation acquired and, in doing so, incurred a debt (for example, it borrowed money to buy the stock).

Dividends on debt-financed stock of foreign corporations acquired after July 18, 1984, are also subject to the rules of section 246A. See section 246A for more information.

Line 3, Column (a)

Enter dividends received on the preferred stock of a public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

Line 4, Column (a)

Enter dividends that are received from foreign corporations and dividends received from a FSC that are attributable to qualified interest and carrying charges and that qualify for the deduction provided in section 245(a).

Line 5, Column (a)

Enter dividends that are received from wholly owned foreign subsidiaries and from FSCs that are attributable to export sales income, and that are eligible for the 100% deduction provided in sections 245(b) and (c), respectively.

In general, the deduction under section 245(b) applies to dividends paid out of the earnings and profits of a foreign corporation for a tax year during which:

1. All of its outstanding stock is owned (directly or indirectly) by the domestic corporation receiving the dividends, and
2. All of its gross income from all sources is effectively connected with the conduct of a trade or business within the U.S.

Line 1, Columns (b) and (c)

The dividends-received deduction percentage for dividends received before January 1, 1987, is 85%. For dividends received after December 31, 1986, it is 80%. Multiply the dividends received in each period by the proper percentage to determine the correct dividends-received deduction.

A small business investment company operating under the Small Business Investment Act of 1958 may deduct 100% of dividends received from domestic corporations subject to income tax. (Section 243(a)(2))

Line 2, Columns (b) and (c)

The dividends-received deduction for dividends received on debt-financed stock is explained in section 246A. This section applies both to dividends received from debt-financed stock of domestic and foreign corporations acquired after July 18, 1984. The percentages to use for computing the dividends-received deduction for debt-financed stock under section 246A(a)(1) are 85% for dividends received before January 1, 1987, and 80% for dividends received after December 31, 1986.

Line 3, Columns (b) and (c)

Dividends on certain preferred stock of public utilities are entitled to a dividends-received deduction percentage of 59.13% if they are received before January 1, 1987. For dividends on certain preferred stock of public utilities received after December 31, 1986, but before July 1, 1987, the dividends-received deduction percentage is 55.652%. For these dividends received after June 30, 1987, the dividends-received deduction percentage is 47.059%.

Multiply the dividends received in each period by the proper percentage to determine the correct dividends-received deduction.

Line 4, Columns (b) and (c)

The dividends-received deduction percentage for dividends received from foreign corporations entitled to the dividends-received deduction under section 245(a) and section 245(c)(1) for certain FSCs is 85% for dividends received before January 1, 1987. The dividends-received deduction percentage for these dividends received after December 31, 1986, is 80%.

Multiply the dividends received in each period by the proper percentage to determine the correct dividends-received deduction.

Line 6, Column (c)

Limitation on dividends-received deduction. Line 6 of column (c) may not be more than 85% of the difference between line 28, page 1, Form 1120, and line 7 of column (c). For this purpose, compute line 28 (Form 1120) without regard to any adjustment under section 1059 and without regard to any capital loss carryback to the tax year under section 1212(a)(1).

In a year in which a net operating loss occurs, this 85% limitation does not apply even if the loss is created by the dividends-received deduction. (See sections 172(d) and 246(b).)

For a small business investment company, the dividends-received deduction of 100% included in line 6 of column (c) is not subject to the overall limitation. The 100% dividends-received deduction under section 245(c)(1) for dividends received from a FSC included in line 6 of column (c) is not subject to the overall 85% limitation.

Financial institutions should see section 596 for the special limitation on the dividends-received deduction.

Line 7, Columns (a) and (c)

Enter only those dividends that are subject to the elective provisions of section 243(b) and that are entitled to the 100% dividends-received deduction under section 243(a)(3). Corporations making this election are subject to the provisions of section 1561.

Line 8, Column (a)

Enter foreign dividends not reportable on lines 4 and 5 of column (a). Exclude distributions of amounts constructively taxed in the current year or in prior years under subpart F (sections 951 through 964).

Line 9, Column (a)

Include income constructively received from controlled foreign corporations under subpart F. This amount should equal the total of amounts reported on Schedule J, Form(s) 5471.

Line 10, Column (a)

Include gross-up for taxes deemed paid under sections 902 and 960.

Line 11, Column (a)

Enter taxable distributions from an IC-DISC or former DISC that are designated as not being eligible for the 85% (80% for dividends received after 1986) deduction.

No deduction is allowed under section 243 for a dividend from an IC-DISC or former DISC (as defined in section 992(a)) to the extent the dividend:

1. Is paid out of the corporation's accumulated IC-DISC income or previously taxed income, or
2. Is a deemed distribution under section 995(b)(1).

Line 12, Column (a)

Include the following:

1. Dividends (other than capital gain dividends and exempt interest dividends) that are received from regulated investment companies and that are not subject to the deduction.
2. Dividends from tax-exempt organizations.
3. Dividends (other than capital gain dividends) received from a real estate investment trust which, for the tax year of the trust in which the dividends are paid, qualify under sections 856 through 860.
4. Dividends not eligible for a dividends-received deduction because of the holding period of the stock or an obligation to make corresponding payments with respect to similar stock.

Two situations in which the dividends-received deduction will not be allowed on any share of stock are:

(1) If the corporation held it 45 days or less (see section 246(c)(1)(A)), or

(2) To the extent the corporation is under an obligation to make related payments for substantially similar or related property.

5. Any other taxable dividend income not properly reported above (including distributions under section 934(e)(3) or 936(h)(4)). If patronage dividends or per-unit retain allocations are included in Schedule C, line 12, column (a), identify the total of these amounts in a schedule attached to Form 1120.

Line 13, Column (c)

Deduction for dividends paid on certain preferred stock of public utilities. Section 247 allows public utilities a deduction of 30.435% (for dividends received before July 1, 1987) OR 41.176% (for dividends received after June 30, 1987, of the lesser of:

1. Dividends paid on their preferred stock during the tax year, or
2. Taxable income computed without regard to this deduction.

In a year in which a net operating loss occurs, compute the deduction without regard to section 247(a)(1)(B). (See section 172(d).)

Tax Computation

Line 1, Part I, Form 1120-A
Line 3, Schedule J, Form 1120.

Important: Fiscal year corporations, see pages 10 and 11 before completing Schedule J, and use Schedules A and B, page 12 (if applicable) to compute tax liability.

A calendar year corporation that files Form 1120-A or Form 1120 will compute its tax on its taxable income as follows (members of a controlled group, see the instructions below for lines 1 and 2 under heading B.):

If its taxable income (line 30, Form 1120, or line 26, Form 1120-A) on page 1 is:		Its tax is:	
Over—	But not over—		Of the amount over—
0	$25,000	15%	0
$25,000	50,000	$3,750 + 18%	$25,000
50,000	75,000	8,250 + 30%	50,000
75,000	100,000	15,750 + 40%	75,000
100,000	-----	25,750 + 46%	100,000

Additional Tax. If a calendar year corporation's taxable income exceeds $1,000,000, the total tax imposed under section 11 (see the table above) is increased by the lesser of: 5% of the excess over $1,000,000 or $20,250.

If the controlled group has a tax year that includes July 1, 1987, see the instructions for the fiscal year computation on page 13 to compute the additional tax in Schedule B of the worksheets.

Alternative Tax. If the alternative tax for a calendar year corporation does not apply, enter on line 1, Part I, Form 1120-A, or line 3, Schedule J, Form 1120, the amount computed above. If the alternative tax applies, see Schedule D (Form 1120).

The alternative tax has generally been repealed for sales or dispositions of capital assets after 1986. See pages 11, 12, and 13 for more details.

A. Form 1120-A, Part I, Page 2 Line 2

General business credit. This credit is made up of the sum of the following credits:

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

Jobs credit. The jobs credit, if elected, is allowed for hiring members of targeted groups during the tax year. See **Form 5884**, Jobs Credit, for definitions, special rules, and limitations. Also see **Publication 906**, Jobs and Research Credits.

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

The jobs credit has been revised for employees hired after 1985. See page 10 for details.

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

Employee stock ownership plan credit. Corporations may take a tax credit equal to the value of employer stock (or the amount of cash used to buy stock) that they contribute to a tax credit employee stock ownership plan (ESOP). See **Form 8007**, Credit for Employee Stock Ownership Plan, for definitions, limitations, and the computation of the credit. Contributions made to employee stock ownership plans after 1986 are not to be used in computing the credit. See page 11 for more information.

The credit for increasing research activities is now part of the general business credit for tax years beginning after 1985. See Form 6765. Also, a new low-income housing credit is part of the general business credit for expenditures made after 1986. See section 42 and **Form 8586**, Low-Income Housing Credit.

Form 3800, *General Business Credit.* Enter on the appropriate line of the corporate tax return the amount of the credit from Form 3800, and check the boxes indicating which forms are atttached to the return. If the corporation is claiming only one of the above credits, you do not have to complete Form 3800. Instead, check the appropriate box and attach the form for which the credit is being taken. However, if the corporation has a carryforward or carryback of any of these credits, it must use Form 3800.

See pages 10 and 11 for new rules on the General Business Credit.

Line 4

Tax from recomputing prior-year investment credit. If property is disposed of or ceases to be qualified property before the end of the life-years used in computing the the regular or energy investment credit, there may be a recapture of the credit. See **Form 4255**, Recapture of Investment Credit.

Line 5

Minimum tax. Attach **Form 4626**, Computation of Minimum Tax–Corporations, if the corporation has tax preference items in excess of $10,000, OR if there is any minimum tax liability deferred from a prior tax year.

B. Form 1120, Schedule J

Lines 1 and 2

Members of a controlled group, as defined in section 1563, are entitled to only one $25,000 amount in each taxable income bracket on line 2a.

Members of a controlled group that have tax years that include July 1, 1987, are entitled to only one $50,000 amount and one $25,000 amount (in that order) in each taxable income bracket on line 2b.

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

Note: *Members of a controlled group of corporations whose tax years end before July 1, 1987, are treated as one corporation for purposes of figuring the applicability of the additional tax that must be paid by corporations with taxable income in excess of $1,000,000. If the additional tax applies, each member of the controlled group will pay that tax based on the portion of the $25,000 amount that is used in each taxable income bracket. (See section 1561(a).) Each member of the group must attach to its tax return a schedule that shows the taxable income of the entire group as well as how its portion of the additional tax was figured.*

If the controlled group has a tax year that includes July 1, 1987, see the instructions for fiscal year corporations, page 13, to compute the additional tax in Schedule B of the worksheets.

If all members of the controlled group are included in the consolidated return and the tax year ends before July 1, 1987, enter $25,000 in the four taxable income brackets in line 2a of Schedule J. If all members of the controlled group are included in the consolidated return and the tax year ends after June 30, 1987, also enter $50,000 in the first taxable income bracket and $25,000 in the second taxable income bracket on line 2b of Schedule J.

Equal Apportionment Plan. If no apportionment plan is adopted, the members of the controlled group must divide the amount in each taxable income bracket (e.g. $25,000) equally among themselves. For example, controlled group AB consists of corporation A and corporation B, both calendar year corporations. They do not elect an apportionment plan. Therefore, corporation A is entitled to $12,500 (one-half of $25,000) in each taxable income bracket. Corporation B is also entitled to $12,500 in each taxable income bracket.

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

Each member of a controlled group having a **calendar tax year** must compute the tax as follows:

1. Enter taxable income (line 30, page 1, Form 1120) . . ______
2. Enter line 1 or the corporation's portion of the first $25,000 taxable income bracket, whichever is less . . . . ______
3. Subtract line 2 from line 1 ______
4. Enter line 3 or the corporation's portion of the second $25,000 taxable income bracket, whichever is less . . . . . ______
5. Subtract line 4 from line 3 ______
6. Enter line 5 or the corporation's portion of the third $25,000 taxable income bracket, whichever is less . . . . ______
7. Subtract line 6 from line 5 ______
8. Enter line 7 or the corporation's portion of the fourth $25,000 taxable income bracket, whichever is less . . . . . ______
9. Subtract line 8 from line 7 ______
10. 15% of line 2 . . . . . . ______
11. 18% of line 4 . . . . . . ______
12. 30% of line 6 . . . . . . ______
13. 40% of line 8 . . . . . . ______
14. 46% of line 9 . . . . . . ______
15. If the taxable income (line 1 above) of the controlled group exceeds $1,000,000, enter the portion of the lesser of: 5% of the excess over $1,000,000 or $20,250 that this member must pay . . . . ______
16. Total of lines 10 through 15. Enter this amount on line 3 of Form 1120, Schedule J . . . . ______

Note: *If the alternative tax applies for calendar year filers, do the following (fiscal year filers, see pages 12 and 13):*

1. Complete lines 1 and 2 of Schedule J;
2. On line 1 above, instead of entering amount from line 30, page 1, Form 1120, enter amount from line 14, Schedule D;
3. Complete lines 2 through 16 above; and
4. Enter amount from line 16 above on line 15 of Schedule D and complete balance of Schedule D.

Line 3

Bank Holding Companies. Section 6158 provides that a bank holding company may elect to pay in installments the tax attributable to the sale of certain assets whose divestiture is certified by the Board of Governors of the Federal Reserve System. If the bank holding company chooses this election, attach a statement showing the tax computation and the amount of the installment paid with this return. Also, in the right hand margin next to line 3, Schedule J, enter the amount of the installment payment followed by the words "computed under section 6158." If an election under section 1103(g) or (h) applies, enter the words "section 1103(g) election" or "section 1103(h) election," as the case may be.

Mutual savings bank conducting life insurance business. The tax under section 594 consists of the sum of: 1. a partial tax computed on Form 1120 on the taxable income of the bank determined without regard to income or deductions allocable to the life insurance department, and 2. a partial tax on the taxable income computed on Form 1120L of the life insurance department. Enter the combined tax on line 3 of Schedule J, Form 1120. Attach Form 1120L as a schedule and identify it as such.

Line 4a

Foreign tax credit. See **Form 1118**, Computation of Foreign Tax Credit-Corporations, for an explanation of when a corporation can take this credit for payment of income tax to a foreign country.

Line 4b

Possessions tax credit. See **Form 5712**, Election To be Treated as a Possessions Corporation Under Section 936, for rules on how to elect to claim the possessions tax credit (section 936). Compute the credit on **Form 5735**, Computation of Possessions Corporation Tax Credit Allowed Under Section 936.

Line 4c

Orphan drug credit. See section 28 and **Form 6765**, Credit for Increasing Research Activities (or for claiming the orphan drug credit), for an explanation of when a corporation can take this credit as well as how it is figured.

Line 4d

Credit for fuel produced from a nonconventional source. A credit is allowed for the sale of qualified fuels produced from a nonconventional source. Section 29 contains a definition of qualified fuels, provisions for figuring the credit, and other special rules. Attach a separate schedule to the return showing the computation of the credit.

Line 4e

General business credit. See the earlier instructions for Form 1120-A, line 2 under the heading, **Tax Computation.**

Line 7

Personal holding company tax. A corporation is taxed as a personal holding company under section 542 if:

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

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

Note: *Generally, personal holding companies that qualify as regulated investment companies are taxed at the highest corporate rate on their undistributed taxable income. (See section 852.)*

Line 8

Tax from recomputing prior-year investment credit. See the earlier instructions for Form 1120-A, Line 4, under the heading **Tax Computation.**

Line 9

Minimum Tax. See the earlier instructions for Form 1120-A, line 5, under the heading **Tax Computation.**

Line 10

Real estate investment trust excise tax. An excise tax is imposed on certain real estate investment trust taxable income not distributed during the tax year (section 4981). Attach a copy of the tax computation and include the amount of tax in the total for line 10, Schedule J, Form 1120. Write in the margin, next to the entry on line 10, the amount of the tax and identify it as "section 4981 tax." See sections 4981, 856, 857, and 859 for new rules for real estate investment trusts.

Schedule M-2 (Form 1120 Only)

Unappropriated Retained Earnings

Line 5

Distributions under the Bank Holding Company Act. If an election under section 1103(g) or (h) applies to a section 1101 distribution, the bank holding company making the distribution must enter the words "section 1103(g) election" or "section 1103(h) election," as the case may be, in the right-hand margin next to line 5, Schedule M-2, Form 1120.

Tax Reform Act of 1986

The Tax Reform Act of 1986 made several changes that affect corporations. Some of the changes are effective starting with calendar year 1986 tax returns; some are effective starting with fiscal year 1986-1987 tax returns; and some are effective starting with calendar year 1987 tax returns which are highlighted for purposes of computing estimated taxes.

Tax changes taking effect beginning in 1986

Business Energy Investment Tax Credits Extended.—The business energy investment tax credit for solar, geothermal, ocean thermal, biomass, and wind property has been extended for tax years beginning after 1985. See **Form 3468**, Computation of Investment Credit, and section 46(b)(2) for applicable rules.

Regular Investment Tax Credit Repealed.—For property placed in service after 1985, the regular investment tax credit has been repealed. See new section 49 for special rules and Form 3468.

Tax Credit for Increasing Research Expenditures Extended.—The tax credit for increasing research expenditures has been extended for 3 more tax years, and new rules apply to the computation. Additionally, the credit is part of the general business tax credit for tax years beginning after 1985. See section 41 and **Form 6765**, Credit for Increasing Research Activities (or claiming the orphan drug credit).

Targeted Jobs Credit Extended and Revised.—The jobs credit for hiring members of certain targeted groups has been extended and modified. For employees hired after 1985, you may claim a credit for only the first-year wages paid to the employee. See **Form 5884**, Jobs Credit, and section 51 for more information.

General Business Credit Reduced.—For tax years beginning after 1985, the maximum amount of tax liability against which the general business tax credit can be applied is reduced to 75%. Formerly, the business tax credit could be applied to 85% of tax liability. See section 38.

Long-Term Contracts.—For long-term contracts entered into after February 28, 1986, all costs (including research and experimental costs attributable to the contract) must be allocated to the contract as set forth in section 460. Special rules apply to cost-plus and Federal contracts. Expenses for unsuccessful bids and proposals and marketing, selling, and advertising expenses, independent research and development expenses are not considered attributable to long-term contracts. Production period interest expense attributable to long-term contracts is to be capitalized under the rules of new code section 263A(f). For more rules, definitions, and exceptions, see new section 460.

Deduction for Removing Barriers to the Handicapped Extended.—The election to deduct expenses for the removal of architectural barriers to the handicapped and elderly was scheduled to expire on December 31, 1985. It has been permanently extended. See section 190.

Increase in Penalty for Failure To File Information Returns.—For returns due after December 31, 1986, the maximum penalty for failure to file information returns has been increased. A new penalty of $5 for supplying incorrect information has also been added. For more information, see sections 6652, 6676, 6678, and new sections 6721 through 6724.

Asset Allocation Rules.—New asset allocation rules apply in certain cases of asset acquisitions, and generally are effective for transfers made after May 6, 1986. In addition, there are reporting rules when these transfers take place. See new section 1060 for more information.

The following provisions begin in 1987 and affect fiscal 1986–1987 tax years.

Reduction in Corporate Tax Rates.—Effective July 1, 1987, tax rates for corporations are reduced. The new tax rates are 15% of the first $50,000 of taxable income; 25% of the next $25,000 of taxable income; and 34% for any amount of taxable income over $75,000. An additional tax applies to taxable income over $100,000. The tax is the lesser of 5% of the excess over $100,000 or $11,750. See the tax computation worksheet on page 12 for more details.

Gain or Loss Recognized on Distributions in Complete Liquidation .—Generally, corporations will recognize gain or loss on distributions of their property in complete liquidation as if they had sold the property at its fair market value.

These new rules apply to liquidations completed after December 31, 1986. See sections 336 and 337.

Reduction in Dividends-Received Deduction.—The dividends-received deduction for dividends received from certain corporations has been reduced from 85% to 80%for dividends received after 1986. See sections 243, 244, and 246A.

Installment Sales.—The installment method has been revised for certain sales or dispositions made after February 28, 1986, for tax years that end after 1986. These new rules generally apply to: 1. sale of personal property by a corporation that usually sells that type of personal property on the installment method and 2. sale of real property that is held by the taxpayer for sale to customers in the ordinary course of the taxpayer's trade or business. For more information, including new rules for members of an affiliated group, see section 453C.

Foreign Intangible Drilling, Mining, and Development Costs.—Foreign intangible drilling, mining, and development costs paid or incurred after 1986 must either be added to the corporation's basis for cost depletion purposes or be deducted ratably over a 10 year period. See sections 263(i), 616, and 617 for more information.

Certain Costs Required To Be Capitalized or Included in Inventory Costs.—New code section 263A requires that certain costs incurred in the production of real and intangible property produced by the taxpayer or property acquired for resale be capitalized or included in inventory costs rather than deducted.

Generally, the changes affecting inventory are effective for tax years beginning after 1986 and the changes affecting capitalization are effective for costs incurred after 1986. Please see new code section 263A.

Depreciation.—The rules for computing depreciation have substantially changed for property placed in service after 1986. Corporations may also elect these new rules for property placed in service after July 31, 1986. The new system provides specific methods for each class of assets. Additionally, the section 179 deduction is increased from $5,000 to $10,000 for property placed in service after 1986 . See **Form 4562-A**, Depreciation of Property Placed in Service after December 31, 1986, and section 168.

"At Risk" Rules To Apply to Real Property.—The "at risk" rules of section 465 apply to real property acquired after 1986. For more information, see section 465 and **Form 6198**, Computation of Deductible Loss From an Activity Described in Section 465(c).

New Low-Income Housing Credit.—A new low-income housing credit applies to certain buildings placed in service after 1986. See Form 8586 and section 42 for rules and computations.

Investment Tax Credit for Rehabilitation Expenditures.—An investment tax credit will be allowed for qualified rehabilitation expenditures made to property placed in service after 1986. See Form 3468.

Repeal of ESOP Credit.—The credit for contributions to an employee stock ownership plan (ESOP) has been repealed for compensation paid or accrued after December 31, 1986.

Information Reporting on Royalties.—Reporting requirements for payers of royalties have been changed for payments made after December 31, 1986. Information reporting is required on a royalty payment of $10 or more to a payee. See new section 6050N.

Alternative Tax for Fiscal Year Corporation.—Generally, the alternative tax has been repealed for tax years beginning after 1986. However, transitional rules allow fiscal year corporations to compute the alternative tax. The alternative tax computation for fiscal year corporations is (a) 28% of the lesser of: the net capital gain determined by taking into account only gain and loss for the portion of the tax year before January 1, 1987, or the net capital gain for the tax year, plus (b) 34% of the excess of the net capital gain for the tax year over the amount of net capital gain taken into account in (a) above. See section 1201.

The following provisions begin in 1987 and affect calendar year 1987 tax returns.

Revolving Credit Sales.—For tax years beginning after 1986, corporations that sell personal property on a revolving credit plan will not be permitted to account for such sales on the installment method. Any adjustment resulting from the corporation's not being able to use the installment method will be treated as a change in method of accounting for the first tax year beginning after December 31, 1986, and the period for taking into account adjustments under section 481 shall not exceed 4 years. This change in method of accounting will be treated as initiated by the corporation and as having been made with the consent of the Secretary. See sections 453 and 453A for more information.

Reserve Method for Bad Debts.—For tax years beginning after 1986 only certain financial institutions will be able to use the reserve method of computing bad debts. All other taxpayers must use the specific charge-off method for computing bad debts. Corporations not entitled to use the reserve method must include in income any amount remaining in the reserve as income ratably over a 4 year period.

For additional information, see sections 166, 585, and 593.

Also, for tax years beginning after 1986, section 586, reserve for losses on loans of small business corporations, etc., has been repealed.

Limitation on Net Operating Loss Carryovers.—The amount of net operating loss carryovers is limited when there has been a change in ownership or equity for net operating losses incurred after 1986. The limitation is described in section 382(b) and applies generally when a 5% shareholder or group of 5% shareholders increases its or their ownership in a corporation by more than 50 percentage points, or when there has been a change in equity. See section 382 for rules and definitions.

Limitation on Certain Excess Credits.—For certain ownership changes occurring after 1986, a change in ownership of a corporation will result in the amount of the following excess credits being limited for subsequent years: the unused general business credit, any unused minimum tax credit, and any capital loss carryover. The foreign tax credit carryover is also limited. See section 383 for more information.

Meals, Travel, and Entertainment Expenses.—For tax years beginning after 1986, many of the rules on what are allowable expenses for meals, entertainment, travel, and certain other business expenses have been changed. See section 274.

Meals and entertainment. The amount deductible for meals and entertainment expenses is generally limited to 80% of the amount otherwise allowable. In addition, meals must not be lavish or extravagant; a bona fide business discussion must precede or directly follow the meal; and your employee must be present at the meal. If the corporation claims a deduction for unallowable meal expenses, it may have to pay a penalty.

Limits on Losses and Credits From Passive Activities of Personal Service Corporations and Closely Held Corporations.—For tax years beginning after 1986, losses from passive trade or business activities generally may not offset active business income. Credits from passive activities generally are limited to tax allocable to the passive activities. See section 469 for more detailed information.

Reporting of Tax-Exempt Interest.—For tax years beginning after 1986, any taxpayer required to file a tax return must report, as an item of information, on that return the amount of the tax-exempt interest received or accrued during the tax year.

Taxable Year of Personal Service Corporations.—For tax years beginning after 1986, all personal service corporations are generally required to adopt the calendar year. See section 441.

Real Estate Mortgage Investment Conduits.—For tax years beginning after 1986, new code section 860A requires that real estate mortgage investment conduits (REMICs) allocate their income to their interest holders. REMICs may take the form of a corporation, partnership, or trust. See section 860A through 860G for rules, definitions, and other information.

Regulated Investment Companies.—Regulated investment companies are subject to a 4% excise tax for tax years beginning after 1986. For more information, see new code section 4982.

Cooperative Housing Corporations.—For tax years beginning after 1986, corporations, trusts, and other nonindividual persons may be tenant-stockholders in a cooperative housing corporation. Additionally, the method for computing the tenant-stockholder's interest and taxes is changed for tax years beginning after 1986. See section 216 for more information.

Minimum Tax.—For tax years beginning after 1986, the add-on minimum tax will be replaced by an alternative minimum tax based on alternative minimum taxable income. A corporation will have to compute its tax under the regular system and under the minimum tax provisions. See sections 55 through 59 for more information. For tax years beginning after 1986, corporations must take minimum tax into account when computing estimated tax. See 1987 Form 1120W for more information.

Certain Entities Required To Use the Accrual Method of Accounting.—Generally, C corporations, partnerships with C corporations as partners, tax-exempt entities with unrelated business income, and tax shelters are prohibited from using the cash method of accounting for tax years beginning after 1986. See new section 448.

Special Rule for Dividends Received From Foreign Corporation (Section 245).—For tax years beginning after 1986, only corporations that own at least 10% of stock (by vote and value) of a foreign corporation are entitled to claim the section 245 dividends-received deductions. To obtain the proper amount of deduction, the 10% owner should see section 245.

For additional information on these changes, see **Publication 553**, Highlights of 1986 Tax Changes.

Effective July 1, 1987, the tax rates for corporations were reduced. The new rates of tax are:

15% on the first $50,000 of income;

25% on the next $25,000 of income; and

34% on any amount over $75,000.

Also, an additional tax of 5% is applied against income in excess of $100,000. The maximum amount of this additional tax is $11,750. In addition, different rules apply for computing the alternative tax on net capital gains for fiscal year corporations that have a tax year that includes January 1, 1987. These rules are explained in the instructions that follow Schedule B. If the corporation's fiscal tax year includes July 1, 1987, the tax liability shall be computed by completing Schedules A and B of the worksheet below. If the corporation's tax year ends on or before June 30, 1987, only Schedule A must be completed. Supplemental Instructions for completing Schedules A and B follow Schedule B.

Fiscal year corporations complete the following schedules to determine tax liability.

Schedule A — Tax Computed for Period Before July 1, 1987

1	Taxable income (line 30, Form 1120, or line 26, Form 1120-A)	
2	Net capital gain income from line 10a, Schedule D (Form 1120), if applicable (see instructions)	
3	Subtract line 2 from line 1	
4	Enter the lesser of line 3 or $25,000 (members of a controlled group, see instructions)	
5	Subtract line 4 from line 3	
6	Enter the lesser of line 5 or $25,000 (members of a controlled group, see instructions)	
7	Subtract line 6 from line 5	
8	Enter the lesser of line 7 or $25,000 (members of a controlled group, see instructions)	
9	Subtract line 8 from line 7	
10	Enter the lesser of line 9 or $25,000 (members of a controlled group, see instructions)	
11	Subtract line 10 from line 9	
12	Multiply line 4 times 15%	
13	Multiply line 6 times 18%	
14	Multiply line 8 times 30%	
15	Multiply line 10 times 40%	
16	Multiply line 11 times 46%	
17	If line 3 is greater than $1,000,000, enter the lesser of: (a) 5% of the excess of line 3 over $1,000,000 or (b) $20,250 (members of a controlled group, see instructions). Fiscal year corporations whose tax years end after June 30, 1987, skip lines 18 and 19, and complete Schedule B of this worksheet	
18	Alternative tax on net capital gain from the worksheet on page 13	
19	Add amounts on lines 12 through 18	
	Fiscal year corporations whose tax years end before July 1, 1987, enter the tax liability before credits (line 19) on line 1, Part I, Form 1120-A, or line 3, Schedule J, Form 1120. **Do Not** complete Schedule B.	

Schedule B — Tax Computed for Period After June 30, 1987

20	Enter amount from line 3, Schedule A	
21	Enter the lesser of line 20 or $50,000 (members of a controlled group, see instructions)	
22	Subtract line 21 from line 20	
23	Enter the lesser of line 22 or $25,000 (members of a controlled group, see instructions)	
24	Subtract line 23 from line 22	
25	Multiply line 21 times 15%	
26	Multiply line 23 times 25%	
27	Multiply line 24 times 34%	
28	Additional tax. If line 20 is more than $100,000, enter the lesser of: (a) 5% of the excess of line 20 over $100,000 or (b) $11,750	
29	Add lines 25 through 28	
30	Add lines 12 through 17, Schedule A	
31	Line 30 × $\frac{\text{number of days in tax year before 7-1-87}}{\text{number of days in tax year}}$	
32	Line 29 × $\frac{\text{number of days in tax year after 6-30-87}}{\text{number of days in tax year}}$	
33	Alternative tax on net capital gain from the worksheet on page 13	
34	Tax liability before credits. Add amounts on lines 31, 32, and 33. Enter here and on line 3, Schedule J, Form 1120, or on line 1, Part I, Form 1120-A	

Supplemental Instructions

Net Capital Gain and Alternative Tax (Lines 2, 18, and 33).—In general, the alternative tax is the sum of (a) a tax computed on taxable income reduced by the net capital gain using the applicable tax brackets and tax rates, and (b) a tax (line 18 or 33) computed on the net capital gain (see below for this part of the computation). If the alternative tax is less than the regular tax computed on total taxable income using the applicable tax brackets and tax rates, then the corporation may enter the alternative tax in Part I, line 1, page 2, Form 1120-A, or line 3, Schedule J, Form 1120, and check the block for alternative tax. If a corporation has a net capital gain, both computations (the regular tax computation and the alternative tax computation) should be made to determine which results in the lower tax.

For fiscal year corporations, the net capital gain times the alternative tax rate is determined as follows:

1. Enter the net capital gain from line 10a, Schedule D (Form 1120) . . . . . . ________
2. Enter the amount from line 10b, Schedule D. **Caution:** If this amount is greater than the amount on line 1, enter the amount from line 1 here ________
3. Subtract line 2 from line 1 . ________
4. Multiply line 2 times 28% . ________
5. Multiply line 3 times 34% . ________
6. Alternative tax on net capital gain. Add lines 4 and 5. Enter here and on lines 18 or 33, if applicable . . . . ________

If the alternative tax is not used, lines 2 and 18, Schedule A, and line 33, Schedule B, should be blank.

Lines 4, 6, 8, and 10.—Members of a controlled group must enter their portion of each taxable income bracket. See the instructions for Schedule J (Form 1120) for rules regarding how controlled groups (as defined in section 1563) may divide these amounts.

Line 17.—If the total taxable income of the controlled group of corporations is more than $1,000,000, each member should enter its portion of the additional tax on line 17 as explained in the instructions for Schedule J (Form 1120).

Line 21.—Members of a controlled group (as defined in section 1563) are to allocate the $50,000 in the first taxable income bracket. The controlled group is entitled to one $50,000 amount in the first taxable income bracket and may use the equal and unequal apportionment rules explained in the instructions for Schedule J (Form 1120).

Line 23.—Members of a controlled group (as defined in section 1563) are to allocate the $25,000 amount in the second taxable income bracket. The controlled group is entitled to one $25,000 amount in the bracket. The members may use the equal and unequal apportionment rules explained in the instructions for Schedule J (Form 1120).

Line 28.—If total taxable income of the controlled group of corporations is more than $100,000, each member should enter its portion of the additional tax on line 28. See section 1561 for rules on determining each member's share of the additional tax.

Codes for Principal Business Activity

These industry titles and definitions are based, in general, on the Standard Industrial Classification System authorized by Regulatory and Statistical Analysis Division, Office of Information and Regulatory Affairs, Office of Management and Budget, to classify enterprises by type of activity in which they are engaged.

Using the list below, enter on page 1, under C, the code number for the specific industry group from which the largest percentage of "total receipts" is derived. "Total receipts" means gross receipts (line 1a, page 1) plus all other income (lines 4 through 10, page 1).

On page 3, under J, Form 1120 or items A and B, page 1, Form 1120-A, 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) subcontracts 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."

Agriculture, Forestry, and Fishing

Code

0400 Agricultural production
0600 Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping

Mining

Metal mining
1010 Iron ores
1070 Copper, lead and zinc, gold and silver ores
1098 Other metal mining
1150 Coal mining

Oil and gas extraction
1330 Crude petroleum, natural gas, and natural gas liquids
1380 Oil and gas field services

Nonmetallic minerals, except fuels
1430 Dimension, crushed and broken stone; sand and gravel
1498 Other nonmetallic minerals, except fuels

Construction

General building contractors and operative builders
1510 General building contractors
1531 Operative builders
1600 Heavy construction contractors

Special trade contractors
1711 Plumbing, heating, and air conditioning
1731 Electrical work
1798 Other special trade contractors

Manufacturing

Food and kindred products
2010 Meat products
2020 Dairy products
2030 Preserved fruits and vegetables
2040 Grain mill products
2050 Bakery products
2060 Sugar and confectionary products
2081 Malt liquors and malt
2088 Alcoholic beverages, except malt liquors and malt
2089 Bottled soft drinks, and flavorings
2096 Other food and kindred products
2100 Tobacco manufacturers

Textile mill products
2228 Weaving mills and textile finishing
2250 Knitting mills
2298 Other textile mill products

Apparel and other textile products
2315 Men's and boys' clothing
2345 Women's and children's clothing
2388 Other apparel and accessories
2390 Miscellaneous fabricated textile products

Lumber and wood products
2415 Logging, sawmills, and planing mills
2430 Millwork, plywood, and related products
2498 Other wood products, including wood buildings and mobile homes
2500 Furniture and fixtures

Code

Paper and allied products
2625 Pulp, paper, and board mills
2699 Other paper products

Printing and publishing
2710 Newspapers
2720 Periodicals
2735 Books, greeting cards, and miscellaneous publishing
2799 Commercial and other printing, and printing trade services

Chemicals and allied products
2815 Industrial chemicals, plastics materials, and synthetics
2830 Drugs
2840 Soap, cleaners, and toilet goods
2850 Paints and allied products
2898 Agricultural and other chemical products

Petroleum refining and related industries (including those integrated with extraction)
2910 Petroleum refining (including integrated)
2998 Other petroleum and coal products

Rubber and misc. plastics products
3050 Rubber products, plastics footwear, hose and belting
3070 Misc. plastics products

Leather and leather products
3140 Footwear, except rubber
3198 Other leather and leather products

Stone, clay, and glass products
3225 Glass products
3240 Cement, hydraulic
3270 Concrete, gypsum, and plaster products
3298 Other nonmetallic mineral products

Primary metal industries
3370 Ferrous metal industries; misc primary metal products
3380 Nonferrous metal industries

Fabricated metal products
3410 Metal cans and shipping containers
3428 Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products
3430 Plumbing and heating, except electric and warm air
3440 Fabricated structural metal products
3460 Metal forgings and stampings
3470 Coating, engraving, and allied services
3480 Ordnance and accessories, except vehicles and guided missiles
3490 Misc. fabricated metal products

Machinery, except electrical
3520 Farm machinery
3530 Coostruction and related machinery
3540 Metalworking machinery
3550 Special industry machinery
3560 General industrial machinery
3570 Office, computing, and accounting machines
3598 Other machinery except electrical

Code

Electrical and electronic equipment
3630 Household appliances
3665 Radio, television, and communication equipment
3670 Electronic components and accessories
3698 Other electrical equipment
3710 Motor vehicles and equipment

Transportation equipment, except motor vehicles
3725 Aircraft, guided missiles and parts
3730 Ship and boat building and repairing
3798 Other transportation equipment, except motor vehicles

Instruments and related products
3815 Scientific instruments and measuring devices; watches and clocks
3845 Optical, medical, and ophthalmic goods
3860 Photographic equipment and supplies
3998 Other manufacturing products

Transportation and Public Utilities

Transportation
4000 Railroad transportation
4100 Local and interurban passenger transit
4200 Trucking and warehousing
4400 Water transportation
4500 Transportation by air
4600 Pipe lines, except natural gas
4700 Miscellaneous transportation services

Communication
4825 Telephone, telegraph, and other communication services
4830 Radio and television broadcasting

Electric, gas, and sanitary services
4910 Electric services
4920 Gas production and distribution
4930 Combination utility services
4990 Water supply and other sanitary services

Wholesale Trade

Durable
5008 Machinery, equipment, and supplies
5010 Motor vehicles and automotive equipment
5020 Furniture and home furnishings
5030 Lumber and construction materials
5040 Sporting, recreational, photographic, and hobby goods, toys and supplies
5050 Metals and minerals, except petroleum and scrap
5060 Electrical goods
5070 Hardware, plumbing and heating equipment and supplies
5098 Other durable goods

Nondurable
5110 Paper and paper products
5129 Drugs, drug proprietaries, and druggists' sundries
5130 Apparel, piece goods, and notions
5140 Groceries and related products
5150 Farm-product raw materials
5160 Chemicals and allied products
5170 Petroleum and petroleum products
5180 Alcoholic beverages
5190 Misc. nondurable goods

Retail Trade

Building materials, garden supplies, and mobile home dealers
5220 Building materials dealers
5251 Hardware stores
5265 Garden supplies and mobile home dealers
5300 General merchandise stores

Food stores:
5410 Grocery stores
5490 Other food stores

Automotive dealers and service stations
5515 Motor vehicle dealers
5541 Gasoline service stations
5598 Other automotive dealers
5600 Apparel and accessory stores
5700 Furniture and home furnishings stores
5800 Eating and drinking places

Code

Misc. retail stores
5912 Drug stores and proprietary stores
5921 Liquor store.
5995 Other retail stores

Finance, Insurance, and Real Estate

Banking
6030 Mutual savings banks
6060 Bank holding companies
6090 Banks, except mutual savings banks and bank holding companies

Credit agencies other than banks
6120 Savings and loan associations
6140 Personal credit institutions
6150 Business credit institutions
6199 Other credit agencies

Security, commodity brokers and services
6210 Security brokers, dealers, and flotation companies
6299 Commodity contracts brokers and dealers; security and commodity exchanges; and allied services

Insurance
6355 Life insurance
6356 Mutual insurance, except life or marine and certain fire or flood insurance companies
6359 Other insurance companies
6411 Insurance agents, brokers, and service

Real estate
6511 Real estate operators and lessors of buildings
6516 Lessors of mining, oil, and similar property
6518 Lessors of railroad property and other real property
6530 Condominium management and cooperative housing associations
6550 Subdividers and developers
6599 Other real estate

Holding and other investment companies, except bank holding companies
6742 Regulated investment companies
6743 Real estate investment trusts
6744 Small business investment companies
6749 Other holding and investment companies except bank holding companies

Services

7000 Hotels and other lodging places
7200 Personal services

Business services
7310 Advertising
7389 Business services, except advertising

Auto repair; misc. repair services
7500 Auto repair and services
7600 Misc. repair services

Amusement and recreation services
7812 Motion picture production, distribution, and services
7830 Motion picture theaters
7900 Amusement and recreation services, except motion pictures

Other services
8015 Offices of physicians, including osteopathic physicians
8021 Offices of dentists
8040 Offices of other health practitioners
8050 Nursing and personal care facilities
8060 Hospitals
8071 Medical laboratories
8099 Other medical services
8111 Legal services
8200 Educational services
8300 Social services
8600 Membership organizations
8911 Architectural and engineering services
8930 Accounting, auditing, and bookkeeping
8980 Miscellaneous services (including veterinarians)

SCHEDULE D (Form 1120)

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

To be filed with Forms 1120, 1120-A, 1120-IC-DISC, 1120F, 1120-FSC, 1120-H, 1120L, 1120M, 1120-POL, 990-C, and certain Forms 990-T

OMB No. 1545-0123

1986

Name | Employer identification number

Part I Short-term Capital Gains and Losses—Assets Held Six Months or Less

(a) Kind of property and description (Example, 100 shares of "Z" Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Cost or other basis, plus expense of sale	(f) Gain or loss ((d) less (e))
1					

2 Short-term capital gain from installment sales from Form 6252, line 22 or 30	2	
3 Unused capital loss carryover (attach computation)	3	( )
4 Net short-term capital gain or (loss)	4	

Part II Long-term Capital Gains and Losses—Assets Held More Than Six Months

5 Enter gain from Form 4797, line 6 or 8	5	

6					

7 Long-term capital gain from installment sales from Form 6252, line 22 or 30	7	
8 Net long-term capital gain or (loss)	8	

Part III Summary of Parts I and II

9 Enter excess of net short-term capital gain (line 4) over net long-term capital loss (line 8)	9	
10a Net capital gain. Enter excess of net long-term capital gain (line 8) over net short-term capital loss (line 4).	10a	
b Fiscal year corporations that are using the alternative method to compute tax, enter the net capital gain for the period before 1987. 10b		
11 Total of lines 9 and 10a. Enter here and on Form 1120, line 8, page 1; or the proper line on other returns. *Note: If losses exceed gains; see instructions on capital losses for explanation of capital loss carrybacks.*	11	

Part IV Alternative Tax Computation for Calendar Year Corporations Only. Fiscal Year Corporations See the Instructions for Forms 1120 and 1120A. (Forms 1120-H and 1120-IC-DISC Filers Omit Part IV)

12 Taxable income. Enter the amount from { a Form 1120, line 30, page 1; b Others—Enter amount from the proper line of other returns }	12	
13 Net capital gain from line 10a	13	
14 Subtract line 13 from line 12	14	
15 Partial tax. Compute the tax on line 14 as follows { a Form 1120—In accordance with the instructions for Forms 1120 and 1120-A, Tax Computation; b Others—In accordance with the tax computation instructions for applicable return }	15	
16 Enter 28% of line 13	16	
17 Alternative tax—total of lines 15 and 16. If less than amount of tax figured by regular method, enter here and on Form 1120, Schedule J, line 3; or the proper line on other returns. Also check box for Schedule D.	17	

For Paperwork Reduction Act Notice, see page 1 of the Instructions for Forms 1120 and 1120-A. **Schedule D (Form 1120) 1986**

Instructions

(Section references are to the Internal Revenue Code.)

Purpose of Form

Schedule D should be used by a taxpayer who files either Forms 1120, 1120-A, 1120-IC-DISC, 1120F, 1120-FSC, 1120-H, 1120L, 1120M, 1120-POL, 990-C, or certain Forms 990-T, to report sales or exchanges of capital assets. Sales or exchanges of property other than capital assets, including property used in a trade or business, involuntary conversions (other than casualties or thefts), gain from the disposition of interest in oil, gas, or geothermal property, and the section 291 adjustment to section 1250 gains should be reported on **Form 4797**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions. See the instructions for Form 4797 for more information.

If property is involuntarily converted because of a casualty or theft, use **Form 4684**, Casualties and Thefts.

Alternative Method of Computing Tax Repealed

The alternative tax has been repealed for tax years beginning after 1986. Certain transitional rules apply to tax years that begin in 1986 and end in 1987. For more information, including the computation that fiscal year corporations should use, see the instructions for Form 1120, or other applicable form.

Parts I and II

Generally, a corporation should report sales and exchanges, including "like-kind" exchanges, even though there is no gain or loss. No loss is allowed for a wash sale of stock or securities or from a transaction between related persons. (Sections 1091 and 267.)

In Part I, report the sale or exchange of capital assets held 6 months or less. In Part II, report the sale or exchange of capital assets held more than 6 months.

What are Capital Assets.—Each item of property the corporation held (whether or not connected with its trade or business) is a capital asset except:

1. Assets that can be inventoried or property held mainly for sale to customers.
2. Depreciable or real property used in the trade or business.
3. Certain copyrights; literary, musical, or artistic compositions; letters or memorandums; or similar property.
4. Accounts or notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property described in 1. above.
5. A U.S. Government publication (including the Congressional Record), received from the Government or any of its agencies in a manner other than by buying it at the price offered for public sale, which is held by a taxpayer who received the publication or by a second taxpayer in whose hands the basis of the publication is determined, for purposes of determining gain from a sale or exchange, by referring to its basis in the hands of the first taxpayer.

Exchange of "like-kind" property.—Report the exchange of "like-kind" property on Schedule D or on Form 4797, whichever applies. The corporation must report it even though no gain or loss is recognized when business or investment property is exchanged for property of "like-kind." (This does not include stock in trade or other property held primarily for sale. It also does not include stocks, bonds, notes, choses in action, certificates of trust or beneficial interest, other securities or evidences of indebtedness or interest, or transfers made generally after March 31, 1984, for interests in a partnership.)

If Schedule D is used, identify in column (a) the property disposed of. Enter the date it was acquired in column (b), and the date it was exchanged in column (c). Write "like-kind exchange" in column (d). Enter the cost or other basis in column (e). Enter zero in column (f).

Special Rules for the Treatment of Certain Gains and Losses

Note: *For more information, get **Publication 544**, Sales and Other Dispositions of Assets, and **Publication 542**, Tax Information on Corporations.*

- **Gains and losses on section 1256 contracts and straddles.**—Use **Form 6781**, Gains and Losses From Section 1256 Contracts and Straddles, to report gains and losses from section 1256 contracts and straddles.
- **Gain or loss on certain short-term Federal, state, and municipal obligations.**—Such obligations are treated as capital assets in determining gain or loss. On any gain realized, a portion is treated as ordinary income and the balance is considered as a short-term capital gain. See section 1271.
- **Gain from installment sales.**—If property is sold at a gain this year and the corporation is to receive any payment in a later tax year, it must use the installment method and file **Form 6252**, Computation of Installment Sale Income. Also use Form 6252 if a payment is received in 1985 from a sale made in an earlier year on the installment basis.

However, the corporation may elect out of the installment method by doing the following on a timely filed return (including extensions):

1. Report the full amount of the sale on Schedule D.
2. If the corporation received a note or other obligation and is reporting it at less than face value (including all contingent obligations), state that fact in the margin and give the percentage of valuation.

- **Gain or loss on an option to buy or sell property.**—See sections 1032 and 1234 for the rules that apply to a purchaser or grantor of an option.
- **Gain or loss from a short sale of property.**—Report the gain or loss to the extent that the property used to close the short sale is considered a capital asset in the hands of the taxpayer.
- **Gains and losses of foreign corporations from the disposition of investment in United States real property.**—Foreign corporations are required to report gains and losses from the disposition of U.S. real property interests. See section 897 for details.
- **Gains on certain insurance property.**—Form 1120L filers with gains on property held on December 31, 1958, and certain substituted property acquired after 1958 should see section 818(c).
- **Loss from the sale or exchange of an insurance company's capital assets.**—Report the loss if the assets were sold or exchanged to get funds to meet abnormal insurance losses. If an insurance company is taxed under section 831 and is reporting a loss on Schedule D, also attach a schedule similar to Schedule C of Form 1120M. If an insurance company is taxed under section 821, all references to line numbers on Form 1120 are to be considered as references to the appropriate line on Form 1120M.
- **Loss from securities that are capital assets that become worthless during the year.**—Except for securities held by a bank, treat the loss as a capital loss as of the last day of the tax year. (See section 582 for the rules on the treatment of securities held by a bank.)

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- **Nonrecognition of gain on sale of stock to an ESOP.**—See section 1042 for rules under which a taxpayer may elect not to recognize gain from the sale of certain stock to an employee stock ownership plan (ESOP).
- **Disposition of market discount bonds.**—See section 1276 for rules on the disposition of any market discount bonds that were issued after July 18, 1984.

How To Determine the Cost or Other Basis of the Property

In determining gain or loss, the basis of property will generally be its cost (section 1012). The exceptions to the general rule are provided in sections contained in subchapters C, K, O, and P of the Code. For example, if the corporation acquired the property by dividend, liquidation of a corporation, transfer from a shareholder, reorganization, contribution or gift, bequest, bankruptcy, tax-free exchange, involuntary conversion, or wash sale of stock, see sections 301 (or 1059), 334, 362 (or 358), 1015, 1014, 372 (or 374), 1031, 1033, and 1091, respectively. Attach an explanation if the corporation uses a basis other than actual cash cost of the property.

If the corporation is allowed a charitable contribution deduction because it sold property to a charitable organization, figure the adjusted basis for determining gain from the sale by dividing the amount realized by the fair market value and multiplying that result by the adjusted basis.

Capital Losses.—The amount of capital losses allowed may not be more than capital gains. A net capital loss may be carried back 3 years and forward 5 years as a short-term capital loss. Carry back a capital loss to the extent it does not increase or produce a net operating loss in the tax year to which it is carried. Foreign expropriation capital losses may not be carried back, but may be carried forward 10 years instead of 5. A net capital loss for a regulated investment company may be carried forward 8 years instead of 5.

At-risk limitations (section 465).—If the corporation sold or exchanged an asset used in an activity to which the at-risk rules apply, combine the gain or loss on the sale or exchange with the profit or loss from the activity. If the result is a net loss from the activity, it may be subject to the at-risk rules.

Part III—Summary of Parts I and II

If the net long-term capital gain is more than the net short-term capital loss, there is a net capital gain. In that case, the corporation may want to complete Part IV to determine if the resulting alternative tax is less than the tax figured using the regular method.

Part IV—Alternative Tax Computation

- Forms 1120-H and 1120-IC-DISC filers omit Part IV.
- Form 1120L filers should see Form 1120L instructions before figuring the alternative tax.

In figuring the alternative tax, do not refigure deductions limited by the amount of taxable income (such as contributions and the special deductions in Schedule C of Form 1120).

If the alternative tax amount on line 17 is less than the tax figured by the regular method, enter the amount of alternative tax on Form 1120, Schedule J, line 3; or the proper line on other returns. Also check the box for Schedule D.

If there is a net capital gain, the corporation may be liable for minimum tax. See **Form 4626**, Computation of Minimum Tax—Corporations, for more information.

Form **1120F**

Department of the Treasury
Internal Revenue Service

U.S. Income Tax Return of a Foreign Corporation

For calendar year 1986 or other tax year beginning , 1986, and ending , 19

OMB No. 1545-0126

1986

Please type or print

Name	Employer identification number
Number and street (see instructions)	Check box if there has been a change in address from the previous year ▶ ☐
City or town, state and ZIP code, or country	

Note: *Complete Section I to compute tax on income from U.S. sources that is NOT effectively connected with the conduct of a trade or business in the U.S.*
Complete Section II to compute tax on income effectively connected with the conduct of a trade or business in the U.S.
Corporations having only income that is NOT effectively connected need file only pages 1 and 2.

A Country of incorporation ....

B Foreign country under whose laws the income reported on this return is subject to tax ....

C Date incorporated ....

D The corporation's books are in care of .... located at ....

E Were you at any time during the tax year engaged in a trade or business in the U.S.? ☐ Yes ☐ No

F At any time during the tax year, did you have a permanent establishment in the U.S. for purposes of applying section 894(b) and any applicable tax treaty between the U.S. and a foreign country? ☐ Yes ☐ No
If "Yes," name the foreign country ....

G (1) Did you at the end of the tax year own, directly or indirectly, 50% or more of the voting stock of a U.S. corporation? (For rules of attribution, see section 267(c).) ☐ Yes ☐ No
If "Yes," attach a schedule showing: (a) name, address, and identifying number, (b) percentage owned, (c) taxable income or (loss) before NOL and special deductions from line 28, page 1, Form 1120, for the tax year ending with or within your tax year, (d) highest amount owed by you to that corporation during the year, and (e) highest amount owed to you by that corporation during the year.

(2) Did any corporation, individual, partnership, trust, or association at the end of the tax year own, directly or indirectly, 50% or more of your voting stock? (For rules of attribution, see section 267(c).) ☐ Yes ☐ No
If "Yes," attach a schedule showing: (a) name, address, and identifying number, (b) percentage owned; and
(c) Enter the highest amount owed by you to that owner during the year ▶ ....
(d) Enter the highest amount owed to you by that owner during the year ▶ ....
Note: *For purposes of G(1) and G(2), "highest amount owed" includes loans and accounts receivable/payable.*

H Have you filed a U.S. income tax return for the preceding tax year? ☐ Yes ☐ No

I If you had an agent in the U.S. at any time during the year, enter:
Kind of agent ....
Name ....
Address ....

J Are you a foreign personal holding company under section 552? ☐ Yes ☐ No
If "Yes," has Form 5471 been filed? (Sec. 6035) ☐ Yes ☐ No

K Are you a personal holding company? (See Schedule PH (Form 1120).) ☐ Yes ☐ No

L Are you a controlled foreign corporation? (Sec. 957) ☐ Yes ☐ No

1	Tax from Section I (line 10, page 2)			1	
2	Tax from Section II (line 8, Schedule J—Tax Computation, page 5)			2	
3	Personal holding company tax (attach Schedule PH (Form 1120))			3	
4	Minimum tax (Form 4626)			4	
5	TOTAL tax—Add lines 1 through 4			5	
6	**Credits: a** Overpayment from 1985 allowed as a credit				
	b 1986 estimated tax payments				
	c Less refund of 1986 estimated tax applied for on Form 4466	( )			
	d Tax deposited with Form 7004				
	e Credit from regulated investment companies (attach Form 2439)				
	f Federal tax on gasoline and special fuels (attach Form 4136)				
	g U.S. income tax paid or withheld at the source (add line 11, page 2, and amount from Form 8288-A (attach Form 8288-A))				
7	Total (add lines 6a through 6g)			7	
8	**TAX DUE** (subtract line 7 from line 5). See instruction C3 for method of payment			8	
9	**OVERPAYMENT** (subtract line 5 from line 7)			9	
10	Enter amount of line 9 you want: **Credited to 1987 estimated tax** ▶		**Refunded** ▶	10	

Please Sign Here
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.
▶ Signature of officer | Date | ▶ Title

Paid Preparer's Use Only
Preparer's signature ▶ | Date | Check if self-employed ▶ ☐ | Preparer's social security no.
Firm's name (or yours, if self-employed) and address ▶ | E.I. No. ▶ | ZIP code ▶

For Paperwork Reduction Act Notice, see page 1 of the Instructions. Form **1120F** (1986)

SECTION I.—Income From U.S. Sources That Is NOT Effectively Connected With the Conduct of a Trade or Business in the U.S.—See Instructions

If you are required to complete Section II or are using the form as a claim for refund of tax withheld at the source, include in this section **ALL** income from U.S. sources that is **NOT** effectively connected with the conduct of a trade or business in the U.S. Otherwise, you may include only those items of income on which the U.S. income tax was not fully paid at the source. The rate of tax on each item of income listed below is 30% unless limited by tax treaty. Fill in treaty rates where applicable.

Name of treaty country, if any ▶

Nature of income	Amount	Rate of tax (%)	Amount of tax	Amount of U.S. income tax paid or withheld at the source
1 Interest (see instructions)				
2 Dividends				
3 Rents				
4 Royalties				
5 Annuities				
6 Gains from disposal of timber, coal, or domestic iron ore with a retained economic interest (attach statement of details)				
7 Gains from sale or exchange of patents, copyrights, etc.				
8 Fiduciary distributions (attach a statement showing the kind of income and rate)				
9 Other fixed or determinable annual or periodic income:				
....				
....				
....				
....				
....				
....				
....				
10 Total—Enter here and on line 1, page 1 ▶				
11 Total—Enter here and as part of line 6g, page 1 ▶				

Form 1120F (1986) Page 3

SECTION II.—Income Effectively Connected With the Conduct of a Trade or Business in the U.S.—See Instructions

IMPORTANT—Fill in all applicable lines and schedules. If you need more space, see instruction B8(d).

Income	1 a Gross receipts or sales $ .... 1b Less returns and allowances $ .... Balance ▶	1c	
	2 Cost of goods sold and/or operations (Schedule A)	2	
	3 Gross profit (subtract line 2 from line 1c)	3	
	4 Dividends (Schedule C, line 11)	4	
	5 Interest	5	
	6 Gross rents	6	
	7 Gross royalties	7	
	8 Capital gain net income (attach Schedule D (Form 1120))	8	
	9 Net gain or (loss) from line 17, Part II, Form 4797 (attach Form 4797)	9	
	10 Other income (see instructions—attach schedule)	10	
	11 TOTAL income—Add lines 3 through 10	11	
Deductions	12 Compensation of officers (Schedule E). Deduct only amounts connected with U.S. business.	12	
	13 a Salaries and wages .... 13b Less jobs credit .... Balance ▶	13c	
	14 Repairs	14	
	15 Bad debts (Schedule F if reserve method is used)	15	
	16 Rents	16	
	17 Taxes	17	
	18 Interest	18	
	19 Contributions (see instructions for 10% limitation)	19	
	20 Depreciation (attach Form 4562) ... 20		
	21 Depreciation claimed in Schedule A and elsewhere on return ... 21		
	22 Balance (subtract line 21 from line 20)	22	
	23 Depletion	23	
	24 Advertising	24	
	25 Pension, profit-sharing, etc., plans (see instructions)	25	
	26 Employee benefit programs (see instructions)	26	
	27 Other deductions (total from page 5)	27	
	28 TOTAL deductions—Add lines 12 through 27 and enter here ▶	28	
	29 Taxable income before net operating loss deduction and special deductions (subtract line 28 from line 11)	29	
	30 Less: a Net operating loss deduction (see instructions—attach schedule) ... 30a		
	b Special deductions (Schedule C, line 12) ... 30b	30	
	31 Taxable income or (loss) (subtract line 30 from line 29)	31	

Schedule A.—Cost of Goods Sold and/or Operations (see Instructions)

1 Inventory at beginning of year	1	
2 Purchases	2	
3 Cost of labor	3	
4 Other costs (attach schedule)	4	
5 Total—Add lines 1 through 4	5	
6 Inventory at end of year	6	
7 Cost of goods sold—Subtract line 6 from line 5. Enter here and on line 2, Section II	7	

8 a Check all methods used for valuing closing inventory:
(i) ☐ Cost
(ii) ☐ Lower of cost or market as described in regulations section 1.471-4 (see instructions)
(iii) ☐ Writedown of "subnormal" goods as described in regulations section 1.471-2(c) (see instructions)
(iv) ☐ Other (Specify method used and attach explanation.) ▶ ....
b Check if the LIFO inventory method was adopted this tax year for any goods ☐
If checked, attach Form 970.
If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO. | 8c |
d If you are engaged in manufacturing, did you value your inventory using the full absorption method (regulations section 1.471-11)? ☐ Yes ☐ No
e Was there any change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☐ No
If "Yes," attach explanation.

Form 1120F (1986) Page 4

Schedule C.—Dividends and Special Deductions (see Instructions).

	(a) Dividends Received	(b) %	(c) Special Deductions (Multiply (a) by (b))
1 Domestic corporations subject to the Section 243(a) deduction		See Inst.	
2 Debt-financed stock of domestic and foreign corporations		See Inst.	
3 Certain preferred stocks of public utilities		See Inst.	
4 Foreign corporations and certain FSCs subject to the Section 245(a) deduction		See Inst.	
5 Total—Add lines 1 through 4, column (c). See instructions for limitation			
6 Deduction for dividends paid on certain preferred stocks of public utilities (see instructions)			
7 Other dividends from foreign corporations			
8 Foreign dividend gross-up (section 78)			
9 Taxable dividends from an IC-DISC or former DISC not included in line 1 and/or line 2 (section 246(d))			
10 Other dividends			
11 Total dividends—Add lines 1 through 10, column (a). Enter here and on line 4, Section II, page 3			
12 Total special deductions—Add lines 5 and 6, column (c). Enter here and on line 30b, Section II, page 3			

Schedule E.—Compensation of Officers. Complete Schedule E only if your total receipts (line 1a plus lines 4 through 10, of Section II, page 3) are $150,000 or more (see Instructions)

(a) Name of officer	(b) Social security number	(c) Percent of time devoted to business	Percent of corporation stock owned: (d) Common	(e) Preferred	(f) Amount of compensation
Total compensation of officers—Enter here and on line 12, Section II, page 3					

Schedule F.—Bad Debts—Reserve Method (see Instructions)

(a) Year	(b) Trade notes and accounts receivable outstanding at end of year	(c) Sales on account	Amount added to reserve: (d) Current year's provision	(e) Recoveries	(f) Amount charged against reserve	(g) Reserve for bad debts at end of year
1981						
1982						
1983						
1984						
1985						
1986						

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Schedule J.—Tax Computation (see Instructions)

1 Check if you are a member of a controlled group (see sections 1561 and 1563) . . . ▶ ☐

2a If line 1 is checked, see instructions and enter your portion of the $25,000 amount in each taxable income bracket: (i) $ .... (ii) $ .... (iii) $ .... (iv) $ ....

b If your tax year includes July 1, 1987, enter your share of tax bracket amounts (i) $ .... (ii) $ ....

3 Income tax (see instructions to figure the tax; enter this tax or alternative tax whichever is less). Check if alternative tax used ▶ ☐ 3

4a Foreign tax credit (attach Form 1118) 4a

b Credit for fuel produced from a nonconventional source 4b

c Orphan drug credit (attach Form 6765) 4c

d General business credit. Enter here and check which forms are attached: ☐ Form 3800 ☐ Form 3468 ☐ Form 5884 ☐ Form 6478 ☐ Form 8007 ☐ Form 6765 ☐ Form 8586 4d

5 Total—Add lines 4a through 4d 5

6 Subtract line 5 from line 3 6

7 Tax from recomputing prior-year investment credit (attach Form 4255) 7

8 Total tax—Add lines 6 and 7. Enter here and on line 2, page 1 8

Other Deductions

Explanation	Amount	Explanation	Amount
		TOTAL—Enter here and on line 27, page 3	

Additional Information Required

M Business description (see page 12 of instructions)

(1) Business code number ....

(2) Principal business activity ....

(3) Principal product or service ....

	Yes	No
N Did you claim a deduction for expenses connected with:		
(1) Entertainment facility (boat, resort, ranch, etc.)?		
(2) Living accommodations (except for employees on business)?		
(3) Employees attending conventions or meetings outside the North American area? (See section 274(h).)		
(4) Employees' families at conventions or meetings? If "Yes," were any of these conventions or meetings outside the North American area? (See section 274(h).)		
(5) Employee or family vacations not reported on Form W-2?		
O During the tax year was any part of your accounting /tax records maintained on a computerized system?		

P Check method of accounting: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

Form 1120F (1986) Page 6

Schedule L.—Balance Sheets

	Beginning of tax year (a)	(b)	End of tax year (c)	(d)
ASSETS				
1 Cash				
2 Trade notes and accounts receivable				
a Less allowance for bad debts				
3 Inventories				
4 Federal and State government obligations				
5 Other current assets (attach schedule)				
6 Loans to stockholders				
7 Mortgage and real estate loans				
8 Other investments (attach schedule)				
9 Buildings and other fixed depreciable assets				
a Less accumulated depreciation				
10 Depletable assets				
a Less accumulated depletion				
11 Land (net of any amortization)				
12 Intangible assets (amortizable only)				
a Less accumulated amortization				
13 Other assets (attach schedule)				
14 Total assets				
LIABILITIES AND STOCKHOLDERS' EQUITY				
15 Accounts payable				
16 Mtges., notes, bonds payable in less than 1 year				
17 Other current liabilities (attach schedule)				
18 Loans from stockholders				
19 Mtges., notes, bonds payable in 1 year or more				
20 Other liabilities (attach schedule)				
21 Capital stock: a Preferred stock				
b Common stock				
22 Paid-in or capital surplus				
23 Retained earnings—Appropriated (attach schedule)				
24 Retained earnings—Unappropriated				
25 Less cost of treasury stock		( )		( )
26 Total liabilities and stockholders' equity				

Schedule M-1.—Reconciliation of Income Per Books With Income Per Return. Do not complete this schedule if your total assets (line 14, column (d), above) are less than $25,000.

1 Net income on books		7 Income recorded on books this year not included in this return (itemize)	
2 Federal income tax		a Tax-exempt interest $	
3 Excess of capital losses over capital gains			
4 Income subject to tax not recorded on books this year (itemize)		8 Deductions in this tax return not charged against book income this year (itemize)	
5 Expenses recorded on books this year not deducted in this return (itemize)		a Depreciation . . . $	
a Depreciation . . . $		b Contributions carryover . $	
b Contributions carryover . $		9 Total of lines 7 and 8	
6 Total of lines 1 through 5		10 Income (line 29, page 3)—line 6 less line 9	

Schedule M-2.—Analysis of Unappropriated Retained Earnings Per Books (line 24 above). Do not complete this schedule if your total assets (line 14, column (d), above) are less than $25,000.

1 Balance at beginning of year		5 Distributions: a Cash	
2 Net income on books		b Stock	
3 Other increases (itemize)		c Property	
		6 Other decreases (itemize)	
		7 Total of lines 5 and 6	
4 Total of lines 1, 2, and 3		8 Balance at end of year (line 4 less line 7)	

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1986 Instructions for Form 1120F

Department of the Treasury
Internal Revenue Service

U.S. Income Tax Return of a Foreign Corporation

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

Items You Should Note

The Tax Reform Act of 1986 made several changes to the way corporations compute their taxable income and their income tax. These changes affect calendar year 1986 tax returns, fiscal year 1986–1987 returns, and calendar year 1987 returns. Pages 7, 8, and 9 list these changes by tax year involved. The changes for 1987 are to be used when computing your estimated tax.

Paperwork Reduction Act Notice

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

General Instructions

A. Purpose of Form

Form 1120F is used to report a foreign corporation's income, deductions, credits, and tax to the United States. If a refund is due, Form 1120F may be used to claim it.

B. Filing the Return

1. Who Files Form 1120F.—Except for corporations described in instruction B2, every foreign corporation must file this form if, during the tax year, it did any of the following:

- Had income from any U.S. source.
- Engaged in a trade or business in the U.S., whether or not it had income from that trade or business.
- Had tax preference items, as described in section 57, that affect the corporation's computation of its unrelated business income.
- Overpaid income tax that it wants refunded.

The foreign corporation must file Form 1120F even if its income is tax-exempt under an income tax treaty or Code section.

The Mexican or Canadian branch of a U.S. mutual life insurance company must file Form 1120F on the same basis as a foreign corporation if the U.S. company elects to exclude the branch's income and expenses from its own gross income.

A receiver, assignee, or trustee in dissolution or bankruptcy must file Form 1120F if that person has or holds title to virtually all of a foreign corporation's property or business. Form 1120F is due whether or not the property or business is being operated.

An agent in the U.S. must file the return if the foreign corporation has no office or place of business in the U.S. when due.

Consolidated returns.—A foreign corporation cannot belong to an affiliated group of corporations that files a consolidated return. An exception is made for some Canadian and Mexican subsidiaries maintained solely to own and operate property under Canadian or Mexican law.

2. Who Does Not File Form 1120F.—A foreign corporation does not need to file Form 1120F in any of the following cases:

- It did not engage in a trade or business in the U.S. during the year, and its full U.S. tax was withheld at the source.
- It is a beneficiary of an estate or trust engaged in a trade or business in the U.S., but would itself otherwise not need to file.
- It files **Form 1120L**, U.S. Life Insurance Company Income Tax Return, as a foreign life insurance company or **Form 1120M**, U.S. Mutual Insurance Company Income Tax Return, as a foreign mutual insurance company.
- It has filed **Form 8279**, Election To Be Treated as a FSC or as a Small FSC. These corporations must file **Form 1120–FSC**, U.S. Income Tax Return of a Foreign Sales Corporation.

3. Foreign Governments.—Foreign governments are generally not taxed on investment income from U.S. sources. Income from certain "commercial activities," however, is taxable. For rules, definitions, and examples, please see section 892 and regulations section 1.892–1.

4. Dispositions of U.S. Real Property Interest by a Foreign Corporation.—A foreign corporation that disposes of its U.S. real property interest must treat the gain or loss as income that is effectively connected with a U.S. trade or business, even if the corporation is not otherwise engaged in a U.S. trade or business. This income must be reported in Section II of Form 1120F and must be reflected on **Schedule D (Form 1120)**, Capital Gains and Losses.

If you have had income tax withheld on **Form 8288-A**, Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interests, include the amount withheld as part of line 6g, page 1.

U.S. real property interest.—Generally, U.S. real property interest is an interest in real property located in the United States. See section 897 for further details.

5. When To File.—Corporations that do not maintain an office or place of business in the U.S. have until the 15th day of the 6th month after the end of their tax year to file Form 1120F. They may 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. However, this extension does not extend the time for payment of tax.

Corporations that maintain an office or place of business in the U.S. have until the 15th day of the 3rd month after the end of their tax year to file Form 1120F.

If these corporations elect under regulations section 1.6081–2(a) an automatic 3-month extension of time to file, they are not to use Form 7004. If a 6-month extension is anticipated, these corporations should file Form 7004 by the 15th day of the 3rd month following the close of the tax year. However, this extension does not extend the time for payment of tax.

Period covered.—File the 1986 return for calendar year 1986 and fiscal years that began in 1986 and end in 1987. If the return is for a fiscal year, fill in the tax year space at the top of the form.

Change in accounting period.—To change your accounting period, see regulations section 1.442–1 and **Form 1128**, Application for Change in Accounting Period.

Final return.—If the corporation ceased to exist during the tax year, write "Final return" at the top of the form.

6. Address.—The address used on the return should be the location of the books and records used in the preparation of the return. For foreign corporations engaged in a trade or business in the United States, this will generally be a U.S. address.

7. Where To File.—File Form 1120F with the Internal Revenue Service Center, Philadelphia, PA 19255.

8. Other Forms, Schedules, and Statements That May Be Required.—

(a) Forms. The corporation may also have to file other forms. A partial list includes:

Form 5471.—Information Return with Respect to a Foreign Corporation. This form is filed by certain officers, directors, or U.S. shareholders of certain foreign corporations.

Form 5472.—Information Return of a Foreign Owned Corporation. A foreign corporation that is engaged in a trade or business in the United States and is controlled by a foreign person may have to file Form 5472.

Form 1042S.—Foreign Person's U.S. Source Income Subject to Withholding. This form is used to report income payments that are subject to withholding and the amount of tax withheld.

Form 1042.—Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, is used to report withholding tax and to transmit Form 1042S.

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

Form 1098.—Mortgage Interest Statement, is used to report the receipt from any individual of $600 or more of mortgage interest in the course of the corporation's trade or business for any calendar year.

Forms 1099-DIV, INT, MISC, and R.—Some of the information returns that must be filed to report certain payments, such as dividends and interest. For more information, see Form 1096.

Schedule PH (Form 1120).—Computation of U.S. Personal Holding Company Tax. Attach to Form 1120F if the foreign corporation is a personal holding company (section 542) but not a foreign personal holding company (section 552).

Form 4626.—Computation of Minimum Tax—Corporations. Attach to Form 1120F if the corporation has either more than $10,000 in tax preference items (whether or not it has minimum tax) or minimum tax liability deferred from an earlier year.

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

Form 8264.—Application for Registration of a Tax Shelter. 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. Used by taxpayers who 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 tax return (including an application for tentative refund (Form 1139) and an amended return) on which a deduction, credit, loss, or other tax benefit attributable to a tax shelter is taken.

Form 8300.—Report of Cash Payments Over $10,000 Received in a Trade or Business. Generally, this form is used to report the receipt of more than $10,000 in cash or foreign currency in one transaction (or in a series of related transactions). However, transactions that take place entirely outside the U.S. are not reportable.

(b) Statements.

Transfers to corporation controlled by transferor.—If a person acquires stock or securities of a corporation in exchange for property, and no gain or loss is recognized under section 351, the transferor and transferee must attach the information required by regulations section 1.351–3.

Statement in place of schedules.—If the foreign corporation has no gross income for the tax year, do not complete the Form 1120F schedules. Instead, attach a statement to the return showing what types and amounts of income are excluded from gross income.

(c) Amended return.

To correct an error in a Form 1120F already filed, file an amended Form 1120F and write "Amended" across the top.

(d) Attachments.

Attach **Form 4136**, Computation of Credit for Federal Tax on Gasoline and Special Fuels, after page 6, Form 1120F. Attach schedules in alphabetical order and other forms in numerical order after Form 4136.

In order to process the return, please complete every applicable entry space on Form 1120F. Please do **not** attach statements and write "See attached" in lieu of completing the entry spaces on Form 1120F.

If more space is needed on the forms or schedules, attach separate sheets and show the same information in the same order as on the printed forms. **Be sure to show totals on the printed forms.** Please use sheets that are the same size as the forms and schedules. Attach these separate sheets after all the schedules and forms. Also, put the corporation's employer identification number (EIN) on each sheet.

9. Signature.—The return must be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or any other corporate officer (such as tax officer) authorized to sign.

A receiver, trustee, or assignee must sign and date any return required to be filed on behalf of a corporation.

If a corporate officer filled in Form 1120F, the Paid Preparer's space under the "Signature of officer" should remain blank. If someone prepares Form 1120F and does not charge the corporation, that person should not sign. Certain others who prepare Form 1120F should not sign. For example, a regular, full-time employee such as a clerk, secretary, etc., of the corporation does not have to sign.

Generally, anyone who is paid to prepare Form 1120F 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 lables are not acceptable); and*
- *Give a copy of Forms 1120F to the taxpayer in addition to the copy filed with IRS.*

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

C. Figuring and Paying the Tax

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

Unless the law specifically permits otherwise, the corporation may change from the method of accounting it used to report taxable income in earlier years (for income as a whole or for any material item) only by first getting consent on **Form 3115**, Application for Change in Accounting Method. Also see **Publication 538**, Accounting Periods and Methods.

2. Gross Income.—For purposes of Form 1120F, a foreign corporation is taxed only on its gross income. That includes only:

- Gross income that is derived from sources in the U.S. and that is not effectively connected with the conduct of a trade or business in the U.S. This income is taxed at 30% or a lower treaty rate. Use Section I, page 2, Form 1120F, to report this income and figure the tax on it.
- Gross income, from any source, that is effectively connected with the conduct of a trade or business in the U.S. This income is taxed at regular corporate tax rates. Use Section II, page 3, Form 1120F, to report this income and figure the tax on it.

To determine the source of income, follow sections 861 through 864 and the related regulations, except as tax treaties provide otherwise.

Election to treat real property income as effectively connected income.—If a foreign corporation has income from real property in the U.S. or from an interest in such property, the corporation may elect to treat the income as effectively connected with the conduct of a trade or business in the U.S. Income affected by such an election includes:

- Rents or royalties from mines, wells, or other natural deposits; and
- Gain described in section 631(b) or (c).

To make the election, attach a statement indicating that you are making it when you file Form 1120F for the first year involved. That year and each year the election continues, use Section II to figure the tax on this income. Also attach a schedule each year, as described in regulations section 1.882-2, concerning the property or the interest in the property.

3. Paying the Tax.—

A. Foreign corporations with no office or place of business in the U.S. must pay the tax due in full when they file their tax return, but not later than the 15th day of the 6th month after the end of the tax year.

The tax may be paid by check or money order, payable to the Internal Revenue Service, and sent to the Internal Revenue Service Center, Philadelphia, PA 19255.

Note: *Write the corporation's employer identification number on all payments.*

B. Foreign corporations with an office or place of business in the U.S. must pay the tax due in full when they file their tax return, but not later than the 15th day of the 3rd month after the end of the tax year. Write the corporation's employer identification number on all payments.

Also, foreign corporations with an office or place of business in the U.S. must deposit their income tax payments (and estimated tax payments) with a Federal Tax Deposit Payment Coupon **(Form 8109)**.

Make these tax deposits with a financial institution qualified as a Depositary for Federal taxes or the Federal Reserve Bank or Branch serving 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 Federal tax deposit penalty. Records of deposits will be sent to the IRS for crediting to the corporation's account. See the instructions contained in the coupon book for more information.

To get more deposit coupons, use the reorder form **(Form 8109A)** provided in the coupon book. If the corporation does not have these coupons, it should contact an IRS district office.

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

Backup Withholding

If a person receives certain payments and does not give the payor the correct employer identification number, the payor will withhold taxes from those payments. If this type of withholding was withheld from payments, the corporation should show this amount in the blank space in the right hand column between lines 6 and 7, page 1, and label the amount as backup withholding. The corporation should then include the amount in the total for line 7.

4. Estimated Tax.—A corporation must make estimated tax payments if it can expect its estimated tax (income tax minus credits) to be $40 or more.

Use Form 1120-W (WORKSHEET), Corporation Estimated Tax, as a worksheet to compute estimated tax.

If the corporation overpaid estimated tax, it may be able to get a "quick refund" by filing **Form 4466**, Corporation Application for Quick Refund of Overpayment of Estimated Tax. The overpayment must be both: (1) at least 10% of expected income tax liability, and (2) at least $500. To apply, file Form 4466 within 2½ months after the end of the tax year and before Form 1120F is filed. See pages 8 and 9 for changes that affect estimated tax for 1987.

D. Claim for Refund

If a foreign corporation has only income that is not effectively connected with the conduct of a trade or business in the U.S. and Form 1120F is being used as a claim for refund, include all income from sources in the U.S., even though all tax on it was paid at the source.

If the refund results from withholding tax at the source, attach a statement to Form 1120F. The statement should show:

- The amounts of tax withheld;
- The names and post office addresses of withholding agents;
- The name in which the tax was withheld, if different from the taxpayer's name; and
- If applicable, enough information to show that the taxpayer was entitled to a reduced tax rate under a treaty.

E. Penalties

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

- A corporation that does not file its tax return when due (including any extensions of time for filing) may be subject to a penalty of 5% a month or fraction of a month, up to a maximum of 25%, for each month the return is not filed. (The penalty is imposed on the net amount due.) The minimum penalty for failure to file a tax return within 60 days of the due date (including extensions) is the lesser of the underpayment of tax or $100.
- A corporation that does not pay the tax when due may generally be subject to a penalty of .5% a month 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.)
- A corporation that does not pay the proper estimated tax when due may be subject to an underpayment penalty. To avoid the estimated tax penalty, deposit at least 90% of the corporation's tax liability. See sections 6655(b)(1) and (d)(3).

If the corporation underpaid estimated tax, attach **Form 2220**, Underpayment of Estimated Tax by Corporations, to show how the corporation figured the penalty or which exceptions the corporation believes it meets.

If there is tax due on line 8, page 1, include the penalty in the total. If there is a refund due, subtract the penalty from the overpayment on line 9, page 1.

Penalty for Overstated Tax Deposits.—If deposits are overstated, the corporation may be subject to a penalty. See section 6656(b).

F. Rounding Off

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

G. Overpaid Windfall Profit Tax

A corporation that has overpaid its windfall profit tax may claim a credit on its income tax return. Use **Form 6249**, Computation of Overpaid Windfall Profit Tax, to figure the credit. Include the amount of the credit in the total for line 6e, page 1, Form 1120F and enter the amount of credit in the margin next to line 6e and identify it as "overpaid windfall profit tax."

H. Schedules L, M-1, and M-2

You may limit Schedules L, M-1, and M-2 to:

The corporation's assets in the U.S. and its other assets effectively connected with its trade or business in the U.S.; and

Its income effectively connected with the conduct of a trade or business in the U.S. and its other income from sources in the U.S.

Do not complete Schedules M-1 and M-2 if your total assets at the end of the tax year (line 14, column (d) of Schedule L) are less than $25,000.

Specific Instructions

Section I.—Income From U.S. Sources That Is Not Effectively Connected With the Conduct of a Trade or Business in the U.S.

Any gross income of this kind that a foreign corporation has is taxed at 30% or a lower treaty rate. No deductions are allowed against this income. (Section 881.) A corporation created or organized in Guam is not considered a foreign corporation for purposes of the tax imposed by section 881.

This income includes the following, to the extent it is not effectively connected with the conduct of a trade or business in the U.S.:

1. Interest (other than original issue discount as defined in section 1273 and income described in section 861(c)), dividends, rents, royalties, salaries, wages, premiums, annuities, compensation, and other fixed or determinable periodic income. Certain portfolio interest is not taxable for obligations issued after July 18, 1984. See section 881(c) for more details. For rules regarding income received on original issue discount on obligations issued after March 31, 1972, see section 881(a)(3);

2. Gains described in section 631(b) or (c) from disposal of timber, coal, or domestic iron ore with a retained economic interest;

3. Gains from the sale or exchange of patents, copyrights, and other intangible property described in section 881(a)(4); and

4. For rules regarding bonds or other evidences of indebtedness issued before April 1, 1972, see section 881(a)(3) as it existed before the Tax Reform Act of 1984.

Section II.—Income Effectively Connected With the Conduct of a Trade or Business in the U.S.

Foreign corporations engaged in a trade or business in the U.S. are taxed at regular corporate rates on all the following income:

1. Income, gain, or loss from U.S. sources derived in the conduct of the trade or business.

2. Limited categories of foreign source income.

3. Certain fixed or determinable periodic income from U.S. sources.

4. Gain or loss from U.S. sources from the sale or exchange of capital assets if:

- The income, gain, or loss is from assets used in, or held for use in, the conduct of the corporation's trade or business, or
- The activities of the corporation's trade or business were a material factor in the realization of the income, gain, or loss.

For more information, see section 864(c).

Gains on disposition of stock in an IC-DISC or former DISC and distributions from accumulated DISC income, including deemed distributions, are treated as coming from a trade or business conducted through a permanent establishment in the U.S.

A foreign corporation not engaged in a trade or business in the U.S. will not report income in Section II unless it:

- Elects to treat real property income as effectively connected income;
- Was created or organized and is carrying on a banking business in a U.S. possession, and receives interest on U.S. obligations. In that case, the interest is treated as effectively connected income; or
- Has gain or loss from disposition of interest in U.S. real property.

Income

(Numbered to correspond with the line numbers in Section II of the return.)

In lines 1 through 10, enter gross income (regardless of source) that is effectively connected with the conduct of a trade or business within the U.S.

1. Gross receipts.—Enter gross receipts or sales from all business operations except those that must be reported in lines 4 through 10. For reporting advance payments and long-term contracts, see regulations sections 1.451-3 and 1.451-5.

If the installment method of reporting is used, enter on line 1 the gross profit on collections from installment sales and carry the same amount to line 3. Attach a schedule showing for the current and 3 preceding years: (a) gross sales, (b) cost of goods sold, (c) gross profit, (d) percent of gross profit to gross sales, (e) amount collected, and (f) gross profit on amount collected. Also, see page 8 for new installment sales rules.

2. Cost of goods sold.—See instructions for Schedule A.

4. Dividends.—See instructions for Schedule C.

5. Interest.—Enter interest on U.S. obligations and loans, notes, mortgages, bonds, bank deposits, corporate bonds, tax refunds, etc. Do not offset interest income against interest expense.

6. Gross rents.—Enter the gross amount received for the rent of property. Deduct expenses such as repairs, interest, taxes, and depreciation on the proper lines for deductions.

8. Capital gain net income.—Every sale or exchange of a capital asset must be reported in detail in Schedule D (Form 1120), even though there is no gain or loss.

For purposes of computing the adjustments to the accumulated earnings tax under section 535(b)(5), foreign corporations must only include capital gains and losses that are effectively connected with a trade or business in the U.S. This new rule is effective for capital gains and losses realized after February 28, 1986.

If the net long-term capital gain is more than the net short-term capital loss, or if there is only a net long-term capital gain, compute the alternative tax on Schedule D (Form 1120) to see if it produces a smaller tax.

9. Net gain or (loss).—Enter the net gain or loss from line 17, Part II, **Form 4797**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions.

10. Other income.—Enter any other taxable income not listed above and explain its nature on an attached schedule. Examples of other income would be recoveries of bad debts deducted in earlier years under the specific charge-off method and refunds of taxes deducted in earlier years. Do not offset current year's taxes with tax refunds.

If other income consists of only one item, explain what it is in parentheses on line 10.

Deductions

In computing the taxable income of a foreign corporation engaged in a trade or business within the U.S., deductions are allowed only to the extent that they are connected with income that is effectively connected with the conduct of a trade or business within the U.S. Charitable contributions, however, may be deducted whether or not they are so connected. See regulations under sections 861 through 864, and 881 through 883 for allocation of deductions.

Limitations on deductions.—

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

2. Tax preference items. Corporations may be required to reduce the following tax preference items in the following manner:

a) Depletion of iron ore and coal (including lignite) by 15%;

b) Section 1250 capital gain by 20%;

c) Amortizable basis of pollution control facilities by 20%;

d) Intangible drilling, and exploration and development costs by 20% (30% for costs paid or incurred after 1986); and

e) Bad debt deductions for financial institutions by 20%.

3. Real property construction period interest and taxes. For construction started after 1982, no deduction (except as allowed under section 189(d)) shall be allowed for real property construction period interest and taxes. Section 189 has been repealed for costs incurred after 1986.

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

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

12. Compensation of officers.—Enter on line 12 the total compensation of officers.

Complete Schedule E only if your total receipts (line 1a plus lines 4 through 10, of Section II, page 3) are $150,000 or more. Complete Schedule E for all officers.

13. Salaries and wages.—Enter on line 13a the total salaries and wages paid or incurred for the tax year. Do not include salaries and wages deducted elsewhere on the return, such as contributions to a Simplified Employee Pension, which are deducted on line 25.

Caution: If you provide taxable fringe benefits to your employees, such as personal use of a car, do not deduct as wages the amount allocated for depreciation and other expenses that you claimed on lines 20 and 27.

Enter on line 13b the amount of jobs credit from **Form 5884**, Jobs Credit, determined without regard to the limitation on tax.

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

15. Bad debts.—Bad debts may be treated in either of two ways: (1) as a deduction for specific debts that become worthless in whole or in part, or (2) as a deduction for a reasonable addition to a reserve for bad debts. (Section 166.) Financial institutions should see section 291 for the limitation on the amount that they may deduct.

See page 9 for limitation on who may use the reserve method for bad debts.

17. Taxes.—Enter taxes paid or accrued during the tax year.

Do not include Federal income tax; foreign or U.S. possession income tax if a foreign tax credit is claimed; or taxes not imposed upon the corporation.

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

See section 906(b)(1) for rules concerning certain foreign taxes imposed on income from U.S. sources that may not be deducted.

18. Interest.—See section 1277 for rules on the deferral of the interest deduction that is allocable to accrued market discount on bonds acquired after July 18, 1984, and section 1282 for rules on the deferral of the interest deduction allocable to the accrued discount on certain short-term obligations acquired after July 18, 1984.

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

Generally, a cash basis taxpayer cannot deduct prepaid interest allocable to years after the current tax year. For example, a cash basis taxpayer, who in 1986 prepaid interest allocable to any period after 1986, can only deduct the amount allocable to 1986. Please see **Publication 545**, Interest Expense.

Generally, the interest and carrying charges as to straddles are not deductible. See section 263(g).

19. Contributions.—Enter contributions or gifts actually paid within the tax year to, or for the use of, charitable and governmental organizations described in section 170(c), and any unused contributions carried over from earlier years.

The total amount claimed may not exceed 10% of taxable income (line 31) computed without regard to the following: (1) any deduction for contributions, (2) the special deductions in line 30b, (3) deductions allowed under sections 249 and 250, (4) any net operating loss carryback to the tax year under section 172, and (5) any capital loss carryback to the tax year under section 1212(a)(1).

Charitable contributions over the 10% limitation may not be deducted for the tax year but may be carried over to the next 5 tax years. A contribution carryover is not allowed, however, to the extent that it increases a net operating loss carryover. See section 170(d)(2)(B).

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

If a contribution is in property other than money and the total claimed value of all property contributed is more than $500, corporations (other than closely held and personal service corporations) shall attach a schedule describing the kind of property contributed and the method used in determining its fair market value.

Closely held corporations and personal service corporations must complete **Form 8283**, Noncash Charitable Contributions, and attach it to Form 1120F.

If you made a "qualified conservation contribution" under section 170(h), also include the fair market value of the underlying property before and after the donation, the type of legal interest contributed, and describe the conservation purpose furthered by the donation.

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

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

(1) the ordinary income, short-term capital gain, and

(2) for certain contributions made in tax years beginning in 1986, 60.87% of the long-term capital gain,

that would have resulted if the property were sold at its fair market value. The reduction for 60.87% of the long-term capital gain applies to (1) contributions of tangible personal property for use by an exempt organization for a purpose or function unrelated to the basis for its exemption, and (2) contributions of any property to or for the use of certain private foundations. (See section 170(e) and regulations section 1.170A-4.)

For special rules regarding the contribution of inventory and other property to certain organizations, see section 170 (e)(3) and regulations section 1.170A-4A.

A corporation (other than a personal holding company or a service organization) can receive a larger deduction for contributing scientific property used for research to an institution of higher education. For further information, see section 170(e).

20. Depreciation.—Besides depreciation, include in line 20 the part of the cost (up to $5,000 ($10,000 for property placed in service after 1986)) that the corporation may elect to expense under section 179. See the instructions for Form 4562. See page 8 for new rules on property placed in service after 1986 and an election to apply the new rules to property placed in service after July 31, 1986.

23. Depletion.—See section 613 and 613A for percentage depletion rates applicable to natural deposits.

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

25. Pension, profit-sharing, etc., plans.—Employers who maintain a pension, profit-sharing, or other funded deferred compensation plan, whether or not qualified under the Code and whether or not a deduction is claimed for the current tax year, generally are required to file one of the forms described below. There are penalties for failure to timely file these forms.

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

Form 5500-C or 5500-R.—Complete the applicable form for each plan with fewer than 100 participants.

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

In addition, there is a new penalty for overstating the pension plan deduction for returns filed after October 22, 1986. For more information, see new section 6659A.

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

27. Other deductions.—Generally, a deduction may not be taken for any amount allocable to a class of exempt income including income exempt by tax treaty. Items directly attributable to wholly exempt income must be allocated to exempt income. Items directly attributable to any class of taxable income must be allocated to taxable income.

If an item is indirectly attributable both to taxable income and exempt income, allocate a reasonable portion of the item to each class of income. Make the allocation in light of all the facts involved.

Attach a statement showing (1) each class of exempt income and (2) the expense items allocated to each class. Show separately the amount allocated by apportionment.

A corporation may deduct dividends it pays in cash on stock held by an employee stock ownership plan that the corporation maintains. However, a deduction may only be taken if the dividends are:

1. Paid directly in cash to the plan participants; or
2. Paid to the plan, which distributes them in cash to the plan participants, no later than 90 days after the end of the plan year in which the dividends are paid. (See section 404(k).)

Generally, deduct all ordinary and necessary travel and entertainment expenses paid or incurred in your trade or business. However, do not 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:** *You may be able to deduct the expense if the amount is treated as compensation and reported on **Form W-2,** Wage and Tax Statement, for an employee or **Form 1099–MISC,** Statement for Recipients of Miscellaneous Income, for an independent contractor.) See **Publication 463,** Travel, Entertainment, and Gift Expenses, for more details.*

Note: *Do not deduct penalties imposed on corporations such as those included in General Instruction E.*

29. Taxable income before NOL deduction and special deductions.—Special "at-risk" rules under section 465 generally apply to personal service corporations (as determined under section 269A(b)(1), but using a 5% test) and personal holding companies engaged in any activity as a trade or business or for the production of income. Such corporations may have to adjust the amount on line 29. However, the at-risk rules do not apply to; (1) holding real property other than mineral property; (2) equipment leasing under section 465(c)(4), (5), and (6); and (3) any qualifying business of a qualified corporation described in section 465(c)(7).

Real property placed in service in tax years beginning after 1986 is subject to the at-risk provisions.

Personal services corporation.—Adjust the amount on line 29 for section 465(d) losses. These losses are limited to the amount for which such a corporation is at risk for each separate activity at the close of the tax year.

A corporation involved in more than one activity that incurs a loss for the year, should report each loss separately and file **Form 6198,** Computation of Deductible Loss From an Activity Described in Section 465(c), for each "at-risk" activity.

If the corporation sells or otherwise disposes of an asset; or its interest (either total or partial) in an activity to which the "at-risk" rules apply, determine the net profit or loss from the activity by combining the gain or loss on the sale or disposition with the profit or loss from the activity. If the corporation has a net loss, it may be limited because of the at-risk rules.

Treat any loss from an activity not allowed for the tax year as a deduction allocable to the activity in the next tax year.

Personal holding companies.—For the amount to be entered on line 29 of Form 1120F, see Schedule PH (Form 1120) regarding section 465 losses.

30a. Net operating loss deduction.—The net operating loss deduction is the sum of the net operating loss carryovers and carrybacks to the tax year. (Section 172(a).)

Generally, a corporation may carry a net operating loss back to each of 3 years before the year of the loss and a carryover to each of the 15 years after the year of loss.

The corporation may also elect to carryover the loss just to each of the 15 years after the year of loss. The election is made by attaching a statement to a timely filed return, including extensions. The election is irrevocable.

The corporation may carryback 10 years the part of the net operating loss attributable to product liability losses. (See section 172(b)(1)(1)). See regulations section 1.172-13(c) for the required statement that must be attached to Form 1120F when claiming the 10 year carryback on product liability loss. The election may be made by attaching a statement to a timely filed return, including extensions. The election is irrevocable.

After applying the net operating loss to the first tax year to which it may be carried, the part of the loss you may carry to each of the remaining tax years is any excess of loss over the sum of the taxable income for each of the earlier tax years to which the corporation may carry the loss. (Section 172(b).)

If there is a carryback of a net operating loss, a net capital loss, or an unused credit, file **Form 1139,** Corporation Application for Tentative Refund, within 12 months after the end of the tax year for a quick refund of tax. (Section 6411.)

See section 172 for special rules, limitations, and definitions pertaining to net operating loss carrybacks and carryovers. Also see **Publication 536,** Net Operating Losses and the At-Risk Limits.

30b. Special deductions.—See instructions for Schedule C.

Schedule A—Cost of Goods Sold and/or Operations

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 of Internal Revenue, that conforms to the applicable regulations cited below.

Taxpayers using erroneous valuation methods should file Form 3115 to change to a method permitted for Federal income tax purposes. For further details, see regulations section 1.446–1(e)(3) and Rev. Proc. 84–74, 1984–2 C.B. 738:

Line 8.—In line 8a, check the method(s) used for valuing inventories. Under lower of cost or market, market generally applies to normal market conditions when a current bid price prevails 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. See regulations section 1.471–4.

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) if such a price can be established. See regulations section 1.471–2(c) for more 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, attach **Form 970,** Application To Use LIFO Inventory Method, or a statement with the information required by Form 970. Also check the LIFO box in line 8b. Enter the amount or percent of total closing inventories covered under section 472 in line 8c. Estimates are acceptable.

If the corporation changed or extended its inventory method to LIFO and had to "writeup" opening inventory to cost in the year of election, report the effect of this writeup as income in Section II, line 10, page 3, proportionately over a 3-year period that begins in the tax year the election was first made. (See section 472(d).)

Full absorption method of inventory costing.—For a corporation engaged in manufacturing or production operations, use the full absorption method of inventory costing. If the corporation is not using the full absorption method of inventory costing, it must change to it. Under this method both direct and certain indirect production costs are included for inventory value purposes. Change to full absorption by filing Form 3115. For more details, see Rev. Proc. 75-40, 1975-2 C.B. 571 and regulations section 1.471-11; and Rev. Rul. 81-272, 1981-2 C.B. 116.

Schedule C—Dividends and Special Deductions

(Line references are to the lines in Schedule C.)

Column (a) Instructions

Line 1. Enter dividends received from domestic corporations subject to income tax and the deduction under section 243(a)(1) and certain dividends received from Federal Home Loan Banks (section 246(a)(2)). For dividends received from a regulated investment company, see section 854 for the amount subject to the section 243(a) deduction.

Include on this line taxable distributions received from an IC–DISC or former DISC that are designated as being eligible for the section 243(a) dividends-received deduction.

So-called dividends or earnings received from mutual savings banks, etc., are really interest: Do not treat them as dividends.

Do not enter on this line any dividends received on "debt-financed" domestic stock acquired after July 18, 1984. "Debt-financed" stock is stock that the corporation incurred a debt in acquiring. Dividends from debt-financed stock of foreign corporations are also subject to the same rules as debt-financed stock of domestic corporations for stock of foreign corporations acquired after July 18, 1984.

Line 2. Enter dividends that would have been eligible for the section 243(a) deduction except that they are from "debt-financed" stock acquired after July 18, 1984. Also enter dividends on foreign corporation stock acquired after July 18, 1984, that is also debt-financed.

Line 3. Enter dividends received on the preferred stock of a public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

Line 4. Enter dividends that are received from foreign corporations and certain FSCs and that qualify for the deduction provided in section 245(a).

Line 7. Enter all other dividends received from foreign corporations that do not qualify for a dividends-received deduction.

Line 8. If the corporation claims the foreign tax credit, the tax that is deemed paid under section 902(a) (relating to credit for a corporate stockholder in a foreign corporation) must be treated as a dividend received from the foreign corporation. (See section 906(b)(4).)

Line 9. Enter taxable distributions from an IC–DISC or former DISC that are designated as not being eligible for the dividends–received deduction. See sections 246(d), 995(b), and 996(a)(3).

Line 10. Include dividends (other than capital gain dividends and exempt interest dividends) received from regulated investment companies that do not qualify for the section 243(a) deduction; dividends from tax-exempt organizations; dividends (other than capital gain dividends) received from a real estate investment trust that, for the tax year of the trust in which the dividends are paid, qualifies under sections 856–860; dividends not eligible for a dividends-received deduction because of the holding period of the stock or an obligation to make corresponding payments with respect to similar stock; and any other taxable dividend income not properly reported above (including distributions under section 934(e)(3) or 936(h)(4)).

Line 1, columns (b) and (c)

The dividends-received deduction percentage for dividends received before January 1, 1987, is 85%. Those dividends received after 1986 are entitled to an 80% deduction. For dividends received in each period, multiply the dividends received by the proper percentage to determine the correct dividends-received deduction.

A small business investment company operating under the Small Business Investment Act of 1958 may deduct 100% of dividends received from domestic corporations subject to income tax: (Section 243(a)(2)).

Line 2, columns (b) and (c)

The dividends-received deduction for dividends received on debt-financed stock is explained in section 246A. This section also applies to dividends received from debt-financed stock of foreign corporations acquired after July 18, 1984. The percentage for computing the dividends-received deduction for debt-financed stock under section 246A(a)(1) is 85% for dividends received before January 1, 1987, and 80% for dividends received after December 31, 1986.

Line 3, columns (b) and (c)

Dividends on certain preferred stock of public utilities are entitled to a dividends-received deduction percentage of 59.13% if they are received before January 1, 1987. For dividends on certain preferred stock of public utilities received after December 31, 1986, but before July 1, 1987, the dividends-received deduction percentage is 55.652%. For these dividends received after June 30, 1987, the dividends-received deduction percentage is 47.059%.

Multiply the dividends received in each period by the proper percentage to determine the correct dividends-received deduction.

Line 4, columns (b) and (c)

The dividends-received deduction percentage for dividends received from foreign corporations entitled to the dividends-received deduction under section 245(a) is 85% for dividends received before January 1, 1987. The dividends-received deduction percentage for those dividends received after December 31, 1986, is 80%.

Multiply the dividends received in each period by the proper percentage to determine the correct dividends-received deduction.

Attach a schedule showing how you have computed the amount of allowable deduction for each share or block of shares that were "debt-financed."

Column (c) Instructions

Exclusion of certain dividends.—In general, no dividends-received deduction will be allowed on any share of stock (a) if the corporation held it 45 days or less (see section 246(c)(1)(A)), or (b) to the extent the corporation is under an obligation to make corresponding payments for substantially identical stock or other securities.

No dividends-received deduction is allowed under section 243 for a dividend from an IC–DISC or former DISC to the extent the dividend is paid out of the corporation's accumulated DISC income, previously taxed income, or is a deemed distribution under section 995(b)(1).

Line 5. Limitation on dividends-received deduction.—Line 5 may not be more than 85% of line 29, page 3. For this purpose compute line 29, page 3, without regard to any adjustment under section 1059 and any capital loss carryback to the tax year under section 1212(a)(1).

In a year in which a net operating loss occurs, this 85% limit does not apply even if the loss is created by the dividends-received deduction. (See sections 172(d) and 246(b).)

Line 6. Deduction for dividends paid on certain preferred stock of public utilities.—Section 247 allows public utilties a deduction of 30.435% (for dividends paid before July 1, 1987) OR 41.178% (for dividends paid after June 30, 1987) of the lesser of:

1. Dividends paid on their preferred stock during the tax year, or
2. Taxable income computed without regard to this deduction.

In a year in which a net operating loss occurs, compute the deduction without regard to section 247(a)(1)(B). (See section 172(d).)

Schedule J—Tax Computation

Note: *Fiscal year corporations, see page 10 for tax computation.*

A corporation that is not a member of a controlled group (these members should see lines 1 and 2 below) will compute the tax on its taxable income as follows:

If the amount on line 31, page 3, Form 1120F is: Over—	But not over—	Enter on Schedule J, line 3:	Of the amount over—
0	$25,000	15%	0
$25,000	50,000	$3,750 + 18%	$25,000
50,000	75,000	8,250 + 30%	50,000
75,000	100,000	15,750 + 40%	75,000
100,000	------	25,750 + 46%	100,000
Additional tax			see instructions below

Additional Tax.—If the corporation has taxable income of more than $1,000,000, an additional tax is imposed on the corporation. The tax is the lesser of: 1) 5% of the taxable income over $1,000,000 or 2) $20,250.

If the alternative tax does not apply, enter on line 3 of Schedule J, the amount computed above. If the alternative tax applies, see Schedule D (Form 1120).

(Personal holding companies—see Schedule PH (Form 1120) before completing Schedule J.)

Lines 1 and 2.—Members of a controlled group, as defined in section 1563, are entitled to only the amount in each taxable income bracket.

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

Equal Apportionment Plan. If no apportionment plan is adopted, the members of the controlled group must divide the amount in each taxable income bracket equally among themselves. If all members of the controlled group are included in the consolidated return and all their tax years end before July 1, 1987, enter $25,000 in the four taxable income brackets in line 2a. If all members of the controlled group are included in the consolidated return and all their tax years end after June 30, 1987, enter $25,000 in the four taxable income brackets in line 2a and also enter $50,000 in the first taxable income bracket and $25,000 in the second taxable income bracket on line 2b.

Unequal Apportionment Plan. Members of a controlled group may elect an unequal apportionment plan and divide the amount in each taxable income bracket as they wish. There is no need for consistency among taxable income brackets. Any member of the controlled group may be entitled to all, some, or none of the amount in a taxable income bracket. (But the total amount for all members of the controlled group cannot be more than the total amount in any taxable income bracket.) Each member of a controlled group having a calendar year must figure the tax as follows:

1. Enter taxable income (line 31, page 3) . . . . ______
2. Enter line 1 or the corporation's portion of the first $25,000 taxable income bracket, whichever is less . . . . . ______
3. Subtract line 2 from line 1 . . . ______
4. Enter line 3 or the corporation's portion of the second $25,000 taxable income bracket, whichever is less . . . . . ______
5. Subtract line 4 from line 3 . . . ______
6. Enter line 5 or the corporation's portion of the third $25,000 taxable income bracket, whichever is less . . . . . ______
7. Subtract line 6 from line 5 . . . ______
8. Enter line 7 or the corporation's portion of the fourth $25,000 taxable income bracket, whichever is less . . . . . ______
9. Subtract line 8 from line 7 . . . ______
10. 15% of line 2 . . . . . . ______
11. 18% of line 4 . . . . . . ______
12. 30% of line 6 . . . . . . ______
13. 40% of line 8 . . . . . . ______
14. 46% of line 9 . . . . . . ______
15. Additional tax (see below) . . . ______
16. Total of lines 10 through 15. Enter this amount on line 3 of Schedule J . . . . ______

Additional tax (line 15).—If the corporation is a member of a controlled group and the controlled group has taxable income of more than $1,000,000, an additional tax is imposed on the corporation. The tax is the lesser of 1) 5% of the taxable income of the controlled group over $1,000,000, or 2) $20,250. The corporation pays its additional tax based on its share of each taxable income bracket, and enters this amount on line 15. If the controlled group has a tax year that includes July 1, 1987, see the instructions for fiscal year corporations, page 11, to compute the additional tax in Schedule B of the worksheets.

Note: *If the alternative tax applies, calendar year corporations should do the following:*

(1) Complete lines 1 and 2 of Schedule J,

(2) On line 1 above, instead of entering amount from line 31, page 3, Form 1120F, enter amount from line 14, Schedule D, Form 1120,

(3) Complete lines 2 through 16 above, and

(4) Enter the amount from line 16 above on line 15 of Schedule D and complete balance of Schedule D.

Line 4a. Foreign tax credit.—A foreign corporation engaged in a trade or business within the U.S. can take a credit for income, war profits, and excess profits taxes paid, accrued, or deemed paid to any foreign country or U.S. possession during the tax year. This credit applies to income effectively connected with the conduct of a trade or business within the U.S. See sections 901, 902, 906, and **Form 1118**, Computation of Foreign Tax Credit— Corporations.

Line 4b. Credit for fuel produced from a nonconventional source.—A credit is allowed for the sale of qualified fuels produced from a nonconventional source. Section 29 contains a definition of qualified fuels, and provisions for figuring the credit. Attach a separate schedule showing the computation of the credit.

Line 4c. Orphan drug credit.—See section 28 and **Form 6765**, Credit for Increasing Research Activities (or for claiming the orphan drug credit).

Line 4d. General business credit.—See **Form 3800**, General Business Credit, for rules that apply when claiming this credit, which encompasses: the investment credit, **(Form 3468)**; jobs credit, **(Form 5884)**; alcohol fuel credit, **(Form 6478)**; and the employee stock ownership plan credit **(Form 8007)**. However, payments made to employee stock ownership plans after 1986 may not be used in computing the credit. The credit for increasing research activities **(Form 6765)** is now part of the general business credit for tax years beginning after 1985. Also, a new low income housing credit is part of the general business credit for expenditures made after 1986. See section 42 and **Form 8586**, Low-Income Housing Credit.

Line 7. Tax from recomputing a prior year investment credit.—If property is disposed of or ceases to be qualified property before the end of the life-years category used in computing the regular or energy investment credit, there may be a recapture of the investment credit. (See **Form 4255**, Recapture of Investment Credit.)

Tax Reform Act of 1986

The Tax Reform Act of 1986 made several changes that affect corporations. Some of the changes are effective starting with calendar year 1986 tax returns; some are effective starting with fiscal year 1986–1987 tax returns; and some are effective starting with calendar year 1987 tax returns. The 1987 changes are highlighted for purposes of computing estimated taxes.

Tax Changes Taking Effect Beginning in 1986

Business Energy Investment Tax Credits Extended

The business energy investment tax credit for solar, geothermal, ocean thermal, biomass, and wind property has been extended for tax years beginning after 1985. See **Form 3468**, Computation of Investment Credit, and section 46(b)(2) for applicable rules.

Regular Investment Tax Credit Repealed

For property placed in service after 1985, the regular investment tax credit has been repealed. However, carryovers of the investment tax credit to years beginning in 1986 are allowed in full. See new section 49 and Form 3468.

Tax Credit for Increasing Research Expenditures Extended

The tax credit for increasing expenditures has been extended for 3 more tax years and new rules apply to the computation. Additionally, the credit is part of the general business tax credit for tax years beginning after 1985. See section 41 and **Form 6765**, Credit for Increasing Research Activities (or claiming the orphan drug credit).

Targeted Jobs Credit Extended

The jobs credit for hiring members of certain targeted groups has been extended

and modified. For employees hired after 1985, you may claim a credit for only the first-year wages paid to the employee. See Form 5884 and section 51 for more information.

General Business Credit Reduced

For tax years beginning after 1985, the maximum amount of tax liability against which the general business tax credit can be applied is reduced to 75%. Formerly, the business tax credit could be applied to 85% of tax liability. See section 38.

Long-Term Contracts

For long-term contracts entered into after February 28, 1986, all costs (including research and experimental costs attributable to the contract) must be allocated to the contract and taken into account using the method set forth in section 460. Expenses for unsuccessful bids and proposals and marketing, selling, and advertising are not considered attributable to long-term contracts. Production period interest expense attributable to long-term contracts is to be capitalized under the rules of new code section 263A. For more rules, definitions, and exceptions, see section 460.

Deduction for Removing Barriers to the Handicapped Extended

The election to deduct expenses for the removal of architectural barriers to the handicapped and elderly was scheduled to expire on December 31, 1985. It has been permanently extended.

Asset Allocation Rules

New asset allocation rules apply in certain cases of asset acquisitions, and generally are effective for transfers made after May 6, 1986. In addition, there are reporting rules when these transfers take place. See new section 1060 for more information.

Income of Foreign Governments and International Organizations

Income of foreign governments and international organizations from investments, stock, bonds, or other securities, or interest on banks accounts in the U.S., or financial instruments used in governmental policy are not subject to U.S. taxation. However, income from commercial activities and income from controlled commercial entities is subject to U.S. taxation after June 30, 1986. In addition, these types of income are subject to withholding after October 22, 1986. For more information, see section 892.

Increase in Penalty for Failure To File Information Returns

For returns due after December 31, 1986, the maximum penalty for failure to file information returns has been increased. A new penalty of $5 for supplying incorrect information has also been added. For more information, see sections 6652, 6676, 6678, and new sections 6721 through 6724.

The Following Provisions Begin in 1987 and Affect Fiscal 1986–1987 Tax Years

Reduction in Corporate Tax Rates

Effective July 1, 1987, tax rates for corporations are reduced. The new tax rates are: 15% of the first $50,000 of taxable income; 25% of the next $25,000 of taxable income; and 34% for any amount of taxable income over $75,000. An additional tax applies to taxable income over $100,000. The tax is the lesser of 5% of the excess over $100,000 or $11,750.

See page 10 for fiscal year tax computation.

Reduction in Dividends-Received Deduction

The dividends-received deduction for dividends received from certain corporations has been reduced for dividends received after 1986. The new percentage is 80%; the previous percentage was 85%. See sections 243, 244, and 246A.

Foreign Intangible Drilling, Mining, and Development Costs

Foreign intangible drilling and development costs paid or incurred after 1986 must either be deducted ratably over a 10 year period or added to the corporation's basis for cost depletion purposes. See sections 263(i), 616, and 617 for more information.

Certain Costs Required To Be Capitalized or Included in Inventory Costs

New code section 263A requires that certain costs incurred in the production of real and intangible property produced by the taxpayer be capitalized or included in inventory costs, rather than deducted. Generally, the changes affecting inventory are effective for tax years beginning after 1986 and the changes affecting capitalization are effective for tax years ending after 1986. Please see new section 263A.

New Low-Income Housing Credit

A new low-income housing credit applies for expenditures made after 1986 that add to a corporation's qualified basis in low-income housing. See Form 8586 and section 42 for rules and computations.

Investment Tax Credit for Rehabilitation Expenditures

An investment tax credit will be allowed for qualified rehabilitation expenditures made after 1986. See section 46 and Form 3468.

Amortization of Trademark and Trade Name Expenditures

Generally, trademark and trade name expenditures made after 1986 will no longer be amortizable.

Depreciation

The rules for computing depreciation have been substantially changed for property placed in service after 1986. The new system provides specific methods for each class of assets. See **Form 4562-A**, Depreciation of Property Placed in Service After December 31, 1986, and section 168.

Also, corporations may make an election to use these new rules for property placed in service after July 31, 1986. Additionally, the section 179 deduction for property placed in service after 1986 is increased from $5,000 to $10,000.

"At-Risk" Rules To Apply to Real Property

The "at-risk" rules of section 465 apply to real property acquired after 1986. For more information, see section 465 and **Form 6198**, Computation of Deductible Loss From an Activity Described in Section 465(c).

Repeal of ESOP Credit

The credit for contributions to an employee stock ownership plan (ESOP) has been repealed for compensation paid or accrued after December 31, 1986.

Gain or Loss on Distributions in Complete Liquidation

Generally, corporations will recognize gain or loss on distributions of their property in complete liquidations as if they had sold the property at its fair market value. These new rules apply to liquidations completed after December 31, 1986. See sections 336 and 337.

Installment Sales

The installment method has been revised for certain sales or dispositions made after February 28, 1986, for tax years that end after 1986. These new rules generally apply to dispositions of: 1. personal property by a corporation that usually sells that type of personal property on the installment method, and 2. real property that is held by the taxpayer for sale to customers made in the ordinary course of the taxpayer's trade or business. For more information, including new rules for members of an affiliated group, see section 453C.

Source Rules for Personal Property

Income from the sale of personal property will generally be sourced in the U.S. if the seller is a U.S. person, or outside the U.S. if the seller is not a resident of the U.S. In addition, the source rules for certain intangible property under section 871(e) have been repealed. These new rules are generally effective for tax years beginning after 1986. However, foreign persons must use these new rules for transfers made after March 18, 1986, as long as the foreign person is not a controlled foreign corporation. See section 865 for exceptions, definitions, and more information.

New Rules for 80-20 Corporations

Interest income of an 80-20 corporation will be considered foreign sourced only if the corporation shows to the satisfaction of the Secretary that it has met the 80% active foreign business requirement during the testing period. Active foreign business income is income that is derived from sources outside the U.S and that is attributable to the active conduct of a trade or business in a foreign country or U.S. possession. The testing period is the three years ending with the close of the tax year preceding the year of payment. If the corporation has no income during the 3 year period (or part thereof), the testing period is the tax year in which payment is made. Generally, these new rules are effective for payments made after 1986. For more information, including exceptions, and withholding rules, see section 1214 of the Tax Reform Act of 1986.

Basis of Property and Inventory Costs for Property Imported By a Related Person

If property is imported into the U.S. by a related person after March 18, 1986, and the property has a customs value, the basis or inventory cost to the importer cannot exceed the customs value. For more information, see section 1059A.

Limitation on Net Operating Loss Carryovers

The amount of net operating loss carryover is limited when there has been a change in ownership or equity for net operating losses incurred after 1986. The limitation is described in section 382(b) and applies generally when a 5% shareholder or group of 5% shareholders increases its ownership in a corporation by more than 50 percentage points. For more information, see section 382.

Limitation on Certain Excess Credits

Certain ownership changes occurring after 1986 will result in the amount of the following excess credits being limited for subsequent years: the unused general business credit, any unused minimum tax credit, and any capital loss carryover. The foreign tax credit carryover is also limited in these situations. For more information, see section 383.

The Following Provisions Affect Calendar Year 1987 Tax Returns

Reserve Method for Bad Debts

For tax years beginning after 1986, only certain financial institutions will be able to use the reserve method of computing bad debts. All other taxpayers must use the specific charge-off for computing bad debts. Additionally, corporations who may not use the reserve method will have to recover any amount in the reserve as income ratably over a four year period.

Also, for tax years beginning after 1986, section 586, reserve for losses on loans of small business corporation, etc., has been repealed.

For additional information, see section 166.

Alternative Tax for Fiscal Year Corporation

Generally, the alternative tax has been repealed for tax years beginning after 1986. However, a transitional rule allows fiscal year corporations to compute the alternative tax. The alternative tax computation for fiscal year corporations is the sum of (a) 28% of the lesser of: the net capital gain determined by taking into account only gain and loss for the portion of the tax year before January 1, 1987, or the net capital gain for the tax year, plus (b) 34% of the excess of the net capital gain for the tax year over the amount of net capital gain taken into account in (a) above.

Real Estate Mortgage Investment Conduits

For tax years beginning after 1986, new code section 860A requires that real estate mortgage investment conduits (REMICs) allocate their income to their interest holders. REMICs may take the form of a corporation, partnership, or trust. See section 860A through 860G for rules, definitions, and other information.

Revolving Credit Sales

For tax years beginning after 1986, corporations who sell personal property on a revolving credit plan will not be permitted to account for such sales on the installment method. Any adjustment resulting from the corporation not being able to use the installment method will be treated as a change in method of accounting for the first tax year beginning after December 31, 1986, and the period for taking into account adjustments under section 481 shall not exceed 4 years. This change in method of accounting will be treated as initiated by the taxpayer and as having been made with the consent of the Secretary. See sections 453 and 453A for more information.

Source of Transportation Income

Generally, transportation income that begins or ends in the U.S. will be considered 50% sourced in the U.S. and 50% sourced outside of the U.S. This rule is effective for tax years beginning after 1986. For more information, see section 863(c)(2).

Regulated Investment Companies

Regulated investment companies are subject to a 4% excise tax for tax years beginning after 1986. For more information, see new code section 4982.

Cooperative Housing Corporations

For tax years beginning after 1986, corporations, trusts, and other nonindividual persons may be tenant-stockholders in a cooperative housing corporation. Additionally, the method for computing the tenant-stockholder's interest and taxes is changed for tax years beginning after 1986. The new method uses the cost of the property as the basis for computing the tenant-stockholders interest and taxes. See section 216.

Minimum Tax

For tax years beginning in 1987, the add-on minimum tax will be replaced by an alternative minimum tax based on alternative minimum taxable income. A corporation will have to compute its tax under the regular system and under the minimum tax provisions. See 1987 Form 1120W and sections 55 through 59 for more information.

Certain Entities Required To Use the Accrual Method of Accounting

Generally, C corporations, partnerships with C corporations as partners, tax-exempt entities with unrelated business income, and tax shelters are prohibited from using the cash method of accounting for tax years beginning after 1986.

Meals, Travel, and Entertainment Expenses

For tax years beginning after 1986, many of the rules on what are allowable expenses for meals, entertainment, and travel, and certain other business expenses have been changed. See section 274.

Meals and entertainment. The amount deductible for meals and entertainment expenses is generally limited to 80% of the allowable expenses. In addition, meals must have a clear business purpose; there must be a bona fide business discussion preceding or directly following the meal; and your employee must be present at the meal. If the corporation claims a deduction for unallowable meal expenses, it may have to pay a penalty.

Limits on Losses and Credits From Passive Activities of Personal Service Corporations and Closely Held Corporations

For tax years beginning after 1986, losses from passive trade or business activities generally may not offset active business income. Credits from passive activities generally are limited to tax allocable to the passive activities. See section 469 for more detailed information.

Reporting of Tax-Exempt Interest

For tax years beginning after 1986, any taxpayer required to file a tax return must report, as an item of information, on that return the amount of the tax-exempt interest received or accrued during the taxable year.

Taxable Year of Personal Service Corporations

For tax years beginning after 1986, all personal service corporations are required to adopt the calendar year. See section 441.

Gross Transportation Tax

For tax years beginning after 1986, foreign corporations that do not have income effectively connected with the U.S. will be subject to a 4% tax on gross U.S. sourced transportation income. See new code section 887 for rules, definitions, and exceptions.

Branch Level Tax

For tax years beginning after 1986, a 30% tax is imposed on branch profits of foreign corporations. The tax is imposed on the "dividend equivalent" amount. For more information, see section 884.

Certain Deferred Payments and Appreciation Treated as Income Effectively Connected With the U.S.

Any income of a foreign corporation that is attributable to a sale or exchange of property or the performance of service, or in any other transaction received in any tax year, is considered income effectively connected with the U.S. if the original transaction that gives rise to the income was effectively connected with the U.S. For more information, see section 864(c).

Special Rule for Dividends Received From Foreign Corporations (Section 245)

For tax years beginning after 1986, only corporations that own at least 10% (by value and stock) of a foreign corporation are entitled to claim the section 245 dividends-received deduction. To obtain the proper amount of deduction, the 10% owner should see section 245.

For additional information on these changes, see **Publication 553**, Highlights of 1986 Tax Changes.

Fiscal Year Corporation Tax Computation Worksheets

Effective July 1, 1987, the tax rates for corporations were reduced. The new rates are:

1. 15% of the first $50,000 of income;
2. 25% of the next $25,000 of income; and
3. 34% of the excess over $75,000.

Also, an additional tax applies to corporations whose taxable income is more than $100,000. The tax is the lesser of: $11,750 or 5% of taxable income in excess of $100,000.

If the corporation's fiscal tax year includes July 1, 1987, the tax liability shall be computed by completing Schedules A and B of the worksheet below. If the corporation's tax year ends on or before June 30, 1987, only Schedule A must be completed.

In addition, different rules apply for computing the alternative tax on net capital gains for fiscal year corporations that have a tax year that includes January 1, 1987. These rules are explained in the Supplemental Instructions that follow Schedule B.

Schedule A **Tax Computation for Period Before July 1, 1987**

1. Taxable income (line 31, Part II, Form 1120F)
2. Net capital gain from line 10a, Schedule D (Form 1120) if applicable (see instructions)
3. Subtract line 2 from line 1
4. Enter the lesser of line 3 or $25,000 (members of a controlled group, see instructions)
5. Subtract line 4 from line 3
6. Enter the lesser of line 5 or $25,000 (members of a controlled group, see instructions)
7. Subtract line 6 from line 5
8. Enter the lesser of line 7 or $25,000 (members of a controlled group, see instructions)
9. Subtract line 8 from line 7
10. Enter the lesser of line 9 or $25,000 (members of a controlled group, see instructions)
11. Subtract line 10 from line 9
12. Multiply line 4 times 15%
13. Multiply line 6 times 18%
14. Multiply line 8 times 30%
15. Multiply line 10 times 40%
16. Multiply line 11 times 46%
17. If line 3 is more than $1,000,000, enter the lesser of (a) 5% of the excess of line 3 over $1,000,000 or (b) $20,250. Corporations whose tax year ends after June 30, 1987, skip lines 18 and 19 and go to Schedule B.
18. Alternative tax on net capital gain from line 6 of the worksheet on page 11
19. Tax liability before credits. Add amounts on lines 12 through 18

Fiscal year corporations whose tax year ends before July 1, 1987, stop here and enter the amount from line 19 on line 3, Schedule J. Do NOT complete Schedule B.

Schedule B **Tax Computation for Period After June 30, 1987**

20. Enter amount from line 3, Schedule A
21. Enter the smaller of line 20 or $50,000 (members of a controlled group, see instructions)
22. Subtract line 21 from line 20
23. Enter the smaller of line 22 or $25,000 (members of a controlled group, see instructions)
24. Subtract line 23 from line 22
25. Multiply line 21 by 15%
26. Multiply line 23 by 25%
27. Multiply line 24 by 34%
28. If line 20 is more than $100,000, enter the lesser of: (a) 5% of the excess of line 20 over $100,000 or (b) $11,750
29. Add lines 25 through 28
30. Add lines 12 through 17
31. Line 30 × $\frac{\text{Number of days in tax year before July 1, 1987}}{\text{Number of days in tax year}}$
32. Line 29 × $\frac{\text{Number of days in tax year after June 30, 1987}}{\text{Number of days in tax year}}$
33. Alternative tax on net capital gain from line 6 of the worksheet on page 11
34. Tax liability before credits. Add amounts on lines 31, 32, and 33. Enter here and on line 3, Schedule J

Supplemental Instructions

Net Capital Gain and Alternative Tax (Lines 2, 18, and 33)

In general, the alternative tax is the sum of (a) a tax computed on taxable income reduced by the net capital gain using the applicable tax brackets and tax rates, and (b) a tax (lines 18 and 33) computed on the net capital gain (see below for this part of the computation). If the alternative tax is less than the regular tax computed on total taxable income using the applicable tax brackets and tax rates, then the corporation may enter the alternative tax on line 3, Schedule J, Form 1120F, and check the block (if alternative tax used). If a corporation has a net capital gain, both computations (the regular tax computation and the alternative tax computation) should be made to determine which results in the lower tax.

Alternative Tax Worksheet

The net capital gain times the alternative tax rate is determined as follows:

1. Enter the net capital gain from line 10a, Schedule D (Form 1120) . . . . ______
2. Enter the amount from line 10b, Schedule D (Form 1120). **Caution:** If this results in a net capital gain greater than the amount on line 1, enter the amount from line 1 here. . . ______
3. Subtract line 2 from line 1 . . ______
4. Multiply line 2 times 28% . . ______
5. Multiply line 3 times 34% . . ______
6. Alternative tax on net capital gain. Add lines 4 and 5. Enter here and on line 18 or 33, if applicable . . . . ______

Lines 4, 6, 8, 10, 21, and 23.—
Members of a controlled group must share the taxable income bracket amounts. This applies to the period before July 1, 1987, and to the period after June 30, 1987. For the period before July 1, 1987, members of a controlled group must share the $25,000 amounts on lines 4, 6, 8, and 10. For the period after June 30, 1987, members of a controlled group must share the $50,000 amount on line 21, and the $25,000 amount on line 23. Unless the controlled group elects otherwise, members must share the taxable bracket amount equally.

Line 17.—
If the total taxable income of the controlled group is more than $1,000,000, each member of a controlled group should enter its portion of the additional tax on line 17. See the instructions for Schedule J (Form 1120F) for rules on allocating the additional tax among members of a controlled group.

Line 28.—
If the total taxable income of the controlled group is more than $100,000, each other member should enter its portion of the additional tax on line 28. See section 1561 for rules on allocating the additional tax among members of a controlled group.

Codes for Principal Business Activity

These industry titles and definitions are based, in general, on the Standard Industrial Classification System authorized by Regulatory and Statistical Analysis Division, Office of Information and Regulatory Affairs, Office of Management and Budget, to classify enterprises by type of activity in which they are engaged.

Using the list below, enter on page 5, under M, the code number for the specific industry group from which the largest percentage of "total receipts" is derived. "Total receipts" means gross receipts (line 1a, page 3) plus all other income (lines 4 through 10, page 3).

Also, on page 5, under M, 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) subcontracts 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."

Agriculture, Forestry, and Fishing

Code

0400 Agricultural production.
0600 Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping.

Mining

Metal mining:
1010 Iron ores.
1070 Copper, lead and zinc, gold and silver ores.
1098 Other metal mining.
1150 Coal mining.

Oil and gas extraction:
1330 Crude petroleum, natural gas, and natural gas liquids.
1380 Oil and gas field services.

Nonmetallic minerals, except fuels:
1430 Dimension, crushed and broken stone; sand and gravel.
1498 Other nonmetallic minerals, except fuels.

Construction

General building contractors and operative builders:
1510 General building contractors.
1531 Operative builders.

1600 Heavy construction contractors.

Special trade contractors:
1711 Plumbing, heating, and air conditioning.
1731 Electrical work.
1798 Other special trade contractors.

Manufacturing

Food and kindred products:
2010 Meat products.
2020 Dairy products.
2030 Preserved fruits and vegetables.
2040 Grain mill products.
2050 Bakery products.
2060 Sugar and confectionery products.
2081 Malt liquors and malt.
2088 Alcoholic beverages, except malt liquors and malt.
2089 Bottled soft drinks, and flavorings.
2096 Other food and kindred products.

2100 Tobacco manufacturers.

Textile mill products:
2228 Weaving mills and textile finishing.
2250 Knitting mills.
2298 Other textile mill products.

Apparel and other textile products:
2315 Men's and boys' clothing.
2345 Women's and children's clothing.
2388 Other apparel and accessories.
2390 Miscellaneous fabricated textile products.

Lumber and wood products:
2415 Logging, sawmills, and planing mills.
2430 Millwork, plywood, and related products.
2498 Other wood products, including wood buildings and mobile homes.

2500 Furniture and fixtures.

Paper and allied products:
2625 Pulp, paper, and board mills.
2699 Other paper products.

Printing and publishing:
2710 Newspapers.
2720 Periodicals.
2735 Books, greeting cards, and miscellaneous publishing.
2799 Commercial and other printing, and printing trade services.

Code

Chemicals and allied products:
2815 Industrial chemicals, plastics materials and synthetics.
2830 Drugs.
2840 Soap, cleaners, and toilet goods.
2850 Paints and allied products.
2898 Agricultural and other chemical products.

Petroleum refining and related industries (including those integrated with extraction):
2910 Petroleum refining (including integrated).
2998 Other petroleum and coal products.

Rubber and misc. plastics products:
3050 Rubber products: plastics footwear, hose and belting.
3070 Misc. plastics products.

Leather and leather products:
3140 Footwear, except rubber.
3198 Other leather and leather products.

Stone, clay, and glass products:
3225 Glass products.
3240 Cement, hydraulic.
3270 Concrete, gypsum, and plaster products.
3298 Other nonmetallic mineral products.

Primary metal industries:
3370 Ferrous metal industries; misc. primary metal products.
3380 Nonferrous metal industries.

Fabricated metal products:
3410 Metal cans and shipping containers.
3428 Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products.
3430 Plumbing and heating, except electric and warm air.
3440 Fabricated structural metal products.
3460 Metal forgings and stampings.
3470 Coating, engraving, and allied services.
3480 Ordnance and accessories, except vehicles and guided missiles.
3490 Misc. fabricated metal products.

Machinery, except electrical:
3520 Farm machinery.
3530 Construction and related machinery.
3540 Metalworking machinery
3550 Special industry machinery.
3560 General industrial machinery.
3570 Office, computing, and accounting machines
3598 Other machinery except electrical.

Electrical and electronic equipment:
3630 Household appliances.
3665 Radio, television, and communication equipment.
3670 Electronic components and accessories.
3698 Other electrical equipment.

3710 Motor vehicles and equipment

***Transportation equipment*, except motor vehicles:**
3725 Aircraft, guided missiles and parts.
3730 Ship and boat building and repairing
3798 Other transportation equipment, except motor vehicles.

Instruments and related products:
3815 Scientific instruments and measuring devices; watches and clocks.
3845 Optical, medical, and ophthalmic goods.
3860 Photographic equipment and supplies.

3998 Other manufacturing products.

Transportation and Public Utilities

Code

Transportation:
4000 Railroad transportation.
4100 Local and interurban passenger transit.
4200 Trucking and warehousing.
4400 Water transportation.
4500 Transportation by air.
4600 Pipe lines, except natural gas.
4700 Miscellaneous transportation services.

Communication:
4825 Telephone, telegraph, and other communication services.
4830 Radio and television broadcasting.

Electric, gas, and sanitary services:
4910 Electric services.
4920 Gas production and distribution.
4930 Combination utility services.
4990 Water supply and other sanitary services.

Wholesale Trade

Durable:
5008 Machinery, equipment, and supplies.
5010 Motor vehicles and automotive equipment.
5020 Furniture and home furnishings.
5030 Lumber and construction materials.
5040 Sporting, recreational, photographic, and hobby goods, toys and supplies.
5050 Metals and minerals, except petroleum and scrap.
5060 Electrical goods.
5070 Hardware, plumbing and heating equipment and supplies.
5098 Other durable goods.

Nondurable:
5110 Paper and paper products
5129 Drugs, drug proprietaries, and druggists' sundries.
5130 Apparel, piece goods, and notions.
5140 Groceries and related products.
5150 Farm-product raw materials.
5160 Chemicals and allied products.
5170 Petroleum and petroleum products.
5180 Alcoholic beverages
5190 Misc. nondurable goods.

Retail Trade

Building materials, garden supplies, and mobile home dealers:
5220 Building materials dealers.
5251 Hardware stores.
5265 Garden supplies and mobile home dealers.

5300 General merchandise stores.

Food stores:
5410 Grocery stores.
5490 Other food stores.

Automotive dealers and service stations:
5515 Motor vehicle dealers.
5541 Gasoline service stations.
5598 Other automotive dealers.

5600 Apparel and accessory stores.

5700 Furniture and home furnishings stores.

5800 Eating and drinking places.

Misc. retail stores:
5912 Drug stores and proprietary stores.
5921 Liquor stores.
5995 Other retail stores.

Finance, Insurance, and Real Estate

Code

Banking:
6030 Mutual savings banks.
6060 Bank holding companies.
6090 Banks, except mutual savings banks and bank holding companies.

Credit agencies other than banks:
6120 Savings and loan associations.
6140 Personal credit institutions.
6150 Business credit institutions.
6199 Other credit agencies.

Security, commodity brokers and services:
6210 Security brokers, dealers, and flotation companies.
6299 Commodity contracts brokers and dealers; security and commodity exchanges; and allied services.

Insurance:
6355 Life insurance
6356 Mutual insurance, except life or marine and certain fire or flood insurance companies.
6359 Other insurance companies.
6411 Insurance agents, brokers, and service.

Real estate:
6511 Real estate operators and lessors of buildings.
6516 Lessors of mining, oil, and similar property.
6518 Lessors of railroad property and other real property.
6530 Condominium management and cooperative housing associations.
6550 Subdividers and developers.
6599 Other real estate.

Holding and other investment companies, except bank holding companies:
6742 Regulated investment companies.
6743 Real estate investment trusts.
6744 Small business investment companies.
6749 Other holding and investment companies except bank holding companies.

Services

7000 Hotels and other lodging places.

7200 Personal services.

Business services:
7310 Advertising.
7389 Business services, except advertising.

Auto repair; miscellaneous repair services:
7500 Auto repair and services.
7600 Misc. repair services.

Amusement and recreation services:
7812 Motion picture production, distribution, and services.
7830 Motion picture theaters.
7900 Amusement and recreation services, except motion pictures.

Other services:
8015 Offices of physicians, including osteopathic physicians.
8021 Offices of dentists.
8040 Offices of other health practitioners.
8050 Nursing and personal care facilities.
8060 Hospitals.
8071 Medical laboratories.
8099 Other medical services
8111 Legal services.
8200 Educational services.
8300 Social services.
8600 Membership organizations.
8911 Architectural and engineering services.
8930 Accounting, auditing, and bookkeeping
8980 Miscellaneous services (including veterinarians).

Form 1120L U.S. Life Insurance Company Income Tax Return

Department of the Treasury
Internal Revenue Service

For calendar 1986, or tax year beginning ...., 1986, and ending ...., 19....

▶ For Paperwork Reduction Act Notice, see page 1 of the instructions.

OMB No. 1545-0128

1986

Please type or print

Name	A Employer identification number
	B Date incorporated
Number and street	C Check box if this is a consolidated return . . ▶ ☐
City or town, state, and ZIP code	D Check box if non-life insurance companies are included . . . . ▶ ☐

E Check box if address changed from previous year . . . . ▶ ☐

Taxable Income

1	Life insurance company taxable income (LICTI)—(Schedule A, line 22)	1	
2	Limitation on noninsurance losses (Schedule P, line 9)	2	
3	Amount subtracted from policyholder surplus account (enter the smaller of Schedule N, line 1 or line 3)	3	
4	Total taxable income—Add lines 1, 2, and 3; however, the total may not be less than line 3	4	

Tax

5 Check if you are a member of a controlled group (see sections 1561 and 1563) . . . . . ☐

If checked, see instructions and enter your share of the $25,000 amount in each taxable income bracket:

a (i) $................ (ii) $................ (iii) $................ (iv) $................

b If your tax year includes July 1, 1987, see instructions and enter share of tax bracket amounts.

(i) $................ (ii) $................

6	Income tax (see instructions to figure the tax). If you use the alternative tax, check this box ☐ and enter the tax from your attached schedule			6	
7a	Foreign tax credit (attach Form 1118)	7a			
b	Other credits (see instructions)	7b			
c	General business credit. Check if from: ☐ Form 3800 ☐ Form 3468 ☐ Form 5884 ☐ Form 6478 ☐ Form 6765 ☐ Form 8007 ☐ Form 8586	7c			
8	Add lines 7a through 7c			8	
9	Balance of tax (subtract line 8 from line 6)			9	
10	Foreign corporations—tax on income not connected with U.S. business (see *Tax Computation Instructions*)			10	
11	Increase in tax from refiguring an earlier year investment credit (attach Form 4255)			11	
12	Minimum tax on tax preference items (see instructions—attach Form 4626)			12	
13	Total tax (add lines 9 through 12)			13	
14a	Overpayment from 1985 allowed as a credit	14a			
b	1986 estimated tax payments	14b			
c	Less refund of 1986 estimated tax applied for on Form 4466	14c	( )		
d	Tax deposited with Form 7004	14d			
e	Credit from regulated investment companies (attach Form 2439)	14e			
f	Federal tax on gasoline and special fuels (attach Form 4136)	14f			
g	U.S. income tax paid or withheld at source	14g			
h	Other payments (see instructions)	14h			
i	Total refundable credits (combine lines 14a through 14h)			14i	
15	Enter any **PENALTY** for underpayment of estimated tax—Check ▶ ☐ if Form 2220 is attached			15	
16	**TAX DUE**—If the total of lines 13 and 15 is larger than line 14i, enter AMOUNT OWED			16	
17	**OVERPAYMENT**—If line 14i is larger than the total of lines 13 and 15, enter AMOUNT OVERPAID			17	
18	Enter amount of line 17 you want: **Credited to 1987 estimated tax** ▶ $ Refunded ▶			18	

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which the preparer has any knowledge.

▶ Signature of officer ——— Date ▶ Title

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ▶ ☐	Preparer's social security no.
Firm's name (or yours, if self-employed) and address ▶		E.I. No. ▶	
		ZIP Code ▶	

SCHEDULE A Life Insurance Company Taxable Income (LICTI) (Section 801(b))

1a	Gross premiums, etc. .... b Less return premiums, etc. .... Balance ▶		
2	Decrease in reserves (see instructions)		
3	10% of any decrease in reserves under section 807(f)(1)(B)(ii)		
4	Investment income (Schedule C, line 8)		
5	Net capital gain (line 10a, Schedule D (Form 1120))		
6	Other amounts (attach schedule)		
7	Life insurance company gross income (add lines 1 through 6)		
8	Death benefits, etc.		
9	Increase in reserves (Schedule B, line 12)		
10	10% of any increase in reserves under section 807(f)(1)(B)(i)		
11	Policyholder dividends (Schedule E, line 7)		
12	Assumption by another person of liabilities under insurance, etc., contracts		
13	Reimbursable dividends		
14	Other deductions (attach schedule—see instructions)		
15	Dividends-received deduction (Schedule G, column (c), line 12—see instructions for limitation and attach schedule if applicable), enter here and on Schedule M, line 2c		
16	Operations loss deduction (attach schedule)		
17	Total deductions (add lines 8 through 16)		
18	Gain or (loss) from operations (subtract line 17 from line 7), enter here and on Schedule H, line 1		
19	Small life insurance company deduction (Schedule H, line 12)		
20	Special life insurance company deduction (Schedule J, line 5)		
21	Add lines 19 and 20, enter here and on line 2b, Schedule M		
22	LICTI (line 18 less line 21), enter here and on page 1, line 1		

SCHEDULE B Increase or (Decrease) in Reserves (Section 807)

		(a) Beginning of tax year	(b) End of tax year
1	Life insurance reserves (section 807(c)(1))		
2	Unearned premiums and unpaid losses (section 807(c)(2))		
3	Supplementary contracts (section 807(c)(3))		
4	Dividend accumulations and other amounts (section 807(c)(4))		
5	Advance premiums (section 807(c)(5))		
6	Special contingency reserves (section 807(c)(6))		
7	Total (add lines 1 through 6 in both columns)		
8	Increase (decrease) in reserves (column (b) less column (a)) (see instructions)		
9	Policyholders' share of tax-exempt interest (Schedule C, line 9 times Schedule K, line 26)		
10	Line 8 less line 9		
11	Less: Excess ownership differential adjustment (Schedule E, line 8)		
12	Net increase (decrease) in reserves (If an increase, enter here and on Schedule A, line 9. If a (decrease), enter here and on Schedule A, line 2.)		

SCHEDULE C Gross Investment Income (Section 812(d))

1	Interest (excluding tax-exempt interest)	
2	Dividend income (Schedule G, column (a), line 12)	
3	Gross rents	
4	Gross royalties	
5	Leases, terminations, etc.	
6	Excess of net short-term capital gain over net long-term capital loss (line 9, Schedule D (Form 1120))	
7	Gross income from trade or business other than insurance (attach schedule)	
8	Investment income (add lines 1 through 7), enter here and on Schedule A, line 4	
9	Tax-exempt interest, enter here and on Schedule K, line 5 and on Schedule M, line 2d	
10	Add lines 8 and 9	
11	100% qualifying dividends (See instructions.)	
12	Gross investment income (line 10 less line 11), enter here and on Schedule K, line 1	

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SCHEDULE E Policyholder Dividends (Section 808)

1	Amounts paid or accrued	
2	Excess interest	
3	Premium adjustments	
4	Experience-rated refunds	
5	Total (add lines 1 through 4)	
6	Differential earning amount for mutual company only (Schedule F, line 15)	
7	Deductible policyholder dividends (line 5 minus line 6, but not less than zero), enter here and on Schedule A, line 11 and Schedule K, line 10	
8	Excess ownership differential adjustment (excess, if any, of line 6 over line 5), enter here and on Schedule B, line 11	
9	Deductible percentage (line 7 divided by line 5)	%

SCHEDULE F Differential Earnings Amount—Mutual Companies Only (Section 809)

		(a) End of preceding tax year	(b) End of this tax year
1	Annual statement surplus and capital		
2	Nonadmitted financial assets (attach schedule)		
3	Excess of statutory reserves over tax reserves on section 807(c) items		
4	Deficiency reserves		
5	Mandatory securities valuation reserve		
6	Other voluntary reserves		
7	50% of the amount of any provision for policyholder dividends payable in the next tax year		
8a	Subtotal (add lines 1 through 7)		
b	Adjustment for equity allocable to noncontiguous Western Hemisphere countries and other adjustments		
c	Combine lines 8a and line 8b, both columns		
9	Total of line 8c, columns (a) and (b)		
10	Tentative average equity base—Enter 50% of line 9		
11	Other adjustments		
12	Total of lines 10 and 11		
13	High surplus adjustment (section 809 (i))—attach schedule		
14	Average equity base (line 12 less line 13)		
15	Differential earnings amount (line 14 times the differential earnings rate), enter here and on line 6, Schedule E	see instructions	

SCHEDULE G Dividend Income and Dividends-Received Deduction (See instructions)
(Fiscal year corporations, see page 4 of instructions.)

	Dividends subject to proration	(a) Gross taxable dividends	(b) Deduction rate	(c) Deduction (column (a) times column (b))
1	Certain domestic corporations		see instructions	
2	Certain debt-financed stock		see instructions	
3	Certain public utility corporations		see instructions	
4	Certain foreign corporations		see instructions	
5	Certain foreign corporations		1.00	
6	Certain affiliated company dividends		1.00	
7	Gross dividends-received deduction (add lines 1 through 6 of column (c))			
8	Company share percentage (Schedule K, line 25)			
9	Prorated amount (line 7 times line 8)			
	Dividends not subject to proration			
10	Affiliated company dividends		see instructions	
11	Other corporate dividends			
12	Total (add lines 1 through 11 in column (a) and lines 9 and 10 in column (c)) (Reduce the deduction as provided in section 805(a)(4)(D)(ii))—Enter the amount from line 12, column (a) on Schedule C, line 2, and enter the amount from line 12, column (c) on Schedule A, line 15			

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SCHEDULE H Small Life Insurance Company Deduction (Section 806(b))—If assets (Schedule O, Part I) are $500,000,000 or more, complete lines 1 through 5, line 11, and enter zero on line 12. (See instructions)

1	Gain or (loss) from operations (Schedule A, line 18)		
2a	Noninsurance income .... b less noninsurance deductions .... c Balance ▶		
3a	Line 1 less line 2c		
b	Adjustments (including section 801(a)(2)(C)) (attach schedule)		
c	Tentative LICTI (total of lines 3a and 3b)		
4	Controlled group tentative LICTI (Schedule I, line 8)		
5	Combined tentative LICTI (line 3c plus line 4). Enter here and on Schedule J, line 1. If $15,000,000 or more, omit lines 6 through 10. Enter zero on line 12, and line 19, Schedule A		
6	Small life insurance company deduction before adjustment (line 5 times .6, but not more than $1,800,000)	x .6	
7	Maximum statutory amount	3,000,000	
8	Subtract line 7 from line 5, but not less than zero		
9	Reduction rate (15%)—Line 8 times .15, but not over $1,800,000	x .15	
10	Tentative small life insurance company deduction (line 6 less line 9). Enter here and on line 2, Schedule J		
11	Taxpayer's share (line 3c (but not less than zero) divided by the sum of line 3c and Schedule I, column (a), line 6)		
12	Allowable small life insurance company deduction (line 11 times line 10). Enter here and on Schedule A, line 19.		

SCHEDULE I Controlled Group Information (See instructions)

	Company	Tentative LICTI (a) Income	(b) (Loss)
1			
2			
3			
4			
5			
6	Total—Add lines 1 through 5 in both columns		
7	Enter amount from (Loss) column		
8	Net controlled group tentative LICTI (line 6 less line 7). Enter here and on line 4, Schedule H.		

SCHEDULE J Special Life Insurance Company Deduction (Section 806(a))

1	Combined tentative LICTI (Schedule H, line 5)		
2	Tentative small life insurance company deduction (Schedule H, line 10)		
3	Line 1 less line 2		
4	Tentative special life insurance company deduction (line 3 times .20 (taxable income adjustment rate))	x .20	
5	Taxpayer's share of special deduction (line 4 times Schedule H, line 11). Enter here and on Schedule A, line 20.		

SCHEDULE K Company/Policyholder Share Percentage (Section 812)—Part I (See instructions)

1	Gross investment income (Schedule C, line 12)		
2	Policy interest (Schedule L, line 6)		
3	Line 1 less line 2		
4	Life insurance company gross income		
5	Tax-exempt interest (Schedule C, line 9)		
6	Add lines 4 and 5		
7	Increase in reserves (Schedule B, line 8) (If a decrease in reserves, enter "0".)		
8	Line 6 less line 7		
9	Investment income ratio (line 3 divided by line 8)		
10	Deductible policyholder dividends (Schedule E, line 7)		
11	Deductible excess interest (Schedule L, line 2)		
12	Deductible dividends on employee pension funds		
13	Deductible dividends on deferred annuities		
14	Deductible premium and mortality charges for contracts paying excess interest		
15	Add lines 11 through 14		
16	Line 10 less line 15		
17	Investment portion of dividends (line 9 times line 16)		
18	Policy interest (Schedule L, line 6)		
19	Policyholder share amount (add lines 17 and 18)		

SCHEDULE K Part II

20	Gross investment income (line 1)	
21	Net investment income (See instructions)	
22	Policyholder share amount (line 19)	
23	Company share of net investment income (line 21 less line 22)	
24	Total share percentage	100%
25	Company share percentage (line 23 divided by line 21). Enter here and on Schedule G, line 8	
26	Policyholders' share percentage (line 24 less line 25)	

SCHEDULE L Policy Interest (Section 812(b)(2))

1	Required interest on reserves under sections 807(c)(1), (3), (4), (5), and (6)—attach schedule	
2	Deductible excess interest (Schedule E, line 2 times Schedule E, line 9). Enter here and on Schedule K, line 11	
3	Deductible amounts credited to employee pension funds	
4	Deductible amounts credited to deferred annuities	
5	Deductible interest on amounts left on deposit (section 812(b)(2)(D))	
6	Total policy interest (add lines 1 through 5). Enter here and on lines 2 and 18 of Schedule K	

SCHEDULE M Shareholders' Surplus Account (Section 815(c))

1a	Balance at the beginning of the tax year	
b	Transfers under pre-1984 section 815(d)(1) and (4) for preceding year	
c	Balance at the beginning of the tax year (add lines 1a and 1b)	
2a	LICTI (page 1, sum of lines 1 and 2, but not less than zero)	
b	Special deductions allowed by sections 806(a) and 806(b) (Schedule A, line 21)	
c	Dividends-received deduction (Schedule A, line 15)	
d	Tax-exempt interest (Schedule C, line 9)	
3	Total (add lines 1c through 2d)	
4	Tax liability for year without regard to section 815 (Figure the tax on line 2a as if line 2a were taxable income.)	
5	Line 3 less line 4 (Do not enter less than zero.)	
6	Direct or indirect distributions in the tax year (not more than line 5)	
7	Balance at the end of the tax year (line 5 less line 6)	

SCHEDULE N Policyholders' Surplus Account (Section 815(d))

1	Balance at the beginning of the tax year		
2a	Direct or indirect distributions that are more than Schedule M, line 5		
b	Tax increase on line 2a		
c	Subtractions under pre-1984 sections 815(d)(1) and (4) (see instructions)		
d	Tax increase on line 2c		
e	Subtraction required under pre-1984 section 815(d)(2) due to termination		
3	Total—Add lines 2a through 2e, but not more than line 1		
4	Balance at the end of the tax year (line 1 less line 3)		

SCHEDULE O Total Assets and Total Insurance Liabilities

Part I—Total Assets (Section 806(b)(3)(C))

		As of Close of Tax Year
1	Real property	
2	Stocks	
3	Proportionate share of partnership assets	
4	Other assets (attach schedule)	
5	Total assets of controlled groups	
6	Total (add lines 1 through 5)	

SCHEDULE O Total Assets and Total Insurance Liabilities *Continued*

Part II—Total Insurance Liabilities (Section 813(a)(4)(B))

Item	(a) Section	(b) Description of item	(c) Liabilities at close of tax year
1	816(c)(1)	Reserve for life policies and contracts	
2	816(c)(2)	Reserve for accident and health policies	
3	807(c)(3)	Supplementary contracts without life contingencies	
4	816(c)(2)	Policy and contract claims, life	
5	816(c)(3)	Policy and contract claims, accident and health	
6	807(c)(4)	Policyholders' dividend and coupon accumulations	
7	807(c)(5)	Premiums and annuity considerations received in advance	
		Less: Discount	
8	807(c)(5)	Liability for premium and other deposit funds	
9		Miscellaneous insurance liabilities, not included above:	
	807(c)(6)	a Special contingency reserves for group life, health and accident insurance	
	807(c)(3)	b Amounts held at interest under insurance, annuity or deposit administration contracts, or pension trust side funds	
	807(c)(3)	c Funds held to provide for future conversion of policies or contracts	
	807(c)(3)	d Amounts held pending issue of contracts supplementary to insurance or annuity contracts	
	816(c)(3)	e Other insurance liability or adjustments:	
		(i) Reserves for mortality fluctuations	
		(ii) Liability for insurance or annuity benefits for employees and agents	
	816(c)(3)	f Other items (please describe):	
10		Total	

SCHEDULE P Limitation on Noninsurance Losses (Section 806(c)(3)(C))

1	Noninsurance income (attach schedule)	
2	Noninsurance deductions (attach schedule)	
3	Noninsurance operations loss deductions	
4	Add lines 2 and 3	
5	Noninsurance loss (line 4 less line 1). If line 1 is greater than line 4, omit lines 5 through 8, and enter zero on line 9	
6	Enter 35% of line 5	
7	Enter 35% of Schedule A, line 22 less any noninsurance loss included in Schedule A	
8	Enter the lesser of line 6 or line 7	
9	Line 5 less line 8—Enter here and on page 1, line 2	

SCHEDULE Q **Additional Information Required** (See instructions)

	Yes	No
F Check if you are a:		
(1) ☐ Legal reserve company—if checked:		
Kind of company: ☐ Stock ☐ Mutual		
Principal business: ☐ Life insurance ☐ Health and accident insurance		
(2) ☐ Fraternal or assessment association		
(3) ☐ Burial or other insurance company		
G Enter the percentage that the total of your life insurance reserves (section 816(b)) plus unearned premiums and unpaid losses (whether or not ascertained) on noncancellable life, health or accident policies not included in life insurance reserves is to your total reserves (section 816(c)) ________ %. Attach a schedule of your computation.		
H Do you have any variable annuity contracts outstanding?		
I (1) Did you, at the end of the tax year, own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).)		
If "Yes," attach a schedule showing: *(a)* Name, address, and identification number; *(b)* Percentage owned; and *(c)* Taxable income or (loss) before NOL or special deductions from line 28, page 1, Form 1120 (or line 24, page 1, Form 1120-A) of that corporation for the tax year ending with or within your tax year.		
(2) Did any individual, partnership, corporation, estate, or trust, at the end of the tax year, own, directly or indirectly, 50% or more of your voting stock? (For rules of attribution, see section 267(c).)		
If "Yes," attach a schedule showing: *(a)* Name, address, and identification number; *(b)* Percentage owned; and *(c)* If the owner of that voting stock was a person other than a U.S. person (see instructions), check "Yes" and show owner's country. ▶ ________		
Note: *If question I(2)(c) is checked "Yes," the corporation may have to file Form 5472.*		
J Did you claim a deduction for:		
(1) Entertainment facility (boat, resort, ranch, etc.)?		
(2) Living accommodations (except for employees on business)?		
(3) Employees attending conventions or meetings outside the North American area? (See section 274(h).)		
(4) Employees' families at conventions or meetings? If "Yes," were any of these conventions or meetings outside the North American area? (See section 274(h).)		
(5) Employee or family vacations not reported on Form W-2?		
K Were you a U.S. shareholder of any controlled foreign corporation? (See sections 951 and 957, and the instructions.) If "Yes," attach Form 5471 for each corporation.		
L At any time during the tax year, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See the instructions for exceptions and filing requirements for Form TD F 90-22.1.) If "Yes," write the name of the foreign country. ▶ ________		
M Were you ever the grantor of or transferor to a foreign trust which existed during the current tax year, whether or not you have any beneficial interest in it? (See instructions.) If "Yes," you may be required to file Forms 926, 3520, or 3520A.		
N During the tax year did you maintain any of your accounting/tax records on a computerized system?		
O Check method of accounting: **(1)** ☐ Accrual **(2)** ☐ Other (Specify) ________		

SCHEDULE R **Reconciliation** (See instructions)

SCHEDULE S **Compensation of Officers** (See instructions)

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1986 Instructions for Form 1120L

Department of the Treasury
Internal Revenue Service

U.S. Life Insurance Company Income Tax Return

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

Changes You Should Note

The Tax Reform Act of 1986 made several changes to the way corporations compute their taxable income and their tax liability. See pages 8 and 9 for information on how the Tax Reform Act of 1986 affects calendar year, fiscal year, and 1987 corporations.

General Instructions

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

Purpose of Form.—Life insurance companies use Form 1120L to report income and expenses and to figure any tax that may be due.

Who Must File Form 1120L.—Every domestic life insurance company and every foreign corporation carrying on an insurance business within the U.S. (if its U.S. business would qualify as a life insurance company) must file a return on Form 1120L. However, this is true only for insurance companies:

- Which are engaged in the business of issuing life insurance and annuity contracts either separately or combined with health and accident insurance, or noncancellable contracts of health and accident insurance, if
- Its life insurance reserves as defined in section 816(b), plus unearned premiums and unpaid losses (whether or not ascertained) on noncancellable life, health, or accident policies not included in life insurance reserves, make up more than 50% of its total reserves as defined in section 816(c), adjusted in each case for policy loans as required by section 816(d).

The term "insurance company" means any company more than half of the business of which during the tax year is the issuing of insurance or annuity contracts or the reinsuring of risks underwritten by insurance companies.

Guaranteed renewable life, health, and accident insurance that the company cannot cancel but under which the company reserves the right to adjust premium rates by classes, according to experience under the kind of policy involved, are treated as noncancellable.

Also, for purposes of determining if an insurance company is a life insurance company, amounts set aside and held as interest to satisfy obligations under contracts which do not contain permanent guarantees with respect to life, accident, or health contingencies should not be included in life insurance reserves or any of the other insurance reserves that are required by law.

A burial or funeral benefit insurance company that directly manufactures funeral supplies or performs funeral services is taxable under section 821 or section 831 and should file **Form 1120M**, U.S. Mutual Insurance Company Income Tax Return, **Form 1120**, U.S. Corporation Income Tax Return, or **Form 1120-A**, U.S. Corporation Short-Form Income Tax Return.

If a receiver, trustee in bankruptcy, or assignee has possession of, or holds title to, all or substantially all of a corporation's property or business, whether or not it is being operated, that person must make a return in the same manner and form as would be required were the corporation to make its own return.

Where To File.—

If the corporation's principal business, office, or agency is located in	Use the following Internal Revenue Service Center address
New Jersey; New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, Minnesota, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101
Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
Arkansas, Indiana, North Carolina, Tennessee, Virginia	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania, foreign countries and U.S. possessions	Philadelphia, PA 19255

If all the books and records are kept in the managing corporation's principal office, the separate returns of a group of corporations may be filed with the service center where the managing corporation files its return.

When To File.—In general, a corporation must file Form 1120L by the 15th day of the 3d month after its tax year ends. A new corporation filing a short period return must generally file by the 15th day of the 3d month after the short period ends. A corporation that has dissolved must generally file by the 15th day of the 3d month after the date it dissolved.

Extension of Time for Filing.—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 1120L. However, this automatic extension does not extend the time for payment of the tax.

Period Covered.—File the 1986 return for calendar year 1986 and fiscal years that begin in 1986. If the corporation ceased to exist in 1986, write "FINAL RETURN" at the top of the form.

Accounting Methods.—You must file the return using the accrual method of accounting or, to the extent permitted under regulations, a combination of the accrual method with any other method, except the cash receipts and disbursements method.

Unless the law specifically permits, you cannot change the method of accounting used to report income in earlier years (for income as a whole or for any material item) unless you first get IRS consent on **Form 3115**, Application for Change in Accounting Method.

Economic Performance.—Section 461(h) generally provides that the amount of an item is not incurred under an accrual method of accounting until economic performance occurs. For exceptions for recurring items that meet the all events test and effective dates of available elections, see Temporary Regulations section 1.461-3T.

Rounding Off to Whole Dollar Amounts.—You may show money items on the return and accompanying schedules as whole dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

Attachments.—In order to process the form, we ask that you complete every applicable entry space on Form 1120L, rather than entering, "See attached." Also, please show the total on the printed form or schedule. If more space is needed, attach separate sheets that are the same size as the printed forms. Indicate at the top of each attachment the form number or schedule letter of the form or schedule being continued. Be sure to enter the taxpayer's name and employer identification number. Attach these separate sheets after all the printed schedules and forms.

Percentage Computations.—In figuring the policyholders' and company's share percentage, carry out the computation to enough decimal places to ensure substantial accuracy and to eliminate any significant error in the resulting tax.

Pension, Profit-Sharing, Etc., Plans.—If you are an employer who maintains a pension, profit-sharing, or other funded deferred compensation plan, whether or not it is qualified under the Internal Revenue Code and whether or not you claim a deduction for the current tax year, you are generally required to file one of the forms described below. Section 6652(f) provides penalties for not filing these forms on time.

In addition, there is a new penalty for overstating the pension plan deduction for returns filed after October 22, 1986. See new section 6659A.

Form 5500, Annual Return/Report of Employee Benefit Plan.—Complete this form for each plan with 100 or more participants.

Form 5500-C, Return/Report of Employee Benefit Plan, or ***Form 5500-R***, Registration Statement of Employee Benefit Plan.—Complete the applicable form for each plan with fewer than 100 participants.

Other Forms Needed.—In addition to Form 1120L, you may need to file one or more of the following returns.

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

Form W-2P. Statement for Recipients of Periodic Annuities, Pensions, Retired Pay, or IRA Payments.

Form 966. Corporate Dissolution or Liquidation.

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

Form 1098. Mortgage Interest Statement. This form is used to report the receipt from any individual of $600 or more of mortgage interest in the course of the corporation's trade or business for any calendar year.

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

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

Form 5452. Corporate Report of Nontaxable Dividends.

Form 5498. Individual Retirement Arrangement Information, is to be used to provide IRS with contribution information on individual retirement arrangements, simplified employee pension plans, or employer plans that accept qualified deductible voluntary employee contributions.

Form 5713. International Boycott Report, for persons having operations in or related to "boycotting" countries. In addition, persons who participate in or cooperate with an international boycott, may have to complete Schedule A or Schedule B and Schedule C of Form 5713 to compute their loss of the following items: the foreign tax credit, the deferral of earnings of a controlled foreign corporation, IC-DISC, 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 taxpayers who 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 tax return (including an application for tentative refund (Form 1139) and an amended return (Form 1120X)) on which a deduction, credit, loss, or other tax benefit attributable to a tax shelter, is taken.

Form 8300. Report of Cash Payments Over $10,000 Received in a Trade or Business, generally 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 8390. Information Return for Determination of Life Insurance Company Earnings Rate Under Section 809, is to be filed by all mutual life insurance companies, and the 50 largest stock life insurance companies, as determined by the Secretary of the Treasury, to gather information to compute the "differential earnings rate."

Consolidated Returns.—If an affiliated group of corporations includes one or more domestic insurance companies taxed under section 801 or 821, the common parent may elect to treat those companies as includible corporations. The insurance companies must have been members of the group for the 5 tax years immediately preceding the tax year for which the election is made. See section 1504(c)(2) and Regulations section 1.1502–47(d)(12).

Note: *If an election under section 1504(c)(2) is in effect for an affiliated group for the tax year, all items of members of the group that are not life insurance companies are not to be taken into account in figuring the tentative life insurance company taxable income of those members that are life insurance companies.*

Penalties.—Avoid penalties and interest by correctly filing and paying the tax when due.

1. A corporation that does not file its tax return by the due date, including any extensions of time for filing, may be subject to a penalty of 5% a month or a fraction of a month, up to a maximum of 25%, for each month the return is not filed. The penalty is charged on the net amount due under section 6651(a)(1). The minimum penalty for failure to file a tax return within 60 days of the due date (including extensions) is the lesser of the underpayment of tax or $100.

Since Regulations section 1.6012-2(c) requires that the **NAIC Annual Statement** be filed as part of the return, a penalty may be imposed under section 6651(a)(1) for not including the annual statement when filing the return.

2. A corporation that does not pay the tax when due generally may be subject to a penalty of ½% a month or fraction of a month, up to a maximum of 25%, for each month the tax is not paid. The penalty is charged on the net amount due under section 6651(a)(2).

These penalties will not be imposed if the corporation can show that the failure to file or to pay was due to reasonable cause and not to willful neglect.

These penalties are in addition to the interest charge imposed on unpaid tax at a rate determined under section 6621.

3. A corporation that does not pay the proper estimated tax when due may be subject to an underpayment penalty for the period of underpayment. To avoid the estimated tax penalty, the amount of estimated tax payments required by a corporation is 90%, but see the instructions for *Line 15, Penalty for underpayment of estimated tax,* under *Tax Computation Instructions*. Also see section 6655.

Transfers to Corporation Controlled by Transferor.—If a person receives stock or securities of a corporation in exchange for property, and does not have a gain or loss that is recognized under section 351, the transferor and the transferee must attach the information required by Regulations section 1.351-3.

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

Paid Preparer's Information.—If your corporate officer filled in Form 1120L, the Paid Preparer's Use Only area should remain blank. If someone prepares Form 1120L and does not charge the corporation, that person should not fill in the Paid Preparer's Use Only area. Certain others who prepare Form 1120L should not fill in the Paid Preparer's Use Only area. For example, a regular, full-time employee of the corporation, such as a clerk or secretary, does not have to sign.

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

The person required to sign the return as preparer 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 1120L to the taxpayer in addition to the copy filed with IRS.

Tax return preparers should know their responsibilities. **Publication 1045**, Information and Order Blanks for Preparers of Federal Income Tax Returns, lists some of the preparers' other responsibilities and penalties for which they may be liable. The publication also contains the regulations that govern their work.

Sales and Exchanges of Life Insurance Company Property

Capital Assets.—Each item of property a corporation holds (whether or not connected with its business) is a capital asset, except as provided in section 1221. However, section 818(b)(2) modifies section 1221 so that gains or losses from the sale or exchange of depreciable assets of any business (other than an insurance business) that the life insurance company carries on will be treated as gains or losses from the sale or exchange of capital assets.

Complete Schedule D (Form 1120), Capital Gains and Losses, according to its instructions. Enter the excess of net short-term capital gain over the net long-term capital loss from line 9, Schedule D (Form 1120) on line 6, Schedule C, Form 1120L. Enter the net capital gain from line 10a, Schedule D (Form 1120) on line 5, Schedule A, Form 1120L. Attach Schedule D (Form 1120) to Form 1120L.

Assets used in a Trade or Business and Involuntary Conversions.—Use Form 4797, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions.

Section 818(b) provides that in applying section 1231(a), property used in a trade or business includes only (1) property used in carrying on an insurance business that is real property held for more than 6 months, or depreciable property held for more than 6 months, and (2) timber, coal, and domestic iron ore to which section 631 applies. The term does not include inventoriable property, property held primarily for sale to customers, or certain copyrights, literary, musical or artistic compositions, letters, or memoranda, and similar property.

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

Foreign Life Insurance Companies.—A foreign life insurance company that sells a U.S. real property interest must file Form 1120L and Schedule D (Form 1120) to report the sale. Gain or loss from the sale of a U.S. real property interest is considered effectively connected with the conduct of a U.S. business, even though the foreign life insurance company does not carry on any insurance business in the U.S. and is not otherwise required to file a U.S. income tax return.

Specific Instructions

Box A. Employer identification number.—Enter the corporation's employer identification number (EIN).

If the corporation does not have an EIN, apply for one on **Form SS-4**, Application for Employer Identification Number. You can obtain this form at most IRS or Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center where you send Form 1120L. If you have not received the EIN by the time to file Form 1120L, write "Applied for" in the space for the EIN.

SCHEDULE A—Life Insurance Company Taxable Income (LICTI) (Section 801(b))

Income

Line 1a.—Enter the gross premiums and other consideration (including advance premiums, deposits, fees, assessments, consideration from assuming liabilities under contracts not issued by the company and dividends to policyholders reimbursable to the taxpayer by a reinsurer for reinsured policies) on insurance and annuity contracts. Also, line 1a should include any amount treated as received under section 808(e).

Line 1b.—Enter return premiums, and premiums and other consideration for indemnity reinsurance. Except for premiums or other consideration returned to another life insurance company from indemnity reinsurance, you cannot include amounts returned when they are not fixed in the contract but depend on the company's experience or the management's discretion. But treat as return premiums amounts rebated or refunded due to policy cancellations or to incorrectly figured premiums. Then subtract line 1b from line 1a and enter the result in the column on the right.

Line 2. Decrease in reserves.—If there is a decrease in reserves, you cannot enter an amount on line 2, Schedule A, until you do the following: enter amount from line 8, Schedule B, to tentatively compute life insurance company gross income which is needed to complete Schedule K, Company/Policyholder Share Percentage. Then, complete Schedule B, and enter the net decrease in reserves (line 12, Schedule B) to complete Schedule A.

Line 3. 10% of net decrease in reserves.—Enter 10% of any decrease in reserves required under section 807(f)(1)(B)(ii). If section 807(f)(2) applies, the balance must be included in income in the last tax year the company was qualified to file Form 1120L.

Line 6. Other amounts.—Enter the total other income not otherwise included above if the items are includible in gross income and include any accrual of discount under section 811(b). Include all gains from Form 4797. See the instructions under *Assets Used in a Trade or Business and Involuntary Conversions*, above. Exclude all gains that are, or are considered to be, from the sale or exchange of capital assets. For mutual life companies, see section 809(f)(1) for inclusion in income where the recomputed differential earnings amount for the taxable year is greater than the differential earnings amount for such taxable year. Also, attach an itemized schedule of all items.

Deductions

Line 8. Death benefits, etc.—Enter all claims and benefits accrued and losses incurred (whether or not ascertained) during the year on insurance and annuity contracts. Losses incurred (whether or not ascertained) means a reasonable estimate of losses incurred but not reported, and losses reported, but the amount cannot be determined by the end of the year.

Line 10. 10% of increase in reserves.—Enter 10% of any increase in reserves required under section 807(f)(1)(B)(i).

Line 12. Assumption by another person of liabilities under insurance, etc., contracts.—Enter the consideration (other than consideration from indemnity reinsurance) from the assumption by another person of liabilities under insurance and annuity contracts (including supplementary contracts).

Line 13. Reimbursable dividends.—Enter the amount of policyholder dividends that are paid or accrued by another insurance company for policies the taxpayer has reinsured, and are reimbursable by the taxpayer under the terms of the reinsurance contract.

Line 14. Other deductions.—Enter the total of all other deductions (including the amortization of premiums under section 811(b)) not already included in lines 8 through 13.

Also, include the total amount of noninsurance business (defined in section 806(c)(3)) deductions on line 14. Attach an itemized schedule of all items. Noninsurance business deductions should be segregated from other deductions.

In the case of mutual life companies, see section 809(f)(2) for deduction where the recomputed differential earnings amount for the taxable year is smaller than the differential earnings amount for such taxable year.

If you claim a deduction for depreciation, attach **Form 4562**, Depreciation and Amortization. Attach **Form T (Timber)**, Forest Industries Schedule, if you claim a deduction for timber depletion.

Limitations on Deductions

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

2. Limitation on deductions for tax preference items. Corporations may be required to reduce deductions for the following tax preference items:

(a) Depletion of iron ore and coal (including lignite) by 15%;

(b) Section 1250 capital gain by 20%;

(c) Amortizable basis of pollution control facilities by 20% (15% for property placed in service before January 1, 1985);

(d) Intangible drilling, and exploration and development costs by 20% (30% for expenditures paid or incurred after 1986); and

(e) Bad debt deductions for financial institutions by 20%.

3. Real property construction period interest and taxes. For construction started after 1982, no deduction (except as allowed under section 189(d)) shall be allowed for real property construction period interest and taxes. Section 189 has been repealed for costs incurred after 1986.

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

Exceptions

Include all items allowable as deductions in figuring taxable income except:

Interest.—No deduction is allowed under section 163 for interest on the items described in section 807(c).

Bad debts.—No deduction is allowed for an addition to reserves for bad debts under section 166(c), but a deduction for specific bad debts is permitted if the other provisions of section 166 apply.

Contributions.—Attach a schedule showing the name of each organization and the amount for a contribution made in property other than money. Describe the kind of property contributed and the method used in determining its fair market value. If you include a contribution carryover, show the amount and how it was determined. A corporation must keep records, as required by Regulations section 1.170A-13.

If you made a qualified conservation contribution under section 170(h), include the fair market value of the underlying property before and after the donation. Describe the conservation purpose furthered by your donation and the type of legal interest contributed.

Charitable contributions over the 10% limitation as set forth in section 170(b)(2) and as modified by section 805(b)(3), may not be deducted for the tax year but may be carried over to the next 5 tax years.

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

For a charitable contribution of property, you must reduce the contribution by the sum of:

- The ordinary income, short-term capital gain that would have resulted if the property were sold at its fair market value, and
- For certain contributions made in tax years beginning in 1986, 60.87% of the long-term capital gain that would have resulted if the property were sold at its fair market value.

The reduction for 60.87% of the long-term capital gain applies to:

1. Contributions of tangible personal property for use by an exempt organization for a purpose or function unrelated to the basis for its exemption; and
2. Contributions of any property (except stock for which market quotations are readily available—see section 170(e)(5)) to or for the use of certain private foundations. (See section 170(e) and Regulations section 1.170A-4.)

For special rules for contributions of inventory and other ordinary income property to certain organizations, and contributions of scientific property used for research, see section 170(e).

For a charitable contribution deduction for property sold to a charitable organization, the adjusted basis for determining gain from the sale is an amount that is in the same ratio to the adjusted basis as the amount realized is to the fair market value of the property.

Amortizable bond premiums.—No deduction is allowed under section 171. However, see section 811(b) for the rules relating to amortizable bond premiums.

Net operating loss deduction.—The deduction under section 172 is not allowed because an operations loss deduction is allowed. See line 16.

Line 15. Dividends-received deduction.—Enter the amount from Schedule G, column (c), line 12. Also, see the instructions for Schedule G.

Line 16. Operations loss deduction.—This deduction determined under section 810 is similar to the net operating loss deduction provided by section 172.

The operations loss deduction is the total of the operations loss carryovers and carrybacks to the tax year. See section 810(a).

Generally, you may carry a loss from operations back to each of the 3 years preceding the year of the loss and carry it over to each of the 15 years following the year of the loss. Or you may make an **irrevocable election** to carry the loss only to each of the 15 years after the loss year. See section 810(b). If the company is a new company for the loss year, the carryover is for 18 years. For the definition of a new company, see section 810(e). After you apply the loss from operations to the first tax year to which it may be carried, the part of the loss you may carry to each of the remaining tax years is the amount by which the loss is more than the sum of the offsets for each of the earlier tax years to which the loss may be carried.

Offset means the increase in the operations loss deduction for the tax year that reduces the life insurance company taxable income (figured without regard to section 804(2) and (3)) for the year to zero. See section 810(d).

To determine the loss from operations, subtract line 7 from the allowable deductions. But:

- No operations loss deduction is allowed.
- You must figure the deductions allowed by section 243 (dividends received by corporations), section 244 (dividends received on certain preferred stock of public utilities), and section 245 (dividends received from certain foreign corporations) without regard to section 246(b), as modified by section 805(a)(4).

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

For tax treatment of recoveries of foreign expropriation losses, see section 1351.

Note: *Section 810 is treated as a continuation of section 812 (as in effect before the enactment of the Tax Reform Act of 1984).*

SCHEDULE B— Increase or (Decrease) in Reserves (Section 807)

Section 807 requires life insurance companies to determine whether certain reserves decreased or increased for the tax year. A decrease will be treated as includible in gross income and an increase will be treated as a deduction from gross income. Generally, the net increase or net decrease in reserves is figured by comparing the closing balance for reserves to the opening balance for reserves.

Note: *Any decrease in reserves, shown on line 8, is computed without any reduction of the closing balance of section 807 reserves by the policyholder's share of tax-exempt interest. See Schedule A, line 2 instructions.*

Also, in figuring the net increase or net decrease in reserves, the closing balance of the reserve items is reduced by the policyholders' share of tax-exempt interest and the excess ownership differential adjustment.

For rules dealing with the method of computing reserves for purposes of determining income, see section 807(d). For rules dealing with the method of computing reserves on contracts where interest is guaranteed beyond the end of the tax year, see section 811(d).

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

SCHEDULE C—Gross Investment Income (Section 812(d))

Line 1. Interest.—Enter interest (excluding tax-exempt interest) from all sources during the tax year. Decrease the reported gross interest reported by the amortization of premium and increase it by the accrual of discount (except market discount) for the tax year on bonds, notes, debentures, or other evidences of indebtedness. Determine these amounts by:

- The method regularly used, if reasonable, or
- Regulations prescribed by the Secretary of the Treasury.

Also, see section 811(b). Attach a statement showing the method and computation used.

Line 3. Gross rents.—Enter the gross rents received for property. Deduct expenses such as repairs, taxes, and depreciation on line 14, Schedule A, and attach a segregated schedule of these amounts.

Line 4. Gross royalties.—Enter gross royalties. If you take a deduction for depletion, report it on line 14, Schedule A.

Line 5. Leases, terminations, etc.—Enter the gross income from entering into (or changing or ending) any lease, mortgage, or other instrument or agreement from which the life insurance company earns interest, rents, or royalties.

Line 7. Gross income from trade or business other than insurance business.—Enter the gross income from any business (other than an insurance business) carried on by the life insurance company, or by a partnership of which the life insurance company is a member. Attach a segregated schedule.

Include section 1245, section 1250, and other gains from Form 4797. See the instructions under *Assets used in a trade or business and involuntary conversions*, above.

Line 9. Tax-exempt interest.—Enter the total amount of tax-exempt interest income attributable to this tax year. Tax-exempt interest does not include interest received on securities acquisition loans as defined in section 133(b).

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

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

SCHEDULE E— Policyholder Dividends (Section 808)

A policyholder dividend includes any amount paid, or accrued (including an increase in benefits) where the amount is not fixed in the contract but depends on the company's experience or the management's discretion plus any excess interest, premium adjustments, and experience-rated refunds. Generally, the deduction for policyholder dividends is the amount actually paid or accrued during the tax year. A mutual company must reduce this amount by the differential earnings amount (defined in section 809).

Also, for purposes of figuring this deduction, any policyholder dividend which increases the cash surrender value of the contract or other benefit payable under the contract or reduces the premium that otherwise has to be paid, is treated as paid to the policyholder and returned by the policyholder to the company as a premium and should be included on line 1.

SCHEDULE F—Differential Earnings Amount (Section 809)

Section 809 requires mutual life insurance companies to reduce certain deductions (policyholder dividends, and certain reserve deductions) by the differential earnings amount. For 1985, the differential earnings rate is 6.157%, For 1986, the Secretary of the Treasury will adjust this rate and announce such rate during early 1987.

See section 809 for definitions, computational information, transitional rules and other adjustments. When determining equity base, no item should be taken into account more than once.

SCHEDULE G—Dividend Income and Dividends-Received Deduction

Line 1, column (a).—Enter dividends received (except those received on debt-financed stock acquired after July 18, 1984—see section 246A) from domestic corporations subject to income tax that qualify for the deduction under section 243(a). The dividend-received deduction for dividends received before January 1, 1987, is 85%. For dividends received after December 31, 1986, it is 80%.

So-called dividends or earnings received from mutual savings banks, money market certificates, etc., are really interest and should not be treated as dividends.

For dividends received from a regulated investment company, see section 854 for the amount that qualifies for the deduction.

Line 2, column (a).—Enter dividends on debt-financed stock (acquired after July 18, 1984) that are received from domestic corporations subject to income tax and that would otherwise be subject to the dividends-received deduction under section 243(a)(1). Generally, debt-financed stock is stock that the corporation acquired, and, in doing so, incurred a debt (for example, it borrowed money to buy the stock). See section 246A for more information.

Line 3, column (a).—Enter dividends received on the preferred stock of a public utility subject to income tax that is allowed the deduction under section 247 for dividends paid. The dividends-received deduction percentage is 59.13% if they are received before January 1, 1987. For dividends received after December 31, 1986 and before July 1, 1987, the dividends-received deduction percentage is 55.652%. For those dividends received after June 30, 1987, the dividends-received deduction is 47.059%.

Line 4, column (a).—Enter dividends received from foreign corporations and dividends received from FSCs that are attributable to qualified interest and carrying charges and qualify for the 85% (80% for dividends received after 1986) deduction under section 245(a).

Line 5, column (a).—Enter dividends received from wholly owned foreign subsidiaries that qualify for the 100% deduction under section 245(b) to the extent they are distributed out of tax-exempt interest or out of dividends which do not qualify as 100% dividends. Also, include dividends received from a Foreign Sales Corporation (FSC) attributable to exempt foreign trade income that qualify for a 100% deduction under section 245(c). Do not include dividends received from a life insurance company.

Line 6, column (a).—Enter dividends that qualify for the 100% dividends-received deduction under section 243(a)(3) that are subject to the elective provisions of section 243(b) to the extent they are distributed out of tax-exempt interest or out of dividends that do not qualify as 100% dividends. Do not include dividends received from a life insurance company.

Line 10, column (a).—Enter dividends that qualify for the 100% dividends-received deduction and that are not reported on line 5 or 6 because they were not distributed out of tax-exempt interest or out of dividends that do not qualify as 100% dividends or because they were paid by a life insurance company.

Note: *Certain dividends received by a foreign corporation are not subject to proration. And attach a schedule of your computation.*

Line 11, column (a).—Enter the total of other dividends received and attach a schedule showing separately:

- Foreign dividends not reportable on lines 4, 5 and 10. (Exclude distributions of amounts constructively taxed in the current year or earlier years under Subpart F.)
- Income constructively received from controlled foreign corporations under Subpart F. This should equal the total amounts reported in Schedule J of **Form(s) 5471**, Information Return with Respect to Foreign Corporations.
- Gross-up of dividends for taxes considered paid under sections 902 and 960.
- Dividends (other than capital gain and exempt-interest dividends) received from regulated investment companies that do not qualify for the dividends-received deduction.
- Dividends from tax-exempt organizations.
- Dividends (other than capital gain dividends) received from a real estate investment trust that, for the tax year of the trust in which the dividends are paid, qualifies under sections 856 through 860.
- Dividends not eligible for the dividends-received deduction because of the stock's holding period or an obligation to make corresponding payments on similar stock.
- Any other taxable dividend income not properly reported above (including distributions under sections 934(e)(3) or 936(h)(4)).

Lines 1 through 6, column (c).—Dividends received on debt-financed stock that are reported on line 2, column (a) are not entitled to the full 85% (80% for dividends received after 1986) dividends-received deduction. Instead, the 85% (80% for dividends received after 1986) deduction is reduced by a percentage that is related to the amount of debt incurred to acquire the stock. See section 246A. A schedule showing how the dividends-received deduction on debt-financed stock (amount on line 2, column (c)) was figured must be attached to Form 1120L.

In general, no dividends-received deduction will be allowed on any share of stock:

1. That is disposed of if the corporation held it 45 days or less (see section 246(c)(1)(A)), or
2. To the extent the corporation is under an obligation to make related payments for substantially similar or related property.

Line 7, column (c).—Limitation on dividends-received deduction. The dividends-received deduction is limited to 85% of line 2, page 1, plus line 7, Schedule A, less the total of lines 8 through 14 of Schedule A; *i.e.*, 85% of life insurance company taxable income (as modified by section 806(c)(3)(C)) figured without regard to: the special life insurance deduction and the small life insurance company deduction (section 806); the operations loss deduction (section 810); the dividends-received deductions (sections 243(a)(1), 244(a), and 245); and any capital loss carryback to this tax year (section 1212(a)(1)).

For a member of an electing controlled group, the 85% limitation also applies to any amount by which line 7, Schedule A is more than the total of lines 8 through 14 of Schedule A. But qualifying dividends received from the same group are not subject to the 85% limitation.

In a year in which there is a loss from operations, the 85% limitation does not apply even if the loss is created by the dividends-received deduction. (See sections 172(d) and 246(b).)

SCHEDULE H—Small Life Insurance Company Deduction (Section 806(b))

To qualify for this deduction, a life insurance company must have less than $15,000,000 of tentative life insurance company taxable income and it must have less than $500,000,000 in assets (which should include assets of all members of a controlled group as defined in section 806(d)(3), whether or not they are life insurance companies). Schedule H is used to figure this deduction, but see sections 804 and 806 for computation of the deduction.

SCHEDULE I—Controlled Group Information (Section 806(d))

In computing the small life insurance company deduction and the special life insurance company deduction, all life insurance companies who are members of a controlled group are treated as one company and the amount of the deduction that the group is entitled to must be allocated to the life insurance company members of the group in proportion to their respective tentative life insurance company taxable income.

For more information on controlled groups, see section 806.

Note: *When a life insurance company makes an election under section 806(d)(4), affected members of the controlled group must exclude the loss from operations of the electing life insurance company in computing the special life insurance company deduction. Attach a separate computation in lieu of Schedule J. Consolidated taxable income of the group that includes the life insurance company that made the section 806(d)(4) election also must be adjusted as provided in section 806(d)(4)(B).*

SCHEDULE J—Special Life Insurance Company Deduction (Section 806(a))

Life insurance companies are also allowed a deduction for any tax year equal to 20% of the excess of tentative life insurance company taxable income for the tax year over the small life insurance company deduction (if any). See sections 804 and 806 and, if a controlled group, Schedule I. Be sure to complete lines 1 through 5 of Schedule H.

Note: *For tax years beginning in 1987, this deduction will be repealed.*

SCHEDULE K—Company/Policyholder Share Percentage (Section 812)

Schedule K provides for the computation of: (1) the company's share percentage of the dividends-received proration (section 805(a)(4)); and (2) the policyholders' share percentage of tax-exempt interest (section 807).

The company's share is obtained by dividing the company's share of net investment income by total net investment income. To accomplish this, it is first necessary to compute the "minifraction," the numerator of which is line 3, and the denominator of which is line 8.

Note: *In computing the denominator, life insurance gross income includes tax-exempt interest, and you are to compute any decrease in reserves without any reduction of the closing balance of the section 807 reserve items by the policyholder's share of tax-exempt interest.*

The fraction, line 9, is to be applied to a portion of policyholder dividends, line 16. The result, line 17, is then added to the policy interest, line 18, to arrive at the policyholder share amount. The company share of net investment income is then obtained by subtracting the policyholder share amount, line 19, from the net investment income. **Net Investment Income** is defined as 90% of gross investment income or in the case of gross investment income attributable to assets held in segregated asset accounts under variable contracts, 95% of gross investment income. (Section 812(c)).

SCHEDULE L—Policy Interest (Section 812(b)(2))

To calculate the company and policyholder share percentage (Schedule K), it is necessary to figure the total amount of policy interest for the tax year. See section 812(b)(2).

SCHEDULE M—Shareholders' Surplus Account (Section 815(c))

Section 815(c)(1) provides that each stock life insurance company (whether domestic or foreign) that has on December 31, 1983, a policyholders' surplus account will continue to maintain a shareholders' surplus account. This schedule calculates the addition made to the shareholders' surplus account as well as the account's year end balance as stated in sections 815(c) and 815(f). Subtract from this account any amount treated under section 815 as a distribution to shareholders. Treat any distribution to shareholders as made first out of this account.

SCHEDULE N—Policyholders' Surplus Account (Section 815(d))

Section 815(d)(1) provides that every stock life insurance company (whether domestic or foreign) that has an existing policyholders' surplus account on December 31, 1983, will continue to keep the account. For tax years beginning after December 31, 1983, no additions can be made to this account, but it must be decreased by the subtractions in section 815(d)(3) (line 3 of Schedule N).

Line 2b.—(1) Subtract the taxpayer's tax rate from 100%. (2) Divide the distributions on line 2a by the difference. (3) Subtract line 2a from the result of step (2). Enter the result on line 2b.

Line 2c.—(1) Determine the total amounts to be subtracted from the policyholders' surplus account under sections 815(d)(1) and 815(d)(4) as they were in effect before the enactment of the Tax Reform Act of 1984. Do this only after you have made the subtractions on lines 2a and b.

(2) Add 100% to the taxpayer's tax rate. For example, if the tax rate is 46%, the result is 146%.

(3) Divide the result of step (1), line 2c, by the result of step (2), line 2c. Enter the result on line 2c. You must also add the amount on line 2c to the shareholders' surplus account at the beginning of the next tax year.

Line 2d.—Subtract the result of step (3), line 2c, from the result of step (1), line 2c. Enter the result on line 2d. This is the tax on the amount on line 2c.

Line 2e.—Section 815(f) states that the provisions of section 815(d)(5) as in effect before the enactment of the Tax Reform Act of 1984 are applicable to any balance in this account as of December 31, 1983. At that time, section 815(d)(5) stated that if any addition to the policyholders' surplus account increases or creates a loss from operations and part or all of the loss cannot be used in any other year to reduce the company's taxable income, then the loss will reduce the policyholders' surplus account at the time the addition was made. You must reduce the account before any subtraction. If the account has been adjusted under section 815(d)(5) and the balance at the end of the preceding tax year is different from the balance at the beginning of this year, attach a schedule showing the adjustments.

Line 3.—Enter the total of lines 2a through 2e on line 3, but not more than line 1, and also enter this amount on page 1, line 3 (as all direct and indirect distributions from the policyholders' surplus account are taxed under section 801).

SCHEDULE O—Total Assets (Section 806(b)(3)(C)) and Total Insurance Liabilities (Section 813(a)(4)(B))

Part I—Total Assets

Note: *All filers must complete Part I of Schedule O.*

Definition.—Assets means all assets of the company.

Valuation.—Use the fair market value for real property and stocks. Use the adjusted basis for determining gain on sale or other disposition for other assets. Determine this adjusted basis under section 1011, and related sections, without regard to section 818(c).

Interest in a partnership or trust is not treated as an asset of the company, but the company is treated as actually owning its proportionate share of the assets held by the partnership or trust.

Part II—Total Insurance Liabilities

Note: *All insurance companies required to file Form 1120L should attach this schedule.*

Foreign insurance companies must maintain a certain surplus of U.S. assets over their U.S. insurance liabilities. That minimum surplus is determined by multiplying their U.S. insurance liabilities by a percentage proclaimed by the Secretary of the Treasury. The Secretary determines the percentage from data supplied by domestic insurance companies in Schedule O, Part II. See section 813(a).

Total insurance liabilities means the sum of the total reserves as defined in section 816(c), plus the items referred to in paragraphs (3), (4), (5), and (6) of section 807(c), to the extent not included in total reserves, at the end of the tax year.

Enter each item of total insurance liabilities on the appropriate line. Enter on line 9f any other amounts included in the definition of total insurance liabilities, but not described on this schedule.

Foreign insurance companies should report total insurance liabilities and section 806(b)(3)(C) assets for their U.S. business only.

SCHEDULE P—Limitation on Noninsurance Losses (Section 806(c)(3)(C))

Section 806(c)(3)(C) references section 1503(c), and that section states that, in figuring life insurance company taxable income, any loss from noninsurance business is limited to the lesser of 35% of the loss or 35% of life insurance company taxable income (less any noninsurance loss included in Schedule A). Use Schedule P to compute any excess loss that must be added back to taxable income on page 1, line 2, Form 1120L. For more information on the computation of the allowable loss deduction as well as the applicable carryback provisions, see section 1503(c).

SCHEDULE Q—Additional Information Required

(The letters in these instructions correspond with questions on Form 1120L, Schedule Q.)

I. U.S. person.—This means: a citizen or resident of the United States, a domestic partnership, a domestic corporation, or any estate or trust (except as defined in section 7701(a)(31)).

Owner's country, for individuals, is their country of residence. For all others, it is the country where incorporated, organized, created, or administered.

K. Stock ownership in foreign corporations.—Attach the required statement if the company owned 5% or more in value of the outstanding stock of a foreign personal holding company. See section 551(c).

If you control a foreign corporation or are a 10% or more shareholder of a controlled foreign corporation, or acquire, dispose or own 5% or more ownership in the outstanding stock of a foreign corporation, you may be required to file **Form(s) 5471**, Information Return with Respect to a Foreign Corporation.

L. Foreign financial accounts.—Check the "Yes" box if:

1. At any time during the year you had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account), and
   - The combined value of the accounts was more than $10,000 at any time during the year, AND
   - The account was NOT with a U.S. military banking facility operated by a U.S. financial institution, OR
2. You own more than 50% of the stock in any corporation that owns one or more foreign bank accounts.

Otherwise, check the "No" box.

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

If you checked "Yes," file this form by June 30, 1987, with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return, so do not file it with Form 1120L.

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

M. Foreign trusts.—Check the "Yes" box if you were ever a grantor of, or a transferor to, a foreign trust that existed during the tax year.

SCHEDULE R—Reconciliation

All filers of Form 1120L must attach a schedule which reconciles their NAIC Annual Statement and their Form 1120L.

SCHEDULE S—Compensation of Officers

Attach a schedule for all officers using the following columns:

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

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

Tax Computation Instructions—Page 1, Lines 4–18

(Fiscal year corporations, see page 9 of instructions.)

General.—Section 801(a)(1) provides a tax on life insurance company taxable income figured at the rates in section 11.

Line 4. Total taxable income.—Generally, this is the total of lines 1, 2, and 3 of page 1.

However, if lines 1 and 2 total less than zero, the amount entered on line 4 may not be less than the amount on line 3.

Line 5a. Taxable income bracket amount.—Generally, corporations are entitled to one $25,000 amount in each taxable income bracket on line 5a. However, members of a controlled group (as defined in section 1563) must share the $25,000 amount in each taxable income bracket.

Unless you elect an unequal apportionment plan, you, as a member of a controlled group, will divide each taxable income bracket amount equally.

If you adopt or amend an apportionment plan, each of you, as a member of a controlled group, must attach to your tax return a copy of your consent to the plan. The consent should show the amount of each taxable income bracket for that member and other data. See Regulations section 1.1561-3(b) for the time and manner of making the election.

As a member of a controlled group having a calendar tax year, you should enter your share of the taxable income bracket on lines 5a(i), (ii), (iii), and (iv) and figure your tax using the schedule below, instead of the instructions for line 6.

Note: *If you are a member of a controlled group and the alternative tax applies, see section 818(e) before computing the tax.*

1. Enter the taxable income (line 4, page 1) . . . . ______
2. Enter line 1 above or your share of the first $25,000 taxable income bracket, whichever is less . . . . . . ______
3. Subtract line 2 from line 1. . . . . . ______
4. Enter line 3 or your share of the second $25,000 taxable income bracket, whichever is less . . . . . . ______
5. Subtract line 4 from line 3 . . . . . ______
6. Enter line 5 or your share of the third $25,000 taxable income bracket, whichever is less . . . . . ______
7. Subtract line 6 from line 5 . . . . . ______
8. Enter line 7 or your share of the fourth $25,000 taxable income bracket, whichever is less . . . . . . ______
9. Subtract line 8 from line 7 . . . . . . ______
10. 15% of line 2 . . . . ______
11. 18% of line 4 . . . . ______
12. 30% of line 6 . . . . ______
13. 40% of line 8 . . . . ______
14. 46% of line 9 . . . . ______
15. If the taxable income of the controlled group exceeds $1,000,000, enter the portion of the lesser of: 5% of the excess over $1,000,000; or $20,250, that this member must pay . . . . . . ______
16. Add lines 10 through 15. Enter here and on line 6, page 1 . . . . ______

Line 6. Income tax

If the amount on line 4 is: Over—	But not over—	Enter on line 6:	Of the amount over—
0	$25,000	15%	0
$25,000	50,000	$3,750 + 18%	$25,000
50,000	75,000	8,250 + 30%	50,000
75,000	100,000	15,750 + 40%	75,000
100,000	------	25,750 + 46%	100,000

Additional tax.—If a calendar year corporation's taxable income exceeds $1,000,000, the total tax imposed under section 11 (see the table above) is increased by the lesser of: 5% of the excess over $1,000,000; or $20,250.

Members of a controlled group of corporations are treated as one corporation for purposes of figuring any additional tax they must pay because their taxable income exceeds $1,000,000. If the group is liable for the additional tax, each member must pay the tax based on the portion of the $25,000 amount it uses in each tax bracket to reduce its tax. See section 1561(a). Each member of the group must attach to its tax return a schedule that shows the taxable income of the entire group as well as how its portion of the additional tax was figured.

Alternative tax.—Figure the alternative tax as stated in section 801(a)(2). Enter the lesser of the alternative tax or the regular tax on line 6, page 1, Form 1120L. If the alternative tax is used, check the box on line 6, page 1, Form 1120L, and attach a schedule showing your computation.

Line 7a. Foreign tax credit.—Use **Form 1118**, Computation of Foreign Tax Credit—Corporations, to figure the credit.

Line 7b. Other credits.—***Possessions corporation tax credit.***—Use **Form 5712**, Election To Be Treated as a Possessions Corporation Under Section 936, to claim this tax credit. Figure the credit on **Form 5735**, Computation of Possessions Corporation Tax Credit Under Section 936, and include the credit on line 7b. Write the amount of the credit and identify it as a section 936 credit on the line next to the entry space. Attach Forms 5712 and 5735 to your return.

Credit for the production of nonconventional source fuel.—If the corporation can claim a credit for the production of nonconventional source fuels, include it on this line. See section 29 for a definition of qualified fuels, provisions for figuring the credit, and other special rules. Attach a separate schedule to the return showing the computation of the credit.

Orphan drug credit.—See section 28 and **Form 6765**, Credit for Increasing Research Activities (or for claiming the orphan drug credit), for an explanation of when a corporation can take this credit as well as how it is figured.

Line 7c. General business credit.—This credit is made up of the sum of the following credits:

- *Investment credit.* The investment credit was generally repealed for property placed in service after 1985. See **Form 3468**, Computation of Investment Credit, for exceptions.
- *Jobs credit.* The jobs credit, if elected, is allowed for hiring members of targeted groups during the tax year. See **Form 5884**, Jobs Credit, for definitions, special rules, and limitations. Also see **Publication 906**, Jobs and Research Credits.

Do not take a deduction for that part of the wages or salaries paid or incurred that is equal to the jobs credit determined without the limitation based on tax (section 38(c)). Members of a controlled group or a business under common control with other businesses, see section 280C.

The jobs credit has been revised for employees hired after 1985. See page 8 for details.

Attach a schedule to Form 1120L to show how and where you reduced the salary and wage deduction(s). Show in this schedule the otherwise allowable deduction(s) before the reduction and the net amount actually deducted. Identify the line number, schedule, and page number of Form 1120L on which you made a reduction. If the reduction of salaries and wages is less than the jobs credit on Form 5884, explain the difference.

- *Alcohol fuel credit.* A corporation may be able to take a credit for alcohol used as fuel. Use **Form 6478**, Credit for Alcohol Used as Fuel, to figure the credit.
- *Employee stock ownership plan credit.* Corporations may take a tax credit equal to the value of employer stock (or the amount of cash used to buy stock) that they contribute to a tax credit employee stock ownership plan (ESOP). See **Form 8007**, Credit for Employee Stock Ownership Plan, for definitions, limitations and the computation of the credit. Contributions made to employee stock ownership plans after 1986 are not to be used in computing the credit. See page 8 for more information.
- The *credit for increasing research activities* is now part of the general business credit for tax years beginning after 1985. See Form 6765. Also, a new low-income housing credit is part of the general business credit for expenditures made after 1986. See section 42 and **Form 8586**, Low-Income Housing Credit.

Form 3800. Enter on line 7c, page 1, the amount of the credit from Form 3800, and check the boxes indicating which forms are attached to the return. If the corporation is claiming only one of the above credits, DO NOT complete Form 3800. Instead, check the appropriate box and attach the form for which the credit is being taken. However, if the corporation has a carryforward or carryback of any of the above credits, it must use Form 3800.

Line 10. Foreign corporations.—A foreign corporation carrying on an insurance business within the U.S. is taxable the same as a domestic insurance company on its income effectively connected with the conduct of a trade or business within the U.S. See sections 842 and 897. Income from sources outside the U.S. from U.S. business is treated as effectively connected with the conduct of a trade or business within the U.S. For a definition of effectively connected income, see sections 864(c) and 897.

Generally, any other U.S. source income received by a foreign corporation not effectively connected with the conduct of a business within the U.S. is taxed at 30% (or lower treaty rate). (**Note:** *Interest received from certain portfolio debt investments that were issued after July 18, 1984, is no longer subject to the tax.*) See section 881. If you have this income, attach a schedule showing the kind and amount of income, tax rate (30% or lower treaty rate), and amount of tax.

When the surplus a foreign life insurance company holds in the U.S. is less than a specified minimum, section 813 requires an adjustment. When this minimum surplus adjustment applies, the tax imposed by section 881 is reduced under section 813(a)(5). Attach a statement showing how you figured the reduction of section 881 tax. Enter the net tax imposed by section 881 on line 10, page 1.

Line 11. Increase in tax from refiguring an earlier year investment credit.—If you dispose of property, or it ceases to qualify, before the end of the useful life you use to figure the regular or energy investment credit, you must refigure the credit. If the credit you took including carrybacks and carryovers is more than the refigured credit, you must increase the tax by the excess in the year you disposed of the property. Use **Form 4255**, Recapture of Investment Credit, to figure the tax increase.

You cannot subtract the tax increase from refiguring an earlier year investment credit from the current year's investment credit.

Line 12. Minimum tax.—Attach **Form 4626**, Computation of Minimum Tax— Corporations, if tax preference items are more than $10,000 even if there is no minimum tax, **OR** if any minimum tax is deferred from an earlier tax year to this year. If you are a member of a controlled group, you must attach Form 4626 if your share of tax preference items is more than your share of the $10,000 exclusion.

Some tax preference items are: accelerated depreciation on real property (including the ACRS deduction on 15-, 18- or 19-year real property); amortization of certified pollution control facilities; reserve for losses on bad debts of financial institutions; depletion; and capital gains.

Line 14b. Estimated tax.—You must make estimated tax payments if you can expect your estimated tax (income tax less credits) to be $40 or more. You may use **Form 1120-W (WORKSHEET)**, Corporation Estimated Tax, as a worksheet to figure estimated tax.

Line 14c. Refund of estimated tax.—You may file **Form 4466**, Corporate Application for Quick Refund of Overpayment of Estimated Tax, for a quick refund if an overpayment of estimated tax is (1) at least 10% of expected income tax liability, AND (2) at least $500. You must apply within 2½ months after the tax year ends and before you file Form 1120L.

Line 14h. Other payments.—Overpaid crude oil windfall profit tax.—Enter on line 14h the overpayment from **Form 6249**, Computation of Overpaid Windfall Profit Tax. See the instructions for that form for more information.

Line 15. Penalty for underpayment of estimated tax.—If the corporation underpaid its estimated tax, attach **Form 2220**, Underpayment of Estimated Tax by Corporations, to show how the corporation figured the penalty or which exception the corporation believes it meets. Also, be sure to check the box on line 15, page 1, Form 1120L. If the corporation owes a penalty, enter the amount on line 15.

Line 16. Tax due.—You must pay the tax due in full when you file the return, but not later than the 15th day of the 3d month after your tax year ends.

Depositary tax payment.—Deposit corporation income tax payments and estimated tax payments with a Federal Tax Deposit Coupon (**Form 8109**). Make these tax deposits with either a financial institution qualifying as a depositary for Federal taxes or the Federal Reserve Bank or Branch servicing the area where the corporation is located. Do not submit deposits directly to an IRS office, otherwise you may be subject to a federal tax deposit penalty. Records of deposits will be sent to IRS for crediting to the corporation's account. See the instructions contained in the coupon book for more information. To get more deposit forms, use the reorder form (**Form 8109A**) contained in the coupon book.

Penalty for overstated tax deposits.—If you overstate your deposits, you may be subject to a penalty. See section 6655(b).

Tax Reform Act of 1986

The Tax Reform Act of 1986 made several changes that affect corporations. Some of the changes are effective starting with calendar year 1986 tax returns; some are effective starting with fiscal year 1986-1987 tax returns; and some are effective starting with calendar year 1987 tax returns which are highlighted for purposes of computing estimated taxes.

Tax changes taking effect beginning in 1986

Regular Investment Tax Credit Repealed.—For property placed in service after 1985, the regular investment tax credit has been repealed. See new section 49 for special rules and Form 3468.

Increase in Penalty for Failure To File Information Returns.—For returns due after December 31, 1986, the maximum penalty for failure to file information returns has been increased. A new penalty of $5 for supplying incorrect information has also been added. For more information, see sections 6652, 6676, 6678, and new sections 6721 through 6724.

Targeted Jobs Credit Extended and Revised.—The jobs credit for hiring members of certain targeted groups has been extended and modified. For employees hired after 1985, you may claim a credit for only the first-year wages paid to the employee. See **Form 5884**, Jobs Credit, and section 51 for more information.

General Business Credit Reduced.—For tax years beginning after 1985, the maximum amount of tax liability against which the general business tax credit can be applied is reduced to 75%. Formerly, the business tax credit could be applied to 85% of tax liability. See section 38.

The following provisions begin in 1987 and affect fiscal 1986-1987 tax years.

Reduction in Corporate Tax Rates.—Effective July 1, 1987, tax rates for corporations are reduced. The new tax rates are 15% of the first $50,000 of taxable income; 25% of the next $25,000 of taxable income; and 34% for any amount of taxable income over $75,000. An additional tax applies to taxable income over $100,000. The tax is the lesser of 5% of the excess over $100,000 or $11,750. See the tax computation worksheet on page 9 for more details.

Reduction in Dividends-Received Deduction.—The dividends-received deduction for dividends received from certain corporations has been reduced for dividends received after 1986. The new percentage is 80%; the previous percentage was 85%. See sections 243, 244, and 246A.

New Low-Income Housing Credit.—A new low-income housing credit applies to certain buildings placed in service after 1986. See Form 8586 and section 42 for rules and computations.

Investment Tax Credit for Rehabilitation Expenditures.—An investment tax credit will be allowed for qualified rehabilitation expenditures made to property placed in service after 1986. See section 46 and Form 3468.

Depreciation.—The rules for computing depreciation have been substantially changed for property placed in service after 1986. Corporations may also elect these new rules for property placed in service after July 31, 1986. The new system provides specific methods for each class of assets. Additionally, the section 179 deduction is increased from $5,000 to $10,000 for property placed in service after 1986. See **Form 4562-A**, Depreciation of Property Placed in Service After December 31, 1986, and section 168.

Repeal of ESOP Credit.—The credit for contributions to an employee stock ownership plan (ESOP) has been repealed for compensation paid or accrued after December 31, 1986.

Alternative Tax for Fiscal Year Corporation.—Generally, the alternative tax has been repealed for tax years beginning after 1986. However, transitional rules allow fiscal year corporations to compute the alternative tax. The alternative tax computation for fiscal year corporations is (a) 28% of the lesser of: the net capital gain determined by taking into account only gain and loss for the portion of the tax year before January 1, 1987, or the net capital gain for the tax year, plus (b) 34% of the excess of the net capital gain for the tax year over the amount of net capital gain taken into account in (a) above. See section 1201.

Gain or Loss on Distribution of Property in Liquidation.—Generally, corporations will recognize gain or loss on distributions of their property in complete liquidation as if they had sold the property at its fair market value. These new rules apply to liquidations completed after December 31, 1986. See sections 336 and 337.

Limitation on Net Operating Loss Carryovers.—The amount of net operating loss carryovers is limited when there has been a change in ownership or equity for net operating losses incurred after 1986. The limitation is described in section 382(b) and applies generally when a 5% shareholder or group of 5% shareholders increases its or their ownership in a corporation by more than 50 percentage points, or when there has been a change in equity. See section 382 for rules and definitions.

Limitation on Certain Excess Credits.—For certain ownership changes occurring after 1986, a change in ownership of a corporation will result in the amount of the following excess credits being limited for subsequent years: the unused general business credit, any unused minimum tax credit, and any capital loss carryover. The foreign tax credit carryover is also limited.

The following provisions begin in 1987 and affect calendar year 1987 tax returns:

Special Life Insurance Deduction.—The Special life insurance deduction computed in Schedule J is repealed for tax years beginning in 1987.

Reserve Method for Bad Debts.—For tax years beginning after 1986, only certain financial institutions, will be able to use the reserve method of computing bad debts. All other taxpayers must use the specific charge-off method for computing bad debts. Corporations who are not entitled to use the reserve method must include in income any amount remaining in the reserve as income ratably over a 4 year period.

For additional information, see section 166.

Also, for tax years beginning after 1986, section 586, Reserve for losses on loans of small business corporations, etc., has been repealed.

Reporting of Tax-Exempt Interest.—For tax years beginning after 1986, any taxpayer required to file a tax return must report, as an item of information on that return, the amount of the tax-exempt interest received or accrued during the tax year.

Minimum Tax.—For tax years beginning after 1986, the add-on minimum tax will be replaced by an alternative minimum tax based on alternative minimum taxable income. A corporation will have to compute its tax under the regular system and under the minimum tax provisions. See sections 55 through 59 for more information. For tax years beginning after 1986, corporations must take minimum

Effective July 1, 1987, the tax rates for corporations were reduced. The new rates of tax are:

15% on the first $50,000 of income;
25% on the next $25,000 of income;
34% on any amount over $75,000.

Also, an additional tax of 5% is applied against income in excess of $100,000. The maximum amount of this additional tax is $11,750. In addition, different rules apply for computing the alternative tax on net capital gains for fiscal year corporations that have a tax year that includes January 1, 1987. These rules are explained in the instructions that follow Schedule B. If the corporation's fiscal tax year includes July 1, 1987, the tax liability shall be computed by completing Schedules A and B of the worksheet below. If the corporation's tax year ends on or before June 30, 1987, only Schedule A must be completed. Supplemental instructions for completing Schedule A and B follow Schedule B.

Fiscal year corporations complete the following schedules to determine tax liability.

Schedule A — Tax Computed for Period Before July 1, 1987

1	Taxable income (line 4, page 1, Form 1120L)	
2	Net capital gain income from line 10a, Schedule D (Form 1120), if applicable (see instructions)	
3	Subtract line 2 from line 1	
4	Enter the lesser of line 3 or $25,000 (members of a controlled group, see instructions)	
5	Subtract line 4 from line 3	
6	Enter the lesser of line 5 or $25,000 (members of a controlled group, see instructions)	
7	Subtract line 6 from line 5	
8	Enter the lesser of line 7 or $25,000 (members of a controlled group, see instructions)	
9	Subtract line 8 from line 7	
10	Enter the lesser of line 9 or $25,000 (members of a controlled group, see instructions)	
11	Subtract line 10 from line 9	
12	Multiply line 4 times 15%	
13	Multiply line 6 times 18%	
14	Multiply line 8 times 30%	
15	Multiply line 10 times 40%	
16	Multiply line 11 times 46%	
17	If line 3 is greater than $1,000,000, enter the lesser of: (a) 5% of the excess of line 3 over $1,000,000; or, (b) $20,250 (members of a controlled group, see instructions). Fiscal year corporations whose tax years end after June 30, 1987, skip lines 18 and 19, and complete Schedule B of this worksheet	
18	Alternative tax on net capital gain from worksheet on page 10	
19	Add amounts on lines 12 through 18	
	Fiscal year corporations whose tax years end before July 1, 1987, enter the tax liability before credits (line 19) on line 6, page 1, Form 1120L. DO NOT complete Schedule B. (If the alternative tax applies, enter such tax on line 6, page 1, Form 1120L and check the box on line 6.)	

Schedule B — Tax Computed for Period After June 30, 1987

20	Enter amount from line 3, Schedule A	
21	Enter the lesser of line 20 or $50,000 (members of a controlled group, see instructions)	
22	Subtract line 21 from line 20	
23	Enter the lesser of line 22 or $25,000 (members of a controlled group, see instructions)	
24	Subtract line 23 from line 22	
25	Multiply line 21 times 15%	
26	Multiply line 23 times 25%	
27	Multiply line 24 times 34%	
28	Additional tax. If line 20 is more than $100,000, enter the lesser of: (a) 5% of the excess of line 20 over $100,000, or (b) $11,750	
29	Add lines 25 through 28	
30	Add lines 12 through 17	
31	Line 30 × $\frac{\text{number of days in tax year before 7-1-87}}{\text{number of days in tax year}}$	
32	Line 29 × $\frac{\text{number of days in tax year after 6-30-87}}{\text{number of days in tax year}}$	
33	Alternative tax on net capital gain from worksheet on page 10	
34	Tax liability before credits. Add amounts on line 31, 32 and 33. Enter here and on line 6, page 1, Form 1120L	

tax into account when computing estimated tax. See 1987 Form 1120W for more information.

Meals, Travel, and Entertainment Expenses.—For tax years beginning after 1986, many of the rules on what are allowable expenses for meals, entertainment, travel, and certain other business expenses have been changed. See section 274.

Meals and entertainment. The amount deductible for meals and entertainment expenses is generally limited to 80% of the amount otherwise allowable. In addition, meals must not be lavish or extravagant; a bona fide business discussion must precede or directly follow the meal; and your employee must be present at the meal. If the corporation claims a deduction for unallowable meal expenses, it may have to pay a penalty.

For additional information on these changes, see **Publication 553**, Highlights of 1986 Tax Changes.

Net Capital Gain and Alternative Tax (Lines 2, 18, 33)

In general, the alternative tax is the sum of (a) a tax computed on taxable income reduced by the net capital gain (line 2) using the applicable tax brackets and tax rates, and (b) a tax computed on the net capital gain (see below for this part of the computation). If the alternative tax is less than the regular tax computed on total taxable income using the applicable tax brackets and tax rates, then the corporation may enter the alternative tax on line 6, Form 1120L, and check the box. If a corporation has a net capital gain, both computations (the regular tax computation and the alternative tax computation) should be made to determine which results in the lower tax.

For fiscal year corporations the net capital gain times the alternative tax rate is determined as follows:

1. Enter the net capital gain from line 10a, Schedule D (Form 1120) . . . . . ________
2. Enter the amount from line 10b, Schedule D (Form 1120) **Caution:** If this results in a net capital gain greater than the amount on line 1, enter the amount from line 1 here . . . . . ________
3. Subtract line 2 from line 1 . ________
4. Multiply line 2 times 28% . ________
5. Multiply line 3 times 34% . ________
6. Alternative tax on net capital gain. Add lines 4 and 5. Enter here and on lines 18 or 33, whichever applies . . . . . ________

If the alternative tax is not used, lines 2 and 18, Schedule A, and line 33, Schedule B, should be blank.

Lines 4, 6, 8, and 10.—Members of a controlled group must enter their portion of each taxable income bracket. See the instructions for rules regarding how controlled groups (as defined in section 1563) may divide these amounts.

Line 17.—If the total taxable income of controlled group of corporations is more than $1,000,000, each member should enter its portion of the additional tax as explained in the instructions under *Tax Computation*.

Line 21.—Members of a controlled group (as defined in section 1563) are to allocate the $50,000 in the first taxable income bracket. The controlled group is entitled to one $50,000 amount in the first taxable income bracket and may use the equal and unequal apportionment rules explained in the instruction under *Tax Computation*.

Line 23.—Members of a controlled group (as defined in section 1563) are to allocate the $25,000 amount in the second taxable income bracket. The controlled group is entitled to one $25,000 amount in the bracket. The members may use the equal and unequal apportionment rules explained in the instructions under *Tax Computation*.

Line 28.—If total taxable income of the controlled group of corporations is more than $100,000, each member should enter its portion of the additional tax on line 28. See section 1561 for rules on determining each member's share of the additional tax.

★ U.S. Government Printing Office: 1987—[illegible]

Form **1120M** Department of the Treasury Internal Revenue Service

U.S. Mutual Insurance Company Income Tax Return

For calendar 1986, or tax year beginning ...., 1986, and ending ...., 19....

▶ For Paperwork Reduction Act Notice, see page 1 of the Instructions.

OMB No. 1545-0566

1986

Please type or print

Name	A Employer identification number
Number and street	B Date incorporated
City or town, state, and ZIP code	C Check if this is a consolidated return . ▶ ☐

D Check if address changed from previous year . . . . . ▶ ☐

Part I Taxable Income and Tax Computation

1	Taxable investment income or (loss)—Part II, line 23. If less than $6,000, see instructions for line 11.	1	
2	Statutory underwriting income or (loss)—Part III, line 36.	2	
3	Amounts subtracted from the Protection Against Loss Account—Schedule E, line 4f	3	
4	Total (combine lines 1, 2, and 3).	4	
5	Unused loss deduction (attach schedule).	5	
6	Mutual insurance company taxable income (subtract line 5 from line 4). If less than $12,000, see instructions for line 8	6	
7 a(1)	Check if you are a member of a controlled group (see sections 1561 and 1563) . . . ☐ If checked, see instructions and enter your share of the $25,000 in each taxable income bracket: (i) $ .... (ii) $ .... (iii) $ .... (iv) $		
a(2)	If your tax year includes July 1, 1987, see instructions and enter share of tax bracket amounts: (i) $ .... (ii) $		
b	Income tax—see instructions to figure the tax	7b	
8	Special computation (see instructions)	8	
9	Enter amount reciprocal must include (see instructions)	9	
10	Total (line 7b or line 8, whichever applies, plus line 9)	10	
11	Alternative tax for certain small companies (see instructions)	11	
12	Income tax—Enter the smallest of line 10, line 11 (if it applies), or the alternative tax (section 1201). Check box if alternative tax is used (section 1201) . . . ☐	12	
13	Tax credits—**a** Foreign tax credit (attach Form 1118)	13a	
b	Other credits (see instructions)	13b	
c	General business credit. Check if from ☐ Form 3800 ☐ Form 3468 ☐ Form 5884 ☐ Form 6478 ☐ Form 6765 ☐ Form 8586	13c	
d	Total credits (add lines 13a through 13c)	13d	
14	Subtract line 13d from line 12	14	
15	Foreign corporations—Tax on income not connected with U.S. business (see instructions)	15	
16	Increase in tax from refiguring an earlier year investment credit (attach Form 4255)	16	
17	Minimum tax on tax preference items (see instructions—attach Form 4626)	17	
18	Total tax (add lines 14 through 17)	18	
19	Credits and payments:		
a	1985 overpayment allowed as a credit	19a	
b	1986 estimated tax payments	19b	
c	Less 1986 refund applied for on Form 4466	19c	( )
d	Tax deposited with Form 7004	19d	
e	Credit by reciprocal for tax paid by attorney-in-fact under section 826(e)	19e	
f	Other refundable credits and payments (see instructions)	19f	
g	Total credits and payments	19g	
20	Enter any **PENALTY** for underpayment of estimated tax— Check ▶ ☐ if Form 2220 is attached	20	
21	**TAX DUE**—If the total of lines 18 and 20 is larger than line 19g, enter AMOUNT OWED	21	
22	**OVERPAYMENT**—If line 19g is larger than the total of lines 18 and 20, enter AMOUNT OVERPAID	22	
23	Enter amount of line 22 you want: **Credited to 1987 estimated tax** ▶ $ **Refunded** ▶	23	

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Signature of officer | Date | ▶ Title

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ▶ ☐	Preparer's social security no.
Firm's name (or yours, if self-employed) and address ▶		E.I. No. ▶	
		ZIP code ▶	

Form **1120M** (1986)

Part II Taxable Investment Income or (Loss)—Section 822

Gross Investment Income

		(a) Interest received	(b) Amortization of premium	(c) Balance (Column (a) minus column (b))
1	Interest on:			
a	Wholly exempt obligations (attach schedule)			
b	U.S. obligations			
c	Loans, notes, mortgages, bank deposits, bonds, debentures, etc.			
d	Totals			
2	Dividends (from Schedule B, line 7)			
3	Gross rents			
4	Gross royalties			
5	Gross income from trade or business other than insurance business and from Form 4797. (Include section 1245, 1250, etc. gains for investment assets only.)			
6	Leases, etc.			
7	Total (add lines 1d through 6)			
8	Gain from separate Schedule D (Form 1120)			
9	Gross investment income (add lines 7 and 8)			

Deductions

10	Taxes	
11	Real estate expenses	
12	Depreciation (attach Form 4562—see instructions for line 12)	
13	Depletion	
14	Trade or business deductions as provided in section 822(c)(8) (attach schedule)	
15	Interest paid or accrued	
16	Other capital losses (from Schedule C, line 12, column (g))	
17	Total (add lines 10 through 16)	
18	Interest wholly exempt from tax (from line 1a, column (c))	
19	Investment expenses (attach schedule—see instructions for line 19)	
20	Total deductions (add lines 17 through 19)	
21	Subtract line 20 from line 9	
22	Dividends-received deduction (from Schedule B, line 14—see Schedule B instructions for limitation)	
23	Taxable investment income or (loss) (subtract line 22 from line 21). Enter here and in Part I, line 1	

SCHEDULE A.—Invested Assets Book Values

(Complete only if you claim a deduction for general expenses allocated to investment income.)

		(a) Beginning of tax year	(b) End of tax year
1	Real estate		
2	Mortgage loans		
3	Collateral loans		
4	Policy loans, including premium notes		
5	Bonds of domestic corporations		
6	Stock of domestic corporations		
7	Government obligations, etc.		
8	Bank deposits bearing interest		
9	Other interest-bearing assets (attach schedule)		
10	Total (add lines 1 through 9)		
11	Add columns (a) and (b), line 10		
12	Mean of the invested assets for the tax year (enter one-half of line 11)		
13	¼ of 1% of line 12 (multiply line 12 by .0025)		
14	Income base (subtract line 17, Part II, from line 9, Part II)		
15	3¾% of line 12 (multiply line 12 by .0375)		
16	Subtract line 15 from line 14 (but do not enter less than zero)		
17	25% of line 16 (multiply line 16 by .25)		
18	Limitation on deduction for investment expenses (add lines 13 and 17)		

SCHEDULE B.—Dividends (See Instructions.)

(Fiscal year corporations, see page 7 of instructions.)

Income		Deductions	
1 Certain domestic corporations		8 Line 1 deduction—see instructions.	
2 Certain debt-financed stock		9 Line 2 deduction—see instructions.	
3 Certain public utility corporations		10 Line 3 deduction—see instructions.	
4 Certain foreign corporations		11 Line 4 deduction—see instructions.	
5 Certain affiliated groups		12 Total (see instructions for limitation)	
6 Other corporations (attach schedule)		13 100% of line 5	
7 Total (add lines 1 through 6)		14 Total (add lines 12 and 13)	

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Part III Statutory Underwriting Income or (Loss)—Section 823

Gross Income

1	Investment income—Section 832(b)(2):		
	a Interest		
	b Dividends (from Schedule B, line 7)		
	c Rents		
2	Premiums earned—Section 832(b)(4)		
3	a Net gain from sale or other disposition of capital assets—Section 832(b)(1)(B) (attach Schedule D (Form 1120))		
	b Ordinary gain from attached Form 4797 (include all section 1245, 1250, etc. gains)		
4	Other income—Section 832(b)(1)(C) (attach schedule)		
5	Decrease in subscriber accounts—Section 823(b)(2)(B)		
6	Gross income (add lines 1 through 5)		

Deductions

7	Salaries and wages—Section 832(c)(1)		
8	Rents—Section 832(c)(1)		
9	Interest—Section 832(c)(2)		
10	Taxes—Section 832(c)(3)		
11	Losses incurred on insurance contracts—Section 832(c)(4)		
12	Other capital losses—(from Schedule C, line 12, column (g))		
13	Worthless agency balances and bills receivable—Section 832(c)(6)		
14	Interest excluded under section 103—Section 832(c)(7)		
15	Depreciation—Section 832(c)(8) (attach Form 4562)		
16	Depletion—Section 832(c)(8)		
17	Contributions—Section 832(c)(9) **(see instructions for limitation)**		
18	Dividends paid or declared to policyholders—Section 832(c)(11)		
19	Increase in subscriber accounts—Section 823(b)(2)(A)		
20	Pension, profit-sharing, etc. plans—Section 832(c)(10) (see instructions)		
21	Employee benefit programs—Section 832(c)(10) (see instructions)		
22	Other deductions—Section 832(c)(10) (attach schedule)		
23	Total deductions (add lines 7 through 22)		
24	Subtract line 23 from line 6		
25	Dividends-received deduction—Section 832(c)(12) (Schedule B, line 14—see Schedule B instructions for limitation)		
26	Total deductions (add lines 23 and 25)		
27	Subtract line 26 from line 6		
28	Taxable investment income or (loss) (from Part II, line 23)		
29	Subtract line 28 from line 27 (If a loss, skip line 30 and enter the loss on line 31.)		
30	a Limitation	$1,100,000.00	
	b Amount from Part II, line 7		
	c Premiums (see instructions)		
	d Total (add lines 30b and 30c). If $500,000 or less, skip line 30e and enter $6,000 (but not more than line 29) on line 30f		
	e Subtract line 30d from line 30a. If less than zero, enter zero on line 30f		
	f 1% of line 30e (multiply line 30e by .01). Do not enter more than line 29		
31	Underwriting gain or (loss)—subtract line 30f from line 29		

Protection Against Loss Deduction

32	1% of line 11 (multiply line 11 by .01)		
33	25% of underwriting gain on line 31 (multiply gain on line 31 by .25). If line 31 is zero or a loss, skip lines 34a through 34e and enter a zero on line 34f		
34	Concentrated risks:		
	a Premiums earned (Part III, line 2)		
	b Amount of line 34a attributable to insuring against losses arising, either in any one state or within 200 miles of any fixed point selected by the taxpayer, from windstorm, hail, flood, earthquake, or similar hazards		
	c Divide line 34b by line 34a	%	
	d Limitation	40%	
	e Premium percentage that exceeds 40% (subtract 34d from 34c)	%	
	f Multiply line 31 (if a gain) by line 34e		
35	Protection against loss deduction (add lines 32, 33, and 34f). Enter here and in Schedule E, line 2		
36	Statutory underwriting income or (loss) (combine lines 31 and 35). Enter here and in Part I, line 2		

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SCHEDULE C.—Other Capital Losses (See Instructions.)

(Capital assets sold or exchanged to meet abnormal insurance losses and to pay dividends and similar distributions to policyholders.)

1	Dividends and similar distributions paid to policyholders		
2	Losses paid		
3	Expenses paid		
4	Total (add lines 1, 2, and 3)		
5	Interest received (Part II, line 1d, column (c), adjusted to cash method if on accrual method)		
6	Dividends received (Schedule B, line 7, adjusted to cash method if on accrual method)		
7	Sum of lines 3 through 6 of Part II (adjusted to cash method if on accrual method)		
8	Net premiums received (adjusted to cash method if on accrual method)		
9	Total (add lines 5 through 8)		
10	Limitation on gross receipts from sales of capital assets (subtract line 9 from line 4, but not less than zero)		

	(a) Description of capital asset	(b) Date acquired	(c) Gross sales price	(d) Cost or other basis	(e) Expense of sale	(f) Depreciation allowed (or allowable)	(g) Loss (col. (d) plus col. (e) less the sum of cols. (c) and (f))
11							
12	Totals—column (c) must not be more than line 10. (Enter column (g) in Part II, line 16, and Part III, line 12)						

SCHEDULE E.—Protection Against Loss Account

1	Balance at beginning of year		
2	Addition (from Part III, line 35)		
3	Total (add lines 1 and 2)		
4	Subtractions (attach computation of any items in lines 4a through 4e that apply):		
	a Section 824(d)(1)(A)		
	b Section 824(d)(1)(B)		
	c Section 824(d)(1)(C)		
	d Section 824(d)(1)(D)		
	e Section 824(d)(1)(E)		
	f Total (add lines 4a through 4e). Enter here and on page 1, line 3		
5	Balance at end of year (subtract line 4f from line 3)		

SCHEDULE F.—Compensation of Officers (See Instructions for Information to be attached.)

SCHEDULE G.—Additional Information Required

		Yes	No
E	Did you at the end of this tax year own, directly or indirectly, 50% or more of the voting stock of a domestic corporation (for rules of attribution, see section 267(c))? If "Yes," attach a schedule showing: (1) name, address, and identification number; and (2) percentage owned.		
F	Were you a U.S. shareholder of any controlled foreign corporation (see sections 951 and 957)? (If "Yes," attach Form 5471.)		
	Note: *Domestic and foreign corporations in a trade or business in the U.S. that are controlled by a foreign person may have to file Form 5472.*		
G	Did you claim a deduction for expenses connected with:		
	(1) Entertainment facility (boat, resort, ranch, etc.)?		
	(2) Living accommodations (except employees on business)?		
	(3) Employees attending conventions or meetings outside the North American area? (See section 274(h).)		
	(4) Employees' families at conventions or meetings?		
	If "Yes," were any of those conventions or meetings outside the North American area? (See section 274(h).)		
	(5) Employee or family vacations not reported on Form W-2?		
H	At any time during the tax year, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See the instructions for exceptions and filing requirements for form TD F 90-22.1.)		
	If "Yes," write in the name of the foreign country. ▶		
I	Were you the grantor of, or transferor to, a foreign trust that existed during the current tax year, whether or not you have any beneficial interest in it? (If "Yes," you may be required to file Forms 3520, 3520A, or 926.)		
J	During the tax year did you maintain any part of your accounting/tax records on a computerized system?		
K	Check method of accounting: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (Specify) ▶		

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1986 Instructions for Form 1120M

Department of the Treasury
Internal Revenue Service

U.S. Mutual Insurance Company Income Tax Return

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

Changes You Should Note

The Tax Reform Act of 1986 made several changes to the way corporations compute their taxable income and their tax liability. See pages 8 and 9 for information on how the Tax Reform Act of 1986 affects calendar year, fiscal year, and 1987 corporations.

General Instructions

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

Purpose of Form.—This form is used to report the income and expenses of a mutual insurance company and to figure any tax that may be due.

Who Must File.—Every domestic mutual insurance company (other than a life insurance company subject to a tax under section 801 and other than a fire, flood or marine insurance company subject to tax under section 831) and every foreign corporation carrying on an insurance business within the U.S. (if its U.S. business would qualify as a mutual insurance company subject to tax under section 821) uses Form 1120M to report income and deductions.

Exceptions.—For a mutual insurance company that is:

- Exempt under section 501(c)(15), file **Form 990,** Return of Organization Exempt From Income Tax.
- Subject to tax under section 821, and disposes of its insurance business and reserves or otherwise ceases to be taxed under section 821, but continues its corporate existence while winding up and liquidating its affairs, file **Form 1120,** U.S. Corporation Income Tax Return.

When To File.—In general, a corporation must file Form 1120M by the 15th day of the 3d month after the end of the tax year. A new corporation filing a short period return must generally file by the 15th day of the 3d month after the short period ends. A corporation that has dissolved must generally file by the 15th day of the 3d month after the date it dissolved.

Extension.—File **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 1120M. However, this automatic extension does not extend the time for payment of the tax.

Where To File.—

If the corporation's principal business, office, or agency is located in	Use the following Internal Revenue Service Center address
New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, Minnesota, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101
Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
California (all other counties), Hawaii	Fresno, CA 93888
Arkansas, Indiana, North Carolina, Tennessee, Virginia	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania, foreign countries and U.S. possessions	Philadelphia, PA 19255

The separate income tax returns of a group of corporations may be filed with the service center for the principal office of the managing corporation that keeps all the books and records.

Penalties.—Avoid penalties and interest by correctly filing and paying the tax when due.

(1) A corporation that does not file its tax return by the due date (including any extensions of time for filing) may be subject to a penalty of 5% a month or fraction of a month, up to a maximum of 25%, for each month the return is not filed. The penalty is imposed under section 6651(a)(1) on the net amount due. The minimum penalty for failure to file a tax return within 60 days of the due date for filing (including extensions) is the lesser of the underpayment of tax or $100.

Note: *Since Regulations section 1.6012-2(c)(2) requires that the NAIC annual statement be filed as part of the return, a penalty may be charged under section 6651(a)(1) for not including the NAIC annual statement when filing the return.*

(2) A corporation that does not pay the tax when due generally may be subject to a penalty of ½% a month or fraction of a month, up to a maximum of 25%, for each month the tax is not paid. The penalty is imposed under section 6651(a)(2) on the net amount due.

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

These penalties are in addition to the interest charge imposed on unpaid tax at a rate determined under section 6621.

(3) A corporation that does not pay the proper estimated tax when due may be subject to an underpayment penalty for the period of underpayment. To avoid the estimated tax penalty, a corporation must make estimated tax payments of at least 90% of its total tax for the year. See section 6655 for exceptions.

Accounting Methods.—Figure taxable income by the method of accounting regularly used in keeping the corporation's books and records. The method adopted must clearly reflect taxable income. See section 446.

Unless the law specifically permits, you cannot change the method of accounting used to report income in earlier years (for income as a whole or for any material item) unless you first get consent on **Form 3115,** Application for Change in Accounting Method.

Economic Performance.—Section 461(h) generally provides that the amount of an item is not incurred under an accrual method of accounting until economic performance occurs. For exceptions for recurring items that meet the all-events test and effective dates of available elections, see Temporary Regulations section 1.461-3T.

Rounding Off to Whole-Dollar Amounts.—You may show money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

Attachments.—In order to process the return, we ask that you complete every applicable entry space on Form 1120M. Please do not attach statements and write "See attached" instead of completing the entry spaces on Form 1120M. If you need more space on forms or schedules, attach separate sheets and use the same arrangement as on the printed forms. Show the totals on the printed forms. Be sure to put the taxpayer's name, employer identification number, and the form number or schedule letter on the top of these separate sheets.

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

Paid Preparer's Information.—If your corporate officer filled in Form 1120M, the Paid Preparer's Use Only area should remain blank. If someone prepares Form 1120M and does not charge the corporation, that person should not fill in this area. Certain others who prepare Form 1120M should not fill in this area. For example, a regular, full-time employee of the corporation, such as a clerk or secretary, does not have to fill in the Paid Preparer's Use Only area.

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

The person required to sign the return as preparer 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), and
- Give a copy of Form 1120M to the taxpayer in addition to the copy filed with IRS.

Tax return preparers should know their responsibilities. **Publication 1045,** Information and Order Blanks for Preparers of Federal Income Tax Returns, lists some of the preparers' other responsibilities and penalties for which they may be liable. The publication also contains the regulations that govern their work.

Other Forms Needed.—In addition to Form 1120M, you may need to file one or more of the following information forms. Other forms you may need are listed elsewhere in the instructions.

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

Form W-2P.—Statement for Recipients of Annuities, Pensions, Retired Pay, or IRA Payments.

Form 966.—Information return regarding dissolution or liquidation.

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

Form 1098.—Mortgage Interest Statement. This form is used to report the receipt from any individual of $600 or more of mortgage interest in the course of your trade or business.

Forms 1099-A, B, DIV, INT, MISC, OID, PATR and R.—Information returns for reporting abandonments, acquisitions through foreclosure, proceeds from broker and barter exchange transactions, dividends, interest income, medical and health care payments, miscellaneous income payments, nonemployee compensation, original issue discount, patronage dividends, and total distributions from profit-sharing and retirement plans, individual retirement arrangements, and insurance contracts. Also file appropriate returns to report nominees' information for amounts that were received on behalf of another person.

Caution: *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 5452.—Corporate Report of Nontaxable Dividends.

Form 5471.—Information Return With Respect to a Foreign Corporation. 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 the outstanding stock of a foreign corporation may have to file Form 5471.

Form 5472.—Information Return of a Foreign-Owned Corporation. A domestic corporation or a foreign corporation that is engaged in a trade or business in the United States and is controlled by a foreign person may have to file Form 5472.

Form 5498.—Individual Retirement Arrangement Information. This form is to be used to provide IRS with contribution information on individual retirement arrangements and simplified employee pension plans and plans that accept deductible voluntary employee contributions.

Form 5713.—International Boycott Report. 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 figure loss of the following items: foreign tax credit, deferral of earnings of a controlled foreign corporation, IC-DISC, and FSC benefits.

Form 8264.—Application for Registration of a Tax Shelter. 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. Used by taxpayers who 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 tax return (including an application for tentative refund (**Form 1139**) and an amended return (**Form 1120X**)) on which a deduction, credit, loss, or other tax benefit attributable to a tax shelter is taken.

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

Consolidated Returns.—If an affiliated group of corporations includes one or more domestic insurance companies taxed under section 801 or 821, the common parent may elect to treat those companies as includible corporations. The insurance companies must have been members of the group for the 5 tax years immediately preceding the tax year for which the election is made. See section 1504(c)(2) and Regulations section 1.1502–47(d)(12).

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

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

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

Attach consolidated balance sheets and a reconciliation of consolidated retained earnings.

Specific Instructions

Employer Identification Number.—Enter the employer identification number (EIN) of the corporation.

Corporations that do not have an EIN should apply for one on **Form SS-4,** Application for Employer Identification Number, available from most IRS and Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center to which Form 1120M is sent. Write "Applied for" in the space provided for the EIN if it is not received by the time Form 1120M is filed.

Period Covered.—This return is for tax years beginning in 1986. If the return is for a fiscal year, fill in the dates it began and ended at the top of page 1, Form 1120M. If the corporation ceased to exist in 1986, write "FINAL RETURN" at the top of the form.

Part I—Taxable Income and Tax Computation

Mutual Insurance Company Taxable Income

Line 5

Unused Loss Deduction.—The deduction is the total of the unused loss carryovers and carrybacks to the tax year.

Unused Loss.—Unused loss for any tax year is the amount by which the sum of the statutory underwriting loss and the investment loss is more than the sum of:

(1) The taxable investment income,
(2) The statutory underwriting income, and
(3) The amount section 824(d) requires to be subtracted from the protection against loss account.

You may carry back the unused loss for a loss year to each of the 3 tax years before the loss year, and carry it over to each of the 15 years after the loss year; or you may irrevocably elect only to carry the unused loss over to each of the 15 years after the loss year. After you apply the loss to the first year, the part of the loss you may carry to each of the remaining tax years is the amount by which the loss is more than the sum of the offsets (as defined in section 825(f)) for each of the earlier tax years to which you may carry the loss.

Limitations.—You may not carry an unused loss:

(1) To or from any tax year for which the insurance company is not subject to the tax under section 821(a), or

(2) To any tax year if, between the loss year and that tax year, there is an intervening tax year for which the insurance company was not subject to the tax under section 821(a).

See section 844 for special carryover loss rules for an insurance company that has changed its form of organization or kind of insurance business.

Tax Computation

(Fiscal year corporations, see page 10 of instructions.)

Line 7a(1)

Taxable Income Bracket Amount.—Generally, corporations are entitled to one $25,000 amount in each taxable income bracket. However, members of a controlled group (as defined in section 1563) must share the $25,000 amount in each taxable income bracket.

Unless you elect an unequal apportionment plan, each of you as members of a controlled group will divide each taxable income bracket amount equally. You may elect to divide the amounts in any way you choose.

If you adopt or amend an apportionment plan, each of you as a member of the controlled group must attach to your tax return a copy of your consent to the plan. The consent should show the amount of each taxable income bracket for that member and other data. See Regulations section 1.1561-3(b) for the time and manner of making the election.

As a member of a controlled group having a calendar tax year, you should enter your share of the taxable income bracket on lines 7a(1)(i), (ii), (iii), and (iv) and figure your tax using the schedule below instead of the instructions for line 7b.

Note: *If the alternative tax on capital gains applies: (1) on line 1 below, enter amount from line 14, **Schedule D (Form 1120)**, Capital Gains and Losses; (2) complete lines 2 through 16 below; and (3) enter partial tax from line 16 below on line 15, Schedule D (Form 1120) and complete the balance of Schedule D (Form 1120). Enter the alternative tax on line 12, Part I, Form 1120M, and check the box on that line.*

1	Enter taxable income (line 6, page 1)	
2	Enter the smaller of line 1 or your share of the first $25,000 taxable income bracket	
3	Subtract line 2 from line 1	
4	Enter the smaller of line 3 or your share of the second $25,000 taxable income bracket	
5	Subtract line 4 from line 3	
6	Enter the smaller of line 5 or your share of the third $25,000 taxable income bracket	
7	Subtract line 6 from line 5	
8	Enter the smaller of line 7 or your share of the fourth $25,000 taxable income bracket	
9	Subtract line 8 from line 7	
10	15% of line 2	
11	18% of line 4	
12	30% of line 6	
13	40% of line 8	
14	46% of line 9	
15	If the taxable income of the controlled group exceeds $1,000,000, enter the portion that this member must pay—the lesser of: 5% of the excess over $1,000,000 or $20,250.	
16	Add lines 10 through 15. Enter here and on line 7b, page 1, Form 1120M	

Line 7b

If you are not a member of a controlled group and have a calendar tax year, figure your income tax as follows:

If the amount on line 6 is:

Over—	But not over—	Enter on line 7b—	Of the amount over—
0	$25,000	15%	0
$25,000	50,000	$3,750 + 18%	$25,000
50,000	75,000	8,250 + 30%	50,000
75,000	100,000	15,750 + 40%	75,000
100,000	.....	25,750 + 46%	100,000

Additional Tax.—If a calendar year corporation's taxable income exceeds $1,000,000, the total tax imposed under section 11 (see table above) is increased by the lesser of: 5% of the excess over $1,000,000 or $20,250.

Members of a controlled group of corporations are treated as one corporation for purposes of figuring any additional tax they must pay because their taxable income exceeds $1,000,000. If the group is liable for the additional tax, each member must pay the tax based on the portion of the $25,000 amount it uses in each tax bracket to reduce its tax. See section 1561(a). Each member of the group must attach to its tax return a schedule that shows the taxable income of the entire group as well as how its portion of the additional tax was figured.

Line 8

Special Computation.—Section 821(a)(2) limits the income tax of a mutual insurance company whose taxable income is less than $12,000. If line 6 is less than $12,000, subtract $6,000 from line 6 and multiply the result by 30%.

Line 9

Amount a Reciprocal Must Include.—If you are a reciprocal underwriter and want to elect to be subject to the limitation in section 826(b), see section 826(a) and the related regulations for the required statement.

If the mutual insurance company's taxable income is $100,000 or more before including the section 826(a) amount, make no entry. If the taxable income is less than $100,000 before including the section 826(a) amount, you must figure the tax on the section 826(a) amount at the highest rate of tax specified in section 11(b).

If you made an election under section 826(a) and there is an amount to be taxed at the highest rate specified in section 11(b), please attach a statement showing how you figured the tax. Enter the total on line 9.

Line 11

Alternative Tax for Certain Small Companies.—Section 821(c) provides an alternative tax for mutual insurance companies whose gross amount reported on Part II, line 7, plus premiums, is over $150,000 but not over $500,000. See the instructions for Part III, line 30, for a definition of premiums.

Section 821(c)(1)(B) limits the income tax of these companies if taxable investment income (line 1) is less than $6,000. If line 1 is less than $6,000, subtract $3,000 from line 1 and multiply the result by 30%. Enter the limitation on line 4 of the alternative tax schedule below.

Any company subject to tax under section 821(c) may elect to be subject to the tax under section 821(a). See section 821(d) and the related regulations for how to elect to include statutory underwriting income or loss.

Caution: *A company cannot use this alternative tax if it has a balance in its protection against loss account when the tax year begins or if it has an election in effect under section 821(d) to be taxed under section 821(a).*

Figure the alternative tax using the following schedule:

1	a	Amount from Part II, line 7.	
	b	Premiums	
	c	Total (add (a) and (b)). If $250,000 or more, enter $250,000.	
	d	Subtract limitation	$150,000.00
	e	Balance (Do not enter less than zero.)	
2		Divide line 1e by $100,000	
3		Tax—see instructions for line 7 to figure tax using amount in Part I, line 1, instead of Part I, line 6	
4		Enter the limitation if the section 821(c)(1)(B) special computation applies. Otherwise, enter the amount from line 3, above	
5		Multiply the smaller of line 3 or line 4 by line 2. Enter here and in Part I, line 11	

Line 12

Income Tax.—Enter the smallest of line 10, line 11 if it applies, or the alternative tax (section 1201) figured on the amount on line 6. Check the box on line 12 if the alternative tax (section 1201) applies.

Line 13a

Foreign Tax Credit.—See Form 1118, Computation of Foreign Tax Credit—Corporations, for rules on this credit.

Line 13b

Possessions Corporation Tax Credit.—See Form 5712, Election To Be Treated as a Possessions Corporation Under Section 936, for rules on how to claim this credit. Figure the credit on **Form 5735,**

Computation of Possessions Corporation Tax Credit Under Section 936, and include the credit in line 13b. Write the amount of the credit on the dotted line next to the entry on line 13b, and identify it as a section 936 credit. Attach Forms 5712 and 5735 to your return.

Credit for the Production of Nonconventional Source Fuel.—A credit is allowed for the sale of qualified fuels produced from a nonconventional source. Section 29 contains a definition of qualified fuels, provisions for figuring the credit, and other special rules. Attach a separate schedule to the return showing the computation of the credit and include the amount on line 13b. Also, in the margin next to the entry, write the name and the amount of the credit.

Line 13c

General Business Credit.—This credit is made up of the sum of the following credits: (See page 8 for changes affecting the general business credit.)

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

- *Jobs credit.* The jobs credit, if elected, is allowed for hiring members of targeted groups during the tax year. See **Form 5884,** Jobs Credit, for definitions, special rules, and limitations. Also see **Publication 906,** Jobs and Research Credits.

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

The jobs credit has been revised for employees hired after 1985. See page 8 for details.

Attach a schedule to Form 1120M to show how and where you reduced the salary and wage deduction(s). Show the otherwise allowable deduction(s) before the reduction, and the net amount actually deducted. Identify the line number, schedule, and page number of Form 1120M on which you made a reduction. If the salary and wage reduction is less than the credit on Form 5884, explain the difference.

- *Alcohol fuel credit.*—A corporation may be able to take a credit for alcohol used as a fuel. Use **Form 6478,** Credit for Alcohol Used as Fuel, to figure the credit, and include the amount on line 13c.

- *Credit for increasing research activities.*—If you engage in qualified research activities, you may be able to claim a credit for certain expenses. See **Form 6765,** Credit for Increasing Research Activities, for more information.

- *Low-income housing credit.*—If your corporation constructs or rehabilitates residential rental projects providing low-income housing, you may be eligible for this new credit that applies to certain buildings placed in service after 1986. See **Form 8586,** Low-Income Housing Credit.

Form 3800.—Enter on line 13c the amount of the credit from Form 3800, and check the boxes indicating which forms are attached to the return. If the corporation is claiming only one of the above credits, DO NOT complete Form 3800. Instead, check the appropriate box and attach the form for which the credit is being claimed. However, if the corporation has a carryforward or carryback of any of the above credits, it must use Form 3800.

Line 15

Foreign Corporations.—A foreign corporation carrying on an insurance business in the U.S. is taxable the same as a domestic insurance company on its income effectively connected with the conduct of a business in the U.S. See section 842.

Generally, any other U.S. source income received by a foreign corporation not effectively connected with the conduct of a business in the U.S. is taxed at 30% (or lower treaty rate). See section 881 for rules and exceptions. If you have this income, attach a schedule showing the kind and amount of income, tax rate (30% or lower treaty rate), and amount of tax. Enter the section 881 tax on line 15.

Note: *Interest received from certain portfolio debt investments, which were issued after July 18, 1984, is no longer subject to the tax.*

Line 16

Increase in Tax From Refiguring an Earlier Year Investment Credit.—If property is disposed of, or ceases to qualify before the end of the life-years category used in figuring the regular or energy investment credit, there may be a recapture of the credit. See **Form 4255,** Recapture of Investment Credit.

Line 17

Minimum Tax on Tax Preference Items.—Attach **Form 4626,** Computation of Minimum Tax—Corporations, if items of tax preference exceed $10,000, OR if you have any minimum tax liability deferred from an earlier tax year to this year.

Line 19b

Estimated Tax.—A corporation must make estimated tax payments if it can expect its estimated tax (income tax less credits) to be $40 or more. **Form 1120-W (WORKSHEET),** Corporation Estimated Tax, may be used to figure estimated tax.

Line 19c

Refund of Estimated Tax.—If there was an overpayment of estimated tax, you may file **Form 4466,** Corporation Application for Quick Refund of Overpayment of Estimated Tax. The overpayment must be at least 10% of your expected income tax liability AND at least $500. This application must be made within 2½ months after the end of the tax year and before Form 1120M is filed.

Line 19e

Credit by Reciprocal for Tax Paid by Attorney-In-Fact.—See section 826(e) and the related regulations.

Line 19f

Other Refundable Credits and Payments.—You may claim credit for Federal excise tax on gasoline for farm use; business nonhighway uses; intercity, local, and school bus uses; and commercial fishing vessel uses. Attach **Form 4136,** Computation of Credit for Federal Tax on Gasoline and Special Fuels, to Form 1120M if you claim this credit.

Include on line 19f any of the tax on line 15 that was withheld at the U.S. source and attach a schedule showing how the amount was figured.

If the company overpaid the crude oil windfall profit tax, include on line 19f the overpayment from **Form 6249,** Computation of Overpaid Windfall Profit Tax. Also, attach Form 6249 to Form 1120M if you claim this credit. See the instructions for Form 6249 for more information.

Include on line 19f any credit from a regulated investment company. Attach **Form 2439,** Notice to Shareholders of Undistributed Long-Term Capital Gain, to Form 1120M if you claim this credit.

Line 20

Penalty for Underpayment of Estimated Tax.—If the corporation underpaid its estimated tax, attach **Form 2220,** Underpayment of Estimated Tax by Corporations, to show how the corporation figured the penalty or which exceptions the corporation believes it meets. Also, be sure to check the box on line 20, Form 1120M. If the corporation owes a penalty, enter the amount on line 20.

Line 21

Tax Due.—The balance of tax due must be paid in full by the 15th day of the 3d month after the end of the tax year.

Deposit corporation income tax payments and estimated tax payments with a Federal Tax Deposit Coupon **(Form 8109).** Make these tax deposits with either a financial institution qualified as a depositary 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 because the corporation may be subject to a Federal tax deposit penalty. Records of deposits will be sent to the IRS for crediting to the corporation's account. See the instructions contained in the coupon book for more information.

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

Penalty for Overstated Tax Deposits.—If you overstate your deposits, you may be subject to a penalty. See section 6656(b).

Part II.—Taxable Investment Income or (Loss)

Income

Line 1

Interest.—Enter interest received or accrued from all sources during the tax year. Decrease the gross interest reported by the amortization of premiums for the tax year on bonds, notes, debentures, or other evidences of indebtedness. Determine the amortization by the method regularly used, if reasonable, or under the regulations. Attach a statement showing the method and computation.

Line 3

Gross Rents.—Enter gross rents for property. Deduct expenses, such as repairs, interest, taxes, and depreciation, on the proper lines for deductions in Part II.

Line 4

Gross Royalties.—Enter gross royalties. If you take a deduction for depletion, report it in Part II, line 13.

Line 5

Gross Income From Business Other Than Insurance Business.—Enter the gross income from any business (other than an insurance business) carried on by the mutual insurance company, or by a partnership of which the mutual insurance company is a member. Include section 1245, section 1250 (as modified by section 291), and other gains from **Form 4797**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions, on investment assets only.

Line 6

Leases, Etc.—Enter gross income from entering into (or changing or ending) any lease, mortgage, or other instrument or agreement from which the mutual insurance company earns interest, dividends, rents, or royalties.

Line 8

Net Gain From Sale or Exchange of Capital Assets.—Report sales or exchanges of capital assets on Schedule D (Form 1120), but see Schedule C (Form 1120M). You must report every sale or exchange of a capital asset in detail, even if there is no gain or loss.

For companies taxable under section 821, losses from sales or exchanges of capital assets are allowed up to the gains from sales or exchanges. This does not include losses from capital assets sold or exchanged to get funds to meet abnormal insurance losses and to pay dividends and similar distributions to policyholders.

The net capital loss for these companies is the amount by which losses for the year from sales or exchanges of capital assets are more than the gains from these sales or exchanges plus the smaller of:

(1) Taxable investment income (figured without gains or losses from sales or exchanges of capital assets); or

(2) Losses from capital assets sold or exchanged to get funds to meet abnormal insurance losses and pay dividends and similar distributions to policyholders.

You may carry a net capital loss back 3 years and forward 5 years as a short-term capital loss. Section 1212(a)(1) limits the capital loss carryback.

For more information on gains and losses from sales or exchanges of property, see the instructions for Schedule D (Form 1120) and **Publication 544**, Sales and Other Dispositions of Assets.

Deductions

Items Not Deductible.—Generally, a deduction may not be taken for the amount of any item or part thereof that is allocable to a class of exempt income. See section 265 for exceptions.

Transactions Between Related Taxpayers.—Generally, an accrual basis taxpayer may only deduct business expenses and interest owed to a related party in the year the payment is included in the income of the related party. See section 267 for the limitation on deductions for unpaid expenses and interest.

Tax Preference Items.—Corporations may be required under section 291 to reduce the following tax preference items:

(a) Depletion of iron ore and coal (including lignite) by 15%;
(b) Section 1250 capital gain by 20%;
(c) Amortizable basis of pollution control facilities by 20%;
(d) Intangible drilling, and exploration and development costs by 20% (30% for costs paid or incurred after 1986); and
(e) Bad debt deductions for financial institutions by 20%.

Real Property Construction Period Interest and Taxes.—For tax years beginning after 1982, for construction started after that date, no deduction (except as allowed under section 189) shall be allowed for real property construction period interest and taxes. Section 189 has been repealed for costs incurred after 1986.

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

Note: *The deductions on lines 10, 11, and 12 for real estate the company owns and occupies are limited to an amount that bears the same ratio to the total deductions (figured without section 822(d)(1)) as the rental value of the space not so occupied bears to the rental value of the entire property. Attach a schedule showing this computation.*

Line 10

Taxes.—Enter taxes paid or accrued only on real estate the company owns as provided in section 164.

Line 11

Real Estate Expenses.—Enter all ordinary and necessary building expenses, such as fire insurance, heat, light, and labor. Also enter the cost of incidental repairs that neither materially add to the property's value nor appreciably prolong its life but keep it in an ordinary efficient operating condition. Do not include any amount paid for new buildings or for permanent improvements or betterments made to increase the value of any property or any amount spent on foreclosed property before the property is held for rent.

Line 12

Depreciation.—You can deduct only the depreciation on the property to the extent it is used for producing the income specified in section 822(b). Besides depreciation, include on line 12 the part of the cost you elect to expense for certain recovery property placed in service during this tax year. See the instructions for **Form 4562**, Depreciation and Amortization.

The rules for depreciation for property placed in service in 1987 have been changed. See page 8 for details. Also, the taxpayer may elect to apply the new rules to property placed in service after July 31, 1986. Effective for property placed in service after December 31, 1986, the amount the taxpayer may expense under section 179 has been raised from $5,000 to $10,000. See **Form 4562-A**, Depreciation of Property Placed in Service After December 31, 1986, and section 168.

The deduction for amortization of trademark and trade name expenses has been repealed for expenses paid or incurred after 1986.

Line 13

Depletion.—See sections 613 and 613A for percentage depletion rates for natural deposits.

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

Line 14

Trade or Business Deductions.—Enter total deductions for any business income included in the mutual insurance company's gross investment income under section 822(b)(2). (Do not include deductions for any insurance business.) Do not include losses from sales or exchanges of capital assets or property used in the business, or from the compulsory or involuntary conversion of property used in the trade or business.

Line 15

Interest Paid or Accrued.—Enter interest paid or accrued during the tax year, except on indebtedness incurred or continued to purchase or carry obligations on which the interest income is wholly tax exempt.

The Rule of 78s is generally not an acceptable method of computing either interest income or expense. For complete information on how to change your accounting method to an acceptable one, see Revenue Procedures 84-27, 84-28, 84-29, or 84-30, 1984-1 C.B. 469-487.

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

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

Line 16

Other Capital Losses.—See instructions for Schedule C.

Line 18

Interest Wholly Exempt From Tax.—Enter the interest income that is wholly tax exempt under section 103.

Line 19

Investment Expenses.—Enter expenses that are properly chargeable as investment expenses. If you allocate general expenses

to investment expenses, the total deduction cannot be more than Schedule A, line 18. Attach a schedule showing the kind and amount of the items and group the minor items into one amount. See the regulations under section 822(c)(2).

Line 22

Dividends-Received Deduction.—See instructions for Schedule B.

The 85% limitation on the dividends-received deduction does not apply for any year in which there is a loss from taxable investment income.

Part III.— Statutory Underwriting Income (or Loss)

Income

Line 1

Investment Income.—Add the interest, dividends, and rents due and accrued at the end of the current tax year to the interest, dividends, and rents received during the tax year. Deduct all interest, dividends, and rents due and accrued at the end of the preceding tax year.

Line 2

Premiums Earned.—Deduct return premiums and premiums paid for reinsurance from the gross premiums written on insurance contracts during the year. To this result add unearned premiums on outstanding business at the end of the preceding tax year and deduct unearned premiums on outstanding business at the end of this tax year. Unearned premiums include life insurance reserves as defined in section 816(b). For rules dealing with the method of computing reserves for purposes of determining income, see section 807(d).

Line 3a

Net Gain From Sale or Exchange of Capital Assets.—See instructions for Part II, line 8.

Line 3b

Ordinary Gain.—For reporting sales or exchanges of property (other than capital assets) including involuntary conversions, and all section 1245, 1250, etc., gains, see Form 4797.

Line 5

Decrease in Subscriber Accounts.—Enter the decrease for the tax year in savings credited to subscriber accounts of an interinsurer or reciprocal underwriter. See the instructions for Part III, line 19, for savings credited to subscriber accounts.

Deductions

Line 7

Salaries and Wages.—Enter salaries and wages paid or accrued during the tax year. Do not include salaries and wages deducted elsewhere on your return, such as contributions to a simplified employee pension plan.

If you provided taxable fringe benefits to your employees, such as personal use of an auto, do not deduct as wages the amount allocated for depreciation and other expenses that you claimed elsewhere on your return.

Line 8

Rents.—Enter rent paid or accrued for business property in which the company has no equity.

Line 9

Interest Paid or Accrued.—See instructions for Part II, line 15.

Line 10

Taxes.—Enter taxes paid or accrued during the tax year. Do not include Federal income tax; foreign or U.S. possession income taxes if you are claiming a foreign tax credit; or taxes not imposed upon the corporation.

See section 164(d) for how to divide real estate taxes between seller and buyer.

Line 11

Losses Incurred on Insurance Contracts.—To losses paid during the tax year, add salvage and reinsurance recoverable outstanding when the preceding tax year ended. From these losses, deduct salvage and reinsurance recoverable outstanding at the end of this tax year. Add to this result all unpaid losses outstanding at the end of this tax year and deduct unpaid losses outstanding when the preceding tax year ended.

Line 12

Other Capital Losses.—See instructions for Schedule C.

Line 13

Worthless Agency Balances and Bills Receivable.—Enter agency balances and bills receivable that became worthless during the tax year.

Line 14

Interest Wholly Exempt From Tax.—See instructions for Part II, line 18.

Line 15

Depreciation.—See instructions for Part II, line 12.

Line 16

Depletion.—See instructions for Part II, line 13.

Line 17

Contributions.—Enter contributions or gifts paid within the tax year to or for the use of charitable and governmental organizations described in section 170(c) and any unused contributions carried over from earlier years.

Corporations on the accrual basis may elect to deduct contributions paid by the 15th day of the 3d month after the tax year ends if the board of directors authorizes the contributions during the tax year.

You must attach to the return a declaration, signed by an officer, stating that the resolution authorizing the contributions was adopted by the board of directors during the tax year. Also attach a copy of the resolution.

You cannot deduct more than 10% of Part III, line 24, figured without any deduction for contributions.

You cannot deduct charitable contributions over the 10% limitation for the tax year but you can carry the excess over to the next 5 tax years.

Attach a schedule showing the name of each organization and the amount for a contribution of property other than money. Describe the kind of property contributed and the method used in determining its fair market value. If you include a contribution carryover, show the amount and how it was determined. Also, a corporation must keep records, as required by Regulations section 1.170A-13.

If you made a qualified conservation contribution under section 170(h), include the fair market value of the underlying property before and after the donation. Describe the conservation purpose furthered by your donation and type of legal interest contributed.

For a charitable contribution of property, you must reduce the contribution by the sum of:

(1) The ordinary income, short-term capital gain, that would have resulted if the property were sold at its fair market value, and

(2) For certain contributions made in tax years beginning in 1986, 60.87% of the long-term capital gain that would have resulted if the property were sold at its fair market value.

The reduction for 60.87% of the long-term capital gain applies to (a) contributions of tangible personal property for use by an exempt organization for a purpose or function unrelated to the basis for its exemption, and (b) contributions of any property (except stock for which market quotations are readily available—see section 170(e)(5)) to or for the use of certain private foundations. (See section 170(e) and Regulations section 1.170A-4.)

For special rules for contributions of inventory and other ordinary income property to certain organizations, and contributions of scientific property used for research, see section 170(e) and Regulations section 1.170A-4A.

For a charitable contribution deduction for property sold to a charitable organization, the adjusted basis for determining gain from the sale is an amount that is in the same ratio to the adjusted basis as the amount realized is to the fair market value of the property.

Line 19

Increase in Subscriber Accounts.—A mutual insurance company that is an interinsurer or reciprocal underwriter may deduct the increase in savings credited to subscriber accounts for the tax year.

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

Line 20

Pension, Profit-Sharing, Etc., Plans.—Employers who maintain a pension, profit-sharing, or other funded deferred compensation plan, whether or not it is 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 described below. Section 6652(f) imposes a penalty for not filing these forms on time.

In addition, there is a new penalty for overstating the pension plan deduction for returns filed after October 22, 1986. See new section 6659A.

Form 5500.—Annual Return/Report of Employee Benefit Plan. Complete this form for each plan with 100 or more participants.

Form 5500-C.—Return/Report of Employee Benefit Plan, or **Form 5500-R,** Registration Statement of Employee Benefit Plan. Complete the applicable form for each plan with fewer than 100 participants.

Line 21

Employee Benefit Programs.—Enter your contributions to employee benefit programs (such as insurance and health and welfare programs) that are not an incidental part of a pension, profit-sharing, etc., plan included on line 20.

Line 25

Dividends-Received Deduction.—See instructions for Schedule B.

The 85% limitation on the dividends-received deduction does not apply to any year in which there is a loss from statutory underwriting income.

Line 30

Special Deductions.—If Part II, line 7 (other than capital gains), and premiums (as defined below) add up to less than $1,100,000, you may take an additional deduction for determining statutory underwriting income or loss under section 823(a) for the tax year.

Premiums means the total premiums and other consideration provided in the insurance contract without deduction for commissions, return premiums, reinsurance, dividends to policyholders, dividends left on deposit with the company, discounts on premiums paid in advance, interest applied to reduce premiums (whether or not it must be credited to reduce premiums under the terms of the contracts) or any similar item.

The term includes advance premiums, premiums deferred and uncollected, premiums due and unpaid, deposits, fees, assessments, and consideration for assuming liabilities under contracts not issued by the taxpayer (such as a payment or transfer of property in an assumption reinsurance transaction). It does not include amounts received from other insurance companies for losses paid under reinsurance contracts. See Regulations section 1.821-4(a)(1)(ii).

Protection Against Loss Deduction

Under section 824 you can deduct 1% of the losses incurred plus 25% of the underwriting gain for the tax year. If the concentrated windstorm premium percentage for the tax year is more than 40%, you can also deduct an amount obtained by multiplying the percentage that is more than 40% times the underwriting gain for the year.

Also, see the instructions for Schedule E.

SCHEDULE B.—Dividends

Dividend Income

Line 1

Certain Domestic Corporations.—Enter dividends received from domestic corporations (except those received on debt-financed stock acquired after July 18, 1984—see line 2 below and section 246A) subject to income tax that qualify for the dividends-received deduction under section 243(a)(1).

So-called dividends or earnings from mutual savings banks, etc., are really interest and should not be treated as dividends.

See section 854 for the amount of dividends received from a regulated investment company that qualify for the dividends-received deduction.

Line 2

Certain Debt-Financed Stock.—Enter dividends on debt-financed stock (acquired after July 18, 1984) that are received from domestic corporations subject to income tax and that would otherwise be subject to the dividends-received deduction under section 243(a)(1). Generally, debt-financed stock is stock that the corporation acquired and in doing so, incurred a debt (for example, it borrowed money to buy the stock). See the instructions for line 9, under *Dividends Received Deduction*, as well as section 246A to figure the dividends-received deduction for this stock.

Line 3

Certain Public Utility Corporations.—Enter dividends received by the mutual insurance company on the preferred stock of a public utility. This applies only if the public utility is subject to income tax and the dividends qualify for the section 247 deduction (by the public utility) for dividends paid.

Line 4

Certain Foreign Corporations.—Enter dividends received by the mutual insurance company from foreign corporations and FSCs that qualify for the dividends-received deduction in sections 245(a) and 245(c)(1).

Enter dividends received from wholly owned foreign subsidiaries that are eligible for the 100% deduction in section 245(b).

Also, include dividends received from a foreign sales corporation (FSC) attributable to exempt foreign trade income that qualify for a 100% deduction under section 245(c).

In general, the deduction under section 245(b) applies to dividends paid out of the earnings and profits of a foreign corporation for a tax year during which all its outstanding stock is owned (directly or indirectly) by the domestic corporation receiving the dividends and all its gross income from all sources is effectively connected with the conduct of a U.S. business.

Attach a schedule showing how the amount on line 4 was computed.

Line 5

Certain Affiliated Groups.—Enter only those dividends that are subject to section 243(b).

Line 6

Other Corporations.—Attach a schedule showing separately:

(1) Foreign dividends not reportable on line 4. Do not include distributions of amounts constructively taxed in the current year or in earlier years under subpart F.

(2) Income constructively received from controlled foreign corporations under subpart F. (This amount should equal the total reported in Schedule J of Form(s) 5471.)

(3) Gross-up of dividends for taxes considered paid under sections 902 and 960.

(4) Dividends (other than capital gain dividends) received from regulated investment companies that do not qualify for the dividends-received deduction.

(5) Dividends from tax-exempt organizations.

(6) Dividends (other than capital gain and exempt-interest dividends) received from a real estate investment trust that, for the tax year of the trust in which the dividends are paid, qualify under sections 856 through 860.

(7) Dividends not eligible for a dividends-received deduction because of the holding period of the stock or an obligation to make corresponding payments on similar stock.

(8) Any other taxable dividend income not properly reported above (including distributions under sections 934(e)(3) or 936(h)(4)).

Dividends-Received Deduction

Line 8

Dividends Received From Certain Domestic Corporations.—For purposes of line 1, the dividends-received deduction percentage for dividends received before January 1, 1987, is 85%. For dividends received after December 31, 1986, it is 80%. Multiply the dividends received in each period by the property percentage to determine the correct dividends-received deduction.

Line 9

Dividends-Received From Debt-Financed Stock.—Dividends received on debt-financed stock that are reported on line 2, Schedule B, are not entitled to the full dividends-received deduction (85% for dividends received before January 1, 1987, and 80% for dividends received after 1986). Instead, this deduction is reduced by a percentage that is related to the amount of debt incurred to acquire the stock. See section 246A. A schedule showing how the dividends-received deduction on debt-financed stock was figured must be attached to the corporate tax return.

Line 10

Dividends Received From Certain Public Utility Corporations.—Dividends on certain preferred stock of public utilities (line 3) are entitled to a dividends-received deduction percentage of 59.13% if they are received before January 1, 1987. For dividends on certain preferred stock of public utilities received after December 31, 1986, but before July 1, 1987, the dividends-received deduction percentage is 55.652%. For these dividends received after June 30, 1987, the dividends-received deduction percentage is 47.059%.

Multiply the dividends received in each period by the proper percentage to determine the correct dividends-received deduction.

Line 11

Dividends Received From Certain Foreign Corporations.—Enter (a) 85% (80% for dividends received after 1986) of dividends received from certain foreign corporations described in section 245(a); and (b) 85% (80% for dividends received after 1986) of dividends received from FSCs as described in section 245(c)(1).

Enter 100% of the company's share of dividends received from wholly owned foreign subsidiaries that are eligible for the 100% deduction in section 245(b) and certain dividends received from a foreign sales corporation (FSC) under section 245(c).

If both types of dividends are included in the line 11 amount, attach a schedule showing how the amount was figured.

See section 245 for qualifications and limitations on these deductions.

Line 12

Total.—This total is subject to the 85% limitation under section 246(b) as follows:

- Part II.—The line 12 total cannot be more than 85% of the difference of Part II, line 21, and Schedule B, line 13.
- Part III.—The line 12 total cannot be more than 85% of the difference of Part III, line 24, and Schedule B, line 13.

Line 13

Dividends Received From Certain Members of Affiliated Groups.—Members of affiliated groups may elect under section 243(b) to deduct 100% of the qualifying dividends received from other members of the same group. Qualifying corporations that elect to take the 100% deduction are limited to one $25,000 amount (or, for certain fiscal year corporations, $50,000, see page 11 of instructions) in each taxable income bracket. That amount must be apportioned among the members of the controlled group. See section 243(b) for qualifications and restrictions on this deduction.

SCHEDULE C.—Other Capital Losses

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

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

Enter other capital losses (line 12, column (g)) in Part II, line 16, and Part III, line 12.

SCHEDULE E.—Protection Against Loss Account

Section 824(b) requires each insurance company subject to tax under section 821(a) to establish and maintain a protection against loss account.

You must add the protection against loss deduction from Part III, line 35, to this account.

See section 824(d) for subtractions from this account. You must include these subtractions in the mutual insurance company taxable income. Attach a separate schedule showing the computation of any subtraction.

SCHEDULE F.—Compensation of Officers

Attach a schedule for all officers using the following columns:

(1) Name of officer,

(2) Social security number,

(3) Percent of time devoted to business, and

(4) Amount of compensation.

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

SCHEDULE G.—Additional Information Required

Question H—Foreign Financial Accounts and Foreign Trusts.—Check the "Yes" box if either (1) or (2) below applies to you. Otherwise, check the "No" box.

(1) At any time during the year you had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account) AND

- The combined value of the accounts was more than $10,000 at any time during the year; AND
- The account was NOT with a U.S. military banking facility operated by a U.S. financial institution.

(2) You own more than 50% of the stock in any corporation that would answer the question "Yes" based on item (1) above.

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

If you checked "Yes" for Question H, file form TD F 90-22.1 by June 30, 1987, with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return, so do not file it with Form 1120M. Form TD F 90-22.1 can be obtained from IRS forms distribution centers.

If you checked "Yes" to Question H, write the name of the foreign country or countries. Attach a separate sheet if you need more space.

Tax Reform Act of 1986

The Tax Reform Act of 1986 made several changes that affect corporations. Some of the changes are effective starting with calendar year 1986 tax returns; some are effective starting with fiscal year 1986-1987 tax returns; and some are effective starting with calendar year 1987 tax returns. These changes are highlighted below for purposes of computing estimated taxes.

Tax changes taking effect beginning in 1986

Regular Investment Tax Credit Repealed.—Generally, for property placed in service after 1985, the regular investment tax credit has been repealed. See new section 49 for special rules and Form 3468.

Targeted Jobs Credit Extended and Revised.—The jobs credit for hiring members of certain targeted groups has been extended and modified. For employees hired after 1985, you may claim a credit for only the first-year wages paid to the employee. See **Form 5884**, Jobs Credit, and section 51 for more information.

General Business Credit Reduced.—For tax years beginning after 1985, the maximum amount of tax liability against which the general business tax credit can be applied is reduced to 75%. Formerly, the business tax credit could be applied to 85% of tax liability. See section 38.

Increase in Penalty for Failure To File Information Returns.—For returns due after December 31, 1986, the maximum penalty for failure to file information returns has been increased. A new penalty of $5 for supplying incorrect information has also been added. For more information, see sections 6652, 6676, 6678, and new sections 6721 through 6724.

The following provisions begin in 1987 and affect fiscal 1986-1987 tax years.

Reduction in Corporate Tax Rates.—Effective July 1, 1987, tax rates for corporations are reduced. The new tax rates are 15% of the first $50,000 of taxable income; 25% of the next $25,000 of taxable income; and 34% for any amount of taxable income over $75,000. An additional tax applies to taxable income over $100,000. The tax is the lesser of 5% of the excess over $100,000 or $11,750. See the tax computation worksheet on page 10 for more details.

Reduction in Dividends-Received Deduction.—The dividends-received deduction for dividends received from certain corporations has been reduced for dividends received after 1986. The new percentage is 80%; the previous percentage was 85%. See sections 243, 244, and 246A.

New Low-Income Housing Credit.—A new low-income housing credit applies to certain buildings placed in service after 1986. See Form 8586 and section 42 for rules and computations.

Investment Tax Credit for Rehabilitation Expenditures.—An investment tax credit will be allowed for qualified rehabilitation expenditures made to property placed in service after 1986. See section 46 and Form 3468.

Depreciation.—The rules for computing depreciation have been substantially changed for property placed in service after 1986. Corporations may also elect these new rules for property placed in service after July 31, 1986. The new system provides specific methods for each class of assets. Additionally, the section 179 deduction is increased from $5,000 to $10,000 for property placed in service after 1986. See **Form 4562A**, Depreciation of Property Placed in Service After December 31, 1986, and section 168.

Alternative Tax for Fiscal Year Corporation.—Generally, the alternative tax has been repealed for tax years beginning after 1986. However, transitional rules allow fiscal year corporations to compute the alternative tax. The alternative tax computation for fiscal year corporations is (a) 28% of the *lesser* of: the net capital gain determined by taking into account only gain and loss for the portion of the tax year before January 1, 1987, or the net capital gain for the tax year, plus (b) 34% of the excess of the net capital gain for the tax year over the amount of net capital gain taken into account in (a). See section 1201.

Gain or Loss on Distribution of Property in Liquidation.—Generally, corporations will recognize gain or loss on distributions of their property in complete liquidation as if they had sold the property at its fair market value. These new rules apply to liquidations completed after December 31, 1986. See sections 336 and 337.

Limitation on Net Operating Loss Carryovers.—The amount of net operating loss carryovers is limited when there has been a change in ownership or equity for net operating losses incurred after 1986. The limitation is described in section 382(b) and applies generally when a 5% shareholder or group of 5% shareholders increases its or their ownership in a corporation by more than 50 percentage points, or when there has been a change in equity. See section 382 for rules and definitions.

Limitation on Certain Excess Credits.—For certain ownership changes occurring after 1986, a change in ownership of a corporation will result in the amount of the following excess credits being limited for subsequent years: the unused general business credit, any unused minimum tax credit, and any capital loss carryover. The foreign tax credit carryover is also limited.

The following provisions begin in 1987 and affect calendar year 1987 tax returns.

Property and Casualty Companies.—The Act made substantial changes to the tax treatment of property and casualty insurance companies. The Act treats stock property and casualty insurance companies in the same manner as mutual property and casualty insurance companies. Thus for tax years beginning in 1987, both will report income on the same form. IRS will issue an announcement advising these taxpayers of what form to file in 1987.

Reserve Method for Bad Debts.—For tax years beginning after 1986, only certain financial institutions will be able to use the reserve method of computing bad debts. All other taxpayers must use the specific charge-off method for computing bad debts. Corporations that are not entitled to use the reserve method must include in income any amount remaining in the reserve as income ratably over a 4-year period.

For additional information, see section 166.

Also, for tax years beginning after 1986, section 586, Reserve for losses on loans of small business corporations, etc., has been repealed.

Reporting of Tax-Exempt Interest.—For tax years beginning after 1986, any taxpayer required to file a tax return must report, as an item of information on that return, the amount of the tax-exempt interest received or accrued during the tax year.

Minimum Tax.— For tax years beginning after 1986, the add-on minimum tax will be replaced by an alternative minimum tax based on alternative minimum taxable income. A corporation will have to compute its tax under the regular system and under the minimum tax provisions. See sections 55 through 59 for more information. For tax years beginning after 1986, corporations must take minimum tax into account when computing estimated tax. See 1987 Form 1120-W for more information.

Certain Entities Required To Use the Accrual Method of Accounting.—C corporations, partnerships with C corporations as partners, tax-exempt entities with unrelated business income, and tax shelters are prohibited from using the cash method of accounting for tax years beginning after 1986. See new section 448.

For additional information on these changes, see **Publication 553**, Highlights of 1986 Tax Changes.

Effective July 1, 1987, the tax rates for corporations are reduced. The new rates of tax are:

15% on the first $50,000 of income;

25% on the next $25,000 of income; and

34% on any amount over $75,000.

Also, an additional tax of 5% is applied against income in excess of $100,000. The maximum amount of this additional tax is $11,750. In addition, different rules apply for computing the alternative tax on net capital gains for fiscal year corporations that have a tax year that includes January 1, 1987. These rules are explained in the instructions that follow Schedule B. If the corporation's fiscal tax year includes July 1, 1987, the tax liability shall be computed by completing Schedules A and B of the worksheet below. If the corporation's tax year ends on or before June 30, 1987, only Schedule A must be completed. Supplemental instructions for completing these schedules follow Schedule B.

Fiscal year corporations complete the following schedules to determine tax liability.

Schedule A — Tax Computed for Period Before July 1, 1987

1	Taxable income (line 6, Form 1120M)	
2	Net capital gain income from line 10a, Schedule D (Form 1120), if applicable	
3	Subtract line 2 from line 1	
4	Enter the lesser of line 3 or $25,000 (members of a controlled group, see instructions)	
5	Subtract line 4 from line 3	
6	Enter the lesser of line 5 or $25,000 (members of a controlled group, see instructions)	
7	Subtract line 6 from line 5	
8	Enter the lesser of line 7 or $25,000 (members of a controlled group, see instructions)	
9	Subtract line 8 from line 7	
10	Enter the lesser of line 9 or $25,000 (members of a controlled group, see instructions)	
11	Subtract line 10 from line 9	
12	Multiply line 4 times 15%	
13	Multiply line 6 times 18%	
14	Multiply line 8 times 30%	
15	Multiply line 10 times 40%	
16	Multiply line 11 times 46%	
17	If line 3 is greater than $1,000,000, enter the lesser of: (a) 5% of the excess of line 3 over $1,000,000; or, (b) $20,250 (members of a controlled group, see instructions). Fiscal year corporations whose tax year ends after June 30, 1987, skip lines 18 and 19, and complete Schedule B of this worksheet	
18	Alternative tax on net capital gain from the worksheet on page 11	
19	Add amounts on lines 12 through 18	
	Fiscal year corporations whose tax year ends before July 1, 1987, and to which the alternative tax does not apply, enter the tax liability before credits (line 19) on line 7b, page 1, Form 1120M. Do NOT complete Schedule B. (If the alternative tax applies, enter such tax on line 12, page 1, Form 1120M and check the box on line 12.)	

Schedule B — Tax Computed for Period After June 30, 1987

20	Enter amount from line 3, Schedule A	
21	Enter the lesser of line 20 or $50,000 (members of a controlled group, see instructions)	
22	Subtract line 21 from line 20	
23	Enter the lesser of line 22 or $25,000 (members of a controlled group, see instructions)	
24	Subtract line 23 from line 22	
25	Multiply line 21 times 15%	
26	Multiply line 23 times 25%	
27	Multiply line 24 times 34%	
28	Additional tax. If line 20 is more than $100,000, enter the lesser of: (a) 5% of the excess of line 20 over $100,000, or (b) $11,750	
29	Add lines 25 through 28	
30	Add lines 12 through 17	
31	Line 30 × $\frac{\text{number of days in tax year before 7-1-87}}{\text{number of days in tax year}}$	
32	Line 29 × $\frac{\text{number of days in tax year after 6-30-87}}{\text{number of days in tax year}}$	
33	Alternative tax on net capital gain from the worksheet on page 11	
34	Tax liability before credits. Add amounts on lines 31, 32, and 33. If the alternative tax does not apply, enter here and on line 7b, page 1, Form 1120M. (If the alternative tax applies, enter such tax on line 12, page 1, Form 1120M and check the box on line 12.)	

Net Capital Gain and Alternative Tax (Lines 2, 18, and 33).

In general, the alternative tax is the sum of (a) a tax computed on taxable income reduced by the net capital gain (line 2) using the applicable tax brackets and tax rates, and (b) a tax computed on the net capital gain (see below for this part of the computation). If the alternative tax is less than the regular tax computed on total taxable income using the applicable tax brackets and tax rates, then the corporation may enter the alternative tax, on line 12, page 1, Form 1120M, and check the box. If a corporation has a net capital gain, both computations (the regular tax computation and the alternative tax computation) should be made to determine which results in the lower tax.

For fiscal year corporations, the net capital gain times the alternative tax rate is determined as follows:

1. Enter the net capital gain from line 10a, Schedule D (Form 1120) . . . . . . ______
2. Enter the amount from line 10b, Schedule D (Form 1120). **Caution:** *If this amount results in a net capital gain greater than the amount on line 1, enter the amount from line 1 here* . . ______
3. Subtract line 2 from line 1 . ______
4. Multiply line 2 times 28% . ______
5. Multiply line 3 times 34% . ______
6. Alternative tax on net capital gain. Add lines 4 and 5. Enter here and on line 18 or 33, whichever applies . . . . . ______

If the alternative tax is not used, lines 2 and 18, Schedule A, and line 33, Schedule B, should be blank.

Lines 4, 6, 8, and 10.—Members of a controlled group must enter their portion of each taxable income bracket. See the instructions for rules regarding how controlled groups (as defined in section 1563) may divide these amounts.

Line 17.—If the total taxable income of the controlled group of corporations is more than $1,000,000, each member should enter its portion of the additional tax on line 17 as explained under *Tax Computation* instructions.

Line 21.—Members of a controlled group (as defined in section 1563) are to allocate the $50,000 in the first taxable income bracket. The controlled group is entitled to one $50,000 amount in the first taxable income bracket and may use the equal and unequal apportionment rules explained in the instructions under *Tax Computations.*

Line 23.—Members of a controlled group (as defined in section 1563) are to allocate the $25,000 amount in the second taxable income bracket. The controlled group is entitled to one $25,000 amount in the bracket. The members may use the equal and unequal apportionment rules explained in the instructions under *Tax Computations.*

Line 28.—If total taxable income of the controlled group of corporations is more than $100,000, each member should enter its portion of the additional tax on line 28. See section 1561 for rules on determining each member's share of the additional tax.

U.S. GOVERNMENT PRINTING OFFICE:1987-493-195/0

Form **1120S**
Department of the Treasury
Internal Revenue Service

U.S. Income Tax Return for an S Corporation

For the calendar year 1986 or tax year beginning ...., 1986, ending ...., 19.....

▶ For Paperwork Reduction Act Notice, see page 1 of the Instructions.

OMB No. 1545-0130

1986

A Date of election as an S corporation	Use IRS label. Otherwise, please print or type.	Name	C Employer identification number
		Number and street	D Date incorporated
B Business Code No. (see Specific Instructions)		City or town, state, and ZIP code	E Total assets (see Specific Instructions) Dollars Cents $

F. Check applicable boxes: (1) ☐ Final return (2) ☐ Change in address (3) ☐ Amended return

1986-87 fiscal year corporations see Specific Instructions before completing page 1.

Income

1a	Gross receipts or sales .... b Less returns and allowances .... Balance ▶	1c	
2	Cost of goods sold and/or operations (Schedule A, line 7)	2	
3	Gross profit (subtract line 2 from line 1c)	3	
4	Taxable interest and nonqualifying dividends	4	
5	Gross rents	5	
6	Gross royalties	6	
7	Net gain or (loss) from Form 4797, line 17, Part II	7	
8	Other income (see instructions—attach schedule)	8	
9	TOTAL income (loss)—Combine lines 3 through 8 and enter here ▶	9	

Deductions

10	Compensation of officers	10	
11a	Salaries and wages .... b Less jobs credit .... Balance ▶	11c	
12	Repairs	12	
13	Bad debts (see instructions)	13	
14	Rents	14	
15	Taxes	15	
16a	Total deductible interest expense not claimed elsewhere on return (see instructions) — 16a		
b	Interest expense required to be passed through to shareholders on Schedule K-1, lines 9, 13a(2), and 13a(3) — 16b		
c	Subtract line 16b from line 16a	16c	
17a	Depreciation from Form 4562 (attach Form 4562) — 17a		
b	Depreciation claimed on Schedule A and elsewhere on return — 17b		
c	Subtract line 17b from line 17a	17c	
18	Depletion (**Do not deduct oil and gas depletion.** See instructions)	18	
19	Advertising	19	
20	Pension, profit-sharing, etc. plans	20	
21	Employee benefit programs	21	
22	Other deductions (attach schedule)	22	
23	TOTAL deductions—Add lines 10 through 22 and enter here ▶	23	
24	Ordinary income (loss)—Subtract line 23 from line 9	24	

Tax and Payments

25	Tax:		
a	Excess net passive income tax (attach schedule) — 25a		
b	Tax from Schedule D (Form 1120S), Part IV — 25b		
c	Add lines 25a and 25b	25c	
26	Payments:		
a	Tax deposited with Form 7004 — 26a		
b	Credit for Federal tax on gasoline and special fuels (attach Form 4136) — 26b		
c	Add lines 26a and 26b	26c	
27	**TAX DUE** (subtract line 26c from line 25c). See instructions for Paying the Tax ▶	27	
28	**OVERPAYMENT** (subtract line 25c from line 26c) ▶	28	

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Signature of officer | Date | ▶ Title

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ▶ ☐	Preparer's social security number
Firm's name (or yours, if self-employed) and address ▶		E.I. No. ▶	
		ZIP code ▶	

Form **1120S** (1986)

Schedule A Cost of Goods Sold and/or Operations (See instructions for Schedule A)

1	Inventory at beginning of year	1	
2	Purchases	2	
3	Cost of labor	3	
4	Other costs (attach schedule)	4	
5	Total—Add lines 1 through 4	5	
6	Inventory at end of year	6	
7	Cost of goods sold and/or operations—Subtract line 6 from line 5. Enter here and on line 2, page 1	7	

8a Check all methods used for valuing closing inventory:

(i) ☐ Cost

(ii) ☐ Lower of cost or market as described in Regulations section 1.471-4 (see instructions)

(iii) ☐ Writedown of "subnormal" goods as described in Regulations section 1.471-2(c) (see instructions)

(iv) ☐ Other (Specify method used and attach explanation) ▶ ....

b Check this box if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ☐

c If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO — 8c

d If you are engaged in manufacturing, did you value your inventory using the full absorption method (Regulations section 1.471-11)? ☐ Yes ☐ No

e Was there any change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☐ No
If "Yes," attach explanation.

Additional Information Required

		Yes	No
G	Did you at the end of the tax year own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).) If "Yes," attach a schedule showing: (1) Name, address, and employer identification number; (2) Percentage owned; (3) Highest amount owed by you to such corporation during the year; and (4) Highest amount owed to you by such corporation during the year. (**Note:** *For purposes of G(3) and G(4), "highest amount owed" includes loans and accounts receivable/payable.*)		
H	Refer to the listing of Business Activity Codes at the end of the Instructions for Form 1120S and state your principal: Business activity ▶ ....; Product or service ▶		
I	Were you a member of a controlled group subject to the provisions of section 1561?		
J	Did you claim a deduction for expenses connected with:		
	(1) Entertainment facilities (boat, resort, ranch, etc.)?		
	(2) Living accommodations (except for employees on business)?		
	(3) Employees attending conventions or meetings outside the North American area? (See section 274(h).)		
	(4) Employees' families at conventions or meetings? If "Yes," were any of these conventions or meetings outside the North American area? (See section 274(h).)		
	(5) Employee or family vacations not reported on Form W-2?		
K	At any time during the tax year, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See instructions for exceptions and filing requirements for form TD F 90-22.1.) If "Yes," write the name of the foreign country ▶		
L	Were you the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not you have any beneficial interest in it? If "Yes," you may have to file Forms 3520, 3520-A, or 926		
M	During this tax year did you maintain any part of your accounting/tax records on a computerized system?		
N	Check method of accounting: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶		
O	Check this box if the S corporation has filed or is required to file Form 8264, Application for Registration of a Tax Shelter ▶ ☐		
P	Check this box if the corporation issued publicly offered debt instruments with original issue discount ▶ ☐ If so, the corporation may have to file Form 8281.		

Schedule K Shareholders' Share of Income, Credits, Deductions, etc. (See Instructions.)

(a) Distributive share items		(b) Total amount
Income (Losses) and Deductions		
1a Ordinary income (loss) (page 1, line 24) *	1a	
b Income (loss) from rental real estate activity(ies) (FY corporations only)	1b	
c Income (loss) from other rental activity(ies) (FY corporations only)	1c	
d Portfolio income not reported elsewhere on Schedule K (FY corporations only)	1d	
2 Dividends qualifying for the exclusion	2	
3 Net short-term capital gain (loss) (Schedule D (Form 1120S)) *	3	
4 Net long-term capital gain (loss) (Schedule D (Form 1120S)) *	4	
5 Net gain (loss) under section 1231 (other than due to casualty or theft) *	5	
6 Other income (loss) (attach schedule)	6	
7 Charitable contributions	7	
8 Section 179 expense deduction (FY corporations attach schedule)	8	
9 Other deductions (attach schedule)	9	
Credits		
10a Jobs credit *	10a	
b Low-income housing credit (FY corporations only)	10b	
c Qualified rehabilitation expenditures related to rental real estate activity(ies) (FY corporations only) (attach schedule)		
d Other credits related to rental real estate activity(ies) other than on line 10b and 10c (FY corporations only) (attach schedule)	10d	
11 Other credits (attach schedule) *	11	
Tax Preference and Adjustment Items		
12a Accelerated depreciation on nonrecovery real property or 15, 18, or 19-year real property placed in service before 1-1-87	12a	
b Accelerated depreciation on leased personal property or leased recovery property, other than 15, 18, or 19-year real property, placed in service before 1-1-87	12b	
c Accelerated depreciation on property placed in service after 12-31-86 (FY corporations only)	12c	
d Depletion (other than oil and gas)	12d	
e (1) Gross income from oil, gas, or geothermal properties	12e(1)	
(2) Gross deductions allocable to oil, gas, or geothermal properties	12e(2)	
f (1) Qualified investment income included on page 1, Form 1120S	12f(1)	
(2) Qualified investment expenses included on page 1, Form 1120S	12f(2)	
g Other items (attach schedule)	12g	
Investment Interest		
13a Interest expense on: (1) Investment debts incurred before 12-17-69	13a(1)	
(2) Investment debts incurred before 9-11-75 but after 12-16-69	13a(2)	
(3) Investment debts incurred after 9-10-75	13a(3)	
b (1) Investment income included on page 1, Form 1120S	13b(1)	
(2) Investment expenses included on page 1, Form 1120S	13b(2)	
c (1) Income from "net lease property"	13c(1)	
(2) Expenses from "net lease property"	13c(2)	
d Excess of net long-term capital gain over net short-term capital loss from investment property	13d	
Foreign Taxes		
14a Type of income		
b Name of foreign country or U.S. possession		
c Total gross income from sources outside the U.S. (attach schedule)	14c	
d Total applicable deductions and losses (attach schedule)	14d	
e Total foreign taxes (check one): ▶ ☐ Paid ☐ Accrued	14e	
f Reduction in taxes available for credit (attach schedule)	14f	
g Other (attach schedule)	14g	
Other Items		
15 Total property distributions (including cash) other than dividend distributions reported on line 17	15	
16 Other items and amounts not included in lines 1 through 15 that are required to be reported separately to shareholders (attach schedule).		
17 Total dividend distributions paid from accumulated earnings and profits contained in other retained earnings (line 26 of Schedule L)	17	

* Calendar year filers are not required to complete lines 1a, 10a, and 11. Completion of these lines is optional because the amounts which would appear in column (b) appear elsewhere on Form 1120S or on other IRS forms or schedules which are attached to Form 1120S. See Specific Instructions for Schedules K and K-1.

Schedule L Balance Sheets

Assets	Beginning of tax year (a)	(b)	End of tax year (c)	(d)
1 Cash				
2 Trade notes and accounts receivable				
a Less allowance for bad debts				
3 Inventories				
4 Federal and state government obligations				
5 Other current assets (attach schedule)				
6 Loans to shareholders				
7 Mortgage and real estate loans				
8 Other investments (attach schedule)				
9 Buildings and other depreciable assets				
a Less accumulated depreciation				
10 Depletable assets				
a Less accumulated depletion				
11 Land (net of any amortization)				
12 Intangible assets (amortizable only)				
a Less accumulated amortization				
13 Other assets (attach schedule)				
14 Total assets				
Liabilities and Shareholders' Equity				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities (attach schedule)				
18 Loans from shareholders				
19 Mortgages, notes, bonds payable in 1 year or more				
20 Other liabilities (attach schedule)				
21 Capital stock				
22 Paid-in or capital surplus				
23 Accumulated adjustments account				
24 Other adjustments account				
25 Shareholders' undistributed taxable income previously taxed				
26 Other retained earnings (see instructions). Check this box if the corporation has subchapter C earnings and profits at the close of the tax year ▶ ☐ (see instructions)				
27 Total retained earnings per books—Combine amounts on lines 23 through 26, columns (a) and (c) (see instructions)				
28 Less cost of treasury stock		( )		( )
29 Total liabilities and shareholders' equity				

Schedule M Analysis of Accumulated Adjustments Account, Other Adjustments Account, and Shareholders' Undistributed Taxable Income Previously Taxed (If Schedule L, column (c), amounts for lines 23, 24, or 25 are not the same as corresponding amounts on line 9 of Schedule M, attach a schedule explaining any differences. See Instructions.)

	Accumulated adjustments account	Other adjustments account	Shareholders' undistributed taxable income previously taxed
1 Balance at beginning of year			
2 Ordinary income from page 1, line 24			
3 Other additions			
4 Total of lines 1, 2, and 3			
5 Distributions other than dividend distributions			
6 Loss from page 1, line 24			
7 Other reductions			
8 Add lines 5, 6, and 7			
9 Balance at end of tax year—Subtract line 8 from line 4			

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1986 Department of the Treasury Internal Revenue Service

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

Voluntary Contributions To Reduce the Public Debt

Quite often, inquiries are received about how voluntary contributions to reduce the public debt may be made. A corporation may contribute by enclosing a separate check, payable to "Bureau of the Public Debt," with the tax return. Please keep the contribution to reduce the public debt separate from any amount payable with the tax return. Tax remittances should be made payable to "Internal Revenue Service."

Changes You Should Note

Tax Reform Act of 1986 (Act)

The Act made many changes to the Internal Revenue Code that affect the S corporation and shareholders of the S corporation. See pages 14 and 15 of these instructions for Changes Made by the Act that affect the S corporation and its shareholders for the 1986 calendar year, 1986–87 fiscal year (FY), and 1987 tax year.

Reminders

- **Preaddressed Label.**—Use the pre-addressed label and envelope that comes with the tax package to help speed up the processing of your return.
- **Optional Writeoff of Certain Tax Preferences.**—Do not take a deduction for any qualified expenditures to which an election under section 58(i) (new section 59(e) after 1986) applies. Instead, pass the expenditures and information needed to compute this deduction through to your shareholders on the schedule attached for line 19 of Schedule K-1. Each shareholder will take the deductible amount, if any, on his or her own return. See the instructions for line 16 of Schedule K and line 19 of Schedule K-1 for more information.
- **Depletion.**—Do not deduct depletion on oil and gas wells on the S corporation return. Instead, pass the information needed to compute this deduction through to the shareholders on Schedule K-1 or on an attached schedule for line 19 of Schedule K-1. The shareholders will determine the deductible amount on their own returns. See the instructions for line 16 of Schedule K and line 19 of Schedule K-1 for more information.

Registration of Tax Shelter

If an S corporation is a tax shelter, or if the corporation is involved in a tax shelter, or if the corporation is considered to be the organizer of a tax shelter, or if the corporation is a pass-through entity of the shelter benefits, there are reporting requirements under section 6111 for both the corporation and its shareholders.

See **Form 8264**, Application for Registration of a Tax Shelter, and **Form 8271**, Investor Reporting of Tax Shelter Registration Number, and their related instructions for information the corporation must provide to IRS and to the shareholders to enable them to comply with these requirements.

The corporation must enter its tax shelter registration number in item C of Schedule K-1 if applicable. Also, complete item O on page 2 of Form 1120S.

General Instructions

Purpose of Form

Form 1120S is used if a domestic corporation has filed **Form 2553**, Election by a Small Business Corporation, to be an S corporation and its election is in effect. Do not file your first Form 1120S until you have been notified by the IRS that your election is accepted and the tax year it will take effect.

If you need more information, get **Publication 589**, Tax Information on S Corporations.

Filing Form 1120S

Who Must File

You must file Form 1120S if: (a) you elected by filing Form 2553 to be taxed as an S corporation, (b) IRS accepted your election, and (c) the election remains in effect.

End 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 can make another election on Form 2553 only if the Commissioner consents. See section 1362(g), and related regulations.

The election ends **automatically** in any of the following cases:

a. The corporation is no longer a small business corporation as defined in section 1361(b). The ending 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 profits, and gross receipts more than 25% of which are derived from passive investment income as defined in section 1362(d)(3)(D), the election shall terminate 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 25a for details on how to figure the tax.

c. When an existing S corporation (section 1378(c)(1)) has a more than 50% change in ownership and has not adopted a permitted tax year as defined in section 1378(b) for any tax year following the year it has more than 50% change in ownership. See section 1378(c) for details. For tax years beginning after 1986, section 1378(c) is repealed. See Changes Made by the Act that affect 1987 tax years for more information.

The election may be revoked if shareholders who collectively own a majority of the stock in the corporation consent to a revocation. So long as the specified date is on or after the date of consent to the revocation, the revocation is effective as of the specified date. If no date is specified, the revocation is effective as of the beginning of a tax year if it is made on or before the 15th day of the 3rd month of such tax year. If no date is specified and the revocation is made after 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 1986 Return

File the 1986 return for calendar year 1986 and fiscal years beginning in 1986 and ending in 1987. If the return is for a fiscal year, fill in the tax year spaces on the form.

Note: *The 1986 Form 1120S may also be used if: (1) the corporation has a tax year of less than 12 months that begins and ends in 1987; and (2) the 1987 Form 1120S is not available by the time the corporation is required to file its return. However, the corporation must show its 1987 tax year on the 1986 Form 1120S and incorporate any tax law changes that are effective for tax years beginning after December 31, 1986. See Changes Made by the Act that affect 1987 tax years at the end of these instructions.*

Final Return

If the corporation ceases to exist, check the box for Final Return in item F at the top of the form.

Change in Address

If there has been a change in address from the previous year, check the box for Change in Address in item F at the top of Form 1120S.

Amended Return

To correct an error in a Form 1120S already filed, file an amended Form 1120S and check the box for Amended Return in item F at the top of the form. 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. Write "AMENDED" across the top of the corrected Schedule K-1 you give each shareholder.

Designation of Tax Matters Person (TMP)

An S corporation may designate an individual shareholder as the TMP for a specific corporate tax year by attaching a statement to the return that:

1. Identifies by name, address, and taxpayer identification number the corporation and the individual shareholder designated as the TMP,
2. Declares that the attached statement is a designation of a TMP for the tax year to which the return relates (an S corporation may not designate a TMP for any tax year other than the year for which the return is being filed), and
3. Is signed by a corporate officer authorized to sign the corporation's return.

Where To File

If the corporation's principal business, office, or agency is located in ▼	Use the following Internal Revenue Service Center address ▼
New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, Minnesota, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101
Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
Arkansas, Indiana, North Carolina, Tennessee, Virginia	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania	Philadelphia, PA 19255

Accounting Methods

Figure ordinary income using the method of accounting regularly used in keeping the corporation's books and records. Such method may include the cash receipts and disbursements method, an 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.) Several changes were made to tax law regarding accounting methods. See Changes Made by the Act at the end of these instructions for details.

Unless the law specifically states otherwise, 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 on **Form 3115**, Application for Change in Accounting Method. Also see **Publication 538**, Accounting Periods and Methods.

Rounding Off to Whole-Dollar Amounts

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

Change in Accounting Period

To change an accounting period, see regulations section 1.442-1 and **Form 1128**, Application for Change in Accounting Period. Also see Publication 538. For tax years beginning after 1986, certain fiscal year corporations will have to change to calendar year. See Changes Made by the Act that affect 1987 tax years at the end of these instructions for more information.

Paying the Tax

The corporation must pay the tax due (line 27, page 1) in full within 2½ months after the end of the tax year.

Deposit corporation income tax payments with a Federal Tax Deposit Coupon (**Form 8109**). Make these tax deposits with either a financial institution qualified as a depositary 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 get more deposit forms, use the reorder form (Form 8109A) provided in the coupon book.

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

Penalties

a. Form 1120S is required to be filed by sections 6037 and 6012. A corporation that does not file its tax return by the due date, including any extensions, may have to pay a penalty of 5% a month, or fraction of a month, up to a maximum of 25%, for each month the return is not filed. (The penalty is imposed on the net amount due. See section 6651(a)(1).) The minimum penalty for not filing a tax return within 60 days of the due date for filing (including extensions) is the lesser of the underpayment of tax or $100.

b. A corporation that does not pay the tax when due generally may have to pay a penalty of ½% a month 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).)

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

The penalties are in addition to the interest charge imposed on unpaid tax at a rate under section 6621.

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 taxpayer who controls a foreign corporation, or who is a 10% or more shareholder of a controlled foreign corporation, may have to file **Form 5471**, Information Return With Respect to a Foreign Corporation.

Net Operating Loss and Other Deductions

An S corporation may not take the deduction for net operating losses provided by section 172 and the special deductions in sections 241 through 250 (except section 248).

The corporation's net operating loss is allowed as a deduction from the shareholders' gross income. (Section 1366.)

Attachments

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

To assist us in processing the return, we ask that you complete every applicable entry space on Form 1120S and Schedule K-1. Please do not attach statements 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 taxpayer's name and employer identification number (EIN) on each sheet.

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. 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.

Signature

The return must be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or any other corporate officer (such as tax officer) authorized to sign.

A receiver, trustee, or assignee must sign and date any return he or she is required to file on behalf of a corporation.

If your corporate officer fills in Form 1120S, the Paid Preparer's space under "Signature of Officer" should remain blank. If someone prepares Form 1120S and does not charge the corporation, that person should not sign the return. Certain others who prepare Form 1120S should not sign. For example, a regular, full-time employee of the corporation such as a clerk, secretary, etc., does not have to sign.

In general, 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.
- Sign, 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.

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

Transfers to Corporation Controlled by Transferor

If a person acquires stock or securities of a corporation in exchange for property, and no gain or loss is recognized under section 351, the transferor and transferee must attach the information required by regulations section 1.351-3.

Information Returns That May Be Required

Form 966. Corporate Dissolution or Liquidation.

Form 1096. Annual Summary and Transmittal of U.S. Information Returns. (For transmitting Form 1099-R information for 1986, use **Form W-3G**, Transmittal of Certain Information Returns.)

Form 1098. Mortgage Interest Statement. This form is used to report the receipt from any individual of $600 or more of mortgage interest in the course of the corporation's trade or business.

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

For more information, see **Publication 916**, Information Returns.

Use Form 1099-DIV to report actual dividends paid by the corporation. Only distributions from accumulated earnings and profits are classified as dividends. These dividends qualify for the dividend exclusion under section 116. Do not issue Form 1099-DIV for dividends received by the corporation that are allocated to shareholders on line 2 of Schedule K-1.

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 following items: the foreign tax credit, the deferral of earnings of a controlled foreign corporation, IC-DISC benefits, and FSC benefits.

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

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).

Windfall Profit Tax. Generally, the S corporation will notify each shareholder of any income tax deduction for windfall profit tax on **Form 6248**, Annual Information Return of Windfall Profit Tax. Include on line 19 of Schedule K-1, or on the statement attached for line 19 of Schedule K-1, the shareholder's share of windfall profit tax. The individual shareholder figures his or her overpaid windfall profit tax on **Form 6249**, Computation of Overpaid Windfall Profit Tax.

Caution: *Some S corporations may elect to be treated as authorized to act on behalf of the shareholders. If the corporation makes this election, the preceding paragraph will not apply. See the instructions for Form 6249 for details on how the corporation claims the overpaid windfall profit tax on Form 1120S.*

Passive Activity Provisions (Fiscal Year (FY) Corporations Only)

New section 469 limits losses and credits from passive activities for tax years beginning after 1986. The limitations apply to shareholders of the S corporation and not the S corporation itself. To assist shareholders with tax years beginning after 1986 in figuring the section 469 limitations, the 1986-87 fiscal year corporation must report income or loss and credits separately on Schedules K and K-1 for each of the following types of passive activities:

- Trade or business passive activity.
- Rental real estate activity.
- Rental activity other than real estate rental.

Trade or Business Passive Activity.—Generally, a passive activity is any activity of the S corporation involving the conduct of any trade or business in which a shareholder does not materially participate. Any working interest in oil or gas property as defined in section 469(c)(3) is excluded. A shareholder is treated as materially participating only if the shareholder is involved in the operation of the trade or business on a regular, continuous, and substantial basis. See section 469(h) and related regulations for more information.

Rental Activity Other Than Real Estate Rental.—This term means an activity the income from which consists of payments principally for the use of tangible property. Certain rental activities that involve the performance of substantial services may be treated as a trade or business and not as a rental activity. See instructions for line 5 of page 1 for details.

Rental Real Estate Activity.—A rental real estate activity is a rental activity which involves the rental or leasing of real estate. See instructions for line 5 of page 1 for details.

Specific Instructions

Employer Identification Number. If the employer identification number (EIN) on the label is wrong or if you did not receive a label, write the correct number at the top of the return.

A corporation that does not have an EIN should apply for one on **Form SS-4**, Application for Employer Identification Number. Obtain this form at most IRS or Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center to which Form 1120S is mailed. If the EIN has not been received by the filing time for Form 1120S, write "Applied for" in the space for the EIN. See Publication 583 for additional information.

Business Code No.—See "Codes for Principal Business Activity" at the end of these instructions.

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 tax year, enter the total assets as of the beginning of the tax year.

Page 1 Changes (FY Corporations Only)

Certain line items on page 1 do not apply when Form 1120S is filed by fiscal year corporations. This is a result of tax law changes which necessitate that S corporations with tax years ending after 1986 figure their income or loss and report income or loss to their shareholders in a manner different than the 1986 calendar year S corporation.

1. Adjustments to Page 1 To Provide for Separate Computation of Income or Loss of Any Trade or Business Passive Activity(ies) on Page 1.—The following items of income and expense (for the entire tax year) are not reported on page 1 so that

only income and expense items relating to trade or business passive activity(ies) remain on page 1:

a. Income and expenses attributable to rental real estate activities or other rental activities generally are not reported on page 1 because such rental activity losses are subject to different rules than trade or business passive activity losses under section 469 limitations. See section 469 for details. Rental real estate activity income or loss is reported on line 1b of Schedule K, and other rental activity income or loss is reported on line 1c of Schedule K.

b. Income or loss from a working interest in any oil or gas property, as defined in section 469(c)(3), is not reported on page 1. Report this income or loss on line 6 of Schedule K.

c. Portfolio income and related expenses are not reported on page 1. Portfolio income includes interest, dividends, royalty income, and annuity income not derived in the ordinary course of a trade or business; gain or loss on the disposition of property which normally produces that income; gain or loss on the disposition of property held for investment; and any income, gain, or loss which is attributable to an investment of working capital. Generally, expenses related to portfolio income must be clearly and directly allocable to such income. See section 469(e)(1) for details on portfolio income and related expenses. Report portfolio income (reduced by applicable expenses) on line 1d or 2 of Schedule K.

2. See Changes Made by the Act at the end of these instructions for other changes that affect the reporting of income and expenses by FY corporations.

Gross Income

Note: *Do not include any income that is tax exempt in lines 1 through 8, or any nondeductible expenses in lines 10 through 22. However, these income and expense items are used in figuring the amount for line 23 or 24 of Schedule L. Also, see instructions for line 16 of Schedule K and line 19 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 type of exempt income and the expenses allocated to each type.

Line 1

Gross receipts

Enter gross receipts or sales from all business operations except those you report on lines 4 through 8.

Extensive changes were made to tax law provisions regarding long-term contracts and installment sales. See Changes Made by the Act at the end of these instructions before completing line 1.

For reporting advance payments and long-term contracts, see regulations sections 1.451-3 and 1.451-5.

If you use the installment method, enter on line 1c the gross profit on collections from installment sales and carry the same amount to line 3. Attach a schedule showing for the current year and 3 preceding years: (a) gross sales, (b) cost of goods sold, (c) gross profit, (d) percentage of gross profit to gross sales, (e) amount collected, and (f) gross profit on amount collected.

Line 2

Cost of goods sold and/or operations

See the instructions for Schedule A.

Line 4

FY corporations see Page 1 Changes (above) regarding portfolio income (investment income) before completing line 4. Enter the total taxable interest and the total nonqualifying dividends. See **Publication 550**, Investment Income and Expenses, for additional information.

Taxable interest

Include taxable interest from all sources. Do not include interest exempt from tax and interest on tax-free covenant bonds.

Nonqualifying dividends

Nonqualifying dividends are taxable dividends that are included in ordinary income and for which the individual shareholder is not entitled to an exclusion under section 116. These dividends come from the following:

- Foreign corporations, including a controlled foreign corporation.
- Exempt organizations (charitable, fraternal, etc.) and exempt farmers' cooperative organizations.
- Regulated investment companies (including Money Market Funds) and real estate investment trusts, unless the companies have told you how much of the dividends qualify for the exclusion or as capital gain dividends.

Qualifying dividends are taxable dividends received in tax years beginning before 1987 from domestic corporations not listed above. They are passed through to the shareholders on Schedules K and K-1, line 2. See section 116 for more information.

Line 5

Gross rents

(Calendar Year Corporations Only)

Enter the gross amount you received for renting property. Enter expenses attributable to rental income on the proper deduction lines (10–22).

The corporation may be limited in the amount of deductions for renting a vacation home if a shareholder uses the property for personal purposes. (See section 280A.)

Before deducting any interest expense, see the instructions for lines 16a–c, page 1, and lines 13c(1) and (2) of Schedules K and K-1 to determine if the interest on rental property is investment interest.

(FY Corporations Only)

Fiscal year corporations do not report income and expenses from certain rental activities on page 1 of Form 1120S. Income or loss from rental real estate activities or other rental activities, except as explained below, are reported separately on lines 1b, 1c, and 6 of Schedule K.

Rental activities are subject to different rules than other passive activities. Generally, rental real estate activities are not subject to material participation rules. However, where significant services are provided in connection with the rental of real estate (such as in the renting of hotel rooms), the activity is treated as a trade or business activity and not a rental activity and as such is subject to the material participation rules. Also, in order for the rental of tangible property to be considered a rental activity, the income from the activity must consist of payments principally for the use of the tangible property, rather than for the performance of substantial services. As in the case of a hotel, if significant services are involved, the rental service would be a trade or business and not a rental activity and thus would be subject to the material participation rules. If a rental service is treated as a trade or business, income and expenses from the activity are reported on page 1 of Form 1120S and not on lines 1b and 1c of Schedule K.

Line 8

Other income

Enter any other taxable income not listed above and explain its nature on an attached schedule. Examples of other income are recoveries of bad debts deducted in earlier years under the specific charge-off method; the amount of credit for alcohol used as a fuel that was figured on **Form 6478**, Credit for Alcohol Used as Fuel; the amount of the credit for Federal tax on gasoline and special fuels to the extent that it reduced your income tax (see **Form 4136**, Computation of Credit for Federal Tax on Gasoline and Special Fuels, for details); and refunds of taxes deducted in earlier years. Do not include those items requiring separate computations by shareholders that must be reported on Schedule K. (See the instructions for Schedules K and K-1.) Do not offset current year's taxes with tax refunds.

If "other income" consists of only one item, identify it by showing the account caption in parentheses on line 8. 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 expenses on lines 10 through 22.

Deductions

Note: *FY corporations see instructions for "Page 1 Changes (FY Corporations Only)" at the beginning of the Specific Instructions for "Gross Income" before completing lines 10 through 22.*

Limitations on deductions

1. Transactions between related taxpayers.— See section 267 for rules on treatment of losses, expenses, and interest on transactions between related taxpayers.

2. Limitation on deductions for tax preference items.—If the S corporation was a C corporation for any of the three immediately preceding years, it may be required to reduce deductions for the following tax preference items by a certain percentage:

a) Section 1250 capital gain (20%);

b) Amortizable basis of pollution control facilities (generally 20% but 15% for property placed in service before January 1, 1985);

c) Intangible drilling and exploration and development costs (see section 291(b)); and

d) Depletion of iron ore and coal (including lignite) (15%).

See sections 1363(b)(4) and 291 for more information.

3. See section 58(i) regarding qualified expenditures under sections 173, 174(a), 263(c), 616(a), and 617. These expenditures are passed through separately to shareholders to allow them the write-off option under section 58(i). See instructions for line 16 of Schedule K and line 19 of Schedule K-1.

4. Business start-up expenses.—Section 195 provides that business start-up expenses be amortized over a period of at least 60 months.

Line 10

Compensation of officers

Enter on line 10 the total compensation of all officers.

Line 11

Salaries and wages

Enter on line 11a the amount of total salaries and wages (other than salaries and wages deducted elsewhere on your return) paid or incurred for the tax year.

Enter on line 11b the applicable jobs credit from **Form 5884,** Jobs Credit. See 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 which reasonable compensation is not paid, the IRS may make adjustments in the items taken into account by such individuals and the value of such services or capital. See section 1366(e).

Line 12

Repairs

Enter the cost of incidental repairs, such as labor and supplies, that do not add to the value of the property or appreciably prolong its life. New buildings, machinery, or permanent improvements that increase the value of the property are not deductible. They are chargeable to capital accounts and may be depreciated or amortized.

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

Line 13

Bad debts

You may treat bad debts in either of two ways: (a) as a deduction for specific debts that become worthless in whole or in part, or (b) as a deduction for a reasonable addition to a reserve for bad debts. (Section 166.)

If the corporation uses the reserve method, attach a schedule for 1986 that separately lists:

1. Trade notes and accounts receivable outstanding at the end of the year;
2. Sales on account;
3. Amount added to reserve—current year's provision;
4. Amount added to reserve—recoveries;
5. Amount charged against reserve; and
6. Reserve for bad debts at end of year.

An S corporation may choose either method on its first return in which it takes a bad debt deduction. It must use that method for following years unless it receives permission to change. Apply on Form 3115 if you want to change the method of figuring bad debts.

For tax years beginning after 1986, the reserve method for figuring bad debts is repealed. See Changes Made by the Act that affect 1987 tax years for more information.

Line 15

Taxes

Enter taxes paid or incurred on business property for carrying on a trade or business, if not reflected in cost of goods sold. Federal 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, may be considered to be deductible only under section 212. These are not deductible on line 15; they are reported separately on Schedules K and K-1, line 9.

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, such as in Schedule A.

Do not deduct section 901 foreign taxes. These taxes are reported separately to shareholders on line 14 of Schedules K and K-1.

See section 189(b) for information on amortizing real property construction period taxes. Section 189 is repealed for costs incurred after 1986 in tax years ending after 1986.

Lines 16a–16c

Interest

Caution: Include on lines 16a and 16b interest expense on indebtedness incurred after December 16, 1969, to purchase or carry property held for investment (including net lease property). Also include interest expense not incurred in the trade or business of the corporation required to be reported on line 9 of Schedules K and K-1. Property held for investment includes all investments held for producing taxable income or gain. It does not generally include property used in a trade or business. See the instructions for Schedules K and K-1, line 13b, for a description of investment income.

Note: *FY corporations see Page 1 Changes at the beginning of the Specific Instructions and section 163(d)(4)(D) for changes that may affect the way interest expense is reported.*

For more information, see section 163(d) and **Form 4952,** Investment Interest Expense Deduction.

Line 16a

Enter interest on all indebtedness incurred for the operation of the corporation that is deductible by either the corporation or the shareholders (that is not claimed elsewhere on the return).

Generally, both accrual and cash basis corporations must deduct prepaid interest payments over the period of the prepayment instead of when actually paid. (See section 461(g).)

Do **not** include on line 16a:

- Amounts claimed elsewhere on the return such as on Schedule A.
- Amounts paid or accrued during the year for real property construction period interest. See section 189 for more information. Section 189 is repealed for costs incurred after 1986 in tax years ending after 1986.

The interest and carrying charges on straddle positions cannot be deducted. Instead, capitalize these amounts. See section 263(g) for exceptions.

Line 16b

See Caution under Lines 16a–16c above before completing line 16b. The line 16b amount is entered on lines 13a(2) and 13a(3) of Schedule K.

Line 17a

Depreciation

The rules for computation of depreciation for property placed in service after 1986 have been substantially changed. See Form 4562A for more information. (The corporation may elect to use the new provisions for property placed in service after July 31, 1986.)

Enter depreciation expense from Form 4562. Include amortization expense from Form 4562 on line 22.

Do not include any expense deduction for recovery property (section 179) 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 (or on a statement attached to Schedule K-1).

Line 18

Depletion

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 16 of Schedule K and line 19 of Schedule K-1 for information on oil and gas depletion that must be supplied to the shareholders by the corporation.

Line 20

Pension, profit-sharing, etc., plans

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, Return/Report of Employee Benefit Plan (with fewer than 100 participants).

Form 5500-R, Registration Statement of Employee Benefit Plan.—Complete the applicable form for each plan with fewer than 100 participants.

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

There are penalties for failure to file these forms on time. **Note:** There is a new penalty for overstating the pension plan deduction for returns filed after October 22, 1986. See new section 6659A.

Line 21

Employee benefit programs

Enter the amount of contributions to employee benefit programs (such as insurance and health and welfare programs) that are not an incidental part of a pension, profit-sharing, etc., plan included in line 20.

Section 1372, added by Public Law 97-354 (Subchapter S Revision Act of 1982 (Act)), provides for partnership-type rules for fringe benefits. Generally, section 6(d)

of the Act provides that, in the case of existing fringe benefits of a corporation which as of September 28, 1982, was an S corporation, section 1372 (added by the Act) only applies for tax years beginning after December 31, 1987. For this purpose, existing fringe benefits means any employee fringe benefit of a type which the corporation provided to its employees as of September 28, 1982. See Act section 6(d) for exceptions to this rule and other details.

Also include the corporation's contributions to a qualified group legal services plan established for the exclusive benefit of employees (including shareholders) or their spouses or dependents.

Line 22

Other deductions

Enter any other authorized deductions for which there is no line on page 1 of the return. Do not include those items requiring separate computations which must be reported on Schedules K and K-1. Do not deduct losses incurred in transactions which were not connected with the corporation's trade or business. Report these losses separately to shareholders on Schedules K and K-1, line 9.

Do not include qualified expenditures to which an election under section 58(i) applies. See instructions for line 16 of Schedule K and line 19 of Schedule K-1 for details on treatment of these items.

Include in line 22 the deduction taken for amortization. See instructions for Form 4562 and Form 4562A for more information.

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 exempt income and (2) the amount of expense items allocated to each such class. Show the amount allocated by apportionment separately.

In the case of a farming syndicate, a deduction for amounts paid for feed, seed, fertilizer, or other similar farm supplies is allowed only in the tax year in which these items are actually used or consumed. For definitions, exceptions to the general rule, and special rules for orchard and vineyard expenses, see section 278. Section 278 is repealed for costs incurred after 1986 in tax years ending after 1986.

For special treatment of certain expenses incurred in the production of films, books, records, or similar property, see section 280. Section 280 is repealed for costs incurred after 1986 in tax years ending after 1986.

Generally, the corporation can deduct all ordinary and necessary travel and entertainment expenses paid or incurred in the corporation's trade or business. However, the corporation 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. (The corporation may be able to deduct the expenses 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.) See ***Publication 463****, Travel, Entertainment, and Gift Expenses, for more details.*

For tax years beginning after 1986, extensive changes were made to tax law provisions regarding deductions for meals and entertainment expenses. See Changes Made by the Act that affect 1987 tax years for more information.

Line 24

Ordinary income (loss)

This is nonseparately computed income or loss as defined in section 1366(a)(2). This income or loss is entered on line 1a of Schedule K.

Line 24 income is not used in figuring line 25a or 25b tax. See instructions for line 25a for figuring taxable income for purposes of line 25a or 25b tax.

Line 25a

If the corporation has always been a subchapter S corporation, the line 25a tax does not apply to the corporation. If the corporation has subchapter C earnings and profits at the close of its tax year, has passive investment income that is in excess of 25% of gross receipts, and has taxable income at year end, the corporation must pay a tax on the excess net passive income. Complete lines 1 through 3 and line 9 of the worksheet below to make this determination. If line 2 is greater than line 3 and the corporation has taxable income (see taxable income instruction below), it must pay the tax. Complete a separate schedule using the format of lines 1 through 10 or 11 of the worksheet to figure the tax. Enter the tax on line 25a, page 1, Form 1120S, and attach the computation schedule to Form 1120S.

Reduce each item of passive income passed through to shareholders by its portion of tax on line 25a. See section 1366(f)(3).

Worksheet

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 expenses directly connected with the production of income on line 2 (see section 1375(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. Tax on excess net passive income—All filers enter 46% of the smaller of line 8 or 9. (Calendar year filers and FY filers whose tax year ends on or before 6-30-87, enter this tax on line 25a, page 1, Form 1120S. Filers with tax years which include 7-1-87, continue computation below.) . . . ______
11. Filers with fiscal years which include 7-1-87, compute tax as follows.
    a. Enter 34% of the smaller of line 8 or 9 . . . . ______
    b. Line 10 × $\frac{\text{number of days in tax year before 7/1/87}}{\text{number of days in tax year}}$ ______
    c. Line 11a × $\frac{\text{number of days in tax year after 6/30/87}}{\text{number of days in tax year}}$ ______
    d. Add lines 11b and 11c. Enter here and on line 25a, page 1 Form 1120S. . . . . . ______

*Income and expenses 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 that are reported separately on Schedule K. See sections 1362(d)(3)(D)(ii)–(v) for exceptions regarding lines 2 and 5.

Taxable income (line 9 of the worksheet)

Line 9 income is defined in section 1374(d). You 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.

Line 25b

If net capital gain, line 10a, Schedule D (Form 1120S), is $25,000 or less, the corporation is not liable for income tax or minimum tax. If the net capital gain is more than $25,000, see Instructions for Part IV, Tax Computation of Schedule D (Form 1120S), to determine if the corporation is liable for income tax or minimum tax.

Line 25c

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 not an S corporation.

Include the corporation's section 47 recapture tax in the total amount to be entered on line 25c. Write to the left of the line 25c total the amount of recapture tax and the words "section 47 tax," and attach **Form 4255,** Recapture of Investment Credit, to Form 1120S.

Schedule A

Cost of Goods Sold and/or Operations

Cost of Operations

If the entry on line 2, page 1 of Form 1120S, is for the cost of operations, complete Schedule A, even if inventories are not used.

Valuation methods

Your inventories can be valued at: (a) cost, (b) cost or market value (whichever is lower), or (c) any other method approved by the Commissioner of Internal Revenue, if that method 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(e)(3) and Rev. Proc. 84-74, 1984-2 C.B. 738.

In line 8a, check the method(s) used for valuating 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 1.471-4.

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 1.471-2(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 with Form 1120S and check the LIFO box in line 8b. In line 8c, enter the amount or percent (estimates may be used) of total closing inventories covered under section 472.

If you have changed or extended your inventory method to LIFO and have had to "write up" your opening inventory to cost in the year of election, report the effect of this writeup as income (line 8, page 1) proportionately over a 3-year period that begins in the tax year you made this election. (Section 472(d))

If you are engaged in manufacturing or production, you must use the full absorption method of inventory costing. If you are not using it, you must change to this method. Under it, both direct and certain indirect production costs are included for inventory valuation purposes. Use Form 3115 to change to full absorption. For details, see Rev. Proc. 75-40, 1975-2, C.B. 571, regulations section 1.471-11; and Rev. Rul. 81-272, 1981-2 C.B. 116.

Additional Information

Be sure to answer the questions and provide other information in items G through P. The instructions that follow are keyed to these items.

Question K

Foreign financial accounts

Check the Yes box if either **1.** or **2.** below applies to you. Otherwise, check the No box.

1. At any time during the year, the corporation had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account). Exception. Check No if either of the following applies to you:

- The combined value of the accounts was $10,000 or less during the whole year.
- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.

2. The corporation owns more than 50% of the stock in any corporation that would answer the question "Yes" based on Item 1 above.

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

If question K is checked Yes, file form TD F 90-22.1 by June 30, 1987, with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return, so do not file it with Form 1120S.

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

Also, if question K is checked Yes, write the name of the foreign country or countries. Attach a separate sheet if you need more space.

Schedule K and Schedule K-1

Shareholder's Share of Income, Credits, Deductions, etc.

Note: *FY corporations see instructions for "FY Corporations Only" throughout the Specific Instructions for Schedule K and Schedule K-1 before completing the schedules.*

Purpose

Schedule K is a summary schedule of all the shareholders' share of the corporation's income, deductions, credits, etc. Schedule K-1 shows each shareholder's separate share. A copy of each shareholder's K-1 is attached to the Form 1120S filed with the IRS. A copy is kept as a part of the corporation's records, and each shareholder receives his or her own 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 pertinent 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 25a, b, and c, page 1, Form 1120S. Shareholders are liable for income tax on their share 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 partnership income, S corporation income reported to shareholders on Schedule K-1 is **not** self-employment income and is not subject to self-employment tax.

The total distributive share items (column (b)) of all Schedules K-1 should equal the amount reported on the same line of Schedule K. Lines 1 through 15 of Schedule K correspond to lines 1 through 15 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, and (1) the Shareholder's Instructions for Schedule K-1 (Form 1120S) or (2) instructions pertinent only to the items reported on Schedule K-1 (Form 1120S) may be prepared and given to each shareholder in lieu of the complete Instructions for 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 D: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. 85-3, 1985-1 C.B. 459.

Shareholder's Distributive 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 in the **Line-by-Line Instructions.**

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 concurrence 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 distributive amount for each applicable item listed.

Note: *Calendar year filers do not have to complete certain lines on Schedule K. Completion of the lines is optional because the amounts for these lines appear elsewhere on Form 1120S or on other IRS forms or IRS schedules attached to Form 1120S. Although you do not have to complete the optional lines on Schedule K, you do have to complete these lines on Schedule K-1 (Form 1120S). The optional lines are:*

Line 1a. Ordinary income (loss).
Line 3. Net short-term capital gain (loss).
Line 4. Net long-term capital gain (loss).
Line 5. Net gain (loss) under section 1231 (other than due to casualty or theft).

Note: Lines 3, 4, and 5 are not optional if the corporation is subject to the capital gains tax or the tax on excess net passive income.

Line 10a. Jobs credit.
Line 11. Other credits (If the other credits appear elsewhere on an IRS Form or Schedule that is attached to Form 1120S).

(Schedule K-1 only)

On each Schedule K-1, enter the names, addresses, and identifying numbers of the shareholder and corporation; all corporations complete items A, B, and C; only FY corporations complete item D through G; and enter the shareholder's distributive 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 below line 19 (Supplemental Schedules) of Schedule K-1 for you to provide information to shareholders. This space, if sufficient, should be used in place of any applicable schedule required for lines 6, 8, 9, 10c, 10d, 11, 12g, 14c, 14d, 14f, 14g, 17, or other amounts not shown in lines 1a through 18 of Schedule K-1. Please be sure to identify the applicable line number next to the information entered below line 19.*

Line-by-Line Instructions

Item A (Schedule K-1 only).—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 distributive share items (lines 1-19 of Schedule K-1) are figured by multiplying the annual amount on the corresponding line of Schedule K by the percentage in A.

If there was a change in stock ownership 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.

	a.	b.	c. (a × b)	
	% of total stock owned	% of tax year held	% of ownership for the year	
A	50% 40	50% 50	25% + 20	45%
B	50 40	50 50	25 + 20	45%
C	20	50	10	10%
Total				100%

If there was a change in stock ownership during the tax year, each shareholder's distributive share items (lines 1–19 of Schedule K-1) are figured on a daily basis, based on the percentage of stock held by the shareholder on each day. See section 1377(a)(1) and (2) for details.

Item B (Schedule K-1 only).—Enter the Internal Revenue Service Center address where the tax return, to which a copy of this K-1 was attached, was or will be filed.

Item C (Schedule K-1 only).—Enter the tax shelter registration number assigned to the corporation by IRS or provided to the corporation by other pass-through entities.

FY Corporations Only

Items D through G (Schedule K-1 Only)

Items D–G are only completed by 1986-87 FY corporations. The information provided by items D–G will be used by shareholders to complete their 1987 tax returns.

Item D.—Check the Yes or No box in item D to indicate that the shareholder (for which the Schedule K-1 is completed) did or did not materially participate in the trade or business activity(ies) for which income or loss is reported on line 1a, or a credit(s) related to the activity(ies) is reported on line 11 of Schedule K-1. In general, a taxpayer is treated as materially participating in an activity only if the taxpayer is involved in the operations of the activity on a regular, continuous, and substantial basis. See section 469(h) and related regulations for other details.

If no income or loss is reported on line 1a, do not complete item D.

If income or loss from more than one activity is reported on line 1a, the corporation must complete item D for each line 1a activity. If income or loss from more than one activity is reported on line 1b, it must also complete item E for each line 1b activity. It must also provide the dates requested in item G for each activity. The determination of what constitutes a separate activity is intended to be made in a realistic economic sense. The items D, E, and G information for each activity must be shown separately in the Supplemental Schedules space for line 19, or on an attached schedule if more space is needed.

Item E.—Check the Yes or No box in item E to indicate that the shareholder did or did not actively participate in the rental real estate activity(ies) for which income or loss is reported on line 1b or for which a credit(s) is reported on line 10b, 10c, or 10d of Schedule K-1. Generally, a shareholder is not considered to actively participate in a rental real estate activity if, at any time during the year (or shorter relevant period), the interest of the shareholder and the shareholder's spouse in the activity is less than 10% (by value) of all interests in an activity. For purposes of applying the less than 10% test, separate buildings are treated as separate rental real estate activities unless the degree of integration of the building and other relevant factors indicate they should be treated as parts of a larger activity (for example, an integrated shopping center).

If no income or loss is reported on line 1b, do not complete item E.

If the shareholder owns a 10% or more interest in the corporation, the shareholder will be considered to actively participate in an activity so long as he or she participates, for example, in the making of management decisions or arranging for others to provide services (such as repairs), in a significant and bona fide sense. The material participation standards of regular, continuous, and substantial involvement in operations are not required.

Active participation in a rental real estate activity is not required for the shareholder to take the low-income housing and rehabilitation investment tax credits. The low-income housing credit is reported on line 10b, and qualified rehabilitation expenditures are reported on an attachment for line 10c of Schedule K-1.

The limitations on passive activity losses do not apply to losses of a qualified investor from a qualified low-income housing project for any tax year in the relief period. See section 502 of the Tax Reform Act of 1986 for a definition of qualified investor, qualified low-income housing project, and the relief period. The low-income housing credit may not be taken for any qualified low-income housing project for which losses are allowed by reason of the exception provided in Act section 502. Report these losses on line 6 of Schedules K and K-1.

Items F and G.—Generally, passive activity limitations on losses and credits are phased in between 1987 and 1990. However, the phase-in provisions only apply to losses and credits attributable to pre-enactment interests. Generally, a pre-enactment interest means stock in the corporation held on October 22, 1986, and at all times thereafter. However, stock acquired after October 22, 1986, pursuant to a binding written contract in effect on October 22, 1986, is considered acquired on that date.

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

Complete item F for each shareholder who had a stock ownership increase after October 22, 1986, and received distributive share items of income, loss, deductions, or credits attributable to any passive activity started before October 23, 1986. Enter in item F the shareholder's weighted percentage increase in stock ownership after October 22, 1986, based on the number of days in the tax year the increased stock ownership was held. For example, a shareholder held a 20% stock ownership on October 22, 1986, and increased his or her ownership to 60% on December 18, 1986, and the 60% was held until tax year end, February 28, 1987. The 40% increase (60% - 20% = 40%) is weighted by 20% (73 days held divided by 365 in tax year = 20%) and the percentage for item F would be 8% (40% X 20% = 8%).

If a shareholder disposed of stock after October 22, 1986, and later purchased additional stock, thereby restoring his or her basis, the percentage increase for purposes of item F is figured on the difference between the percentage of ownership immediately after the disposition and the percentage of ownership immediately after the later purchase.

If an activity is acquired or started by the corporation after October 22, 1986, the phase-in rule generally does not apply regardless of when the shareholder acquires his or her stock. However, an activity commencing after October 22, 1986, is considered as being conducted on October 22, 1986, if the property used in the activity is acquired pursuant to a binding written contract in effect on August 16, 1986, or construction of such property began on or before that date. See section 469(l) for other details.

Line 1a (Calendar Year Corporations Only).—Enter ordinary income (loss) from line 24, page 1. If line 24 is a loss, enter the shareholder's full share of the loss. Enter the loss without reference to the adjusted basis of the shareholder's stock in the corporation (section 1366(d)) or the shareholder's amount at risk (section 465). Line 1a should reflect the total ordinary income (loss) from all business operations, including section 465 at-risk activities and income (loss) from other activities.

If the corporation is involved in more than one business activity and has a section 465 at-risk activity loss(es), the corporation must show section 465 loss(es) separately. This separate reporting is to assist the shareholder in determining the allowable loss to claim on his or her tax return.

Lines 1a–1d (FY Corporations Only)

Lines 1a.—Enter amount from line 24, page 1. Enter the income or loss without reference to (1) shareholders' basis in the corporation (section 1366(d)), (2) shareholders' section 465 at-risk limitations, or (3) shareholders' section 469 passive activity limitations.

If the corporation is involved in more than one business activity, the corporation must show in the Supplemental Schedules space for line 19 of Schedule K-1, or on an attached schedule if more space is needed, the income or loss separately for:

a. Section 465 at-risk activities. (For losses after 1986, new subsection 465(b)(6)(E) extends the at-risk limitations to the activity of holding real property (except mineral property).)

b. Section 469 passive activities.

The separate statement must show for each activity: (1) the line 1a income or loss and (2) all properly allocable items of income and expense reported on lines 3 through 19 of Schedule K-1.

Separate statements are also required for lines 1b and 1c if income or loss from more than one activity is reported on these lines.

Also, if the corporation is involved in only one passive activity and line 3, 4, or 5 of Schedule K-1 contains (1) gain or loss attributable to the passive activity and (2) portfolio gain or loss, the corporation must show the gain or loss attributable to the passive activity separately in the Supplemental Schedules space for line 19, or on an attached schedule if more space is needed.

Line 1b.—Enter any gain or loss from rental real estate activities of the corporation. Do not report on line 1b (for shareholders that are qualified investors) certain loss(es) from a qualified low-income housing project. Report such loss(es) on line 6 of Schedule K-1 and attach a statement identifying the loss. See Item E above and section 502 of the Act for definitions and other information on qualified low-income housing projects. **Note:** The gain from a qualified project is reported on line 1b for all shareholders, and the gain or loss for all nonqualified investor shareholders and all nonqualified projects is also reported on line 1b.

Line 1c.—Enter income or loss from rental activities other than that reported on line 1b (or line 6 as explained in line 1b above).

Line 1d.—Enter portfolio income. See the instructions for "Page 1 Changes" at the beginning of the Specific Instructions for an explanation of portfolio income.

Line 2.—Enter the qualifying dividends received from other domestic corporations for which each shareholder is entitled to an exclusion under section 116. The investment companies will tell the S corporation what part, if any, of the dividends qualify for the exclusion. (See the instructions for Form 1120S, page 1, line 4.)

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

Note: *If there was a gain (loss) from a casualty or theft to property not used in a trade or business or used for income producing purposes, do not complete Form 4684 for this type of casualty or theft. Instead, provide each shareholder with the needed information to complete their own Form 4684 for their portion of this casualty or theft.*

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

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

b. Recoveries of bad debts, prior taxes, or delinquency amounts (section 111).

c. Any gain or loss where the corporation was a trader or dealer in section 1256 contracts or property related to such contracts. See sections 1256(f) and 1374(c)(4).

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

e. Loss(es) from qualified low-income housing projects for shareholders that are qualified investors.

f. Income or loss from a working interest in any oil or gas property as defined in section 469(c)(3). See "Page 1 Changes (FY Corporations Only)" at the beginning of the Specific Instructions.

Line 7.—Enter the total 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 of the claimed value exceeds $500, **Form 8283,** Noncash Charitable Contributions, must be completed and attached to Form 1120S. The corporation must give a copy of its Form 8283 to every shareholder if the value of an item or group of similar items of contributed property exceeds $5,000 even though the amount allocated to each shareholder is $5,000 or less. For property that does not meet the $5,000 filing requirement, the corporation does not have to furnish the shareholders with its Form 8283. However, the corporation must provide shareholders with their share of fair market value for property valued between $500 and $5,000 in order for individual shareholders to complete their own Form 8283. See the Instructions for Form 8283 for more information.

If the corporation made a qualified conservation contribution under section 170(h), also include the fair market value of the underlying property before and after the donation, the type of legal interest contributed, and describe the conservation purpose furthered by the donation. Give a copy of this information to each shareholder.

Line 8.—A 1986 calendar year corporation (FY corporations see below) may elect to expense part of the cost (up to $5,000) of recovery property that qualifies for investment credit that the corporation purchased this year for use in its trade or business. The corporation may not deduct the section 179 expense, but should report the expense separately on Schedules K and K-1, line 8.

The corporation must specify the item(s) of section 179 property which it elects to treat as an expense and the portion of the cost of each item which is being treated as an expense. Do this on Form 4562 and on a schedule attached to Schedule K-1. Generally, any election made under section 179 may not be revoked except with the consent of the Commissioner of IRS.

FY Corporations.—Generally, for section 179 property placed in service after 1986, the amount the corporation may elect to expense was increased from $5,000 to $10,000. However, the $10,000 limit may be reduced by other factors. See Instructions for new Form 4562A, Part I, for details. The corporation must provide each shareholder with the necessary information so that he or she can complete Part I of his or her Form 4562A.

Depreciation, amortization, or investment credit may not be taken on any amount for which a deduction is allowed under section 179.

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

a. Amounts (other than investment interest required to be reported on lines 13a (2) and 13a(3) of Schedules K and K-1, and the portion of line 13a(1) of Schedules K and K-1 deductible under section 162) paid by the corporation that would be itemized deductions on any of the shareholder's income tax returns if they were paid directly by a shareholder for the same purpose. These amounts include, but are not limited to, expenses under section 212 for the production of income other than from the corporation's trade or business.

b. Any penalty on early withdrawal of savings because the corporation withdrew funds from its time savings deposit before its maturity.

c. Soil and water conservation expenditures (section 175).

d. Expenditures paid or incurred for the removal of architectural and transportation barriers to the elderly and handicapped which the corporation has elected to treat as a current expense. Do not deduct these expenditures on page 1 of Form 1120S. See section 190.

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.

Credits

Line 10a.—Enter on line 10a of Schedule K the jobs credit computed by the corporation that is not attributable to a passive activity. If the corporation has a jobs credit for a nonpassive activity and a passive activity, separate computations may have to be made by each shareholder to determine the credit for each. Enter on line 10d or 11 the jobs credit attributable to passive activities. The jobs credit is figured on Form 5884 and the form(s) is attached to Form 1120S. See Form 5884 for details on how the jobs credit was extended and modified for qualified employees hired after 1985.

Enter each shareholder's share of the jobs credit on lines 10a, 10d, or 11 of Schedule K-1.

Line 10b (FY Corporations Only).—Enter on line 10b the low-income housing credit figured by the corporation. The credit is figured at the corporate level on Form 8586 and the form is attached to Form 1120S. The credit is based on qualified expenditures made after 12-31-86. See Form 8586 for other details on the credit.

The credit is not allowed for any qualified low-income housing projects for which losses are allowed by reason of the exception in section 502 of the Tax Reform Act of 1986. See section 502 of the Act and the instructions for Item E of Schedule K-1 for more information.

Line 10c (FY Corporations Only).—Do not enter an amount on line 10c of Schedules K and K-1. Instead, for line 10c of Schedule K, complete the applicable lines of Form 3468 that apply to qualified rehabilitation expenditures for property related to rental real estate activities of the corporation for which income or loss is reported on line 1b of Schedule K. See Form 3468 for details on qualified rehabilitation expenditures. Attach Form 3468 to Form 1120S.

For line 10c of Schedule K-1, show in the Supplemental Schedules space for line 19 of Schedule K-1, or on an attached statement if more space is needed, a listing of the shareholder's distributive share of the corporation's qualified rehabilitation expenditures for property related to rental real estate activities for which income or loss is reported on line 1b of Schedule K-1.

Note: *Qualified rehabilitation expenditures for property that is not related to rental real estate actvities must be listed separately as follows: (1) If the expenditures relate to passive activities for which income or loss is reported on lines 1a or 1c of Schedule K-1, show these expenditures separately in a schedule for line 11 of Schedule K-1. (2) If the expenditures relate to nonpassive activities for which income or loss is reported on line 1a of Schedule K-1, show the expenditures with other investment credit property listed for line 17 of Schedule K-1.*

Line 10d (FY Corporations Only).—Show on line 10d of Schedule K, or list separately on an attached statement if more than one credit is involved, all other credits (other than credits for line 10b or 10c) related to rental real estate activities. These credits may include any type credit listed in the line 11 instruction.

Show on line 10d of Schedule K-1, or list separately in the Supplemental Schedules space for line 19 of Schedule K-1 if more than one credit is involved, the shareholder's distributive share of all other credits (other than credits for line 10b or 10c) related to rental real estate activities. These credits may include any type credit listed in the line 11 instruction.

Line 11.—Show on line 11 of Schedule K, or list separately if more than one credit is involved, all other credits (other than credits or expenditures shown or listed for lines 10a through 10d of Schedule K or on Form 3468 attached to Schedule k). Show on line 11 of Schedule K-1, or in the Supplemental Schedules space for line 19 if more than one credit is involved, each shareholder's distributive share of all other credits (other than credits or expenditures shown or listed for lines 10a through 10d and 17 of Schedule K-1). See the listing below for types of credits or other information that could be involved.

If both passive activity and nonpassive activity credits are reported for line 11 of Schedules K and K-1, list the credits separately. Identify the passive activity (i.e., line 1a or 1c) to which any passive activity credit relates. Include any investment credit property related to passive activites in the listing for line 11. Include investment credit property related to nonpassive activities separately in a listing for line 17 of Schedule K-1.

The following credits are also figured at the corporate level and then apportioned to persons who are shareholders of the corporation in accordance with stock ownership:

1. Credit for alcohol used as fuel. Complete and attach **Form 6478**, Credit for Alcohol Used as Fuel, to Form 1120S.
2. Orphan drug credit and credit for increasing research activities. Complete and attach **Form 6765,** Credit for Increasing Research Activities (or for claiming the orphan drug credit), to Form 1120S.
3. Nonconventional source fuel credit.
4. Unused regular investment credit from cooperatives.
5. Unused energy investment credit from cooperatives.
6. Credit for backup withholding on dividends, interest, or patronage dividends.

The nonconventional source fuel 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.

If the corporation is a member of a cooperative that passes an unused regular investment credit or unused energy investment credit through to its members, these credits are in turn passed through to the corporation's shareholders.

If the corporation has only one of the above 6 credits, enter the amount of the credit in the amount column of line 11 and identify the type of credit in the space to the left of the amount. If the corporation has more than one credit, enter the total credits on line 11 and identify and list the amount(s) of the credits on an attached schedule.

Tax Preference and Adjustment Items

Lines 12a through 12g.—Enter items of income and deductions that are tax preference or adjustment items. See **Form 6251**, Alternative Minimum Tax Computation, and **Publication 909**, Alternative Minimum Tax, to determine the amounts to enter and for other information.

Do not include as a tax preference item any qualified expenditures to which an election under section 58(i) may apply.

Note: *The Act revised, deleted, or relocated provisions in sections 55 through 58 that provide for computation of the alternative minimum tax. New and revised provisions are in new sections 55 through 59. Generally, the changes are effective for tax years beginning after 1986, but the changes do affect the 1986-87 FY corporations and the information that must be reported to shareholders to allow them to figure the alternative minimum tax for their 1987 tax years. See instructions for lines 12a, b, c, and g below for details.*

Lines 12a and 12b.—Figure the preference items for lines 12a and 12b based only on property placed in service before 1987.

If the corporation elects to use the new depreciation provisions (new Form 4562A) for property placed in service after July 31, 1986, and before January 1, 1987, see the Instructions for Form 4562A for information on figuring the lines 12a and 12b preferences for this property.

Line 12c.—FY corporations figure the adjustment item for line 12c based only on property placed in service after December 31, 1986. Generally, accelerated depreciation on real property placed in service after 1986 is the excess of the tax depreciation taken over alternative depreciation. See section 168 for a definition of alternative depreciation. Generally, accelerated depreciation on personal property placed in service after 1986 is the excess of the tax depreciation taken over the 150% declining balance method. The adjustment applies to leased personal property and to personal property which is not leased. See the instructions for Form 4562A for more information.

Line 12d.—Do not include any depletion on oil and gas wells. The shareholders must compute their depletion deduction separately under 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 12e(1) and 12e(2).—Generally, the amounts to be entered on these lines are not the total corporation income or deductions for oil, gas, and geothermal properties. Generally, they are only the income and deductions included on page 1, Form 1120S, that are used to figure the amount on line 24, 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 lines 12e(1) or 12e(2). The shareholder is told in the Shareholder's Instructions for Schedule K-1 (Form 1120S) to adjust the amounts on lines 12e(1) and 12e(2) for any other income or deductions from oil, gas, or geothermal properties included in lines 1c through 9 and 19 of Schedule K-1 in order to determine the total income or deductions from oil, gas, and geothermal properties for the corporation.

Figure the amount for lines 12e(1) and 12e(2) separately for oil and gas properties which are not geothermal deposits and for all properties which are geothermal deposits.

Give the shareholders a schedule that shows the separate amounts that are included in the computation of the amounts on lines 12e(1) and 12e(2).

Line 12e(1). —Enter the aggregrate 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 that was included on page 1, Form 1120S.

Line 12e(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 January 1, 1983. Do not include nonproductive well costs, or the amounts shown on lines 16a, 16b, 17a, and 17b, page 1, Form 1120S. Instead, use the amounts on lines 16c and 17c, page 1, Form 1120S.

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(d)(2).

See section 57(a)(11) for more information.

Lines 12f(1) and 12f(2). Qualified Investment Income and Expenses.—Enter the corporation's qualified investment income and expenses from all sources that were included on page 1, Form 1120S. However, do not include as qualified investment expense the amounts shown on lines 16a, 16b, 17a, and 17b, page 1, Form 1120S. Instead, use the amounts on lines 16c and 17c, page 1, Form 1120S. See Form 6251 to determine the amounts to enter.

If there are any items of qualified investment income or expenses 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 qualified investment income or expense is included which shows the amount of qualified investment income or expense included in the total amount for that line. Do not include any of these direct pass-through amounts on lines 12f(1) or 12f(2). The shareholder is told in the Shareholder's Instructions for Schedule K-1 (Form 1120S) to adjust the amounts on lines 12f(1) and 12f(2) for any other qualified investment income or expenses included in lines 2 through 9 and line 19 in order to determine the total qualified investment income or expense for the corporation.

Generally, investment income is gross income from interest, nonqualifying dividends, rer ts and royalties, and any other amount reated as ordinary income under section. 1245, 1250, and 1254 that is reported on page 1, Form 1120S.

Generally, investment expenses are those expenses allowable against the production of investment income provided they are allowed in figuring a shareholder's adjusted gross income and not includible as a tax preference item.

Note: *For the calendar year, if a shareholder does not actively participate in the management of the corporation, qualified investment income and expenses include income and expenses from the corporation's trade or business. See section 55(e)(8).*

Line 12g.—Attach a schedule which shows each shareholder's share of:

- Amortization of certified pollution control facilities. Enter the amount by which the amortization the corporation took for 1986 is more than the depreciation deduction otherwise allowable.
- Reserves for losses on bad debts of financial institutions. Enter the corporation's share of the excess of the addition to the reserve for bad debts over the reasonable addition to the reserve for bad debts that would have been allowable if the corporation had maintained the bad debt reserve for all tax years based on actual experience.
- Any other applicable tax preference items not shown on lines 12a through 12f

FY corporations attach a schedule which shows each shareholder's share of the preference items discussed in the line 12g instructions above **and** the following preference and adjustment items:

- Completed contract method of accounting for long-term contracts.—Use of the percentage of completion method is required for minimum tax purposes. See section 56(a)(3) and the 1987 Form 6251 for more information.
- Installment method of accounting.—Applies to use of installment method for dealer sales and sales of trade or business or rental property where the purchase price exceeds $150,000. See section 56(a)(6) and the 1987 Form 6251 for more information.
- Charitable contributions of appreciated property.—Provide shareholders with their distributive share of the amount of the difference between the fair market value of capital gain property donated by the corporation to a charitable organization after August 15, 1986, and the corporation's adjusted basis in the donated property. See section 57(a)(6).
- Losses from passive farming activities.—No loss from any tax shelter farm activity is allowed for minimum tax purposes. See section 58(a) and the 1987 Form 6251 for information on this adjustment item.
- Passive activity loss.—Provide shareholders with any needed information (in addition to the information given in items D through G and on lines 1a through 1c of Schedule K-1) to figure this adjustment item. See section 58(b) for more information.

Investment Interest

(FY Corporations Only)

Effective for tax years beginning after 1986, section 163 limitations on investment interest are revised. Thus, the information on investment interest that the 1986-87 FY corporation reports to its shareholders for their use in preparing their 1987 tax returns must take into account certain changes made to section 163. See new subsection 163(d)(4) for a definition of investment income and investment expenses. Special attention must be given to section 163(d)(4)(D), which states that investment income and expenses do not include income and expenses used in figuring the income or loss of a passive activity. Where the corporation has a trade or business passive activity in which some shareholders materially participate and other shareholders do not, the reporting of investment income and expenses may be different for each shareholder.

Lines 13a through 13c(2).—Enter the interest on investment indebtedness, items of investment income and expenses, and gains and losses from the sale or exchange of investment property on these lines as applicable.

The interest expense reported on line 13a(1) may also be included on page 1, Form 1120S, line 16c, or Schedules K and K-1, line 9. However, the interest expense reported on line 13a(2) and 13a(3) must not appear elsewhere on the return other than on lines 16a and 16b, page 1, Form 1120S. The income and expenses included on lines 13b and 13c are reported on Form 1120S and Schedule K-1. For example, interest income included on line 13b is reported on Form 1120S, line 4.

For more information, see **Form 4952**, Investment Interest Expense Deduction.

Line 13a(1).—Enter investment interest expense from all sources on debts created before December 17, 1969, from a specific item of property for a specified term. Also include debts in existence after December 16, 1969, if a binding contract was in effect on that date.

Line 13a(2).—Enter investment interest expense from all sources, from a specific item of property for a specified term, and from debts incurred before September 11, 1975, but after December 16, 1969, that is included on line 16b, page 1, Form 1120S. Also include interest on obligations incurred after September 10, 1975, but subject to a written contract or commitment in effect on September 11, 1975, that is included on line 16b, page 1, Form 1120S.

Line 13a(3).—Enter investment interest expense from all sources from obligations incurred after September 10, 1975, that is included on line 16b, page 1, Form 1120S.

Do not include those obligations for which a binding contract was in effect on September 11, 1975.

Note: *The corporation must have an amount on line 16b of page 1, Form 1120S, in order to have an amount shown on either line 13a(2) or 13a(3).*

Line 13b(1).—Enter the corporation's investment income from all sources that was included on page 1, Form 1120S.

Investment income includes the following that are includible in gross income on page 1, Form 1120S: interest, nonqualifying dividends, rents from net lease property, royalties, and amounts recaptured as ordinary income from the sale or exchange of investment property subject to sections 1245, 1250, and 1254 provisions. Investment income generally does not include any amounts connected with a trade or business. See section 163(d)(3).

Caution: The amount to be entered on this line is not the total corporate investment income. It is only the investment income included on page 1, Form 1120S, that is used to figure the amount on line 24, page 1, Form 1120S.

If there are any items of investment income included in the amounts that are required to be passed through separately to the shareholders on Schedule K-1, give each shareholder a schedule showing the amount of investment income and the line for which such income is included. Do not include any of these direct pass-through amounts on line 13b(1) of Schedules K and K-1. The shareholder is told in the Shareholder's Instructions for Schedule K-1 (Form 1120S) to adjust the amount on line 13b(1) for any other investment income included in lines 1d through 9 to determine the total investment income for this corporation.

Line 13b(2).—Enter the corporation's investment expenses from all sources that were included on page 1, Form 1120S.

Note: The amount to be entered on this line is not the total corporate investment expenses. It is only the investment expenses included on page 1, Form 1120S, that are used to figure the amount on line 24, page 1, Form 1120S.

Investment expenses are those deductions directly connected with the production of investment income. Interest is not included in investment expenses for this purpose. Depreciation is limited to the amount figured using the straight-line method. Depletion is limited to an amount based on cost. Investment expenses generally do not include any amounts connected with a trade or business. See section 163(d)(3).

If there are any items of investment expense 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 investment expense is included which shows the amount of investment expenses included in the total amount for that line. Do not include any of these direct pass-through amounts on line 13b(2). The shareholder is told in the Shareholder's Instructions for Schedule K-1 (Form 1120S) to adjust the amount on line 13b(2) for any other investment expenses included on lines 1d through 9 to determine the total investment expenses for this corporation.

Lines 13c(1) and (2).—Enter the corporation's income and expenses from net lease property if the expenses for each property subject to a net lease, allowable under sections 162, 163 (without any reduction for the limitations of section 163(d)), 164(a)(1) and (2), and 212, are more than the income produced by this property. Do not include the income or expenses for any property if the income exceeds the expenses.

For a definition of net lease property, see Form 4952.

Foreign Taxes

Lines 14a through 14g.—In addition to the Instructions below, see **Form 1116**, Computation of Foreign Tax Credit—Individual, Fiduciary, or Nonresident Alien Individual, and the related instructions.

Note: *FY corporations must provide their shareholders with information (in addition to lines 14a through 14g information) needed to comply with revised tax law provisions regarding the computation of the foreign tax credit for tax years beginning after 1986. See revised section 904(d) for details.*

Line 14a.—Enter the type of income earned as follows:

- Nonbusiness (section 904(d)) interest income
- Qualified dividends from an IC-DISC or former DISC
- Qualified dividends from a FSC or former FSC
- All other income from sources outside the U.S. (including income from sources in U.S. possessions)

If, for the country or U.S. possession shown on line 14b, the corporation had more than one type of income, enter "More than one type" and attach a schedule for each type of income for lines 14b through 14g.

Line 14b.—Enter the name of the foreign country or U.S. possession. If, for the type of income shown on line 14a, the corporation had income from, or paid taxes to, more than one foreign country or U.S. possession, enter "More than one foreign country or U.S. possession" and attach a schedule for each country for lines 14a and 14c through 14g.

Line 14c.—Enter in U.S. dollars the total gross income from sources outside the U.S. Attach a schedule that shows each type of income as follows:

- Dividends
- Gross rents and royalties
- Foreign source capital gain net income
- Wages, salaries, and other employee compensation
- Business or profession
- Gross income from trust and estates
- Other (including interest) (specify)

Line 14d.—Enter in U.S. dollars the total applicable deductions and losses. Attach a schedule that shows each type of deduction or loss as follows:

- Expenses directly allocable to business or profession
- Depreciation and depletion directly allocable to rent and royalty income
- Repairs and other expenses directly allocable to rent and royalty income
- Other expenses directly allocable to specific income items (specify)
- Pro rata share of all other deductions not directly allocable to specific items of income
- Losses from foreign sources

Line 14e.—Enter in U.S. dollars the total foreign taxes (described in section 901) that were accrued by the corporation or paid to foreign countries or U.S. possessions. Attach a schedule that shows the date(s) the taxes were paid or accrued, and the amount in both foreign currency and in U.S. dollars, as follows:

- Taxes withheld at source on dividends
- Taxes withheld at source on rents and royalties
- Other foreign taxes paid or accrued

Line 14f.—Enter in U.S. dollars the total reduction in taxes available for credit. Attach a schedule that shows separately the:

- Reduction for foreign mineral income
- Reduction for failure to furnish returns required under section 6038
- Reduction for taxes attributable to boycott operations (section 908)
- Reduction for foreign oil and gas extraction income (section 907(a))
- Reduction for any other items (specify)

Line 14g.—Enter in U.S. dollars any items not covered in lines 14c, 14d, 14e, and 14f.

Line 15 (Schedule K-1).—Enter total distributions made to each shareholder other than dividends reported on line 17 of Schedule K. Noncash distributions of appreciated property are valued at fair market value. See Schedules L and M instructions for ordering rules on distributions.

Line 17 (Schedule K).—Enter total dividends paid to shareholders from accumulated earnings and profits contained in retained earnings (line 26 of Schedule L). Report these dividends to shareholders on Form 1099-DIV. Do not report them on Schedule K-1.

Property Eligible for Investment Credit

Generally, for property placed in service after 1985, the regular investment credit has been repealed. See the Instructions for **Form 3468**, Computation of Investment Credit, for exceptions and other details.

Complete the applicable parts of Form 3468 for property that continues to qualify for the regular investment credit and for the energy investment credit. Attach Form 3468 to Form 1120S.

Line 17 (Schedule K-1).—Show in the Supplemental Schedules space for line 19 of Schedule K-1, or on an attached schedule if more space is needed, each shareholder's share of the corporation's investment in property that:

(1) Is attributable to activities that are not passive activities, and

(2) Continues to qualify for the regular investment credit. This property includes certain transition property, qualified timber property, qualified progress expenditure property, and qualified rehabilitation expenditures.

Also show the corporation's investment

in business energy property (used in passive activities) that qualifies for the business energy investment credit.

The corporation must reduce the basis of regular and energy credit property by any credit allowable for the property. See section 48(q) and **Publication 572,** Investment Credit, regarding adjustments to be made to the basis of investment credit property as well as the shareholders' adjusted basis in stock of the corporation.

Property Subject to Recapture of Investment Credit

Line 18 (Schedule K-1).—Complete line 18 when regular or energy investment credit property is disposed of, ceases to qualify, or if there is a decrease in the business percentage before the end of the "life-years category" or "recovery period" assigned. For more information, see Form 4255, Publication 572, and section 48(q).

The corporation itself is liable for investment credit recapture in certain cases. See instructions for line 25c, page 1, Form 1120S, for details.

Other Items

Line 16 (Schedule K).—Attach a statement to Schedule K to report the corporation's total income, expenditures, or other information for items a through j of the line 19 instruction below.

Line 19 (Schedule K-1).—Enter in the Supplemental Schedules space for line 19 of Schedule K-1, or on an attached schedule if more space is needed, each shareholder's share of any information asked for on lines 6, 8, 9, 10c, 10d, 11, 12g, 14c, 14d, 14f, 14g, 17, and items **a** through j below. Please identify the applicable line number next to the information entered in the Supplemental Schedules space. Show income or gains as a positive number. Show losses with the number in parentheses.

a. Tax-exempt income realized by the corporation. Corporations should report tax-exempt interest separately to assist shareholders in figuring the taxable portion (if any) of their social security or railroad retirement benefits.

b. Nondeductible expenses incurred by the corporation.

c. Taxes paid on undistributed capital gains by a regulated investment company. As a shareholder of 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 for oil and gas well properties. See section 613A(c)(13) for details.
The corporation cannot deduct depletion on oil and gas wells. The shareholders 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. Enter the amount that was originally passed through and the corporation's tax year in which it was passed through. Tell the shareholder if the recapture amount was caused by the disposition of the recovery property. See section 179(d)(10) for more information. Do not include this amount on line 8, page 1, Form 1120S.

f. Total qualified expenditures (and the period paid or incurred during the tax year) to which an election under section 58(i) applies. Do not report these expenditures as tax preference items on line 12 of Schedules K and K-1.

g. Intangible drilling costs under section 263(c). See Publication 535 to determine the amount to pass through to each shareholder.

h. Deduction and recapture of certain mining exploration expenditures paid or incurred (section 617).

i. Any information or statements the corporation is required to furnish to shareholders to allow them to comply with requirements under section 6111 (registration of tax shelters) or 6661 (substantial understatement of tax).

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

Schedules L and M

Note: *Lines 23 through 27 of Schedule L were revised for 1986.*

The balance sheets must agree with your books and records. Include certificates of deposit as cash on line 1 of Schedule L. The following rules apply in determining the balances of lines 23 through 27 of Schedule L and amounts used in figuring lines 1 through 9 of Schedule M.

If Schedule L, column (c), amounts for lines 23, 24, or 25 are not the same as corresponding amounts on line 9 of Schedule M, attach a schedule explaining any differences. For example, the balance of the accumulated adjustments account (line 23) may differ if Schedule L reflects straight-line depreciation and some other method is used for purposes of line 2 of Schedule M. You may show your explanation below Schedule M if there is sufficient space.

Note: *Schedule M does not provide for a reconciliation of book income to tax return income. However, you may want to make your own separate reconciliation of book income or (loss) to tax return income or (loss). Make sure that all items of income, loss, and deductions reported on page 1, Form 1120S, and on Schedule K of Form 1120S, are used in figuring lines 2, 3, 5, 6, and 7 of Schedule M.*

Line 23.—The "accumulated adjustments account" (AAA) is to be maintained by all S corporations. At the end of the tax year, if the corporation **does not have accumulated earnings and profits (E&P),** the AAA is determined by taking into account all items of income, loss, and deductions for the tax year (including nontaxable income and nondeductible losses and expenses). See section 1368 for other details. After the year-end income and expense adjustments are made, the account is reduced by distributions made during the tax year. See the Distributions instruction below for distribution rules.

At the end of the tax year, if the corporation **has accumulated E&P,** the AAA is determined by taking into account the taxable income, deductible losses and expenses, and nondeductible losses and expenses for the tax year. Adjustments for nontaxable income are made to the other adjustments account as explained in the Line 24 instruction below. See section 1368. After the year-end income and expense adjustments are made, the account is reduced by distributions made during the tax year. See the Distributions instruction below for distribution rules.

Note: *The AAA may have a negative balance at year end. See section 1368(e).*

Line 24.—The "other adjustments" account is maintained only by corporations that **have** accumulated E&P at year end. The account is adjusted for tax-exempt income (and related expenses) of the corporation. See section 1368. After adjusting for tax-exempt income, the account is reduced for any distributions made during the year. See the Distributions instructions below.

Line 25.—The "shareholders' undistributed taxable income previously taxed" account, also called previously taxed income (PTI), is only maintained if the corporation had a balance in this account at the start of its 1986 tax year. If there is a beginning balance for the 1986 tax year, no adjustments are made to the account except to reduce the account for distributions made under section 1375(d) (as in effect before the enactment of the Subchapter S Revision Act of 1982). See Distributions instruction below for the order of distributions from the account.

Each shareholder's right to nontaxable distributions from PTI is personal and cannot be transferred to another person. The corporation is required to keep records of each shareholder's net share of PTI. See regulations section 1.1375-4(d) for more information.

Line 26.—Enter retained earnings other than that reported on lines 23, 24, and 25. Other retained earnings include the appropriated and unappropriated retained earnings 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). Generally, the S corporation has a balance on line 26 only if it had ending balances in appropriated or unappropriated retained earnings prior to 1986 (lines 23 and 24 of Schedule L of the 1985 Form 1120S or Form 1120).

If the corporation maintained 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 retained earnings on separate lines of Schedule L of Form 1120.

If line 26 has a beginning balance for 1986, and the account contains accumulated earnings and profits (E&P), the only adjustments made to accumulated E&P are:

(1) reductions for dividend distributions,

(2) adjustments for redemptions, liquidations, reorganizations, etc., and

(3) reductions for section 47 recapture tax for which the corporation is liable.

See Distributions instruction below regarding distributions from retained earnings and section 1371(c) for other details.

Check the box below line 26 if the corporation was a C corporation in a prior year(s) and has subchapter C earnings and profits (E&P) at the close of its 1986 tax year. 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 instructions for line 25a, page 1, of Form 1120S for details on this tax.

Line 27.—Combine lines 23 through 26, column (a) and column (c), and enter the totals in line 27, column (b) and column (d). In most cases, the totals should equal the beginning and ending balances of the corporation's retained earnings shown in it's general ledger. If line 27, column (d), does not agree with the corporation's books, attach a schedule explaining the differences. **Note:** The schedule asked for at the top of Schedule M, Form 1120S, will usually explain any net differences. If so, an additional schedule is not required.

Distributions

Generally, property distributions (including cash) are applied to reduce balance sheet equity accounts in the following order:

a. Reduce AAA. If distributions during the tax year exceed the AAA at the close of the tax year, the AAA is allocated pro rata to each distribution made during the tax year. See section 1368(c).

b. Reduce shareholders' PTI account for any section 1375(d) (as in effect before January 1, 1983) distributions.

c. Reduce retained earnings accounts to the extent of accumulated E&P.

d. Reduce the other adjustments account.

e. Reduce any remaining shareholders' equity accounts.

If a section 1368(e)(3) election is made, distributions are made from the retained earnings account before the AAA. If the corporation has PTI and wants to make distributions from retained earnings before PTI, the election under regulations section 1.1375-4(c) must be made. 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.

Changes Made by the Act

1986 Calendar Year Changes

Investment Credit

Generally, for property placed in service after 1985, the regular investment credit has been repealed. See **Form 3468,** Computation of Investment Credit, for exceptions and other details. The business energy investment tax credit for solar, geothermal, ocean thermal, biomass, and wind property has been extended for tax years after 1985 See Form 3468 for details.

Targeted Jobs Credit

The jobs credit for hiring members of certain targeted groups has been extended and modified. For employees hired after 1985, a credit is allowed only for "first-year wages" paid to a qualified employee. See **Form 5884,** Jobs Credit, for other information.

Research Credit

The tax credit for increasing research has been extended for 3 more years, and the manner of computing the credit was revised. Additionally, the credit was made a part of the general business tax credit. See **Form 6765,** Credit for Increasing Research Activities (or claiming the orphan drug credit), for more information.

Long-Term Contracts

For long-term contracts entered into after February 28, 1986, all costs (including research and experimental costs attributable to the contract) must be allocated to the contract as set forth in section 451. Expenses for unsuccessful bids and proposals and marketing, selling, and advertising expenses are not considered attributable to long-term contracts. Production period interest expenses attributable to long-term contracts are to be capitalized under the rules of new section 263A. For exceptions, definitions, and other information, see new section 460.

Deduction for Removing Barriers to the Handicapped

The election to deduct expenses for the removal of architectural barriers to the handicapped and elderly, scheduled to expire at the end of 1985, was permanently extended.

Penalty for Failure To Furnish Statements

The maximum penalty for failure to furnish copies of Schedule K-1 to shareholders has been increased. The maximum amount that can be imposed in any calendar year is increased from $50,000 to $100,000. If a Schedule K-1 given to a shareholder does not include all of the information required to be shown or includes incorrect information, an additional penalty of $5 for each Schedule K-1 may be imposed. See sections 6722 and 6723 for details.

1986–87 FY Changes

Passive Activity Limitations

New Code section 469, added by the Act, provides for limitations on losses and credits from passive activities. Generally, a passive activity is any activity of the S corporation which involves the conduct of any trade or business in which a shareholder does not materially participate (nonparticipating shareholder) or any rental activity. A passive activity does not include any working interest in oil or gas property as defined in section 469(c)(3). Certain portfolio or investment income (section 469(e)(1)) is excluded from passive activity income or loss.

The passive activity limitations apply to each nonparticipating shareholder's share of any loss or credit attributable to a passive activity which involves the conduct of any trade or business and to all shareholders' shares of losses and credits from rental activities. The limits first apply to passive activity losses and credits of 1986–87 FY corporations that will be claimed on the shareholders' 1987 Form 1040 or Form 1041.

See the General Instructions for "Passive Activity Provisions"; the Specific Instructions for "Page 1 Changes (FY Corporations Only)"; instructions for items D, E, F, and G of Schedule K-1; and the instructions for lines 1a, 1b, and 1c of Schedules K and K-1 for details on how passive activity income or loss is figured on Form 1120S and how the income or loss and related information is reported to shareholders.

Tax Preference Items

The 1986 Tax Act made many changes to the alternative minimum tax provisions affecting shareholders of the S corporation. Generally, the changes are effective for the shareholder's tax year beginning after December 31, 1986. Accordingly, 1986-87 fiscal year corporations with tax years ending in 1987 must furnish information on the following new or revised preference items:

a. Accelerated depreciation (ACRS) on real or personal property placed in service after 1986.

b. Completed contract method of accounting for long-term contracts.

c. Installment method of accounting.

d. Charitable contributions of appreciated property.

e. Losses from passive farming activities.

f. Passive activity losses.

See Instructions for Schedules K and K-1 for details on each of the above items.

Depreciation and Section 179 Deduction

The rules for figuring depreciation have been substantially changed for property placed in service after 1986. The new system provides specific methods for each class of assets. Corporations may also elect these new provisions for property placed in service after July 31, 1986. Additionally, the section 179 deduction is increased to $10,000 for property placed in service after 1986. See **Form 4562A,** Depreciation of Property Placed in Service After December 31, 1986, for other details.

New Low-Income Housing Credit

A new low-income housing credit applies to certain buildings placed in service after 1986. The credit is figured at the corporate level and then passed through to shareholders on a pro rata basis. See **Form 8586,** Low-Income Housing Credit, for details.

Foreign Intangible Drilling, Exploration, and Development Costs

Generally, foreign intangible drilling, exploration, and development costs paid or incurred after 1986 must either be added to the corporation's basis for cost depletion purposes or be deducted ratably over a 10-year period. See sections 263(i), 616(d), and 617(h) for exceptions and other details.

Trademark and Trade Name Expenditures

Generally, trademark and trade name expenditures made after 1986 will no longer be amortizable.

Gain or Loss on Liquidation Distributions

Generally, corporations will recognize gain or loss on liquidation distributions of their property as if they had sold the property at its fair market value. See sections 336 and 337.

Changes in Corporate Tax Rates

Effective July 1, 1987, the corporate tax rates under section 11 will change. Effective January 1, 1987, the alternative tax rate under section 1201 will change. Because of these changes, the computation of excess net passive income tax and the income tax on capital gains (lines 25a and 25b, page 1, Form 1120S) will also change for FY 1986-87 filers. See the instructions for line 25a of page 1, Form 1120S, and Schedule D (Form 1120S) for details.

1987 Tax Year Changes

All S Corporations Must Have Permitted Tax Year

For tax years beginning after 1986, the Act deletes section 1378(c) that permitted an existing S corporation to have or retain a tax year that is not a permitted tax year until such time as the corporation had a more than 50% change in ownership. After 1986, for all S corporations, a permitted year will be a tax year ending December 31 or a tax period for which the S corporation establishes a business purpose. The IRS plans to publish a Revenue Ruling and a Revenue Procedure in early 1987 to provide guidance to S corporations in determining what is a business purpose under section 1378(b)(2) and in making any necessary change in tax year required by the Act.

After 1986, if an S corporation has a tax year that is not a permitted tax year, it must change to a permitted tax year for its first tax year beginning after 1986. For example, an S corporation with a tax year beginning July 1, 1987, and ending June 30, 1988, for which it cannot establish a business purpose must change to a tax year endnng December 31 for its first tax year beginning in 1987. To make the change, it must file a short year return for the period July 1, 1987, to December 31, 1987.

Generally, a shareholder is allowed to report income for any short tax year that results from the change in the corporate tax year ratably over each of the first four tax years beginning after December 31, 1986.

Accounting Provision Changes

The Act made several changes that affect the way in which income and expenses are reported by the S corporation. These changes have different effective dates. The changes include the following:

• **Certain Costs Required To Be Capitalized.**—New section 263A requires that certain costs incurred in the production of real and intangible property by the corporation, or costs incurred when property is acquired for resale, be capitalized or included in inventory costs rather than deducted. Generally, the changes affecting inventory are effective for tax years beginning after 1986. The changes affecting capitalization are effective for costs incurred after 1986 in tax years ending after 1986. See section 263A for details.

• **Reserve Method for Bad Debts.**—For tax years beginning after 1986, only certain financial institutions will be able to use the reserve method for figuring their bad debt deduction. All other taxpayers must use the specific charge-off method for figuring their bad debt deduction. All corporations not entitled to use the reserve method must include in income any amount remaining in the reserve as income ratably over a 4-year period. See section 166 for other details.

• **LIFO Inventory.**—For tax years beginning after 1986, S corporations whose average gross receipts for the 3 preceding tax years do not exceed $5 million can elect to use a simplified method of determining dollar value LIFO inventory values. See section 474 for other details.

• **Installment Method.**—Effective for sales after 1986, the use of the installment method is not allowed for sales of personal property under a revolving credit plan and for sales of certain publicly traded property. Also, the use of the installment method is limited for certain sales of S corporations that regularly sell real or personal property. The limitations apply to sales of business or rental property if the selling price exceeds $150,000. See new section 453C for how the limitations are figured and other details.

• **Long-term Contracts.**—New section 460 provides rules for accounting for long-term contracts entered into after February 28, 1986. See section 460 for details.

Deductible Expenses for Meals and Entertainment

For tax years beginning after 1986, many changes were made to the tax law that defines and provides for computation of expenses that may be deducted for meals and entertainment. Generally, the amount deductible for meals and entertainment expenses is limited to 80% of allowable expenses. To qualify as an allowable expense, meals must not be lavish or extravagant; a bona fide business discussion must precede or take place directly following the meal; and a corporate employee must be present at the meal. If the corporation claims a deduction for unallowable meal expenses, it may have to pay a penalty. See new section 274 for details.

Minimum Tax

Effective for tax years beginning after 1986, the minimum tax no longer applies to the S corporation and the new alternative minimum tax does not apply to the S corporation.

Tax on Built-in Gain

Effective for tax years beginning after 1986 (but only in cases where the first tax year for which the corporation is an S corporation begins after 1986), section 1374 is amended to provide for a tax on certain built-in gains that are recognized within 10 tax years after the corporation is an S corporation. See section 1374 for definitions, limitations, and other details.

Codes for Principal Business Activity

These industry titles and definitions are based, in general, on the Standard Industrial Classification System authorized by Regulatory and Statistical Analysis Division, Office of Information and Regulatory Affairs, Office of Management and Budget, to classify enterprises by type of activity in which they are engaged.

Using the list below, enter on page 1, under B, the code number for the specific industry group from which the largest percentage of "total receipts" is derived. "Total receipts" means the total of: gross receipts on line 1a, page 1; all other income on lines 4 through 8, page 1; and income (receipts only) on lines 1b, 1c, and 1d of Schedule K.

On page 2, under H, 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) subcontracts 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."

Agriculture, Forestry, and Fishing

Code	
0400	Agricultural production.
0600	Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping

Mining

Code	
Metal mining:	
1010	Iron ores
1070	Copper, lead and zinc, gold and silver ores.
1098	Other metal mining.
1150	Coal mining.
Oil and gas extraction:	
1330	Crude petroleum, natural gas, and natural gas liquids.
1380	Oil and gas field services.
Nonmetallic minerals, except fuels:	
1430	Dimension, crushed and broken stone; sand and gravel.
1498	Other nonmetallic minerals, except fuels.

Construction

Code	
General building contractors and operative builders:	
1510	General building contractors.
1531	Operative builders.
1600	**Heavy construction contractors.**
Special trade contractors:	
1711	Plumbing, heating, and air conditioning
1731	Electrical work.
1798	Other special trade contractors.

Manufacturing

Code	
Food and kindred products:	
2010	Meat products.
2020	Dairy products.
2030	Preserved fruits and vegetables.
2040	Grain mill products.
2050	Bakery products
2060	Sugar and confectionery products.
2081	Malt liquors and malt.
2088	Alcoholic beverages, except malt liquors and malt.
2089	Bottled soft drinks, and flavorings.
2096	Other food and kindred products.
2100	**Tobacco manufacturers.**
Textile mill products:	
2228	Weaving mills and textile finishing.
2250	Knitting mills.
2298	Other textile mill products.
Apparel and other textile products:	
2315	Men's and boys' clothing.
2345	Women's and children's clothing.
2388	Other apparel and accessories.
2390	Miscellaneous fabricated textile products.
Lumber and wood products:	
2415	Logging, sawmills, and planing mills.
2430	Millwork, plywood, and related products.
2498	Other wood products, including wood buildings and mobile homes.
2500	**Furniture and fixtures.**
Paper and allied products:	
2625	Pulp, paper, and board mills.
2699	Other paper products.
Printing and publishing:	
2710	Newspapers
2720	Periodicals.
2735	Books, greeting cards, and miscellaneous publishing.
2799	Commercial and other printing, and printing trade services.
Chemicals and allied products:	
2815	Industrial chemicals, plastics materials and synthetics.
2830	Drugs.
2840	Soap, cleaners, and toilet goods.
2850	Paints and allied products.
2898	Agricultural and other chemical products.
Petroleum refining and related industries (including those integrated with extraction):	
2910	Petroleum refining (including integrated)
2998	Other petroleum and coal products.
Rubber and misc. plastics products:	
3050	Rubber products: plastics footwear, hose, and belting.
3070	Misc. plastics products.
Leather and leather products:	
3140	Footwear, except rubber.
3198	Other leather and leather products.
Stone, clay, and glass products:	
3225	Glass products.
3240	Cement, hydraulic.
3270	Concrete, gypsum, and plaster products.
3298	Other nonmetallic mineral products.
Primary metal industries:	
3370	Ferrous metal industries; misc. primary metal products.
3380	Nonferrous metal industries.
Fabricated metal products:	
3410	Metal cans and shipping containers.
3428	Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products.
3430	Plumbing and heating, except electric and warm air.
3440	Fabricated structural metal products.
3460	Metal forgings and stampings.
3470	Coating, engraving, and allied services.
3480	Ordnance and accessories, except vehicles and guided missiles.
3490	Misc. fabricated metal products.
Machinery, except electrical:	
3520	Farm machinery.
3530	Construction and related machinery.
3540	Metalworking machinery.
3550	Special industry machinery.
3560	General industrial machinery.
3570	Office, computing, and accounting machines
3598	Other machinery except electrical.
Electrical and electronic equipment:	
3630	Household appliances.
3665	Radio, television, and communication equipment.
3670	Electronic components and accessories.
3698	Other electrical equipment.
3710	**Motor vehicles and equipment**
Transportation equipment, except motor vehicles:	
3725	Aircraft, guided missiles and parts.
3730	Ship and boat building and repairing
3798	Other transportation equipment, except motor vehicles.
Instruments and related products:	
3815	Scientific instruments and measuring devices; watches and clocks.
3845	Optical, medical, and ophthalmic goods
3860	Photographic equipment and supplies.
3998	**Other manufacturing products.**

Transportation and Public Utilities

Code	
Transportation:	
4000	Railroad transportation.
4100	Local and interurban passenger transit.
4200	Trucking and warehousing
4400	Water transportation.
4500	Transportation by air.
4600	Pipe lines, except natural gas.
4700	Miscellaneous transportation services.
Communication:	
4825	Telephone, telegraph, and other communication services.
4830	Radio and television broadcasting.
Electric, gas, and sanitary services:	
4910	Electric services.
4920	Gas production and distribution.
4930	Combination utility services.
4990	Water supply and other sanitary services.

Wholesale Trade

Code	
Durable:	
5008	Machinery, equipment, and supplies
5010	Motor vehicles and automotive equipment.
5020	Furniture and home furnishings.
5030	Lumber and construction materials.
5040	Sporting, recreational, photographic, and hobby goods, toys and supplies.
5050	Metals and minerals, except petroleum and scrap.
5060	Electrical goods.
5070	Hardware, plumbing and heating equipment and supplies.
5098	Other durable goods.
Nondurable:	
5110	Paper and paper products.
5129	Drugs, drug proprietaries, and druggists' sundries.
5130	Apparel, piece goods, and notions.
5140	Groceries and related products.
5150	Farm-product raw materials.
5160	Chemicals and allied products.
5170	Petroleum and petroleum products.
5180	Alcoholic beverages.
5190	Misc. nondurable goods.

Retail Trade

Code	
Building materials, garden supplies, and mobile home dealers:	
5220	Building materials dealers.
5251	Hardware stores.
5265	Garden supplies and mobile home dealers.
5300	**General merchandise stores.**
Food stores:	
5410	Grocery stores.
5490	Other food stores.
Automotive dealers and service stations:	
5515	Motor vehicle dealers.
5541	Gasoline service stations.
5598	Other automotive dealers.
5600	**Apparel and accessory stores.**
5700	**Furniture and home furnishings stores.**
5800	**Eating and drinking places.**
Misc. retail stores:	
5912	Drug stores and proprietary stores.
5921	Liquor stores.
5995	Other retail stores.

Finance, Insurance, and Real Estate

Code	
Banking:	
6030	Mutual savings banks.
6060	Bank holding companies
6090	Banks, except mutual savings banks and bank holding companies.
Credit agencies other than banks:	
6120	Savings and loan associations.
6140	Personal credit institutions.
6150	Business credit institutions.
6199	Other credit agencies.
Security, commodity brokers and services:	
6210	Security brokers, dealers, and flotation companies.
6299	Commodity contracts brokers and dealers; security and commodity exchanges; and allied services.
Insurance:	
6355	Life insurance
6356	Mutual insurance, except life or marine and certain fire or flood insurance companies.
6359	Other insurance companies.
6411	Insurance agents, brokers, and service.
Real estate:	
6511	Real estate operators and lessors of buildings
6516	Lessors of mining, oil, and similar property.
6518	Lessors of railroad property and other real property.
6530	Condominium management and cooperative housing associations.
6550	Subdividers and developers.
6599	Other real estate.
Holding and other investment companies, except bank holding companies:	
6742	Regulated investment companies.
6743	Real estate investment trusts.
6744	Small business investment companies.
6749	Other holding and investment companies except bank holding companies.

Services

Code	
7000	**Hotels and other lodging places.**
7200	**Personal services.**
Business services:	
7310	Advertising.
7389	Business services, except advertising.
Auto repair; miscellaneous repair services:	
7500	Auto repair and services.
7600	Misc. repair services.
Amusement and recreation services:	
7812	Motion picuture production, distribution, and services.
7830	Motion picture theaters.
7900	Amusement and recreation services, except motion pictures.
Other services:	
8015	Offices of physicians, including osteopathic physicians.
8021	Offices of dentists.
8040	Offices of other health practitioners.
8050	Nursing and personal care facilities.
8060	Hospitals.
8071	Medical laboratories.
8099	Other medical services.
8111	Legal services.
8200	Educational services.
8300	Social services.
8600	Membership organizations.
8911	Architectural and engineering services.
8930	Accounting, auditing, and bookkeeping.
8980	Miscellaneous services (including veterinarians).

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SCHEDULE D (Form 1120S)

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

▶ Attach to your tax return.

OMB No. 1545-0130

1986

Name | Employer identification number

Part I Short-term Capital Gains and Losses—Assets Held Six Months or Less

	(a) Kind of property and description (Example, 100 shares of "Z" Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Cost or other basis, plus expense of sale	(f) Gain or (loss) ((d) less (e))
1						

2	Short-term capital gain from installment sales from Form 6252, line 22 or 30	2	
3	Unused capital loss carryover (attach computation)	3	( )
4	Net short-term capital gain or (loss) (combine lines 1, 2, and 3). Enter here and on line 3 of Schedule K of Form 1120S	4	

Part II Long-term Capital Gains and Losses—Assets Held More Than Six Months

	(a)	(b)	(c)	(d)	(e)	(f)
5						

6	Long-term capital gain from installment sales from Form 6252, line 22 or 30	6	
7	Net long-term capital gain or (loss) (combine lines 5 and 6 and enter here). (Reduce this amount by any applicable tax on line 28 below and enter this amount on line 4 of Schedule K of Form 1120S.)	7	
8	Enter section 1231 gain from line 8, Form 4797. (See instructions regarding casualties and thefts and the line 8 amount to be entered on Schedule K of Form 1120S.)	8	
9	Net long-term capital gain or (loss) (combine lines 7 and 8)	9	

Part III Summary of Schedule D Gains for Tax Computation Purposes

Note: *If the corporation is liable for the excess net passive income tax (line 25a, page 1, Form 1120S), see line 10a instruction before completing line 10a.*

10a	Net capital gain—Enter excess of net long-term capital gain (line 9) over net short-term capital loss (line 4). If 10a is more than $25,000, see Instructions for Part IV. If line 10a is $25,000 or less, do not complete Part IV.	10a	
b	Fiscal year corporations only—If Part IV applies, enter net capital gain attributable to transactions occurring before 1-1-87. Do not enter more than line 10a . . . 10b		

Part IV Tax Computation (See Instructions)

11	Taxable income (See instructions for line 25a, page 1, Form 1120S.)	11	
12	Enter tax on line 11 amount (See instructions for computation of tax.)	12	
13	Net capital gain from line 10a	13	
14	$25,000 (statutory minimum)	14	$25,000
15	Subtract line 14 from line 13	15	
16	Calendar year corporations only—Enter 28% of line 15 (Calendar year corporations skip lines 17 through 25 and continue on line 26.)	16	
17	Enter net capital gain from line 10b	17	
18	Subtract line 17 from line 13	18	
19	(Amount on line 17 ÷ by amount on line 13) × $25,000	19	
20	(Amount on line 18 ÷ by amount on line 13) × $25,000	20	
21	Subtract line 19 from line 17	21	
22	Subtract line 20 from line 18	22	
23	Line 21 × 28%	23	
24	Line 22 × 34%	24	
25	Add lines 23 and 24	25	
26	Calendar year corporations enter smaller of line 12 or 16 Fiscal year corporations enter smaller of line 12 or 25	26	
27	Minimum tax (see instructions)	27	
28	Total tax—Add lines 26 and 27. Enter here and on line 25b, page 1, Form 1120S	28	

For Paperwork Reduction Act Notice, see page 1 of Instructions for Form 1120S. **Schedule D (Form 1120S) 1986**

Instructions

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

Note: *See the instructions for Form 1120S for tax law changes.*

Purpose of Schedule

Schedule D should be used by corporations to report sales or exchanges of capital assets and gains on distributions to shareholders of appreciated assets that are capital assets (hereafter referred to as distributions).

Sales, exchanges, and distributions of property other than capital assets, including property used in a trade or business, involuntary conversions (other than casualties or thefts), and gain from the disposition of an interest in oil, gas, or geothermal property should be reported on **Form 4797**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions. See the instructions for Form 4797 for more information. If property is involuntarily converted because of a casualty or theft, use **Form 4684**, Casualties and Thefts.

Parts I and II

Generally, you should report sales and exchanges (including like-kind exchanges) even though there is no gain or loss. Report gain, but not loss, on a distribution. In Part I, report the sale, exchange, or distribution of capital assets held 6 months or less. In Part II, report the sale, exchange, or distribution of capital assets held more than 6 months.

For more information, see **Publication 544**, Sales and Other Dispositions of Assets, and **Publication 589**, Tax Information on S Corporations.

Exchange of like-kind property.—Report the exchange of "like-kind" property on Schedule D or on Form 4797, whichever applies. Report it even though no gain or loss is recognized when you exchange business or investment property for property of "like-kind." For exceptions, see Publication 544.

If you use Schedule D, identify the property you disposed of in column (a). Enter the date you acquired it in column (b), and the date you exchanged it in column (c). Write "like-kind exchange" in column (d). Enter the cost or other basis in column (e). Enter zero in column (f).

Special Rules for the Treatment of Certain Gains and Losses

- **Gain on distributions of appreciated property.**—Except as stated below, gain is recognized by an S corporation on a distribution of appreciated property to shareholders in the same manner as if the property had been sold to the shareholder at its fair market value. Like other capital gains, it is subject to the capital gains tax and is passed through to shareholders.

Exceptions—The above rule does not apply to (1) distributions of property in complete liquidation, and (2) distributions in tax-free reorganizations where gain or loss is not recognized by the distributee shareholders.

- **Gain from installment sales.**—Except as explained below, if you sold property at a gain this year and will receive any payment in a later tax year, you must use the installment method to report your gain. You must file **Form 6252**, Computation of Installment Sale Income, to report the sale and gain as payments are received.

If the corporation wants to elect out of the installment method, it must do the following on a timely filed return (including extensions):

(1) Report the full amount of the sale on Schedule D (Form 1120S).

(2) If you received a note or other obligation and are reporting it at less than face value, state that fact in the margin and enter the face amount of percentage of valuation.

For additional information, get **Publication 537**, Installment Sales.

- **Gains and losses on section 1256 contracts and straddles.**—Use **Form 6781**, Gains and Losses From Section 1256 Contracts and Straddles, to report section 1256 gains and losses. See instructions for Form 6781 for more information.
- **Gain or loss on an option to buy or sell property.**—See section 1234 for the rules that apply to a purchaser or grantor of an option.
- **Gain or loss from a short sale of property.**—Report the gain or loss to the extent that the property used to close the short sale is considered a capital asset in the hands of the taxpayer. A loss from a wash sale of stock or securities or from certain transactions between related persons is not deductible. (Sections 1091 and 267.)
- **Loss from securities that are capital assets that become worthless during the year.**—Except for securities held by a bank, treat the loss as a capital loss as of the last day of the tax year. (See section 582 for the rules on the treatment of securities held by a bank.)

How To Determine the Cost or Other Basis of the Property

In determining gain or loss, the basis of property will generally be its cost (section 1012). The exceptions to the general rule are provided in sections contained in subchapters C, K, O, and P of the Code. For example, if the corporation acquired the property by dividend, liquidation of another corporation, transfer from a shareholder, reorganization, contribution or gift, bequest, bankruptcy, tax-free exchange, involuntary conversion, certain asset acquisitions, or wash sale of stock, see sections 301 (or 1059), 334, 362 (or 358), 1015, 1014, 372 (or 374), 1031, 1033, 1060, and 1091, respectively. Attach an explanation if you use a basis other than actual cash cost of the property.

If you are allowed a charitable contribution deduction because you sold property to a charitable organization, figure the adjusted basis for determining gain from the sale by dividing the amount realized by the fair market value and multiplying that result by the adjusted basis.

Line 8.—If the corporation has a gain from line 8 of Form 4797, enter it on line 8.

If the line 8 gain is from line 8 of Form 4797, and it contains gain from line 21, Section B, of Form 4684 and other gain or loss under section 1231, enter the gain from Form 4684 on a schedule for line 6 of Schedule K and report the portion that is gain or loss under section 1231 (reduced by any capital gains tax applicable to the gain) on line 5 of Schedule K.

Part III—Summary of Schedule D Gains

If the net long-term capital gain is more than the net short-term capital loss, there is a net capital gain. If this gain exceeds $25,000, the corporation may be liable for an income tax on the gain. Answer the questions in the instructions for Part IV, below, to determine if the corporation is liable for income tax on its net capital gain. If the capital gain tax applies, fiscal year (FY) corporations must make a separate computation of net capital gain attributable to transactions occurring before 1987 and enter this gain on line 10b.

Line 10a.—If the corporation is liable for the tax on excess net passive income (line 25a, page 1, Form 1120S), and capital gain income was included in the computation of the tax, the amount to be entered on lines 10a and 10b is figured as follows:

1. Reduce the capital gain income reported on lines 1–2 and 5–8 of Schedule D by the portion of the excess net passive income attributable to such gain.

2. Refigure lines 4 and 9 of Schedule D based on the revised amounts from step 1 above.

3. Enter on lines 10a and 10b the net capital gain (if any) based on revised lines 4 and 9.

See section 1375(c)(2) for more information.

Part IV—Tax Computation

Section 1374 imposes a tax on certain capital gains of an S corporation.

By answering the following questions, you can determine if you are liable for the tax. If your net capital gain is more than $25,000, and you are not liable for the tax, you must answer questions A through D below as your explanation of why you are not liable for the tax.

If answers to questions A, B, and C or questions A, B, and D are "Yes," the tax applies and you must complete Part IV of Schedule D (Form 1120S). Otherwise, you are not liable for the tax.

Note: *Taxable income referred to in questions A and B below is NOT the income figured on line 24, page 1, of Form 1120S. See the instruction for "Taxable income" in the instructions for line 25a, page 1, of Form 1120S.*

A. Is taxable income more than $25,000? . . . . ☐ Yes ☐ No

B. Is net capital gain (line 10a, Part III, Schedule D (Form 1120S)) more than $25,000, and more than 50% of taxable income? . . . . ☐ Yes ☐ No

C. Have you been other than an S corporation at any time during the 3 tax years just before this year or since existence, if less than 4 years? . . . . ☐ Yes ☐ No

D. If the answer to question C is "No," does any long-term capital gain (line 9, Schedule D (Form 1120S)) represent gain from property described in each of items 1, 2, and 3 that follow? . . ☐ Yes ☐ No

1. Property was acquired during the tax year or within 36 months before the tax year;

2. Property was acquired, directly or indirectly, from a corporation that was not in existence as an S corporation during the tax year or within 36 months before the tax year up to the time of the acquisition; and

3. Property has a substituted basis to you. (A substituted basis is one determined by reference to its basis in the hands of the transferor corporation.)

If the answer to question D is "Yes" and the tax is applicable, multiply the net capital gain from property described in question D (reduced by any excess net passive income attributable to this gain) by 28% (or a combined 28% and 34% may be applicable for FY corporations). See instruction for line 10a and section 1375(c)(2). If this amount is less than the tax figured on line 12, Part IV, enter this amount on line 26, Part IV, and write to the right of the amount, "Substituted basis." Attach the computation of the substituted basis amount to Schedule D. (See section 1374(c)(3).)

For purposes of questions C and D above, a corporation is not considered to be in existence for any tax year before the first tax year in which the corporation has shareholders, acquires assets, or begins business, whichever occurs first.

Line 11.—See Instructions for line 25a, page 1, of Form 1120S regarding computation of taxable income for line 11 of Schedule D. Do **NOT** enter amount from line 24, page 1, Form 1120S.

Line 12.—Figure a regular corporate income tax (section 11 tax) based on the taxable income on line 11 of Schedule D as if the S corporation were a C corporation and enter the tax on line 12. Use the instructions for Schedule J of Form 1120 in the 1986 Instructions for Form 1120 and 1120A, to make your computation. Disregard all references to alternative tax in the Schedule J instructions as the alternative tax is figured on lines 13 through 25 of Schedule D (Form 1120S). Attach your computation of tax to Schedule D (Form 1120S).

Line 27.—S corporations are subject to the minimum tax only for the capital gains item of tax preference and only to the extent that the gains are subject to the tax imposed by section 1374. Corporations having such capital gains of more than $10,000 must attach **Form 4626**, Computation of Minimum Tax—Corporations, to Form 1120S.

☆ U.S. GOVERNMENT PRINTING OFFICE 1986 493-281

Form 1120-IC-DISC

Interest Charge Domestic International Sales Corporation Return

(Please Type or Print)

Department of the Treasury
Internal Revenue Service

OMB No. 1545-0938

1986

For calendar year 1986 or other tax year beginning , 1986 and ending , 19

A Date of IC-DISC election	Name	C Employer identification number
	Number and street	D Date incorporated
B Business code number (See page 10 of Instructions)	City or town, state, and ZIP code	E Enter total assets from line 3, column (b), Schedule L (see specific instructions) $

F (1) Did any corporation, individual, partnership, trust or estate at the end of your tax year own, directly or indirectly, 50% or more of your voting stock? — Yes / No
If "Yes," complete the following schedule (see specific instructions).

Name	Identifying number	Address	Percentage of voting stock owned	Total assets (Corporations only)	Foreign owner Yes	Foreign owner No

(2) Enter the following for any corporation listed in F(1) that will report the IC-DISC's income:

Tax year of first corporation	IRS Service Center where filed
Tax year of second corporation	IRS Service Center where filed

G Check the appropriate box(es) to indicate any inter-company pricing rules that were applied to 25% or more of total receipts (line 1 below):
☐ 50-50 combined taxable income method
☐ 4% gross receipts method
☐ Section 482 method ("arm's length pricing")

All Computations Must Reflect Inter-company Pricing Rules If Used (Section 994) (See Separate Schedule P (Form 1120-IC-DISC).)

Taxable Income

1 Enter amount from Schedule B, line 4, column (e)	1	
2 Cost of goods sold and/or operations (Schedule A, line 7)	2	
3 Total income (subtract line 2 from line 1)	3	
4 Enter amount from Schedule E, line 3	4	
5 Taxable income before net operating loss deduction and dividends-received deduction (subtract line 4 from line 3)	5	
6a Net operating loss deduction (see instructions—attach schedule)	6a	
b Dividends-received deduction from line 6, Schedule C	6b	
c Add lines 6a and 6b	6c	
7 Taxable income (subtract line 6c from line 5)	7	
8 Refund of U.S. tax on gasoline and special fuels (attach Form 4136) (see instructions)	8	

Please Sign Here — Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer | Date | Title

Paid Preparer's Use Only

Preparer's signature	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours, if self-employed) and address		E.I. No.	
		ZIP code	

For Paperwork Reduction Act Notice, see page 1 of the Instructions. Form 1120-IC-DISC (1986)

SCHEDULE A.—Cost of Goods Sold and/or Operations (See page 4 of Instructions.)

Reflect ACTUAL purchases from a related supplier at the transfer price determined under the inter-company pricing rules of section 994, if used. See separate Schedule P (Form 1120-IC-DISC).

1 Inventory at the beginning of the year	1	
2 Purchases	2	
3 Cost of labor	3	
4 Other costs (attach schedule)	4	
5 Total (add lines 1 through 4)	5	
6 Inventory at the end of the year	6	
7 Cost of goods sold and/or operations (subtract line 6 from line 5)—Enter here and on line 2, page 1	7	

8a Check all methods used for valuing closing inventory:
(i) ☐ Cost (ii) ☐ Lower of cost or market as described in regulations section 1.471-4 (see instructions)
(iii) ☐ Writedown of "subnormal" goods as described in regulations section 1.471-2(c) (see instructions)
(iv) ☐ Other (Specify method used and attach explanation) ▶
b Check if the LIFO inventory method was adopted this tax year for any goods ☐
If checked, attach Form 970.
c If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO — 8c
d Was there any change in determining quantities, costs, or valuations between opening and closing inventory? ☐ Yes ☐ No
If "Yes," attach explanation.

SCHEDULE B.—Gross Income (See page 4 of Instructions.)

(a) Type of receipts	Commission sales (b) Gross receipts	Commission sales (c) Commission	(d) Other receipts	(e) Total (add columns (c) and (d))
1 Qualified export receipts from the sale of export property:				
a To unrelated purchasers:				
(i) Direct foreign sales				
(ii) Foreign sales through a related foreign entity				
(iii) To persons in the U.S. (other than an unrelated IC-DISC)				
(iv) To an unrelated IC-DISC				
b To related purchasers:				
(i) Direct foreign sales				
(ii) To persons in the U.S.				
c Total				
2 Other qualified export receipts:				
a Leasing or renting of export property				
b Services related and subsidiary to a qualified export sale or lease				
c Engineering and architectural services				
d Export management services				
e Qualified dividends (line 12, Schedule C)				
f Interest on producer's loans				
g Other interest (attach schedule)				
h Capital gain net income (attach Schedule D (Form 1120))				
i Net gain or (loss) from Part II, Form 4797 (attach Form 4797; see instructions)				
j Total				
3 Nonqualified gross receipts:				
a Ultimate use in U.S.				
b Exports subsidized by the U.S. Government (see instructions)				
c Certain direct or indirect sales or leases for use by the U.S. Government				
d Sales to other IC-DISCs in the same controlled group				
e Nonqualified dividends (line 13, Schedule C)				
f Other (see instructions—attach schedule)				
g Total				
4 Total—Enter amount in column (e) on line 1, page 1				

SCHEDULE C.—Dividends and Special Deductions (See page 5 of Instructions.)

	(a) Dividends received	(b) %	(c) Special deductions: (multiply (a) x (b))
1 Domestic corporations subject to section 243(a) deduction (other than debt-financed stock)		see instructions	
2 Debt-financed stock of domestic and foreign corporations (section 246A)		see instructions	
3 Certain preferred stock of public utilities		see instructions	
4 Foreign corporations and certain FSCs subject to section 245 deduction		see instructions	
5 Wholly owned foreign subsidiaries subject to 100% deduction (section 245(b))		100	
6 Total—Add lines 1 through 5, column (c). See instructions for limitation. Enter here and on line 6b, page 1			
7 Other dividends from foreign corporations not included in lines 4 and 5			
8 Income from controlled foreign corporations under subpart F (attach Form 5471)			
9 IC-DISC or former DISC dividends not included in line 1 and/or 2 (section 246(d))			
10 Other dividends			
11 Total dividends (add lines 1 through 10)			
12 Qualified dividends—Enter here and on line 2e, column (d), Schedule B			
13 Nonqualified dividends (subtract line 12 from line 11)—Enter here and on line 3e, column (d), Schedule B			

SCHEDULE E.—Deductions (See page 6 of Instructions.)

1 Export promotion expenses:	
a Market studies	
b Advertising	
c Depreciation (attach Form 4562)	
d Salaries and wages	
e Rents	
f Sales commissions	
g Warehousing	
h Freight (excluding insurance— see instructions)	
i Compensation of officers	
j Repairs (see instructions)	
k Pension, profit-sharing, etc., plans (see instructions)	
l Employee benefit programs	
m Other (list):	
n **Total** (add lines 1a through 1m)	
2 Other expenses not deducted on line 1:	
a Bad debts (Schedule F if reserve method is used)	
b Taxes	
c Interest	
d Contributions (not over 10% of line 7, page 1, adjusted per instructions)	
e Freight	
f Freight insurance	
g Other (list):	
h **Total** (add lines 2a through 2g)	
3 **Total deductions** (add lines 1n and 2h)—Enter here and on line 4, page 1	

SCHEDULE F.—Bad Debts—Reserve Method

(a) Year	(b) Trade notes and accounts receivable outstanding at the end of the year	(c) Sales on account	Amount added to the reserve: (d) Current year's provision	Amount added to the reserve: (e) Recoveries	(f) Amount charged against the reserve	(g) Reserve for bad debts at the end of the year
1981						
1982						
1983						
1984						
1985						
1986						

SCHEDULE J.—Deemed and Actual Distributions to Shareholders for the Tax Year (See page 7 of Instructions.)

Part I.—Deemed Distributions Under Section 995(b)(1)

1 Gross interest derived during the tax year from producer's loans (section 995(b)(1)(A))	1	
2 Gain recognized on the sale or exchange of section 995(b)(1)(B) property (attach schedule)	2	
3 Gain recognized on the sale or exchange of section 995(b)(1)(C) property (attach schedule)	3	
4 50% of taxable income attributable to military property (section 995(b)(1)(D)) (see instructions—attach schedule)	4	
5 Taxable income from line 7, Part II	5	
6 Taxable income of the IC-DISC (from line 7, page 1)	6	
7 Add lines 1, 2, 3, 4 and 5	7	
8 Subtract line 7 from line 6	8	
9 If you have shareholders that are C corporations, enter one-seventeenth of line 8 (.0588235 times line 8)	9	
10 International boycott income (see instructions)	10	
11 Illegal bribes and other payments (see instructions)	11	
Note: Separate computations are required for shareholders that are C corporations and shareholders other than C corporations for lines 12-23. Complete lines 12, 14, 15, 17a, 18, 20, and 22 for shareholders other than C corporations. Complete lines 13, 14, 16, 17b, 19, 21, and 23 for shareholders that are C corporations.		
12 Total of lines 7, 10, and 11	12	
13 Total of lines 7, 9, 10, and 11	13	
14 Earnings and profits for the tax year (see instructions—attach schedule)	14	
15 Enter smaller of line 12 or 14	15	
16 Enter smaller of line 13 or 14	16	
17 Foreign investment attributable to producer's loans (see instructions—attach schedule):		
a Computation of amount for shareholders other than C corporations	17a	
b Computation of amount for shareholders that are C corporations	17b	
18 Add lines 15 and 17a	18	
19 Add lines 16 and 17b	19	
20 Enter percentage of stock owned by shareholders other than C corporations	20	%
21 Enter percentage of stock owned by shareholders that are C corporations	21	%
22 Multiply line 18 by line 20 (see instructions)	22	
23 Multiply line 19 by line 21 (see instructions)	23	
24 Total deemed distributions under section 995(b)(1) for all shareholders—Add lines 22 and 23	24	

Part II.—Section 995(b)(1)(E) Computation

1 Total qualified export receipts (see instructions)	1	
2 Statutory maximum	2	$10,000,000
3 Controlled group member's portion of the statutory maximum (see instructions)	3	
4 Enter smaller of: (a) number of days in tax year divided by 365, or (b) 1 (one)	4	
5 Proration—Line 2 or 3, whichever is applicable, times line 4	5	
6 Excess qualified export receipts—Line 1 less line 5. (If line 5 exceeds line 1, enter zero here and on line 7 below.)	6	
7 Taxable income attributable to line 6 receipts—Enter here and on line 5 of Part I (see instructions)	7	

Part III.—Deemed Distributions Under Section 995(b)(2)

1 Annual installment of distribution attributable to revocation of election in an earlier year	1	
2 Annual installment of distribution attributable to not qualifying as a DISC or IC—DISC in an earlier year	2	
3 Total deemed distributions under section 995(b)(2) (add line 1 and line 2)	3	

Part IV.—Actual Distributions

1 Distributions to meet qualification requirements under section 992(c) (attach computation)			1	
2 Other actual distributions			2	
3 Total (add line 1 and line 2)			3	
4 Amount on line 3 treated as distributed from:				
a Previously taxed income (see instructions)	4a			
b Accumulated IC-DISC income (including IC-DISC income of the current year)	4b			
c Other earnings and profits	4c			
d Other	4d			

Part V.—Deferred DISC Income Under Section 995(f)(3)

1 Accumulated IC-DISC income (for periods after 1984) at end of computation year	1	
2 Distributions-in-excess-of-income for the tax year following the computation year to which line 1 applies	2	
3 Deferred DISC income—Subtract line 2 from line 1	3	

SCHEDULE N.—Export Gross Receipts of the IC-DISC and Related U.S. Persons (See page 8 of instructions.)

1 Enter product code and percentage of total export gross receipts for **a** the largest and **b** 2nd largest product or service sold or provided by the IC-DISC: **a** Code............ Percentage of total............% **b** Code............ Percentage of total............%

2 Export gross receipts for 1986.

(a) Export gross receipts of the IC-DISC	Export gross receipts of related U.S. persons	
	(b) Related IC-DISCs	(c) All other related U.S. persons

3 If item 2(b) or 2(c) is completed, complete the following (if more space is needed, attach a schedule using the format as shown below):

Related U.S. Persons, Except IC-DISCs, in Your Controlled Group

Name	Address	Identifying number

IC-DISCs in Your Controlled Group

Name	Address	Identifying number

Additional Information	Yes	No
H Did you claim a deduction for expenses connected with:		
(1) Entertainment facility (boat, resort, ranch, etc.)?		
(2) Living accommodations (except employees on business)?		
(3) Employees attending conventions or meetings outside the North American area? (See section 274(h).)		
(4) Employees' families at conventions or meetings?		
If "Yes," were any of these conventions or meetings outside the North American area? (See section 274(h).)		
(5) Employee or family vacations not reported on Form W-2?		
I Refer to page 10 of the instructions and state the main: Business activity ▶............ Product or service ▶............		
J Were you a U.S. shareholder of any controlled foreign corporation? (See sections 951 and 957.) If "Yes," attach Form 5471 for each corporation.		
K (1) Did 95% or more of your gross receipts for the tax year consist of qualified export receipts (defined in section 993(a))?		
(2) Did the adjusted basis of your qualified export assets (as defined in section 993(b)) at the end of the tax year equal or exceed 95% of the sum of the adjusted basis of all your assets at the end of the tax year?		
(3) If the answer to K(1) or (2) is "No," did you make a pro rata distribution of property as defined in section 992(c)?		
L Did you have more than one class of stock at any time during the tax year?		
M Was the par or stated value of your stock at least $2,500 on each day of the tax year (for a new corporation, on the last day for making an election and for each later day)?		
N Did you have your own bank account?		
O Did you keep separate books and records?		
P At any time during the tax year, did you have an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See instructions for exceptions and filing requirements for form TD F 90-22.1.)		
If "Yes," write the name of the foreign country ▶............		
Q Were you the grantor of, or transferor to, a foreign trust that existed during the current tax year, whether or not you have any beneficial interest in it? If "Yes," you may have to file Forms 3520, 3520-A, or 926		
R During this tax year did the corporation maintain any part of its accounting/tax records on a computerized system?		
S (1) Do you or any member of your controlled group (as defined in section 993(a)(3)) have operations in or related to any country (or with the government, a company, or a national of that country) associated in carrying out the boycott of Israel that is on the list kept by the Secretary of the Treasury under section 999(a)(3)?		
(2) Did you or any member of the controlled group of which you are a member have operations in any unlisted country, that you know or have reason to know requires participation in or cooperation with an international boycott against Israel?		
(3) Did you or any member of the controlled group of which you are a member have operations in any country, that you know or have reason to know requires participation in or cooperation with an international boycott other than the boycott of Israel?		
If you answered "Yes" to any of the questions in S, see instructions and Form 5713, International Boycott Report.		

SCHEDULE L.—Balance Sheets

		(a) Beginning of the tax year	(b) End of the tax year
Assets	**1 Qualified assets:**		
	a Working capital (cash and necessary temporary investments)		
	b Funds awaiting investment (cash in U.S. banks in excess of working capital needs to acquire other qualified export assets)		
	c Export-Import Bank obligations		
	d Trade receivables (accounts and notes receivable)		
	(i) Subtract allowance for bad debts	( )	( )
	e Export property (net) (including inventory and qualified property held for lease)		
	f Producer's loans		
	g Investment in related foreign export corporations		
	h Depreciable assets		
	(i) Subtract accumulated depreciation	( )	( )
	i Other (attach schedule)		
	2 Nonqualified assets (net) (list):		
	3 Total assets		
Liabilities and Stockholders' Equity	4 Accounts payable		
	5 Other current liabilities (attach schedule)		
	6 Mortgages, notes, bonds payable in 1 year or more		
	7 Other liabilities (attach schedule)		
	8 Capital stock		
	9 Paid-in or capital surplus		
	10 Other earnings and profits		
	11 Previously taxed income (section 996(f)(2))		
	12 Accumulated pre-1985 DISC income (see instructions)		
	13 Accumulated IC-DISC income (see instructions)		
	14 Subtract cost of treasury stock	( )	( )
	15 Total liabilities and stockholders' equity		

SCHEDULE M-1.—Reconciliation of Income per Books With Income per Return

1 Net income on books		6 Income recorded on books this year and not included in this return (itemize)	
2 Excess of capital losses over capital gains			
3 Taxable income not recorded on books this year (itemize)		7 Deductions in this return not charged against book income this year (itemize)	
4 Expenses recorded on books this year and not deducted in this return (itemize)			
		8 Add lines 6 and 7	
5 Add lines 1 through 4		9 Income (line 7, page 1) (line 5 less line 8)	

SCHEDULE M-2.—Analysis of Other Earnings and Profits (Line 10 above)

1 Balance at the beginning of the year		5 Distributions to qualify under section 992(c)	
2 Increases (itemize)		6 Other decreases (itemize)	
3 Add lines 1 and 2		7 Add lines 4, 5, and 6	
4 Deficit in earnings and profits		8 Balance at end of year (line 3 less line 7)	

SCHEDULE M-3.—Analysis of Previously Taxed Income (Line 11 above)

1 Balance at the beginning of the year		5 Deficit in earnings and profits	
2 Deemed distributions under section 995(b)		6 Distributions to qualify under section 992(c)	
3 Other increases (itemize)		7 Other decreases (itemize)	
		8 Add lines 5, 6, and 7	
4 Add lines 1, 2, and 3		9 Balance at end of year (line 4 less line 8)	

SCHEDULE M-4.—Analysis of Accumulated IC-DISC Income (Line 13 above)

1 Balance at the beginning of the year		6 Distributions to qualify under section 992(c)	
2 Increases (itemize)		7 Distributions upon disqualification (sec. 995(b)(2))	
		8 Other decreases (itemize)	
3 Add lines 1 and 2			
4 Deficit in earnings and profits		9 Add lines 4 through 8	
5 Redemptions under section 996(d)		10 Balance at end of year (line 3 less line 9)	

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1986 Department of the Treasury Internal Revenue Service

Instructions for Form 1120-IC-DISC

Interest Charge Domestic International Sales Corporation Return

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

Paperwork Reduction Act Notice

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

Voluntary Contributions To Reduce the Public Debt

Quite often, inquiries are received about how voluntary contributions to reduce the public debt may be made. A domestic international sales corporation may contribute by enclosing a **separate** check payable to "Bureau of the Public Debt," with Form 1120-IC-DISC. These amounts are tax-deductible, subject to the rules and limitations for charitable contributions.

Tax Law Changes

The Tax Reform Act of 1986 (Act) made several changes which affect the way corporations electing IC-DISC status compute their taxable income. See page 9 for information on how the Act affects the IC-DISC for 1986 tax years and tax years beginning after 1986.

General Instructions

A. Purpose of Form

Form 1120-IC-DISC is an information return filed by interest charge domestic international sales corporations (IC-DISCs), former DISCs, and former IC-DISCs.

B. What Is an IC-DISC

An IC-DISC is a domestic corporation that has elected to be an IC-DISC and its election is still in effect. The IC-DISC election is made by filing **Form 4876A**, Election To Be Treated as an Interest Charge DISC.

Generally, an IC-DISC is not taxed on its income. Shareholders of an IC-DISC are taxed on its income when the income is actually or deemed distributed. In addition, section 995(f) imposes an interest charge on shareholders for their share of DISC-related deferred tax liability. See **Form 8404**, Computation of Interest Charge on DISC-Related Deferred Tax Liability, for details.

To be an IC-DISC, a corporation must be organized under the laws of a state or the District of Columbia and meet the following tests:

- Its tax year must conform to the tax year of the principal shareholder who at the beginning of the tax year has the highest percentage of voting power. If two or more shareholders have the highest percentage of voting power, the IC-DISC must elect a tax year that conforms to that of any one of the principal shareholders. (See section 441(h) for additional information.)
- Its election to be treated as an IC-DISC is in effect for the tax year.
- At least 95% of its gross receipts during the tax year are qualified export receipts.
- At the end of the tax year, the adjusted basis of its qualified export assets is at least 95% of the sum of the adjusted basis of all its assets.
- It has one class of stock, and its outstanding stock has a par value of at least $2,500 on each day of the tax year (or, for a new corporation, on the last day to elect IC-DISC status for the year and on each later day).
- On each day of the tax year, it has its own bank account and keeps separate books and records.
- It is not a member of any controlled group of which a foreign sales corporation (FSC) is a member.

See section 992 and related regulations for details and Instruction D for definitions.

Distribution to meet qualification requirements.—An IC-DISC that does not meet the gross receipts test or qualified export asset test during the tax year will still be considered to have met them if, after the tax year ends, the IC-DISC makes a pro rata property distribution to its shareholders and specifies at the time that this is a distribution to meet the qualification requirements.

If the IC-DISC did not meet the gross receipts test, the distribution equals the part of its taxable income attributable to gross receipts that are not qualified export gross receipts. If it did not meet the qualified export asset test, the distribution equals the fair market value of the assets that are not qualified export assets on the last day of the tax year. If the IC-DISC did not meet either test, the distribution equals the sum of both amounts. Regulations section 1.992-3 explains how to figure the distribution.

"Interest" on late distribution.—If the IC-DISC makes this distribution after the date Form 1120-IC-DISC is due, an interest charge must be paid to the Internal Revenue Service Center where you filed the form. The charge is 4½% of the distribution times the number of tax years that begin after the tax year to which the distribution relates until the date the IC-DISC made the distribution.

If you must pay this interest charge, send the payment to the service center within 30 days of making the distribution. On the payment write the IC-DISC's name, address, and employer identification number; the tax year involved; and a statement that the payment represents the interest charge under regulations section 1.992-3(c)(4).

Ineligible organizations.—The following organizations are not eligible for IC-DISC status. File the return indicated instead of Form 1120-IC-DISC:

- Tax-exempt organization (section 501): File the appropriate return in the Form 990 series.
- Personal holding companies (section 542): File Form 1120 with Schedule PH (Form 1120).
- Financial institution affected by section 581 or 593: File Form 1120.
- Life, mutual, or other insurance companies (subchapter L): File Form 1120L, 1120M, or 1120.
- Regulated investment company (section 851(a)): File Form 1120.
- An S corporation (section 1361(a)): File Form 1120S.

C. Filing Form 1120-IC-DISC

1. Who Files Form 1120-IC-DISC.— You must file Form 1120-IC-DISC if your corporation elected, by filing Form 4876A, to be treated as an IC-DISC.

If the corporation is a former DISC or former IC-DISC, you must file Form 1120-IC-DISC for it, in addition to any other return required. A former DISC is a corporation that was a DISC on or before December 31, 1984, but failed to qualify as a DISC sometime prior to December 31, 1984, or did not elect to be an IC-DISC after 1984; and at the beginning of the year, it had undistributed income that was previously taxed or accumulated DISC income. A former IC-DISC is a corporation that was an IC-DISC in an earlier year but did not qualify as an IC-DISC at the end of its 1986 tax year; and at the beginning of the year, it had undistributed income that was previously taxed or accumulated IC-DISC income. (See section 992 and related regulations.)

In regard to a former DISC or former IC-DISC, you need not complete page 1 and the Schedules for figuring taxable income, but you must complete Schedules J, L, and M of Form 1120-IC-DISC and Schedule K (Form 1120-IC-DISC). Write "Former DISC" or "Former IC-DISC" across the top of the return.

2. When To File.—File Form 1120-IC-DISC by the 15th day of the 9th month after the tax year ends. No extensions are allowed for time to file.

Period covered.—File the 1986 return for calendar year 1986 and fiscal years that begin in 1986. If the return is for a fiscal year, fill in the tax year space at the top of the form.

Amended return.—To correct any error in a Form 1120-IC-DISC already filed, file an amended Form 1120-IC-DISC and write "Amended" across the top.

Change in tax year.—To change your tax year, file **Form 1128**, Application for Change in Accounting Period.

Final return.—If the corporation ceased to exist during 1986, write "Final return" across the top of the form.

3. Where To File.—

If the main business, office, or agency is located in ▼	Use the following Internal Revenue Service Center address ▼
New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, Minnesota, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101
Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
Arkansas, Indiana, North Carolina, Tennessee, Virginia	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania	Philadelphia, PA 19255

If the IC-DISC is one of a group of IC-DISCs controlled by a common parent, file with the service center where the common parent files.

A group of corporations in several service center regions may file their separate returns with the service center for the principal office of the managing corporation that keeps all the books and records.

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

If your corporate officer filled in Form 1120-IC-DISC, the Paid Preparer's space under Signature of Officer should remain blank. If someone prepares Form 1120-IC-DISC and does not charge the corporation, that person should not sign the return. Certain others who prepare Form 1120-IC-DISC should not sign. For example, a regular, full-time employee of the corporation such as a clerk or secretary does not have to sign. (This list is not all-inclusive.)

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

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

5. Other Returns and Statements That May Be Required.—

a. Financial statements.

The balance sheets must agree with your books and records. Reconcile any differences.

b. Stock in foreign corporation.

If, on the last day of your tax year, you owned at least 5% in value of a foreign personal holding company's outstanding stock and the corporation was required to include in its gross income any undistributed foreign personal holding company income, attach a statement showing the foreign company's gross income, deductions, credits, taxable income, and undistributed foreign personal holding company income. See section 551(c).

If you controlled a foreign corporation or owned at least 10% of the shares in a controlled foreign corporation, you may have to file **Form 5471**, Information Return With Respect to a Foreign Corporation.

c. Forms 1042 and 1042S.

File **Form 1042**, U.S. Annual Return of Income Tax To Be Paid at Source (Under Chapter 3, IRC), and **Form 1042S**, Income Subject to Withholding under Chapter 3, Internal Revenue Code, to report tax withheld from amounts paid to nonresident aliens and foreign corporations (sections 1441 through 1443 and 1461). In addition, please inform your shareholders who are nonresident alien individuals or foreign corporations, trusts, or estates that if they have gains from disposing of stock in the IC-DISC, former DISC, or former IC-DISC, or distributions from accumulated IC-DISC income, including deemed distributions, they should treat these amounts as effectively connected with the conduct of a trade or business through a permanent establishment in the U.S.

D. Definitions

1. The following definitions are based on section 993.

a. Qualified export receipts, in general, are any of the following:

(1) Gross receipts from selling, exchanging, or otherwise disposing of export property.

(2) Gross receipts from renting export property that the lessee uses outside the U.S.

(3) Gross receipts from supporting services related to any qualified sale, exchange, rental, or other disposition of export property by the corporation.

(4) Gross receipts, if there is a gain, from selling, exchanging, or otherwise disposing of qualified export assets that are not export property.

(5) Dividends or amounts includible in gross income under section 951 regarding stock of a related foreign export corporation.

(6) Interest on any obligation that is a qualified export asset.

(7) Gross receipts for engineering or architectural services on construction projects outside the U.S.

(8) Gross receipts for managerial services performed for an unrelated IC-DISC.

For more information, see regulations section 1.993-1.

b. Qualified export assets are any of the following:

(1) Export property.

(2) Assets used mainly in performing the engineering or architectural services listed under qualified export receipts, item (7), or managerial services that further the production of qualified export receipts, items (1), (2), (3), and (7) above; or assets used mainly in assembling, servicing, handling, selling, leasing, packaging, transporting, or storing of export property.

(3) Accounts receivable produced by transactions listed under qualified export receipts, items (1)–(4), (7), or (8).

(4) Temporary investments, such as money and bank deposits, in an amount reasonable to meet the corporation's needs for working capital.

(5) Obligations related to a producer's loan.

(6) A related foreign export corporation's stock or securities that the IC-DISC holds.

(7) Certain obligations that are issued or insured by the U.S. Export-Import Bank or the Foreign Credit Insurance Association and that the IC-DISC acquires from the Bank, the Association, or the person who sold or bought the goods from which the obligations arose.

(8) Certain obligations, held by the IC-DISC, that were issued by a domestic corporation organized to finance export property sales under an agreement with the Export-Import Bank, by which the corporation makes export loans that the Bank guarantees.

(9) Other deposits in the U.S. used to acquire qualified export assets within the time provided by regulations section 1.993-2(j).

Regulations section 1.993-2 gives more information.

c. Export property must meet all the following terms. It is:

(1) Made, grown, or extracted in the U.S. by someone other than an IC-DISC.

(2) Neither excluded under section 993(c)(2) nor declared in short supply under section 993(c)(3).

(3) Held mainly for sale or rent in the ordinary course of trade or business, by or to an IC-DISC for direct use, consumption, or disposition outside the U.S.

(4) Not more than 50% of its fair market value is attributable to articles imported into the U.S.

(5) Neither sold nor leased by or to another IC-DISC that, immediately before or after the transaction, either belongs to the same controlled group (defined in section 993(a)(3)) as your IC-DISC or is related to your IC-DISC in a way that would result in losses being denied under section 267.

See regulations section 1.993-3 for details.

d. A producer's loan must meet all the following terms:

(1) Satisfy sections 993(d)(2) and (3) limiting loans the IC-DISC makes to any one borrower.

(2) Not raise the unpaid balance due the IC-DISC on all its producer's loans above the level of accumulated income it had at the start of the month in which it made the loan.

(3) Be indicated by written evidence of debt, such as a note, that has a stated maturity date no more than 5 years after the date of the loan.

(4) Be made to a person in the U.S. in the trade or business of making, growing, or extracting export property.

(5) Be designated as a producer's loan when made.

For more information, see regulations section 1.993-4.

e. A related foreign export corporation of any of the following kinds can pay dividends and interest to the IC-DISC without loss of IC-DISC status. The IC-DISC's investment must be related to exports from the U.S.

(1) A *foreign international sales corporation* is a related foreign export corporation if:

(i) The IC-DISC directly owns more than 50% of the total voting power of the foreign corporation's stock,

(ii) For the tax year that ends with your IC-DISC's tax year or ends within it, at least 95% of the foreign corporation's gross receipts consists of the qualified export receipts described in items (1)–(4) of definition **a** above and interest on the qualified export assets listed in items (3) and (4) of definition **b** above, and

(iii) The adjusted basis of the qualified export assets that are listed in items (1)-(4) of definition **b** above and that the foreign corporation held at the end of the tax year is at least 95% of the adjusted basis of all assets it held then.

(2) A *real property holding company* is a related foreign export corporation if:

(i) The IC-DISC directly owns more than 50% of the total voting power of the foreign corporation's stock, and

(ii) Applicable foreign law forbids the IC-DISC to hold title to real property; the foreign corporation's sole function is to hold the title; and only the IC-DISC uses the property, under lease or otherwise.

(3) An *associated foreign corporation* is a related foreign export corporation if:

(i) The IC-DISC or a controlled group of corporations to which the IC-DISC belongs owns less than 10% of the total voting power of the foreign corporation's stock (section 1563 defines a controlled group in this sense, and sections 1563(d) and (e) define ownership), and

(ii) The IC-DISC's ownership of the foreign corporation's stock or securities reasonably furthers transactions that lead to qualified export receipts for the IC-DISC.

See regulations section 1.993-5 for more information about related foreign export corporations.

f. Gross receipts are the IC-DISC's total receipts from (1) selling or renting property that the corporation holds for sale or rental in the course of its trade or business and (2) all other sources. For commissions on selling or renting property, include gross receipts from selling or renting the property on which the commissions arose. Regulations section 1.993-6 gives more information.

g. United States, as used in these instructions, includes Puerto Rico and U.S. possessions, as well as the 50 states and the District of Columbia.

2. Inter-company pricing rules (section 994).—If a related person described in section 482 sells export property to the IC-DISC, use inter-company pricing rules to figure taxable income for the IC-DISC and the seller. These rules generally do not permit the related person to price at a loss. Under inter-company pricing, the IC-DISC's taxable income from the sale (regardless of the price actually charged) is the greatest of:

(a) 4% of qualified export receipts on the IC-DISC's sale of the property plus 10% of the IC-DISC's export promotion expenses attributable to the receipts,

(b) 50% of the IC-DISC's and the seller's combined taxable income from qualified export receipts on the property, derived from the IC-DISC's sale of the property plus 10% of the IC-DISC's export promotion expenses attributable to the receipts, or

(c) taxable income based on the sale price actually charged, as long as it accurately reflects taxable income without evading taxes.

Schedule P (Form 1120-IC-DISC), Computation of Inter-company Transfer Price or Commission, explains inter-company pricing rules in more detail.

3. Export promotion expenses (section 994(c)).—These expenses are incurred to help distribute or sell export property for use or distribution outside the U.S. These expenses do not include income tax, but do include 50% of the cost of shipping the property on U.S.-owned and -operated aircraft or ships if the law and regulations do not require that it be shipped on them.

E. Penalties

The IC-DISC may have to pay the following penalties unless it can show that it had reasonable cause for not giving information or not filing a return:

- $100 for each instance of not giving information, up to $25,000 during the calendar year.
- $1,000 for not filing a return.

See section 6686 for other details.

Specific Instructions

File a Complete Return

In order to assist us in processing the return we ask that you complete every applicable entry space on Form 1120-IC-DISC. Please do not attach statements and write "See attached" in lieu of completing the entry space on Form 1120-IC-DISC.

Accounting methods.—Compute taxable income by the accounting method regularly used to keep the IC-DISC's books and records. The method used must clearly reflect taxable income. See section 446.

A member of a controlled group must avoid using an accounting method that would distort any group member's income, including its own. For example, an IC-DISC acts as a commission agent for property sales by a related corporation that uses the accrual method and pays the IC-DISC its commission more than 2 months after the sale. The IC-DISC, then, should not use the cash method of accounting, because it materially distorts the income of the IC-DISC.

Unless the law specifically permits otherwise, the IC-DISC may change from the accounting method it used to report taxable income in earlier years (for income as a whole or for any material item) only by first getting consent on **Form 3115**, Application for Change in Accounting Method.

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

Attachments.—If you need more space, attach separate sheets to the back of Form 1120-IC-DISC. Attach **Form 4136**, Computation of Credit for Federal Tax on Gasoline and Special Fuels, after page 6, Form 1120-IC-DISC. Attach schedules in alphabetical order and other forms in numerical order after the Form 4136. Be sure to put the IC-DISC's name and employer identification number (EIN) on each sheet.

Page 1

Employer Identification Number.—Enter the IC-DISC's employer identification number (EIN). If the IC-DISC does not have an EIN, it should apply for one on **Form SS-4**, Application for Employer Identification Number. You can get this form at most IRS or Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center to which you send Form 1120-IC-DISC. If you have not received the EIN by the time for filing Form 1120-IC-DISC, write "Applied for" in the space for the EIN.

Question E.—Total assets.—Enter the total assets of the IC-DISC. If there are no assets at the end of the tax year, enter the assets as of the beginning of the tax year.

Question F.—For rules of stock attribution, see section 267(c). If the owner of the voting stock of the IC-DISC was an alien individual or a foreign corporation, partnership, trust, or estate, check the "Yes" box in the "Foreign Owner" column and enter the name of the owner's country, in parentheses, in the address column. "Owner's country" for individuals is their country of residence; for other foreign entities, it is the country in which organized or otherwise created, or in which administered.

Lines 1 through 8

An IC-DISC must figure its taxable income although it does not pay most taxes. Of the taxes imposed by sections 1 through 1564, an IC-DISC is subject only to the tax imposed by sections 1491 through 1494 on certain transfers to avoid tax. An IC-DISC is exempt from corporate income tax, minimum tax on tax preference items, and accumulated earnings tax.

An IC-DISC and its shareholders are not entitled to the possessions corporation tax credit (section 936). Also, an IC-DISC cannot claim the investment tax credit, the jobs credit, employee stock ownership plan credit, research credit, alcohol fuel credit, general business credit, and credit for fuel produced from a nonconventional source. In addition, these credits do not pass through to shareholders of an IC-DISC.

2. Cost of goods sold and/or operations.— See Instructions for Schedule A.

6a. Net operating loss deduction.—The "net operating loss deduction" is the amount of the net operating loss carryovers and carrybacks that can be deducted in the tax year. See section 172 for details.

6b. Dividends-received deduction.—See the instructions for Schedule C, line 6, Column (c) for details.

A deficit in earnings and profits is chargeable in the following order:

(1) First, to any other earnings and profits;

(2) Second, to any accumulated IC-DISC income; and

(3) Finally, to previously taxed income. Do not apply any deficit in earnings and profits against accumulated IC-DISC income that, as a result of the corporation's revoking its election to be treated as an IC-DISC (or other disqualification), is deemed distributed to the shareholders. (See section 995(b)(2)(A).)

7. Taxable income.—If you use either the gross receipts method or combined taxable income method to compute the IC-DISC's taxable income attributable to any transactions involving products or product lines, attach Schedule P (Form 1120-IC-DISC). Show in detail the IC-DISC's taxable income attributable to each such transaction or group of transactions.

8. Refund of U.S. tax on gasoline and special fuels.—Enter the credit from Form 4136. Also, if the IC-DISC is a producer of domestic crude oil and overpaid the windfall profit tax, include the overpayment from **Form 6249**, Computation of Overpaid Windfall Profit Tax, in the total on line 8. Also enter the overpayment separately in the margin beside line 8 and identify it as "Overpaid windfall profit tax." Attach Form 6249 to Form 1120-IC-DISC.

Schedule A.—Cost of Goods Sold and/or Operations

If you use inter-company pricing rules, reflect in Schedule A actual purchases from a related supplier. See General Instruction D2 and use the transfer price you compute in Part II of Schedule P (Form 1120-IC-DISC).

If the IC-DISC acts as another person's commission agent on a sale, do not enter any amount in Schedule A for the sale. See Schedule P (Form1120-IC-DISC).

Cost of operations.—If the entry on line 2, page 1, of Form 1120-IC-DISC is for the cost of operations, complete Schedule A even if inventories are not used.

Valuation methods.—Your inventories can be valued at: **1.** cost; **2.** cost or market value (whichever is lower); or **3.** any other method that is approved by the Commissioner of Internal Revenue and 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. Such changes should be made by filing Form 3115. For more information about the change, see regulations section 1.446-1(e)(3) and Rev. Proc. 84-74, 1984-2 C.B. 738.

In 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 more requirements, see regulations section 1.471-4.

Inventory may be valued below cost when the merchandise is 1. unsalable at normal prices or 2. 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 minus direct cost of disposition (but not less than scrap value) if you can establish such a price. See regulations section 1.471-2(c) for more requirements.

In (iv) of 8a, indicate whether you used a method of inventory valuation other than those described in 8a (i) through (iii). Attach a statement describing the method used.

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, provided in section 472, attach **Form 970**, Application To Use LIFO Inventory Method, or a statement with the information required by Form 970. Also check the LIFO box in line 8b. In line 8c, enter the amount or percent of total closing inventories covered under section 472. Estimates are acceptable.

If the IC-DISC changed or extended its inventory method to LIFO and had to write up its opening inventory to cost in the year of election, report the effect of this writeup as income (line 3f, Schedule B) proportionately over a 3-year period that begins in the tax year the corporation made its election. (See section 472(d).)

Schedule B.—Gross Income

If an income item falls in two or more categories, report each part on the applicable line. For example, if interest income consists of qualified interest from a foreign international sales corporation and nonqualified interest from a domestic obligation, enter the qualified interest on an attached schedule for line 2g and the nonqualified interest on an attached schedule for line 3f.

For gain from selling qualified export assets, you will need to attach a separate schedule in addition to the forms required for lines 2h and 2i.

If you use the installment method of reporting, attach a schedule showing for the current and 3 preceding years: (a) gross sales, (b) cost of goods sold, (c) gross profit, (d) percentage of gross profit to gross sales, (e) amount collected, and (f) gross profit on the amount collected.

For tax years beginning after 1986, corporations that sell personal property on a revolving credit plan will not be permitted to account for such sales on the installment method. See sections 453 and 453A for more information.

Commissions: Special Rule.—If the IC-DISC received commissions on selling or renting property or furnishing services, list in column (b) the gross receipts from the sales, rentals, or services on which the commissions arose, and in column (c), list the commissions earned. In column (d) report receipts from non-commissioned sales or rentals of property or furnishing of services, as well as all other receipts.

For purposes of completing line 1a and line 1b, related purchasers are members of the same controlled group (as defined in section 993(a)(3)) as the IC-DISC. All other purchasers are unrelated.

A qualified export sale or lease must meet a use test and a destination test in order to qualify.

The **use requirement** applies at the time of sale or lease. If the property is used predominantly outside the U.S., and the sale or lease is not for ultimate use in the U.S., it is a qualified export sale or lease. Otherwise, if a reasonable person would believe that the property will be used in the U.S., the sale or lease is not a qualified export sale or lease.

For example, if property is sold to a foreign wholesaler, and it is known in trade circles that the wholesaler, to a substantial extent, supplies the U.S. retail market, the sale would not be a qualified export sale, and the receipts would not be qualified export receipts.

Destination test.—Regardless of where title or risk of loss shifts from the seller or lessor, the property must be delivered under one of the following conditions:

(a) Within the U.S. to a carrier or freight forwarder for ultimate delivery outside the U.S. to a buyer or lessee.

(b) Within the U.S. to a buyer or lessee who, within 1 year of the sale or lease, delivers it outside the U.S. or delivers it to another person for ultimate delivery outside the U.S.

(c) Within or outside the U.S. to an IC-DISC that is not a member of the same controlled group (as defined in section 993(a)(3)) as the IC-DISC that is making the sale or lease.

(d) Outside the U.S. by means of the seller's delivery vehicle (ship, plane, etc.).

(e) Outside the U.S. to a buyer or lessee at a storage or assembly site if the property was previously shipped from the U.S. by the IC-DISC.

(f) Outside the U.S. to a purchaser or lessee if the property was previously shipped by the seller or lessor from the U.S. and if the property is located outside the U.S. pursuant to a prior lease by the seller or lessor, and either (a) the prior lease terminated at the expiration of its term (or by the action of the prior lessee acting alone), (b) the sale occurred or the term of the subsequent lease began after the time at which the term of the prior lease would have expired, or (c) the lessee under the subsequent lease is not a related person (a member of the same controlled group as defined in section 993(a)(3) or a relationship that would result in a disallowance of losses under section 267 or section 707(b)) immediately before or after the lease with respect to the lessor and the prior lease was terminated by the action of the lessor (acting alone or together with the lessee).

Line-by-Line Instructions

Qualified export receipts to be entered in line 1 are received from the sale of property, such as inventory, that is produced in the U.S. for direct use, consumption, or disposition outside the U.S. These sales are qualified export sales.

1a. Enter the IC-DISC's qualified export receipts from export property sold to foreign, unrelated buyers for delivery outside the U.S. Do not inclode amounts entered on line 1b.

1b. Enter the IC-DISC's qualified export receipts from export property sold for delivery outside the U.S. to (i) a related foreign entity for resale to a foreign, unrelated buyer or (ii) an unrelated buyer when a related foreign entity acts as commission agent.

2a. Enter the gross amount received from leasing or subleasing export property to unrelated persons for use outside the U.S.

Receipts from leasing export property may qualify in some years and not in others, depending on where the lessee uses the property. Enter only receipts that qualify during the tax year. (Use Schedule E to deduct expenses such as repairs, interest, taxes, and depreciation.)

2b. A service connected to a sale or lease is related to it if the service is usually furnished with that type of sale or lease in the trade or business where it took place. A service is subsidiary if it is less important than the sale or lease.

2c. Include receipts from engineering or architectural services on foreign construction projects abroad or proposed for location abroad. These services include feasibility studies, design and engineering, and general supervision of construction, but do not include services connected with exploring for minerals.

2d. Include receipts for export management services provided to unrelated IC-DISCs.

2f. Include interest received on any loan that qualifies as a producer's loan.

2g. Enter interest on any qualified export asset other than interest on producer's loans.

For example, include interest on accounts receivable from sales in which the IC-DISC acted as a principal or agent and interest on certain obligations issued, guaranteed, or insured by the Export-Import Bank or the Foreign Credit Insurance Association.

2h. On Schedule D (Form 1120) report in detail every sale or exchange of a capital asset, even if there is no gain or loss.

In addition to Schedule D (Form 1120), attach a separate schedule computing gain from the sale of qualified export assets.

2i. Enter the net gain or loss from line 17, Part II, Form 4797.

In addition to Form 4797, attach a separate schedule computing gain from the sale of qualified export assets.

3b. Enter receipts from selling products subsidized under a U.S. program if they have been designated as excluded receipts.

3c. Enter receipts from selling or leasing property or services for use by any part of the U.S. Government if law or regulations require U.S. products or services to be used.

3d. Enter receipts from any IC-DISC that belongs to the same controlled group (defined in section 993(a)(3)).

3f. Include in an attached schedule any nonqualified gross receipts not reported on lines 3a through 3e. Do not offset an income item against a similar expense item.

Schedule C.—Dividends and Special Deductions

(Numbered to correspond to line numbers in Schedule C.)

Column (a)

1. Enter dividends received (except those received on debt-financed stock—see line 2 instruction below) from domestic corporations that are subject to the deduction under section 243(a)(1). Include taxable distributions from an IC-DISC, former DISC, or former IC-DISC that are eligible for this deduction.

For dividends from a regulated investment company, see section 854 for the amount subject to the section 243(a)(1) deduction.

So-called dividends or earnings from mutual savings banks, etc., are really interest. Report them in Schedule B, not in Schedule C.

2. Enter dividends on debt-financed stock (acquired after July 18, 1984) that are received from domestic corporations subject to income tax and that would otherwise be subject to the dividends-received deduction under section 243(a)(1). Also enter dividends on debt-financed stock of foreign corporations acquired after July 18, 1984. Generally, debt-financed stock is stock that the corporation acquired, and in doing so, incurred a debt (for example, it borrowed money to buy the stock).

See section 246A for more information.

3. Enter dividends received on the preferred stock of a public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

4. Enter dividends received from foreign corporations and certain FSCs that qualify for the deduction under section 245(a).

5. Enter dividends you can deduct that you received from wholly owned foreign subsidiaries.

7. Enter foreign dividends that are not reportable on lines 4 and 5. Exclude distributions of amounts constructively taxed under subpart F for your 1986 tax year or in earlier years.

8. Include income constructively received from controlled foreign corporations under subpart F. This amount should equal the total of amounts reported on Schedule J of Form(s) 5471.

9. Enter taxable distributions from an IC-DISC or former DISC or former IC-DISC that are not eligible for the dividends-received deduction. See sections 246(d), 995(b), and 996(a)(3).

10. Include: dividends, except capital gain dividends, from regulated investment companies that do not qualify for the section 243(a) deduction; dividends from tax-exempt organizations; dividends, except capital gain dividends, from a real estate investment trust that, for the trust's tax year in which the dividends are paid, qualifies under sections 856 through 860; dividends not eligible for a dividends-received deduction because of the holding period of the stock or an obligation to make corresponding payments for similar stock;

and other taxable dividend income not reported above.

Two situations in which the dividends-received deduction will not be allowed on any share of stock are:

(1) If the corporation held it 45 days or less (see section 246(c)(1)(A)), or

(2) To the extent the corporation is under an obligation to make related payments for substantially similar or related property.

12. Enter qualified dividends from the IC-DISC's investment in a related foreign export corporation (defined in General Instruction D1e). Include income constructively received from controlled foreign corporations under subpart F. Generally, the investment will be in stock or securities of the IC-DISC's foreign selling subsidiary that qualifies as a foreign international sales corporation.

No deduction is allowed for dividends received from another IC-DISC or former DISC or former IC-DISC if the dividend is paid from accumulated IC-DISC income or previously taxed income or if it is a deemed distribution under section 995(b)(1).

Columns (b) and (c)

1. The dividends-received deduction percentage for dividends received before January 1, 1987, is 85%. For dividends received after December 31, 1986, it is 80%. Multiply the dividends received in each period by the proper percentage to determine the correct dividends-received deduction.

2. The dividends-received deduction for dividends received on debt-financed stock is explained in section 246A. This section applies to dividends received from debt-financed stock of both domestic and foreign corporations acquired after July 18, 1984. The percentages to use for computing the dividends-received deduction for debt-financed stock under section 246A(a)(1) are 85% for dividends received before January 1, 1987, and 80% for dividends received after December 31, 1986.

3. Dividends on certain preferred stock of public utilities are entitled to a dividends-received deduction percentage of 59.13% if they are received before January 1, 1987. For dividends on certain preferred stock of public utilities received after December 31, 1986, but before July 1, 1987, the dividends-received deduction percentage is 55.652%. For these dividends received after June 30, 1987, the dividends-received deduction percentage is 47.059%.

Multiply the dividends received in each period by the proper percentage to determine the correct dividends-received deduction.

4. The dividends-received deduction percentage for dividends received from foreign corporations entitled to the dividends-received deduction under section 245(a) and section 245(c)(1) for certain FSCs is 85% for dividends received before January 1, 1987. The dividends-received deduction percentage for these dividends received after December 31, 1986, is 80%.

Multiply the dividends received in each period by the proper percentage to determine the correct dividends-received deduction.

6. Line 6 of Schedule C may not exceed 85% of line 5, page 1. For this purpose, figure line 5, page 1, without regard to any adjustment under section 1059, and without regard to any capital loss carryover to the tax year under section 1212(a)(1).

In a year when a net operating loss occurs, this 85% limit does not apply even if the dividends-received deduction creates the loss.

Schedule E.—Deductions

(Numbered to correspond to line numbers in Schedule E.)

1. Enter export promotion expenses on lines 1a through 1m. Export promotion expenses are an IC-DISC's ordinary and necessary expenses paid or incurred to obtain qualified export receipts. Do not include income taxes. Any part of an expense not incurred to obtain qualified export receipts should be entered in lines 2a through 2g.

1c. Attach **Form 4562**, Depreciation and Amortization, if you deduct depreciation. Enter on line 1c the depreciation not claimed on Schedule A or elsewhere on the return.

The rules for depreciation for property placed in service in 1987 have been changed. Also, the taxpayer may elect to apply the new rules to property placed in service after July 31, 1986. Effective for property placed in service after December 31, 1986, the amount the taxpayer may expense under section 179 has been raised from $5,000 to $10,000. See Form 4562-A for more information.

Also, see page 9 of these instructions.

The deduction for amortization of trademark and trade name expenses has been repealed for expenses paid or incurred after 1986.

1h. Enter half the freight expenses (except insurance) for shipping export property aboard U.S. flag ships and U.S.-owned and -operated aircraft, unless the law required you to use U.S. ships or aircraft.

1i. Attach a schedule showing the name, social security number, and amount of compensation paid to all officers.

An officer is a person, such as a regular officer or chairman of the board, who is elected or appointed to office or is designated as an officer in the corporation's charter or bylaws.

1j. Enter the cost of incidental repairs, such as labor and supplies, that do not add to the property's value or appreciably prolong its life.

1k. If the IC-DISC has any kind of funded deferred compensation plan, such as a pension or profit-sharing plan, file one of the forms described below.

There are penalties for failure to file these forms on time.

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

Form 5500-C or **5500-R.**—Complete the applicable form for each plan with fewer than 100 participants.

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

1l. Enter your contributions to employee benefit programs, such as insurance or health and welfare programs, that are not an incidental part of a plan included on line 1k. Also include contributions to a qualified group legal services plan. Section 120 gives certain rules that the IC-DISC must follow for its employees (including spouses and dependents) to be able to exclude from their income the IC-DISC's contributions to the legal services plan.

1m. Enter any other deduction not claimed above. Include amortization expense from Form 4562.

2a. You may treat bad debts in either of two ways: (i) as a deduction for specific debts that become worthless, in whole or in part, or (ii) as a deduction for a reasonable addition to a reserve for bad debts. (See section 166.)

For tax years beginning after 1986, only certain financial institutions will be able to use the reserve method of computing bad debts. See sections 166, 585, and 593 for more information.

2b. Enter taxes paid or accrued during the tax year. See section 164(d) for apportioning real property tax between seller and buyer.

2c. Do not include interest on debts incurred or continued to buy or carry obligations on which the interest is wholly exempt from income tax. (See section 265.)

Section 267 limits deductions for unpaid expenses and interest in transactions between related taxpayers. Section 461(g) limits a cash basis taxpayer's deduction for prepaid interest.

2d. Enter contributions or gifts paid within the tax year to or for the use of charitable and governmental organizations described in section 170(c).

The IC-DISC may claim up to 10% of modified adjusted taxable income as contributions. The limit is 10% of the amount on line 7, page 1, figured without the deduction for contributions, and before taking the dividends-received deduction (line 6b, page 1), premiums paid on bond repurchases (section 249), or payments made to the National Railroad Passenger Corporation (section 250); and before figuring carrybacks to the 1986 tax year for net operating loss (section 172) or capital loss (section 1212(a)(1)). Do not deduct charitable contributions above the 10% limit for the 1986 tax year.

A corporation on the accrual basis may elect to deduct contributions paid by the 15th day of the 3rd month after the tax year ends, if the board of directors authorized the contributions during the tax year. Attach both of the following to the return: a declaration, signed by an officer, stating that the board of directors adopted the resolution authorizing the contributions during the tax year, and a copy of the resolution.

If a contribution is made in property other than money, attach a schedule describing the kind contributed and what method was used to determine the fair market value.

Special rules for contributions of certain property.—To report contributed property, reduce its value by the ordinary income that would have resulted if the property were sold at its fair market value. For tax years beginning in 1986, contributions must also be reduced by 60.87% of the long-term capital gain that would have resulted from a sale at fair market value. These are contributions of: (1) tangible personal property to an organization for use in a way unrelated to the basis of its exemption, or (2) property (except stock for which market quotations are readily available—see section 170(e)(5)) to or for use by certain private foundations. (See section 170(e) and regulations section 1.170A-4.)

Section 170(e)(3) gives special rules about contributing inventory or other ordinary income property to certain organizations. Also see regulations section 1.170A-4A.

2e. Enter the freight expense not deducted on line 1h as an export promotion expense.

2g. Do not deduct any amount allocable to exempt income. Items directly attibutable to wholly exempt income must be allocated to that income, and items directly attributable to any class of taxable income must be allocated to that income. If an item is indirectly attributable to both taxable and exempt income, allocate a reasonable proportion to each.

Attach a statement showing (1) the amount of each class of exempt income and (2) the amount of expense items allocated to each class. Show apportioned amounts separately.

Schedule J.—Parts I Through V

(Numbered to correspond to line numbers in Schedule J.)

Part I.—Deemed Distributions Under Section 995(b)(1)

1. Enter gross interest derived during the tax year from producer's loans (section 995(b)(1)(A)).

2. Enter gain recognized on the sale or exchange of section 995(b)(1)(B) property.—Show the computation of the gain. Include only limited gain on qualified export assets that the IC-DISC acquired by transactions in which gain was not recognized. Report the same amount of the DISC's gain that the transferor did not recognize on the earlier transfer.

3. Enter gain recognized on the sale or exchange of property described in section 995(b)(1)(C). Show the computation of the gain. Do not include any gain included in the computation of line 2. Include only the amount of the IC-DISC's gain that the transferor did not recognize on the earlier transfer and that would have been treated as ordinary income if the property had been sold or exchanged rather than transferred to the IC-DISC. Do not include gain on sale or exchange of the IC-DISC's stock in trade or other property that either would be included in inventory if on hand at the end of the tax year or is held primarily for sale in the normal course of business.

4. Enter 50 percent of taxable income attributable to military property (section 995(b)(1)(D)). Show the computation of this income. To figure taxable income attributable to military property, use the gross income attributable to military property for the year and the deductions properly allocated to that income. Military property is defined in section 38 of the International Security Assistance and Arms Export Control Act of 1976 (22 USC 2778) and related regulations (22 CFR 121.01).

6. Enter the taxable income from line 7, page 1, of Form 1120-IC-DISC.

9. Line 9 provides for the computation of the one-seventeenth deemed distribution of section 995(b)(1)(F)(i). Line 9 only applies to shareholders of the IC-DISC that are C corporations. It does not apply to shareholders of the IC-DISC that are other than C corporations.

10. An IC-DISC is deemed to distribute any income that resulted from cooperating with an international boycott (section 995(b)(1)(F)(ii)). See **Form 5713**, International Boycott Report, to compute this deemed distribution and for reporting requirements about any IC-DISC with operations related to a boycotting country.

11. An IC-DISC is deemed to distribute the amount of any illegal payments, such as bribes or kickbacks, that it pays, directly or indirectly, to government officials, employees, or agents (section 995(b)(1)(F)(iii)).

14. Attach a computation showing the earnings and profits for the tax year.

Generally, the allowance for depreciation (and any amortization) is the amount that would be allowable if the IC-DISC had used the straight-line method of depreciation for each tax year. See section 312(k)(2) for exceptions.

17a. To figure the amount for line 17a, attach a computation showing: (1) the IC-DISC's foreign investment in producer's loans during the tax year; (2) accumulated earnings and profits (including earnings and profits for the 1986 tax year) less the amount on line 15, Part I; and (3) accumulated IC-DISC income. Enter the least of these amounts (but not less than zero) on line 17a.

17b. To figure the amount for line 17b, attach a computation showing: (1) the IC-DISC's foreign investment in producer's loans during the year; (2) accumulated earnings and profits (including earnings and profits for the 1986 tax year) less the amount on line 16, Part I; and (3) accumulated IC-DISC income. Enter the least of these amounts (but not less than zero) on line 17b.

For purposes of lines 17a and 17b, foreign investment in producer's loans is the least of:

(1) The net increase in foreign assets by members of the controlled group (defined in section 993(a)(3)) to which the IC-DISC belongs.

(2) The actual foreign investment by the group's domestic members.

(3) The IC-DISC's outstanding producer's loans to members of the controlled group.

"Net increase in foreign assets" and "actual foreign investment" are defined in sections 995(d)(2) and (3).

22 and 23. Allocate the line 22 amount to shareholders that are individuals, partnerships, S corporations, trusts, and estates. Allocate the line 23 amount to shareholders that are C corporations.

Part II.—Deemed Distribution Under Section 995(b)(1)(E)

Generally, any taxable income of the IC-DISC attributable to qualified export receipts that exceed $10 million will be deemed distributed.

1. If commission sales are not reported in Schedule B, page 2, enter on line 1, Part II, the total of line 1c, column (e), Schedule B, and line 2j, column (e), Schedule B.

If commission sales are reported in Schedule B, page 2, total qualified export receipts for purposes of line 1, Part II, is figured as follows:

1. Enter total of line 1c, column (e), Schedule B, and line 2j, column (e), Schedule B	
2. Enter total commission income included in line 1 above	
3. Line 1 less line 2	
4. For the commission income reported on line 2 above, enter the gross receipts on the sale, lease, or rental of the property on which such commission income arose (section 993(f))	
5. Add lines 3 and 4. Enter on line 1, Part II, Schedule J	

3. If the IC-DISC is a member of a controlled group that includes more than one IC-DISC, the $10 million limit is allocated to each member of the group. If an allocation is made, a statement showing each member's portion of the $10 million limit must be attached to Form 1120-IC-DISC.

4 and 5. The $10 million limit (or the controlled group member's share) is prorated on a daily basis. Thus, for example, if for its 1986 tax year an IC-DISC has a short tax year of 73 days, the limit that would be entered on line 5 of Part II is $2 million (73/365 times $10 million).

7. Enter the taxable income attributable to line 6 qualified export receipts. The IC-DISC may select the qualified export receipts to which the line 5 limitation is allocated.

Part III.—Deemed Distributions Under Section 995(b)(2)

If the corporation is a former DISC or a former IC-DISC that revoked IC-DISC status for 1986, each shareholder is deemed to have received a distribution taxable as a dividend. The deemed distribution equals the shareholder's prorated share of the DISC's or IC-DISC's income accumulated during the years just before DISC or IC-DISC status ended. The shareholder will be deemed to receive the distribution in equal parts on the last day of the corporation's tax year for the shorter of the following periods after DISC or IC-DISC status ended:

- 10 tax years
- Twice the number of years the corporation was a DISC or IC-DISC.

Part IV.—Actual Distributions

4a. Include in line 4a any distributions of pre-1985 accumulated DISC income that is nontaxable. Also, in the space to the left of the line 4a amount, enter the dollar amount of the distribution and identify it as "nontaxable pre-1985 DISC income." Do not include distributions of pre-1985 DISC income that are made under section 995(b)(2) because of prior year revocations or disqualifications.

Part V.—Deferred DISC Income

In general, deferred DISC income is:

(1) Accumulated IC-DISC income (for periods after 1984) of the IC-DISC as of the close of the computation year, over

(2) The amount of distributions in excess of income for the tax year of the IC-DISC following the computation year.

Generally, the computation year is the IC-DISC's last tax year beginning in 1985.

For purposes of item (2) above, distributions in excess of income means, the excess (if any) of:

(1) Actual distributions to shareholders out of accumulated IC-DISC income, over

(2) Shareholders' pro rata share of the IC-DISC income (as defined in section 996(f)(1)) for the tax year following the computation year.

See section 995(f) and related regulations for more information on figuring deferred DISC income.

The amount on line 3, Part V, is allocated to each shareholder on line 2, Part III, of Schedule K (Form 1120-IC-DISC).

Schedule K.—Shareholder's Statement of IC-DISC Distributions

Attach a separate Copy A, Schedule K (Form 1120-IC-DISC), to Form 1120-IC-DISC for each shareholder who had an actual or deemed distribution or to whom you reported deferred DISC income during the IC-DISC's tax year.

Additional Information

Question P.—Check the "Yes" box if either (1) or (2) below applies to you; otherwise check the "No" box:

(1) At any time during the year you had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account); AND

- The combined value of the accounts was more than $10,000 at any time during the year; AND
- The account was NOT with a U.S. military banking facility operated by a U.S. financial institution.

(2) The IC-DISC owns more than 50% of the stock in any corporation that would answer the question "Yes" based on item (1) above.

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

If question P, is checked "Yes," file form TD F 90-22.1 by June 30, 1987, with the Department of the Treasury at the address shown on the form. **Form TD F 90-22.1 is not a tax return, so do not file it with the IRS.**

You can get form TD F 90-22.1 from many IRS offices.

Also, if question P is checked "Yes," write the name of the foreign country or countries. Attach a separate sheet if you need more space.

Question S.—File Form 5713 if the IC-DISC or any member of its controlled group (defined in section 993(a)) has operations in or related to a boycotting country (or with the government, a company, or a national of that country). An IC-DISC that cooperates with an international boycott is also deemed to distribute part of its income. See Form 5713 for more information.

Schedule L.—Balance Sheets

12. If the corporation was a qualified DISC as of December 31, 1984, the accumulated pre-1985 DISC income will generally be treated as previously taxed income (exempt from tax) when distributed to DISC shareholders after December 31, 1984. Exception: The exemption does not apply to distributions of accumulated pre-1985 DISC income of an IC-DISC or former DISC that was made taxable under section 995(b)(2) because of a prior revocation of the DISC election or disqualification of the DISC. For more details on these distributions, see regulations under section 1.921-1T(a)(6).

13. Accumulated IC-DISC income (for periods after 1984) is accounted for on line 13 of Schedule L. The balance of this account is used in figuring deferred DISC income in Part V of Schedule J.

Schedule N.—Export Gross Receipts of the IC-DISC and Related U.S. Persons

1. Product Code and Percentage.—Enter in 1a the code number and percentage of total receipts for the product or service that accounts for the largest portion of the IC-DISC's gross receipts. The product codes are located on page 11 of these instructions. On line 1b enter the same information for the IC-DISC's next largest product or service.

Example: An IC-DISC has export gross receipts of $10 million; selling agricultural chemicals accounts for $4.5 million (45%) of that amount, which is the IC-DISC's largest product or service. The IC-DISC should enter "287" (the product code for agricultural chemicals) and "45%" in 1a.

Selling industrial chemicals accounts for $2 million (20% of the $10 million total), and is the IC-DISC's second largest product or service. The IC-DISC should enter "281" (the product code for industrial chemicals) and "20%" in 1b.

2. Columns (a), (b), and (c)

Export Gross Receipts.—These are receipts from any of the following:

(a) selling, for direct use, consumption, or disposition outside the U.S., property (such as inventory) produced in the U.S.,

(b) renting this property to unrelated persons for use outside the U.S.,

(c) providing services involved in such a sale or rental,

(d) providing engineering or architectural services for construction projects located outside the U.S., and

(e) providing export management services.

For commission sales, "export gross receipts" include the total receipts on which the IC-DISC earned the commission.

For purposes of item 2, Schedule N only, no reduction is to be made for receipts attributable to military property. Therefore, an IC-DISC's "export gross receipts" for purposes of item 2 is the total of the amounts from page 2, Schedule B, columns (b) and (d), lines 1c, 2a, 2b, 2c, and 2d.

Related Persons.—The following are "related persons":

(a) an individual, partnership, trust, or estate that controls the IC-DISC,

(b) a corporation that controls the IC-DISC or is controlled by it, and

(c) a corporation controlled by the same person or persons who control the IC-DISC.

"Control" means direct or indirect ownership of more than 50% of the total voting power of all classes of stock entitled to vote. (See section 993(a)(3).)

U.S. Person.—A "U.S. person" is:

(a) a citizen or resident of the U.S.,

(b) a domestic corporation or partnership, or

(c) an estate or trust (other than a foreign estate or trust, which is one whose income is not includible in U.S. gross income because the income is from sources outside the U.S. and is not effectively connected with the conduct of a trade or business in the U.S.).

U.S.—U.S. includes the Commonwealth of Puerto Rico and possessions of the U.S. (See section 993(g).)

Export Gross Receipts for 1986

Column (a).—All IC-DISCs should complete column (a) in item 2. If two or more IC-DISCs are related persons, only the IC-DISC with the largest export gross receipts should complete columns (b) and (c). If an IC-DISC acts as a commission agent for a related person, attribute the total amount of the transaction to the IC-DISC.

Complete column (a) to report the IC-DISC's export gross receipts from all sources (including the U.S.) for the 1986 tax year.

Column (b).—Export gross receipts of related IC-DISCs.—Complete column (b) to report related IC-DISCs' export gross receipts from all sources (including the U.S.).

Column (c).—Export gross receipts of all other related U.S. persons.—Complete column (c) to report other related U.S. persons' export gross receipts from all sources except the U.S.

3. Related U.S. Persons.—Report the name, address, and identifying number of related U.S. persons in your controlled group.

If items 2(b) and 2(c) are completed, show first in item 3(b) the name, address, and identifying number of the IC-DISC that completed 2(b) and 2(c).

Separate Schedule P.—Computation of Inter-company Transfer Price or Commission

Complete and attach a separate Schedule P (Form 1120-IC-DISC) for each transaction or group of transactions to which you apply the inter-company pricing rules of section 994(a)(1) and (2). (Please see General Instruction D2.)

Tax Reform Act of 1986

The Tax Reform Act of 1986 made several changes that affect corporations. Some of the changes are effective starting with calendar year 1986 tax returns; some are effective starting with fiscal year 1986–1987 tax returns; and some are effective starting with calendar year 1987 tax returns.

Tax Changes Taking Effect Beginning in 1986

Long-Term Contracts

For long-term contracts entered into after February 28, 1986, all costs (including research and experimental costs attributable to the contract) must be allocated to the contract and taken into account using the method set forth in section 460. Expenses for unsuccessful bids and proposals and marketing, selling, and advertising are not considered attributable to long-term contracts. Production period interest expense attributable to long-term contracts is to be capitalized under the rules of new section 263A. For more rules, definitions, and exceptions, see section 460.

Deduction for Removing Barriers to the Handicapped Extended

The election to deduct expenses for the removal of architectural barriers to the handicapped and elderly was scheduled to expire on December 31, 1985. It has been permanently extended.

Asset Allocation Rules

New asset allocation rules apply in certain cases of asset acquisitions, and generally are effective for transfers made after May 6, 1986. In addition, there are reporting rules when these transfers take place. See new section 1060 for more information.

Increase in Penalty for Failure To File Information Returns

For returns due after December 31, 1986, the maximum penalty for failure to file information returns has been increased. A new penalty of $5 for supplying incorrect information has also been added. For more information, see sections 6652, 6676, 6678, and new sections 6721 through 6724.

The Following Provisions Begin in 1987 and Affect Fiscal 1986–1987 Tax Years

Reduction in Dividends-Received Deduction

The dividends-received deduction for dividends received from certain corporations has been reduced for dividends received after 1986. The new percentage is 80%; the previous percentage was 85%. See sections 243, 244, and 246A.

Foreign Intangible Drilling, Mining, and Development Costs

Foreign intangible drilling and development costs paid or incurred after 1986 must either be deducted ratably over a 10-year period or added to the corporation's basis for cost depletion purposes. See sections 263(i), 616, and 617 for more information.

Certain Costs Required To Be Capitalized or Included in Inventory Costs

New section 263A requires that certain costs incurred in the production of real and intangible property produced by the taxpayer be capitalized or included in inventory costs, rather than deducted. Generally, the changes affecting inventory are effective for tax years beginning after 1986 and the changes affecting capitalization are effective for tax years ending after 1986. Please see new section 263A.

Amortization of Trademark and Trade Name Expenditures

Generally, trademark and trade name expenditures made after 1986 will no longer be amortizable.

Depreciation

The rules for computing depreciation have been substantially changed for property placed in service after 1986. The new system provides specific methods for each class of assets. See **Form 4562-A**, Depreciation of Property Placed in Service After December 31, 1986, and section 168.

Also, corporations may make an election to use these new rules for property placed in service after July 31, 1986. Additionally, the section 179 deduction for property placed in service after 1986 is increased from $5,000 to $10,000.

Gain or Loss on Distributions in Complete Liquidation

Generally, corporations will recognize gain or loss on distributions of their property in complete liquidations as if they had sold the property at its fair market value. These new rules apply to liquidations completed after December 31, 1986. See sections 336 and 337.

Basis of Property and Inventory Costs for Property Imported by a Related Person

If property is imported into the U.S. by a related person after March 18, 1986, and the property has a customs value, the basis or inventory cost to the importer cannot exceed the customs value. For more information, see section 1059A.

Limitation on Net Operating Loss Carryovers

The amount of net operating loss carryover is limited when there has been a change in ownership or equity for net operating losses incurred after 1986. The limitation is described in section 382(b) and applies generally when a 5% shareholder or group of 5% shareholders increases its ownership in a corporation by more than 50 percentage points. For more information, see section 382.

The Following Provisions Begin in 1987 and Affect Tax Years Beginning After 1986

Meals, Travel, and Entertainment Expenses

Many of the rules on what are allowable expenses for meals, entertainment, travel, and certain other business expenses have been changed. See section 274.

Meals and entertainment.—The amount deductible for meals and entertainment expenses is generally limited to 80% of the amount otherwise allowable. In addition, meals must not be lavish or extravagant; a bona fide business discussion must precede or directly follow the meal; and your employee must be present at the meal. If the corporation claims a deduction for the unallowable meal expenses, it may have to pay a penalty.

Reporting of Tax-Exempt Interest.—For tax years beginning after 1986, any taxpayer required to file a tax return must report, as an item of information, on that return the amount of the tax-exempt interest received or accrued during the tax year.

Accrual Method of Accounting Required

Generally, corporations are prohibited from using the cash method of accounting for tax years after 1986. See new section 448.

For additional information on these changes and other provisions that affect tax years beginning after 1986, see **Publication 553**, Highlights of 1986 Tax Changes.

Codes for Principal Business Activity

These industry titles and definitions are based, in general, on the Standard Industrial Classification System authorized by Regulatory and Statistical Analysis Division, Office of Information and Regulatory Affairs, Office of Management and Budget, to classify establishments. However, certain activities such as manufacturing do not apply to an IC-DISC.

Using the list below, enter on page 1, under B, the code number for the specific industry group from which the largest percentage of "total receipts" is derived. "Total receipts" means all income (line 1, page 1). On page 5, under question I, 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 "Wholesale trade: Machinery, equipment, and supplies," the principal product or service may be "Engines and turbines."

TRANSPORTATION, COMMUNICATION, ELECTRIC, GAS, AND SANITARY SERVICES

Code	
Transportation:	
4400	Water transportation
4700	Other transportation services
Electric, gas, and sanitary services:	
4910	Electric services
4920	Gas production and distribution
4930	Combination utility services

WHOLESALE TRADE

Code	
Durable	
5008	Machinery, equipment, and supplies
5010	Motor vehicles and automotive equipment
5020	Furniture and home furnishings
5030	Lumber and construction materials
5040	Sporting, recreational, photographic, and hobby goods, toys, and supplies
5050	Metals and minerals, except petroleum and scrap
5060	Electrical goods
5070	Hardware, plumbing and heating equipment
5098	Other durable goods
Nondurable	
5110	Paper and paper products
5129	Drugs, drug proprietaries, and druggists' sundries
5130	Apparel, piece goods, and notions
5140	Groceries and related products
5150	Farm-product raw materials
5160	Chemicals and allied products
5170	Petroleum and petroleum products
5180	Alcoholic beverages
5190	Miscellaneous nondurable goods

RETAIL TRADE

Code	
Building materials, hardware, garden supply, and mobile home dealers:	
5220	Building materials dealers
5251	Hardware stores
5265	Garden supplies and mobile home dealers
5300	**General merchandise stores**
5410	Grocery stores
5490	Other food stores
Automotive dealers and service stations:	
5515	Motor vehicle dealers
5541	Gasoline service stations
5598	Other automotive dealers
5600	Apparel and accessory stores
5700	Furniture and home furnishings stores
5800	Eating and drinking places
Miscellaneous retail stores:	
5912	Drug stores and proprietary stores
5921	Liquor stores
5995	Other miscellaneous retail stores

FINANCE, INSURANCE, AND REAL ESTATE

Code	
Credit agencies other than banks:	
6199	Other credit agencies

SERVICES

Code	
Business services:	
7389	Export management services
Auto repair and services; miscellaneous repair services:	
7500	Lease or rental of motor vehicles
Amusement and recreation services:	
7812	Motion picture production, distribution, and services
Other services:	
8911	Architectural and engineering services
8930	Accounting, auditing, and bookkeeping
8980	Miscellaneous services

Schedule N Product Code System

(These codes are to be used only with Schedule N, page 5, Form 1120-IC-DISC.)

Using the list below, enter in 1 of Schedule N the product code number and percent of export gross receipts as explained in the Specific Instructions.

This product code system is divided into two categories—(1) nonmanufactured product groups and services and (2) manufactured product groups.

NONMANUFACTURED PRODUCT GROUPS AND SERVICES

Code	
011	Grains and soybeans.
013	Cotton.
019	Crops, except cotton, grains and soybeans.
021	Livestock and livestock products.
070	Agricultural services.
090	Fishery products and services.
100	Metal mining, except iron ores, products and services.
101	Iron ores.
110	Coal mining (anthracite, bituminous and lignite) products and services.
130	Crude petroleum and natural gas products and services.
147	Chemical and fertilizer mineral products and services.
149	Other nonmetallic mineral products and services.
400	Transportation services (land, air and water).
490	Electric, gas, and sanitary services.
600	Finance, insurance, and real estate services.
730	Export management services.
780	Motion picture distribution.
850	Engineering and architectural services.
990	Miscellaneous nonmanufactured products and services.

MANUFACTURED PRODUCT GROUPS

Code	
	Ordnance and accessories:
191	Guns, howitzers, mortars, and related equipment.
192	Ammunition, except for small arms.
193	Tanks and tank components.
194	Sighting and fire control equipment.
195	Small arms.
196	Small arms ammunition.
199	Ordnance and accessories, not elsewhere classified.
	Food and kindred products:
201	Meat products.
202	Dairy products.
203	Canned and preserved fruits, vegetables and seafoods.
204	Grain mill products.
205	Bakery products.
206	Sugar.
207	Confectionery and related products.
208	Beverages.
209	Miscellaneous food preparations and kindred products.
	Tobacco manufactures:
211	Cigarettes.
212	Cigars.
213	Tobacco (chewing and smoking) and snuff.
214	Tobacco stemming and redrying.
	Textile mill products:
221	Broad woven fabric mills, cotton.
222	Broad woven fabric mills, man-made fiber and silk.
223	Broad woven fabric mills, wool (including dyeing and finishing).
224	Narrow fabrics and other smallwares mills: cotton, wool, silk, and man-made fiber.
225	Knitting mills.
226	Dyeing and finishing textiles, except wool fabrics and knit goods.
227	Floor covering mills.
228	Yarn and thread mills.
229	Miscellaneous textile goods.
	Apparel and other finished products made from fabrics and similar materials:
231	Men's, youths', and boys' suits, coats, and overcoats.
232	Men's, youths', and boys' furnishings, work clothing, and allied garments.
233	Women's, misses', and juniors' outerwear.
234	Women's, misses', children's, and infants' undergarments.
235	Hats, caps, and millinery.
236	Girls', children's, and infants' outerwear.
237	Fur goods.
238	Miscellaneous apparel and accessories.
239	Miscellaneous fabricated textile products.
	Lumber and wood products, except furniture:
241	Logging camps and logging contractors.
242	Sawmills and planing mills.
243	Millwork, veneer, plywood, and prefabricated structural wood products.
244	Wooden containers.
249	Miscellaneous wood products.
	Furniture and fixtures:
251	Household furniture.
252	Office furniture.
253	Public building and related furniture.
254	Partitions, shelving, lockers, and office and store fixtures.
259	Miscellaneous furniture and fixtures.
	Paper and allied products:
261	Pulp mills.
262	Paper mills, except building paper mills.
263	Paperboard mills.
264	Converted paper and paperboard products, except containers and boxes.
265	Paperboard containers and boxes.
266	Building paper and building board mills.
	Printing, publishing, and allied products:
271	Newspapers: publishing, publishing and printing.
272	Periodicals: publishing, publishing and printing.
273	Books.
274	Miscellaneous publishing.
275	Commercial printing.
276	Manifold business forms.
277	Greeting card publishing.
278	Blankbooks, looseleaf binders, and bookbinding and related work.
279	Service industries for the printing trade.
	Chemicals and allied products:
281	Industrial inorganic and organic chemicals.
282	Plastics materials and synthetic resins, synthetic rubber, synthetic and other man-made fibers, except glass.
283	Drugs.
284	Soap, detergents, and cleaning preparations, perfumes, cosmetics, and other toilet preparations.
285	Paints, varnishes, lacquers, enamels, and allied products.
286	Gum and wood chemicals.
287	Agricultural chemicals.
289	Miscellaneous chemical products.
	Petroleum refining and related products:
291	Petroleum refining.
295	Paving and roofing materials.
299	Miscellaneous products of petroleum and coal.
	Rubber and miscellaneous plastics products:
301	Tires and inner tubes.
302	Rubber footwear.
303	Reclaimed rubber.
306	Fabricated rubber products, not elsewhere classified.
307	Miscellaneous plastics products.
	Leather and leather products:
311	Leather tanning and finishing.
312	Industrial leather belting and packing.
313	Boot and shoe cut stock and findings.
314	Footwear, except rubber.
315	Leather gloves and mittens.
316	Luggage.
317	Handbags and other personal leather goods.
319	Leather goods, not elsewhere classified.
	Stone, clay, glass, and concrete products:
321	Flat glass.
322	Glass and glassware, pressed or blown.
323	Glass products, made or purchased glass.
324	Cement, hydraulic.
325	Structural clay products.
326	Pottery and related products.
327	Concrete, gypsum, and plaster products.
328	Cut stone and stone products.
329	Abrasive, asbestos, and miscellaneous nonmetallic mineral products.
	Primary metal products:
331	Blast furnaces, steel works, and rolling and finishing mills.
332	Iron and steel foundries.
333	Primary smelting and refining of nonferrous metals.
334	Secondary smelting and refining of nonferrous metals.
335	Rolling, drawing, and extruding of nonferrous metals.
336	Nonferrous foundries.
339	Miscellaneous primary metal products.
	Fabricated metal products, except ordnance, machinery, and transportation equipment:
341	Metal cans.
342	Cutlery, hand tools, and general hardware.
343	Heating apparatus (except electric) and plumbing fixtures.
344	Fabricated structural metal products.
345	Screw machine products, and bolts, nuts, screws, rivets and washers.
346	Metal stampings.
347	Coating, engraving, and allied services.
348	Miscellaneous fabricated wire products.
349	Miscellaneous fabricated metal products.
	Machinery except electrical:
351	Engines and turbines.
352	Farm machinery and equipment.
353	Construction, mining, and materials handling machinery and equipment.
354	Metalworking machinery and equipment.
355	Special industry machinery, except metalworking machinery.
356	General industrial machinery and equipment.
357	Office, computing, and accounting machines.
358	Service industry machines.
359	Miscellaneous machinery, except electrical.
	Electrical machinery, equipment, and supplies:
361	Electric transmission and distribution equipment.
362	Electrical industrial apparatus.
363	Household appliances.
364	Electric lighting and wiring equipment.
365	Radio and television receiving sets, except communication types.
366	Communication equipment.
367	Electronic components and accessories.
369	Miscellaneous electrical machinery, equipment, and supplies.
	Transportation equipment:
371	Motor vehicles and motor vehicle equipment.
372	Aircraft and parts.
373	Ship and boat building and repairing.
374	Railroad equipment.
375	Motorcycles, bicycles, and parts.
379	Miscellaneous transportation equipment.
	Professional, scientific, and controlling instruments; photographic and optical goods; watches and clocks:
381	Engineering, laboratory, and scientific and research instruments and associated equipment.
382	Instruments for measuring, controlling, and indicating physical characteristics.
383	Optical instruments and lenses.
384	Surgical, medical, and dental instruments and supplies.
385	Ophthalmic goods.
386	Photographic equipment and supplies.
387	Watches and clocks.
	Miscellaneous manufactured products:
391	Jewelry, silverware, and plated ware.
393	Musical instruments.
394	Toys, amusement, sporting and athletic goods.
395	Pens, pencils, and other office and artists' materials.
396	Costume jewelry, costume novelties, buttons, and miscellaneous notions, except precious metal.
399	Miscellaneous manufactured products.

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Form **1120-FSC**

Department of the Treasury
Internal Revenue Service

U.S. Income Tax Return of a Foreign Sales Corporation

(Please Type or Print)

For calendar year 1986 or other tax year beginning ...., 1986 and ending ...., 198...

OMB No. 1545-0935

1986

A Date of FSC or Small FSC election	Name	D Business code number (See page 11 of Instructions)
B Check type of election made: ☐ FSC ☐ Small FSC	Number and street	E Employer identification number
C Country or U.S. Possession of Incorporation (see instructions)	City or town, state, ZIP code, or country	F Date incorporated

G Enter total assets from line 14, column (d), Schedule L (see specific instructions) . . . . . ▶ $ ______ Dollars | Cents

H Complete the following for the shareholder (individual, corporation, partnership, trust, or estate) who at the beginning of the FSC tax year was the principal shareholder. If two or more shareholders owned equal amounts of stock, enter the information for the shareholder that has the same tax year as the tax year of the corporation.

(1) Name		(2) Identifying number
(3) Address		(4) Total assets (corporations only) $
(5) Percentage of voting stock owned	(6) Tax year ends (month)	(7) Foreign owner ☐ Yes ☐ No

I Check the appropriate box(es) to indicate the pricing rule(s) that was used in determining the taxable income on transactions resulting in foreign trading gross receipts:
(1) ☐ 1.83% of gross receipts (2) ☐ 23% of combined taxable income (3) ☐ Section 482 method

Tax

1 Total tax from Schedule J, line 8			1
2 **Payments:**			
a Overpayment from 1985 allowed as a credit . . .			
b 1986 estimated tax payment . . .			
c Less refund of 1986 estimated tax applied for on Form 4466 . . .	( )		
d Tax deposited with Form 7004 . . .			
e Federal tax on gasoline and special fuels (attach Form 4136) . . .			
f U.S. income tax paid or withheld at the source from Form 1042S . . .			
3 Total—add lines 2c through 2f			3
4 **Tax Due**—Line 1 less line 3. (See General Instruction E.) . . .			4
5 **Overpayment**—Line 3 less line 1			5
6 Enter amount of line 5 you want: a **Credited to 1987 tax year's estimated tax** ▶		b **Refunded** ▶	6

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Signature of officer | Date | ▶ Title

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ▶ ☐	Preparer's social security no.
Firm's name (or yours, if self-employed) and address ▶		E.I. No. ▶	
		ZIP code ▶	

For Paperwork Reduction Act Notice, see page 1 of the Instructions. Form **1120-FSC** (1986)

Form 1120-FSC (1986) Page **2**

Schedule A Cost of Goods Sold and/or Operations Relating to Foreign Trading Gross Receipts (See Instructions.)

		(a) Using Administrative Pricing Rules	(b) Not Using Administrative Pricing Rules
1 Inventory at the beginning of the year . . .	1		
2 Purchases . . .	2		
3 Cost of labor . . .	3		
4 Other costs (attach schedule) . . .	4		
5 Total (add lines 1 through 4) . . .	5		
6 Inventory at the end of the year . . .	6		
7 Cost of goods sold and/or operations—Line 5 less line 6. (Enter here and on line 7 of Schedule B. Small FSC, see instructions.) . . .	7		

8 a Check all methods used for valuing closing inventory:
☐ *(i)* Cost
☐ *(ii)* Lower of cost or market as described in Regulations section 1.471-4 (see instructions)
☐ *(iii)* Writedown of "subnormal" goods as described in Regulations section 1.471-2(c) (see instructions)
☐ *(iv)* Other (Specify method used and attach explanation) ▶ ....

b Check if the LIFO inventory method was adopted this tax year for any goods (If checked, attach Form 970.) . . . . . ☐

c If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO 8c

d Was there any change in determining quantities, cost, or valuations between opening and closing inventory? . . . ☐ Yes ☐ No
If "Yes," attach explanation.

Additional Information Required

Check the appropriate box in answering the following questions.

	Yes	No
J Highest number of shareholders in the corporation at any time during the tax year ▶		
K Do you maintain an office outside the U.S. in a "designated" country or U.S. possession in which a complete set of books and records (including invoices) for the corporation is maintained? . . .		
L Do you have at least one non-U.S. resident on your board of directors? . . .		
M During this tax year, did you maintain any part of your accounting tax records on a computerized system? . . .		
N Foreign management tests (These questions do not apply to Small FSCs): (1) Did all formally convened meetings of the board of directors of the corporation and all formally convened meetings of the shareholders of the corporation take place outside the United States? . . .		
(2) Did the corporation maintain its principal bank account in a country which satisfies the exchange of information requirements of section 927(e)(3) or in a U.S. possession as defined in section 927(d)(5) at all times during the tax year from which all dividends, legal and accounting fees, salaries of officers, and salaries or fees of members of the board of directors were disbursed? . . .		
O Refer to page 11 of the instructions and state the main: Business activity ▶ ______ Product or service ▶ ______		
P Did you have any preferred stock issued and outstanding at any time during the tax year? . . .		
Q Were you at any time during the tax year engaged in a trade or business in the U.S.? . . .		
R Are you a foreign personal holding company or a personal holding company? (See instructions.) . . .		

Continued on page 4.

Schedule B Taxable Income

PART I—Income Attributable to Foreign Trade Income

Type of Receipt (see instructions)		(a) Using Administrative Pricing Rules	(b) Not Using Administrative Pricing Rules
1 Sale, exchange, or other disposition of export property. (Include only 50% of military property sales. Include the other 50% on line 12 below.)			
2 Lease or rental of export property for use outside the U.S.			
3 Services related and subsidiary to:			
a Sale, exchange, or other disposition of export property. (Include only 50% of services relating to the sale or other disposition of military property. Include the other 50% on line 12 below.)			
b Lease or rental of export property			
4 Engineering or architectural services for construction projects outside the U.S.			
5 Managerial services for an unrelated FSC or IC-DISC. (See instructions for determination of qualifying amount.)			
6 Total Foreign Trading Gross Receipts:			
a All FSCs—Add lines 1 through 5. (FSCs that are not small FSCs, skip lines 6b through 6h and go to line 7. Small FSCs, complete lines 6b through 6h to determine their foreign trading gross receipts.)			
b Small FSC limitation (section 924(b)(2)(B))	$5,000,000		
c Controlled group member's share of line 6b (see instructions)			
d Enter smaller of (a) number of days in tax year divided by 365 or (b) 1 (one)			
e Proration of limitation—Line 6b or line 6c (whichever applies) times line 6d			
f Enter total of columns (a) and (b), line 6a (If commission income is included in line 6a, see special computation rule in line 6f instruction.)			
g Small FSC foreign trading gross receipts: Enter smaller of line 6e or 6f. **Note:** *If line 6f exceeds line 6e, enter the excess on line 3 of Schedule F. See line 6h instruction if commission income is involved.*			
h Allocate the amount from line 6g to columns (a) and (b) but do not enter in either column more than that shown for the column on line 6a above (see instructions)			
7 Cost of Goods Sold (Schedule A) (Small FSCs, enter only that portion of cost of goods sold that is attributable to the receipts on line 6h above.) (see Schedule A instructions)			
8 Foreign Trade Income—Line 6a or 6h (whichever applies) less line 7			
9 a Exemption percentage from line 3d, Schedule E			
b Exemption percentage from line 2d, Schedule E			
10 Exempt foreign trade income—Multiply line 8 by lines 9a and 9b			
11 Nonexempt foreign trade income—Line 8 less line 10			
12 Enter 50% of total receipts attributable to the sale, exchange, or other disposition of military property and related services reduced by cost of goods sold and other expenses relating to the receipts (see Schedule A instructions)			
13 Add lines 11 and 12			
14 Allowable deductions from line 18, Schedule G			
15 Net income attributable to nonexempt foreign trade income—Line 13 less line 14			

PART II—Total Taxable Income

16 Taxable income attributable to foreign trade income—Enter total of columns (a) and (b), line 15, reduced by any nontaxable income included in column (b). (See instructions.)		
17 Taxable income from line 15, Schedule F		
18 Taxable income or (loss) before net operating loss deduction and special deductions—Add lines 16 and 17		
19 Less: a Net operating loss deduction (see instructions—attach schedule)		
b Special deductions—(see instructions—attach schedule)		
c Add lines 19a and 19b		
20 Taxable income or (loss)—Line 18 less line 19c (Enter here and see instructions for Schedule J for figuring the tax on this income.		

Additional Information (continued from page 2).

S Foreign Economic Process Requirements (these requirements do not apply to small FSCs):

Check the box or boxes below to indicate that the FSC (or any person acting under contract with the FSC) met the requirements of section 924(d) for all transactions relating to foreign trading gross receipts reported on lines 1 through 5 of Schedule B.

(1) ☐ The FSC (or any person acting under contract with the FSC) met the 50% test of section 924(d)(1) for transactions relating to foreign trading gross receipts reported on lines 1 through 5 of Schedule B.

(2) ☐ The FSC (or any person acting under contract with the FSC) met the alternative 85% test of section 924(d)(2) for transactions relating to foreign trading gross receipts reported on lines 1 through 5 of Schedule B.

If the section 924(d)(1) or (d)(2) requirements are not met for any transaction(s), attach a separate schedule showing the income and expenses relating to the transaction(s). Report the income as nonforeign trade income on line 11 of Schedule F. Enter related expenses on line 14 of Schedule F.

Schedule E Percentages (expressed as decimals to 5 places) To Be Used in Figuring Exempt Foreign Trade Income—Sections 923(a)(2) and (3) and 291(a)(4)

Note: *If all shareholders are C corporations, enter .30000 on line 2d and .65217 on line 3d and skip all other lines. If all shareholders are other than C corporations, enter .32000 on line 2d and .69565 on line 3d and skip all other lines.*

1 Percentage (express as decimal to 5 places) of voting stock owned by shareholders that are C corporations	1	
2 Exemption for foreign trade income determined without regard to administrative pricing rules:		
a Difference between section 923(a)(2) and section 291(a)(4) percentage	2a	.02000
b Section 923(a)(2) percentage	2b	.32000
c Line 2a times line 1	2c	
d Exemption percentage—Line 2b less line 2c. (Enter here and on line 9b, Schedule B; and line 16b, Schedule G.)	2d	
3 Exemption percentage for foreign trade income determined under administrative pricing rules:		
a Difference between section 923(a)(3) fraction and section 291(a)(4) fraction (16/23 − 15/23 = 1/23) expressed as a decimal	3a	.04348
b Section 923(a)(3) fraction (16/23) expressed as a decimal	3b	.69565
c Line 3a times line 1	3c	
d Exemption percentage—Line 3b less line 3c. (Enter here and in line 9a, Schedule B; and line 16a, Schedule G.)	3d	

Schedule F Nonforeign Trade Income

1 International boycott income (see instructions)	1	
2 Illegal bribes and other payments (see instructions)	2	
3 Small FSCs—If line 6f of Schedule B exceeds line 6e of Schedule B, enter the excess. (Include the deduction for cost of goods sold attributable to the excess on line 14 below.)	3	
4 Interest income	4	
5 Dividend income (attach schedule—see instructions)	5	
6 Carrying charges	6	
7 Royalties	7	
8 Other investment income	8	
9 Receipts excluded under section 924(f) on basis of use, subsidized receipts and receipts from related parties	9	
10 Income from excluded property under sections 927(a)(2) and (3)	10	
11 Income from transactions that did not qualify as foreign trade income because the foreign economic process test of section 924(d) was not met	11	
12 Other income	12	
13 Total—Add lines 1 through 12	13	
14 Enter deductions allocated or apportioned to above income items (attach schedule—see instructions)	14	
15 Taxable income from nonforeign trade income—Line 13 less line 14. (Enter here and on line 17, Schedule B.)	15	

Schedule G Deductions Allocated or Apportioned to Foreign Trade Income

		(a) Using Administrative Pricing Rules	(b) Not Using Administrative Pricing Rules
1 Foreign direct costs:			
a Section 924(e)(1) (advertising, etc.)	1a		
b Section 924(e)(2) (processing, etc.)	1b		
c Section 924(e)(3) (transportation, etc.)	1c		
d Section 924(e)(4) (transmittal, etc.)	1d		
e Section 924(e)(5) (assumption of credit risk)	1e		
f Total of lines 1a through line 1e	1f		
Enter all other applicable costs on lines 2 through 14 below. Do not enter a cost on more than one line.			
2 Advertising	2		
3 Interest	3		
4 Depreciation from Form 4562 (less depreciation claimed elsewhere on this return) (attach Form 4562)	4		
5 Salaries and wages	5		
6 Rents	6		
7 Sales commissions	7		
8 Warehousing	8		
9 Freight	9		
10 Compensation of officers	10		
11 Bad debts (see instructions)	11		
12 Pension, profit-sharing, etc., plans (see instructions)	12		
13 Employee benefit programs	13		
14 Other (list): ▶	14		
15 Total (add lines 1f through 14)	15		
16 a Exemption percentage from line 3d, Schedule E	16a		
b Exemption percentage from line 2d, Schedule E	16b		
17 Deductions relating to exempt foreign trade income—Line 15 times line 16a and 16b	17		
18 Total deductions relating to nonexempt foreign trade income—Line 15 less line 17. (Enter here and on line 14, columns (a) and (b), Schedule B.)	18		

Schedule J Tax Computation (See instructions.)

1 Check if you are a member of a controlled group (see section 927(d)(4)) ▶ ☐

2 a If line 1 is checked, see instructions. Enter your portion of each $25,000 taxable income bracket amount:

(i) $.................. (ii) $.................. (iii) $.................. (iv) $..................

b If your tax year includes July 1, 1987, see instructions and enter share of tax bracket amounts:

(i) $.................. (ii) $..................

3 Income tax (see instructions to figure the tax; enter this tax or alternative tax, whichever is less). Check if alternative tax is used ▶ ☐	3	
4 Foreign tax credit (attach Form 1118) (see instructions)	4	
5 Line 3 less line 4	5	
6 Minimum tax (see instructions—attach Form 4626)	6	
7 Personal holding company tax (attach Schedule PH (Form 1120))	7	
8 Total tax—Add lines 5, 6, and 7. Enter here and on line 1, page 1	8	

Schedule L Balance Sheets

ASSETS	Beginning of tax year (a)	(b)	End of tax year (c)	(d)
1 Cash				
2 a Trade notes, and accounts receivable				
b Commissions receivable				
c Less allowance for bad debts				
3 Inventories				
4 Federal and state government obligations				
5 Other current assets (attach schedule)				
6 Loans to stockholders				
7 Mortgage and real estate loans				
8 Other investments (attach schedule)				
9 Buildings and other fixed depreciable assets				
a Less accumulated depreciation				
10 Depletable assets				
a Less accumulated depletion				
11 Land (net of any amortization)				
12 Intangible assets (amortizable only)				
a Less accumulated amortization				
13 Other assets (attach schedule)				
14 Total assets				
LIABILITIES AND STOCKHOLDERS' EQUITY				
15 Accounts payable				
16 Mtges., notes, bonds payable in less than 1 year				
17 Transfer prices payable				
18 Other current liabilities (attach schedule)				
19 Loans from stockholders				
20 Mtges., notes, bonds payable in 1 year or more				
21 Other liabilities (attach schedule)				
22 Capital stock				
23 Paid-in or capital surplus				
24 Retained earnings—Appropriated (attach schedule)				
25 Retained earnings—Unappropriated				
26 Less cost of treasury stock		( )		( )
27 Total liabilities and stockholders' equity				

Schedule M-1 Reconciliation of Income per Books With Income per Return

1 Net income on books		7 Income recorded on books this year not included in this return (itemize)	
2 Federal income tax		a Tax-exempt interest $	
3 Excess of capital losses over capital gains		b Exempt foreign trade income $	
4 Income subject to tax not recorded on books this year (itemize)			
5 Expenses recorded on books this year not deducted in this return (itemize)		8 Deductions in this tax return not charged against book income this year (itemize)	
a Depreciation $		a Depreciation $	
b Deductions attributable to exempt foreign trade income $			
6 Total of lines 1 through 5		9 Total of lines 7 and 8	
		10 Taxable income—line 6 less line 9	

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (line 25 above)

1 Balance at beginning of year		5 Distributions: a Cash	
2 Net income on books		b Stock	
3 Other increases (itemize)		c Property	
		6 Other decreases (itemize)	
		7 Total of lines 5 and 6	
4 Total of lines 1, 2, and 3		8 Balance at end of year (line 4 less line 7)	

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1986 Instructions for Form 1120-FSC

Department of the Treasury
Internal Revenue Service

U.S. Income Tax Return of a Foreign Sales Corporation

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

Paperwork Reduction Act Notice

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

Changes You Should Note

The Tax Reform Act of 1986 (Act) made several changes to the way foreign sales corporations figure their taxable income and their tax liability. See pages 7 through 10 of these instructions for changes made by the Act that affect calendar year, fiscal year, and 1987 corporations.

Payment of Tax for 1986 Tax Years

Corporations with an office or place of business in the U.S. must deposit their income tax payments (and estimated tax payments) with a Federal Tax Deposit Coupon (Form 8109). See instruction E for details.

General Instructions

A. Purpose of Form

Form 1120-FSC is used to report a foreign sales corporation's (FSC) income, deductions, credits, and tax. If a refund is due, Form 1120-FSC may be used to claim it.

B. What Is a FSC?

A FSC is a foreign corporation that has elected to be a FSC or small FSC and its election is still in effect. The FSC election is made by filing **Form 8279**, Election To Be Treated as a FSC or as a Small FSC.

To be a FSC (or small FSC), a corporation must meet all of the following tests:

1. It must be a corporation created or organized under the laws of a qualifying foreign country or a U.S. possession (other than Puerto Rico). The foreign country must meet the requirements of section 927(e)(3).

2. It may not have more than 25 shareholders.

3. It may not have preferred stock.

4. It must maintain an office in a qualifying foreign country or U.S. possession (other than Puerto Rico) and maintain a set of permanent books of account at that office. It must also maintain at a location in the U.S. such books and records as are sufficient under section 6001 to establish the amount of gross income, deductions, credits or other matters required to be shown on its tax return.

5. It must have at least one director who is not a resident of the U.S.

6. It may not be a member of a controlled group of which an interest charge DISC is a member.

7. Its tax year must conform to the tax year of the principal shareholder who, at the beginning of the FSC's tax year, has the highest percentage of voting power. If two or more shareholders have the highest percentage of voting power, the FSC must elect a tax year that conforms to that of any one of the shareholders. See section 441(h).

8. A FSC, other than a small FSC, must also meet certain foreign management and foreign economic process requirements. See general instructions F2 and F3 for details.

C. Filing Form 1120-FSC

1. Who Files.—You must file Form 1120-FSC if your corporation elected, by filing Form 8279, to be treated as a FSC or small FSC and the election is still in effect.

2. When To File.—File Form 1120-FSC by the 15th day of the 3rd month after the end of the tax year.

Extensions.—File **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 1120-FSC.

Period covered.—File the 1986 return for calendar year 1986 and fiscal years that begin in 1986. If the return is for a fiscal year, fill in the tax year space at the top of the form.

Amended return.—To correct any error in a Form 1120-FSC already filed, file a revised Form 1120-FSC and write "Amended" across the top.

Change in tax year.—To change your tax year, file **Form 1128**, Application for Change in Accounting Period.

Final return.—If the corporation ceased to exist during the tax year, write "Final Return" at the top of the form.

3. Where To File.—File Form 1120-FSC with the Internal Revenue Service Center, Philadelphia, PA 19255.

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

If your corporate officer filled in Form 1120-FSC, the Paid Preparer's space under Signature of Officer should remain blank. If someone prepares Form 1120-FSC and does not charge the corporation, that person should not sign the return. Certain others who prepare Form 1120-FSC should not sign. For example, a regular, full-time employee of the corporation such as a clerk or secretary does not have to sign. (This list is not all inclusive.)

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

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

D. Other Returns and Statements That May Be Required

1. Financial statements.—The balance sheets must agree with your books and records. Reconcile any differences.

2. Forms.—The FSC may also have to file other forms. A partial list includes:

Form 5471, Information Return With Respect to a Foreign Corporation.—Shareholders, directors, or officers of a FSC do not have to file Form 5471 when the FSC is organized. However, Form 5471 will be required with respect to subsequent changes in ownership as required under section 6046 and related regulations. Provided that a Form 1120-FSC is filed, a Form 5471 need not be filed to satisfy the requirements of section 6038. See temporary regulations section 1.921-1T(b), Question 3, for more information. However, if the FSC is involved in other than FSC activities, Form 5471 and applicable schedules may have to be filed.

Form 1096, Annual Summary and Transmittal of U.S. Information Returns.—Used to transmit certain information returns.

Form 1098, Mortgage Interest Statement.—This form is used to report the receipt from any individual of $600 or more of mortgage interest in the course of the corporation's trade or business for any calendar year.

Forms 1099-DIV, INT, MISC, and R.—These are some of the information returns that must be filed to report certain payments, such as dividends and interest. For more information, see Form 1096 and its instructions, and **Publication 916**, Information Returns.

Form 4626, Computation of Minimum Tax–Corporations.—Attach to Form 1120-FSC if the corporation has either more than $10,000 in tax preference items (whether or not it has minimum tax) or minimum tax liability deferred from an earlier year.

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

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

Schedule PH (Form 1120).—Attach Schedule PH (Form 1120), Computation of U.S. Personal Holding Company Tax, to Form 1120-FSC if the FSC is a personal holding company described in section 542, but not a foreign personal holding company described in section 552.

Form 8271, Investor Reporting of Tax Shelter Registration Number.—Used by taxpayers who 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 tax return (including an application for tentative refund (Form 1139 and an amended return)) on which a deduction, credit, loss, or other tax benefit attributable to a tax shelter is taken.

Form 8300, Report of Cash Payments Over $10,000 Received in a Trade or Business.—Generally, this form is used to report the receipt of more than $10,000 in cash or foreign currency in one transaction (or in a series of related transactions). However, transactions that take place entirely outside the U.S. do not have to be reported.

E. Paying the Tax

1. FSCs with no office or place of business in the U.S. must pay the tax due in full when they file their tax return, but not later than the 15th day of the 6th month after the end of the tax year.

The tax may be paid by check or money order, payable to the Internal Revenue Service Center, Philadelphia, PA 19255. In order for us to better process your deposits, please write your employer identification number, "Form 1120-FSC," and the period to which the deposit applies on your check.

2. FSCs with an office or place of business in the U.S. must pay the tax due in full when they file their tax return, but not later than the 15th day of the 3rd month after the end of the tax year.

FSCs with an office or place of business in the U.S. must deposit their income tax (and estimated tax payments) with a Federal Tax Deposit Payment Coupon **(Form 8109)**.

Make these tax deposits with a financial institution qualified as a depositary for Federal taxes or the Federal Reserve Bank or Branch serving the geographic area where the corporation's office or place of business in the U.S. is located. Do not submit deposits directly to an IRS office, otherwise the corporation may be subject to a failure to deposit penalty. Records of deposits will be sent to the IRS for crediting to the corporation's account. In order for us to better process your deposits, please write your employer identification number, "Form 1120-FSC," and the period to which the deposit applies on your check.

To get more deposit coupons, use the reorder form (Form 8108A) provided in the coupon book. If the corporation does not have these coupons, it should contact an IRS district office.

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

3. Estimated Tax.—A FSC with an office or place of business in the U.S. must make estimated tax payments if it can expect its estimated tax (income tax minus credits) to be $40 or more.

Use Form 1120-W (WORKSHEET), Corporation Estimated Tax, as a worksheet to compute estimated tax. Use the FTD payment coupons in making deposits of estimated tax.

If the corporation overpaid estimated tax, it may be able to get a "quick refund" by filing **Form 4466**, Corporation Application for Quick Refund of Overpayment of Estimated Tax. The overpayment must be both: (1) at least 10% of expected income tax liability, and (2) at least $500. To apply, file Form 4466 within 2½ months after the end of the tax year and before Form 1120-FSC is filed.

F. Definitions, etc.

1. Small FSC.—A corporation must have filed Form 8279 and elected to be a small FSC. The small FSC cannot be a member of a controlled group which includes another FSC unless such other FSC is also a small FSC.

A small FSC is treated as a FSC on the first $5,000,000 of its foreign trading gross receipts without meeting the foreign management and foreign economic process requirements. The $5,000,000 limit is reduced if the small FSC has a short tax year, or may be reduced if the small FSC is a member of a controlled group that contains other small FSCs. Any gross receipts in excess of the limitation are treated as nonforeign trading gross receipts.

See regulations section 1.921-2T(b) for more information.

Note: *Although a small FSC does not have to satisfy the foreign management requirements below, it has to meet the requirements of section 925(c) if it uses the administrative pricing rules.*

2. Foreign Management Requirements.—A FSC (other than a small FSC) is treated as having foreign trading gross receipts for the tax year only if the management of the FSC during the year takes place outside the United States. These management activities include:

a. Meeting of the board of directors and of shareholders.

c. Disbursement of dividends, legal and accounting fees, salaries of officers, and salaries or fees of directors out of the principal bank account.

b. Maintaining the principal bank account at all times during the tax year.

Meetings of directors and of shareholders.—All meetings of the board of directors of the FSC and all meetings of the shareholders of the FSC that take place during the tax year must take place outside the United States. Only meetings that are formally convened as meetings of the board of directors or as shareholders' meetings are taken into account. If the participants in a meeting are not all physically present in the same location, the location of the meeting is determined by the location of the person exercising a majority of the voting power participating in the meeting. In addition, all such meetings must comply with the local laws of the foreign country or U.S. possession in which the FSC was created or organized. The local laws determine whether a meeting must be held, when and where it must be held, who must be present, quorum requirements, use of proxies, and so on.

Principal bank account.—The bank account that is regarded as the principal bank account of a FSC is the bank account from which disbursement of dividends, legal and accounting fees, salaries of officers, and salaries or fees of directors are made. The bank account regarded as the principal bank account must be maintained in a country which satisfies the exchange of information requirements of section 927(e)(3), or in any possession of the U.S. as defined in section 927(d)(5) and it generally must be so maintained for each day of the tax year. The principal bank account must be maintained in an institution that is engaged in the conduct of banking, financing, or similar business.

For more details, see regulations under section 1.924(c)-1T.

3. Economic Processes Requirements.—A FSC (other than a small FSC) has foreign trading gross receipts from any transaction only if economic processes for such transaction takes place outside the U.S. The regulations set forth the rules for determining whether a sufficient amount of the economic processes of a transaction takes place outside the U.S. Generally, a transaction will qualify if the FSC satisfies two different requirements: participation outside the U.S. in the sales portion of the transaction, and satisfaction of either the 50% or the 85% foreign direct cost test. The activities comprising these economic processes may be performed by the FSC or by any other person acting under contract with the FSC.

The FSC (or other person) may act upon standing instructions from another person in the performance of any activity, whether a sales activity or an activity relating to the disposition of export property.

Participation outside the U.S. in the sales portion of the transaction.—The requirement is met for the gross receipts of a FSC derived from any transaction if the FSC (or other person) has participated outside the United States in the following sales activities relating to such transaction:

a. Solicitation (other than advertising),

b. Negotiation, and

c. Making of the contract.

If any sales activity occurs with respect to a single contract for more than one transaction (or for items grouped separately for other purposes), that sales activity will apply to each transaction (or item), regardless of the fact that the transactions (or items) are grouped separately for other purposes (such as satisfying the foreign direct cost tests).

The FSC may elect on an annual basis to group transactions for purposes of satisfying the economic process requirements. Providing the necessary documentation and other rules of regulations section 1.924(d)-1T(e) are met, transactions may be grouped on the basis of product or product line, customer, contract, or product or product line within customer or contract groupings. For more details, see regulations section 1.924(d)-1T(e).

Solicitation (other than advertising) refers to any communication (by any method including, but not limited to, telephone, telegraph, mail, or in person) by the FSC (or other person), at any time during the 12-month period immediately preceding the execution of a contract relating to the transaction, to a specific, targeted customer or potential customer, that specifically addresses the customer's attention to the product or service covered by the transaction. Activities that would otherwise constitute advertising (such as sending sales literature to a customer or potential customer) will be considered solicitation (other than advertising) if the activities are not taken into account as advertising under the foreign direct costs tests.

Negotiation refers to any communication by the FSC (or other person) to a customer or potential customer of one or more of the terms of a transaction including, but not limited to, price, credit terms, quantity, or time or manner of delivery. Negotiation does not include the mere receipt of a communication from a customer (such as an order) that includes terms of a sale.

Making of a contract refers to performance by the FSC (or other person) of any of the elements necessary to complete a sale, such as making an offer or accepting an offer. Acceptance of an unsolicited bid or order is considered the "making of a contract" even if no solicitation or negotiation occurred with respect to the transaction.

The written confirmation by the FSC (or other person) to the customer of an oral or written agreement which confirms variable contract terms or specifies (directly or by cross-reference) additional contract terms, will be considered the making of a contract. A written confirmation is any confirmation expressed in writing, including a telegram, telex, or other similar written communication.

Satisfaction of either the 50% or the 85% foreign direct cost test.—For the gross receipts of a transaction to qualify as foreign trading gross receipts, the foreign direct costs incurred by the FSC attributable to the transaction must equal or exceed 50% of the total direct costs incurred by the FSC attributable to the transaction. Direct costs are those costs described in the five categories of section 924(e). Instead of satisfying the 50% foreign direct cost test described above, the FSC may incur foreign direct costs attributable to activities described in each of two of the section 924(e) categories that equal or exceed 85% of the total direct costs attributable to the activity described in that category. If no direct costs are incurred by the FSC in a particular category, that category is not taken into account for purposes of determining whether the FSC has met either the 50% or the 85% foreign direct cost test.

Direct costs are those costs that are incidental to and necessary for the performance of any activity described in section 924(e). Direct costs include the cost of materials which are consumed in the performance of the activity, and the cost of labor which can be identified or associated directly with the performance of the activity (but only to the extent of wages, salaries, fees for professional services, and other amounts paid for personal services actually rendered, such as bonuses or compensation paid for services on the basis of a percentage of profits). Direct costs also include the cost of equipment or facilities (or the use thereof) that can be specifically identified or associated with the activity, as well as the contract price of an activity performed on behalf of the FSC by a contractor.

"Total direct costs" means all of the direct costs of any transaction attributable to any of the activities described in section 924(e). For the 50% foreign direct cost test, total direct costs are determined based on the direct costs of all activities described in all of the paragraphs of section 924(e). For the 85% foreign direct cost test, however, the total direct costs are determined separately for each paragraph of section 924(e).

"Foreign direct costs" means the portion of the total direct costs of any transaction that is attributable to activities performed outside of the U.S. For the 50% foreign direct cost test, foreign direct costs are determined based on the direct costs of all activities described in all of the paragraphs of section 924(e). For the 85% foreign direct cost test, however, foreign direct costs are determined separately for each paragraph of section 924(e).

For more details, see regulations under section 1.924(d)-1T.

Exception for military property.—These requirements do not apply to any activities performed in connection with the sale of military property if the activities are required by law or regulation to be performed in the U.S., by or in conjunction with the U.S. Government.

G. Penalties

The corporation may have to pay the following penalties unless it can show that not filing or not paying was due to reasonable cause and not willful neglect. (These penalties are in addition to the interest charge on unpaid tax at a rate established under section 6621.)

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

A corporation that does not pay the tax when due may generally be subject to a penalty of ½% a month 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.)

A corporation that does not pay the proper estimated tax when due may be subject to an underpayment penalty for the period of underpayment. To avoid the estimated tax penalty, the amount of estimated tax payments required to be made by a corporation is 90%. See section 6655(b)(1).

If the corporation underpaid estimated tax, attach **Form 2220**, Underpayment of Estimated Tax by Corporations, to show how the corporation figured the penalty or which exceptions the corporation believes it meets.

If there is a tax due on line 4, page 1, include the penalty in the total. If there is a refund due, subtract the penalty from the overpayment on line 5, page 1.

Penalty for Overstated Tax Deposits.—If deposits are overstated, the corporation may be subject to a penalty. See section 6656(b).

The FSC may have to pay the following penalties unless it can show that it had reasonable cause for not giving information or not filing a return:

- $100 for each instance of not giving information, up to $25,000 during the calendar year.
- $1,000 for not filing a return.

See section 6686 for other details.

H. Cooperatives

Special rules may apply when cooperatives described in section 1381 are shareholders in a FSC. These special rules apply to the nonexempt portion of foreign trade income from the sale or other dispositions of agricultural or horticultural products by the FSC. The FSC may distribute its nonexempt foreign trade income to the cooperative and thereby not be taxed on this amount. The cooperative must include this amount in income for its tax year that includes the last day of the FSC's tax year, even though the FSC does not have to distribute the income until the due date of its income tax return.

I. Foreign Personal Holding Company

If the corporation is a foreign personal holding company as defined in section 552, certain officers, directors, and shareholders of the corporation must file Form 5471. See section 552 and Form 5471 for details. If the corporation is a personal holding company but not a foreign personal holding company, it must file Schedule PH (Form 1120) with Form 1120-FSC. See section 542 and Schedule PH (Form 1120) for details.

J. Tax Treaty Benefits

A FSC may not claim any benefits under any income tax treaty between the U.S. and any foreign country.

Specific Instructions

Accounting methods.—Compute taxable income by the accounting method regularly used to keep the FSC's books and records. The method used must clearly reflect taxable income. (See section 446.)

A member of a controlled group must avoid using an accounting method that would distort any group member's income, including its own. For example, a FSC acts as a commission agent for property sales by a related corporation that uses the accrual method and pays the FSC its commission more than 2 months after the sale. The FSC, then, should not use the cash method of accounting, because it materially distorts the income of the FSC.

Unless the law specifically permits otherwise, the FSC may change from the accounting method it used to report taxable income in earlier years (for income as a whole or for any material item) only after obtaining consent by filing **Form 3115**, Application for Change in Accounting Method.

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

Attachments.—If you need more space, attach separate sheets to the back of Form 1120-FSC. Attach **Form 4136**, Computation of Credit for Federal Tax on Gasoline and Special Fuels, after page 6, Form 1120-FSC. Attach schedules in alphabetical order and other forms in numerical order after the Form 4136. Be sure to put the FSC's name and employer identification number (EIN) on each sheet.

To assist us in processing the return, we ask that you complete every applicable entry space on Form 1120-FSC. Please do not attach statements and write "See attached" in lieu of completing the entry space on Form 1120-FSC.

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Address.—The address used on the return should be the location of the books and records in the U.S. (as required by section 6001).

Employer Identification Number.—Enter the FSC's employer identification number (EIN). If the FSC does not have an EIN, it should apply for one on **Form SS-4**, Application for Employer Identification Number. You can get this form at most IRS or Social Security Administration offices. Send Form SS-4 to the Internal Revenue Service Center, Philadelphia, PA 19255. If you have not received the EIN by the time for filing Form 1120-FSC, write "Applied for" in the space for the EIN.

Item C. Country or U.S. Possession of Incorporation.—Enter the name of the foreign country or U.S. possession in which the FSC was incorporated. See sections 927(d)(5) and 927(e)(3).

Item G.—Enter the total assets of the FSC from line 14, column (d), Schedule L. If there are no assets at the end of the tax year, enter the assets as of the beginning of the tax year.

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Item N.—All FSCs (except small FSCs) must complete questions (1) and (2) under item N. For more information, see "Foreign Management Requirements" in General Instruction F2.

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Item S.—A FSC (other than a small FSC) must complete item S to show that it satisfied the foreign economic process requirements of section 924(d) for all transactions for which foreign trading gross receipts were reported on lines 1 through 5 of Schedule B. While these rules are generally applied on a transaction by transaction basis, the FSC may make an annual election to group the transactions (regulations section 1.924(d)-1T(e)).

A FSC meets the foreign economic process tests for any transaction, if on an aggregate basis, the foreign direct costs attributable to the transaction are 50% or more of the total direct costs attributable to the transaction for the following activities: 1) advertising and sales promotion, 2) processing of customer orders and arranging for delivery, 3) transportation of property from the time of acquisition by the FSC (or in the case of a commission relationship, from the beginning of such relationship for such transaction) to delivery to the customer, 4) determination and transmittal of final invoice or statement of account and receipt of payment, and 5) assumption of credit risk. Alternatively, the FSC meets the foreign economic process test for any transaction if the foreign direct costs attributable to the activities described in at least two of the above categories is 85% or more of the total direct costs attributable to the activities described in those categories.

In item S indicate which test(s) apply to the transactions that gave rise to the gross receipts entered on lines 1 through 5, Schedule B. If only one test applies, check the appropriate box. If both tests apply, check both boxes.

In addition to completing item S, the FSC must keep sufficient records to show it met the requirements for each transaction (or group of transactions). These records must be made available on examination of the FSC return.

Schedule A—Cost of Goods Sold and/or Operations Relating to Foreign Trading Gross Receipts

Complete Schedule A only for the cost of goods sold deduction related to foreign trading gross receipts reported on lines 1 through 5 of Schedule B.

If the FSC acts as another person's commission agent on a sale, do not enter any amount in Schedule A for the sale.

A small FSC will have to make two separate computations for cost of goods sold if its foreign trading gross receipts exceed the limitation amount on line 6e of Schedule B. In this case, a deduction for cost of goods sold will be figured separately for the income on line 6h of Schedule B, and separately for the income on line 3 of Schedule F. Attach the computation for line 3, Schedule F, to Form 1120-FSC.

Complete a separate computation for cost of goods sold and other expenses attributable to income reported on line 12 of Schedule B. Attach this schedule to Form 1120-FSC.

All FSCs are to complete a separate schedule for the computation of the cost of goods sold attributable to nonforeign trade income reported on Schedule F. Attach this schedule to Form 1120-FSC.

Complete lines 1 through 7, column (a) of Schedule A, to show the cost of goods sold for inventory acquired in transactions using the administrative pricing rules. Complete lines 1 through 7, column (b), to show the cost of goods sold for inventory acquired in transactions in which the administrative pricing rules were not used. For details on administrative or nonadministrative pricing rules, see separate **Schedule P (Form 1120-FSC)**, Computation of Transfer Price or Commission.

Line 8a. 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 of Internal Revenue, that conforms to the applicable regulations cited below.

Taxpayers using erroneous valuation methods should file Form 3115 to change to a method permitted for Federal income tax purposes. For further details, see regulations section 1.446-1(e)(3) and Rev. Proc. 84-74, 1984-2 C.B. 738.

In line 8a, check the method(s) used for valuing inventories. Under lower of cost or market, market generally applies to normal market conditions when a current bid price prevails 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 more requirements, see regulations section 1.471-4.

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) if such a price can be established. See regulations section 1.471-2(c) for more 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, provided in section 472, attach **Form 970**, Application To Use LIFO Inventory Method, or a statement with the information required by Form 970. Also check the LIFO box in line 8b. Enter the amount or percent of total closing inventories covered under section 472 in line 8c. Estimates are acceptable.

If the corporation changed or extended its inventory method to LIFO and had to "write up" opening inventory to cost in the year of election, report the effect of this writeup as income (as appropriate in Schedule F, line 12) proportionately over a 3-year period that begins in the tax year the election was first made. See section 472(d).

Schedule B—Taxable Income

Schedule B provides for the computation of taxable income from all sources.

Part I

Part I provides for the computation of income attributable to foreign trade income. Income and expenses on lines 1 through 15 are reported in column (a) or (b) based on the method of pricing (administrative or nonadministrative) used in the transaction that produced the income.

Report in column (b) all foreign trade income from all transactions in which the administrative pricing rules were not used. This income may or may not be effectively connected with a U.S. trade or business. Attach a schedule showing the computation of the taxable amount. (Only the taxable portion is included in line 16 of Schedule B.) Such income would be effectively connected and taxable more often for a small FSC as it normally has a place of business in the U.S.

Lines 1 through 5—Enter foreign trading gross receipts as defined in section 924(a).

Report commission income on lines 1 or 2 based on the sale, lease, or rental of property on which such commission arose.

Line 5—Gross receipts from the performance of managerial services for an unrelated FSC or DISC are foreign trading gross receipts if two conditions are met. These conditions are:

1. The managerial services must be performed with respect to activities that

result in the sale, exchange, or other disposition of export property, the rental or lease by the lessee of export property outside the U.S., or that are related to and subsidiary to the activities described above; AND

2. At least 50% of the FSC's gross receipts for the tax year must be derived from the sale, exchange, or other disposition of export property, the lease or rental of export property outside the U.S., and services that are related or subsidiary to these activities. Gross receipts are defined in section 927(b).

For example, if receipts reported on lines 1, 2, and 3 of Schedule B are less than 50% of gross receipts for the tax year, managerial services would not qualify as foreign trading gross receipts for the year. In this case, these receipts would be reported on line 12 of Schedule F.

Lines 6b through 6h—Determination of limit on foreign trading gross receipts for the small FSC. See General Instruction F1 and section 924(b)(2) before completing this part.

Line 6f—If commission income is reported on lines 1 or 2 of Schedule B, total receipts for purposes of line 6f is figured as follows:

1. Enter total of columns (a) and (b), line 6a; Schedule B . . . . ________
2. Enter total commission income reported on line 1 or 2, Schedule B ________
3. Line 1 less line 2 . . . . ________
4. For the commissions reported on line 2 above, enter total gross receipts for the sale, lease, or rental of property on which the commissions arose. (Section 927(b)(2)) . . . . ________
5. Add lines 3 and 4. Enter on line 6f, Schedule B . . . . ________

Line 6h—When making the line 6h allocation, only allocate the commission income attributable to the gross receipts on line 4 above. If the foreign trading gross receipts of the FSC exceeds the line 6g, Schedule B, limitation, the FSC may select the gross receipts to which the limitation is allocated. See regulations section 1.921-2T(b) Q-5.

Line 7—Enter the deduction for cost of goods sold from line 7, Schedule A, page 2.

Line 10—Provides for exclusion of exempt foreign trade income based on exemption percentages on lines 9a and 9b.

Line 14—Enter deductions from Schedule G that are attributable to nonexempt foreign trade income.

Part II

Part II is a summary of taxable foreign trade income and taxable income from Schedule F (taxable nonforeign trade income).

Line 16—Combine the income on line 15, column (a), with any taxable amount in line 15, column (b). See instruction for Part I, column (b) above, regarding taxable income in column (b). Attach a schedule showing the computat on of the taxable amount.

Line 19b—Special Deductions. A FSC may be entitled to a dividends-received deduction for dividends it receives from other corporations. Complete a dividend worksheet similar to that below to determine the total amount of dividends received by the FSC and to figure the dividends-received deduction. Attach your worksheet to Form 1120-FSC.

Schedule E—Percentages To Be Used in Figuring Exempt Trade Income, etc.

Schedule E is used to figure the exemption percentages that are used in figuring exempt foreign trade income (Schedule B, line 10) as well as deductions attributable to exempt foreign trade income (Schedule G, line 17).

A C corporation means a corporation other than an S corporation. Shareholders other than C corporations are individuals, partnerships, S corporations, trusts, and estates.

Use lines 2a through 2d to figure the exemption percentage for foreign trade income that was determined without regard to the administrative pricing rules of section 923(a)(2).

Use lines 3a through 3d to figure the exemption percentage for foreign trade income that was determined by using the administrative pricing rules of section 923(a)(3).

Schedule F—Nonforeign Trade Income

Schedule F—Enter the taxable portion of gross income of the FSC that is not derived from foreign trade gross receipts. This type of income includes amounts specifically excluded from foreign trade income by law (lines 1 through 3); passive type income (lines 4 through 8); income from property that is subsidized, deemed in short supply, or destined for use in the U.S. (lines 9 and 10); amounts from transactions that did not meet the foreign economic process tests (line 11); and other nonforeign trade income (line 12). For more details, see sections 924(f), 927(a)(2) and (3), and 927(e)(2).

Line 1—FSC income that resulted from cooperation with an international boycott is nonforeign trade income. See Form 5713 for reporting requirements for any FSC with operations in or related to a boycotting country and other details.

Line 2—Report as nonforeign trade income the amount of any illegal payments, bribes, or kickbacks that the FSC paid directly or indirectly to government officials, employees, or agents (section 927(e)(2)).

Line 5—See instructions for the dividend worksheet below to figure the dividend income to report on line 5. Attach the dividend worksheet you prepare to Form 1120-FSC.

Instructions for Dividend Worksheet

Column (a) Instructions

Line 1. Enter dividends received from domestic corporations subject to income tax and the deduction under section 243(a)(1) and certain dividends received from Federal Home Loan Banks (section 246(a)(2)). For dividends received from a regulated investment company, see section 854 for the amount subject to deduction.

So-called dividends or earnings received from mutual savings banks, etc., are really interest. Do not treat them as dividends.

Do not enter on line 1 any dividends received on "debt-financed" stock acquired after July 18, 1984.

Dividend Worksheet	(a) Dividends received	(b) Deduction %	(c) Special deductions (Multiply (a) by (b))
1. Domestic corporations subject to the section 243(a)(1) deduction . . .		See Inst.	
2. Debt-financed stock of domestic and foreign corporations		See Inst.	
3. Certain preferred stock of public utilities.		See Inst.	
4. Foreign corporations subject to the section 245 deduction		See Inst.	
5. Total dividends-received deduction—Add lines 1 through 4, Column (c). Enter here and on line 19b, Schedule B			
6. Other dividends from foreign corporations			
7. Foreign dividend gross-up (section 78)			
8. Other dividends.			
9. Total dividends—Add amounts on lines 1 through 8, Column (a). Enter here and on line 5, Schedule F			

Line 2. Enter dividends that would have been eligible for the section 243(a)(1) or section 245 deduction except that they are from "debt-financed" stock acquired after July 18, 1984. "Debt-financed" stock is stock that the corporation incurred a debt in acquiring.

Line 3. Enter dividends received on the preferred stock of a public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

Line 4. Enter dividends that are received from foreign corporations and that qualify for the deduction provided in section 245(a).

Line 6. Enter all other dividends received from foreign corporations that do not qualify for a dividends-received deduction.

Line 7. If the FSC claims the foreign tax credit, the tax that is deemed paid under section 902(a) (relating to credit for a corporate stockholder in a foreign corporation) must be treated as a dividend received from the foreign corporation. (See section 906(b)(4).)

Line 8. Include dividends (other than capital gain dividends and exempt interest dividends) received from regulated investment companies that do not qualify for the dividend-received deduction; dividends (other than capital gain dividends) received from a real estate investment trust that, for the tax year of the trust in which the dividends are paid, qualifies under sections 856-860; dividends not eligible for a dividends-received deduction because of the holding period of the stock or an obligation to make corresponding payments with respect to similar stock; and any other taxable dividend income not properly reported above (including distributions under section 934(e)(3) or 936(h)(4)).

Line 1, Columns (b) and (c)

The dividends-received deduction percentage for dividends received before January 1, 1987, is 85%. For dividends received after December 31, 1986, it is 80%. Multiply the dividends received in each period by the proper percentage to determine the correct dividends-received deduction.

A small business investment company operating under the Small Business Investment Act of 1958 may deduct 100% of dividends received from domestic corporations subject to income tax. (Section 243(a)(2))

Line 2, Columns (b) and (c)

The dividends-received deduction for dividends received on debt-financed stock is explained in section 246A. This section applies both to dividends received from debt-financed stock of domestic and foreign corporations acquired after July 18, 1984. The percentages to use for computing the dividends-received deduction for debt-financed stock under section 246A(a)(1) are 85% for dividends received before January 1, 1987, and 80% for dividends received after December 31, 1986.

Line 3, Columns (b) and (c)

Dividends on certain preferred stock of public utilities are entitled to a dividends-received deduction percentage of 59.13% if they are received before January 1, 1987. For dividends on certain preferred stock of public utilities received after December 31, 1986, but before July 1, 1987, the dividends-received deduction percentage is 55.652%. For these dividends received after June 30, 1987, the dividends-received deduction percentage is 47.059%.

Multiply the dividends received in each period by the proper percentage to determine the correct dividends-received deduction.

Line 4, Columns (b) and (c)

The dividends-received deduction percentage for dividends received from foreign corporations entitled to the dividends-received deduction under section 245(a) and section 245(c)(1) for certain FSCs is 85% for dividends received before January 1, 1987. The dividends-received deduction percentage for these dividends received after December 31, 1986, is 80%.

Column (c) Instructions

Exclusion of certain dividends.—In general, no dividends-received deduction will be allowed on any share of stock (a) if the corporation held the stock 45 days or less (see section 246(c)(1)(A)) or (b) to the extent the corporation is under an obligation to make corresponding payments with respect to substantially identical stock or other securities.

Line 5. Limitation on dividends-received deduction.—Line 5 may not be more than 85% of line 18, Schedule B. For this purpose compute line 18, Schedule B, without regard to any adjustment under section 1059 and any capital loss carryback to the tax year under section 1212(a)(1).

In a year in which a net operating loss occurs, this 85% limit does not apply even if the loss is created by the dividends-received deduction. (See sections 172(d) and 246(b).)

Line 14—Enter on line 14 of Schedule F the deductions allocated or apportioned to income on lines 1 through 12. Make a separate computation for any cost of goods sold deduction included in the line 14 amount. Attach the computation to Form 1120-FSC.

If a deduction is taken for business bad debts in the line 14 amount and the FSC uses the reserve method to figure the bad debt deduction, attach a schedule to Form 1120-FSC that provides for line 14 the information requested in the instructions for line 11 of Schedule G.

Schedule G—Deductions Relating to Foreign Trade Income

Schedule G is a summary listing of deductions or expenses relating to foreign trade income. Each line item or type of deduction is allocated in column (a) or column (b) based on the administrative or nonadministrative pricing rules for the transactions to which the expense item(s) relate. The purpose of this allocation is to determine the amount of expenses that relate to exempt and nonexempt foreign trade income. Only expenses relating to nonexempt foreign trade income are deductible in figuring taxable income. See section 921(b).

Line 1. Only enter foreign direct costs in lines 1a through 1e. See section 924(e) and regulations section 1.924(e)-1T(a) through (e) for definitions and rules on direct activity costs relating to foreign trade income. If you take a deduction for bad debts on line 1e, and you use the reserve method to figure the deduction, attach a schedule as explained in the line 11 instruction below.

Line 4.—Besides depreciation, include in line 4 the part of the cost (up to $5,000 ($10,000 for property placed in service after 1986)) that the FSC elects to expense under section 179. See the instructions for Form 4562. See page 7 of these instructions for tax law changes that affect depreciation and section 179 provisions for property placed in service after 1986.

Line 11. Bad Debts.—The FSC may either deduct business bad debts when they become wholly or partially worthless, or it may make a reasonable addition to a reserve for bad debts.

If the FSC uses the reserve method, attach a schedule for 1986 that separately lists:

- Trade notes and accounts receivable outstanding at the end of the year;
- Sales on account;
- Amount added to reserve-current-year's provision;
- Amount added to reserve-recoveries;
- Amount charged against reserve; and
- Reserve for bad debts at end of year.

A FSC may choose either method on its first return in which it takes a bad debt deduction. It must use that method for the following years unless it receives consent to change by filing Form 3115. For most corporations the reserve method of computing bad debts has been repealed. See page 8 for new rules for computing bad debts for tax years beginning after 1986.

Schedule J—Tax Computation

Important: FSCs that have fiscal years should see pages 7 through 10 before computing tax.

A calendar year corporation that is not a member of a controlled group (these members should see the instruction for lines 1 and 2 below) must compute the tax on its taxable income as follows:

If the amount on line 20, page 3, Form 1120-FSC, is: Over—	But not over—	Enter on Schedule J, line 3:	Of the amount over—
0	$25,000	15%	0
$25,000	50,000	$3,750 + 18%	$25,000
50,000	75,000	8,250 + 30%	50,000
75,000	100,000	15,750 + 40%	75,000
100,000	....	25,750 + 46%	100,000
Additional tax		see instructions below	

Additional Tax.—If the corporation has taxable income of more than $1,000,000, an additional tax is imposed on the corporation. The tax is the lesser of: 1) 5% of the taxable income over $1,000,000; or 2) $20,250.

Alternative Tax.—If the alternative tax does not apply, enter on line 3 of Schedule J, the amount computed above. If the alternative tax applies, see Schedule D (Form 1120).

Lines 1 and 2.—Members of a controlled group, as defined in section 927(d)(4), are entitled to only one $25,000 amount in each taxable income bracket on line 2a.

When a controlled group adopts or later amends an apportionment plan, each member must attach to its tax return a copy of its consent to this plan. The copy (or an attached statement) must show the part of the $25,000 amount in each taxable income bracket apportioned to that member. There are other requirements as well. See regulations section 1.1561-3(b) for these requirements and for the time and manner of making the consent.

Equal Apportionment Plan.—If no apportionment plan is adopted, the members of the controlled group must divide the $25,000 amount in each taxable income bracket equally among themselves. For example, controlled group AB consists of corporation A and corporation B. They do not elect an unequal apportionment plan. Therefore, corporation A is entitled to $12,500 (one-half of $25,000) in each taxable income bracket. Corporation B is also entitled to $12,500 in each taxable income bracket.

Unequal Apportionment Plan.—Members of a controlled group may elect an unequal apportionment plan and divide the $25,000 amount in each taxable income bracket as they wish. There is no need for consistency among taxable income brackets. Any member of the controlled group may be entitled to all, some, or none of the $25,000 amount in a taxable income bracket. (But the total amount for all members of the controlled group cannot be more than $25,000 in any taxable income bracket.) Each member of a controlled group must figure the tax as follows:

Note: *If the alternative tax applies, calendar year corporations should do the following:*
(1) Complete lines 1 and 2 of Schedule J,
(2) On line 1 below, instead of entering amount from line 20, page 3, Form 1120-FSC, enter amount from line 14, Schedule D (Form 1120),
(3) Complete lines 2 through 16 below, and
(4) Enter the amount from line 16 below on line 15 of Schedule D (Form 1120) and complete balance of Schedule D (Form 1120).

1. Enter taxable income (line 20, page 3, Form 1120-FSC) . . . . ______
2. Enter line 1 or the corporation's portion of the first $25,000 taxable income bracket, whichever is less . . . ______
3. Subtract line 2 from line 1 . . . . ______
4. Enter line 3 or the corporation's portion of the second $25,000 taxable income bracket, whichever is less. . . . . . . ______
5. Subtract line 4 from line 3 . . . . ______
6. Enter line 5 or the corporation's portion of the third $25,000 taxable income bracket, whichever is less. . . . . . . ______
7. Subtract line 6 from line 5 . . . . ______
8. Enter line 7 or the corporation's portion of the fourth $25,000 taxable income bracket, whichever is less. . . . . . . ______
9. Subtract line 8 from line 7 . . . . ______
10. 15% of line 2. . . . . ______
11. 18% of line 4. . . . . ______
12. 30% of line 6. . . . . ______
13. 40% of line 8. . . . . ______
14. 46% of line 9. . . . . ______
15. Additional tax . . . . ______
16. Total of lines 10 through 15. Enter this amount on line 3 of Schedule J ______

Additional Tax (line 15 above).—If the corporation is a member of a controlled group and the controlled group has taxable income of more than $1,000,000, an additional tax is imposed on the corporation. The tax is the lesser of: (1) 5% of the taxable income of the controlled group over $1,000,000; or (2) $20,250.

The corporation pays its additional tax based on its share of each taxable income bracket, and enters this amount on line 15. If the additional tax does not apply, enter zero on line 15.

Line 4. Foreign Tax Credit.—Generally, neither a FSC nor its shareholders may claim a foreign tax credit. The FSC may, however, claim a foreign tax credit for any foreign taxes imposed on foreign source nonforeign trade income that is effectively connected with a U.S. trade or business. This income is subject to a separate limitation when computing the foreign tax credit.

A shareholder of a FSC may be entitled to a foreign tax credit on certain distributions from a FSC. These distributions are from foreign-sourced foreign trade income that was determined without using administrative pricing. See regulations section 1.921-2T(l), Question 19.

Schedule P (Form 1120-FSC)—Complete and attach a separate Schedule P (Form 1120-FSC) for each transaction or group of transactions to which you apply the transfer pricing rules of section 925. See Schedule P (Form 1120-FSC) for details on completing the schedule.

Tax Reform Act of 1986

The Tax Reform Act of 1986 made several changes that affect corporations. Some of the changes are effective starting with calendar year 1986 tax returns; some are effective starting with fiscal year 1986-1987 tax returns; and some are effective starting with calendar year 1987 tax returns which are highlighted for purposes of computing estimated taxes.

Tax Changes Taking Effect Beginning in 1986:

Increase in Penalty for Failure To File Information Returns.—For returns due after December 31, 1986, the maximum penalty for failure to file information returns has been increased. A new penalty of $5 for supplying incorrect information has also been added. For more information, see sections 6652, 6676, 6678, and new sections 6721 through 6724.

Asset Allocation Rules.—New asset allocation rules apply in certain cases of asset acquisitions, and generally are effective for transfers made after May 6, 1986. In addition, there are reporting rules when these transfers take place. See new section 1060 for more information.

The following provisions begin in 1987 and affect fiscal 1986–1987 tax years:

Reduction in Corporate Tax Rates.—Effective July 1, 1987, tax rates for corporations are reduced. The new tax rates are 15% of the first $50,000 of taxable income; 25% of the next $25,000 of taxable income; and 34% for any amount of taxable income over $75,000. An additional tax applies to taxable income over $100,000. The tax is the lesser of 5% of the excess over $100,000 or $11,750. See the tax computation worksheet on page 9 for more details.

Gain or Loss Recognized on Distributions in Complete Liquidation.—Generally, FSCs will recognize gain or loss on distributions of their property in complete liquidation as if they had sold the property at its fair market value.

These new rules apply to liquidations completed after December 31, 1986. See sections 336 and 337.

Reduction in Dividends-Received Deduction.—The dividends-received deduction for dividends received from certain corporations has been reduced from 85% to 80%for dividends received after 1986. See sections 243, 244, and 246A.

Installment Sales.—The installment method has been revised for certain sales or dispositions made after February 28, 1986, for tax years that end after 1986. These new rules generally apply to: (1) sale of personal property by a corporation that usually sells that type of personal property on the installment method, and (2) sale of real property that is held by the taxpayer for sale to customers in the ordinary course of the taxpayer's trade or business. For more information, including new rules for members of an affiliated group, see section 453C.

Certain Costs Required To Be Capitalized or Included in Inventory Costs.—New code section 263A requires that certain costs incurred in the production of real and intangible property produced by the taxpayer or property acquired for resale be capitalized or included in inventory costs rather than deducted.

Generally, the changes affecting inventory are effective for tax years beginning after 1986, and the changes affecting capitalization are effective for costs incurred after 1986. Please see new code section 263A.

Depreciation.—The rules for computing depreciation have substantially changed for property placed in service after 1986. Corporations may also elect these new rules for property placed in service after July 31, 1986. The new system provides specific methods for each class of assets. Additionally, the section 179 deduction is increased from $5,000 to $10,000 for property placed in service after 1986. See **Form 4562-A**, Depreciation of Property Placed in Service after December 31, 1986, and section 168.

Information Reporting on Royalties.—Reporting requirements for payers of royalties have been changed for payments made after December 31, 1986. Information reporting is required on a royalty payment of $10 or more to a payee. See new section 6050N.

Alternative Tax for Fiscal Year Corporation.—Generally, the alternative tax has been repealed for tax years beginning after 1986. However, transitional rules allow fiscal year corporations to compute the alternative tax. The alternative tax computation for fiscal year corporations is (a) 28% of the lesser of: the net capital gain determined by taking into account only gain and loss for the portion of the tax year before

January 1, 1987, or the net capital gain for the tax year, plus (b) 34% of the excess of the net capital gain for the tax year over the amount of net capital gain taken into account in (a) above. See section 1201.

Limitation on Net Operating Loss Carryovers.—The amount of net operating loss carryovers is limited when there has been a change in ownership or equity for net operating losses incurred after 1986. The limitation is described in section 382(b) and applies generally when a 5% shareholder or group of 5% shareholders increases its or their ownership in a corporation by more than 50 percentage points, or when there has been a change in equity. See section 382 for rules and definitions.

Limitation on Certain Excess Credits.—For certain ownership changes occurring after 1986, a change in ownership of a corporation will result in the amount of the following excess credits being limited for subsequent years: the unused general business credit, any unused minimum tax credit, and any capital loss carryover. The foreign tax credit carryover is also limited. See section 383 for more information.

The following provisions begin in 1987 and affect calendar year 1987 tax returns:

Meals, Travel, and Entertainment Expenses.—For tax years beginning after 1986, many of the rules on what are allowable expenses for meals, entertainment, travel, and certain other business expenses have been changed. See section 274.

Meals and entertainment. The amount deductible for meals and entertainment expenses is generally limited to 80% of the amount otherwise allowable. In addition, meals must not be lavish or extravagant; a bona fide business discussion must precede or directly follow the meal; and your employee must be present at the meal. If the corporation claims a deduction for unallowable meal expenses, it may have to pay a penalty.

Reporting of Tax-Exempt Interest.—For tax years beginning after 1986, any taxpayer required to file a tax return must report, as an item of information, on that return the amount of the tax-exempt interest received or accrued during the tax year.

Minimum Tax.— For tax years beginning after 1986, the add-on minimum tax will be replaced by an alternative minimum tax based on alternative minimum taxable income. A corporation will have to compute its tax under the regular system and under the minimum tax provisions. See sections 55 through 59 for more information. For tax years beginning after 1986, corporations must take minimum tax into account when computing estimated tax. See 1987 Form 1120W for more information.

Reserve Method for Bad Debts.—For tax years beginning after 1986 only certain financial institutions will be able to use the reserve method of computing bad debts. All other taxpayers must use the specific charge-off method for computing bad debts. Corporations not entitled to use the reserve method must include in income any amount remaining in the reserve as income ratably over a 4-year period.

For additional information, see sections 166, 585, and 593.

Also, for tax years beginning after 1986, section 586, reserve for losses on loans of small business corporations, etc., has been repealed.

Certain Entities Required To Use the Accrual Method of Accounting.—Generally, C corporations, partnerships with C corporations as partners, tax-exempt entities with unrelated business income, and tax shelters are prohibited from using the cash method of accounting for tax years beginning after 1986. See new section 448.

Special Rule for Dividends Received From Foreign Corporation (Section 245).—For tax years beginning after 1986, only corporations that own at least 10% of stock (by vote and value) of a foreign corporation are entitled to claim the section 245 dividends-received deductions. To obtain the proper amount of deduction, the 10% owner should see section 245.

For additional information on these changes, see **Publication 553**, Highlights of 1986 Tax Changes.

Effective July 1, 1987, the tax rates for corporations were reduced. The new rates of tax are:

15% on the first $50,000 of income;
25% on the next $25,000 of income; and
34% on any amount over $75,000.

Also, an additional tax of 5% is applied against income in excess of $100,000. The maximum amount of this additional tax is $11,750. In addition, different rules apply for computing the alternative tax on net capital gains for fiscal year corporations that have a tax year that includes January 1, 1987. These rules are explained in the instructions that follow Schedule B. If the corporation's fiscal tax year includes July 1, 1987, the tax liability shall be computed by completing Schedules A and B of the worksheet below. If the corporation's tax year ends on or before June 30, 1987, only Schedule A must be completed. **Supplemental Instructions for completing Schedules A and B are on page 10.**

Fiscal year corporations complete the following schedules to determine tax liability.

Schedule A — Tax Computed for Period Before July 1, 1987

1	Taxable income (line 20, Schedule B, page 3, Form 1120-FSC)	
2	Net capital gain income from line 10a, Schedule D (Form 1120), if applicable (see instructions)	
3	Subtract line 2 from line 1	
4	Enter the lesser of line 3 or $25,000 (members of a controlled group, see instructions)	
5	Subtract line 4 from line 3	
6	Enter the lesser of line 5 or $25,000 (members of a controlled group, see instructions)	
7	Subtract line 6 from line 5	
8	Enter the lesser of line 7 or $25,000 (members of a controlled group, see instructions)	
9	Subtract line 8 from line 7	
10	Enter the lesser of line 9 or $25,000 (members of a controlled group, see instructions)	
11	Subtract line 10 from line 9	
12	Multiply line 4 times 15%	
13	Multiply line 6 times 18%	
14	Multiply line 8 times 30%	
15	Multiply line 10 times 40%	
16	Multiply line 11 times 46%	
17	If line 3 is greater than $1,000,000, enter the lesser of: (a) 5% of the excess of line 3 over $1,000,000 or (b) $20,250 (members of a controlled group, see instructions). Fiscal year corporations whose tax years end after June 30, 1987, skip lines 18 and 19, and complete Schedule B of this worksheet	
18	Alternative tax on net capital gain from the worksheet on page 10	
19	Add amounts on lines 12 through 18	
	Fiscal year corporations whose tax years end before July 1, 1987, enter the tax liability before credits from line 19 on line 3, Schedule J, page 5, Form 1120-FSC), and do not complete Schedule B below.	

Schedule B — Tax Computed for Period After June 30, 1987

20	Enter amount from line 3, Schedule A	
21	Enter the lesser of line 20 or $50,000 (members of a controlled group, see instructions)	
22	Subtract line 21 from line 20	
23	Enter the lesser of line 22 or $25,000 (members of a controlled group, see instructions)	
24	Subtract line 23 from line 22	
25	Multiply line 21 times 15%	
26	Multiply line 23 times 25%	
27	Multiply line 24 times 34%	
28	Additional tax. If line 20 is more than $100,000, enter the lesser of: (a) 5% of the excess of line 20 over $100,000 or (b) $11,750	
29	Add lines 25 through 28	
30	Add lines 12 through 17, Schedule A	
31	Line 30 × $\frac{\text{number of days in tax year before 7-1-87}}{\text{number of days in tax year}}$	
32	Line 29 × $\frac{\text{number of days in tax year after 6-30-87}}{\text{number of days in tax year}}$	
33	Alternative tax on net capital gain from the worksheet on page 10	
34	Tax liability before credits. Add amounts on lines 31, 32, and 33. Enter here and on line 3, Schedule J, page 5 Form 1120-FSC	

Supplemental Instructions

Net Capital Gain and Alternative Tax (Lines 2, 18, and 33).—In general, the alternative tax is the sum of (a) a tax computed on taxable income reduced by the net capital gain using the applicable tax brackets and tax rates, and (b) a tax (line 18 or 33) computed on the net capital gain (see below for this part of the computation). If the alternative tax is less than the regular tax computed on total taxable income using the applicable tax brackets and tax rates, then the corporation may enter the alternative tax on line 3, Schedule J, page 5, Form 1120-FSC, and check the block for alternative tax. If a corporation has a net capital gain, both computations (the regular tax computation and the alternative tax computation) should be made to determine which results in the lower tax.

For fiscal year corporations, the net capital gain times the alternative tax rate is determined as follows:

1. Enter the net capital gain from line 10a, Schedule D (Form 1120) . . . . . ______
2. Enter the amount from line 10b, Schedule D. **Caution:** If this amount is greater than the amount on line 1, enter the amount from line 1 here ______
3. Subtract line 2 from line 1 . ______
4. Multiply line 2 times 28% . ______
5. Multiply line 3 times 34% . ______
6. Alternative tax on net capital gain. Add lines 4 and 5. Enter here and on line 18 or 33, if applicable . . . . . ______

If the alternative tax **is not** used, lines 2 and 18, Schedule A, and line 33, Schedule B, should be blank.

Lines 4, 6, 8, and 10.—Members of a controlled group must enter their portion of each taxable income bracket. See the instructions for Schedule J for rules regarding how controlled groups (as defined in section 1563) may divide these amounts.

Line 17.—If the total taxable income of the controlled group of corporations is more than $1,000,000, each member should enter its portion of the additional tax on line 17 as explained in the instructions for Schedule J.

Line 21.—Members of a controlled group (as defined in section 1563) are to allocate the $50,000 in the first taxable income bracket. The controlled group is entitled to one $50,000 amount in the first taxable income bracket and may use the equal and unequal apportionment rules explained in the instructions for Schedule J.

Line 23.—Members of a controlled group (as defined in section 1563) are to allocate the $25,000 amount in the second taxable income bracket. The controlled group is entitled to one $25,000 amount in the bracket. The members may use the equal and unequal apportionment rules explained in the instructions for Schedule J.

Line 28.—If total taxable income of the controlled group of corporations is more than $100,000, each member should enter its portion of the additional tax on line 28. See section 1561 for rules on determining each member's share of the additional tax.

Codes for Principal Business Activity

These industry titles and definitions are based, in general, on the Standard Industrial Classification System authorized by Regulatory and Statistical Analysis Division, Office of Information and Regulatory Affairs, Office of Management and Budget, to classify enterprises by type of activity in which they are engaged.

Using the list below, enter on page 1, under D, the code number for the specific industry group from which the largest percentage of "total receipts" is derived. "Total receipts" means the total of receipts on line 6a, Schedule B; line 12, Schedule B; and line 13, Schedule F.

On page 2, under O, state the principal business activity and principal product or service that accounts for the largest percentage of total receipts. For example, if the principal business activity is "Wholesale trade: Machinery, equipment, and supplies," the principal product or service may be "Engines and turbines."

Agriculture, Forestry, and Fishing

Code	
0400	Agricultural production.
0600	Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping.

Mining

Metal mining:

Code	
1010	Iron ores.
1070	Copper, lead and zinc, gold and silver ores.
1098	Other metal mining.
1150	Coal mining.

Oil and gas extraction:

Code	
1330	Crude petroleum, natural gas, and natural gas liquids.
1380	Oil and gas field services.

Nonmetallic minerals, except fuels:

Code	
1430	Dimension, crushed and broken stone; sand and gravel.
1498	Other nonmetallic minerals, except fuels.

Construction

General building contractors and operative builders:

Code	
1510	General building contractors.
1531	Operative builders.
1600	**Heavy construction contractors.**

Special trade contractors:

Code	
1711	Plumbing, heating, and air conditioning.
1731	Electrical work.
1798	Other special trade contractors.

Manufacturing

Food and kindred products:

Code	
2010	Meat products.
2020	Dairy products.
2030	Preserved fruits and vegetables.
2040	Grain mill products.
2050	Bakery products.
2060	Sugar and confectionery products.
2081	Malt liquors and malt.
2088	Alcoholic beverages, except malt liquors and malt.
2089	Bottled soft drinks, and flavorings.
2096	Other food and kindred products.
2100	**Tobacco manufacturers.**

Textile mill products:

Code	
2228	Weaving mills and textile finishing.
2250	Knitting mills.
2298	Other textile mill products.

Apparel and other textile products:

Code	
2315	Men's and boys' clothing.
2345	Women's and children's clothing.
2388	Other apparel and accessories.
2390	Miscellaneous fabricated textile products.

Lumber and wood products:

Code	
2415	Logging, sawmills, and planing mills.
2430	Millwork, plywood, and related products.
2498	Other wood products, including wood buildings and mobile homes.
2500	**Furniture and fixtures.**

Paper and allied products:

Code	
2625	Pulp, paper, and board mills.
2699	Other paper products.

Printing and publishing:

Code	
2710	Newspapers.
2720	Periodicals.
2735	Books, greeting cards, and miscellaneous publishing.
2799	Commercial and other printing, and printing trade services.

Chemicals and allied products:

Code	
2815	Industrial chemicals, plastics materials and synthetics.
2830	Drugs.
2840	Soap, cleaners, and toilet goods.
2850	Paints and allied products.
2898	Agricultural and other chemical products.

Petroleum refining and related industries (including those integrated with extraction):

Code	
2910	Petroleum refining (including integrated).
2998	Other petroleum and coal products.

Rubber and misc. plastics products:

Code	
3050	Rubber products: plastics footwear, hose and belting.
3070	Miscellaneous plastics products.

Leather and leather products:

Code	
3140	Footwear, except rubber.
3198	Other leather and leather products.

Stone, clay, and glass products:

Code	
3225	Glass products.
3240	Cement, hydraulic.
3270	Concrete, gypsum, and plaster products.
3298	Other nonmetallic mineral products.

Primary metal industries:

Code	
3370	Ferrous metal industries; misc. primary metal products.
3380	Nonferrous metal industries.

Fabricated metal products:

Code	
3410	Metal cans and shipping containers.
3428	Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products.
3430	Plumbing and heating, except electric and warm air.
3440	Fabricated structural metal products.
3460	Metal forgings and stampings.
3470	Coating, engraving, and allied services.
3480	Ordnance and accessories, except vehicles and guided missiles.
3490	Misc. fabricated metal products.

Machinery, except electrical:

Code	
3520	Farm machinery.
3530	Construction and related machinery.
3540	Metalworking machinery.
3550	Special industry machinery.
3560	General industrial machinery.
3570	Office, computing, and accounting machines.
3598	Other machinery except electrical.

Electrical and electronic equipment:

Code	
3630	Household appliances.
3665	Radio, television, and communication equipment.
3670	Electronic components and accessories.
3698	Other electrical equipment.
3710	**Motor vehicles and equipment**

Transportation equipment, except motor vehicles:

Code	
3725	Aircraft, guided missiles and parts.
3730	Ship and boat building and repairing
3798	Other transportation equipment, except motor vehicles.

Instruments and related products:

Code	
3815	Scientific instruments and measuring devices; watches and clocks.
3845	Optical, medical, and ophthalmic goods.
3860	Photographic equipment and supplies.
3998	**Other manufacturing products.**

Transportation and Public Utilities

Transportation:

Code	
4000	Railroad transportation.
4100	Local and interurban passenger transit.
4200	Trucking and warehousing.
4400	Water transportation.
4500	Transportation by air.
4600	Pipe lines, except natural gas.
4700	Miscellaneous transportation services.

Communication:

Code	
4825	Telephone, telegraph, and other communication services.
4830	Radio and television broadcasting.

Electric, gas, and sanitary services:

Code	
4910	Electric services.
4920	Gas production and distribution.
4930	Combination utility services.
4990	Water supply and other sanitary services.

Wholesale Trade

Durable:

Code	
5008	Machinery, equipment, and supplies.
5010	Motor vehicles and automotive equipment.
5020	Furniture and home furnishings.
5030	Lumber and construction materials.
5040	Sporting, recreational, photographic, and hobby goods, toys and supplies.
5050	Metals and minerals, except petroleum and scrap.
5060	Electrical goods.
5070	Hardware, plumbing and heating equipment and supplies.
5098	Other durable goods.

Nondurable:

Code	
5110	Paper and paper products.
5129	Drugs, drug proprietaries, and druggists' sundries.
5130	Apparel, piece goods, and notions.
5140	Groceries and related products.
5150	Farm-product raw materials.
5160	Chemicals and allied products.
5170	Petroleum and petroleum products.
5180	Alcoholic beverages.
5190	Miscellaneous nondurable goods.

Retail Trade

Building materials, garden supplies, and mobile home dealers:

Code	
5220	Building materials dealers.
5251	Hardware stores.
5265	Garden supplies and mobile home dealers.
5300	**General merchandise stores.**

Food stores:

Code	
5410	Grocery stores.
5490	Other food stores.

Automotive dealers and service stations:

Code	
5515	Motor vehicle dealers.
5541	Gasoline service stations.
5598	Other automotive dealers.
5600	**Apparel and accessory stores.**
5700	**Furniture and home furnishings stores.**
5800	**Eating and drinking places.**

Miscellaneous retail stores:

Code	
5912	Drug stores and proprietary stores.
5921	Liquor stores.
5995	Other retail stores.

Finance, Insurance, and Real Estate

Banking:

Code	
6030	Mutual savings banks.
6060	Bank holding companies.
6090	Banks, except mutual savings banks and bank holding companies.

Credit agencies other than banks:

Code	
6120	Savings and loan associations.
6140	Personal credit institutions.
6150	Business credit institutions.
6199	Other credit agencies.

Security, commodity brokers and services:

Code	
6210	Security brokers, dealers, and flotation companies.
6299	Commodity contracts brokers and dealers; security and commodity exchanges; and allied services.

Insurance:

Code	
6355	Life insurance
6356	Mutual insurance, except life or marine and certain fire or flood insurance companies.
6359	Other insurance companies.
6411	Insurance agents, brokers, and service.

Real estate:

Code	
6511	Real estate operators and lessors of buildings.
6516	Lessors of mining, oil, and similar property.
6518	Lessors of railroad property and other real property.
6530	Condominium management and cooperative housing associations.
6550	Subdividers and developers.
6599	Other real estate.

Holding and other investment companies, except bank holding companies:

Code	
6742	Regulated investment companies.
6743	Real estate investment trusts.
6744	Small business investment companies.
6749	Other holding and investment companies except bank holding companies.

Services

Code	
7000	**Hotels and other lodging places.**
7200	**Personal services.**

Business services:

Code	
7310	Advertising.
7389	Business services, except advertising.

Auto repair; miscellaneous repair services:

Code	
7500	Auto repair and services.
7600	Miscellaneous repair services.

Amusement and recreation services:

Code	
7812	Motion picture production, distribution, and services.
7830	Motion picture theaters.
7900	Amusement and recreation services, except motion pictures.

Other services:

Code	
8015	Offices of physicians, including osteopathic physicians.
8021	Offices of dentists.
8040	Offices of other health practitioners.
8050	Nursing and personal care facilities.
8060	Hospitals.
8071	Medical laboratories.
8099	Other medical services.
8111	Legal services.
8200	Educational services.
8300	Social services.
8600	Membership organizations.
8911	Architectural and engineering services.
8930	Accounting, auditing, and bookkeeping.
8980	Miscellaneous services (including veterinarians).

Form **3468**

Department of the Treasury
Internal Revenue Service (0)

Computation of Investment Credit

▶ Attach to your tax return.
▶ Schedule B (Business Energy Investment Credit) on back.

OMB No. 1545-0155
1986
Attachment Sequence No. 24

Name(s) as shown on return | Identifying number

Part I Elections (Check the box(es) below that apply to you (See Instruction D).)

A I elect to increase my qualified investment by all qualified progress expenditures (QPE) made this and all later tax years . . . . . ☐
Enter total qualified progress expenditures included in column (4), Part II ▶ ....
B I claim full credit on certain ships under section 46(g)(3) (See Instruction B for details) . . . . ☐

Part II Qualified Investment (Certain Transition Property, QPE Property, and Qualified Timber Property)

1 Recovery Property		Line	(1) Class of Property	(2) Cost or Other Basis	(3) Applicable Percentage	(4) Qualified Investment (Column 2 x column 3)
Regular Percentage	New Property	(a)	3-year		60	
		(b)	Other		100	
	Used Property	(c)	3-year		60	
		(d)	Other		100	
Section 48(q) Election to Reduce Credit (instead of adjusting basis) (partner, etc., of 1985-86 flow-through entity only)	New Property	(e)	3-year		40	
		(f)	Other		80	
	Used Property	(g)	3-year		40	
		(h)	Other		80	

2 Nonrecovery property—Enter total qualified investment (See instructions for line 2) 2
3 **Total qualified investment in 10% property**—Add lines 1(a) through 1(h), and 2 (See instructions for special limits) . . . 3
4 Regular credit—Multiply line 3 by 10% (.10) (FY 1986-87 filers, see instructions for line 4) . . . 4
5 Qualified rehabilitation expenditures (enter qualified investment and multiply by percentage shown):
a **Rehabilitation Property placed in service before 1-1-87:**
(i) 30-year-old buildings . . . . ________ × 15% 5a(i)
(ii) 40-year-old buildings . . . . ________ × 20% 5a(ii)
(iii) Certified historic structures (attach NPS certificate) . . . . . ________ × 25% 5a(iii)
Fiscal-year 1986-87 filers only:
b **Transition Property** and **Certain Projects placed in service after 12-31-86:**
(i) 30-year-old buildings . . . . ________ × 10% 5b(i)
(ii) 40-year-old buildings . . . . ________ × 13% 5b(ii)
(iii) Certified historic structures (attach NPS certificate) . . . . . ________ × 25% 5b(iii)
c **Rehabilitation Property** (not shown above) **placed in service after 12-31-86:**
(i) Pre-1936 buildings . . . . ________ × 10% 5c(i)
(ii) Certified historic structures (attach NPS certificate) . . . . . ________ × 20% 5c(ii)
6 Credit from cooperatives—Enter regular investment credit from cooperatives 6
7 Business energy investment credit—From line 7 of Schedule B (see back of this form) 7
8 Current year investment credit—Add line 4 through line 7 8

Note: *If you have a 1986 jobs credit (Form 5884), credit for alcohol used as fuel (Form 6478), research credit (Form 6765), low-income housing credit (Form 8586), or employee stock ownership plan (ESOP) credit (Form 8007) in addition to your 1986 investment credit, or if you have a carryback or carryforward of any general business credit, stop here and go to* **Form 3800, General Business Credit**, *to claim your 1986 investment credit. If you have only a 1986 investment credit (which may include business energy investment credit), you may continue with lines 9 through 14 to claim your credit.*

Part III Tax Liability Limitations

9a Individuals—From Form 1040, enter amount from line 45 . . . .
b Corporations—From Form 1120, Schedule J, enter tax from line 3 (or Form 1120-A, Part I, line 1) } 9
c Other filers—Enter income tax before credits from return . . . .
10a Individuals—From Form 1040, enter credit from line 46, plus any orphan drug and nonconventional source fuel credits included on line 48 . . . .
b Corporations—From Form 1120, Schedule J, enter credits from lines 4(a) through 4(d) (Form 1120-A filers, enter zero) } 10
c Other filers—See instructions for line 10c . . . .
11 Income tax liability as adjusted (subtract line 10 from line 9) 11
12a Enter smaller of line 11 or $25,000 (See instructions for line 12) 12a
b If line 11 is more than $25,000—Enter 75% of the excess 12b
13 Investment credit limitation—Add lines 12a and 12b 13
14 Total allowed credit—Enter the smaller of line 8 or line 13—This is your **General Business Credit** for 1986. Enter here and on Form 1040, line 47; Form 1120, Schedule J, line 4(e); Form 1120-A, Part I, line 2; or the proper line of other returns . 14

For Paperwork Reduction Act Notice, see separate Instructions. Form **3468** (1986)

Form 3468 (1986) Page **2**

Schedule B.—Business Energy Investment Credit

1 Enter on lines 1(a) through 1(e) your qualified investment in business energy property.

Type of Property	Line	(1) Class of Property or Life Years	(2) Code	(3) Basis	(4) Applicable Percentage	(5) Qualified Investment (Column 3 x column 4)
Recovery	(a)	3-year			60	
	(b)	Other			100	
Nonrecovery	(c)	3 or more but less than 5			33 ⅓	
	(d)	5 or more but less than 7			66 ⅔	
	(e)	7 or more			100	

2 Total qualified investment—Add lines 1(a) through 1(e), column (5) 2
3 1986 credit (15% times the portion of the line 2 amount attributable to energy property placed in service by 12-31-86) 3
4 1986-87 fiscal year filers—Multiply the portion of the line 2 amount attributable to property placed in service after 12-31-86 by the following percentages:
a Solar energy property (12%) 4a
b Biomass and geothermal property (10%) 4b
c Ocean thermal property (15%) 4c
5 Certain other property (See instructions below for special limits):
a Certain long-term section 46(b)(2)(A)(i) projects underway by 12-31-82 (10%) 5a
b Hydroelectric generating property placed in service during the year (if docketed with the Federal Energy Regulatory Commission by 12-31-85) (11%) 5b
6 Cooperative credit—Enter business energy investment credit from cooperatives 6
7 Tentative business energy investment credit—Add lines 3 through 6. Enter here and on line 7 of page 1 7

Instructions for Schedule B (Form 3468)

Note: *Partners, shareholders, and beneficiaries of FY 1985-86 partnerships, S corporations, estates and trusts that placed property in service before January 1, 1986, see the separate Instructions for Form 3468, under Specific Instructions.*

Energy property must meet the same requirements as regular investment credit property, except that the provisions of sections 48(a)(1) and 48(a)(3) do not apply. See the separate Instructions for Form 3468 for definitions and rules regarding regular investment credit property.

Energy property must be acquired new. See sections 46(b)(2) and 48(l)(1) through (17) for details.

See section 48(l)(17) for special rules on public utility property, and section 48(l)(11) (as amended by the Crude Oil Windfall Profit Tax Act of 1980) for special rules on property financed by Industrial Development Bonds.

Specific Instructions

One Credit Only.—If property qualifies as more than one kind of energy property, you may take only one credit for the property.

Line 1—Type of Property.— For definition of recovery and nonrecovery property, see the separate Instructions for Form 3468.

Line 1—Column (2).—Use the code letters from the following list to indicate the kind of property for which you are claiming a credit. If you enter more than one kind of property on a line, enter the code letter for each kind of property placed in column (2) and the code letter and dollar amount of each kind of property in the right hand margin.

The code letters are:

a. Biomass property
b. Hydroelectric generating property
c. Solar equipment (but not passive solar equipment)
d. Ocean thermal equipment
e. Geothermal equipment

See sections 48(l)(4) and 48(l)(3)(A)(viii) and (ix) for definitions and special rules that apply to these kinds of property.

Line 5.—The section 48(q)(4) election to take a reduced credit instead of adjusting the basis of the energy property on line 5 is not available for property placed in service after December 31, 1985, and you must reduce the basis by the full amount of the credit claimed.

If the installed capacity of hydroelectric generating property is more than 25 megawatts, the 11% energy credit is allowed for only part of the qualified investment. See section 48(l)(13)(C).

On the dotted line for line 5b, enter the megawatt capacity of the generator as shown on the nameplate of the generator.

If you are a 1986-87 fiscal-year filer with a tax year beginning before and ending after July 1, 1987 (for a normal 12-month tax year, this would be only years beginning after July 31, 1986), the energy credit(s) on lines 5a and 5b must be reduced by a percentage figured from the following formula:

$$35\% \times \frac{\text{number of months in your tax year after June 1987}}{\text{total number of months in your tax year}}$$

Enter the reduced credit on lines 5a and 5b. Although the reduction may not be used in the current year or carried back to a prior year, it may be carried forward to your next tax year.

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1986 Department of the Treasury
Internal Revenue Service

Instructions for Form 3468

Computation of Investment Credit

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

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

Changes You Should Note

The Tax Reform Act of 1986 repealed the investment credit for most taxpayers. In general, for property placed in service after December 31, 1985, you cannot claim any investment credit unless the property is:

- Transition property, as defined in the Specific Instructions for lines 1(a)-1(h);
- Qualified progress expenditure property, as defined in General Instructions D(1) under "Elections," and the Specific Instructions for lines 1(a)-1(h);
- Qualified timber property;
- Certain rehabilitation property; or
- Business energy property.

For most taxpayers, this means you may no longer claim any investment credit for property such as automobiles, delivery trucks, office equipment, farm equipment, etc., unless it was transition property on December 31, 1985, or it falls into one of the other categories above.

The business energy portion of the investment credit has been extended, and the rehabilitation portion of the credit has been greatly modified.

The Act also made other changes to the general business credit. The income tax liability which may be offset by the credit has been reduced to $25,000 plus 75% of the liability in excess of $25,000. Also, two additional credits have been added to the general business credit: the research credit and the new low-income housing credit.

General Business Credit.—The general business credit consists of the investment credit (Form 3468), jobs credit (Form 5884), credit for alcohol used as fuel (Form 6478), research credit (Form 6765), low-income housing credit (Form 8586), and employee stock ownership plan (ESOP) credit (Form 8007). If you have more than one of these credits for 1986, or a carryback or carryforward of any of these credits, you must summarize them on **Form 3800**, General Business Credit. If you have only a 1986 investment credit, you do not have to file Form 3800 this year.

Special Limitations on Automobiles and Other "Listed Property" that is transition property (acquired under a written contract binding on December 31, 1985, and placed in service before July 1, 1986).—

(1) The credit on any passenger car may not exceed $675. Figure the credit by entering in column (2) no more than $11,250 of the basis multiplied by the percentage of business, investment, and production-of-income use;

(2) You may not take ANY credit on the following types of property ("listed property") unless more than 50% of the use of the property during the year was business use:

- any passenger car or other transportation property,
- property of the type generally used for entertainment, recreation, or amusement, and
- computer equipment not used exclusively at a regular business establishment and owned or leased by the person operating the establishment (office in the home must meet the requirements of section 280A(c)(1)).

When you figure this more-than-50% test, do not count use of property for investment or the production of income as business use. Once you have met the test, however, you may include investment and production-of-income use to arrive at your credit.

(3) You must also furnish the information required on **Form 2106**, Employee Business Expenses, or Part III of **Form 4562**, Depreciation and Amortization, if you claim investment credit for any listed property.

(4) Employee use of property is considered business use only if it is for the convenience of the employer and required as a condition of employment. See section 280F.

(5) Vehicles used by employees (other than 5-percent owners or related persons) are treated as being used 100% in your trade or business if the value of any personal use is included in the employees' gross income.

General Instructions

A. Purpose of Form.—Use Form 3468 to claim a regular, rehabilitation, or business energy investment credit or to make certain elections.

Caution: *You may have to refigure the credit and recapture all or a portion of it if:*

- you dispose of the property before the end of the property class life or life years;
- you change the use of the property;
- the business use of the property decreases so that it no longer qualifies (in whole or in part) as investment credit property;
- you reduce your proportionate interest in a partnership or other "pass-through" entity that had claimed a credit; or
- you returned leased property (on which you had taken a credit) to the lessor before the end of the recapture period or useful life.

For more information, see **Form 4255**, Recapture of Investment Credit.

A partnership or S corporation should complete only the following lines, to figure the cost or basis of property to pass through to the individual partners or shareholders:

- the Part I elections,
- columns (2) of line 1 and the line 2 worksheet,
- the qualified investment on line 5, and
- columns (2) and (3) for line 1, Schedule B (you should also tell the partner, etc., how much of the column (3) basis to enter on lines 3, 4, or 5).

Attach the completed form to the partnership or S corporation return to show the total cost or basis that is passed through.

If you are a partner, beneficiary, shareholder in an S corporation, or lessee, use Form 3468 to figure the credit based on your share of the investment by the partnership, estate, trust, S corporation, or lessor.

For more details on investment credit, see **Publication 572**, Investment Credit, and regulations under sections 46 and 48.

B. How to Figure the Credit.—For recovery property, the class of property determines the percentage qualifying for investment credit. For nonrecovery property, the useful life of the property for investment credit must be the same as the useful life for depreciation or amortization.

See section 48 for special rules on movie and television films, sound recordings, and sale-leasebacks.

See section 46(e) for limitations on the investment credit for mutual savings institutions, regulated investment companies, and real estate investment trusts.

Generally, you may only take half of the regular credit for certain vessels. See sections 46(g)(1) through (6). If you claim the full credit, check box B in Part I of Form 3468.

C. Investment Credit Property.—Generally, you may take investment credit the first year you place qualified property in service, or make qualified progress expenditures.

The property must be used in a trade or business and be either recovery property or other depreciable property with a life of 3 years or more. Enter only the business part if property is for both business and personal use.

Generally, investment credit property is:

(1) Tangible personal property as defined in section 48(a)(1).

(2) Certain elevators and escalators.

(3) Other tangible property, including certain real property, used as an integral part of manufacturing, production, or extraction, or used as a research or bulk storage facility for fungible commodities for these activities.

(4) Livestock other than horses, as long as you do not sell or dispose of substantially identical livestock (not subject to recapture tax) during the 1-year period beginning 6 months before the date you got the livestock. Reduce the cost of the livestock you got by the amount you received on the disposition of the substantially identical livestock.

(5) Single-purpose livestock or horticultural structures. See section 48(p).

(6) Rehabilitation expenditures for qualified 30-year buildings, 40-year buildings, and certified historic structures. For property placed in service after 1986, there are generally only two categories: Pre-1936 buildings and certified historic structures. See sections 46(b)(4) and 48(g).

(7) Forestation and reforestation expenditures amortizable under section 194. See section 48(a)(1)(F).

(8) Petroleum storage facilities (but not buildings or their structural components).

Exceptions.—Investment credit generally does not apply to property that is:

(1) Used mainly outside the U.S.

(2) Used by a tax-exempt organization (other than a section 521 farmers' cooperative) unless the property is used mainly in an unrelated trade or business.

(3) Used by governmental units and foreign persons and entities.

(4) Used for lodging or for furnishing the lodging (see section 48(a)(3) for exceptions, *i.e.*, hotel or motel furnishings).

(5) Amortized or depreciated under sections 167(k), 184 or 188.

(6) Acquired or constructed with "excluded cost-sharing payments" from grants under any program listed in section 126(a) or by grants under the Energy Security Act.

D. Elections.—

(1) Qualified Progress Expenditures.—You may elect under section 46(d) to increase your qualified investment for the year by qualified progress expenditures. This permits you to claim investment credit on a long-term construction project before it is completed and placed in service. Check box A in Part I. The election applies to all progress expenditure property for the tax year it is made and all later tax years.

In general, the term "progress expenditure property" means property which is being constructed by or for you and (1) construction began before 1986 (or you had a binding contract on 12-31-85 to begin construction), (2) the property has a normal construction period of two years or more, and (3) it is reasonable to believe that it will be new section 38 property when it is placed in service.

(2) Election for Leased Property.—If you lease property to someone else, you may elect to treat all or part of your investment in new property as if it were made by the person who is leasing it from you. Lessors and lessees should see section 48(d) and regulations for rules on making this election. For limitations, see sections 46(e)(3) and 48(d)(6).

E. At-Risk Limitation for Individuals and Closely Held Corporations.—The cost or basis of property for investment credit purposes may be limited if you borrowed against the property and are protected against loss, or if you borrowed money from a person who is related or who has other than a creditor interest in the business activity. The cost or basis must be reduced by the amount of this "nonqualified nonrecourse financing" related to the property as of the close of the tax year in which it is placed in service. See Publication 572 and sections 46(c)(8) and 465 for details. If there is an increase during a later year of this nonqualified nonrecourse financing, you may have to refigure the credit on Form 4255.

Specific Instructions

Part II.—Qualified Investment

Note: Partners, shareholders, and beneficiaries of FY 1985-86 partnerships, S corporations, estates and trusts that placed property in service before January 1, 1986: Use lines 1 or 2 of the 1986 Form 3468 to report the 1985 flow-through qualified investment. If the investment was for commuter highway vehicles, include the 1985 flow-through investment in line 3 and write "COMMUTER HIGHWAY VEH: 1985 FLOW-THRU" to the left of the entry. Enter investments in 1985 flow-through rehabilitation property on line 5a of the 1986 Form 3468. If the investment was for business energy property, include and label the 1985 investment on line 3 or 5b of the 1986 Schedule B. (Enter and label 1985 10% intercity bus or biomass property on line 4b of the 1986 Schedule B.)

Lines 1(a)-1(h). Recovery Property.—In general, the Tax Reform Act of 1986 repeals the regular investment tax credit for property placed in service after December 31, 1985. The only properties for which you can now claim a regular credit are (1) transition property, (2) qualified progress expenditure (QPE) property, and (3) qualified timber property.

Transition Property.—There are several types of transition property that may be placed in service after 1985 and still be eligible for the regular credit in that year:

- Binding contract on 12-31-85: Property that is constructed, reconstructed, or acquired under a written contract that was binding on December 31, 1985.
- Construction in progress on 12-31-85: Property that is constructed or reconstructed if at least 5% of the cost, or $1 million, had been incurred or committed by December 31, 1985.
- Equipped building or plant facility in progress on 12-31-85: If construction had begun pursuant to a written specific plan and more than one-half the cost had been incurred or committed by December 31, 1985.
- Specific projects listed in the Act.

Transition property must be placed in service before the date shown in the following table. Otherwise, no credit will be allowed.

Property class life (years)	*Must be placed in service before*
3 or more but less than 5	July 1, 1986
5 or more but less than 7	January 1, 1987
7 or more but less than 20 . . .	January 1, 1989
20 or more	January 1, 1991

The section 48(q)(4) election to take a reduced credit instead of adjusting the basis of property is not available for transition property. You must reduce the basis by the full amount of the credit claimed.

QPE Property.—The regular credit may be claimed on QPEs so long as it is reasonable to expect that the property will be transition property when placed in service before the date shown in the table above. For any year that the reasonable expectations change, or if the property is not placed in service before the date shown, all post-1985 QPEs must be recaptured.

The election to take a reduced credit instead of adjusting the basis of QPE property is no longer available. Although you do not have to amend prior years, for periods after 1985 you must reduce the basis of QPE property by the full amount of the credit claimed, even if you made a section 48(q)(4) election in a prior year.

Qualified Timber Property.—The regular credit may be claimed in 1986 for the portion of the adjusted basis of qualified timber property that is treated as section 38 property under section 48(a)(1)(F). For timber property you must reduce the basis for depreciation by one-half of the credit taken.

Enter the basis of recovery property in column (2). This is generally the cost of the property reduced by any personal-use factor and by any portion that was expensed under section 179. It includes all items properly included in the depreciable basis, such as installation and freight costs. Recovery property is tangible personal property used in a trade or business or held for the production of income, and depreciated under the Accelerated Cost Recovery System (ACRS). See sections 46(c)(7), 168 and 280F.

Line 2. Nonrecovery Property.—Compute your qualified investment using the worksheet format at the bottom of this page. Nonrecovery property includes:

- property you elect to depreciate using a method not expressed in terms of years;
- property you elect to amortize (*e.g.*, leasehold improvements);

Line 2 Nonrecovery Property Worksheet	Line	(1) Life Years	(2) Basis or Cost	(3) Applicable Percentage	(4) Qualified Investment (Column 2 x column 3)
New	(a)	3 or more/less than 5		33⅓	
	(b)	5 or more/less than 7		66⅔	
	(c)	7 or more		100	
Used	(d)	3 or more/less than 5		33⅓	
	(e)	5 or more/less than 7		66⅔	
	(f)	7 or more		100	
Total—Add lines (a) through (f) and enter on line 2 of Form 3468.				2	

- property transferred or acquired merely to bring the property under ACRS;
- property acquired in certain nonrecognition transactions;
- certain property used outside the U.S.;
- public utility property if you do not use the normalization method of accounting.

See section 168(e) for further details.

Enter the amortizable basis in forestation and reforestation expenditures on line 2(c) of the worksheet. See section 48(a)(1)(F). See section 46(c)(5) for rules for certain pollution control facilities.

Lines 1(a), 1(b), 1(e), and 1(f) of form; lines 2(a), 2(b), and 2(c) of worksheet. Qualified Progress Expenditures.—Enter on the proper line the amount of qualified progress expenditures made in the tax year.

Do not take any qualified progress expenditures for the year the property is placed in service or for the year for which recapture is required for the property. The credit allowed for the year the property is placed in service is based on the entire qualified investment reduced by the progress expenditures included as qualified investment in earlier years. See section 46(d) for more information.

Lines 1(c), 1(d), 1(g), and 1(h) of form; lines 2(d), 2(e), and 2(f) of worksheet. Used Property Dollar Limitation.—In general, you may not take into account more than $125,000 of the cost of used property in any one year. This does not include the basis of any property traded in unless the trade-in caused the recapture of all or part of an investment credit allowed earlier, or a reduction in an investment credit carryback or carryforward. Determine the $125,000 amount before applying the percentages based on the class of property or useful life. Enter the cost (subject to the dollar limitation) of used property placed in service during the year. Property inherited, received as a gift, or acquired from certain related persons does not qualify for the investment credit.

If a husband and wife file separate returns, each may claim up to $62,500. If one of them has no qualifying used property, the other may claim up to $125,000.

The $125,000 limitation applies to a partnership, S corporation, estate, or trust. The $125,000 must be divided among the estate or trust and its beneficiaries based on the income of the estate or trust allocable to each. The $125,000 limitation also applies to each partner, shareholder, or beneficiary. Controlled corporate groups must divide the limitation among all component members. See section 48(c) and related regulations.

Line 4.—If you are a 1986-87 fiscal-year filer with a tax year beginning before and ending after July 1, 1987 (for a normal 12-month tax year, this would be only years beginning after July 31, 1986), the regular credit (other than for timber property) must be reduced by a percentage figured from the following formula:

$$35\% \times \frac{\text{number of months in your tax year after June 1987}}{\text{total number of months in your tax year}}$$

Example: Your 1986 fiscal tax year beginning August 1, 1986, and ending July 31, 1987, shows a qualified investment on line 3 of $100,000. Since one month of the twelve ($\frac{1}{12}$) is after June 1987, you must reduce your regular credit of $10,000 (10% × $100,000) by 2.92% (35% × $\frac{1}{12}$). The credit reduction is $292 ($10,000 × .0292), and the reduced credit of $9,708 ($10,000 − $292) would be entered on line 4.

Although the reduction ($292 in the example) may not be used in the current year or carried back to a prior year, it may be carried forward to your next tax year.

Lines 5a, 5b, and 5c. Rehabilitation Expenditures.—The Tax Reform Act of 1986 generally changed the rules for claiming the rehabilitation portion of the investment credit for property placed in service after December 31, 1986, in tax years ending after that date.

You may take a credit for certain capital costs incurred for additions or improvements to qualified existing buildings and for rehabilitation of certified historic structures. The expenditures must be added to the basis of the building and depreciated by the straight-line method over 19 years (15 years in the case of low-income housing) in connection with the rehabilitation of a qualified rehabilitated building. The applicable percentage for qualified rehabilitation expenditures is 100%.

The increase in depreciable basis resulting from the expenditures must be decreased by the allowed credit (by half the allowed credit for certified historic structures placed in service before 1987).

For FY 1986-87 filers placing property in service in 1987, the expenditures must be for either:

(1) nonresidential real property,

(2) residential rental property, or

(3) real property that has a class life of more than 12½ years.

See section 48(g) for other details and section 251(d) of the Act for transitional rules applicable to line 5b.

If you are claiming a credit for a certified historic structure, you must attach a copy of your request for final certification from the National Park Service (NPS Form 10-168c). (Do not do this if the credit is a flow-through from a partnership, S corporation, estate or trust because that entity will attach a copy to its return. Instead, write "$ ________ FROM PARTNERSHIP" (or "S CORP.," etc.) on the dotted line to the left of the entry column.)

Lines 3, 5, and 12a Limitations.—Mutual savings institutions, regulated investment companies, and real estate investment trusts are subject to special limitations for the amounts to be entered on lines 3, 5 a-c, and line 12a. See regulations section 1.46-4.

Line 6. Credit from Cooperative.—Section 1381(a) cooperative organizations may claim investment credit. If the cooperative cannot use any of the credit because of the tax liability limitation, the unused credit must be allocated to the patrons of the cooperative. The recapture provisions of section 47 apply as if the cooperative had kept the credit and not allocated it. Patrons should enter their regular investment credit from a cooperative on line 6.

Carryback and Carryforward of Unused Credits.—If you cannot use part of the credit because of the tax liability limitations or the operation of the alternative minimum tax, you may carry it back 3 years, then forward 15 years.

Line 10c. Other Filers.—Before you can claim the investment credit against your income tax liability, you must reduce this tax liability by the credits listed below:

- Personal credits (child and dependent care credit, credit for elderly or disabled, residential energy credit, credit for contributions to candidates for public office, and the credit for interest on certain home mortgages)
- Foreign tax credit
- Possessions corporation tax credit
- Orphan drug credit
- Nonconventional source fuel credit

Line 12. Limitation.—If the tax liability on line 11 is $25,000 or less, your investment credit is limited to that tax liability. If the tax liability is more than $25,000, your credit is limited to $25,000 plus 75% of the excess.

If you and your spouse file separate returns, each must use $12,500 instead of $25,000. But if only one has *any* investment credit, that one may use the entire $25,000.

Controlled corporate groups must divide the $25,000 among all component members.

Estates and trusts must determine the percentage of total income allocable to the estate or trust itself, and apply the percentage to the $25,000 limit on line 12a.

Form **3800**

Department of the Treasury
Internal Revenue Service

General Business Credit

▶ Attach to your tax return.

OMB No. 1545-0895

1986

Attachment Sequence No. 25

Name(s) as shown on return	Identifying number

Part I Tentative Credit

1	Investment credit (Form 3468, line 8)	1	
2	Jobs credit (Form 5884, line 7)	2	
3	Credit for alcohol used as fuel (Form 6478, line 11)	3	
4	Credit for increasing research activities (Form 6765, line 20)	4	
5	Low-income housing credit (Form 8586)	5	
6	Employee stock ownership plan (ESOP) credit (Form 8007, line 3)	6	
7	**Current year general business credit**—Add lines 1 through 6	7	
8	Carryforward of general business credit (or investment (see instr.), WIN, jobs, alcohol fuel, research, or ESOP credits)	8	
9	Carryback of general business credit to 1986	9	
10	Tentative general business credit—Add lines 7, 8, and 9	10	

Part II Tax Liability Limitations

11a	Individuals—From Form 1040, enter amount from line 45		
b	Corporations—From Form 1120, Schedule J, enter tax from line 3 (or Form 1120-A, Part I, line 1)		
c	Other filers—Enter income tax before credits from return	11	
12a	Individuals—From Form 1040, enter credit from line 46, plus any orphan drug and nonconventional source fuel credits included on line 48		
b	Corporations—From Form 1120, Schedule J, enter credits from lines 4(a) through 4(d) (Form 1120-A filers, enter zero)		
c	Other filers—See instructions for line 12c	12	
13	Income tax liability as adjusted—Subtract line 12 from line 11	13	
14a	Enter smaller of line 13 or $25,000 (See instructions for line 14)	14a	
b	If line 13 is more than $25,000—Enter 75% of the excess	14b	
15	Credit limitation—Add lines 14a and 14b	15	
16	General business credit—Enter smaller of line 10 or line 15 here and on Form 1040, line 47; Form 1120, Schedule J, line 4(e); Form 1120-A, Part I, line 2; or the proper line on other returns	16	

General Instructions

(Section references are to the Internal Revenue Code.)

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

Changes You Should Note

The Tax Reform Act of 1986 made several changes to the general business credit. Two additional credits have been added to the general business credit: the research credit (but not the orphan drug credit) and the new low-income housing credit. Also, the income tax liability which may be offset by the credit has been reduced to $25,000 plus 75% of the liability in excess of $25,000.

Purpose of Form.—The general business credit consists of the investment credit (Form 3468), jobs credit (Form 5884), alcohol fuel credit (Form 6478), research credit (Form 6765), low-income housing credit (Form 8586), and employee stock ownership plan (ESOP) credit (Form 8007). If you have more than one of these credits, or a carryback or carryforward of any of these credits, you must attach the appropriate credit forms and summarize them here on Form 3800. *If you have only one of these credits for 1986, you do not have to file Form 3800. Instead, use only that particular form to claim the credit.* For example, if you have only a 1986 investment credit, you may use Form 3468 to claim your credit for 1986. You do not have to file Form 3800 in this case.

You do not have to take the jobs, alcohol fuel, or ESOP credits if you do not wish to.

For more information on the investment credit, see **Form 3468**, Computation of Investment Credit, or **Publication 572**, Investment Credit.

For more information on the jobs credit, see **Form 5884**, Jobs Credit, or **Publication 906**, Jobs and Research Credits.

For more information on the alcohol fuel credit, see **Form 6478**, Credit for Alcohol Used as Fuel.

For more information on the research credit, see **Form 6765**, Credit for Increasing Research Activities (or for claiming the orphan drug credit), or Publication 906.

For more information on the low-income housing credit, see **Form 8586**, Low-Income Housing Credit.

For more information on the ESOP credit, see **Form 8007**, Credit for Employee Stock Ownership Plan.

Carryback and Carryforward of Unused Credit.—If you cannot use part or all of the credit on line 7 because of the tax liability limitation on line 15 or the operation of the alternative minimum tax, you may carry any excess back to each of the 3 preceding tax years, beginning with the earliest. If you have an unused credit after carryback, it may be carried forward to each of the 15 years after the year of the credit. In general, credits unused after 15 years may be deducted in the 16th year (or earlier if the taxpayer dies or goes out of business). Unused ESOP credits are deductible in the 15th year if unused by that time. **Note:** *Generally, only half the unused investment credit is deductible. If you had originally made a section 48(q)(4) election to take a reduced credit instead of adjusting the basis of the property, then none is deductible.*

Although the investment, jobs, alcohol fuel, research, low-income housing, and ESOP credits are aggregated as the general business credit, you may want to keep separate records of these credits to ensure that no credits or deductions are lost.

(Continued on back)

Specific Instructions

Line 8.—All carryforwards of unused investment, jobs, WIN, alcohol fuel, research, and ESOP credits are added together and become a business credit carryforward to 1986. **Note:** *Carryforward of regular investment credit by FY 1986-87 filers with tax years beginning before and ending after July 1, 1987 (for a normal 12-month tax year, this would be only years beginning after July 31, 1986).*—Under new section 49(c) you must reduce the portion of the business credit carryforward attributable to the section 46(a)(1) regular investment credit (other than for timber property) by a percentage figured from the following formula:

$$35\% \times \frac{\text{number of months in your tax year after June 1987}}{\text{total number of months in your tax year}}$$

Enter the reduced credit on line 8. Although the reduction may not be used in the current year or carried back to a prior year, it may be carried forward to your next tax year.

Line 9.—Leave blank in 1986. Use only in subsequent years to carry back unused credits arising in those later years.

Line 12c—Other filers.—Before you can claim the general business credit against your income tax liability, you must reduce this tax liability by the following credits:

- Personal credits (child and dependent care credit, credit for elderly or disabled, residential energy credit, credit for contributions to candidates for public office and the credit for interest on certain home mortgages)
- Foreign tax credit
- Possessions corporation tax credit
- Orphan drug credit
- Nonconventional source fuel credit

Line 14.—If your adjusted tax liability (line 13) is $25,000 or less, your general business credit is limited to that liability. If the tax liability is more than $25,000, your credit is limited to $25,000 plus 75% of the excess.

If you and your spouse file separate returns, each must use $12,500 instead of $25,000. However, if only one has *any* business credit, that one may use the entire $25,000.

Controlled corporate groups must divide the $25,000 among all component members. See section 38(c)(3)(B).

Estates and trusts must first determine what percentage of the total income is allocable to the estate or trust itself, then apply that same percentage to the $25,000 amount on line 14a.

See section 38(c)(3)(C) for limitations on the credit for mutual savings institutions, regulated investment companies, and real estate investment trusts.

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Form **4562**

Department of the Treasury
Internal Revenue Service (0)

Depreciation and Amortization

▶ See separate instructions.
▶ Attach this form to your return.

OMB No. 1545-0172
1986
Attachment Sequence No. 67

Name(s) as shown on return	Identifying number

Business or activity to which this form relates

Part I **Depreciation** (Do not use this part for automobiles, certain other vehicles, computers, and property used for entertainment, recreation, or amusement. Instead, use Part III.)
See instructions under Items You Should Note for new rules for certain assets placed in service after July 31, 1986.

Section A.—Election To Expense Recovery Property (Section 179)

	(a) Class of property	(b) Cost	(c) Expense deduction
1			
2	Listed property—Enter total from Part III, Section A, column (h)		
3	Total (see instructions for limitations). (Partnerships or S corporations—see the Schedule K and Schedule K-1 Instructions of Form 1065 or 1120S)		

Section B.—Depreciation of Recovery Property

(a) Class of property	(b) Date placed in service	(c) Basis for depreciation (Business use only—see instructions)	(d) Recovery period	(e) Method of figuring depreciation	(f) Deduction
4 Accelerated Cost Recovery System (ACRS) (see instructions): *For assets placed in service* **ONLY** *during tax year beginning in 1986*					
a 3-year property					
b 5-year property					
c 10-year property					
d 15-year public utility property					
e Low-income housing					
f 15-year real property					
g 18-year real property					
h 19-year real property					
5 Listed property—Enter total from Part III, Section A, column (g)					
6 ACRS deduction for assets placed in service prior to 1986 (see instructions)					

Section C.—Depreciation of Nonrecovery Property

7 Property subject to section 168(e)(2) election (see instructions)	
8 Other depreciation (see instructions)	

Section D.—Summary

9 Depreciation from Form 4562A (see instructions)	
10 Total (add deductions on lines 3 through 9). Enter here and on the Depreciation line of your return (Partnerships and S corporations—Do NOT include any amounts entered on line 3.)	

Part II **Amortization**

(a) Description of property	(b) Date acquired	(c) Cost or other basis	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
1 Amortization for property placed in service only during tax year beginning in 1986					
2 Amortization for property placed in service prior to 1986					
3 Total. Enter here and on Other Deductions or Other Expenses line of your return					

See Paperwork Reduction Act Notice on page 1 of the separate instructions. Form **4562** (1986)

Part III **Automobiles, Certain Other Vehicles, Computers, and Property Used for Entertainment, Recreation, or Amusement (Listed Property).**
If you are using the standard mileage rate or deducting vehicle lease expense, complete columns (a) through (d) of Section A, all of Section B, and Section C if applicable.

Section A.—Depreciation (If automobiles and other listed property placed in service after June 18, 1984, are used 50% or less in a trade or business, the Section 179 deduction is not allowed and depreciation must be taken using the straight line method over 5 years. For other limitations, see instructions.)

Do you have evidence to support the business use claimed? ☐ Yes ☐ No If yes, is the evidence written? ☐ Yes ☐ No

(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business use percentage (%)	(d) Cost or other basis (see instructions for leased property)	(e) Basis for depreciation (Business use only—see instructions)	(f) Depreciation method and recovery period	(g) Depreciation deduction	(h) Section 179 expense
Total (Enter here and on line 2, page 1.)							
Total (Enter here and on line 5, page 1.)							

Section B.—Information Regarding Use of Vehicles
Complete this section as follows, if you deduct expenses for vehicles:

- *Always complete this section for vehicles used by a sole proprietor, partner, or other more than 5% owner or related person.*
- *If you provided vehicles to employees, first answer the questions in Section C to see if you meet an exception to completing this section for those items.*

	Vehicle 1		Vehicle 2		Vehicle 3		Vehicle 4		Vehicle 5		Vehicle 6	
1 Total miles driven during the year												
2 Total business miles driven during the year												
3 Total commuting miles driven during the year												
4 Total other personal (noncommuting) miles driven												
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
5 Was the vehicle available for personal use during off-duty hours?												
6 Was the vehicle used primarily by a more than 5% owner or related person?												
7 Is another vehicle available for personal use?												

Section C.—Questions for Employers Who Provide Vehicles for Use by Employees.
(Answer these questions to determine if you meet an exception to completing Section B. ***Note:*** *Section B must always be completed for vehicles used by sole proprietors, partners, or other more than 5% owners or related persons.)*

	Yes	No
8 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?		
9 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? (See instructions for vehicles used by corporate officers, directors, or 1% or more owners.)		
10 Do you treat all use of vehicles by employees as personal use?		
11 Do you provide more than five vehicles to your employees and retain the information received from your employees concerning the use of the vehicles?		
12 Do you meet the requirements concerning fleet vehicles or qualified automobile demonstration use (see instructions)? **Note:** *If your answer to 8, 9, 10, 11, or 12 is "Yes," you need not complete Section B for the covered vehicles.*		

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1986

Department of the Treasury
Internal Revenue Service

Instructions for Form 4562

Depreciation and Amortization

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

Paperwork Reduction Act Notice

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

Items You Should Note

- Recent legislation changed the method of figuring your allowable deduction for depreciation of property placed in service after 12/31/86. However, you may elect to use that method for property placed in service after 7/31/86. The deduction for depreciation of certain property, such as automobiles and real estate, will be less under the new system. New rules will also apply to the section 179 expense deduction. Figure your allowable deduction for depreciation using the new method on Form 4562A and enter your allowable deduction on the 1986 Form 4562, Part I, line 9. For "listed property" placed in service after December 31, 1986, see the instructions to Form 4562A.
- Line 4h is new. This is to be used for real property that has a recovery period of 19 years.
- All taxpayers claiming a deduction for any listed property (such as automobiles, computers, and property used for purposes of entertainment, recreation and amusement) are required to complete Part III on page 2, regardless of when such property was placed in service.
- As an alternative to depreciation, self-employed individuals may elect to use the standard mileage allowance. For more information, see **Publication 917**, Business Use of a Car.
- All details of depreciation should be retained as part of your permanent books and records. See **Publication 534**, Depreciation, for example of how to keep depreciation records.

Purpose of Form

Use Form 4562 to claim this year's deduction for depreciation and amortization, to make the election to expense recovery property, and to provide information concerning the business use of automobiles and other listed property.

In using this form, a taxpayer should prepare and submit a separate Form 4562 for each business or activity in the return.

For more information about depreciation, the election to expense newly acquired recovery property, and leased listed property, see **Publication 534**, Depreciation and **Publication 917**, Business Use of a Car. For more information about amortization (including depreciation/amortization of leasehold expenses), see **Publication 535**, Business Expenses.

Line-by-Line Instructions

Caution: These instructions do not reflect the new rules and limits for property placed in service after December 31, 1986. See Form 4562A and Publication 534 for details.

Part I.—Depreciation

Depreciation is an amount you can deduct each year for assets, except land, you acquire to use in your business or hold to produce income. (Land is never depreciable.) Depreciation starts when you first start using the property in your business. It ends when you take the property out of service, deduct all of your depreciable cost, or no longer use the property in your business. However, except for 15, 18, or 19-year real property, or low income housing, no depreciation deduction is allowed in the year the property is disposed of.

Complete Section A of Part III on page 2, instead of Part I, for depreciation of all listed property, regardless of when such property was placed in service.

If any "listed property" placed in service after June 18, 1984, was used more than 50% in a trade or business in the year it was placed in service, and used 50% or less in a later year, part of the depreciation, Section 179 deduction, and investment credit will have to be recaptured in the later year. Figure the amount of depreciation and Section 179 deduction to be recaptured on **Form 4797**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions. Figure the amount of investment credit to be recaptured on **Form 4255**, Recapture of Investment Credit.

Assets you place in service after December 31, 1980, are depreciated using the Accelerated Cost Recovery System (ACRS). These assets are called "recovery property." You may be able to elect to expense up to $5,000 of certain recovery property in Section A. Show your depreciation for recovery property in Section B. If you have an asset that is nonrecovery property, show your depreciation in Section C.

Section A.—Election to Expense Recovery Property.—You may choose to expense part of the cost of depreciable personal property used in your trade or business and certain other property described in Publication 534. To do so, you must have purchased (as defined in section 179(d)(2)) the property and placed it in service during the 1986 tax year. If you take this deduction, the amount on which you figure your depreciation or amortization deduction and your investment tax credit, if any, must be reduced by the amount you deduct as a section 179 expense.

Note: *The following do not qualify as section 179 property: (1) property that is used 50% or less in your trade or business; and (2) property held for the production of income (section 212 property).*

An estate or trust may not elect to expense recovery property. A partnership or S corporation may choose to expense and pass through to its partners or shareholders a maximum of $5,000. Partners or shareholders add their share of the partnership or S corporation amount to their own section 179 expense they choose to take, and deduct the combined amount up to the $5,000 (or $2,500 for married taxpayers filing separately) limit for each taxpayer. See Publication 534 for more information.

Line 1.—

Column (a).—Enter the class of recovery property (that is, 3-year, 5-year, etc.) for which you make the election and a brief description of the item.

Column (b).—Enter the property's cost. Omit any undepreciated basis on assets you traded in. For information about basis, see **Publication 551**, Basis of Assets.

Column (c).—Enter the part of the cost you choose to expense. You can choose to expense part of the cost of an asset and depreciate the rest of it.

Line 2.—If you choose to claim a section 179 expense deduction for automobiles and other listed property, complete Section A, Part III. See "Limitations for automobiles" under Section A, Part III.

Line 3.—Enter the column (c) total, up to $5,000 ($2,500 for married taxpayers filing separately). Partnerships and S corporations should carry the line 3 amount to their Schedules K and K-1.

Section B.—Depreciation of Recovery Property.—

Note: *Lines 4a through 4h should be completed for assets, other than automobiles and other listed property, placed in service only during the tax year beginning in 1986.*

Column (a).—Two factors determine the class of property: whether the property is section 1245 or section 1250 class property; and what midpoint class life (if any) would have applied to it on January 1, 1981, if the asset depreciation range (ADR) system had been elected. The midpoint class lives are listed in the asset guideline period column of the table for depreciation in the back of Publication 534.

In each recovery class, except 15, 18, or 19-year real property, list as one item all new and used property you placed in service in 1986. However, you must list separately:

- Property used mainly outside the United States.
- Retirement-replacement-betterment property.
- Property financed by tax-exempt obligations.
- Property not predominantly used in a qualified business use.

In the 15, 18, and 19-year real property classes, group property by the depreciation method elected and the month and year you placed it in service.

Attach additional sheets, if necessary.

Column (b).—For lines 4e through 4h, enter the month and year you placed the property in service.

Column (c).—Enter the basis for depreciation of the assets you placed in service in the current tax year. To find the basis for depreciation, multiply the cost or other basis of the property by the percent of business use. From that result, subtract any section 179 expense, and one-half of investment credit taken, if applicable, (unless you took the reduced credit.)

Column (d).—Enter the recovery period you are using. This is usually the class of property itself (that is, 3-year, 5-year, etc.); but you may instead elect an alternate percentage figured by using the straight-line method over one of the following periods.

For—	You may choose:
3-year property	3, 5, or 12 years
5-year property	5, 12, or 25 years
10-year property	10, 25, or 35 years
15-year public utility property or 15-year real property	15, 35, or 45 years
18-year real property	18, 35, or 45 years
19-year real property	19, 35, or 45 years
Low-income housing	15, 35, or 45 years

Also, for certain assets (described in column (e), below) you may be required to use a specified recovery period.

Column (e).—For property for which you are using the prescribed percentages (described in Section B, lines 4a through 4h below), enter "PRE." If you elect an alternate percentage, as described above in column (d) instructions, enter "SL." If the asset is used mainly outside the United States, enter "FP" and see section 168(f)(2). If the asset is retirement-replacement-betterment property, enter "RRB" and see section 168(f)(3). If the asset is property financed by tax-exempt obligations, enter "TEO" and see section 168(f)(12). For property leased to tax-exempt entities, see section 168(j).

Column (f).—Unless you use an alternate percentage, or a special percentage required for certain types of property (as described above in column (e) instructions), multiply the amount in column (c) by the applicable percentage, from the line instructions below, and enter the result in column (f). If you use an alternate percentage, use the percentage based on the recovery period you chose. Except for 15, 18, and 19-year real property, and low-income housing, and property requiring a special percentage (as described above), use the same alternate percentage for all property in the same class that you place in service in the same year.

If you elect an alternate percentage, do not figure depreciation by the number of months the property was in use; instead use the half-year convention by dividing the result explained in the instructions for column (d) by 2, for the first and last year of depreciating the property, but before the year of disposition. However, for 15, 18, and 19-year real property, and low income housing , you can elect an alternate percentage on a property-by-property basis, and the half-year convention does not apply.

Section B, Line 4a—3-year property.— Includes section 1245 class property that:

- Has a class life of 4 years or less, or
- Is used for research and experimentation, or
- Is a race horse more than 2 years old when you place it in service, or any other horse that is more than 12 years old when you place it in service.

An example of 3-year property is: machinery and equipment used in connection with research and experiments.

The percentages prescribed for these assets are:

1st year	25%
2nd year	38%
3rd year	37%

Line 4b—5-year property.—Includes section 1245 class property that is not assigned to one of the other recovery classes.

Examples of 5-year property are: machinery; office furniture; and single purpose agricultural and horticultural structures (other than a building and its structural components).

The percentages prescribed for these assets are:

1st year	15%
2nd year	22%
3rd through 5th year	21%

Line 4c—10-year property.—Includes: public utility property (except 3-year property or section 1250 class property) that has a class life of more than 18 years and no more than 25 years; section 1250 class property that has a class life of 12.5 years or less; manufactured homes; railroad tank cars; and qualified coal utilization property which would otherwise be 15-year public utility property. However, under a special rule for theme parks, etc., a building and its structural components shall not be treated as having a class life of 12.5 years or less by reason of any use other than the use for which that building was originally placed in service.

The percentages prescribed for these assets are:

1st year	8%
2nd year	14%
3rd year	12%
4th through 6th year	10%
7th through 10th year	9%

Line 4d—15-year public utility property.—Public utility property (except 3-year property or section 1250 property) that has a class life of more than 25 years.

The percentages prescribed for these assets are:

1st year	5%
2nd year	10%
3rd year	9%
4th year	8%
5th and 6th year	7%
7th through 15th year	6%

Line 4e—Low-income housing.— Property described in clause (i), (ii), (iii), or (iv) of section 1250 (a)(1)(B).

Different percentages apply to low-income housing than to 15, 18, or 19-year real property. The percentage to use each year depends on the month you placed the property in service during the tax year. Publication 534 gives complete percentage tables for low-income housing and the optional write-off periods.

For qualified rehabilitated buildings, see section 48(g).

Line 4f—15-year real property.— Section 1250 property that does not have a class life of 12.5 years or less. Applies to property placed in service before March 16, 1984, unless under construction or subject to a binding contract before March 16, 1984, and placed in service before January 1, 1987.

Line 4g—18-year real property.— Section 1250 class property that does not have a class life of 12.5 years or less. Applies to property that is placed in service after March 15, 1984, and before May 9, 1985, unless under construction or subject to a binding contract before May 9, 1985, and placed in service before January 1, 1987. Enter property grouped by the depreciation method elected and the month and year you placed it in service. The percentages to be used depend on the month of your tax year in which the property was placed in service. The chart above for line 4g shows the percentages prescribed for the first three years.

Line 4f. 15-year real property.—(mid-month convention)

Year	Use the column for the month of taxable year placed in service											
	1	2	3	4	5	6	7	8	9	10	11	12
1st	12%	11%	10%	9%	8%	7%	6%	5%	4%	3%	2%	1%
2nd	10%	10%	11%	11%	11%	11%	11%	11%	11%	11%	11%	12%
3rd	9%	9%	9%	9%	10%	10%	10%	10%	10%	10%	10%	10%
4th	8%	8%	8%	8%	8%	8%	9%	9%	9%	9%	9%	9%
5th	7%	7%	7%	7%	7%	7%	8%	8%	8%	8%	8%	8%
6th	6%	6%	6%	6%	7%	7%	7%	7%	7%	7%	7%	7%

Line 4g. 18-year real property.—(mid-month convention)

Year	Use the column for the month of taxable year placed in service											
	1	2	3	4	5	6	7	8	9	10	11	12
1st	9%	9%	8%	7%	6%	5%	4%	4%	3%	2%	1%	0.4%
2nd	9%	9%	9%	9%	9%	9%	9%	9%	9%	10%	10%	10%
3rd	8%	8%	8%	8%	8%	8%	8%	8%	9%	9%	9%	9%

Line 4h. 19-year real property.—(mid-month convention)

Year	Use the column for the month of taxable year placed in service											
	1	2	3	4	5	6	7	8	9	10	11	12
1st	8.8%	8.1%	7.3%	6.5%	5.8%	5.0%	4.2%	3.5%	2.7%	1.9%	1.1%	0.4%
2nd	8.4%	8.5%	8.5%	8.6%	8.7%	8.8%	8.8%	8.9%	9.0%	9.0%	9.1%	9.2%
3rd	7.6%	7.7%	7.7%	7.8%	7.9%	7.9%	8.0%	8.1%	8.1%	8.2%	8.3%	8.3%

Line 4h—19-year real property.—Section 1250 property that does not have a class life of 12.5 years or less placed in service after May 8, 1985, and not under construction or subject to a binding contract before May 9, 1985. The chart above for line 4h shows the percentages prescribed for the first three years.

Capital improvements made to buildings placed in service prior to 1981 can qualify as recovery property.

Capital improvements will qualify as 15, 18, or 19-year real property, depending on when the improvements were placed in service. Such improvements are to be treated as though they were separate buildings.

Include in lines 4f, 4g or 4h only the amount of capital expenditures for improvements that were placed in service in your taxable year beginning in 1986.

Section B, Line 6.—Enter the amount of your ACRS deduction for recovery property, other than automobiles and other listed property, placed in service prior to January 1, 1986. This amount is obtained by multiplying the applicable percentage by the basis for depreciation for each of the prior years for each class of property. DO NOT include any amounts deducted in lines 4a through 5.

The basis and amounts claimed for depreciation in prior years should be part of your permanent books and records. **No attachment is necessary.**

Section C.—Depreciation of Nonrecovery Property.—Use Section C for property, other than automobiles and other listed property, you do not amortize, expense, or use ACRS to depreciate. This includes:

- Property placed in service before January 1, 1981;
- Certain public utility property, which does not meet certain normalization requirements;
- Certain property acquired from related persons;
- Property acquired in certain nonrecognition transactions; and
- Certain sound recordings, movies, and videotapes.

Section C, Line 7.—Report property that you elect, under section 168(e)(2), to depreciate by the units-of-production method or any other method not based on a term of years. If you use the retirement-replacement-betterment method, see section 168(f)(3).

On a separate sheet, attach: (1) a description of the property and what depreciation method you elect that excludes the property from ACRS; and (2) the depreciable basis (cost or other basis reduced, if applicable, by salvage value, half the investment credit, and the section 179 expense).

Enter the depreciation deduction for the property in column (f).

Section C, Line 8.— Enter the total amount of depreciation attributable to assets, other than automobiles and other listed property, acquired before January 1, 1981 (pre-ACRS), or property that cannot otherwise be depreciated under ACRS. This amount should be calculated from your permanent books and records. **No attachment is necessary.** For a sample worksheet, see Publication 534.

Include any amounts attributable to the Class Life Asset Depreciation Range (CLADR) system. If you previously elected the CLADR system, you must continue to use it to depreciate assets left in your vintage accounts. You must continue to meet recordkeeping requirements.

If you elect CLADR for assets that do not qualify for ACRS (see sections 168(e)(1) and (4)), attach a statement that specifies the items that still apply to those listed in Regulations section 1.167(a)-11(f)(2).

Part II.—Amortization

Each year you may elect to deduct part of certain capital expenses over a fixed period. If you amortize property, the part you amortize does not qualify for the election to expense recovery property or depreciation.

Line 1.—Complete line 1 only for property placed in service during your tax year beginning in 1986.

Column (a).—Describe the property you are amortizing. Amortizable property includes—

- Pollution control facilities (section 169, limited by section 291 for corporations).
- Bond premiums (section 171).
- Expenses paid before January 1, 1982, for child-care facilities (section 188).
- Amounts paid for research or experiments (section 174), or for a trademark or trade name (section 177).
- Business start-up expenditures (section 195).
- Qualified forestation and reforestation costs (section 194).
- Organizational expenses for a corporation (section 248) or partnership (section 709).
- Certain railroad property (section 185).
- Construction period interest and taxes on real property (for exceptions, see section 189).
- Certain rehabilitation expenses of historic structures made before January 1, 1982 (section 191 (as before repeal)).
- Optional write-off of certain tax preferences over the period specified in section 58(i).

Column (b).—Enter the date you acquired or completed the property or spent the amount you are amortizing.

Column (c).—Enter the total amount you are amortizing. See the applicable Code section for limits on the amortizable amount.

Column (d).—Enter the Code section under which you amortize the property.

Attach any other information the Code and Regulations may require in order to make a valid election. For additional information, see Publication 535.

Line 2.—Enter the amount of amortization attributable to property placed in service before 1986.

Part III.— Automobiles and Other Listed Property

All taxpayers claiming any type of deduction for automobiles and other listed property, regardless of the tax year such property was placed in service, must provide the information requested in Part III. Listed property includes, but is not limited to:

- Passenger automobiles weighing 6,000 pounds or less.
- Any other property used as a means of transportation if the nature of the property lends itself to personal use, such as motorcycles, pick-up trucks, etc.
- Any property of a type generally used for purposes of entertainment, recreation, or amusement (such as photographic, phonographic, communication, and video recording equipment.)
- Computers or peripheral equipment.

Listed property does not include photographic, phonographic, communication, or video equipment used exclusively in a taxpayer's trade or business or regular business establishment. It also does not include any computer or peripheral equipment used exclusively at a regular business establishment and owned or leased by the person operating such establishment.

Listed property does not include an ambulance, hearse, or a vehicle used for transporting persons or property for hire.

Section A.—Depreciation

Column (a).—List on a property by property basis all of your listed property in the following order:

(1) Automobiles and other vehicles;
(2) Other listed property (computers and peripheral equipment, etc.);

In column (a), list the make and model of automobiles, and give a general description of listed property.

If you have more than five vehicles used 100% in your trade or business, you may group them by tax year. Otherwise, list all vehicles separately.

Column (b).—Enter the date the property was placed in service. This is the date you first start using the property for any purpose, whether personal or business.

Column (c).—Enter the percentage of business use. For automobiles and other "vehicles," this is determined by dividing the number of miles the vehicle is driven for purposes of a trade or business during the year by the total number of miles the vehicle is driven for any purpose. For vehicles used by non-more than 5% owner employees, treat the vehicles as being used 100% in your trade or business, if the value of personal use is included in the employees' gross income or the employee reimburses the employer for the personal use.

If the employer reports the amount of personal use of the vehicle in the employee's gross income, and withholds the appropriate taxes, for purposes of this form, the employer is to enter "100%" for the percentage of business use. For more information see Publication 917. For listed property (such as computers or video equipment), allocate the use on a basis of the most appropriate unit of time the property is actually used. See Temp. Regs. 1.280F-6T.

If you have property that is used solely for personal use that is converted to business use during the tax year, figure the percent of business use only for the number of months the property is used in your business. Multiply that percentage by the number of months the property is used in your business, and divide the result by 12.

Column (d).—Enter the property's actual cost. For leased property, enter the lease payment for the year.

Column (e).— Multiply column (d) by the percentage in column (c). From that result, subtract any section 179 expense and one-half of investment credit taken, if applicable (unless you took the reduced credit).

Column (f).—Enter the method of figuring your depreciation deduction. If you are using the prescribed percentages presented in Part I, Section B, enter "PRE." If you elect an alternate percentage, or if the business percentage is 50% or less, enter "S/L."

Also, enter your recovery period. See the instructions to Part I, Section B, Column (d) for property used more than 50% in your trade or business. For property used 50% or less in your trade or business, enter 5 years for 3-year property (automobiles, etc.), 12 years for 5-year property (computers, etc.), and 25 years for 10-year property.

Column (g).— If column (c) shows more than 50% use in a trade or business, multiply column (e) by the applicable percentages given in the instructions for Section B. Treat automobiles as 3-year property and computers as 5-year property.

If column (c) shows 50% or less use in a trade or business, and the property was placed in service after June 18, 1984, you must figure column (g) by using the straight line method with the following percentages:

	3-year property	5-year property	10-year property
1st year	10%	4%	2%
2nd year	20%	9%	4%
3rd year	20%	9%	4%

For property used 50% or less in a qualified trade or business, no section 179 expense deduction is allowed.

Enter zero, if the property was disposed of during the year.

Limitations for automobiles.—When calculating your depreciation plus section 179 expense deduction for automobiles for the first tax year in the recovery period, your deduction is limited to $3,200.

For succeeding tax years the deduction is limited to $6,000 if placed in service after June 18, 1984, but before January 1, 1985; $6,200 if placed in service after December 31, 1984 and before April 3, 1985; and $4,800 if placed in service after April 2, 1985.

Note: *These limitations are further reduced when the percentage of business use (column (c)) is less than 100%. For example, if an automobile is placed in service in 1986, and is used 60 percent for business, then the first year depreciation plus section 179 expense deduction is limited to 60 percent of $3,200, which is $1,920.*

For leased automobiles see Publication 917 and Temporary Regulations 1.280F-5T, for amounts to be included in gross income.

Column (h).—Enter the amount you choose to expense for property used more than 50% in a qualified business use, (subject to limitations noted above).

Section B.—Information Regarding Use of Vehicles—

The information requested in Questions 1 through 7 is to be completed for each vehicle identified in Section A.

Employees are to provide their employers with the information requested in Questions 1 through 7 for each automobile or vehicle provided for his or her use.

Employers providing more than five vehicles to their employees, who are not more than 5% owners or related persons, are not required to complete Questions 1 through 7 for such vehicles. Instead, they are to obtain this information from their employees, check "Yes" to Question 11, and retain the information received as part of their permanent records.

Section C.—Questions For Employers Who Provide Vehicles For Use By Employees

For employers providing vehicles to their employees, a written policy statement regarding the use of such vehicles, if initiated and kept by the employer, will relieve the employee of keeping a separate set of records for substantiation requirements.

There are two types of written policy statements that will satisfy the employer's substantiation requirements under section 274(d). The first type which prohibits personal use, including commuting, must meet the following conditions:

- The vehicle is owned or leased by the employer and is provided to one or more employees for use in connection with the employer's trade or business;
- When the vehicle is not used in the employer's trade or business, it is kept on the employer's business premises, unless it is temporarily located elsewhere, for example, for maintenance or because of a mechanical failure;
- No employee using the vehicle lives at the employer's business premises;
- No employee may use the vehicle for personal purposes, other than de minimis personal use (such as a stop for lunch between two business deliveries); and
- The employer reasonably believes that, other than de minimis use, no employee uses the vehicle for any personal purpose.

The second type prohibits personal use, except for commuting. This is NOT available if the employee using the vehicle for commuting is an officer, director, or 1% or more owner. This type of written policy statement must meet the following conditions:

- The vehicle is owned or leased by the employer and is provided to one or more employees for use in connection with the employer's trade or business and is used in the employer's trade or business;
- For bona fide noncompensatory business reasons, the employer requires the employee to commute to and/or from work in the vehicle;
- The employer establishes a written policy under which the employee may not use the vehicle for personal purposes, other than commuting or de minimis personal use (such as a stop for a personal errand between a business delivery and the employee's home);
- The employer reasonably believes that, except for de minimis use, the employee does not use the vehicle for any personal purpose other than commuting; and
- The employer accounts for the commuting use by including an appropriate amount in the employee's gross income.

For both written policy statements there must be evidence that would enable the IRS to determine whether the use of the vehicle meets the conditions stated above.

An employer may establish the business and personal use of each vehicle in the fleet according to a probability sampling method developed by the employer in accordance with Regulation section 1.274-7(f).

An automobile is considered to have qualified demonstration use if the employer maintains a written policy statement prohibiting its use by individuals other than full-time automobile salesmen, prohibiting its use for personal vacation trips, prohibiting storage of personal possessions in the automobile, and limiting the total mileage outside the salesmen's normal working hours.

Form **4562-A**

Department of the Treasury
Internal Revenue Service

Depreciation of Property Placed in Service After December 31, 1986

(Also use for property placed in service after July 31, 1986, and before January 1, 1987, if special election is made)

▶ See Separate Instructions

OMB No. 1545-0172

1986

Attachment Sequence No. 67a

Part I **Election To Expense Depreciable Assets Placed in Service after December 31, 1986 (Section 179)**

(a) Description of property	(b) Date placed in service	(c) Cost	(d) Expense deduction
1			

2 Listed property (see instructions)	2	
3 Total (add lines 1 and 2, but do not enter more than $10,000) (see instructions for other limitations)	3	
4 Section 179 deduction from Form 4562, Part I, section A, line 3	4	
5 Add lines 3 and 4, but do not enter more than $10,000	5	
6 Subtract line 4 from line 5	6	

Part II **Depreciation** (Complete this part for property placed in service after 12/31/86, other than automobiles and other listed property.)

Note: *Also use this part if you elect the new depreciation rules for property placed in service after July 31, 1986, and before January 1, 1987.*

(a) Class of property	(b) Date placed in service	(c) Basis for depreciation (business use only)	(d) Recovery period	(e) Method of figuring depreciation	(f) Deduction
7a 3-year property					
b 5-year property					
c 7-year property					
d 10-year property					
e 15-year property					
f 20-year property					
g Residential rental property					
h Nonresidential real property					

8 Total depreciation (add lines 7a through 7h)	8	
9 Add lines 6 and 8. Enter here and on Form 4562, Part I, line 9	9	

For Paperwork Reduction Act Notice, see Form 4562 Instructions. Form **4562-A** (1986)

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1986 Instructions for Form 4562-A

Department of the Treasury
Internal Revenue Service

Depreciation of Property Placed in Service After December 31, 1986

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

Purpose of Form

The Tax Reform Act of 1986 changed the rules for depreciation and the section 179 deduction for property placed in service after December 31, 1986. File Form 4562-A for property you placed in service after that date to report depreciation under the new rules. You may also elect to use the new rules for property placed in service after July 31, 1986, and before January 1, 1987. To make the election, complete Part II of this form listing each property for which you are making the election on a separate line. This special election does not apply to the section 179 deduction.

If you file Form 4562-A, you will also need to file **Form 4562**, Depreciation and Amortization. Enter on Form 4562, line 9, the amount from line 9 of this form and attach both forms to your tax return.

Do not include depreciation of automobiles and other listed property on Form 4562-A. Instead, report the depreciation on Part III, page 2 of Form 4562, regardless of when the property was placed in service. See the instructions for Form 4562 for a definition of listed property, but follow the instructions below for property placed in service after December 31, 1986.

Tax Law Changes

The new law modified the Accelerated Cost Recovery System (ACRS) for property placed in service after December 31, 1986. See the instructions under "How to Figure Depreciation." In addition, some property which was assigned to a particular class under prior law has been assigned to a new class under the new law. For example, an automobile which was previously 3-year property is now 5-year property. See the instructions under Types of Property for the new property class definitions.

You may elect an "Alternative ACRS System," under which the straight-line method is used to figure depreciation. However, the alternative ACRS method must be used for certain kinds of property. See Alternative Depreciation System discussed later in these instructions.

The maximum amount of section 179 expense you may claim has increased to $10,000. Other new limitations also apply. See the instructions for Part I, line 3. Regarding amortization, expenditures made after December 31, 1986 for trademarks and tradenames, and railroad grading and tunnel bores, can no longer be amortized. Report all allowable amortization on Form 4562 regardless of when the expenditures were made.

Types of Property.—Property is classified as follows:

3-Year Property.—This is property with a class life of 4 years or less. It includes any race horse which is more than 2 years old at the time it is placed in service, and any other horse which is more than 12 years old at the time it is placed in service.

5-Year Property.—This is property with a class life of more than 4, but less than 10 years. It includes any automobile or light general purpose truck; any semiconductor manufacturing equipment; any computer based telephone central office switching equipment; any qualified technological equipment; any property used in connection with research and experimentation; and certain energy property specified in section 168(e)(3)(B)(vi).

7-Year Property.—This is property with a class life of 10 years or more, but less than 16 years. It includes any railroad track; any single purpose agricultural or horticultural structure; and any property not having a class life and not otherwise classified.

10-Year Property.—This is property with a class life of 16 years or more, but less than 20 years.

15-Year Property.—This is property with a class life of 20 years or more, but less than 25 years. It includes any municipal wastewater treatment plant and any telephone distribution plant and comparable equipment used for 2-way exchange of voice and data communications of information.

20-Year Property.—This is property with a class life of 25 or more years. It includes any municipal sewers.

Residential Rental Property.—This is a building in which 80 percent or more of the total rent is from dwelling units.

Nonresidential Real Property.—This is real property, other than residential rental property, which has a class life of at least 27.5 years.

See **Publication 534**, Depreciation, for listing of class lives.

Exceptions to Using Form 4562-A

The following property is not eligible to be depreciated under the new ACRS rules and therefore should not be included on Form 4562-A. Instead, use Form 4562 for that property. See the instructions for Form 4562.

1. Any property, if for the first year of depreciation, you use the unit-of-production method or any other method not expressed in a term of years, and you elect to exclude the property from the new rules.

2. Public utility property described in section 167(l)(3)(A) if you do not use a normalization method of accounting.

3. Any motion picture film, video tape, or sound recording.

4. Certain property placed in service in churning transactions. See section 168(f)(5).

5. Certain property covered by transitional rules. See sections 203 and 204 of the Tax Reform Act of 1986. The basis of property covered by these transitional rules must be reduced by the full amount of the investment credit, without regard to any reduced credit.

How To Figure Depreciation

The following instructions apply to figuring depreciation for line 7, column (f). Also read the instructions below under Mid-Quarter Convention for information on when that convention must be used.

Note: *At the time this form went to print, IRS was developing tables for figuring depreciation under the new rules. Instead of using the computations provided below, you may use those tables to figure your depreciation deduction.*

3-year property, 5-year property, 7-year property, and 10-year property.—For this property, use the 200% declining balance method, switching to straight-line for the first year in which that method would result in a higher deduction. For the first tax year, figure depreciation under this method by dividing the number "1" by the recovery period. Multiply the result by 2. Then multiply that result by the basis for depreciation. You must use the "half-year convention" which means you divide that result by 2. The half-year convention treats property placed in service or disposed of during the year as being placed in service or disposed of in the middle of the year.

Example.—Assume a taxpayer that has a full tax year, places a piece of machinery in service on February 5, 1987. The machinery is 7-year property and has a cost of $20,000. The taxpayer does not elect the section 179 deduction. Depreciation on the machinery for the first tax year is $2,858.00, computed as follows: 1 divided by 7 equal 14.29%, times 2 equal 28.58%. $20,000 × 28.58% = $5,716.00 divided by 2 (for half-year convention) = $2,858.00.

15-year property and 20-year property.—Use the 150% declining balance method, switching to straight-line for the first year in which that method results in a higher deduction. For the first tax year, figure depreciation under this method by dividing the number "1" by the recovery period. Multiply the result by 1½. Then multiply that result by the basis for depreciation. You must use the half-year convention by dividing that result by 2.

Nonresidential Real Property, and Residential Rental Property.—For this property you must use the straight-line method. Figure depreciation under this method by dividing the basis for depreciation by 27.5 for residential rental property, and 31.5 for nonresidential real property.

Use the "mid-month convention" which treats property placed in service or disposed of during a month, as being placed in service or disposed of during the middle of the month. Use this convention by multiplying the above result by the number of full months the property was in service plus one-half a month for the month in which the property was placed in service. Then divide that result by 12. For example, for property placed in service on June 20, a calendar-year taxpayer would multiply the result by 6½ and divide by 12.

Mid-Quarter Convention.—If more than 40% of the total cost or other basis of all property placed in service during the tax year is placed in service during the last 3 months of that year, you must use the "mid-quarter convention" for all property placed in service during the year. This rule does not apply to nonresidential real property and residential rental property. The mid-quarter convention treats property which is placed in service or disposed of during a quarter as being placed in service or disposed of during the middle of the quarter. Consider only property placed in service after December 31, 1986 (or after July 31, 1986, if the special election was made).

To use the mid-quarter convention, figure depreciation under the applicable method discussed above, up to the point of applying the convention. Multiply that result by the number of full quarters that the property was in service, plus one-half a quarter for the quarter in which the property was placed in service. Then divide that result by 4. For example, for property placed in service September 1, a calendar-year taxpayer would multiply by 1½ and divide by 4.

For additional information, see **Publication 534**, Depreciation, and section 168 as amended by section 201 of the Tax Reform Act of 1986.

Alternative Depreciation System.—Instead of the methods discussed above, you may elect to use the straight-line method of figuring depreciation for 1 or more classes of property. If elected, this method must be used for all property in the same class that is placed in service during the tax year. However, the election for nonresidential real property and residential rental property may be made separately for each property.

To figure depreciation under this method, divide the basis for depreciation by the class life, and use the same conventions as explained above. If personal property does not have a class life, use 12 years. For certain exceptions, see section 168(g)(3)(B). For nonresidential real property and residential rental property, divide the basis for depreciation by 40, and use the mid-month convention.

The alternative depreciation system must be used for the following: any tangible property used mostly outside of the United States; any tax-exempt use property; any tax exempt bond financed property; and any imported property covered by an Executive order of the President of the United States.

You may also elect to use the straight line method over the recovery period (instead of the class life), using the same conventions as discussed above. If elected, this method must also be for all property in the same class that is placed in service during the tax year.

Depreciation Adjustment for Minimum Tax and Alternative Minimum Tax

Taxpayers who use the new depreciation rules may have to recompute their depreciation for purposes of figuring their alternative minimum tax on Form 6251 or minimum tax on Form 4626.

For leased property, other than real property and property on which the straight-line method was used, recompute depreciation using the 150% declining balance method, as discussed above. For real property, recompute depreciation using the straight-line method over 40 years. Use the same conventions (discussed above) that you used to figure depreciation for the regular tax. Determine your depreciation adjustment, if any, by subtracting your recomputed depreciation from the depreciation you took for the regular tax.

For 1986 returns, include this amount on your 1986 Form 6251, line 4(c) or on the appropriate line of your 1986 Form 4626. Also, write the words "depreciation adjustment" on the dotted line to the left of the entry space or in the margin next to the line.

Line-by-Line Instructions

Part I.—Complete this part only for property placed in service after December 31, 1986. Enter each property on a separate line. See the Form 4562 instructions for a definition of the section 179 deduction.

Line 1.—Complete line 1 only for property other than listed property. For listed property, see line 2.

Line 2.—Listed property.—Enter the amount from Form 4562, Part III, Section A, column (h), that is from property placed in service after December 31, 1986.

Caution: Subtract that amount from the amount you enter on line 2, page 1 of Form 4562. See the instructions below for automobiles and other listed property.

Line 3.—If your total cost for section 179 property placed in service after December 31, 1986 was more than $200,000, reduce this line by the amount by which the cost exceeds $200,000.

If this line is more than your taxable income from all of your trades or businesses, figured without regard to this line, enter that taxable income. Do not enter less than zero. For married taxpayers filing a separate return, enter one-half of the allowable amount unless you elect otherwise.

Part II.— Column (b).—See Form 4562 for instructions on when property is considered placed in service.

Column (c).—Multiply the cost or other basis by your percent of business use. From that result, subtract any section 179 expense deduction.

Column (d).—Enter your recovery period. This is usually the number of years that corresponds to the class of property in column (a). For example, for 3-year property the recovery period is 3 years; for 5-year property the recovery period is 5 years, etc. For residential rental property, your recovery period is 27½ years and nonresidential real property, 31½ years.

If you use the alternative depreciation system, enter your recovery period or class life. For real property, enter 40.

Column (e).—Enter your method of figuring depreciation and convention by writing "DDB," "150% DB," or "SL," for depreciation method, and "½," "¹/₁₂," or "¼," for half-year, mid-month, or mid-quarter conventions, respectively.

Column (f).—Figure your depreciation deduction according to the instructions given above under "How to Figure Depreciation."

Automobiles and Other Listed Property

Use Form 4562, Part III for depreciation of automobiles and other listed property. However, use the instructions below for completing Section A of that form for property placed in service after December 31, 1986, or after July 31, 1986 if you wish to make the election to use the new rules. The new section 179 expense deduction limit of $10,000 can only be used for property placed in service after December 31, 1986.

The following instructions refer to Form 4562, Part III:

Complete columns (a)-(e) by following the instructions given on Form 4562, Part III.

Column (f).—For recovery period, enter "5" for automobiles and computers. For depreciation method, enter "DDB." However, if column (c) shows 50% or less, or if you elect the alternative depreciation system discussed above, write "SL." Also indicate the convention you used by writing "½" or "¼" for half-year or mid-quarter convention.

Columns (g) and (h).—Follow the instructions under "How to Figure Depreciation," above in figuring column (g). For column (h), follow the instructions for Form 4562 but ignore the dollar limitations referred to under **Limitations for automobiles** in those instructions. Instead, do not enter more than $2,560 (multiplied by the percent of business use) for columns (g) and (h) combined, for each automobile placed in service after 12/31/86.

Caution: Subtract any amount shown in column (h) for property placed in service after 12/31/86, from the amount you enter on line 2, page 1 of Form 4562.

Form **4626**

Department of the Treasury
Internal Revenue Service

Computation of Minimum Tax—Corporations

▶ See instructions for who must file this form.

▶ Attach to Forms 1120, 1120-A, 1120F, 1120-FSC, 1120L, 1120M, 1120S, 990-C, and 990-T.
(Section references are to the Internal Revenue Code before enactment of P.L. 99-514, unless otherwise noted.)

OMB No. 1545-0175

1986

Name as shown on tax return | Employer identification number

1	Items of tax preference (See Specific Instructions for each line.)		
a	Accelerated depreciation on real property—		
(1)	Low-income rental housing (section 167(k))	1a(1)	
(2)	Other nonrecovery real property or 15, 18, and 19-year real property	1a(2)	
b	Amortization of certified pollution control facilities	1b	
c	Reserves for losses on bad debts of financial institutions	1c	
d	Depletion	1d	
e	Capital gains	1e	
f	Other tax preferences—personal holding companies only		
(1)	Accelerated depreciation on leased personal property or leased recovery property other than 15, 18, and 19-year real property	1f(1)	
(2)	Mining exploration and development costs	1f(2)	
(3)	Circulation and research and experimental expenditures	1f(3)	
(4)	Intangible drilling costs	1f(4)	
2	Total items of tax preference—Add lines 1a(1) through 1f(4)	2	
3	Enter $10,000 exclusion (controlled groups—see instructions for line 3)	3	
4a	Enter regular tax deduction (see instructions for line 4a)	4a	
b	Section 56(e) tax carryover for timber (attach computation—see instructions for line 4b)	4b	
c	Add lines 4a and 4b	4c	
5	Enter greater of line 3 or 4c	5	
6	Subtract line 5 from line 2	6	
7	Enter 15% of line 6	7	
8	1986 net operating loss remaining as a carryover (attach computation) 8		
9	Deferred minimum tax—Enter the smaller of line 8 multiplied by 15%, or line 7	9	
10	Subtract line 9 from line 7	10	
11	Enter minimum tax deferred from earlier year(s) (See Instructions for line 11.)	11	
12	Total minimum tax—Add lines 10 and 11. Enter here and on the proper line of your income tax return.	12	

Instructions

Note: *Estates or trusts with tax preference items must figure alternative minimum tax on those items on* **Form 6251**, *Alternative Minimum Tax Computation.*

Paperwork Reduction Act Notice.—We ask for this information to carry out the U.S. Internal Revenue laws. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form.—Form 4626 is used by corporations to figure minimum tax on tax preference items. The tax preference items are listed on lines 1a(1) through 1f(4) and are explained in detail under Specific Instructions.

For more information, see **Publication 542**, Tax Information on Corporations.

Who Must File.—Form 4626 must be filed by the following, even if no tax is due:

1. A corporation (other than an Interest Charge Domestic International Sales Corporation (IC-DISC)) that—
   A. Has tax preference items that total more than $10,000 (or is a member of a controlled group (as defined in section 1563(a)) with total tax preference items that are more than its share of the exclusion), and
   B. Is not exempt from income tax imposed by Chapter 1 of the Code, or if it is exempt, it has unrelated business income under section 511.
2. Any entity which deferred minimum tax from an earlier tax year.

How Tax Preference Items Are Allocated — *Regulated Investment Companies and Real Estate Investment Trusts.*—Only the net long-term capital gain in excess of the net short-term capital loss that is not taken into account as income by stockholders is an item of tax preference. (See the special rules in section 291(d) that apply to a real estate investment trust.)

To figure how much of the other tax preference items to enter for a regulated investment company or a real estate investment trust, divide the taxable income of the company or trust by the taxable income figured without the deduction for dividends paid. Multiply the result times each item of tax preference. Enter this amount as the company's or trust's share. The remainder is allocated to the shareholders of the company or trust. The company or trust must advise shareholders of their share of each item of tax preference. All of the accelerated depreciation on real property (including ACRS deductions on 15, 18, and 19-year real property) is a tax preference item of real estate investment trusts. Do not allocate any of it to shareholders.

S Corporations.—S corporations are subject to the minimum tax only on capital gains subject to the tax imposed by section 1374. All other items of tax preference are divided among the shareholders as explained in section 1366(a). The capital gains are not divided in this way because the gains are passed through to shareholders as modified by section 1366(f).

Participants in Common Trust Funds.—Items of tax preference of a common trust fund (as defined in section 584(a)) for each tax year of the fund are treated as belonging to the participants of the fund. Each item of tax preference, except capital gains, is prorated among the participants. Capital gains are passed through directly to participants under section 584(c).

Foreign Source Tax Preference Items.—Tax preference items from foreign sources are included in figuring the minimum tax only when they result in foreign losses that reduce the tax imposed on U.S. income. Capital gains from foreign sources are items of tax preference only if the tax laws of the foreign country or U.S. possession give them preferential treatment. (See section 58(g)(2).)

Specific Instructions

Limitations on Amounts Treated as Tax Preferences.—See section 58(h) for limitations on amounts treated as tax preference items in certain cases where the item of tax preference resulted in no tax benefit. If limitations apply, attach a schedule showing their computation.

Line 1.—Tax preferences:

a. Accelerated depreciation on real property must be figured separately for each property.

(1) Enter the amount by which the depreciation of expenditures to rehabilitate low-income rental housing under section 167(k) is more than the deduction allowable for the year under the straight line method over a recovery period of 15 years.

(2) For nonrecovery property, enter the amount by which the depreciation or amortization taken on section 1250 property is more than the deduction allowable under the straight line method. If you use the Class Life Asset Depreciation Range (CLADR) System, see Regulations section 1.57-1(b)(4)(i).

Generally, for real property placed in service after May 8, 1985, the recovery period is 19 years (18 years for property placed in service before May 9, 1985, but after March 15, 1984, and 15 years for property placed in service before March 16, 1984). Include the amount by which

the section 168(b)(2) deduction (ACRS) exceeds the amount allowable under the straight line method (with no salvage value) over the 15, 18, or 19-year period.

If the actual recovery period (i.e., section 168(b)(3) election) is longer than the 15, 18, or 19-year period, the minimum tax will not apply.

Note: *If you placed real property in service after July 31, 1986, (or after December 31, 1986), and you either elected (or were required to use) the new depreciation methods contained in the Tax Reform Act of 1986, you must recompute your depreciation for your 1986 minimum tax computation. For real property, recompute depreciation using the straight line method over 40 years. Use the same conventions that you used to figure depreciation for the regular tax. Determine your depreciation adjustment, if any, by subtracting your recomputed depreciation from the depreciation you took for the regular tax. Include this amount on line 1a(1) or 1a(2), whichever applies. Write the words "depreciation adjustment" and the amount of the adjustment on the dotted line to the left of the entry space. Attach a schedule showing how you computed the adjustment.*

b. Amortization of certified pollution control facilities.—For each certified pollution control facility placed in service before January 1, 1983, include the amount by which the amortization allowable under section 169 is more than the depreciation deduction otherwise allowable. For each certified pollution control facility placed in service after 1982, and before 1985, include 71.6% of the amount (after reduction under section 291) by which the amortization allowable is more than the depreciation deduction otherwise allowable. For a facility placed in service after 1984, only 59⅚% of the amount (after reduction under section 291) is to be included as an item of tax preference. (See section 57(b)(1).) If you use the CLADR System, see Regulations section 1.57-1(d)(4)(i).

c. Reserves for losses on bad debts of financial institutions subject to section 585 or 593.—Enter 59⅚% of the amount (after reduction under section 291) by which the deduction allowable for the tax year as a reasonable addition to a reserve for bad debts exceeds the amount that would have been allowable if the institution had kept its bad debt reserve for all tax years based on actual experience. See Rev. Rul. 79-171, 1979-1 C.B. 56 to determine the tax preference amount (before application of section 291) on the addition to a reserve for bad debts from foreign source income.

d. Depletion.—Enter the amount by which the deduction for depletion allowable under section 611 for the tax year is more than the adjusted basis of the property at the end of the tax year (determined without the depletion deduction for the tax year). Include 71.6% of the amount (after reduction under section 291) allowable under section 613 for iron ore and coal (including lignite) over the adjusted basis of the property. Compute the depletion deduction separately for each property as defined in section 614.

e. Capital gains.—This item of tax preference applies to a corporation or a personal holding company only if the alternative tax under section 1201 or other comparable section applies for the tax year.

If the alternative tax applies, determine the capital gains tax preference item by subtracting the alternative tax on taxable income (figured under section 1201 or other comparable section) from the tax on taxable income figured under section 11 or similar section. Divide the difference by .46.

Caution: *If you are a fiscal year filer whose tax year ends after June 30, 1987, and alternative tax applies, you must use a different computation to determine the capital gains tax preference item due to changes made by the Tax Reform Act of 1986:*

Subtract the alternative tax on taxable income (figured under section 1201 or comparable section) from the tax on taxable income figured under section 11 or similar section. Divide the difference by the amount determined on line 3 below:

1. Number of days in tax year before July 1, 1987 × .46= / Number of days in tax year ________
2. Number of days in tax year after June 30, 1987 × .34= / Number of days in tax year ________
3. Add lines 1 and 2 ________

The result is your capital gains tax preference item.

If a corporation (other than an S corporation to which section 291 applies because of section 1363(b)(4)) disposes of section 1250 property, the amount treated as ordinary income under section 291(a) is 20% of the capital gain that would be additional ordinary income if the property were subject to recapture under section 1245. In determining the capital gains tax preference item, include in a corporation's net capital gain, 59⅚% of the remaining 80% of the capital gain that would be additional ordinary income under section 1245. (See section 57(b)(2).)

Corporations with income from timber should see sections 57(a)(9)(C) and 56(d) before completing lines 1e and 4a.

Foreign corporations should enter capital gains as a tax preference item only if the gains are effectively connected with the conduct of a trade or business in the United States.

f. Other tax preferences—personal holding companies only.—

(1) Accelerated depreciation on leased property must be figured separately for each property. For leased nonrecovery property, enter the amount by which the depreciation or amortization taken on each leased section 1245 property is more than the deduction using the straight line method over the useful life of the property.

For the CLADR System, use the asset guideline period as the straight line useful life. Accelerated depreciation includes any excess depreciation permitted under the CLADR System due to variance in useful life under section 167(m)(1).

For leased personal recovery property, see section 57(a)(12) to determine the excess amount, if any, of the accelerated deduction taken that is an item of tax preference.

If the actual recovery period is longer than that listed for the property, the property will not be subject to the minimum tax.

Note: *If you placed leased property in service after July 31, 1986,(or after December 31, 1986) and you either elected (or were required to use) the new depreciation methods contained in the Tax Reform Act of 1986, you must recompute your depreciation. Generally, for property other than real property and property on which the straight line method was used, recompute depreciation using the 150% declining balance method. Use the same conventions that you used to figure depreciation for the regular tax. Determine your depreciation adjustment, if any, by subtracting your recomputed depreciation from the depreciation you took for the regular tax. Include this amount on line 1f(1) and write the words "depreciation adjustment" and the amount of the adjustment on the dotted line to the left of the entry space. Attach a schedule showing how you computed the adjustment.*

(2) Mining exploration and development costs.—For each mine or other natural deposit (other than an oil or gas well), enter the amount equal to the excess of: the deduction allowable under section 616(a) or 617, over the amount that would have been allowable under section 58(i).

Note: *The Tax Reform Act of 1986 changed the method of computing the deduction for mining and development costs paid or incurred after December 31, 1986. See sections 291, 616 and 617 as amended by the Act.*

(3) Circulation and research and experimental expenditures.—Enter the amount equal to the excess of: the deduction allowable under section 173 or 174(a), over the amount that would have been allowable under section 58(i).

(4) Intangible drilling costs.—Enter the amount by which the intangible drilling and development costs of oil, gas, and geothermal wells (other than costs of drilling a nonproductive well) allowable as a deduction for the tax year are more than the total of: (a) the amount allowable if the cost had been capitalized and straight line recovery of intangibles had been used, plus (b) the net income for the tax year from oil, gas, and geothermal properties. Apply the intangible drilling costs separately to oil and gas properties that are not geothermal deposits, and properties that are geothermal deposits. This item applies to costs incurred for geothermal wells started on or after October 1, 1978. (See section 57(a)(11).)

Note: *For costs paid or incurred after December 31, 1986, the Tax Reform Act of 1986 increased the reduction to expensible intangible drilling costs to 30% for integrated producers and made changes to the treatment of intangible drilling costs incurred on wells located outside the U.S. See sections 263 and 291 as amended by the Act.*

Line 3.—Exclusion.—A controlled group of corporations (as defined in section 1563(a)) must divide the $10,000 exclusion among the members of the group in proportion to their regular tax deductions (section 56(c)) for the tax year.

Figure the exclusion for a return made for a period of less than 12 months using the rules in section 443(d).

Line 4a.—Regular tax deduction.—A corporation (including an S corporation and a personal holding company) should enter the total taxes imposed under Chapter 1 of the Code for the tax year (other than the accumulated earnings tax, personal holding company tax, and minimum tax), minus the total of the credits allowable under subparts A, B and D of part IV of the Code. See section 56(c).

Line 4b.—Tax carryover.—This is a special deduction for corporations (except an S corporation) with income from timber. See section 56(e)(1) to figure the carryover from past tax years.

If the carryover is from more than one earlier year, use the carryover from the earliest year first. See section 56(e)(2) to figure the maximum amount of the carryover that may be used. Attach a schedule showing how you figured the carryover.

Line 11.— Minimum tax deferred from earlier year(s).—Enter any deferred minimum tax from an earlier year related to a net operating loss carryover from that year that reduces taxable income in this year.

In figuring this amount, the part of the net operating loss carryover not related to the deferred minimum tax is used first to reduce taxable income. The earlier year's deferred minimum tax imposed as a tax liability for 1986 may not be more than the minimum tax deferred from the earlier year.

Form **5884**

Department of the Treasury
Internal Revenue Service

Jobs Credit

▶ **Attach to your tax return.**

OMB No. 1545-0219

1986

Attachment Sequence No. 77

Name(s) as shown on return	Identifying number

Part I Jobs Credit

1 Enter the number of employees and total qualified wages paid or incurred during the tax year (up to $6,000 for each employee for each of the first two years) for services of employees who are certified as members of a targeted group. **Note:** Second-year wages apply only to employees who began work before January 1, 1986. See instructions for special rules on qualified summer youth employees.

		Number of employees		Total qualified wages
First year	Do not include summer youth employees	a		b
Second year		c		d
Qualified summer youth employees		e		f

2	Enter 50% of line 1b (40% for employees who began work after 12-31-85)	2	
3	Enter 25% of line 1d (for employees who began work before 1-1-86)	3	
4	Enter 85% of line 1f	4	
5	Current year jobs credit—Add lines 2, 3, and 4. Enter here and include on Schedule C (Form 1040), line 28b; Form 1120, line 13(b), page 1; or the corresponding line on other returns. (Members of a group of trades or businesses under common control, see Specific Instructions.)	5	
6	Flow-through jobs credits from other entities	6	
7	Total jobs credit for current year—Add lines 5 and 6 (S corporations, partnerships, estates, trusts, and cooperatives, see instructions for line 7.)	7	

If you are a—	Then enter total of current year jobs credit(s) from—
a Shareholder	Schedule K-1 (Form 1120S), line 10a
b Partner	Schedule K-1 (Form 1065), lines 11d, 11e, or 12
c Beneficiary	Schedule K-1 (Form 1041), line 9
d Patron	(see instructions for line 6d)

Note: *If you have a 1986 investment credit (Form 3468), credit for alcohol used as fuel (Form 6478), research credit (Form 6765), low-income housing credit (Form 8586), or employee stock ownership plan (ESOP) credit (Form 8007) in addition to your 1986 jobs credit, or if you have a carryback or carryforward of any of these credits, stop here and go to* ***Form 3800****, General Business Credit, to claim your 1986 jobs credit. If you have only a 1986 jobs credit, you may continue with lines 8 through 13 to claim your credit.*

Part II Tax Liability Limitation

8	a Individuals—From Form 1040, enter amount from line 45 b Corporations—From Form 1120, Schedule J, enter tax from line 3 (or Form 1120-A, Part I, line 1) c Other filers—Enter income tax before credits from return	8	
9	a Individuals—From Form 1040, enter credit from line 46, plus any orphan drug and nonconventional source fuel credits included on line 48 b Corporations—From Form 1120, Schedule J, enter credits from lines 4(a) through 4(d) (Form 1120-A filers, enter zero) c Other filers—See instructions for line 9c	9	
10	Income tax liability as adjusted (subtract line 9 from line 8)	10	
11	a Enter smaller of line 10 or $25,000 (See instructions for line 11)	11a	
	b If line 10 is more than $25,000—Enter 75% of the excess	11b	
12	Jobs credit limitation—Add lines 11a and 11b	12	
13	Total allowed jobs credit—Enter the smaller of line 7 or line 12. This is your **General Business Credit** for 1986. Enter here and on Form 1040, line 47; Form 1120, Schedule J, line 4(e); Form 1120-A, Part I, line 2; or the proper line of other returns	13	

Instructions

(Section references are to the Internal Revenue Code.)

Changes You Should Note

The Tax Reform Act of 1986 made several major changes to the jobs credit for employees who began work after December 31, 1985. The credit has been reduced to 40% of qualified first-year wages, and the credit for wages paid in the second year is *no longer available*. Also, *no* credit is allowed unless the employee worked at least 90 days (14 days for a summer youth employee) or completed at least 120 hours of services (20 hours for a summer youth employee).

The Act also made other changes to the general business credit. The income tax liability which may be offset by the credit has been reduced to $25,000 plus 75% of the liability in excess of $25,000. Also, two additional credits have been added to the general business credit: the research credit and the new low-income housing credit.

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

General Business Credit.—The general business credit consists of the investment credit, jobs credit, credit for alcohol used as fuel, research credit, low-income housing credit, and employee stock ownership plan (ESOP) credit. If you have more than one of these credits for 1986, or a carryback or carryforward of any of these credits, you must summarize them on **Form 3800**, General Business Credit. If you have only a 1986 jobs credit, you do not have to file Form 3800 this year.

Purpose of Form.— Use Form 5884 if you had jobs credit employees and take an income tax credit for wages you paid or accrued for them during the tax year.

Mutual savings institutions, regulated investment companies, and real estate investment trusts can take a limited credit. See section 52(e) and the related regulations.

You can take or revoke the jobs credit any time within 3 years from the due date of your return. Take the credit either on your original return or on an amended return.

For more information, **see Publication 906,** Jobs and Research Credits.

How to Figure the Credit.—In general, figure your jobs credit based on the employee's wages subject to the Federal Unemployment Tax Act (FUTA). Jobs credit wages, however, are limited to $6,000 for each employee ($3,000 for each qualified summer youth employee). Special rules apply in the following cases:

(1) You can take a jobs credit for *agricultural employees* who meet the other tests if their services qualify under FUTA as agricultural labor during more than half of any pay period. Base your credit for each employee on the first $6,000 in wages subject to social security (FICA) tax you paid or accrued for that person during the year.

(2) You can take a credit for *railroad employees* who meet the other tests if their wages qualify under the Railroad Unemployment Insurance Act (RUIA). Base your credit for each employee on the first $500 a month you paid or accrued for that person during the year in wages subject to RUIA tax.

(3) Wages for *youths in a cooperative education program* are not subject to FUTA, but include their wages in the amount you use to figure your jobs credit. Base your jobs credit for each youth on the first $6,000 in wages you paid or accrued for that person during the year.

Your credit is based on a percentage of the wages for each employee in the following targeted groups:

- Referrals by a vocational rehabilitation program.
- Economically disadvantaged Vietnam-era veterans.
- Economically disadvantaged youths.
- Supplemental Security Income (SSI) recipients.
- General assistance recipients.
- Youths in a cooperative education program, who belong to an economically disadvantaged family.
- Economically disadvantaged ex-convicts.
- Eligible work incentive employees.
- Qualified summer youth employees, age 16 or 17, who first worked for you between May 1 and September 15, 1986.

In addition, to claim a jobs credit on an employee's wages:

(1) more than half the wages received from you must be for working in your trade or business;

(2) the employee must be certified, as explained below, as belonging to a targeted group;

(3) you may not claim a credit on wages that were repaid by a Federally funded on-the-job training program, or for which you received work supplementation payments under the Social Security Act;

(4) the employee cannot be your relative or dependent (see section 51(i));

(5) the employee cannot be your rehired employee if he or she was not a targeted group member when employed earlier; and

(6) the employee must have worked for you for at least 90 days (14 days for a summer youth employee) or completed at least 120 hours of services (20 hours for a summer youth employee).

Certification is done by a local agency, generally an office of the State Employment Security Agency (Jobs Service). The agency gives the employer a form certifying that the employee is in a targeted group. The certification must be completed or the employer must request, in writing, a certification from the certifying agency by the date the employee begins work (or within 5 days if the employer has received a written preliminary determination that the employee is in a targeted group).

Certification of a Youth in a Cooperative Education Program.—The certification is completed by the school administering the cooperative program. The school gives the employer a completed **Form 6199**, Certification of Youth Participating in a Qualified Cooperative Education Program.

Specific Instructions

Part I

On lines 1 through 5 figure your credit for wages you paid or accrued. If you have credits only from sources that shared a jobs credit (S corporations, partnerships, estates, trusts, or cooperatives), skip lines 1 through 5.

Whether or not you complete lines 1 through 5, enter on line 6 any credits you received from sources that share the credit. Complete the rest of the form to figure the credit to enter on your income tax return.

Controlled groups: The group member proportionately contributing the most first-year wages (or second-year wages if no first-year wages are involved) figures the group credit in Part I and skips Part II.

On separate Forms 5884, that member and every other member of the group skips lines 1 through 4 and enters its share of the group credit on line 5. Each member then completes lines 6 through 13 on its separate form. Each group member attaches to its Form 5884 a schedule showing how the group credit was divided among all the members. The members share the credit in the same proportion that they contributed qualifying wages.

Line 1a.—Enter the number of employees for whom you have first-year wages.

Line 1b.—Enter the first-year wages. They are limited to $6,000 of each employee's first-year wages. If you paid first-year wages to any of these employees last year, subtract those wages from the $6,000 limit.

For example, if a jobs credit employee began working in your business on September 1, 1985, and you are a calendar year taxpayer, you would have figured your 1985 jobs credit based on the first-year wages you paid between September 1 and December 31, 1985. You would figure your 1986 jobs credit on the rest of the first-year wages you paid between January 1 and August 31, 1986; and on the second-year wages paid between September 1 and December 31, 1986.

Line 1c.—Enter the number of employees who **began work before January 1, 1986,** for whom you have second-year wages.

Line 1d.—Enter the second-year wages. They are limited to $6,000 for each employee. If you paid second-year wages to any of these employees last year, subtract those wages from the $6,000 limit for that employee.

Line 1f.—For each qualified summer youth employee, wages are limited to those paid for any 90-day period between May 1 and September 15, up to $3,000. You cannot claim a credit for an employee who was your employee in any prior period. Also, the summer youth employee must have worked for you at least 14 days, or completed at least 20 hours of services.

Line 4.—Taxpayers with qualified summer youth employees.—Include 85% of the first $3,000 of wages paid to each qualified employee.

Line 5.—In general, you must subtract your current year jobs credit on line 5 from the deduction on your return for salaries and wages you paid or owe for 1986. This is true even if you cannot take the full credit this year and must carry part of it back or forward.

An exception is a credit based on salaries and wages you capitalize for depreciation. If you have such a credit, reduce the amount on which you figure depreciation by the part of the current year jobs credit on line 5 that applies to the jobs credit wages you capitalize.

Another exception involves the full absorption method of inventory costing. See the regulations under section 280C to reduce your basis in inventory for the jobs credit.

If either exception applies to you, attach a statement to your return to explain why the amount on line 5 differs from the amount you subtract from your salary and wage deduction. See Publication 906 for details.

Line 6.—If you have flow-through credits from more than one entity or type of entity, add them up and enter the total on line 6.

Line 6d.—If you belong to a cooperative that has an excess jobs credit, the cooperative should have given you a statement showing your share of the excess. Include on line 6 your total excess jobs credit from all cooperatives to which you belong.

Line 7.—*Estates and trusts:* The jobs credit on line 7 is shared between the estate or trust itself and the beneficiaries in proportion to the income allocable to each. On the dotted line to the left of the amount on line 7, the estate or trust should enter its own part of the total jobs credit. Please label it "1041 PORTION" and use *this amount* in Part II to figure the jobs credit to take on Form 1041.

S corporations and partnerships: Prorate the jobs credit on line 7 among the shareholders or partners. Attach Form 5884 to the return and on Schedule K-1 show the credit for each shareholder or partner.

Cooperatives: Most tax-exempt organizations cannot take the jobs credit; but a cooperative described in section 1381(a) takes the jobs credit to the extent it has tax liability. Any excess is shared among its patrons.

Carrybacks and carryforwards: If you cannot use part of the credit because of the tax liability limitations, you may carry it back 3 years, then forward 15 years. Use Form 3800.

Part II

Line 9c. Other filers.—Before you can claim the jobs credit (which will be your general business credit for 1986) against your income tax liability, you must reduce this tax liability by the credits listed below:

- Personal credits (child and dependent care credit, credit for elderly or disabled, residential energy credit, credit for contributions to candidates for public office, and the credit for interest on certain home mortgages)
- Foreign tax credit
- Possessions corporation tax credit
- Orphan drug credit
- Nonconventional source fuel credit

Line 11. Limitation.—If the tax liability on line 10 is $25,000 or less, your jobs credit is limited to that tax liability. If the tax liability is more than $25,000, your credit is limited to $25,000 plus 75% of the excess.

If you and your spouse file separate returns, each must use $12,500 instead of $25,000. But if only one had *any* credit, that one may use the entire $25,000.

Controlled corporate groups must divide the $25,000 among all component members. See section 38(c)(3)(B).

Estates and trusts, see section 38(c)(3)(D).

Form **6765**

Department of the Treasury
Internal Revenue Service

Credit for Increasing Research Activities

(or for claiming the orphan drug credit)

▶ Attach to your tax return

OMB No. 1545-0619

1986

Attachment Sequence No. **81**

Name(s) as shown on return	Identifying number

Part I Orphan Drug Credit

1	Qualified clinical testing expenses (do not include any amounts claimed as current year research expenses in 14(a) below)	1	
2	Enter 50% of line 1 (see instructions)	2	
3	Flow-through orphan drug credit(s) from a partnership, S corporation, estate or trust	3	
4	Total—Add lines 2 and 3	4	

Part II Tax Liability Limitation—For Figuring Orphan Drug and Research Credits

5a	Individuals—From Form 1040, enter amount from line 45		
b	Corporations—From Form 1120, Schedule J, enter tax from line 3 (Form 1120-A filers claiming the research credit, enter amount from Part I, line 1)	5	
c	Other filers—Enter income tax before credits from return		
6a	Individuals—From Form 1040, enter any foreign tax credit from line 46		
b	Corporations—From Form 1120, Schedule J, enter any credits from lines 4(a) and 4(b) (Form 1120-A filers, enter zero)	6	
c	Other filers—Enter any personal credits, foreign tax credit, and possessions tax credit		
7	Income tax liability as adjusted (subtract line 6 from line 5)	7	

Part III Allowed Orphan Drug Credit

8	Orphan drug credit—Enter here and on the appropriate line of your return the smaller of line 4 or line 7	8	

Part IV Research Credit

			(a) Current tax year	(b) Base period
9	Wages for qualified services (do not include wages used in figuring the jobs credit)	9		
10	Cost of supplies used in conducting qualified research	10		
11	Rental or lease costs of personal property used in conducting qualified research	11		
12	65% of contract expenses for qualified research (but see line 13 below)	12		
13	Corporations—65% of amounts paid to qualified organizations for basic research	13		
14	Total qualified research expenses (add lines 9 through 13 in columns (a) and (b))	14		
15	Subtract line 14 column (b) from line 14 column (a)	15		
16	Limitation—Enter 50% of line 14 column (a)	16		
17	Enter the smaller of line 15 or line 16	17		
18	Tentative credit—Enter 20% of line 17	18		
19	Flow-through research credit(s) from a partnership, S corporation, estate or trust	19		
20	Total allowable research credit—Add lines 18 and 19	20		

Note: *If you have a 1986 investment credit (Form 3468), jobs credit (Form 5884), credit for alcohol used as fuel (Form 6478), low-income housing credit (Form 8586), or employee stock ownership plan (ESOP) credit (Form 8007) in addition to your 1986 research credit, or if you have a carryback or carryforward of any general business credit, stop here and go to* **Form 3800**, *General Business Credit, to claim your 1986 research credit. If you have only a 1986 research credit, you may continue with lines 21 through 25 to claim your credit.*

Part V Allowed Research Credit

21	Income tax liability as adjusted for the research credit (From line 7 above, subtract any orphan drug credit shown on line 8 and any nonconventional source fuel credit shown on your return.)	21	
22a	Enter smaller of line 21 or $25,000 (See instructions for line 22.)	22a	
b	If line 21 is more than $25,000—Enter 75% of the excess	22b	
23	Research credit limitation—Add lines 22a and 22b	23	
24	Corporations—Enter here and on the appropriate line of your return the smaller of line 20 or line 23. This is your **General Business Credit** for 1986	24	
25	Individuals, estates and trusts—Enter here and on the appropriate line of your return the smaller of line 20 or the amount from the formula in the instructions for line 25 (but do not enter more than line 23). This is your **General Business Credit** for 1986	25	

Changes You Should Note

The Tax Reform Act of 1986 extended the research credit beyond 1985 and made several major changes. The credit has been reduced to 20% of the increase in research expenses, and the definition of qualified research has been narrowed considerably. Also, the research credit (but not the orphan drug credit) has been redesignated as a general business credit, and is now subject to the general business credit tax liability limitations.

The Act also reduced the income tax liability which may be offset by the general business credit to $25,000 plus 75% of the liability in excess of $25,000.

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

Instructions

(Section references are to the Internal Revenue Code as amended by the Tax Reform Act of 1986, unless otherwise noted.)

General Business Credit.—The general business credit consists of the investment credit, jobs credit, credit for alcohol used as fuel, credit for increasing research activities, low-income housing credit, and employee stock ownership plan (ESOP) credit. If you have more than one of these credits for 1986, or a carryback or carryforward of any of these credits, you must attach the appropriate credit forms and summarize them on **Form 3800**, General Business Credit. If you have only a 1986 research credit, you do not have to file Form 3800 this year.

Purpose of Form.—Use Form 6765 to figure and claim the general business credit for increasing the research activities of a trade or business and to claim the orphan drug credit. Complete Parts II, IV, and V to figure the research credit. Complete Parts I, II, and III to figure the orphan drug credit.

The research credit applies only to research expenditures incurred in carrying on a trade or business you are already engaged in. It does not apply to those incurred before beginning a trade or business. Generally, the research credit is 20% of the increase in qualified research expenses paid or incurred in the current tax year over base period research expenses.

If you incur qualified clinical testing expenses relating to drugs for certain rare diseases, you may elect to claim a 50% credit on these expenses instead of taking the research credit.

Even though you cannot use the same expenses to claim both the research credit and the orphan drug credit, any expenses used in computing the orphan drug credit must be included in any research credit "base period" computations in future years.

Who Must File.—Any individual, estate, trust, organization or corporation claiming a credit for increasing research activities or a credit for orphan drug expenses, or any S corporation, partnership, estate or trust that shares the credit(s) among its shareholders, partners, or beneficiaries should attach this form to its income tax return.

S corporations, partnerships, estates, and trusts that share the credit(s) on lines 4 and 20 among their shareholders, partners, or beneficiaries must show on Schedule K-1, or on an attachment to Schedule K-1, the credit for each shareholder, partner, or beneficiary.

For more details on allocation of the credit, see section 41(f)(2).

Carrybacks and Carryforwards.—Any research credit that you cannot use because it is more than the limitations figured on line 23 or line 25 may be carried back 3 years, then forward 15 years. Use Form 3800. (There are no carryback or carryover provisions for the orphan drug credit.)

Special Rules

(1) Trades or Businesses That Are Under Common Control.—The research credit and the orphan drug credit are figured as if all the organizations are one trade or business. The credit is shared among the members of the group on the basis of each's proportionate share of clinical testing expenses or proportionate contribution to the increase in research expenses (line 1 or line 15 of a separate Form 6765). See section 41(f)(1).

(2) Adjustments for Certain Acquisitions and Dispositions.—If a major portion of a trade or business is acquired or disposed of, see section 41(f)(3).

(3) Short Tax Year.—For any short tax year, qualified research expenses are annualized as prescribed by regulations.

For more information, get **Publication 906**, Jobs and Research Credits.

Specific Instructions

Note: *If you are a shareholder, partner, or beneficiary with a credit from two sources, such as from a sole proprietorship and a partnership, figure the credit of the proprietorship on lines 1 and 2 of Form 6765, or lines 9 through 18 if you are claiming the research credit. Then enter the flow-through credit on line 3 or line 19 and complete the rest of the form to determine the credit to be entered on your tax return.*

Qualified research is limited to scientific experimentation or engineering activities designed to aid in the development of a new or improved product, process, technique, formula, invention or computer software program held for sale, lease, or license, or used by you in a trade or business.

The research credit is generally not allowed for the following types of activities:

- Research conducted after the beginning of commercial production;
- Research adapting an existing product or process to a particular customer's need;
- Duplication of an existing product or process;
- Surveys or studies;
- Research relating to certain internal-use computer software;
- Research conducted outside the U.S.;
- Research in the social sciences, arts, or humanities; or
- Research funded by another person (or governmental entity).

See section 41 for more details and rules.

Part I.—Orphan Drug Credit

The definition of qualified clinical testing expenses closely parallels the definition of qualified research expenses, except that clinical testing expenses are not limited to 65% of any contract research expenses. See section 28.

Caution: *In order to claim the credit, the expenses must be for a drug that has been designated as an orphan drug under section 526 of the Federal Food, Drug, and Cosmetic Act, and related regulations.*

Line 2.—You must reduce the deduction for qualified clinical testing expenses otherwise allowable on your income tax return by the amount of the credit shown on line 2. See section 280C(b) for special rules.

Line 8.—Include the orphan drug credit on the appropriate line of your 1986 tax return. If it is not listed separately on the return, include the credit on the "other credits" or "total credits" line; then write "ORPHAN DRUG CREDIT" and the amount on the dotted line to the left of the entry amount.

Part IV.—Research Credit

Lines 9 through 13, column b.—Base period research expenses are the average of the annual qualified research expenses for the 3 years immediately before the current tax year. Newly organized businesses are treated as having been in business with no qualified research expenses during the base period before the business began.

Line 11.—See section 41(b)(2)(A) for rules on leased property if you receive payments from anyone for the rental or lease of substantially identical property.

Line 12.—Include 65% of any amount paid or incurred for qualified research performed on your behalf. Prepaid contract research expenses are considered paid in the year the research is actually done.

Line 13. *Corporations.*—Contract research expenses also include 65% of amounts paid or incurred by a corporation to any qualified organization for basic research, pursuant to a written research agreement between the corporation and the organization.

Line 16.—Base period research expenses cannot be less than 50% of current year research expenses. This rule applies both to existing and newly organized businesses.

Lines 3 and 19.—The credit(s) figured on lines 1 through 4 and on lines 9 through 20 by an S corporation, partnership, estate, or trust are apportioned to the individual shareholders, partners, or beneficiaries, respectively. This apportioned credit (and any unused credit from these entities) is entered on line 3 or line 19 of a separate Form 6765 to determine the allowed credit(s) to be entered on their tax returns.

Line 20.—*Estates or trusts.*— Complete lines 9 through 20 and apportion the credit on line 20 between the estate or trust and the beneficiaries on the basis of the income of the estate or trust allocable to each. The estate or trust then enters *its share* of the credit on line 18 of a separate Form 6765 and completes the rest of the form, as applicable, to determine its allowed credit.

Line 22. Limitations.—If you and your spouse file separate returns, each must use $12,500 instead of $25,000. But if only one had *any* credit, that one may use the entire $25,000. Controlled corporate groups must divide the $25,000 among all component members. See section 38(c)(3)(B). Estates and trusts, see section 38(c)(3)(D).

Line 25. Limits.—If you are an individual, estate, or trust, the credit(s) on lines 18 or 19 is limited to the amount on line 23 attributable to your interest in the proprietorship, partnership, S corporation, estate or trust generating the credit. Figure separately for each business enterprise by using the following formula:

$$\text{Line 23} \times \frac{\text{Taxable income attributable to your interest in the unincorporated business, 1065, 1041, or 1120S entity}}{\text{Taxable income for the year (Form 1040, line 37)}}$$

When using the formula, the result is limited to 100% of the line 23 amount.

If in the current tax year you had no taxable income attributable to a particular business interest, you cannot claim any research credit this year related to that business.

Form **8586**

Department of the Treasury
Internal Revenue Service

Low-Income Housing Credit

(FY 1986-87 filers only)

▶ Attach to your tax return

OMB No. 1545-0984

1986

Attachment Sequence No. 78

Name(s) as shown on return | **Identifying number**

Part I Low-Income Housing Credit

		Building A	Building B	Building C
1 Date building was placed in service (MO-YR)	1			
2 Eligible basis of building—See instructions	2			
3 Low-income portion (lesser of unit percentage or floor-space percentage—see instructions)	3			
4 Qualified basis of low-income building placed in service during 1987 (multiply line 2 by line 3)	4			
5 Credit percentage—See instructions	5			
6 Multiply line 4 by line 5	6			

7 Total—Add columns A through C, line 6	7	
8 Flow-through housing credits from other entities — If you are a— **a** Shareholder: Then enter total of current year housing credit(s) from— Schedule K-1 (Form 1120S), line 10b; **b** Partner: Schedule K-1 (Form 1065), line 11b; **c** Beneficiary: Schedule K-1 (Form 1041), line 9; **d** Patron: Appropriate form	8	
9 Current year credit—Add lines 7 and 8	9	

Note: *If you have a 1986 investment credit (Form 3468), jobs credit (Form 5884), credit for alcohol used as fuel (Form 6478), research credit (Form 6765), or employee stock ownership plan (ESOP) credit (Form 8007) in addition to your 1986 low-income housing credit, or if you have a carryback or carryforward of any general business credit, stop here and go to Form 3800,* ***General Business Credit****, to claim your 1986 low-income housing credit. If you have only a low-income housing credit, you may continue with lines 10 through 15 to claim your credit.*

Part II Tax Liability Limitations

10a Individuals—From Form 1040, enter amount from line 45 b Corporations—From Form 1120, Schedule J, enter tax from line 3 (or Form 1120-A, Part I, line 1) c Other filers—Enter income tax before credits from return	10	
11a Individuals—From Form 1040, enter credit from line 46, plus any orphan drug and nonconventional source fuel credits included on line 48 b Corporations—From Form 1120, Schedule J, enter credits from lines 4(a) through 4(d) (Form 1120-A filers, enter zero) c Other filers—See instructions for line 11c	11	
12 Income tax liability as adjusted (subtract line 11 from line 10)	12	
13a Enter smaller of line 12 or $25,000 (see instructions for line 13)	13a	
b If line 12 is more than $25,000—Enter 75% of the excess	13b	
14 Low-income housing credit limitation—Add lines 13a and 13b	14	
15 Total allowed credit—Enter smaller of line 9 or line 14. This is your **General Business Credit** for 1986. Enter here and on Form 1040, line 47; Form 1120, Schedule J, line 4(e); Form 1120-A, Part I, line 2; or the proper line of other returns	15	

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General Instructions

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

General Business Credit.—The general business credit consists of the investment credit (Form 3468), jobs credit (Form 5884), credit for alcohol used as fuel (Form 6478), research credit (Form 6765), low-income housing credit (Form 8586), and employee stock ownership plan (ESOP) credit (Form 8007). If you have more than one of these credits for 1986 or a carryback or carryforward of any of these credits, you must attach the appropriate credit forms and summarize them on **Form 3800,** General Business Credit. If you have only a 1986 low-income housing credit, you do not have to file Form 3800 this year.

Purpose of Form.—Owners of residential rental projects providing low-income housing should use Form 8586 to claim the new low-income housing credit.

Caution: *You cannot claim the low-income housing credit on any qualified low-income housing project for which any person was allowed any relief from the passive loss rules under section 502 of the Tax Reform Act of 1986.*

Introduction

The Tax Reform Act of 1986 provides a credit of 70% of the qualified basis of each new low-income building placed in service during 1987 (30% in the case of certain Federally subsidized new buildings or certain existing buildings purchased and placed in service). This credit is taken over a 10-year period so that the present value of the 10 annual credit amounts at the beginning of the credit period equals 70% (or 30%) of the qualified basis.

You may elect to begin the 10-year credit period in the tax year **after** the year the building was placed in service. Use **Form 8609**, Low-Income Housing Credit Allocation Certification, to make this election.

The maximum annual credit percentage for new buildings placed in service during 1987 is 9% for each of the 10 years in the credit period (4% for Federally subsidized new buildings, and existing buildings). For buildings placed in service after 1987 the credit percentage will be determined by the IRS.

Qualified low-income housing project.—The low-income housing credit can only be claimed for residential rental projects that meet the requirements of one of the following tests:

(A) 20-50 Test: 20 percent or more of the residential units in the project must be both rent restricted and occupied by individuals whose income is 50 percent or less of the area median gross income, or

(B) 40-60 Test: 40 percent or more of the residential units in the project must be both rent restricted and occupied by individuals whose income is 60 percent or less of the area median gross income.

A unit is "rent restricted" if the gross rent does not exceed 30 percent of the income limitation in (A) or (B) above for the individuals occupying the unit. You may choose to meet either test for the project, but once made, the election is irrevocable. Use Form 8609 to make this election. See section 42(g) for more details.

Allocation of credit amount must be obtained from housing credit agency. You must obtain a completed Form 8609 from the state or local credit agency for each building to cover the amount of the credit you wish to claim. A copy of Form 8609 must be attached to your return for each building for each year. The allocation must be made by the earlier of (1) 60 days after the close of your tax year or (2) December 31, 1987.

You may not take a low-income housing credit on a building if it has not received an allocation. Similarly, no credit will be allowed in excess of the amount allocated to the building by the housing credit agency. See section 42(h). An allocation is not needed to the extent that a building is financed with certain tax-exempt bonds. If 70% or more of a building is financed with tax-exempt bonds, no allocation is needed from the agency (but you must still complete the appropriate parts of Form 8609 and attach it to your return).

Certification of first-year credit. You must certify certain first-year information to the IRS on Form 8609. If you fail to file this certification, you may not claim a credit for that building for any year ending before the certification is made.

Recapture of credit. There is a 15-year compliance period during which the rental project must continue to meet certain requirements. If, as of the close of any tax year in this period, there is a reduction of the qualified basis from the previous year, you may have to recapture all or a part of the credit you have taken. See section 42(j).

Specific Instructions

Line 1.—Enter the month and year the building was placed in service. Please make sure this date agrees with the date shown on the attached Form 8609 for that building.

Line 2. Eligible Basis.—This is the starting point for computing the low-income housing credit. Generally, the eligible basis of a building for its entire 15-year compliance period is figured as of the date it is placed in service. For housing projects consisting of two or more buildings, figure the credit separately for each building.

For new buildings the eligible basis is generally the cost of construction.

For existing buildings the eligible basis is the cost of acquisition plus any rehabilitation expenditures incurred before the close of the first tax year of the credit period. The building must have been acquired by purchase from an unrelated person and there must have been at least 10 years since the building was last placed in service or substantially improved.

Rehabilitation expenditures that are not Federally subsidized may be treated as a separate new building eligible for the 9% credit if the expenditures incurred during any 24-month period average $2,000 or more per low-income unit in a building. The expenditures will be treated as placed in service at the close of the 24-month period. See section 42(e).

When figuring the eligible basis of a new or existing building, do not include the cost of land. Furthermore, you must reduce the basis by the amount of any Federal grants received and by any basis allocable to non-low-income units that are above the average quality standard of the low-income units in the building.

Residential rental property may qualify for the credit even though part of the building in which the residential units are located is used for commercial use. To figure the eligible basis of such property, do not include the cost of the nonresidential rental property. You may generally include the basis of common areas or tenant facilities, such as swimming pools or parking areas. See section 42(d).

Line 3. Low-Income Portion.—Not all of the basis on line 2 qualifies for the low-income credit. Only the portion of the basis attributable to the low-income rental units qualifies for the credit. This is the lesser of (1) the percentage of low-income units to all residential rental units (the "unit percentage") or (2) the percentage of floor space of the low-income units to the floor space of all residential rental units (the "floor-space percentage"). Low-income units are those units presently occupied by qualifying tenants, while residential rental units are all units, whether or not presently occupied.

For the first year of the credit period you must use a modified percentage on line 3 to reflect the average portion of a 12-month period that the units in a building were occupied by low-income individuals. Find the low-income portion of each building (the lesser of the unit percentage or the floor-space percentage) as of the end of each full month that the building was in service during the year. Add these percentages together and divide by 12. Enter the result on line 3. For example, if a building was in service for the last three months of your tax year, and was half occupied as of the end of each of those three months, then for this example you would enter .125 (1.5 [.5 + .5 + .5] ÷ 12) on line 3. This first year adjustment does not affect the amount of qualified basis on which the credit is claimed in the remaining nine years of the credit period, and the amount of the reduction may be claimed in the eleventh year.

Line 4. Qualified Basis of Low-Income Building.—This is the portion of the qualified low-income building attributable to the low-income rental units.

At-risk limitation for individuals and closely held corporations. The basis of property for purposes of the low-income housing credit may be limited if you borrowed against the property and are protected against loss, or if you borrowed money from a person who has other than a creditor interest in the property. See section 42(k).

Line 5. Credit Percentage.—This percentage is generally 9% (.09) or 4% (.04) for buildings placed in service during 1987. However, this percentage may be limited if you did not receive an allocation from the housing credit agency for the full amount of the credit.

If the agency has made an allocation on Form 8609, enter on line 5 of Form 8586 the credit percentage shown on Form(s) 8609, Part I, line 3.

If an allocation is not required to be made by a housing credit agency, enter on line 5 of Form 8586 the applicable credit percentage as follows:

Newly constructed buildings not Federally subsidized	9%
Rehabilitation expenditures treated as separate new building	9%
Newly constructed buildings that are Federally subsidized	4%
Existing buildings	4%

Line 7.—If you have more than three buildings, attach a schedule and enter the total on line 7.

Line 8.—If you have flow-through credit(s) from a partnership, S corporation, cooperative, estate, or trust, add them up and enter the total on line 8.

Line 11c. Other Filers.—Before you can claim the low-income housing credit (which will be your general business credit for 1986) against your income tax liability, you must first reduce this tax liability by the credits listed below:

- Personal credits.
- Foreign tax credit.
- Possessions corporation tax credit.
- Orphan drug credit.
- Nonconventional source fuel credit.

Line 13. Limitation.—If the tax liability on line 12 is $25,000 or less, your credit is limited to that tax liability. If the tax liability is more than $25,000, your credit is limited to $25,000 plus 75% of the excess.

If you and your spouse file separate returns, each must use $12,500 instead of $25,000. But if only one had any credit, that one may use the entire $25,000.

Controlled corporate groups must divide the $25,000 among all component members. See section 38(c)(3)(B).

Estates and trusts, see section 38(c)(3)(D).

Carrybacks and carryforwards.—If you cannot use part or all of the credit because of the tax liability limitations, you may carry it back 3 years then forward 15 years. Use Form 3800.

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Form **6839** (8-89)
Department of the Treasury
Internal Revenue Service

User Survey

Statistics of Income — 1986 — Corporation Income Tax Returns

Please take a few moments to answer the following questions concerning this *Statistics of Income* publication. Your responses will enable us to direct our efforts to meeting the needs of our users. After indicating your responses, please fold, tape, and mail. No postage is required. Thank you for your assistance.

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Selected pages or complete book from IRS	☐ Yes	☐ No
Magnetic tape ordered from National Archives	☐ Yes	☐ No

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Corporation Income Tax Returns