1988 Corporation Income Tax Returns

Statistics of Income

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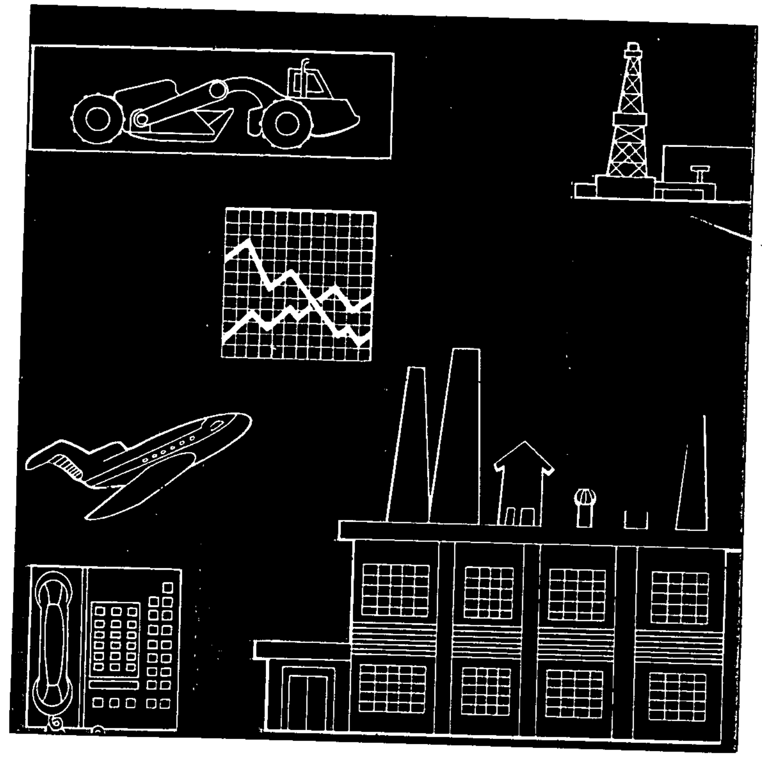

Department of the Treasury

Internal Revenue Service

Publication 16 (Rev. 11-91)
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1988

Statistics of Income

Corporation Income Tax Returns

Publication 16 (Rev. 11-91)

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—1988.*** 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 1988 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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Internal Revenue Service
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Washington, DC 20013-2608.

BUSINESS SOURCE BOOKS:

- *Corporation Source Book, 1988,* **Publication 1053 -- Price $175.00**

  This 481-page document presents detailed income statement, balance sheet, tax and selected items, by major and minor industries and size of total assets. The report, which underlies the *Statistics of Income--Corporation Income Tax Returns* publication, is part of an annual series and can be purchased for $175 (issues prior to 1982 are for sale at $150 per year). A magnetic tape containing the tabular statistics for 1988 can be purchased for $1,500.

- *Partnership Source Book, 1957-1983,* **Publication 1289 -- Price $30.00**

  This 291-page document shows key partnership data, for 1957 through 1983, by major and minor industries. It includes a historical definition of terms section and a summary of legislative changes affecting the comparability of partnership data during that period. Tables show:

  o Number of partnerships
  o Number of partners
  o Business receipts
  o Depreciation
  o Taxes paid deductions
  o Interest paid deductions
  o Payroll deductions
  o Payments to partners
  o Net income less deficit

  (A magnetic tape containing the tabular statistics for partnerships can be purchased for $300 from the National Technical Information Service, U.S. Department of Commerce, Springfield, VA 22161.) More recent partnership data are published annually in the *SOI Bulletin.*

- *Sole Proprietorship Source Book, 1957-1984,* **Publication 1323 -- Price $95.00**

  This *Source Book* is a companion to that for partnerships, described above. It is a 251-page document showing key proprietorship data for 1957 through 1984; data for farm proprietorships are excluded after 1981. Each page presents statistics for a particular industry. Tables show:

  o Number of businesses
  o Business receipts
  o Depreciation
  o Taxes paid deductions
  o Interest paid deductions
  o Payroll deductions
  o Net income less deficit

A magnetic tape containing the tabular statistics can be purchased for $245. As with partnerships, more recent (nonfarm) sole proprietorship data are published annually in the *SOI Bulletin.*

COMPENDIUMS:

- *Studies of Tax-Exempt Organizations, 1974-1987,* **Publication 1416 -- Price $26.00**

This publication presents 22 articles from *Statistics of Income* studies on tax-exempt organizations. The articles emphasize important issues within the nonprofit sector, and also include several other articles previously unpublished in the *SOI Bulletin,* as well as papers published in proceedings of the American Statistical Association and the Independent Sector Research Forum. Topics featured are:

o Nonprofit charitable organizations (primarily charitable, religious, educational and health organizations)
o Private foundations and charitable trusts
o Unrelated business income of exempt organizations

- *Studies of International Income and Taxes, 1984-1988,* **Publication 1267**

This report presents information from 13 *Statistics of Income* studies in the international area (many of them previously published in the *SOI Bulletin*), including:

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

- *Partnership Returns, 1978-1982,* **Publication 369 -- Price $22.00**

This report presents previously unpublished *Statistics of Income* data for 1980, 1981 and 1982, as well as data previously issued in the *SOI Bulletin* and in other publications. Features include:

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

REIMBURSABLE SERVICES (prices dependent on the request):

- **Public Use Magnetic Tape Microdata Files**

This includes individual income tax returns for 1978-1988. (Individual income tax returns for 1966-1977 are available from the Center for Electronic Records (NNX) of the National Archives and Records Administration, Washington, DC 20408.) Files containing more limited data for each State are also available for 1985. All of these files have been edited to protect the confidentiality of individual taxpayers. Files for private foundations for 1982-1983 and 1985 -1988 and nonprofit charitable organizations for 1982-1983 and 1985-1987 are also available from the Statistics of Income Division. The individual, private foundation and charitable organization files are the only microdata files that can be released to the public.

- **Migration Data**

  Compilations are available showing migration patterns, from where to where, by State and county, based on year-to-year changes in the tax return address. Data are also available for selected time periods (according to the years in which returns were filed) between 1978 and 1988 and include counts of the number of individual income tax returns and personal exemptions. In addition, county income totals are available for Income Years 1982 and 1984 through 1987.

- **Other Unpublished Tabulations**

  Unpublished tabulations are also available from *Statistics of Income (SOI),* including detailed tables underlying those published in the *SOI Bulletin.* Special tabulations may also be produced, depending on the availability of SOI computer programming resources.

OTHER PUBLICATIONS:

The following *Statistics of Income* publications are available from the Superintendent of Documents, U.S. Government Printing Office. For copies write:

Superintendent of Documents
U.S. Government Printing Office
Washington, DC 20402.

- *Statistics of Income (SOI) Bulletin* **(Quarterly), Publication 1136**
  Stock Number 748-005-00000-5 -- Subscription price, $20.00; Single copy price, $7.50

  Provides the earliest published financial statistics from individual and corporation income tax returns. The *Bulletin* also includes annual data on nonfarm sole proprietorships and on partnerships, as well as from periodic or special studies of particular interest to tax analysts and administrators and to economists. Historical tables include data from *SOI,* as well as on tax collections and refunds by type of tax.

- *Statistics of Income--1987, Corporation Income Tax Returns,* **Publication 16**
  Stock Number 048-004-02299-1 -- Price $15.00

  This report presents more comprehensive and complete data on corporation income tax returns with accounting periods ended July 1987 through June 1988, than those published earlier in the *SOI Bulletin.*

STATISTICS OF INCOME DIVISION PUBLICATIONS AND TAPES

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- o Receipts
- o Deductions
- o Net income
- o Taxable income
- o Income tax
- o Tax credits
- o Assets
- o Liabilities

Data classified by--
- industry
- accounting period
- size of total assets
- size of business receipts

- *Statistics of Income--1988, Individual Income Tax Returns,* **Publication 1304**
Stock number 048-004-02306-7

This report presents more comprehensive and complete data on individual income tax returns for 1988 than those published earlier in the *SOI Bulletin.*

Presents information on--
- o Sources of income
- o Exemptions
- o Itemized deductions
- o Tax computations

Data presented by--
- size of adjusted gross income
- marital status

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

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

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- Individual income tax rates
- Nonprofit charitable organizations
- Partnership returns
- Private foundations
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- Nonresident alien income and tax
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CONTENTS

Page

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 17 to determine the appropriate page number(s) for specific tables.

INTRODUCTION

This report presents statistical estimates derived from a stratified sample of approximately 77,700 returns selected from the approximately 3.6 million active corporate returns filed for the 1988 Income Year.*

The report is divided into 6 sections. The first section provides statistics summarizing overall corporate activity for Income Year 1988. Section 2 discusses changes in law and regulations between this report and that for Income Year 1987. 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 1988 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.

A user survey follows Section 6. The survey is designed to encourage users of this report to acquaint the Statistics of Income Division with their needs. Users' participation in this survey would be much appreciated.

The statistics in this report provide additional detail on the data contained in "*Corporation Income Tax Returns, 1988*" in the Statistics of Income Bulletin, Volume 11, Number 2, Fall 1991. [1]

OVERALL CORPORATE SUMMARY

Figure A presents corporation summary statistics for Income Years 1987 and 1988. The total number of returns decreased by 1.4 percent from 1987 to 1988, thus reversing the increasing trend from previous years. For example, the number of returns increased by 5.4 percent from 1986 to 1987 and by 4.6 percent from 1985 to 1986.

In contrast to the declining number of returns from 1987 to 1988, a continuing increase in total assets, receipts, income, and tax was reported for the period. Total assets increased by 8.2 percent to $16.6 trillion for 1988. Total receipts rose 7.1 percent, a smaller increase than the 10.5 percent increase from 1986 to 1987. Net income (less deficit) continued to rise, increasing by 3.6 percent from the previous year's increase of 22.2 percent. Income subject to tax rose 22.9 percent in comparison to the 12.9 percent increase from 1986 to 1987. Total income tax before credits increased by 10.9 percent. Total credits increased by 12.6 percent from 1987 to 1988 due to increases in foreign tax and prior year minimum tax credits. Total income tax after credits increased from $87.0 billion in 1987 to $95.9 billion in 1988, an increase of 10.2 percent which is a slower rate of increase compared to the 17.7 percent increase from 1986 to 1987.

Returns with total assets of $250 million or more represented less than one percent of the total returns; nonetheless, for 1988, these 5,094 returns accounted for 52.4 percent of the total receipts and 71.1 percent of the total income tax after credits. In contrast for 1987 there were 4,794 such returns and they accounted for 51.9 percent of total receipts and 65.2 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

***Vergie Mose and Janice Washington were responsible for the overall production and the text for sections 1, 2, and 5 of this report and the staff of Corporations Returns Analysis Section prepared the tables for section 4. The report was prepared under the direction of Ken Szeflinski, Chief, Corporation Returns Analysis Section.**

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 1987 and 1988

[All figures are estimates based on samples—money amounts are in thousands of dollars and size of total assets 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)
1987							
Total	3,612,133	15,310,615,602	9,580,720,701	328,223,710	311,840,615	118,484,975	86,988,756
Zero assets	280,022	—	185,727,143	2,551,151	4,829,468	1,780,734	1,491,165
$1 under $100,000	1,809,278	60,422,391	305,081,024	−306,735	3,647,320	600,667	552,049
$100,000 under $250,000	620,593	99,974,588	312,429,485	2,648,011	5,577,765	1,005,710	932,413
$250,000 under $500,000	353,031	124,777,375	306,062,084	3,639,574	5,864,504	1,215,439	1,124,052
$500,000 under $1,000,000	233,352	164,135,875	373,088,504	4,496,858	6,295,490	1,527,662	1,433,335
$1,000,000 under $5,000,000	231,945	480,177,708	1,034,506,681	15,197,324	16,077,038	5,300,206	5,035,050
$5,000,000 under $10,000,000	33,929	234,362,652	449,526,357	7,545,022	7,595,905	2,901,048	2,744,105
$10,000,000 under $25,000,000	23,532	368,288,492	503,481,914	9,899,285	10,848,793	4,260,983	3,923,048
$25,000,000 under $50,000,000	10,234	363,874,824	321,464,157	8,209,952	9,399,396	3,692,679	3,273,674
$50,000,000 under $100,000,000	6,498	458,310,051	320,294,069	10,686,216	11,122,216	4,398,503	3,765,461
$100,000,000 under $250,000,000	4,926	788,733,117	492,645,294	16,080,938	17,311,652	6,930,193	6,017,702
$250,000,000 or more	4,794	12,167,558,530	4,976,413,989	247,576,114	213,271,066	84,871,153	56,696,706
1988							
Total	3,562,789	16,568,467,823	10,264,867,461	412,982,753	383,201,978	131,367,397	95,895,762
Zero assets	210,248	—	187,881,514	4,540,004	6,390,145	2,175,328	1,783,917
$1 under $100,000	1,795,643	59,419,658	317,869,252	47,632	2,888,369	481,969	448,656
$100,000 under $250,000	612,426	98,815,330	309,919,984	2,591,177	4,272,419	728,115	691,137
$250,000 under $500,000	361,296	127,924,546	314,925,483	3,033,800	4,766,924	907,248	861,546
$500,000 under $1,000,000	242,809	171,357,088	375,360,375	4,749,263	5,745,648	1,292,950	1,235,358
$1,000,000 under $5,000,000	251,870	523,523,599	1,123,631,339	15,451,599	15,472,379	4,762,067	4,549,238
$5,000,000 under $10,000,000	36,387	251,522,895	480,307,941	8,856,456	7,452,154	2,554,654	2,425,486
$10,000,000 under $25,000,000	24,157	375,970,770	533,605,908	11,530,001	10,619,867	3,708,516	3,410,445
$25,000,000 under $50,000,000	10,511	384,179,230	368,702,491	9,361,444	9,979,228	3,515,872	3,140,699
$50,000,000 under $100,000,000	7,022	496,617,609	348,750,703	11,258,349	11,117,180	3,903,953	3,331,658
$100,000,000 under $250,000,000	5,326	848,780,276	528,828,571	20,863,431	19,571,657	6,900,954	5,858,520
$250,000,000 or more	5,094	13,230,356,822	5,375,083,901	320,699,597	284,926,007	100,435,772	68,159,104

[1] Includes taxable income before net operating loss deduction and special deductions.
[2] Includes taxable income less net operating loss deduction and special deductions.
[3] Includes regular tax, personal holding company tax, recapture of investment credit, alternative minimum tax, environmental tax, excess net passive income tax (Form 1120S), branch tax (Form 1120F), tax from Part II (Form 1120-REIT), tax from Part III (Form 1120-REIT), tax from Part IV (Form 1120-REIT), and tax from Line 4, Part II (Form 1120-RIC).
[4] Credits include foreign tax, U.S. possessions tax, nonconventional source fuel, orphan drug, general business and prior year minimum tax 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."

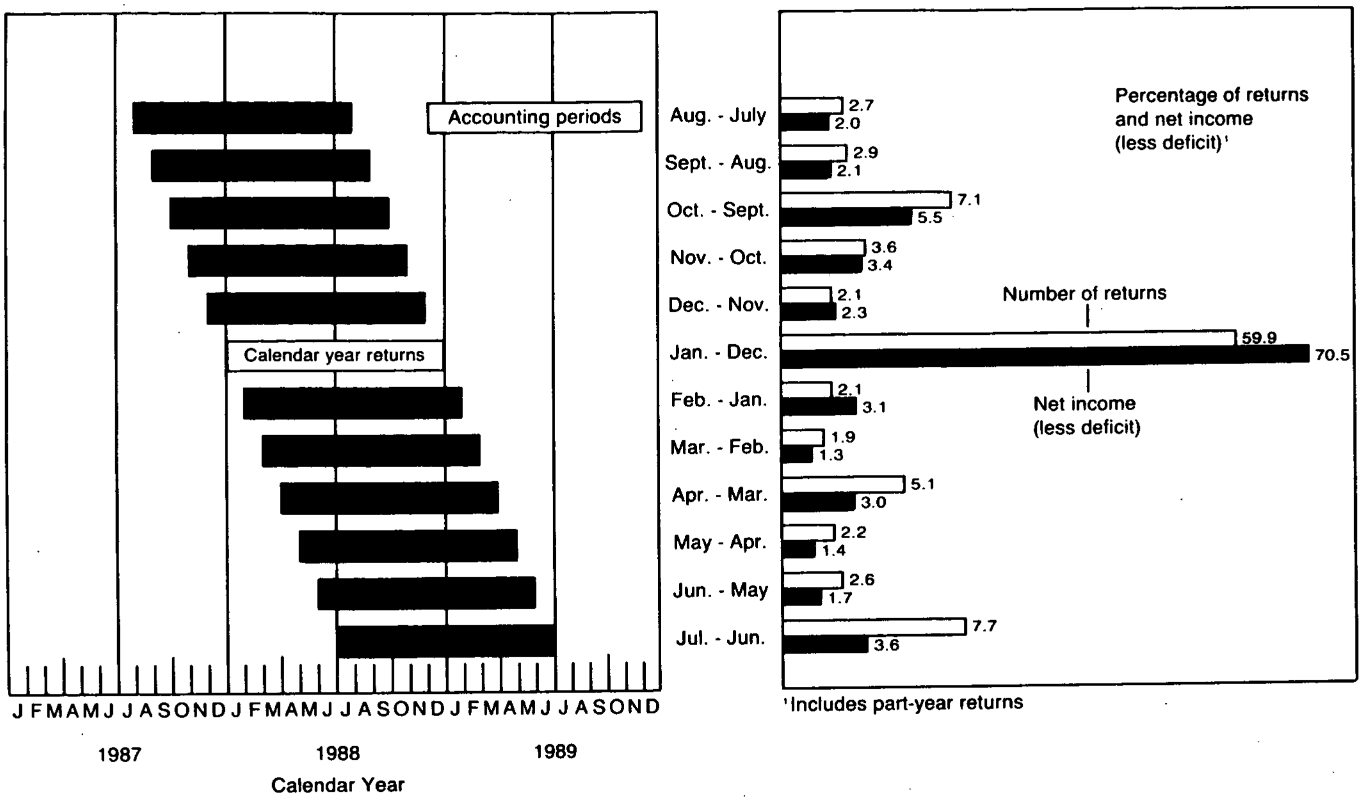
dividends remitted from those subsidiaries and, to a certain extent, their undistributed earnings.

The effect of foreign activity on the statistics varies by type of industry and by size of assets. Income from foreign activity is reflected to a greater extent in manufacturing industries than other industries. Also, foreign activity is almost totally concentrated among returns with assets of $250 million or more. For foreign corporations (defined as those incorporated abroad) engaged in trade or business in the United States, only income that was considered "effectively connected" with the conduct of a trade or business in the United States was included in the statistics and any investment income from U.S. sources was excluded from the data. Most foreign corporations are concentrated in the finance, insurance and real estate industries. Other foreign corporations, incorporated 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. [2]

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, 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.

Figure B
Corporation Income Tax Returns and Net Income (less Deficit), by Accounting Periods, Income Year 1988



[1] Includes part-year returns

Figure C.—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 Accounting Periods for Income Year 1988

[All 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)
Total	**3,562,789**	**16,568,467,823**	**10,264,867,461**	**412,982,753**	**383,201,978**	**131,367,397**	**95,895,762**
December 1988	2,133,062	13,059,668,602	6,539,171,735	291,067,043	278,151,345	96,909,660	66,614,526
Noncalendar year, total	1,429,727	3,508,799,221	3,725,695,726	121,915,709	105,050,633	34,457,737	29,281,236
July 1988	95,925	185,341,562	203,145,681	8,229,247	5,363,397	1,725,899	1,455,503
August 1988	102,647	173,849,374	193,425,212	8,584,055	5,362,575	1,738,380	1,564,373
September 1988	251,756	727,308,275	590,473,248	22,740,426	20,628,224	6,826,253	5,978,239
October 1988	129,721	314,425,954	298,611,245	14,214,436	9,220,465	3,002,810	2,184,329
November 1988	75,528	221,333,303	170,740,474	9,661,698	5,963,244	1,955,405	1,238,168
January 1989	75,713	271,062,135	399,565,775	12,919,304	12,354,961	4,149,477	3,868,175
February 1989	69,381	172,288,639	179,130,535	5,338,262	4,240,804	1,411,425	1,296,295
March 1989	183,277	445,355,582	577,376,346	12,485,140	11,283,209	3,641,497	3,332,559
April 1989	80,040	176,774,274	193,988,386	5,661,001	5,476,765	1,784,112	1,437,830
May 1989	92,396	178,046,382	253,995,183	7,204,407	6,961,129	2,302,083	1,884,306
June 1989	273,343	643,013,742	665,243,641	14,877,733	18,195,860	5,920,397	5,041,458

[1] Includes part-year returns.
[2] Includes taxable income before net operating loss deduction and special deductions.
[3] Includes taxable income less net operating loss deduction and special deductions.
[4] Includes regular tax, personal holding company tax, recapture of investment credit, alternative minimum tax, environmental tax, excessive net passive income tax (Form 1120S), branch tax (Form 1120F), tax from Part II (Form 1120-REIT), tax from Part III (Form 1120-REIT), tax from Part IV (Form 1120-REIT), and tax from Line 4, Part II (Form 1120-RIC).
[5] Credits include foreign tax, U.S. possessions tax, nonconventional source fuel, orphan drug, general business, and prior year minimum tax 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."

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

Form 1120 (U.S. Corporations)	2,057,036
Form 1120-A (U.S. Short-Form Corporations)	228,861
Form 1120S (U.S. S Corporations)	1,257,191
Form 1120L (U.S. Life Insurance Companies)	2,295
Form 1120-PC (U.S. Property and Casualty Insurance Companies)	2,204
Form 1120-REIT (U.S. Real Estate Investment Trust)	211
Form 1120-RIC (U.S. Regulated Investment Companies)	5,070
Form 1120F (U.S. Returns of Foreign Corporations)	9,921
Total*	3,562,789

*Detail may not add to total due to rounding. For previous years, the statistics included data from tax returns filed by Interest-Charge Domestic International Sales Corporations, Form 1120-IC-DISC and Foreign Sales Corporations, Form 1120-FSC. However, these returns were excluded from the corporate sample for 1988.

In addition, the following types of returns are specifically excluded from the statistics: inactive corporations; 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 insurance companies except life (including interinsurers and reciprocal underwriters), if the net written premiums for the taxable year do not exceed $350,000, 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 1988 through June 1989. 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, 1987, and closed on July 31, 1988, and the start of the last-included accounting period, which began on July 1, 1988, and closed on June 30, 1989. 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 59.9 percent of the 1988 returns were filed for the calendar year; and, since they included most of the larger corporations, these returns had approximately 78.8 percent of total assets, 63.7 percent of total receipts, 70.5 percent of net income (less deficit), 72.6 percent of income subject to tax, 73.8 percent of total income tax, and 69.5 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 Hobbs, James R., "Foreign Corporations with Income Effectively Connected with a U.S. Business, 1987," *Statistics of Income Bulletin, Winter, 1990-1991,* pp. 07-18.

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, as amended by the Revenue Act of 1987 and the Technical and Miscellaneous Revenue Act of 1988.

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.

Capitalization of Past Service Pension Costs

The uniform capitalization rules of Code section 263A or the long-term contract rules established as part of the 1986 tax reform were amended to include contributions to a pension or annuity plan representing past service costs. An allocable share of allowable pension costs, whether they related to current or past services, were required to be included in the basis of property produced or held for sale, including property produced under a long-term contract. This requirement was effective for costs incurred after 1987 and for taxable years beginning after 1987 for inventory costs. Previously, past service costs were excluded from the uniform capitalization rules. Any adjustments to income as a result of the change in method of accounting were to be made within a four year period.

Dividends Received Deduction

With this statutory special deduction, a corporation could reduce its net income by a portion of the dividends that it received from domestic and foreign corporations. For dividends received after 1987, net income could be reduced by 70 percent of the dividends received from corporations which were less than 20 percent owned. The 1986 Tax Act had previously reduced the allowable percentage of dividends received from 85 percent to 80 percent. For corporations which owned 20 percent or more of a corporation, the 80 percent deduction was retained for dividends received after 1987.

Foreign Tax Credit Denied for Taxes Paid to South Africa

Effective January 1, 1988, no foreign tax credit was allowed to reduce U.S. tax for taxes paid, accrued, or deemed paid to South Africa. Denial of the credit would continue until the Secretary of State became satisfied that South Africa met the requirements of section 311(c) of the Comprehensive Anti-Apartheid Act of 1986.

Holding Period of Capital Assets Revised

The period of ownership of an asset from acquisition to disposition determined if a gain or loss was short-term or long-term. The disposition of assets acquired after January 1, 1988 resulted in a short-term gain or loss, when the period of ownership or holding period was one year or less. For those assets held for more than one year, the disposition resulted in a long-term gain or loss. Previously, the short-term holding period was 6 months for assets acquired after June 23, 1984.

Personal Service Corporations

A personal service corporation is a corporation whose principal business activity is the performance of personal services that are substantially performed by employee-owners who own more than 10 percent of the corporation's outstanding stock. Performance of personal services are defined as those service activities in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting. For tax years after 1986, Personal Service Corporations were required to have a calendar year accounting period. However, the 1987 Tax Act subsequently amended the requirement so that such companies could elect to have a tax year other than a calendar year. Corporations which made this election became subject to minimum distribution requirements. If the corporation did not meet the minimum distribution requirements, the deduction allowable for certain amounts paid to employee-owners was limited to a maximum amount and the excess was deferred until the following tax year. Also under the 1987 Tax Act, the taxable income of qualified personal service corporations became subject to a flat 34 percent tax rate.

Recapture of Low-Income Housing Credit

The Tax Reform Act of 1986 introduced the low-income housing credit. The Tax Act made the credit available for owners of qualified residential rental property which provided low-income housing. A 15 year compliance period for maintaining certain requirements was imposed on the residential rental building. Since the low-income housing credit was first claimed for Tax Year 1987, the recapture became applicable for 1988.

A part of the low-income housing credit, claimed in a previous year, had to be recaptured in a current tax year throughout the compliance period when:

(1) an owner's qualified basis in the building decreased from the previous tax year, or

(2) the building or an interest in the building was disposed of after the credit was taken in previous years, or

(3) a building failed to meet the percentage requirements for the number of low-income units ("set aside" requirements).

The decrease in basis had to exceed any additions to the qualified basis in the property after the property was placed in service. The recapture rule was not required for disposition of a building, if the owner had posted a satisfactory bond. The amount of the recapture was based on the accelerated portion of the low-income housing credit claimed in previous years. This amount was generally equivalent to one-third of the previously claimed credit. The decrease in qualified basis, expressed as a percent of the total qualified basis in the rental property, was applied to the accelerated portion of the credit. For cases involving the disposition of the building or failure to meet the percentage requirements for low-income units, the full amount of the accelerated portion of the previously claimed credit was to be recaptured.

Interest was added to the recaptured accelerated portion of the credit to determine the final amount of the credit recapture. The interest was charged at the federally prescribed overpayment rate and determined quarterly. The interest could not be used as a business deduction against income.

No income tax credits could reduce the amount of the credit recapture. Any amount of unused low-income housing credit, carryforwards and carrybacks, were also to be decreased by the amount of the recapture.

For 1988, no amount of recapture for the low-income housing credit was included in the computation of total income tax. Data on the reduction of any carryforward of unused credits was not available.

S Corporations

For tax years after 1986, S corporations were required to have a calendar year accounting period. However, the 1987 Tax Act subsequently amended the requirement so that such companies could elect to have a tax year other than a calendar year. To make the election, certain restrictions applied: the deferral period could not exceed 3 months; the company could not be a member of a tiered structure unless the structure consisted entirely of partnerships or S corporations, with the same accounting period; and a tax payment based on the company's prior year net income was required. A company's election to be treated as an S corporation could be terminated if the company failed to meet any of the requirements.

Under the 1988 Tax Act, rules for determining the amount of recognized built-in gains were revised for S corporations whose election date was on or after March 31, 1988. For these corporations, any amount of such gains that exceeded the taxable income limitation of a current year were to be carried over as recognized built-in gains in the succeeding tax year. For S corporations whose election date was prior to the effective date of the revised rules, no carryover provisions applied to the built-in gains of a current year. Therefore, the tax on built-in gains was limited to the taxable income computed as though the company were not a "pass through" entity.

Windfall Profit Tax

The windfall profit tax was repealed for domestic crude oil removed after August 22, 1988. The tax was paid by the producer and the first purchaser withheld the tax from the purchase price of the oil. A phase out period of 33 months was established for the repeal of this tax.

SECTION 3

DESCRIPTION OF THE SAMPLE AND LIMITATIONS OF THE DATA*

This section describes the 1988 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 1988, the sample proportion had decreased to 2.2 percent, or 77,665 returns selected from a population of over 3.5 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). Then from 1968 to the present, both total assets and a measure of income have been the major stratifiers [4].

***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.**

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 1988, see Section 1. The following chart gives the estimated number of active corporations by form type that filed during Tax Years 1984 through 1988.

Form Type	Year**				
	1984	1985	1986	1987	1988
1120	2,277,675	2,294,081	2,331,809	2,224,778	2,057,036
1120-A	164,816	239,255	251,012	238,730	228,861
1120S	701,339	724,749	826,216	1,127,905	1,257,191
1120L	2,042	2,269	2,335	2,273	2,295
1120M	1,490	1,464	1,466	*	*
1120PC	*	*	*	2,046	2,204
1120RIC	*	*	*	1,980	5,070
1120REIT	*	*	*	145	211
1120F	10,900	11,678	11,336	10,478	9,921
1120-IC-DISC .	12,480	1,383	1,443	1,185	***
1120-FSC	*	2,341	2,900	2,613	***
TOTAL	3,170,743	3,277,219	3,428,515	3,612,133	3,562,789
TOTAL (MINUS IC-DISC,FSC) .	3,158,263	3,274,435	3,424,172	3,608,335	3,562,789

*Form not in existence at that time.

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

***Form removed from corporate program. Data will be available for 1991.

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, 1120RIC, 1120REIT, 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 1120PC 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, is carried out to assign sample sizes such that the overall projected sample size is 80,000 active returns [6]. Figure D, gives stratum boundary limits, population and sample sizes, and sample rates for all form types. The final sample size for Tax Year 1988 was 77,665 returns for all form types.

Since 1981, the population has increased in size from 2.8 million to over 3.5 million in 1988. The sample size, on the other hand, has remained fixed at around 80,000 active returns. 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 2.2% in 1988. 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. 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. This system serves as the point of selection for the sample for the corporation study. The sample was selected on a weekly basis.

Sample selections for the 1988 corporation study took place during the period from July 1988 through June 1990. A twenty-four month sampling period is needed for two reasons. First, over 40% of all corporations have non-calendar year accounting periods. (See figure B.) To allow for this, the 1988 SOI file represents all corporations filing returns with accounting periods ending during the period from July 1988 to June 1989. 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 1989 (1988 accounting period ending June 1989), could be timely filed as late as March 1990. Normal administrative processing time lags require that the sampling process remain open for the 1988 study until June 30, 1990. However, a few very large returns for Tax Year 1988 were added to the sample as late as February 1991.

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 times the 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. 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 instructions for each tax year. For Tax Year 1988, 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 reported 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 upon 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. 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 371 returns in 1988 had balance sheet items imputed, in 1987 there were 361 returns and in 1986 there were 484 returns. 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. 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. Three corporations fell into this category in 1988. 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 six of these cases in 1988.

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 proceeds 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 1988, 22,146 returns were subjected to this type of imputation. Of these, 15,332 had "other income" schedules imputed, 21,216 had "other deduction" schedules imputed, and 14,571 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]. The chart below shows the total number of returns and attached schedules that have imputed data.

Type of schedules imputed	Year	
	1987	1988
Returns with schedules	24,173	22,146
Other income schedule	15,081	15,332
Other deduction schedule	17,684	21,216
Other cost of goods sold	10,476	14,571

Another part of the data cleaning process includes identifying sampled returns that will not be used in the tabulations. The BMF system, 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 931 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;
- Returns exempt 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 1987 and having ending accounting periods before July 1988.

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

Type of Return	Year				
	1984	1985	1986	1987	1988
Inactive	155,778	152,945	186,524	237,631	222,146
Duplicate	59,106	64,110	72,090	68,045	66,507
Prior Year	46,234	67,848	90,637	59,248	86,980
Other	1,576	2,587	767	1,940	1,797
Total	262,694	287,490	350,018	366,864	377,429

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, 1120PC, and Form 1120 with Form 5735 attached. A two-step process was used to determine the weights for Forms 1120, 1120-A, 1120RIC, 1120REIT, 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 1/0.5299 = 1.887. (See Figure D.) These weights are used to produce the aggregated total frequencies and money amounts published in this report for Forms 1120L, 1120PC, 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]. Restrictions are placed on the raking process to produce final weights that fall within the range SQRT(2/3) x original weight to SQRT(3/2) x original weight. These final weights are used to produce the aggregated frequencies and

Figure D.—Corporation Returns: Number Filed, Number in Sample, Prescribed and Achieved Sampling Rates, by Sample Selection Class, Income Year 1988

Sample Class Number	Description of Sample Selection Classes (See Notes): Size of Total Assets	Size of Proceeds**	Industry Class	Year Sampled	Number of Returns: Estimated Population	Sample Size	Sampling Rates (Percent): Prescribed	Achieved
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	All Returns, Total		*	*	3,562,789	77,664	* %	2.06%
	Forms 1120, 1120A and 1120S with Form 5735 attached, Total		*	*	509	505	100.00	99.18
1	Under $50,000,000		B	All	449	445	100.00	99.09
	Under $100,000,000		A	All				
2	$50,000,000 or more		B	All	60	60	100.00	100.00
	$100,000,000 or more		A	All				
	Forms 1120, 1120A and 1120S (no Form 5735 attached), Total		*	*	3,547,859	73,177	*	1.93
3	Under $50,000	Under $25,000	All	All	1,284,916	3,351	0.25	0.26
4	$50,000 under $100,000	$25,000 under $50,000	All	All	555,159	1,949	0.35	0.35
5	$100,000 under $250,000	$50,000 under $100,000	All	All	666,908	3,813	0.55	0.57
6	$250,000 under $500,000	$100,000 under $250,000	All	All	416,091	4,591	1.10	1.10
7	$500,000 under $1,000,000	$250,000 under $500,000	All	All	264,215	5,698	2.10	2.15
8	$1,000,000 under $2,500,000	$500,000 under $1,000,000	All	All	192,640	9,874	5.10	5.11
9	$2,500,000 under $5,000,000	$1,000,000 under $1,500,000	All	All	73,472	5,144	7.00	6.98
10	$5,000,000 under $10,000,000	$1,500,000 under $2,500,000	All	All	39,041	5,040	13.00	12.87
11	$10,000,000 under $25,000,000	$2,500,000 under $5,000,000	All	All	26,025	10,178	40.00	38.99
12	$25,000,000 under $50,000,000	$5,000,000 under $10,000,000	All	All	11,293	5,520	50.00	48.73
13	$25,000,000 under $50,000,000	$5,000,000 or more	B	8	6,756	6,680	100.00	98.58
	$50,000,000 under $100,000,000	$10,000,000 or more	A	8				
	$50,000,000 under $100,000,000	$10,000,000 under $15,000,000	All	9,0				
14	$100,000,000 under $250,000,000		A	8	3,686	3,681	100.00	99.87
	$50,000,000 under $250,000,000		B	8				
	$100,000,000 under $250,000,000	$15,000,000 or more	All	9,0				
15	$250,000,000 or more		All	All	7,658	7,658	100.00	100.00
	Forms 1120L, Total		*	*	2,295	1,319	*	59.18
16	Under $50,000,000		All	All	1,988	1,018	50.00	52.99
17	$50,000,000 under $250,000,000		All	All	148	145	100.00	100.00
18	$250,000,000 or more		All	All	159	156	100.00	100.00
	Forms 1120F (with effectively connected income in U.S.), Total		*	*	9,921	2,007	*	20.38
19	Under $25,000,000		B	All	9,596	1,690	20.00	18.05
	Under $50,000,000		A	All				
20	$25,000,000 under $50,000,000		B	All	68	66	100.00	100.00
	$50,000,000 under $100,000,000		A	All				
21	$50,000,000 or more		B	All	257	251	100.00	99.63
	$100,000,000 or more		A	All				
	Forms 1120PC, Total		*	*	2,204	656	*	27.94
22	Under $100,000		C	All	336	2	.35	.60
23	$100,000 under $5,000,000		C	All	1,018	106	10.00	10.49
24	$5,000,000 under $50,000,000		C	All	574	274	50.00	48.11
25	$50,000,000 under $250,000,000		C	All	189	188	100.00	100.00
26	$250,000,000 or more		C	All	87	86	100.00	100.00

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)

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	
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	5995
1988 Class	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Industry Code	6030	6060	6090	6120	6140	6150	6199	6210	6356	6359	6411	6511	6550	6599	6742	6749	7000	7389	7900	Other
1988 Class	A	A	A	A	A	A	A	A	C	C	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.
The prescribed and achieved sampling rates for sample classes 3 through 11, and 22 through 26 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 1988 Form 1120 return and is sampled in 1988. The principal Business Activity (PBA) Code is listed as 5300. Reported total assets are $33,000,000 and reported Net Deficit is $17,000,000. The Industry Class is B and the year is 8. The sample class is 13 based on size of proceeds for Industry Class B and Sampled Year 8 rather than 12 based on size of total assets for all years and Industry Classes.

money amounts published in this report for Forms 1120, 1120-A, 1120RIC, 1120REIT, 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 insure 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 1988 data with the 1987 data. A great amount of effort was made at every stage to insure data integrity.

Since the SOI Corporation estimates were based on a sample, they may differ from figures that would have been 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 variation for the estimated number of returns are given in Figure E. Estimated coefficients of variation 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

$$X = 75{,}988 \text{ returns}$$

A coefficient of variation (CV) of 1.57 percent for this frequency is obtained by using column 5 of Figure E 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:

$$\begin{aligned} SE(X) &= X * CV(X) \\ &= 75{,}988(.0157) \\ &= 1{,}193 \text{ returns} \end{aligned}$$

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:

$$\begin{aligned} &(X - 2 * SE(X),\ X + 2 * SE(X)) \\ &(75{,}998 - 2 * 1{,}193,\ 75{,}998 + 2 * 1{,}193) \\ &(75{,}998 - 2{,}386,\ 75{,}998 + 2{,}386) \end{aligned}$$

Thus, the interval estimate is from 73,612 returns to 78,384 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 industrial 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 industrial 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 1988, there were 162 unavailable returns in the corporation study, which constituted about two-tenths of one percent of the sample.

The following chart contains the number of unavailable returns for years 1984-1988.

Year	1984	1985	1986	1987	1988
Total	3,460	1,488	354	213	162

Figure E—Coefficient of Variation of Estimated Number of Returns, Income Year 1988

Estimated number of returns	Tables showing the classification by size of total assets: 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]	Tables not showing classes by size of total assets
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
					(Percent) [2 3]				
200	137.87	93.67	67.07	47.67	30.46	18.40	8.83	(5)	137.87
300	112.57	76.48	54.76	38.92	24.87	15.02	7.21	(5)	112.57
400	97.49	66.23	47.42	33.71	21.54	13.01	6.24	(5)	97.49
500	87.20	59.24	42.42	30.15	19.27	11.64	5.59	(5)	87.20
600	79.60	54.08	38.72	27.52	17.59	10.62	5.10	(5)	79.60
700	73.70	50.07	35.85	25.48	16.28	9.83	4.72	(5)	73.70
800	68.94	46.83	33.53	23.84	15.23	9.20	4.42	(5)	68.94
900	64.99	44.16	31.62	22.47	14.36	8.67	4.16	(5)	64.99
1,000	61.99	41.89	29.99	21.32	13.62	8.23	3.95	(5)	61.66
1,200	56.29	38.24	27.38	19.46	12.44	7.51	3.61	(5)	56.29
1,400	52.11	35.40	25.35	18.02	11.51	6.95	3.34	(5)	52.11
1,600	48.75	33.12	23.71	16.85	10.77	6.50	3.12	(5)	48.75
1,800	45.96	31.22	22.36	15.89	10.15	6.13	2.94	(5)	45.96
2,000	43.60	29.62	21.21	15.07	9.63	5.82	2.79	(5)	43.60
2,500	39.00	26.49	18.97	13.48	8.62	5.20	2.50	(5)	39.00
3,000	35.60	24.18	17.32	12.31	7.87	4.75	2.28	(5)	35.60
4,000	30.83	20.94	15.00	10.66	6.81	4.11	1.97	(5)	30.83
5,000	27.57	18.73	13.41	9.53	6.09	3.68	1.77	(5)	27.57
7,000	23.31	15.83	11.34	8.06	5.15	3.11	1.49	(5)	23.31
10,000	19.50	13.25	9.48	6.74	4.31	2.60	1.25	(5)	19.50
15,000	15.92	10.82	7.74	5.50	3.52	2.12	1.02	(5)	15.92
25,000	12.33	8.38	6.00	4.26	2.72	1.65	.79	(5)	12.33
35,000	10.42	7.08	5.07	3.60	2.30	1.39	.67	(5)	10.42
50,000	8.72	5.92	4.24	3.01	1.93	1.16	(4)	(5)	8.72
75,000	7.12	4.84	3.46	2.46	1.57	(4)	(4)	(5)	7.12
100,000	5.21	3.54	2.53	1.80	1.15	(4)	(4)	(5)	5.21
150,000	5.03	3.42	2.45	1.74	1.11	(4)	(4)	(5)	5.03
250,000	3.90	2.65	1.90	1.35	.86	(4)	(4)	(5)	3.90
500,000	2.76	1.87	1.34	(4)	(4)	(4)	(4)	(5)	2.76
700,000	1.87	1.58	(4)	(4)	(4)	(4)	(4)	(5)	2.33
1,000,000	1.95	(4)	(4)	(4)	(4)	(4)	(4)	(5)	1.95
1,500,000	1.59	(4)	(4)	(4)	(4)	(4)	(4)	(5)	1.59
2,000,000	1.38	(4)	(4)	(4)	(4)	(4)	(4)	(5)	1.38

[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.
[5] Coefficient of variation is less than 1.00 but greater than zero.

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 total assets of $300,000, divide 60,000 by 100 = 600, look up CV for 600 in column (3), CV = 33.72%, divide CV by 10 = 3.87% for 60,000 returns.

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. The following chart contains the number of mis-stratified returns.

Year	1985	1986	1987	1988
Total	3,849	2,264	3,213	1,802

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. Some purely, arithmetical errors made by the taxpayer are corrected during the data capture and cleaning processes. Adjustments to a return during auditing are not incorporated into the SOI file, because of time constraints.

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 sampled 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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Section 4 BASIC TABLES

INCOME AND FINANCIAL DATA BY INDUSTRY AND SIZE

SELECTED SUBJECTS

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	**3,562,789**	**1,908,799**	**10,264,887,461**	**8,167,955,799**	**8,949,846,244**	**5,944,935,455**	**555,850,912**	**142,888,159**	**383,201,978**
Agriculture, forestry, and fishing	**119,902**	**63,943**	**86,258,094**	**60,727,744**	**80,520,140**	**57,188,712**	**4,184,927**	**2,569,006**	**2,007,910**
Agricultural production	76,765	41,997	53,174,622	36,836,908	48,555,585	33,545,648	3,002,734	2,022,105	1,443,161
Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping	43,137	21,947	33,083,472	23,890,836	31,964,555	23,643,064	1,182,193	546,901	564,749
Mining	**41,080**	**16,133**	**100,426,996**	**78,582,919**	**87,350,933**	**54,573,351**	**8,581,355**	**4,469,500**	**4,680,711**
Metal mining	1,500	177	11,360,604	9,616,261	9,416,839	5,806,446	1,905,074	359,367	938,738
Iron ores	*24	*19	*1,395,618	*1,256,236	*1,213,954	*1,037,953	*133,184	*3,200	*127,356
Copper, lead and zinc, gold and silver ores	1,150	60	5,015,588	3,578,293	3,704,579	2,002,810	1,058,191	302,191	782,962
Other metal mining	326	98	4,949,398	4,781,732	4,498,306	2,765,682	713,699	53,975	28,420
Coal mining	4,101	1,736	20,695,756	15,703,992	19,218,836	13,154,870	1,026,994	292,244	395,684
Oil and gas extraction	31,441	12,217	57,009,643	43,124,465	47,989,076	29,427,945	4,584,511	3,677,470	2,609,739
Crude petroleum, natural gas, and natural gas liquids	17,734	6,515	35,875,227	30,529,728	29,403,425	18,339,092	3,000,508	1,984,617	1,743,891
Oil and gas field services	13,707	5,702	21,134,416	12,594,738	18,585,651	11,088,853	1,584,003	1,692,853	865,848
Nonmetallic minerals, except fuels	4,038	2,003	11,360,993	10,138,200	10,726,181	6,184,089	1,064,776	140,420	736,549
Dimension, crushed, and broken stone, sand and gravel	3,135	1,547	8,216,308	7,730,951	7,755,329	4,670,367	759,290	79,954	483,352
Other nonmetallic minerals, except fuels	902	456	3,144,685	2,407,249	2,970,852	1,513,722	305,486	60,466	253,198
Construction	**381,499**	**222,350**	**499,690,338**	**379,475,638**	**485,711,849**	**375,920,136**	**17,946,717**	**6,602,797**	**8,340,495**
General building contractors and operative builders	154,212	80,526	233,674,634	178,446,658	226,055,865	186,915,122	7,634,860	3,201,897	3,367,801
General building contractors	150,200	78,292	222,130,016	168,585,693	215,538,783	182,386,312	6,824,407	3,033,233	3,109,485
Operative builders	4,012	2,234	11,544,618	9,860,965	10,517,082	4,528,810	810,453	168,664	258,316
Heavy construction contractors	24,109	15,141	74,798,645	57,344,265	70,903,305	55,435,867	3,824,460	1,026,817	1,747,669
Special trade contractors	203,178	126,683	191,217,058	143,684,715	188,752,679	133,569,148	6,487,398	2,374,083	3,225,025
Plumbing, heating, and air conditioning	37,089	22,025	40,204,731	30,746,533	39,759,044	29,214,481	1,152,524	440,920	640,888
Electrical work	31,237	16,823	32,507,346	23,351,850	31,995,871	23,538,794	1,050,743	431,468	555,362
Other special trade contractors and contractors not allocable	134,851	87,835	118,504,982	89,586,333	116,997,765	80,815,873	4,284,131	1,501,695	2,028,775
Manufacturing	**299,538**	**172,955**	**3,348,965,911**	**2,921,357,987**	**3,118,059,530**	**2,117,827,704**	**232,182,692**	**27,099,041**	**197,348,499**
Food and kindred products	18,301	9,098	358,646,950	296,868,425	342,469,522	245,959,866	18,199,052	2,357,550	15,664,250
Meat products	2,383	1,325	66,863,487	51,944,610	66,027,403	58,357,604	1,286,730	379,974	944,220
Dairy products	2,093	619	37,589,865	31,327,962	35,453,437	26,113,064	2,271,593	155,494	2,125,868
Preserved fruits and vegetables	976	304	22,526,171	20,791,612	21,601,521	14,515,279	1,485,417	51,237	1,268,969
Grain mill products	2,325	1,859	63,928,488	59,359,422	61,188,745	42,791,257	4,012,842	109,524	3,836,026
Bakery products	3,002	958	14,120,906	10,101,501	13,662,873	7,713,778	600,816	145,515	470,946
Sugar and confectionery products	964	510	24,787,986	16,147,022	22,938,097	14,956,532	1,610,247	124,486	1,268,697
Malt liquors and malt	12	*5	15,469,568	*12,454,293	14,986,684	8,337,970	*988,026	258,611	*986,397
Alcoholic beverages, except malt liquors and malt	682	412	9,145,458	7,412,965	7,842,109	5,048,401	1,079,184	124,383	846,420
Bottled soft drinks, and flavorings	871	538	44,537,085	37,880,728	41,050,422	23,533,683	3,008,917	307,332	2,530,443
Other food and kindred products	4,992	2,568	59,677,935	49,448,311	57,718,231	44,592,299	1,855,280	700,995	1,386,263
Tobacco manufactures	71	67	63,691,438	63,615,199	56,700,224	28,959,189	10,277,586	*14,849	9,944,583
Textile mill products	4,545	2,967	52,464,792	43,480,200	52,489,999	40,120,121	2,670,136	662,042	1,912,370
Weaving mills and textile finishing	505	282	19,249,031	15,081,594	18,222,363	13,703,014	1,221,795	185,418	1,075,382
Knitting mills	1,248	871	7,242,749	5,230,477	7,180,725	5,536,238	313,339	113,966	183,452
Other textile mill products	2,792	1,815	28,067,012	23,168,128	27,086,911	20,880,869	1,135,002	362,657	653,536
Apparel and other textile products	17,040	8,224	67,849,272	52,231,866	65,760,142	47,239,166	3,148,965	1,015,755	1,931,739
Men's and boys' clothing	1,699	1,018	17,591,576	14,324,804	16,799,290	12,158,832	1,061,557	137,970	677,488
Women's and children's clothing	6,007	2,220	27,721,461	21,841,962	26,772,142	19,336,525	1,359,844	504,482	882,440
Other apparel and accessories	2,947	1,666	8,627,166	5,823,639	8,479,073	5,783,617	269,104	168,386	129,571
Miscellaneous fabricated textile products; textile products, not elsewhere classified	6,387	3,321	13,909,068	10,241,462	13,709,637	9,960,193	458,459	204,917	242,240
Lumber and wood products	17,066	9,573	80,903,114	66,528,465	77,223,872	57,367,956	4,457,827	722,402	3,187,254
Logging, sawmills, and planing mills	6,502	3,373	31,592,416	27,707,903	29,601,871	21,523,009	2,260,699	220,638	1,818,480
Millwork, plywood, and related products	5,376	3,900	33,128,300	30,029,715	32,268,656	24,498,435	1,745,164	158,253	1,110,034
Other wood products, including wood buildings and mobile homes	5,188	2,300	16,182,398	8,790,847	15,353,345	11,346,512	451,965	343,511	258,740
Furniture and fixtures	8,959	5,412	40,185,289	31,132,455	39,288,679	27,892,198	1,733,003	485,374	1,338,804
Paper and allied products	3,298	2,004	115,602,990	106,940,936	111,411,467	74,390,707	9,249,010	336,993	8,323,065
Pulp, paper, and board mills	215	150	61,513,551	60,131,111	59,379,376	38,534,679	5,148,964	73,670	4,810,723
Other paper products	3,083	1,855	54,089,439	46,809,825	52,032,091	35,856,029	4,100,046	263,324	3,512,342
Printing and publishing	48,128	27,645	156,200,423	125,258,978	145,727,139	75,073,094	12,637,788	2,739,299	10,544,386
Newspapers	5,812	4,250	50,695,495	43,938,642	45,536,146	18,861,682	5,568,594	615,429	4,958,434
Periodicals	6,302	2,317	18,583,768	13,663,844	17,528,992	8,527,116	1,019,202	578,858	814,885
Books, greeting cards, and miscellaneous publishing	9,031	3,606	28,131,624	23,239,995	25,286,239	10,625,079	3,228,529	726,425	2,900,954
Commercial and other printing and printing trade services	26,984	17,473	58,789,536	44,416,497	57,375,763	37,059,217	2,821,463	818,586	1,870,112
Chemicals and allied products	10,232	7,235	338,728,050	314,480,221	315,836,954	191,359,800	33,821,228	1,590,800	31,347,827
Industrial chemicals, plastics materials and synthetics	4,832	3,272	165,840,476	155,382,959	154,702,801	100,476,370	16,198,604	581,454	14,710,142
Drugs	960	686	72,324,464	66,073,611	66,080,207	28,967,220	11,645,151	550,805	11,343,384
Soap, cleaners, and toilet goods	2,189	1,718	64,280,987	63,008,779	60,499,673	39,735,690	3,920,129	110,821	3,753,912
Paints and allied products	709	548	9,487,416	8,146,887	9,293,260	5,665,340	469,172	53,505	423,377
Agriculture and other chemical products	1,541	1,011	26,794,707	21,867,985	25,261,013	16,515,180	1,588,173	294,214	1,117,012
Petroleum (including integrated) and coal products	1,362	938	409,449,585	392,341,046	378,641,116	274,112,102	28,024,985	734,165	25,208,419
Petroleum refining (including integrated)	445	296	403,890,711	388,502,800	373,389,711	270,251,594	27,699,846	663,114	25,013,665
Petroleum and coal products, not elsewhere classified	917	643	5,558,874	3,838,247	5,251,405	3,860,507	325,140	71,051	194,753
Rubber and miscellaneous plastics products	13,328	8,041	76,156,849	60,917,536	72,896,745	51,716,202	3,826,056	810,994	2,693,542
Rubber products; plastics footwear, hose and belting	1,870	1,047	33,593,603	27,389,186	31,459,514	22,184,282	1,694,924	284,872	1,470,469
Miscellaneous plastics products	11,458	6,994	42,563,246	33,528,351	41,437,231	29,531,920	2,131,132	526,122	1,223,074
Leather and leather products	1,695	1,017	15,315,835	13,930,311	14,807,062	10,477,182	710,758	99,206	493,011
Footwear, except rubber	239	192	10,916,140	10,007,202	10,491,413	7,184,699	505,555	61,304	389,845
Leather and leather products, not elsewhere classified	1,456	825	4,399,695	3,923,109	4,315,649	3,292,483	205,203	*37,902	103,167

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 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					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Manufacturing—Continued									
Stone, clay, and glass products	9,839	6,872	66,461,500	47,307,987	62,659,821	41,891,527	3,913,620	1,348,030	3,077,571
Glass products	1,291	993	23,624,850	13,604,390	22,072,592	13,898,148	1,379,555	687,114	1,175,118
Cement, hydraulic	190	102	6,318,771	4,958,946	5,763,425	3,940,427	249,309	121,905	110,740
Concrete, gypsum, and plaster products	4,736	3,706	22,441,937	17,100,548	21,342,232	15,015,427	1,174,609	336,157	882,851
Other nonmetallic mineral products	3,622	2,071	14,075,941	11,644,103	13,481,572	9,037,525	1,110,146	202,854	908,862
Primary metal industries	4,258	3,263	137,547,407	114,900,726	132,557,680	102,900,881	7,677,269	587,213	4,241,611
Ferrous metal industries, miscellaneous primary mineral products	2,693	2,202	69,150,895	63,902,367	66,761,077	49,722,820	4,118,614	323,579	2,250,248
Nonferrous metal industries	1,565	1,061	68,396,512	50,998,359	65,796,603	53,178,062	3,558,654	263,634	1,991,363
Fabricated metal products	48,800	30,404	177,950,284	146,150,868	171,553,904	122,528,728	9,675,254	2,121,303	6,375,870
Metal cans and shipping containers	164	134	9,470,786	8,288,213	8,737,554	6,882,411	543,178	*49,972	480,280
Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products	3,798	2,881	17,069,113	14,798,102	16,141,844	10,409,334	1,499,936	131,324	1,064,699
Plumbing and heating, except electric and warm air	805	467	12,554,825	10,964,703	12,030,313	8,056,840	796,410	117,386	721,311
Fabricated structural metal products	8,169	5,571	42,361,656	35,391,661	41,082,850	30,522,974	1,965,369	522,219	1,285,322
Metal forgings and stampings	3,649	2,502	20,389,294	16,693,871	19,897,837	14,533,747	962,735	227,953	599,609
Coating, engraving, and allied services	1,997	1,627	5,123,469	4,530,391	5,037,664	3,259,517	348,438	26,955	158,327
Ordnance and accessories, except vehicles and guided missiles	275	122	2,247,092	1,745,155	2,211,629	1,649,030	80,114	*64,980	76,173
Miscellaneous fabricated metal products	29,943	17,101	68,734,049	53,738,771	66,414,212	47,214,875	3,479,073	980,515	1,990,149
Machinery, except electrical	28,932	17,752	288,773,459	241,197,900	249,318,543	164,279,972	24,478,713	2,533,417	20,698,159
Farm machinery	2,214	1,082	12,403,765	10,430,130	10,609,847	6,323,707	1,072,430	104,725	343,733
Construction and related machinery	2,262	1,358	34,935,889	30,235,849	32,895,098	24,012,824	2,252,692	253,024	1,522,049
Metalworking machinery	8,206	4,471	18,656,776	13,677,019	17,902,952	11,692,716	1,052,711	295,661	606,539
Special industry machinery	4,655	3,736	23,303,522	18,281,056	22,274,120	15,645,787	1,184,602	423,021	729,816
General industry machinery	4,126	2,322	30,698,741	23,270,988	29,653,523	20,200,119	1,688,547	289,129	1,266,352
Office, computing, and accounting machines	548	309	128,100,853	115,640,325	97,527,928	58,749,255	14,967,902	637,090	14,393,230
Other machinery, except electrical	6,920	4,475	40,673,913	29,662,532	38,455,075	27,655,564	2,259,830	530,768	1,836,440
Electrical and electronic equipment	23,321	11,934	296,244,817	253,344,273	273,705,444	177,901,991	19,805,238	4,437,953	16,446,111
Household appliances	320	279	15,669,233	13,069,055	14,996,907	10,656,618	793,494	198,229	681,287
Radio, television, and communication equipment	2,467	832	42,799,071	36,410,814	40,928,170	28,068,383	1,781,453	671,418	1,539,364
Electronic components and accessories	11,745	5,827	111,133,877	88,828,385	104,403,747	70,555,687	8,733,842	2,421,178	7,280,090
Other electrical equipment	8,790	4,995	126,642,636	115,036,019	113,376,620	68,621,302	8,496,450	1,147,128	6,945,370
Motor vehicles and equipment	2,686	1,417	306,211,123	289,116,471	276,806,122	196,494,450	14,234,187	1,083,165	13,447,188
Transportation equipment, except motor vehicles	4,252	1,433	144,753,753	135,197,017	134,165,212	97,756,799	11,755,228	685,524	10,498,022
Aircraft, guided missiles and parts	1,237	396	123,673,346	120,008,926	114,089,474	82,079,400	10,862,202	332,088	9,848,502
Ship and boat building and repairing	1,941	653	9,145,943	6,151,405	8,783,670	6,698,975	323,114	176,635	208,087
Other transportation equipment, except motor vehicles	1,074	384	11,934,465	9,036,686	11,292,068	8,978,425	569,911	176,801	441,433
Instruments and related products	8,769	5,633	84,848,016	71,119,529	78,268,761	45,561,461	8,043,704	1,323,507	7,337,037
Scientific instruments and measuring devices; watches and clocks	2,518	1,238	34,420,344	30,342,541	31,254,619	18,768,408	4,051,760	334,959	3,622,935
Optical, medical, and ophthalmic goods	5,205	4,071	29,603,559	21,493,969	27,701,623	15,035,299	2,573,522	814,619	2,348,427
Photographic equipment and supplies	1,046	324	20,824,113	19,283,018	19,312,519	11,757,755	1,418,422	173,928	*1,365,676
Miscellaneous manufacturing and manufacturing not allocable	24,657	12,024	68,886,965	55,297,578	65,771,122	43,844,311	3,843,085	1,409,499	2,637,681
Transportation and public utilities	**149,248**	**78,583**	**838,753,393**	**678,817,735**	**779,584,504**	**356,253,750**	**59,870,499**	**12,926,698**	**50,627,000**
Transportation	120,494	62,441	318,420,797	231,907,164	296,919,809	132,529,482	14,657,209	4,985,319	11,530,330
Railroad transportation	641	374	53,013,312	43,800,629	46,182,921	21,472,817	3,565,396	931,494	3,182,799
Local and interurban passenger transit	9,910	4,983	12,758,660	4,277,853	11,646,562	4,833,635	278,861	216,297	136,119
Trucking and warehousing	60,871	34,452	100,593,046	70,711,542	97,729,918	35,363,557	2,959,728	1,364,383	1,899,819
Water transportation	6,541	2,676	17,461,280	14,012,480	15,823,949	9,258,831	945,044	368,066	532,335
Transportation by air	7,272	2,252	84,855,577	63,289,184	78,271,940	30,355,238	5,039,664	1,192,018	4,561,409
Pipelines, except natural gas	74	74	2,328,332	2,328,332	2,239,739	928,422	712,641	—	688,572
Transportation services, not elsewhere classified	35,184	17,629	47,410,588	33,487,143	45,024,780	30,316,982	1,155,875	913,061	529,278
Communication	15,535	7,922	221,257,169	199,842,620	203,773,723	78,490,091	20,227,798	4,120,542	19,151,687
Telephone, telegraph, and other communication services	8,124	4,673	189,409,545	179,527,395	177,115,425	68,582,138	16,308,250	1,810,173	15,755,787
Radio and television broadcasting	7,411	3,249	31,847,625	20,315,226	26,658,298	9,907,953	3,919,548	2,310,369	3,395,899
Electric, gas, and sanitary services	13,219	8,220	299,075,428	247,067,951	278,890,972	145,234,178	24,985,492	3,820,837	19,944,983
Electric services	460	344	113,755,544	95,439,894	107,429,530	46,891,107	10,164,395	1,775,016	8,908,090
Gas production and distribution	2,077	778	91,758,350	68,678,710	81,273,046	57,676,566	6,790,478	904,114	3,889,216
Combination utility services	300	254	72,762,685	65,751,395	70,505,308	31,531,991	6,089,720	791,422	5,584,709
Water supply and other sanitary services	10,382	6,845	20,798,848	17,197,954	19,683,088	9,134,514	1,940,900	350,285	1,562,968
Wholesale and retail trade	**984,553**	**562,082**	**2,977,982,750**	**2,234,166,521**	**2,891,336,187**	**2,230,936,367**	**66,594,873**	**23,749,990**	**44,054,669**
Wholesale trade	315,272	197,337	1,432,705,302	1,146,077,119	1,396,255,260	1,164,155,617	32,184,059	9,245,437	20,004,386
Groceries and related products	25,754	16,297	210,926,286	172,206,382	207,335,105	180,670,803	2,587,759	680,377	1,760,093
Machinery, equipment, and supplies	51,331	34,378	131,262,226	105,212,373	126,456,202	95,483,657	3,827,530	1,187,544	2,314,114
Miscellaneous wholesale trade	238,187	146,662	1,090,516,790	868,658,365	1,062,463,952	888,001,157	25,768,770	7,377,516	15,930,179
Motor vehicles and automotive equipment	20,396	13,757	114,031,719	76,809,536	111,334,658	92,955,016	2,571,165	1,111,731	2,002,670
Furniture and home furnishings	10,300	4,843	15,181,583	12,157,034	14,874,673	10,497,916	369,569	256,985	203,267
Lumber and construction materials	11,155	7,235	49,544,805	38,654,674	48,729,426	40,548,844	982,065	371,360	550,135
Sporting, recreational, photographic, and hobby goods, toys, and supplies	9,459	4,951	20,698,770	16,819,861	20,321,287	15,226,301	700,997	327,166	417,514
Metals and minerals, except petroleum and scrap	6,380	4,207	124,234,439	110,531,530	115,575,669	107,110,347	3,062,742	266,468	2,374,497
Electrical goods	22,638	15,171	92,702,575	68,834,336	90,815,455	69,749,041	2,636,234	1,021,005	1,524,816
Hardware, plumbing, and heating equipment and supplies	12,072	8,875	46,924,560	38,993,788	46,127,959	35,095,621	1,302,972	234,182	766,885
Other durable goods	50,607	29,668	120,879,795	104,105,500	118,420,284	93,859,239	3,699,226	707,205	2,035,904
Paper and paper products	8,566	4,951	32,535,224	27,866,121	32,013,537	26,343,293	727,892	181,862	391,709
Drugs, drug proprietaries, and druggists' sundries	3,062	1,747	38,843,362	30,677,660	38,152,191	32,442,317	756,605	283,829	594,482
Apparel, piece goods, and notions	17,223	10,066	52,247,233	44,474,355	51,193,536	40,524,311	1,817,022	549,850	880,521
Farm-product raw materials	7,289	4,704	105,605,187	86,178,740	102,818,933	94,122,834	1,226,485	312,621	823,274
Chemicals and allied products	6,678	4,847	27,383,661	24,390,118	26,946,048	22,165,970	721,780	169,751	435,816
Petroleum and petroleum products	13,243	9,326	122,197,624	84,382,053	120,288,297	109,527,631	1,719,322	529,167	1,091,126
Alcoholic beverages	3,891	1,805	40,745,818	34,145,863	39,863,107	30,554,633	1,111,920	146,853	416,220
Miscellaneous nondurable goods; wholesale trade not allocable	35,229	20,509	86,760,436	69,637,195	84,988,892	67,277,842	2,362,774	907,482	1,421,343

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 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					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Wholesale and retail trade—Continued									
Retail trade	666,330	363,302	1,541,442,402	1,085,019,925	1,491,417,101	1,063,958,376	34,294,531	14,423,083	24,010,704
Building materials, garden supplies, and mobile home dealers	40,959	23,757	83,957,246	56,718,497	82,066,939	59,974,531	1,906,811	735,725	1,176,236
Building materials dealers	19,251	10,524	60,953,485	39,519,522	59,696,784	44,122,677	1,374,275	486,035	861,942
Hardware stores	10,965	7,160	11,808,026	9,369,512	11,630,281	7,814,027	305,728	114,239	168,213
Garden supplies and mobile home dealers	10,743	6,073	11,195,736	7,829,463	10,739,874	8,037,827	226,807	135,451	146,081
General merchandise stores	9,319	6,152	248,006,408	204,376,356	231,655,083	150,515,498	8,110,147	1,214,736	7,549,731
Food stores	60,596	32,292	276,799,850	161,130,432	272,315,846	209,322,209	3,285,916	1,782,700	2,339,626
Grocery stores	33,218	19,178	254,220,036	147,298,999	250,175,814	193,970,331	2,809,865	1,323,047	2,146,800
Other food stores	27,378	13,114	22,579,814	13,831,432	22,140,032	15,351,878	476,051	459,653	192,826
Automotive dealers and service stations	96,214	56,415	412,164,538	278,249,581	403,000,303	344,109,247	4,345,193	2,433,630	1,939,915
Motor vehicle dealers	41,000	22,645	331,467,808	216,761,234	323,699,302	283,207,829	2,873,034	1,841,160	1,126,081
Gasoline service stations	23,579	14,337	43,035,671	32,324,266	42,551,874	34,597,319	612,627	204,585	340,164
Other automotive dealers	31,635	19,433	37,661,060	29,164,081	36,749,127	26,304,099	859,532	387,885	473,670
Apparel and accessory stores	48,723	25,736	77,812,347	60,385,866	75,538,139	44,960,232	3,267,318	1,184,980	2,533,511
Furniture and home furnishings stores	37,674	22,595	55,883,396	43,594,559	54,084,364	34,376,685	2,034,390	609,473	1,393,992
Eating and drinking places	150,272	71,933	134,439,493	91,774,963	128,000,658	56,684,024	4,009,922	2,983,810	2,349,490
Miscellaneous retail stores	222,572	124,423	252,379,123	188,789,670	244,755,769	164,015,951	7,334,835	3,478,031	4,728,203
Drug stores and proprietary stores	26,153	18,126	65,971,219	50,637,139	64,191,034	46,060,421	1,480,960	406,444	1,226,583
Liquor stores	15,103	7,968	12,245,763	7,528,346	12,077,172	9,456,752	178,857	217,902	94,814
Other retail stores	181,316	98,328	174,162,141	130,624,184	168,487,562	108,498,778	5,675,018	2,853,685	3,406,806
Wholesale and retail trade not allocable	2,951	1,443	3,835,046	3,069,478	3,663,827	2,822,373	116,283	81,470	39,579
Finance, insurance, and real estate	**572,418**	**275,198**	**1,714,352,381**	**1,346,694,812**	**860,415,865**	**501,018,140**	**136,443,479**	**44,550,525**	**59,926,973**
Banking	11,670	8,512	442,155,657	379,413,579	42,700,118	650,125	24,696,772	9,689,831	22,248,620
Mutual savings banks	429	323	17,160,441	16,514,243	1,074,260	143,064	1,762,072	57,955	1,375,275
Bank holding companies	4,936	3,828	337,276,583	295,079,930	35,384,753	429,862	18,308,199	6,779,930	16,679,698
Banks, except mutual savings banks and bank holding companies	6,304	4,361	87,718,634	67,819,406	6,241,106	77,200	4,626,501	2,851,946	4,193,647
Credit agencies other than banks	26,109	13,248	224,941,791	178,630,331	80,955,023	55,949,766	11,240,227	11,209,354	7,494,819
Savings and loan associations	3,060	2,153	123,628,676	86,307,626	11,134,076	2,555,753	7,209,475	9,892,181	4,368,278
Personal credit institutions	3,037	2,569	5,197,940	4,852,483	3,012,003	*133,775	452,953	88,834	348,549
Business credit institutions	2,667	1,803	4,644,241	3,454,844	789,076	154,433	401,674	100,194	158,817
Other credit agencies; finance not allocable	17,345	6,724	91,470,935	84,015,379	66,019,868	53,105,806	3,176,126	1,128,145	2,619,175
Security, commodity brokers and services	17,075	8,666	71,668,890	41,493,914	44,052,595	11,560,940	3,352,791	2,105,150	2,476,136
Security brokers, dealers, and flotation companies	9,292	4,112	57,678,416	30,728,528	32,318,750	5,267,898	2,476,085	1,803,313	2,077,872
Commodity contracts brokers and dealers; security and commodity exchanges; and allied services	7,784	4,554	13,990,474	10,765,386	11,733,845	6,293,043	876,706	301,837	398,264
Insurance	8,447	5,079	667,091,438	535,265,327	503,577,221	339,527,774	24,022,611	6,160,688	17,124,179
Life insurance	2,314	1,698	361,418,275	297,359,637	247,246,939	159,428,475	9,333,479	1,638,881	7,011,534
Mutual insurance, except life or marine and certain fire or flood insurance companies	1,038	823	97,630,191	78,145,227	83,564,695	62,391,860	4,925,418	2,178,237	3,673,212
Other insurance companies	5,095	2,558	208,042,972	159,760,464	172,765,588	117,707,439	9,763,714	2,343,570	6,439,432
Insurance agents, brokers, and service	66,400	40,128	34,426,957	25,595,943	31,416,557	5,229,006	3,147,072	780,186	1,930,502
Real estate	393,461	174,634	127,684,369	79,333,292	97,428,905	46,785,681	11,337,273	10,738,280	4,679,954
Real estate operators and lessors of buildings	154,570	64,997	31,900,557	20,451,400	19,168,686	6,371,601	3,742,795	3,361,266	2,258,097
Lessors of mining, oil, and similar property	1,153	996	380,439	295,021	*186,974	*56,375	79,184	*9,069	61,635
Lessors of railroad property, and of real property, not elsewhere classified	3,605	1,827	425,948	278,753	253,643	*147,195	59,727	44,954	49,818
Condominium management and cooperative housing associations	31,457	17,162	7,608,329	3,795,452	5,190,189	1,408,274	175,165	644,222	109,741
Subdividers and developers	60,234	22,738	44,272,279	28,406,228	37,171,266	27,226,438	4,100,012	3,407,144	961,381
Other real estate	142,442	66,915	43,096,818	26,106,437	35,458,147	11,575,797	3,180,390	3,271,625	1,239,282
Holding and other investment companies, except bank holding companies	49,256	24,930	146,383,280	106,962,426	60,285,445	41,314,847	58,646,733	3,867,036	3,972,764
Regulated investment companies	5,096	4,402	67,849,775	58,832,183	—	—	51,539,700	42,064	3,104
Real estate investment trusts	606	182	3,967,914	3,349,873	—	—	1,057,009	107,014	*4,593
Small business investment companies	7,909	3,233	618,819	443,289	341,195	—	112,761	94,956	41,554
Other holding and investment companies, except bank holding companies	35,645	17,113	73,946,771	44,337,081	59,944,251	41,314,847	5,937,264	3,623,002	3,923,514
Services	**995,425**	**512,464**	**695,265,170**	**466,278,735**	**643,748,105**	**249,228,959**	**29,951,299**	**20,674,668**	**16,171,697**
Hotels and other lodging places	22,471	9,398	34,977,313	19,394,286	31,175,214	13,221,958	1,504,895	1,916,915	954,947
Personal services	75,115	36,078	30,054,572	20,865,687	28,931,329	10,557,601	1,340,378	705,706	775,107
Business services	338,671	180,501	257,839,258	180,067,609	240,986,199	116,692,979	11,556,768	8,144,821	6,245,932
Advertising	29,449	16,866	38,663,277	27,614,076	37,316,872	21,188,089	1,371,658	944,518	797,400
Business services, except advertising	309,222	163,636	219,175,981	152,453,533	203,669,327	95,504,890	10,185,110	7,200,303	5,448,532
Auto repair; miscellaneous repair services	114,669	62,083	67,233,647	47,295,853	62,311,351	29,609,414	2,471,116	1,161,511	1,238,874
Auto repair and services	70,333	35,708	50,163,851	34,338,363	45,443,405	20,557,637	1,791,647	894,815	927,673
Miscellaneous repair services	44,336	26,375	17,069,795	12,957,489	16,867,946	9,051,777	679,469	266,696	311,202
Amusement and recreation services	87,336	37,169	71,229,764	48,218,578	60,078,985	23,601,573	4,321,924	2,928,566	2,783,952
Motion picture production, distribution, and services	14,471	8,481	30,739,580	23,555,042	23,774,935	12,544,939	1,662,623	872,915	1,277,474
Motion picture theaters	2,483	721	3,968,936	2,200,083	3,571,148	902,476	146,911	109,156	96,027
Amusement and recreation services, except motion pictures	70,382	27,967	36,521,248	22,463,454	32,732,903	10,154,159	2,512,389	1,946,495	1,410,450
Other services	357,163	187,236	233,930,616	150,436,722	220,265,027	55,545,434	8,756,219	5,817,148	4,172,885
Offices of physicians, including osteopathic physicians	73,765	39,010	43,134,335	25,790,167	41,828,581	3,309,666	999,394	743,332	362,709
Offices of dentists	25,239	11,755	9,332,540	4,781,014	9,033,609	1,330,621	231,820	179,958	50,741
Offices of other health practitioners	15,414	9,714	4,254,380	2,661,249	4,220,515	758,191	214,988	86,826	48,622
Nursing and personal care facilities	12,365	6,299	20,358,392	11,364,294	19,496,842	3,896,936	604,816	577,260	143,216
Hospitals	151	68	23,125,848	18,067,136	21,121,324	3,240,677	1,252,101	304,017	1,119,211
Medical laboratories	9,011	4,895	5,687,121	3,125,058	5,468,088	1,853,594	351,535	322,742	217,166
Other medical services	29,675	15,166	28,161,919	18,209,237	24,663,726	8,321,272	1,091,658	874,764	552,549
Legal services	28,412	14,654	15,279,646	9,978,349	14,313,706	1,033,649	608,419	302,748	144,343
Educational services	20,479	11,419	11,155,899	7,352,658	10,807,551	3,357,627	501,104	339,136	198,689
Social services	6,968	2,972	2,600,348	1,475,417	2,052,623	278,226	88,563	103,601	36,331
Membership organizations	13,518	6,643	7,055,715	3,368,272	5,697,897	2,652,559	139,463	183,917	114,592
Architectural and engineering services	45,982	26,837	33,568,071	24,991,864	32,644,506	14,240,300	1,329,967	634,596	717,379
Accounting, auditing, and bookkeeping services	24,984	13,754	6,602,647	4,023,902	6,461,014	590,474	265,960	134,778	57,491
Miscellaneous services (including veterinarians), not elsewhere classified	51,202	24,051	23,613,754	15,248,103	22,455,045	10,681,641	1,076,429	1,029,475	409,844
Nature of business not allocable	**19,125**	**5,091**	**3,172,428**	**1,853,706**	**3,119,131**	**1,988,335**	**95,071**	**225,934**	**44,024**

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	Prior year minimum tax credit	Total income tax after credits [1]	Total assets	Depreciable assets	Depreciation deduction
	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
Total returns of active corporations	**131,367,397**	**27,068,104**	**2,318,021**	**49,517**	**5,559,174**	**468,767**	**95,895,762**	**16,568,487,823**	**3,820,961,787**	**327,516,917**
Agriculture, forestry, and fishing	**554,457**	***21,042**	**515**	**—**	**31,452**	***1,242**	**500,206**	**60,491,780**	**42,068,336**	**3,636,847**
Agricultural production	399,009	*21,036	515	—	18,942	*1,224	357,291	47,592,420	32,423,351	2,644,439
Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping	155,448	*6	—	—	12,510	*18	142,915	12,899,360	9,644,985	992,408
Mining	**1,815,670**	**702,989**	**—**	**776**	**37,792**	**1,258**	**1,072,854**	**225,639,336**	**99,346,831**	**5,821,802**
Metal mining	381,159	91,992	—	—	*8,587	—	280,579	25,623,487	12,302,292	583,473
Iron ores	*45,612	27,915	—	—	—	—	*17,696	*2,111,114	*1,729,410	*28,454
Copper, lead and zinc, gold and silver ores	307,620	55,287	—	—	*8,401	—	243,933	13,293,259	7,000,981	358,078
Other metal mining	*27,927	8,790	—	—	187	—	*18,950	10,219,115	3,571,900	196,940
Coal mining	211,201	*27,004	—	19	12,697	*100	171,381	23,267,716	13,196,281	904,150
Oil and gas extraction	949,924	575,521	—	*679	11,230	*808	361,687	163,344,900	64,405,304	3,564,464
Crude petroleum, natural gas, and natural gas liquids	638,329	403,238	—	*671	7,375	*777	226,268	126,874,568	41,037,657	2,151,861
Oil and gas field services	311,595	*172,283	—	*9	3,854	*31	135,418	36,470,331	23,367,647	1,412,602
Nonmetallic minerals, except fuels	273,385	8,472	—	*78	5,278	*350	259,207	13,403,233	9,442,955	769,716
Dimension, crushed, and broken stone, sand and gravel	170,679	3,973	—	*78	3,731	*350	162,546	10,426,310	7,130,385	570,707
Other nonmetallic minerals, except fuels	102,707	4,499	—	—	*1,547	—	96,660	2,976,923	2,312,570	199,009
Construction	**2,497,276**	**92,380**	**1,279**	***7**	**95,097**	**33,983**	**2,274,530**	**241,395,405**	**85,869,629**	**8,839,673**
General building contractors and operative builders	1,050,602	*73,838	—	*7	47,672	12,485	916,600	132,393,222	26,120,277	2,551,384
General building contractors	965,818	*73,838	—	*7	46,261	12,169	833,542	120,118,565	24,629,629	2,423,615
Operative builders	84,784	—	—	—	*1,411	*316	83,058	12,274,657	1,490,648	127,769
Heavy construction contractors	588,584	*15,154	1,279	—	22,408	4,865	544,878	44,357,688	27,128,381	2,421,392
Special trade contractors	858,090	*3,388	—	—	25,017	16,633	813,052	64,644,494	32,620,971	3,866,897
Plumbing, heating, and air conditioning	177,903	*3,292	—	—	3,435	4,361	166,814	13,346,411	4,894,683	599,797
Electrical work	146,686	—	—	—	4,169	*1,456	141,061	11,347,301	4,446,367	487,493
Other special trade contractors and contractors not allocable	533,501	*97	—	—	17,413	10,816	505,176	39,950,782	23,279,921	2,779,607
Manufacturing	**68,661,707**	**21,860,251**	**2,219,079**	**27,701**	**2,486,886**	**153,853**	**41,905,883**	**3,390,433,557**	**1,433,079,873**	**120,038,466**
Food and kindred products	5,413,613	1,243,727	234,613	52	125,938	4,761	3,804,523	247,824,327	102,033,082	8,585,141
Meat products	322,739	*18,951	13,320	50	22,392	3,460	264,567	16,293,015	9,356,376	737,092
Dairy products	727,917	*172,500	—	—	2,597	391	552,429	13,131,075	7,087,912	771,521
Preserved fruits and vegetables	435,595	81,725	11	—	6,387	324	347,146	17,829,159	7,363,867	556,635
Grain mill products	1,314,233	336,950	2,069	—	12,110	24	963,080	38,395,214	17,321,959	1,453,189
Bakery products	156,315	*71	213	—	854	427	154,750	8,542,636	5,336,839	441,240
Sugar and confectionery products	445,995	124,312	8,421	2	*41,615	—	271,645	23,012,465	9,702,056	669,411
Malt liquors and malt	*340,233	(2)	—	—	*3,197	—	*337,036	15,535,340	10,664,353	676,092
Alcoholic beverages, except malt liquors and malt	287,185	34,356	19,747	—	55	47	232,980	21,549,226	2,085,424	129,473
Bottled soft drinks, and flavorings	873,501	*408,390	146,983	—	22,652	88	295,389	51,047,673	16,427,957	1,738,160
Other food and kindred products	509,900	66,472	43,849	—	14,080	—	385,500	42,488,525	16,686,341	1,412,336
Tobacco manufactures	3,398,277	1,592,981	16,947	—	*39,501	—	1,748,847	116,629,974	21,586,900	2,718,147
Textile mill products	660,931	27,287	1,978	—	10,889	*603	620,173	36,564,644	20,906,678	1,677,430
Weaving mills and textile finishing	375,796	21,453	—	—	2,360	272	351,711	13,913,564	8,513,315	611,363
Knitting mills	63,471	—	165	—	*2,632	—	60,675	3,588,697	2,280,675	200,952
Other textile mill products	221,663	5,834	1,813	—	5,897	*331	207,787	19,062,383	10,112,688	865,115
Apparel and other textile products	653,484	155,692	41,481	—	6,757	*1,643	447,911	39,820,539	9,750,726	1,043,701
Men's and boys' clothing	244,345	106,950	16,916	—	2,834	497	117,148	11,895,855	3,098,056	306,297
Women's and children's clothing	296,860	*48,431	13,522	—	2,348	*1,106	231,451	15,758,061	2,940,311	353,113
Other apparel and accessories	40,990	*68	8,405	—	*836	*39	31,643	5,857,786	1,237,363	139,850
Miscellaneous fabricated textile products; textile products, not elsewhere classified	71,290	*243	2,639	—	738	—	67,669	6,308,837	2,474,996	244,442
Lumber and wood products	1,107,270	*40,541	—	*20	47,602	*1,025	1,018,082	62,602,636	37,168,274	2,645,293
Logging, sawmills, and planing mills	618,325	*29,642	—	*20	29,717	*52	558,894	27,860,357	16,957,056	1,060,644
Millwork, plywood, and related products	407,109	10,898	—	—	17,312	*973	377,924	22,394,700	15,574,001	1,228,522
Other wood products, including wood buildings and mobile homes	81,836	—	—	—	*572	—	81,264	12,347,579	4,637,217	356,128
Furniture and fixtures	447,320	10,236	295	—	6,753	2,257	427,779	22,859,791	10,308,239	977,783
Paper and allied products	2,894,057	356,326	2,181	191	198,000	10,962	2,326,396	109,568,192	69,821,418	5,583,867
Pulp, paper, and board mills	1,668,191	140,903	—	191	175,285	10,411	1,341,402	67,460,490	45,608,930	3,718,101
Other paper products	1,225,866	215,423	2,181	—	22,716	551	984,995	42,107,701	24,212,488	1,865,766
Printing and publishing	3,571,192	360,423	8,455	*370	58,780	11,186	3,131,977	144,845,167	58,599,198	5,907,528
Newspapers	1,701,321	155,893	1,633	*370	27,755	*1,186	1,514,482	61,808,141	22,408,680	2,143,353
Periodicals	278,519	51,710	—	—	*8,943	—	217,865	13,603,937	4,754,945	509,696
Books, greeting cards, and miscellaneous publishing	983,828	152,029	1,611	—	5,560	9,056	815,573	31,992,668	7,970,260	906,654
Commercial and other printing and printing trade services	607,525	*791	5,212	—	16,522	*944	584,057	37,440,421	23,465,312	2,347,826
Chemicals and allied products	10,784,484	3,069,341	1,100,562	4,799	473,625	18,801	6,109,771	405,014,150	170,863,547	12,009,586
Industrial chemicals, plastics materials and synthetics	5,065,288	1,688,467	27,607	4,720	278,146	*17,266	3,048,990	200,514,939	110,228,856	7,367,501
Drugs	3,890,581	790,500	1,047,631	—	162,501	1,406	1,881,258	91,777,702	28,692,144	2,072,898
Soap, cleaners, and toilet goods	1,290,508	461,456	19,049	—	6,623	129	803,165	80,091,439	16,227,291	1,404,904
Paints and allied products	142,422	7,559	116	—	2,046	—	132,702	5,034,208	2,271,414	200,036
Agriculture and other chemical products	395,686	121,359	6,159	80	24,309	—	243,656	27,595,861	13,443,842	964,247
Petroleum (including integrated) and coal products	9,046,976	4,565,965	38,357	21,607	228,232	*5,658	4,187,158	557,796,474	280,601,917	15,271,491
Petroleum refining (including integrated)	8,978,729	4,524,398	38,357	21,607	227,529	5,545	4,161,293	553,463,143	277,993,711	15,095,986
Petroleum and coal products, not elsewhere classified	68,247	41,567	—	—	*702	*113	25,865	4,333,330	2,608,206	175,505
Rubber and miscellaneous plastics products	911,521	261,581	7,548	45	19,763	*1,932	620,652	52,927,265	30,799,096	2,419,963
Rubber products; plastics footwear, hose and belting	503,633	189,365	3,372	45	6,615	*214	304,021	27,860,988	16,086,416	1,145,158
Miscellaneous plastics products	407,889	72,216	4,175	—	13,148	*1,718	316,631	25,066,276	14,712,681	1,274,805
Leather and leather products	167,295	6,484	9,881	—	4,245	(2)	146,685	8,638,851	2,525,481	242,410
Footwear, except rubber	133,365	6,240	7,622	—	3,546	(2)	115,956	6,403,160	1,851,183	163,359
Leather and leather products, not elsewhere classified	33,930	244	2,258	—	698	—	30,729	2,235,691	674,298	79,052

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	Prior year minimum tax credit	Total income tax after credits [1]	Total assets	Depreciable assets	Depreciation deduction
	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
Manufacturing—Continued										
Stone, clay, and glass products	1,062,377	207,872	2,029	—	15,773	*8,363	828,339	78,051,451	39,883,148	2,988,143
Glass products	404,116	82,568	—	—	3,457	4,939	313,151	41,544,874	14,680,039	1,144,054
Cement, hydraulic	47,676	3,784	—	—	3,792	—	40,101	10,359,279	6,738,155	381,592
Concrete, gypsum, and plaster products	297,920	*12,088	1,421	—	2,611	1,122	280,679	16,215,218	11,434,121	979,736
Other nonmetallic mineral products	312,665	109,432	609	—	5,914	*2,303	194,408	9,932,080	7,030,832	482,761
Primary metal industries	1,539,692	209,829	—	35	77,987	*2,200	1,249,641	103,999,775	64,483,406	4,055,504
Ferrous metal industries; miscellaneous primary mineral products	801,445	136,630	—	35	15,139	*2,200	647,440	51,732,254	36,668,010	2,073,016
Nonferrous metal industries	738,247	73,199	—	—	62,848	—	602,201	52,267,521	27,815,396	1,982,489
Fabricated metal products	2,145,915	304,159	7,710	*16	52,329	3,035	1,778,666	133,418,992	61,046,823	5,022,964
Metal cans and shipping containers	166,314	36,244	1,980	8	*17,216	—	110,866	11,822,134	3,797,133	365,585
Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products	359,413	144,373	2,530	—	4,859	*139	207,512	17,349,658	6,359,813	544,107
Plumbing and heating, except electric and warm air	245,052	*27,277	—	—	3,472	*100	214,202	11,885,651	3,591,536	321,600
Fabricated structural metal products	429,591	53,241	—	—	7,803	*2,357	366,190	29,603,117	13,734,878	959,198
Metal forgings and stampings	201,469	*665	654	—	6,527	—	193,623	14,510,565	7,656,914	595,035
Coating, engraving, and allied services	50,367	*35	—	—	*836	138	49,358	2,499,329	2,036,233	142,195
Ordnance and accessories, except vehicles and guided missiles	25,629	876	—	—	336	—	24,416	1,954,522	756,249	54,805
Miscellaneous fabricated metal products	668,080	41,447	2,547	*8	11,279	*300	612,499	43,794,016	23,114,067	2,040,438
Machinery, except electrical	7,300,171	4,563,510	75,656	—	242,532	5,987	2,412,487	276,726,498	118,036,030	10,563,692
Farm machinery	127,070	*1,358	—	—	3,527	*30	122,154	14,186,361	5,156,287	412,101
Construction and related machinery	525,720	118,866	—	—	94,082	—	312,771	35,184,198	13,688,583	984,295
Metalworking machinery	196,390	*6,375	364	—	9,001	*1,399	179,251	13,678,420	7,890,628	567,958
Special industry machinery	246,630	15,696	5,116	—	6,736	*1,359	217,723	16,533,627	6,873,064	539,071
General industry machinery	440,684	76,269	11,304	—	5,743	*1,265	346,103	28,172,980	11,951,681	931,446
Office, computing, and accounting machines	5,111,498	4,038,058	58,871	—	113,924	1,934	898,711	131,400,456	59,727,133	5,963,194
Other machinery, except electrical	652,179	306,887	—	—	9,518	—	335,774	37,570,456	12,748,655	1,165,628
Electrical and electronic equipment	5,716,812	1,422,579	382,682	487	392,723	29,415	3,488,925	328,507,700	118,499,823	12,593,059
Household appliances	237,270	34,266	2,516	—	7,437	536	192,515	14,825,359	4,151,412	481,780
Radio, television, and communication equipment	535,221	49,042	62,821	—	76,416	*1,348	345,594	33,382,321	12,281,801	1,446,127
Electronic components and accessories	2,501,485	767,272	71,623	487	159,900	*10,169	1,492,034	91,831,925	36,765,767	4,100,329
Other electrical equipment	2,442,835	571,999	245,722	—	148,969	*17,363	1,458,782	188,468,095	65,300,842	6,564,822
Motor vehicles and equipment	4,779,383	1,975,559	1,600	79	277,756	27,399	2,496,990	407,265,802	112,932,328	17,582,854
Transportation equipment, except motor vehicles	3,646,120	385,873	4,728	—	130,634	14,810	3,110,075	122,900,854	50,427,745	3,992,609
Aircraft, guided missiles and parts	3,426,452	369,213	1,149	—	126,076	14,673	2,915,341	108,603,926	45,280,982	3,554,257
Ship and boat building and repairing	68,728	*13,403	128	—	3,140	—	52,057	5,973,406	2,629,767	226,392
Other transportation equipment, except motor vehicles	150,939	3,257	3,451	—	1,418	137	142,677	8,323,522	2,516,996	211,961
Instruments and related products	2,523,322	1,003,940	245,717	—	62,648	*3,502	1,207,048	83,311,178	34,227,107	2,457,403
Scientific instruments and measuring devices; watches and clocks	1,242,849	575,352	58,718	—	33,600	*3,413	571,767	25,612,199	10,737,320	1,029,836
Optical, medical, and ophthalmic goods	803,334	239,319	186,705	—	26,294	*89	350,460	31,002,706	9,091,825	910,020
Photographic equipment and supplies	477,139	189,269	294	—	*2,754	—	284,821	26,696,273	14,397,962	517,547
Miscellaneous manufacturing and manufacturing not allocable	891,494	96,346	36,659	—	14,420	*312	743,757	51,159,294	18,578,907	1,699,895
Transportation and public utilities	**17,762,410**	**419,834**	**49,598**	**16,140**	**1,792,125**	**55,422**	**15,429,292**	**1,411,201,395**	**1,172,232,524**	**81,232,186**
Transportation	3,977,168	57,121	—	2,601	417,951	16,926	3,482,569	282,516,500	228,623,134	19,127,336
Railroad transportation	1,135,635	18,915	—	2,601	169,648	9,298	935,173	99,336,915	78,566,968	3,737,266
Local and interurban passenger transit	47,920	—	—	—	3,676	*208	44,036	10,254,195	5,737,975	687,598
Trucking and warehousing	612,384	9,873	—	—	46,198	1,935	554,377	52,748,809	46,840,715	6,441,934
Water transportation	189,374	*10,069	—	—	12,744	5,440	161,121	18,550,338	15,054,293	910,729
Transportation by air	1,595,128	8,323	—	—	172,879	—	1,413,925	73,920,973	60,720,437	5,485,723
Pipelines, except natural gas	235,854	*6,279	—	—	12	—	229,563	2,914,324	4,390,623	124,637
Transportation services, not elsewhere classified	160,872	*3,662	—	—	12,793	*45	144,373	24,790,946	17,312,124	1,739,449
Communication	6,621,133	214,512	49,598	—	573,439	*633	5,782,951	460,488,222	333,305,420	30,472,780
Telephone, telegraph, and other communication services	5,450,395	101,685	49,570	—	552,894	*633	4,745,613	403,467,136	315,914,135	28,340,718
Radio and television broadcasting	1,170,738	112,827	28	—	20,546	—	1,037,337	57,021,086	17,391,284	2,132,062
Electric, gas, and sanitary services	7,164,110	148,201	—	13,539	800,734	37,863	6,163,772	668,196,673	610,303,970	31,632,071
Electric services	3,173,342	3,702	—	3,684	354,328	16,262	2,795,365	349,395,415	318,302,324	17,108,787
Gas production and distribution	1,347,774	101,933	—	7,214	218,075	18,941	1,001,611	115,350,098	83,146,669	4,000,239
Combination utility services	2,112,839	4,068	—	562	214,178	2,650	1,891,381	180,163,311	190,686,557	8,922,478
Water supply and other sanitary services	530,155	38,498	—	2,079	14,153	*10	475,415	23,287,848	18,168,420	1,600,567
Wholesale and retail trade	**14,116,720**	**1,038,355**	**25,266**	***1,061**	**303,185**	**15,759**	**12,733,094**	**1,295,819,375**	**396,994,053**	**41,021,984**
Wholesale trade	6,457,725	719,780	23,319	*242	107,305	7,956	5,599,124	581,522,300	138,366,380	14,906,340
Groceries and related products	571,409	*5,634	557	—	8,320	*552	556,347	43,848,443	17,060,295	1,747,052
Machinery, equipment, and supplies	710,829	17,692	1,659	237	15,122	*1,701	674,420	68,674,419	19,455,784	2,375,589
Miscellaneous wholesale trade	5,175,486	696,455	21,103	*5	83,863	5,703	4,368,357	468,999,438	101,850,301	10,783,700
Motor vehicles and automotive equipment	663,991	*4,755	44	—	2,313	48	656,832	54,392,710	14,077,636	2,286,543
Furniture and home furnishings	60,381	*41	—	—	*503	*17	59,819	5,870,665	1,304,994	147,821
Lumber and construction materials	168,816	1	585	2	2,956	*92	165,181	16,019,717	5,232,671	491,315
Sporting, recreational, photographic, and hobby goods, toys, and supplies	133,562	670	—	—	1,395	—	131,497	9,875,963	1,790,230	193,548
Metals and minerals, except petroleum and scrap	807,287	428,537	205	—	11,252	*513	366,779	104,951,108	5,661,915	484,229
Electrical goods	498,616	*7,857	28	—	7,738	*622	482,371	43,320,495	10,321,282	1,185,300
Hardware, plumbing, and heating equipment and supplies	233,540	*100	—	(2)	1,024	12	232,403	17,533,114	4,111,599	405,468
Other durable goods	631,555	25,890	406	—	16,035	*1,307	587,917	47,777,279	10,408,009	1,123,705
Paper and paper products	125,862	*1,695	—	—	2,780	96	121,291	10,774,736	2,432,178	240,210
Drugs, drug proprietaries, and druggists' sundries	201,907	*5,068	7,237	—	1,339	494	187,768	15,493,733	2,761,127	294,918
Apparel, piece goods, and notions	283,808	*15,962	—	—	*768	—	267,078	19,634,739	2,683,529	269,630
Farm-product raw materials	274,525	66,324	—	—	11,257	—	196,943	34,849,044	10,411,637	919,064
Chemicals and allied products	139,985	*4,956	—	—	1,624	*151	133,253	9,595,367	3,278,918	323,616
Petroleum and petroleum products	372,426	*105,086	10,934	—	4,163	*2,012	250,232	31,151,002	13,988,169	1,130,047
Alcoholic beverages	137,521	*3,903	1,645	—	*592	*24	131,357	14,054,275	4,379,103	391,260
Miscellaneous nondurable goods; wholesale trade not allocable	441,706	25,610	20	3	18,123	315	397,634	33,705,491	9,007,305	897,024

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	Prior year minimum tax credit	Total income tax after credits [1]	Total assets	Depreciable assets	Depreciation deduction
	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
Wholesale and retail trade—Continued										
Retail trade	7,649,162	318,576	1,947	*819	195,880	7,803	7,124,137	712,693,705	258,087,279	26,068,797
Building materials, garden supplies, and mobile home dealers	344,430	5	—	—	8,376	—	336,049	38,568,262	14,156,577	1,260,343
Building materials dealers	264,905	—	—	—	7,083	—	257,822	27,670,153	10,390,714	912,568
Hardware stores	41,124	5	—	—	476	—	40,643	4,997,999	1,702,519	161,224
Garden supplies and mobile home dealers	38,401	—	—	—	*817	—	37,584	5,900,109	2,063,344	186,551
General merchandise stores	2,606,588	158,464	—	—	67,978	482	2,379,664	229,033,959	54,517,414	4,791,061
Food stores	776,093	2,064	1,558	—	21,915	*2,745	747,811	76,935,637	45,292,174	4,458,572
Grocery stores	721,976	373	1,558	—	18,926	*265	700,855	70,617,815	40,621,414	3,992,538
Other food stores	54,117	1,691	—	—	2,989	*2,481	46,956	6,317,822	4,670,760	466,035
Automotive dealers and service stations	544,757	174	—	—	18,688	707	525,188	105,632,442	31,517,869	3,943,919
Motor vehicle dealers	331,906	103	—	—	11,847	*457	319,499	81,934,701	20,047,467	2,661,674
Gasoline service stations	90,830	(2)	—	—	1,893	*250	88,686	8,041,536	5,507,412	509,034
Other automotive dealers	122,021	71	—	—	4,947	—	117,003	15,656,206	5,962,989	773,211
Apparel and accessory stores	815,346	*8,093	67	—	6,231	*1,244	799,712	38,086,351	13,920,993	1,486,208
Furniture and home furnishings stores	427,124	790	—	*818	3,283	*421	421,812	25,561,539	7,343,727	770,557
Eating and drinking places	746,578	110,041	323	1	44,926	*934	590,353	72,927,996	53,723,438	5,229,165
Miscellaneous retail stores	1,388,245	38,943	—	—	24,484	*1,269	1,323,548	125,947,520	37,615,088	4,128,972
Drug stores and proprietary stores	389,794	4	—	—	5,298	—	384,492	32,421,044	8,839,355	913,381
Liquor stores	19,574	—	—	—	*126	—	19,448	3,685,857	1,639,068	128,910
Other retail stores	978,877	38,939	—	—	19,060	*1,269	919,608	89,840,619	27,136,665	3,086,681
Wholesale and retail trade not allocable	9,833	—	—	—	—	—	9,833	1,603,370	540,394	46,847
Finance, insurance, and real estate	**20,899,804**	**2,352,338**	**5,726**	**3,311**	**485,208**	**194,673**	**17,858,548**	**9,411,547,140**	**327,758,686**	**35,414,823**
Banking	7,990,177	1,317,872	2	21	310,771	56,766	6,304,745	3,915,896,863	86,136,140	15,912,330
Mutual savings banks	475,361	85	—	—	4,784	980	469,511	177,141,752	2,666,634	269,691
Bank holding companies	6,071,193	1,291,775	—	21	289,196	49,766	4,440,435	3,338,675,442	74,115,556	14,362,399
Banks, except mutual savings banks and bank holding companies	1,443,623	26,012	2	—	16,790	6,020	1,394,799	400,079,669	9,353,950	1,280,240
Credit agencies other than banks	2,622,357	128,848	5,392	—	38,055	14,038	2,436,024	1,653,182,845	30,383,831	3,488,281
Savings and loan associations	1,565,232	6,473	3,263	—	16,242	12,529	1,526,725	1,272,073,135	21,495,608	2,074,729
Personal credit institutions	110,544	21,168	969	—	*734	865	86,808	26,514,938	587,322	71,197
Business credit institutions	57,209	2,512	761	—	*7,396	63	46,478	52,390,875	545,217	148,001
Other credit agencies; finance not allocable	889,372	98,695	399	—	13,683	*581	776,013	302,203,896	7,755,683	1,194,353
Security, commodity brokers and services	866,445	31,528	—	103	7,523	7,354	819,937	473,810,411	9,682,508	1,396,861
Security brokers, dealers, and flotation companies	731,102	31,507	—	103	1,641	7,037	690,814	447,072,468	7,384,492	1,094,684
Commodity contracts brokers and dealers; security and commodity exchanges; and allied services	135,343	*22	—	—	5,882	317	129,123	26,737,943	2,298,017	302,177
Insurance	6,039,536	635,108	—	220	69,258	109,410	5,225,540	1,882,477,979	28,168,259	6,051,701
Life insurance	2,484,218	207,851	—	131	34,580	65,204	2,176,453	1,216,264,965	12,317,450	3,787,051
Mutual insurance, except life or marine and certain fire or flood insurance companies	1,282,354	19,214	—	—	4,776	8,603	1,249,760	190,644,157	3,810,829	810,075
Other insurance companies	2,272,964	408,042	—	89	29,903	35,603	1,799,327	475,568,857	12,039,981	1,454,575
Insurance agents, brokers, and service	605,737	91,640	—	(2)	7,846	*1,613	504,639	36,548,569	6,523,506	785,560
Real estate	1,370,866	5,001	333	*2,933	19,175	3,257	1,340,169	310,732,828	136,118,987	5,720,350
Real estate operators and lessors of buildings	668,931	3,439	84	38	9,401	1,629	654,340	113,903,722	74,672,172	2,973,361
Lessors of mining, oil, and similar property	19,469	*7	—	877	—	—	18,585	1,243,604	157,449	19,029
Lessors of railroad property, and of real property, not elsewhere classified	15,360	—	—	*101	—	—	15,259	1,622,488	921,428	61,291
Condominium management and cooperative housing associations	20,792	—	—	—	—	—	20,792	27,200,357	22,672,353	672,885
Subdividers and developers	310,872	*1,517	248	1,877	3,000	1,386	302,844	95,457,056	18,206,353	793,157
Other real estate	335,442	*39	(2)	*40	6,773	*241	328,349	71,305,602	19,489,232	1,200,627
Holding and other investment companies, except bank holding companies	1,404,686	142,342	—	*35	32,580	2,235	1,227,495	1,138,897,645	30,745,455	2,059,740
Regulated investment companies	17,346	—	—	—	2	—	17,344	937,489,754	28,387	1,016
Real estate investment trusts	*1,824	—	—	—	—	—	*1,824	41,819,588	10,809,517	303,277
Small business investment companies	11,410	—	—	—	*32	—	11,379	2,795,447	340,958	22,855
Other holding and investment companies, except bank holding companies	1,374,106	142,342	—	*35	32,546	2,235	1,196,948	156,792,856	19,566,592	1,732,591
Services	**5,049,797**	**580,913**	**16,174**	***520**	**327,393**	**12,578**	**4,112,219**	**530,326,395**	**262,944,834**	**31,445,765**
Hotels and other lodging places	324,110	*33,416	4,218	—	10,772	*1,874	273,831	46,116,377	29,249,605	1,861,028
Personal services	228,120	*9,124	(2)	—	3,169	*7	215,820	17,688,910	12,656,930	1,339,933
Business services	1,961,442	277,744	2,724	(2)	77,977	8,112	1,594,886	167,424,443	74,575,981	10,725,260
Advertising	245,115	109,604	121	—	1,902	*50	133,437	24,597,639	6,141,727	737,350
Business services, except advertising	1,716,327	168,140	2,603	(2)	76,074	8,062	1,461,449	142,826,804	68,434,255	9,987,910
Auto repair; miscellaneous repair services	372,859	*3,068	55	—	60,919	*657	308,160	47,418,872	37,461,459	6,279,909
Auto repair and services	307,951	2,858	55	—	57,966	*657	246,415	41,196,994	33,723,557	5,868,789
Miscellaneous repair services	64,909	*210	—	—	2,953	—	61,745	6,221,878	3,737,902	411,120
Amusement and recreation services	925,018	230,720	285	—	126,341	*364	567,307	127,550,577	41,981,294	4,458,452
Motion picture production, distribution, and services	437,494	193,016	—	—	114,209	362	129,907	77,365,470	9,023,335	1,676,190
Motion picture theaters	39,385	963	269	—	*2,918	—	35,234	6,258,042	3,417,958	254,437
Amusement and recreation services, except motion pictures	448,139	*36,741	16	—	9,214	*2	402,165	43,927,066	29,540,001	2,527,825
Other services	1,238,248	26,841	8,892	*520	48,216	*1,564	1,152,216	124,127,215	67,019,565	6,781,184
Offices of physicians, including osteopathic physicians	82,067	—	—	—	5,042	—	77,024	8,696,994	7,408,847	885,311
Offices of dentists	9,770	—	—	—	*812	—	8,959	1,877,399	2,196,557	220,805
Offices of other health practitioners	10,372	—	—	—	*592	—	9,780	1,264,767	981,486	110,589
Nursing and personal care facilities	43,689	—	—	—	1,081	—	42,608	15,093,027	10,576,632	664,186
Hospitals	395,994	12,324	—	—	*16,121	—	367,549	31,729,554	17,418,397	1,493,678
Medical laboratories	62,946	3,284	—	—	*2,796	—	56,867	2,979,251	1,442,990	200,571
Other medical services	164,522	5,564	84	—	4,266	*128	154,480	13,273,632	5,550,056	645,398
Legal services	33,208	—	—	—	1,188	—	32,020	3,870,552	2,428,314	311,309
Educational services	56,586	458	199	—	1,864	545	53,521	6,401,957	3,306,110	352,645
Social services	9,668	—	—	—	*39	—	9,629	6,546,469	1,148,885	84,799
Membership organizations	31,261	*1	—	—	*1,560	—	29,701	3,784,374	1,860,578	150,347
Architectural and engineering services	213,609	*3,923	29	*520	8,098	*21	201,017	13,932,356	5,993,470	817,383
Accounting, auditing, and bookkeeping services	13,878	—	—	—	*446	—	13,432	2,015,750	1,281,036	162,606
Miscellaneous services (including veterinarians), not elsewhere classified	110,677	*1,288	8,580	—	4,311	*870	95,629	12,661,132	5,426,207	681,558
Nature of business not allocable	**9,554**	**—**	**384**	**—**	***35**	**—**	**9,135**	**1,613,441**	**667,022**	**65,371**

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]

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					
	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)
Total returns of active corporations	**0.25**	**0.77**	**0.18**	**0.21**	**0.19**	**0.25**	**0.16**	**0.50**	**0.18**
Agriculture, forestry, and fishing	**3.27**	**4.56**	**5.06**	**6.88**	(3)	(3)	**3.42**	**4.69**	**4.01**
Agricultural production	3.12	4.83	3.32	4.06	3.58	4.09	3.74	5.25	4.39
Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping	7.18	9.56	12.05	16.33	12.43	16.03	7.53	10.36	8.78
Mining	**6.19**	**10.38**	**1.38**	**1.55**	**1.55**	**1.29**	**1.15**	**2.58**	**1.06**
Metal mining	31.02	43.61	1.30	0.85	1.49	1.72	0.98	10.21	1.45
Iron ores	68.75	85.59	3.56	1.05	3.87	4.20	9.46	11.17	9.89
Copper, lead and zinc, gold and silver ores	38.85	25.12	2.37	1.48	3.07	3.79	0.88	11.02	0.65
Other metal mining	39.57	75.27	1.47	1.28	1.52	1.73	1.44	28.51	(4)
Coal mining	19.54	31.40	4.22	4.85	4.47	3.30	3.62	11.77	3.72
Oil and gas extraction	7.25	12.48	1.66	1.95	1.92	1.55	1.62	2.70	1.30
Crude petroleum, natural gas, and natural gas liquids	9.64	17.67	1.02	1.00	1.13	1.10	1.87	3.98	1.24
Oil and gas field services	11.00	17.52	4.13	6.23	4.62	3.69	3.07	3.54	3.03
Nonmetallic minerals, except fuels	15.92	20.92	4.22	4.19	4.33	4.92	4.71	22.00	4.10
Dimension, crushed, and broken stone, sand and gravel	15.83	21.71	4.90	5.08	5.05	5.45	5.94	26.65	5.73
Other nonmetallic minerals, except fuels	45.27	54.95	8.26	6.70	8.40	10.99	7.17	36.98	4.71
Construction	**1.79**	**2.68**	**1.28**	**1.56**	**1.31**	**1.39**	**1.63**	**2.97**	**2.12**
General building contractors and operative builders	2.10	4.08	1.75	2.20	1.80	1.92	2.32	3.97	2.93
General building contractors	2.08	4.12	1.82	2.30	1.86	1.96	2.47	4.10	3.13
Operative builders	21.60	28.15	5.42	5.82	5.86	9.56	6.63	16.16	6.38
Heavy construction contractors	7.71	9.30	2.71	3.20	2.82	2.89	3.15	6.90	4.25
Special trade contractors	2.81	3.77	2.35	2.81	2.37	2.56	3.07	5.54	3.94
Plumbing, heating, and air conditioning	7.59	9.78	5.95	7.15	5.98	6.34	7.39	12.95	9.08
Electrical work	8.34	10.87	5.69	7.10	5.74	5.93	8.29	11.63	10.07
Other special trade contractors and contractors not allocable	3.13	4.38	2.80	3.31	2.82	3.10	3.68	7.15	4.84
Manufacturing	**2.24**	**2.81**	**0.25**	**0.26**	**0.27**	**0.32**	**0.18**	**1.24**	**0.14**
Food and kindred products	9.49	11.75	1.06	1.13	1.10	1.32	0.68	3.84	0.52
Meat products	21.21	29.58	4.14	4.77	4.17	4.32	3.74	10.64	2.90
Dairy products	29.57	33.72	3.63	3.56	3.79	4.33	1.28	17.11	0.85
Preserved fruits and vegetables	48.57	24.18	2.66	2.54	2.72	3.01	2.54	21.74	2.13
Grain mill products	30.46	36.03	1.59	1.43	1.64	2.00	0.82	10.93	0.69
Bakery products	26.44	28.58	5.52	6.63	5.64	6.25	6.76	17.62	6.01
Sugar and confectionery products	25.20	35.00	2.55	3.45	2.73	3.25	1.76	26.55	1.76
Malt liquors and malt	15.28	34.79	0.31	0.37	0.29	0.31	0.19	(4)	0.06
Alcoholic beverages, except malt liquors and malt	37.06	53.75	2.94	3.23	3.36	3.78	2.04	10.94	2.28
Bottled soft drinks, and flavorings	13.85	14.47	2.38	2.34	2.55	3.26	1.82	7.94	1.25
Other food and kindred products	18.85	22.36	2.00	2.28	2.05	2.06	3.33	7.87	2.74
Tobacco manufactures	70.94	74.86	0.31	0.30	0.34	0.55	0.11	17.41	0.11
Textile mill products	17.53	20.51	2.55	2.57	2.63	2.73	2.48	8.94	2.20
Weaving mills and textile finishing	19.88	19.47	3.04	3.52	3.19	3.44	2.21	9.95	1.67
Knitting mills	35.79	45.75	13.40	12.67	13.47	13.83	12.22	35.63	11.55
Other textile mill products	23.35	25.17	2.87	3.14	2.95	3.00	4.11	10.72	4.85
Apparel and other textile products	10.03	11.68	2.96	3.50	3.03	3.19	2.76	8.15	2.65
Men's and boys' clothing	31.78	44.70	4.30	4.43	4.47	4.81	3.14	16.37	2.39
Women's and children's clothing	17.24	19.30	4.88	5.67	5.01	5.27	4.04	12.67	3.42
Other apparel and accessories	23.70	26.62	8.08	11.30	8.09	8.13	12.58	18.32	13.11
Miscellaneous fabricated textile products; textile products, not elsewhere classified	16.18	17.46	7.73	9.61	7.77	8.22	10.46	17.67	14.06
Lumber and wood products	9.48	11.91	2.09	2.21	2.16	2.27	2.08	8.86	1.62
Logging, sawmills, and planing mills	16.08	21.74	3.08	3.14	3.25	3.34	2.44	17.23	1.63
Millwork, plywood, and related products	17.03	19.73	3.04	2.96	3.09	3.24	3.53	18.95	2.88
Other wood products, including wood buildings and mobile homes	15.96	17.92	5.85	8.98	6.09	6.49	9.33	12.20	10.70
Furniture and fixtures	13.54	17.18	3.31	3.89	3.36	3.73	3.36	11.34	2.93
Paper and allied products	17.91	12.06	1.16	1.17	1.19	1.38	0.77	11.13	0.63
Pulp, paper, and board mills	18.87	20.53	0.73	0.71	0.75	0.90	0.63	20.51	0.55
Other paper products	19.11	12.93	2.34	2.51	2.41	2.69	1.53	13.04	1.29
Printing and publishing	6.23	7.93	1.39	1.59	1.47	1.90	1.05	4.27	0.82
Newspapers	18.58	23.17	1.46	1.41	1.59	2.14	1.07	8.88	0.88
Periodicals	19.88	29.87	4.73	5.48	4.91	6.08	4.30	11.13	2.19
Books, greeting cards, and miscellaneous publishing	16.85	23.33	3.58	4.13	3.92	6.54	1.85	6.27	1.36
Commercial and other printing and printing trade services	7.36	9.31	2.62	3.27	2.66	2.84	3.25	8.19	3.28
Chemicals and allied products	11.74	13.41	0.40	0.39	0.43	0.52	0.23	4.52	0.17
Industrial chemicals, plastics materials and synthetics	17.40	19.09	0.52	0.52	0.55	0.63	0.30	6.82	0.22
Drugs	37.56	51.82	0.62	0.48	0.67	1.13	0.30	7.73	0.25
Soap, cleaners, and toilet goods	29.83	32.67	0.75	0.66	0.79	0.79	0.76	22.58	0.54
Paints and allied products	19.90	21.17	5.30	5.49	5.33	6.04	5.07	28.34	5.04
Agriculture and other chemical products	25.89	30.78	2.48	2.68	2.59	3.16	1.93	10.39	1.56
Petroleum (including integrated) and coal products	25.89	34.59	0.18	0.13	0.19	0.24	0.11	3.62	0.08
Petroleum refining (including integrated)	40.44	54.44	0.13	0.06	0.14	0.19	0.05	3.61	0.05
Petroleum and coal products, not elsewhere classified	33.07	43.86	9.19	11.84	9.66	10.84	8.13	16.23	7.74
Rubber and miscellaneous plastics products	11.11	11.98	1.94	2.34	2.01	2.12	2.59	7.40	2.40
Rubber products; plastics footwear, hose and belting	27.95	25.32	2.25	2.52	2.38	2.60	2.89	6.51	2.30
Miscellaneous plastics products	12.09	13.24	2.99	3.72	3.04	3.16	4.05	10.85	4.50
Leather and leather products	29.01	29.87	4.46	4.50	4.57	4.93	5.38	24.02	3.66
Footwear, except rubber	41.42	50.43	3.72	3.50	3.85	4.29	4.12	30.52	1.71
Leather and leather products, not elsewhere classified	33.08	34.90	12.48	13.26	12.59	12.59	15.61	38.94	16.27

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]

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
	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)
Manufacturing—Continued									
Stone, clay, and glass products	12.02	14.92	1.90	2.37	1.98	2.12	2.12	5.06	1.95
Glass products	35.99	45.30	2.11	3.24	2.24	2.54	2.65	5.27	1.99
Cement, hydraulic	35.06	38.83	3.37	4.09	3.63	3.93	4.25	3.79	3.92
Concrete, gypsum, and plaster products	15.76	19.21	3.91	4.74	4.01	4.06	5.07	12.69	4.93
Other nonmetallic mineral products	21.75	28.15	5.16	5.20	5.33	5.76	3.88	19.07	3.69
Primary metal industries	13.50	15.84	1.52	1.69	1.57	1.83	0.93	5.25	1.25
Ferrous metal industries; miscellaneous primary mineral products	18.73	22.11	1.63	1.68	1.66	1.86	1.30	8.81	1.81
Nonferrous metal industries	17.61	16.34	2.58	3.17	2.67	3.08	1.34	4.42	1.71
Fabricated metal products	4.42	6.07	1.40	1.57	1.44	1.50	1.77	4.51	1.72
Metal cans and shipping containers	50.89	60.61	3.40	3.38	3.63	3.59	3.29	7.93	1.52
Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products	17.98	21.65	4.00	4.09	4.14	4.53	4.06	15.05	2.87
Plumbing and heating, except electric and warm air	27.61	26.74	3.77	3.97	3.88	4.20	2.68	16.62	2.26
Fabricated structural metal products	12.38	14.19	3.09	3.41	3.15	3.22	3.83	9.78	3.68
Metal forgings and stampings	15.66	18.72	4.52	5.05	4.56	4.71	6.30	14.35	7.98
Coating, engraving, and allied services	21.24	24.67	11.36	12.21	11.41	12.10	12.46	35.71	14.11
Ordnance and accessories, except vehicles and guided missiles	41.56	49.40	11.60	12.59	11.71	12.88	9.80	25.54	10.30
Miscellaneous fabricated metal products	5.38	8.25	2.29	2.72	2.34	2.44	3.35	6.70	3.80
Machinery, except electrical	7.45	8.93	0.75	0.79	0.85	0.91	0.60	3.95	0.48
Farm machinery	30.73	42.35	4.33	4.39	4.96	6.05	3.83	27.38	9.98
Construction and related machinery	26.95	29.45	1.89	1.96	1.95	1.98	2.14	14.38	1.83
Metalworking machinery	13.51	16.40	5.12	5.81	5.25	5.34	6.85	14.77	8.43
Special industry machinery	16.55	19.40	4.59	5.36	4.72	4.85	5.75	6.93	6.33
General industry machinery	21.33	27.70	2.76	2.96	2.82	2.98	2.68	11.60	2.39
Office, computing, and accounting machines	15.93	17.97	0.40	0.41	0.52	0.61	0.20	7.84	0.14
Other machinery, except electrical	15.90	18.18	2.38	3.05	2.48	2.35	3.05	7.29	2.33
Electrical and electronic equipment	8.45	10.88	0.63	0.65	0.67	0.74	0.68	3.05	0.59
Household appliances	58.89	66.95	2.00	2.31	2.08	1.98	2.70	4.94	1.70
Radio, television, and communication equipment	27.90	39.08	1.71	1.66	1.76	1.75	2.36	8.29	1.72
Electronic components and accessories	11.42	16.02	1.12	1.27	1.17	1.24	1.06	4.11	0.91
Other electrical equipment	14.27	16.42	0.92	0.88	1.01	1.20	0.99	6.27	0.91
Motor vehicles and equipment	22.90	27.22	0.36	0.33	0.39	0.45	0.39	5.46	0.26
Transportation equipment, except motor vehicles	19.47	20.93	0.75	0.71	0.79	0.86	0.48	8.61	0.40
Aircraft, guided missiles and parts	32.79	30.94	0.39	0.38	0.42	0.42	0.31	10.34	0.28
Ship and boat building and repairing	32.93	37.10	8.92	11.91	8.99	9.49	11.39	17.99	13.49
Other transportation equipment, except motor vehicles	31.21	33.11	4.41	4.45	4.61	4.69	4.85	20.34	2.99
Instruments and related products	14.37	18.38	1.17	1.28	1.24	1.36	0.97	5.61	0.77
Scientific instruments and measuring devices, watches and clocks	22.79	21.54	1.98	2.07	2.12	2.21	1.34	12.49	0.99
Optical, medical, and ophthalmic goods	20.34	24.11	2.08	2.59	2.16	2.39	2.03	7.05	1.79
Photographic equipment and supplies	35.41	59.74	1.82	1.80	1.95	2.42	1.48	12.21	0.79
Miscellaneous manufacturing and manufacturing not allocable	7.46	11.50	4.78	5.87	4.99	7.09	2.42	6.07	2.33
Transportation and public utilities	**3.51**	**4.96**	**0.57**	**0.62**	**0.61**	**1.05**	**0.32**	**1.94**	**0.23**
Transportation	3.95	5.66	1.37	1.68	1.46	2.52	1.12	4.56	0.83
Railroad transportation	44.48	55.59	0.30	0.34	0.26	0.29	0.43	1.51	0.25
Local and interurban passenger transit	15.60	22.00	7.60	13.91	8.11	11.17	15.96	12.64	19.56
Trucking and warehousing	5.02	7.43	2.56	3.32	2.60	4.82	3.57	6.10	3.31
Water transportation	15.97	21.12	4.32	4.20	4.65	5.29	5.72	12.74	3.67
Transportation by air	18.58	27.83	1.22	1.38	1.30	2.44	1.02	15.90	0.56
Pipelines, except natural gas	24.62	24.62	13.46	13.46	13.59	29.76	5.04	—	5.21
Transportation services, not elsewhere classified	8.01	11.32	6.62	8.45	6.91	8.76	6.99	8.20	8.77
Communication	10.34	14.45	0.40	0.38	0.43	0.72	0.35	2.14	0.22
Telephone, telegraph, and other communication services	14.52	18.29	0.43	0.40	0.46	0.81	0.31	3.02	0.23
Radio and television broadcasting	14.71	23.46	1.08	1.37	1.22	0.90	1.30	3.00	0.66
Electric, gas, and sanitary services	11.10	14.33	0.61	0.59	0.65	1.13	0.30	1.52	0.25
Electric services	43.43	56.74	0.12	0.12	0.13	0.25	0.05	1.75	0.03
Gas production and distribution	25.44	28.27	1.23	0.72	1.39	1.79	0.34	1.83	0.41
Combination utility services	38.67	44.95	0.36	0.40	0.37	0.55	0.32	1.91	0.25
Water supply and other sanitary services	13.00	16.58	6.69	7.84	7.05	13.68	3.55	12.44	2.86
Wholesale and retail trade	**1.13**	**1.62**	**0.52**	**0.62**	**0.53**	**0.58**	**0.65**	**1.47**	**0.62**
Wholesale trade	2.28	2.75	0.83	0.93	0.84	0.89	1.02	2.35	1.04
Groceries and related products	7.79	9.83	2.19	2.54	2.22	2.33	3.15	9.44	2.45
Machinery, equipment, and supplies	5.07	6.29	2.21	2.60	2.26	2.42	2.92	6.08	3.25
Miscellaneous wholesale trade	2.68	3.22	0.97	1.07	0.98	1.04	1.15	2.64	1.18
Motor vehicles and automotive equipment	8.95	10.68	1.87	2.61	1.90	1.89	2.54	4.17	2.03
Furniture and home furnishings	14.42	18.47	8.20	9.55	8.25	8.78	13.38	19.48	15.03
Lumber and construction materials	10.67	12.86	5.37	6.24	5.41	5.68	7.03	13.45	8.20
Sporting, recreational, photographic, and hobby goods, toys, and supplies	15.25	19.51	5.53	6.29	5.56	5.84	6.25	13.86	7.48
Metals and minerals, except petroleum and scrap	16.51	19.02	2.00	2.15	2.12	2.12	2.25	14.60	1.79
Electrical goods	8.80	10.55	2.72	3.29	2.74	2.91	3.70	6.85	3.90
Hardware, plumbing, and heating equipment and supplies	10.25	11.27	4.26	4.76	4.28	4.27	6.39	16.49	7.64
Other durable goods	5.70	7.00	2.67	2.94	2.70	2.79	3.56	8.91	4.18
Paper and paper products	15.37	17.95	5.71	6.33	5.76	5.93	6.65	22.49	9.01
Drugs, drug proprietaries, and druggists' sundries	25.94	32.83	3.47	3.97	3.50	3.53	4.84	9.22	4.26
Apparel, piece goods, and notions	10.97	13.78	3.91	4.02	3.95	3.97	4.87	11.08	5.95
Farm-product raw materials	13.73	16.59	3.29	3.69	3.35	3.45	3.85	12.23	3.48
Chemicals and allied products	15.35	16.64	6.07	6.57	6.10	6.30	7.85	18.11	9.24
Petroleum and petroleum products	9.66	11.26	4.57	4.95	4.62	4.82	3.96	8.08	4.13
Alcoholic beverages	15.75	11.02	5.22	5.80	5.26	5.39	6.73	18.84	8.63
Miscellaneous nondurable goods, wholesale trade not allocable	7.35	9.25	3.57	4.12	3.62	3.93	4.06	8.40	4.23

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

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[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					
	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)
Wholesale and retail trade—Continued									
Retail trade	1.27	2.02	0.63	0.81	0.64	0.74	0.83	1.88	0.74
Building materials, garden supplies, and mobile home dealers	5.82	7.15	3.76	3.45	3.82	4.62	4.29	7.67	4.41
Building materials dealers	8.06	9.91	4.67	3.84	4.75	5.86	4.94	8.96	4.85
Hardware stores	10.69	13.42	8.27	9.73	8.32	8.52	12.54	21.02	16.16
Garden supplies and mobile home dealers	12.85	15.37	8.52	10.69	8.70	9.33	10.94	19.64	9.91
General merchandise stores	11.37	14.20	0.48	0.52	0.50	0.55	0.69	3.32	0.44
Food stores	4.63	7.27	1.53	2.33	1.54	1.62	2.56	4.80	2.26
Grocery stores	6.01	8.68	1.50	2.36	1.51	1.57	2.37	4.97	2.11
Other food stores	7.21	12.61	8.08	10.34	8.18	9.60	10.78	11.90	14.25
Automotive dealers and service stations	3.53	4.52	1.52	2.16	1.53	1.58	3.06	4.82	4.02
Motor vehicle dealers	4.43	5.48	1.59	2.41	1.60	1.65	3.59	5.49	5.04
Gasoline service stations	8.45	10.91	6.86	7.89	6.90	7.12	8.75	16.31	11.07
Other automotive dealers	6.51	8.16	4.46	5.25	4.49	4.72	7.46	12.65	8.02
Apparel and accessory stores	5.60	8.13	1.97	2.55	2.00	2.16	2.42	6.69	2.32
Furniture and home furnishings stores	6.15	8.13	3.41	3.93	3.48	3.81	3.81	10.25	3.97
Eating and drinking places	1.83	4.58	1.64	2.25	1.71	1.89	2.77	4.51	2.29
Miscellaneous retail stores	2.26	3.54	1.53	1.87	1.56	1.74	1.99	4.03	2.06
Drug stores and proprietary stores	8.02	9.66	2.44	2.79	2.49	2.52	2.96	7.19	2.49
Liquor stores	11.20	15.22	10.03	12.66	10.08	10.41	15.06	17.83	20.68
Other retail stores	2.34	3.92	1.89	2.37	1.93	2.23	2.41	4.60	2.66
Wholesale and retail trade not allocable	26.31	32.58	19.10	22.67	19.56	22.08	24.64	31.07	33.51
Finance, insurance, and real estate	**1.61**	**2.48**	**0.39**	**0.42**	**0.52**	**0.71**	**0.42**	**0.68**	**0.84**
Banking	1.39	1.23	1.09	1.26	0.96	0.46	1.90	0.73	2.11
Mutual savings banks	20.67	1.43	0.12	0.08	1.24	[4]	0.08	4.09	0.09
Bank holding companies	1.44	1.67	0.05	0.06	0.06	0.59	0.11	0.36	0.12
Banks, except mutual savings banks and bank holding companies	1.84	1.90	5.47	7.07	6.57	2.06	10.13	2.34	11.17
Credit agencies other than banks	8.47	10.30	0.38	0.28	0.99	1.21	0.52	0.64	0.46
Savings and loan associations	1.48	1.69	0.08	0.09	0.08	0.01	0.16	0.35	0.24
Personal credit institutions	15.77	18.04	3.25	3.44	4.99	16.62	5.77	17.09	4.88
Business credit institutions	30.21	36.27	2.54	2.58	9.57	17.47	7.56	19.56	6.36
Other credit agencies; finance not allocable	11.54	16.41	0.89	0.55	1.19	1.28	1.30	5.16	1.01
Security, commodity brokers and services	10.94	16.12	3.24	2.83	5.22	18.29	1.86	3.80	1.33
Security brokers, dealers, and flotation companies	14.70	23.95	3.50	1.70	6.18	35.88	1.44	3.91	1.13
Commodity contracts brokers and dealers; security and commodity exchanges; and allied services	16.38	21.76	8.23	9.76	9.69	15.04	5.81	12.42	5.82
Insurance	11.83	11.90	0.13	0.08	0.13	0.21	0.30	1.20	0.29
Life insurance	1.05	1.69	0.18	0.08	0.17	0.39	0.27	2.88	0.27
Mutual insurance, except life or marine and certain fire or flood insurance companies	2.47	4.35	0.22	0.26	0.23	0.23	0.58	1.23	0.68
Other insurance companies	19.61	23.56	0.24	0.21	0.28	0.29	0.63	2.14	0.61
Insurance agents, brokers, and service	3.85	6.21	3.75	4.47	4.06	14.12	3.17	8.70	2.57
Real estate	2.00	3.27	2.62	2.61	3.30	5.11	2.27	2.15	2.91
Real estate operators and lessors of buildings	2.94	5.03	3.25	4.41	4.95	6.77	3.89	3.37	4.17
Lessors of mining, oil, and similar property	40.76	46.08	26.64	34.29	42.25	6.92	31.90	29.55	37.24
Lessors of railroad property, and of real property, not elsewhere classified	25.45	34.31	13.45	19.50	10.04	0.74	32.30	39.63	36.62
Condominium management and cooperative housing associations	8.26	11.79	7.00	12.24	8.85	14.53	10.87	6.36	12.79
Subdividers and developers	5.17	8.13	5.31	3.75	6.15	8.01	3.59	3.73	5.19
Other real estate	3.44	5.56	4.79	5.58	5.63	7.42	4.63	4.55	6.36
Holding and other investment companies, except bank holding companies	5.43	7.33	0.83	0.91	1.91	2.10	0.23	2.91	2.01
Regulated investment companies	8.95	10.29	0.13	0.15	—	—	0.13	9.11	15.84
Real estate investment trusts	62.14	13.50	1.24	1.12	—	—	1.52	16.14	2.40
Small business investment companies	17.96	28.27	22.63	29.74	37.18	—	25.99	15.61	39.78
Other holding and investment companies, except bank holding companies	6.14	8.86	1.63	2.15	1.90	2.10	1.85	3.04	1.99
Services	**1.43**	**2.12**	**1.26**	**1.60**	**1.29**	**1.90**	**1.27**	**1.66**	**1.26**
Hotels and other lodging places	5.78	11.22	4.15	7.20	4.61	2.17	3.76	3.70	3.54
Personal services	4.86	7.68	4.43	5.31	4.51	6.66	5.18	9.86	5.45
Business services	2.27	3.54	2.16	2.69	2.28	3.37	2.03	2.64	2.16
Advertising	9.39	12.54	6.48	8.23	6.54	7.88	5.80	7.39	5.11
Business services, except advertising	2.32	3.68	2.27	2.80	2.42	3.73	2.17	2.83	2.36
Auto repair; miscellaneous repair services	4.06	5.84	2.93	3.76	3.13	4.24	4.29	6.80	4.87
Auto repair and services	4.84	7.31	3.16	4.13	3.45	5.10	4.65	7.53	4.94
Miscellaneous repair services	7.16	9.55	6.86	8.29	6.90	7.61	9.64	15.46	12.61
Amusement and recreation services	4.44	7.58	2.31	2.45	2.65	4.42	2.36	3.88	1.95
Motion picture production, distribution, and services	12.35	16.52	3.11	2.80	3.84	4.85	2.84	6.33	1.27
Motion picture theaters	28.41	37.67	5.52	8.82	5.80	9.92	14.76	15.99	15.95
Amusement and recreation services, except motion pictures	4.79	8.69	3.62	4.29	3.94	8.30	3.49	5.02	3.50
Other services	2.67	3.67	2.53	3.28	2.42	3.44	2.79	3.57	2.82
Offices of physicians, including osteopathic physicians	5.60	7.89	6.97	10.03	7.11	14.09	9.46	11.09	12.62
Offices of dentists	10.38	15.36	11.39	16.65	11.59	16.12	21.34	20.72	23.79
Offices of other health practitioners	13.68	17.13	15.20	17.45	15.26	21.64	21.62	30.72	28.29
Nursing and personal care facilities	11.79	15.65	6.14	9.06	6.31	11.66	11.82	10.72	13.18
Hospitals	19.03	21.60	1.58	1.25	1.61	2.91	2.06	5.95	0.86
Medical laboratories	17.52	23.68	15.39	15.07	15.84	14.58	13.98	14.10	14.38
Other medical services	9.19	12.42	10.59	14.32	7.71	7.71	8.14	9.69	8.53
Legal services	9.03	11.84	10.59	13.55	11.01	22.43	13.95	18.34	19.94
Educational services	11.92	15.93	10.45	13.73	10.64	20.08	10.94	14.20	13.89
Social services	20.03	29.12	15.92	27.00	19.10	21.61	29.53	28.29	35.67
Membership organizations	14.59	20.39	17.71	15.93	16.12	21.31	18.81	16.41	21.07
Architectural and engineering services	7.44	9.73	5.62	6.34	5.69	6.07	6.80	11.99	7.84
Accounting, auditing, and bookkeeping services	10.65	14.30	14.97	18.64	15.18	24.90	16.08	25.88	19.02
Miscellaneous services (including veterinarians), not elsewhere classified	7.19	10.30	7.27	10.07	7.49	9.60	8.53	7.97	11.38
Nature of business not allocable	**12.65**	**24.16**	**26.99**	**41.51**	**27.37**	**36.46**	**28.82**	**16.39**	**28.41**

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]

Item	Coefficient of variation (Percent)									
	Total income tax	Foreign tax credit	U.S. possessions tax credit	Nonconventional source fuel credit	General business credit	Prior year minimum tax credit	Total income tax after credits [1]	Total assets	Depreciable assets	Depreciation deduction
	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)	(37)	(38)
Total returns of active corporations	**0.17**	**0.06**	**0.26**	**1.92**	**0.27**	**1.28**	**0.23**	**0.02**	**0.10**	**0.14**
Agriculture, forestry, and fishing	**4.04**	**4.94**	(4)	—	**13.36**	**43.82**	**4.24**	**1.50**	**2.37**	**2.75**
Agricultural production	4.43	4.94	(4)	—	11.31	44.43	4.80	1.52	2.59	2.89
Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping	8.88	76.29	—	—	28.90	76.29	8.75	4.28	5.58	6.50
Mining	**0.86**	**0.36**	—	**46.06**	**3.36**	**14.86**	**1.39**	**0.33**	**0.78**	**1.33**
Metal mining	1.24	(4)	—	—	0.48	—	1.68	0.81	0.96	4.38
Iron ores	9.39	(4)	—	—	—	—	24.21	2.34	5.06	5.97
Copper, lead and zinc, gold and silver ores	0.64	(4)	—	—	0.49	—	0.80	1.24	0.94	6.85
Other metal mining	1.01	(4)	—	—	(4)	—	1.49	1.13	1.24	3.57
Coal mining	1.82	(4)	—	—	2.29	35.76	2.21	1.19	2.13	4.36
Oil and gas extraction	1.11	0.45	—	51.99	8.88	7.82	2.71	0.37	0.97	1.39
Crude petroleum, natural gas, and natural gas liquids	1.11	0.08	—	52.64	7.73	7.15	3.02	0.37	0.87	1.51
Oil and gas field services	2.50	1.48	—	78.22	21.23	97.23	5.21	1.04	2.20	2.66
Nonmetalic minerals, except fuels	3.60	(4)	—	72.17	13.83	49.19	3.68	2.19	3.61	4.68
Dimension, crushed, and broken stone, sand and gravel	5.29	(4)	—	72.17	19.41	49.19	5.36	2.56	4.18	5.30
Other nonmetallic minerals, except fuels	3.78	(4)	—	—	6.05	—	4.01	4.14	7.12	9.83
Construction	**2.13**	**2.17**	(4)	**79.42**	**5.27**	**13.10**	**2.27**	**0.75**	**1.59**	**1.94**
General building contractors and operative builders	2.89	0.74	—	79.42	6.38	16.64	3.22	0.84	2.30	3.21
General building contractors	3.11	0.74	—	79.42	6.42	16.94	3.51	0.88	2.36	3.19
Operative builders	5.30	—	—	—	47.36	78.55	4.93	2.65	10.31	21.43
Heavy construction contractors	4.16	0.05	(4)	—	9.01	21.27	4.41	1.82	3.20	3.78
Special trade contractors	4.21	56.92	—	—	13.75	22.84	4.27	1.86	2.64	3.08
Plumbing, heating, and air conditioning	9.45	58.56	—	—	29.21	41.19	9.75	4.55	6.08	6.94
Electrical work	10.55	—	—	—	32.56	61.31	10.66	4.92	6.95	7.38
Other special trade contractors and contractors not allocable	5.25	63.24	—	—	17.21	29.82	5.30	2.19	3.21	3.80
Manufacturing	**0.13**	**0.03**	**0.30**	**0.74**	**0.33**	**2.01**	**0.21**	**0.09**	**0.16**	**0.20**
Food and kindred products	0.50	0.03	0.65	(4)	1.40	(4)	0.70	0.41	0.83	0.99
Meat products	2.74	2.16	(4)	(4)	2.67	(4)	3.30	2.54	3.50	4.29
Dairy products	0.83	0.01	—	—	18.49	(4)	1.07	2.79	5.18	5.42
Preserved fruits and vegetables	2.14	(4)	(4)	—	0.25	(4)	2.68	1.51	2.56	2.10
Grain mill products	0.67	(4)	(4)	—	4.01	(4)	0.91	0.74	1.22	1.32
Bakery products	5.90	54.80	(4)	—	26.22	(4)	5.94	3.93	6.02	5.78
Sugar and confectionery products	1.56	(4)	(4)	(4)	1.80	—	2.49	0.99	1.89	1.94
Malt liquors and malt	0.06	(4)	—	—	3.80	—	0.03	0.18	0.31	0.17
Alcoholic beverages, except malt liquors and malt	2.15	(4)	(4)	—	(4)	(4)	2.65	0.89	3.81	6.49
Bottled soft drinks, and flavorings	1.24	(3)	(4)	—	0.44	(4)	3.65	0.78	2.21	2.19
Other food and kindred products	2.49	0.04	2.09	—	9.16	—	3.18	1.07	2.06	2.83
Tobacco manufactures	0.10	(4)	(4)	—	0.04	—	0.18	0.07	0.18	0.11
Textile mill products	2.01	0.01	(4)	—	5.70	15.50	2.12	1.45	1.91	2.06
Weaving mills and textile finishing	1.62	(3)	—	—	7.13	(4)	1.72	1.93	2.39	2.34
Knitting mills	11.20	—	(4)	—	0.77	—	11.71	7.15	8.52	8.37
Other textile mill products	4.26	0.06	(4)	—	10.12	28.22	4.45	2.00	2.81	3.08
Apparel and other textile products	2.45	0.87	1.69	—	11.03	10.15	3.46	1.79	2.98	5.40
Men's and boys' clothing	2.22	0.06	1.91	—	6.69	(4)	4.58	2.51	3.13	3.00
Women's and children's clothing	3.41	2.79	3.17	—	21.76	14.69	4.09	2.75	4.52	13.01
Other apparel and accessories	12.70	7.33	(4)	—	44.38	95.63	16.18	4.71	6.54	12.00
Miscellaneous fabricated textile products; textile products, not elsewhere classified	13.78	0.19	(4)	—	47.06	—	14.43	6.20	9.12	10.86
Lumber and wood products	1.48	1.10	—	91.90	3.27	2.65	1.58	0.99	1.38	2.14
Logging, sawmills, and planing mills	1.54	1.51	—	91.90	2.78	51.98	1.65	1.33	2.15	4.29
Millwork, plywood, and related products	2.46	(4)	—	—	7.28	0.22	2.59	1.60	1.72	1.92
Other wood products, including wood buildings and mobile homes	10.80	—	—	—	69.01	—	10.86	2.82	5.17	6.74
Furniture and fixtures	2.69	0.83	(4)	—	7.82	(4)	2.78	2.09	2.93	5.53
Paper and allied products	0.61	0.02	(4)	(4)	0.71	(4)	0.75	0.53	0.63	0.71
Pulp, paper, and board mills	0.54	0.03	—	(4)	0.15	(4)	0.67	0.36	0.47	0.42
Other paper products	1.23	0.03	(4)	—	6.06	(4)	1.51	1.27	1.58	1.94
Printing and publishing	0.77	0.13	(4)	0.34	4.31	3.35	0.86	0.64	1.28	1.45
Newspapers	0.84	(3)	(4)	0.34	2.00	5.00	0.95	0.70	1.56	1.44
Periodicals	2.07	(4)	—	—	6.87	—	2.58	2.35	3.50	3.59
Books, greeting cards, and miscellaneous publishing	1.28	0.30	(4)	—	19.62	(4)	1.51	1.16	2.53	3.35
Commercial and other printing and printing trade services	3.08	0.40	(4)	—	12.90	39.18	3.16	1.78	2.61	3.03
Chemicals and allied products	0.17	0.05	0.32	(4)	0.39	0.20	0.28	0.16	0.23	0.30
Industrial chemicals, plastics materials and synthetics	0.21	0.06	2.43	(4)	0.40	0.22	0.34	0.19	0.25	0.38
Drugs	0.25	0.03	0.32	—	0.69	(4)	0.45	0.28	0.48	0.46
Soap, cleaners, and toilet goods	0.47	0.19	(4)	—	3.37	(4)	0.72	0.29	0.80	0.73
Paints and allied products	5.00	0.16	(4)	—	10.28	—	5.33	3.98	4.85	4.79
Agriculture and other chemical products	1.46	0.29	(4)	(4)	3.79	—	2.26	1.07	1.38	1.47
Petroleum (including integrated) and coal products	0.07	(4)	(4)	0.94	0.10	1.27	0.15	0.05	0.06	0.11
Petroleum refining (including integrated)	0.05	(4)	(4)	0.94	0.04	(4)	0.10	0.03	0.03	0.06
Petroleum and coal products, not elsewhere classified	7.41	(4)	—	—	30.38	63.56	19.30	4.56	5.45	7.48
Rubber and miscellaneous plastics products	2.31	0.37	5.07	(4)	9.45	6.74	3.30	1.30	1.69	2.46
Rubber products; plastics footwear, hose and belting	2.22	0.21	(4)	(4)	12.25	59.98	3.60	1.27	1.33	1.70
Miscellaneous plastics products	4.38	1.21	(4)	—	12.80	1.29	5.47	2.34	3.22	4.41
Leather and leather products	3.58	0.13	3.98	—	5.03	(4)	4.02	3.71	4.28	12.05
Footwear, except rubber	1.68	(4)	(4)	—	1.28	(4)	1.90	3.29	2.93	3.22
Leather and leather products, not elsewhere classified	16.39	(4)	(4)	—	29.84	—	17.82	10.81	13.86	36.34

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]

Item	Coefficient of variation (Percent)									
	Total income tax	Foreign tax credit	U.S. possessions tax credit	Nonconventional source fuel credit	General business credit	Prior year minimum tax credit	Total income tax after credits [1]	Total assets	Depreciable assets	Depreciation deduction
	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)	(37)	(38)
Manufacturing—Continued										
Stone, clay, and glass products	1.85	0.05	(4)	—	6.02	0.91	2.36	0.81	1.51	2.07
Glass products	1.93	(4)	—	—	7.42	(4)	2.48	0.59	1.13	2.03
Cement, hydraulic	2.53	(4)	—	—	(4)	—	2.96	1.53	2.43	3.70
Concrete, gypsum, and plaster products	4.72	0.40	(4)	—	30.28	(4)	4.99	2.58	4.06	4.92
Other nonmetallic mineral products	3.59	0.08	(4)	—	7.65	3.30	5.72	3.76	4.33	5.69
Primary metal industries	1.13	0.05	—	(4)	1.16	0.41	1.39	0.54	0.73	1.34
Ferrous metal industries; miscellaneous primary mineral products	1.66	0.07	—	(4)	3.40	0.41	2.05	0.80	1.05	1.33
Nonferrous metal industries	1.53	0.01	—	—	1.18	—	1.86	0.72	0.96	2.36
Fabricated metal products	1.66	0.63	3.12	33.74	5.79	7.34	1.97	0.85	1.38	1.64
Metal cans and shipping containers	1.33	(4)	(4)	(4)	0.26	—	1.98	1.13	2.57	3.28
Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products	2.79	0.07	(4)	—	15.16	65.55	4.78	2.02	4.74	4.25
Plumbing and heating, except electric and warm air	2.17	0.26	—	—	13.70	98.77	2.39	1.87	3.15	3.47
Fabricated structural metal products	3.52	0.73	—	—	11.28	6.64	4.07	1.85	2.39	3.34
Metal forgings and stampings	7.92	0.11	(4)	—	37.50	—	7.96	2.96	4.63	4.91
Coating, engraving, and allied services	14.62	77.53	—	—	57.16	(4)	14.63	10.08	12.04	13.75
Ordnance and accessories, except vehicles and guided missiles	9.30	(4)	—	—	(4)	—	9.77	6.77	8.37	8.21
Miscellaneous fabricated metal products	3.66	4.50	3.80	69.95	10.53	27.74	3.93	1.67	2.38	2.98
Machinery, except electrical	0.44	0.04	1.29	—	1.14	8.07	1.30	0.42	0.67	0.71
Farm machinery	9.11	5.17	—	—	23.59	93.87	9.21	2.17	2.92	3.63
Construction and related machinery	1.68	0.14	—	—	0.55	—	2.78	1.05	1.61	2.76
Metalworking machinery	8.44	2.05	(4)	—	16.68	29.00	9.02	3.83	5.57	6.84
Special industry machinery	6.25	2.69	(4)	—	15.67	9.42	6.91	3.47	4.87	5.55
General industry machinery	2.16	0.57	(4)	—	16.13	17.93	2.62	1.59	2.45	2.90
Office, computing, and accounting machines	0.13	(4)	(4)	—	1.02	(4)	0.66	0.23	0.24	0.29
Other machinery, except electrical	2.10	0.52	—	—	11.08	—	4.00	1.33	2.87	3.03
Electrical and electronic equipment	0.56	0.30	0.98	(4)	1.10	10.23	0.84	0.29	0.42	0.54
Household appliances	1.68	(4)	(4)	—	4.90	(4)	2.04	1.17	1.37	1.01
Radio, television, and communication equipment	1.67	0.03	3.74	—	1.78	6.61	2.35	1.11	1.34	1.50
Electronic components and accessories	0.88	0.05	1.98	(4)	2.34	3.94	1.35	0.70	1.03	1.08
Other electrical equipment	0.86	0.75	1.04	—	1.07	17.16	1.33	0.31	0.42	0.72
Motor vehicles and equipment	0.24	0.01	(4)	(4)	0.11	(4)	0.45	0.13	0.24	0.15
Transportation equipment, except motor vehicles	0.37	0.05	(4)	—	0.45	(4)	0.43	0.40	0.57	0.73
Aircraft, guided missiles and parts	0.27	0.05	(4)	—	0.39	(4)	0.30	0.26	0.40	0.40
Ship and boat building and repairing	13.30	0.02	(4)	—	7.24	—	17.41	5.25	6.81	9.94
Other transportation equipment, except motor vehicles	2.85	(4)	(4)	—	15.00	(4)	2.95	3.14	5.38	5.77
Instruments and related products	0.74	0.19	1.14	—	3.96	1.09	1.44	0.68	0.83	1.15
Scientific instruments and measuring devices, watches and clocks	0.93	0.32	(4)	—	3.15	1.05	1.90	1.64	1.96	1.83
Optical, medical, and ophthalmic goods	1.75	0.22	1.32	—	8.11	15.45	3.75	1.14	1.93	2.21
Photographic equipment and supplies	0.77	(4)	(4)	—	24.87	—	1.16	0.55	0.49	1.28
Miscellaneous manufacturing and manufacturing not allocable	2.16	1.68	3.22	—	10.00	37.34	2.53	1.26	2.21	2.40
Transportation and public utilities	**0.21**	**1.41**	(4)	(4)	**0.24**	**0.48**	**0.23**	**0.10**	**0.14**	**0.28**
Transportation	0.74	10.40	—	(4)	0.88	1.49	0.81	0.46	0.64	1.10
Railroad transportation	0.24	(4)	—	(4)	0.20	—	0.29	0.25	0.33	0.65
Local and interurban passenger transit	17.99	—	—	—	42.07	54.18	18.83	3.46	7.64	8.07
Trucking and warehousing	3.05	(4)	—	—	6.45	11.51	3.24	1.58	2.26	2.53
Water transportation	3.15	5.90	—	—	7.07	(4)	3.47	2.47	3.46	5.76
Transportation by air	0.52	6.86	—	—	0.51	—	0.58	0.52	0.54	0.89
Pipelines, except natural gas	5.25	93.52	—	—	(4)	—	4.67	5.88	6.14	5.16
Transportation services, not elsewhere classified	8.35	8.49	—	—	5.16	71.51	9.19	2.52	3.18	5.42
Communication	0.22	(4)	(4)	—	0.33	14.11	0.25	0.12	0.15	0.24
Telephone, telegraph, and other communication services	0.21	(4)	(4)	—	0.33	14.11	0.24	0.09	0.12	0.22
Radio and television broadcasting	0.75	(4)	(4)	—	2.02	—	0.85	0.66	1.72	1.76
Electric, gas, and sanitary services	0.23	(4)	—	(4)	0.12	0.03	0.26	0.07	0.09	0.19
Electric services	0.03	(4)	—	(4)	0.05	(4)	0.03	0.04	0.03	0.03
Gas production and distribution	0.40	(4)	—	(4)	0.20	(4)	0.54	0.18	0.26	0.58
Combination utility services	0.22	(4)	—	(4)	0.00	(4)	0.25	0.07	0.07	0.15
Water supply and other sanitary services	2.77	(4)	—	(4)	5.97	78.83	3.04	1.77	2.62	3.23
Wholesale and retail trade	**0.59**	**0.87**	**2.29**	**71.82**	**1.98**	**0.64**	**12.75**	**0.28**	**0.47**	**0.57**
Wholesale trade	1.04	1.21	2.48	0.04	3.65	17.44	1.17	0.49	0.91	1.02
Groceries and related products	2.30	1.15	(4)	—	10.32	12.56	2.34	1.56	2.31	2.76
Machinery, equipment, and supplies	3.13	6.98	(4)	(4)	13.00	74.37	3.22	1.50	2.49	2.94
Miscellaneous wholesale trade	1.19	1.24	2.63	2.08	3.91	9.94	1.38	0.54	1.07	1.17
Motor vehicles and automotive equipment	1.80	1.41	(4)	—	18.70	(4)	1.81	1.25	1.69	1.48
Furniture and home furnishings	15.82	73.75	—	—	53.42	70.75	15.89	7.13	10.49	10.56
Lumber and construction materials	8.53	(4)	(4)	(4)	31.22	72.47	8.64	4.25	5.32	6.13
Sporting, recreational, photographic, and hobby goods, toys, and supplies	7.34	(4)	—	—	25.03	—	7.39	4.50	10.46	7.13
Metals and minerals, except petroleum and scrap	1.71	0.01	(4)	—	1.64	8.62	3.76	0.56	4.83	4.40
Electrical goods	3.76	55.01	(4)	—	15.63	4.57	3.69	1.77	2.18	2.85
Hardware, plumbing, and heating equipment and supplies	8.02	60.06	—	71.51	43.59	(4)	8.04	3.90	4.99	5.89
Other durable goods	4.30	15.65	(4)	—	13.30	41.98	4.45	2.07	3.84	4.25
Paper and paper products	9.09	0.14	—	—	12.96	(4)	9.41	4.24	7.05	9.86
Drugs, drug proprietaries, and druggists' sundries	4.22	0.06	(4)	—	9.94	(4)	4.50	2.38	3.53	3.64
Apparel, piece goods, and notions	5.97	24.19	—	—	78.98	—	6.14	3.25	6.72	10.20
Farm-product raw materials	3.33	1.04	—	—	4.64	—	4.47	1.51	3.18	4.81
Chemicals and allied products	9.46	11.60	—	—	36.72	3.86	9.83	4.88	6.65	8.33
Petroleum and petroleum products	5.52	0.09	(4)	—	12.78	5.22	8.20	2.30	3.53	4.56
Alcoholic beverages	8.59	96.32	(4)	—	64.47	93.14	8.27	3.99	6.13	6.27
Miscellaneous nondurable goods; wholesale trade not allocable	4.09	11.96	(4)	(4)	7.15	(4)	4.39	2.47	3.93	4.57

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]

Item	Coefficient of variation (Percent)									
	Total income tax	Foreign tax credit	U.S. possessions tax credit	Nonconventional source fuel credit	General business credit	Prior year minimum tax credit	Total income tax after credits [1]	Total assets	Depreciable assets	Depreciation deduction
	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)	(37)	(38)
Wholesale and retail trade—Continued										
Retail trade	0.65	0.70	(4)	93.03	2.32	18.63	0.68	0.31	0.54	0.69
Building materials, garden supplies, and mobile home dealers	4.50	(4)	—	—	6.76	—	4.60	2.00	2.71	2.97
Building materials dealers	4.82	—	—	—	6.04	—	4.94	2.13	2.95	3.13
Hardware stores	19.64	(4)	—	—	38.73	—	19.84	7.06	8.67	9.81
Garden supplies and mobile home dealers	8.95	—	—	—	39.37	—	9.04	5.88	8.63	9.79
General merchandise stores	0.38	(4)	—	—	1.15	(4)	0.41	0.18	0.39	0.40
Food stores	1.93	(4)	(4)	—	10.42	47.62	1.90	0.90	1.22	1.59
Grocery stores	1.82	(4)	(4)	—	9.99	2.32	1.83	0.83	1.14	1.56
Other food stores	13.29	(4)	—	—	42.82	52.70	13.12	5.78	6.45	7.32
Automotive dealers and service stations	4.22	(4)	—	—	9.56	37.12	4.32	1.19	2.01	2.40
Motor vehicle dealers	5.43	(4)	—	—	11.88	57.46	5.55	1.24	2.16	2.82
Gasoline service stations	11.12	(4)	—	—	29.67	2.79	11.30	5.38	6.30	7.05
Other automotive dealers	8.29	(4)	—	—	19.17	—	8.51	3.84	5.14	5.90
Apparel and accessory stores	1.94	2.96	(4)	—	8.57	1.60	1.96	1.28	1.57	1.76
Furniture and home furnishings stores	3.88	(4)	—	93.13	14.10	50.32	3.88	2.38	3.60	5.53
Eating and drinking places	1.80	0.72	(4)	(4)	5.78	0.01	2.16	0.74	1.33	1.47
Miscellaneous retail stores	1.86	5.29	—	—	8.20	42.39	1.92	0.88	1.75	2.15
Drug stores and proprietary stores	1.74	(4)	—	—	10.14	—	1.76	1.27	1.99	2.34
Liquor stores	18.85	—	—	—	55.34	—	18.97	8.31	10.07	11.44
Other retail stores	2.52	5.29	—	—	10.15	42.39	2.64	1.10	2.26	2.75
Wholesale and retail trade not allocable	33.86	—	—	—	—	—	33.86	13.88	20.01	21.63
Finance, insurance, and real estate	**0.81**	**0.10**	**1.63**	**2.70**	**0.60**	**0.56**	**0.95**	**0.04**	**0.55**	**0.33**
Banking	2.00	0.01	(4)	(4)	0.24	0.39	2.54	0.06	0.08	0.08
Mutual savings banks	0.09	(4)	—	—	0.04	(4)	0.09	0.09	0.14	0.14
Bank holding companies	0.11	(3)	—	(4)	0.05	0.22	0.15	0.06	0.06	0.05
Banks, except mutual savings banks and bank holding companies	11.07	0.28	(4)	—	4.45	3.18	11.46	0.31	0.49	0.88
Credit agencies other than banks	0.40	0.23	1.68	—	1.62	0.53	0.43	0.08	0.58	0.75
Savings and loan associations	0.23	(4)	(4)	—	0.16	0.56	0.23	0.07	0.11	0.14
Personal credit institutions	4.02	(4)	(4)	—	31.89	(4)	5.11	1.53	9.61	6.88
Business credit institutions	5.96	(4)	(4)	—	1.94	(4)	7.32	0.76	13.06	12.78
Other credit agencies; finance not allocable	0.91	(4)	(4)	—	4.04	4.43	1.03	0.24	1.94	1.43
Security, commodity brokers and services	1.09	2.15	—	(4)	6.95	(4)	1.14	0.11	1.38	3.14
Security brokers, dealers, and flotation companies	0.96	2.15	—	(4)	3.54	(4)	1.01	0.08	0.79	1.27
Commodity contracts brokers and dealers; security and commodity exchanges; and allied services	4.64	60.07	—	—	8.83	(4)	4.82	1.51	5.21	13.78
Insurance	0.28	(4)	—	(4)	0.19	0.26	0.33	0.04	0.22	0.12
Life insurance	0.26	(4)	—	(4)	0.08	0.40	0.29	0.03	0.17	0.06
Mutual insurance, except life or marine and certain fire or flood insurance companies	0.66	(4)	—	—	2.09	1.37	0.68	0.15	0.46	0.25
Other insurance companies	0.59	(4)	—	(4)	0.27	0.14	0.74	0.10	0.47	0.45
Insurance agents, brokers, and service	2.37	0.03	—	(4)	9.64	2.65	2.83	1.55	3.90	4.18
Real estate	2.99	34.97	(4)	3.02	11.67	20.35	3.04	0.78	1.25	1.56
Real estate operators and lessors of buildings	4.36	50.85	(4)	(4)	10.48	9.03	4.42	1.24	1.67	2.16
Lessors of mining, oil, and similar property	38.92	77.53	—	(4)	—	—	40.77	7.86	13.64	21.36
Lessors of railroad property, and of real property, not elsewhere classified	38.71	—	—	78.69	—	—	38.83	13.26	20.05	26.29
Condominium management and cooperative housing associations	13.24	—	—	—	—	—	13.24	3.34	3.69	4.34
Subdividers and developers	5.08	0.35	(4)	(4)	22.43	46.61	5.17	1.30	2.57	2.51
Other real estate	6.55	44.82	(4)	96.51	27.93	3.61	6.62	1.71	3.19	4.03
Holding and other investment companies, except bank holding companies	1.89	0.87	—	35.39	3.79	34.89	2.14	0.13	1.53	1.91
Regulated investment companies	3.07	—	—	—	(4)	—	3.07	0.10	11.70	20.48
Real estate investment trusts	11.14	—	—	—	—	—	11.14	0.62	1.55	2.10
Small business investment companies	45.92	—	—	—	98.56	—	46.05	10.12	27.29	35.86
Other holding and investment companies, except bank holding companies	1.89	0.87	—	35.39	3.80	34.89	2.15	0.72	2.19	2.19
Services	**1.14**	**1.51**	**4.51**	**72.47**	**2.14**	**8.17**	**1.34**	**0.45**	**0.80**	**0.89**
Hotels and other lodging places	3.06	5.77	(4)	—	4.46	1.35	3.52	0.89	1.77	2.14
Personal services	5.19	19.13	(4)	—	25.67	70.86	5.39	2.84	4.36	4.35
Business services	2.01	2.83	(4)	(4)	6.66	10.88	2.33	0.86	1.62	1.65
Advertising	3.92	1.25	(4)	—	52.18	96.43	6.97	2.05	4.42	6.18
Business services, except advertising	2.22	4.61	(4)	(4)	6.70	10.93	2.47	0.94	1.73	1.72
Auto repair; miscellaneous repair services	3.86	5.10	(4)	—	3.74	4.60	4.55	1.52	1.85	1.77
Auto repair and services	3.71	(4)	(4)	—	3.60	4.60	4.47	1.50	1.88	1.81
Miscellaneous repair services	13.49	74.50	—	—	31.11	—	14.05	6.03	7.49	8.02
Amusement and recreation services	1.81	0.63	(4)	—	1.72	9.90	2.83	0.54	1.95	2.33
Motion picture production, distribution, and services	0.77	0.07	—	—	0.19	(4)	2.55	0.44	3.11	3.07
Motion picture theaters	21.85	(4)	(4)	—	15.44	—	23.98	3.04	6.23	4.72
Amusement and recreation services, except motion pictures	3.13	3.91	(4)	—	22.92	67.34	3.29	1.28	2.51	3.55
Other services	2.58	8.84	7.50	72.47	7.02	33.46	2.69	1.23	1.68	1.98
Offices of physicians, including osteopathic physicians	14.74	—	—	—	30.03	—	14.94	5.37	6.79	7.02
Offices of dentists	27.00	—	—	—	41.72	—	28.92	11.02	12.73	14.93
Offices of other health practitioners	27.61	—	—	—	60.13	—	28.36	14.09	16.98	17.78
Nursing and personal care facilities	11.04	—	—	—	30.01	—	11.17	3.73	4.58	4.31
Hospitals	0.83	(4)	—	—	2.09	—	0.88	0.62	1.00	0.75
Medical laboratories	13.28	(4)	—	—	24.27	—	14.39	9.24	13.41	14.10
Other medical services	7.88	(4)	(4)	—	32.89	67.27	8.19	5.83	5.70	6.56
Legal services	20.66	—	—	—	44.23	—	21.04	8.32	10.72	11.21
Educational services	12.44	(4)	(4)	—	42.81	(4)	12.54	6.23	8.28	9.08
Social services	36.68	—	—	—	15.80	—	36.82	2.38	12.18	11.84
Membership organizations	20.78	78.83	—	—	43.67	—	21.68	8.29	11.98	14.00
Architectural and engineering services	7.68	57.81	(4)	72.47	18.29	78.83	7.94	3.92	6.11	6.79
Accounting, auditing, and bookkeeping services	16.11	—	—	—	52.27	—	16.36	10.49	13.48	14.51
Miscellaneous services (including veterinarians), not elsewhere classified	11.56	53.57	(4)	—	37.70	59.31	12.94	4.19	6.46	7.55
Nature of business not allocable	**32.87**	**—**	**(4)**	**—**	**84.24**	**—**	**34.37**	**13.33**	**26.43**	**20.83**

* 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, general business, and prior year minimum tax 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	Metal mining	Coal mining	Oil and gas extraction	Nonmetalic minerals, except fuels
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Number of returns, total	**3,562,789**	**119,902**	**41,080**	**1,500**	**4,101**	**31,441**	**4,038**
Total assets	**16,568,467,823**	**60,491,780**	**225,639,336**	**25,623,487**	**23,267,716**	**163,344,900**	**13,403,233**
Cash	784,815,919	4,746,863	7,168,561	506,675	897,711	4,959,725	804,450
Notes and accounts receivable	4,099,147,501	5,785,149	21,926,424	2,282,947	2,669,865	14,766,496	2,207,116
Less: Allowance for bad debts	96,744,285	53,682	322,399	30,571	27,060	232,010	32,758
Inventories	845,783,686	6,986,298	7,213,538	1,417,211	1,120,544	3,834,410	841,372
Investments in Government obligations	1,094,749,402	231,832	1,351,809	*24,834	333,818	900,061	93,097
Other current assets	912,145,245	1,940,188	5,804,551	837,057	1,370,239	3,274,086	323,170
Loans to stockholders	79,855,312	1,720,193	4,917,598	*2,172,073	1,434,665	1,274,246	36,614
Mortgage and real estate loans	1,604,896,498	691,673	620,852	*3,100	*4,919	609,590	*3,244
Other investments	3,614,438,470	4,666,096	88,241,040	4,710,378	4,318,961	76,885,465	2,326,236
Depreciable assets	3,820,961,787	42,068,336	99,346,831	12,302,292	13,196,281	64,405,304	9,442,955
Less: Accumulated depreciation	1,593,226,079	25,952,786	49,763,974	5,437,804	7,184,565	31,940,874	5,200,731
Depletable assets	124,421,968	1,143,385	33,295,711	2,080,340	4,080,651	26,249,239	885,481
Less: Accumulated depletion	50,921,656	484,394	14,206,109	427,259	1,369,936	12,273,619	135,295
Land	177,037,541	13,912,512	3,369,566	180,865	396,223	1,891,844	900,633
Intangible assets (amortizable)	329,484,622	283,306	6,321,500	842,054	655,274	4,443,779	380,393
Less: Accumulated amortization	67,703,687	108,918	1,812,194	108,912	139,891	1,530,583	32,809
Other assets	889,325,583	2,915,728	12,166,032	4,268,208	1,510,018	5,827,740	560,066
Total liabilities	**16,568,467,823**	**60,491,780**	**225,639,336**	**25,623,487**	**23,267,716**	**163,344,900**	**13,403,233**
Accounts payable	1,022,810,938	3,192,292	13,461,305	1,258,765	1,564,992	9,789,536	848,011
Mortgages, notes, and bonds payable in less than one year	1,431,308,911	9,261,698	12,173,327	828,587	2,065,088	7,820,115	1,459,538
Other current liabilities	5,092,190,043	2,751,441	12,346,231	2,331,365	1,491,110	7,993,355	530,401
Loans from stockholders	243,230,029	5,669,381	8,316,604	2,890,515	1,712,623	3,342,236	371,230
Mortgages, notes, and bonds payable in one year or more	2,352,107,056	16,213,970	48,719,957	4,861,160	4,212,078	37,327,516	2,319,204
Other liabilities	2,219,993,412	3,131,146	18,792,717	5,614,661	1,749,199	10,549,515	879,341
Capital stock	1,429,486,841	8,930,380	9,794,318	1,254,639	803,702	6,461,044	1,274,933
Paid-in or capital surplus	2,154,243,458	7,184,482	93,111,816	7,064,594	7,576,124	76,744,709	1,726,388
Retained earnings, appropriated	77,508,595	132,916	143,885	([1])	*35,496	61,551	*46,838
Retained earnings, unappropriated	1,313,070,807	6,181,874	10,208,176	504,343	1,769,270	4,419,796	3,514,767
Other retained earnings, 1120S	102,816,168	−888,484	1,432,937	−96,569	563,405	128,746	837,355
Less: Cost of treasury stock	870,298,430	1,269,316	2,861,939	888,573	275,372	1,293,222	404,772
Total receipts	**10,264,867,461**	**86,258,094**	**100,426,996**	**11,360,604**	**20,695,756**	**57,009,643**	**11,360,993**
Business receipts	8,949,846,244	80,520,140	87,350,933	9,416,839	19,218,836	47,989,076	10,726,181
Interest	772,316,565	567,854	3,176,852	403,577	489,940	2,129,509	153,826
Interest on Government obligations: State and local	32,308,213	11,096	56,701	92	6,333	48,780	1,496
Rents	92,309,807	356,630	388,194	11,994	67,803	249,843	58,554
Royalties	23,942,535	77,786	486,598	27,289	73,769	379,796	5,744
Net short-term capital gain reduced by net long-term capital loss	5,574,907	60,632	54,949	*246	*3,752	48,354	*2,597
Net long-term capital gain reduced by net short-term capital loss	56,684,288	597,371	1,845,071	669,567	124,125	993,592	57,787
Net gain, noncapital assets	36,522,792	403,320	1,403,536	203,124	195,914	910,555	93,943
Dividends received from domestic corporations	15,165,056	61,908	309,361	89,086	28,077	180,750	11,447
Dividends received from foreign corporations	42,281,099	37,904	594,625	44,419	*12,401	528,083	*9,722
Other receipts	237,915,957	3,563,451	4,760,176	494,372	474,806	3,551,304	239,694
Total deductions	**9,853,420,138**	**84,637,081**	**96,765,413**	**9,818,292**	**19,956,855**	**56,550,106**	**10,440,160**
Cost of sales and operations	5,944,935,455	57,188,712	54,573,351	5,806,446	13,154,870	29,427,945	6,184,089
Compensation of officers	203,220,587	1,982,406	1,367,773	46,793	217,915	857,300	245,766
Repairs	86,236,216	1,383,539	938,034	109,016	210,771	369,898	248,350
Bad debts	58,644,690	152,009	322,456	28,173	39,359	220,259	34,665
Rent paid on business property	161,141,584	1,860,181	1,512,402	90,194	340,323	960,937	120,948
Taxes paid	222,323,028	1,798,380	3,045,199	338,284	969,868	1,422,271	314,775
Interest paid	672,447,709	2,497,991	5,916,281	677,944	683,544	4,213,699	341,094
Contributions or gifts	4,893,019	38,539	41,028	12,188	5,564	13,725	9,552
Amortization	20,325,799	37,575	286,667	70,993	62,232	140,877	12,565
Depreciation	327,516,917	3,636,847	5,821,802	583,473	904,150	3,564,464	769,716
Depletion	8,716,602	18,323	2,418,506	493,109	547,272	1,106,749	271,375
Advertising	114,408,994	260,584	151,247	8,726	13,665	77,815	51,040
Pension, profit-sharing, stock bonus, and annuity plans	45,183,078	180,620	302,437	42,848	36,216	168,159	55,214
Employee benefit programs	94,322,487	364,723	1,004,853	108,426	256,384	502,142	137,900
Net loss, noncapital assets	14,094,202	105,718	800,441	12,076	29,727	754,418	4,219
Other deductions	1,875,009,779	13,130,935	18,262,936	1,389,602	2,484,994	12,749,449	1,638,891
Total receipts less total deductions	411,447,323	1,621,012	3,661,583	1,542,312	738,901	459,537	920,833
Constructive taxable income from related foreign corporations	33,977,330	*19,719	506,973	*3,487	2,181	496,285	5,020
Net income (less deficit)	412,982,753	1,615,921	4,111,855	1,545,707	734,750	907,042	924,356
Income subject to tax	383,201,978	2,007,910	4,680,711	938,738	395,684	2,609,739	736,549
Income tax, total[2]	131,367,397	554,457	1,815,670	381,159	211,201	949,924	273,385
Regular tax	126,899,211	538,994	1,577,438	319,132	131,437	871,966	254,903
Personal holding company tax	17,729	*116	*338	—	*20	*318	—
Recapture of investment credit	552,398	1,889	14,936	226	957	13,083	670
Alternative minimum tax	3,352,845	12,597	210,502	58,821	77,372	57,706	16,603
Environmental tax	487,926	854	9,932	2,981	1,415	4,548	987
Foreign tax credit	27,068,104	*21,042	702,989	91,992	*27,004	575,521	8,472
U.S. possessions tax credit	2,318,021	515	—	—	—	—	—
Orphan drug credit	8,053	—	—	—	—	—	—
Nonconventional source fuel credit	49,517	—	776	—	19	*679	*78
General business credit	5,559,174	31,452	37,792	*8,587	12,697	11,230	5,278
Prior year minimum tax credit	468,767	*1,242	1,258	—	*100	*808	*350

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	**381,499**	**154,212**	**24,109**	**203,178**	**299,538**	**18,301**	**71**	**4,545**	**17,040**
Total assets	**241,395,405**	**132,393,222**	**44,357,688**	**64,644,494**	**3,390,433,557**	**247,824,327**	**116,629,974**	**36,564,644**	**39,820,539**
Cash	24,943,516	11,103,972	5,130,050	8,709,494	93,799,272	7,911,036	1,457,747	1,258,813	1,363,302
Notes and accounts receivable	64,548,479	29,519,466	11,023,937	24,005,076	763,880,662	44,157,818	5,592,955	8,682,244	8,557,454
Less: Allowance for bad debts	398,412	132,250	77,315	188,848	13,204,379	540,133	126,125	129,932	151,261
Inventories	32,417,281	23,842,561	1,961,736	6,612,984	354,494,099	27,165,386	8,022,151	7,299,333	11,273,405
Investments in Government obligations	1,933,028	1,294,140	429,460	209,428	29,828,872	1,909,807	54,953	523,731	86,368
Other current assets	25,249,524	15,913,911	3,518,956	5,816,658	176,427,695	9,877,617	2,816,519	984,000	1,961,611
Loans to stockholders	4,009,252	1,752,063	597,928	1,659,261	26,905,537	2,701,956	*157,282	114,080	175,287
Mortgage and real estate loans	9,789,417	9,417,312	150,308	221,797	33,519,083	358,530	997	*17,354	11,310
Other investments	22,951,884	14,373,049	6,271,175	2,307,660	746,964,910	58,692,731	55,308,039	4,257,031	5,351,020
Depreciable assets	85,869,629	26,120,277	27,128,381	32,620,971	1,433,079,873	102,033,082	21,586,900	20,906,678	9,750,726
Less: Accumulated depreciation	49,779,429	12,542,387	16,708,076	20,528,966	692,798,506	44,713,091	7,106,922	10,569,582	4,668,599
Depletable assets	426,172	89,005	285,832	51,335	76,480,239	*68,537	16,387	*11,003	*4,849
Less: Accumulated depletion	103,635	19,968	64,383	19,285	31,302,138	14,755	7,870	*4,074	*3,632
Land	7,508,286	5,285,698	1,094,188	1,128,400	36,075,236	4,314,214	781,602	263,713	258,279
Intangible assets (amortizable)	1,497,716	953,373	152,077	392,265	176,805,437	20,982,939	14,456,578	675,408	2,452,269
Less: Accumulated amortization	436,677	255,400	49,254	132,023	40,089,749	1,762,678	*443,543	74,694	326,038
Other assets	10,969,374	5,678,402	3,512,687	1,778,285	219,567,413	14,681,331	14,062,325	2,349,538	3,724,188
Total liabilities	**241,395,405**	**132,393,222**	**44,357,688**	**64,644,494**	**3,390,433,557**	**247,824,327**	**116,629,974**	**36,564,644**	**39,820,539**
Accounts payable	42,157,621	23,152,164	6,176,996	12,828,461	319,003,391	31,960,256	4,550,371	3,735,762	4,964,149
Mortgages, notes, and bonds payable in less than one year	33,023,281	21,514,920	4,333,328	7,175,033	349,555,648	22,543,524	13,648,108	2,761,604	4,534,350
Other current liabilities	36,046,001	20,639,694	4,883,009	10,523,298	326,025,872	18,080,784	8,786,788	3,323,534	3,974,844
Loans from stockholders	8,929,781	5,572,285	836,338	2,521,158	80,358,206	6,306,252	249,446	389,141	1,029,829
Mortgages, notes, and bonds payable in one year or more	42,867,024	28,317,414	7,422,993	7,126,617	727,540,706	54,275,876	28,337,473	10,903,705	9,287,457
Other liabilities	15,846,953	9,615,277	3,377,038	2,854,639	334,680,204	18,993,454	5,045,756	1,271,288	3,263,792
Capital stock	7,643,192	3,198,741	1,829,776	2,614,675	149,174,956	11,466,374	2,631,907	1,834,909	2,311,423
Paid-in or capital surplus	18,031,494	7,789,143	7,793,212	2,449,139	507,822,080	40,219,792	29,974,166	4,167,933	4,474,843
Retained earnings, appropriated	158,326	76,298	*10,842	71,186	18,402,185	377,811	311,662	*16,678	*27,340
Retained earnings, unappropriated	27,215,142	8,586,163	5,536,201	13,092,779	628,758,988	50,095,491	25,012,512	6,584,501	4,099,415
Other retained earnings, 1120S	13,765,594	5,137,669	3,480,396	5,147,528	41,898,256	4,598,538	—	2,291,829	2,722,375
Less: Cost of treasury stock	4,289,004	1,206,545	1,322,441	1,760,018	92,786,934	11,093,824	*1,918,214	716,240	869,279
Total receipts	**499,690,338**	**233,674,634**	**74,798,645**	**191,217,058**	**3,348,965,911**	**358,646,950**	**63,691,438**	**54,558,792**	**67,849,272**
Business receipts	485,711,849	226,055,865	70,903,305	188,752,679	3,118,059,530	342,469,522	56,700,224	52,489,999	65,760,142
Interest	3,517,559	2,472,626	576,700	468,233	56,558,960	2,933,042	1,254,485	519,675	456,900
Interest on Government obligations: State and local	64,627	28,081	23,531	13,015	1,104,725	33,357	4,378	7,028	3,095
Rents	1,616,484	835,803	505,898	274,783	30,361,843	1,201,468	505,510	51,647	90,363
Royalties	35,815	6,483	26,259	3,073	17,775,216	1,042,446	*397,403	79,443	161,949
Net short-term capital gain reduced by net long-term capital loss	25,135	18,593	3,270	3,271	642,917	79,359	—	3,983	*822
Net long-term capital gain reduced by net short-term capital loss	1,145,549	681,601	324,553	139,395	17,077,393	2,333,377	622,521	377,640	93,709
Net gain, noncapital assets	1,172,676	332,953	539,000	300,723	12,239,538	1,468,349	*16,419	393,119	52,492
Dividends received from domestic corporations	610,123	45,547	548,246	16,331	4,358,549	427,617	266,338	13,197	9,328
Dividends received from foreign corporations	298,261	249,572	44,700	*3,989	35,369,305	2,395,664	2,871,559	80,253	339,701
Other receipts	5,492,260	2,947,510	1,303,184	1,241,566	55,417,938	4,262,750	1,052,602	542,807	880,770
Total deductions	**488,357,231**	**229,257,484**	**72,007,714**	**187,092,033**	**3,169,974,645**	**344,216,246**	**55,364,348**	**52,581,517**	**65,956,144**
Cost of sales and operations	375,920,136	186,915,122	55,435,867	133,569,148	2,117,827,704	245,959,866	28,959,189	40,120,121	47,239,166
Compensation of officers	18,450,296	6,538,001	1,822,269	10,090,026	36,138,615	2,464,335	253,544	713,453	1,748,429
Repairs	2,092,080	529,462	582,059	980,559	29,822,741	2,535,003	222,250	228,457	179,351
Bad debts	1,235,986	593,875	153,178	488,933	7,517,507	315,796	49,290	112,443	133,326
Rent paid on business property	3,898,682	1,216,450	587,653	2,094,579	32,911,964	2,739,980	354,139	366,965	949,767
Taxes paid	9,426,363	2,871,820	1,417,295	5,137,247	78,378,766	6,739,858	3,276,726	1,117,495	1,374,590
Interest paid	6,926,137	4,113,472	1,192,670	1,619,995	113,699,987	9,001,864	2,624,091	1,871,199	2,021,371
Contributions or gifts	143,492	66,141	32,989	44,362	2,474,507	270,006	114,473	25,302	31,568
Amortization	154,464	104,703	10,670	39,091	7,155,983	752,705	294,593	59,821	126,922
Depreciation	8,839,673	2,551,384	2,421,392	3,866,897	120,038,466	8,585,141	2,718,147	1,677,430	1,043,701
Depletion	70,312	18,203	43,381	8,728	5,155,784	12,269	9	*366	*4
Advertising	1,390,301	611,048	76,770	702,483	51,201,511	13,586,113	5,060,922	320,751	1,008,730
Pension, profit-sharing, stock bonus, and annuity plans	1,769,828	501,050	313,254	955,525	17,868,770	1,020,953	229,222	272,243	232,019
Employee benefit programs	2,241,730	612,461	394,698	1,234,571	47,008,397	2,973,601	779,728	490,600	478,695
Net loss, noncapital assets	179,438	109,364	30,480	39,593	1,947,069	302,602	6,869	14,311	54,315
Other deductions	55,618,314	21,904,928	7,493,089	26,220,297	500,826,876	46,956,153	10,421,154	5,190,560	9,334,190
Total receipts less total deductions	11,333,107	4,417,150	2,790,932	4,125,025	178,991,266	14,430,704	8,327,090	1,977,275	1,893,128
Constructive taxable income from related foreign corporations	81,456	45,172	34,798	1,486	27,227,430	1,444,154	1,940,025	37,846	244,324
Net income (less deficit)	11,343,920	4,432,962	2,797,643	4,113,315	205,083,651	15,841,502	10,262,737	2,008,094	2,133,209
Income subject to tax	8,340,495	3,367,801	1,747,669	3,225,025	197,348,499	15,664,250	9,944,583	1,912,370	1,931,739
Income tax, total [2]	2,497,276	1,050,602	588,584	858,090	68,661,707	5,413,613	3,398,277	660,931	653,484
Regular tax	2,381,580	995,377	562,473	823,730	66,691,829	5,307,912	3,381,944	639,049	634,987
Personal holding company tax	*217	*60	*150	*7	3,557	—	—	—	—
Recapture of investment credit	7,141	1,909	3,570	1,662	235,587	15,592	3,641	9,440	736
Alternative minimum tax	104,329	50,907	21,034	32,388	1,469,116	70,642	536	10,011	15,897
Environmental tax	3,455	1,795	1,357	303	255,764	19,153	12,156	2,219	1,864
Foreign tax credit	92,380	*73,838	*15,154	*3,388	21,860,251	1,243,727	1,592,981	27,287	155,692
U.S. possessions tax credit	1,279	—	1,279	—	2,219,079	234,613	16,947	1,978	41,481
Orphan drug credit	—	—	—	—	8,053	—	—	—	—
Nonconventional source fuel credit	*7	*7	—	—	27,701	52	—	—	—
General business credit	95,097	47,672	22,408	25,017	2,486,886	125,938	*39,501	10,889	6,757
Prior year minimum tax credit	33,983	12,485	4,865	16,633	153,853	4,761	—	*603	*1,643

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	**17,066**	**8,959**	**3,298**	**48,128**	**10,232**	**1,362**	**13,328**	**1,695**	**9,839**
Total assets	**62,602,636**	**22,859,791**	**109,568,192**	**144,845,167**	**405,014,150**	**557,796,474**	**52,927,265**	**8,638,851**	**78,051,451**
Cash	2,219,945	1,226,872	1,743,397	5,784,204	10,104,047	7,321,283	1,564,402	334,993	2,173,598
Notes and accounts receivable	7,784,990	5,103,018	16,795,313	25,292,179	64,349,782	92,324,969	10,606,183	2,116,656	12,153,380
Less: Allowance for bad debts	120,538	106,005	324,624	1,402,714	1,097,453	811,682	256,084	37,190	319,445
Inventories	7,645,507	5,143,761	10,185,871	9,297,701	37,659,483	19,814,783	8,595,870	2,733,990	6,865,555
Investments in Government obligations	169,322	28,590	533,777	1,791,095	1,508,688	770,910	34,643	*96,764	226,388
Other current assets	5,035,421	918,553	3,680,606	8,609,310	24,859,721	19,492,495	1,848,037	279,241	1,738,126
Loans to stockholders	200,138	121,990	328,750	1,649,723	12,218,589	3,685,081	388,774	20,746	208,617
Mortgage and real estate loans	2,066,914	44,569	1,992,074	164,065	5,409,180	60,288	25,197	1,015	57,645
Other investments	8,380,871	2,994,509	20,441,687	27,775,654	108,372,827	185,237,725	9,819,188	1,371,001	17,468,993
Depreciable assets	37,168,274	10,308,239	69,821,418	58,599,198	170,863,547	280,601,917	30,799,096	2,525,481	39,883,148
Less: Accumulated depreciation	18,853,320	5,115,461	28,594,516	27,290,122	82,579,888	132,442,497	14,396,509	1,416,821	18,969,358
Depletable assets	5,941,251	*1,914	3,611,163	*177,245	7,712,432	53,544,144	*11,019	*31	1,325,688
Less: Accumulated depletion	155,709	363	652,712	*26,383	4,050,763	24,272,863	110	—	463,363
Land	929,325	311,346	1,679,917	1,998,745	4,443,541	6,519,016	675,489	61,663	1,792,904
Intangible assets (amortizable)	549,156	1,176,252	4,027,673	18,653,843	21,060,127	44,277,840	1,754,830	93,403	2,459,976
Less: Accumulated amortization	65,877	79,236	214,393	2,197,960	4,271,055	24,296,456	303,896	19,061	279,420
Other assets	3,706,967	781,241	4,512,789	15,969,385	28,451,346	25,969,519	1,761,134	476,938	11,729,019
Total liabilities	**62,602,636**	**22,859,791**	**109,568,192**	**144,845,167**	**405,014,150**	**557,796,474**	**52,927,265**	**8,638,851**	**78,051,451**
Accounts payable	5,306,624	2,575,468	9,241,881	10,862,618	34,622,956	46,857,745	6,104,605	1,090,453	7,216,105
Mortgages, notes, and bonds payable in less than one year	5,197,010	2,211,488	4,370,019	9,719,905	24,940,000	39,107,926	5,626,111	757,273	3,684,652
Other current liabilities	4,498,706	1,786,701	11,492,566	12,958,711	46,388,013	29,894,563	6,462,503	821,723	4,951,512
Loans from stockholders	686,795	367,884	1,432,192	4,424,005	16,904,269	9,069,448	917,332	171,153	9,850,772
Mortgages, notes, and bonds payable in one year or more	18,557,052	6,321,760	24,924,535	42,947,533	63,247,120	110,657,728	13,353,170	2,274,737	21,379,258
Other liabilities	3,757,630	737,469	9,892,453	13,351,715	45,603,587	81,316,500	2,872,053	387,836	4,806,102
Capital stock	3,411,878	1,338,115	5,554,310	5,849,277	18,890,415	16,402,123	1,844,784	429,688	3,957,649
Paid-in or capital surplus	7,732,942	3,069,356	14,129,981	15,615,492	81,149,524	113,134,934	5,833,437	648,774	15,137,103
Retained earnings, appropriated	*28,755	*9,841	*15,954	152,086	638,046	13,160,878	*9,620	8,700	182,488
Retained earnings, unappropriated	11,904,235	3,947,162	29,228,807	30,060,182	88,412,696	123,022,495	7,914,257	1,619,848	7,177,202
Other retained earnings, 1120S	2,072,511	1,147,687	1,584,263	2,660,026	1,568,718	275,068	2,598,159	632,161	1,467,645
Less: Cost of treasury stock	551,503	653,141	2,298,769	3,756,383	17,351,195	25,102,935	608,767	203,495	1,759,036
Total receipts	**80,903,114**	**40,185,289**	**115,602,990**	**156,200,423**	**338,728,050**	**409,449,585**	**76,156,849**	**15,315,835**	**66,461,500**
Business receipts	77,223,872	39,288,679	111,411,467	145,727,139	315,836,954	378,641,116	72,896,745	14,807,062	62,659,821
Interest	1,329,813	107,765	823,291	2,175,512	4,418,129	9,586,119	510,811	178,294	1,019,019
Interest on Government obligations: State and local	3,807	8,693	26,536	46,516	161,281	22,258	3,621	5,747	5,438
Rents	121,186	112,158	236,571	472,244	1,250,806	2,324,258	149,932	33,676	119,641
Royalties	50,874	24,214	411,041	564,458	2,685,131	1,256,936	212,018	28,473	203,422
Net short-term capital gain reduced by net long-term capital loss	7,629	*11	29,843	79,554	83,751	32,386	*13,325	392	*71,554
Net long-term capital gain reduced by net short-term capital loss	495,187	148,018	903,369	2,439,638	2,391,228	984,096	213,811	33,158	443,047
Net gain, noncapital assets	264,137	41,668	182,179	375,134	863,676	2,326,004	246,675	18,120	406,988
Dividends received from domestic corporations	22,927	12,204	85,230	182,768	518,925	806,998	51,001	5,896	107,195
Dividends received from foreign corporations	198,316	8,063	657,233	592,691	4,522,829	4,582,079	488,929	24,844	587,862
Other receipts	1,185,368	433,817	836,229	3,544,768	5,995,341	8,887,334	1,369,981	180,171	837,514
Total deductions	**77,204,295**	**38,955,302**	**107,039,359**	**146,697,935**	**311,372,724**	**387,145,139**	**73,545,365**	**14,713,472**	**64,117,418**
Cost of sales and operations	57,367,956	27,892,198	74,390,707	75,073,094	191,359,800	274,112,102	51,716,202	10,477,182	41,891,527
Compensation of officers	1,240,436	823,610	951,756	4,315,590	2,652,686	636,022	1,599,824	226,621	1,137,459
Repairs	1,263,167	146,509	2,153,104	947,376	3,801,648	5,992,873	599,453	70,251	1,144,277
Bad debts	115,790	88,236	202,599	869,149	582,239	604,008	157,700	34,221	183,028
Rent paid on business property	770,916	526,329	922,414	2,697,637	3,335,941	3,387,304	810,797	328,178	753,723
Taxes paid	1,731,807	888,443	2,219,953	4,343,384	6,242,568	17,016,300	1,459,379	292,544	1,580,640
Interest paid	2,364,921	700,953	2,921,825	5,817,789	9,950,702	18,772,239	2,046,843	456,825	3,146,730
Contributions or gifts	57,662	22,370	87,311	175,965	372,052	208,770	23,444	8,466	37,668
Amortization	53,391	41,423	94,030	1,230,602	929,027	950,116	100,187	7,356	170,156
Depreciation	2,645,293	977,783	5,583,867	5,907,528	12,009,586	15,271,491	2,419,963	242,410	2,988,143
Depletion	479,208	*2,883	203,257	33,522	474,670	3,253,596	5,225	*42	148,553
Advertising	346,160	624,435	1,175,540	2,713,388	9,550,013	1,092,494	809,503	283,477	395,379
Pension, profit-sharing, stock bonus, and annuity plans	377,845	205,106	528,156	1,059,781	1,833,683	1,225,937	497,918	53,700	316,533
Employee benefit programs	776,911	407,387	1,630,245	2,131,740	4,391,433	2,074,659	1,059,845	119,185	990,316
Net loss, noncapital assets	16,116	8,526	23,591	152,783	284,728	155,400	69,084	8,400	21,378
Other deductions	7,596,716	5,599,111	13,951,004	39,228,606	63,601,946	42,391,829	10,169,998	2,104,614	9,211,906
Total receipts less total deductions	3,698,819	1,229,988	8,563,631	9,502,488	27,355,325	22,304,446	2,611,484	602,363	2,344,082
Constructive taxable income from related foreign corporations	40,420	26,354	374,921	454,033	5,036,383	5,008,632	407,285	14,935	226,945
Net income (less deficit)	3,735,426	1,247,629	8,912,016	9,898,490	32,230,428	27,290,820	3,015,062	611,552	2,565,590
Income subject to tax	3,187,254	1,338,804	8,323,065	10,544,386	31,347,827	25,208,419	2,693,542	493,011	3,077,571
Income tax, total[2]	1,107,270	447,320	2,894,057	3,571,192	10,784,484	9,046,976	911,521	167,295	1,062,377
Regular tax	1,059,216	443,001	2,823,782	3,523,067	10,651,128	8,568,851	892,692	165,886	1,031,059
Personal holding company tax	—	—	*234	420	—	—	—	—	*11
Recapture of investment credit	5,690	1,552	6,090	12,315	23,980	20,643	6,219	355	4,438
Alternative minimum tax	38,267	1,194	52,170	23,289	70,109	419,984	8,195	*519	23,166
Environmental tax	4,063	1,272	11,492	12,051	39,225	37,497	2,563	534	*3,629
Foreign tax credit	*40,541	10,236	356,326	360,423	3,069,341	4,565,965	261,581	6,484	207,872
U.S. possessions tax credit	—	295	2,181	8,455	1,100,562	38,357	7,548	9,881	2,029
Orphan drug credit	—	—	—	—	7,586	—	—	—	—
Nonconventional source fuel credit	*20	—	191	*370	4,799	21,607	45	—	—
General business credit	47,602	6,753	198,000	58,780	473,625	228,232	19,763	4,245	15,773
Prior year minimum tax credit	*1,025	2,257	10,962	11,186	18,801	*5,658	*1,932	(1)	*8,363

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	**4,258**	**48,800**	**28,932**	**23,321**	**2,686**	**4,252**	**8,769**	**24,657**
Total assets	**103,999,775**	**133,418,992**	**276,726,498**	**328,507,700**	**407,265,802**	**122,900,854**	**83,311,178**	**51,159,294**
Cash	4,691,541	5,415,834	9,927,236	12,070,680	4,783,236	6,744,705	3,034,526	2,667,875
Notes and accounts receivable	19,195,212	26,558,976	66,516,185	86,358,345	204,754,161	24,355,115	20,543,653	12,082,074
Less: Allowance for bad debts	390,429	470,699	1,476,780	2,417,890	1,898,875	300,956	383,921	441,643
Inventories	15,602,475	22,651,907	42,736,220	43,488,576	19,018,119	27,683,960	12,573,380	9,036,665
Investments in Government obligations	665,650	623,355	6,420,844	5,675,667	7,045,118	*1,234,126	208,279	220,794
Other current assets	4,810,952	6,473,225	16,653,739	34,771,922	15,084,716	9,607,719	4,307,804	2,616,362
Loans to stockholders	274,133	812,726	1,255,877	753,485	840,092	138,320	249,353	610,539
Mortgage and real estate loans	104,382	571,459	362,122	399,088	21,695,137	*19,187	*78,268	80,301
Other investments	18,171,848	25,195,227	47,314,908	50,231,063	60,928,899	16,365,710	16,789,238	6,496,739
Depreciable assets	64,483,406	61,046,823	118,036,030	118,499,823	112,932,328	50,427,745	34,227,107	18,578,907
Less: Accumulated depreciation	32,603,643	31,779,566	61,509,743	62,374,220	57,717,518	24,843,843	16,539,541	8,713,747
Depletable assets	1,620,503	359,956	1,144,029	630,314	4,731	156,994	*29,448	108,603
Less: Accumulated depletion	673,596	129,528	550,360	253,856	848	26,158	*3,293	11,901
Land	1,200,108	2,064,758	2,539,401	2,236,154	1,401,806	1,177,929	865,694	559,632
Intangible assets (amortizable)	1,613,704	4,874,240	12,311,490	10,921,091	3,139,345	3,791,457	3,603,295	3,930,522
Less: Accumulated amortization	270,189	657,691	1,532,265	1,301,526	227,592	448,068	664,866	653,245
Other assets	5,503,719	9,807,990	16,577,566	28,818,986	15,482,946	6,816,913	4,392,754	3,990,818
Total liabilities	**103,999,775**	**133,418,992**	**276,726,498**	**328,507,700**	**407,265,802**	**122,900,854**	**83,311,178**	**51,159,294**
Accounts payable	11,321,439	13,563,554	30,665,860	28,052,929	30,187,410	20,868,351	9,969,064	5,285,790
Mortgages, notes, and bonds payable in less than one year	4,921,004	11,213,044	22,985,781	49,811,104	96,737,733	10,278,601	8,679,284	5,827,125
Other current liabilities	9,594,409	13,138,300	35,479,704	35,962,944	40,820,831	22,435,191	9,082,209	6,091,335
Loans from stockholders	3,605,897	2,282,598	2,955,474	3,461,505	11,663,598	987,654	2,050,743	1,552,217
Mortgages, notes, and bonds payable in one year or more	22,434,152	29,319,843	58,098,469	52,581,773	110,557,608	21,441,213	14,865,992	11,774,252
Other liabilities	21,466,180	11,993,451	17,275,911	49,415,847	24,005,585	9,550,208	5,171,571	4,501,818
Capital stock	5,566,794	8,717,664	20,197,721	18,093,201	6,586,325	5,670,035	4,879,079	3,541,286
Paid-in or capital surplus	19,023,166	18,066,301	34,683,240	38,325,361	32,959,176	6,510,308	14,259,594	8,706,655
Retained earnings, appropriated	185,171	210,421	1,927,078	362,493	264,948	*34,362	457,101	20,755
Retained earnings, unappropriated	5,627,626	22,584,074	53,878,411	56,169,060	53,602,387	26,947,311	17,594,414	3,276,899
Other retained earnings, 1120S	1,240,643	6,259,201	4,185,230	2,559,059	1,269,892	521,606	804,789	1,438,856
Less: Cost of treasury stock	986,708	3,929,460	5,606,380	6,287,576	1,389,690	2,343,985	4,502,662	857,694
Total receipts	**137,547,407**	**177,950,284**	**288,773,459**	**296,244,817**	**306,211,123**	**144,753,753**	**84,848,016**	**68,886,965**
Business receipts	132,557,680	171,553,904	249,318,543	273,705,444	276,806,122	134,165,212	78,268,761	65,771,122
Interest	1,595,785	1,848,232	4,653,642	5,311,292	14,099,863	2,336,255	711,764	689,272
Interest on Government obligations: State and local	14,873	36,276	319,240	66,467	251,133	18,521	49,340	17,120
Rents	467,312	571,197	11,190,756	4,467,907	4,603,824	1,479,315	762,028	150,047
Royalties	108,721	215,458	7,181,058	1,563,847	182,390	251,690	908,789	245,455
Net short-term capital gain reduced by net long-term capital loss	25,962	40,819	56,871	34,070	*60,312	4,819	12,257	5,197
Net long-term capital gain reduced by net short-term capital loss	369,336	417,865	1,381,572	981,653	534,669	835,373	584,562	493,560
Net gain, noncapital assets	303,005	383,720	633,713	1,590,465	2,003,752	375,533	200,663	93,727
Dividends received from domestic corporations	131,029	164,539	585,761	495,137	166,308	178,355	67,275	60,521
Dividends received from foreign corporations	520,719	613,447	7,825,529	2,832,269	3,203,313	1,108,233	1,671,025	244,746
Other receipts	1,452,984	2,104,827	5,626,775	5,196,267	4,299,437	4,000,447	1,611,552	1,116,196
Total deductions	**130,728,976**	**170,637,972**	**271,194,613**	**282,714,053**	**295,610,410**	**134,212,764**	**79,389,900**	**66,576,696**
Cost of sales and operations	102,900,881	122,528,728	164,279,972	177,901,991	196,494,450	97,756,799	45,561,461	43,844,311
Compensation of officers	1,088,743	4,624,796	3,860,237	3,269,008	800,502	722,467	1,309,095	1,700,002
Repairs	2,673,253	1,040,346	1,798,992	1,577,764	1,953,329	788,365	400,626	306,347
Bad debts	109,165	374,227	581,596	1,120,827	1,349,809	154,141	173,464	206,453
Rent paid on business property	1,106,106	1,499,465	3,707,860	3,568,063	2,088,636	1,196,892	1,012,366	788,485
Taxes paid	2,277,717	3,801,239	6,421,084	5,771,209	5,983,723	2,716,866	1,638,811	1,484,430
Interest paid	3,022,109	5,212,557	8,715,403	13,062,866	13,852,036	3,410,669	2,475,669	2,251,326
Contributions or gifts	74,932	77,020	289,451	190,267	116,424	94,555	155,951	40,851
Amortization	144,426	231,406	491,109	697,852	111,829	295,684	194,982	178,365
Depreciation	4,055,504	5,022,964	10,563,692	12,593,059	17,582,854	3,992,609	2,457,403	1,699,895
Depletion	364,509	42,829	65,998	13,277	9,319	*34,602	*3,550	8,094
Advertising	208,732	1,166,573	2,558,443	3,446,880	2,703,542	473,790	2,328,168	1,348,478
Pension, profit-sharing, stock bonus, and annuity plans	1,808,779	954,345	1,496,595	1,471,114	2,303,744	1,030,301	724,554	226,243
Employee benefit programs	1,883,567	2,188,261	5,923,348	4,214,558	9,416,123	3,179,496	1,213,362	685,336
Net loss, noncapital assets	157,784	107,201	198,312	169,969	58,636	12,105	66,480	58,479
Other deductions	8,852,769	21,766,016	60,242,523	53,645,349	40,785,453	18,353,423	19,673,955	11,749,601
Total receipts less total deductions	6,818,431	7,312,312	17,578,846	13,530,764	10,600,713	10,540,989	5,458,116	2,310,269
Constructive taxable income from related foreign corporations	286,536	280,844	4,696,838	1,906,415	2,801,443	547,235	1,311,423	140,438
Net income (less deficit)	7,090,056	7,553,951	21,945,297	15,367,285	13,151,022	11,069,704	6,720,197	2,433,586
Income subject to tax	4,241,611	6,375,870	20,698,159	16,446,111	13,447,188	10,498,022	7,337,037	2,637,681
Income tax, total[2]	1,539,692	2,145,915	7,300,171	5,716,812	4,779,383	3,646,120	2,523,322	891,494
Regular tax	1,431,165	2,084,627	6,998,409	5,570,696	4,563,767	3,559,612	2,489,998	870,980
Personal holding company tax	—	*434	485	*1,884	—	—	*89	—
Recapture of investment credit	1,946	5,846	26,690	26,506	45,958	7,012	8,782	2,156
Alternative minimum tax	97,473	47,437	248,516	96,181	150,060	64,010	16,448	15,011
Environmental tax	9,108	6,011	26,071	21,277	19,598	15,485	7,703	2,793
Foreign tax credit	209,829	304,159	4,563,510	1,422,579	1,975,559	385,873	1,003,940	96,346
U.S. possessions tax credit	—	7,710	75,656	382,682	1,600	4,728	245,717	36,659
Orphan drug credit	—	—	—	—	—	—	467	—
Nonconventional source fuel credit	35	*16	—	487	79	—	—	—
General business credit	77,987	52,329	242,532	392,723	277,756	130,634	62,648	14,420
Prior year minimum tax credit	*2,200	3,035	5,987	29,415	27,399	14,810	*3,502	*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 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				
	Total	Transportation	Communication	Electric, gas, and sanitary services	Total	Wholesale trade			
						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	**149,248**	**120,494**	**15,535**	**13,219**	**984,553**	**315,272**	**25,754**	**51,331**	**238,187**
Total assets	**1,411,201,395**	**282,516,500**	**460,488,222**	**668,196,673**	**1,295,819,375**	**581,522,300**	**43,848,443**	**68,674,419**	**468,999,438**
Cash	28,873,302	12,742,509	7,991,857	8,138,936	68,702,177	32,259,910	2,350,982	4,377,233	25,531,695
Notes and accounts receivable	136,568,859	36,005,511	59,273,340	41,290,009	286,755,152	157,816,802	12,664,469	19,789,046	125,363,286
Less: Allowance for bad debts	3,771,915	850,272	1,685,563	1,236,080	6,075,673	3,269,775	233,828	519,916	2,516,031
Inventories	29,452,644	5,597,253	8,404,268	15,451,122	359,148,953	169,833,806	11,179,825	21,465,250	137,188,730
Investments in Government obligations	9,237,053	2,894,448	906,308	5,436,297	27,096,674	13,528,693	96,624	87,793	13,344,277
Other current assets	52,797,376	13,565,896	12,832,934	26,398,546	72,105,443	41,265,688	1,688,322	4,003,289	35,574,076
Loans to stockholders	3,096,072	1,379,266	1,156,556	560,249	12,388,276	4,747,478	632,630	678,698	3,436,150
Mortgage and real estate loans	9,077,835	1,481,851	198,996	7,396,987	14,905,170	3,957,912	127,080	194,838	3,635,995
Other investments	216,365,077	44,625,855	103,368,319	68,370,902	112,412,575	46,008,569	2,443,719	4,845,908	38,718,942
Depreciable assets	1,172,232,524	228,623,134	333,305,420	610,303,970	396,994,053	138,366,380	17,060,295	19,455,784	101,850,301
Less: Accumulated depreciation	378,209,186	89,103,237	118,043,211	171,062,738	177,672,588	67,854,869	8,288,013	10,045,538	49,521,318
Depletable assets	7,166,261	481,915	*2,840	6,681,506	1,403,361	1,032,518	*13,932	80,559	938,027
Less: Accumulated depletion	3,606,630	234,943	*601	3,371,086	579,930	463,957	*9,218	16,864	437,875
Land	10,864,034	4,006,968	2,844,314	4,012,752	29,009,409	8,324,066	804,709	902,285	6,617,072
Intangible assets (amortizable)	41,597,241	6,090,110	28,070,597	7,436,533	35,728,132	13,222,333	2,225,170	1,460,578	9,536,584
Less: Accumulated amortization	5,817,904	1,277,536	2,567,176	1,973,192	6,184,970	1,957,283	252,366	177,778	1,527,139
Other assets	85,278,754	16,487,771	24,429,023	44,361,959	69,683,164	24,704,029	1,344,111	2,093,253	21,266,666
Total liabilities	**1,411,201,395**	**282,516,500**	**460,488,222**	**668,196,673**	**1,295,819,375**	**581,522,300**	**43,848,443**	**68,674,419**	**468,999,438**
Accounts payable	92,065,697	28,109,570	36,232,528	27,723,599	215,022,657	112,369,458	10,364,950	14,149,536	87,854,972
Mortgages, notes, and bonds payable in less than one year	61,137,327	16,502,893	18,551,134	26,083,299	236,970,628	121,154,041	4,791,469	13,494,436	102,868,136
Other current liabilities	116,247,273	30,435,402	33,253,756	52,558,115	166,848,841	82,975,025	3,676,387	5,289,911	74,008,728
Loans from stockholders	11,610,819	5,550,825	3,232,923	2,827,071	43,406,030	15,880,356	967,438	2,157,276	12,755,641
Mortgages, notes, and bonds payable in one year or more	428,201,824	76,093,148	127,048,622	225,060,054	248,668,211	77,486,630	9,412,837	9,998,008	58,075,784
Other liabilities	182,549,960	31,523,990	58,846,869	92,179,101	52,934,686	21,935,911	1,587,031	3,105,224	17,243,656
Capital stock	159,878,446	17,337,762	43,426,628	99,114,056	64,025,600	31,931,187	2,070,678	3,876,150	25,984,359
Paid-in or capital surplus	206,431,098	50,763,261	96,634,711	59,033,126	92,076,817	35,471,420	2,843,883	5,256,850	27,370,687
Retained earnings, appropriated	2,997,059	766,369	335,813	1,894,877	1,231,337	501,126	66,063	73,734	361,328
Retained earnings, unappropriated	160,773,683	28,265,448	49,877,091	82,631,144	153,662,832	62,694,008	6,815,630	9,328,260	46,550,118
Other retained earnings, 1120S	1,136,689	1,857,614	−1,046,804	325,879	41,291,135	27,799,358	2,012,033	3,335,926	22,451,398
Less: Cost of treasury stock	11,828,479	4,689,781	5,905,049	1,233,649	20,319,399	8,676,219	759,957	1,390,894	6,525,368
Total receipts	**838,753,393**	**318,420,797**	**221,257,169**	**299,075,428**	**2,977,982,750**	**1,432,705,302**	**210,926,286**	**131,262,226**	**1,090,516,790**
Business receipts	779,584,504	296,919,809	203,773,723	278,890,972	2,891,336,187	1,396,255,260	207,335,105	126,456,202	1,062,463,952
Interest	14,497,731	4,283,180	3,935,050	6,279,501	23,764,071	11,509,085	398,178	867,963	10,242,944
Interest on Government obligations: State and local	304,952	37,988	75,448	191,517	1,150,512	113,008	11,188	14,100	87,720
Rents	8,766,721	3,701,439	3,009,226	2,056,055	9,997,511	3,835,967	347,494	986,487	2,501,986
Royalties	351,658	188,603	102,194	60,861	1,665,442	603,025	51,830	82,980	468,215
Net short-term capital gain reduced by net long-term capital loss	162,897	85,583	58,985	18,329	156,300	82,956	109	2,408	80,439
Net long-term capital gain reduced by net short-term capital loss	9,120,095	3,355,718	2,802,719	2,961,658	5,097,302	1,665,394	188,524	264,701	1,212,170
Net gain, noncapital assets	7,509,935	3,561,479	974,722	2,973,734	4,202,797	1,495,868	161,068	278,327	1,056,473
Dividends received from domestic corporations	936,641	259,457	238,708	438,476	776,982	321,588	22,255	56,172	243,161
Dividends received from foreign corporations	1,639,115	110,791	628,540	899,785	1,747,518	1,286,929	*13,469	58,736	1,214,724
Other receipts	15,879,144	5,916,750	5,657,855	4,304,540	38,088,128	15,536,224	2,397,068	2,194,150	10,945,006
Total deductions	**792,540,311**	**308,874,527**	**205,488,163**	**278,177,621**	**2,935,533,099**	**1,410,837,241**	**209,025,686**	**128,631,473**	**1,073,180,082**
Cost of sales and operations	356,253,750	132,529,482	78,490,091	145,234,178	2,230,936,367	1,164,155,617	180,670,803	95,483,657	888,001,157
Compensation of officers	7,484,597	4,935,355	1,209,398	1,339,844	47,537,748	22,972,287	1,975,449	3,583,449	17,413,389
Repairs	29,062,092	6,911,033	11,319,750	10,831,309	11,233,469	3,762,682	618,144	422,317	2,722,221
Bad debts	4,040,881	852,327	*2,211,038	977,516	6,767,240	3,048,737	263,944	427,864	2,356,929
Rent paid on business property	22,305,899	14,202,813	4,536,239	3,566,846	50,370,755	11,547,921	1,476,532	1,376,569	8,694,820
Taxes paid	36,934,916	11,514,624	8,986,671	16,433,621	42,096,648	14,589,368	1,854,892	1,744,383	10,990,092
Interest paid	50,934,990	9,999,807	14,585,490	26,349,693	53,360,602	22,615,552	1,476,601	2,210,696	18,928,255
Contributions or gifts	530,397	136,123	232,529	161,745	689,507	271,786	42,533	38,087	191,166
Amortization	3,066,341	498,213	1,975,340	592,788	2,795,781	885,402	138,039	73,553	673,810
Depreciation	81,232,186	19,127,336	30,472,780	31,632,071	41,021,984	14,906,340	1,747,052	2,375,589	10,783,700
Depletion	723,556	226,484	*3,150	493,922	132,503	72,427	*1,836	7,196	63,395
Advertising	4,679,845	2,269,100	1,952,018	458,727	37,201,210	9,480,918	712,861	880,704	7,887,353
Pension, profit-sharing, stock bonus, and annuity plans	5,799,231	2,865,943	1,529,079	1,404,209	7,062,823	3,333,178	398,354	415,121	2,519,702
Employee benefit programs	12,607,271	5,365,996	4,774,161	2,467,114	13,019,492	4,641,712	718,963	695,242	3,227,507
Net loss, noncapital assets	1,202,037	116,989	689,547	395,502	1,129,250	439,157	73,936	63,225	301,996
Other deductions	175,682,320	97,322,903	42,520,882	35,838,535	390,177,721	134,114,160	16,855,748	18,833,821	98,424,591
Total receipts less total deductions	46,213,082	9,546,270	15,769,006	20,897,807	42,449,652	21,868,061	1,900,600	2,630,753	17,336,708
Constructive taxable income from related foreign corporations	1,039,074	165,839	413,697	459,538	1,571,143	1,189,641	18,166	23,343	1,148,131
Net income (less deficit)	46,943,801	9,671,891	16,107,256	21,164,655	42,844,883	22,938,622	1,907,382	2,639,986	18,391,254
Income subject to tax	50,627,000	11,530,330	19,151,687	19,944,983	44,054,669	20,004,386	1,760,093	2,314,114	15,930,179
Income tax, total[2]	17,762,410	3,977,168	6,621,133	7,164,110	14,116,720	6,457,725	571,409	710,829	5,175,486
Regular tax	17,089,778	3,821,598	6,496,286	6,771,894	13,843,495	6,346,969	563,451	690,679	5,092,839
Personal holding company tax	*69	—	*6	63	2,448	*910	—	*140	*769
Recapture of investment credit	133,359	34,359	36,937	62,063	72,530	25,711	3,275	7,572	14,864
Alternative minimum tax	458,112	104,598	58,639	294,875	150,620	63,886	2,964	9,636	51,286
Environmental tax	79,698	15,753	28,730	35,214	40,059	15,690	1,496	1,161	13,034
Foreign tax credit	419,834	57,121	214,512	148,201	1,038,355	719,780	*5,634	17,692	696,455
U.S. possessions tax credit	49,598	—	49,598	—	25,266	23,319	557	1,659	21,103
Orphan drug credit	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	16,140	2,601	—	13,539	*1,061	*242	—	237	*5
General business credit	1,792,125	417,951	573,439	800,734	303,185	107,305	8,320	15,122	83,863
Prior year minimum tax credit	55,422	16,926	*633	37,863	15,759	7,956	*552	*1,701	5,703

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	**666,330**	**40,959**	**9,319**	**60,596**	**96,214**	**48,723**	**37,674**	**150,272**	**222,572**	**2,951**
Total assets	**712,693,705**	**38,568,262**	**229,033,959**	**76,935,637**	**105,632,442**	**38,086,351**	**25,561,539**	**72,927,996**	**125,947,520**	**1,603,370**
Cash	36,273,721	2,286,066	5,719,317	4,011,482	6,333,702	2,570,244	2,020,788	5,440,639	7,891,483	168,546
Notes and accounts receivable	128,524,858	7,251,656	65,219,304	4,908,297	13,176,107	5,202,578	5,853,604	5,797,390	21,115,922	413,492
Less: Allowance for bad debts	2,679,370	165,420	1,130,029	53,642	192,653	140,101	191,091	155,758	650,676	126,528
Inventories	188,783,131	12,655,567	36,337,716	17,412,469	56,726,406	13,589,532	9,660,104	2,775,076	39,626,261	532,017
Investments in Government obligations	13,567,955	31,309	12,436,788	462,575	76,947	90,718	103,736	56,675	309,207	*26
Other current assets	30,785,046	1,176,947	12,883,038	2,331,511	2,842,718	1,507,066	878,894	2,714,147	6,450,725	54,709
Loans to stockholders	7,614,197	335,177	1,552,078	499,488	1,159,663	562,075	232,999	1,074,506	2,198,210	*26,600
Mortgage and real estate loans	10,946,407	261,308	8,911,049	199,395	172,275	20,109	89,350	454,525	838,396	*850
Other investments	66,266,013	2,125,844	29,615,393	5,680,854	2,282,238	3,089,265	1,364,142	6,531,016	15,577,259	137,993
Depreciable assets	258,087,279	14,156,577	54,517,414	45,292,174	31,517,869	13,920,993	7,343,727	53,723,438	37,615,088	540,394
Less: Accumulated depreciation	109,559,084	6,861,367	19,323,553	18,477,509	14,744,323	5,751,115	3,484,524	22,309,072	18,607,621	258,635
Depletable assets	370,843	*60,796	1,285	*57,033	20,879	*2,144	*1,501	53,546	173,659	—
Less: Accumulated depletion	115,973	*11,160	116	*14,406	10,956	*639	—	18,313	60,383	—
Land	20,625,343	1,661,475	3,779,966	3,691,709	3,060,725	352,126	394,367	5,373,736	2,311,239	60,000
Intangible assets (amortizable)	22,480,845	1,436,158	2,309,722	2,927,806	1,209,815	2,141,225	901,406	5,944,965	5,609,747	24,954
Less: Accumulated amortization	4,222,246	93,628	262,598	386,480	350,818	268,737	79,200	1,314,790	1,465,994	5,442
Other assets	44,944,742	2,260,955	16,467,184	8,392,881	2,351,850	1,198,869	471,737	6,786,268	7,014,998	34,392
Total liabilities	**712,693,705**	**38,568,262**	**229,033,959**	**76,935,637**	**105,632,442**	**38,086,351**	**25,561,539**	**72,927,996**	**125,947,520**	**1,603,370**
Accounts payable	102,332,301	5,606,407	34,114,279	13,535,217	8,819,484	5,921,496	4,716,905	7,542,951	22,075,562	320,897
Mortgages, notes, and bonds payable in less than one year	115,562,110	3,778,720	33,940,963	4,472,899	48,746,080	2,303,179	5,546,010	2,628,786	14,145,472	254,477
Other current liabilities	83,500,205	2,868,330	44,033,218	7,174,622	6,293,484	3,940,818	6,217,337	2,725,381	10,247,016	373,611
Loans from stockholders	27,332,852	1,484,654	2,003,354	2,193,649	4,519,310	2,169,965	5,909,266	1,014,744	8,037,909	192,823
Mortgages, notes, and bonds payable in one year or more	170,994,839	10,068,337	47,894,298	30,714,041	15,198,211	6,808,824	28,815,841	4,107,961	27,387,326	186,743
Other liabilities	30,949,025	1,182,806	12,980,126	4,296,240	1,673,632	1,518,580	3,874,739	1,131,522	4,291,381	49,750
Capital stock	32,035,336	2,110,554	4,348,145	3,653,818	5,024,867	3,062,860	4,737,858	1,183,553	7,913,681	59,078
Paid-in or capital surplus	56,469,613	3,247,712	18,294,450	4,669,927	3,286,544	3,738,091	6,534,800	1,727,091	14,970,997	135,783
Retained earnings, appropriated	729,818	72,605	*128,579	*3,577	106,730	*27,096	52,164	184,271	154,798	*394
Retained earnings, unappropriated	90,996,365	7,064,243	32,452,503	5,874,103	8,925,465	8,151,299	7,215,383	5,229,673	16,083,694	−27,540
Other retained earnings, 1120S	13,398,800	2,049,978	695,662	1,873,391	4,544,986	1,139,234	−1,252,661	1,768,077	2,580,132	92,978
Less: Cost of treasury stock	11,607,557	966,085	1,851,618	1,525,847	1,506,351	695,092	2,265,691	856,426	1,940,448	35,622
Total receipts	**1,541,442,402**	**83,957,246**	**248,006,408**	**276,799,850**	**412,164,538**	**77,812,347**	**55,883,396**	**134,439,493**	**252,379,123**	**3,835,046**
Business receipts	1,491,417,101	82,066,939	231,655,083	272,315,846	403,000,303	75,538,139	54,084,364	128,000,658	244,755,769	3,663,827
Interest	12,233,627	371,027	6,747,135	398,861	1,023,870	470,611	386,336	940,447	1,895,341	21,359
Interest on Government obligations: State and local	1,037,405	11,913	952,801	31,491	4,724	10,284	5,939	7,505	12,747	*98
Rents	6,150,959	256,699	1,554,244	605,521	1,023,464	120,640	224,520	1,713,339	652,531	*10,586
Royalties	1,061,888	49,267	40,907	26,608	7,897	215,334	*1,050	497,056	223,768	*529
Net short-term capital gain reduced by net long-term capital loss	72,922	5,199	1,015	4,624	2,863	*1,251	*527	1,621	55,822	*422
Net long-term capital gain reduced by net short-term capital loss	3,387,414	71,299	1,319,102	628,459	185,099	276,057	22,988	327,703	556,708	*44,494
Net gain, noncapital assets	2,703,239	135,561	653,042	257,331	663,596	54,399	25,501	494,865	418,945	3,690
Dividends received from domestic corporations	451,478	21,782	206,634	57,755	17,205	49,366	3,563	26,075	69,098	*3,917
Dividends received from foreign corporations	459,579	9,076	242,979	*2,086	*1,299	10,071	*28	117,403	76,639	1,010
Other receipts	22,466,791	958,485	4,633,466	2,471,268	6,234,219	1,066,196	1,128,581	2,312,820	3,661,756	85,113
Total deductions	**1,520,895,723**	**82,774,538**	**240,370,756**	**275,268,015**	**410,239,087**	**75,726,947**	**54,452,540**	**133,524,099**	**248,539,740**	**3,800,134**
Cost of sales and operations	1,063,958,376	59,974,531	150,515,498	209,322,209	344,109,247	44,960,232	34,376,685	56,684,024	164,015,951	2,822,373
Compensation of officers	24,416,481	2,034,552	968,492	2,011,261	5,313,382	1,592,202	1,699,613	3,627,333	7,169,645	148,981
Repairs	7,457,806	400,270	1,222,405	1,450,539	986,959	294,098	238,151	1,761,937	1,103,448	12,981
Bad debts	3,700,651	286,829	1,207,720	207,913	450,038	221,548	293,520	160,045	873,039	17,852
Rent paid on business property	38,770,696	1,265,193	6,707,124	4,673,930	4,293,445	4,800,246	1,964,584	7,414,462	7,651,713	52,138
Taxes paid	27,452,879	1,534,097	5,002,505	3,599,137	4,287,474	1,751,029	1,160,893	5,369,751	4,747,993	54,402
Interest paid	30,694,315	1,483,565	11,159,661	3,346,882	4,565,500	1,098,953	856,102	3,432,047	4,751,606	50,736
Contributions or gifts	417,280	17,876	146,960	37,013	27,895	66,677	15,642	30,563	74,653	441
Amortization	1,907,258	50,431	336,409	195,638	164,294	153,870	50,296	460,170	496,149	3,121
Depreciation	26,068,797	1,260,343	4,791,061	4,458,572	3,943,919	1,486,208	770,557	5,229,165	4,128,972	46,847
Depletion	60,076	4,479	*385	*3,762	9,273	*5,025	—	16,277	20,875	—
Advertising	27,691,079	1,209,734	6,285,529	2,606,758	4,895,427	1,996,164	2,464,078	3,575,784	4,657,607	29,213
Pension, profit-sharing, stock bonus, and annuity plans	3,705,861	226,912	1,095,070	575,041	311,727	219,070	156,701	330,361	790,979	23,785
Employee benefit programs	8,367,937	490,290	1,587,558	1,923,845	1,545,387	441,555	231,858	908,117	1,239,328	9,843
Net loss, noncapital assets	687,679	16,517	101,526	73,361	38,936	98,043	44,462	177,109	137,726	*2,413
Other deductions	255,538,554	12,518,921	49,242,855	40,782,155	35,296,185	16,542,025	10,129,399	44,346,955	46,680,058	525,007
Total receipts less total deductions	20,546,679	1,182,708	7,635,652	1,531,835	1,925,451	2,085,400	1,430,856	915,394	3,839,383	34,911
Constructive taxable income from related foreign corporations	381,503	*388	212,659	2,875	103	7,222	—	*121,651	36,605	—
Net income (less deficit)	19,871,448	1,171,086	6,895,411	1,503,216	1,911,563	2,082,338	1,424,917	1,026,112	3,856,805	34,813
Income subject to tax	24,010,704	1,176,236	7,549,731	2,339,626	1,939,915	2,533,511	1,393,992	2,349,490	4,728,203	39,579
Income tax, total [2]	7,649,162	344,430	2,606,588	776,093	544,757	815,346	427,124	746,578	1,388,245	9,833
Regular tax	7,486,716	340,559	2,552,995	748,005	528,674	806,143	421,662	718,655	1,370,022	9,811
Personal holding company tax	*1,538	*1,296	151	—	—	—	—	—	*91	—
Recapture of investment credit	46,813	932	19,819	7,812	5,538	1,217	614	5,601	5,279	*6
Alternative minimum tax	86,717	1,097	23,762	17,643	9,634	5,452	*1,000	19,600	8,529	*17
Environmental tax	24,368	514	9,862	2,462	386	2,534	2,514	2,722	3,375	—
Foreign tax credit	318,576	5	158,464	2,064	174	*8,093	790	110,041	38,943	—
U.S. possessions tax credit	1,947	—	—	1,558	—	67	—	323	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*819	—	—	—	—	—	*818	1	—	—
General business credit	195,880	8,376	67,978	21,915	18,688	6,231	3,283	44,926	24,484	—
Prior year minimum tax credit	7,803	—	482	*2,745	707	*1,244	*421	*934	*1,269	—

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	**572,418**	**11,670**	**26,109**	**17,075**	**8,447**	**66,400**	**393,461**	**49,256**
Total assets	**9,411,547,140**	**3,915,896,863**	**1,653,182,845**	**473,810,411**	**1,882,477,979**	**36,548,569**	**310,732,828**	**1,138,897,645**
Cash	515,298,105	357,921,757	55,132,600	18,148,576	20,454,624	7,027,559	19,527,180	37,085,809
Notes and accounts receivable	2,720,352,308	2,151,360,000	192,372,485	141,263,871	90,698,492	10,143,585	26,673,503	107,840,371
Less: Allowance for bad debts	69,142,058	51,353,966	15,103,080	287,029	1,194,500	128,966	528,183	546,334
Inventories	34,886,177	290,001	2,041,947	1,758,735	4,086,998	19,852	21,303,223	5,385,421
Investments in Government obligations	1,021,901,588	437,894,687	86,143,862	31,075,930	272,429,702	1,304,672	1,619,789	191,432,947
Other current assets	544,475,866	122,287,531	54,848,883	151,803,624	146,446,409	2,245,574	20,168,907	46,674,937
Loans to stockholders	18,634,057	1,926,159	5,823,393	1,276,278	717,118	799,483	5,337,660	2,753,966
Mortgage and real estate loans	1,532,487,925	244,571,027	986,065,111	9,364,717	251,508,929	208,804	17,442,217	23,327,121
Other investments	2,340,286,398	327,415,452	197,500,843	101,646,691	987,699,591	7,541,416	41,275,331	677,207,074
Depreciable assets	327,758,686	86,136,140	30,383,831	9,682,508	28,168,259	6,523,506	136,118,987	30,745,455
Less: Accumulated depreciation	103,482,292	32,728,225	10,219,566	3,332,973	6,303,883	3,333,150	39,563,936	8,000,559
Depletable assets	4,146,697	52,986	87,144	*1,107	192,444	*50	477,333	3,335,633
Less: Accumulated depletion	476,184	10,171	*6,569	*515	25,459	*2	201,699	231,768
Land	61,654,943	6,435,089	4,374,188	290,545	1,696,621	210,656	43,361,154	5,286,691
Intangible assets (amortizable)	38,872,621	8,816,551	10,568,759	3,472,074	4,120,855	2,990,650	2,967,793	5,935,939
Less: Accumulated amortization	6,431,806	1,688,273	1,107,459	447,509	736,782	782,822	899,664	769,296
Other assets	430,324,110	256,570,117	54,276,474	8,093,782	82,518,561	1,777,703	15,653,233	11,434,239
Total liabilities	**9,411,547,140**	**3,915,896,863**	**1,653,182,845**	**473,810,411**	**1,882,477,979**	**36,548,569**	**310,732,828**	**1,138,897,645**
Accounts payable	293,944,829	45,467,336	37,947,718	104,586,272	60,935,613	11,740,766	10,246,893	23,020,232
Mortgages, notes, and bonds payable in less than one year	663,919,747	291,955,380	220,789,681	33,853,296	49,744,117	2,597,577	39,491,515	25,488,180
Other current liabilities	4,371,146,939	2,905,385,043	1,001,943,513	236,089,314	177,407,170	4,642,910	16,606,559	29,072,430
Loans from stockholders	59,230,946	12,610,946	7,190,831	2,961,340	4,960,608	473,455	24,968,814	6,064,952
Mortgages, notes, and bonds payable in one year or more	678,904,915	161,806,034	253,717,917	29,123,776	42,398,647	3,869,988	128,314,992	59,673,561
Other liabilities	1,564,932,434	178,424,304	63,022,816	41,977,208	1,234,822,611	2,439,375	22,868,730	21,377,390
Capital stock	1,001,057,996	58,799,275	11,548,624	4,457,171	18,888,452	1,673,041	24,842,307	880,849,126
Paid-in or capital surplus	1,152,230,851	132,472,631	43,812,753	12,983,260	114,773,717	3,914,671	48,756,032	795,517,787
Retained earnings, appropriated	53,895,518	3,268,742	6,510,656	85,938	38,467,161	41,365	820,936	4,700,720
Retained earnings, unappropriated	296,250,931	128,377,328	7,525,550	8,532,415	145,529,556	5,710,243	−3,405,240	3,981,079
Other retained earnings, 1120S	3,096,427	*13,272	538,221	588,334	*9,494	460,278	632,064	854,763
Less: Cost of treasury stock	727,064,393	2,683,429	1,365,436	1,427,914	5,459,167	1,015,100	3,410,772	711,702,574
Total receipts	**1,714,352,381**	**442,155,657**	**224,941,791**	**71,668,890**	**667,091,438**	**34,426,957**	**127,684,369**	**146,383,280**
Business receipts	860,415,865	42,700,118	80,955,023	44,052,595	503,577,221	31,416,557	97,428,905	60,285,445
Interest	659,397,083	346,465,351	127,216,707	19,157,634	105,131,712	845,480	5,648,557	54,931,643
Interest on Government obligations: State and local	29,353,922	8,900,571	786,219	254,956	8,895,965	42,684	87,901	10,385,625
Rents	32,581,650	10,214,910	2,175,497	689,771	8,158,671	108,484	10,195,982	1,038,334
Royalties	553,171	88,679	16,275	9,418	46,229	*13,694	137,942	240,934
Net short-term capital gain reduced by net long-term capital loss	4,380,325	354,100	213,642	653,054	1,142,385	8,851	195,804	1,812,488
Net long-term capital gain reduced by net short-term capital loss	19,352,690	3,420,017	1,464,604	940,218	6,907,693	255,451	3,565,856	2,798,852
Net gain, noncapital assets	6,164,946	2,619,710	1,571,774	291,588	378,192	61,005	904,695	337,982
Dividends received from domestic corporations	7,604,014	919,549	568,135	600,894	4,194,053	92,580	216,803	1,012,000
Dividends received from foreign corporations	1,839,192	391,657	40,995	37,228	809,531	256,798	8,484	294,499
Other receipts	92,709,524	26,080,994	9,932,921	4,981,533	27,849,785	1,325,374	9,293,440	13,245,477
Total deductions	**1,596,044,566**	**419,652,032**	**224,494,815**	**70,249,493**	**641,094,201**	**32,119,387**	**126,991,139**	**81,443,499**
Cost of sales and operations	501,018,140	650,125	55,949,766	11,560,940	339,527,774	5,229,006	46,785,681	41,314,847
Compensation of officers	32,397,859	10,950,901	2,525,356	4,226,180	2,078,957	4,531,139	6,459,821	1,625,506
Repairs	6,109,891	2,185,184	1,102,299	167,885	296,797	192,202	1,737,650	427,874
Bad debts	34,925,978	22,249,180	9,343,669	272,237	1,134,380	168,737	1,085,479	672,295
Rent paid on business property	22,146,719	7,295,215	2,059,845	2,518,022	4,714,757	1,361,876	2,960,152	1,236,852
Taxes paid	29,160,155	7,344,604	2,201,320	1,188,413	10,651,051	1,131,235	5,045,528	1,598,002
Interest paid	415,952,696	249,826,286	109,620,081	18,387,333	15,591,000	694,156	13,449,095	8,384,744
Contributions or gifts	752,549	356,388	68,195	44,230	144,580	31,280	68,424	39,452
Amortization	3,563,267	979,992	465,022	199,365	882,370	235,166	391,447	409,905
Depreciation	35,414,823	15,912,330	3,488,281	1,396,861	6,051,701	785,560	5,720,350	2,059,740
Depletion	176,709	21,334	10,421	2,768	54,664	*75	33,681	53,766
Advertising	8,857,862	2,548,547	1,914,300	578,055	1,311,896	281,663	1,672,701	550,701
Pension, profit-sharing, stock bonus, and annuity plans	5,959,152	1,798,113	379,508	463,798	1,961,922	481,006	515,644	359,162
Employee benefit programs	10,311,534	4,382,272	1,001,260	762,178	2,422,760	523,607	639,617	579,840
Net loss, noncapital assets	7,074,106	4,321,889	1,668,056	147,629	107,332	14,774	400,583	413,843
Other deductions	482,223,129	88,829,671	32,697,436	28,333,598	254,162,260	16,457,906	40,025,286	21,716,972
Total receipts less total deductions	118,307,815	22,503,625	446,977	1,419,396	25,997,237	2,307,571	693,229	64,939,780
Constructive taxable income from related foreign corporations	2,955,098	1,403,887	370,115	83,843	760,651	103,924	7,022	225,655
Net income (less deficit)	91,892,954	15,006,941	30,873	1,247,641	17,861,923	2,366,887	598,992	54,779,697
Income subject to tax	59,926,973	22,248,620	7,494,819	2,476,136	17,124,179	1,930,502	4,679,954	3,972,764
Income tax, total[2]	20,899,804	7,990,177	2,622,357	866,445	6,039,536	605,737	1,370,866	1,404,686
Regular tax	19,918,799	7,538,086	2,521,044	825,874	5,806,134	601,479	1,315,010	1,311,173
Personal holding company tax	10,458	74	7	1	*15	*85	2,315	7,961
Recapture of investment credit	47,812	22,448	3,496	2,701	11,229	562	2,620	4,757
Alternative minimum tax	802,069	395,429	87,246	34,594	191,156	1,925	33,512	58,208
Environmental tax	84,694	31,754	10,565	3,275	30,434	1,687	2,404	4,576
Foreign tax credit	2,352,338	1,317,872	128,848	31,528	635,108	*91,640	5,001	142,342
U.S. possessions tax credit	5,726	2	5,392	—	—	—	333	—
Orphan drug credit	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	3,311	21	—	103	220	(1)	*2,933	*35
General business credit	485,208	310,771	38,055	7,523	69,258	7,846	19,175	32,580
Prior year minimum tax credit	194,673	56,766	14,038	7,354	109,410	*1,613	3,257	2,235

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	**995,425**	**22,471**	**75,115**	**338,671**	**114,669**	**87,336**	**357,163**	**19,125**
Total assets	**530,326,395**	**46,116,377**	**17,688,910**	**167,424,443**	**47,418,872**	**127,550,577**	**124,127,215**	**1,613,441**
Cash	41,065,098	2,357,370	1,961,459	14,610,301	3,155,989	5,168,194	13,811,784	219,025
Notes and accounts receivable	99,102,564	3,057,464	2,557,753	37,430,470	8,198,908	25,356,988	22,500,982	227,904
Less: Allowance for bad debts	3,774,639	176,403	115,486	776,090	129,572	796,391	1,780,698	*1,127
Inventories	20,942,836	504,668	1,128,741	6,672,410	3,516,799	6,583,142	2,537,076	241,860
Investments in Government obligations	3,167,920	51,776	167,371	1,460,553	135,593	308,107	1,044,520	625
Other current assets	33,259,699	1,520,893	1,648,646	12,872,091	1,206,173	9,287,177	6,724,719	84,903
Loans to stockholders	8,155,721	439,681	250,945	2,905,279	557,641	673,756	3,328,419	28,607
Mortgage and real estate loans	3,795,348	944,287	59,723	1,075,871	206,091	413,372	1,096,005	*9,194
Other investments	82,420,997	7,729,106	1,224,522	29,015,836	2,310,999	25,314,551	16,825,984	129,493
Depreciable assets	262,944,834	29,249,605	12,656,930	74,575,981	37,461,459	41,981,294	67,019,565	667,022
Less: Accumulated depreciation	115,257,924	9,576,107	6,968,573	36,940,623	14,784,093	18,993,582	27,994,945	309,394
Depletable assets	337,717	*7,649	*27,895	202,629	*3,633	*30,641	65,271	*22,426
Less: Accumulated depletion	160,988	*804	*11,903	112,623	*1,420	*4,795	29,444	*1,648
Land	14,515,502	3,816,528	635,792	2,171,992	1,210,214	2,928,365	3,752,611	128,052
Intangible assets (amortizable)	28,333,679	816,703	1,115,707	10,731,440	2,409,005	7,821,676	5,439,147	44,991
Less: Accumulated amortization	6,810,175	158,239	325,714	2,586,424	141,798	2,282,822	1,315,178	*11,293
Other assets	58,288,206	5,532,199	1,675,103	14,115,350	2,103,252	23,760,905	11,101,397	132,802
Total liabilities	**530,326,395**	**46,116,377**	**17,688,910**	**167,424,443**	**47,418,872**	**127,550,577**	**124,127,215**	**1,613,441**
Accounts payable	43,586,498	1,517,425	1,425,217	19,802,712	4,013,334	8,115,209	8,712,601	376,647
Mortgages, notes, and bonds payable in less than one year	64,869,737	3,092,774	1,340,143	19,633,960	7,619,717	22,248,602	10,934,541	397,518
Other current liabilities	60,632,671	2,766,818	2,011,987	22,390,301	4,258,605	10,321,577	18,883,382	144,774
Loans from stockholders	25,466,563	3,764,560	1,428,329	8,660,344	1,830,749	4,848,489	4,934,093	241,699
Mortgages, notes, and bonds payable in one year or more	160,617,186	23,483,054	4,311,647	43,333,028	16,833,952	33,674,539	38,980,966	373,261
Other liabilities	47,034,406	2,136,852	1,701,381	11,875,306	2,520,020	18,536,400	10,264,447	90,907
Capital stock	28,781,409	3,227,587	1,204,266	9,480,601	2,054,007	5,842,283	6,972,664	200,545
Paid-in or capital surplus	76,821,146	7,278,821	1,398,040	28,311,720	2,282,457	18,828,732	18,721,376	533,674
Retained earnings, appropriated	547,364	*45,300	*91,500	202,564	*27,382	40,784	139,835	*4
Retained earnings, unappropriated	30,578,042	997,534	3,313,087	4,958,934	5,346,487	9,168,889	6,793,110	-558,859
Other retained earnings, 1120S	1,260,832	-1,350,929	97,693	2,091,972	1,109,478	-2,309,840	1,622,458	-177,220
Less: Cost of treasury stock	9,869,458	843,418	634,380	3,316,999	477,315	1,765,089	2,832,257	*9,509
Total receipts	**695,265,170**	**34,977,313**	**30,054,572**	**257,839,258**	**67,233,647**	**71,229,764**	**233,930,616**	**3,172,428**
Business receipts	643,748,105	31,175,214	28,931,329	240,986,199	62,311,351	60,078,985	220,265,027	3,119,131
Interest	10,817,797	731,547	203,409	2,882,858	762,870	4,263,434	1,973,681	18,658
Interest on Government obligations: State and local	261,107	9,128	23,384	135,466	2,882	19,786	70,461	*571
Rents	8,228,177	824,692	130,442	4,163,453	1,268,885	899,527	941,179	12,596
Royalties	2,996,850	423,740	62,953	802,595	*29,954	1,608,957	68,651	—
Net short-term capital gain reduced by net long-term capital loss	91,731	24,824	*4,682	21,726	2,952	23,342	14,206	*22
Net long-term capital gain reduced by net short-term capital loss	2,442,921	625,359	41,738	688,134	89,926	555,695	442,069	5,897
Net gain, noncapital assets	3,421,500	168,694	53,342	968,811	1,557,012	399,924	273,716	*4,543
Dividends received from domestic corporations	507,449	30,357	31,520	172,246	7,617	57,465	208,244	*29
Dividends received from foreign corporations	755,179	*39,746	*11,984	265,872	14,772	363,654	59,150	—
Other receipts	21,994,353	924,013	559,788	6,751,899	1,185,427	2,958,996	9,614,231	10,981
Total deductions	**686,267,928**	**35,390,976**	**29,404,904**	**254,518,974**	**65,936,955**	**70,025,787**	**230,990,332**	**3,299,864**
Cost of sales and operations	249,228,959	13,221,958	10,557,601	116,692,979	29,609,414	23,601,573	55,545,434	1,988,335
Compensation of officers	57,720,266	545,022	1,986,501	16,753,428	3,281,791	3,437,420	31,716,103	141,026
Repairs	5,580,883	694,102	351,119	1,539,580	702,593	719,657	1,573,831	13,486
Bad debts	3,655,556	267,915	112,349	981,260	191,899	382,759	1,719,375	27,077
Rent paid on business property	26,047,480	1,626,297	1,552,500	8,021,326	2,870,570	2,394,940	9,581,847	87,502
Taxes paid	21,415,109	1,554,087	1,212,591	7,132,574	2,207,805	1,983,870	7,324,182	67,493
Interest paid	23,077,104	2,581,069	539,156	6,686,287	2,463,641	5,890,679	4,916,273	81,921
Contributions or gifts	222,452	16,977	15,923	73,223	14,081	38,523	63,725	*548
Amortization	3,263,108	98,303	95,481	880,992	92,659	1,533,008	562,664	*2,615
Depreciation	31,445,765	1,861,028	1,339,933	10,725,260	6,279,909	4,458,452	6,781,184	65,371
Depletion	20,119	26	*1,628	10,768	*1,631	*768	5,297	*790
Advertising	10,648,521	862,773	678,234	4,008,271	976,877	1,859,756	2,262,610	17,912
Pension, profit-sharing, stock bonus, and annuity plans	6,238,052	61,479	179,709	1,658,732	373,422	328,302	3,636,409	*2,164
Employee benefit programs	7,746,298	427,372	230,541	2,499,147	558,626	393,662	3,636,950	18,189
Net loss, noncapital assets	1,645,988	224,236	19,364	1,042,897	25,607	92,157	241,728	*10,154
Other deductions	238,312,269	11,348,332	10,532,275	75,812,251	16,286,430	22,910,262	101,422,720	775,280
Total receipts less total deductions	8,997,242	-413,662	649,668	3,320,284	1,296,692	1,203,977	2,940,284	-127,436
Constructive taxable income from related foreign corporations	576,437	17,162	8,388	234,710	15,795	230,897	69,485	—
Net income (less deficit)	9,276,631	-412,020	634,672	3,411,947	1,309,604	1,393,357	2,939,071	-130,863
Income subject to tax	16,171,697	954,947	775,107	6,245,932	1,238,874	2,783,952	4,172,885	44,024
Income tax, total [2]	5,049,797	324,110	228,120	1,961,442	372,859	925,018	1,238,248	9,554
Regular tax	4,847,966	307,730	222,637	1,877,077	328,674	905,213	1,206,634	9,333
Personal holding company tax	*525	—	—	*517	—	*1	*7	—
Recapture of investment credit	39,141	7,349	743	20,824	2,906	2,451	4,868	*3
Alternative minimum tax	145,335	7,693	4,200	57,103	39,729	14,192	22,418	*165
Environmental tax	13,470	1,198	539	4,640	1,181	3,161	2,751	—
Foreign tax credit	580,913	*33,416	*9,124	277,744	*3,068	230,720	26,841	—
U.S. possessions tax credit	16,174	4,218	(1)	2,724	55	285	8,892	384
Orphan drug credit	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*520	—	—	(1)	—	—	*520	—
General business credit	327,393	10,772	3,169	77,977	60,919	126,341	48,216	*35
Prior year minimum tax credit	12,578	*1,874	*7	8,112	*657	*364	*1,564	—

* 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.

[2] Also includes excess net passive income tax (Form 1120S), branch tax (Form 1120 F), tax from Part II (Form 1120-REIT), tax from Part III (Form 1120-REIT), tax from Part IV (Form 1120-REIT), and tax from Line 4, Part II (Form 1120-RIC) which are 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 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	**1,908,799**	**63,943**	**16,133**	**177**	**1,736**	**12,217**	**2,003**
Total assets	**13,286,740,506**	**38,545,877**	**174,825,731**	**21,566,274**	**18,912,340**	**122,407,990**	**11,939,126**
Cash	634,548,746	3,396,151	4,832,057	384,139	663,192	3,034,546	750,181
Notes and accounts receivable	3,435,784,960	3,813,902	16,174,606	2,104,404	1,657,654	10,367,564	2,044,984
Less: Allowance for bad debts	74,925,285	39,201	197,826	26,971	25,120	115,737	29,999
Inventories	653,205,401	4,996,325	5,683,692	1,126,472	918,255	2,886,471	752,494
Investments in Government obligations	868,663,798	151,705	1,146,988	2,808	297,334	753,749	93,097
Other current assets	673,602,841	1,236,471	3,984,147	723,318	1,195,710	1,798,842	266,277
Loans to stockholders	54,935,057	1,180,314	4,426,863	*2,170,153	1,416,439	817,091	23,180
Mortgage and real estate loans	1,258,554,605	385,529	307,435	*2,585	*4,743	296,864	*3,244
Other investments	3,019,122,297	3,286,086	76,416,785	4,290,795	3,923,383	66,031,869	2,170,738
Depreciable assets	3,029,295,808	24,976,986	70,792,556	10,309,633	9,956,288	42,171,545	8,355,091
Less: Accumulated depreciation	1,295,192,556	15,822,587	33,790,542	4,731,149	5,495,408	18,850,278	4,713,708
Depletable assets	97,753,913	483,050	18,597,038	1,359,079	3,638,331	12,887,702	711,926
Less: Accumulated depletion	38,626,030	217,496	8,136,919	371,979	1,273,802	6,358,059	133,078
Land	106,742,044	8,810,312	2,728,417	141,100	289,104	1,440,921	857,292
Intangible assets (amortizable)	212,064,411	121,550	3,901,065	657,992	610,001	2,275,756	357,316
Less: Accumulated amortization	49,697,243	35,603	1,228,530	83,729	133,665	987,388	23,749
Other assets	700,907,743	1,822,384	9,187,899	3,507,624	1,269,902	3,956,532	453,842
Total liabilities	**13,286,740,506**	**38,545,877**	**174,825,731**	**21,566,274**	**18,912,340**	**122,407,990**	**11,939,126**
Accounts payable	820,240,344	1,950,933	9,650,369	1,041,808	1,159,844	6,700,532	748,185
Mortgages, notes, and bonds payable in less than one year	1,093,530,844	5,165,894	7,595,177	631,478	1,662,321	4,022,587	1,278,790
Other current liabilities	4,032,671,015	1,839,325	7,514,811	1,905,273	813,615	4,320,095	475,828
Loans from stockholders	130,407,298	1,731,773	4,901,836	*2,163,302	1,516,134	887,526	334,873
Mortgages, notes, and bonds payable in one year or more	1,657,422,148	8,165,567	36,266,173	3,902,195	3,129,222	27,537,413	1,697,342
Other liabilities	1,811,759,023	1,788,347	15,050,144	4,833,286	1,480,910	8,106,794	629,153
Capital stock	1,167,742,467	5,241,259	5,719,402	917,447	684,181	2,951,127	1,166,647
Paid-in or capital surplus	1,685,014,703	3,137,038	62,203,257	5,600,932	6,541,005	48,563,083	1,498,237
Retained earnings, appropriated	68,415,456	100,013	116,338	(1)	15,587	53,913	*46,838
Retained earnings, unappropriated	1,450,299,589	8,086,534	25,428,553	1,376,982	1,349,843	19,072,079	3,629,648
Other retained earnings, 1120S	129,323,004	2,008,951	2,806,885	*78,538	711,677	1,186,249	830,422
Less: Cost of treasury stock	760,085,382	669,757	2,427,213	884,969	151,999	993,409	396,836
Total receipts	**8,167,955,799**	**60,727,744**	**78,582,919**	**9,616,261**	**15,703,992**	**43,124,465**	**10,138,200**
Business receipts	7,089,202,343	56,455,664	67,928,135	7,755,975	14,557,014	36,008,762	9,606,383
Interest	641,161,367	428,286	2,444,648	371,205	377,211	1,560,875	135,357
Interest on Government obligations:							
State and local	20,813,942	10,133	53,680	92	6,116	45,976	1,496
Rents	73,003,139	270,468	264,884	9,947	49,451	149,678	55,808
Royalties	21,988,759	71,087	364,832	24,989	33,678	301,043	5,121
Net short-term capital gain reduced by net long-term capital loss	4,826,495	59,896	31,701	221	*3,574	27,500	*407
Net long-term capital gain reduced by net short-term capital loss	49,020,126	531,942	1,694,694	663,105	102,340	872,892	56,357
Net gain, noncapital assets	29,673,378	315,367	1,283,467	200,050	167,236	839,700	76,481
Dividends received from domestic corporations	13,384,325	59,692	259,613	*88,676	25,538	137,005	8,394
Dividends received from foreign corporations	41,303,058	37,898	568,983	43,692	*12,401	504,522	8,369
Other receipts	183,578,868	2,487,313	3,688,282	458,309	369,433	2,676,511	184,028
Total deductions	**7,624,549,363**	**56,543,602**	**70,429,495**	**7,714,560**	**14,673,064**	**38,964,924**	**9,076,948**
Cost of sales and operations	4,668,825,958	39,495,765	42,628,789	4,545,674	9,801,961	22,840,911	5,440,243
Compensation of officers	145,162,598	1,392,633	855,018	27,207	111,163	495,587	221,061
Repairs	72,468,700	944,911	751,984	107,021	150,524	260,892	233,548
Bad debts	35,962,645	66,535	131,668	16,224	17,617	77,816	20,011
Rent paid on business property	114,312,444	1,104,543	1,114,403	79,894	287,527	649,219	97,763
Taxes paid	178,437,335	1,193,997	2,266,947	288,883	722,075	967,077	288,911
Interest paid	510,779,253	1,403,929	4,186,287	588,107	488,695	2,860,063	249,423
Contributions or gifts	4,809,495	29,422	40,959	12,185	5,563	13,659	9,552
Amortization	11,617,282	11,792	162,756	50,001	44,528	61,542	6,686
Depreciation	255,654,101	2,149,503	3,859,138	461,331	630,086	2,093,027	674,694
Depletion	7,308,173	12,246	1,655,582	411,047	476,432	513,064	255,039
Advertising	88,702,986	190,184	100,032	7,187	12,785	53,452	26,609
Pension, profit-sharing, stock bonus, and annuity plans	37,706,050	128,080	236,773	37,295	27,750	119,881	51,847
Employee benefit programs	76,915,847	268,616	720,253	90,706	187,940	316,080	125,527
Net loss, noncapital assets	4,946,720	25,191	66,588	*1,867	4,229	58,676	1,816
Other deductions	1,410,939,781	8,126,255	11,652,316	989,929	1,704,190	7,583,979	1,374,218
Total receipts less total deductions	543,406,437	4,184,142	8,153,425	1,901,702	1,030,929	4,159,542	1,061,253
Constructive taxable income from related foreign corporations	33,313,159	*19,719	481,610	3,464	2,181	470,946	5,020
Net income	555,850,912	4,184,927	8,581,355	1,905,074	1,026,994	4,584,511	1,064,776
Income subject to tax	383,098,341	2,007,910	4,680,711	938,738	395,684	2,609,739	736,549
Income tax, total[2]	130,601,524	548,857	1,799,676	378,172	203,664	945,140	272,701
Regular tax	126,851,341	537,373	1,577,438	319,132	131,437	871,966	254,903
Personal holding company tax	17,279	*116	*338	—	*20	*318	—
Recapture of investment credit	483,618	1,816	13,522	226	906	11,737	654
Alternative minimum tax	2,727,771	8,710	198,450	55,900	69,935	56,456	16,160
Environmental tax	482,877	841	9,793	2,915	1,365	4,528	984
Foreign tax credit	27,057,858	*21,042	702,989	91,992	*27,004	575,521	8,472
U.S. possessions tax credit	2,318,021	515	—	—	—	—	—
Orphan drug credit	8,053	—	—	—	—	—	—
Nonconventional source fuel credit	49,517	—	776	—	19	*679	*78
General business credit	5,556,269	31,452	37,792	*8,587	12,697	11,230	5,278
Prior year minimum tax credit	468,767	*1,242	1,258	—	*100	*808	*350

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				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 with net income	**222,350**	**80,526**	**15,141**	**126,683**	**172,955**	**9,098**	**67**	**2,967**	**8,224**
Total assets	**167,765,398**	**86,872,994**	**33,879,597**	**47,012,808**	**2,984,130,159**	**204,214,739**	**116,577,403**	**29,696,516**	**30,828,883**
Cash	19,925,277	8,628,334	4,276,471	7,020,471	78,850,940	7,057,391	1,457,561	1,092,159	1,090,227
Notes and accounts receivable	46,606,087	20,475,167	8,256,270	17,874,650	690,459,401	38,651,876	5,590,329	7,381,442	6,524,718
Less: Allowance for bad debts	257,145	79,963	58,989	118,193	11,013,111	428,954	126,125	85,586	88,035
Inventories	21,754,887	15,891,819	1,310,008	4,553,060	295,578,647	21,343,156	7,987,401	5,784,317	8,381,639
Investments in Government obligations	1,358,919	856,127	336,265	166,527	29,157,479	1,878,191	54,953	*487,680	75,248
Other current assets	16,793,967	10,388,251	2,429,992	3,975,724	158,316,645	8,206,876	2,814,719	782,874	1,427,340
Loans to stockholders	2,683,517	1,066,872	404,633	1,212,013	22,645,476	2,509,870	157,115	99,395	117,658
Mortgage and real estate loans	6,241,333	5,967,536	114,323	159,474	30,529,628	108,932	997	*17,354	7,646
Other investments	17,205,441	9,942,479	5,398,044	1,864,918	680,617,735	51,683,881	*55,307,639	3,937,994	4,689,223
Depreciable assets	59,328,837	16,691,812	20,118,280	22,518,746	1,271,248,370	84,307,880	21,559,609	16,183,761	7,647,648
Less: Accumulated depreciation	34,977,668	8,423,302	12,447,353	14,107,013	621,157,941	37,763,164	7,091,817	8,498,831	3,650,756
Depletable assets	251,983	58,445	155,200	38,337	69,049,208	*68,075	16,387	*11,003	—
Less: Accumulated depletion	54,078	*13,325	23,389	*17,364	27,134,655	14,678	7,870	*4,074	—
Land	4,290,428	2,779,012	779,466	731,949	30,149,316	3,475,165	781,362	188,972	199,331
Intangible assets (amortizable)	730,503	400,752	95,267	234,484	138,297,924	12,029,494	*14,456,297	357,755	1,622,688
Less: Accumulated amortization	209,438	91,898	30,490	87,049	34,771,155	999,929	443,479	33,605	210,219
Other assets	6,092,550	2,334,878	2,765,598	992,074	183,306,252	12,100,677	14,062,325	1,993,908	2,994,526
Total liabilities	**167,765,398**	**86,872,994**	**33,879,597**	**47,012,808**	**2,984,130,159**	**204,214,739**	**116,577,403**	**29,696,516**	**30,828,883**
Accounts payable	29,069,412	16,188,144	4,166,621	8,714,647	276,213,698	28,581,918	4,546,961	2,946,495	3,689,486
Mortgages, notes, and bonds payable in less than one year	18,382,056	11,268,316	2,803,533	4,310,206	301,957,037	17,428,157	13,625,854	1,904,140	3,083,791
Other current liabilities	23,768,762	12,967,884	3,469,004	7,331,874	284,241,777	14,528,949	8,786,734	2,748,109	3,095,576
Loans from stockholders	4,466,161	2,548,291	560,399	1,357,471	54,471,284	3,901,845	249,446	139,599	547,314
Mortgages, notes, and bonds payable in one year or more	25,989,998	16,647,408	4,912,043	4,430,547	598,777,747	38,737,303	28,306,851	8,047,479	5,610,666
Other liabilities	10,235,563	5,703,228	2,534,047	1,998,288	304,190,767	16,823,355	5,043,395	1,010,625	2,625,206
Capital stock	4,956,498	1,982,015	1,268,817	1,705,667	119,143,703	9,288,118	2,631,903	1,570,219	1,639,360
Paid-in or capital surplus	13,987,791	5,768,469	6,834,314	1,385,008	424,275,269	30,541,845	29,958,666	3,412,316	3,602,573
Retained earnings, appropriated	137,565	72,012	*10,587	54,966	17,872,611	359,509	311,662	*16,658	*26,804
Retained earnings, unappropriated	26,896,639	9,252,284	5,647,346	11,997,009	646,705,121	50,515,806	25,034,146	6,181,544	4,953,586
Other retained earnings, 1120S	13,076,827	5,264,688	2,840,259	4,971,881	42,330,292	4,398,618	—	2,252,472	2,642,333
Less: Cost of treasury stock	3,201,875	789,744	1,167,374	1,244,756	86,049,148	10,890,684	*1,918,214	533,141	687,811
Total receipts	**379,475,638**	**178,446,658**	**57,344,265**	**143,684,715**	**2,921,357,987**	**296,868,425**	**63,615,199**	**43,480,200**	**52,231,866**
Business receipts	368,864,845	173,110,026	53,923,101	141,831,718	2,707,602,400	282,370,553	56,626,246	41,605,653	50,478,955
Interest	2,387,739	1,572,896	475,887	338,957	51,649,647	2,119,448	1,253,752	449,456	412,188
Interest on Government obligations: State and local	58,047	24,502	23,087	10,459	1,076,687	32,757	4,378	6,780	1,820
Rents	1,101,027	451,173	440,491	209,363	29,095,191	1,101,490	*505,365	37,404	81,773
Royalties	31,585	6,373	22,356	*2,856	16,697,441	1,032,910	*397,403	52,881	129,639
Net short-term capital gain reduced by net long-term capital loss	18,564	12,917	2,393	3,253	566,197	79,141	—	*3,967	*822
Net long-term capital gain reduced by net short-term capital loss	918,837	507,738	306,477	104,623	16,176,213	2,286,141	622,521	371,876	86,716
Net gain, noncapital assets	941,103	246,489	494,267	200,347	11,444,017	1,390,140	*16,419	384,834	42,280
Dividends received from domestic corporations	586,764	41,961	533,183	11,620	4,116,218	403,445	266,338	12,252	7,088
Dividends received from foreign corporations	292,952	*248,365	40,598	*3,989	34,684,815	2,382,871	2,871,559	80,103	321,652
Other receipts	4,274,174	2,224,217	1,082,425	967,531	48,249,162	3,669,529	1,051,220	474,992	668,934
Total deductions	**361,548,789**	**170,831,110**	**53,530,242**	**137,187,437**	**2,714,954,051**	**280,069,099**	**55,273,259**	**40,841,130**	**49,323,793**
Cost of sales and operations	282,938,229	141,275,081	42,084,184	99,578,964	1,813,052,279	200,652,786	28,902,320	31,568,448	35,644,512
Compensation of officers	13,296,791	4,698,921	1,394,743	7,203,127	28,250,313	1,975,708	*252,595	552,317	1,392,423
Repairs	1,461,133	370,486	400,678	689,969	27,166,584	2,183,369	222,241	192,937	143,702
Bad debts	602,389	182,623	110,765	309,001	6,087,845	216,313	36,474	54,149	79,303
Rent paid on business property	2,720,615	863,909	380,615	1,476,091	27,311,072	2,225,987	354,135	276,454	630,766
Taxes paid	6,867,644	2,072,141	1,072,915	3,722,589	69,641,789	5,481,051	3,272,606	883,454	1,052,370
Interest paid	4,134,081	2,335,341	836,667	962,074	94,317,915	6,072,321	2,621,901	1,355,444	1,451,298
Contributions or gifts	142,621	65,825	32,989	43,807	2,439,684	267,705	114,473	25,302	31,564
Amortization	90,480	59,214	6,971	24,295	4,903,648	341,883	*294,537	40,094	87,840
Depreciation	6,191,420	1,720,321	1,748,005	2,723,093	105,618,848	7,060,115	2,716,417	1,269,910	841,482
Depletion	44,925	9,232	28,183	7,510	4,729,635	11,705	9	*366	*4
Advertising	980,047	436,992	52,376	490,679	45,002,254	11,595,329	5,060,350	208,412	828,602
Pension, profit-sharing, stock bonus, and annuity plans	1,368,575	407,844	229,118	731,613	16,280,403	844,647	229,222	212,931	196,026
Employee benefit programs	1,638,796	444,407	268,801	925,588	41,286,152	2,411,204	778,739	376,657	340,557
Net loss, noncapital assets	62,980	33,585	9,346	20,048	1,161,535	89,917	6,494	5,792	8,970
Other deductions	39,008,065	15,855,188	4,873,888	18,278,990	427,704,096	38,639,059	10,410,744	3,818,463	6,594,373
Total receipts less total deductions	17,926,848	7,615,548	3,814,022	6,497,278	206,403,937	16,799,326	8,341,940	2,639,069	2,908,074
Constructive taxable income from related foreign corporations	79,390	45,093	*33,537	760	26,862,449	1,432,483	1,940,025	37,846	243,858
Net income	17,946,717	7,634,860	3,824,460	6,487,398	232,182,692	18,199,052	10,277,586	2,670,136	3,148,965
Income subject to tax	8,340,495	3,367,801	1,747,669	3,225,025	197,348,499	15,664,250	9,944,583	1,912,370	1,931,739
Income tax, total[2]	2,462,416	1,030,751	583,944	847,721	68,334,983	5,374,308	3,398,277	659,699	653,388
Regular tax	2,380,942	995,377	561,836	823,730	66,688,432	5,307,912	3,381,944	639,049	634,987
Personal holding company tax	*217	*60	*150	*7	3,169	—	—	—	—
Recapture of investment credit	5,905	1,266	3,201	1,438	224,245	15,027	3,641	9,338	693
Alternative minimum tax	71,778	32,135	17,399	22,244	1,160,023	32,149	536	8,884	15,845
Environmental tax	3,447	1,787	1,357	303	253,313	18,905	12,156	2,217	1,863
Foreign tax credit	92,380	*73,838	*15,154	*3,388	21,860,251	1,243,727	1,592,981	27,287	155,692
U.S. possessions tax credit	1,279	—	1,279	—	2,219,079	234,613	16,947	1,978	41,481
Orphan drug credit	—	—	—	—	8,053	—	—	—	—
Nonconventional source fuel credit	*7	*7	—	—	27,701	52	—	—	—
General business credit	95,097	47,672	22,408	25,017	2,486,886	125,938	*39,501	10,889	6,757
Prior year minimum tax credit	33,983	12,485	4,865	16,633	153,853	4,761	—	*603	*1,643

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	**9,573**	**5,412**	**2,004**	**27,645**	**7,235**	**938**	**8,041**	**1,017**	**6,872**
Total assets	**50,674,656**	**18,210,864**	**103,367,549**	**107,527,376**	**373,398,227**	**535,404,783**	**39,209,885**	**7,803,009**	**40,073,239**
Cash	1,772,104	1,011,732	1,597,980	4,402,336	9,093,357	4,913,848	1,309,776	319,238	1,731,563
Notes and accounts receivable	6,386,202	4,075,736	15,595,994	19,124,065	59,779,322	89,636,197	7,968,509	1,811,038	6,757,532
Less: Allowance for bad debts	89,072	78,614	299,215	1,092,306	998,633	771,269	175,563	29,996	181,994
Inventories	6,124,003	3,816,137	9,188,081	7,237,324	34,141,964	18,276,921	6,727,927	2,438,178	4,362,838
Investments in Government obligations	164,076	28,547	527,726	1,740,305	1,488,275	746,667	34,565	*96,764	212,453
Other current assets	4,747,903	770,661	3,413,783	5,478,981	23,784,382	18,760,012	1,502,353	254,479	1,251,994
Loans to stockholders	119,335	82,021	324,438	965,088	11,755,657	2,298,771	338,526	19,282	119,773
Mortgage and real estate loans	191,472	*24,292	1,984,487	155,284	5,409,114	*41,444	20,334	1,015	46,667
Other investments	7,012,567	2,748,432	20,023,559	21,704,749	99,675,166	179,091,799	6,246,587	1,303,816	8,402,071
Depreciable assets	31,665,242	7,997,574	66,067,358	46,056,205	159,394,092	271,301,176	24,010,832	2,313,608	26,644,723
Less: Accumulated depreciation	16,125,665	3,883,891	27,390,516	22,151,240	78,522,833	127,140,361	11,372,539	1,298,063	13,093,354
Depletable assets	5,670,357	*1,459	3,611,163	*177,245	7,297,669	48,953,680	*11,019	—	744,071
Less: Accumulated depletion	118,157	145	652,712	*26,383	3,782,655	21,393,885	110	—	260,759
Land	639,622	248,934	1,593,093	1,444,023	3,948,967	6,205,867	525,273	59,217	1,040,968
Intangible assets (amortizable)	268,559	802,296	3,831,586	11,023,442	18,896,724	42,446,725	1,084,636	75,936	1,264,396
Less: Accumulated amortization	31,622	62,161	188,938	1,372,020	3,978,552	23,143,012	243,175	15,072	169,638
Other assets	2,277,732	627,854	4,139,683	12,660,280	26,016,209	25,180,201	1,220,936	453,569	1,199,936
Total liabilities	**50,674,656**	**18,210,864**	**103,367,549**	**107,527,376**	**373,398,227**	**535,404,783**	**39,209,885**	**7,803,009**	**40,073,239**
Accounts payable	4,416,142	1,772,569	8,458,444	8,336,416	32,190,868	45,045,951	4,321,996	921,314	3,279,809
Mortgages, notes, and bonds payable in less than one year	3,438,608	1,481,772	3,585,029	4,194,301	21,646,241	37,782,164	3,859,122	521,431	2,155,458
Other current liabilities	3,654,349	1,344,310	10,968,449	10,308,654	43,587,481	28,592,706	3,517,729	758,273	2,982,644
Loans from stockholders	406,023	279,079	1,039,048	1,680,413	15,492,362	6,877,094	515,466	88,625	564,319
Mortgages, notes, and bonds payable in one year or more	12,491,018	4,512,033	22,350,154	26,547,642	53,501,078	105,242,134	10,192,231	2,136,006	11,863,799
Other liabilities	2,071,998	586,251	9,638,766	10,891,428	43,387,870	78,150,488	2,393,726	378,829	3,221,976
Capital stock	2,923,514	987,192	5,202,583	3,973,210	16,979,310	15,944,239	1,031,746	392,722	2,263,778
Paid-in or capital surplus	6,610,445	2,773,350	13,470,532	8,872,676	73,692,724	106,631,633	4,245,916	525,119	6,194,294
Retained earnings, appropriated	*28,236	*6,485	*15,954	124,776	622,783	*12,961,929	*868	8,700	*79,083
Retained earnings, unappropriated	13,143,533	3,846,053	29,278,511	32,367,916	86,128,578	121,736,120	7,123,472	1,691,259	7,586,915
Other retained earnings, 1120S	1,972,867	1,124,340	1,596,518	3,473,186	1,538,134	*319,938	2,507,633	570,024	1,453,986
Less: Cost of treasury stock	482,075	502,569	2,236,439	3,243,242	15,369,203	23,879,613	500,019	189,294	1,572,822
Total receipts	**66,528,465**	**31,132,455**	**106,940,936**	**125,258,978**	**314,480,221**	**392,341,046**	**60,917,536**	**13,930,311**	**47,307,987**
Business receipts	63,550,108	30,406,255	102,988,624	116,186,412	293,035,118	362,356,597	58,249,807	13,435,345	44,826,459
Interest	1,037,691	99,533	754,014	1,755,672	4,103,640	9,350,646	375,017	175,716	308,850
Interest on Government obligations: State and local	3,695	8,585	25,220	45,140	160,507	20,837	3,138	5,747	4,526
Rents	86,216	70,456	198,510	412,297	1,217,097	2,271,884	84,697	33,581	83,236
Royalties	33,732	22,032	400,078	513,505	2,493,789	1,243,050	155,898	26,943	152,763
Net short-term capital gain reduced by net long-term capital loss	7,609	*11	29,592	46,307	75,909	32,320	*156	392	*71,554
Net long-term capital gain reduced by net short-term capital loss	412,395	131,229	888,041	2,388,681	2,349,271	906,460	184,391	30,633	366,135
Net gain, noncapital assets	222,244	30,271	166,697	317,443	834,202	2,243,305	234,796	16,324	362,499
Dividends received from domestic corporations	21,683	11,791	83,886	173,039	499,800	732,897	31,500	5,871	96,881
Dividends received from foreign corporations	198,207	7,273	642,358	583,895	4,457,847	4,567,250	392,909	24,844	483,979
Other receipts	954,885	345,019	763,915	2,836,588	5,253,041	8,615,800	1,205,227	174,915	551,106
Total deductions	**62,107,360**	**29,415,232**	**98,041,628**	**113,026,757**	**285,497,455**	**369,284,013**	**57,438,265**	**13,228,741**	**43,606,294**
Cost of sales and operations	47,007,424	21,283,636	67,919,963	58,170,790	176,322,586	260,734,669	40,564,165	9,377,359	29,119,596
Compensation of officers	886,372	606,323	827,863	3,279,258	2,250,288	525,054	1,266,316	200,050	850,970
Repairs	1,094,679	114,444	2,107,364	756,336	3,566,139	5,892,258	540,572	67,807	799,236
Bad debts	69,167	59,475	188,304	688,376	481,513	566,805	101,108	29,343	122,369
Rent paid on business property	657,315	374,609	857,995	2,072,052	3,028,080	3,244,337	561,868	315,712	417,575
Taxes paid	1,409,246	726,385	2,066,686	3,470,204	5,810,375	16,786,732	1,219,143	270,883	1,114,950
Interest paid	1,511,551	468,911	2,517,700	3,828,912	8,734,604	18,146,815	1,474,791	415,727	1,423,622
Contributions or gifts	57,609	22,370	87,278	175,331	366,671	208,747	23,438	8,466	37,668
Amortization	42,171	26,067	72,482	650,741	673,381	932,970	77,464	6,947	115,875
Depreciation	2,192,362	752,095	5,194,020	4,479,918	10,908,522	14,672,043	2,016,382	212,739	2,046,467
Depletion	416,442	249	203,257	32,430	452,325	3,078,031	5,224	*42	107,194
Advertising	270,878	485,946	1,132,346	2,116,477	9,048,919	948,000	624,464	254,556	312,898
Pension, profit-sharing, stock bonus, and annuity plans	353,258	190,465	505,390	938,814	1,731,180	1,210,391	388,992	52,956	224,846
Employee benefit programs	641,912	321,194	1,516,164	1,718,180	3,932,080	1,970,847	866,375	110,247	627,203
Net loss, noncapital assets	6,217	4,960	15,934	94,123	250,539	152,154	57,745	3,535	11,777
Other deductions	5,490,757	3,978,102	12,828,880	30,554,815	57,940,255	40,214,159	7,650,218	1,902,373	6,274,047
Total receipts less total deductions	4,421,105	1,717,224	8,899,308	12,232,221	28,982,766	23,057,034	3,479,271	701,569	3,701,693
Constructive taxable income from related foreign corporations	40,420	24,384	374,921	453,487	4,998,968	4,988,789	350,008	14,935	216,454
Net income	4,457,827	1,733,003	9,249,010	12,637,788	33,821,228	28,024,985	3,826,056	710,758	3,913,620
Income subject to tax	3,187,254	1,338,804	8,323,065	10,544,386	31,347,827	25,208,419	2,693,542	493,011	3,077,571
Income tax, total[2]	1,106,171	447,008	2,884,522	3,564,040	10,774,445	8,832,361	910,621	167,275	1,058,587
Regular tax	1,059,216	443,001	2,823,782	3,520,799	10,651,128	8,568,851	892,692	165,886	1,031,059
Personal holding company tax	—	—	*234	351	—	—	—	—	*11
Recapture of investment credit	4,905	1,281	5,841	11,845	23,335	20,363	6,077	335	3,999
Alternative minimum tax	37,973	1,153	42,939	18,967	60,795	206,925	7,437	*519	19,826
Environmental tax	4,042	1,272	11,436	12,029	39,145	36,222	2,563	534	3,617
Foreign tax credit	*40,541	10,236	356,326	360,423	3,069,341	4,565,965	261,581	6,484	207,872
U.S. possessions tax credit	—	295	2,181	8,455	1,100,562	38,357	7,548	9,881	2,029
Orphan drug credit	—	—	—	—	7,586	—	—	—	—
Nonconventional source fuel credit	*20	—	191	*370	4,799	21,607	45	—	—
General business credit	47,602	6,753	198,000	58,780	473,625	228,232	19,763	4,245	15,773
Prior year minimum tax credit	*1,025	2,257	10,962	11,186	18,801	*5,658	*1,932	([1])	*8,363

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	**3,263**	**30,404**	**17,752**	**11,934**	**1,417**	**1,433**	**5,633**	**12,024**
Total assets	**91,403,007**	**106,083,557**	**234,183,609**	**285,734,132**	**391,872,053**	**111,460,114**	**66,571,894**	**39,834,662**
Cash	4,139,793	4,219,076	8,129,436	10,295,008	4,266,367	6,370,930	2,529,804	2,051,255
Notes and accounts receivable	16,669,646	21,634,085	55,688,774	76,427,869	200,933,770	22,739,023	17,323,112	9,760,162
Less: Allowance for bad debts	299,477	349,966	1,156,173	2,088,726	1,845,045	269,976	236,899	321,489
Inventories	13,406,335	17,694,425	35,068,073	35,398,801	16,379,620	25,562,409	9,465,052	6,794,047
Investments in Government obligations	661,756	535,826	6,375,543	5,634,310	6,841,225	*1,233,478	130,522	209,368
Other current assets	3,688,485	5,201,591	14,252,103	32,713,073	14,634,776	8,994,699	3,569,729	2,065,829
Loans to stockholders	260,662	662,241	884,395	500,180	640,632	105,179	205,682	479,576
Mortgage and real estate loans	104,138	89,127	332,540	379,971	21,504,993	*16,930	*74,517	18,375
Other investments	17,414,458	21,424,948	42,176,063	44,529,968	59,349,666	15,120,227	13,313,255	5,461,665
Depreciable assets	57,012,453	47,662,955	100,942,198	103,448,413	106,582,917	46,834,480	29,636,131	13,979,116
Less: Accumulated depreciation	29,249,058	25,060,373	52,685,603	55,655,270	55,553,173	23,530,855	14,560,337	6,880,241
Depletable assets	1,224,725	323,058	38,412	629,857	2,133	156,994	*3,299	108,603
Less: Accumulated depletion	470,061	99,674	*9,320	253,720	474	26,158	*1,919	11,901
Land	1,083,915	1,542,243	2,081,843	1,749,487	1,236,182	1,033,404	656,886	414,563
Intangible assets (amortizable)	1,150,609	3,089,547	8,680,178	6,768,765	2,342,456	2,590,523	2,382,263	3,133,050
Less: Accumulated amortization	196,658	315,752	1,052,942	854,829	204,727	373,124	404,146	477,554
Other assets	4,801,283	7,830,199	14,438,090	26,110,976	14,760,736	4,901,950	2,484,943	3,050,238
Total liabilities	**91,403,007**	**106,083,557**	**234,183,609**	**285,734,132**	**391,872,053**	**111,460,114**	**66,571,894**	**39,834,662**
Accounts payable	9,707,597	10,116,645	23,876,396	23,643,070	28,331,430	19,604,365	8,407,656	4,018,171
Mortgages, notes, and bonds payable in less than one year	3,748,963	7,458,650	17,497,020	44,966,130	94,013,243	8,978,740	7,009,610	3,578,613
Other current liabilities	8,478,558	9,249,481	29,786,405	31,393,590	39,338,002	20,150,130	6,283,585	4,688,063
Loans from stockholders	3,123,214	1,320,652	1,693,939	2,459,684	10,917,100	836,835	1,472,747	866,482
Mortgages, notes, and bonds payable in one year or more	19,184,852	21,228,905	46,912,345	39,925,319	106,436,434	16,942,117	11,346,119	7,263,261
Other liabilities	19,341,117	9,014,744	14,741,723	45,187,502	23,207,553	8,308,137	4,368,953	3,797,125
Capital stock	4,895,644	6,078,354	17,208,440	11,025,251	4,818,089	4,822,701	3,465,052	2,002,277
Paid-in or capital surplus	16,854,221	15,093,843	25,637,760	26,859,009	30,623,603	5,195,433	6,927,787	6,551,523
Retained earnings, appropriated	164,564	169,256	1,888,319	333,516	258,557	*22,683	454,262	18,007
Retained earnings, unappropriated	5,684,708	23,660,259	56,138,100	63,129,754	53,904,315	28,143,201	20,393,494	6,063,850
Other retained earnings, 1120S	1,089,922	6,160,316	3,980,218	2,743,876	1,280,454	650,322	893,862	1,681,273
Less: Cost of treasury stock	870,355	3,467,548	5,177,057	5,932,570	1,256,726	2,194,551	4,451,235	693,981
Total receipts	**114,900,726**	**146,150,868**	**241,197,900**	**253,344,273**	**289,116,471**	**135,197,017**	**71,119,529**	**55,297,578**
Business receipts	110,368,172	140,480,230	204,367,446	232,396,229	260,823,309	125,033,432	65,203,358	52,814,091
Interest	1,436,178	1,647,098	4,168,228	4,921,224	13,907,520	2,256,008	542,505	575,263
Interest on Government obligations: State and local	11,758	33,097	314,627	61,985	250,611	16,184	48,863	16,432
Rents	460,938	518,320	10,935,906	4,384,829	4,332,822	1,431,513	710,705	136,152
Royalties	87,839	206,829	6,840,993	1,412,978	177,466	242,988	878,319	195,406
Net short-term capital gain reduced by net long-term capital loss	25,962	39,843	51,887	28,154	*60,312	39	11,095	*1,126
Net long-term capital gain reduced by net short-term capital loss	314,764	374,891	1,252,122	895,926	513,868	797,992	528,522	473,638
Net gain, noncapital assets	297,576	327,050	470,054	1,542,545	1,951,561	343,892	188,373	61,514
Dividends received from domestic corporations	121,377	149,659	563,952	480,593	164,189	170,204	64,388	55,386
Dividends received from foreign corporations	513,962	611,142	7,619,921	2,792,417	3,199,558	1,079,314	1,618,134	235,621
Other receipts	1,262,200	1,762,709	4,612,764	4,427,393	3,735,256	3,825,451	1,325,267	732,951
Total deductions	**107,484,507**	**136,720,332**	**221,017,872**	**235,293,533**	**277,429,034**	**123,972,013**	**64,318,103**	**51,565,630**
Cost of sales and operations	83,126,726	98,404,095	130,982,561	148,431,465	182,496,896	90,497,252	36,887,614	34,957,416
Compensation of officers	957,249	3,631,777	2,891,197	2,382,691	656,690	574,180	1,034,876	1,256,115
Repairs	2,496,843	878,184	1,495,561	1,386,223	1,864,861	747,888	354,871	261,069
Bad debts	89,690	248,806	423,021	931,383	1,319,626	136,181	103,876	142,563
Rent paid on business property	980,911	1,152,934	2,942,072	2,878,312	1,920,513	1,098,770	754,178	566,496
Taxes paid	1,993,835	3,082,154	5,495,769	4,884,994	5,754,937	2,478,959	1,312,291	1,074,764
Interest paid	2,575,277	3,889,479	6,990,361	11,101,210	13,276,073	2,950,773	1,962,957	1,548,188
Contributions or gifts	74,871	76,941	289,068	167,986	116,302	94,541	155,630	37,722
Amortization	112,061	142,009	371,914	354,647	62,721	231,802	153,446	112,595
Depreciation	3,553,655	3,966,691	9,057,765	10,930,235	16,849,048	3,669,900	2,002,597	1,226,485
Depletion	318,377	40,932	7,883	12,421	9,222	*24,028	*2,006	7,485
Advertising	178,006	957,107	2,184,034	2,652,841	2,493,639	419,406	2,067,041	1,163,003
Pension, profit-sharing, stock bonus, and annuity plans	1,750,514	808,737	1,244,606	1,357,448	2,245,582	927,057	658,389	208,953
Employee benefit programs	1,720,016	1,748,211	4,846,506	3,612,343	9,211,847	2,982,476	1,008,427	544,966
Net loss, noncapital assets	107,537	28,182	140,395	85,456	27,773	4,686	33,907	25,441
Other deductions	7,448,938	17,664,093	51,655,159	44,123,878	39,123,302	17,134,113	15,825,998	8,432,370
Total receipts less total deductions	7,416,218	9,430,536	20,180,028	18,050,739	11,687,437	11,225,004	6,801,426	3,731,948
Constructive taxable income from related foreign corporations	272,847	280,745	4,613,313	1,816,484	2,797,361	546,407	1,291,144	127,569
Net income	7,677,269	9,675,254	24,478,713	19,805,238	14,234,187	11,755,228	8,043,704	3,843,085
Income subject to tax	4,241,611	6,375,870	20,698,159	16,446,111	13,447,188	10,498,022	7,337,037	2,637,681
Income tax, total[2]	1,536,383	2,136,516	7,292,233	5,711,894	4,776,026	3,643,937	2,519,839	887,452
Regular tax	1,431,165	2,084,627	6,997,340	5,570,637	4,563,767	3,559,612	2,489,998	870,980
Personal holding company tax	—	*434	167	1,884	—	—	*89	—
Recapture of investment credit	1,788	4,952	22,883	25,501	45,890	6,624	7,892	2,035
Alternative minimum tax	94,457	39,012	245,781	92,791	146,810	62,251	13,862	11,108
Environmental tax	8,973	5,983	26,062	20,813	19,559	15,450	7,695	2,774
Foreign tax credit	209,829	304,159	4,563,510	1,422,579	1,975,559	385,873	1,003,940	96,346
U.S. possessions tax credit	—	7,710	75,656	382,682	1,600	4,728	245,717	36,659
Orphan drug credit	—	—	—	—	—	—	467	—
Nonconventional source fuel credit	35	*16	—	487	79	—	—	—
General business credit	77,987	52,329	242,532	392,723	277,756	130,634	62,648	14,420
Prior year minimum tax credit	*2,200	3,035	5,987	29,415	27,399	14,810	*3,502	*312

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	**78,583**	**62,441**	**7,922**	**8,220**	**562,082**	**197,337**	**16,297**	**34,378**	**146,662**
Total assets	**1,142,441,436**	**208,364,777**	**398,215,092**	**535,861,566**	**956,057,264**	**454,177,999**	**35,654,147**	**50,901,664**	**367,622,188**
Cash	22,505,704	9,359,204	6,812,042	6,334,458	55,239,831	26,888,850	1,943,275	3,564,473	21,381,102
Notes and accounts receivable	113,645,061	25,003,738	55,749,614	32,891,709	229,553,626	124,728,140	10,385,869	15,271,822	99,070,449
Less: Allowance for bad debts	2,789,288	436,697	1,495,561	857,030	4,319,177	2,079,909	197,786	285,380	1,596,743
Inventories	23,205,674	3,704,919	6,559,416	12,941,339	269,560,941	138,492,368	9,419,429	16,289,946	112,782,993
Investments in Government obligations	7,256,303	1,895,097	859,495	4,501,711	26,155,587	12,761,837	90,684	83,167	12,587,987
Other current assets	39,147,771	9,571,284	9,792,559	19,783,928	53,645,037	33,310,577	1,302,351	2,980,728	29,027,498
Loans to stockholders	2,183,929	910,292	776,179	497,457	7,944,840	3,496,343	479,044	371,609	2,645,690
Mortgage and real estate loans	3,610,187	549,249	154,469	2,906,469	13,409,919	3,518,163	104,441	163,740	3,249,982
Other investments	181,993,021	37,282,325	92,080,679	52,630,016	81,821,000	33,324,696	2,220,219	3,480,687	27,623,790
Depreciable assets	988,852,499	171,076,417	310,659,554	507,116,527	277,881,634	99,510,275	13,888,805	13,237,492	72,383,978
Less: Accumulated depreciation	324,658,354	67,546,114	110,392,900	146,719,340	129,992,223	51,161,580	6,815,346	6,939,054	37,407,180
Depletable assets	4,912,196	399,006	*2,139	4,511,051	1,061,043	935,264	*13,884	67,586	853,795
Less: Accumulated depletion	2,374,880	201,693	*564	2,172,623	442,125	405,954	*9,218	*10,980	385,756
Land	8,400,892	2,667,228	2,306,533	3,427,131	19,453,929	5,834,475	653,813	626,285	4,554,376
Intangible assets (amortizable)	16,258,060	3,524,027	8,070,260	4,663,773	17,291,841	6,743,001	1,270,782	505,260	4,966,959
Less: Accumulated amortization	2,818,152	693,913	672,117	1,452,121	3,514,643	1,270,481	176,112	95,999	998,370
Other assets	63,110,812	11,300,407	16,953,296	34,857,109	41,306,202	19,551,934	1,080,013	1,590,284	16,881,637
Total liabilities	**1,142,441,436**	**208,364,777**	**398,215,092**	**535,861,566**	**956,057,264**	**454,177,999**	**35,654,147**	**50,901,664**	**367,622,188**
Accounts payable	75,231,009	19,551,652	33,987,076	21,692,281	159,258,615	88,290,092	8,184,050	10,847,284	69,258,759
Mortgages, notes, and bonds payable in less than one year	43,422,547	9,434,003	15,326,247	18,662,298	162,649,677	93,344,559	3,547,885	8,500,971	81,295,703
Other current liabilities	89,012,596	22,195,353	28,305,248	38,511,995	134,569,741	67,745,255	2,918,259	3,793,424	61,033,573
Loans from stockholders	5,750,950	2,357,302	1,160,754	2,232,894	20,857,611	9,072,412	669,573	1,413,326	6,989,514
Mortgages, notes, and bonds payable in one year or more	304,424,228	46,802,188	87,062,960	170,559,080	147,264,580	47,313,655	7,151,099	6,477,046	33,685,509
Other liabilities	153,272,502	23,428,015	53,564,055	76,280,432	35,304,603	15,740,277	1,409,107	2,452,717	11,878,453
Capital stock	130,871,739	8,476,360	40,621,529	81,773,850	39,939,106	20,790,819	1,542,313	2,472,302	16,776,203
Paid-in or capital surplus	173,563,733	36,247,595	85,893,001	51,423,138	54,174,035	19,754,933	2,103,271	2,755,652	14,896,010
Retained earnings, appropriated	2,430,869	686,628	331,897	1,412,344	979,852	401,447	41,617	66,965	292,866
Retained earnings, unappropriated	169,313,343	38,798,865	57,027,492	73,486,986	171,105,767	72,492,712	7,029,159	10,120,278	55,343,275
Other retained earnings, 1120S	4,048,631	2,783,541	556,636	708,454	46,073,974	26,610,028	1,762,434	3,152,586	21,695,009
Less: Cost of treasury stock	8,900,711	2,396,724	5,621,802	882,186	16,120,296	7,378,189	704,619	1,150,886	5,522,684
Total receipts	**678,817,735**	**231,907,164**	**199,842,620**	**247,067,951**	**2,234,166,521**	**1,146,077,119**	**172,206,382**	**105,212,373**	**868,658,365**
Business receipts	631,856,790	217,105,528	184,688,247	230,063,015	2,168,757,132	1,116,640,257	169,027,216	101,751,812	845,861,230
Interest	10,360,022	2,797,458	3,148,765	4,413,800	19,117,704	9,958,739	327,093	663,830	8,967,816
Interest on Government obligations: State and local	274,367	12,799	74,159	187,409	1,123,512	101,553	10,958	12,916	77,680
Rents	6,995,946	2,086,279	2,952,242	1,957,425	7,073,387	2,393,241	282,135	627,108	1,483,998
Royalties	307,430	156,454	92,153	58,822	1,415,670	530,409	*51,701	49,193	429,516
Net short-term capital gain reduced by net long-term capital loss	96,560	45,465	33,347	17,748	125,763	70,927	109	2,351	68,467
Net long-term capital gain reduced by net short-term capital loss	8,009,497	3,117,934	2,185,824	2,705,739	3,678,347	1,437,420	185,135	195,259	1,057,026
Net gain, noncapital assets	5,993,097	2,261,017	818,421	2,913,659	2,576,381	1,076,713	120,144	217,384	739,186
Dividends received from domestic corporations	691,421	162,172	154,207	375,042	669,844	286,837	21,590	54,747	210,499
Dividends received from foreign corporations	1,597,573	77,774	623,167	896,633	1,667,299	1,229,847	*13,469	22,057	1,194,322
Other receipts	12,635,031	4,084,284	5,072,088	3,478,659	27,961,483	12,351,176	2,166,833	1,615,717	8,568,625
Total deductions	**619,655,950**	**217,393,657**	**179,940,064**	**222,322,229**	**2,167,934,011**	**1,114,946,252**	**169,624,753**	**101,388,505**	**843,932,994**
Cost of sales and operations	282,375,410	94,367,076	73,499,903	114,508,431	1,670,748,043	928,211,545	147,167,718	76,684,874	704,358,953
Compensation of officers	5,253,180	3,418,912	786,303	1,047,965	36,209,661	18,560,021	1,508,714	2,926,516	14,124,791
Repairs	26,075,551	5,152,808	11,150,467	9,772,277	8,098,876	2,976,637	491,933	323,842	2,160,862
Bad debts	3,175,038	479,149	2,000,749	695,140	4,758,063	2,087,228	190,019	291,573	1,605,636
Rent paid on business property	16,194,801	9,770,050	3,900,055	2,524,697	34,596,971	8,481,515	1,146,313	1,024,939	6,310,263
Taxes paid	30,940,986	8,348,294	8,393,852	14,198,840	31,147,487	11,526,636	1,519,528	1,389,272	8,617,837
Interest paid	35,615,766	5,692,608	10,011,515	19,911,643	35,352,976	16,738,740	1,074,519	1,421,569	14,242,651
Contributions or gifts	519,368	125,274	232,391	161,702	686,357	270,336	42,484	38,004	189,849
Amortization	1,266,885	325,969	530,137	410,779	1,547,059	536,553	88,884	44,703	402,966
Depreciation	66,409,462	13,078,817	27,739,445	25,591,200	28,255,758	10,364,643	1,410,112	1,612,792	7,341,739
Depletion	614,874	165,190	*1,585	448,098	111,954	71,360	*1,836	6,944	62,580
Advertising	3,406,725	1,445,433	1,542,237	419,055	25,308,438	5,999,316	582,073	589,126	4,828,118
Pension, profit-sharing, stock bonus, and annuity plans	4,979,135	2,265,819	1,436,621	1,276,695	6,069,393	2,920,207	353,415	360,419	2,206,374
Employee benefit programs	10,484,262	3,767,313	4,558,394	2,158,556	9,412,676	3,567,047	602,473	520,839	2,443,735
Net loss, noncapital assets	999,907	23,053	643,309	333,545	438,663	239,781	53,024	24,802	161,955
Other deductions	131,344,601	68,967,893	33,513,101	28,863,607	275,191,639	102,394,686	13,391,709	14,128,292	74,874,684
Total receipts less total deductions	59,161,785	14,513,506	19,902,557	24,745,722	66,232,511	31,130,867	2,581,629	3,823,868	24,725,370
Constructive taxable income from related foreign corporations	983,911	156,503	399,400	428,008	1,492,549	1,160,621	17,087	16,590	1,126,944
Net income	59,870,499	14,657,209	20,227,798	24,985,492	66,594,873	32,184,059	2,587,759	3,827,530	25,768,770
Income subject to tax	50,627,000	11,530,330	19,151,687	19,944,983	44,054,669	20,004,386	1,760,093	2,314,114	15,930,179
Income tax, total[2]	17,665,220	3,943,291	6,610,640	7,111,289	14,030,017	6,435,028	570,475	706,754	5,157,799
Regular tax	17,089,212	3,821,031	6,496,286	6,771,894	13,840,141	6,346,576	563,449	690,573	5,092,554
Personal holding company tax	*69	—	*6	63	2,448	*910	—	*140	*769
Recapture of investment credit	131,246	33,301	36,748	61,196	40,491	20,485	2,660	6,211	11,614
Alternative minimum tax	365,352	73,079	48,909	243,364	103,410	48,510	2,655	8,279	37,576
Environmental tax	78,978	15,568	28,639	34,771	39,333	15,238	1,489	1,157	12,592
Foreign tax credit	419,834	57,121	214,512	148,201	1,038,355	719,780	*5,634	17,692	696,455
U.S. possessions tax credit	49,598	—	49,598	—	25,266	23,319	557	1,659	21,103
Orphan drug credit	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	16,140	2,601	—	13,539	*1,061	*242	—	237	*5
General business credit	1,792,125	417,951	573,439	800,734	303,185	107,305	8,320	15,122	83,863
Prior year minimum tax credit	55,422	16,926	*633	37,863	15,759	7,956	*552	*1,701	5,703

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									
	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 with net income	**363,302**	**23,757**	**6,152**	**32,292**	**56,415**	**25,736**	**22,595**	**71,933**	**124,423**	**1,443**
Total assets	**500,748,041**	**23,541,637**	**188,301,423**	**37,175,719**	**68,611,868**	**27,929,988**	**19,821,542**	**51,769,555**	**83,596,309**	**1,131,224**
Cash	28,221,213	1,733,314	4,882,607	2,981,467	4,764,851	1,956,211	1,588,295	4,234,499	6,079,969	129,768
Notes and accounts receivable	104,463,149	5,074,672	59,190,422	2,470,072	8,747,288	4,038,700	4,836,463	4,856,451	15,249,082	362,336
Less: Allowance for bad debts	2,114,712	94,701	1,002,537	23,302	134,825	108,146	154,965	140,092	456,143	124,556
Inventories	130,719,341	8,155,943	29,343,283	9,803,630	36,231,276	10,007,586	7,600,231	1,968,609	27,608,782	349,233
Investments in Government obligations	13,393,750	30,893	*12,382,702	397,891	54,182	*77,458	95,049	55,524	300,051	—
Other current assets	20,292,906	847,764	10,705,590	1,287,887	1,799,048	1,074,123	643,011	1,767,338	2,168,144	41,555
Loans to stockholders	4,446,687	218,387	387,127	312,917	723,357	478,336	177,833	653,082	1,495,647	*1,811
Mortgage and real estate loans	9,890,906	214,886	*8,908,723	90,474	107,668	14,153	89,350	294,427	171,225	*850
Other investments	48,400,499	1,414,036	24,527,589	1,969,834	1,500,548	2,710,842	1,217,603	5,484,109	9,575,937	95,805
Depreciable assets	177,975,795	8,932,296	44,315,314	25,222,137	21,137,211	10,428,281	5,478,399	35,436,177	27,025,980	395,564
Less: Accumulated depreciation	78,635,116	4,564,342	16,820,917	11,604,495	10,220,305	4,334,196	2,567,893	14,680,272	13,842,695	195,527
Depletable assets	125,779	*57,392	1,285	*6,978	19,723	*1,754	*1,501	*27,685	*9,462	—
Less: Accumulated depletion	36,171	*10,479	116	*3,137	*10,388	*639	—	*5,673	*5,740	—
Land	13,569,978	948,278	2,641,078	1,646,158	2,053,445	251,280	286,529	3,935,941	1,807,270	49,477
Intangible assets (amortizable)	10,530,958	130,138	1,742,728	1,373,339	583,020	604,868	274,378	3,133,440	2,689,047	*17,882
Less: Accumulated amortization	2,240,290	48,658	226,601	216,551	151,798	115,507	52,696	696,060	732,420	*3,871
Other assets	21,743,370	501,818	7,323,145	1,460,419	1,407,568	844,885	308,454	5,444,370	4,452,711	10,898
Total liabilities	**500,748,041**	**23,541,637**	**188,301,423**	**37,175,719**	**68,611,868**	**27,929,988**	**19,821,542**	**51,769,555**	**83,596,309**	**1,131,224**
Accounts payable	70,782,118	3,300,967	27,214,447	6,663,415	5,912,181	4,349,696	3,464,862	5,394,303	14,482,247	186,404
Mortgages, notes, and bonds payable in less than one year	69,106,633	2,395,633	23,818,501	1,575,504	28,854,364	1,321,802	1,906,210	3,247,927	5,986,692	198,485
Other current liabilities	66,463,062	1,681,170	41,244,629	3,379,734	4,185,338	3,093,352	2,058,399	4,132,622	6,687,818	361,424
Loans from stockholders	11,706,203	839,129	610,477	966,121	2,292,640	1,061,184	605,200	1,798,430	3,533,023	78,996
Mortgages, notes, and bonds payable in one year or more	99,834,953	3,903,916	35,866,325	8,291,453	8,755,737	3,490,644	2,917,373	19,185,572	17,423,933	115,972
Other liabilities	19,525,035	700,362	9,529,481	1,577,670	1,093,655	744,207	620,740	2,764,138	2,494,781	39,291
Capital stock	19,100,880	1,220,214	3,437,539	1,864,095	2,949,286	2,312,750	806,623	2,384,295	4,126,079	47,407
Paid-in or capital surplus	34,403,223	1,485,742	14,365,141	1,942,967	1,506,446	1,720,119	1,037,388	3,672,656	8,672,765	15,879
Retained earnings, appropriated	578,405	69,613	*127,900	*3,570	83,216	*24,043	*181,201	18,738	70,123	—
Retained earnings, unappropriated	98,607,296	6,665,285	33,094,506	9,491,112	8,615,719	9,053,780	5,142,200	9,467,867	17,076,827	5,759
Other retained earnings, 1120S	19,358,102	1,941,472	755,463	2,122,767	5,388,750	1,324,911	1,857,881	1,625,519	4,341,340	*105,843
Less: Cost of treasury stock	8,717,870	661,867	1,762,986	702,689	1,025,464	566,499	776,536	1,922,512	1,299,317	*24,237
Total receipts	**1,085,019,925**	**56,718,497**	**204,376,356**	**161,130,432**	**278,249,581**	**60,385,866**	**43,594,559**	**91,774,963**	**188,789,670**	**3,069,478**
Business receipts	1,049,193,281	55,517,241	192,343,593	158,411,948	271,977,215	58,534,089	42,237,019	86,332,184	183,839,993	2,923,594
Interest	9,142,950	278,914	5,441,113	236,724	741,054	370,533	298,747	852,631	923,234	16,016
Interest on Government obligations: State and local	1,021,959	11,234	952,613	24,248	1,619	9,616	4,315	7,072	11,242	—
Rents	4,669,565	192,860	1,246,165	373,713	680,261	82,078	103,575	1,528,572	462,341	*10,581
Royalties	884,732	*42,645	*8,551	3,073	7,573	213,315	—	434,756	174,819	*529
Net short-term capital gain reduced by net long-term capital loss	54,836	*4,491	1,015	1,490	*2,277	*904	*527	856	43,275	—
Net long-term capital gain reduced by net short-term capital loss	2,196,432	47,984	960,667	199,802	150,080	227,056	18,705	259,415	332,723	*44,494
Net gain, noncapital assets	1,495,980	72,830	127,130	166,551	467,358	40,137	11,854	385,055	225,066	*3,688
Dividends received from domestic corporations	380,148	18,804	198,774	33,072	13,759	48,050	2,046	23,104	42,538	*2,859
Dividends received from foreign corporations	437,452	—	237,563	*2,054	*1,298	6,471	*28	117,403	*72,635	—
Other receipts	15,542,589	531,493	2,859,173	1,677,758	4,207,087	853,619	917,743	1,833,913	2,661,803	67,718
Total deductions	**1,050,034,564**	**54,800,410**	**195,478,425**	**157,821,662**	**273,902,630**	**57,116,155**	**41,555,854**	**87,879,619**	**181,479,808**	**2,953,195**
Cost of sales and operations	740,283,215	40,238,120	124,468,402	122,784,279	230,847,101	34,715,848	26,582,158	37,197,332	123,449,975	2,253,283
Compensation of officers	17,526,968	1,499,963	767,242	1,331,594	3,795,140	1,093,661	1,270,484	2,401,063	5,367,822	122,671
Repairs	5,113,740	263,439	1,008,951	890,560	674,914	209,530	180,605	1,090,758	794,983	8,499
Bad debts	2,654,963	182,208	1,036,525	98,485	289,142	167,595	226,141	107,368	547,500	15,872
Rent paid on business property	26,084,510	760,205	5,603,985	2,566,943	2,675,590	3,456,826	1,438,930	4,528,188	5,053,842	30,946
Taxes paid	19,579,258	1,029,344	4,145,242	2,151,587	2,970,009	1,328,656	915,630	3,570,735	3,468,054	41,594
Interest paid	18,581,187	695,310	8,404,217	891,420	2,583,612	634,595	549,941	2,295,584	2,526,507	33,049
Contributions or gifts	415,591	17,856	146,960	36,943	27,806	66,655	15,612	29,696	74,062	430
Amortization	1,008,613	19,236	295,577	91,969	72,251	68,197	36,307	209,679	215,397	*1,893
Depreciation	17,856,153	798,997	3,948,450	2,383,060	2,633,824	1,130,528	562,646	3,478,404	2,920,244	34,962
Depletion	40,594	4,470	*384	*3,762	*7,210	*5,025	—	12,182	7,562	—
Advertising	19,298,841	671,734	5,171,778	1,452,207	3,022,418	1,461,607	1,851,020	2,416,831	3,251,246	10,280
Pension, profit-sharing, stock bonus, and annuity plans	3,126,913	190,181	1,018,789	376,391	252,858	180,182	142,134	299,028	667,351	22,273
Employee benefit programs	5,839,493	307,664	1,367,467	1,082,345	1,035,435	350,043	174,563	603,116	918,860	6,136
Net loss, noncapital assets	196,867	8,283	23,296	16,400	19,342	14,671	34,010	42,968	37,896	*2,015
Other deductions	172,427,661	8,113,400	38,071,161	21,663,717	22,995,978	12,232,536	7,575,676	29,596,687	32,178,507	369,292
Total receipts less total deductions	34,985,361	1,918,087	8,897,931	3,308,770	4,346,951	3,269,711	2,038,705	3,895,344	7,309,862	116,283
Constructive taxable income from related foreign corporations	331,929	*55	*164,927	1,395	103	7,222	—	*121,651	36,576	—
Net income	34,294,531	1,906,811	8,110,147	3,285,916	4,345,193	3,267,318	2,034,390	4,009,922	7,334,835	116,283
Income subject to tax	24,010,704	1,176,236	7,549,731	2,339,626	1,939,915	2,533,511	1,393,992	2,349,490	4,728,203	39,579
Income tax, total [2]	7,585,155	343,874	2,579,892	756,790	539,054	814,089	425,754	742,519	1,383,183	9,833
Regular tax	7,483,755	340,559	2,552,995	748,005	527,013	806,143	421,662	718,655	1,368,722	9,811
Personal holding company tax	*1,538	*1,296	151	—	—	—	—	—	*91	—
Recapture of investment credit	20,000	422	4,638	1,440	3,359	839	533	4,324	4,446	*6
Alternative minimum tax	54,883	*1,050	12,305	4,788	7,881	4,573	*973	16,826	6,487	*17
Environmental tax	24,095	514	9,803	2,385	386	2,534	2,395	2,714	3,365	—
Foreign tax credit	318,576	5	158,464	2,064	174	*8,093	790	110,041	38,943	—
U.S. possessions tax credit	1,947	—	—	1,558	—	67	—	323	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*819	—	—	—	—	—	*818	1	—	—
General business credit	195,880	8,376	67,978	21,915	18,688	6,231	3,283	44,926	24,484	—
Prior year minimum tax credit	7,803	—	482	*2,745	707	*1,244	*421	*934	*1,269	—

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	**275,198**	**8,512**	**13,248**	**8,668**	**5,079**	**40,128**	**174,634**	**24,930**
Total assets	**7,504,256,344**	**3,404,295,752**	**1,200,777,848**	**236,970,127**	**1,594,310,356**	**28,158,135**	**125,864,955**	**913,879,171**
Cash	422,256,592	306,998,485	37,916,376	9,648,270	16,695,446	5,239,803	12,146,158	33,612,054
Notes and accounts receivable	2,268,352,228	1,843,448,764	147,037,684	81,758,929	81,502,150	8,007,185	11,338,347	95,259,170
Less: Allowance for bad debts	54,071,739	41,695,937	10,679,235	123,360	969,544	94,046	276,169	233,449
Inventories	18,489,892	158,362	1,099,160	*60,573	3,981,678	*4,210	10,504,144	2,681,766
Investments in Government obligations	801,586,132	369,514,870	68,158,248	17,219,955	237,185,148	1,056,560	1,204,135	107,247,216
Other current assets	380,002,439	101,020,613	42,505,170	68,241,899	118,904,530	1,701,146	10,010,792	37,618,288
Loans to stockholders	8,983,094	1,057,128	2,309,808	585,447	691,020	518,476	2,559,759	1,261,455
Mortgage and real estate loans	1,202,194,216	237,473,420	728,927,165	1,448,185	206,109,188	182,500	7,606,881	20,446,877
Other investments	1,930,478,519	295,508,756	133,269,914	50,591,271	837,015,668	6,768,843	18,401,057	588,923,010
Depreciable assets	191,374,066	69,819,799	18,479,965	5,508,565	24,028,402	4,666,401	50,684,448	18,186,486
Less: Accumulated depreciation	66,087,730	26,002,687	5,903,170	2,115,270	5,270,782	2,337,712	19,555,472	4,902,638
Depletable assets	3,289,545	41,339	3,740	*1,107	187,432	*47	185,854	2,870,025
Less: Accumulated depletion	225,151	6,858	650	*515	*24,957	—	73,099	119,072
Land	25,859,961	5,026,377	2,240,863	75,301	1,394,821	153,914	14,173,536	2,795,149
Intangible assets (amortizable)	22,366,129	7,693,902	5,657,617	772,365	3,202,260	1,325,221	1,187,730	2,527,035
Less: Accumulated amortization	3,760,666	1,440,925	493,601	184,136	610,781	393,937	371,052	266,234
Other assets	353,168,817	235,680,345	30,248,795	3,481,541	70,288,676	1,359,523	6,137,907	5,972,032
Total liabilities	**7,504,256,344**	**3,404,295,752**	**1,200,777,848**	**236,970,127**	**1,594,310,356**	**28,158,135**	**125,864,955**	**913,879,171**
Accounts payable	242,592,269	44,207,154	31,378,132	82,333,949	54,531,820	8,829,168	4,547,678	16,764,368
Mortgages, notes, and bonds payable in less than one year	516,389,303	257,284,411	164,821,059	14,371,294	47,180,475	2,051,266	13,820,222	16,860,576
Other current liabilities	3,457,571,120	2,498,520,990	691,649,677	99,752,657	134,355,879	3,312,132	7,939,047	22,040,738
Loans from stockholders	30,358,527	10,987,176	4,936,142	937,663	4,670,546	257,982	6,783,985	1,785,034
Mortgages, notes, and bonds payable in one year or more	458,955,983	140,226,521	189,632,232	14,931,182	38,549,999	2,462,098	40,308,870	32,845,082
Other liabilities	1,261,598,392	162,424,427	40,902,441	7,754,871	1,025,145,209	1,879,163	10,943,555	12,548,725
Capital stock	847,213,006	49,448,426	7,265,910	1,966,413	16,045,312	1,150,047	8,908,410	762,428,489
Paid-in or capital surplus	917,862,112	107,593,336	29,647,105	7,036,410	99,406,551	2,263,282	13,704,066	658,211,361
Retained earnings, appropriated	46,473,493	3,010,549	5,178,444	*54,884	33,913,489	41,223	533,455	3,741,450
Retained earnings, unappropriated	353,960,478	132,840,842	35,799,869	8,572,914	145,697,886	6,041,214	14,968,967	10,038,786
Other retained earnings, 1120S	7,812,035	*10,280	623,296	421,974	*6,537	750,799	5,525,680	473,470
Less: Cost of treasury stock	636,530,373	2,258,359	1,056,458	1,164,084	5,193,348	880,237	2,118,980	623,858,907
Total receipts	**1,346,694,812**	**379,413,579**	**178,630,331**	**41,493,914**	**535,265,327**	**25,595,943**	**79,333,292**	**106,962,426**
Business receipts	654,502,637	36,830,844	72,574,246	27,490,147	398,815,451	23,029,980	60,959,485	34,802,484
Interest	547,421,561	299,028,021	95,533,826	8,770,204	88,103,828	676,618	2,944,634	52,364,431
Interest on Government obligations: State and local	17,988,682	7,502,386	561,360	139,330	8,310,143	35,470	57,450	1,382,544
Rents	22,932,940	8,825,192	749,653	295,849	6,404,735	89,966	5,927,124	640,422
Royalties	425,820	83,330	11,708	*5,355	37,980	*13,694	120,042	*153,711
Net short-term capital gain reduced by net long-term capital loss	3,878,793	345,515	153,066	506,402	1,076,763	7,968	118,192	1,670,887
Net long-term capital gain reduced by net short-term capital loss	16,048,028	2,956,244	1,215,538	576,227	5,711,883	231,285	2,878,244	2,478,606
Net gain, noncapital assets	4,959,068	2,365,399	1,052,997	242,345	279,722	51,422	712,618	254,566
Dividends received from domestic corporations	6,576,018	853,152	510,097	354,714	3,657,971	88,624	182,497	928,964
Dividends received from foreign corporations	1,757,737	389,361	40,739	14,437	786,414	252,863	7,723	266,202
Other receipts	70,203,528	20,234,137	6,227,103	3,098,904	22,080,438	1,118,053	5,425,283	12,019,610
Total deductions	**1,195,166,884**	**348,612,414**	**167,197,244**	**38,081,124**	**503,689,944**	**22,515,423**	**67,943,288**	**47,127,446**
Cost of sales and operations	367,712,182	546,992	52,482,013	6,468,870	253,673,315	3,534,670	28,495,408	22,510,913
Compensation of officers	24,158,343	9,592,879	1,764,805	2,705,755	1,765,622	3,246,310	4,082,438	1,000,534
Repairs	4,427,332	1,826,550	932,488	108,132	240,790	130,222	912,880	276,268
Bad debts	19,183,976	13,750,283	3,865,162	120,857	995,071	102,174	169,667	180,763
Rent paid on business property	15,615,770	6,051,584	1,418,233	1,184,166	3,799,843	915,580	1,531,760	714,605
Taxes paid	22,272,606	6,462,110	1,601,728	781,844	8,855,149	854,226	2,684,585	1,032,964
Interest paid	323,960,893	213,933,129	78,424,612	7,811,640	13,750,832	497,379	5,030,446	4,512,854
Contributions or gifts	733,013	355,269	68,003	44,188	131,244	30,366	64,785	39,158
Amortization	2,050,798	780,401	220,713	96,264	567,802	116,453	136,481	132,685
Depreciation	25,320,496	13,271,069	1,945,481	910,544	4,920,403	538,805	2,530,918	1,203,275
Depletion	132,241	16,570	164	*2,415	51,131	*75	25,738	36,148
Advertising	6,653,746	2,219,812	1,572,048	397,143	1,075,238	188,735	921,637	279,135
Pension, profit-sharing, stock bonus, and annuity plans	4,721,850	1,598,540	302,953	323,575	1,613,546	389,190	277,686	216,361
Employee benefit programs	7,963,258	3,737,095	709,124	516,583	1,899,010	374,697	385,274	341,475
Net loss, noncapital assets	1,975,606	1,183,051	459,965	110,944	37,053	4,886	46,118	133,589
Other deductions	368,284,775	73,287,080	21,429,755	16,498,203	210,313,895	11,591,656	20,647,468	14,516,719
Total receipts less total deductions	151,527,928	30,801,166	11,433,087	3,412,789	31,575,383	3,080,520	11,390,003	59,834,980
Constructive taxable income from related foreign corporations	2,905,872	1,397,992	368,500	79,973	757,371	102,142	5,597	194,297
Net income	136,443,479	24,696,772	11,240,227	3,352,791	24,022,611	3,147,072	11,337,273	58,646,733
Income subject to tax	59,823,337	22,243,549	7,494,525	2,476,136	17,025,907	1,930,502	4,679,954	3,972,764
Income tax, total[2]	20,742,724	7,925,133	2,613,630	865,235	5,985,077	605,302	1,353,072	1,395,275
Regular tax	19,882,195	7,536,396	2,520,955	825,874	5,774,067	601,279	1,312,468	1,311,155
Personal holding company tax	10,428	73	7	1	*15	*85	2,315	7,933
Recapture of investment credit	40,803	20,407	2,647	2,487	9,390	392	1,180	4,300
Alternative minimum tax	699,155	335,192	79,505	33,646	170,929	1,860	27,520	50,503
Environmental tax	83,848	31,425	10,516	3,227	30,108	1,687	2,351	4,535
Foreign tax credit	2,342,093	1,317,083	128,848	31,528	625,652	91,640	5,001	142,342
U.S. possessions tax credit	5,726	2	5,392	—	—	—	333	—
Orphan drug credit	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	3,311	21	—	103	220	([1])	*2,933	*35
General business credit	482,303	310,556	38,055	7,523	66,569	7,846	19,175	32,580
Prior year minimum tax credit	194,673	56,766	14,038	7,354	109,410	*1,613	3,257	2,235

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	**512,464**	**9,398**	**36,078**	**180,501**	**62,083**	**37,169**	**187,236**	**5,091**
Total assets	**318,103,208**	**21,946,105**	**13,274,345**	**96,453,933**	**28,906,991**	**85,849,720**	**71,672,114**	**615,089**
Cash	27,422,209	1,260,440	1,534,498	9,931,615	2,312,893	3,873,631	8,509,131	119,984
Notes and accounts receivable	67,060,580	1,826,987	2,038,874	25,369,519	4,673,150	19,088,545	14,063,506	119,469
Less: Allowance for bad debts	2,237,784	91,817	100,745	494,611	103,762	473,772	973,077	*14
Inventories	13,793,848	300,339	959,656	4,187,104	2,583,547	4,160,278	1,602,924	141,494
Investments in Government obligations	1,850,059	44,172	*155,946	791,305	130,994	279,824	447,818	625
Other current assets	20,429,859	767,181	1,374,132	7,581,921	900,552	6,185,223	3,620,849	46,505
Loans to stockholders	4,876,318	190,818	143,137	1,626,977	395,802	415,214	2,104,370	*10,706
Mortgage and real estate loans	1,867,421	533,308	59,678	564,569	144,757	269,026	296,084	*8,937
Other investments	47,299,191	4,894,951	1,005,742	14,175,184	1,307,513	17,139,738	8,776,063	*4,518
Depreciable assets	144,673,075	12,605,696	8,508,624	38,601,206	24,148,764	21,501,204	39,307,581	167,784
Less: Accumulated depreciation	68,643,379	5,141,316	4,694,852	20,416,420	10,217,362	10,795,622	17,377,808	62,132
Depletable assets	103,617	*3,731	*27,895	*27,818	*1,645	11,571	*30,957	*6,232
Less: Accumulated depletion	40,725	*26	*11,903	*9,126	*638	2,765	*16,267	—
Land	7,036,879	1,490,009	485,774	1,083,925	712,112	1,291,191	1,973,868	*11,911
Intangible assets (amortizable)	13,079,892	177,832	682,685	5,861,781	975,552	3,099,472	2,282,570	*17,447
Less: Accumulated amortization	3,357,681	39,159	177,093	1,420,507	66,710	1,023,622	630,590	*1,375
Other assets	42,889,829	3,122,957	1,282,295	8,991,672	1,008,182	20,830,586	7,654,136	22,997
Total liabilities	**318,103,208**	**21,946,105**	**13,274,345**	**96,453,933**	**28,906,991**	**85,849,720**	**71,672,114**	**615,089**
Accounts payable	26,182,338	840,941	924,484	12,165,020	2,601,752	4,990,135	4,660,006	91,701
Mortgages, notes, and bonds payable in less than one year	37,908,059	870,499	732,872	9,346,528	5,156,019	17,539,666	4,262,475	*61,094
Other current liabilities	34,101,973	1,419,104	1,597,542	12,650,906	2,248,788	6,692,511	9,493,123	50,910
Loans from stockholders	7,840,453	301,878	493,250	3,159,821	708,065	1,011,054	2,166,384	*28,704
Mortgages, notes, and bonds payable in one year or more	77,488,214	10,227,888	2,562,885	18,786,264	8,180,786	18,810,379	18,920,012	*89,660
Other liabilities	30,299,218	1,033,624	1,476,130	6,285,927	1,439,919	13,076,983	6,986,634	*19,486
Capital stock	14,623,739	2,030,122	687,868	4,528,633	967,453	3,455,649	2,954,015	34,013
Paid-in or capital surplus	36,803,433	2,879,401	967,225	12,249,669	1,403,816	9,639,477	8,663,846	*8,035
Retained earnings, appropriated	304,715	*22,194	*91,500	113,583	*20,031	*40,489	16,917	—
Retained earnings, unappropriated	48,645,836	2,285,264	3,551,191	14,835,055	4,987,213	10,852,723	12,134,389	157,319
Other retained earnings, 1120S	11,090,637	605,885	599,287	4,541,162	1,446,728	1,040,466	2,857,108	*74,769
Less: Cost of treasury stock	6,185,407	570,694	409,889	2,208,636	253,580	1,299,814	1,442,795	*602
Total receipts	**466,278,735**	**19,394,286**	**20,865,687**	**180,067,609**	**47,295,853**	**48;218,578**	**150,436,722**	**1,853,706**
Business receipts	431,400,382	16,992,237	20,060,488	169,037,138	44,403,603	39,363,199	141,543,717	1,834,358
Interest	7,347,383	381,108	173,216	1,571,403	242,107	3,875,857	1,103,693	4,377
Interest on Government obligations: State and local	228,834	8,796	23,384	115,805	2,882	19,071	58,896	—
Rents	5,264,993	441,345	108,090	2,548,248	998,785	626,718	541,805	*4,303
Royalties	2,674,895	388,291	58,994	606,817	2,665	1,561,779	56,349	—
Net short-term capital gain reduced by net long-term capital loss	49,021	*2,607	*4,501	16,876	2,913	9,716	12,408	—
Net long-term capital gain reduced by net short-term capital loss	1,959,949	487,199	37,174	593,299	53,285	466,489	322,503	*2,619
Net gain, noncapital assets	2,157,904	124,436	47,776	689,151	903,892	195,386	197,264	*2,973
Dividends received from domestic corporations	424,728	28,247	28,264	155,718	7,530	47,167	157,803	*26
Dividends received from foreign corporations	695,802	*23,831	*11,984	250,251	6,851	352,862	50,023	—
Other receipts	14,074,844	516,190	311,816	4,482,904	671,340	1,700,334	6,392,261	*5,050
Total deductions	**436,557,945**	**17,890,085**	**19,510,314**	**168,615,178**	**44,824,521**	**44,034,738**	**141,683,110**	**1,758,635**
Cost of sales and operations	168,684,119	6,621,207	7,442,356	80,956,398	20,991,289	15,993,391	36,679,478	1,191,142
Compensation of officers	35,649,293	326,469	1,209,201	11,049,184	2,366,849	2,348,504	18,349,087	97,367
Repairs	3,539,049	385,909	233,224	957,137	496,684	436,404	1,029,692	3,280
Bad debts	1,956,203	57,580	91,056	514,995	135,793	189,163	967,616	*927
Rent paid on business property	15,616,030	853,936	928,622	5,030,505	1,934,929	1,368,510	5,499,528	38,239
Taxes paid	14,073,719	806,862	823,695	5,055,329	1,562,009	1,188,294	4,637,530	32,160
Interest paid	11,796,814	1,029,157	314,027	2,940,064	1,197,771	3,802,435	2,513,359	10,591
Contributions or gifts	217,524	16,968	14,987	72,836	13,986	38,392	60,355	*548
Amortization	1,582,780	40,329	57,572	396,406	49,120	782,661	256,692	*1,085
Depreciation	17,828,090	835,778	888,053	5,773,204	3,613,597	2,625,032	4,092,426	21,385
Depletion	6,716	—	*1,628	*2,083	*1,631	*768	*606	—
Advertising	7,055,092	426,515	460,167	2,895,192	576,279	1,318,537	1,378,402	6,468
Pension, profit-sharing, stock bonus, and annuity plans	3,919,679	42,596	145,308	1,229,018	154,395	203,202	2,145,159	*2,164
Employee benefit programs	5,135,136	246,027	165,558	1,747,721	396,966	235,017	2,343,847	*6,699
Net loss, noncapital assets	216,248	6,347	3,646	97,356	6,679	25,401	76,819	—
Other deductions	149,281,454	6,194,405	6,731,213	49,897,751	11,326,545	13,479,025	61,652,514	346,580
Total receipts less total deductions	29,720,790	1,504,201	1,355,373	11,452,431	2,471,332	4,183,841	8,753,612	95,071
Constructive taxable income from related foreign corporations	487,659	9,489	8,388	226,738	2,666	*178,637	61,741	—
Net income	29,951,299	1,504,895	1,340,378	11,556,768	2,471,116	4,321,924	8,756,219	95,071
Income subject to tax	16,171,697	954,947	775,107	6,245,932	1,238,874	2,783,952	4,172,885	44,024
Income tax, total [2]	5,008,080	315,470	227,712	1,944,904	366,112	922,550	1,231,332	9,552
Regular tax	4,846,275	306,230	222,637	1,876,893	328,674	905,213	1,206,628	9,333
Personal holding company tax	*493	—	—	*485	—	*1	*7	—
Recapture of investment credit	25,591	2,776	703	16,035	1,626	1,050	3,402	—
Alternative minimum tax	120,728	5,263	3,833	46,817	34,670	13,139	17,007	*165
Environmental tax	13,324	1,183	539	4,595	1,142	3,147	2,717	—
Foreign tax credit	580,913	*33,416	*9,124	277,744	*3,068	230,720	26,841	—
U.S. possessions tax credit	16,174	4,218	([1])	2,724	55	285	8,892	384
Orphan drug credit	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*520	—	—	([1])	—	—	*520	—
General business credit	327,393	10,772	3,169	77,977	60,919	126,341	48,216	*35
Prior year minimum tax credit	12,578	*1,874	*7	8,112	*657	*364	*1,564	—

* 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.

[2] Also includes excess net passive income tax (Form 1120S), branch tax (Form 1120F), tax from Part II (Form 1120-REIT), tax from Part III (Form 1120-REIT), tax from Part IV (Form 1120-REIT), and tax from Line 4, Part II (Form 1120-RIC) which are 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

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	**3,562,789**	**210,248**	**1,795,643**	**612,426**	**361,296**	**242,809**
Total assets	**16,568,467,823**	—	**59,419,658**	**98,815,330**	**127,924,546**	**171,357,088**
Cash	784,815,919	—	13,043,591	16,973,753	18,279,991	21,153,165
Notes and accounts receivable	4,099,147,501	—	6,892,104	15,511,368	22,827,231	33,760,384
Less: Allowance for bad debts	96,744,285	—	249,581	124,735	265,518	398,902
Inventories	845,783,686	—	6,879,949	15,068,270	21,105,841	32,087,458
Investments in Government obligations	1,094,749,402	—	46,575	138,346	334,943	715,418
Other current assets	912,145,245	—	2,809,333	5,072,612	6,695,247	8,459,914
Loans to stockholders	79,855,312	—	4,248,335	5,004,497	4,889,621	4,069,373
Mortgage and real estate loans	1,604,896,498	—	429,552	1,212,594	1,875,265	1,833,870
Other investments	3,614,438,470	—	1,448,399	4,103,591	6,294,718	9,079,202
Depreciable assets	3,820,961,787	—	55,288,686	65,428,668	79,772,708	95,026,204
Less: Accumulated depreciation	1,593,226,079	—	37,667,512	40,443,360	47,867,781	54,274,943
Depletable assets	124,421,968	—	165,974	313,548	369,567	578,949
Less: Accumulated depletion	50,921,656	—	113,758	133,738	181,442	213,087
Land	177,037,541	—	1,789,098	4,666,361	7,383,943	12,037,967
Intangible assets (amortizable)	329,484,622	—	2,384,385	2,729,792	2,734,664	3,135,857
Less: Accumulated amortization	67,703,687	—	1,257,385	1,125,531	1,148,784	1,217,025
Other assets	889,325,583	—	3,281,914	4,419,292	4,824,334	5,523,284
Total liabilities	**16,568,467,823**	—	**59,419,658**	**98,815,330**	**127,924,546**	**171,357,088**
Accounts payable	1,022,810,938	—	9,052,304	13,170,736	17,507,768	26,024,917
Mortgages, notes, and bonds payable in less than one year	1,431,308,911	—	9,690,134	9,673,712	14,305,003	20,067,170
Other current liabilities	5,092,190,043	—	6,802,931	8,583,482	9,679,706	13,089,255
Loans from stockholders	243,230,029	—	21,050,829	16,985,983	15,735,651	14,044,451
Mortgages, notes, and bonds payable in one year or more	2,352,107,056	—	15,938,036	20,331,288	28,115,209	36,219,753
Other liabilities	2,219,993,412	—	3,161,531	3,147,376	4,132,255	4,996,977
Capital stock	1,429,486,841	—	14,179,704	11,670,808	12,823,639	14,656,876
Paid-in or capital surplus	2,154,243,458	—	9,387,713	8,231,795	10,141,824	12,946,109
Retained earnings, appropriated	77,508,595	—	153,119	168,107	419,610	541,117
Retained earnings, unappropriated	1,313,070,807	—	−13,923,427	12,597,217	17,924,512	27,343,352
Other retained earnings, 1120S	102,816,168	—	−13,468,493	−2,420,801	1,150,878	6,250,092
Less: Cost of treasury stock	870,298,430	—	2,604,723	3,324,372	4,011,507	4,822,982
Total receipts	**10,264,867,461**	**187,881,514**	**317,869,252**	**309,919,984**	**314,925,483**	**375,360,375**
Business receipts	8,949,846,244	120,422,381	310,316,427	298,990,232	306,166,608	364,938,056
Interest	772,316,565	53,811,267	600,954	1,069,820	1,420,586	1,623,487
Interest on Government obligations:						
State and local	32,308,213	164,470	3,110	6,853	18,076	17,830
Rents	92,309,807	1,393,092	742,309	1,119,374	1,432,646	1,891,724
Royalties	23,942,535	159,177	151,672	86,524	69,329	122,824
Net short-term capital gain reduced by net long-term capital loss	5,574,907	67,548	*8,594	40,053	54,218	33,041
Net long-term capital gain reduced by net short-term capital loss	56,684,288	2,133,317	484,427	552,922	584,024	689,628
Net gain, noncapital assets	36,522,792	2,200,920	658,832	626,684	657,701	673,158
Dividends received from domestic corporations	15,165,056	408,255	101,691	44,960	95,507	126,725
Dividends received from foreign corporations	42,281,099	524,206	*3,368	*70	*7,717	861
Other receipts	237,915,957	6,596,881	4,797,866	7,382,491	4,419,070	5,243,041
Total deductions	[4] **9,853,420,138**	**183,397,352**	**317,795,486**	**307,313,445**	**311,869,056**	**370,581,533**
Cost of sales and operations	5,944,935,455	79,906,847	141,902,717	168,280,796	181,769,070	237,108,191
Compensation of officers	203,220,587	3,478,359	35,236,627	25,593,242	21,798,032	19,305,684
Repairs	86,236,216	817,845	2,615,351	2,342,672	2,703,768	2,747,859
Bad debts	58,644,690	1,564,754	560,503	731,531	964,473	1,117,513
Rent paid on business property	161,141,584	2,579,275	13,821,406	9,805,002	8,612,408	8,314,192
Taxes paid	222,323,028	3,097,013	9,552,220	8,183,269	8,384,648	9,055,366
Interest paid	672,447,709	49,855,077	2,740,833	3,358,624	4,323,194	5,328,126
Contributions or gifts	4,893,019	48,380	47,161	58,782	80,801	91,500
Amortization	20,325,799	310,888	313,235	355,855	296,111	315,875
Depreciation	327,516,917	3,147,046	6,401,551	6,967,037	8,016,337	8,970,059
Depletion	8,716,602	118,961	30,114	41,169	35,721	35,625
Advertising	114,408,994	1,615,297	4,703,554	2,860,539	2,936,050	3,871,077
Pension, profit-sharing, stock bonus, and annuity plans	45,183,078	516,033	2,120,817	1,611,980	1,565,253	1,816,952
Employee benefit programs	94,322,487	1,039,300	1,675,108	1,522,634	1,809,876	2,129,077
Net loss, noncapital assets	14,094,202	1,309,960	293,625	159,667	175,050	175,327
Other deductions	1,875,009,779	33,992,317	95,780,666	75,440,645	68,398,266	70,199,109
Total receipts less total deductions	411,447,323	4,484,162	73,766	2,606,539	3,056,426	4,778,842
Constructive taxable income from related foreign corporations	33,977,330	220,370	*1,434	*1,002	*2,055	*39
Net income (less deficit)	412,982,753	4,540,004	47,632	2,591,177	3,033,800	4,749,263
Net income	555,850,912	12,254,616	12,072,766	9,964,624	10,017,324	11,766,882
Deficit	142,868,159	7,714,612	12,025,134	7,373,447	6,983,524	7,017,620
Income subject to tax	383,201,978	6,390,145	2,888,369	4,272,419	4,766,924	5,745,648
Income tax, total	131,367,397	2,175,328	481,969	728,115	907,248	1,292,950
Regular tax	126,899,211	2,084,062	476,606	722,285	895,991	1,273,384
Personal holding company tax	17,729	*273	*948	*441	*449	*349
Recapture of investment credit	552,398	19,260	1,763	1,457	3,629	4,358
Alternative minimum tax	3,352,845	45,311	2,584	3,920	6,731	11,958
Environmental tax	487,926	7,798	*16	*12	*26	*10
Foreign tax credit	27,068,104	289,412	*2,197	*815	*2,685	*1,305
U.S. possessions tax credit	2,318,021	36,537	232	29	402	2,116
Orphan drug credit	8,053	—	—	—	—	—
Nonconventional source fuel credit	49,517	87	—	—	—	—
General business credit	5,559,174	60,955	30,884	36,107	42,149	50,035
Prior year minimum tax credit	468,767	4,420	—	*27	*466	4,136

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]

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	**251,870**	**36,387**	**24,157**	**10,511**	**7,022**	**5,326**	**5,094**
Total assets	**523,523,599**	**251,522,895**	**375,970,770**	**384,179,230**	**496,617,609**	**848,780,276**	**13,230,356,822**
Cash	48,793,315	19,441,311	27,870,803	24,613,554	29,423,039	39,821,101	525,402,296
Notes and accounts receivable	114,687,843	56,638,975	94,414,470	106,155,891	138,250,086	202,422,720	3,307,586,429
Less: Allowance for bad debts	1,849,988	1,190,571	2,048,974	2,587,854	3,330,758	5,595,556	79,101,848
Inventories	116,335,083	53,268,094	58,877,278	39,154,668	37,409,684	53,604,296	411,993,064
Investments in Government obligations	3,522,670	3,944,744	20,033,535	35,107,111	54,867,378	80,139,773	895,898,910
Other current assets	28,358,437	14,357,906	21,367,881	20,177,497	24,204,266	37,784,970	742,857,182
Loans to stockholders	7,564,453	2,626,225	2,206,024	1,892,632	1,717,675	5,622,933	40,013,544
Mortgage and real estate loans	5,851,822	2,795,759	7,805,527	20,112,064	43,077,274	107,329,983	1,412,572,789
Other investments	32,380,417	20,115,730	40,782,583	49,736,455	74,675,893	154,321,641	3,221,499,840
Depreciable assets	240,904,570	108,081,691	133,074,261	101,619,699	102,878,377	166,294,458	2,672,592,466
Less: Accumulated depreciation	124,683,817	51,033,139	59,915,989	42,420,263	42,005,516	63,724,139	1,029,189,621
Depletable assets	2,099,007	818,714	2,309,057	3,148,849	3,364,281	5,117,909	106,136,113
Less: Accumulated depletion	1,102,944	253,102	888,429	1,572,415	1,374,656	1,627,442	43,460,644
Land	28,661,420	10,691,160	12,427,061	8,616,830	7,957,632	11,205,643	71,600,425
Intangible assets (amortizable)	8,674,130	4,754,670	7,343,298	8,696,332	10,914,565	24,154,552	253,962,376
Less: Accumulated amortization	2,803,636	1,575,993	1,842,130	1,859,808	1,825,437	4,192,534	48,855,426
Other assets	16,130,815	8,040,723	12,154,516	13,587,985	16,413,826	36,099,967	768,848,927
Total liabilities	**523,523,599**	**251,522,895**	**375,970,770**	**384,179,230**	**496,617,609**	**848,780,276**	**13,230,356,822**
Accounts payable	81,317,116	34,892,426	43,575,433	32,289,494	30,363,786	44,163,749	690,453,208
Mortgages, notes, and bonds payable in less than one year	87,124,695	43,563,426	48,125,940	35,821,554	33,576,500	48,883,447	1,080,477,332
Other current liabilities	47,762,481	29,973,143	77,039,614	128,804,733	206,537,968	331,555,137	4,232,361,593
Loans from stockholders	29,621,669	8,399,649	8,208,520	5,250,107	4,766,783	9,532,007	109,634,379
Mortgages, notes, and bonds payable in one year or more	104,935,954	49,686,418	69,994,982	61,001,781	65,767,159	118,912,662	1,781,203,812
Other liabilities	19,775,767	10,529,004	18,827,793	21,446,305	26,934,708	55,353,908	2,051,687,789
Capital stock	35,168,141	16,250,342	22,204,972	20,906,955	27,956,675	59,200,624	1,194,468,106
Paid-in or capital surplus	41,977,725	24,367,690	42,663,276	50,479,618	73,340,612	139,028,000	1,741,679,097
Retained earnings, appropriated	1,144,589	385,587	558,175	869,222	1,278,695	2,888,806	69,101,569
Retained earnings, unappropriated	53,607,559	16,843,596	24,716,088	19,930,705	25,790,514	51,870,140	1,076,370,551
Other retained earnings, 1120S	33,605,433	20,857,300	24,904,087	12,346,583	9,109,715	6,806,656	3,674,719
Less: Cost of treasury stock	12,517,529	4,225,686	4,848,109	4,967,826	8,805,505	19,414,860	800,755,332
Total receipts	**1,123,631,339**	**480,307,941**	**533,605,908**	**368,702,491**	**348,750,703**	**528,828,571**	**5,375,083,901**
Business receipts	1,090,893,208	464,119,131	507,428,249	340,013,706	310,512,330	464,665,025	4,371,380,891
Interest	5,347,458	2,782,842	8,145,585	13,462,771	21,593,829	37,474,774	624,983,192
Interest on Government obligations:							
State and local	134,897	112,321	378,578	730,079	1,304,564	2,163,699	27,273,735
Rents	4,951,658	2,366,455	3,075,474	2,500,969	2,364,666	3,876,166	66,595,273
Royalties	390,956	194,674	252,421	417,857	486,229	959,433	20,651,439
Net short-term capital gain reduced by net long-term capital loss	152,802	68,887	106,536	299,736	174,796	368,627	4,200,069
Net long-term capital gain reduced by net short-term capital loss	2,131,224	1,227,676	1,711,239	1,574,441	1,694,183	2,803,026	41,098,180
Net gain, noncapital assets	1,833,537	777,419	1,305,211	848,173	1,239,746	1,451,094	24,250,315
Dividends received from domestic corporations	385,104	231,307	358,682	471,928	362,201	796,359	11,782,337
Dividends received from foreign corporations	26,576	34,352	216,944	166,746	303,388	954,724	40,042,146
Other receipts	17,383,919	8,392,876	10,626,989	8,216,086	8,714,770	13,315,644	142,826,323
Total deductions	**1,108,037,602**	**471,342,917**	**521,788,600**	**358,757,149**	**336,423,392**	**506,539,927**	**5,059,573,679**
Cost of sales and operations	797,433,787	351,319,896	378,463,579	251,741,325	225,017,899	328,602,853	2,803,388,495
Compensation of officers	36,088,710	10,749,347	9,657,309	5,177,826	4,378,432	5,073,977	26,683,041
Repairs	5,541,097	1,938,606	2,284,103	1,611,302	1,628,669	2,762,576	59,242,369
Bad debts	3,273,640	1,255,830	2,052,100	1,877,523	2,129,734	2,852,068	40,265,021
Rent paid on business property	15,570,586	5,491,138	6,232,740	4,205,940	4,671,616	7,026,928	74,810,353
Taxes paid	20,705,116	7,884,830	8,949,087	6,248,331	6,177,677	9,785,794	124,299,676
Interest paid	17,553,027	8,081,314	12,652,124	14,394,112	19,095,082	32,535,802	502,530,394
Contributions or gifts	221,753	101,243	138,331	133,532	169,559	249,378	3,552,599
Amortization	990,762	547,222	800,256	831,926	864,249	1,539,670	13,159,750
Depreciation	21,538,688	9,166,554	11,633,054	8,542,864	9,115,018	14,655,433	219,363,277
Depletion	163,891	76,279	170,409	203,690	251,423	438,801	7,150,519
Advertising	9,308,542	4,413,842	4,741,628	3,696,430	3,945,320	5,557,659	66,759,055
Pension, profit-sharing, stock bonus, and annuity plans	3,943,313	1,423,162	1,587,130	1,084,335	1,093,921	2,021,828	26,398,353
Employee benefit programs	6,161,705	2,854,779	3,455,873	2,700,922	2,802,129	5,129,871	63,041,212
Net loss, noncapital assets	545,645	254,334	1,075,214	652,966	588,787	847,167	8,016,460
Other deductions	168,997,343	65,784,542	77,895,662	55,654,126	54,493,878	87,460,120	1,020,913,105
Total receipts less total deductions	15,593,737	8,965,024	11,817,308	9,945,342	12,327,311	22,288,644	315,510,222
Constructive taxable income from related foreign corporations	*46,283	10,862	99,762	152,046	235,826	742,562	32,465,090
Net income (less deficit)	15,451,599	8,856,456	11,530,001	9,361,444	11,258,349	20,863,431	320,699,597
Net income	33,071,925	16,067,002	21,367,991	16,174,548	17,943,517	29,988,424	365,161,293
Deficit	17,620,326	7,210,546	9,837,990	6,813,104	6,685,168	9,124,993	44,461,695
Income subject to tax	15,472,379	7,452,154	10,619,867	9,979,228	11,117,180	19,571,657	284,926,007
Income tax, total	4,762,067	2,554,654	3,708,516	3,515,872	3,903,953	6,900,954	100,435,772
Regular tax	4,617,359	2,493,257	3,592,919	3,391,280	3,776,264	6,656,049	96,919,757
Personal holding company tax	8,151	*524	1,142	*312	321	904	3,915
Recapture of investment credit	17,082	7,776	14,241	9,128	14,096	16,466	443,140
Alternative minimum tax	115,128	50,954	87,765	102,830	98,239	193,593	2,633,833
Environmental tax	1,082	1,012	5,192	8,004	10,478	23,449	430,845
Foreign tax credit	32,503	20,651	81,177	95,187	175,013	477,121	25,890,036
U.S. possessions tax credit	26,386	29,478	115,361	190,201	302,951	374,385	1,239,943
Orphan drug credit	—	—	—	—	—	—	8,053
Nonconventional source fuel credit	*40	*862	*466	*1,050	134	1,528	45,349
General business credit	138,210	61,945	91,698	75,948	84,457	168,149	4,718,637
Prior year minimum tax credit	15,690	16,232	9,369	12,787	9,740	21,251	374,650

* 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	**1,908,799**	**81,953**	**863,192**	**356,628**	**223,646**	**157,784**
Total assets	**13,286,740,506**	—	**31,063,084**	**57,881,636**	**79,572,247**	**113,577,897**
Cash	634,548,746	—	8,118,175	11,659,005	13,269,826	16,269,094
Notes and accounts receivable	3,435,784,960	—	3,911,259	10,035,790	15,697,037	24,875,983
Less: Allowance for bad debts	74,925,285	—	80,487	66,309	152,303	264,227
Inventories	653,205,401	—	3,540,883	9,195,825	13,358,914	22,689,111
Investments in Government obligations	868,663,798	—	20,302	83,623	240,697	458,612
Other current assets	673,602,841	—	1,386,641	2,621,686	3,934,830	5,253,054
Loans to stockholders	54,935,057	—	2,669,177	3,197,217	3,123,706	2,645,209
Mortgage and real estate loans	1,258,554,605	—	231,001	764,764	1,082,871	1,260,108
Other investments	3,019,122,297	—	587,751	2,436,795	4,236,910	6,744,749
Depreciable assets	3,029,295,808	—	27,387,881	35,959,159	47,265,584	59,629,787
Less: Accumulated depreciation	1,295,192,556	—	19,396,216	23,327,728	30,017,248	36,557,366
Depletable assets	97,753,913	—	63,645	150,671	133,973	144,383
Less: Accumulated depletion	38,626,030	—	40,231	48,976	68,942	55,214
Land	106,742,044	—	682,357	2,089,283	3,979,182	6,459,707
Intangible assets (amortizable)	212,064,411	—	966,600	1,318,939	1,254,601	1,602,500
Less: Accumulated amortization	49,697,243	—	491,003	621,124	567,865	733,803
Other assets	700,907,743	—	1,505,348	2,433,015	2,800,475	3,156,210
Total liabilities	**13,286,740,506**	—	**31,063,084**	**57,881,636**	**79,572,247**	**113,577,897**
Accounts payable	820,240,344	—	3,495,534	7,200,987	10,514,314	17,206,501
Mortgages, notes, and bonds payable in less than one year	1,093,530,844	—	3,975,720	4,273,617	7,313,799	11,013,408
Other current liabilities	4,032,671,015	—	3,037,338	4,482,961	5,854,954	8,579,896
Loans from stockholders	130,407,298	—	5,773,189	6,746,243	5,434,335	6,493,955
Mortgages, notes, and bonds payable in one year or more	1,657,422,148	—	5,401,771	9,067,412	12,566,542	17,608,507
Other liabilities	1,811,759,023	—	991,116	1,296,614	1,988,642	2,669,336
Capital stock	1,167,742,467	—	5,239,746	5,954,621	6,397,756	8,441,928
Paid-in or capital surplus	1,685,014,703	—	2,301,523	3,074,711	4,395,183	5,872,924
Retained earnings, appropriated	68,415,456	—	112,588	115,377	251,478	348,879
Retained earnings, unappropriated	1,450,299,589	—	2,048,624	14,838,706	21,528,166	30,001,779
Other retained earnings, 1120S	129,323,004	—	215,659	2,738,972	6,252,063	8,938,118
Less: Cost of treasury stock	760,085,382	—	1,529,722	1,908,583	2,924,986	3,597,335
Total receipts	**8,167,955,799**	**131,987,486**	**189,655,760**	**205,313,673**	**221,541,105**	**279,640,587**
Business receipts	7,089,202,343	82,230,355	184,723,527	197,914,965	215,377,249	271,773,589
Interest	641,161,367	39,125,264	307,761	718,143	958,244	1,318,815
Interest on Government obligations: State and local	20,813,942	97,746	*546	2,031	10,145	16,378
Rents	73,003,139	804,638	447,615	738,233	988,683	1,418,957
Royalties	21,988,759	87,128	95,617	77,101	58,836	116,406
Net short-term capital gain reduced by net long-term capital loss	4,826,495	34,598	*5,765	30,184	51,018	26,009
Net long-term capital gain reduced by net short-term capital loss	49,020,126	1,971,119	423,302	376,220	515,162	636,360
Net gain, noncapital assets	29,673,378	1,945,144	490,628	471,752	495,947	480,309
Dividends received from domestic corporations	13,384,325	387,825	95,209	35,634	84,261	112,664
Dividends received from foreign corporations	41,303,058	486,382	*3,044	*70	*6,759	1,775
Other receipts	183,578,868	4,817,287	3,062,745	4,949,341	2,994,801	3,739,326
Total deductions	**7,624,549,363**	**119,853,608**	**177,562,263**	**195,346,760**	**211,523,851**	**267,729,448**
Cost of sales and operations	4,668,825,958	54,155,269	81,228,077	111,719,760	125,149,248	176,205,610
Compensation of officers	145,162,598	2,132,278	19,750,497	15,733,978	16,078,970	14,395,892
Repairs	72,468,700	444,278	1,526,003	1,398,369	1,768,040	1,853,651
Bad debts	35,962,645	588,203	203,420	300,177	463,932	674,479
Rent paid on business property	114,312,444	1,390,135	7,208,154	5,801,184	5,448,996	5,669,413
Taxes paid	178,437,335	2,049,990	5,336,845	5,228,826	5,684,291	6,344,038
Interest paid	510,779,253	34,268,574	1,277,948	1,622,486	2,197,474	3,063,341
Contributions or gifts	4,809,495	48,066	42,219	56,398	72,685	84,633
Amortization	11,617,282	96,161	123,509	175,618	134,157	153,273
Depreciation	255,654,101	1,701,549	3,250,674	3,972,672	5,054,442	6,001,337
Depletion	7,308,173	64,383	8,525	23,440	21,851	49,446
Advertising	88,702,986	980,803	2,846,536	1,720,259	1,902,303	2,727,657
Pension, profit-sharing, stock bonus, and annuity plans	37,706,050	296,908	1,203,763	1,054,105	1,226,188	1,388,236
Employee benefit programs	76,915,847	605,585	950,418	1,012,190	1,258,239	1,497,402
Net loss, noncapital assets	4,946,720	275,566	47,176	30,860	46,154	80,045
Other deductions	1,410,939,781	20,755,860	52,558,499	45,496,437	45,016,881	47,540,996
Total receipts less total deductions	543,406,437	12,133,878	12,093,497	9,966,913	10,017,254	11,911,139
Constructive taxable income from related foreign corporations	33,313,159	218,485	*1,418	—	*2,055	*1,447
Net income	555,850,912	12,254,616	12,072,766	9,964,624	10,008,636	11,895,567
Income subject to tax	383,098,341	6,390,145	2,888,369	4,272,404	4,757,917	5,868,532
Income tax, total	130,601,524	2,166,504	481,623	727,330	900,271	1,329,560
Regular tax	126,851,341	2,083,995	476,606	722,282	891,600	1,314,138
Personal holding company tax	17,279	*273	*948	*441	*449	*317
Recapture of investment credit	483,618	17,238	1,418	674	2,638	3,021
Alternative minimum tax	2,727,771	41,423	*2,583	3,920	5,516	10,909
Environmental tax	482,877	7,330	*16	*12	*16	*229
Foreign tax credit	27,057,858	289,412	*2,197	*815	*2,685	29,220
U.S. possessions tax credit	2,318,021	36,537	232	29	402	2,116
Orphan drug credit	8,053	—	—	—	—	—
Nonconventional source fuel credit	49,517	87	—	—	—	—
General business credit	5,556,269	60,955	30,884	36,107	42,149	50,035
Prior year minimum tax credit	468,767	4,420	—	*27	*466	4,136

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 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	**165,544**	**24,134**	**16,017**	**7,190**	**5,063**	**3,892**	**3,756**
Total assets	**341,364,107**	**166,659,703**	**250,416,194**	**256,131,542**	**382,736,201**	**645,111,470**	**10,962,226,427**
Cash	37,677,697	14,813,056	20,544,175	18,026,795	23,093,856	30,832,504	440,244,563
Notes and accounts receivable	85,579,161	42,418,374	67,691,537	75,777,461	112,144,371	159,341,248	2,838,312,738
Less: Allowance for bad debts	1,158,317	814,895	1,216,133	1,632,180	2,372,040	3,879,875	63,288,520
Inventories	81,254,188	37,648,577	42,976,709	28,488,655	29,759,741	40,769,946	343,522,850
Investments in Government obligations	2,570,611	3,059,486	15,183,330	25,768,157	43,493,096	63,550,380	714,235,505
Other current assets	17,593,235	9,545,646	13,691,116	13,152,167	18,391,466	27,174,276	560,858,724
Loans to stockholders	4,742,101	1,682,938	1,279,283	905,493	940,907	3,417,177	30,331,849
Mortgage and real estate loans	3,247,761	1,694,042	5,061,431	14,246,756	32,491,692	82,603,805	1,115,870,372
Other investments	20,196,947	14,410,258	26,805,666	32,013,479	60,860,634	123,876,276	2,726,952,833
Depreciable assets	149,630,070	66,614,004	84,400,881	63,573,144	80,336,980	123,139,918	2,291,358,400
Less: Accumulated depreciation	85,367,855	35,071,351	41,834,927	29,347,436	36,110,712	49,800,751	908,360,969
Depletable assets	819,681	546,356	989,346	1,472,191	1,378,205	2,665,617	89,389,844
Less: Accumulated depletion	451,468	190,326	417,976	778,232	427,017	712,649	35,434,998
Land	13,807,751	4,772,963	5,969,984	4,243,697	4,544,590	6,710,456	53,482,073
Intangible assets (amortizable)	3,910,844	2,049,949	3,401,099	3,667,822	5,352,132	11,452,011	177,087,912
Less: Accumulated amortization	1,439,869	744,323	884,305	796,706	936,248	1,830,907	40,651,091
Other assets	8,751,567	4,224,949	6,774,978	7,350,277	9,794,548	25,802,037	628,314,340
Total liabilities	**341,364,107**	**166,659,703**	**250,416,194**	**256,131,542**	**382,736,201**	**645,111,470**	**10,962,226,427**
Accounts payable	56,725,662	25,512,263	30,870,891	21,064,511	23,501,003	31,416,855	592,731,824
Mortgages, notes, and bonds payable in less than one year	49,427,191	24,633,928	27,817,401	19,996,157	23,196,601	30,485,608	891,397,413
Other current liabilities	30,308,928	20,054,358	52,724,694	90,791,507	161,503,091	260,863,223	3,394,470,065
Loans from stockholders	12,127,023	3,464,360	3,061,229	1,863,227	2,270,068	5,406,004	77,767,665
Mortgages, notes, and bonds payable in one year or more	48,817,031	23,276,528	34,045,378	28,252,302	39,845,255	62,684,106	1,375,857,317
Other liabilities	10,673,649	6,303,136	10,953,123	11,599,441	18,646,553	45,370,473	1,701,266,940
Capital stock	18,916,622	8,893,536	13,086,070	13,161,043	22,784,072	43,949,474	1,020,917,599
Paid-in or capital surplus	14,849,298	9,598,592	20,140,747	26,531,409	46,708,228	104,223,557	1,447,318,531
Retained earnings, appropriated	945,133	283,374	407,228	704,824	1,450,692	2,042,054	61,753,829
Retained earnings, unappropriated	70,260,744	27,315,517	36,761,443	33,524,378	44,042,396	69,291,098	1,100,686,739
Other retained earnings, 1120S	37,288,635	20,397,527	24,325,356	11,502,085	8,736,121	5,516,278	3,412,190
Less: Cost of treasury stock	8,975,810	3,073,415	3,777,364	2,859,343	9,947,879	16,137,260	705,353,685
Total receipts	**847,792,986**	**366,197,888**	**407,241,566**	**267,843,257**	**272,551,557**	**413,094,255**	**4,565,095,679**
Business receipts	824,894,929	354,738,025	388,587,944	248,075,493	242,653,710	362,133,905	3,716,098,652
Interest	3,657,185	2,001,710	5,754,735	9,506,880	17,136,705	30,255,430	530,420,495
Interest on Government obligations:							
State and local	92,066	84,880	260,036	448,679	762,100	1,277,377	17,761,958
Rents	3,234,085	1,410,326	1,782,639	1,314,543	1,611,857	2,635,185	56,616,378
Royalties	279,743	87,648	203,748	307,052	489,575	799,627	19,386,279
Net short-term capital gain reduced by net long-term capital loss	118,110	64,428	93,993	117,349	154,554	340,147	3,790,340
Net long-term capital gain reduced by net short-term capital loss	1,672,632	1,015,542	1,472,675	1,395,504	1,311,804	2,353,182	35,876,624
Net gain, noncapital assets	1,403,596	597,798	964,750	620,071	942,513	1,114,631	20,146,238
Dividends received from domestic corporations	351,082	215,673	324,174	396,849	326,071	727,133	10,327,751
Dividends received from foreign corporations	23,612	26,694	150,158	123,474	745,744	892,277	38,843,069
Other receipts	12,065,944	5,955,165	7,646,714	5,537,363	6,416,923	10,565,361	115,827,896
Total deductions	**814,657,552**	**350,054,537**	**385,597,181**	**251,332,377**	**252,731,997**	**381,231,219**	**4,216,928,570**
Cost of sales and operations	600,594,731	267,883,104	289,673,374	181,912,716	170,565,309	252,039,936	2,357,698,825
Compensation of officers	28,208,543	8,467,808	7,374,447	3,804,162	3,291,380	3,875,723	22,048,920
Repairs	3,873,958	1,350,495	1,640,622	1,053,370	1,220,310	2,217,205	54,122,399
Bad debts	2,053,893	745,830	901,994	785,711	928,518	1,276,816	27,039,672
Rent paid on business property	10,542,083	3,642,589	4,230,222	2,530,433	3,079,219	4,675,805	60,094,211
Taxes paid	15,157,043	5,751,101	6,698,742	4,440,994	4,779,039	8,551,187	108,415,238
Interest paid	9,550,108	4,434,883	7,253,221	8,415,386	13,689,699	22,203,905	402,802,229
Contributions or gifts	213,189	99,494	137,962	132,798	164,095	270,737	3,487,219
Amortization	446,820	223,977	357,645	327,901	414,850	708,763	8,454,608
Depreciation	14,129,239	5,850,954	7,412,805	5,419,021	6,324,015	10,727,733	185,809,659
Depletion	118,903	61,212	132,330	128,229	162,750	353,666	6,183,437
Advertising	6,159,779	3,132,938	3,269,553	2,508,102	3,533,730	5,064,211	54,857,114
Pension, profit-sharing, stock bonus, and annuity plans	3,351,166	1,189,859	1,276,643	870,595	1,073,068	1,790,553	22,984,966
Employee benefit programs	4,304,943	1,985,676	2,490,773	1,876,660	2,121,122	3,950,055	54,862,783
Net loss, noncapital assets	194,493	65,735	81,162	108,224	114,468	316,265	3,586,571
Other deductions	115,758,661	45,168,880	52,665,686	37,018,074	41,270,426	63,208,660	844,480,719
Total receipts less total deductions	33,135,434	16,143,351	21,644,386	16,510,880	19,819,560	31,863,035	348,167,109
Constructive taxable income from related foreign corporations	*46,089	10,839	83,863	138,220	*395,846	727,511	31,687,387
Net income	33,074,354	16,062,572	21,464,665	16,200,376	19,453,082	31,309,095	362,090,560
Income subject to tax	15,474,565	7,447,968	10,703,527	10,002,488	12,518,185	20,904,377	281,869,865
Income tax, total	4,717,887	2,543,827	3,710,778	3,491,068	4,373,912	7,320,334	98,838,430
Regular tax	4,609,600	2,491,837	3,619,978	3,397,497	4,259,368	7,109,205	95,875,234
Personal holding company tax	8,123	*524	1,142	*1,311	581	408	2,763
Recapture of investment credit	13,637	6,397	11,059	8,185	14,358	15,371	389,622
Alternative minimum tax	83,967	43,253	70,403	75,445	83,306	162,991	2,144,055
Environmental tax	1,065	1,000	5,267	7,434	12,799	25,234	422,475
Foreign tax credit	32,503	20,651	81,185	95,200	347,201	487,055	25,669,733
U.S. possessions tax credit	27,103	28,761	115,361	198,622	294,530	374,385	1,239,943
Orphan drug credit	—	—	—	—	—	—	8,053
Nonconventional source fuel credit	*40	*862	*466	*1,050	1,012	651	45,349
General business credit	138,210	61,945	92,557	76,052	89,223	171,457	4,706,695
Prior year minimum tax credit	15,690	16,232	9,467	12,688	9,740	21,265	374,637

* 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 OF ACTIVE CORPORATIONS

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	3,562,789	210,248	1,795,643	612,426	361,296	242,809	251,870	36,387	24,157	10,511	7,022	5,326	5,094
Total assets	16,568,467,823	—	59,419,658	98,815,330	127,924,546	171,357,088	523,523,599	251,522,895	375,970,770	384,179,230	496,617,609	848,780,276	13,230,356,822
Notes and accounts receivable, net	4,002,403,216	—	6,642,523	15,386,633	22,561,713	33,361,482	112,837,855	55,448,404	92,365,496	103,568,037	134,919,328	196,827,164	3,228,484,581
Inventories	845,783,686	—	6,879,949	15,068,270	21,105,841	32,087,458	116,335,083	53,268,094	58,877,278	39,154,668	37,409,684	53,604,296	411,993,064
Cash, Government obligations and other current assets	2,791,710,566	—	15,899,499	22,184,711	25,310,181	30,328,497	80,674,422	37,743,961	69,272,219	79,898,162	108,494,683	157,745,844	2,164,158,388
Other investments and loans	5,299,190,280	—	6,126,286	10,320,682	13,059,604	14,982,445	45,796,692	25,537,714	50,794,134	71,741,151	119,470,842	267,274,557	4,674,086,173
Depreciable assets	3,820,961,787	—	55,288,686	65,428,668	79,772,708	95,026,204	240,904,570	108,081,691	133,074,261	101,619,699	102,878,377	166,294,458	2,672,592,466
Less: Accumulated depreciation	1,593,226,079	—	37,667,512	40,443,360	47,867,781	54,274,943	124,683,817	51,033,139	59,915,989	42,420,263	42,005,516	63,724,139	1,029,189,621
Other capital assets less reserves	512,318,788	—	2,968,314	6,450,432	9,157,948	14,322,661	35,527,977	14,435,449	19,348,857	17,029,788	19,036,385	34,658,128	339,382,844
Accounts and notes payable	2,454,119,849	—	18,742,438	22,844,448	31,812,771	46,092,087	168,441,811	78,455,852	91,701,373	68,111,048	63,940,286	93,047,196	1,770,930,540
Other current liabilities	5,092,190,043	—	6,802,931	8,583,482	9,679,706	13,089,255	47,762,481	29,973,143	77,039,614	128,804,733	206,537,968	331,555,137	4,232,361,593
Mortgages, notes, and bonds payable in one year or more	2,352,107,056	—	15,938,036	20,331,288	28,115,209	36,219,753	104,935,954	49,686,418	69,994,982	61,001,781	65,767,159	118,912,662	1,781,203,812
Net worth	4,206,827,439	—	-6,276,107	26,922,754	38,448,956	56,914,564	152,985,918	74,478,829	110,198,489	99,565,257	128,670,706	240,379,366	3,284,538,710
Total receipts	10,264,867,461	187,881,514	317,869,252	309,919,984	314,925,483	375,360,375	1,123,631,339	480,307,941	533,605,908	368,702,491	348,750,703	528,828,571	5,375,083,901
Business receipts	8,949,846,244	120,422,381	310,316,427	298,990,232	306,166,608	364,938,056	1,090,893,208	464,119,131	507,428,249	340,013,706	310,512,330	464,665,025	4,371,380,891
Cost of sales and operations	5,944,935,455	79,906,847	141,902,717	168,280,796	181,769,070	237,108,191	797,433,787	351,319,896	378,463,579	251,741,325	225,017,899	328,602,853	2,803,388,495
Taxes paid	222,323,028	3,097,013	9,552,220	8,183,269	8,384,648	9,055,366	20,705,116	7,884,830	8,949,087	6,248,331	6,177,677	9,785,794	124,299,676
Interest paid	672,447,709	49,855,077	2,740,833	3,358,624	4,323,194	5,328,126	17,553,027	8,081,314	12,652,124	14,394,112	19,095,082	32,535,802	502,530,394
Depreciation	327,516,917	3,147,046	6,401,551	6,967,037	8,016,337	8,970,059	21,538,688	9,166,554	11,633,054	8,542,864	9,115,018	14,655,433	219,363,277
Pension, profit-sharing, stock bonus, and annuity plans	45,183,078	516,033	2,120,817	1,611,980	1,565,253	1,816,952	3,943,313	1,423,162	1,587,130	1,084,335	1,093,921	2,021,828	26,398,353
Employee benefit programs	94,322,487	1,039,300	1,675,108	1,522,634	1,809,876	2,129,077	6,161,705	2,854,779	3,455,873	2,700,922	2,802,129	5,129,871	63,041,212
Net income (less deficit)	412,982,753	4,540,004	47,632	2,591,177	3,033,800	4,749,263	15,451,599	8,856,456	11,530,001	9,361,444	11,258,349	20,863,431	320,699,597
Income subject to tax	383,201,978	6,390,145	2,888,369	4,272,419	4,766,924	5,745,648	15,472,379	7,452,154	10,619,867	9,979,228	11,117,180	19,571,657	284,926,007
Income tax, total	131,367,397	2,175,328	481,969	728,115	907,248	1,292,950	4,762,067	2,554,654	3,708,516	3,515,872	3,903,953	6,900,954	100,435,772
Alternative minimum tax	3,352,845	45,311	2,584	3,920	6,731	11,958	115,128	50,954	87,765	102,830	98,239	193,593	2,633,833
Environmental tax	487,926	7,798	*16	*12	*26	*10	1,082	1,012	5,192	8,004	10,478	23,449	430,845
Foreign tax credit	27,068,104	289,412	*2,197	*815	*2,685	*1,305	32,503	20,651	81,177	95,187	175,013	477,121	25,890,038
U.S. possessions tax credit	2,318,021	36,537	232	29	402	2,116	26,386	29,478	115,361	190,201	302,951	374,385	1,239,943
Orphan drug credit	8,053	—	—	—	—	—	—	—	—	—	—	—	8,053
Nonconventional source fuel credit	49,517	87	—	—	—	—	*40	*862	*466	*1,050	134	1,528	45,349
General business credit	5,559,174	60,955	30,884	36,107	42,149	50,035	138,210	61,945	91,698	75,948	84,457	168,149	4,718,637
Prior year minimum tax credit	468,767	4,420	—	*27	*466	4,136	15,690	16,232	9,369	12,787	9,740	21,251	374,650
Agriculture, Forestry, and Fishing													
Number of returns	119,902	5,014	48,700	23,114	19,011	14,134	8,846	638	275	94	44	25	7
Total assets	60,491,780	—	1,757,716	3,851,034	6,763,768	10,174,280	16,165,669	4,430,536	4,251,741	3,206,836	2,984,272	3,916,052	2,989,875
Notes and accounts receivable, net	5,731,467	—	84,230	213,491	489,204	574,676	1,287,476	669,077	542,105	495,177	382,709	628,736	364,586
Inventories	6,986,298	—	54,759	210,312	399,122	736,341	1,873,960	655,167	526,801	564,561	481,749	641,946	841,580
Cash, Government obligations and other current assets	6,918,883	—	375,497	718,666	1,022,426	1,093,221	1,482,625	432,158	448,534	419,960	201,200	439,369	285,228
Other investments and loans	7,077,962	—	225,231	376,802	757,719	905,826	1,818,081	357,468	706,756	350,379	556,676	425,456	597,569
Depreciable assets	42,068,336	—	2,471,340	4,208,090	6,380,243	7,413,544	10,171,560	2,475,498	2,440,208	1,715,704	1,688,992	1,614,701	1,488,455
Less: Accumulated depreciation	25,952,786	—	1,810,113	2,842,082	4,401,953	4,959,152	6,375,273	1,267,684	1,199,542	759,205	882,967	679,248	775,566
Other capital assets less reserves	14,745,891	—	228,391	849,651	1,792,040	3,784,417	4,991,078	943,559	706,932	264,971	447,898	597,126	139,830
Accounts and notes payable	12,453,990	—	602,560	800,877	1,193,983	1,343,114	3,511,184	974,389	1,057,757	834,988	757,785	813,794	563,559
Other current liabilities	2,751,441	—	99,872	70,465	209,617	227,866	643,198	250,489	298,910	158,089	216,782	298,022	278,132
Mortgages, notes, and bonds payable in one year or more	16,213,970	—	522,783	964,251	1,789,275	2,978,564	4,654,300	1,317,987	1,214,086	810,991	685,356	935,341	341,036
Net worth	20,271,852	—	-55,636	846,562	2,129,754	4,491,317	5,432,414	1,300,997	1,120,859	1,049,200	931,538	1,487,040	1,537,807
Total receipts	86,258,094	1,072,148	6,244,918	10,919,098	9,992,855	9,821,860	18,603,740	5,115,007	5,071,220	4,566,774	4,601,844	6,516,297	3,732,334
Business receipts	80,520,140	886,862	5,783,798	10,433,122	9,228,443	8,916,980	17,132,932	4,831,237	4,745,663	4,367,511	4,328,753	6,301,578	3,563,260
Cost of sales and operations	57,188,712	461,866	3,032,805	7,641,935	5,906,017	5,666,839	12,558,824	3,343,222	3,729,436	3,508,397	3,626,344	5,393,539	2,319,489
Taxes paid	1,798,380	37,738	199,227	169,130	286,331	263,210	384,505	105,047	75,955	58,805	51,486	116,646	50,300
Interest paid	2,497,991	57,312	115,088	207,045	263,378	408,112	691,933	176,003	164,354	91,168	118,240	140,635	64,722
Depreciation	3,636,847	92,232	230,460	421,772	501,027	603,647	813,040	200,879	190,645	135,368	161,062	152,630	134,085
Pension, profit-sharing, stock bonus, and annuity plans	180,620	*1,821	*10,572	*9,856	26,615	26,635	47,214	12,456	13,170	7,185	7,130	13,290	4,676
Employee benefit programs	364,723	2,406	7,367	32,565	44,745	30,174	60,282	18,265	18,966	33,751	16,097	23,739	76,366
Net income (less deficit)	1,615,921	120,120	122,529	134,233	178,785	279,727	235,771	15,288	44,132	72,164	75,601	154,351	183,219
Income subject to tax	2,007,910	97,092	109,228	121,858	192,065	260,588	360,536	134,195	82,116	147,523	127,701	196,000	179,008
Income tax, total	554,457	23,365	18,914	21,098	33,255	50,795	101,337	45,550	28,415	53,778	44,851	68,785	64,314
Alternative minimum tax	12,597	*53	*141	*293	*179	*46	2,370	*596	1,260	*1,904	1,233	1,810	2,712
Environmental tax	854	—	3	—	—	—	*16	*26	*34	98	142	282	253
Foreign tax credit	*21,042	—	—	—	—	—	*58	—	6	*1,519	—	2,333	17,125
U.S. possessions tax credit	515	—	—	—	—	515	—	—	—	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	—	—	—	—	—	—	—	—	—	—	—	—	—
General business credit	31,452	5,956	*3,114	*2,249	2,637	4,876	4,677	*930	*831	*2,608	1,034	1,548	991
Prior year minimum tax credit	*1,242	—	—	—	—	—	*482	—	*125	*615	20	—	—

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)
Mining													
Number of returns	41,080	2,904	20,951	5,462	4,362	3,266	2,792	462	432	168	115	87	79
Total assets	225,639,336	—	658,114	808,532	1,600,200	2,313,035	5,880,152	3,290,689	6,464,783	5,965,955	9,871,728	22,611,586	166,174,561
Notes and accounts receivable, net	21,604,025	—	107,333	223,246	318,112	392,438	882,217	490,755	920,939	871,492	1,230,074	3,538,352	12,629,069
Inventories	7,213,538	—	*10,671	*26,701	92,397	56,002	134,725	97,219	280,208	247,636	412,261	1,376,653	4,479,066
Cash, Government obligations and other current assets	14,324,921	—	172,430	102,751	334,953	514,197	1,228,285	722,982	1,158,606	974,551	1,210,402	1,834,203	6,071,561
Other investments and loans	93,779,490	—	91,345	117,161	121,104	297,584	830,402	503,775	1,025,421	716,186	2,184,098	4,567,073	83,325,341
Depreciable assets	99,346,831	—	830,663	929,084	1,797,035	2,149,554	3,579,229	2,325,554	3,884,787	3,154,400	6,110,885	9,516,653	65,068,986
Less: Accumulated depreciation	49,763,974	—	642,634	685,188	1,338,316	1,616,993	2,192,221	1,560,365	2,433,606	1,823,528	3,706,202	4,810,697	28,954,223
Other capital assets less reserves	26,968,474	—	47,948	77,414	176,257	363,363	1,061,864	606,293	1,348,620	1,355,764	1,922,812	3,193,851	16,814,287
Accounts and notes payable	25,634,632	—	721,383	314,231	736,997	562,335	1,489,565	497,097	1,100,364	1,113,335	1,666,348	1,974,016	15,458,961
Other current liabilities	12,346,231	—	50,732	98,753	121,282	213,691	466,394	319,984	497,464	450,892	652,927	2,419,499	7,054,613
Mortgages, notes, and bonds payable in one year or more	48,719,957	—	303,631	215,729	342,001	515,042	1,482,768	378,814	1,845,542	1,345,748	2,596,842	3,599,472	36,094,368
Net worth	111,829,193	—	-1,058,120	-16,316	13,724	675,546	1,504,775	1,475,610	2,293,418	2,424,243	3,783,239	8,307,303	92,425,771
Total receipts	100,426,996	2,016,467	1,883,627	1,528,573	2,837,794	2,969,670	5,300,644	2,694,887	4,579,613	4,072,824	6,154,169	14,494,392	51,894,338
Business receipts	87,350,933	1,679,093	1,735,684	1,383,872	2,659,872	2,744,858	4,683,673	2,255,665	4,072,525	3,438,868	5,359,591	13,059,827	44,277,406
Cost of sales and operations	54,573,351	718,211	578,587	388,286	1,175,763	1,366,922	2,641,208	1,362,815	2,608,742	2,252,659	3,802,320	9,582,310	28,095,527
Taxes paid	3,045,199	45,023	143,065	63,798	126,102	116,517	204,609	88,681	164,659	126,167	185,054	368,305	1,413,219
Interest paid	5,916,281	115,793	33,923	34,086	45,893	66,404	248,830	62,866	187,052	192,808	248,511	623,252	4,056,864
Depreciation	5,821,802	129,475	82,388	62,041	150,492	145,477	320,196	173,648	313,067	253,051	321,251	552,609	3,318,108
Pension, profit-sharing, stock bonus, and annuity plans	302,437	3,933	*2,011	*170	4,534	*2,023	20,129	10,650	17,971	14,328	14,539	25,372	186,779
Employee benefit programs	1,004,853	18,045	*28,434	*6,847	25,878	30,498	40,613	18,004	28,718	31,939	37,528	146,457	591,892
Net income (less deficit)	4,111,855	19,318	-54,025	-59,170	-16,271	-32,048	-189,663	93,468	-52,698	80,555	180,176	944,349	3,197,864
Income subject to tax	4,680,711	145,660	*39,912	*28,091	35,242	69,318	102,567	73,987	181,269	151,056	294,431	375,668	3,183,510
Income tax, total	1,815,670	54,087	*6,694	*4,962	8,583	18,592	40,872	30,229	69,849	61,830	109,636	169,306	1,241,028
Alternative minimum tax	210,502	3,895	—	—	*301	*515	8,850	5,155	6,905	8,856	8,688	37,412	129,924
Environmental tax	9,932	271	—	—	9	—	*21	*93	171	230	574	1,825	6,737
Foreign tax credit	702,989	39,437	—	—	—	5	*3,690	3	([1])	*49	28,357	22,743	608,706
U.S. possessions tax credit	—	—	—	—	—	—	690	—	—	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	776	—	—	—	—	—	—	*11	*83	*520	132	30	—
General business credit	37,792	746	—	*320	*369	*1,176	*1,433	1,504	1,446	*2,861	1,326	1,881	24,732
Prior year minimum tax credit	1,258	—	—	—	—	*31	—	—	*485	9	42	—	692
Construction													
Number of returns	381,499	17,303	197,591	63,422	40,135	28,406	28,989	3,429	1,579	375	166	64	40
Total assets;	241,395,405	—	6,344,221	10,419,374	14,258,574	20,261,514	59,502,756	23,546,433	23,014,999	12,831,983	12,271,288	9,442,181	49,502,082
Notes and accounts receivable, net	64,150,067	—	926,376	2,476,962	3,502,635	5,410,647	18,286,182	7,299,674	7,238,123	3,868,803	3,424,654	3,065,522	8,650,490
Inventories	32,417,281	—	419,796	1,006,032	2,239,721	3,365,260	10,523,038	4,151,483	3,452,321	1,648,850	1,537,500	971,492	3,101,788
Cash, Government obligations and other current assets	52,126,068	—	1,868,918	2,486,548	3,445,634	4,984,593	13,744,432	5,893,922	5,669,736	3,192,855	2,594,899	1,860,476	6,384,055
Other investments and loans	36,750,553	—	698,238	993,625	1,142,498	1,467,200	3,920,834	1,554,153	1,913,198	1,145,917	1,480,391	1,204,433	21,230,068
Depreciable assets	85,869,629	—	6,629,292	7,396,748	8,256,829	9,723,817	22,472,467	7,438,562	7,597,950	4,578,493	3,710,413	2,322,116	5,742,943
Less: Accumulated depreciation	49,779,429	—	4,601,537	4,688,249	5,266,085	6,069,645	13,188,946	4,408,891	4,258,891	2,510,307	1,845,455	974,129	1,967,295
Other capital assets less reserves	8,891,862	—	178,624	390,829	547,953	981,464	2,059,812	914,080	796,735	500,464	507,388	575,772	1,438,737
Accounts and notes payable	75,180,902	—	2,791,787	3,158,184	4,545,920	6,736,967	21,572,824	8,383,006	7,998,542	4,495,553	3,514,510	2,972,860	9,010,753
Other current liabilities	36,046,001	—	821,429	1,053,922	1,503,977	2,339,538	9,494,342	4,409,174	4,337,723	2,139,419	2,278,987	1,423,329	6,244,159
Mortgages, notes, and bonds payable in one year or more	42,867,024	—	1,544,296	1,573,689	2,047,592	2,776,295	7,416,067	2,716,618	3,003,699	1,481,340	2,398,790	2,127,268	15,781,371
Net worth	62,524,744	—	-557,233	3,444,471	4,792,626	6,615,492	15,839,179	6,139,280	5,407,799	3,584,427	3,065,677	1,953,175	12,239,853
Total receipts	499,690,338	8,089,011	46,249,491	41,281,258	39,978,574	50,662,014	130,779,046	47,058,166	43,008,169	21,849,858	17,950,196	14,794,167	37,990,387
Business receipts	485,711,849	7,663,052	45,827,439	40,812,814	39,523,981	50,041,644	128,490,490	46,062,662	41,826,302	21,175,798	17,213,415	14,204,512	32,869,739
Cost of sales and operations	375,920,136	4,350,496	28,738,244	27,161,071	28,439,617	37,368,381	102,861,608	38,486,799	35,761,881	18,278,621	14,942,271	12,900,710	26,630,436
Taxes paid	9,426,363	116,989	1,355,460	1,179,464	999,881	1,201,120	2,321,954	717,035	586,196	304,698	203,401	116,033	324,131
Interest paid	6,926,137	93,834	395,150	354,156	413,016	455,116	1,331,203	401,663	414,633	234,052	300,888	267,828	2,264,598
Depreciation	8,839,673	71,625	865,006	969,421	961,750	1,062,109	2,240,506	647,956	713,373	358,109	296,391	166,046	487,381
Pension, profit-sharing, stock bonus, and annuity plans	1,769,828	21,695	126,063	105,813	132,277	254,886	562,428	145,933	125,618	65,876	46,271	27,246	155,723
Employee benefit programs	2,241,730	12,192	156,334	177,820	259,647	276,654	614,388	213,313	141,333	96,368	55,937	34,978	202,766
Net income (less deficit)	11,343,920	366,146	375,192	734,304	665,293	644,004	2,926,476	1,480,587	1,310,102	604,902	471,030	169,564	1,596,321
Income subject to tax	8,340,495	194,032	347,483	591,350	706,498	777,767	1,988,965	915,691	787,365	482,680	410,346	209,457	928,861
Income tax, total	2,497,276	59,381	52,515	100,873	141,409	179,674	644,431	320,051	281,926	170,227	144,077	74,049	328,662
Alternative minimum tax	104,329	*384	*40	*1,836	*2,735	4,781	48,690	10,311	12,909	6,978	3,146	2,323	10,197
Environmental tax	3,455	*272	—	—	—	—	3	110	287	349	455	342	1,638
Foreign tax credit	92,380	2,541	—	—	*81	—	—	*2,528	1	*907	830	20	85,472
U.S. possessions tax credit	1,279	—	—	—	—	—	—	1,279	—	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	7	—	—	—	—	—	—	—	7	—	—	—	—
General business credit	95,097	*7,212	2,083	6,826	6,168	5,391	18,050	4,796	7,540	6,184	751	1,686	28,408
Prior year minimum tax credit	33,983	4	—	—	*207	*747	10,903	12,706	4,530	1,773	607	812	1,696

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)
Manufacturing													
Number of returns	299,538	16,193	107,078	50,369	34,177	31,048	41,963	8,054	5,648	2,057	1,083	868	1,001
Total assets	3,390,433,557	—	3,814,647	8,415,381	12,428,010	22,051,854	91,695,507	56,209,466	87,982,502	72,596,410	76,611,356	139,738,027	2,818,890,397
Notes and accounts receivable, net	750,676,283	—	722,129	2,100,912	3,426,525	6,112,157	25,001,924	13,991,969	21,427,033	16,345,965	16,293,218	29,071,757	616,182,693
Inventories	354,494,099	—	544,398	1,443,859	2,261,996	4,868,125	22,776,959	14,177,602	21,845,246	16,243,517	16,008,323	25,741,775	228,582,298
Cash, Government obligations and other current assets	300,055,839	—	788,587	1,700,473	2,126,771	3,412,621	12,098,452	6,859,421	10,278,603	8,088,613	9,243,629	14,376,909	231,081,762
Other investments and loans	807,389,530	—	347,122	515,660	693,760	1,143,969	4,293,102	3,234,714	5,350,917	5,769,663	7,083,559	15,799,460	763,157,606
Depreciable assets	1,433,079,873	—	3,655,115	6,467,924	10,190,112	15,099,428	54,752,742	32,207,642	46,227,028	35,946,300	35,313,100	63,530,618	1,129,689,864
Less: Accumulated depreciation	692,798,506	—	2,501,176	4,341,317	6,853,653	9,706,059	32,251,992	17,609,699	23,219,177	16,702,329	15,645,113	27,727,942	536,240,048
Other capital assets less reserves	217,969,025	—	116,282	178,352	270,409	579,671	2,831,092	1,924,468	3,416,948	3,810,944	4,680,375	10,028,889	190,131,597
Accounts and notes payable	668,559,039	—	1,260,958	2,209,027	3,286,952	6,372,806	27,205,977	16,052,909	23,653,132	16,707,223	15,265,564	23,753,661	532,790,829
Other current liabilities	326,025,872	—	362,247	933,144	1,152,665	1,730,732	8,977,227	5,330,419	7,867,458	6,532,415	6,912,194	14,417,431	271,809,941
Mortgages, notes, and bonds payable in one year or more	727,540,706	—	1,078,868	1,641,643	2,697,270	3,980,080	15,236,515	9,813,800	16,205,159	15,881,743	16,591,660	34,689,634	609,724,334
Net worth	1,253,269,531	—	-1,168,622	2,349,108	3,731,049	7,975,336	33,688,451	22,362,655	35,776,143	29,098,719	32,789,523	56,043,332	1,030,623,835
Total receipts	3,348,965,911	41,864,371	18,793,197	26,859,802	31,743,709	53,431,345	201,951,035	108,737,867	159,781,395	114,767,940	108,310,669	174,596,487	2,308,128,095
Business receipts	3,118,059,530	38,230,623	18,317,487	26,557,028	31,298,354	52,539,410	198,304,682	106,509,877	156,308,962	111,544,821	104,659,201	167,697,722	2,106,091,361
Cost of sales and operations	2,117,827,704	27,922,927	10,193,155	15,737,444	19,528,323	35,249,730	141,924,332	77,415,951	115,583,120	82,164,153	74,745,334	115,720,741	1,401,642,494
Taxes paid	78,378,766	756,298	561,832	804,659	927,540	1,341,721	4,314,339	2,064,770	2,775,576	1,999,895	1,929,948	3,425,718	57,476,472
Interest paid	113,699,987	1,198,690	193,686	289,083	449,187	692,917	2,995,510	1,789,626	2,681,453	2,389,972	2,363,840	4,540,691	94,115,332
Depreciation	120,038,466	915,908	411,470	669,811	1,030,869	1,434,445	4,765,748	2,542,194	3,719,688	2,917,211	3,084,278	5,469,050	93,077,794
Pension, profit-sharing, stock bonus, and annuity plans	17,868,770	242,289	41,692	87,990	157,906	285,619	895,984	434,514	627,619	438,350	462,171	974,594	13,220,040
Employee benefit programs	47,008,397	435,839	94,645	161,529	255,185	397,949	1,523,050	893,407	1,373,630	1,109,603	1,231,687	2,360,777	37,171,095
Net income (less deficit)	205,083,651	2,327,328	-386,139	221,980	200,498	685,136	4,008,124	2,891,801	5,179,589	4,390,817	5,312,306	8,810,784	171,441,427
Income subject to tax	197,348,499	2,393,991	221,290	494,999	580,426	936,450	3,937,731	2,323,655	4,284,642	3,999,342	4,708,842	8,890,138	164,576,993
Income tax, total	68,661,707	828,324	40,873	90,246	112,746	216,341	1,240,460	796,443	1,482,172	1,398,178	1,633,712	3,081,112	57,741,100
Alternative minimum tax	1,469,116	14,384	*244	*152	*268	*1,340	14,098	12,020	18,878	25,463	24,888	43,984	1,313,396
Environmental tax	255,764	2,691	9	—	—	8	60	205	1,693	3,487	4,492	10,305	232,815
Foreign tax credit	21,860,251	225,614	2,020	—	—	(1)	3,659	1,896	56,962	47,741	73,953	331,742	21,116,664
U.S. possessions tax credit	2,219,079	36,537	5	—	338	1,324	22,916	26,028	110,521	183,488	288,928	372,362	1,176,632
Orphan drug credit	8,053	—	—	—	—	—	—	—	—	—	—	—	8,053
Nonconventional source fuel credit	27,701	—	—	—	—	—	—	*20	*275	9	—	321	27,076
General business credit	2,486,886	6,083	*2,912	6,346	7,219	10,754	49,351	27,552	37,658	35,670	38,210	94,684	2,170,445
Prior year minimum tax credit	153,853	*169	—	—	—	*3,322	*830	*725	1,276	3,343	2,735	8,228	133,224
Transportation and Public Utilities													
Number of returns	149,248	7,282	75,103	26,348	14,923	11,580	10,469	1,573	920	343	195	171	341
Total assets	1,411,201,395	—	2,703,619	4,231,462	5,294,657	8,091,738	21,249,714	10,844,066	13,677,451	18,723,592	13,436,117	28,646,682	1,284,302,298
Notes and accounts receivable, net	132,796,944	—	358,702	745,911	1,036,365	1,696,291	4,426,673	2,036,342	2,430,135	3,926,503	1,902,606	3,347,707	110,889,708
Inventories	29,452,644	—	33,686	54,605	118,173	189,457	480,657	312,568	346,537	438,878	279,386	611,839	26,586,858
Cash, Government obligations and other current assets	90,907,731	—	629,744	848,051	1,070,161	1,436,202	3,495,076	1,698,472	2,134,684	2,651,126	1,473,700	2,279,124	73,191,391
Other investments and loans	228,538,984	—	201,597	323,449	412,714	479,053	1,484,293	712,109	1,090,870	2,439,128	1,164,432	2,166,492	218,064,848
Depreciable assets	1,172,232,524	—	3,242,013	4,742,887	6,476,980	8,274,211	19,576,113	9,120,808	10,884,688	10,036,870	10,019,805	21,699,731	1,068,158,418
Less: Accumulated depreciation	378,209,186	—	2,088,680	2,973,308	4,198,319	4,813,033	10,333,382	4,117,474	4,844,805	4,106,922	3,898,186	7,756,691	329,078,386
Other capital assets less reserves	50,203,002	—	106,922	202,517	194,927	367,087	1,309,350	612,821	983,940	1,711,683	1,704,465	3,914,522	39,094,769
Accounts and notes payable	153,203,024	—	791,212	1,096,865	1,351,625	2,609,708	6,037,422	2,649,836	3,065,747	4,313,172	2,191,894	4,177,589	124,917,953
Other current liabilities	116,247,273	—	276,311	334,851	393,077	563,604	1,873,326	788,204	1,207,143	1,484,974	1,239,247	2,803,655	105,282,881
Mortgages, notes, and bonds payable in one year or more	428,201,824	—	743,053	1,140,167	1,579,535	2,104,704	6,224,504	3,485,543	4,653,939	6,841,465	5,217,619	12,079,397	384,131,898
Net worth	519,388,496	—	-88,665	753,622	1,135,608	1,828,336	4,682,082	2,965,113	3,160,509	3,032,245	3,372,613	5,874,186	492,672,842
Total receipts	838,753,393	6,203,913	14,725,269	16,609,228	15,274,655	20,095,859	41,760,489	14,652,506	17,486,807	18,029,360	12,463,737	22,261,826	639,189,744
Business receipts	779,584,504	5,664,910	14,431,975	16,000,646	14,887,594	19,545,900	40,452,925	14,080,410	16,567,388	16,103,180	11,402,228	20,901,383	589,545,966
Cost of sales and operations	356,253,750	2,935,955	8,251,611	8,999,439	6,181,092	10,220,026	20,921,913	7,291,718	7,920,334	8,545,599	5,290,352	10,685,679	259,010,033
Taxes paid	36,934,916	199,796	413,736	478,893	578,175	591,362	1,423,535	562,688	627,071	506,158	396,536	816,431	30,340,533
Interest paid	50,934,990	284,872	179,942	200,099	266,125	296,922	859,475	395,049	563,129	963,547	607,055	1,459,045	44,859,730
Depreciation	81,232,186	311,658	463,425	695,114	924,055	1,072,420	2,162,685	972,133	1,140,354	1,022,133	954,055	1,650,159	69,863,996
Pension, profit-sharing, stock bonus, and annuity plans	5,799,231	36,941	*12,185	42,212	52,227	67,448	148,333	58,892	91,635	69,612	36,102	90,614	5,093,030
Employee benefit programs	12,607,271	120,061	39,329	104,286	141,514	150,868	384,344	145,480	262,029	189,934	153,994	318,193	10,597,238
Net income (less deficit)	46,943,801	-94,107	-38,498	101,054	169,996	-26,858	384,159	411,453	275,371	294,877	358,205	425,490	44,682,658
Income subject to tax	50,627,000	125,656	83,918	194,612	205,381	218,325	755,135	444,907	478,226	518,953	481,830	1,082,700	46,037,358
Income tax, total	17,762,410	45,058	12,837	31,212	43,654	53,181	244,997	153,996	170,305	195,923	174,632	387,185	16,249,431
Alternative minimum tax	458,112	*741	*181	*136	*757	*1,969	9,140	3,109	5,608	18,437	8,441	16,707	392,887
Environmental tax	79,698	38	5	2	8	1	*36	131	228	696	506	1,543	76,503
Foreign tax credit	419,834	—	—	—	—	*614	*6,279	—	*450	*764	2,486	1,397	407,844
U.S. possessions tax credit	49,598	—	—	—	—	—	28	150	—	—	—	—	49,420
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	16,140	87	—	—	—	—	—	—	—	—	—	1	16,051
General business credit	1,792,125	*203	*1,275	3,443	4,218	5,862	10,924	6,177	5,345	7,152	7,619	13,561	1,726,347
Prior year minimum tax credit	55,422	*95	—	—	—	—	*176	*158	*288	*571	121	706	53,308

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	984,553	48,550	429,037	199,183	121,187	81,231	86,037	10,893	5,398	1,540	687	447	364
Total assets	1,295,819,375	—	17,087,270	32,013,129	42,746,356	57,276,444	178,581,233	74,334,084	81,014,554	52,854,456	47,318,050	70,917,058	641,676,739
Notes and accounts receivable, net	280,679,479	—	1,940,425	4,998,442	7,734,741	12,405,641	41,310,737	17,478,285	20,414,754	13,328,540	11,657,966	13,753,804	135,656,146
Inventories	359,148,953	—	4,833,620	10,867,732	14,167,320	20,226,090	72,400,974	30,358,370	27,605,701	16,231,666	13,900,376	19,585,373	128,971,730
Cash, Government obligations and other current assets	167,904,294	—	3,315,912	5,442,330	6,234,220	8,265,985	20,693,990	7,446,781	8,634,070	5,657,073	5,438,220	6,939,496	89,836,217
Other investments and loans	139,706,021	—	1,060,799	1,930,220	2,868,490	2,957,772	8,056,339	3,316,149	4,893,455	3,459,477	3,069,207	6,214,381	101,879,729
Depreciable assets	396,994,053	—	13,048,701	15,642,995	20,158,645	22,823,593	59,571,342	23,433,197	26,922,029	17,378,724	15,099,841	25,463,149	157,451,839
Less: Accumulated depreciation	177,672,588	—	8,781,427	9,672,604	11,907,470	13,207,193	32,761,362	11,557,674	12,627,901	7,648,171	6,012,421	9,306,877	54,189,488
Other capital assets less reserves	59,376,002	—	607,836	1,298,245	1,781,665	2,341,544	5,898,966	2,470,336	3,251,299	2,630,221	2,374,551	4,873,900	31,847,436
Accounts and notes payable	451,993,285	—	6,559,591	8,868,609	12,759,409	18,987,709	77,075,710	35,561,059	34,906,144	20,917,367	17,604,939	21,260,474	197,492,274
Other current liabilities	166,848,841	—	1,565,563	2,213,839	2,683,860	3,998,830	12,806,117	6,608,882	6,578,157	4,466,140	4,296,314	6,349,765	115,281,373
Mortgages, notes, and bonds payable in one year or more	248,668,211	—	5,713,795	6,323,905	8,432,395	9,341,733	23,372,811	9,709,418	12,523,481	9,533,726	9,597,024	18,233,331	135,886,591
Net worth	331,968,322	—	-4,211,696	7,765,336	12,960,011	19,480,666	54,372,303	18,984,646	23,519,565	14,084,063	13,026,826	21,024,302	150,962,298
Total receipts	2,977,982,750	47,646,445	90,124,763	119,803,828	139,393,515	174,390,418	587,849,973	247,575,735	233,016,391	141,783,051	117,288,188	161,377,674	917,732,771
Business receipts	2,891,336,187	45,720,662	88,502,747	118,198,955	137,285,420	171,864,582	577,803,039	242,952,598	227,487,368	138,813,822	114,236,932	156,698,876	871,771,187
Cost of sales and operations	2,230,936,367	35,617,811	54,285,195	80,205,727	94,758,609	124,342,136	458,841,991	199,375,270	184,310,845	113,763,451	91,283,324	123,384,444	670,767,564
Taxes paid	42,096,648	657,976	2,436,554	2,541,856	2,844,378	3,275,424	7,614,957	2,770,693	2,780,185	1,614,689	1,625,546	2,169,161	11,765,229
Interest paid	53,360,602	749,385	727,288	1,076,578	1,379,817	1,759,982	5,927,418	2,643,213	2,707,515	1,763,126	1,721,570	2,687,214	30,217,496
Depreciation	41,021,984	556,265	1,422,460	1,648,696	2,199,491	2,415,533	6,038,604	2,407,907	2,774,253	1,705,271	1,584,440	2,647,758	15,621,306
Pension, profit-sharing, stock bonus, and annuity plans	7,062,823	90,631	203,058	235,799	328,045	563,337	1,346,924	441,181	452,850	256,569	191,834	297,364	2,655,232
Employee benefit programs	13,019,492	190,248	240,307	334,788	435,571	600,818	2,225,006	1,015,535	915,721	514,280	514,751	1,006,258	5,026,211
Net income (less deficit)	42,844,883	137,373	-672,606	405,129	902,553	1,849,377	6,562,373	3,240,320	4,177,924	2,299,738	1,780,471	2,982,588	19,179,642
Income subject to tax	44,054,669	612,855	648,911	1,266,318	1,491,218	2,032,342	5,245,318	2,062,384	2,506,245	2,064,333	1,665,666	3,232,622	21,226,455
Income tax, total	14,116,720	208,422	104,516	205,305	263,770	437,885	1,531,377	697,310	870,022	715,581	582,175	1,127,705	7,372,651
Alternative minimum tax	150,620	3,226	—	*392	*28	1,197	8,457	8,618	13,464	7,943	8,161	18,754	80,382
Environmental tax	40,059	888	—	—	—	—	*721	164	1,442	1,461	1,648	3,917	29,817
Foreign tax credit	1,038,355	*236	—	—	*2,604	*18	6,500	*7,155	11,353	15,522	7,799	34,582	952,586
U.S. possessions tax credit	25,266	—	—	—	8	161	1,360	1,062	—	3,495	6,687	1,558	10,934
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*1,061	—	—	—	—	—	—	*818	—	(1)	—	239	3
General business credit	303,185	15,374	7,838	9,162	8,268	9,812	29,775	10,149	17,073	11,528	12,828	22,158	149,219
Prior year minimum tax credit	15,759	2,349	—	—	*258	—	*831	*1,502	*1,085	3,600	1,004	1,539	3,591
Finance, Insurance, and Real Estate													
Number of returns	572,418	46,915	251,484	94,365	62,134	40,350	45,111	7,941	7,977	5,286	4,360	3,405	3,091
Total assets	9,411,547,140	—	7,856,397	15,120,950	22,111,912	28,318,236	93,811,675	55,366,150	130,047,835	189,848,682	307,737,884	532,438,627	8,028,888,792
Notes and accounts receivable, net	2,651,210,250	—	615,413	1,364,184	2,306,331	2,555,023	9,569,762	8,323,538	32,989,861	60,032,784	94,993,586	134,949,220	2,303,510,548
Inventories	34,886,177	—	72,307	327,843	588,913	1,343,687	4,991,156	2,325,509	3,494,429	2,685,840	3,287,015	3,674,167	12,095,312
Cash, Government obligations and other current assets	2,081,675,559	—	2,707,345	4,222,446	5,329,681	6,086,391	18,091,882	11,100,768	35,631,869	54,170,801	84,630,668	124,565,675	1,735,138,029
Other investments and loans	3,891,408,380	—	1,191,567	2,788,571	4,185,457	5,314,916	19,252,527	13,803,123	32,614,461	51,478,238	100,426,338	229,845,681	3,430,507,501
Depreciable assets	327,758,686	—	5,181,285	7,066,560	10,114,384	12,751,451	35,373,423	16,280,463	19,650,342	17,381,046	17,593,494	26,443,939	159,922,301
Less: Accumulated depreciation	103,482,292	—	3,249,972	3,597,414	4,393,057	4,968,835	11,286,500	4,216,546	5,307,426	4,773,107	4,929,883	7,287,159	49,472,393
Other capital assets less reserves	97,766,271	—	949,703	2,232,063	3,184,544	4,308,712	13,721,572	5,392,346	6,755,387	4,664,470	4,885,652	7,011,323	44,660,502
Accounts and notes payable	957,864,576	—	1,378,285	1,944,432	3,534,487	4,616,101	17,057,086	8,460,573	12,938,323	13,760,369	17,260,824	29,502,848	847,411,248
Other current liabilities	4,371,146,939	—	633,466	1,373,248	1,275,312	1,581,288	6,751,726	9,316,227	52,424,029	107,551,794	187,791,982	298,963,470	3,703,484,395
Mortgages, notes, and bonds payable in one year or more	678,904,915	—	1,867,245	3,266,716	5,943,127	8,473,476	30,359,564	15,453,014	21,496,110	17,702,845	20,009,629	33,537,998	520,795,190
Net worth	1,779,467,330	—	141,582	4,745,469	7,249,203	9,348,500	25,680,893	15,853,575	31,687,412	39,834,904	65,385,238	136,635,447	1,442,905,105
Total receipts	1,714,352,381	68,640,824	24,556,478	15,560,643	16,739,493	15,018,571	40,472,420	19,619,475	35,924,844	37,340,432	54,376,493	98,155,944	1,287,946,765
Business receipts	860,415,865	9,868,627	22,956,795	12,994,281	14,230,587	11,915,561	31,886,236	14,713,115	24,636,722	20,809,737	28,450,638	52,944,869	615,008,695
Cost of sales and operations	501,018,140	2,945,029	6,421,958	3,289,370	5,512,610	4,276,482	15,934,287	7,717,467	13,817,900	12,495,418	18,344,853	35,374,758	374,888,009
Taxes paid	29,160,155	919,798	601,642	556,186	582,148	629,663	1,425,168	600,307	933,881	888,756	1,065,138	1,818,761	19,138,708
Interest paid	415,952,696	46,837,533	296,427	400,250	712,231	831,545	3,254,157	1,744,914	4,857,748	7,695,677	12,616,655	21,000,905	315,704,653
Depreciation	35,414,823	636,493	451,834	457,362	516,689	562,121	1,395,725	690,348	983,880	955,816	1,258,713	1,901,865	25,603,976
Pension, profit-sharing, stock bonus, and annuity plans	5,959,152	43,824	113,239	142,727	161,763	170,618	234,944	81,474	97,943	121,467	200,119	401,127	4,189,906
Employee benefit programs	10,311,534	149,691	145,096	143,119	141,466	212,214	206,934	120,786	252,365	295,734	393,679	673,183	7,577,267
Net income (less deficit)	91,892,954	1,675,344	176,834	143,800	33,044	725,475	901,244	539,349	983,856	952,544	2,646,258	6,882,370	76,232,837
Income subject to tax	59,926,973	2,460,678	398,082	489,060	585,738	686,392	1,605,653	864,950	1,494,665	1,839,124	2,626,193	4,309,234	42,567,204
Income tax, total	20,899,804	849,243	66,231	87,593	117,003	159,277	490,058	290,874	516,297	645,648	930,154	1,526,139	15,221,287
Alternative minimum tax	802,069	20,546	*192	*460	1,478	1,048	10,930	7,106	18,261	24,095	33,198	48,866	635,888
Environmental tax	84,694	3,538	—	—	10	1	190	175	986	958	1,755	3,275	73,809
Foreign tax credit	2,352,338	21,477	*177	—	—	*21	3,938	3,602	1,826	16,659	21,162	37,045	2,246,432
U.S. possessions tax credit	5,726	—	15	—	7	—	2	89	918	967	306	465	2,957
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	3,311	—	—	—	—	—	*40	*13	*101	—	2	936	2,218
General business credit	485,208	18,252	3,961	2,578	1,448	2,727	5,667	1,630	6,141	4,294	9,450	16,765	412,296
Prior year minimum tax credit	194,673	1,112	—	—	1	*36	1,862	454	947	2,708	4,682	8,480	174,389

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)
Services													
Number of returns	995,425	61,291	653,940	148,574	64,880	32,492	27,527	3,359	1,914	647	372	259	171
Total assets	530,326,395	—	18,944,606	23,706,807	22,554,151	22,666,067	56,460,154	23,194,487	29,259,751	28,151,316	26,386,915	41,070,063	237,932,077
Notes and accounts receivable, net	95,327,925	—	1,847,744	3,253,173	3,709,590	4,189,054	12,038,375	5,135,664	6,347,628	4,698,773	5,034,517	8,472,066	40,601,341
Inventories	20,942,836	—	900,110	1,106,255	1,193,967	1,273,890	3,132,379	1,113,195	1,290,763	1,093,720	1,503,073	1,001,052	7,334,433
Cash, Government obligations and other current assets	77,492,717	—	5,966,580	6,595,920	5,726,032	4,474,855	9,816,615	3,545,684	5,301,151	4,743,185	3,701,965	5,450,590	22,170,144
Other investments and loans	94,372,066	—	2,299,146	3,258,401	2,877,862	2,412,168	6,122,693	2,046,929	3,091,471	6,382,163	3,506,139	7,051,581	55,323,515
Depreciable assets	262,944,834	—	20,094,158	18,862,280	16,335,814	16,759,848	35,364,845	14,573,477	15,411,190	11,428,163	13,341,846	15,703,551	85,069,660
Less: Accumulated depreciation	115,257,924	—	13,936,698	11,609,003	9,499,633	8,932,844	16,281,721	6,118,257	6,004,169	4,096,692	5,085,289	5,181,397	28,512,223
Other capital assets less reserves	36,215,735	—	719,070	1,174,677	1,199,540	1,589,219	3,623,425	1,505,800	2,081,051	2,091,272	2,513,247	4,462,745	15,255,688
Accounts and notes payable	108,456,235	—	4,485,491	4,424,813	4,306,283	4,665,695	14,453,126	5,667,414	6,929,034	5,969,041	5,678,422	8,591,954	43,284,963
Other current liabilities	60,632,671	—	2,947,438	2,499,298	2,334,311	2,427,371	6,720,002	2,912,172	3,815,472	6,021,009	3,149,534	4,879,965	22,926,099
Mortgages, notes, and bonds payable in one year or more	160,617,186	—	4,159,083	5,113,376	5,255,587	6,049,859	16,138,764	6,699,423	8,967,687	7,403,922	8,670,239	13,710,222	78,449,024
Net worth	128,119,335	—	782,720	6,975,973	6,433,350	6,520,161	11,787,773	5,481,957	7,138,116	6,457,457	6,316,049	9,054,580	61,171,201
Total receipts	695,265,170	12,283,521	113,840,295	77,150,257	58,616,655	48,784,191	96,595,115	34,486,828	34,509,393	26,292,252	27,605,408	36,631,785	128,469,469
Business receipts	643,748,105	10,648,931	111,327,288	72,414,203	56,705,728	47,186,816	91,822,784	32,352,608	31,558,674	23,759,969	24,861,571	32,856,257	108,253,277
Cost of sales and operations	249,228,959	4,939,153	29,524,312	24,808,136	20,017,417	18,468,789	41,478,897	16,132,480	14,548,032	10,733,028	12,983,101	15,560,672	40,034,943
Taxes paid	21,415,109	361,869	3,812,794	2,378,683	2,033,610	1,632,625	3,012,370	965,017	1,002,586	749,164	720,568	954,740	3,791,083
Interest paid	23,077,104	517,484	748,655	789,727	789,683	815,253	2,241,519	859,265	1,070,202	1,063,762	1,118,324	1,816,233	11,246,997
Depreciation	31,445,765	428,966	2,447,382	2,035,798	1,725,513	1,671,230	3,797,253	1,525,470	1,791,471	1,195,905	1,454,830	2,115,315	11,256,632
Pension, profit-sharing, stock bonus, and annuity plans	6,238,052	74,900	1,611,996	987,414	701,887	444,334	687,355	238,061	160,212	110,948	135,756	192,221	892,968
Employee benefit programs	7,746,298	110,818	958,056	561,676	502,117	429,882	1,105,001	425,499	460,813	429,313	398,457	566,287	1,798,379
Net income (less deficit)	9,276,631	31,795	596,417	907,429	906,923	656,138	618,853	166,680	-387,315	665,846	434,302	493,934	4,185,630
Income subject to tax	16,171,697	356,851	1,030,040	1,076,178	968,579	759,470	1,473,248	622,027	804,460	776,218	802,170	1,275,838	6,226,618
Income tax, total	5,049,797	106,479	177,963	185,333	186,561	176,375	467,867	216,715	289,109	274,708	284,715	466,674	2,217,298
Alternative minimum tax	145,335	2,082	*1,785	*651	*985	1,063	12,594	3,992	10,362	9,153	10,484	23,737	68,447
Environmental tax	13,470	101	—	*10	—	—	*35	108	351	724	906	1,960	9,274
Foreign tax credit	580,913	*107	—	*815	—	*647	*8,380	*5,468	10,579	12,024	40,427	47,259	455,206
U.S. possessions tax credit	16,174	—	212	29	49	116	2,080	485	3,922	2,250	7,030	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*520	—	—	—	—	—	—	—	—	*520	(1)	—	—
General business credit	327,393	7,130	9,672	5,182	11,821	9,436	18,326	9,207	15,666	5,650	13,239	15,867	206,198
Prior year minimum tax credit	12,578	*692	—	*27	—	—	*605	*686	*634	*169	529	1,486	7,750
Nature of Business not Allocable													
Number of returns	19,125	4,795	11,760	1,588	*488	*303	*137	*39	*15	—	—	—	—
Total assets	1,613,441	—	253,067	248,660	*166,919	*203,920	*176,739	*306,983	*257,153	—	—	—	—
Notes and accounts receivable, net	226,777	—	40,170	*10,313	*38,210	*25,555	*34,510	*23,102	*54,917	—	—	—	—
Inventories	241,860	—	*10,601	*24,931	*44,233	*28,606	*21,236	*76,981	*35,272	—	—	—	—
Cash, Government obligations and other current assets	304,553	—	74,487	*67,526	*20,302	*60,434	*23,063	*43,774	*14,967	—	—	—	—
Other investments and loans	167,294	—	*11,240	*16,794	—	*3,954	*18,421	*9,298	*107,586	—	—	—	—
Depreciable assets	667,022	—	136,118	*112,102	*62,667	*30,758	*42,849	*226,488	*56,040	—	—	—	—
Less: Accumulated depreciation	309,394	—	55,276	*34,195	*9,295	*1,188	*12,419	*176,549	*20,472	—	—	—	—
Other capital assets less reserves	182,528	—	*13,543	*46,684	*10,611	*7,185	*30,816	*65,743	*7,945	—	—	—	
Accounts and notes payable	774,165	—	151,172	*27,410	*97,113	*197,652	*38,918	*209,570	*52,330	—	—	—	—
Other current liabilities	144,774	—	45,872	*5,963	*5,605	*6,336	*30,148	*37,593	*13,256	—	—	—	—
Mortgages, notes, and bonds payable in one year or more	373,261	—	*5,281	*91,812	*28,428	—	*50,660	*111,800	*85,279	—	—	—	—
Net worth	-11,365	—	-60,443	*58,528	*3,625	*-20,789	*-1,953	*-85,006	*94,671	—	—	—	—
Total receipts	3,172,428	64,814	1,451,214	*207,298	*348,232	*186,446	*318,877	*367,470	*228,077	—	—	—	—
Business receipts	3,119,131	*59,620	1,433,213	*195,311	*346,631	*182,304	*316,446	*360,959	*224,646	—	—	—	—
Cost of sales and operations	1,988,335	*15,399	876,851	*49,388	*249,622	*148,886	*270,728	*194,174	*183,288	—	—	—	—
Taxes paid	67,493	1,526	27,910	*10,601	*6,483	*3,724	*3,678	*10,592	*2,979	—	—	—	—
Interest paid	81,921	*173	50,673	*7,600	*3,865	*1,875	*2,982	*8,715	*6,038	—	—	—	—
Depreciation	65,371	*4,423	27,126	*7,022	*6,451	*3,079	*4,929	*6,019	*6,322	—	—	—	—
Pension, profit-sharing, stock bonus, and annuity plans	*2,164	—	—	—	—	*2,052	—	—	*113	—	—	—	—
Employee benefit programs	18,189	—	*5,540	3	*3,753	*21	*2,085	*4,489	*2,298	—	—	—	—
Net income (less deficit)	-130,863	-43,312	-72,073	2,418	*-7,022	*-31,689	*4,263	*17,510	*-958	—	—	—	—
Income subject to tax	44,024	3,329	*9,506	*9,952	*1,777	*4,996	*3,226	*10,359	*879	—	—	—	—
Income tax, total	9,554	968	*1,425	*1,493	*267	*829	*668	*3,485	*420	—	—	—	—
Alternative minimum tax	*165	—	—	—	—	—	—	*46	*119	—	—	—	—
Environmental tax	—	—	—	—	—	—	—	—	—	—	—	—	—
Foreign tax credit	—	—	—	—	—	—	—	—	—	—	—	—	—
U.S. possessions tax credit	384	—	—	—	—	—	—	384	—	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	—	—	—	—	—	—	—	—	—	—	—	—	—
General business credit	*35	(1)	*29	—	—	—	6	—	—	—	—	—	—
Prior year minimum tax credit	—	—	—	—	—	—	—	—	—	—	—	—	—

* 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. Some totals may differ from Table 7 due to the method used to produce this 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

[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	3,562,789	1,396,705	818,408	227,932	350,365	617,773	516,402	409,148	330,802	137,744	74,932	65,252	14,030
Total assets	16,568,467,823	198,091,086	135,671,282	22,814,779	39,605,024	86,175,142	117,470,982	164,092,782	335,896,849	386,469,203	502,883,508	1,485,142,007	13,292,246,264
Notes and accounts receivable, net	4,002,403,216	14,910,477	10,217,271	1,263,062	3,430,144	8,498,755	15,107,008	27,200,148	76,981,974	107,389,555	143,633,278	358,804,078	3,249,877,944
Inventories	845,783,686	8,513,411	5,145,080	1,102,134	2,266,198	7,346,554	13,114,042	21,605,993	42,189,023	43,164,425	48,370,047	128,592,601	532,887,590
Cash, Government obligations and other current assets	2,791,710,565	35,564,879	23,268,638	5,181,627	7,114,614	17,085,417	23,154,475	33,240,480	72,251,545	89,170,217	111,127,722	291,754,360	2,118,361,470
Other investments and loans	5,299,190,280	45,819,280	33,466,349	4,440,875	7,912,056	16,244,940	20,721,446	25,845,102	56,393,638	72,473,881	119,490,998	481,336,100	4,460,864,895
Depreciable assets	3,820,961,787	86,922,672	53,467,960	13,409,755	20,044,957	49,310,462	65,577,015	86,707,851	134,746,252	108,501,567	111,873,875	271,344,435	2,905,977,658
Less: Accumulated depreciation	1,593,226,079	35,782,879	19,509,405	6,544,169	9,729,304	26,427,021	35,636,839	47,703,554	73,200,542	56,557,648	56,949,049	125,978,965	1,134,989,582
Other capital assets less reserves	512,318,787	30,060,392	20,587,171	2,753,211	6,720,010	9,737,370	10,379,398	10,689,473	15,399,341	12,562,114	13,236,305	40,081,867	370,172,528
Accounts and notes payable	2,454,119,848	35,260,409	25,366,812	3,953,741	5,939,856	14,899,274	23,205,555	35,828,334	70,372,209	71,217,782	82,766,487	226,843,292	1,893,726,506
Other current liabilities	5,092,190,043	13,276,264	9,559,425	1,337,412	2,379,427	6,216,702	10,151,572	20,621,913	77,127,704	135,799,438	204,411,639	568,851,451	4,055,733,360
Mortgages, notes, and bonds payable in one year or more	2,352,107,056	65,874,280	46,046,576	8,360,687	11,467,017	23,241,107	29,918,738	37,399,290	60,815,471	50,382,422	50,994,034	157,689,233	1,875,792,482
Net worth	4,206,827,437	34,871,926	22,564,426	2,323,431	9,984,069	24,559,746	32,280,886	49,161,199	99,703,487	106,481,545	140,301,552	452,247,799	3,267,219,297
Total receipts	10,264,867,461	58,861,469	21,523,436	9,625,594	27,712,439	107,078,213	190,009,945	294,308,870	525,968,355	491,616,353	531,153,799	1,321,511,060	6,744,359,397
Business receipts	8,949,846,244	35,439,554	3,834,721	7,570,759	24,034,075	99,734,703	181,212,922	282,868,046	503,133,321	464,726,445	494,140,117	1,206,806,150	5,681,784,984
Cost of sales and operations	5,944,935,455	12,592,980	1,657,716	2,394,380	8,540,885	37,967,145	80,350,574	146,671,755	303,752,314	303,824,097	353,415,074	900,952,027	3,805,409,489
Taxes paid	222,323,028	2,693,407	1,032,548	482,668	1,178,191	4,040,589	6,496,649	8,934,203	13,678,705	10,687,221	9,733,101	21,299,154	144,760,000
Interest paid	672,447,709	4,509,904	2,578,448	728,917	1,202,539	2,938,970	4,276,933	5,742,610	11,957,238	14,487,058	19,284,239	57,648,619	551,602,138
Depreciation	327,516,917	4,714,854	2,220,342	770,911	1,723,601	4,384,561	6,123,420	8,325,521	13,040,044	10,691,906	10,653,163	25,725,628	243,857,819
Pension, profit-sharing, stock bonus, and annuity plans	45,183,078	261,890	163,734	24,499	73,657	690,687	1,556,559	1,671,686	2,598,375	2,142,086	1,954,666	3,969,529	30,337,600
Employee benefit programs	94,322,487	412,937	203,462	53,981	155,493	571,252	1,083,765	1,673,009	2,927,558	3,097,180	3,199,538	8,212,920	73,144,330
Net income (less deficit)	412,982,753	-8,257,874	-6,661,856	-863,378	-732,640	248,477	608,260	2,662,267	6,270,927	8,080,266	11,126,098	39,331,570	352,912,760
Income subject to tax	383,201,978	3,270,399	1,812,542	443,414	1,014,442	2,258,352	3,231,932	5,026,589	8,408,642	7,969,864	9,189,325	26,713,654	317,133,221
Income tax, total	131,367,397	803,303	540,420	82,585	180,297	413,169	636,745	1,036,443	2,077,018	2,387,685	3,025,655	9,273,915	111,713,464
Alternative minimum tax	3,352,845	21,925	19,697	569	*1,659	3,646	5,203	14,459	47,311	75,680	81,850	219,125	2,883,646
Environmental tax	487,926	2,131	2,078	*19	*34	*16	733	110	302	649	1,119	13,229	469,636
Foreign tax credit	27,068,104	43,250	41,649	*1,580	*21	*44	95	5,879	12,038	12,999	12,981	213,842	26,766,976
U.S. possessions tax credit	2,318,021	51,694	51,653	12	29	6	55	603	5,004	16,036	45,499	396,424	1,802,700
Orphan drug credit	8,053	—	—	—	—	—	—	—	—	—	—	—	8,053
Nonconventional source fuel credit	49,517	*39	*39	—	—	3	*13	*5	*40	*621	*18	1,887	46,891
General business credit	5,559,174	18,749	9,683	2,018	7,049	22,876	28,706	44,332	81,407	70,980	78,150	196,719	5,017,254
Prior year minimum tax credit	468,767	*2,713	*1,759	*857	*97	*25	*72	796	3,631	9,350	11,053	39,208	401,920
Agriculture, Forestry, and Fishing													
Number of returns	119,902	60,274	32,957	9,703	17,614	23,392	14,770	9,067	7,868	2,311	1,285	831	105
Total assets	60,491,780	11,203,449	6,080,413	1,532,677	3,590,359	6,903,185	6,520,360	4,941,808	6,482,967	4,520,422	4,206,379	6,300,310	9,412,901
Notes and accounts receivable, net	5,731,467	637,039	385,915	43,432	207,692	194,366	272,243	256,924	631,443	689,905	603,183	1,024,923	1,421,442
Inventories	6,986,298	222,734	106,929	29,997	85,808	367,875	384,162	479,802	841,217	621,931	644,149	1,163,633	2,260,796
Cash, Government obligations and other current assets	6,918,883	1,361,593	717,209	210,047	434,338	827,932	854,018	641,557	623,622	477,414	520,345	767,542	844,859
Other investments and loans	7,077,962	1,649,398	1,080,104	259,570	309,723	852,832	572,492	510,994	620,103	505,411	400,764	601,440	1,364,529
Depreciable assets	42,068,336	6,061,428	2,854,573	836,206	2,370,650	5,153,799	5,543,212	4,621,241	5,738,732	3,520,818	2,810,534	3,615,672	5,002,900
Less: Accumulated depreciation	25,952,786	3,808,998	1,791,294	494,580	1,523,124	3,572,140	3,721,020	3,087,991	3,553,210	2,177,988	1,645,397	1,943,277	2,442,767
Other capital assets less reserves	14,745,892	4,455,279	2,415,176	534,262	1,505,841	2,668,937	2,271,948	1,224,901	1,219,295	748,653	659,622	849,138	648,119
Accounts and notes payable	12,453,990	1,187,554	536,778	212,680	438,096	799,348	1,095,803	902,671	1,786,473	1,363,196	1,138,140	1,776,282	2,404,522
Other current liabilities	2,751,441	272,924	172,927	40,433	59,564	118,725	213,681	168,447	190,328	250,715	341,902	372,985	821,736
Mortgages, notes, and bonds payable in one year or more	16,213,970	2,709,350	1,405,871	271,939	1,031,540	1,795,798	2,137,260	1,571,201	2,060,516	1,624,416	1,050,786	1,498,008	1,766,634
Net worth	20,271,852	3,962,265	2,225,987	649,754	1,086,524	3,234,162	2,298,384	1,575,994	1,488,139	904,222	1,363,319	1,914,776	3,530,591
Total receipts	86,258,094	3,357,696	1,178,499	581,047	1,598,151	4,788,587	5,946,925	6,598,700	12,549,188	8,225,285	9,176,658	16,227,401	19,387,652
Business receipts	80,520,140	1,831,925	194,457	352,950	1,284,518	3,899,715	5,289,053	6,197,647	12,046,754	7,837,193	8,873,132	15,732,185	18,812,535
Cost of sales and operations	57,188,712	789,770	164,050	140,892	484,828	1,903,150	2,632,704	3,359,548	7,642,674	5,277,814	7,104,535	13,280,745	15,197,772
Taxes paid	1,798,380	196,422	83,313	36,724	76,384	178,532	193,190	219,632	305,687	184,630	115,537	151,663	253,088
Interest paid	2,497,991	294,852	127,508	44,437	122,907	292,083	320,404	224,233	389,383	247,102	165,938	249,280	314,716
Depreciation	3,636,847	403,173	149,136	58,723	195,314	425,168	470,737	415,202	514,400	323,545	286,175	360,066	438,381
Pension, profit-sharing, stock bonus, and annuity plans	180,620	12,782	8,265	*886	*3,631	20,163	20,498	8,659	26,060	20,444	23,563	18,584	29,867
Employee benefit programs	364,723	16,272	3,526	2,874	9,872	23,668	23,006	28,113	32,672	30,569	23,037	45,740	141,645
Net income (less deficit)	1,615,921	-125,743	-181,283	57,319	-1,779	240,375	204,596	153,442	170,123	-36,613	156,408	313,350	539,981
Income subject to tax	2,007,910	231,237	122,917	46,920	61,400	240,442	211,317	145,188	154,118	139,610	113,033	241,382	531,582
Income tax, total	554,457	52,106	30,352	12,162	9,593	42,552	41,141	30,856	36,397	42,703	37,634	82,472	188,595
Alternative minimum tax	12,597	731	*433	*298	—	*339	*230	*866	*492	*585	1,063	1,677	6,614
Environmental tax	854	*18	*3	*15	—	—	—	—	—	*8	*30	118	680
Foreign tax credit	*21,042	*58	*58	—	—	—	—	—	—	*6	*3	—	*20,975
U.S. possessions tax credit	515	—	—	—	—	*—	—	—	—	515	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	—	—	—	—	—	—	—	—	—	—	—	—	—
General business credit	31,452	3,355	*2,098	*100	*1,156	4,471	4,582	2,871	3,575	3,360	1,996	2,770	4,473
Prior year minimum tax credit	*1,242	—	—	—	—	—	—	—	—	—	*291	*930	20

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)
Mining													
Number of returns	41,080	25,949	18,488	2,907	4,554	4,605	2,616	3,038	2,769	1,055	448	422	178
Total assets	225,639,336	6,267,533	5,234,548	385,132	647,853	1,458,085	1,633,341	2,682,965	4,526,103	4,262,095	5,064,444	16,062,406	183,682,364
Notes and accounts receivable, net	21,604,025	1,118,315	1,008,460	42,235	67,620	210,014	237,102	356,588	626,370	776,336	658,325	2,006,301	15,614,674
Inventories	7,213,538	37,453	33,490	*217	*3,746	43,510	46,540	67,433	117,565	94,330	130,020	523,333	6,153,354
Cash, Government obligations and other current assets	14,324,922	1,103,844	852,832	131,749	119,263	270,777	433,088	574,546	1,090,016	748,036	861,024	2,005,920	7,237,671
Other investments and loans	93,779,491	1,384,942	1,197,998	*50,603	136,341	202,377	281,290	445,291	796,100	801,333	972,306	2,767,101	86,128,751
Depreciable assets	99,346,831	2,085,283	1,446,557	263,536	375,190	971,536	990,070	2,123,166	3,022,612	2,054,924	2,534,351	10,929,411	74,635,478
Less: Accumulated depreciation	49,763,974	1,284,549	827,862	201,178	255,509	677,890	704,205	1,514,373	2,036,871	1,279,406	1,528,263	6,656,069	34,082,348
Other capital assets less reserves	26,968,473	1,150,716	931,096	61,101	158,518	358,783	285,027	518,712	726,365	829,699	1,168,703	3,668,072	18,262,396
Accounts and notes payable	25,634,632	2,064,259	1,629,898	61,255	373,105	399,863	352,709	510,503	812,038	914,979	1,271,382	2,381,369	16,927,529
Other current liabilities	12,346,231	495,353	373,899	51,226	70,229	117,294	329,338	223,204	277,042	189,124	337,099	1,041,710	9,336,067
Mortgages, notes, and bonds payable in one year or more	48,719,957	1,226,145	1,137,422	*28,897	59,826	197,842	546,853	593,926	1,182,927	563,657	1,125,412	4,229,790	39,053,405
Net worth	111,829,194	365,528	716,509	-291,888	-59,092	464,460	35,057	953,781	1,805,134	2,090,819	1,477,839	6,767,976	97,868,599
Total receipts	100,426,996	1,640,309	1,020,010	149,754	470,545	849,530	1,094,781	2,473,267	5,190,977	4,147,580	3,482,893	10,341,703	71,205,957
Business receipts	87,350,933	477,879	46,452	109,141	322,286	726,970	940,892	2,262,920	4,714,139	3,660,111	2,982,834	9,013,428	62,571,759
Cost of sales and operations	54,573,351	223,985	45,419	32,811	145,755	332,056	448,248	837,276	1,854,594	1,812,118	1,726,087	5,507,037	41,831,949
Taxes paid	3,045,199	53,923	30,397	9,451	14,075	31,838	34,171	114,231	293,145	162,318	127,141	348,571	1,879,862
Interest paid	5,916,281	220,003	199,886	4,355	15,762	26,492	68,593	95,207	136,756	106,896	150,910	505,599	4,605,825
Depreciation	5,821,802	128,326	68,204	22,583	37,540	60,066	74,551	163,739	237,721	174,265	240,443	800,957	3,941,734
Pension, profit-sharing, stock bonus, and annuity plans	302,437	*1,021	*912	*42	*67	*490	*1,988	*1,440	9,500	8,216	18,625	36,367	224,790
Employee benefit programs	1,004,853	9,159	4,140	*1,670	*3,350	14,025	1,370	26,675	46,440	29,965	27,335	75,900	773,984
Net income (less deficit)	4,111,855	-390,290	-322,589	-30,293	-37,409	-62,350	-95,854	-134,053	24,939	21,082	104,894	-191,917	4,835,403
Income subject to tax	4,680,711	274,078	255,736	*5,728	*12,614	24,563	*19,891	48,748	93,862	66,818	61,655	388,952	3,702,144
Income tax, total	1,815,670	88,341	84,044	*1,548	2,749	6,157	4,979	14,228	34,793	26,263	26,660	155,297	1,458,951
Alternative minimum tax	210,502	3,009	*2,334	*139	*536	*309	*336	*1,089	5,797	4,369	5,921	20,538	169,134
Environmental tax	9,932	*277	*268	—	*9	—	*1	—	66	*62	176	559	8,791
Foreign tax credit	702,989	*326	*321	*5	—	3	—	—	—	—	(3)	*3,683	698,977
U.S. possessions tax credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	776	19	19	—	—	3	—	*5	—	*520	*18	*211	—
General business credit	37,792	*313	*313	—	—	*334	*211	*57	1,993	*1,771	*1,084	3,006	29,024
Prior year minimum tax credit	1,258	*10	*10	—	—	—	—	—	*107	*95	—	*57	*989
Construction													
Number of returns	381,499	100,152	47,351	17,732	35,070	79,620	63,734	59,377	44;197	18,788	9,254	5,758	620
Total assets	241,395,405	10,466,884	8,058,033	698,126	1,710,725	5,982,667	9,393,312	16,623,346	26,595,876	26,333,663	26,154,152	48,156,439	71,689,065
Notes and accounts receivable, net	64,150,067	1,009,169	831,551	63,854	113,763	787,143	1,470,743	3,533,857	6,592,317	7,517,955	8,812,485	16,822,633	17,603,765
Inventories	32,417,281	1,712,453	1,374,544	149,432	188,477	760,718	1,500,401	2,835,857	5,021,626	4,920,546	4,173,416	5,969,634	5,522,631
Cash, Government obligations and other current assets	52,126,068	2,693,793	2,094,543	182,839	416,411	1,608,586	2,208,046	4,063,916	6,471,455	6,458,255	6,322,345	11,041,706	11,257,965
Other investments and loans	36,750,554	1,709,986	1,316,669	63,555	329,762	905,321	925,780	1,467,207	1,824,205	1,668,343	1,722,840	3,719,215	22,807,657
Depreciable assets	85,869,629	3,369,755	1,974,150	427,271	968,334	3,937,966	6,089,177	9,317,329	12,813,912	10,530,987	9,495,610	16,381,686	13,933,206
Less: Accumulated depreciation	49,779,429	1,840,850	973,167	283,297	584,386	2,514,862	3,706,256	5,742,473	7,792,450	6,223,512	5,858,804	9,474,796	6,625,428
Other capital assets less reserves	8,891,861	1,023,215	822,551	61,788	138,876	292,183	561,000	720,248	981,003	898,451	704,455	1,668,022	2,043,284
Accounts and notes payable	75,180,903	3,192,302	2,671,425	150,845	370,032	1,877,712	2,402,697	5,439,886	9,326,224	9,614,266	9,474,847	16,387,254	17,465,714
Other current liabilities	36,046,001	1,048,953	875,854	68,038	105,061	735,094	1,022,302	2,298,615	3,621,902	3,975,991	4,979,671	8,551,186	9,812,287
Mortgages, notes, and bonds payable in one year or more	42,867,024	2,499,633	1,831,567	230,795	437,271	1,407,472	1,951,605	3,019,923	3,483,037	3,449,150	2,650,478	6,735,233	17,670,494
Net worth	62,524,744	1,470,212	1,127,068	35,196	307,948	829,604	2,727,577	4,124,837	7,840,077	6,923,477	6,830,969	12,813,558	18,964,433
Total receipts	499,690,338	4,585,190	1,196,355	725,656	2,663,179	13,826,728	23,584,068	42,584,214	69,550,771	66,829,168	64,792,445	108,562,733	105,375,019
Business receipts	485,711,849	3,444,963	257,553	653,725	2,533,684	13,462,706	23,245,641	42,028,649	68,748,425	65,753,071	63,924,566	106,016,383	99,087,444
Cost of sales and operations	375,920,136	1,741,118	143,431	330,702	1,266,985	7,235,339	13,411,458	28,009,364	49,917,650	50,998,009	51,795,450	89,226,514	83,585,233
Taxes paid	9,426,363	186,349	67,003	27,024	92,322	510,550	778,550	1,226,252	1,678,679	1,351,416	1,138,468	1,606,217	949,882
Interest paid	6,926,137	203,415	121,571	16,868	64,977	205,255	325,214	502,414	704,929	653,727	560,529	1,138,712	2,631,942
Depreciation	8,839,673	257,163	101,355	40,027	115,780	416,225	698,475	1,067,627	1,483,213	1,193,000	967,871	1,511,949	1,244,149
Pension, profit-sharing, stock bonus, and annuity plans	1,769,828	23,732	21,102	*639	*1,991	14,453	62,589	139,784	337,866	272,906	267,838	341,224	309,435
Employee benefit programs	2,241,730	19,558	6,784	*3,342	9,432	56,417	119,004	188,049	297,017	335,948	365,376	447,263	413,098
Net income (less deficit)	11,343,920	-108,312	-100,978	-7,852	518	117,798	313,637	578,374	1,107,251	1,335,759	1,455,312	3,264,044	3,280,056
Income subject to tax	8,340,495	153,060	80,570	*17,080	55,410	216,070	352,733	639,458	1,099,466	882,560	947,307	2,012,218	2,037,622
Income tax, total	2,497,276	38,642	26,613	*3,009	9,020	35,981	62,253	117,058	252,651	259,640	315,783	699,560	715,709
Alternative minimum tax	104,329	*4,889	*4,889	—	—	*72	*1,933	*462	12,076	22,926	22,787	19,239	19,946
Environmental tax	3,455	—	—	—	—	1	—	*7	—	*59	*8	500	2,881
Foreign tax credit	92,380	*81	*81	—	—	—	—	(3)	—	—	—	*2,541	89,758
U.S. possessions tax credit	1,279	—	—	—	—	—	—	—	—	—	—	1,279	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*7	—	—	—	—	—	—	—	—	—	—	—	*7
General business credit	95,097	*1,816	*542	*333	*940	2,181	4,506	5,496	9,485	7,691	9,620	13,715	40,588
Prior year minimum tax credit	33,983	*20	*20	—	—	17	—	—	*587	2,354	4,957	20,740	5,307

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	299,538	74,336	47,829	8,878	17,629	40,277	41,256	41,392	45,524	23,894	14,756	13,884	4,218
Total assets	3,390,433,557	9,456,572	7,047,722	712,993	1,695,858	4,148,292	7,240,746	13,082,316	34,307,728	41,908,625	56,066,549	174,079,166	3,050,143,562
Notes and accounts receivable, net	750,676,284	1,031,510	735,235	32,396	263,879	562,851	1,361,988	3,057,116	8,861,798	10,825,144	13,880,085	42,048,796	669,046,997
Inventories	354,494,099	519,908	294,729	63,685	161,494	652,859	1,171,491	2,547,612	7,195,451	9,718,642	13,389,234	40,563,393	278,735,508
Cash, Government obligations and other current assets	300,055,839	2,046,389	1,596,982	125,993	323,415	820,306	1,389,087	2,305,719	5,243,161	5,788,527	7,387,340	21,044,264	254,031,046
Other investments and loans	807,389,531	1,659,941	1,366,211	111,729	182,001	462,974	738,599	736,413	1,994,228	2,291,829	3,413,738	13,569,883	782,521,925
Depreciable assets	1,433,079,873	4,085,345	2,721,090	409,177	955,078	3,070,073	5,128,778	9,700,600	23,734,553	25,090,532	32,137,002	86,630,307	1,243,502,684
Less: Accumulated depreciation	692,798,506	1,137,708	641,427	105,255	391,027	1,828,154	3,162,804	6,008,885	14,768,438	14,577,702	18,189,067	44,320,864	588,804,884
Other capital assets less reserves	217,969,025	571,342	459,342	50,913	61,088	179,111	292,035	420,807	1,215,327	1,620,301	2,145,116	8,595,816	202,929,170
Accounts and notes payable	668,559,039	1,991,429	1,483,633	88,576	419,220	829,632	1,685,081	3,517,543	9,152,888	11,689,193	15,607,664	44,844,751	579,240,858
Other current liabilities	326,025,872	1,294,388	1,163,138	28,612	102,638	358,001	715,668	1,245,208	2,687,926	3,548,684	4,876,532	16,681,852	294,617,613
Mortgages, notes, and bonds payable in one year or more	727,540,706	2,162,163	1,367,218	348,440	446,504	1,168,103	1,449,167	3,137,884	6,991,300	7,755,384	9,556,748	32,607,952	662,712,007
Net worth	1,253,269,530	1,411,702	1,215,242	57,233	139,228	801,672	1,861,183	3,574,875	12,469,216	15,872,816	22,465,202	70,688,756	1,124,124,108
Total receipts	3,348,965,911	3,208,482	1,210,529	477,643	1,520,310	7,148,137	15,354,109	29,847,605	74,172,909	86,022,521	104,778,080	295,890,996	2,732,543,071
Business receipts	3,118,059,530	1,925,595	232,620	343,035	1,349,939	6,844,435	14,926,760	29,331,486	72,903,719	84,333,511	102,736,521	288,257,478	2,516,800,026
Cost of sales and operations	2,117,827,704	1,023,367	183,035	195,702	644,630	3,335,990	8,100,991	17,184,349	47,896,847	57,501,659	72,918,879	207,533,503	1,702,332,120
Taxes paid	78,378,766	133,457	58,766	16,289	58,402	230,939	507,938	966,019	1,988,455	2,022,995	2,212,317	5,459,619	64,857,027
Interest paid	113,699,987	239,912	164,507	23,357	52,048	138,793	273,486	461,105	1,050,030	1,331,855	1,710,236	5,455,588	103,038,983
Depreciation	120,038,466	210,532	103,399	28,800	78,333	297,632	528,653	940,791	2,153,406	2,207,833	2,479,475	7,163,196	104,056,949
Pension, profit-sharing, stock bonus, and annuity plans	17,868,770	12,526	7,671	*3,316	*1,538	20,227	50,612	114,763	407,308	420,760	458,385	1,175,534	15,208,653
Employee benefit programs	47,008,397	24,428	15,235	4,315	4,878	50,455	125,322	201,275	575,679	641,958	879,644	2,626,468	41,883,169
Net income (less deficit)	205,083,651	-1,168,822	-656,611	-173,931	-338,280	-261,235	-135,511	-193,572	958,656	1,644,927	2,583,825	10,999,876	190,655,507
Income subject to tax	197,348,499	247,134	204,431	*10,424	32,279	119,490	343,178	615,893	1,442,534	1,743,725	2,257,340	8,893,411	181,685,794
Income tax, total	68,661,707	72,334	63,958	*1,648	6,729	20,722	62,711	123,331	350,159	523,493	756,129	3,068,953	63,683,874
Alternative minimum tax	1,469,116	1,116	1,116	—	—	*244	*1,086	*583	1,826	4,294	15,310	42,311	1,402,347
Environmental tax	255,764	85	83	—	*2	—	36	—	*8	29	127	3,725	251,754
Foreign tax credit	21,860,251	*10	*10	—	—	—	—	—	*45	*4,995	4,728	86,841	21,763,633
U.S. possessions tax credit	2,219,079	804	799	—	5	6	—	318	4,229	13,046	38,440	382,230	1,780,006
Orphan drug credit	8,053	—	—	—	—	—	—	—	—	—	—	—	8,053
Nonconventional source fuel credit	27,701	*20	*20	—	—	—	—	—	—	—	—	*275	27,407
General business credit	2,486,886	*411	*318	*79	*14	*1,465	5,241	7,479	18,923	24,922	24,917	81,721	2,321,807
Prior year minimum tax credit	153,853	—	—	—	—	—	—	—	—	*3,475	*1,041	4,524	144,813
Transportation and Public Utilities													
Number of returns	149,248	58,413	31,234	10,821	16,359	25,738	16,310	18,196	16,716	7,553	3,360	2,243	717
Total assets	1,411,201,395	9,806,540	7,813,261	703,098	1,290,181	3,301,267	3,173,055	7,821,400	12,272,929	13,079,624	11,637,303	34,722,544	1,315,386,732
Notes and accounts receivable, net	132,796,944	840,006	688,629	22,190	129,186	285,401	303,718	1,107,102	2,149,807	2,320,761	2,207,080	5,581,203	118,001,866
Inventories	29,452,644	109,934	85,627	*314	*23,994	38,157	49,349	168,011	262,789	291,432	266,471	642,551	27,623,950
Cash, Government obligations and other current assets	90,907,731	1,508,909	1,181,956	147,375	179,579	555,494	705,067	1,399,085	2,050,790	1,889,889	1,964,322	4,739,353	76,094,821
Other investments and loans	228,538,983	1,454,598	1,323,000	69,189	62,409	294,532	269,249	577,790	745,472	902,138	837,963	2,535,072	220,922,170
Depreciable assets	1,172,232,524	7,354,109	5,530,471	465,354	1,358,285	3,509,484	3,165,879	8,008,433	12,073,443	12,168,908	10,116,910	24,464,674	1,091,370,685
Less: Accumulated depreciation	378,209,186	3,040,654	2,137,795	201,942	700,917	1,825,986	1,713,205	4,466,794	6,537,529	6,092,441	5,175,615	10,169,661	339,187,300
Other capital assets less reserves	50,203,001	766,464	608,502	36,879	121,083	270,127	150,225	515,007	914,904	963,628	838,081	4,086,679	41,697,886
Accounts and notes payable	153,203,023	2,031,580	1,703,247	126,841	201,492	692,039	649,721	1,718,515	3,364,155	3,193,559	2,972,035	6,758,425	131,822,995
Other current liabilities	116,247,273	809,640	668,233	102,219	39,187	100,100	301,644	477,315	1,013,128	977,335	929,044	2,974,594	108,664,473
Mortgages, notes, and bonds payable in one year or more	428,201,824	2,669,498	2,096,098	207,509	365,891	1,280,060	1,207,806	2,722,746	4,204,762	4,503,909	3,678,468	12,321,715	395,612,860
Net worth	519,388,495	1,888,031	1,587,568	157,771	142,692	638,964	446,209	1,649,894	1,883,054	3,239,890	3,085,995	8,330,872	498,225,587
Total receipts	838,753,393	4,121,693	2,397,643	414,935	1,309,115	4,508,203	6,240,012	13,455,931	26,397,206	26,471,503	22,843,245	45,612,153	689,103,447
Business receipts	779,584,504	1,818,604	168,652	389,889	1,260,062	4,318,879	5,963,012	12,858,540	25,486,224	25,701,060	22,221,545	43,503,008	637,713,633
Cost of sales and operations	356,253,750	486,717	78,274	86,209	322,234	1,242,215	1,848,350	5,454,831	12,419,740	12,760,136	12,133,237	23,974,440	285,934,084
Taxes paid	36,934,916	181,461	104,456	15,799	61,206	213,053	258,581	498,808	919,031	804,927	703,407	1,485,014	31,870,635
Interest paid	50,934,990	293,208	218,948	21,364	52,896	171,732	158,584	364,212	556,924	543,818	465,640	1,595,115	46,785,757
Depreciation	81,232,186	577,929	324,477	69,987	183,466	416,251	409,547	935,282	1,490,415	1,453,076	1,082,562	2,657,337	72,209,788
Pension, profit-sharing, stock bonus, and annuity plans	5,799,231	16,331	*15,682	*465	*184	*11,305	19,800	35,816	64,916	105,503	100,056	149,233	5,296,271
Employee benefit programs	12,607,271	54,690	47,309	*1,227	6,155	18,180	45,195	91,078	211,509	251,525	223,559	443,717	11,267,818
Net income (less deficit)	46,943,801	-210,437	-192,789	-11,552	-6,096	-6,783	28,316	57,222	-53,279	546,759	407,257	579,277	45,595,468
Income subject to tax	50,627,000	330,454	293,871	*16,486	20,097	79,031	161,868	276,538	424,686	577,198	416,724	1,111,838	47,248,661
Income tax, total	17,762,410	103,385	97,846	*2,525	3,015	12,608	41,523	65,770	121,227	193,173	139,539	397,258	16,687,926
Alternative minimum tax	458,112	*1,652	*1,652	—	—	*49	*53	*1,060	3,519	14,822	3,599	17,675	415,584
Environmental tax	79,698	*93	*93	—	—	—	*11	*30	92	229	73	926	78,244
Foreign tax credit	419,834	*999	*999	—	—	—	—	—	—	*6,279	*65	*796	411,696
U.S. possessions tax credit	49,598	49,570	49,570	—	—	—	—	—	28	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	16,140	—	—	—	—	—	—	—	—	—	—	—	16,140
General business credit	1,792,125	3,442	2,481	—	*960	1,942	3,617	5,927	7,737	7,243	6,129	15,324	1,740,764
Prior year minimum tax credit	55,422	105	105	—	—	—	—	—	*176	*305	*140	*792	53,903

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)
Wholesale and Retail Trade													
Number of returns	984,553	246,506	121,309	45,037	80,160	159,195	174,600	145,355	134,322	56,633	32,797	30,465	4,679
Total assets	1,295,819,375	16,653,111	10,013,515	2,332,314	4,307,281	12,854,152	24,204,816	37,257,802	71,901,991	64,802,870	70,502,850	181,706,217	815,935,566
Notes and accounts receivable, net	280,679,479	1,869,807	1,252,749	215,483	401,575	1,324,258	3,064,450	6,156,786	14,924,345	15,055,216	17,254,208	43,519,085	177,511,324
Inventories	359,148,953	2,113,638	686,791	546,314	880,533	3,926,374	8,068,009	12,720,532	24,231,304	24,392,141	26,940,971	71,096,430	185,659,554
Cash, Government obligations and other current assets	167,904,294	3,378,738	2,098,898	599,365	680,474	2,208,631	3,724,281	5,470,474	10,751,996	8,750,014	8,334,255	18,333,986	106,951,920
Other investments and loans	139,706,020	3,883,877	3,161,868	277,613	444,395	787,742	1,590,630	2,389,219	4,629,826	3,622,571	3,152,222	8,940,095	110,709,839
Depreciable assets	396,994,053	6,197,998	2,770,882	1,050,710	2,376,406	6,849,002	12,407,930	18,179,381	30,965,486	22,888,109	24,524,560	57,876,120	217,105,466
Less: Accumulated depreciation	177,672,588	2,859,534	1,217,614	548,088	1,093,832	3,810,992	7,342,071	10,687,578	18,379,383	13,345,084	13,568,086	28,551,581	79,128,279
Other capital assets less reserves	59,376,001	1,044,803	677,013	100,160	267,630	776,091	1,288,488	1,620,408	2,826,586	2,164,332	2,330,034	6,580,687	40,744,571
Accounts and notes payable	451,993,284	6,094,687	4,594,751	627,137	872,800	2,699,723	6,312,033	10,511,562	23,747,918	25,331,406	29,551,572	83,254,643	264,489,741
Other current liabilities	166,848,841	1,712,364	1,295,150	191,825	225,389	766,348	1,554,608	2,432,529	5,050,288	4,865,708	5,081,563	14,624,242	130,761,191
Mortgages, notes, and bonds payable in one year or more	248,668,211	5,635,827	3,947,134	515,936	1,172,757	3,007,031	5,542,517	7,619,281	12,793,785	9,182,995	9,140,886	25,957,582	169,788,307
Net worth	331,968,322	−3,172,611	−3,711,078	229,754	308,713	2,605,410	4,518,431	10,966,965	23,456,033	20,582,149	22,537,581	49,598,380	200,875,985
Total receipts	2,977,982,750	10,550,372	2,386,233	2,000,368	6,163,771	27,200,886	64,753,944	105,264,127	213,578,204	201,196,467	232,671,467	609,745,780	1,513,021,504
Business receipts	2,891,336,187	8,163,047	641,459	1,667,850	5,853,738	26,404,815	63,318,515	103,119,105	209,857,425	197,896,062	228,894,029	598,155,739	1,455,527,451
Cost of sales and operations	2,230,936,367	4,290,839	406,169	881,146	3,003,524	14,146,041	36,707,051	65,749,623	143,843,791	146,003,056	178,984,223	487,400,839	1,153,810,902
Taxes paid	42,096,648	392,975	121,760	72,050	199,165	888,568	1,942,488	2,544,215	4,318,099	3,315,582	3,146,425	7,092,349	18,455,946
Interest paid	53,360,602	511,077	331,334	47,582	132,161	412,105	925,067	1,265,482	2,334,796	2,083,941	2,296,114	6,634,311	36,897,710
Depreciation	41,021,984	574,565	240,090	87,179	247,295	674,427	1,294,767	1,882,181	3,125,359	2,412,135	2,651,621	6,277,541	22,129,388
Pension, profit-sharing, stock bonus, and annuity plans	7,062,823	32,393	18,994	*4,084	*9,315	56,125	175,884	256,821	642,021	607,810	606,609	1,086,834	3,598,327
Employee benefit programs	13,019,492	39,565	6,236	7,076	26,253	82,654	172,778	353,965	769,878	758,894	891,389	2,408,095	7,542,273
Net income (less deficit)	42,844,883	−1,271,681	−716,819	−145,952	−408,910	−309,552	−204,686	728,346	2,301,582	2,443,292	3,091,098	8,015,413	28,051,073
Income subject to tax	44,054,669	342,107	178,378	58,339	105,389	329,783	711,898	1,333,497	2,583,603	2,208,446	2,537,814	5,308,650	28,698,871
Income tax, total	14,116,720	84,817	53,964	12,859	17,994	57,015	115,551	236,424	536,680	580,955	755,940	1,781,639	9,967,698
Alternative minimum tax	150,620	*546	*428	*10	*108	*410	*28	*702	2,082	3,858	3,074	24,026	115,894
Environmental tax	40,059	1,359	1,354	*4	*2	—	*675	17	*10	*13	92	1,051	36,842
Foreign tax credit	1,038,355	*5,655	*5,371	*284	—	*18	—	*2,658	*2,925	*26	*6,856	15,887	1,004,329
U.S. possessions tax credit	25,266	—	—	—	—	—	—	—	235	330	1,818	3,147	19,736
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*1,061	(3)	(3)	—	—	—	—	—	—	—	—	*818	243
General business credit	303,185	1,967	*700	*346	*920	3,981	3,511	7,467	17,752	10,527	14,702	32,033	211,246
Prior year minimum tax credit	15,759	*2,481	*1,624	*857	—	—	—	(3)	*503	*2	*579	1,944	10,250
Finance, Insurance, and Real Estate [2]													
Number of returns	572,418	359,012	245,178	53,248	60,587	81,990	52,157	31,233	22,615	10,103	5,947	6,694	2,687
Total assets	9,411,547,140	96,546,482	65,304,532	11,960,650	19,281,300	33,014,526	42,971,619	56,259,041	144,031,394	205,079,220	303,681,179	963,873,155	7,566,090,524
Notes and accounts receivable, net	2,651,210,249	4,614,753	2,387,093	637,873	1,589,787	3,257,045	5,417,984	8,841,087	36,569,769	65,051,732	94,295,313	233,788,049	2,199,374,518
Inventories	34,886,177	3,211,568	2,255,763	*236,536	719,269	842,227	894,533	1,535,170	2,537,871	1,706,501	1,656,122	5,583,297	16,918,888
Cash, Government obligations and other current assets	2,081,675,558	15,605,407	9,068,581	3,005,376	3,531,450	6,614,716	8,392,565	12,795,696	39,217,603	60,155,014	81,755,402	224,313,496	1,632,825,658
Other investments and loans	3,891,408,380	25,387,304	17,193,831	2,994,296	5,199,177	9,334,781	13,370,363	17,107,768	41,924,030	59,910,418	106,439,900	443,103,126	3,174,830,690
Depreciable assets	327,758,686	34,262,366	23,035,834	4,662,505	6,564,027	12,408,143	14,388,613	15,258,440	19,799,837	15,602,359	15,243,051	39,006,004	161,789,873
Less: Accumulated depreciation	103,482,292	9,639,775	5,563,131	1,550,438	2,526,207	4,654,186	5,128,336	5,281,936	6,270,586	4,951,810	4,720,224	11,483,959	51,351,480
Other capital assets less reserves	97,766,272	18,473,692	13,175,549	1,572,613	3,725,529	4,038,675	4,305,156	3,905,868	5,542,304	3,799,586	3,617,243	9,882,105	44,201,644
Accounts and notes payable	957,864,577	11,727,377	7,288,619	2,189,222	2,249,536	4,470,451	6,190,884	7,692,576	13,282,823	12,823,994	16,281,716	56,900,053	828,494,703
Other current liabilities	4,371,146,939	4,507,869	2,844,435	511,698	1,151,736	2,312,595	3,909,059	11,160,553	60,422,147	118,809,745	184,292,239	517,095,838	3,468,636,894
Mortgages, notes, and bonds payable in one year or more	678,904,915	34,883,013	26,208,832	3,007,602	5,666,579	8,733,278	10,653,990	11,731,037	19,776,798	15,948,367	16,421,014	56,884,961	503,872,457
Net worth	1,779,467,329	26,535,125	15,272,486	4,372,099	6,890,540	12,305,783	14,943,251	20,049,534	42,392,933	50,552,480	76,709,316	286,768,859	1,249,210,048
Total receipts	1,714,352,381	7,594,694	1,313,548	1,923,254	4,357,892	13,265,798	18,480,175	21,842,200	35,774,746	36,354,602	41,564,411	140,054,526	1,399,421,229
Business receipts	860,415,865	4,294,160	594,746	1,112,582	2,586,832	10,245,635	14,503,972	16,719,097	23,167,722	19,086,617	15,503,051	56,388,745	700,506,866
Cost of sales and operations	501,018,140	815,078	100,752	145,698	568,628	1,484,631	3,236,956	4,256,610	8,341,909	8,010,527	7,000,068	30,967,576	436,904,785
Taxes paid	29,160,155	689,363	230,388	157,073	301,902	615,738	757,972	912,658	1,171,142	920,777	902,819	2,630,303	20,559,382
Interest paid	415,952,696	1,342,843	575,363	253,990	513,490	972,534	1,276,782	1,830,958	5,264,704	8,410,174	12,828,492	39,760,080	344,266,130
Depreciation	35,414,823	697,458	204,819	196,009	296,631	651,528	764,261	837,208	1,098,439	950,338	1,025,441	2,922,980	26,467,171
Pension, profit-sharing, stock bonus, and annuity plans	5,959,152	27,678	7,679	*628	19,371	92,793	204,596	175,385	241,921	172,085	165,083	501,917	4,377,694
Employee benefit programs	10,311,534	52,551	14,554	13,634	24,363	80,355	181,679	154,425	221,554	297,041	294,580	991,745	8,037,604
Net income (less deficit)	91,892,954	−2,605,358	−2,523,031	−105,678	23,351	187,716	186,558	525,953	892,174	1,493,750	2,938,425	14,796,457	73,477,280
Income subject to tax	59,926,973	838,744	211,898	195,951	430,894	652,289	731,178	898,953	1,375,058	1,639,610	2,114,914	6,836,136	44,840,090
Income tax, total	20,899,804	154,987	48,740	32,387	73,860	130,801	178,898	249,405	439,781	560,652	742,724	2,410,094	16,032,462
Alternative minimum tax	802,069	2,184	*1,365	*121	*698	1,235	1,388	7,305	14,425	19,382	19,833	71,883	664,434
Environmental tax	84,694	64	64	—	—	(3)	*10	42	97	200	412	5,236	78,633
Foreign tax credit	2,352,338	*12,150	*11,951	*178	*21	*23	95	1,783	2,081	*564	994	83,818	2,250,833
U.S. possessions tax credit	5,726	24	(3)	5	19	—	—	—	2	1,395	801	547	2,957
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	3,311	—	—	—	—	—	*13	—	*40	*101	—	62	3,095
General business credit	485,208	1,399	*244	*192	*962	2,241	2,569	4,515	3,328	6,722	7,084	20,457	436,894
Prior year minimum tax credit	194,673	*13	—	—	*13	*8	*45	104	2,258	2,597	2,998	9,296	177,354

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)
Services													
Number of returns	995,425	456,807	262,462	77,847	116,498	201,148	149,947	101,216	56,066	17,405	7,078	4,914	843
Total assets	530,326,395	36,913,766	25,505,598	4,453,116	6,955,051	18,449,481	22,203,527	25,294,295	35,593,410	26,477,299	25,528,004	60,004,850	279,861,763
Notes and accounts receivable, net	95,327,925	3,703,308	2,860,618	203,945	638,746	1,866,636	2,977,352	3,875,991	6,568,991	5,148,783	5,916,278	13,977,760	51,292,824
Inventories	20,942,836	575,032	297,398	75,639	201,995	706,565	976,360	1,222,540	1,906,723	1,418,265	1,168,519	2,980,683	9,988,148
Cash, Government obligations and other current assets	77,492,717	7,688,473	5,537,301	756,611	1,394,561	4,165,993	5,440,597	5,966,113	6,780,816	4,902,404	3,978,727	9,453,832	29,115,763
Other investments and loans	94,372,066	8,602,712	6,759,151	613,696	1,229,864	3,398,738	2,917,242	2,610,421	3,855,468	2,771,838	2,551,265	6,090,879	61,573,505
Depreciable assets	262,944,834	23,262,947	12,940,745	5,282,666	5,039,536	13,358,721	17,819,134	19,335,248	26,559,058	16,643,953	14,979,185	32,351,868	98,634,721
Less: Accumulated depreciation	115,257,924	12,115,191	6,321,058	3,155,721	2,638,412	7,516,354	10,147,599	10,754,274	13,848,991	7,909,065	6,261,573	13,339,528	33,365,349
Other capital assets less reserves	36,215,735	2,428,689	1,360,612	335,495	732,582	1,153,382	1,217,821	1,743,584	1,972,771	1,537,464	1,772,485	4,744,078	19,645,460
Accounts and notes payable	108,456,235	6,642,372	5,163,398	485,008	993,966	3,089,823	4,494,194	5,332,038	8,835,810	6,287,171	6,463,228	14,468,907	52,842,691
Other current liabilities	60,632,671	3,057,933	2,116,585	342,592	598,755	1,706,939	2,096,108	2,579,331	3,855,616	3,182,136	3,573,143	7,501,015	33,080,451
Mortgages, notes, and bonds payable in one year or more	160,617,186	13,876,069	7,849,118	3,749,568	2,277,382	5,651,522	6,369,637	6,997,316	10,303,376	7,354,544	7,335,694	17,417,573	85,311,455
Net worth	128,119,335	2,483,541	4,229,275	-2,896,456	1,150,722	3,668,651	5,428,815	6,414,532	8,306,796	6,310,324	5,829,877	15,255,323	74,421,477
Total receipts	695,265,170	23,521,554	10,749,222	3,284,554	9,487,778	35,204,648	54,191,228	72,047,488	87,523,824	62,364,967	51,790,080	94,471,063	214,150,318
Business receipts	643,748,105	13,237,069	1,661,087	2,873,202	8,702,780	33,546,192	52,661,802	70,164,309	84,981,275	60,454,617	48,950,538	89,137,539	190,614,764
Cost of sales and operations	249,228,959	3,170,414	511,866	565,462	2,093,087	8,191,116	13,807,252	21,779,580	30,785,402	21,458,238	21,748,906	42,611,018	85,677,035
Taxes paid	21,415,109	849,581	332,073	146,907	370,602	1,360,275	2,011,465	2,442,674	2,994,091	1,924,557	1,385,142	2,514,130	5,933,193
Interest paid	23,077,104	1,357,728	795,461	316,963	245,304	715,289	917,163	996,921	1,515,629	1,109,467	1,102,892	2,302,704	13,059,311
Depreciation	31,445,765	1,843,913	1,021,792	258,326	563,795	1,436,337	1,872,307	2,079,546	2,925,750	1,977,662	1,917,378	4,022,960	13,369,912
Pension, profit-sharing, stock bonus, and annuity plans	6,238,052	135,427	83,429	14,438	37,560	475,129	1,020,591	939,018	866,733	534,362	314,507	659,723	1,292,561
Employee benefit programs	7,746,298	195,142	104,112	19,844	71,187	243,278	415,156	626,566	769,928	751,263	494,618	1,166,227	3,084,121
Net income (less deficit)	9,276,631	-2,218,444	-1,793,896	-448,880	24,332	347,423	313,193	949,976	850,256	630,181	388,246	1,536,659	6,479,141
Income subject to tax	16,171,697	835,342	460,744	88,332	286,266	596,490	697,081	1,066,579	1,225,487	710,766	739,912	1,911,582	8,388,458
Income tax, total	5,049,797	205,485	133,835	15,825	55,824	107,303	129,270	199,110	303,594	200,422	251,070	675,297	2,978,248
Alternative minimum tax	145,335	7,798	7,481	—	*317	989	*150	2,392	7,095	5,445	10,218	21,657	89,592
Environmental tax	13,470	236	214	—	22	*15	—	*14	*30	*50	201	1,114	11,810
Foreign tax credit	580,913	*23,971	*22,858	*1,113	—	—	—	*1,438	*6,987	*1,129	*336	20,277	526,775
U.S. possessions tax credit	16,174	1,296	1,284	7	5	(3)	55	286	509	367	4,440	9,221	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*520	—	—	—	—	—	—	—	—	—	—	*520	(3)
General business credit	327,393	6,049	2,985	*967	2,097	6,232	4,469	10,523	18,609	8,745	12,618	27,693	232,457
Prior year minimum tax credit	12,578	*84	—	—	*84	—	*27	*692	—	*521	*1,046	*925	9,283
Nature of Business not Allocable													
Number of returns	19,125	15,255	11,600	*1,761	*1,893	*1,808	*1,013	*272	*726	**	*7	*41	*3
Total assets	1,613,441	776,749	613,660	*36,673	*126,417	*63,487	*130,207	*129,808	*189,836	**	*42,647	*236,920	*43,787
Notes and accounts receivable, net	226,776	86,571	67,021	*1,655	*17,895	*11,041	*1,428	*14,696	*60,857	**	*6,320	*35,329	*10,535
Inventories	241,860	*10,692	*9,809	—	*883	*8,268	*23,196	*29,035	*75,114	**	*1,147	*69,648	*24,760
Cash, Government obligations and other current assets	304,553	177,732	120,337	*22,273	*35,122	*12,981	*7,725	*23,374	*22,750	**	*3,962	*54,261	*1,767
Other investments and loans	167,293	86,524	*67,517	*623	*18,385	*5,643	*55,801	—	*4,208	—	—	*9,289	*5,828
Depreciable assets	667,022	243,441	193,659	*12,331	*37,451	*51,739	*44,222	*164,013	*39,597	**	*32,673	*88,694	*2,645
Less: Accumulated depreciation	309,394	55,620	36,058	*3,670	*15,892	*26,459	*11,343	*159,251	*13,724	**	*2,020	*39,230	*1,748
Other capital assets less reserves	182,527	146,192	137,329	—	*8,863	*80	*7,698	*19,938	*787	—	*565	*7,269	—
Accounts and notes payable	774,166	328,848	295,063	*12,178	*21,607	*40,682	*22,433	*203,041	*63,898	**	*5,903	*71,607	*37,753
Other current liabilities	144,774	76,841	*49,205	*768	*26,868	*1,606	*9,164	*36,711	*9,327	—	*446	*8,029	*2,649
Mortgages, notes, and bonds payable in one year or more	373,261	212,583	203,316	—	*9,267	—	*59,903	*5,975	*18,969	—	*34,548	*36,419	*4,863
Net worth	-11,365	-71,868	-98,630	*9,968	*16,794	*11,040	*21,979	*-149,211	*67,472	**	*1,454	*109,299	*-1,530
Total receipts	3,172,428	281,480	71,397	*68,385	*141,699	*285,696	*364,702	*195,338	*1,234,790	**	*54,519	*604,704	*151,199
Business receipts	3,119,131	246,313	37,693	*68,385	*140,235	*285,356	*363,274	*186,292	*1,231,841	**	*53,902	*601,646	*150,507
Cost of sales and operations	1,988,335	51,692	24,718	*15,759	*11,214	*96,606	*157,565	*40,573	*1,052,247	**	*3,689	*450,355	*135,609
Taxes paid	67,493	9,877	4,391	*1,352	*4,134	*11,096	*12,294	*9,713	*10,394	**	*1,844	*11,288	*986
Interest paid	81,921	46,865	43,871	—	*2,995	*4,687	*11,641	*2,078	*4,166	**	*3,488	*7,232	*1,764
Depreciation	65,371	21,796	7,071	*9,277	*5,449	*6,928	*10,122	*3,945	*11,394	**	*2,197	*8,641	*348
Pension, profit-sharing, stock bonus, and annuity plans	*2,164	—	—	—	—	—	—	—	*2,052	—	—	*113	—
Employee benefit programs	18,189	*1,570	*1,567	—	*3	*2,220	*255	*2,863	*2,898	**	—	*7,766	*617
Net income (less deficit)	-130,863	-158,788	-173,861	*3,441	*11,632	*-4,915	*-1,989	*-3,421	*20,355	**	*632	*18,411	*-1,149
Income subject to tax	44,024	18,242	3,996	*4,153	*10,093	*194	*2,788	*1,735	*10,957	**	*625	*9,484	—
Income tax, total	9,554	3,205	1,068	*623	*1,514	*29	*418	*260	*2,121	**	*175	*3,346	—
Alternative minimum tax	*165	—	—	—	—	—	—	—	—	—	*46	*119	—
Environmental tax	—	—	—	—	—	—	—	—	—	—	—	—	—
Foreign tax credit	—	—	—	—	—	—	—	—	—	—	—	—	—
U.S. possessions tax credit	384	—	—	—	—	—	—	—	384	**	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	—	—	—	—	—	—	—	—	—	—	—	—	—
General business credit	*35	(3)	(3)	—	—	*29	—	—	*6	—	—	—	—
Prior year minimum tax credit	—	—	—	—	—	—	—	—	—	—	—	—	—

* 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] 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."

RETURNS OF ACTIVE CORPORATIONS

Table 8—Total Receipts, Net Income, Statutory Special Deductions, Income Tax, Selected Credits, and Tax Payment 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		Accounting period ended[1]											
	Number of returns	Amount	July 1988	August 1988	September 1988	October 1988	November 1988	December 1988	January 1989	February 1989	March 1989	April 1989	May 1989	June 1989
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Returns With and Without Net Income														
Number of returns	3,562,789	—	95,925	102,647	251,756	129,721	75,528	2,133,062	75,713	69,381	183,277	80,040	92,396	273,343
Total receipts	3,330,017	10,264,867,461	203,145,681	193,425,212	590,473,248	298,611,245	170,740,474	6,539,171,735	399,565,775	179,130,535	577,376,346	193,988,386	253,995,183	665,243,641
Net income (less deficit)	3,472,207	412,982,753	8,229,247	8,584,055	22,740,426	14,214,436	9,661,698	291,067,043	12,919,304	5,338,262	12,485,140	5,661,001	7,204,407	14,877,733
Total income tax	1,010,031	131,367,397	1,725,899	1,738,380	6,826,253	3,002,810	1,955,405	96,909,660	4,149,477	1,411,425	3,641,497	1,784,112	2,302,083	5,920,397
Returns With and Without Net Income, Other Than Forms 1120S, 1120-REIT and 1120-RIC														
Number of returns	2,305,598	—	89,149	91,773	222,799	114,980	67,341	999,885	71,205	65,046	173,017	73,378	84,343	252,684
Total receipts	2,215,268	9,000,879,084	179,354,095	176,563,357	531,383,788	268,294,310	154,340,642	5,558,369,820	383,755,522	166,358,435	547,989,327	175,545,708	240,712,431	618,211,649
Net income (less deficit)	2,275,327	379,579,297	7,554,267	7,762,355	20,704,836	13,063,049	8,939,347	268,881,309	12,168,500	4,633,827	11,095,670	4,958,093	6,722,274	13,095,772
Statutory special deductions, total	531,384	117,452,980	4,593,404	4,877,568	9,907,798	7,332,006	5,585,095	60,186,034	3,459,270	2,988,044	7,770,948	2,005,913	2,294,450	6,452,450
Net operating loss deduction	446,622	51,418,150	924,615	1,462,614	3,222,975	2,251,302	969,587	33,696,372	1,111,434	746,544	2,564,277	616,875	1,078,300	2,773,256
Total special deductions	96,956	66,034,830	3,668,789	3,414,954	6,684,823	5,080,704	4,615,508	26,489,662	2,347,836	2,241,500	5,206,671	1,389,038	1,216,150	3,679,195
Income subject to tax	979,270	383,106,896	5,363,397	5,362,575	20,617,823	9,220,465	5,951,452	278,083,224	12,354,961	4,240,804	11,283,209	5,476,765	6,961,129	18,191,093
Income tax, total	1,000,375	131,232,855	1,724,508	1,730,450	6,817,676	2,996,328	1,954,363	96,810,391	4,147,765	1,410,819	3,638,815	1,782,023	2,301,851	5,917,866
Regular tax	979,271	126,817,631	1,690,067	1,680,413	6,648,895	2,914,137	1,921,139	93,278,587	4,082,118	1,332,054	3,525,489	1,735,982	2,251,037	5,757,713
Personal holding company tax	3,301	17,729	*18	*1,216	*2,170	12	*3	6,702	*155	*887	*891	*550	*17	5,106
Recapture of investment credit	41,601	526,094	6,460	6,228	38,646	12,552	3,814	391,427	25,191	3,544	10,354	3,177	5,719	18,982
Alternative minimum tax	25,195	3,352,845	23,450	37,536	104,787	61,023	24,357	2,727,945	25,657	69,105	85,836	37,589	36,722	118,839
Environmental tax	11,539	487,926	4,500	5,029	21,737	8,535	4,115	385,964	14,289	4,464	9,438	4,714	8,353	16,789
Foreign tax credit	4,282	27,068,104	201,275	92,885	573,594	676,404	219,433	23,838,754	162,415	52,167	128,985	223,299	290,611	608,282
U.S. possessions tax credit	458	2,318,021	21,822	11,878	53,173	59,167	450,568	1,473,154	9,787	15,096	25,341	58,833	12,802	126,400
Orphan drug credit	14	8,053	—	2,393	—	—	—	5,626	—	—	31	—	—	3
Nonconventional source fuel credit	132	49,517	—	*889	*9,443	*9	*1,982	36,102	—	—	132	371	*319	270
General business credit	122,082	5,559,174	47,012	65,356	210,466	82,384	45,188	4,554,314	102,602	41,592	122,251	49,989	106,005	132,013
Prior year minimum tax credit	3,402	468,767	*286	*607	*1,338	*516	65	387,185	6,498	6,275	32,198	13,791	8,039	11,971
Total income tax after credits[2]	953,842	95,761,220	1,454,113	1,556,443	5,969,662	2,177,847	1,237,126	66,515,257	3,866,463	1,295,689	3,329,877	1,435,741	1,884,074	5,038,927
Returns With Net Income, Other Than Forms 1120S, 1120-REIT and 1120-RIC														
Number of returns	1,275,536	—	48,997	54,226	130,192	71,330	39,622	515,592	42,504	35,360	101,186	44,593	49,455	142,477
Total receipts	1,275,536	7,224,123,287	125,792,042	142,384,607	395,563,260	206,735,136	105,177,419	4,636,138,969	303,239,201	117,295,778	422,605,206	126,850,855	185,902,278	456,438,535
Net income	1,275,536	497,737,708	9,936,314	10,200,578	30,399,395	16,495,323	11,292,188	336,127,602	15,783,344	7,196,003	19,011,137	7,458,315	9,243,246	24,594,264
Statutory special deductions, total	510,236	116,196,314	4,585,776	4,844,924	9,861,823	7,297,956	5,573,846	59,213,104	3,431,852	2,962,762	7,743,095	1,990,461	2,283,479	6,407,234
Net operating loss deduction	446,600	51,343,497	924,615	1,462,614	3,222,975	2,251,302	969,587	33,623,298	1,111,434	746,544	2,562,697	616,875	1,078,300	2,773,256
Total special deductions	75,810	64,852,817	3,661,162	3,382,310	6,638,848	5,046,654	4,604,259	25,589,806	2,320,418	2,216,219	5,180,398	1,373,586	1,205,179	3,633,978
Income subject to tax	979,227	383,003,260	5,363,397	5,362,575	20,617,823	9,220,465	5,951,418	277,979,621	12,354,961	4,240,804	11,283,209	5,476,765	6,961,129	18,191,093
Income tax, total	987,905	130,501,797	1,716,615	1,723,947	6,793,339	2,992,311	1,946,605	96,267,023	4,129,964	1,364,787	3,613,167	1,776,996	2,297,264	5,879,779
Regular tax	979,227	126,783,786	1,690,067	1,680,413	6,648,895	2,914,137	1,921,134	93,244,747	4,082,118	1,332,054	3,525,489	1,735,982	2,251,037	5,757,713
Personal holding company tax	3,255	17,279	*18	*1,216	*2,170	12	*3	6,419	*155	*887	*891	*549	*17	4,940
Recapture of investment credit	32,439	462,090	5,813	5,131	34,436	11,439	1,756	359,545	9,537	3,060	8,222	1,591	4,724	16,834
Alternative minimum tax	21,616	2,727,771	16,233	32,154	85,232	58,192	18,897	2,255,031	23,524	23,814	63,550	34,176	33,610	83,357
Environmental tax	11,221	482,877	4,484	5,005	21,171	8,531	4,101	382,535	14,278	4,207	9,336	4,697	7,872	16,661
Foreign tax credit	4,276	27,057,858	201,275	92,885	573,594	676,404	219,433	23,828,508	162,415	52,167	128,985	223,299	290,611	608,282
U.S. possessions tax credit	458	2,318,021	21,822	11,878	53,173	59,167	450,568	1,473,154	9,787	15,096	25,341	58,833	12,802	126,400
Orphan drug credit	14	8,053	—	2,393	—	—	—	5,626	—	—	31	—	—	3
Nonconventional source fuel credit	132	49,517	—	*889	*9,443	*9	*1,982	36,102	—	—	132	371	*319	270
General business credit	122,072	5,556,269	47,012	65,356	210,466	82,384	45,183	4,551,415	102,602	41,592	122,251	49,989	106,005	132,013
Prior year minimum tax credit	3,402	468,767	*286	*607	*1,338	*516	65	387,185	6,498	6,275	32,198	13,791	8,039	11,971
Total income tax after credits[2]	941,374	95,043,311	1,446,219	1,549,940	5,945,325	2,173,830	1,229,373	65,985,034	3,848,662	1,249,657	3,304,229	1,430,713	1,879,488	5,000,840
Estimated tax payments:														
1987 overpayments claimed as a credit	270,106	8,138,416	178,551	108,131	756,804	170,490	112,023	5,225,440	287,860	135,126	390,115	127,351	163,635	482,890
1988 estimated tax payments	467,287	80,802,257	1,074,072	1,199,783	3,916,777	1,779,666	947,177	58,602,876	2,690,344	965,846	2,678,637	1,228,459	1,576,563	4,142,056
Less: Refund of estimated tax payments	3,776	1,873,099	21,318	14,850	66,687	23,974	18,767	1,428,520	28,646	13,258	45,997	43,348	18,281	149,454
Payments with applications for:														
Extension of filing time	158,403	15,101,000	294,373	273,049	1,783,277	418,111	203,229	8,970,978	1,151,721	238,532	524,875	209,636	255,419	777,800
Other credits and payments, total[3]	31,199	281,536	3,252	2,834	16,378	6,388	5,408	199,600	6,080	6,207	13,370	7,144	5,541	9,332
Tax due at time of filing	554,962	4,541,400	137,970	156,023	354,478	212,711	158,246	2,362,862	118,067	98,960	302,870	130,125	114,154	394,933
Tax overpayment	396,290	11,688,108	219,409	174,120	810,212	381,106	178,764	7,698,984	376,858	179,911	580,518	225,989	216,214	646,023

* Estimate should be used with caution because of the small number of 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, general business, and prior year minimum tax 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	1,257,191	49,761	13,344	122,551	94,395	56,783	355,292	185,688	373,950	5,426
With net income	633,263	22,665	4,906	73,822	49,856	28,741	187,850	66,195	198,886	342
Total assets	584,533,143	17,450,530	8,378,613	58,065,441	109,535,263	23,807,274	186,981,942	106,690,982	73,400,190	222,909
Cash	55,565,702	1,524,377	1,117,465	7,268,889	9,434,157	2,255,397	17,058,637	7,735,260	9,113,891	57,628
Notes and accounts receivable	110,878,851	1,463,180	1,160,467	14,004,162	28,219,046	3,968,763	39,272,520	11,858,671	10,916,530	*15,512
Less: Allowance for bad debts	1,623,295	4,972	6,463	73,523	446,384	51,114	649,399	195,551	195,890	—
Inventories	122,007,283	1,429,862	308,382	10,774,685	26,164,370	595,211	69,095,235	10,565,569	3,060,108	*13,862
Investments in Government obligations	5,002,356	54,256	186,780	345,206	961,617	134,249	607,938	2,382,596	329,714	—
Other current assets	34,527,017	485,066	454,169	7,243,198	4,311,478	1,383,495	6,211,412	10,372,544	4,047,966	*17,688
Loans to stockholders	10,470,786	519,151	111,815	1,115,868	995,782	469,071	2,342,405	2,585,362	2,331,333	—
Mortgage and real estate loans	8,323,953	263,931	*15,507	699,793	253,532	62,540	552,697	5,561,883	905,133	*8,937
Other investments	35,693,093	1,088,045	1,450,457	2,830,934	5,422,177	1,107,324	6,740,953	12,570,399	4,482,280	*523
Depreciable assets	280,538,930	13,822,024	5,497,670	21,930,896	60,705,156	21,216,220	70,113,183	32,011,357	55,134,876	107,547
Less: Accumulated depreciation	140,193,786	8,493,295	3,395,436	12,706,504	33,528,558	10,901,260	36,679,704	8,797,026	25,641,090	50,913
Depletable assets	1,850,701	150,767	1,062,102	113,174	247,640	*86,249	79,400	29,546	81,821	—
Less: Accumulated depletion	652,777	*72,196	366,731	46,036	28,954	*56,996	27,290	*3,698	50,875	—
Land	31,720,753	4,422,293	349,175	2,850,466	2,023,135	638,147	4,555,950	13,401,693	3,474,292	*5,602
Intangible assets (amortizable)	13,571,413	81,187	63,018	228,843	2,585,428	1,846,088	4,298,712	1,432,138	3,015,399	*20,599
Less: Accumulated amortization	4,742,169	35,958	16,282	60,473	984,865	508,235	1,551,760	532,388	1,042,624	*9,584
Other assets	21,594,333	752,812	386,517	1,545,862	3,200,506	1,562,124	4,961,054	5,712,625	3,437,326	*35,507
Total liabilities	584,533,143	17,450,530	8,378,613	58,065,441	109,535,263	23,807,274	186,981,942	106,690,982	73,400,190	222,909
Accounts payable	75,631,321	805,296	743,933	10,169,226	15,010,871	2,764,692	33,454,814	6,493,182	6,170,328	*18,979
Mortgages, notes, and bonds payable in less than one year	89,801,409	2,718,560	501,972	8,991,744	11,316,128	2,731,740	38,902,269	16,154,962	8,425,495	*58,539
Other current liabilities	48,700,537	543,480	530,927	8,314,106	9,077,476	1,519,151	13,317,401	8,101,512	7,283,695	*12,789
Loans from stockholders	56,730,348	3,150,938	1,354,086	3,587,032	5,211,378	3,111,336	15,333,102	12,497,491	12,411,990	72,995
Mortgages, notes, and bonds payable in one year or more	132,543,936	5,108,471	1,512,565	7,702,295	18,459,087	8,139,389	28,456,468	38,809,762	24,333,785	*22,114
Other liabilities	21,692,077	846,452	314,064	3,313,986	2,556,599	1,103,560	3,057,563	7,255,375	3,243,398	*1,080
Capital stock	28,192,817	2,848,529	467,454	1,306,006	4,168,316	1,275,139	8,610,244	5,285,871	4,203,523	27,735
Paid-in or capital surplus	38,052,370	2,779,379	1,665,206	1,789,972	4,376,555	2,377,396	7,823,645	9,840,768	7,213,550	*185,897
Shareholders' undistributed taxable income previously taxed [1]	-1,211,005	-798,459	-442,866	91,079	750,542	-178,342	702,207	-305,732	-963,935	*-65,498
Accumulated adjustments account [1]	5,471,845	-1,277,180	-703,066	4,096,004	7,971,910	-2,267,762	4,628,462	-1,145,039	-5,673,750	-157,734
Other adjustments account [1]	1,203,366	14,284	22,229	223,702	483,907	66,953	139,654	176,846	81,714	*-5,924
Other retained earnings [1]	97,351,962	1,172,871	2,556,640	9,354,809	32,691,897	3,515,841	35,820,813	4,370,351	7,816,803	*51,936
Less: Cost of treasury stock	9,627,838	462,091	144,532	874,519	2,539,403	351,818	3,264,700	844,368	1,146,407	—
Total receipts	1,263,988,377	25,171,121	8,155,738	130,182,358	232,569,016	43,900,725	623,745,693	56,382,432	143,512,717	368,578
Business receipts	1,236,906,216	23,831,586	7,769,868	128,537,066	229,202,412	42,809,852	614,500,900	51,223,902	138,668,417	362,212
Net long-term capital gain reduced by net short-term capital loss	133,688	*13,715	—	*6,017	30,320	*3,403	25,400	16,037	35,941	*2,856
Net gain, noncapital assets	2,990,059	127,450	54,723	151,755	568,132	388,814	700,910	279,951	717,999	*328
Other receipts	23,958,414	1,198,370	331,147	1,487,521	2,768,152	698,656	8,518,483	4,862,542	4,090,361	*3,181
Total deductions	1,230,451,233	25,053,259	7,894,891	125,301,727	221,602,474	43,455,267	613,420,458	54,118,520	139,218,148	386,490
Cost of sales and operations	851,245,375	16,550,320	3,697,140	98,360,136	160,685,140	22,236,653	474,143,510	24,205,493	51,203,797	163,185
Compensation of officers	46,620,278	603,400	262,456	4,936,100	8,362,619	1,395,461	14,014,787	4,031,507	12,989,055	*24,891
Repairs	6,595,963	428,560	87,540	456,778	896,011	803,567	2,374,369	206,288	1,341,087	*1,763
Bad debts	2,607,354	50,829	9,876	184,767	511,493	119,552	1,110,386	303,482	313,916	*3,052
Rent paid on business property	23,177,136	672,365	193,392	902,891	2,042,304	1,253,254	10,561,023	1,351,409	6,187,490	*13,008
Taxes paid	24,315,271	528,709	358,934	2,435,892	4,791,577	1,418,666	8,857,658	1,103,603	4,805,277	14,955
Interest paid	17,279,458	785,227	202,617	1,107,294	2,920,514	1,008,574	5,912,036	2,403,354	2,934,785	*5,057
Amortization	1,668,711	16,188	11,344	44,512	269,092	214,544	563,717	155,175	394,106	*33
Depreciation	24,686,446	1,149,217	470,428	2,170,369	5,543,571	2,488,545	6,671,250	862,335	5,315,674	15,057
Depletion	209,247	*5,597	152,797	7,858	27,065	*394	12,537	*932	*2,067	—
Advertising	12,950,192	75,594	14,626	368,408	2,102,815	258,645	7,235,300	700,377	2,190,189	*4,238
Pension, profit-sharing, stock bonus, and annuity plans	4,257,531	44,945	18,436	481,609	1,104,575	121,740	1,190,600	274,924	1,020,701	—
Employee benefit programs	6,606,922	78,463	98,939	598,220	1,899,009	334,663	2,133,475	275,186	1,184,672	*4,295
Net loss, noncapital assets	280,077	14,072	17,937	21,735	25,201	20,410	73,794	22,343	84,585	—
Other deductions	207,951,276	4,049,773	2,298,431	13,225,158	30,421,487	11,780,599	78,566,016	18,222,112	49,250,746	136,955
Total receipts less total deductions	33,537,144	117,862	260,847	4,880,631	10,966,542	445,458	10,325,235	2,263,913	4,294,569	-17,912
Net income (less deficit)	33,403,456	104,147	260,847	4,874,614	10,936,222	442,055	10,299,835	2,247,876	4,258,628	-20,768
Net income	58,113,203	1,349,656	763,874	6,644,724	14,379,833	2,214,192	16,689,957	6,251,641	9,783,834	*35,492

* 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 "Other retained earnings, 1120S" and "Net worth" in other tables which show these items.

NOTE: Active S Corporations filing Form 1120S returns reported "Income tax" of $134,542,000. 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	**228,881**	**6,255**	**3,673**	**18,523**	**11,239**	**9,855**	**46,477**	**43,984**	**83,208**	**5,648**
With net income	**101,407**	***2,050**	***994**	**9,995**	**5,182**	**3,529**	**21,591**	**20,610**	**35,334**	***2,123**
Total assets	**7,555,946**	**264,197**	**119,383**	**550,590**	**465,393**	**404,340**	**1,588,700**	**2,035,199**	**2,016,116**	**112,028**
Cash	1,536,715	55,996	*13,734	164,408	42,899	53,019	226,223	371,393	569,941	*39,103
Notes and accounts receivable	692,560	*6,000	*58,350	63,176	75,840	*36,114	120,008	148,521	181,197	*3,354
Less: Allowance for bad debts	2,555	—	—	—	—	*248	*536	*1,772	—	—
Inventories	725,773	*7,263	*97	34,215	59,169	*2,921	499,337	*53,891	68,881	—
Investments in Government obligations	35,380	—	—	*2,822	—	—	*5,352	*1,464	*25,741	—
Other current assets	411,080	*2,385	*5,784	10,314	23,998	*30,477	23,122	110,773	181,868	*22,358
Loans to stockholders	500,515	*14,553	—	73,297	*27,677	*35,848	46,761	104,927	195,215	*2,236
Mortgage and real estate loans	193,726	*4,989	—	*4,365	—	*609	*50,245	105,782	*27,736	—
Depreciable, depletable, and intangible assets	5,033,724	288,126	165,782	443,746	444,858	277,577	937,885	1,132,652	1,305,594	*37,504
Less: Accumulated depreciation, depletion, and amortization	3,012,790	221,819	140,810	304,469	264,241	148,492	558,903	582,579	790,590	*887
Land	693,621	*78,876	*541	*21,315	*10,967	*28,620	73,012	385,910	94,380	—
Other assets	748,199	*27,827	*15,905	37,402	44,226	87,896	166,191	204,239	156,152	*8,361
Total liabilities	**7,555,946**	**264,197**	**119,383**	**550,590**	**465,393**	**404,340**	**1,588,700**	**2,035,199**	**2,016,116**	**112,028**
Accounts payable	653,994	*17,690	*3,788	58,793	68,713	42,177	203,252	94,252	142,922	*22,408
Other current liabilities	586,159	*1,515	*21,517	74,404	13,676	40,086	101,818	148,059	172,045	*13,039
Loans from stockholders	1,639,845	66,470	*30,292	87,381	214,597	69,222	568,236	251,483	352,064	*99
Mortgages, notes, and bonds payable in one year or more	2,181,967	74,706	*92,677	105,921	206,251	195,800	473,911	639,361	355,810	*37,530
Other liabilities	350,171	*822	*29,476	39,082	*22,232	*15,029	55,961	99,059	88,510	—
Capital stock	1,688,329	170,744	16,624	66,174	167,724	97,201	340,703	494,203	323,020	*11,936
Paid-in or capital surplus	669,315	*18,006	*–12,845	*24,076	*62,752	*63,429	182,985	207,807	121,814	*1,293
Retained earnings, unappropriated	–75,953	–83,886	*–62,145	99,265	–284,351	–117,258	–323,901	179,712	490,888	*25,723
Less: Cost of treasury stock	137,881	*1,869	—	*4,506	*6,200	*1,345	14,265	78,738	*30,958	—
Total receipts	**14,165,726**	**407,990**	**100,213**	**1,791,565**	**1,004,704**	**507,521**	**3,609,275**	**1,601,716**	**5,073,249**	**69,494**
Business receipts	13,485,867	394,535	*70,449	1,776,354	987,984	496,897	3,511,474	1,285,857	4,894,903	*67,413
Interest	92,773	*4,133	*658	7,011	*964	*1,692	10,861	24,003	42,111	*1,341
Interest on Government obligations: State and local	*1,457	—	—	—	—	—	—	*34	*1,424	—
Rents	192,794	*5,024	*7,044	—	*4,707	*1,933	*5,028	153,113	*15,944	—
Royalties	*12,457	—	*12,328	—	—	—	—	*130	—	—
Net short-term capital gain reduced by net long-term capital loss	*224	—	—	—	*38	—	—	*186	—	—
Net long-term capital gain reduced by net short-term capital loss	77,110	—	*9,505	—	*2,364	*6,762	*1,160	*54,881	*2,438	—
Net gain, noncapital assets	24,514	*356	—	*5,843	—	*211	*1,300	*10,148	*6,658	—
Dividends received from domestic corporations	*8,354	—	*194	—	*543	—	*1,162	*2,493	*3,963	—
Other receipts	270,174	*3,942	*35	*2,357	*8,104	*26	78,290	70,871	105,810	*740
Total deductions	**14,289,314**	**416,360**	**94,151**	**1,776,897**	**1,034,969**	**549,359**	**3,728,339**	**1,575,709**	**5,052,402**	**61,127**
Cost of sales and operations	5,006,630	186,139	*20,282	754,908	451,615	161,690	1,982,406	102,647	1,332,746	*14,198
Compensation of officers	1,810,726	*24,941	*9,644	198,271	86,916	*26,137	258,576	182,560	997,485	*26,196
Repairs	236,494	13,396	*3,807	22,713	10,340	27,897	37,902	60,045	60,359	*35
Bad debts	28,955	—	—	*1,535	*3,370	*626	3,207	*9,985	10,231	—
Rent paid on business property	675,719	*20,685	*867	30,618	55,763	15,141	209,083	57,608	284,881	*1,073
Taxes paid	574,989	19,925	4,444	85,193	24,230	33,763	136,374	81,996	186,926	*2,139
Interest paid	242,968	15,433	*1,397	31,807	19,626	21,573	46,507	54,923	51,513	*189
Contributions or gifts	7,078	*99	—	*223	*27	*526	595	511	4,637	*459
Amortization	10,995	*110	*657	*110	*581	*415	2,417	4,983	1,722	—
Depreciation	532,287	27,553	*19,663	49,214	50,237	35,072	94,062	78,498	176,670	*1,319
Net loss, noncapital assets	*5,401	—	*762	*1,704	—	—	—	*458	*2,476	—
Other deductions	5,157,072	108,079	32,628	600,601	332,264	226,519	957,210	941,495	1,942,756	15,519
Total receipts less total deductions	–123,588	–8,370	6,062	14,668	–30,265	–41,838	–119,064	26,007	20,847	8,367
Net income (less deficit)	–125,045	–8,370	6,062	14,668	–30,265	–41,838	–119,064	25,973	19,423	8,367
Net income	649,133	*12,955	*19,102	68,840	44,230	17,980	104,512	123,513	245,634	*12,367
Income tax, total	75,582	*1,184	*2,650	8,373	3,761	*1,491	10,512	15,591	30,176	*1,844
Regular tax	75,582	*1,184	*2,650	8,373	3,761	*1,491	10,512	15,591	30,176	*1,844
General business credit	4,336	*1,081	*320	*1,117	*16	—	*718	*108	*976	—

* 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 $477,897,000. 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: Total [2]	Wholesale trade	Retail trade	Finance, insurance, and real estate	Services
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Returns of active corporations, consolidated returns:											
Number of returns, total	**74,247**	**950**	**1,551**	**3,979**	**12,773**	**3,827**	**18,908**	**8,658**	**10,200**	**21,445**	**10,733**
Total assets	**13,100,235,720**	**12,527,118**	**199,339,029**	**85,759,657**	**3,034,881,929**	**1,311,234,583**	**793,953,147**	**336,469,510**	**457,041,422**	**7,327,928,943**	**334,380,390**
Cash	554,834,793	717,995	4,321,367	5,048,662	63,060,772	21,891,202	24,332,116	10,911,419	13,393,141	422,001,490	13,415,397
Notes and accounts receivable	3,498,608,891	1,746,407	18,184,453	21,191,319	677,289,409	123,157,565	170,693,095	77,793,678	92,743,746	2,421,853,077	64,458,023
Less: Allowance for bad debts	87,587,199	22,133	274,855	172,490	11,811,129	3,561,676	3,979,705	1,826,173	2,028,354	64,734,461	3,030,161
Inventories	524,140,114	2,148,344	6,477,212	6,826,687	277,250,151	27,387,041	171,885,585	89,359,487	82,388,588	20,503,718	11,626,104
Investments in Government obligations	789,003,403	*59,128	858,847	1,117,296	27,079,184	8,108,576	25,869,241	12,702,460	13,166,780	723,806,141	2,104,989
Other current assets	704,108,439	581,085	4,496,615	7,081,249	162,709,291	48,479,377	55,513,568	31,825,383	23,647,077	403,667,479	21,569,875
Loans to stockholders	44,492,404	163,195	4,415,700	327,938	23,572,647	1,832,306	5,758,825	2,167,638	3,589,956	7,333,250	1,088,448
Mortgage and real estate loans	1,328,701,245	76,410	565,571	8,410,725	32,810,746	8,645,123	13,129,476	3,237,753	9,891,723	1,263,176,870	1,886,324
Other investments	2,743,298,499	1,683,200	84,474,433	16,491,530	720,973,406	212,184,395	95,034,561	36,102,583	58,884,417	1,544,621,689	67,829,545
Depreciable assets	2,967,586,299	6,625,995	81,687,774	19,523,254	1,239,457,008	1,079,574,189	216,694,505	69,135,547	147,381,386	197,692,298	126,272,123
Less: Accumulated depreciation	1,172,220,047	3,389,098	38,660,820	9,794,957	589,279,826	340,481,233	79,913,634	28,807,576	51,042,369	64,700,724	45,976,094
Depletable assets	115,021,963	476,956	26,742,748	247,905	75,469,176	6,949,992	1,079,174	887,088	192,087	3,897,774	158,238
Less: Accumulated depletion	46,963,367	154,204	11,391,185	37,753	30,979,490	3,491,612	457,323	425,928	31,395	387,071	64,729
Land	94,174,766	1,185,050	2,581,735	1,995,031	30,323,159	9,004,387	17,815,260	4,415,391	13,381,941	23,959,112	7,245,421
Intangible assets (amortizable)	294,234,304	75,856	5,561,341	969,320	167,393,188	37,711,144	26,387,637	10,482,210	15,904,589	34,746,409	21,381,642
Less: Accumulated amortization	56,411,931	11,241	1,539,146	234,797	37,813,082	4,499,502	2,957,801	1,122,636	1,834,765	5,061,341	4,293,788
Other assets	805,213,145	564,172	10,837,238	6,768,737	207,377,322	78,343,308	57,068,567	19,631,186	37,412,874	395,553,232	48,689,032
Total liabilities	**13,100,235,720**	**12,527,118**	**199,339,029**	**85,759,657**	**3,034,881,929**	**1,311,234,583**	**793,953,147**	**336,469,510**	**457,041,422**	**7,327,928,943**	**334,380,390**
Accounts payable	764,920,581	899,469	11,205,960	11,943,510	270,531,959	82,884,005	111,973,274	47,593,229	64,310,428	252,683,114	22,779,080
Mortgages, notes, and bonds payable in less than one year	1,076,013,033	1,665,957	9,291,586	9,417,326	311,465,931	51,979,108	139,045,783	79,473,625	59,433,485	512,253,491	40,839,990
Other current liabilities	4,562,937,978	1,065,484	10,623,170	12,194,815	292,876,540	107,096,934	128,936,005	63,056,083	65,587,369	3,971,651,088	38,487,359
Loans from stockholders	125,993,126	329,336	5,575,931	850,820	66,719,654	6,276,828	9,623,397	4,419,736	5,183,962	32,228,982	4,378,790
Mortgages, notes, and bonds payable in one year or more	1,856,920,865	2,746,429	43,341,692	22,469,047	666,054,662	387,933,959	174,063,289	48,515,957	125,510,775	453,927,763	106,286,920
Other liabilities	1,992,071,631	994,808	17,113,777	8,129,239	323,758,697	175,423,916	43,324,835	17,240,768	26,052,612	1,385,111,117	38,213,010
Capital stock	430,440,213	958,201	7,611,944	2,566,715	121,492,388	154,047,937	31,034,968	17,617,583	13,412,090	98,033,879	14,673,647
Paid-in or capital surplus	1,224,565,588	1,926,937	84,501,209	13,584,175	474,597,707	199,177,410	70,302,889	25,934,341	44,289,165	323,192,563	57,083,511
Retained earnings, appropriated	66,686,648	367	52,371	40,051	18,017,488	2,761,140	565,272	144,973	420,299	45,068,102	181,857
Retained earnings, unappropriated	1,125,701,600	2,160,305	12,252,686	6,068,520	573,892,257	154,216,676	94,124,074	35,719,396	58,634,101	266,476,302	16,660,362
Less: Cost of treasury stock	126,015,541	220,176	2,231,297	1,504,560	84,525,354	10,563,331	9,040,639	3,246,181	5,792,863	12,697,460	5,224,138
Total receipts	**6,423,029,090**	**19,949,462**	**76,946,153**	**112,627,626**	**2,682,767,821**	**694,282,667**	**1,317,171,350**	**636,690,858**	**679,182,859**	**1,265,330,405**	**253,483,142**
Business receipts	5,405,997,228	19,003,842	66,372,544	104,675,628	2,466,168,465	641,182,529	1,257,649,056	611,964,645	644,518,583	628,015,579	222,473,254
Interest	601,197,350	188,217	2,869,403	2,496,607	53,955,466	13,505,872	20,275,130	9,996,764	10,265,825	499,249,327	8,645,621
Interest on Government obligations: State and local	20,133,467	3,145	44,325	37,827	1,010,884	293,152	1,104,061	87,769	1,016,194	17,417,546	222,527
Rents	76,438,382	62,773	323,417	940,522	29,741,542	7,688,313	7,715,552	2,795,300	4,912,202	24,480,327	5,484,627
Royalties	22,688,637	20,390	191,438	33,582	17,478,061	347,201	1,484,660	514,866	969,265	344,547	2,788,757
Net short-term capital gain reduced by net long-term capital loss	3,421,184	13,391	48,742	12,804	612,092	160,738	121,054	72,319	48,736	2,384,171	68,192
Net long-term capital gain reduced by net short-term capital loss	48,561,113	155,906	1,542,695	817,550	15,728,185	8,658,569	4,388,196	1,363,619	2,984,029	15,515,889	1,754,026
Net gain, noncapital assets	29,164,998	73,241	1,183,754	556,554	11,079,578	6,593,734	2,429,755	824,959	1,604,686	5,170,617	2,077,707
Dividends received from domestic corporations	12,624,535	15,377	249,083	572,976	3,907,695	906,394	594,188	206,500	385,709	6,060,530	318,293
Dividends received from foreign corporations	41,867,258	*36,091	593,849	294,095	35,152,385	1,638,852	1,728,790	1,273,050	455,740	1,717,647	705,548
Other receipts	160,934,939	377,089	3,526,903	2,189,482	47,933,466	13,307,314	19,680,907	7,591,068	12,021,889	64,974,224	8,944,591
Total deductions	**6,145,175,477**	**19,390,718**	**73,461,605**	**109,876,042**	**2,528,648,706**	**649,025,033**	**1,294,833,577**	**627,914,641**	**665,635,378**	**1,220,246,365**	**249,184,637**
Cost of sales and operations	3,521,834,785	14,884,560	43,902,711	85,598,391	1,661,570,966	284,824,689	969,439,797	529,548,378	438,819,921	365,154,724	96,060,482
Compensation of officers	48,097,913	179,323	506,987	1,410,919	13,470,187	2,693,976	6,354,282	3,300,268	3,041,722	19,070,776	4,404,050
Repairs	65,663,306	137,188	593,327	340,976	26,790,811	26,374,458	5,114,018	1,666,686	3,442,393	4,277,391	2,034,824
Bad debts	47,579,695	43,219	225,967	489,351	5,985,414	3,640,602	3,364,347	1,144,050	2,206,330	31,310,763	2,519,492
Rent paid on business property	93,721,069	120,805	1,077,486	795,462	26,068,765	18,039,393	21,954,444	4,057,718	17,881,393	17,525,983	8,135,888
Taxes paid	146,816,816	315,743	2,116,439	1,362,036	64,231,087	32,214,204	17,616,477	5,211,180	12,393,363	21,710,161	7,245,766
Interest paid	536,659,556	431,820	5,147,484	3,417,623	103,459,066	46,366,983	37,131,727	15,459,580	21,653,602	325,094,663	15,569,437
Contributions or gifts	4,136,243	11,869	35,489	69,896	2,291,745	501,112	457,919	160,747	296,933	654,353	113,860
Amortization	16,277,455	5,996	237,777	72,782	6,335,284	2,623,461	1,644,552	561,538	1,082,277	2,900,577	2,456,115
Depreciation	249,140,590	581,914	4,426,688	1,658,391	103,016,310	71,748,863	22,310,220	7,601,789	14,697,457	29,007,009	16,384,051
Depletion	7,938,808	7,589	1,847,185	43,771	5,079,456	718,956	85,941	62,212	23,729	144,278	11,633
Advertising	78,988,515	105,280	105,041	239,305	45,024,980	3,998,977	18,926,722	4,930,357	13,985,401	6,723,414	3,863,300
Pension, profit-sharing, stock bonus, and annuity plans	30,664,579	34,654	256,446	350,603	14,964,729	5,358,439	3,407,269	1,133,591	2,271,767	4,759,717	1,532,609
Employee benefit programs	74,072,559	148,645	776,419	520,838	41,537,133	11,418,588	7,377,775	2,301,494	5,071,723	8,781,199	3,507,877
Net loss, noncapital assets	11,025,226	35,542	626,245	72,883	1,598,601	1,118,283	712,693	297,751	412,554	5,551,070	1,309,897
Other deductions	1,212,558,362	2,346,572	11,579,914	13,432,815	407,224,174	137,383,459	178,935,393	50,477,301	128,354,813	377,580,287	84,035,357
Total receipts less total deductions	277,853,613	558,743	3,484,547	2,751,584	154,119,115	45,257,634	22,337,773	8,776,217	13,547,481	45,084,039	4,298,505
Constructive taxable income from related foreign corporations	33,664,921	*19,719	506,950	81,456	27,082,273	1,037,773	1,560,122	1,179,406	380,715	2,854,687	521,942
Net income (less deficit)	291,385,067	575,318	3,947,172	2,795,213	180,190,504	46,002,255	22,793,834	9,867,855	12,912,002	30,521,180	4,597,921
Income subject to tax	314,940,691	715,678	3,916,151	2,762,662	176,471,721	47,729,152	27,756,927	11,553,986	16,195,123	45,735,279	9,852,243
Income tax, total	110,948,388	250,000	1,550,645	969,139	61,891,683	16,855,180	9,602,424	3,981,520	5,618,279	16,339,090	3,489,806
Regular	106,993,009	239,672	1,339,518	930,668	60,015,903	16,221,835	9,397,057	3,909,066	5,485,383	15,510,257	3,337,799
Personal holding company tax	6,268	—	*318	(3)	3,234	63	*1,710	*468	*1,242	942	—
Recapture of investment credit	483,638	653	13,420	2,774	220,927	129,412	51,043	12,686	38,357	43,965	21,443
Alternative minimum tax	3,005,069	8,919	188,216	32,644	1,403,321	425,605	118,360	45,856	72,487	710,013	117,874
Environmental tax	460,404	757	9,174	3,053	248,299	78,265	34,254	13,443	20,811	73,913	12,690
Foreign tax credit	26,754,907	*20,984	664,268	89,770	21,744,195	411,727	1,012,913	699,277	313,637	2,270,106	540,943
U.S. possessions tax credit	33,594	—	—	1,279	32,118	150	—	—	—	—	48
Orphan drug credit	8,053	—	—	—	8,053	—	—	—	—	—	—
Nonconventional source fuel credit	48,495	—	*686	*7	27,701	16,140	*243	*242	1	3,197	*520
General business credit	5,115,990	8,208	33,112	51,555	2,344,186	1,748,123	220,354	73,805	146,549	450,481	259,971
Prior year minimum tax credit	411,314	*635	*1,208	8,334	146,659	55,014	9,710	5,642	4,068	179,402	10,353

* 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 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	**9,921**	**316**	**458**	**57**	**217**	**162**	**392**	**7,646**	**551**	**122**
With net income	3,557	111	163	*13	81	*40	185	2,696	202	66
Total receipts	**77,121,339**	**140,541**	**536,882**	**766,154**	**1,549,229**	**1,714,747**	**7,765,896**	**63,888,123**	**755,912**	**3,854**
Business receipts	23,486,892	93,671	512,894	*714,484	1,511,147	1,695,334	7,721,982	10,773,512	463,845	*23
Interest	49,039,094	4,315	4,893	*7,978	8,150	*123	5,671	48,995,110	12,612	*242
Interest on Government obligations: State and local	59,468	*1,286	*110	—	—	—	*10	58,061	—	—
Rents	574,785	2,362	*1,779	*3,956	*7,542	*2,554	*264	424,438	*131,242	*648
Royalties	3,729	*39	*397	—	1,850	—	—	1,166	*277	—
Net short-term capital gain reduced by net long-term capital loss	37,185	—	1	—	—	—	—	37,162	—	*22
Net long-term capital gain reduced by net short-term capital loss	615,298	*26,857	*3,914	—	*497	—	176	558,217	*23,019	*2,617
Net gain, noncapital assets	120,917	*2,840	*3,177	—	*1,865	—	*210	112,506	*311	*8
Dividends received from domestic corporations	72,844	(4)	*30	—	13	155	*78	72,552	—	*16
Dividends received from foreign corporations	*19,312	*228	*8	—	—	—	—	19,077	—	—
Other receipts	3,091,816	8,944	9,680	*39,736	18,164	16,582	37,504	2,836,323	124,605	*278
Total deductions	**77,062,467**	**146,611**	**593,409**	**722,585**	**1,574,630**	**2,043,770**	**7,721,713**	**63,445,858**	**808,848**	**5,044**
Cost of sales and operations	16,303,506	38,704	273,243	*681,999	1,253,754	1,228,758	7,368,217	5,294,246	164,564	*22
Compensation of officers	278,320	*222	*7,335	*330	5,026	*1,643	10,776	234,252	18,214	*523
Repairs	119,732	960	*9,359	*522	1,291	25,485	3,223	66,919	11,967	*6
Bad debts	638,812	*527	*984	*122	*1,394	*1,895	9,992	619,545	*4,352	—
Rent paid on business property	515,963	1,656	11,218	*958	10,374	34,536	21,263	401,334	33,855	*771
Taxes paid	801,025	4,735	9,021	*3,000	17,395	15,180	10,375	708,929	31,910	*481
Interest paid	43,259,479	20,546	26,562	*11,583	38,869	94,687	28,342	43,004,397	34,318	*173
Contributions or gifts	3,700	—	*33	*24	*96	1	*331	3,047	*168	—
Amortization	71,728	*843	4,540	*2	*6,381	*1,193	183	56,001	2,585	—
Depreciation	711,314	43,202	48,317	*2,220	38,092	67,617	13,188	455,323	43,193	*164
Depletion	20,432	*38	20,034	—	94	—	—	265	*1	—
Advertising	154,258	*398	*12,156	*154	12,918	*581	7,575	31,876	88,600	—
Pension, profit-sharing, stock bonus, and annuity plans	36,533	—	*1,436	—	*1,845	*1,779	1,003	26,643	*3,827	—
Employee benefit programs	142,633	*91	*6,709	*40	18,878	*15,049	4,087	84,112	13,666	—
Net loss, noncapital assets	423,836	*9,777	*3,596	*1,441	*734	*381	*576	403,822	*3,500	*9
Other deductions	13,581,197	24,913	158,865	20,190	167,488	554,985	242,583	12,055,147	354,129	2,896
Total receipts less total deductions	58,872	-6,070	-56,526	43,569	-25,400	-329,023	44,184	442,266	-52,936	-1,191
Foreign dividend income resulting from foreign taxes deemed paid	3,223	—	—	—	—	—	—	3,223	—	—
Net income (less deficit)	2,627	-7,356	-56,636	43,569	-25,400	-329,023	44,173	387,428	-52,936	-1,191
Net income	2,673,878	27,082	31,796	*50,683	23,965	*22,037	90,848	2,380,341	44,127	3,001
Deficit	2,671,250	34,438	88,432	*7,114	49,365	351,060	46,674	1,992,913	97,063	4,191
Income subject to tax	1,994,577	14,734	*22,584	*5,579	21,090	*21,820	49,739	1,823,177	32,859	2,995
Income tax, total	696,175	4,820	*8,014	*2,320	7,050	*7,721	18,585	635,838	10,910	918
Regular tax	669,008	4,820	*7,638	*1,897	6,880	*7,409	16,459	612,420	10,620	864
Recapture of investment credit	247	—	118	—	*6	—	—	94	*28	—
Personal holding company tax	(4)	—	—	—	—	—	—	—	(4)	—
Alternative minimum tax	10,116	—	(4)	365	*79	—	*416	9,128	*128	—
Environmental tax	2,869	—	26	*53	—	(4)	390	2,400	—	—
Branch tax (1120F)	13,935	—	*231	*5	*85	312	*1,320	11,796	*133	*54
Foreign tax credit	21,457	—	—	—	—	—	—	21,457	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	—	—	—	—	—	—	—	—	—	—
General business credit	1,397	*74	—	*139	*61	—	142	981	—	(4)
Prior year minimum tax credit	*1,924	—	—	*4	—	—	1,846	*74	—	—
Tax from Section I[1]	42,584	—	*4,157	*524	—	*1,119	*771	21,216	*149	*14,648
Tax from Section II[2]	618,210	*4,746	*7,756	*1,755	6,822	*7,409	14,472	563,738	10,649	864
U.S. income tax paid or withheld[3]	131,148	*2,599	4,059	*15,084	*42	*833	*1,349	84,197	3,565	*19,418

* 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 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] U.S. income tax paid or withheld at the source is based on income effectively and not effectively connected with the conduct of a trade or business in the U.S.

[4] Less than $500 per return.

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, and Payments, 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: Total[2]	Wholesale trade	Retail trade	Finance, insurance, and real estate	Services
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Number of Returns With Income Tax											
Number of returns with—											
Income tax, total	1,010,031	32,588	7,027	115,280	102,580	35,624	302,977	115,540	186,927	164,628	245,664
Regular tax before credits	981,267	31,574	5,910	111,700	97,858	34,162	295,684	112,974	182,206	160,272	240,446
Recapture of investment credit	48,354	2,401	1,073	4,371	7,780	3,086	14,499	6,090	8,406	4,938	10,203
Total income tax after— Foreign tax, U.S. possessions tax, nonconventional source fuel, orphan drug, general business and prior year minimum tax credits	963,498	30,002	6,924	111,482	95,638	32,811	290,067	112,418	177,139	162,115	230,974
Returns With and Without Net Income											
Number of returns	3,562,789	119,902	41,080	381,499	299,538	149,248	984,553	315,272	666,330	572,418	995,425
Dividends received from domestic corporations, total	15,165,056	61,908	309,361	610,123	4,358,549	936,641	776,982	321,588	451,478	7,604,014	507,449
Less-than-20%-owned subject to 70% deduction	9,349,623	38,057	67,666	67,300	1,580,455	555,169	439,043	165,717	272,237	6,333,147	268,773
20%-or-more-owned subject to 80% deduction	3,774,295	23,619	229,223	25,038	1,902,210	265,663	279,253	127,843	150,530	945,497	103,792
Certain preferred stock of less-than-20%-owned public utilities subject to 41.176% deduction	16,883	18	*48	*12	*208	*531	*837	*69	*767	14,614	*615
Certain preferred stock of 20%-or-more-owned—public utilities subject to 47.059% deduction	9,062	—	*414	*19	*7,445	—	*396	177	*219	763	*25
Intragroup dividends qualifying for 100% deduction	945,301	—	*1,787	*13,816	486,942	15,295	31,975	10,802	21,173	274,843	120,643
Amount received from IC-DISC or former DISC	397,350	*215	3,136	*3,028	353,943	1,332	18,565	16,084	2,481	5,051	12,065
Amount received by a small business investment—company qualifying for 100% deduction	*2,540	—	—	—	—	—	—	—	—	*2,540	—
Dividends received from foreign corporations, total	42,281,099	37,904	594,625	298,261	35,369,305	1,639,115	1,747,518	1,286,929	459,579	1,839,192	755,179
Less-than-20%-owned subject to 70% deduction	7,937	*6	627	*445	*604	*40	*1,104	*473	*631	4,964	*147
20%-or-more-owned subject to 80% deduction	61,678	*228	—	163	52,169	*1,139	*46	*46	—	*1,055	*6,878
Intragroup dividends qualifying for 100% deduction	948,018	*8,783	*26,329	41	785,685	*3,271	21,893	11,025	*10,868	94,979	7,036
Other foreign dividends	39,159,982	*26,812	545,654	293,705	32,623,888	1,631,273	1,654,808	1,207,243	446,556	1,708,988	674,852
Certain FSC dividends qualifying for 100% deduction	2,103,485	2,075	22,015	*3,907	1,906,959	3,392	69,666	68,142	1,524	29,205	66,266
Constructive taxable income from related foreign corporations, total	33,977,330	*19,719	506,973	81,456	27,227,430	1,039,074	1,571,143	1,189,641	381,503	2,955,098	576,437
Includable income of Controlled Foreign Corporations	13,707,023	1,662	137,591	42,051	9,731,545	623,065	799,506	653,067	146,440	2,179,810	191,792
Foreign dividend income resulting from foreign taxes deemed paid	20,270,307	*18,057	369,382	39,405	17,495,885	416,009	771,637	536,574	235,063	775,288	384,645
Net income (less deficit)	412,982,753	1,615,921	4,111,855	11,343,920	205,083,651	46,943,801	42,844,883	22,938,622	19,871,448	91,892,954	9,276,631
Statutory special deductions, total[3]	117,452,980	832,828	3,201,098	2,990,298	20,948,335	7,193,391	5,976,339	3,417,608	2,525,324	72,165,913	4,129,222
Net operating loss deduction	51,418,150	776,993	2,915,594	2,577,988	15,113,023	6,496,570	5,323,103	3,111,088	2,179,976	14,532,739	3,666,593
Dividends received deduction	12,888,162	55,835	285,491	412,310	5,795,551	652,395	653,236	306,520	345,347	4,570,716	462,619
Deduction for dividends paid on certain public utility stock	84,221	—	13	—	39,760	44,426	—	—	—	12	*10
Income subject to tax	383,201,978	2,007,910	4,680,711	8,340,495	197,348,499	50,627,000	44,054,669	20,004,386	24,010,704	59,926,973	16,171,697
Income tax, total	131,367,397	554,457	1,815,670	2,497,276	68,661,707	17,762,410	14,116,720	6,457,725	7,649,162	20,899,804	5,049,797
Regular tax	126,899,211	538,994	1,577,438	2,381,580	66,691,829	17,089,778	13,843,495	6,346,969	7,486,716	19,918,799	4,847,966
Personal holding company tax	17,729	*116	*338	*217	3,557	*69	2,448	*910	*1,538	10,458	*525
Recapture of investment credit	552,398	1,889	14,936	7,141	235,587	133,359	72,530	25,711	46,813	47,812	39,141
Alternative minimum tax	3,352,845	12,597	210,502	104,329	1,469,116	458,112	150,620	63,886	86,717	802,069	145,335
Environmental tax	487,926	854	9,932	3,455	255,764	79,698	40,059	15,690	24,368	84,694	13,470
Branch tax (1120F)	13,935	—	*231	*5	*85	312	*1,320	*1,320	—	11,796	*133
Foreign tax credit	27,068,104	*21,042	702,989	92,380	21,860,251	419,834	1,038,355	719,780	318,576	2,352,338	580,913
U.S. possessions tax credit	2,318,021	515	—	1,279	2,219,079	49,598	25,266	23,319	1,947	5,726	16,174
Orphan drug credit	8,053	—	—	—	8,053	—	—	—	—	—	—
Nonconventional source fuel credit	49,517	—	776	*7	27,701	16,140	*1,061	*242	*819	3,311	*520
General business credit	5,559,174	31,452	37,792	95,097	2,486,886	1,792,125	303,185	107,305	195,880	485,208	327,393
Prior year minimum tax credit	468,767	*1,242	1,258	33,983	153,853	55,422	15,759	7,956	7,803	194,673	12,578
Total income tax after— Foreign tax, U.S. possessions tax, nonconventional source fuel, orphan drug, general business and prior year minimum tax credits	95,895,762	500,206	1,072,854	2,274,530	41,905,883	15,429,292	12,733,094	5,599,124	7,124,137	17,858,548	4,112,219
Estimated tax payments:											
1987 overpayment claimed as a credit	8,786,207	53,602	101,964	274,413	3,457,281	1,054,156	1,305,770	588,240	715,997	1,958,747	579,935
1988 estimated tax payments	82,872,994	349,029	883,496	1,577,816	36,751,761	13,854,724	9,981,511	4,696,069	5,279,336	16,227,427	3,241,783
Less: refund of 1988 estimated tax payments	2,751,504	*2,975	18,696	91,324	1,089,832	443,341	287,646	133,778	153,764	694,344	123,346
Payments with application for extension of filing time	15,461,653	93,933	200,667	580,219	6,292,689	1,874,787	2,845,342	939,591	1,904,430	2,743,263	830,436
Credit for tax paid by regulated investment companies	42,489	*919	(4)	*264	3,336	31,313	*894	*828	*66	5,702	61
Credit for tax on special fuels; nonhighway gasoline, and lubricating oil	331,338	39,261	28,511	56,713	77,793	95,884	16,931	10,853	6,076	5,749	10,009
Overpaid windfall profit tax	*3	—	2	—	*1	—	(4)	(4)	—	—	—
Tax due at time of filing	4,638,986	109,895	56,923	464,515	1,062,965	321,805	949,905	508,869	437,872	1,198,152	471,653
Tax overpayment	13,212,482	141,979	178,890	581,363	4,616,422	1,355,835	2,062,760	1,002,165	1,058,457	3,380,863	893,167

* 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] Includes deduction for dividends paid from Forms 1120-RIC and 1120-REIT, and Section 857(b)(2)(E) deduction from Form 1120-REIT not shown separately.

[4] 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-REIT, AND 1120-RIC

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-REIT and 1120-RIC:											
Number of returns	2,299,896	70,141	27,735	258,948	205,143	92,465	629,262	219,485	407,374	381,028	621,475
Net income	445,141,000	2,835,271	7,817,481	11,301,992	217,802,858	57,656,307	49,904,916	23,364,682	26,467,989	77,595,130	20,167,465
Income subject to tax	383,099,200	2,007,399	4,680,711	8,329,170	197,289,206	50,626,020	44,037,842	19,989,143	24,009,120	59,919,168	16,165,658
Income tax before credits:											
Total	131,213,686	550,080	1,812,145	2,485,217	68,631,629	17,755,412	14,072,115	6,426,239	7,636,048	20,868,114	5,029,420
Regular	126,815,163	534,694	1,577,131	2,371,523	66,674,037	17,084,763	13,815,952	6,325,401	7,480,741	19,913,056	4,834,675
Credits:											
Foreign tax credit	27,068,104	*21,042	702,989	92,380	21,860,251	419,834	1,038,355	719,780	318,576	2,352,338	580,913
U.S. possessions tax credit	2,318,021	515	—	1,279	2,219,079	49,598	25,266	23,319	1,947	5,726	16,174
Nonconventional source fuel credit	49,517	—	776	*7	27,701	16,140	*1,061	*242	*819	3,311	*520
Orphan drug credit	8,053	—	—	—	8,053	—	—	—	—	—	—
General business credit	5,559,172	31,452	37,792	95,097	2,486,886	1,792,125	303,185	107,305	195,880	485,206	327,393
Prior year minimum tax credit	468,767	*1,242	1,258	33,983	153,853	55,422	15,759	7,956	7,803	194,673	12,578
General business credit items:											
Tentative general business credit	22,944,395	272,802	1,149,843	522,532	8,675,371	6,616,808	1,558,625	685,470	869,812	1,863,525	2,270,472
Current year regular investment credit	1,588,122	646	20,022	29,766	391,842	886,215	63,971	31,696	32,276	126,236	69,424
Tentative business energy investment credit	91,006	—	10,887	*1,375	25,059	37,269	*1,023	*1,019	*4	15,241	151
Total allowable research credit	1,276,925	2,396	1,220	1,867	1,050,293	85,762	30,552	24,714	5,838	19,939	84,897
Total jobs credit for current year	346,520	*1,150	661	3,763	80,326	12,978	192,387	7,614	184,773	21,389	33,865
Current year alcohol fuel credit	757	—	—	—	638	—	*52	—	*52	20	47
Current year low-income housing credit	12,153	*34	*54	*129	1,530	601	742	*149	*592	8,936	*127
Carryforward of general business credit from prior years	19,620,554	268,918	1,116,998	485,632	7,122,610	5,594,101	1,269,802	620,087	646,371	1,665,600	2,082,477
Income tax after credits	95,742,052	495,829	1,069,329	2,262,471	41,875,805	15,422,294	12,688,489	5,567,638	7,111,023	17,826,860	4,091,842

* 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-REIT AND 1120-RIC

Table 15—Alternative Minimum Tax: 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					Wholesale and retail trade				
		Agriculture, forestry, and fishing	Mining	Construction	Manufacturing	Transportation and public utilities	Total[2]	Wholesale trade	Retail trade	Finance, insurance, and real estate	Services
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Number of returns of active corporations, other than Forms 1120S, 1120-REIT and 1120-RIC	**2,299,896**	**70,141**	**27,735**	**258,948**	**205,143**	**92,465**	**629,262**	**219,485**	**407,374**	**381,028**	**621,475**
Returns with alternative minimum tax items:											
Number of returns	25,193	848	918	4,663	4,488	1,795	3,323	1,749	1,572	5,583	3,567
Total assets	3,807,184,629	5,001,170	146,281,937	28,464,272	808,478,731	325,722,089	137,363,337	60,760,190	76,559,021	2,261,932,093	93,857,314
Business receipts	1,311,272,230	8,967,185	46,118,118	41,310,587	619,198,698	136,197,857	233,969,798	112,789,058	121,087,572	159,354,446	66,068,703
Bad debts	11,688,265	7,198	86,770	121,278	1,369,704	599,158	540,695	271,172	269,428	8,506,377	456,989
Depreciation	69,372,767	259,630	2,824,030	830,271	26,509,254	16,350,599	5,167,752	1,914,381	3,251,335	10,270,784	7,157,893
Amortization	3,795,482	1,419	148,078	6,600	1,324,151	293,163	396,014	182,265	213,749	769,211	855,794
Depletion	3,679,392	*1,134	1,327,866	9,286	1,847,310	398,294	49,337	37,053	*12,285	45,453	712
Net income	64,653,002	253,550	4,139,186	1,519,534	33,527,298	5,743,185	2,808,338	1,766,238	1,040,812	14,044,279	2,616,121
Regular tax	11,043,102	14,406	507,626	93,819	7,376,549	864,833	243,838	122,321	121,518	1,540,195	401,407
Recapture of investment credit	126,633	295	11,602	686	40,633	47,764	5,888	1,831	4,057	14,255	5,509
Alternative minimum tax	3,352,839	12,597	210,502	104,329	1,469,116	458,112	150,620	63,886	86,717	802,063	145,335
Income tax after credits[3]	6,293,490	27,412	339,493	192,213	2,235,250	1,144,614	300,875	107,869	192,989	1,743,015	310,026
Alternative minimum tax items:											
Adjustment items:											
Depreciation of property placed in service after 1986	9,142,046	46,525	378,914	155,619	3,663,063	1,584,766	887,403	291,155	595,912	1,249,877	1,174,155
Amortization of certified pollution control facilities after 1986	39,888	—	*2,584	—	*32,327	*4,474	—	—	—	*503	—
Amortization of mining exploration and development costs paid or incurred after 1986	274,296	—	140,720	13,751	77,638	26,871	8,054	8,054	—	258	*7,005
Circulation expenses	*740	—	—	*693	—	([4])	—	—	—	47	—
Basis adjustment	-362,971	*-341	9,297	-39,286	-62,680	-25,465	-58,760	-15,895	-42,865	-35,188	-150,549
Long-term contracts entered into after 2/28/86	966,976	—	*862	555,550	360,750	*3,812	-558	*-1,463	905	27,970	18,590
Installment sales of certain property	-460,092	—	*-2,017	*-1,440	-377,635	*-5,630	-24,674	*-14,448	*-10,225	-34,065	*-14,632
Merchant marine capital construction funds	4,340	*3,842	—	—	-106	*2,182	*-84	—	*-84	-1,494	—
Section 833(b) deduction	*8,339	—	-4	—	-46	—	—	—	—	*8,409	-20
Tax shelter farm activity loss	—	—	—	—	—	—	—	—	—	—	—
Passive activity loss	106,516	*-326	*18,963	1,004	2,194	*1,403	21,449	*11,783	9,666	55,146	6,683
Income with respect to possessions tax credit and alcohol fuel credit	-464,390	—	—	—	-464,302	—	-13	—	-13	—	-75
Certain loss limitations	6,151	—	*-24	—	7,053	*4	—	—	—	*-831	-51
Beneficiaries of estates and trusts	*1,945	—	—	1	—	—	—	—	—	*1,780	165
Total adjustments	9,299,703	49,700	556,480	687,002	3,252,573	1,609,398	829,317	276,942	552,039	1,272,256	1,041,253
Tax preference items:											
Depletion	1,607,326	*1,157	882,064	9,202	540,008	134,845	28,133	22,212	*5,921	11,470	*448
Tax-exempt interest from private activity bonds after 8/7/86	35,073	34	16	*75	9,484	2,013	62	62	—	21,835	*1,554
Appreciated property charitable deduction	27,528	*4	*224	*155	5,622	601	*1,952	*70	*1,883	18,954	*15
Intangible drilling costs	146,973	([4])	46,846	*684	37,883	26,128	9,761	8,555	*1,206	25,413	*256
Reserves for losses on bad debts of financial institutions	34,761	—	*2,857	*4,854	1,154	—	1,115	—	1,115	24,782	—
Accelerated depreciation of real property placed in service before 1987	428,647	690	13,403	4,305	198,310	37,479	43,251	15,360	27,891	102,644	28,565
Accelerated depreciation of leased personal property placed in service before 1987	14,096	—	328	*822	2,559	*265	*484	*448	*36	7,584	*2,053
Amortization of certified pollution control facilities placed in service before 1987	10,201	—	—	—	303	9,898	—	—	—	—	—
Total tax preference items	2,439,099	1,886	953,004	20,097	922,050	211,235	84,758	46,706	38,052	213,086	32,982
Adjusted net book income	84,698,516	280,847	4,330,048	975,150	39,938,956	11,930,926	3,166,702	1,626,769	1,537,807	21,228,517	2,846,070
Alternative tax net operating loss deduction	30,207,111	174,860	2,628,959	785,250	11,115,855	3,211,763	2,050,470	1,390,898	657,883	8,764,541	1,475,414
Alternative minimum tax foreign tax credit	4,965,013	*50	239,936	*2,107	3,820,941	40,688	53,890	41,504	12,386	653,079	154,322
Tentative minimum tax	6,472,119	27,211	358,255	192,839	2,306,049	1,308,846	306,319	105,239	201,063	1,642,496	329,511
General business credit allowed against alternative minimum tax	229,368	*209	15,267	3,151	114,090	46,031	10,317	1,066	9,251	30,719	9,584
Regular tax after foreign and possessions tax credits	3,042,599	14,406	133,023	88,043	853,509	817,066	146,417	40,656	105,761	813,977	175,729

* 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, general business, and prior year minimum tax credits.
[4] 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-REIT, AND 1120-RIC

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-REIT, and 1120-RIC	Income subject to tax	Income tax before credits [1]		Foreign tax credit	U.S. possessions tax credit	Nonconventional source fuel credit	General business credit	Prior year minimum tax credit	Income tax after credits [1]
			Total	Regular tax						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Total	**2,299,896**	**383,099,200**	**131,213,686**	**126,815,163**	**27,068,104**	**2,318,021**	**49,517**	**5,559,172**	**468,767**	**95,742,052**
Returns with net income	1,270,952	382,995,563	130,482,886	126,781,318	27,057,858	2,318,021	49,517	5,556,267	468,767	95,024,403
Returns without net income	1,028,944	[2] 103,636	730,799	33,845	10,246	—	—	2,904	—	717,649
Returns with total income tax before credits [1]	1,000,236	383,099,200	131,213,686	126,815,163	27,068,104	2,318,021	49,517	5,559,172	468,767	95,742,052
Returns with total income tax after credits [1]	952,995	379,841,592	130,200,567	125,802,045	27,061,691	1,392,547	49,517	5,479,203	467,503	95,742,052
Under $6,000	690,727	8,265,970	1,393,056	1,369,954	1,425	182,468	—	79,135	5,586	1,124,442
$6,000 under $10,000	77,930	3,751,861	618,286	599,582	*80	8,422	—	18,191	*452	591,141
$10,000 under $15,000	46,679	3,225,595	646,169	623,288	*5,779	48,173	—	19,511	725	571,981
$15,000 under $20,000	23,463	1,981,092	455,727	431,853	4,343	31,791	—	14,192	*189	405,212
$20,000 under $25,000	15,151	1,656,469	425,687	408,316	1,674	74,391	—	11,283	316	338,022
$25,000 under $50,000	33,130	4,381,319	1,274,405	1,192,059	26,112	50,694	—	38,124	4,339	1,155,135
$50,000 under $75,000	15,329	3,165,594	1,051,445	985,820	16,010	58,564	*16	30,938	5,532	940,384
$75,000 under $100,000	9,054	2,494,947	873,313	817,912	23,384	36,496	*275	27,436	2,751	782,971
$100,000 under $250,000	21,819	11,519,642	4,106,896	3,912,442	81,158	509,683	*922	96,831	18,005	3,400,297
$250,000 under $500,000	8,599	9,212,554	3,276,513	3,134,362	136,128	69,691	*259	72,278	15,164	2,982,993
$500,000 under $1,000,000	4,653	10,447,710	3,726,549	3,552,995	219,538	157,532	*784	80,566	11,929	3,256,200
$1,000,000 under $10,000,000	5,332	51,800,031	18,569,501	17,616,376	2,805,103	164,641	6,973	545,071	75,278	14,972,417
$10,000,000 under $50,000,000	833	71,613,882	25,542,455	24,368,351	6,460,590	—	12,068	1,241,226	145,904	17,680,602
$50,000,000 under $100,000,000	151	37,880,577	13,237,666	12,902,198	1,725,593	—	6,046	794,133	99,880	10,608,527
$100,000,000 or more	145	158,444,349	55,002,900	53,886,537	15,554,774	—	22,173	2,410,288	81,452	36,931,730

[1] Credits include foreign tax, U.S. possessions tax, nonconventional source fuel, orphan drug, general business, and prior year minimum tax 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

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

EXPLANATION OF TERMS

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 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.

Tax returns filed by Interest-Charge Domestic International Sales Corporations, Form 1120-IC-DISC and Foreign Sales Corporations, Form 1120-FSC were excluded from the corporate sample for 1988. Information regarding these corporations was excluded from the explanations of terms in this report. The statistics for previous years, included data from these types of corporate tax returns.

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. The Tax Reform Act of 1986 introduced required calendar year accounting periods for S corporations and qualified personal service corporations. This requirement was subsequently revised so that under Code section 444 these corporations could elect a non-calendar year accounting period.

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.

Accumulated Adjustments Account

This balance sheet account for S corporations was established by the Subchapter S Revision Act of 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 (*)

The alternative minimum tax replaced the additional tax for tax preferences, effective July 1987. See: "Alternative Minimum Tax," in this section of this report.

Advertising

Advertising expenses were allowed 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. The statistics included combined amounts reported as "advertising and promotion" and "advertising and publicity." For corporations whose principal business activity was: the printing and publishing of newspapers and periodicals; radio and television broadcasting; telephone, telegraph, or other communication services, the statistics did 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.

Alcohol Fuel Credit

An income tax credit was available for alcohol (other than alcohol produced from petroleum, natural gas, or coal) used as a fuel (whether partially or completely comprised of alcohol) in internal combustion engines. 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 per gallon for alcohol between 150 and 190 proof. No credit was available for alcohol of less than 150 proof.

The Windfall Profit Tax Act of 1980 contained provisions for the alcohol fuel credit. The credit was generally available for alcohol sold or used after September 30, 1980, and before January 1, 1993. The credit was claimed as one of the components of the general business credit. For a discussion of the income tax limitations and carryback and carryforward provisions of the credit, see "General Business Credit," in this section.

The alcohol fuel credit was included (as a component) in the general business credit shown in the tables. The components of the general business credit were shown separately in Table 14.

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. The statistics for both the allowance and for the gross amount of "Notes and Accounts Receivable" were understated by these unidentified amounts.

Additionally, the allowance was not available from balance sheets of tax returns filed by life and certain mutual insurance companies for prior years. However, beginning with Tax Year 1987, data for these accounts became available from income tax returns filed by certain nonlife mutual insurance companies, as well as for certain stock insurance companies which filed a Form 1120-PC. On the other hand, the statistics for both accounts continue to be understated by the amounts unidentified for life insurance companies.

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 such reserves 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 Minimum Tax (*)

The alternative minimum tax was designed to ensure that no taxpayer with substantial economic income could avoid significant tax liability through a legitimate use of exclusions, deductions, and credits. The former minimum tax did not adequately address tax avoidance, for two reasons: (1) it did not define a comprehensive income base (2) it did not sufficiently approach the measurement of economic income. The computation of the alternative minimum tax addressed both these concerns through the treatment of adjustment items, tax preference items, and the book income adjustment.

To compute the alternative minimum tax (AMT), adjustments were made to the income subject to regular tax (before the net operating loss deduction). Adjustment items could either increase or decrease the income subject to regular tax. The adjustments reflected the difference in treatment of certain items under the regular tax system versus the treatment under the AMT system. The accelerated aspect of specific income tax items under the regular system were adjusted and the same items were adjusted to satisfy the intent of the AMT system. The AMT adjustment was the difference between the two systems for each item.

The adjustment items included:

(1) Depreciation of tangible property placed in service after 1986;

(2) Amortization of certified pollution control facilities placed in service after 1986;

(3) Amortization of mining exploration and development costs;

(4) Amortization of circulation expenses of personal holding companies only;

(5) Basis adjustment for property sold during the year;

(6) Long term contracts entered into after February 28, 1986;

(7) Installment sales of certain property;

(8) Mercant marine capital construction funds;

(9) IRC section 833(b) deduction;

(10) Losses from tax shelter farm activities;

(11) Passive activity losses;

(12) Income with respect to the possessions tax credit and alcohol fuel credit;

(13) Certain loss limitations;

(14) Beneficiaries of estates and trusts;

(15) Reported profits not taxed (book income or adjusted current earnings).

Tax preference items were added to the income base of the alternative minimum tax, as they were to the income base of the former minimum tax. These tax items typically express more permanent differences between the regular tax system and the AMT system. Tax preference items added to the income base of the alternative minimum tax included:

(1) Accelerated depreciation of real property placed in service before 1987;

(2) Accelerated depreciation of leased personal property placed in service before 1987 (personal holding companies only);

(3) Amortization of certified pollution control facilities placed in service before 1987;

(4) Percentage depletion;

(5) Intangible drilling costs;

(6) Bad debt deductions of financial institutions;

(7) Tax-exempt interest on specified private activity bonds; and

(8) Charitable contribution of appreciated property.

Thus, the income subject to regular tax before NOLD reconciled by the adjustment items, tax preference items, and the book income adjustment became the alternative minimum taxable income (AMTI). AMTI could then be reduced by the the alternative tax NOLD, but not by more than 90 percent. The AMTI could be further reduced by an exemption amount; the maximum was $40,000. No exemption applied when the alternative minimum taxable income exceeded $310,000.

The "tentative minimum tax" was determined by applying a 20 percent rate of tax to the alternative minimum taxable income after the reduction for the alternative tax NOLD and the income exemption. The tentative minimum tax could be reduced by an AMT foreign tax credit and carryover of unused investment credits. The foreign tax credit was computed under the AMT system and could not become part of that credit allowed under the regular tax system. Up to 25 percent of the tentative minimum tax remaining after the AMT foreign tax credit could be reduced by the carryover of investment tax credits.

The amount by which the remaining tentative minimum tax exceeded the regular tax after reduction by the foreign tax credit (under the regular system) and the possessions tax credit was the alternative minimum 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; depending on the specific provision of the law, the period of time often 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 expenditures (Code section 195)

computer software costs

expenditures to remove architectural and transportation barriers to the handicapped and elderly (Code section 190)

lessee's improvements to leased property, leasehold improvements (Code section 178)

organizational expenditures of corporations (Code section 248)

optional write-off of certain tax preferences over a specified period (Code section 59(e))

pollution control facilities (Code section 169 limited by Code section 291)

qualified forestation and reforestation expenditures (Code section 194)

railroad rolling stock (Code section 184)

research and experimental expenditures (Code section 174).

The amounts shown in the statistics included 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.

Amortization was reported separately on Form 4562, Depreciation and Amortization and not on a separate line of the income statement of the tax return. The amount of amortization was also reported in "Other Deductions." However, when amortization was shown separately for the statistics, the amount was excluded from "Other Deductions." 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, which was included in "Other Deductions" in the statistics.

See also: "Alternative Minimum Tax."

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 sections 166 and 585, respectively. Included in the statistics were amounts such as bad check losses, worthless government or corporate bonds, notes for commercial and mutual banks and for bank holding companies, write-offs, net loss from agents or premiums from other insurance companies, and uncollectable railway revenue.

Commercial banks, mutual savings banks, savings and loan associations, small business investment companies and other financial institutions were historically 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 were able to increase their reserves based on percentages of outstanding loans. However, certain restrictions to bring these institutions in line with other businesses were introduced in 1969.

For commercial banks, the deductible additions to the reserves decreased in three transitional steps. The decrease was achieved over a period of years through a decline in allowable percentages of eligible outstanding loans. By 1983, the allowable percentage had been reduced to 0.6 percent. 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.

The reserve method of computing the deduction for bad debts was repealed for large banks and for small business investment companies by the Tax Reform Act of 1986. Thereafter, the deduction was to be based on actual losses for the current and 5 preceding years, using the specific charge-off method, the same as for other businesses.

A bank was treated as a large bank, for any taxable year beginning after December 31, 1986, if the average adjusted basis of all assets of the bank (or any controlled group, as defined under Code section 1563(c)(1), of which the bank was a member) exceeded $500 million. The average adjusted bases was to be determined quarterly.

Large banks were required to recapture the balance of their bad debt reserves over a period of four taxable years, beginning with the year of disqualification. The year of disqualification was the first taxable year after December 31, 1986 for which the bank was considered to be a large bank. A bank could suspend the recapture of its reserves for any year in which it was a "financially troubled bank," as defined under Code section 585(c)(3)(B).

Specific rules governing the recapture of the bad debt reserve were provided. In the disqualification year, at least 10 percent of the balance in the reserve for bad debts was to be included in income. The remaining balance was to be recaptured at prescribed rates over three taxable years. A bank could elect to recapture more than 10 percent of the reserve in the disqualification year. If that election were made, different rates of recapture were prescribed.

An alternative to recapturing the reserve was available to a large bank in the disqualification year. An election could be made in the disqualification year to use a cut-off method of accounting for the reserve for bad debts. Members of a consolidated group could not make the election independently. Each bank, included in a consolidated income tax return, was obligated by the election (if made) by the consolidated group. As defined under Code section 585(c)(4), a bank using this method could maintain its reserve for bad debts but charge any losses resulting from loans held by the bank against the reserve. No deduction would be allowed for additions to the reserve account.

An option for computing the deduction for bad debts was available to mutual savings banks, domestic building and loans associations, cooperative banks and certain stock associations. Under the tax reforms of 1986, those organizations, which met certain asset qualifications could continue to use the reserve method. However, they could only deduct a maximum of 0.6 percent of an adjusted taxable income, provided it did not increase the reserve beyond 0.6 percent of the qualifying outstanding loans. For this purpose, taxable income was before the deduction for the bad debt reserve as specified under Code section 593(b)(2).

Amounts of recovered bad debts reported by corporations which deducted actual bad debts and the recapture of bad debt reserve accounts were included in the statistics for "Other Receipts."

Branch Tax of Foreign Corporations

The U.S. earnings and profits of a foreign corporation became subject to a branch profits tax without consideration for the ratio of U.S. income to the total income of the foreign corporation, for tax years beginning after December 31, 1986. A 30 percent rate of tax was imposed on the earnings and profits as well as the interest paid by or to a foreign corporation from its trade or business activities conducted in the United States. The provisions under Code section 884 were introduced to lessen the disparity of U.S. taxation between U.S. corporations owned by foreign persons and foreign corporations doing business through their own unincorporated branches in the United States. This provision of U.S. tax laws also required coordination with income tax treaties between the United States and foreign countries. Under tax treaties the tax rates could be lower than the 30 percent tax rate imposed by U.S. tax laws.

The branch profits tax was imposed on the "dividend equivalent amount" or the earnings and profits of a U.S.

branch of a foreign corporation that was attributable to its income effectively connected (or treated as effectively connected under Code section 897) with a U.S. trade or business. The rate of tax varied based on the treaty conditions with the country in which the foreign corporation was a resident. The effectively connected earnings and profits were adjusted to identify changes in a branch's U.S. net equity under two circumstances: (1) to reflect any reinvestment of the branch's earnings in assets in the U.S. trade or business (or reduce liabilities in the U.S. trade or business); and (2) to reflect any prior reinvested earnings that were considered remitted to the home office of the foreign corporation.

Certain earnings and profits attributable to income effectively connected with a U.S trade or business were exempt from the branch profits tax. The tax exempt earnings included: (1) certain earnings of a foreign sales corporation as described in Code sections 921(d) and 926(b); (2) earnings of foreign transportation carriers that were exempt from U.S. tax by reciprocal exemption; (3) earnings derived from the sale of any interest in U.S. real property holding corporations; (4) earnings derived by corporations satisfying certain ownership and income requirements which were organized in certain U.S. possessions described in Code section 881(b); and (5) earnings derived by certain insurance companies which elected to have income treated as effectively connected income.

The branch tax was the sum of the tax imposed on the earnings and profits and interest payments of the foreign corporation. The branch tax was reported on the Form 1120-F U.S. Income Tax Return of a Foreign Corporation. The tax was included in "Total Income Tax" in the statistics. It was also shown separately in the statistics for foreign corporations with U.S. business operations in Table 12 of this report.

Business Receipts (*)

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

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. In any case, the statistics reflected receipts, as reported by the taxpayers. When included in 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. See: "Cost of Sales and Operations" and "Taxes Paid."

Business receipts included rents reported as a principal business income by real estate operators as well as 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 providing lodging places and the rental of automobiles or clothing. 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. Some companies reported these items on attached schedules as other income, not as business receipts. For such companies, the items were included in the statistics for business receipts, not for the other income. Condominium management fees reported by condominium management and cooperative housing associations were also included in business receipts.

As the principal operating income of banking and savings institutions, interest was included in the statistics for "Interest" and was generally excluded from business receipts. Interest could be included in the statistics for business receipts within the finance industries, but only if it were not separately identified on the tax returns. Some banking institutions reported business receipts from the sale of Federal funds and included the purchase price of those funds as part of cost of sales and operations. For those companies, business receipts were reduced by the purchase price of those funds and the purchase price was excluded from "Cost of Sales and Operations."

Also in the finance, insurance, and real estate industries, premium income of most insurance companies was included in business receipts. However, certain nonlife insurance companies could elect to be taxed on their investment income only, if their net written premiums or direct written premiums (whichever was greater) exceeded $350,000 but not over $1,200,000. Under this election the premium income was not reported. Consequently, total business receipts for insurance carriers could be slightly understated.

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 were 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 Gain (or Loss), Noncapital Assets" and "Net Capital Gains".

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 returns for a calendar year 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.

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. Also included were compensation of officers identified as part of cost of goods sold.

Contributions to a 401(k) plan or a salary reduction (SEP) agreement were included in the statistics for Pension, Profit Sharing (etc.) Plans.

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; and (4) corporations designated tax-exempt under Code section 501.

Under Code section 1504(c) corporations could elect to include their domestic insurance companies in consolidated tax returns. There could be three separate components of this type of consolidated return:
(a) non-insurance companies; (b) life insurance companies; and (c) property and casualty insurance companies.

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 and (2) foreign dividend gross-up. Both were income constructed for U.S. income tax purposes, and were not actual business receipts.

For most purposes, a 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.

Includable Income

The earnings and profits of a Controlled Foreign Corporation (CFC) became subject to U.S. taxation, prior to the Subpart F provisions, only when the income was actually distributed to the U.S. shareholders or repatriated to the United States. In many cases, those earnings and profits were not distributed to the shareholders, unlike the earnings and profits of domestic corporations. Because the earnings were being held undistributed outside the United States, the income from CFC's was not subject to U.S. tax.

The Subpart F provisions, instituted under Code section 952, drew certain earnings and profits of CFC's under the umbrella of U.S. taxation. The provisions required that the worldwide gross income of U.S. corporations include a portion of the undistributed earnings and profits from their CFC'S. Thus, the income of CFC's became subject to U.S. tax through deemed distributions to the U.S. shareholders.

The deemed distributions represented foreign income, that while not actually received by U.S. shareholders, was to be included in income subject to U.S. tax (i.e. includable income from Controlled Foreign Corporations). 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," and which was either withdrawn from those countries or repatriated to the U.S. shareholders and therefore became 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 from premiums for insurance issued by foreign companies which were Controlled Foreign Corporations when the insurance was issued outside the country of incorporation of the CFC (as determined under Code section 953);
(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, sales income from personal property which was:
        (1) produced outside the country of incorporation of the CFC,
        (2) purchased or sold in a transaction involving a related corporation, and
        (3) used outside the country of incorporation of the CFC;
    (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 the use of aircraft or vessels in foreign commerce or income from the performance of services directly related to the use or sale of any such aircraft or vessels; and
    (e) "foreign base company oil-related income" - In general, this was income from the non-extraction business activities, related to foreign oil or gas, which were conducted outside the foreign country where the oil or gas was extracted. The non-extraction business activities of the foreign corporation included processing, transporting, distributing, and selling oil or gas and derived products for use or consumption outside the foreign country in which the oil or gas was extracted. Also, income from the sale of assets used in the non-extraction business activities were included in the oil-related income.
(3) income from participation in international boycotts not sanctioned by the United States;
(4) illegal bribes, kickbacks, or other payments to a government official; and
(5) income derived from any foreign country during any period for which a foreign tax credit would be denied for taxes paid to those countries, as described in Code section 901(j), (i.e. a government: which was not recognized by the United States, with which the United States severed or did not conduct diplomatic relations, which provided support for international terrorism, and beginning January 1, 1988, the country of South Africa until specific requirements of the Comprehensive Anti-Apartheid Act of 1986 would be met.

Foreign Dividend Gross-Up

Foreign dividend gross-up was constructive taxable income to corporations which claimed a foreign tax credit. A U.S. corporation could claim a foreign tax credit for a share of the foreign taxes actually paid by its related foreign corporations, including its Controlled Foreign Corporations. The U.S. corporation's share of the total foreign taxes was proportionate to the ratio of the dividend received (actual or constructive) to the total earnings and profits of the related foreign corporation. The foreign taxes were treated as deemed paid by the U.S. corporation. In order to receive credit against U.S. tax, the foreign taxes deemed paid needed to be included in the corporation's worldwide income as well. They were included in income as an increase to foreign dividends; a dividend gross-up. The dividend gross-up was the equivalent amount of the foreign taxes deemed paid by the U.S. corporation.

Constructive Taxable Income

Foreign dividend gross-up, resulting from foreign taxes deemed paid, and includable income from Controlled Foreign Corporations were combined and presented in the statistics as "Constructive Taxable Income from Related Foreign Corporations." The components were presented separately in Table 13. Neither includable income from Controlled Foreign Corporations nor foreign dividend gross-up were included in the statistics for "Total Receipts."

The statistics for "Constructive Taxable Income from Related Foreign Corporations" reflected variation in taxpayer reporting in certain cases. Some corporations reported foreign dividends received as "includable income from Controlled Foreign Corporations," while others reported "includable income from Controlled Foreign Corporations" as foreign dividends received. Also, some corporations reported dividend gross-up for foreign taxes deemed paid as foreign dividends received, while others reported foreign dividends received as dividend gross-up. Still others incorrectly reported dividend gross-up for foreign taxes paid directly by the U.S. corporation. All foreign dividends were reported on the dividends received schedule of the U.S. income tax return, including actual and constructive receipt.

The statistics could have reflected these variations in taxpayer reporting, to the extent that the specific nature of the dividend was not identified on supporting schedules attached to the U.S. income tax return. However, when specifically identified elsewhere on the return, the amounts were included in the statistics for the type of foreign dividend, as specifically identified, rather than for the items as reported on the dividend received schedule.

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 allowable deduction resulting from the repurchase of bonds, as described under Code section 249;

(4) deduction allowed for payments to the National Railroad Passenger Corporation, as described under Code section 250;

(5) any net operating loss carryback under Code section 172;

(6) any capital loss carryback to the tax year under Code section 1212(a)(1).

Also, certain additional adjustments were required in the case of life insurance companies. A corporation except a Personal Holding Company or a service organization could receive a larger deduction for contributing scientific property used for research to an institution of higher education.

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.

The amount shown in the statistics included contributions identified as part of cost and sales and operations as well as contributions reported as a business deduction.

Charitable contributions paid by S corporations were directly passed through to the shareholders, rather than indirectly as a business deduction. The statistics did not include contributions paid by S corporations.

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 shareholders of S corporations.

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.

Many items that were allowable deductions prior to the 1986 tax reforms were required to be capitalized or included in inventory under the 1986 I.R. Code. Uniform capitalization rules of Code section 263A resulted from the 1986 tax reforms and were generally effective for taxable years beginning after December 31, 1986. With respect to inventory, some of the indirect costs which were required to be capitalized included such items as: administration expenses; taxes; depreciation; insurance costs, compensation paid to officers attributable to services; rework labor; and contributions to pension, stock bonus, and certain profit sharing, annuity, or deferred compensation plans.

Corporations which were subject to the rules were required to capitalize direct costs and an allocable portion of most indirect costs that related to the assets produced or acquired for resale. Special rules were provided for the capitalization of interest expense paid or incurred in the course of production. The uniform capitalization rules also applied to the production of property constructed or improved for use in a trade or business or in an activity engaged in for profit. Corporations were required to revalue their beginning inventory to reflect the costs under Code section 263A, which were not previously included in inventory.

The rules did not apply to personal property acquired for resale for corporations with annual average gross receipts of $10,000,000 or less; to timber; to property produced under a long-term contract. Special rules were provided for farmers.

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 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 included in the statistics for "Cost of Treasury Stock."

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

Code section 34 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 tax at the 34 percent rate 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 was this credit which comprised 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 was 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 were later converted or manufactured prior to sale. For other natural deposits, gross income was defined to include income from mining or extraction and certain treatment processes as well. Additionally, exploration expenditures, previously deducted, were required under provisions of Code section 617, to be recaptured or included in income 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 deferred amounts were not included in the statistics 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. Percentage depletion could not generally be used for oil and gas wells, except for certain small producers as defined under Code section 613A.

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 included any identifiable depletion reported as part of the cost of sales and operations.

See also "Alternative Minimum Tax."

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. In general, depreciable assets were 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. Certain insurance companies were included among the corporations which reported only a net amount of depreciable assets. Life insurance companies and some property and casualty insurance companies reported their 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."

Generally, the value of depreciable assets and accumulated depreciation were not 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 in the current year for tax purposes.

For corporations which filed the Form 1120-A, depreciable assets were combined with depletable and intangible assets on the balance sheet. However, the majority of this item represented depreciable assets.

Depreciation (*)

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. The maximum amount of allowable section 179 expense was increased to $10,000. However, if total cost for section 179 property placed in service after December 31, 1986 was more than $200,000, then the total expense deduction was to be reduced by the amount by which the cost exceeded $200,000. Taxpayers who use the MACRS depreciation rules also had to recompute their depreciation for purposes of figuring their minimum tax.

There were eight classes of recovery property under MACRS and reported on Form 4562-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. Generally, the first six classifications were for depreciable property, other then buildings while the last two were "real property", or 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 as 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 property 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 prescribed method, the alternate depreciation system or 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.

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. If a corporation had a binding contract on a piece of property before the MACRS rules went into effect, but did not place the property in service until the 1988 accounting period, the property was considered transition property. The ACRS rules were applied for depreciation. For 1988, ACRS property placed into service in prior years was combined with other depreciation and reported as one item. Whereas, prior year MACRS property was reported separately from the current year. 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-, or 19- year real property and low income housing property, but the mid-month convention applied.

There were five types of property that had to be depreciated using the straight-line method: (1) property used mainly outside the U.S., (2) tax-exempt use property, (3) qualified leased property, (4) property financed by tax-exempt obligations, and (5) certain imported property.

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.")

Dividends from Interest Charge Domestic International Sales Corporations (IC-DISC's) and from former Domestic International Sales Corporations (DISC's) that were deductible were included as domestic dividends received. 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 either 1) 70 percent if the dividends were from less than 20 percent owned domestic corporations, or (2) 80 percent if the dividends were from 20 percent or more owned domestic corporations (ownership is determined by the voting power and value of the stock of the issuing corporation). However, the deduction was equivalent to about 50 percent of the dividends received on certain preferred stock of public utilities. 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 exemption amount 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 Tax Reform 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.

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 (1) the 70 percent deduction when received from less than 20 percent owned foreign corporations and certain FSC's, or (2) the 80 percent deduction when received from 20 percent or more owned foreign corporations and certain FSC's;

(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.

Because foreign dividend "gross-up" and "includable" income from Controlled Foreign Corporations were not actual receipts, they were excluded from the statistics for dividends received. Both were combined and presented in the statistics as "Constructive Taxable Income from Related Foreign Corporations."

The statistics for foreign dividends received reflected variation in taxpayer reporting in certain cases. Some corporations reported foreign dividends received as "includable income from Controlled Foreign Corporations," while others reported "includable income from Controlled Foreign Corporations" as foreign dividends received. Also, some corporations reported dividend gross-up for taxes deemed paid as foreign dividends received, while others reported foreign dividends received as dividend gross-up. All foreign dividends, actual and constructive, were reported on the dividends received schedule of the U.S. income tax return.

These variations in taxpayer reporting could have been reflected in the statistics, to the extent that the specific nature of the dividend was not identified on supporting attachments to the tax return. However, when specifically identified elsewhere on the return, the amounts were included in the statistics for the type of foreign dividend, as specifically identified, rather than for the items as reported on the dividend received schedule.

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. Generally, such programs were not an incidental part of a pension, profit sharing plan or other funded deferred compensation plan. Deductions for a welfare benefit fund were limited to the qualified cost of the fund for the taxable year, as described under Code section 419.

Included in the statistics for this item were amounts identified as part of the cost of sales and operations. Some mining companies could have reported an amount for a combination of welfare/retirement plans, when identified, the combined amount was included in the statistics for contributions to employee benefit plans.

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.

Environmental Tax

Corporations were required to pay the environmental tax, as a result of the Superfund Amendments and Reauthorization Act of 1986. The requirements for this tax were provided under the Code section 59A. The tax was based on a modified alternative minimum taxable income of the corporation in excess of $2,000,000. (Members of a controlled group of corporations were entitled to one $2,000,000 exemption.) The amount of the excess income was subject to a .12 percent rate of tax. The modified alternative minimum taxable income was alternative minimum taxable income without consideration for the alternative tax net operating loss deduction and the allowable deduction from income for the environmental tax. For an explanation of alternative minimum taxable income, see "Alternative Minimum Tax." For purposes of determining the regular tax, the amount of the current year environmental tax was allowed as a deduction from the current year gross income under Code section 164 (a). In general, the environmental tax was effective for taxable years beginning after December 31, 1986 and before January 1, 1992.

Estimated Tax Payments (*)

Corporations not exempt from taxation were required to make quarterly tax payments if the estimated tax for the taxable year was expected to be $500 or more. The tax was estimated by applying the regular graduated corporate tax rates to the expected taxable income for the taxable year (personal service corporations estimated their tax using a flat 34 percent tax rate), then the excess of the regular tax (estimated) over the amount the corporation estimated as the sum of credits against regular tax (including credits for foreign taxes, possessions tax, production or sale of nonconventional source fuels, orphan drug research, general business incentives, and prior year minimum tax) plus any recapture tax of investment credit or of low income housing credit, alternative minimum tax, environmental tax minus credit for Federal tax on fuels. The lesser of 90 percent of the estimated tax for the current taxable year or 100 percent of the tax due on the previous year return was used to calculate the installment payments.

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 were presented for the components of net estimated tax payments which include 1987 overpayments claimed as a credit, 1988 estimated tax payments, and refund of estimated tax payments.

Excess Net Passive Income Tax

The Subchapter S Revision Act of 1982 imposed a limitation on passive income for S corporations which had accumulated earnings or profits from prior subchapter C status. A tax was imposed on the net passive income in excess of 25 percent of gross receipts. The income was taxed at the regular corporate tax rate of 34 percent. Passive investment income, in general, was gross receipts derived from rents, royalties, dividends, interest, annuities, or the sales or exchange of stock or securities.

Prior to 1982 under Code section 1372, an S corporation was generally 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.

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 and 5 percent of net holdings in second and third tier foreign corporations. After 1986 the deemed paid credit was based on undistributed earnings and profits earned in tax years beginning after 1986 and taxes paid or accrued in tax years beginning after 1986. 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, by foreign sales corporations (FSC's) for taxes paid on the foreign trade income, and also by foreign corporations engaged in trade or business in the United States for taxes paid on income "effectively connected" with the U.S. business. Additionally, stockholders of Interest Charge Domestic International Sales Corporations (IC-DISC's) could claim a credit for foreign taxes paid by an IC-DISC. However, the credit was not allowed for S Corporations because their income was primarily taxed through their shareholders. These corporations also had to exclude any foreign taxes paid or accrued from the deduction for taxes paid in computing their net income from trade or business activities. Instead, the foreign taxes were passed through to the shareholders for their use as a foreign tax credit (or a deduction).

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. (Under this election, these companies also excluded foreign taxes paid or accrued from the deduction for taxes to compute net income.) However, if the election were not made, the regulated investment company could claim the foreign tax credit.

A corporation that claimed the foreign tax credit could not also claim a business deduction for the same foreign taxes paid. The credit could be reduced for taxes paid on foreign income from operations involving participation or cooperation with an international boycott. The U.S. income tax which could be reduced by the credit excluded the recapture taxes for investment credit and low-income housing credit, the alternative minimum tax, the Personal Holding Company tax and the environmental tax.

After 1986, the foreign tax credit was computed separately for foreign taxes paid or accrued with respect to nine categories of income. These were: (1) passive income; (2) high withholding tax interest; (3) financial services income; (4) shipping income; (5) dividends from each noncontrolled section 902 corporation; (6) dividends from a DISC or former DISC; (7) foreign trade income of a FSC; (8) distributions of a FSC or former FSC; and (9) all other income from sources outside the United States. For each category, the credit was computed subject to a limitation which prevented the corporations from using foreign tax credits to reduce U.S. tax liability on U.S. sourced income. This was determined using the "overall" method.

Using the overall method the credit was limited to that percentage of the total U.S. income tax against which the credit was allowed as represented by the ratio of taxable income from foreign sources to worldwide taxable income. The taxpayer totaled the taxes paid to all foreign countries and possessions which was then subjected to a limitation computed by multiplying the U.S. tax liability by a fraction where the numerator consisted of taxable income from foreign sources (after relevant deductions) and the denominator was worldwide taxable 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.)

The foreign tax credit was not allowed for taxes paid to certain foreign countries whose government: was not recognized by the United States, with which the United States severed or did not conduct diplomatic relations, which provided support for international terrorism, and beginning January 1, 1988, the country of South Africa until specific requirements of the Comprehensive Anti-Apartheid Act of 1986 would be met.

General Business Credit (*)

The Tax Reform Act of 1986 made several changes to the general business credit. This credit consisted of a combination of five individual credits - investment credit (Form 3468), jobs credit (Form 5884), alcohol fuel credit (Form 6478), research credit (Form 6765) and the low-income housing credit (Form 8586). The orphan drug credit, which was also reported on Form 6765 was not included as part of the general business credit. If a corporation claimed more than one of these credits, reported a carryforward, or had credits from a passive activity, Form 3800 was to be filed with the income tax return.

The purpose of the general business credit was to provide a uniform limitation on the amount that could be used to reduce tax liability and to establish uniform rules for carrybacks and carryforwards. Each of the five credits were computed separately. The total of the credits became the general business credit for the purpose of applying the maximum tax liability rules and the carryback and carryforward rules.

Generally, S corporations computed these credits at the corporate level, the credits were then passed through to the shareholders. The regular investment credit and energy investment credit were exceptions. The S corporation reported the basis in the quailifying property to each shareholder. The shareholders themselves computed the regular investment and energy investment credits. However, S corporations which were previously C corporations could use business credit carryforwards to reduce tax on their net recognized built-in gains.

Effective for tax years beginning after December 31, 1985, the general business credit reduced 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. An additional limitation was also imposed on the general business credit as a result of the alternative minimum tax introduced by the Tax Reform Act of 1986.

When the credit exceeded: the $25,000-plus-75 percent limitation in any year, or the excess of income tax liability over tentative minimum tax; the excess became 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. An amount of carryforward of the general business credit was shown separately in Table 14, as a component of the general business credit. Use of carryback provisions would require that a prior year return be amended. Amended returns were not included in the corporate sample. Therefore, any changes in tax liability due to carryback of unused business credits were not reflected in the statistics.

Income Subject to Tax (*)

Because of the different types of corporations, U.S. tax was imposed on a variety of corporate tax bases. These were the "taxable income" bases defined by Code section 63, used by the majority of corporations to which the tax rates applied; the 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. Most of these tax bases were represented in the statistics for "Income Subject to Tax."

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 those returns, income subject to tax was reduced to zero and the excess of the two special deductions became the statutory loss for the year. This current year statutory loss became available for a net operating loss deduction over the prescribed carryback and carryover periods.

Also, the tax bases of life insurance companies, regulated investment companies, and real estate investment trusts were not defined as net income less statutory special deductions. For S corporations with a limited tax liability on capital gains, the statistics for income subject to tax represented the ordinary income from the normal business activities of the corporation. No special deductions were allowed to reduce this income.

For the life insurance companies, 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.

Provisions under Code section 1504(c) allowed corporations to elect to include their domestic insurance companies in a consolidated tax return. There could be three separate components of this type of consolidated return:

(a) non-insurance companies;

(b) life insurance companies; and

(c) property and casualty insurance companies.

For companies which elected to file a consolidated return under Code section 1504(c), the income tax was based on a portion of the consolidated amount of income subject to tax. Net income in the statistics represented the aggregate for the separate components of the consolidation. However, specific limitations were imposed on the use of nonlife business activity losses as an offset to life insurance gains for the purpose of computing income tax. As a result, a consolidated return under Code section 1504(c) with a net deficit could report income subject to tax.

In the case of regulated investment companies, any undistributed income, other than undistributed long-term capital gains, was included in the statistics for income subject to tax. This portion of the undistributed income was taxed at the normal graduated corporate tax rates. Any net long-term capital gain (reduced by net short-term capital loss) which was not distributed to stockholders was taxed at a flat 34 percent rate. The undistributed portion of the long-term capital gains were excluded from the statistics for income subject to tax.

See also, "Income Tax."

Income Tax (*)

The maximum corporate regular tax rate was reduced to 34 percent, under the Tax Reform Act of 1986. The benefit of a graduated tax rate was phased out for income over $100,000. The number of tax brackets was reduced to three. For tax years which began on July 1, 1987 and thereafter, the corporate taxable income brackets and regular tax rates were:

Taxable Income	Tax Rate
Not over $50,000	15
Over $50,000 but not over $75,000	25
Over $75,000	34

An additional 5 percent tax was imposed on income in excess of $100,000. The maximum additional tax was $11,750. Corporate taxable income in excess of $335,000 was in effect subject to a regular flat tax rate of 34 percent.

Prior to the Tax Reform Act of 1986, 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 liability would have been using the regular method. The alternative tax on capital gains was repealed by the 1986 Tax Reform Act. After July 1987, capital gains were taxed at a 34 percent rate for all corporations.

For corporations which elected to be treated as S corporations, an income tax was imposed on certain long-term capital gains, as well as recognized built-in gains and excess net passive income of companies which were formerly C corporations. The tax liability was not passed through to the shareholders of the corporation. The taxes paid on capital gains or recognized built-in gains by S corporations were included in the corporate statistics as regular income tax. The taxes paid on excess net passive income were included in total income tax but were excluded from regular income tax.

A small number of corporations without net income had an income tax liability. The tax from those returns was included in the statistics as regular income tax. The tax resulted from:

(1) special statutory provisions applicable to life insurance businesses; and

(2) the provisions under Code section 1504(c) allowing corporations to elect to include their domestic insurance companies in consolidated tax returns. There could be three separate components of this type of consolidated return:

  (a) non-insurance companies;

  (b) life insurance companies; and

  (c) property and casualty insurance companies.

For companies which elected to file a consolidated return under Code section 1504(c), net income in the statistics represented the aggregate for the separate components of the consolidation. The income tax was based on a portion of the consolidated taxable income. Specific limitations were imposed on the use of nonlife business activity losses as an offset to life insurance gains for the purpose of computing income tax. As a result, a consolidated return under Code section 1504(c) with a net deficit could report income subject to tax and income tax.

Income tax, or regular tax in the statistics, was the amount of tax before reduction by tax credits for: foreign taxes, possessions tax, orphan drug research, the production or sale of fuels from nonconventional sources, general business incentives, and the prior year minimum tax. Income tax was shown separately as regular tax and included in total income tax in the statistics.

Adjustments made to income tax returns after they were filed could affect the final tax liability and the tax due. Such adjustments were not reflected in the statistics. Adjustments could result from tax examination or the use of carryback provisions for:

(1) net operating losses and certain capital losses, which generate adjustments to taxable income and consequently create adjustments to the tax liability; and

(2) unused foreign taxes and unused general business credits which would cause adjustments to income tax through recomputed credits.

The use of these carryback provisions would require that a corporation file an amended income tax return. Amended returns were excluded from the corporate sample.

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.

See "Total Income Tax" and "Income Tax After Credits" in this section.

Income Tax After Credits (*)

Income tax after credits in the statistics represents total income tax less the sum of credits for: foreign taxes; U.S. possessions tax; orphan drug research; the production or sale of fuels from nonconventional sources; general business incentives; and prior year minimum tax.

See "Income Tax" and "Total Income Tax" in this section.

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. Interest received on loans, notes, mortgages, arbitrage bonds, nonexempt private activity bonds, corporate bonds, bank deposits, and tax refunds was also included in this item. The interest received was reduced by the amortizable bond premium, as defined under Code section 171. For installment sales, interest received included amounts stated in the contract and certain unstated amounts of interest, as defined under Code section 483.

Interest received from tax-exempt state or municipal bonds and ESOP loans was not included in this item. Corporations were not allowed to offset any interest expense against interest income. See "Interest Paid."

Interest on Government Obligations: State and Local (*)

The interest received from certain government obligations was not subject to U.S. income tax. These tax-exempt obligations included those issued by states, municipalities and other local governments, the District of Columbia, and U.S. possessions, including Puerto Rico. The amounts shown for this item were reduced by the amortizable bond premium.

For statistical presentation, this interest was included in "Total Receipts." However, it was not included in net income (less deficit) or income subject to tax.

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 in section 6 of this report). Because of variations in taxpayer reporting, this item may not have always been identified. Therefore, the statistics could be understated for interest received from state and local government obligations.

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 defined under Code section 483. For banking and savings institutions, the statistics also included interest paid on deposits and withdrawable shares. Interest identified as part of the cost of sales and operations, was excluded from cost of sales and included in the statistics as interest paid.

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.

When inventories were reported by companies within certain financial industries, the amounts were included in the statistics for "Other Investments" and excluded from inventories. For commodity brokers, dealers and exchanges, and other holding and investment companies (except bank holding companies), inventories were included in "Other Investments" for companies which were nonconsolidated or consolidated with only financial subsidiaries. Inventories were included in "Other Investments," when reported by security brokers and dealers, whether consolidated or nonconsolidated.

Inventories were included in the statistics for "Other Current Assets" and excluded from inventories when reported by other nonconsolidated corporations within the "Finance, Insurance, and Real Estate" industrial division. However, inventories were included in "Other Current Assets," if reported by bank holding companies, whether consolidated or nonconsolidated.

Inventories included in the statistics for the "Finance, Insurance, and Real Estate" industrial division were those reported by consolidated financial companies with diversified nonfinancial subsidiaries.

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 Code section 48(a)(1)(F);

(4) Certain rehabilitation property; or

(5) Business energy property.

No investment credit could be claimed for property, such as, automobiles, delivery trucks, office equipment, and farm equipment unless it was transition property on December 31, 1985, or it fell into one of the other categories listed above.

The 1986 Tax Act also extended for three years the business energy portion of the investment credit for solar, geothermal, and ocean thermal property and for two years for biomass property. The rehabilitation portion of the investment credit was also modified. The allowable credit for rehabilitation property was reduced; for older nonresidential buildings from 15 or 20 percent of the qualified investment to 10 percent and for certified historic structures from 25 percent to 20 percent.

For "qualified progress expenditures" property, a corporation could elect to claim an investment credit for taxable years before the qualified property was placed in service. For periods after 1985, the depreciable basis of the property was to be reduced by the full amount of the credit. Prior to the 1986 TAX Act, a corporation could elect to reduce the available credit rather than the basis of the property.

The investment credit (before limitations) for qualified timber property was 10 percent of the qualified investment. The credit for transition property and qualified progress expenditure property was also 10 percent of the qualified investment. After June 30, 1987, a 35 percent reduction applied to the regular 10 percent investment credit for those properties except for qualified timber property. The amount of the reduction could not be carried to any other tax year.

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 l94; and
(8) petroleum storage facilities.

A corporation could also claim an investment credit for certain vessels under special provisions of Code sections 46(g)(1) through (6) for certain maritime property.

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. Limitations on investment credit for movie and television films or tapes were defined under Code section 48(k).

The investment credit could not reduce the recapture taxes for the investment credit or low-income housing credit; the alternative minimum tax; the environmental tax; the personal holding company tax; or the tax liability of S corporations for capital gains or excess net passive investment income. Shareholders of S corporations computed the regular investment credit, it was not computed at the corporate level by the S corporation. The S corporation reported the basis in the qualifying property to each shareholder for this purpose.

The investment credit was claimed as one of the components of the general business credit. For a discussion of the income tax limitations and carryback and carryforward provisions of the credit, see "General Business Credit," in this section.

The investment credit was included (as a component) in the general business credit shown in the tables. The components of the general business credit were shown separately in Table 14; the tentative business energy credit was not included in the regular investment credit.

See "Recapture of Investment Credit."

Investment Credit Carryover

The 1984 Tax Reform Act provided that unexpired investment credit from each pre-1984 taxable year would 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 was not to 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 do not reflect any changes in tax liability due to the use of investment credit carryback.

See "Investment Credit."

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.

Balance sheet data for mutual property and casualty insurance companies were extracted from the income tax return, Form 1120-PC, rather than the annual statement, beginning with Tax Year 1987. Prior to 1987, these companies filed tax returns on Form 1120M, which did not include a balance sheet. The balance sheet data were then extracted from the annual statement attached to the returns.

Some mutual property and casualty insurance companies included "Investments in Government Obligations" with "Other Investments" on the income tax return, Form 1120-PC. When identified, the amounts were included in the statistics for "Investments in Government Obligations" and excluded from "Other Investments."

The comparability of balance sheet data could have been affected by differences in reporting on the annual statement for years prior to 1987 and on the income tax return Form 1120-PC, beginning with 1987. Comparison of data reported on the annual statement to that reported on the Form 1120-PC indicated that "Investments in Government Obligations" was often more clearly identified on the annual statement than on the income tax return. Thus, the statistics could be overstated for "Other Investments" and understated for "Investments in Government Obligations," to the extent that "Investments in Government Obligations" may not have been identified on the tax return.

Stock property and casualty insurance companies also filed income tax returns on the Form 1120-PC, beginning with 1987. However, prior to 1987 these companies reported balance sheet data on the income tax return, Form 1120 or Form 1120-A, rather than an annual statement. Therefore, the comparability of balance sheet data, before and after 1987, was not generally affected by the tax return filed by nonlife stock insurance companies.

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, 1988.

For employees hired after December 31, 1985 and before January 1, 1990, only qualified first-year wages could be used to determine the jobs credit. The credit was limited to the sum of: 40 percent of the first $6,000 of "qualified first-year wages," and 85 percent of the first $3,000 of "qualified summer youth employee wages," for work done in any 14-day period between May 1 and September 15. The 1988 Tax Act reduced the percentage for "qualified summer youth employee wages," to 40 percent. for those employees hired after December 1988.

The jobs credit was claimed as one of the components of the general business credit. For a discussion of the income tax limitations and carryback and carryforward provisions of the credit, see "General Business Credit," in this section.

The jobs credit was included (as a component) in the general business credit shown in the tables. The components of the general business credit were shown separately in Table 14.

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, but land improvements remained as depreciable assets.

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 replaced 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 provided a credit of 70 percent of the qualified basis of each new low-income building placed in service after 1986 (30 percent in the case of certain federally subsidized new buildings or certain existing buildings purchased and placed in service). This credit could be taken over a 10-year period so that the present value of the 10 annual credit amounts at the beginning of the credit period equaled 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 could 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 was "rent restricted" if the gross rent did not exceed 30 percent of the income limitation in (1) or (2) above for individuals occupying the unit. A corporation could elect to classify a project under either one of the above criteria. Once made, the election was irrevocable.

The low-income housing credit was claimed as one of the components of the general business credit. For a discussion of the income tax limitations and carryback and carryforward provisions of the credit, see "General Business Credit," in this section.

The low-income housing credit is included (as a component) in the general business credit shown in the tables. The components of the general business credit are shown separately in Table 14.

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.

As of 1981, insurance companies were allowed, under Code section 1504(c) to be included in a controlled group with noninsurance companies, as long as the noninsurance companies had been members of the affiliated group for 5 taxable years (see "Consolidated Returns"). Prior to 1981, two or more related life insurance companies were required to be treated as a controlled group separate from any other corporation to which they were related.

Minimum Tax Credit (*)

See: "Prior Year Minimum Tax Credit."

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. The long-term capital gain holding period was "more than 6 months" for assets acquired after June 22, 1984 and before January 1, 1988. For assets purchased after January 1988, any recognized capital gain or loss qualified for long-term treatment if the assets were held for more than one year. If the assets were held for one year or less, the gain or loss was treated as short-term. This was the same holding period that had applied to assets acquired before June 23, 1984.

Net short-term gains (reduced by net long-term losses) and net long-term gains (reduced by net short-term losses) were generally taxed as ordinary income after July 1987. Certain capital gains for some corporations, however, were subject to a flat 34 percent tax rate.

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. A net capital loss for a Regulated Investment Company could be carried forward 8 years instead of 5 years. 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 were treated as short-term capital losses for carryback and carryover puposes.

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; real property used in the trade or business; and

(6) 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. For the latter, see: "Net Gain (or Loss), Noncapital Assets."

Under section 1231, capital gains provisions could have applied to a net gain from dispositions of or certain transactions involving specified types of business assets that were otherwise considered noncapital assets, based on Code section 1221. Gains and losses from the 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 ordinary income as a net loss from noncapital assets. Thus, a net gain under section 1231 could receive treatment as a long-term capital gain, while a net loss under section 1231 could receive 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 6 months (or more than one year after January 1988) 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 6 months (or more than one year after January 1988) 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 6 months (or more than one year after January 1988) 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 6 months (or more than one year after January 1988) 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 (or more than one year after January 1988). Gain or loss from involuntary conversions such as by condemnation were included in the regular consolidation of Code section 1231 gains and losses. 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."

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

In general, "noncapital assets" related to property of a business nature. Special rules governing the computation of a net gain or loss from noncapital assets were provided under Code section 1231. Transactions treated under these special provisions included: (1) the sale or exchange of real or depreciable property used in a trade business; (2) the cutting or disposal of timber treated as a sale or exchange under Code section 631(a) and (b); (3) the disposal of coal or iron ore treated as a sale under Code section 631(c); (4) the sale or exchange of livestock (excluding poultry) used in a trade or business for draft, breeding, dairy, or sporting purposes; (5) the sale or exchange of unharvested crops; and (6) the involuntary conversion of property or capital assets due to partial or total destruction, theft, seizure, requisition, or condemnation.

Transactions not treated under the section 1231 provisions included the sale or exchange of: (a) inventory or property ordinarily held for sale; (b) certain copyrights; (c) literary, musical, or artistic compositions; (d) letters or memorandums; (e) U.S. Government publications; or (f) other similar property.

Under section 1231, capital gains provisions could have applied to a net gain from dispositions of or certain transactions involving specified types of business assets that were otherwise considered noncapital assets, based on Code section 1221. Gains and losses from the 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 ordinary income as a net loss from noncapital assets.

For a long-term capital gain or loss, the required holding period of the asset was more than one year for assets acquired before June 23, 1984 and after December 31, 1987. The long-term holding period was more than six months for assets acquired after June 22, 1984 and before January 1, 1988.

Gains and losses resulting from involuntary conversions, due mostly to casualty and theft, received special treatment. Such losses were to be included in the computation of "net gain or loss, noncapital assets." However, some corporations reported them in "Other Deductions," in which case, the losses were included in the statistics for "Other Deductions." No attempt was made to recompute the net gain or loss from noncapital assets for such returns.

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 or amortizable 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 were 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 depreciable real property not subject to recapture rules under 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. Section 1250 generally applied when depreciation was computed using an accelerated method of computation.

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, or amortization for certain property, claimed on the asset after a certain date prior to its disposition.

Code section 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 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 that a gain from the disposition of oil, gas, or geothermal property placed in service before January 1, 1987 be treated as ordinary income. When the disposition of such property resulted in a gain, the intangible drilling costs, depletion, mine exploration and development costs were to be recaptured under Code sections 263, 616, and 617.

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 as well (i.e., certain income from Controlled Foreign Corporations and foreign dividend gross-up). Interest from State and local government obligations was excluded from this item.

Net income was generally larger than the amounts shown in the statistics for "Income Subject to Tax." Certain statutory special deductions, including the net operating loss deduction, were allowed to most corporations for computing their taxable income. Income subject to tax generally represented net income reduced by the statutory special deductions. These statutory special deductions, however, were not allowed to reduce certain taxable income of S corporations, life insurance companies, regulated investment companies, and real estate investment trusts.

Also included in the net income was ordinary income from the normal trade or business activities of S corporations. Although the income was taxable to the shareholders, it was used for the statistics as a measure of corporate business activity for these companies. For tax purposes, net income for S corporations excluded passive income such as rents and other portfolio investments. (This income was also taxable to the shareholders.) Certain long-term capital gains, however, were taxable to S corporations, before the gains were passed through to the shareholders. These gains were excluded from net income. When the capital gains were taxable to the S corporation, the gains were included in the statistics for net long-term capital gain reduced by net short-term capital loss presented in Tables 2, 3, and 9. The net long-term capital gain did not include the net recognized built-in gains of S corporations which were formerly C corporations.

The statistics for net income (or deficit) also included the "effectively connected income" of foreign corporations operating in the United States. Generally, income was considered effectively connected if the foreign corporation conducted a trade or business in the United States and the income was attributable to that business.

For non-life insurance companies subject to tax under Code section 831, the net income (or deficit) in this report was the sum of investment income, the statutory underwriting income, and certain other statutory receipts unique to these companies reduced by the ordinary business deductions and certain other statutory deductions.

Some small non-life insurance companies could elect to compute income tax on their taxable investment income only. Under the election, they were not required to report underwriting income. To make the election the company's net or direct written premiums were required to be over $350,000 but not over $1,200,000. Therefore, the statistics for net income included only net investment income for those companies.

In the statistics, the net income (or deficit) for life insurance companies, consisted of the gain or loss from operations adjusted by adding back the special deductions for dividends received and for operating losses incurred. Gain or loss from operations included both underwriting and investment income, reduced by ordinary business deductions, additions to required reserves, certain other statutory deductions unique to these companies, and deductions for dividends received and operating losses incurred.

Provisions under Code section 1504(c) allowed corporations to elect to include their domestic insurance companies in a consolidated tax return. There could be three separate components of this type of consolidated return: (a) non-insurance companies; (b) life insurance companies; and (c) property and casualty insurance companies.

For companies which elected to file a consolidated return under Code section 1504(c), net income in the statistics represented the aggregate for the separate components of the consolidation. However, specific limitations were imposed on the use of nonlife business activity losses as an offset to life insurance gains for the purpose of computing income tax. The income tax was based on a portion of the consolidated amount of income subject to tax. As a result, a consolidated return under Code section

1504(c) with a net deficit could report income subject to tax.

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 (*)

The alternative tax on capital gains was repealed by the Tax Reform Act of 1986. The repeal became effective July 1, 1987, the same effective date for the revised corporate tax rates.

See "Net Capital Gains" in this section.

Net Operating Loss Deduction (*)

See: "Statutory Special Deductions."

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 comprised 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 were included in net worth for corporations filing Form 1120S:

(1) accumulated adjustments account;
(2) other adjustments account;
(3) other retained earnings, 1120S; and
(4) shareholders' undistributed taxable income. Each of these items was 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

This credit was allowed for the sale of qualified fuels produced from a nonconventional source. 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 encouraged the use of fuels derived from other energy sources by providing a tax incentive for their production and sale. Because these alternative fuels frequently competed with oil and gas, production incentives were linked to the uncontrolled price of domestic oil and were to be phased out when efficiently produced alternative fuels could compete effectively with oil.

In general, the amount of credit was 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 was 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 was 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 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 was the gross national product (GNP) implicit price deflator for the calendar year expressed as a percent of the GNP implicit price deflator for 1979.

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. These current assets would normally be converted to cash within 1 year. This category included certificates of deposit, commercial paper, charge accounts, current intercompany receivables, property improvement loans, and trade acceptances. Current nontrade receivables were generally included in "Other Current Assets."

Certain savings and loan associations reported loans and mortgages as notes and accounts receivable. When identified, such mortgage loans were included in the statistics for "Mortgage and Real Estate Loans," rather than "Notes and Accounts Receivable."

The "gross" amount of the receivables and the corresponding adjustment account, "Allowance for Bad Debts," were reported on the balance sheets of most corporation income tax forms. For an explanation of the adjustment account, see: "Allowance for Bad Debts." Some corporations, however, reported only the net amount of the accounts receivable.

In the case of life insurance companies, balance sheet data were extracted from the annual statement attached to the income tax return, Form 1120L. Form requirements of the annual statement were prescribed under State law. Consequently, data reported on the annual statement were not always comparable to that reported on the balance sheet of the income tax returns of noninsurance companies. For example, only the net amount of the accounts receivable was reported on the annual statement for life insurance companies.

For mutual property and casualty insurance companies, balance sheet data were extracted from the income tax return, Form 1120-PC, rather than the annual statement, beginning with 1987. The balance sheet on the Form 1120-PC provided for reporting both the "gross" receivables and the allowance for bad debts. Prior to 1987, these companies filed income tax returns on Form 1120M, which did not include a balance sheet. The balance sheet data for the statistics were extracted from the annual statements attached to the returns. Only the net amount of the accounts receivable was reported on the annual statements. Therefore, the tax form change, from Form 1120M to Form 1120-PC, affected the comparability of the balance sheet data, before and after 1987, for mutual property and casualty insurance companies.

Stock property and casualty insurance companies also filed income tax returns on the Form 1120-PC, beginning with 1987. However, prior to 1987 these companies reported balance sheet data on the income tax return, Form 1120 or Form 1120-A. Balance sheet data for the statistics were not extracted from an annual statement. Therefore, the change in tax forms did not affect the comparability of balance sheet data for nonlife stock insurance companies.

"Notes and Accounts Receivable, Net" were presented in the statistics for tables 6 and 7. The amount shown was after the reduction for the allowance for bad debts.

Number of Returns (*)

Returns of inactive corporations were excluded from the statistics. (See "Returns of Inactive Corporations.") For most tables, the total number of returns represented all active corporations which filed the various types of Form 1120 tax returns sampled for the corporate program. For some tables, the number of returns was limited to corporations which filed specific types of Form 1120. Those included Form 1120-A, Form 1120S, and Form 1120F. The number of returns was limited for other tables by excluding specific types of Form 1120. Those tables were limited to Forms 1120, other than Forms 1120S, 1120-REIT, and 1120-RIC. One table was limited to the number of consolidated returns of active corporations. The number of returns with net income was also provided in some tables, while other tables were limited to returns with net income. The number of returns with income tax was provided in one table.

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 the remaining U.S. income tax after reductions by the credits for taxes paid to foreign countries and possessions.

Other Adjustments Account

The other adjustments account was maintained only by S corporations that had accumlated earnings and profits 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 were comprised of noncurrent assets which were not allocable to a specific account on the balance sheet, and certain assets not identified as current or noncurrent. Both tangible and intangible assets were included in this category.

Also included were assets such as: deposits on contracts, interest discounts, and guaranty deposits, when reported as noncurrent assets. 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.

When identified on the tax return, assets held for investment were not included in "Other Assets."

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 sum of overpaid windfall profits tax, credit for tax paid by regulated investment companies and credit for 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 listed on the balance sheet of the tax form and assets reported as short-term, but without identification of a specific current account.

Marketable securities, prepaid expenses (unless reported as long-term), nontrade receivables, coupons and dividends receivable, and similar items were included in this asset account. Also included were amounts in excess of billings for contract work in progress reported as current by construction corporations.

When reported by certain nonconsolidated financial companies, inventories were included in the statistics for other current assets, rather than for inventories. Those nonconsolidated financial companies included banks, credit agencies, insurance companies, insurance agents, brokers, real estate operators, lessors, condominium management and cooperative housing associations. Inventories were included in other current assets if reported by bank holding companies, whether consolidated or nonconsolidated.

Other Current Liabilities (*)

Other current liabilities included certain amounts due and payable within the coming year. The account was comprised of 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.

Balance sheet data for mutual property and casualty insurance companies were extracted from the income tax return, Form 1120-PC, rather than the annual statement, beginning with Tax Year 1987. Prior to that year, these companies filed tax returns on Form 1120M, which did not include a balance sheet. The balance sheet data were then extracted from the annual statement attached to the returns.

The comparability of balance sheet data could have been affected by differences in reporting on the income tax return Form 1120-PC, beginning with 1987, and on the annual statement for years prior to 1987. Mutual property and casualty insurance companies frequently included "Losses" in "Other Liabilities" on the income tax return. Whereas in prior years, "Losses" were reported on the annual statement and included in "Other Current Liabilities" during statistical processing. Thus, "Other Current Liabilities" may be understated while "Other Liabilities" may be overstated, compared to the pre-1987 data, obtained from the annual statement.

Stock property and casualty insurance companies also filed income tax returns on the Form 1120-PC, beginning with 1987. However, prior to 1987 these companies reported balance sheet data on the income tax return, Form 1120 or Form 1120-A, rather than an annual statement. Therefore, the comparability of balance sheet data, before and after 1987, was not generally affected by the tax return filed by nonlife stock insurance companies.

Other Deductions (*)

Other deductions comprised: (1) business expenses which were not allocable to a specific deduction item on the tax return, or which were not included elsewhere on the tax return, and (2) certain amounts which were given special treatment in the course of statistical processing, and (3) the amount for salaries and wages reported on the tax return.

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 life and property and casualty insurance companies. For corporations filing a Form 1120-A, advertising, depletion, and deductions for pension, profit-sharing and employee benefit plans were 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 on Form 4797, Supplemental Schedule of Gains and Losses, were included in the statistics 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 were generally not held for conversion to another form of investment within the current year. Examples of non-government investments included stocks, bonds, loans to subsidiaries, treasury stocks reported as assets, and other types of financial securities.

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) were reported as "Other Investments." Certain insurance carriers also included their real holdings (other than their home and branch office buildings and equipment) in this asset category.

When inventories were reported by companies within certain financial industries, the amounts were included in the statistics for "Other Investments." For commodity brokers, dealers, and exchanges and other holding and investment companies (except bank holding companies), inventories were included in "Other Investments" for those companies which were nonconsolidated or consolidated with only financial subsidiaries. Inventories were included in "Other Investments" when reported by security brokers and dealers, whether consolidated or nonconsolidated.

The statistics may be somewhat overstated by amounts reported for treasury stock. When treasury stock held for resale or for future distribution was reported as an asset, rather than a liability, the treasury stock was included in the statistics for "Other Investments."

Balance sheet data for mutual property and casualty insurance companies were extracted from the income tax return, Form 1120-PC, rather than the annual statement, beginning with Tax Year 1987. Prior to 1987, these companies filed tax returns on Form 1120M, which did not include a balance sheet. The balance sheet data were then extracted from the annual statement attached to the returns.

Some mutual property and casualty insurance companies included "Investments in Government Obligations" with "Other Investments" on the income tax return, Form 1120-PC. When identified, the amounts were included in the statistics for "Investments in Government Obligations" and excluded from "Other Investments."

The comparability of balance sheet data could have been affected by differences in reporting on the annual statement for years prior to 1987 and on the income tax return Form 1120-PC, beginning with 1987. Comparison of data reported on the annual statement to that reported on the Form 1120-PC indicated that "Investments in Government Obligations" was often more clearly identified on the annual statement than on the income tax return. Thus, the statistics could be overstated for "Other Investments" and understated for "Investments in Government Obligations," to the extent that "Investments in Government Obligations" may not have been identified on the tax return.

Stock property and casualty insurance companies also filed income tax returns on the Form 1120-PC, beginning with 1987. However, prior to 1987 these companies reported balance sheet data on the income tax return, Form 1120 or Form 1120-A, rather than an annual statement. Therefore, the comparability of balance sheet data, before and after 1987, was not generally affected by the tax return filed by nonlife stock insurance companies.

Other Investments and Loans

This item, shown in Tables 6 and 7, was the sum of loans to stockholders, mortgage and real estate loans, and other investments. Each was 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. The excess of reserves for amortization, depreciation, and depletion over the respective asset accounts were included in this balance sheet account.

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.

Balance sheet data for mutual property and casualty insurance companies were extracted from the income tax return, Form 1120-PC, rather than the annual statement, beginning with Tax Year 1987. Prior to that year, these companies filed tax returns on Form 1120M, which did not include a balance sheet. The balance sheet data were then extracted from the annual statement attached to the returns.

The comparability of balance sheet data could have been affected by differences in reporting on the income tax return Form 1120-PC, beginning with 1987, and on the annual statement for years prior to 1987. Mutual property and casualty insurance companies frequently included "Losses" in "Other Liabilities" on the income tax return. Whereas in prior years, "Losses" were reported on the annual statement and included in "Other Current Liabilities" during statistical processing. Thus, "Other Liabilities" may be overstated while "Other Current Liabilities" may be understated, compared to the pre-1987 data, obtained from the annual statement.

Stock property and casualty insurance companies also filed income tax returns on the Form 1120-PC, beginning with 1987. However, prior to 1987 these companies reported balance sheet data on the income tax return, Form 1120 or Form 1120-A, rather than an annual statement. Therefore, the comparability of balance sheet data, before and after 1987, was not generally affected by the tax return filed by nonlife stock insurance companies.

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. Payments with respect to security loans and net foreign currency gains for regulated investment companies and the gross rents from real property of real estate investment trust companies were also included in other receipts.

See also, "Business Receipts."

Other Retained Earnings, 1120S

Other 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 would have a balance in Retained Earnings, 1120S only if it had ending balances in appropriated or unappropriated retained earnings prior to the current tax year.

Overpaid Windfall Profits Tax (*)

A corporation which overpaid its windfall profit tax could claim a credit for the overpayment on its income tax return. 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.

The windfall profit tax was a federal excise tax on the "windfall" profit from domestically produced crude oil. For newly discovered oil, the tax rate decreased from 22.5 percent in 1987 to 20 percent in 1988.

The windfall profit tax was repealed by the Omnibus Trade and Competitiveness Act of 1988, for crude oil removed on after August 23, 1988. Rules for phasing out the tax were provided under Chapter 45 of the I.R. Code.

Overpaid windfall profit tax credit was presented in Table 13.

Overpayments Claimed as a Credit

This was overpayments of income tax for 1987 that were not refunded. Instead of requesting refunds, certain corporations specifically requested that the tax overpayments be credited towards their 1988 estimated tax. The credit was reflected in the estimated tax payments shown 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 were 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. Data from part-year returns were included in the statistics. See: Figure B in section 1 for the percentage of returns filed for each of the accounting periods covered in this report.

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 was 6 months.

A request for an 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 of the payments from the tax returns.

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

Employers who maintained a pension, profit-sharing or other funded deferred compensation plan were required to file a Form 5500, 5500-C, 5500-R, or 5500EZ depending on the number of participants. Contributions made by employers to these plans were deductible under Code section 404. Excess contributions could be carried over to succeeding years.

Personal Holding Company Tax (*)

In addition to the regular income tax and the alternative minimum tax, corporations classified as personal holding companies could be liable for a tax equal to 28 percent of their "undistributed personal holding company income." A corporation was treated as a personal holding company under Section 542 if at least 60 percent of its adjusted ordinary gross income for the tax year was personal holding company income and, at any time during the last half of the tax year, more than 50 percent of the value of its outstanding stock was owned directly or indirectly by not more than five individuals.

The tax was imposed on the personal holding company's undistributed income after certain adjustments less the dividends paid deduction. Since most personal holding companies distributed all of their personal holding company income, only a small number were actually liable for the tax.

The tax was included 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 another industry. The following corporations were exempt from personal holding company 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.

The statistics could be slightly understated because the personal holding company tax was not always reported separately from the regular income tax.

Prior Year Minimum Tax Credit (*)

Beginning in 1988, corporations could reduce their regular income tax liability with the prior year minimum tax credit, if an alternative minimum tax had been paid for any year after 1986. The credit was designed to prevent double taxation of the same income. The dual tax could result from the imposition of tax on the same income under the alternative and regular tax systems. Under the alternative tax system, a corporation could be required to pay a portion of tax that would otherwise be deferred under the regular system. The minimum tax credit could act as a mechanism to coordinate the two tax systems.

The credit was allowed for a portion of the alternative minimum tax from a prior year. The prior year alternative minimum tax was recomputed to disregard three tax preference items: percentage depletion, charitable contributions of appreciated property, and tax exempt interest on bonds. The credit was limited to the excess of regular tax after credits over the current year tentative minimum tax. Any unused portion of the prior year minimum tax credit could be carried forward indefinitely to reduce the regular tax. The credit was not designed to reduce any minimum tax liability. There were no carryback provisions for this tax credit.

See also, "Alternative Minimum Tax."

Real Estate Investment Trust

Certain corporations, trusts, or associations elected to be taxed as a real estate investment trust (REIT). To qualify as a real estate investment trust, the trust had to meet certain ownership, purpose, income and diversification requirements. A beneficial ownership of the trust had to be established through transferable shares or transferable certificates of beneficial interest. The beneficial ownership had to be held by 100 or more persons, however, this rule did not apply for the first tax year of the trust. The trust could not be closely held i.e, five or fewer persons could not hold ownership of more than 50 percent of the trust. This rule did not apply for the first tax year of the trust.

To qualify as a real estate investment trust for any tax year, the trust also had to satisfy certain gross income and diversification of investment requirements. These requirements were established through limitations on income. The limitations were imposed on the components of income and percentages of total gross income from certain components. For the purpose of computing the limitations, certain prohibited income was excluded from the total gross income.

At least 95 percent of the total gross income of a real estate investment trust was required to be from: (a) dividends, (b) interest, (c) rents from real property, (d) gain from the sale of stock, securities, and real property, (e) abatements and refunds of taxes on real property, (f) income and gain from foreclosure property, (g) gain from the sale of a real estate asset which was not a prohibited asset, and (h) amounts received or accrued as consideration for entering into agreements:

(1) to make loans secured by mortgages (on real property or on interest in real property); or
(2) to purchase or lease real property (including interest in real property and interest in mortgages on real property).

At least 75 percent of the total gross income of a real estate investment trust had to be derived from (a) rents from real property, (b) interest on obligations secured by mortgages on real property (or on interests in real property) (c) gain from the sale of real property which was not prohibited property (including interests in real property and interest in mortgages on real property) (d) dividends and gain from the sale of transferable shares (or transferable certificates of beneficial interest) in other qualified real estate investment trusts (e) abatements and refunds of taxes on real property, (f) income and gain from foreclosure property, (g) gain from the sale of a real estate asset which was not a prohibited sale, and (h) amounts received or accrued as consideration for entering into agreements concerning real property.

Less than 30 percent of the total gross income of a real estate investment trust could be derived from the sale or other disposition of: (a) stock or securities held for less than one year (b) property in a transaction which was a prohibited transaction, and (c) real property (including interests in real property and interests in mortgages on real property) held for less than four years other than:

(1) property converted involuntarily or in compliance with tax laws and
(2) property which was foreclosure property.

At the close of each quarter of a taxable year, a real estate investment trust also had to satisfy certain asset requirements. At least 75 percent of its total assets were to consist of real estate assets, cash and cash items (including receivables), and Government securities. No more than 25 percent of its total assets could consist of securities other than Government securities. Limitations were further imposed on the amount of securities that could be issued to the trust by any one issuer. For a single issuer, the value of securities was limited to 5 percent of the total assets of the trust and to 10 percent of the outstanding voting securities of the issuer.

Financial institutions such as mutual savings banks, cooperative banks, domestic building and loan associations, savings and loans associations and insurance companies to which subchapter L of the Code applies could not make this election. Foreign corporations were also excluded from this provision of U.S. tax law.

Recapture of Investment Credit (*)

This tax was formerly described as "Tax from Recomputing Prior-Year Investment Credit," in the statistics. The recapture tax 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 "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 would have to recapture the investment credit claimed for the property.

Unless otherwise indicated, the recapture tax of investment credit was included in the statistics for "Income Tax" in this report.

See also, "Investment Credit."

Recapture of Low-Income Housing Credit (*)

The Tax Reform Act of 1986 introduced the low-income housing credit. The Tax Act made the credit available for owners of qualified residential rental property which provided low-income housing. A 15 year compliance period for maintaining certain requirements was imposed on the residential rental building. Since the low-income housing credit was first claimed for Tax Year 1987, the recapture became applicable for 1988.

A part of the low-income housing credit, claimed in a previous year, had to be recaptured in a current tax year throughout the compliance period when:

(1) an owner's qualified basis in the building decreased from the previous tax year, or

(2) the building or an interest in the building was disposed of after the credit was taken in previous years, or

(3) a building failed to meet the percentage requirements for the number of low-income units ("set aside" requirements).

The decrease in basis had to exceed any additions to the qualified basis in the property after the property was placed in service. The recapture rule was not required for disposition of a building, if the owner had posted a satisfactory bond.

The amount of the recapture was based on the accelerated portion of the low-income housing credit claimed in previous years. This amount was generally equivalent to one-third of the previously claimed credit. The decrease in qualified basis, expressed as a percent of the total qualified basis in the rental property, was applied to the accelerated portion of the credit. For cases involving the disposition of the building or failure to meet the percentage requirements for low-income units, the full amount of the accelerated portion of the previously claimed credit was to be recaptured.

Interest was added to the recaptured accelerated portion of the credit to determine the final amount of the credit recapture. The interest was charged at the federally prescribed overpayment rate and determined quarterly. The interest could not be used as a business deduction against income.

No income tax credits could reduce the amount of the credit recapture. Any amount of unused low-income housing credit, carryforwards and carrybacks, were also to be decreased by the amount of the recapture.

For 1988, no amount of recapture for the low-income housing credit was included in the computation of total income tax. Data on the reduction of any carryforward of unused credits was not available.

Refund 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.

Regular Tax

See "Income Tax," in this section.

Regulated Investment Company

A regulated investment company had to be a domestic corporation registered with the Securities and Exchange Commission. The company was registered as a management company, business development company, or a unit investment trust (defined under the Investment Act of 1940) or a common trust fund or similar fund (excluded from the definition of investment company under the 1940 Act) which was not exempt from taxation as a corporation under section 584 of the Internal Revenue Code.

A regulated investment company was required to derive at least 90 percent of its gross income from dividends, interest, payments related to securities loans, and gains from the sale of stock or securities, foreign currencies, or other income related to its business of investing in such stock, securities or currencies. Less than 30 percent of the total gross income could be derived from the sale or other disposition of stock or securities held for less then three months.

Certain restrictions also applied to the deduction for dividends paid (excluding capital gain dividends) of a regulated investment company. This deduction had to equal or exceed the sum of: 90 percent of the company's taxable income (without regard for the dividend deduction) and 90 percent of its net income from tax exempt obligations.

Certain rules limiting diversified investments were also imposed on a regulated investment company. The company was required to meet those rules at the close of each quarter of its taxable year. At least 50 percent of its total assets had to be cash and cash items (including receivables), Government securities, securities of other regulated investment companies and other securities.

Limitations were further imposed on the amount of securities that could be issued to a regulated investment company by any one issuer. For a single issuer, the value of securities was limited to 5 percent of the total assets of the regulated investment company and to 10 percent of the outstanding voting securities of the issuer. Not more than 25 percent of the total assets of the regulated investment company could be invested in securities of any one issuer, or of two or more issuers (if controlled by the regulated investment company) engaged in the same or similar trades or businesses.

If a regulated investment company had more than one fund, each fund was treated as a separate corporation for income tax purposes.

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. Some corporations reported taxes paid and other specific expenses with rents paid. When identified, those items were included in the statistics for the respective deductions and excluded from "Rents Paid."

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. Corporations engaged in manufacturing, public utilities, wholesale and retail trade, and services frequently leased rather than sold their products. The rental income of those companies was included in the statistics for "Business Receipts," rather than in "Rents." For real estate operators and condominium management and cooperative housing associations, rental income was included in "Business Receipts" rather than in "Rents," if the expense schedule indicated that the owner operated the building rather than leased it.

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 permanent improvements which increased the cost or basis of the property were treated as capital expenditures and were generally depreciable.

Research Activities Credit (*)

The Tax Reform Act of 1986 made several major changes to the research credit and the 1988 Tax Act extended the credit for qualified expenses incurred through 1989.

The research credit was the sum of 20 percent of the excess of qualified research expenses for the current year over the average research expenses in the base period and 20 percent of the university basic research payments. 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 expenses were qualified for this credit. The first type consisted of the expenses incurred by the taxpayer such as wages and supplies for research plus certain other charges for the use of research equipment. The other qualified research expenses were those paid to qualified organizations, such as colleges and other tax-exempt organizations, for basic research. Qualified research involved the development of a pilot or experimental model, process, product, formula, invention or an improvement.

Starting in 1986, research was limited to research undertaken to discover information, technological in nature and useful in the development of a new or improved business component. The research had to be conducted within the United States and could not involve the social sciences or humanities. Research funded by another person, by a grant, or by a government agency was ineligible for the credit.

The research activities credit (but not the orphan drug credit) was claimed as one of the components of the general business credit. For a discussion of the income tax limitations and carryback and carryforward provisions of the credit, see: "General Business Credit."

The research activities credit was included (as a component) in the general business credit shown in the tables. The components of the general business credit were shown separately in Table 14.

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 appreciation was included in retained earnings unappropriated. 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"). Dividends and distributions to stockholders were paid from this account. These accumulated earnings included income from normal and discontinued operations, extraordinary gains or losses and prior period adjustments. Also included were undistributed or undivided earnings (income or profits), and earned surplus. For railroads, these earnings included additions to property and funded debt retired through income and surplus. Net amounts, after reduction for negative amounts reported, were presented in the statistics.

Retained Earnings, 1120S

See "Other Retained Earnings, 1120S," in this section.

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 were 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 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 treated as a long-term capital gain. 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 their shareholders under Code section 1362.

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;

An S corporation also could not be a financial institution that was a bank, including certain mutual savings banks, cooperative banks, and domestic building and loan associations, or an insurance company (other than certain stock casualty companies). A corporation electing a possessions tax credit could not also elect to be an S corporation. A FSC or an IC-DISC or former DISC was also excluded from making an election to be treated as an S corporation.

An election could be terminated, when among other reasons, an S corporation had for each of three consecutive tax years: both Subchapter C earnings and profits and more than 25 percent of gross receipts derived from passive investment income as defined in Section 1362(d)(3)(D).

Every S corporation was required to file a return on Form 1120S even though it may not have been subject to tax. The corporation reported gross income and allowable deductions from its ordinary trade or business activities. The corporation's ordinary income was passed through (deemed distributed) to its shareholders. Generally, each shareholder's share of the income (loss) and expenses of the corporation was passed through prorata on a per-share, daily basis. The income or loss from passive investments were also passed through to the shareholders. The net income (or loss) from the business operations and the passive investment activities were reported on Schedule K of the Form 1120S.

As a result of the Tax Reform Act of 1986, for tax years which began after December 31, 1986, all S corporations regardless of when they became S corporations were required to use a permitted tax year. A permitted tax year was a tax year ending December 31 (a calendar tax year) or any other ending accounting period, if the S corporation established a business purpose for the accounting period to the satisfaction of the Internal Revenue Service. Subsequent changes to this provision allowed S corporations an election to have an accounting period other than the permitted tax year. Certain restrictions were imposed on the election. The deferral period between tax years could not be longer than 3 months and the S corporation could be a member of a tiered structure that consisted only of partnerships or S corporations.

Also added by the 1986 Tax Act, Code section 469 generally limited shareholders from offsetting any income that was not from passive activities with losses from passive activities. The shareholders also could only offset taxes on income from passive activities with credits from those passive activities. These limitations required that S 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 estate rental, and (3) portfolio income and related expenses not derived in the ordinary course of a trade or business, such as interest, dividends and royalties, for example.

A tax on built-in capital gains was imposed on corporations which elected to be S corporations after December 31, 1986. An S corporation could be liable for the built-in gains tax if:

(1) it was a corporation with subchapter C earnings and profits prior to making the election to be treated as an S corporation,

(2) it had a recognized built-in gain within 10 years from the first day of the first tax year it became an S corporation,

(3) the recognized built-in gains for the tax year did not exceed the "net unrealized built-in gain" minus the recognized built-in gains that were subject to tax for prior years within the recognition period (10 years).

The "net unrealized built-in gain" was the amount by which the fair market value of the assets of the S corporation exceeded the aggregate adjusted basis of the assets held by the corporation on the first day of its first effective tax year as an S corporation. Any gain on the disposition of those assets was to be considered as a recognized built-in gain by the S corporation during the first 10 years of its existence.

The tax was imposed on the lesser of: (a) the recognized built-in gain for the tax year or (b) an amount of taxable income computed as though the corporation were not an S corporation. For corporations which elected to be treated as S corporations on or after March 31, 1988, any built-in gains in excess of the current year taxable income limitation was to be treated as a recognized built-in gain for the following tax year.

For purposes of computing the taxable amount of the built-in gains, the S corporation was allowed a carryforward of any net operating loss (NOL) or capital loss from the period when it was not an S corporation. Certain business credit carryforwards from when an S corporation was a C corporation could also reduce the tax on recognized built-in gains. The tax was imposed at a 34 percent rate. The recognized built-in gains tax was included in the statistics for "Total Income Tax."

If a corporation made an election to be treated as an S corporation before January 1, 1987, a tax was imposed on certain capital gains of the S corporation. An existing corporation that elected to become an S corporation was subject to a 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 tax at all. Section 1374 of the Code before the enactment of the Tax Reform Act of 1986 provided that the tax be imposed on the lower of the following: (1) 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, or (2) net income computed as though the corporation were not an S corporation. For this purpose, the amount of capital gain was also determined using a "substituted basis" for the asset (i.e., the basis that was transferred from another corporation which was not also an electing S corporation). After July 1987, capital gains were taxed at the regular income tax rate of 34 percent for all corporations. 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. (The cost of investment credit property was allocated to shareholders for their use in computing their credits.)

Also, see "Excess Net Passive Income Tax."

Shareholders' Undistributed Taxable Income Previously Taxed

This account represented a balance sheet item unique to S corporations. The account was maintained only if the S corporation had a balance in the account at the beginning of its tax year. It consisted of 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 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 "Other Retained Earnings, 1120S" and "Net Worth" in tables which show these items.

Size of Business Receipts

Returns for nonfinance industries were classified by size of gross receipts from sales and operations. Returns of industries within the finance, insurance, and real estate industrial division, were classified by size of total receipts (the sum of business receipts and investment income).

See: "Business Receipts" and "Total Receipts."

Size of Income Tax After Credits (*)

This classification was based on the amount of total income tax less the sum of credits for: foreign taxes; U.S. possessions tax; orphan drug research; the production or sale of fuels from nonconventional sources; general business incentives; and prior year minimum tax. Total income tax included the regular tax, personal holding company tax, recapture taxes for investment credit and low-income housing credit, alternative minimum tax, environmental tax, branch tax (Form 1120F), taxes paid by real estate investment trusts on certain income from: foreclosure property, failure to meet source of income requirements, and prohibited transactions (Tax from Part II, Part III, and Part IV, Form 1120-REIT, respectively), tax on undistributed net capital gain of regulated investment companies (Tax from Part II, line 4, Form 1120-RIC), and taxes paid by S corporations on excess net passive income, certain capital gains, and net recognized built-in gains. For S corporations, only the tax on certain net recognized built-in gains was reduced by a carryover of general business credits from previous years as a C corporation.

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 represented the sum of the deductions for: (1) net operating losses of prior years, (2) total "special deductions" as defined by the Code, i.e., the sum of deductions for dividends received and for dividends paid on certain preferred stock of public utilities, (3) deduction for dividends paid for Regulated Investment Companies and Real Estate Investment Trusts, and (4) Section 857(b)(2)(E) deduction reported by Real Estate Investment Trusts. Since these deductions were allowed by law, in addition to ordinary and necessary business deductions, they were shown in the statistics as deductions from net income.

In general, net income less statutory special deductions equaled income subject to tax. However, the dividend deduction was 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. Special deductions for dividends were not allowed to S corporations which elected to be taxed through shareholders. However, S corporations, which were C corporations prior to the S election, could reduce their net recognized built-in gains by the net operating loss carried forward from those years as a C corporation.

The statutory special deductions contained in the statistics were defined 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, consisted 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 would be reported on amended income tax returns. Amended income tax returns were not 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. A corporation however, could carry back for 10 years, the part of a net operating loss attributable to a product liability loss.

Real Estate Investment Trusts (REIT's) could not carry back any net operating loss (NOL) but could carryover the NOL for fifteen years. Regulated Investment Companies (RIC's) were not allowed a NOLD. S corporations which were formerly C corporations were allowed to use any carryover of net operating losses from previous years as a C corporation. However, this carryover could reduce only the net recognized built-in gains of the S corporation. The former provisions for a ten year carryback and five year carryover period for banks was repealed for taxable years that began after 1986. Thereafter, banks were generally allowed a carryback period of 3 years and a carryover period for 15 years. Except that, a special 10 year carryback provision was allowed to certain commercial banks which used the specific charge-off method for computing bad debts.

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 was allowed, and capital losses were only deductible to the extent of capital gains. A deduction for dividends received was allowed without regard to limitations.

(2) *Total special deductions*—For stock acquired after March 1, 1986, no deduction was allowable if the corporation held the stock for 45 days or less, or 91 days if it was cumulative preferred stock. The total special deductions contained in this report were the sum of the following deductions:

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

(1) Deductions equal to 70 percent of dividends received from less than 20 percent owned domestic corporations, and 80 percent of dividends received from 20 percent or more owned domestic corporations—These particular deductions accounted for the major portion of the dividends received deduction. A small business investment company, operating under the Small Business Investment Act of 1958 could deduct 100 percent of dividends received from domestic corporations subject to income tax.

(2) A deduction reduced from the 80 percent/70 percent dividends received from debt-financed portfolio stock—The 80 percent/70 percent deduction was reduced by a percentage that was related to the amount of debt incurred to acquire the stock. This reduction was calculated by multiplying the difference between 100 percent and the average portfolio indebtedness by 80 percent or 70 percent, depending on the percentage of ownership.

(3) A deduction equal to 70 percent of certain dividends received from less than 20 percent owned foreign corporations and 80 percent of certain dividends received from 20 percent or more owned 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. To qualify for the deduction the corporation must own at least 10 percent of the stock of the foreign corporation by vote and value.

(4) A deduction equal to 100 percent of certain "qualifying dividends" received by members of an affiliated group not electing to file consolidated returns, but sharing instead, one set of graduated 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) Deductions equal to about 41 percent of dividends received on certain preferred stock of less than 20 percent owned public utilities and about 47 percent of dividends received on certain preferred stock of 20 percent or more owned public utilities for which a dividends paid deduction, described below, was also allowed the distributing corporation;

(7) 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) Limitation on the Dividends Received Deduction—The aggregate amount of dividends received deductions that a corporation could take was limited to 70 percent (80 percent for 20 percent owned corporations) of its taxable income. For limitation purposes taxable income was computed without regard to any net operating loss deduction, dividends received or paid deduction or capital loss carryback. The limitation did not apply for the year if the full dividends received deduction resulted in a net operating loss. Small business investment companies were also excluded from this limitation.

(c) 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 41 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.

(3) *Deduction for Dividends Paid for Regulated Investment Companies and Real Estate Investment Trusts*—The deduction for dividends paid as reported by Regulated Investment Companies and Real Estate Investment Trusts was the sum of (1)

dividends paid during the taxable year, (2) the consent dividends for the taxable year, and (3) for personal holding companies, the dividend carryover as described in Code section 564.

For Regulated Investment Companies, the deduction must equal or exceed the sum of: 90 percent of its taxable income (excluding the dividend deduction) and 90 percent of its net income from tax exempt obligations.

For Real Estate Investment Companies, the deduction must equal or exceed the sum of: 95 percent of its Real Estate Investment Trust taxable income (excluding the dividend deduction and any net capital gain) and 95 percent of the excess of its net income from foreclosure property over the tax imposed on such income by Code section 857(b)(4)(A), minus any excess noncash income as determined under Code section 857(e).

(4) *Section 857(b)(2)(E) deduction reported by Real Estate Investment Trusts*—This deduction was equivalent to the tax imposed on Real Estate Investment Trusts that fail to meet the income requirements. Specifically, a 100 percent tax was imposed on the net income attributable to the greater of the amounts by which the trust failed to meet the 75 percent or 95 percent income test as outlined in the definition for Real Estate Investment Trusts.

Taxable Income

See "Income Subject to Tax."

Tax Due at Time of Filing (*)

Tax due was the amount by which the income tax liability at the time the return was filed exceeded payments and credits for certain taxes previously paid. For a corporation to have an income tax liability, the regular income tax less certain credits plus other taxes were not reduced to zero. The regular income tax could be reduced to zero by credits for: foreign taxes, possessions tax, orphan drug research, the production or sale of fuels from nonconventional sources, general business incentives, and prior year minimum tax. Other taxes consisted of: tax on the undistributed income of personal holding companies; recapture taxes of investment credit and low-income housing credit; environmental tax; tax on excess net passive income, certain net long-term capital gains, and net recognized built-in gains of S corporations; tax on the undistributed net capital gain of regulated investment companies; tax on the net income of foreclosure property, failure to meet income requirements, and prohibited transactions of real estate investment trusts; and the branch tax of foreign corporations.

Based on this total income tax, tax due was the amount of the remaining tax liability plus any penalty for underpayment of estimated tax 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) estimated tax payments less refunds; (d) credit for taxes on special fuels, nonhighway gasoline, and lubricating oil; (e) overpaid windfall profit tax; (f) prior year overpayment of tax applied to current year; (g) credit by reciprocal for tax paid under Code section 835(d); and (h) 1988 special estimated tax payments from property and casualty insurance companines.

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.

Adjustments made to income tax returns after they were filed could affect the final tax liability and the tax due. Such adjustments were not reflected in the statistics. Adjustments could result from tax examination or the use of carryback provisions for: net operating losses; certain capital losses; unused foreign taxes paid or accrued; and unused general business credits. See: "Income Tax."

Tax from Recomputing Prior Year Investment Credit (*)

See "Recapture of Investment Credit."

Tax from Section I (Form 1120F) (*)

This tax was reported by foreign corporations on Form 1120F. The tax was imposed on U.S. source income not directly related to a business activity conducted in the United States, (i.e. not effectively connected income). The income was generally taxed at a flat 30 percent rate or at tax treaty rates if lower. The tax treaty rates resulted from negotiated treaties between the United States and the country in which the foreign company was incorporated. Fifty percent of the income received by foreign companies from transportation activities that began and ended in the United States was treated as U.S. source income. The U.S. source transportation income was taxed at a 4 percent rate. U.S. source income that was not effectively connected income of foreign corporations was subject to withholding provisions for U.S. income tax.

U.S. tax reported on Section I of Form 1120F was included in the statistics only for those resident foreign companies which also had income that was effectively connected with the conduct of a trade or business in the United States. Foreign corporations which did not conduct business activities in the United States but had U.S. source income were also required to report the income and U.S. tax on section I of the Form 1120F. The U.S. tax for these companies was excluded from the statistics.

Tax from Section I was not included in the statistics for "Total Income Tax," because the Section I tax was generally withheld from income at the source while total income tax was generally a computed tax liability based on taxable income. Section I tax was not included in the statistics for "Tax Due" or "Tax Overpayment." This tax was presented separately in Table 12.

Tax From Section II (Form 1120F) (*)

U.S. tax was imposed on income from the trade or business activities conducted in the United States by resident foreign corporations. Income from those trade or business activities was reported on Section II of the Form 1120F as "effectively connected income" and was subject to the regular U.S. corporate tax rates. Foreign corporations which did not conduct business activites in the United States could elect to treat income from U.S. real property as effectively connected income and were allowed regular business deductions against that income. Foreign companies organized in U.S. possessions to conduct banking business were generally required to report interest received on U.S. obligations as effectively connected income. Any gain or loss from the disposition of U.S. real property by foreign corporations was also treated as effectively connected income for U.S. tax purposes. This portion of U.S. source income of resident foreign corporations was included in the statistics for "Income Subject to Tax."

Section II tax was the U.S. tax on the effectively connected income of resident foreign corporations. This tax was regular income tax reduced by credits for: foreign taxes (for foreign corporations this was actually taxes paid to the United States on the effectively connected income), the production and sale of fuels from nonconventional sources, orphan drug research, general business incentives, and prior year minimum tax. The recapture taxes of investment credit and low-income housing credit were added to the balance of regular tax after credits. Section II tax was presented separately in Table 12. Any alternative minimum tax and environmental tax reported by foreign corporations were added to this tax and included in the statistics for "Total Income Tax."

Tax Overpayment (*)

Tax overpayment was the excess amount of payments and credits, for taxes previously paid, over total income tax liability at the time the return was filed. For a corporation to have an income tax liability, the regular income tax less certain credits plus other taxes were not reduced to zero. The regular income tax could be reduced to zero by credits for: foreign taxes, possessions tax, orphan drug research, the production or sale of fuels from nonconventional sources, general business incentives, and prior year minimum tax.

Other taxes consisted of: tax on the undistributed income of personal holding companies; recapture taxes of investment credit and low-income housing credit; environmental tax; tax on excess net passive income, certain net long-term capital gains, and net recognized built-in gains of S corporations; tax on the undistributed net capital gain of regulated investment companies; tax on the net income of foreclosure property, failure to meet income requirements, and prohibited transactions of real estate investment trusts; and the branch tax of foreign corporations.

Based on this total income tax, the tax overpayment was the amount by which certain payments and credits exceeded the tax liability plus any penalty for underpayment of estimated tax. The payments and credits represented the sum of: (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) estimated tax payments less refunds; (d) credit for taxes on special fuels, nonhighway gasoline, and lubricating oil; (e) overpaid windfall profit tax; (f) prior year overpayment of tax applied to current year; (g) credit by reciprocal for tax paid under Code section 835(d); and (h) special estimated tax payments from property and casualty insurance companies.

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

Adjustments made to income tax returns after they were filed could affect the final tax liability and the tax overpayment. Such adjustments were not reflected in the statistics. Adjustments could result from tax examination or the use of carryback provisions for: net operating losses; certain capital losses; unused foreign taxes paid or accrued; and unused general business credits.

See: "Income Tax" and "Tax Due at Time of Filing."

Tax Preference Items (*)

See "Alternative Minimum Tax."

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; excise taxes, import and tariff duties; business, license and privilege taxes; and the environmental tax. 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 (primarily taxed through their shareholders) had to exclude any foreign taxes paid or accrued from the deduction for taxes paid in computing their net income from trade or business activities. Instead, the foreign taxes were passed through to the shareholders for their use as a foreign tax credit (or a deduction). Regulated investment companies also had to exclude those foreign taxes from the deduction for taxes when they elected under Code section 853 to allow their stockholders to claim a foreign tax credit (or a deduction) for the foreign taxes paid. (However, if the election were not made, a regulated investment company could include foreign taxes paid in the deduction for taxes or claim a foreign tax credit.) See "Foreign Tax Credit."

Taxes not deductible generally included Federal income and excess profits taxes (the environmental tax was an exception), gift taxes, taxes assessed against local benefits, and certain other taxes, including state or local taxes that were paid or incurred in connection with an acquisition or disposition of property. Taxes related to the acquisition of property were to be treated as part of the cost of the property, while taxes related to the disposition of property were to be treated as a reduction in the amount realized from the disposition.

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 may not have been identified and therefore, would not have been 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 total 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 tax return or by using either reference books or relationships between income statement and balance sheet items on similar returns in the same major industrial group.

Tax returns filed by life insurance companies on Forms 1120L did not provide a separate schedule for reporting balance sheet information. Most life insurance companies did; however, attach copies of their annual statements to their federal income tax returns. The annual statements were produced for administering State law; they were not official income tax forms produced by the Internal Revenue Service. The asset and liability data contained in this report for these companies were obtained from the annual statements and reference books. These sources were also used for any other insurance company when the U.S. income tax return did not include a separate schedule for reporting the balance sheet data. Balance sheet data for mutual property and casualty insurance companies were extracted from the income tax return, Form 1120-PC, rather than the annual statement, beginning with Tax Year 1987. Previously, these companies filed tax returns on Form 1120M, which did not include a balance sheet. The balance sheet data were then extracted from the annual statement attached to the returns.

Stock property and casualty insurance companies also filed income tax returns on the Form 1120-PC, beginning with 1987. However, prior to 1987, these compaines reported balance sheet data on the income tax return, Form 1120 or Form 1120-A, rather than on an annual statement.

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 small non-life insurance companies, with net or written premiums (whichever was greater) over $350,000 but not over $1,200,000, total deductions represented only investment expenses; underwriting business expenses were excluded by law.

See also, "Total Receipts."

Total Income Tax (*)

The statistics for "Total Income Tax," "Income Tax, Total," and "Income Tax before Credits" include:

(1) regular income tax before reduction by any tax credits, which included tax on certain net long-term capital gains, and net recognized built-in gains of S corporations (see "Income Tax," in this section);
(2) personal holding company tax (described under a separate heading);
(3) recapture of investment credit (described under a separate heading);
(4) recapture of low-income housing credit (described under a separate heading);
(5) alternative minimum tax;
(6) environmental tax;
(7) tax on excess net passive income of S corporations (described under a separate heading);
(8) tax on undistributed net capital gain as provided under Code section 852(b)(3) for regulated investment companies ("Tax from Part II, line 4 (1120-RIC," in the statistics);
(9) tax from certain income of real estate investment trusts:
    (a) net income on foreclosure property ("Tax from Part II, 1120-REIT," in the statistics);
    (b) section 857(b) income from failure to meet source of income requirements ("Tax from Part III, 1120-REIT," in the statistics); and
    (c) net income from prohibited transactions ("Tax from Part IV, 1120-REIT," in the statistics);
(10) the branch tax computed by foreign corporations on the earnings and profits and interest income of their U.S. branches (Form 1120 F).

Some taxes included in total income tax were not imposed directly on a corporation's "income subject to tax," such as the recapture taxes of investment credit and low-income housing credit. A small number of corporations without net income and regular tax reported such taxes on their income tax returns. These taxes were included in the statistics for total income tax. See also "Income Tax" for a description of: (1) returns without net income having regular tax and (2) taxes not included in the statistics for returns with adjustments to tax from tax examination or use of carryback provisions of tax credits.

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) tax-exempt 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 small non-life insurance companies, with net or direct written premiums (whichever was greater) over $350,000 but not over $1,200,000, the gross taxable receipts included in the statistics represented only the receipts from investments; underwriting 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.

Total Special Deductions (*)

See "Statutory Special Deductions."

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 a corporation's income from the active conduct of a trade or business within a possession, the sale or exchange of all of the assets used in the trade or business, as well as certain "qualified" possession source investment income. To claim the credit, corporations had to make an election to be treated as a U.S. Possessions Corporation. The election was generally effective for ten years and could not be revoked except by IRS consent. After the tenth year, the corporation could revoke the election without consent. For each year in which the credit was claimed, the corporation had to satisfy the requirements of two income tests under Code section 936. For the "applicable" period, a domestic corporation had to receive: (1) at least 80 percent of its gross income from sources within a U.S. possession, and (2) at least 75 percent of its gross income from the active conduct of a trade or business within a U.S. possession. The "applicable" period was the lesser of 3 years immediately preceding the close of the current taxable year or the period during which the corporation was engaged in the active conduct of a trade or business within a U.S. possession. A Possessions Corporation could not claim a foreign tax credit for the same taxes claimed as a possessions tax credit. In addition, during the period of an effective election, a Possessions Corporation was prohibited from joining in a consolidated income tax return.

U.S. Tax Paid or Withheld at the Source (Form1120F) (*)

These were U.S. taxes reported by foreign corporations on Form 1120F. This item included taxes paid or withheld:

(a) on income not directly related to the U.S. business activity (i.e. not effectively connected income) of a resident foreign corporation which did conduct a trade or business in the United States;

(b) from the gains from any disposition of U.S. real property; and

(c) on effectively connected income allocable to foreign partners.

The taxes were not included in the statistics for "Total Income Tax," "Tax Due," or "Tax Overpayment." Foreign corporations which did not conduct business activites in the United States but had U.S. source income were also required to report the income and U.S. tax paid or withheld on section I of the Form 1120F. The U.S. tax for these companies was excluded from the statistics. The U.S. tax paid or withheld by resident foreign corporations was presented separately in Table 12. The tax was only from returns filed by resident foreign corporations which did conduct a trade or business in the United States.

Zero Assets

In general, returns in this size class of total assets 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

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

U.S. Corporation Income Tax Return

For calendar year 1988 or tax year beginning ...., 1988, ending ...., 19 ....

▶ For Paperwork Reduction Act Notice, see page 1 of the Instructions.

OMB No 1545 0123

1988

Check if a—
A Consolidated return ☐
B Personal holding co. ☐
C Personal service corp (as defined in Temp Regs sec. 1.441-4T—see instructions) ☐

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

Name

Number and street (or P O box number if mail is not delivered to street address)

City or town, state, and ZIP code

D Employer identification number

E Date incorporated

F Total assets (See Specific Instructions.)

Dollars | Cents

$

G Check applicable boxes (1) ☐ Initial return (2) ☐ Final return (3) ☐ Change in address

Income

1a	Gross receipts or sales ____ b Less returns and allowances ____ c Bal ▶	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, line 19)	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, Part II, line 18 (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 (See instructions for limitations on deductions.)

12	Compensation of officers (Schedule E)	12	
13a	Salaries and wages ____ b Less jobs credit ____ c Balance ▶	13c	
14	Repairs	14	
15	Bad debts	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, line 20) ... 29b	29c	

Tax and Payments

30	Taxable income (line 28 less line 29c)	30	
31	**Total tax** (Schedule J)	31	
32	**Payments: a** 1987 overpayment credited to 1988 ... 32a		
b	1988 estimated tax payments ... 32b		
c	Less 1988 refund applied for on Form 4466 ... 32c ( ) d Bal ▶ 32d		
e	Tax deposited with Form 7004 ... 32e		
f	Credit from regulated investment companies (attach Form 2439) ... 32f		
g	Credit for Federal tax on fuels (attach Form 4136) ... 32g	32h	
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 32h, enter amount owed	34	
35	**Overpayment**—If line 32h is larger than the total of lines 31 and 33, enter amount overpaid	35	
36	Enter amount of line 35 you want: **Credited to 1989 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 ▶

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	
4a	Additional section 263A costs (see instructions—attach schedule)	4a	
b	Other costs (attach schedule)	4b	
5	Total—Add lines 1 through 4b	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 Do the rules of section 263A (with respect to property produced or acquired for resale) apply to the corporation? ☐ 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) × (b)
1	Dividends from less-than-20%-owned domestic corporations that are subject to the 70% deduction (other than debt-financed stock)		70	
2	Dividends from 20%-or-more-owned domestic corporations that are subject to the 80% deduction (other than debt-financed stock)		80	
3	Dividends on debt-financed stock of domestic and foreign corporations (section 246A)		see instructions	
4	Dividends on certain preferred stock of less-than-20%-owned public utilities		41.176	
5	Dividends on certain preferred stock of 20%-or-more-owned public utilities		47.059	
6	Dividends from less-than-20%-owned foreign corporations and certain FSCs that are subject to the 70% deduction		70	
7	Dividends from 20%-or-more-owned foreign corporations and certain FSCs that are subject to the 80% deduction		80	
8	Dividends from wholly owned foreign subsidiaries subject to the 100% deduction (section 245(b))		100	
9	Total—Add lines 1 through 8. See instructions for limitation			
10	Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	
11	Dividends from certain FSCs that are subject to the 100% deduction (section 245(c)(1))		100	
12	Dividends from affiliated group members subject to the 100% deduction (section 243(a)(3))		100	
13	Other dividends from foreign corporations not included in lines 3, 6, 7, 8, and 11			
14	Income from controlled foreign corporations under subpart F (attach Forms 5471)			
15	Foreign dividend gross-up (section 78)			
16	IC-DISC and former DISC dividends not included in lines 1, 2, and/or 3 (section 246(d))			
17	Other dividends			
18	Deduction for dividends paid on certain preferred stock of public utilities (see instructions)			
19	Total dividends—Add lines 1 through 17. Enter here and on line 4, page 1. ▶			
20	Total deductions—Add lines 9, 10, 11, 12, and 18. 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
1		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	

2	Total compensation of officers	
3	Less: Compensation of officers claimed in Schedule A and elsewhere on return	( )
4	Compensation of officers deducted on line 12, page 1	

Schedule J Tax Computation (See instructions.)

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

2 If line 1 is checked:

a Enter your share of the $50,000 and $25,000 taxable income bracket amounts (in that order):
(i) $ ______ (ii) $ ______

b Enter your share of the additional 5% tax (not to exceed $11,750) $ ______

3 Income tax (See instructions to figure the tax). Check this box if the corporation is a qualified personal service corporation (see instructions) ▶ ☐ 3

4a Foreign tax credit (attach Form 1118) 4a

b Possessions tax credit (attach Form 5735) 4b

c Orphan drug credit (attach Form 6765) 4c

d Credit for fuel produced from a nonconventional source (see instructions) 4d

e General business credit. Enter here and check which forms are attached:
☐ Form 3800 ☐ Form 3468 ☐ Form 5884
☐ Form 6478 ☐ Form 6765 ☐ Form 8586 . . . . 4e

f Credit for prior year minimum tax (attach Form 8801) 4f

5 Total—Add lines 4a through 4f 5

6 Line 3 less line 5 6

7 Personal holding company tax (attach Schedule PH (Form 1120)) 7

8 Recapture taxes. Check if from: ☐ Form 4255 ☐ Form 8611 8

9a Alternative minimum tax (see instructions—attach Form 4626) 9a

b Environmental tax (see instructions—attach Form 4626) 9b

10 Total tax—Add lines 6 through 9b. Enter here and on line 31, page 1 10

Additional Information (See instruction F.) Yes No

H Refer to the list in the instructions and state the principal:
(1) Business activity code no. ▶ ______
(2) Business activity ▶ ______
(3) Product or service ▶ ______

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; and (c) taxable income or (loss) before NOL and special deductions of such 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 the corporation's voting stock? (For rules of attribution, see section 267(c).) If "Yes," complete (a) through (c) . . . .
(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 ▶ ______

J 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.

K 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 ▶ ______

L 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.

M 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.

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

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

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.

Q Enter the amount of tax-exempt interest received or accrued during the tax year ▶ ______

R Enter the number of shareholders at the end of the tax year if there were 35 or fewer shareholders ▶

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 (You are not required to 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 . . . .

2 Federal income tax . . . .

3 Excess of capital losses over capital gains . . . .

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):
a Depreciation . . . $ ______
b Contributions carryover $ ______
c Travel and entertainment $ ______

6 Total of lines 1 through 5 . . . .

7 Income recorded on books this year not included in this return (itemize):
a Tax-exempt interest $ ______

8 Deductions in this tax return not charged against book income this year (itemize):
a Depreciation . . . $ ______
b Contributions carryover $ ______

9 Total of lines 7 and 8 . . . .

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) (You are not required to 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 . . . .

2 Net income per books . . . .

3 Other increases (itemize): ______

4 Total of lines 1, 2, and 3 . . . .

5 Distributions: a Cash . . . .
b Stock . . . .
c Property . . . .

6 Other decreases (itemize): ______

7 Total of lines 5 and 6 . . . .

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.

For calendar year 1988 or tax year beginning ...., 1988, ending ...., 19 .....

OMB No. 1545-0890

1988

A Check this box if corp. is a personal service corp (as defined in Temp. Regs. sec. 1.441-4T—see instructions) ▶ ☐

Use IRS label. Otherwise, please print or type.

Name	B Employer identification number (EIN)
Number and street (or P.O. box number if mail is not delivered to street address)	C Date incorporated
City or town, state, and ZIP code	D Total assets (See Specific Instructions.) Dollars / Cents $

E Check applicable boxes: (1) ☐ Initial return (2) ☐ Change in address

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

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 70% 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, Part II, line 18 (attach Form 4797)	9	
	10	Other income (see instructions)	10	
	11	**Total** income—Add lines 3 through 10 ▶	11	
Deductions (See instructions for limitations on deductions.)	12	Compensation of officers (see instructions)	12	
	13a	Salaries and wages ______ b Less jobs credit ______ Balance ▶	13c	
	14	Repairs	14	
	15	Bad debts	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 7 on page 2)	27	
	28	**Payments:**		
	a	1987 overpayment credited to 1988 ... 28a		
	b	1988 estimated tax payments ... 28b		
	c	Less 1988 refund applied for on Form 4466 ... 28c ( ) Bal ▶ 28d		
	e	Tax deposited with Form 7004 ... 28e		
	f	Credit from regulated investment companies (attach Form 2439) ... 28f		
	g	Credit for Federal tax on fuels (attach Form 4136) ... 28g		
	h	Total payments—Add lines 28d through 28g	28h	
	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 28h, enter amount owed	30	
	31	**Overpayment**—if line 28h is larger than the total of lines 27 and 29, enter amount overpaid	31	
	32	Enter amount of line 31 you want: **Credited to 1989 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** (1988)

Form 1120-A (1988) Page **2**

Part I Tax Computation (See Instructions.)

1	Income tax (See instructions to figure the tax.) Check this box if the corp. is a qualified personal service corp. (See instructions.) ▶ ☐	1	
2a	General business credit. Check if from: ☐ Form 3800 ☐ Form 3468 ☐ Form 5884 ☐ Form 6478 ☐ Form 6765 ☐ Form 8586 ... 2a		
b	Credit for prior year minimum tax (attach Form 8801) ... 2b		
3	Total credits—Add lines 2a and 2b	3	
4	Line 1 less line 3	4	
5	Recapture taxes. Check if from: ☐ Form 4255 ☐ Form 8611	5	
6	Alternative minimum tax (see instructions—attach Form 4626)	6	
7	Total tax—Add lines 4 through 6. Enter here and on line 27, page 1	7	

Additional Information (See instruction F.)

G Refer to the list in the instructions and state the principal:

(1) Business activity code no. ▶ ....

(2) Business activity ▶ ....

(3) Product or service ▶ ....

H 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).) . . Yes ☐ No ☐

If "Yes," attach schedule showing name, address, and identifying number.

I Enter the amount of tax-exempt interest received or accrued during the tax year ▶

J (1) If an amount for cost of goods sold and/or operations is entered on line 2, page 1, complete (a) through (c):

(a) Purchases (see instructions) ▶

(b) Additional sec. 263A costs. (See instructions — attach schedule) ▶

(c) Other costs (attach schedule) ▶

(2) Do the rules of section 263A (with respect to property produced or acquired for resale) apply to the corporation? . . . Yes ☐ No ☐

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 instruction F for filing requirements for form TD F 90-22.1.) . . . . Yes ☐ No ☐

If "Yes," write in the name of the foreign country ▶ ....

L 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 (Must be completed by all filers)

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)			

1988

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.)

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.

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

Form	Recordkeeping	Learning about the law or the form	Preparing the form	Copying, assembling, and sending the form to IRS
1120	68 hrs., 38 min.	39 hrs., 22 min.	69 hrs., 13 min.	7 hrs., 47 min.
1120-A	43 hrs., 17 min.	23 hrs., 56 min.	41 hrs., 31 min.	4 hrs., 34 min.
Sch. D (1120)	6 hrs., 28 min.	3 hrs., 35 min.	6 hrs., 39 min.	48 min.
Sch. PH (1120)	13 hrs., 9 min.	6 hrs., 29 min.	8 hrs., 52 min.	32 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service**, Washington, DC 20224, Attention: IRS Reports Clearance Officer, TR:FP; or the **Office of Management and Budget**, Paperwork Reduction Project, Washington, DC 20503.

Voluntary Contributions To Reduce the Public Debt

Quite often inquiries are received about how to make voluntary contributions to reduce the public debt. A corporation may contribute by enclosing with the tax return a check made payable to "Bureau of the Public Debt." Voluntary contributions to reduce the public debt are deductible subject to the rules and limitations for charitable contributions.

Important Tax Law Changes

These changes are a result of the Revenue Act of 1987 ("1987 Act") and the Technical and Miscellaneous Revenue Act of 1988. They apply to tax years beginning after 1987 unless otherwise noted.

Vacation pay.—The special election that allows accrual method taxpayers a deduction for additions to a reserve for vacation pay has been repealed. Generally, the amount now allowed as a deduction for vacation pay is limited to the amount of vacation pay earned during the year to the extent it is paid during the year or vested at the end of the year and paid within 2½ months after the end of the year.

The change from the reserve method is treated as a change in method of accounting initiated by the taxpayer and made with IRS consent. The net amount of the adjustment required by the change in accounting method equals the excess of the amount in the reserve at the end of the year preceding the year of change over the amount accrued at the end of the year preceding the year of change and paid within 2½ months after the close of that year. The net amount of the adjustment reduced by the balance in the suspense account under section 463(c) must be included in income as follows: 25% for the year of change, 5% in the 1st year after the year of change, 35% for the 2nd year after the year of change, and 35% in the 3rd year after the year of change. However, if Rev. Proc. 84-74, 1984-2 C.B. 736, requires the adjustment to be taken into account over a period of less than 4 years, the adjustment is to be included in income ratably over the shorter period. See 1987 Act section 10201 for more information.

Installment method for dealer dispositions of property.—The installment method for dispositions of property by dealers after 1987 has been repealed. In addition, the proportionate disallowance rules of section 453C have been repealed for dispositions after 1987. See section 453 for details and exceptions.

Long-term contracts.—Effective for long-term contracts entered into after October 13, 1987, and before June 21, 1988, that are accounted for under the percentage of completion-capitalized cost method, the percentage of items taken into account under the percentage of completion method has been increased to 70%. For long-term contracts (except certain residential construction contracts) entered into after June 20, 1988, that are accounted for under the percentage of completion-capitalized cost method, this percentage has been increased to 90%. Generally, builders of single-family residences and dwelling units in buildings containing 4 or fewer dwelling units are not required to use either the percentage of completion method or the percentage of completion-capitalized cost method for contracts entered into after June 20, 1988. See section 460 for details.

Capitalization of past service pension costs.—Contributions to a pension or annuity plan representing past service costs are now subject to the uniform capitalization rules of section 263A or the long-term contract rules of section 460. Thus, an allocable share of all otherwise allowable pension costs, whether they relate to current or past services, must be included in the basis of property produced or held for resale, including property the taxpayer produces under a long-term contract. This change in law is effective for costs incurred after 1987 for property (other than inventory) produced by the taxpayer, including costs allocable to long-term contracts under section 460. For inventory costs, the change is effective for tax years beginning after 1987, and is treated as a change in method of accounting initiated by the taxpayer and made with IRS consent. Any adjustment required under section 481(a) must be included in income over a period not to exceed 4 years.

Personal service corporations may elect a tax year other than a calendar year.—A personal service corporation (as defined in Temporary Regulations section 1.441-4T) may elect to have a tax year other than a calendar year rather than adopting or changing to a calendar year for tax years beginning after 1986. Electing corporations are subject to minimum distribution requirements under section 280H(c) for each year the election is in effect. If the corporation fails to make the required minimum distributions, the deduction allowable for certain amounts paid to employee-owners is limited to a maximum deductible amount and the excess is deferred until the following tax year. See **Form 8716,** Election To Have a Tax Year Other Than a Required Tax Year, for details.

Reduction in dividends-received deduction.—Generally, the 80% dividends-received deduction has been reduced to 70% for dividends received after 1987. However, an 80% dividends-received deduction has been retained for those recipient corporations that own 20% or more of the voting power and value of the stock of the issuing corporation. See the instructions for Schedule C, Form 1120, for more information.

Graduated rates denied to qualified personal service corporations.—Qualified personal service corporations are now taxed at a flat rate of 34% on their taxable income. See the instructions under **Tax Computation** for the definition of a qualified personal service corporation.

Recapture of LIFO amount by corporations that elect to be S corporations.—Generally, corporations that make S corporation elections after December 17, 1987, and that use the LIFO inventory pricing method for their last year as a C corporation must include a "LIFO recapture amount" in income for their last tax year as a C corporation. The corporation's LIFO recapture amount is equal to the excess of the inventory amount using the FIFO method over the inventory amount using the LIFO method at the close of the corporation's last tax year as a C corporation.

The additional tax resulting from inclusion of the LIFO recapture amount in income is payable in 4 equal installments. The first installment is due with the return for the electing corporation's last tax year as a C corporation. See the instructions for Schedule J, line 10, for more information on how to figure and report the first installment of tax due.

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,** U.S. Corporation Income Tax Return, and **Form 1120-A,** U.S. Corporation Short-Form Income Tax Return, 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

Domestic corporations not required to file a special return (see below), must file Form 1120, unless they qualify to file Form 1120-A. All domestic corporations (including corporations in bankruptcy) must file, whether or not they have any taxable income, unless exempt under section 501. (**Note:** *If an organization more nearly resembles a corporation than a partnership or trust, it will be considered an association taxed as a corporation.)*

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 70% deduction.
- It has no nonrefundable tax credits other than the general business credit and the credit for prior year minimum tax.
- It is not subject to environmental tax under section 59A.
- It has no liability for interest under section 453(l)(3) or 453A(c) (relating to certain installment sales) or installment payments of tax under section 453C or 1363(d).
- It is not required to file a special tax return as stated below under **Special Returns for Certain Organizations.**

Special Returns for Certain Organizations

Certain organizations, listed below, have to file special returns.

- Foreign corporations other than life and property and casualty insurance companies filing Forms 1120L and 1120-PC: File Form 1120F.
- Foreign sales corporations (section 922): File Form 1120-FSC.
- Life insurance companies (section 801): File Form 1120L.
- Property and casualty insurance companies (section 831): File Form 1120-PC.
- 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.
- Condominium management associations and residential real estate management associations that elect to be treated as homeowners associations under section 528: File Form 1120-H.
- Funds set up to pay for nuclear decommissioning costs (section 468A): File Form 1120-ND.
- Designated settlement funds (section 468B): File Form 1120-DF.
- Real estate investment trusts (section 856): File Form 1120-REIT.
- Entities that elect to be treated as real estate mortgage investment conduits (REMICs) under section 860D: File Form 1066.
- Regulated investment companies (section 851): File Form 1120-RIC.

When To File

In general, a corporation must file its income tax return by the 15th day of the 3rd 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 3rd month after the short period ends. A corporation that has dissolved must generally file by the 15th day of the 3rd month after the date it dissolved.

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

Period covered.—File the 1988 return for calendar year 1988 and fiscal years that begin in 1988 and end in 1989. For a fiscal year, fill in the tax year space at the top of the form.

Note: *The 1988 Form 1120 may also be used if: (1) the corporation has a tax year of less than 12 months that begins and ends in 1989; and (2) the 1989 Form 1120 is not available by the time the corporation is required to file its return. However, the corporation must show its 1989 tax year on the 1988 Form 1120 and incorporate any tax law changes that are effective for tax years beginning after December 31, 1988.*

Initial return, final return, and change in address.—If this is the corporation's first return, check the "Initial return" box in item G, Form 1120, or item E, Form 1120-A. If the corporation ceases to exist, check the "Final return" box in item G and do not file Form 1120-A; use Form 1120. Indicate a change in address by checking the appropriate box.

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, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Florida, Georgia, South Carolina	Atlanta, GA 39901
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Minnesota, Missouri, Wisconsin	Kansas City, MO 64999
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia	Philadelphia, PA 19255

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 for Tax Practitioners, 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.

Generally, corporations (other than qualified personal service corporations) are required to use the accrual method of accounting if their annual average gross receipts are $5,000,000 or more. See section 448(c). A corporation changing to the accrual method because of this provision must complete **Form 3115**, Application for Change in Accounting Method, and attach it to Form 1120 for the year of change. The corporation must also show on a statement accompanying Form 3115 the period over which the section 481(a) adjustment will be taken into account and the basis for that conclusion. See section 448 and Temporary Regulations sections 1.448-1T(g) and 1.448-1T(h) for more information. Include the amount reportable as income in 1988 under section 481(a) on line 10, page 1.

For long-term contracts (except certain real property construction contracts), entered into after February 28, 1986, taxpayers must elect either the percentage of completion method or the percentage of completion-capitalized cost method. See section 460; Notice 87-61, 1987-2 C.B. 370; and Notice 88-66, 1988-25 I.R.B. 41; for more information.

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. Also see **Publication 538**, Accounting Periods and Methods.

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.

Personal service corporations as defined in Temporary Regulations section 1.441-4T (see the instructions for Item C on page 5) must adopt a calendar year unless:

(1) the corporation can establish to the satisfaction of the Commissioner that there is a business purpose for having a different tax year, or

(2) the corporation elects under section 444 to have a tax year other than a calendar year.

Personal service corporations that wish to establish a business purpose for having a different tax year should see Rev. Rul. 87-57, 1987-2 C.B. 117, for more information. Also see Rev. Proc. 87-32, 1987-2 C.B. 396, for procedures to use in adopting, retaining, or changing the corporation's tax year. Personal service corporations that wish to adopt or retain a noncalendar tax year must file requests to do so on Form 1128 in accordance with the procedures outlined in Rev. Proc. 87-32.

Personal service corporations that wish to elect under section 444 to have a tax year other than a calendar year must file Form 8716. Generally, Form 8716 must be filed by the earlier of: (1) the 15th day of the 5th month following the month that includes the 1st day of the tax year for which the election will be effective, or (2) the due date (not including extensions) of the income tax return resulting from the section 444 election. Electing corporations are subject to minimum distribution requirements under section 280H(c) for each year the election is in effect. If the corporation fails to make the required minimum distributions, the deduction allowable for certain amounts paid to employee-owners is limited to a maximum deductible amount under section 280H(d). Amounts not allowed as a deduction for the tax year are carried over to the following tax year.

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**). Be sure to darken the "1120" box on the coupon. 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.

To help ensure proper crediting to your account, write your employer identification number, "Form 1120," and the tax period to which the deposit applies on your check or money order.

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.

4. Backup Withholding

If a person receives certain payments and does not give the payer the correct employer identification number, the payer 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 righthand column between lines 31 and 32h, page 1, Form 1120, and label the amount as "backup withholding." The corporation should then include the amount in the total for line 32h. On Form 1120-A, include the amount of backup withholding on line 28h, page 1, and write "backup withholding" and the amount on the dotted line to the left of line 28h.

5. Estimated Tax

Generally, a corporation must make estimated tax payments if it can expect its estimated tax (income tax minus credits) to be $500 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.

If a corporation is the beneficiary of a trust, and the trust makes a section 643(g) election to credit its estimated tax payments to its beneficiaries, include the corporation's share of the estimated tax payment in the total amount entered on line 32b, Form 1120. In the blank space to the left of the entry space for line 32b, write "Sec. 643(g)" and the amount attributable to it. On Form 1120-A, include the corporation's share of the section 643(g) payment on line 28b and identify it as shown above for Form 1120.

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.

6. 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).

7. 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. Interest and Penalties

Interest and penalty charges are described below. If a corporation files late or fails to pay the tax when due, it may be liable for penalties unless it can show that failure to file or pay was due to reasonable cause and not willful neglect.

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

2. Late Filing of Return.—A corporation that fails to file its return when due (including 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.

3. Late Payment of Tax.—Generally, the penalty for not paying tax when due is ½ of 1% of the unpaid amount, up to a maximum of 25%, for each month or fraction of a month the tax remains unpaid. The penalty is imposed on the net amount due.

4. Underpayment of Estimated Tax.—A corporation that fails to make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. In general, to avoid the estimated tax penalty, the corporation must make estimated tax payments of at least the smaller of 90% of the tax shown on the return or 100% of its prior year's tax. See section 6655 for details and exceptions.

Form 2220, Underpayment of Estimated Tax by Corporations, is used to see if the corporation owes a penalty and to figure the amount of the penalty. Generally, the corporation does not have to file this form because IRS can figure the amount of any penalty and bill the corporation for it. However, you must complete and attach Form 2220 even if the corporation does not owe the penalty if: **(a)** the annualized income or adjusted seasonal installment method is used, or **(b)** the corporation is a "large corporation" computing its first required installment based on the prior year's tax. If you attach Form 2220, be sure to check the box on line 33, Form 1120, or line 29, Form 1120-A, and enter the amount of any penalty on this line.

5. Overstated Tax Deposits.—If deposits are overstated, the corporation may be subject to a penalty of 25% of the overstated deposit claim. See section 6656(b).

6. Other Penalties.—There are also penalties that can be imposed for negligence, substantial understatement of tax, and fraud. See sections 6653 and 6661.

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, R, and **S.** Information returns for reporting abandonments, acquisitions through foreclosure, proceeds from broker 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, total distributions from profit-sharing plans, retirement plans and individual retirement arrangements, and proceeds from real estate transactions. 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. Use this form to report contributions (including rollover contributions) to an individual retirement arrangement (IRA) and the value of an IRA or simplified employee pension account.

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

Form 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 8283. Noncash Charitable Contributions. Generally, this form must be completed and attached to Form 1120 or 1120-A if the corporation made a contribution after June 6, 1988, in property other than money and the total claimed deduction of all property contributed was more than $5,000. Closely held corporations and personal service corporations must complete and attach this form for contributions of property other than money if the total claimed deduction of all property contributed was more than $500.

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

Form 8697. Interest Computation Under the Look-Back Method for Completed Long-Term Contracts. Use this form to figure the interest due or to be refunded under the look-back method of section 460(b)(3) on long-term contracts entered into after February 28, 1986, that are accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method.

Form 8810. Corporate Passive Activity Loss and Credit Limitations. Closely held corporations and personal service corporations, which are subject to the passive activity limitations of section 469, use this form to compute their allowable passive activity loss and credit.

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 income per books with income per return.
- A reconciliation of retained earnings.

Attach consolidated balance sheets and a reconciliation of consolidated retained earnings.

3. 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.

4. 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.

5. Financial Statements

A corporation is not required to 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.

6. Attachments

Attach **Form 4136,** Computation of Credit for Federal Tax on 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 G through L 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 K

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, 1989, 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.

3. Question Q, Form 1120, and Question I, Form 1120-A

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

Specific Instructions

Item C. Personal service corporation.—The term "personal service corporation" means a corporation whose principal activity during the testing period for the tax year is the performance of personal services that are substantially performed by employee-owners who own more than 10% of the fair market value of the corporation's outstanding stock as of the last day of the testing period for the tax year.

The testing period for a tax year is the tax year preceding such tax year, except for a new corporation. The testing period for a new corporation (one in its first tax year) is the period beginning on the first day of its first tax year and ending on the earlier of the last day of its first tax year or the last day of the calendar year in which the first tax year began.

Activities of the taxpayer that are treated as the performance of personal services are limited to activities of the taxpayer that involve the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting (as such fields are defined in Temporary Regulations section 1.448-1T).

Personal services are substantially performed by employee-owners if more than 20% of the corporation's compensation cost for the testing period attributable to the performance of personal services is attributable to personal services performed by employee-owners.

A person is considered to be an employee-owner if the person is an employee of the corporation on any day of the testing period and the person owns any outstanding stock of the corporation on any day of the testing period. Stock ownership is determined under the attribution rules of section 318 (except that "any" is substituted for "50%" in section 318(a)(2)(C)).

For details, see Temporary Regulations section 1.441-4T.

Item D. 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.

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.

Item F. 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

Note: *Generally, income from all sources, whether U.S. or foreign, must be included.*

Line 1

Gross receipts

Enter gross receipts or sales from all business operations except those that must be reported on lines 4 through 10. For reporting advance payments, see Regulations section 1.451-5.

The rules for long-term contracts have been changed by the Revenue Act of 1987 and the Technical and Miscellaneous Revenue Act of 1988. See section 460 for more information.

Changes have also been made to the installment method. Effective for dispositions after 1987, the installment method is no longer available for dealer dispositions of property. In addition, the proportionate disallowance rules of section 453C have been repealed for dispositions after 1987. However, a dealer disposition does not include: **(1)** the disposition of property used or produced in the trade or business of farming, or **(2)** certain dispositions of timeshares and residential lots if the taxpayer elects to pay interest under section 453(l)(3). See section 453(l) for more information.

Effective for tax years beginning after 1987, the installment method has also been repealed for installment obligations arising from dealer dispositions of property after February 28, 1986, and before January 1, 1988. If the corporation was reporting these obligations on the installment method, the gain that remains to be recognized as of the first day of the corporation's first tax year beginning after 1987 must be included in income as a section 481(a) adjustment over a period not to exceed 4 tax years. The rules of Rev. Proc. 84-74 are used to figure the amount includible each year, except that the section 481(a) adjustment must be included in income at a rate no slower than the rate of contraction of the corporation's dealer installment obligations. Do not include in the section 481(a) adjustment any gain that is taken into account under section 811(c)(6) of the Tax Reform Act of 1986 ("1986 Act") (transition rule for sales of real property by dealers). Similarly, the section 481(a) adjustment is not affected by section 811(c)(7) of the 1986 Act, which permits the delayed payment of certain tax for sales of personal property by dealers. Both of these rules continue to apply to installment obligations arising out of dealer dispositions occurring after February 28, 1986, and before January 1, 1988. Include the amount reportable as income in 1988 on line 10, page 1, and attach a computation. The change of accounting method is treated as initiated by the taxpayer and made with IRS consent.

For dealer dispositions of property before March 1, 1986, dispositions of property used or produced in the trade or business of farming, and certain dispositions of timeshares and residential lots reported under the installment method, 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. For sales of timeshares and residential lots reported under the installment method, the corporation's income tax is increased by the interest payable under section 453(l)(3). To report this addition to the tax, see the instructions for line 10, Schedule J, Form 1120.

Accrual basis taxpayers need not accrue certain amounts to be received from the performance of services which, on the basis of their experience, will not be collected (section 448(d)(5)). This provision does not apply to any amount if interest is required to be paid on such amount or if there is any penalty for failure to timely pay such amount. Corporations that fall under this provision should attach a schedule showing total gross receipts, amount not accrued as a result of the application of section 448(d)(5), and the net amount accrued. The net amount should be entered on line 1a. For more information and guidelines on this "non-accrual experience method," see Temporary Regulations section 1.448-2T.

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.*

Form 1120 filers using Schedule A and Form 1120-A filers using the worksheet below should see the instructions below under **Section 263A Uniform Capitalization Rules** before completing Schedule A or the worksheet.

Worksheet (Form 1120-A)

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 J(1)(a), Form 1120-A)	
3.	Cost of labor (enter here and include in total on page 2, Item J(1)(c), Form 1120-A)	
4a.	Additional section 263A costs (enter here and on page 2, Item J(1)(b)) (see instructions)	
b.	Other costs (enter here and include on page 2, Item J(1)(c))	
5.	Subtotal—Add lines 1 through 4b	
6.	Inventory at end of year (enter here and on page 2, Part II, line 3, Column (b), Form 1120-A)	
7.	Total cost of goods sold and/or operations–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.

On 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 on line 8b of Schedule A, Form 1120 only. Enter the amount or percent of total closing inventories covered under section 472 on 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)).

Section 263A Uniform Capitalization Rules. The uniform capitalization rules of section 263A are discussed in general in the instructions for **Limitations on deductions** on page 7. See those instructions before proceeding.

Schedule A, Form 1120, and Worksheet, Form 1120-A

Line 4a.—An entry is required on this line only for corporations that have elected a simplified method of accounting. In the case of taxpayers that have elected the simplified production method, additional section 263A costs are generally those costs, other than interest, that were not capitalized or included in the inventory costs under the taxpayer's method of accounting immediately prior to the effective date in Temporary Regulations section 1.263A-1T, but that are now required to be capitalized under section 263A. In the case of taxpayers that have elected a simplified resale method, additional section 263A costs are generally those costs incurred with respect to the following categories: off-site storage or warehousing; purchasing; handling, processing, assembly, and repackaging; and general and administrative costs (mixed service costs). Enter on line 4a the balance of section 263A costs paid or incurred during the taxable year not included on lines 2 and 3. See Temporary Regulations section 1.263A-1T for more information.

Line 4b.—Enter on line 4b any costs paid or incurred during the taxable year not entered on lines 2 through 4a.

Line 6.—See Temporary Regulations section 1.263A-1T for more information on computing the amount of additional section 263A costs to be capitalized and added to ending inventory.

Line 4
Dividends

Form 1120-A filers.—Because Form 1120-A can be filed by corporations that only received dividends from domestic corporations (that are not from debt-financed stock) that qualify for the 70% dividends-received deduction, 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 taxable interest on U.S. obligations and on loans, notes, mortgages, bonds, bank deposits, corporate bonds, tax refunds, etc.

Do not offset interest expense against interest income.

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

Line 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.

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.

Line 9
Net gain or (loss)

Enter the net gain or (loss) from line 18, Part II, **Form 4797**, Sales of Business Property.

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, describe it in parentheses on line 10.

Deductions
Limitations on deductions

1. Section 263A uniform capitalization rules.— The uniform capitalization rules of section 263A require corporations to capitalize or include in inventory certain costs incurred in connection with the production of real and personal tangible property held in inventory or held for sale in the ordinary course of business. Tangible personal property produced by a taxpayer includes a film, sound recording, videotape, book, or similar property. The rules also apply to personal property (tangible and intangible) acquired for resale. Taxpayers subject to the rules are required to capitalize not only direct costs but an allocable portion of most indirect costs (including taxes) that relate to the assets produced or acquired for resale. Interest expense paid or incurred during the production period of certain property must be capitalized and is governed by special rules. For more information, see Notice 88-99, 1988-36 I.R.B. 29. The uniform capitalization rules also apply to the production of property constructed or improved by a taxpayer for use in its trade or business or in an activity engaged in for profit.

Section 263A does not apply to personal property acquired for resale if the taxpayer's annual average gross receipts are $10,000,000 or less. It does not apply to timber or to property produced under a long-term contract. Special rules apply for farmers. The rules do not apply to property which is produced for use by the taxpayer if substantial construction has occurred before March 1, 1986.

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

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

Current deductions may still be claimed for research and experimental costs under section 174, intangible drilling costs for oil and gas and geothermal property, and mining and exploration and development costs. Temporary Regulations section 1.263A-1T specifies other indirect costs that may be currently deducted and those that must be capitalized with respect to production or resale activities. For more information, see Temporary Regulations section 1.263A-1T.

Generally, corporations required to change their method of accounting under section 263A must complete section A (items 1a, 3a, 3b, 4a, 11 and 12) and section D of Form 3115 (Rev. 11-87 or later) and the section 263A checklist contained in Notice 88-92, 1988-34 I.R.B. 23 (reprinted as **Publication 1426**, Automatic Change in Method To Comply With Section 263A), for each trade or business to which section 263A applies. You may choose your own format for reproducing the questions and answers for the section 263A checklist referred to in the notice. The Form 3115 and section 263A checklist must be attached to Form 1120 (or 1120-A) for the year of the change. However, if the first return to which section 263A applies was filed before October 21, 1988, and Form 3115 and the section 263A checklist were not filed with that return (or Form 3115 was filed without the section 263A checklist), Form 3115 (or a copy of the previously filed Form 3115) and the section 263A checklist must be attached to the first return filed after October 20, 1988. Identify the change at the top of page 1 of Form 3115 by printing or typing "Automatic Change in Accounting Method Under Section 263A." See Notice 88-92 for details.

Exceptions: *The requirement to file Form 3115 or the section 263A checklist does not apply to any corporation required to change its accounting method under section 263A with respect to: (i) property produced in a farming business, or (ii) property produced by the corporation to be used in the corporation's trade or business (but only if the corporation's average annual gross receipts for the 3 tax years preceding the year of change do not exceed $10 million).*

2. 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.

3. Section 291 limitations.—Corporations may be required to adjust deductions for depletion of iron ore and coal, intangible drilling and exploration and development costs, bad debt deductions for financial institutions, and the amortizable basis of pollution control facilities. See section 291 to determine the amount of adjustment.

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.

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

6. Passive activity limitations.—Limitations on passive activity losses and credits under section 469 apply to closely held corporations (defined below) and personal service corporations as defined in Temporary Regulations section 1.441-4T (see the instructions for item C on page 5). A corporation is a closely held corporation for this purpose if 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 or for not more than 5 individuals, and the corporation is not a personal service corporation. Certain organizations are treated as individuals for purposes of this test. (See section 542(c).) For rules of determining stock ownership, see section 544 (as modified by section 465(a)(3)).

There are two kinds of passive activities: trade or business activities in which the corporation did not materially participate for the tax year, and rental activities regardless of its participation. An activity is a trade or business activity if the activity involves the conduct of a trade or business (i.e., deductions from the activity would be allowable under section 162 if other limitations, such as the passive loss rules, did not apply), or research or experimental expenditures in the activity are deductible under section 174 (or would be deductible if the corporation chose to deduct rather than capitalize them), and the activity is not a rental activity. Temporary Regulations section 1.469-1T(g)(3) defines material participation of corporations.

Generally, losses from passive activities can be deducted only to the extent of income from passive activities. Passive activity credits generally are limited to the tax attributable to net passive income. Closely held corporations are allowed to increase: (i) the limitation on losses from passive activities by the amount of net active income, and (ii) the limitation on passive activity credits by the tax attributable to net active income. See Temporary Regulations section 1.469-1T(g)(4) for the definition of net active income. Phase-in rules apply to certain passive activities acquired before October 23, 1986. For tax years beginning in 1988, 40% of the current year passive activity loss and credit from these activities is allowed. Generally, passive activity losses and credits that are not allowed in the current year are carried forward for use in later years.

Corporations subject to the passive activity limitations must complete **Form 8810**, Corporate Passive Activity Loss and Credit Limitations, to compute their allowable passive activity loss and credit. Before completing Form 8810, see Temporary Regulations section 1.163-8T, which provides rules for allocating interest expense among activities. If a passive activity is also subject to the at-risk rules of section 465, the at-risk rules apply before the passive loss rules. For more information, see section 469, the temporary regulations thereunder, and **Publication 925**, Passive Activity and At-Risk Rules.

Line 12
Compensation of officers

Besides entering officers' compensation deductible on line 12, filers of Form 1120 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. Do not include compensation deductible elsewhere on the return, such as amounts included in cost of goods sold and/or operations, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement.

Complete Schedule E, line 1, 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 deductible elsewhere on the return, such as amounts included in cost of goods sold and/or operations, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement.

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.

Line 14
Repairs

Enter the cost of incidental repairs not claimed elsewhere on the return, such as labor and supplies, that do not add to the value of the property or appreciably prolong its life.

Line 15
Bad debts

Enter the total debts that became worthless in whole or in part during the tax year. A small bank or thrift institution using the reserve method should attach a schedule showing how it arrived at the current year's provision.

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;
3. Taxes not imposed on the corporation; or
4. Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (such taxes must be treated as a part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition).

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

If the corporation is liable for environmental tax under section 59A, see **Form 4626**, Alternative Minimum Tax—Corporations, for computation of the environmental tax deduction.

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 1988 prepaid interest allocable to any period after 1988 can deduct only the amount allocable to 1988. See **Publication 545**, Interest Expense.

Generally, the interest and carrying charges on straddles cannot be deducted and must be capitalized. See section 263(g).

Do not deduct interest on debt allocable to the production of qualified property. Interest that is allocable to such property produced by a corporation for its own use or for sale must be capitalized. In addition, a corporation must also capitalize any interest on debt allocable to an asset used to produce the above property. See section 263A and Notice 88-99 for definitions and more information.

See section 7872 for special rules regarding the deductibility of foregone interest on certain below-market rate loans.

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 on 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.

Taxable income is modified in order to determine the amount of a net operating loss used in an intervening year (i.e., a year to which a net operating loss is carried but not fully absorbed). For this purpose, taxable income is computed by determining the net operating loss deduction for the year without regard to the net operating loss for the loss year or any later year. See section 172(b)(2). To the extent charitable contributions are used to reduce taxable income for this purpose and increase a net operating loss carryover, a contributions carryover is not allowed. See section 170(d)(2)(B).

Corporations on the accrual basis may elect to deduct contributions paid by 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 deduction 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. All other corporations generally must complete and attach Form 8283 to their returns for contributions of property other than money after June 6, 1988, if the total claimed deduction for all property contributed was more than $5,000.

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. All of the long-term capital gain that would have resulted if the property were sold at its fair market value.

The reduction for 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 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 on line 20 the part of the cost (up to $10,000) that the corporation elected to expense for certain recovery property placed in service during tax year 1988. See the instructions for **Form 4562**, Depreciation and Amortization.

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).

Foreign intangible drilling costs and foreign exploration and development costs 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.

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 and for overstating the pension plan deduction. See sections 6652(e) and 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 not claimed elsewhere on the return (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 on 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). For other deductions which may be allowed, see section 404(k)(2)(C).

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

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

Generally, a corporation can deduct all other ordinary and necessary travel and entertainment expenses paid or incurred in its trade or business. However, it cannot deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) that is used for an activity that is usually considered entertainment, amusement, or recreation. (**Note:** *The corporation may be able to deduct the expense if the amount is treated as compensation and reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.*)

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

"At risk" rules.—Special "at risk" rules under section 465 generally apply to closely held corporations (defined on page 7) 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 (other than mineral property) placed in service by the taxpayer before 1987; **(2)** equipment leasing under sections 465(c)(4), (5), and (6); and **(3)** any qualifying business of a qualified corporation under section 465(c)(7).

If the at risk rules apply, 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. If the corporation is involved in one or more activities, one or more of which incurs a loss for the year, report the losses for each activity separately. Attach **Form 6198**, Computation of Deductible Loss From an Activity Described in Section 465(c), showing the amount at risk and gross income and deductions for the activities with the losses.

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.

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. Section 172(b)(1) describes types of losses for which the 15-year carryforward period does not apply.

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.

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

Line 29b, Form 1120, and Line 25b, Form 1120-A

Special deductions

Form 1120 filers.— See the instructions for Schedule C below.

Form 1120-A filers.—Generally, enter 70% of line 4, page 1, on line 25b. However, this deduction may not be more than 70% 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 70% limitation does not apply, even if the loss is created by the dividends-received deduction. See sections 172(d) and 246(b).

Line 32f, Form 1120, and Line 28f, 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 "OWPT."

Note: *The windfall profit tax does not apply to crude oil removed after August 22, 1988.*

Schedule C Form 1120 Only

Dividends and Special Deductions

For purposes of the 20% ownership test on lines 1 through 7, the percentage of stock owned by the corporation is based on voting power and value of the stock. Preferred stock described in section 1504(a)(4) is not taken into account.

Line 1, Column (a)

Enter dividends (except those received on debt-financed stock acquired after July 18, 1984—see section 246A) that are received from less-than-20%-owned domestic corporations subject to income tax and that are subject to the 70% 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 70% deduction and certain dividends of Federal Home Loan Banks. See section 246(a)(2).

For dividends received from a regulated investment company, see section 854 for the amount subject to the 70% 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 (except those received on debt-financed stock acquired after July 18, 1984) that are received from 20%-or-more-owned domestic corporations subject to income tax and that are subject to the 80% deduction under section 243(c). Include on this line taxable distributions from an IC-DISC or former DISC that are designated as being eligible for the 80% deduction.

Line 3, Column (a)

Enter dividends on debt-financed stock acquired after July 18, 1984, that are received from domestic and foreign corporations subject to income tax and that would otherwise be subject to the dividends-received deduction under sections 243(a)(1), 243(c), or 245(a). Generally, debt-financed stock is stock that the corporation acquired by incurring a debt (for example, it borrowed money to buy the stock).

Line 3, Columns (b) and (c)

Dividends received on debt-financed stock acquired after July 18, 1984, are not entitled to the full 70% or 80% dividends-received deduction. The 70% or 80% deduction is reduced by a percentage that is related to the amount of debt incurred to acquire the stock. See section 246A. Also see section 245(a) before making this computation for an additional limitation that applies to dividends received from foreign corporations. A schedule showing how the amount on line 3, column (c), was figured must be attached to Form 1120.

Line 4, Column (a)

Enter dividends received on the preferred stock of a less-than-20%-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

Line 5, Column (a)

Enter dividends received on preferred stock of a 20%-or-more-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

Line 6, Column (a)

Enter the U.S.-source portion of dividends that are received from less-than-20%-owned foreign corporations and that qualify for the 70% deduction under section 245(a). To qualify for the 70% deduction, the corporation must own at least 10% of the stock of the foreign corporation by vote and value. Also include on line 6, column (a), dividends received from a less-than-20%-owned FSC that are attributable to income treated as effectively connected with the conduct of a trade or business within the U.S. (excluding foreign trade income) and that qualify for the 70% deduction provided in section 245(c)(1)(B).

Line 7, Column (a)

Enter the U.S.-source portion of dividends that are received from 20%-or-more-owned foreign corporations and that qualify for the 80% deduction under section 245(a). Also include on line 7, column (a), dividends received from a 20%-or-more-owned FSC that are attributable to income treated as effectively connected with the conduct of a trade or business within the U.S. (excluding foreign trade income) and that qualify for the 80% deduction provided in section 245(c)(1)(B).

Line 8, Column (a)

Enter dividends that are received from wholly-owned foreign subsidiaries and that are eligible for the 100% deduction provided in section 245(b).

In general, the deduction under section 245(b) applies to dividends paid out of the earnings and profits of a foreign corporation for a tax year during which:

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 9, Column (c)

Limitation on dividends-received deduction.

Generally, line 9 of column (c) may not exceed the amount from the worksheet below. However, in a year in which a net operating loss occurs, this limitation does not apply even if the loss is created by the dividends-received deduction. See sections 172(d) and 246(b). Certain financial institutions to which section 593(a) applies should see section 596 for the special limitation on the dividenus-received deduction.

1. Refigure line 28, page 1, 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) . . . . ________
2. Complete lines 10, 11, and 12 of column (c) and enter the sum of those lines . . . . ________

3. Subtract line 2 from line 1	
4. Multiply the amount on line 3 by 80%	
5. Enter the sum of the amounts on lines 2, 5, 7, and 8 of column (c) and the portion of the deduction on line 3 of column (c) that is attributable to dividends received from 20%-or-more-owned corporations	
6. Enter the lesser of line 4 or line 5. (Do not complete the rest of this worksheet if line 5 is greater than line 4. Instead, enter the amount from line 6 on line 9 of column (c).)	
7. Enter the total amount of dividends received from 20%-or-more-owned corporations and included on lines 2, 3, 5, 7, and 8 of column (a)	
8. Subtract line 7 from line 3	
9. Multiply the amount on line 8 by 70%	
10. Subtract line 5 above from line 9 of column (c)	
11. Enter the lesser of line 9 or line 10	
12. Dividends-received deduction after limitation (sec. 246(b)). Add the amounts on lines 6 and 11 and enter on line 9 of column (c)	

Line 10, Columns (a) and (c)

Small business investment companies operating under the Small Business Investment Act of 1958 (15 U.S.C. 661 and following) must enter dividends that are received from domestic corporations subject to income tax even though a deduction is allowed for the entire amount of such dividends. To claim the 100% deduction on line 10, column (c), the company must file with its return a statement that it was a Federal licensee under the Small Business Investment Act of 1958 at the time of receipt of the dividends.

Line 11, Column (a)

Enter dividends from FSCs that are attributable to foreign trade income and that are eligible for the 100% deduction provided in section 245(c)(1)(A).

Line 12, 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 13, Column (a)

Enter foreign dividends not reportable on lines 3, 6, 7, 8, or 11 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 14, 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 15, Column (a)

Include gross-up for taxes deemed paid under sections 902 and 960.

Line 16, Column (a)

Enter taxable distributions from an IC-DISC or former DISC that are designated as not being eligible for a dividends-received 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 17, 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 70% 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 936(h)(4)). If patronage dividends or per-unit retain allocations are included in Schedule C, line 17, column (a), identify the total of these amounts in a schedule attached to Form 1120.

Line 18, Column (c)

Deduction for dividends paid on certain preferred stock of public utilities. Section 247 allows public utilities a deduction of 41.176% 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

A corporation that files Form 1120 or 1120-A must compute its tax on its taxable income as follows:

(1) Corporations other than qualified personal service corporations (defined below) (Members of a controlled group should 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:

Over—	But not over—	Its tax is:	Of the amount over—
0	$50,000	15%	0
$50,000	75,000	$7,500 + 25%	$50,000
75,000	------	13,750 + 34%	75,000

Additional tax. If a corporation's taxable income exceeds $100,000, the total tax imposed under section 11 (see the table above) is increased by the **lesser** of 5% of the excess over $100,000 **or** $11,750.

(2) Qualified personal service corporations:

A qualified personal service corporation is taxed at a flat rate of 34% on its taxable income. For this purpose, a qualified personal service corporation is any corporation: **(a)** substantially all of the activities of which involve the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting, and **(b)** at least 95% of the stock of which is owned by employees performing the services, retired employees who had performed the services listed above, any estate of an employee or retiree described above, or any person who acquired the stock of the corporation as a result of the death of an employee or retiree described above, if the acquisition occurred within 2 years of death. See Temporary Regulations section 1.448-1T(e) for details.

A. Form 1120-A, Part I, Page 2

Line 2a

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.

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

Alcohol fuel credit. A 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.

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

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

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 attached 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 (or a carryforward of an ESOP credit), it must use Form 3800. For more information, see **Publication 572,** General Business Credit.

Line 2b

Credit for prior year minimum tax. If the corporation had an alternative minimum tax liability in a prior tax year beginning after 1986 but has no current year alternative minimum tax, it may be able to take the credit for prior year minimum tax. See **Form 8801,** Credit for Prior Year Minimum Tax, and section 53.

Line 5

Recapture Taxes

Recapture of investment credit. If property is disposed of or ceases to be qualified property before the end of the life-years used in computing the regular or energy investment credit, there may be a recapture of the credit. See **Form 4255,** Recapture of Investment Credit.

Recapture of low-income housing credit. If you must recapture part of the low-income housing credit because there has been a decrease in the qualified basis of a building from the prior year or if you disposed of the building or an ownership interest in it, see **Form 8611,** Recapture of Low-Income Housing Credit, and section 42(j). If you attached **Form 8693,** Low-Income Housing Credit Disposition Bond, write on the dotted line to the left of line 8, Schedule J, "Form 8693 attached."

Line 6

Alternative minimum tax. Attach **Form 4626,** Alternative Minimum Tax—Corporations, if your taxable income (or loss) before the net operating loss deduction when combined with your adjustments and tax preference items (including the book income adjustment) totals more than $40,000 (or more than your allowable exemption amount, if less). See Form 4626 for details.

B. Form 1120, Schedule J

Lines 1 and 2

Members of a controlled group, as defined in section 1563, are entitled to one $50,000 and one $25,000 taxable income bracket amount (in that order) on line 2a.

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

Equal Apportionment Plan. If no apportionment plan is adopted, the members of the controlled group must divide the amount in each taxable income bracket equally among themselves. For example, controlled group AB consists of corporation A and corporation B. They do not elect an apportionment plan. Therefore, both corporation A and corporation B are entitled to $25,000 (one-half of $50,000) in the $50,000 taxable income bracket on line 2a(i) and to $12,500 (one-half of $25,000) in the $25,000 taxable income bracket on line 2a(ii).

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

Each member of a controlled group must compute the tax as follows (except qualified personal service corporations):

1. Enter taxable income (line 30, page 1, Form 1120)	
2. Enter line 1 or the corporation's share of the $50,000 taxable income bracket, whichever is less	
3. Subtract line 2 from line 1	
4. Enter line 3 or the corporation's share of the $25,000 taxable income bracket, whichever is less	
5. Subtract line 4 from line 3	
6. Enter 15% of line 2	
7. Enter 25% of line 4	
8. Enter 34% of line 5	
9. If the taxable income of the controlled group exceeds $100,000, enter this member's share of the **lesser** of: **(a)** 5% of the excess over $100,000, **or** **(b)** $11,750. (See instructions for additional 5% tax, below.)	
10. Total of lines 6 through 9. Enter this amount on line 3, Schedule J, Form 1120	

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

Line 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.

Interest on tax attributable to payments received on installment sales of certain timeshares and residential lots. If the corporation elected to pay interest on the amount of tax attributable to payments received on installment obligations arising from the disposition of certain timeshares and residential lots under section 453(l)(3), it must include the interest due in the amount to be entered on line 3, Schedule J, Form 1120. Write on the dotted line to the left of line 3, Schedule J, "Sec. 453(l)(3) interest - $(amount)." Attach a schedule showing the computation.

Interest on tax deferred under the installment method for certain non-dealer installment obligations. If an obligation arising from the disposition of property to which section 453A applies is outstanding at the close of the year, the corporation must include the interest due under section 453A(c) in the amount to be entered on line 3, Schedule J, Form 1120. Write on the dotted line to the left of line 3, Schedule J, "Sec. 453A(c) interest - $(amount)." Attach a schedule showing the computation.

Deferred tax amount under section 1291. If the corporation was a shareholder in a passive foreign investment company (PFIC) that received an excess distribution or disposed of its investment in the PFIC during the year, it must include the deferred tax amount due under section 1291(c) in the amount to be entered on line 3, Schedule J, Form 1120. Write on the dotted line to the left of line 3, Schedule J, "Sec. 1291 tax - $(amount)." Attach **Form 8621,** Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund.

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 2a, under **Tax Computation**.

Line 4f

Credit for prior year minimum tax. See the earlier instructions for Form 1120-A, line 2b, under **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.

Line 8

Recapture taxes. See the earlier instructions for Form 1120-A, line 5, under **Tax Computation.**

Line 9a

Alternative minimum tax. See the earlier instructions for Form 1120-A, line 6, under **Tax Computation.**

Line 9b

Environmental tax. The corporation may be liable for the environmental tax if the modified alternative minimum taxable income of the corporation exceeds $2,000,000. See Form 4626 for details.

Line 10

Dealers in personal property. If the corporation deferred the payment of certain tax for its first or second tax year ending after 1986 under the transition rule of 1986 Act section 811(c)(7), it must include the ratable portion of the tax due for the current tax year on line 10, Schedule J, Form 1120. Write on the dotted line to the left of line 10, Schedule J, "Sec. 453C tax -$(amount)." Attach a schedule showing the computation.

Deferred tax and interest on undistributed earnings of a qualified electing fund under section 1294. Follow the instructions for Form 8621 to determine the amount of tax owed or deferred to include in or subtract from the total tax on line 10, Schedule J, Form 1120. Write on the dotted line to the left of line 10, Schedule J, "Sec. 1294" and the amount of tax to be added to or subtracted from the total for line 10. (Show in brackets an amount to be subtracted.) Do not include on line 10 the interest charge due on the deferred tax. Instead, write "Sec. 1294 interest" and the amount owed in the bottom margin of page 1, Form 1120.

Installment payment of tax attributable to LIFO recapture by corporations making an S corporation election. A corporation making an S corporation election after December 17, 1987, (except as provided in 1987 Act section 10227(b)(2)) and that uses the LIFO inventory pricing method for its last tax year as a C corporation must include a "LIFO recapture amount" in income for its last year as a C corporation. The corporation's LIFO recapture amount is equal to the excess of the inventory amount using the FIFO method over the inventory amount using the LIFO method at the close of the corporation's last tax year as a C corporation.

The additional tax resulting from inclusion of the LIFO recapture amount in income is payable in 4 equal installments. The first installment is due with the return for the electing corporation's last tax year as a C corporation and must be paid by the due date (excluding extensions of time to file).

To determine the additional tax due to LIFO recapture, the corporation must complete lines 1 through 9b of Schedule J based on income that includes the LIFO recapture amount. On a separate worksheet, using the Schedule J format, the corporation must then complete the entire worksheet (lines 1 though 10) based on taxable income not including the LIFO recapture amount. The total of lines 1 through 9b must then be compared to line 10 of the worksheet. The difference is the additional tax due to LIFO recapture.

Since the total of lines 1 through 9b of Schedule J will include all the additional tax due to LIFO recapture, the amount that may be deferred (¾ of the additional tax) must first be subtracted to arrive at line 10 total tax. Write this deferral amount in brackets on the dotted line to the left of line 10, Schedule J, as "Sec. 1363(d) deferral -$(amount)." Attach a schedule showing the computation.

Note: *The remaining 3 installments of deferred tax must be paid by the due date of Form 1120S for the next 3 tax years. No interest is payable on the deferred tax if paid on time.*

Schedule M-1 (Form 1120 Only)

Reconciliation of Income per Books With Income per Return

Line 5c

Travel and entertainment. Include on this line: 20% of meals and entertainment not allowed under section 274(n); expenses for the use of an entertainment facility; the part of business gifts in excess of $25; expenses of an individual allocable to conventions on cruise ships in excess of $2,000; employee achievement awards in excess of $400; the cost of entertainment tickets in excess of face value (also subject to 20% disallowance); ⅔ of the cost of skyboxes in excess of the face value of non-luxury box seat tickets; the part of the cost of luxury water travel not allowed under section 274(m); expenses for travel as a form of education; and other travel and entertainment expenses not allowed as a deduction.

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.

Codes for Principal Business Activity

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

Using the list below, enter on page 3, under H(1), Form 1120, or on page 2, under G(1), Form 1120-A, 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 H(2) and H(3), Form 1120, or on page 2, under G(2) and G(3), 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 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

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 stores
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
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-DF, 1120-IC-DISC, 1120F, 1120-FSC, 1120-H, 1120L, 1120-ND, 1120-PC, 1120-POL, 1120-REIT, 1120-RIC, 990-C, and certain Forms 990-T

OMB No 1545-0123

1988

Name | **Employer identification number**

Part I **Short-Term Capital Gains and Losses—Assets Held One Year or Less (Six months or less if acquired before 1/1/88)**

(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 One Year (More than six months if acquired before 1/1/88)**

5					

6 Enter gain from Form 4797, line 7 or 9	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	
10 Net capital gain. Enter excess of net long-term capital gain (line 8) over net short-term capital loss (line 4)	10	
11 Total of lines 9 and 10. Enter here and on Form 1120, line 8, page 1; or the proper line on other returns	11	

Note: *If losses exceed gains, see instructions on capital losses for explanation of capital loss carrybacks.*

Instructions

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

Purpose of Form

This Schedule D should be used by a taxpayer whose tax year begins in 1988 and who files either Forms 1120, 1120-A, 1120-DF, 1120-IC-DISC, 1120F, 1120-FSC, 1120-H, 1120L, 1120-ND, 1120-PC, 1120-POL, 1120-REIT, 1120-RIC, 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,** Sales of Business Property. 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, 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 one year or less. In Part II, report the sale or exchange of capital assets held more than one year. For property acquired before January 1, 1988, the holding period is 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, or other securities or evidences of indebtedness. Generally, it does not include exchanges of partnership interests. See section 1031.)

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 from passive activities.**—A closely held or personal service corporation that has a gain or loss which relates to a passive activity (section 469) may be required to complete **Form 8810,** Corporate Passive Activity Loss and Credit Limitations, before completing Schedule D See Form 8810 for details.

• **Gain on distributions of appreciated property.**—Generally, gain (but not loss) is recognized on a nonliquidating distribution of appreciated property to the extent that the property's fair market value exceeds its adjusted basis See section 311 for more information.

• **Gain or loss on distribution of property in complete liquidation.**—Generally, gain or loss is recognized by a corporation upon the liquidating distribution of property as if it had sold the property at its fair market value. An exception to this rule applies for liquidations of certain subsidiaries. See sections 336 and 337 for more information and other exceptions to the general rules. In addition, the special nonrecognition rules governing 12-month liquidations have been repealed. However, section 633(d) of the Tax Reform Act of 1986 provides a transition rule for certain qualified small corporations that completely liquidate before January 1, 1989. These corporations should get **Form 964-A,** Computation of Gain or Loss Recognized by Qualified Corporations on Complete Liquidation, to compute their gain or loss before completing Schedule D.

• **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 a corporation has a gain this year from the sale of real property or a casual sale of personal property other than inventory and is to receive any payment in a later year, it must use the installment method (unless it elects not to) and file **Form 6252,** Installment Sale Income. Also use Form 6252 if a payment is received this year from a sale made in an earlier year on the installment basis.

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.

The installment method may not be used for sales of stock or securities (or certain other property described in the regulations) traded on an established securities market. See section 453(k).

• **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 capital assets of an insurance company taxable under section 831.**—Under the provisions of section 834(c)(6), the capital losses of a property and casualty insurance company are deductible to the extent that the assets were sold to meet abnormal insurance losses or to provide for the payment of dividend and similar distributions to policyholders.

• **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)

• **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.

• **Capital gain distributions.**— Report capital gain distributions paid by mutual funds as long-term capital gains on line 5 regardless of how long the corporation owned stock in the fund.

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, certain asset acquisitions, or wash sale of stock, see sections 301 (or 1059), 334, 362 (or 358), 1014, 1015, 372 (or 374), 1031, 1033, 1060, 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.

Form **1120F**

Department of the Treasury
Internal Revenue Service

U.S. Income Tax Return of a Foreign Corporation

For calendar year 1988 or other tax year beginning , 1988, and ending , 19

OMB No. 1545-0126

1988

Please type or print

Name

Number and street (or P.O. box number if mail is not delivered to street address) (see instructions)

City or town, state and ZIP code, or country

Employer identification number

Check all applicable boxes: [ ] initial return [ ] amended return [ ] final return [ ] change of address

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 Sections II or III to compute tax on income effectively connected with the conduct of a trade or business in the U.S.*

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, and (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.

(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, and (b) percentage owned

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

M Is the corporation a personal service corporation as defined in Temporary Regulations section 1.441-4T? [ ] Yes [ ] No

1	Tax from Section I (line 11, page 2)	1	
2	Tax from Section II (line 8, Schedule J—Tax Computation, page 4)	2	
3a	Branch profits tax .... **b** Branch-level interest tax .... Total ▶	3c	
4	Personal holding company tax (attach Schedule PH (Form 1120))	4	
5a	Alternative minimum tax (Form 4626) .... **5b** Environmental tax .... Total ▶	5c	
6	TOTAL tax—Add lines 1 through 5c	6	
7	Credits: a 1987 overpayment allowed as a credit — 7a		
b	1988 estimated tax payments — 7b		
c	Less 1988 refund applied for on Form 4466 — 7c ( ) Bal ▶		
d	Tax deposited with Form 7004 — 7d		
e	Credit from regulated investment companies (attach Form 2439) — 7e		
f	Credit for Federal tax on fuels (attach Form 4136) — 7f		
g	U.S. income tax paid or withheld at the source (add line 12, page 2, and amounts from Forms 8288-A and 8805 (attach Forms 8288-A and 8805)) — 7g		
8	Total (add lines 7a through 7g)	8	
9	**TAX DUE** (subtract line 8 from line 6). See instruction C3 for method of payment	9	
10	**OVERPAYMENT** (subtract line 6 from line 8)	10	
11	Enter amount of line 10 you want: **Credited to 1989 estimated tax ▶** **Refunded ▶**	11	

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** (1988)

Form 1120F (1988) Page **2**

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% (4% for the gross transportation tax) unless limited by tax treaty. Fill in treaty rates where applicable. **If the corporation claimed a lower treaty rate, also complete Item R, Page 5.**

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 Gross transportation income (see instructions)		4		
10 Other fixed or determinable annual or periodic income				
....				
....				
....				
....				
....				
11 Total—Enter here and on line 1, page 1 ▶				
12 Total—Enter here and as part of line 7g, page 1 ▶				

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 $ .... Bal ▶	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 14)	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 18, 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 (See instructions for limitation on 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 (see instructions)	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 15) 30b	30c	
	31 Taxable income or (loss) (subtract line 30c 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 a Additional section 263A costs (see instructions—attach schedule)	4a	
b Other costs (attach schedule)	4b	
5 Total—Add lines 1 through 4b	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.

c If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO 8c

d Do the rules of section 263A (with respect to property produced or acquired for resale) apply to the corporation? ☐ Yes ☐ No

e Was there any change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☐ No
If "Yes," attach explanation.

Schedule C.—Dividends and Special Deductions (see instructions)

	(a) Dividends received	(b) %	(c) Special deductions (Multiply (a) by (b))
1 Dividends from less-than-20%-owned domestic corporations that are subject to the 70% deduction (other than dividends on debt-financed stock)		70	
2 Dividends from 20%-or-more-owned domestic corporations that are subject to the 80% deduction (other than dividends on debt-financed stock)		80	
3 Dividends from debt-financed stock of domestic and foreign corporations (sec. 246A)		see inst	
4 Dividends on certain preferred stock of less-than-20% owned public utilities		41 176	
5 Dividends on certain preferred stock of 20%-or-more-owned public utilities		47 059	
6 Dividends from less-than-20%-owned foreign corporations that are subject to the 70% deduction		70	
7 Dividends from 20%-or-more-owned foreign corporations that are subject to the 80% deduction		80	
8 **Total deductions.** Add lines 1 through 7, column (c). See instructions for limitation			
9 Other dividends from foreign corporations not included in lines 3, 6, and 7			
10 Foreign dividend gross-up (section 78)			
11 IC-DISC and former DISC dividends not included in lines 1, 2, and 3 (section 246(d))			
12 Other dividends			
13 Deduction for dividends paid on certain preferred stock of a public utility			
14 Total dividends. Add line 1 through 12, column (a). Enter here and on line 4, Section II, page 3			
15 Total deductions. Add lines 8 and 13, column (c). Enter here and on line 30b, 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
1		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	

2 Total compensation of officers	
3 Less: Compensation of officers claimed on Schedule A and elsewhere on this return	( )
4 Compensation of officers deducted on line 12, page 3	

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, enter your share of the $50,000 and $25,000 taxable income bracket below.
(i) $ .... (ii) $ ....

b Enter your share of the additional 5% tax (not to exceed $11,750) 2b

3 Income tax (see instructions to figure the tax). Check if corporation is a qualified personal service corporation (see instructions) ▶ ☐ 3

4a Foreign tax credit (attach Form 1118) 4a

b Credit for fuel produced from a nonconventional source .... b

c Orphan drug credit (attach Form 6765) c

d General business credit. Enter here and check which forms are attached: .... d
☐ Form 3800 ☐ Form 3468 ☐ Form 5884
☐ Form 6478 ☐ Form 6765 ☐ Form 8586

e Credit for prior-year minimum tax (attach Form 8801) .... e

5 Total—Add lines 4a through 4e 5

6 Subtract line 5 from line 3 6

7 Recapture taxes. Check if from: ☐ Form 4255 ☐ Form 8611 7

8 Total tax—Add lines 6 and 7. Enter here and on line 2, page 1 8

SECTION III.—Branch Profits and Branch-Level Interest Taxes

Part I Computation of Branch Profits Tax

1	Enter the amount from line 29, Section II	1	
2	Adjustments to arrive at effectively connected earnings and profits. (Make positive adjustments (such as tax-exempt interest income) and negative adjustments (such as Federal income taxes) required under the principles of section 312. See the instructions for certain types of income included in effectively connected taxable income but not taken into account when computing effectively connected earnings and profits, and the treatment of deductions apportioned to such income.) Attach a schedule showing the nature and amount of these adjustments	2	
3	Effectively connected earnings and profits. Combine line 1 and line 2. (See the instructions for the computation of effectively connected earnings and profits of certain insurance companies. Attach a statement showing this computation, if this applies to the corporation.)	3	
4a	Enter U.S. net equity at the end of the current tax year. (See the instructions for the definition of U.S. net equity.)	4a	
b	Enter U.S. net equity at the end of the prior tax year	4b	
c	Increase in U.S. net equity. If line 4a is greater than line 4b subtract line 4b from line 4a. Enter the result here and skip to line 4e. If line 4a equals line 4b, enter zero and skip to line 4e	4c	
d	Decrease in U.S. net equity. If line 4b is greater than line 4a, subtract line 4a from line 4b and enter result here	4d	
e	Non-previously taxed accumulated effectively connected earnings and profits. Enter excess, if any, of effectively connected earnings and profits for preceding tax years beginning after 1986 over any dividend equivalent amounts for those years	4e	
5	Dividend equivalent amount. If an amount is entered on line 4c, subtract that amount from line 3 and enter the result here. Enter zero if less than zero. Otherwise, add the lesser of line 4d or line 4e to line 3 and enter total here	5	
6	Branch profits tax. Multiply the amount on line 5 by 30% (or lower treaty rate if the corporation is a qualified resident). Enter here and on line 3a, page 1. See instructions for situations in which more than one rate applies or treaty benefits other than a rate reduction affect the computation of the branch profits tax. If treaty benefits apply, attach a statement explaining why the corporation is a qualified resident and describe the benefits that apply. Also complete Item R below	6	

Note: *See instructions for additional schedules relating to the branch profits tax that are required to be attached.*

Part II Computation of Branch-Level Interest Tax

1	Enter the amount of interest allowable as a deduction under Regulations section 1.882-5. (Section II, line 18)	1	
2	Enter the amount of interest paid by the foreign corporation's U.S. trade or business (other than nondeductible interest). (See instructions for the definition of interest paid by the corporation's U.S. trade or business.) If the interest paid by the corporation's U.S. trade or business was increased because 80% or more of the corporation's assets are U.S. assets, check this box ▶ ☐	2	
3	Subtract line 2 from line 1. Enter zero if the result is less than zero	3	
4	Branch-level interest tax. Multiply line 3 by 30% or lower treaty rate (if corporation is a qualified resident). Enter here and on line 3b, page 1. (If treaty rate applies, attach a statement to Form 1120F explaining why the corporation is a qualified resident.) Also complete Item R below	4	

Other Deductions

Explanation	Amount	Explanation	Amount
		TOTAL—Enter here and on line 27, page 3	

Additional Information Required

N Business description (see page 14 of instructions)
(1) Business activity code number ▶
(2) Business activity ▶
(3) Product or service ▶

O During the tax year was any part of your accounting/tax records maintained on a computerized system? ☐ Yes ☐ No

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

Q Enter amount of tax-exempt interest received or accrued during the tax year ▶

R Does the foreign corporation take the position on this return that any Internal Revenue law is overruled or otherwise modified by a treaty between the U.S. and a foreign country? (see instructions) ☐ Yes ☐ No
If "Yes," enter the treaty country .... and article(s) ....
Also attach a statement describing the position taken.

S Does the foreign corporation claim a reduction in, or exemption from, the branch profits tax due to a complete termination of all U.S. trades or businesses, the tax-free liquidation or reorganization of a foreign corporation, or the tax-free incorporation of a U.S. trade or business? ☐ Yes ☐ No

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 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. You are not required to 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 $			
c Travel and entertainment $		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). You are not required to 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)	

☆ USGPO 1989- 620-620/00786

1988

Department of the Treasury
Internal Revenue Service

Instructions for Form 1120F

U.S. Income Tax Return of a Foreign 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.

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

Recordkeeping	100 hrs., 55 min.
Learning about the law or the form	29 hrs., 34 min.
Preparing the form	55 hrs., 47 min.
Copying, assembling, and sending the form to IRS	6 hrs., 42 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service**, Washington, DC 20224, Attention: IRS Reports Clearance Officer, TR:FP; or the **Office of Management and Budget**, Paperwork Reduction Project, Washington DC 20503.

Important Tax Law Changes

These changes are a result of the Revenue Act of 1987 ("1987 Act") and the Technical and Miscellaneous Revenue Act of 1988. They apply to tax years beginning after 1987 unless otherwise noted.

Vacation pay.—The special election that allows accrual method taxpayers a deduction for additions to a reserve for vacation pay has been repealed. Generally, the amount now allowed as a deduction for vacation pay is limited to the amount of vacation pay earned during the year to the extent it is paid during the year or vested at the end of the year and paid within 2½ months after the end of the year.

The change from the reserve method is treated as a change in method of accounting initiated by the taxpayer and made with IRS consent. The net amount of the adjustment required by the change in accounting method equals the excess of the amount in the reserve at the end of the year preceding the year of changeover the amount accrued at the end of the year preceding the year of change and paid within 2½ months after the close of that year. The net amount of the adjustment reduced by the balance in the suspense account under section 463(c) must be included in income as follows: 25% for the year of change, 5% in the 1st year after the year of change, 35% for the 2nd year after the year of change, and 35% in the 3rd year after the year of change. However, if Rev. Proc. 84-74, 1984-2 C. B. 736, requires the adjustment to be taken into account over a period of less than 4 years, the adjustment is to be included in income ratably over the shorter period. See 1987 Act section 10201 for more information.

Installment method for dealer dispositions of property.—The installment method for dispositions of property by dealers after 1987 has been repealed. In addition, the proportionate disallowance rules of section 453C have been repealed for dispositions after 1987. See section 453 for details and exceptions.

Long-term contracts.—Effective for long-term contracts entered into after October 13, 1987, and before June 21, 1988, that are accounted for under the percentage of completion-capitalized cost method, the percentage of items taken into account under the percentage of completion method has been increased to 70%. For long-term contracts (except certain residential construction contracts) entered into after June 20, 1988, that are accounted for under the percentage of completion-capitalized cost method, this percentage has been increased to 90%. Generally, builders of single-family residences and dwelling units in buildings containing 4 or fewer dwelling units are not required to use either the percentage of completion method or the percentage of completion-capitalized cost method for contracts entered into after June 20, 1988. See section 460 for details.

Capitalization of past service pension costs.—Contributions to a pension or annuity plan representing past service costs are now subject to the uniform capitalization rules of section 263A or the long-term contract rules of section 460. Thus, an allocable share of all otherwise allowable pension costs, whether they relate to current or past services, must be included in the basis of property produced or held for resale, including property the taxpayer produces under a long-term contract. This change in law is effective for costs incurred after 1987 for property (other than inventory) produced by the taxpayer, including costs allocable to long-term contracts under section 460. For inventory costs, the change is effective for tax years beginning after 1987, and is treated as a change in method of accounting initiated by the taxpayer and made with IRS consent. Any adjustment required under section 481(a) must be included in income over a period not to exceed 4 years.

Personal service corporations may elect a tax year other than a calendar year.—A personal service corporation (as defined in Temporary Regulations section 1.441-4T) may elect to have a tax year other than a calendar year rather than adopting or changing to a calendar year for tax years beginning after 1986. Electing corporations are subject to minimum distribution requirements under section 280H(c) for each year the election is in effect. If the corporation fails to make the required minimum distributions, the deduction allowable for certain amounts paid to employee-owners is limited to a maximum deductible amount and the excess is deferred until the following tax year. See **Form 8716**, Election to Have a Tax Year Other Than a Required Tax Year, for details.

Reduction in dividends-received deduction.—Generally, the 80% dividends-received deduction has been reduced to 70% for dividends received after 1987. However, an 80% dividends-received deduction has been retained for those recipient corporations that own 20% or more of the voting power and value of the stock of the issuing corporation. See the instructions for Schedule C for more information.

Graduated rates denied to qualified personal service corporations.—Qualified personal service corporations are now taxed at a flat rate of 34% on their taxable income. See the instructions under **Tax Computation** for the definition of a qualified personal service corporation.

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 gross 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.

A 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 unless it is a Canadian or Mexican subsidiary 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 1120-PC**, U.S. Property and Casualty Insurance Company Income Tax Return, as a foreign property and casualty 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. Income of Foreign Governments and International Organizations.—Income of foreign governments and international organizations from: **(1)** investments in the U.S. in stocks, bonds, or other domestic securities owned by such foreign government or international organization; **(2)** interest on deposits in banks in the U.S. of moneys belonging to such foreign government or international organization; or **(3)** financial instruments held (by a foreign government) in the execution of governmental financial or monetary policy are generally not subject to taxation. However, the types of income described in section 892(a)(2) that are "received" directly or indirectly from commercial activities are subject to tax. The types of income described in section 892(a)(2) are also subject to withholding.

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.

Example

Foreign corporation X disposes of a U.S. real property interest on May 15, 1988, and receives $50,000 for it. X purchased the real property interest on June 20, 1986. X's basis in the property is $20,000 and the cost of selling the property is $3,000.

Foreign corporation X would report the sale of its real property interest as follows:

(a) It would enter a description of the property in column (a), Part II, Schedule D (Form 1120);

(b) It would enter "6/20/86" (date property was acquired) in column (b);

(c) It would enter "5/15/88" (date property was sold) in column (c);

(d) It would enter "$50,000" (gross amount received from the sale) in column (d);

(e) It would enter "$23,000" (sum of its basis in the property and the cost of sale) in column (e);

(f) It would enter "$27,000" (gross sales price for the property of $50,000 minus its basis in the property of $20,000 and its costs of sale of $3,000) in column (f);

(g) It would then carry the $27,000 gain to line 8, page 3, Form 1120F.

See Temporary Regulations section 1.897-5T for the applicability of section 897 to reorganizations and liquidations.

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 7g, page 1.

U.S. real property interest.—Generally, a 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.

Under Regulations section 1.6081-2(a) these corporations are granted an automatic 3-month extension of time to file, without using Form 7004. If a 6-month extension is needed, 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 1988 return for calendar year 1988 and fiscal years that began in 1988 and end in 1989. If the return is for a fiscal year, fill in the tax year space at the top of the form.

Final return.—If the corporation ceased to exist during the tax year, check "Final return" box at the top of Form 1120F.

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. If the corporation's address has changed from the last time Form 1120F was filed, check the box at the top of page 1.

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. Foreign corporations 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 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, which 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, which 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, R, and S.—These are some of the information returns that must be filed to report certain payments, such as dividends and interest. For more information, see the instructions for Forms 1098, 1099, 5496, 1096, and W-2G.

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, Alternative Minimum Tax—Corporations, is used to compute alternative minimum tax and the environmental tax.

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, FSC, and IC-DISC 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.

Form 8805.—Reports taxes withheld on foreign partners in domestic partnership.

Form 8810.—Corporate Passive Activity Loss and Credit Limitations. Closely held and personal service corporations subject to the passive activity limitations use this form to compute their allowable passive activity loss and credit.

(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 check the "Amended return" box at the top of Form 1120F.

(d) Attachments

Attach **Form 4136**, Credit for Federal Tax on Fuels, after page 6, Form 1120F. Attach schedules in alphabetical order and other forms in numerical order after Form 4136.

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 labels are not acceptable); and*
- *Give a copy of Form 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 for Tax Practitioners, 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.

Generally, corporations (other than qualified personal service corporations) are required to use the accrual method of accounting if their average annual gross receipts are more than $5,000,000. See section 448(c). A corporation changing to the accrual method because of this provision must complete **Form 3115**, Application for Change in Accounting Method, and attach it to Form 1120F for the year of change. The corporation must also show on a statement accompanying Form 3115 the period over which the section 481(a) adjustment will be taken into account and the basis for that conclusion. See section 448 and Temporary Regulations sections 1.448-1T(g) and 1.448-1T(h) for more information. Include the amount reportable as income in 1988 under section 481(a) on line 10, page 3.

For long-term contracts (except certain real property construction contracts), entered into after February 28, 1986, taxpayers must elect either the percentage of completion or the percentage of completion-capitalized cost method. See section 460; Notice 87-61, 1987-2 C.B. 370; and Notice 88-66, 1988–25 I.R.B. 41, for more information.

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. Also see **Publication 538**, Accounting Periods and Methods.

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.

Personal service corporations as defined in Temporary Regulations section 1.441-4T must use a calendar year unless:

(1) the corporation can establish to the satisfaction of the Commissioner that there is a business purpose for having a different tax year, or

(2) the corporation elects under section 444 to have a tax year other than a calendar year.

Personal service corporations that wish to establish a business purpose for having a different tax year should see Rev. Rul. 87-57, 1987-2 C.B. 117, for more information. Also see Rev. Proc. 87-32, 1987-2 C.B. 396, for procedures to use in adopting, retaining, or changing the corporation's tax year. Personal service corporations that wish to adopt, change to, or retain a non-calendar tax year must file requests on Form 1128 in accordance with the procedures outlined in Rev. Proc. 87-32.

Eligible personal service corporations that wish to elect under section 444 to have a tax year other than a calendar year must file Form 8716 by the earlier of: (1) the 15th day of the 5th month following the month that includes the 1st day of the tax year for which the election will be effective, or (2) the due date (not including extensions) of the income tax return resulting from the section 444 election. Electing corporations are subject to minimum distribution requirements under section 280H(c) for each year the election is in effect. If the corporation fails to make the required minimum distributions, the deduction allowable for certain amounts paid to employee-owners is limited to a maximum deductible amount under section 280H(d). Amounts not allowed as a deduction for the tax year are carried over to the following tax year.

2. Gross Income.—For purposes of Form 1120F, a foreign corporation that only has U.S. source income that is not effectively connected with the U.S. is taxed on its gross income. This income is entered on Section I and is generally taxed at the lower of 30% or treaty rate. An exception is made for gross transportation income which is taxed at 4%.

A foreign corporation that has income effectively connected with the U.S. is taxed on all income of the foreign corporation (domestic or foreign sourced). 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 865 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, for that year and each year the election continues. Use Section II to figure the tax on this income.

Also attach a schedule to Form 1120F showing the name, address, employer identification number (if any), location (state, county, city), address, and site location (if different from address). Also identify the type of real property, *i.e.*, mines, wells, etc.

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 your check or money order.*

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 Coupon **(Form 8109).**

To help ensure the proper crediting to your account, write "Form 1120F" and the tax period to which the deposit applies on your check or money order.

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.

When completing Form 8109, be sure to darken the "Form 1120" box.

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 payer the correct taxpayer identification number, the payer will withhold taxes from those payments. If amounts were withheld from payments, the corporation should show this amount in the blank space in the right hand column between lines 7 and 8, page 1, and label the amount as backup withholding. The corporation should then include the amount in the total for line 8.

4. Estimated Tax.—A corporation must make estimated tax payments if it can expect its estimated tax (income tax minus credits) to be $500 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.

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. Interest and Penalties

Interest and penalty charges are described below. If a corporation files late or fails to pay the tax when due, it may be liable for penalties unless it can show that the failure was due to reasonable cause and not willful neglect.

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

2. Late Filing of Return.—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 (including extensions) is the lesser of the underpayment of tax or $100.

3. Late Payment of Tax.—Generally the penalty for not paying tax when due is ½ of 1% 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.

4. Underpayment of Estimated Tax.—A corporation that fails to make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. In general, to avoid the estimated tax penalty, the corporation must make estimated tax payments of at least the smaller of 90% of the tax shown on the return, or 100% of its prior year's tax. See section 6655 for details and exceptions.

Form 2220, Underpayment of Estimated Tax by Corporations, is used to see if the corporation owes a penalty and to figure the amount of the penalty. Generally, the corporation does not have to file this form because IRS can figure the amount of any penalty and bill the corporation for it. However, you must complete and attach Form 2220 even if the corporation does not owe the penalty if: **(a)** the annualized income or adjusted seasonal installment method is used, or **(b)** the corporation is a "large corporation" computing its first required installment based on the prior year's tax. If there is tax due on line 9, page 1, include the penalty in the total. If there is a refund due, subtract the penalty from the overpayment on line 10, page 1.

5. Overstated Tax Deposits.—If deposits are overstated, the corporation may be subject to a penalty of 25% of the overstated deposit claim. See section 6656(b).

6. Other Penalties.—There are also penalties that can be imposed for negligence, substantial understatement of tax, and fraud. See sections 6653 and 6661.

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. 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 line 7e, page 1, Form 1120F, and enter the amount of credit in the margin next to line 7e and identify it as "OWPT." **Note:** *The windfall profit tax does not apply to crude oil removed after August 22, 1988.*

H. Schedules L, M-1, and M-2

A foreign corporation other than a corporation subject to the branch profits tax 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.

Corporations subject to the branch profits tax should see the additional requirements on page 13.

Schedule M-1

Reconciliation of Income per Book With Income per Return

Line 5c

Travel and entertainment expenses.—Include on this line 20% of meals and entertainment that are not allowed under section 274(n); expenses for the use of an entertainment facility; the part of business gifts that exceeds $25; expenses of an individual allocable to a convention or a cruise ship in excess of $2,000; business achievement awards larger than $400; the cost of entertainment in excess of face value (subject to the 20% disallowance); ⅔ of the costs of skyboxes in excess of the face value of non-luxury box seat tickets; the part of the costs of luxury water travel not allowed under section 274(m); expenses for travel as a form of education; and other travel and entertainment expenses not allowed as a deduction.

I. Tax Laws That Affect Foreign Corporations

Source Rules for Personal Property.—Income from sales of personal property by a foreign corporation will generally be foreign sourced, but a major exception applies if the foreign corporation has an office or other place of business in the U.S. If a foreign corporation has an office or place of business in the U.S., income from any sale of personal property (including inventory) attributable to that office or place of business is U.S. source income. This U.S. source rule is subject only to limited exceptions for sales of inventory described in the next sentence and for amounts included in gross income under section 951(a)(1)(A) (subpart F income). Income from sales of inventory for ultimate use outside the U.S. will be foreign sourced, but only if an office or other place of business of the foreign corporation located outside the U.S. materially participated in the sale. See section 865 for definitions, and for exceptions for intangible property and depreciable property. See section 988 for rules for sourcing income from certain foreign currency transactions.

Rules for 80-20 Corporations.—Interest income received by a foreign corporation from an 80-20 corporation will be considered foreign sourced only if the corporation shows to the satisfaction of the Commissioner that it has met the 80% active foreign business requirement during the testing period (defined below).

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 3 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), the testing period is the tax year in which payment is made.

This source rule also applies to dividends paid by 80-20 corporations. In general, dividends paid by an 80-20 corporation to a foreign corporation are treated as U.S. source income. If the dividend is not effectively connected with a U.S. trade or business of the foreign corporation, no withholding tax applies to the percentage of the dividend equal to the corporation's active foreign business income to total income for the testing period (section 861(c)(2)(A)).

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 in a transaction 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.

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. trade or business if the original transaction that gives rise to the income was effectively connected with the U.S. trade or business or occurs within 10 years after the property ceases to be held for use in a U.S. trade or business. For more information, see section 864(c).

J. Filing Requirements of Foreign Personal Holding Companies and Personal Holding Companies

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" (as defined in section 542) but **not** a foreign personal holding company, it must file Schedule PH (Form 1120) with Form 1120F and must report the tax on line 4 (in the computation area at the bottom of page 1 of Form 1120F). See section 542 and Schedule PH (Form 1120) for details.

Specific Instructions

Tax computation on Page 1

Line 4. Personal holding company tax.—See General Instruction J.

Lines 5a and 5b. Alternative minimum tax (and environmental tax).—Attach **Form 4626,** Alternative Minimum Tax-Corporations, to Form 1120F if the corporation's taxable income or loss before the NOL deduction (line 29, Section II less line 30b, Section II) when combined with its adjustments and tax preference items (including the book income adjustment) total more than $40,000 (or more than its allowable exclusion amount, if less). See Form 4626 for more information.

Also, if the corporation is liable for the section 59A environmental tax figured on Form 4626, enter this tax on line 5b. See Form 4626 for more information. Attach Form 4626 to Form 1120F.

Section I.—Income From Sources in the U.S. That Is Not Effectively Connected With the U.S.

Any gross income of this kind is taxed at 30% or lower treaty rate, except for gross transportation income, which is taxed at 4%. No deductions are allowed against this type of income.

Corporations organized in, or under the laws of Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, or the Virgin Islands will not be treated as a foreign corporation if they meet the rules of section 881(b).

Income not effectively connected with the U.S. includes only the following to the extent it is not effectively connected:

1. Interest (other than original issue discount as defined in section 1273), 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.

2. Withholding is imposed on the proceeds from sale, exchange, or retirement (see section 881(a)(3)) on payments received after September 15, 1984, with respect to original issue discount obligations issued after March 31, 1972. Withholding is required both on payments of stated interest as well as on proceeds from sale, exchange, or retirement (see section 881(a)(3) as it existed before amendment by the Tax Reform Act of 1984) on original issue discount obligations issued before April 1, 1972.

3. Gains described in section 631(b) or (c) from disposal of timber, coal, or domestic iron ore with a retained economic interest.

4. Gains from the sale or exchange of patents, copyrights, and other intangible property described in section 881(a)(4).

Gross Transportation Tax.—A tax is imposed on foreign corporations that receive income from the transportation of people or property that either begins or ends in the U.S. or from the leasing or renting of vessels or aircraft involved in such transportation. The tax is imposed on income that is not effectively connected with a U.S. trade or business. One-half of the gross transportation income is considered U.S. sourced. A 4% tax is applied on the U.S. portion of the gross transportation income. Corporations subject to this tax should enter one-half of the amount of gross income in the first column of line 9 of Section I; and enter the amount of tax in column 3 of line 9. In addition, these corporations should attach a statement to Form 1120F showing the dates the vessels or aircraft entered or left the U.S. and the amount of gross income for each trip.

The gross transportation tax will not be imposed on effectively connected income. Whether income is effectively connected with the U.S. is determined by two tests. First, the corporation must have a fixed place of business in the U.S., and second, substantially all of the U.S. sourced income must be attributable to regularly scheduled transportation (or the leasing of vessels and aircraft must be attributable to a fixed place of business in the U.S.). For more information, see section 887.

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 of 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 this 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.

Line 1

Enter gross income that is effectively connected with the conduct of a trade or business within the U.S. except those income items that must be reported on lines 4 through 10. For reporting advance payments, see Regulations section 1.451-5.

The rules for long-term contracts have been changed by the Revenue Act of 1987 and the Technical and Miscellaneous Revenue Act of 1988. See section 460 for more information.

Changes have also been made to the installment method. Effective for dispositions after 1987, the installment method is no longer available for dealer dispositions of property. In addition, the proportionate disallowance rules of section 453C have been repealed for dispositions after 1987. However, a dealer disposition does not include: **(1)** the disposition of property used or produced in the trade or business of farming, or **(2)** certain dispositions of timeshares and residential lots if the taxpayer elects to pay interest under section 453(l)(3). See section 453(l) for more information.

Effective for tax years beginning after 1987, the installment method has also been repealed for installment obligations arising from dealer dispositions of property after February 28, 1986, and before January 1, 1988. If the corporation was reporting these obligations on the installment method, the gain that remains to be recognized as of the first day of the corporation's first tax year beginning after 1987 must be included in income as a section 481(a) adjustment over a period not to exceed 4 tax years. The rules of Rev. Proc. 84-74 are used to figure the amount includible each year, except that the section 481(a) adjustment must be included in income at a rate no slower than the rate of contraction of the corporation's dealer installment obligations. Do not include in the section 481(a) adjustment any gain that is taken into account under section 811(c)(6) of the Tax Reform Act of 1986 ("1986 Act") (transition rule for sales of real property by dealers). Similarly, the section 481(a) adjustment is not affected by section 811(c)(7) of the 1986 Act, which permits the delayed payment of certain tax for sales of personal property by dealers. Both of these rules continue to apply to installment obligations arising out of dealer dispositions occurring after February 28, 1986, and before January 1, 1988. Include the amount reportable as income in 1988 on line 10, Section II, and attach a computation. The change of accounting method is treated as initiated by the taxpayer and made with IRS consent.

For dealer dispositions of property before March 1, 1986, dispositions of property used or produced in the trade or business of farming, and certain dispositions of timeshares and residential lots reported under the installment method, 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. For sales of timeshares and residential lots reported under the installment method, the corporation's income tax is increased by the interest payable under section 453(l)(3). To report this addition to the tax, see the instructions for line 8, Schedule J.

Accrual basis taxpayers need not accrue certain amounts to be received from the performance of services which, on the basis of their experience, will not be collected (section 448(d)(5)). This provision does not apply to any amount if interest is required to be paid on such amount or if there is any penalty for failure to pay such amount. Corporations that fall under this provision should attach a schedule showing total gross receipts, amount not accrued as a result of the application of section 448(d)(5), and the net amount accrued. The net amount should be entered on line 1a. For more information and guidelines on this "non-accrual experience method," see Temporary Regulations section 1.448-2T.

Line 2.—See instructions for Schedule A.

Line 4.—See instructions for Schedule C.

Line 5.—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.

Line 6.—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.

Line 8.—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)(6), foreign corporations must only include capital gains and losses that are effectively connected with a trade or business in the U.S.

Line 9.—Enter the net gain or loss from line 18, Part II, **Form 4797,** Sales of Business Property.

Line 10.—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; 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 taxes with refunds.

If "other income" consists of 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. Section 263A Uniform Capitalization Rules.

The uniform capitalization rules of section 263A require corporations to capitalize or include in inventory certain costs incurred in connection with the production of real and personal tangible property held in inventory or held for sale in the ordinary course of business. Tangible personal property produced by the taxpayer, includes films, sound recordings, video tape, books, or similiar property. The rules also apply to personal property (tangible and intangible) acquired for resale. Taxpayers subject to these rules are required to capitalize not only direct costs but an allocable portion of most indirect costs (including taxes) that relate to the assets produced or acquired for resale. Interest expense paid or incurred in the course of production must be capitalized and is governed by special rules. For more information see Notice 88-99, 1988-36 I.R.B. 29. The uniform capitalization rules also apply to property constructed or improved by the taxpayer for use in its trade or business or in an activity engaged in for profit.

Section 263A does not apply to personal property acquired for resale if the taxpayer's average annual gross receipts are $10,000,000 or less. It does not apply to timber or to property produced under a long-term contract. Special rules apply for farmers. The rules do not apply to property which is produced for use by the taxpayer if substantial construction has occurred before March 1, 1986.

In the case of inventory, some of the indirect costs that must be capitalized are administration expenses; taxes; depreciation; insurance; compensation paid to officers attributable to services; rework labor; and contributions to pension, stock bonus, and certain profit-sharing, annuity, or deferred compensation plans. The costs required to be capitalized under section 263A are not deductible until the property to which the costs relate is sold, used, or otherwise disposed of by the corporation.

Current deductions may be claimed for research and experimental costs under section 174, intangible drilling costs for oil, gas, and geothermal property, mining, and exploration and development costs incurred in the U.S. Temporary Regulations section 1.263A-1T specifies other indirect costs that may be currently deducted and those that must be capitalized with respect to production or resale activities. For more information, see Temporary Regulations section 1.263A-1T.

Generally, corporations required to change their method of accounting under section 263A must complete section A (items 1a, 3a, 3b, 4a, 11, and 12) and section D of Form 3115 (Rev. 11-87 or later revision) and the section 263A checklist contained in Notice 88-92, 1988-34 I.R.B. 23 (reprinted as **Publication 1426,** Automatic Change in Method To Comply With Section 263A), for each trade or business to which section 263A applies. You may choose your own format for reproducing the questions and answers for the section 263A checklist referred to in the notice. The Form 3115 and the section 263A checklist must be attached to Form 1120F for the year of change. However, if the first return to which section 263A applies was filed before October 21, 1988, and Form 3115 and the section 263A checklist were not filed with that return (or Form 3115 was filed without the section 263A checklist), Form 3115 (or a copy of the previously filed Form 3115) and the section 263A checklist must be attached to the first return filed after October 20, 1988. Identify the change at the top of page 1 of Form 3115 by printing or typing "Automatic Change in Accounting Method Under Section 263A." See Notice 88-92 for details.

Exceptions: The requirement to file Form 3115 or the section 263A checklist does not apply to any corporation required to change its accounting method under section 263A with respect to: (i) property produced in a farming business or (ii) property produced by the corporation to be used in the corporation's trade or business (but only if the corporation's average annual gross receipts for the 3 tax years preceding the year of change did not exceed $10 million).

2. 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.

3. 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.

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

5. Section 291 limitations.—Corporations may be required to adjust deductions for depletion of iron ore and coal, intangible drilling and exploration and development costs, bad debts deduction for financial institutions, and the amortizable basis of pollution control facilities. See section 291 to determine the amount of adjustment.

6. Passive activity limitations.—Limitations on passive activity losses and credits under section 469 apply to closely held corporations (defined below) and personal service corporations as defined in Temporary Regulations section 1.441-4T. A corporation is a closely held corporation for this purpose if 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 or for no more than 5 individuals, and the corporation is not a personal service corporation. Certain organizations are treated as individuals for purposes of this test. (See section 542(c).) For rules of determining stock ownership, see section 544 (as modified by section 465(a)(3)).

There are two kinds of passive activities: trade or business activities in which the corporation did not materially participate for the tax year, and rental activities regardless of its participation. An activity is a trade or business activity if the activity involves the conduct of a trade or business (i.e., deductions from the activity would be allowable under section 162 if other limitations, such as the passive loss rules, did not apply), or research or experimental expenditures in the activity are deductible under section 174 (or would be deductible if the corporation chose to deduct rather than capitalize them), and the activity is not a rental activity. Temporary Regulations section 1.469-1T(g)(3) defines material participation of corporations.

Generally, losses from passive activities can be deducted only to the extent of income from passive activities. Passive activity credits are generally limited to the tax attributable to net passive income. Closely held corporations are allowed to increase: (i) the limitation on losses from passive activities by the amount of net active income, and (ii) the limitation on passive activity credits by the tax attributable to net active income. See Temporary Regulations section 1.469-1T(g)(4) for a definition of net active income. Phase-in rules apply to certain passive activities acquired before October 23, 1986. For tax years beginning in 1988, 40% of the current year passive activity loss and credit from these activities is allowed. Generally, passive activity losses and credits that are not allowed in the current tax year are carried forward for use in later years.

Corporations subject to the passive activity limitations must complete **Form 8810,** Corporate Passive Activity Loss and Credit Limitations, to compute their allowable passive activity loss and credit. Before completing Form 8810, see Temporary Regulations section 1.163-8T, which provides rules for allocating interest expense among activities. If a passive activity is also subject to the at-risk rules of section 465, the at-risk rules apply before the passive loss rules apply. For more information, see section 469, the temporary regulations thereunder, and **Publication 925,** Passive Activity and At-Risk Rules.

Numbers correspond with line numbers for deductions in Section II.

12. Compensation of officers.—Besides entering officers' compensation deductible on line 12, Form 1120F filers must complete Schedule E on page 4 if their total receipts (line 1a, plus lines 4 through 10, of page 3, Form 1120F) are $150,000 or more.

Complete Schedule E, line 1, columns (a) through (f), for all officers. The corporation determines who is an officer under the laws of the state where incorporated.

Also complete lines 2 through 4 on Schedule E. Line 3 is used to show the portion of the compensation of officers that is claimed elsewhere on the return (such as elective contributions to a section 401(k) plan or amounts contributed under a salary reduction SEP agreement) or is capitalized or included in inventory under section 263A.

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 amounts included in cost of goods sold and/or operations, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement.

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 not claimed elsewhere on the return, such as labor and supplies, that do not add to the value of the property or appreciably prolong its life.

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

A small bank or thrift using the reserve method should attach a schedule showing how it arrived at the current year's provision.

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. possessions income taxes if a foreign tax credit is taken;
3. Taxes not imposed on the corporation;
4. Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (such taxes must be treated as part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition).

If the corporation is liable for the environmental tax under section 59A, see Form 4626 for computation of the environmental tax deduction.

See section 164(d) for apportionment of taxes 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 or credited.

18. Interest.—See section 864(e) for the interest deductions allowed to foreign corporations.

Phase-in Rules for Allocation of Interest.— Section 864(e) requires corporations that are members of a consolidated group to allocate interest paid or accrued on the basis of assets. Section 1012(h) of the 1988 Act provides phase-in rules for the allocation of interest.

For the first 3 tax years beginning after 1986, a portion of the amount of interest paid or accrued by the consolidated group will not be allocated based on the assets. To compute the amount of interest that is not allocated on the basis of assets, determine the amount of outstanding indebtedness of the consolidated group on November 16, 1985, and multiply that amount by a percentage. The percentage declines over the 3-year period. For tax years beginning in 1987, the percentage is 75%; for tax years beginning in 1988, the percentage is 50%; and for tax years beginning in 1989, the percentage is 25%.

The portion of the interest not subject to the allocation based on assets is, however, limited to the smallest amount of outstanding interest at the end of any month beginning after November 1985.

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.

Also see section 7872 for information on the deductibility of foregone interest on certain below-market rate loans.

Generally, the interest and carrying charges on straddles are not deductible and must be capitalized. See section 263(g).

Interest that is allocable to such property produced by a corporation for its own use or for sale must be capitalized. In addition, a corporation also must capitalize any interest on debt allocable to an asset used to produce the above property. See section 263A and Notice 88-99 for definitions and more information.

Generally, a cash basis taxpayer cannot deduct prepaid interest allocable to years following the current tax year. Please see **Publication 545,** Interest Expense.

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 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.

Taxable income is modified in order to determine the amount of a net operating loss used in an intervening year (i.e., a year to which a net operating loss is carried but not fully absorbed). For this purpose, taxable income is computed by determining the net operating loss deduction for the year without regard to the net operating loss for the loss year or later year. See section 172(b)(2). To the extent charitable contributions are used to reduce taxable income for this purpose and to increase a net operating loss carryover, a contribution carryover is not allowed. See section 172(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 deduction 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. All other corporations must generally complete and attach Form 8283 to their returns for contributions of property other than money after June 6, 1988, if the total claimed deduction for all property contributed was more than $5,000.

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 that would have resulted if the property were sold at its fair market value; and

(2) for certain contributions, all of the long-term capital gain that would have resulted if the property were sold at its fair market value.

The reduction for all 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 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. See section 170(e).

20. Depreciation.—See the instructions for **Form 4562,** Depreciation and Amortization, for more details. In addition to depreciation, include on line 20 the part of the cost (up to $10,000) that the corporation elects to expense for certain recovery property.

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

Foreign intangible drilling costs and foreign mining exploration and development costs must be added to the corporation's basis for computing cost depletion or be ratably deducted over a 10-year period. See sections 263(i), 616, and 617 for more information.

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 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 timely file these forms and for overstating the pension plan deduction. For more information, see sections 6652(e) and 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.

26. Employee benefit programs.—Enter the amount of contributions to employee benefit programs not claimed elsewhere on the return (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.—List deductions, other than those entered on lines 12 through 26, page 3, on the "Additional Deductions" area of page 5. Enter the total of these amounts on line 27, page 3.

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 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). For other allowable deductions, see section 404(k)(2)(C).

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

Additional limitations apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets. See section 274 and **Publication 463,** Travel, Entertainment, and Gift Expenses, for details. Generally, a corporation can deduct all other ordinary and necessary travel expenses paid or incurred in its trade or business. It cannot, however, deduct an expense paid or incurred for a facility (such as a yacht or a hunting lodge) that is usually considered amusement, entertainment, 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.)

Note: Do not deduct penalties imposed on the corporation such as those included in General Instruction E.

Use the following rules to allocate deductions to classes of gross income.

Apportionment of Expenses

Expenses that are directly related to a class of gross income (including tax-exempt income) must be allocated to that class of gross income. Expenses, not directly related to a class of gross income, should be allocated to all classes of income on the basis of gross income in each class of income to total gross income, or other ratio that clearly relates to the classes of income.

Attach a schedule to Form 1120F showing classes of gross income and expenses directly allocable to each class of gross income. For expenses that are not directly allocable to a class of gross income, show the computation of the expense to each class of gross income.

29. Taxable income before NOL deduction and special deductions.

"At risk" rules.—Special "at-risk" rules under section 465 generally apply to closely held corporations (as defined in section 465(a)(1)(B)) and personal holding companies engaged in any activity in carrying on 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 the activities of: (1) holding real property (other than mineral property) placed in service by the taxpayer before 1987 ; (2) equipment leasing under sections 465(c)(4), (5), and (6); and (3) any qualifying business of a qualified corporation described in section 465(c)(7).

If the "at-risk" rules apply, 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. If the corporation is involved in one or more activity, one or more of which incurs a loss for the year, report the loss for each activity separately. Attach **Form 6198,** Computation of Deductible Loss Described in Section 465(c), showing the amount at-risk and gross income and deductions for the activities with losses.

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.

30a. 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 in an attached schedule.

Generally, a corporation may carry a net operating loss back to each of the 3 years preceding the year of loss and carry it over to each of the 15 years following the year of the loss. A corporation may carry back 10 years that part of the 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 1120F when claiming the 10-year carryback on product liability losses. There is also an available election to carry a net operating loss to just each of the 15 years following the year of loss. The election may be made by attaching a statement to the return that is filed on time (including extensions). The election is irrevocable. Section 172(b)(1) describes types of losses for which the 15-year carryforward period does not apply.

After applying the net operating loss to the first tax year to which it may be carried, the portion of the loss you 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 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. 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.

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

30b. Special deductions.—See instructions for Schedule C.

Schedule A—Cost of Goods Sold and/or Operations

(Line references are to the lines in Schedule A.)

Inventory valuation methods.—Inventories can be valued at: (a) cost, (b) cost or market value, whichever is lower, or (c) any other method approved by the Commissioner 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.

Section 263A Uniform Capitalization Rules. These rules are discussed in general in the instructions for **Limitations on deductions** on page 6. See those instructions before proceeding.

Line 4a.—An entry is required on this line only for corporations electing a simplified method of accounting. In the case of a corporation electing the simplified production method, additional section 263A costs are generally those costs, other than interest, that were not capitalized or included in inventory under the corporation's method of accounting immediately prior to the effective date in Temporary Regulations section 1.263A-1T but that are now required to be capitalized under section 263A. In the case of corporations electing a simplified resale method, additional section 263A costs are generally those costs incurred with respect to the following categories: off-site storage or warehousing; purchasing; handling, processing, assembly, and repackaging; and general and administrative costs (mixed service costs). Enter on line 4a the balance of section 263A costs paid or incurred during the tax year not included on lines 2 and 3. See Temporary Regulations section 1.263A-1T for more information.

Line 4b.—Enter on line 4b any costs paid or incurred during the tax year not entered on lines 2 through 4a.

Line 6.— See Temporary Regulations section 1.263A-1T for more information on computing the amount of additional section 263A costs to be capitalized and added to ending inventory.

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, ratably over a 3-year period that begins in the tax year the election was first made. (See section 472(d).)

Schedule C—Dividends and Special Deductions

For purposes of the 20% ownership test on lines 1 through 7, the percentage of stock owned by the corporation is based on voting power and value of the stock. Preferred stock described in section 1504(a)(4) is not taken into account.

Line 1, Column (a)

Enter dividends (except those received on debt-financed stock acquired after July 18, 1984—see section 246A) that are received from less-than-20%-owned domestic corporations subject to income tax and that are subject to the 70% 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 70% deduction and certain dividends of Federal Home Loan Banks. See section 246(a)(2).

For dividends received from a regulated investment company, see section 854 for the amount subject to the 70% 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 (except those received on debt-financed stock acquired after July 18, 1984) that are received from 20%-or-more-owned domestic corporations subject to income tax and that are subject to the 80% deduction under section 243(c). Include on this line taxable distributions from an IC-DISC or former DISC that are designated as being eligible for the 80% deduction.

Line 3, column (a)

Enter dividends on debt-financed stock acquired after July 18, 1984, that are received from domestic and foreign corporations subject to income tax and that would otherwise be subject to the dividends-received deduction under sections 243(a)(1), 243(c), or 245(a). Generally, debt-financed stock is stock that the corporation acquired by incurring a debt (for example, it borrowed money to buy the stock).

Line 3, columns (b) and (c)

Dividends received on debt-financed stock acquired after July 18, 1984, are not entitled to the full 70% or 80% dividends-received deduction. The 70% or 80% deduction is reduced by a percentage that is related to the amount of debt incurred to acquire the stock. See section 246A. Also see section 245(a) before making this computation for an additional limitation that applies to dividends received from foreign corporations. A schedule showing how the amount on line 3, column (c), was figured must be attached to Form 1120F.

Line 4, Column (a)

Enter dividends received on the preferred stock of a less-than-20%-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

Line 5, Column (a)

Enter dividends received on preferred stock of a 20%-or-more-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

Line 6, Column (a)

Enter the U.S.-source portion of dividends that are received from less-than-20%-owned foreign corporations and that qualify for the 70% deduction under section 245(a). To qualify for the 70% deduction, the corporation must own at least 10% of the stock of the foreign corporation by vote and value.

Line 7, Column (a)

Enter the U.S.-source portion of dividends that are received from 20%-or-more-owned foreign corporations and that qualify for the 80% deduction under section 245(a).

Line 8, Column (c)

Limitation on dividends-received deduction. Generally, line 8 of column (c) may not exceed the amount from the worksheet below. However, in a year in which a net operating loss occurs, this limitation does not apply even if the loss is created by the dividends-received deduction. (See sections 172(d) and 246(b).) Certain financial institutions to which section 593(a) applies should see section 596 for the special limitation on the dividends-received deduction.

1. Refigure line 29, page 3, Form 1120F 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) . . . ______
2. Multiply the amount on line 1 by 80% . . . . ______
3. Enter the sum of the amounts on line 2 of column (c), Schedule C and the portion of the deduction on line 3 of column (c), Schedule C that is attributable to dividends received from 20%-or-more-owned corporations . . . . ______
4. Enter the lesser of line 2 or line 3. (Do not complete the rest of this worksheet if line 3 is greater than line 2. Instead, enter the amount from this line (line 4 of this worksheet) on line 8, column (c), Schedule C.) . . . . ______
5. Enter the total amount of dividends received from 20%-or-more-owned corporations and included on lines 2, 3, 5 and 7 of column (a) . . ______
6. Subtract line 5 from line 1 ______
7. Multiply the amount on line 6 by 70% . . . . ______
8. Subtract line 3 of this worksheet from line 8 of column (c) . . . . . ______
9. Enter the lesser of line 7 or line 8 . . . . . . ______
10. Dividends-received deduction after limitation (sec. 246(b)). Add the amounts on lines 4 and 9 and enter on line 8, column (c) . . . . . ______

Line 9, Column (a)

Enter all other dividends received from foreign corporations that do not qualify for a dividends-received deduction.

Line 10, column (a)

If the corporation claims the foreign tax credit, the tax that is deemed paid under sections 902 and 960 must be treated as a dividend received from the foreign corporation. (See sections 78 and 906(b)(4).)

Line 11, column (a)

Enter taxable distributions from an IC-DISC or former DISC that are designated as not being eligible for a dividends-received 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 70% deduction.
2. Dividends from tax-exempt organizations.
3. Dividends (other than capital gain dividends) received from a real estate investment trust that qualifies, for the tax year of the trust in which the dividends are paid, 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 reported above. If patronage dividends or per-unit retain allocations are included on line 12, column (a), identify the total of these amounts in a schedule and attach it to Form 1120F.

Line 13, Column (a)

Deduction for dividends paid on certain preferred stock of public utilities. Section 247 allows public utilities a deduction of 41.176% 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

Lines 1 and 2

Members of a controlled group, as defined in section 1563, are entitled to one $50,000 and one $25,000 taxable income bracket amount (in that order) on line 2a.

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

Equal Apportionment Plan. If no apportionment plan is adopted, the members of the controlled group must divide the amount in each taxable income bracket equally among themselves. For example, controlled group AB consists of corporation A and corporation B. They do not elect an apportionment plan. Therefore, both corporation A and corporation B are entitled to $25,000 (one-half of $50,000) in the $50,000 taxable income bracket on line 2a(i) and $12,500 (one-half of $25,000) in the $25,000 taxable income bracket on line 2a(ii).

Unequal Apportionment Plan. Members of a controlled group may elect an unequal apportionment plan and divide the taxable income bracket amounts 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. However, the total amount for all members of the controlled group cannot be more than the total amount in each taxable income bracket.

Each member of a controlled group must compute the tax as follows (except qualified personal service corporations):

1 Taxable income from line 31, Section II, page 3 . . . . . . ________

2 Enter line 1 or the corporation's share of the $50,000 taxable income bracket, whichever is less . . . ________

3 Subtract line 2 from line 1 . . . . . ________

4 Enter line 3 or the corporation's share of the $25,000 taxable income bracket, whichever is less . . . ________

5 Subtract line 4 from line 3 . . . . . ________

6 Enter 15% of line 2 . . ________

7 Enter 25% of line 4 . . ________

8 Enter 34% of line 5 . . ________

9 If the taxable income of the controlled group exeeds $100,000, enter this member's share of the lesser of: (a) 5% of the excess of line 1 over $100,000, or (b) $11,750. (See instructions for additional 5% tax, below.) . . . . . ________

10 Total of lines 6 through 9. Enter this amount on line 3, Schedule J . . . . . ________

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

Line 3

A corporation (that is not a member of a controlled group) must compute its tax on its taxable income as follows:

(1) Corporations other than qualified personal service corporations, defined below.

If its taxable income (line 31, Section II) on page 3 is:

Over-	But not over-	The tax is:	Of the amount over-
0	$50,000	15%	0
$50,000	$75,000	$7,500 + 25%	$50,000
$75,000	------	13,750 + 34%	75,000

Additional Tax. If a corporation's taxable income exceeds $100,000, the total tax imposed under section 11 (see the table above) is increased by the **lesser** of 5% of the excess over $100,000 **or** $11,750.

(2) Qualified personal service corporations:

A qualified personal service corporation is taxed at a flat rate of 34% on its taxable income. For this purpose, a qualified personal service corporation is any corporation: **(a)** substantially all of the activities of which involve the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting, and **(b)** at least 95% of the stock of which is owned by employees performing the services, retired employees who had performed the services listed above, any estate of an employee or retiree described above, or any person who acquired the stock of the corporation as a result of the death of an employee or retiree described above, if the acquisition occurred within 2 years of death. See Temporary Regulations section 1.448-1T(e) for details.

Tax Credits

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, provisions for figuring the credit, and other special rules. 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)**; the credit for increasing research activities **(Form 6765)**; and low income housing credit **(Form 8586)**.

Line 4e. Credit for prior year minimum tax.—If the corporation paid an alternative minimum tax in a prior year and has no alternative minimum tax liability in the current year, it may take the credit for prior year minimum tax. See **Form 8801**, Credit for Prior Year Minimum Tax, and section 53.

Line 7. Recapture taxes.—*Recapture of investment credit.* If property is disposed of or ceases to be qualified property before the end of the life-years used in computing the regular or energy investment credit, there may be a recapture of the credit. See **Form 4255**, Recapture of Investment Credit.

Recapture of low-income housing credit. If you must recapture part of the low-income housing credit because there has been a decrease in the qualified basis of a building from the prior year or if you disposed of the building or an ownership interest in it, see **Form 8611**, Recapture of Low-Income Housing Credit, and section 42(j). If you attach **Form 8693**, Low-Income Housing Credit Disposition Bond, write on the dotted line to the left of line 7, Schedule J, "Form 8693 attached."

Line 8. Dealers in personal property.—If the corporation deferred the payment of certain tax for its first or second tax year ending after 1986 under the transitional rule of 1986 Act section 811(c)(7), it must include the ratable portion of the tax due for the current tax year on line 8, Schedule J. Write on the dotted line to the left of line 8, Schedule J, "Sec. 453C tax—$(amount)." Attach a schedule showing the computation.

Section III—Branch Tax

Branch Profits Tax

Foreign corporations are subject to a tax of 30% (or lower treaty rate) on the profits of their branches in the U.S. The tax is imposed on the "dividend equivalent amount," which is the effectively connected earnings and profits of the foreign corporation for the tax year subject to adjustment.

Effectively connected earnings and profits are earnings and profits that are attributable to income which is effectively connected or is treated as being connected with the conduct of a trade or business in the U.S. Certain types of income are not taken into account when computing effectively connected earnings and profits for purposes of this tax. These types of income are: 1. income from the operation of ships or aircraft that is exempt from taxation under section 883(a)(1) or (2); 2. FSC income and distributions treated as effectively connected with the conduct of a trade or business in the U.S. under section 921(d) or section 926(b) that are not otherwise effectively connected with a trade or business in the U.S.; 3. gain on the disposition of an interest in a domestic corporation that is a U.S. real property interest under section 897(c)(1)(A)(ii) if the gain is not otherwise effectively connected with a trade or business in the U.S.; 4. related person insurance company income that a taxpayer elects to treat as effectively connected with a trade or business in the U.S. under section 953(c)(3)(C) if the income is not otherwise effectively connected with a trade or business in the U.S.; and 5. income that is exempt from tax under section 892. When determining the amount of a foreign corporation's effectively connected earnings and profits, deductions and other adjustments attributable (under the principles of Regulations section 1.861-8) to such income do not reduce effectively connected earnings and profits.

See the regulations under section 884 for the calculation of effectively connected earnings and profits of certain foreign insurance companies.

Adjustments

To compute a foreign corporation's dividend equivalent amount, the effectively connected earnings and profits of the foreign corporation will either be increased or decreased by decreases or increases of the foreign corporation's U.S. net equity.

If the foreign corporation's U.S. net equity has increased from the end of the preceding tax year to the end of the current tax year, the effectively connected earnings and profits of the foreign corporation will be decreased for the current tax year by the amount of increase. If the foreign corporation's U.S. net equity has decreased from the end of the preceding tax year to the end of the current tax year, the earnings and profits of the foreign corporation will generally be increased in the current tax year by the amount of decrease.

The amount of the increase of the foreign corporation's effectively connected earnings and profits is limited to its non-previously taxed accumulated effectively connected earnings and profits. This equals the excess, if any, of effectively connected earnings and profits for preceding tax years beginning after 1986 over the dividend equivalent amounts for those tax years.

Example 1.—In year 1, a foreign corporation has $100 of effectively connected earnings and profits. The foreign corporation acquires an additional $40 in U.S. assets and has no change in its U.S. liabilities. The foreign corporation had $1,000 of U.S. net equity at the end of the prior tax year. Its U.S. net equity has increased by $40 to $1040 at the end of the tax year. The foreign corporation's dividend equivalent amount is $60, i.e., its effectively connected earnings and profits of $100 less the $40 increase in U.S. net equity during the year.

Example 2.—In year 2, the foreign corporation has $100 of effectively connected earnings and profits, sells $70 of its U.S. assets, and has a $10 decrease in U.S. liabilities. The foreign corporation's U.S. net equity at the end of year 2 has decreased by $60 to $980 ($1040–$70+$10). The foreign corporation has a dividend equivalent amount of $140, i.e., its effectively connected earnings and profits of $100 plus $40 (the decrease of $60 of U.S. net equity is limited to $40, *i.e.*, the $100 of effectively connected earnings and profits for year 1 less the $60 dividend equivalent amount for year 1).

Definitions

U.S. net equity is U.S. assets reduced by U.S. liabilities. U.S. net equity may be less than zero.

U.S. Liabilities

The U.S. liabilities of a foreign corporation are the product of the foreign corporation's U.S. assets at the close of the tax year times a ratio. The ratio is the worldwide liabilities of the foreign corporation to its worldwide assets at the end of the tax year or, if the foreign corporation computes its interest deduction under Regulations section 1.882-5 using a fixed ratio of liabilities to assets, the fixed ratio.

U.S. Assets

In general, property is a U.S. asset if all the income from its use and all gain from its disposition (if used or sold on the last day of the tax year) are or would be effectively connected with the conduct of a trade or business in the U.S.. Special rules exist for specific types of property, such as depreciable property, inventory, marketable securities, and U.S. real property interests. Under certain circumstances, a foreign corporation may elect to treat a limited amount of marketable securities as U.S. assets. The amount of property taken into account as a U.S. asset is the adjusted basis (for purposes of computing earnings and profits) of the property.

Coordination With Withholding Tax

In general, if a foreign corporation is subject to the branch profits tax in a tax year, it will not be subject to withholding at source (sections 871(a), 881(a), 1441, or 1442) on dividends paid out of earnings and profits for the tax year.

Branch-Level Interest Tax

If a foreign corporation is engaged in a trade or business in the U.S. (or has gross income that is treated as effectively connected with the conduct of a trade or business in the U.S.), interest paid by a U.S. trade or business of the foreign corporation is treated as if it were paid by a domestic corporation.

In general, interest paid by a U.S. trade or business is interest attributable to liabilities on the books and records of the U.S. trade or business, subject to certain limitations. See Temporary Regulations section 1.884-4T. A special rule applies if 80% or more of a foreign corporation's assets are U.S. assets.

The foreign corporation is required to withhold on interest paid by its U.S. trade or business to foreign persons unless the interest is exempt from withholding under a treaty or the Code and is required to file Form 1042S with respect to the payments unless exempt from withholding under the Code.

In addition, if the amount of interest paid by its U.S. trade or business (excluding nondeductible interest such as capitalized interest) is less than the deduction allowable under Regulations section 1.882-5, the difference is treated as interest paid to the foreign corporation by a wholly-owned domestic corporation. This interest is subject to tax of 30% (or lower treaty rate).

For example, a branch of a foreign corporation makes an interest payment of $300 during the tax year and is allowed a deduction of $500 under Regulations section 1.882-5. The foreign corporation is required to withhold on the $300 interest paid unless the payment is exempt from withholding under a tax treaty or the Code. In addition, there is a deemed interest payment of $200 ($500–$300) from a wholly-owned domestic corporation to the foreign corporation, and this payment is reported on Form 1120F and is subject to tax at a 30% or lower treaty rate.

Effect of Tax Treaties

A foreign corporation that is a resident of a foreign country with which the U.S. has an income tax treaty is not exempt from the branch profits tax, (or branch-level interest tax) or taxed at a lower rate of tax, unless the foreign corporation is a qualified resident of that country or meets the requirements of a limitation on benefits article that entered into force after December 31, 1986. Treaties, other than income tax treaties, do not exempt a foreign corporation from the branch profits tax or reduce the rate of tax.

A foreign corporation that is a resident of a country with which the United States has an income tax treaty shall not be entitled to a reduction in the rate of the branch-level interest tax unless the foreign corporation is a qualified resident of that country or meets the requirements of a limitation on benefits article that entered into force after December 31, 1986.

A foreign corporation is a qualified resident of its country of residence if it meets one of three tests: a two-part ownership and base erosion test; a publicly-traded test; or an active trade or business test. The regulations under section 884 give detailed rules for these tests. Under certain circumstances, a foreign corporation that does not meet these tests may obtain a ruling that it will be treated as a qualified resident.

A foreign corporation meets the two-part ownership and base erosion test if: (1) 50% or more of its stock (by value) is owned by individuals who are residents of that country or who are U.S. citizens or residents, and (2) less than 50% of its income is used (directly or indirectly) to meet liabilities to persons who are not residents of such foreign country or U.S. citizens or residents.

In order to show that 50% of a foreign corporation's stock is owned by individual residents, a foreign corporation must obtain certain documents, including a certificate of residency signed by the Competent Authority of the individual's country of residence.

In general, stock owned by a corporation, partnership, trust, or estate is treated as proportionately owned by the individual owners of such entities.

A foreign corporation meets the publicly-traded test if (1) its stock is primarily and regularly traded on one or more securities markets in its country of residence or the U.S. or (2) 90% or more of its stock is owned (directly or indirectly) by another corporation that is a resident of the same country or is a domestic corporation and that meets the requirements of (1).

If a foreign corporation is a qualified resident of a foreign country that has an income tax treaty with the U.S. and the treaty does not prohibit the imposition of the branch profits tax, the rate of tax will be the rate on branch profits specified in the treaty. If the treaty does not specify a rate for branch profits, the rate shall be the rate of dividends paid by a wholly-owned domestic corporation to the foreign corporation.

A special rule applies if a foreign corporation claims to be a qualified resident under the two-part ownership and base erosion test and a portion of its dividend equivalent amount for the tax year is attributable to effectively connected earnings and profits earned in prior tax years. In such case, the foreign corporation will be entitled to treaty benefits with respect to the entire dividend equivalent amount if (1) the foreign corporation was a qualified resident for all tax years within the 36-month period that includes the tax year of the dividend equivalent amount or if (2) the foreign corporation was a qualified resident for the tax year of the dividend equivalent amount and for the years in which the effectively connected earnings and profits that are included in the dividend equivalent amount were earned. If the foreign corporation fails the 36-month test but is a qualified resident for the tax year, the portion of the dividend equivalent amount attributable to effectively connected earnings and profits from any prior tax year will not be entitled to treaty benefits if the foreign corporation was not a qualified resident for the year the effectively connected earnings and profits were earned.

Additional Schedules To Be Attached to Form 1120F

A foreign corporation must attach the following schedules to its Form 1120F, in addition to the schedules and statements specified in the Form 1120F.

(1) A schedule of U.S. net equity showing U.S. assets (using the categories in Schedule L, lines 1 through 14, with an additional line for assets deemed to be U.S. assets by reason of an election to treat marketable securities as U.S. assets) and a computation of U.S. liabilities. U.S. assets must be stated at their basis for purposes of computing earnings and profits.

(2) A historical summary of effectively connected earnings and profits and dividend equivalent amounts for each tax year beginning after 1986 and whether the corporation was a qualified resident for each of these tax years.

Additional Information

Question M, page 1

Item M. Personal service corporations.—The term "personal service corporation" means a corporation whose principal business activity during the testing period is the performance of personal services substantially performed by employee-owners who own more than 10% of the fair market value of the corporation's outstanding stock as of the last day of the testing period.

The testing period tax for any tax year is the tax year immediately preceding the tax year, except for a new corporation. The testing period for a new corporation (one in its first tax year) is the period beginning on its first day of its first tax year and ending on the earlier of the last day of its first tax year or the last day of the calendar year in which the first tax year began.

Activities of the taxpayer that are treated as the performance of personal services are limited to activities of the taxpayer that involve the performance of servces in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting (as such fields are defined in Temporary Regulations section 1.448-1T).

Personal services are substantially performed by employee-owners if more than 20% of the corporation's compensation cost for the testing period is attributable to the performance of personal services peformed by employee-owners. A person is considered to be an employee-owner if that person is an employee of the corporation on any day in the testing period and that person owns any outstanding stock of the corporation on any day in the testing period. Stock ownership is determined under the attribution rules of section 318 (except that "any" is substituted for "50%" in section 318(a)(2)(C)).

For details, see Temporary Regulations section 1.441-1T.

Item Q. Tax-Exempt Interest.

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

Item R

Foreign corporations that take the position that any provision of a treaty entered into after August 16, 1954, overrules or modifies an internal revenue law of the U.S. must report if they have taken such a position.

If a corporation has taken a position that a treaty provision overrules or modifies an internal revenue law of the U.S. and fails to report that it has taken such a position, the corporation may be subject to a penalty of $10,000.

Codes for Principal Business Activity

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

Using the list below, enter on page 5, under Question N, 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 Question N, 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:

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).

U.S. Government Printing Office: 1989-205-212

Form **1120L**

Department of the Treasury
Internal Revenue Service

U.S. Life Insurance Company Income Tax Return

For calendar 1988, or tax year beginning ...., 1988, and ending ...., 19.....

► For Paperwork Reduction Act Notice, see page 1 of the instructions.

OMB No. 1545-0128

1988

Please type or print

Name	A Employer identification number
Number and street (or P.O. Box number if mail is not delivered to street address)	B Date incorporated
	C Check box if this is a consolidated return . . ► ☐
City or town, state, and ZIP code	D Check box if nonlife insurance companies are included . . . ► ☐

E Check applicable boxes: 1 ☐ Final return 2 ☐ Change in address 3 ☐ Amended return

F Check box if a section 953(c)(3)(C) election has been made ► ☐

Taxable Income

1	Life insurance company taxable income (LICTI)—(Schedule A, line 20)	1
2	Limitation on noninsurance losses (Schedule P, line 9)	2
3	Amount subtracted from policyholder surplus account (Schedule N, 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) . . . . ► ☐

a Enter your share of the $50,000 amount and $25,000 amount (in that order) in each tax bracket: (i) $ .... (ii) $ ....

b Enter your share of the additional 5% tax (not to exceed $11,750): $ ....

6	Income tax (see instructions to figure the tax)		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 8586	7c	
d	Credit for prior year minimum tax (attach Form 8801)	7d	
8	Total credits (add lines 7a through 7d)		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	Recapture taxes. Check if from: ☐ Form 4255 ☐ Form 8611		11
12a	Alternative minimum tax (see instructions—attach Form 4626)		12a
b	Environmental tax (see instructions—attach Form 4626)		12b
13	Total tax (add lines 9 through 12b)		13
14a	Overpayment from 1987 allowed as a credit	14a	
b	1988 estimated tax payments	14b	
c	Less refund of 1988 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	Credit for Federal tax on fuels (attach Form 4136)	14f	
g	U.S. income tax paid or withheld at source	14g	
h	Other payments (see instructions)	14h	
15	Total refundable credits (combine lines 14a through 14h)		15
16	Enter any **PENALTY** for underpayment of estimated tax—Check ► ☐ if Form 2220 is attached		16
17	**TAX DUE**—If the total of lines 13 and 16 is larger than line 15, enter AMOUNT OWED		17
18	**OVERPAYMENT**—If line 15 is larger than the total of lines 13 and 16, enter AMOUNT OVERPAID		18
19	Enter amount of line 18 you want: **Credited to 1989 estimated tax** ► $ **Refunded** ►		19

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))

1	Gross premiums, etc., less return premiums, etc. Enter 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 10, 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	Deductible policyholder dividends (Schedule E, line 7)	
12	Consideration paid for assumption by another person of liabilities	
13	Dividends not reimbursable by taxpayer	
14	Other deductions (attach schedule—see instructions)	
15	Dividends-received deduction (Schedule G, column (c), line 15—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 10), enter here and on Schedule M, line 2b	
20	LICTI (line 18 less line 19), 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:** Adjustment to reserves of mutual insurance company per section 809(a)(2) (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 15)	
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	

SCHEDULE E Policyholder Dividends (Section 808)

1	Amounts paid or accrued (808(b)(1))	
2	Excess interest (808(b)(2))	
3	Premium adjustments (808(b)(3))	
4	Experience-rated refunds (808(b)(4))	
5	Total (add lines 1 through 4)	
6	Differential earnings 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 of line 6 over line 5: Adjustment to reserves of mutual insurance company, 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 (809(b)(2)(A))		
2	Nonadmitted financial assets (attach schedule) (809(b)(3)(B))		
3	Excess of statutory reserves over tax reserves on section 807(c) items (809(b)(4)(B)(i))		
4	Deficiency reserves (809(b)(5)(B))		
5	Mandatory securities valuation reserve (809(b)(5)(A))		
6	Other voluntary reserves (809(b)(5)(C))		
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 (809(g)(5)(A))		
c	Combine lines 8a and 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 (attach schedule)		
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 Schedule E, line 6	see instructions	

SCHEDULE G Dividend Income and Dividends-Received Deduction (See instructions.)

	Dividends subject to proration	(a) Gross taxable dividends	(b) Deduction rate	(c) Deduction (column (a) times column (b))
1	Domestic corporations, less-than-20%-owned		70%	
2	Domestic corporations, 20%-or-more-owned		80%	
3	Debt-financed stock		see instructions	
4	Public utility corporations, less-than-20%-owned		41.176%	
5	Public utility corporations, 20%-or-more-owned		47.059%	
6	Foreign corporations, less-than-20%-owned		70%	
7	Foreign corporations, 20%-or-more-owned		80%	
8	Wholly owned foreign corporations		100%	
9	Certain affiliated company dividends		100%	
10	Gross dividends-received deduction (add lines 1 through 9 of column (c))			
11	Company share percentage (Schedule K, line 25)			
12	Prorated amount (line 10 times line 11)			
	Dividends not subject to proration			
13	Affiliated company dividends		see instructions	
14	Other corporate dividends			
15	Total (add lines 1 through 14 in column (a) and lines 12 and 13 in column (c)). (Reduce the deduction as provided in section 805(a)(4)(D)(ii).)—Enter the amount from line 15, column (a), on Schedule C, line 2, and enter the amount from line 15, column (c), on Schedule A, line 15			

SCHEDULE H Small Life Insurance Company Deduction (Section 806(a))—If assets (Schedule O, Part I) are $500,000,000 or more, complete lines 1 through 5, line 9, and enter zero on line 10. (See instructions.)

1	Gain or (loss) from operations (Schedule A, line 18) (806(b)(1))		
2a	Less: noninsurance income (806(b)(2))		
b	Plus: noninsurance deductions (806(b)(2))		
3a	Gain or (loss) on insurance operations (line 1 less line 2a plus line 2b)		
b	Adjustments (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). If $15,000,000 or more, omit lines 6 through 8, enter zero on line 10, below, and on Schedule A, line 19		
6	Line 5 times 6, but not more than $1,800,000	× 6	
7a	Maximum statutory amount (806(a)(1))	3,000,000	
b	Subtract line 7a from line 5, but not less than zero		
c	Line 7b times .15, but not over $1,800,000	× .15	
8	Tentative small life insurance company deduction (line 5 less line 7c)		
9	Taxpayer's share (line 3c—but not less than zero—divided by the sum of line 3c and Schedule I, column (a), line 6)		
10	Allowable small life insurance company deduction (line 9 times line 8). Enter here and on Schedule A, line 19.		

SCHEDULE I Controlled Group Information (Section 806(c)) (See instructions.)

	Company	Tentative LICTI (a) Income	Tentative LICTI (b) (Loss)
1			
2			
3			
4			
5			
6	Total—Add lines 1 through 5 in both columns		
7	Enter amount from line 6, column (b)		
8	Net controlled group tentative LICTI (line 6 less line 7). Enter here and on Schedule H, line 4.		

SCHEDULE K Company/Policyholder Share Percentage (Section 812)—Part I (See instructions.)

1	Gross investment income (Schedule C, line 12) (812(d))		
2	Policy interest (Schedule L, line 6) (812(b)(2))		
3	Line 1 less line 2		
4	Life insurance company gross income (Schedule A, line 7)		
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 (812(b)(2)(C)(i))		
13	Deductible dividends on deferred annuities (812(b)(2)(C)(ii))		
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) (812(d))	
21	Net investment income (see instructions) (812(c)(1))	
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 11 (812(a)(1))	
26	Policyholders' share percentage (line 24 less line 25) (812(a)(2))	

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 (812(b)(2)(C)(i))	
4	Deductible amounts credited to deferred annuities (812(b)(2)(C)(ii))	
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 Schedule K, lines 2 and 18	

SCHEDULE M Shareholders' Surplus Account—Stock Companies Only (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) (815(c)(2)(A)(i))	
b	Small life insurance company deduction allowed by section 806(a) (Schedule A, line 19) (815(c)(2)(A)(ii))	
c	Dividends-received deduction (Schedule A, line 15) (815(c)(2)(A)(iii))	
d	Tax-exempt interest (Schedule C, line 9)	
3	Total (add lines 1c through 2d)	
4	Tax liability without regard to section 815 (figure the tax on line 2a as if line 2a were total 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—Stock Companies Only (Section 815(d))

1	Balance at the beginning of the tax year		
2a	Direct or indirect distributions in excess of the amount on Schedule M, line 5		
b	Tax increase on line 2a		
c	Subtractions from account under pre-1984 sections 815(d)(1) and (4) (see instructions)		
d	Tax increase on line 2c		
e	Subtraction from account 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(a)(3)(C))

		As of Close of Tax Year
1	Real property (806(a)(3)(C)(i))	
2	Stocks (806(a)(3)(C)(i))	
3	Proportionate share of partnership and trust assets (806(a)(3)(D)(ii))	
4	Other assets (attach schedule) (806(a)(3)(C)(ii))	
5	Total assets of controlled groups (806(c)(2))	
6	Total (add lines 1 through 5)	

SCHEDULE O Total Assets and Total Insurance Liabilities—*Continued*

Part II—Total Insurance Liabilities (Section 842(b)(2)(B)(i))

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(b)(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, skip lines 5 through 8, and enter zero on line 9	
6	Enter 35% of line 5	
7	Enter 35% of the excess of Schedule A, line 20, over any noninsurance loss included in Schedule A	
8	Enter the lesser of line 6 or line 7	

SCHEDULE Q **Additional Information Required** (See instructions.)

	Yes	No
G 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		
H 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 noncancelable 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.		
I Does the corporation have any variable annuity contracts outstanding?		
J (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 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 J(2)(c) is checked "Yes," the corporation may have to file Form 5472.*		

	Yes	No
K Was the corporation 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 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 the instructions for exceptions and filing requirements for Form TD F 90-22.1.) If "Yes," write the name of the foreign country. ▶ ______		
M Was the corporation ever the grantor of or transferor to a foreign trust which existed during the current tax year, whether or not it had any beneficial interest in it? (See instructions.) If "Yes," the corporation may be required to file Form 926, 3520, or 3520-A.		
N During the tax year did the corporation maintain any of its accounting/tax records on a computerized system?		
O Check method of accounting: **(1)** ☐ Accrual **(2)** ☐ Other (Specify) ______		
P Enter the amount of tax-exempt interest received or accrued during the tax year $ ______		
Q Has the corporation elected to use its own payout pattern for discounting unpaid losses and unpaid loss adjustment expenses?		
R Does the corporation discount any of the loss reserves shown on its annual statement?		
S (1) Enter the total unpaid losses shown on the corporation's annual statement: **(a)** for the current year: $ ______ **(b)** for the previous year: $ ______		
(2) Enter the total unpaid loss adjustment expenses shown on the corporation's annual statement: **(a)** for the current year: $ ______ **(b)** for the previous year: $ ______		

SCHEDULE R **Reconciliation** (See instructions.)

SCHEDULE S **Compensation of Officers** (See instructions.)

1988 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.)

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.

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

Recordkeeping	69 hrs., 50 min.
Learning about the law or the form	29 hrs., 6 min.
Preparing the form	53 hrs., 51 min.
Copying, assembling, and sending the form to IRS	6 hrs., 26 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service**, Washington, DC 20224, Attention: IRS Reports Clearance Officer, TR:FP; or the **Office of Management and Budget**, Paperwork Reduction Project, Washington, DC 20503.

General Instructions

Purpose of Form.— Form 1120L, U.S. Life Insurance Company Income Tax Return, is used to report income, gains, losses, deductions, and credits of life insurance companies.

Filing Form 1120L

Who Must File.—Every domestic life insurance company and every foreign corporation carrying on an insurance business within the U.S. that would qualify as a life insurance company if it were a U.S. corporation must file a return on Form 1120L. This includes organizations described in section 501(m)(1) that provide commercial-type life insurance.

To qualify as a life insurance company, a company must meet the statutory requirements specified in section 816. The company must be an insurance company engaged in the business of issuing life insurance and annuity contracts and must meet the reserves test specified in section 816(a).

The term "insurance company" means any company more than half of the business of which during the taxable year is the issuing of insurance or annuity contracts or the reinsuring of risks underwritten by insurance companies.

The life insurance business of a company includes the issuance of life insurance and annuity contracts either separately or combined with health and accident insurance, or noncancelable contracts of health and accident insurance. 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 noncancelable.

The reserves test requires that the company's life insurance reserves, as defined in section 816(b), plus its unearned premiums and unpaid losses (whether or not ascertained) on noncancelable life, health, or accident policies not included in life insurance reserves, must make up more than 50% of its total reserves as defined in section 816(c). In determining whether a company meets the reserves test, the following modifications must be made: (1) life insurance reserves and total reserves must each be reduced by an amount equal to the mean of the aggregates, at the beginning and end of the taxable year, of the policy loans outstanding with respect to contracts for which life insurance reserves are maintained; (2) amounts set aside and held at interest to satisfy obligations under contracts which do not contain permanent guarantees with respect to life, accident, or health contingencies shall not be included in either life insurance reserves (section 816(c)(1)) or other reserves required by law (section 816(c)(3)); and (3) deficiency reserves shall not be included in either life insurance reserves or total reserves.

Mutual savings bank conducting life insurance business.—Mutual savings banks conducting life insurance business and meeting the requirements of section 594 are subject to an alternative tax consisting of the sum of: (1) a partial tax computed on **Form 1120,** U.S. Corporation Income Tax Return, 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.

Insurance companies other than life insurance companies.—Insurance companies that do not qualify as life insurance companies should file **Form 1120-PC,** U.S. Property and Casualty Insurance Company Income Tax Return. A burial or funeral benefit insurance company that directly manufactures funeral supplies or performs funeral services is taxable under section 831 and should file Form 1120-PC.

When To File

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

A foreign corporation that does not maintain an office or place of business in the U.S. has until the 15th day of the 6th month after the end of its tax year to file.

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 1988 return for calendar year 1988. Section 843 requires all insurance companies to file on a calendar year basis, unless they join in the filing of a consolidated return. If a consolidated return is filed, the parent return would indicate the period covered.

Final Return, Change of Address, Amended Return.—If this is a final return, or the corporation's address has changed since the previous return was filed, or you are filing an amended return, check the appropriate box.

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, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Florida, Georgia, South Carolina	Atlanta, GA 39901
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Minnesota, Missouri, Wisconsin	Kansas City, MO 64999
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia	Philadelphia, PA 19255

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 Form 1120L, the Paid Preparer's space under "Signature of officer" should remain blank. If someone prepares Form 1120L and does not charge the corporation, that person should not sign the return. Certain others who prepare Form 1120L 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 Form 1120L must sign the return and fill in the other blanks in the Paid Preparer's Use Only area of the return.

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

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

Tax return preparers should be familiar with their responsibilities. See **Pub. 1045,** Information for Tax Practitioners, for more details.

Figuring and Paying the Tax

1. 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.

2. 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.

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). Be sure to darken the "1120" box on the coupon. 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.

To help ensure proper crediting to your account, please write your employer identification number, the 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 **Pub. 583,** Information for Business Taxpayers.

4. Estimated Tax.—Generally, a corporation must make estimated tax payments if it can expect its estimated tax (income tax minus credits) to be $500 or more. Use **Form 1120-W,** Corporation Estimated Tax, as a worksheet to compute estimated tax. Use the payment coupons (Form 8109) 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 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 determined with reasonable accuracy.

Generally, however, all the events that establish liability for the amount are treated as occurring only when economic performance takes place. There are exceptions to this general rule. See section 461(h).

Interest and Penalties

Interest and penalty charges are described below. If a corporation files late or fails to pay the tax when due, it will be liable for penalties unless it can show that failure to file or pay was due to reasonable cause and not willful neglect.

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

Late Filing of Return.—A corporation that fails to file its return when due (including extensions) 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.

Since Regulations section 1.6012–2(c) requires that the annual statement approved by the National Association of Insurance Commissioners (NAIC) be filed as part of the return, a late filing penalty may be imposed for not including the annual statement when the return is filed.

Late Payment of Tax.—Generally, the penalty for not paying tax when due is ½ of 1% of the unpaid amount, up to a maximum of 25%, for each month or fraction of a month the tax remains unpaid. The penalty is imposed on the net amount due.

Underpayment of Estimated Tax.—A corporation that fails to make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. To avoid the estimated tax penalty, the corporation must make estimated tax payments of at least 90% of the tax shown on the return or 100% of its prior year's tax. See section 6655.

Form 2220, Underpayment of Estimated Tax by Corporations, is used to see if the corporation owes a penalty. Generally, the corporation does not have to file this form because IRS can figure the amount of any penalty and bill the corporation for it. However, you must complete and attach Form 2220 even if the corporation does not owe the penalty if: **(a)** the annualized income or adjusted seasonal installment method is used, or **(b)** the corporation is a "large corporation" computing its first required installment based on the prior year's tax. If you attach Form 2220, be sure to check the box on line 16, and enter the amount of any penalty on that line.

Overstated Tax Deposits.—If deposits are overstated, the corporation may be subject to a penalty of 25% of the overstated deposit claim. See section 6656(b).

Other Penalties.—There are also penalties that can be imposed for negligence, substantial understatement of tax, and fraud. See sections 6653 and 6661.

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 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, R, and S. Information returns for reporting abandonments, acquisitions through foreclosure, proceeds from brokers and barter exchange transactions, real estate 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 **Pub. 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. Use this form to report contributions (including rollover contributions) to an individual retirement arrangement (IRA) and the value of an IRA or simplified employee pension account.

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

Form 8264. Application for Registration of a Tax Shelter. This form 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. This form 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) or an amended return) 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).

Form 8390. Information Return for Determination of Life Insurance Company Earnings Rate Under Section 809. This form is 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."

2. Returns.

Consolidated Returns.—If an affiliated group of corporations includes one or more domestic life insurance companies taxed under section 801, the common parent may elect to treat those companies as includible corporations. The life insurance companies must have been members of the group for the 5 tax years immediately preceding the tax year for which the election is made. See section 1504(c)(2) and Regulations section 1.1502-47(d)(12).

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 members that are life insurance companies.*

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. 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 penalty for overstating the pension plan deduction. See 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.

Note: *Contributions to a pension or annuity plan representing past service costs are now subject to the uniform capitalization rules of section 263A or the long-term contract rules of section 460. Thus, an allocable share of all otherwise allowable pension costs, whether they relate to current or past services, must be included in the basis of property produced or held for resale, including property the taxpayer produces under a long-term contract. This change in the law is effective for costs incurred after 1987 for property (other than inventory) produced by the taxpayer, including costs allocable to long-term contracts under section 460. For inventory costs the change is effective for tax years beginning after 1987, and is treated as a change in accounting method initiated by the taxpayer and made with IRS consent. Any adjustment required under section 481(a) must be included in income over a period not to exceed 4 years.*

4. Statements.

NAIC Annual Statement.—Regulations section 1.6012-2(c) requires that the NAIC Annual Statement be filed with Form 1120L.

Stock ownership in foreign corporations.—
Attach the required statement to Form 1120L 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. 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 1120L the information required by Regulations section 1.351-3.

Attachments.—In order to process the return we ask that you complete every applicable entry space on Form 1120L. Please do not attach statements and write "See attached" in lieu of completing the entry spaces on Form 1120L.

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. 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.

Sales and Exchanges of Life Insurance Company Property

Capital Assets Defined.—Except for those assets specifically excluded by section 1221, each asset held by a corporation (whether or not the asset is connected with its business) is a capital asset. Section 1221 provides that the term "capital asset" does not include: (1) inventory or property held by the taxpayer primarily for sale to

customers in the ordinary course of the taxpayer's trade or business; (2) depreciable or real property used in the taxpayer's trade or business; (3) certain copyrights, literary, musical or artistic compositions; (4) accounts or notes receivable acquired in the ordinary course of a trade or business for services rendered or from the sale of property described in (1) above; and (5) certain publications of the U.S. Government.

For life insurance companies, section 818(b) modifies the above definition so that only property used in carrying on an insurance business will be considered as "depreciable or real property used in the taxpayer's trade or business." Thus, for life insurance companies, gains or losses from the sale or exchange of depreciable assets of any business other than an insurance business will be treated as gains or losses from the sale or exchange of capital assets.

Capital Gains and Losses.—Report capital gains and losses on **Schedule D (Form 1120)**, Capital Gains and Losses, according to the instructions for that form. Enter on line 6, Schedule C (Form 1120L), the excess of net short-term capital gain over the net long-term capital loss as shown on line 9, Schedule D (Form 1120). Enter on line 5, Schedule A (Form 1120L), the net capital gain shown on line 10, Schedule D (Form 1120). Attach Schedule D (Form 1120) to Form 1120L.

Sales of assets used in a trade or business and involuntary conversions.—Use **Form 4797**, Sales of Business Property, to report gains and losses from sales or exchanges of assets used in a trade or business and from involuntary conversions.

With regard to life insurance companies, section 818(b)(1) provides that, for purposes of section 1231(a), the term "property used in a trade or business" includes only:

1(a). For property acquired before 6/23/84 or after 12/31/87, property used in carrying on an insurance business that is either real property held for more than 1 year or depreciable property held for more than 6 months;

(b). For property acquired after 6/22/84 and before 1/1/88, property used in carrying on an insurance business that is either 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.

For purposes of paragraph 1 above, the term "property used in a trade or business" does not include property includible in inventory, property held primarily for sale to customers, or certain copyrights, literary, musical or artistic compositions, letters, memoranda and similar property.

Report ordinary gains and losses from Form 4797 on line 6, Schedule A (Form 1120L).

Note: *New rules apply to installment sales for nondealers of property that is used in a taxpayer's trade or business or held for the production of rental income if the sales price is greater than $150,000. An interest charge is imposed on the tax that is deferred under the installment method to the extent the outstanding face amount of installment obligations arising from all dispositions of such property occurring during any year exceeds $5 million. See section 453A for more information.*

Special rules for section 818(c) property.—See section 818(c) (relating to property held on December 31, 1958, and certain substituted property acquired after December 31, 1958) and the 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

Line A

Employer identification number.—Enter the corporation's employer identification number (EIN). 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 1120L is mailed. If the EIN has not been received by the filing time for the corporation, write "Applied for" in the space provided for the EIN.

Line F

Check the box provided if the corporation is a foreign corporation and has made the election under section 953(c)(3)(C) to treat its related person insurance income as effectively connected with the conduct of a trade or business in the United States. A foreign corporation making this election should file its return with the Internal Revenue Service Center, Philadelphia, PA 19255.

Note: *Once made, this election shall apply to the taxable year for which made and to all subsequent taxable years unless revoked with the consent of the Secretary of the Treasury.*

Schedule A — Life Insurance Company Taxable Income (LICTI) (Section 801(b))

Income, Lines 1 through 7

Line 1.—Enter gross premiums and other consideration received on insurance and annuity contracts less return premiums and premiums and other consideration paid for indemnity reinsurance.

Gross premiums and other consideration includes advance premiums, deposits, fees, assessments, consideration received for assuming liabilities under contracts not issued by the company, and any amount treated as premiums received under section 808(e) (see Schedule E instructions below).

Return premiums include amounts rebated or refunded due to policy cancellations or due to incorrectly computed premiums, but do not include amounts returned to policyholders when such amounts are not fixed in the contract but instead depend on the company's experience or the management's discretion.

Line 2. Decrease in reserves.—If there is a decrease in reserves, you cannot complete line 2 until you do the following: (1) pencil in the amount from line 8, Schedule B, on line 2, Schedule A, to tentatively compute life insurance company gross income; (2) use this tentative life insurance company gross income figure to complete Schedule K, Company/Policyholder Share Percentage; and (3) complete Schedule B. After completing steps 1 through 3, above, erase the numbers penciled in for step 1 and then enter on line 2, Schedule A, the net decrease in reserves shown on line 12, Schedule B.

Line 3. 10% of certain decreases in reserves.—Section 807(f)(1) provides that if the amount of any item referred to in section 807(c) decreases as a result of a change in the basis used to determine such item, 10% of the decrease shall be included in life insurance company gross income for each of the 10 succeeding taxable years.

Note: *If a company ceases to qualify as a life insurance company, section 807(f)(2) provides that the balance of any adjustments under section 807(f) shall be taken into account in the last tax year the company is qualified to file Form 1120L.*

Line 6. Other amounts.—Enter the total of all other income not included on lines 1 through 5, if such items are includible in life insurance company gross income. Also include all gains reported on Form 4797.

For mutual life companies, if the recomputed differential earnings amount (determined under section 809(f)(3)) for the preceding taxable year exceeds the differential earnings amount (determined under section 809(a)(3)) for such tax year, the excess should be included on line 6 as other income for the current taxable year.

Attach an itemized schedule of all items included in the entry on line 6.

Deductions, Lines 8 through 14

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. The term "losses incurred (whether or not ascertained)" means a reasonable estimate both of losses incurred but not reported and of losses that have been reported, where the amount of the losses cannot be determined by the end of the taxable year. Losses incurred must be adjusted to take into account any salvage and reinsurance recoveries attributable to those losses together with estimates of salvage and reinsurance that may be recovered on such losses in future years. This estimate includes the estimated value of unaccrued subrogation claims contested by third parties.

Note: *Section 807(c) provides that the amount of the unpaid losses (other than losses on life insurance contracts) shall be the amount of the discounted unpaid losses as defined in section 846. See the instructions on page 6 regarding the discounting provisions.*

Line 10. 10% of certain increases in reserves.—Section 807(f)(1) provides that if the amount of any item referred to in section 807(c) increases as a result of a change in the basis used to determine such item, then 10% of the increase shall be allowed as a deduction in computing life insurance company taxable income for each of the 10 succeeding taxable years.

Note: *If a company ceases to qualify as a life insurance company, section 807(f)(2) provides that the balance of any adjustments under section 807(f) shall be taken into account in the last year that the company is qualified to file Form 1120L.*

Line 12. Consideration paid for assumption by another person of liabilities under insurance, etc., contracts.—Enter the total consideration paid by the company to another person (other than consideration paid for indemnity reinsurance) for the assumption by such person of liabilities under insurance and annuity contracts (including supplementary contracts).

Line 13. Dividends reimbursable by taxpayer.—Enter the amount of policyholder dividends paid or accrued by another insurance company for policies the taxpayer has reinsured and that 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 included on lines 8 through 13, to the extent that such items are deductible in computing life insurance company taxable income. Include the total amount of deductions for a noninsurance business (defined in section 806(b)(3)).

Note: *Effective for tax years beginning after December 31, 1987, a deduction for additions to a reserve account for vacation pay is limited to the vacation pay that is paid during the current taxable year or within 2½ months after the close of the taxable year of the employer with respect to which the vacation pay was earned by the employees.*

The change from the reserve method is treated as a change in method of accounting initiated by the taxpayer and made with IRS consent. The net amount of the adjustment required by the change in accounting method equals the excess of the amount in the reserve at the end of the year preceding the year of the change over the amount accrued at the end of the year preceding the year of change and paid within 2½ months after the close of that year. The net amount of the adjustment reduced by the balance in the suspense account under section 463(c) must be included in income as follows: 25% for the year of change, 5% in the first year after the year of change, 35% for the 2nd year after the year of change, and 35% in the 3rd year after the year of change. However, if Rev. Proc. 84-74 1984-2C.B. 736 requires the adjustment to be taken into account over a period of less than 4 years, the adjustment is to be included in income ratably over the shorter period. See section 10201 of the Revenue Act of 1987 ("Act of 1987") for more information.

For mutual life companies, if the differential earnings amount (determined under section 809(a)(3)) for the preceding taxable year exceeds the recomputed differential earnings amount (determined under section 809(f)(3)) for such taxable year, the excess should be included on line 14 as a deduction in computing life insurance company taxable income for the current taxable year.

Attach an itemized schedule of all items included in the entry on line 14. On the attached schedule, deductions attributable to a noninsurance business should be segregated from all other deductions.

If the corporation claims a deduction for depreciation or amortization, attach **Form 4562,** Depreciation and Amortization.

If the corporation claims a deduction for timber depletion, attach **Form T (Timber),** Forest Industries Schedules.

Limitations on Deductions

Charitable contributions.—A deduction is allowed for charitable 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 for any unused contributions carried over from prior years.

Corporations on the accrual basis may elect to deduct contributions paid by 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.

The total deduction allowable in any year may not exceed 10% of life insurance company taxable income computed without regard to:

- the deduction for charitable contributions;
- the deduction for policyholder dividends;
- the deduction for dividends received;
- the small life insurance company deduction;
- any operations loss carryback to the taxable year under section 810; and
- any capital loss carryback to the taxable year under section 1212(a)(1).

Charitable contributions in excess of the 10% limitation may not be deducted in the current taxable year but may be carried over to the next 5 taxable years. A contribution carryover is not allowed, however, to the extent that it increases an operations loss deduction.

Special rule for contributions of certain property.—For a charitable contribution of property, you must reduce the contribution by the sum of:

1. The ordinary income or short-term capital gain that would have resulted if the property had been sold at its fair market value, and
2. All of the long-term capital gain that would have resulted if the property had been sold at its fair market value.

The reduction for 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 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).

Documentation required for certain contributions.—For contributions made in property other than money, attach a schedule showing the name of each organization to which such a contribution was made and the amount of the contribution. 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.

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.

Section 263A uniform capitalization rules.—Many items that were deductible under prior law must now be capitalized or included in inventory under the uniform capitalization rules of section 263A. The rules require corporations to capitalize or include in inventory certain costs incurred in connection with the production of real and personal tangible property held in inventory or held for sale in the ordinary course of business. Tangible personal property produced by a taxpayer includes a film, sound recording, videotape, book, or similar property. The rules also apply to personal property (tangible and intangible) acquired for resale. Taxpayers subject to the rules are required to capitalize not only direct costs but also an allocable portion of most indirect costs (including taxes) that benefit the assets produced or acquired for resale. Interest expense paid or incurred in the course of production must be capitalized and is governed by special rules. The uniform capitalization rules also apply to the production of property constructed by a taxpayer for use in its trade or business or in an activity engaged in for profit.

Section 263A does not apply to personal property acquired for resale if the taxpayer's annual average gross receipts are $10,000,000 or less. It does not apply to timber or to property produced under a long-term contract. Special rules apply for farmers. The rules do not apply to property which is produced for use by the taxpayer if substantial construction has occurred before March 1, 1986.

In the case of inventory, some of the indirect costs which may not have been capitalized before the Tax Reform Act which must now be capitalized are administration expenses, taxes, depreciation, insurance costs, compensation paid to officers attributable to services, rework labor, and contributions to pension, stock bonus, and certain profit-sharing , annuity, or deferred compensation plans. Current deductions may be claimed for research and

experimental costs under section 174, intangible drilling costs for oil and gas and geothermal property, and mining exploration and development costs. Temporary Regulations section 1.263A-1T specifies other indirect costs that may be currently deducted and those that must be capitalized with respect to production or resale activities. For more information, see Temporary Regulations section 1.263A-1T.

Meals and entertainment.— The amount deductible for business meals and entertainment is generally limited to 80% of the amount otherwise allowable. In addition, meals may not be lavish or extravagant; a bona fide business discussion must occur during, immediately before, or immediately after the meal; and your employee must be present at the meal.

Special rules apply to deductions for tickets to entertainment activities. With the exception of certain charitable sporting events, the deduction for the cost of a ticket is limited to the face value of the ticket.

A limitation on the amount deductible for the rental of a luxury skybox is being phased in beginning in 1987 and will become fully effective in 1989. If the taxpayer rents a skybox in the same arena for more than one event, the deduction is limited to the sum of the face value on non-luxury box seats for the seats in the box covered by the lease. In the 1988 tax year, ⅔ is disallowed. Both the limitation on tickets to entertainment activities and the limitation on sky box rentals is calculated before the application of the 20% reduction required by section 274. See **Pub. 463,** Travel, Entertainment, and Gift Expenses, for details.

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.

Section 291 limitations.—Corporations may be required to adjust deductions for depletion of iron ore and coal, intangible drilling and exploration and development costs, bad debt deductions for financial institutions, and the amortizable basis of pollution control facilities. See section 291 to determine the amount of the adjustment.

Golden parachute payments.—A portion of the payments made by a corporation to key personnel that exceeds their usual compensation may not be deductible. This occurs when the corporation has an agreement (golden parachute) with these key employees to pay them these excessive amounts if control of the corporation changes. See section 280G for additional information.

Nondeductible Items

Certain interest expenses.—No deduction is allowed under section 163 for interest on the items described in section 807(c).

Addition to reserves for bad debts.—No deduction is allowed for an addition to reserves for bad debts. However, a deduction for specific bad debts is allowable if the requirements of section 166 are met.

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

Amortizable bond premiums.—No deduction for an amortizable bond premium is allowed under section 171. However, see section 811(b) for the rules relating to the treatment of amortizable bond premiums by life insurance companies.

Net operating loss deduction.—No net operating loss under section 172 is allowable for life insurance companies; instead, the provisions of section 810 relating to the operations loss deductions of life insurance companies apply. For more information, see the instructions for line 16, Schedule A.

Trademark and trade name expenses.—
The deduction for amortization of trademark and trade name expenses has been repealed for expenses paid or incurred after 1986.

Foreign intangible drilling costs and mining and development costs.—Foreign intangible drilling costs and mining and development costs must either be added to the corporation's basis for cost depletion or be deducted ratably over a 10 year period. For more information, see sections 263(i), 616, and 617.

Certain travel and entertainment expenses.—Generally, a 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. However, the corporation may be able to deduct such an 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.

Line 16. Operations loss deduction.—Enter the amount of any operations loss deduction allowable under section 810. To determine the loss from operations for any taxable year, subtract line 7, Schedule A, from the total allowable deductions modified as follows: (1) No operations loss deduction is allowed; (2) You must figure the dividends-received deductions allowed by sections 243, 244, and 245 without regard to section 246(b), (as modified by section 805(a)(4)). This loss from operations then becomes an operations loss deduction to be carried back or over to another taxable year.

The operations loss deduction for a given taxable year is the total of the operations loss carryovers and carrybacks to that taxable year. Generally, you may carry a loss from operations back to each of the 3 years preceding the year of the loss and over to each of the 15 years following the year of the loss. Alternatively, you may make an irrevocable election to forego the carryback period and carry the loss over to each of the 15 years following the year of the loss. If the company is a new company for the loss year, the loss may be carried over to each of the 18 years following the year of the loss.

The amount of the loss that may be carried to each succeeding year in the carryback or carryover period is the amount by which the loss exceeds the sum of the offsets for each of the earlier tax years to which the loss may be carried. The term "offset" means, with respect to any taxable year, the increase in the operations loss deduction for the taxable year which reduces the life insurance company taxable income (computed without regard to the small life insurance company deduction) for the year to zero.

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.

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 taxable year. A net decrease will be treated as includible in gross income, while a net increase will be treated as a deduction allowable in computing life insurance company taxable income.

The net increase or net decrease in reserves is figured by comparing the opening balance for reserves to the closing balance for reserves reduced by: (1) the policyholders' share of tax-exempt interest, and (2) for mutual life companies, the excess, if any, (shown on line 8, Schedule E) of the differential earnings amount over deductible policyholder dividends determined without regard to section 809. 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).

Reserve adjustments are not treated as interest expenses for allocation purposes under section 864(c). See section 818(f).

Line 1. Life insurance reserves.—For rules dealing with the method of computing life insurance reserves, see sections 807(d) and (e). Section 807(d)(2)(B), as amended by the Act of 1987, provides that the interest rate used to compute life insurance reserves is the greater of the applicable Federal interest rate or the prevailing state assumed interest rate. See Revenue Ruling 88-16 I.R.B. 1988-10.

Line 2. Unearned premiums and unpaid losses.—For purposes of sections 807 and 805(a)(1) the amount of the unpaid losses (other than losses on life insurance contracts) shall be the amount of the discounted unpaid losses determined under section 846.

In general, section 846 provides that the amount of the discounted unpaid losses shall be computed separately by each line of business (except that the multiple peril lines shall be treated as a single line of business) and by each accident year and shall be equal to the present value of such losses determined by using: (1) the amount of the undiscounted unpaid losses; (2) the applicable interest rate; and (3) the applicable loss payment pattern. Special rules apply with respect to unpaid losses related to disability insurance (other than credit disability insurance), noncancelable accident and health insurance, cancelable accident and health insurance, and to the international and reinsurance lines of business. With regard to the special rules for discounting unpaid losses on accident and health insurance (other than disability income insurance), unpaid losses are assumed to be paid in the middle of the year following the accident year.

As a rule, the amount of the undiscounted unpaid losses means the unpaid losses shown in the annual statement. However, unpaid losses must be adjusted to take into account estimated recoveries on account of salvage and reinsurance attributable to those losses. If the amounts shown in the annual statement were determined on a discounted basis and if the extent to which these losses were discounted can be determined on the basis of information disclosed on or with the annual statement, the amount of the undiscounted unpaid losses must be recomputed to eliminate any reduction attributable to such discounting. In no event can the amount of discounted unpaid losses determined under section 846 with respect to any line of business for an accident year exceed the aggregate amount of unpaid losses with respect to any line of business for an accident year as reported on the taxpayer's annual statement.

The applicable interest rate for each calendar year and the applicable loss payment pattern for each line of business are determined by the Secretary of the Treasury. The applicable interest rate for 1988, determined under section 846(c) for purposes of section 807, is 7.77%. (Rev. Rul. 88-16). The applicable interest rate for 1987 and earlier years is 7.20%. The applicable loss payment patterns have been published in Revenue Ruling 87-34, 1987-1 C.B. 168. The loss payment patterns and discount factors applicable for 1988 accident years are published in Revenue Ruling 88-63, 1988-31 I.R.B. 5. However, under the provisions of section 846(e), corporations having sufficient historical experience to determine a loss payment pattern may, under certain circumstances, elect to use their own. If such an election is made, the loss payment patterns will be based on the most recent calendar year for which an annual statement was filed before the beginning of the accident year. No election under section 846(e) shall apply to any international or reinsurance line of business. If the corporation elects to use its own loss payment pattern, be sure to check the "Yes" column for question Q in Schedule Q, Additional Information Required. For more information regarding this election, see section 846(e).

Section 807(d)(4)(A)(ii) permits an election to recompute Federal interest rate every 5 years. In general, a life insurance company would apply the greater of the applicable Federal interest rate (AFIR) or the prevailing state assumed interest rate for the calendar year in which the contract is issued and the following 4 calendar years. In the fifth calendar year after the calendar year in which the contract was issued, they would begin using the AFIR in effect for that fifth calendar year or the prevailing state assumed interest rate for the calendar year in which the contract was issued, whichever is greater. This rate would then remain in effect for the 4 years after that. For each subsequent 5 year period a similar recomputation would be required. Once made, the election is effective for contracts issued during that calendar year and any subsequent years, and may only be revoked with the consent of the Secretary.

Note: *An insurance company's treatment of salvage in determining its paid and unpaid losses is a method of accounting for Federal income tax purposes. In general, companies that did not previously treat salvage in accordance with the provisions of section 1.832-4T must change their method of accounting for the first tax year beginning after December 31, 1987. The "Fresh Start" provision of section 1023(e) of the Tax Reform Act of 1986, is not applicable to the adjustments required as a result of such a change of method. See Temp. Reg. 1.832-4T(d)(1), and Announcement 88-99 1988-28 I.R.B. 38.*

Note: *Any insurance company required to discount unpaid losses under section 846, is allowed an additional deduction. To claim an 847 deduction, include it on line 14, Schedule A and attach a schedule showing your computation. If this deduction is taken you* **must** *make a special estimated tax payment. See the instructions for line 14b for how to show this payment. See new section 847 for details.*

Line 3. Supplementary contracts.—Enter the amount (discounted at the appropriate rate of interest) necessary to satisfy the obligations under insurance and annuity contracts, but only if such obligations do not involve (at the time with respect to which the computation is made) life, accident, or health contingencies. For purposes of this item, the appropriate rate of interest is the higher of the prevailing State assumed interest rate as of the time such obligation first did not involve life, accident, or health contingencies or the rate of interest assumed by the company (as of such time) in determining the guaranteed benefit. In no case, however, shall the amount so determined for any contract be less than the net surrender value of such contract.

Line 4. Dividend accumulations and other amounts.—Enter the total dividend accumulations and other amounts held at interest in connection with insurance and annuity contracts.

Line 5. Advance premiums.—Enter the total premiums received in advance and liabilities for premium deposit funds.

Line 6. Special contingency reserves.—Enter the total reasonable special contingency reserves under contracts of group term life insurance or group accident and health insurance which are established and maintained for the provision of insurance on retired lives, for premium stabilization, or for a combination thereof.

Line 8. Increase (decrease) in reserves.—In figuring the amount shown on line 8, any decrease in reserves must be computed without any reduction of the closing balance of section 807 reserves by the policyholders' share of tax-exempt interest. See the instructions for line 2, Schedule A.

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 on line 1 the total taxable interest received or accrued during the tax year, less any amortization of premium, plus any accrual of discount required under section 811(b). The appropriate amortization of premium and accrual of discount attributable to the taxable year on bonds, notes, debentures, or other evidence of indebtedness held by a life insurance company should be determined: (a) in accordance with the method regularly employed by the company, if such method is reasonable, and (b) in all other cases, in accordance with regulations prescribed by the Secretary of the Treasury. Market discount is not required to be accrued under the provisions of section 811(b). Attach a statement showing the method and computation used.

Note: *The Technical Corrections and Miscellaneous Revenue Act of 1988 ("Act of 1988") amended section 1011(d) of the The Tax Reform Act of 1986 to increase the tax rate from 28% to 31.6% on any gain recognized by any insurance company from the redemption of any market discount bond issued before July 19, 1984 and acquired on or before September 25, 1985.*

Line 3. Gross rents.—Enter the gross rents received or accrued during the taxable year. Related expenses, such as repairs, taxes, and depreciation should be reported as "Other deductions" on line 14, Schedule A.

Line 4. Gross royalties.—Enter the gross royalties received or accrued during the taxable year. If you claim a deduction for depletion, report it on line 14, Schedule A.

Line 5. Leases, terminations, etc.—Enter the gross income received from entering into, altering, or terminating any lease, mortgage, or other instrument from which the company derives interest, rents, or royalties.

Line 7. Gross income from a trade or business other than insurance.—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 partner. Include on this line section 1245, section 1250, and other ordinary gains on assets used in a noninsurance business from Form 4797. See the instructions under "Sale of Assets used in a trade or business and involuntary conversions," above. If you claim expenses related to any business other than an insurance business, report them on line 14, Schedule A.

Line 9. Tax-exempt interest.—Enter the total amount of tax-exempt interest income received or accrued during the taxable 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 that they are funded with tax-exempt interest or dividends that would not qualify as 100% dividends in the hands of the taxpayer. See section 812(e).

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)

The term "policyholder dividend" is defined as any dividend or similar distribution to policyholders in their capacity as such.

Policyholder dividends include all amounts paid or credited (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 all excess interest, premium adjustments, and experience-rated refunds. Furthermore, under the provisions of section 808(e), any policyholder dividend which increases either the cash surrender value of the contract or other benefits payable under the contract, or which reduces the premium that otherwise has to be paid, is treated as having been paid to the policyholder and returned by the policyholder to the company as a premium. When this happens, such amounts must be reported as income on line 1, Schedule A.

Generally, a company's deduction for policyholder dividends is the amount actually paid or accrued during the taxable year. However, mutual life insurance companies must reduce this amount by the differential earnings amount as determined under section 809. If a mutual life insurance company's differential earnings amount exceeds total policyholder dividends for the taxable year, the company must reduce its ending reserves by the amount of the excess.

Schedule F — Differential Earnings Amount (Section 809)

Section 809 requires mutual life insurance companies to reduce (but not below zero) their deduction for policyholder dividends by the differential earnings amount (as defined in section 809(a)(3)). If a mutual life insurance company's differential earnings amount exceeds the total policyholder dividends for a taxable year, the excess is treated as a reduction to the closing reserves balance for purposes of subsections (a) and (b) of section 807.

The differential earnings rate and the recomputed differential earnings rate for each taxable year are determined by the Secretary of the Treasury on the basis of information submitted by the 50 largest stock life insurance companies and all mutual life insurance companies. Neither the differential earnings rate nor the recomputed differential earnings rate can be a negative rate. See Notice 88-106, 1988-40 I.R.B. 17. The Service publishes both tentative and final differential earnings rates as this information is developed. For 1986, the tentative differential earnings rate was 10.837% and the final differential rate was 10.539%. The tentative recomputed differential earnings for 1986 is zero and the tentative differential earnings rate for 1987 is 3.647%. The final differential earnings rate for 1987 is 3.676% (Rev. Rul. 88-80).

To compute the differential earnings amount for 1988, multiply the average equity base (line 14, Schedule F) by the differential earnings rate for 1988. Enter the result on line 15, Schedule F. When determining the equity base, no item should be taken into account more than once.

See section 809 for definitions, computational information, transitional rules, and special adjustments that may be required.

Schedule G — Dividend Income and Dividends-Received Deduction

Line 1, column (a).—Enter dividends (except those received on debt-financed stock acquired after July 18, 1984) received from less-than-20%-owned domestic corporations subject to income tax and that qualify for the deduction allowable under section 243(a)(1).

Include on line 1, column (a), 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)). For dividends received from a regulated investment company, see section 854 for the amount that qualifies for the deduction.

So-called dividends or earnings received from mutual savings banks, money market certificates, etc., are really interest and should not be treated as dividends.

Line 2, column (a).—Enter dividends (except those received on debt-financed stock acquired after July 18, 1984) received from 20%-or-more-owned domestic corporations subject to income tax and that qualify for the deduction allowable under section 243(c)(1).

Line 3, column (a).—Enter dividends on debt-financed stock (acquired after July 18, 1984) received from domestic and foreign corporations subject to income tax and that would otherwise be subject to the dividends-received deduction under section 243(a)(1) or 245(a). 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).

Line 4, column (a).—Enter dividends received on the preferred stock of a less-than-20%-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

Line 5, column (a).—Enter dividends received on the preferred stock of a 20%-or-more-owned-public utility that is subject to income tax and is allowed the deduction provided in section 247.

Line 6, column (a).—Enter the U.S. source portion of dividends received from less-than-20%-owned foreign corporations and that qualify for the 70% deduction under section 245(a). To qualify for the 70% deduction, the corporation must own at least 10% of the foreign corporation's stock by vote and value. Also enter on line 6, column (a), dividends received from a foreign sales corporation (FSC) that are attributable to income treated as effectively connected with the conduct of a trade or business within the U.S. (excluding foreign trade income) and that qualify for the 70% deduction provided in section 245(c)(1)(B).

Line 7, column (a).—Enter the U.S. source portion of dividends received from 20%-or-more-owned foreign corporations and that qualify for the 80% deduction under section 245(a). Also enter on line 6, column (a), dividends received from a foreign sales corporation (FSC) that are attributable to income treated as effectively connected with the conduct of a trade or business within the U.S. (excluding foreign trade income) and that qualify for the 80% deduction provided in sections 245(c)(1)(B) and 243(c)(2).

Line 8, column (a).—Enter dividends received from wholly owned foreign subsidiaries that qualify for the 100% deduction under section 245(b), but only to the extent that such dividends are distributed out of tax-exempt interest or out of dividends which do not qualify as 100% dividends. 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 dividend, 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. Also include on line 8, column (a), all dividends received from a FSC that are attributable to export sales income and that qualify for the 100% deduction under section 245(c). Do not include dividends received from a life insurance company.

Line 9, column (a).—Enter dividends that qualify for the 100% dividends-received deduction under section 243(a)(3) and that are subject to the elective provisions of section 243(b), but only to the extent that such dividends 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 3, columns (b) and (c).—Dividends received on debt-financed stock are not entitled to the full 70% or 80% dividends-received deduction. Instead, the 70% or 80% deduction is reduced under the provisions of section 246A by a percentage that is related to the amount of debt incurred to acquire the stock. Also see section 245(a) before making this computation for an additional limitation which applies to dividends received from foreign corporations. For more information, see section 246A. Attach a schedule showing how the dividends-received deduction on debt-financed stock was computed.

Line 4, columns (b) and (c).—For dividends received on certain preferred stock of less-than-20%-owned public utilities, the dividends-received deduction percentage is 41.176%.

Multiply the dividends received by the proper percentage and enter the total in line 4, column (c).

Line 5, columns (b) and (c).—For dividends received on certain preferred stock of 20%-or-more-owned public utilities, the dividends-received deduction percentage is 47.059%.

Line 6, columns (b) and (c).—The dividends-received deduction percentages for line 6 are: (1) 70% for dividends from foreign corporations allowed the deduction under section 245(a); and (2) 70% for dividends from certain FSCs for which the deduction is allowed under section 245(c)(1)(B).

Note: *To qualify for the section 245(a) deduction, the corporation must own at least 10% of the stock of the foreign corporation by vote and value. The deduction is computed on the U.S. source portion of the dividends.*

Line 7, columns (b) and (c).—The dividends-received deduction percentages for line 7 are 80% for: (1) dividends from foreign corporations allowed the deduction under section 245(a); and (2) dividends from certain FSCs for which the deduction is allowed under section 245(c)(1)(B).

Line 10, column (c)

Limitation on Dividends-received deduction worksheet

Generally, line 10 of column (c) may not exceed the amount from the worksheet below. However, in a year in which a loss from operations occurs, this limitation does not apply even if the loss is created by the dividends-received deduction. (See sections 246(b) and 810).

1. Add line 2, page 1, and line 7, Schedule A, less the total of lines 8 through 14, Schedule A, and without regard to: the small life insurance company deduction, the operations loss deduction, the dividends-received deduction (243(a)(1), 244(a), and 245), and any capital loss carryback to the current taxable year (1212(a)(1)). . . ______
2. Enter the sum of lines 9 and 13, column (c) . . ______
3. Subtract line 2 from line 1 ______
4. Multiply the amount on line 3 by 80% . . . . ______
5. Enter the sum of the amounts on lines 2, 5, 7, and 8 of column (c) and the portion of the deduction on line 3 of column (c) that is attributable to dividends received from 20%-or-more-owned corporations . . . . ______
6. Enter the lesser of line 4 or line 5. (Do not complete the rest of this worksheet if line 5 is greater than line 4. Instead, enter the amount from line 6 on line 10 of column (c).) ______
7. Enter the total amount of dividends received from 20%-or-more-owned corporations . . . . ______
8. Subtract line 7 from line 3 ______
9. Multiply the amount on line 8 by 70% . . . ______
10. Subtract line 5 from line 10 of column (c) . . . ______
11. Enter the lesser of line 9 or line 10 . . . . ______
12. Dividends-received deduction after limitation (section 246(b)). Add the amounts on lines 6 and 11 and enter on line 10 of column (c) . . . . ______

Line 13, column (a).—Enter dividends that qualify for the 100% dividends-received deduction and that are not reported on line 8 or 9 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. Attach a schedule showing your computation.*

Line 14, column (a).—Enter the total of other dividends received. Attach a schedule showing separately:

- Foreign dividends not reportable on lines 6, 7, 8, or 13. Exclude distributions of amounts constructively taxed under Subpart F (sections 951 through 964) in the current year or in earlier years.
- Income constructively received from controlled foreign corporations under Subpart F. This should equal the total amount reported in Schedule J of Form(s) 5471.
- 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, qualify under sections 856 through 860.
- Dividends not eligible for the dividends-received deduction because of the stock's holding period or because of an obligation to make corresponding payments on similar stock.
- Any other taxable dividend income not properly reported above, including distributions under section 936(h)(4).

Note: *Two situations in which the dividends-received deduction will not be allowed on any share of stock are: (1) if the corporation held the stock with regard to which the dividends were issued for 45 days or less; or (2) to the extent that the corporation is under an obligation to make related payments for substantially similar or related property.*

Schedule H — Small Life Insurance Company Deduction (Section 806(a))

Schedule H is used to compute the small life insurance company deduction under section 806(a). To qualify for this deduction, a life insurance company must have both less than $15,000,000 of tentative life insurance company taxable income (tentative LICTI), and less than $500,000,000 in assets.

In computing the deduction, the tentative LICTI for any year must be determined without regard to all items attributable to noninsurance businesses. In general, the term "noninsurance business" means any activity which is not an insurance business. However, under the provisions of section 806(b)(3)(B), any activity which is not an insurance business shall be treated as an insurance business if: (1) it is of a type traditionally carried on by life insurance companies for investment purposes, but only if the carrying on of such activity (other than in the case of real estate) does not constitute the active conduct of a trade or business, or (2) it involves the performance of administrative services in connection with plans providing life insurance, pension, or accident and health benefits.

For purposes of the assets test, the assets of all members of a controlled group, as defined in section 806(c)(3), must be included, regardless of whether or not they are life insurance companies. For information regarding the valuation of assets, see the instructions for Schedule O, Part I.

The deduction for qualifying small life insurance companies is 60% of so much of the tentative LICTI for the taxable year as does not exceed $3,000,000. To the extent that tentative LICTI exceeds $3,000,000, the deduction is phased out. The reduction in the deduction is equal to 15% of so much of the tentative LICTI for the taxable year as exceeds $3,000,000.

Note: *In determining the amount of the small life insurance company deduction of a controlled group including an electing mutual company, for taxable years beginning after 1986 and before 1992, the taxable income of an electing mutual company must be taken into account in applying the phaseout of the small life insurance company deduction.*

Schedule I — Controlled Group Information (Section 806(c))

In computing the small life insurance company deduction, all life insurance company members of the same controlled group are treated as one life insurance company. Any small life insurance company deduction determined with respect to the group must be allocated among the life insurance companies in the group in proportion to their respective tentative LICTIs.

Schedule K — Company/Policyholder Share Percentage (Section 812)

Schedule K is used to compute: (1) the company's share percentage to be used in determining the company's share of the dividends-received deduction under section 805(a)(4); and (2) the policyholders' share percentage to be used in determining the policyholders' share of tax-exempt interest for purposes of determining the increase or decrease in reserves under section 807.

In figuring the policyholders' and company's share percentages, carry out the computations to enough decimal places to ensure substantial accuracy and to eliminate any significant error in the resulting tax.

Lines 1–9.—Lines 1 through 9 are used to compute the investment income ratio. The investment income ratio is the ratio that gross investment income less policy interest bears to life insurance company gross income (including tax-exempt interest) less the amount of any increase in reserves. To compute the investment income ratio, complete lines 1 through 8 and then divide the amount on line 3 by the amount on line 8. Enter the result on line 9.

Note: *In computing the amount entered on line 8, any decrease in reserves must be computed without any reduction of the closing balance of section 807 reserve items by the policyholders' share of tax-exempt interest.*

Lines 10–19.—Lines 10 through 19 are used to compute the policyholders' share amount. First, lines 10 through 17 are completed to compute gross investment income's proportionate share of policyholder dividends on line 16. Line 16 is then multiplied by the investment income ratio. The result is added to the policy interest to compute the policyholders' share amount, which is entered on line 19.

Lines 20–26.—Lines 20 through 26 are used to compute both the company's share percentage and the policyholders' share percentage. First, net investment income is computed by multiplying gross investment income (line 20) by 90% or, in the case of gross investment income attributable to assets held in segregated asset accounts under variable contracts, by 95%. The policyholder share amount is subtracted from net investment income to compute the company's share of net investment income on line 23. The company's share percentage is computed on line 25 by dividing the company's share of net investment income (line 23) by net investment income. The policyholders' share percentage is figured by subtracting the company's share of net investment income from 100%.

Schedule L — Policy Interest (Section 812(b)(2))

Schedule L is used to compute the policy interest (as defined in section 812(b)(2)) for the taxable year. The policy interest is needed to calculate the company and policyholder share percentages in Schedule K.

Schedule M — Shareholders' Surplus Account (Section 815(c))

Section 815(c)(1) provides that each stock life insurance company (whether domestic or foreign) that had a policyholders' surplus account on December 31, 1983, will continue to maintain a shareholders' surplus account. Schedule M is used to calculate both the addition made to the shareholders' surplus account and the account's year-end balance as defined in section 815(c). In determining the tax liability shown on line 4, proper adjustments are to be made for any year in which the alternative minimum tax is imposed or the minimum tax credit has been taken.

Enter on line 6 all amounts treated under section 815 as distributions to shareholders. Any distribution to shareholders is treated as having been made first out of the shareholders' surplus account, to the extent thereof.

Schedule N — Policyholders' Surplus Account (Section 815(d))

Section 815(d)(1) provides that every stock life insurance company (whether domestic or foreign) that had an existing policyholders' surplus account on December 31, 1983, will continue to maintain the account. For tax years beginning after December 31, 1983, no additions can be made to this account; however, the account must be decreased by the amounts specified in section 815(d)(3). Further, section 815(f) provides that, in general, the provisions of subsections (d), (e), (f), and (g) of section 815 as in effect before the enactment of the Tax Reform Act of 1984 continue to be applicable in respect of any policyholders' surplus account for which there was a balance as of December 31, 1983.

Amounts that are subtracted from the policyholders' surplus account for a taxable year are added to a corporation's taxable income and are subject to the tax imposed by section 801. Schedule N is used to compute both the ending balance in the policyholders' surplus account and the amount of any increase to taxable income.

Line 1.—Enter the beginning balance in the policyholders' surplus account. If the balance at the end of the preceding taxable year is different from the balance at the beginning of the current taxable year (for example, due to the provisions of section 815(d)(5) as in effect prior to the enactment of the Tax Reform Act of 1984), attach a schedule showing the adjustments made. Prior to the enactment of the Tax Reform Act of 1984, section 815(d)(5) provided 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 that the addition was made. In such a case, you must adjust the beginning balance of the policyholders' surplus account before any subtractions for the current taxable year are made.

Line 2a.—If the total direct and indirect distributions to shareholders during the taxable year exceeds the amount on Schedule M, line 5, enter the excess on line 2a.

Line 2b.—To compute the tax increase due to the amount entered on line 2a, you must: (1) subtract the corporation's tax rate from 100%; (2) divide the distributions on line 2a by the result of step 1; (3) subtract the amount on line 2a from the result of step 2; and (4) enter the result of step 3 on line 2b.

Line 2c.—To compute the amount to be entered on line 2c, you must: (1) determine the total amount to be subtracted from the policyholders' surplus account under sections 815(d)(1) and 815(d)(4) as they were in effect prior to the enactment of the Tax Reform Act of 1984 (do this only after you have subtracted the amounts on lines 2a and 2b from the beginning balance in the policyholders' surplus account); (2) add 100% to the corporation's tax rate; (3) divide the result of step 1 by the result of step 2; and (4) enter the result of step 3 on line 2c. You must also add the amount entered 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.

Line 2e.—Enter the total amount to be subtracted from the policyholders' surplus account under the provisions of section 815(d)(2) as it was in effect prior to the enactment of the Tax Reform Act of 1984. At that time, section 815(d)(2) provided that if, for any taxable year, a taxpayer is not an insurance company, or if for any two successive taxable years a taxpayer is not a life insurance company, then any balance remaining in the policyholders' surplus account as of the end of the last taxable year that the taxpayer was a life insurance company shall be included in taxable income for such taxable year.

Line 3.—Enter the total of lines 2a through 2e on line 3; however, this total must be limited to the amount shown on line 1, Schedule N. Also enter this total on page 1, line 3.

Schedule O — Total Assets (Section 806(a)(3)(C)) and Total Insurance Liabilities (Section 842(b)(2)(B)(i))

All insurance companies required to file Form 1120L must complete Parts I and II of Schedule O.

Note: *Foreign insurance companies should report assets and insurance liabilities for their U.S. business only.*

Part I — Total Assets

For purposes of Schedule O, the term "assets" means all assets of the company. In valuing these assets, use fair market value for real property and stocks; for other assets, use the adjusted basis as determined under section 1011, and related sections, without regard to section 818(c). An interest in a partnership or trust is not itself treated as an asset of the company. Instead, the company is treated as actually owning its proportionate share of the assets held by the partnership or trust; the value of the company's share of these assets should be listed on line 3 of Schedule O.

Part II — Total Insurance Liabilities

Foreign insurance companies must maintain a certain surplus of U.S. assets over their U.S. insurance liabilities. The minimum required surplus is determined by multiplying their U.S. insurance liabilities by a percentage determined and proclaimed by the Secretary of the Treasury. The Secretary determines the percentage from data supplied by domestic insurance companies in Schedule O, Part II. For more information, see section 842.

For purposes of Schedule O, the term "total insurance liabilities" means the sum of the following amounts as of the end of the taxable year: (1) total reserves as defined in section 816(c); plus (2) the items referred to in paragraphs (3), (4), (5), and (6) of section 807(c), to the extent such amounts are not included in total reserves.

Enter each item 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.

Schedule P — Limitation on Noninsurance Losses (Section 806(b)(3)(C))

Section 806(b)(3)(C) provides that, in computing 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 (computed by excluding 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 either the computation of the allowable loss deduction or on applicable carryback provisions, see section 1503(c).

Schedule Q — Additional Information Required

Be sure to answer questions G through S on page 7, Form 1120L. The instructions that follow are keyed to these questions.

1. Question J(2)(c). 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. 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, 1989, 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 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.

3. Question P. —Report any tax-exempt interest received or accrued in the space provided. Include any exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company.

Schedule R — Reconciliation

All filers of Form 1120L must attach a schedule which reconciles their NAIC Annual Statement to 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 5–19

Any corporation that files Form 1120L should compute its tax using the tax computation worksheet. Members of a controlled group should see the instructions below for lines 5a and 5b before computing their tax.

Additional Tax

The worksheet below includes the computation of an additional 5% tax on the excess of a corporation's taxable income over the specified amount, which is $100,000. The limitation on the additional tax is $11,750.

Line 4. Total taxable income.—Generally, this is the sum of lines 1, 2, and 3 of page 1. However, if there is an amount entered on line 3, then even 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.—Members of a controlled group, as defined in section 1563, are entitled to one $50,000 amount and one $25,000 amount (in that order) in each taxable income bracket on line 5a.

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

Equal Apportionment Plan.—If no apportionment plan is adopted, the members of the controlled group must divide the amount in each taxable income bracket equally among themselves. For example, controlled group AB consists of corporation A and corporation B. They do not elect an apportionment plan. Therefore, corporation A is entitled to $25,000 (one-half of $50,000) in the taxable income bracket on line 5a(i) and $12,500 (one-half of $25,000) in the taxable income bracket on line 5a(ii). Corporation B is also entitled to the same amounts in each taxable income bracket.

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

Line 5b.—Members of a controlled group of corporations are treated as one corporation for figuring the additional 5% tax. If the additional tax applies, each member of the group must attach a schedule that shows the taxable income of the entire group, as well as how its portion of the additional tax (entered on line 5b) was figured.

Tax Computation Worksheet

1. Enter the taxable income (line 4, page 1) . . . . . ________
2. Enter line 1 above or your share of the $50,000 taxable income bracket, whichever is less. . . . . ________
3. Subtract line 2 from line 1 . . . . ________
4. Enter line 3 or your share of the $25,000 taxable income bracket, whichever is less . . . . ________
5. Subtract line 4 from line 3. . . . . ________
6. 15% of line 2 . . . . . . ________
7. 25% of line 4 . . . . . . ________
8. 34% of line 5 . . . . . . ________
9. If the taxable income of the controlled group exceeds $100,000 enter the portion of the **lesser** of 5% of the excess over $100,000 or $11,750 that this member must pay . . . . ________
10. Add lines 6 through 9. Enter here and on line 6, page 1 . . . . ________

Line 6. Income Tax

If the amount on line 4 is: Over—	But not over—	The tax is:	Of the amount over—
0	$50,000	15%	0
$50,000	75,000	$ 7,500 + 25%	$50,000
75,000	....	$13,750 + 34%	75,000

Line 7a. 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 7b. Other credits.—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, and **Form 5735,** Computation of Possessions Corporation Tax Credit Under Section 936, to compute the credit. Include the credit in the amount shown on line 7b. On the line to the left of the entry space, write the amount of the credit and identify it as a section 936 credit.

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.

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.

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)).

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.

Credit for increasing research activities.—The credit for increasing research activities is now part of the general business credit. See Form 6765.

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

Form 3800, General business credit. 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, it does 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.

Line 7d. Credit for prior minimum tax.—If the corporation had an alternative minimum tax liability in a prior tax year beginning after 1986 but has no current year alternative minimum tax, it may be able to take the credit for prior year minimum tax. See **Form 8801,** Credit for Prior Year Minimum Tax, and section 53.

Line 10. Foreign corporations.— A foreign corporation carrying on an insurance business within the U.S. is taxable in the same manner 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 that is not effectively connected with the conduct of a business within the U.S. is taxed at 30% (or at a 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, the tax rate (30% or a lower treaty rate), and the amount of tax.

Additional taxes resulting from the net investment income adjustment may offset a company's 30 percent tax on U.S. source income. The tax reduction is determined by multiplying the 30 percent tax by the ratio of the amount of income adjustment to income subject to the 30 percent tax, computed without the exclusion for interest on state and local bonds or income exempted from taxation by treaty. Section 842(c)(3).

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.

Note: *Section 842(c)(1) requires that foreign life insurance companies make the investment income adjustment before claiming a small life insurance company deduction.*

Mutual life insurance companies are required to determine the amount of their policyholder dividends deduction by increasing their year-end equity base (under section 809) by the excess of their required U.S. assets over their mean assets held in the U.S. during that year. Section 842(c)(3).

Note: *Section 953(d) allows a foreign insurance company to elect to be taxed as a domestic corporation. Attach a statement if the corporation wishes to make the election. Include the additional tax required to be paid, on line 13. See section 953(d) for more details.*

Line 11. Recapture Taxes.—*Recapture of investment credit.* If property is disposed of or ceases to be qualified property before the end of the life-years used in computing the regular or energy investment credit, there may be a recapture of the credit. See **Form 4255,** Recapture of Investment Credit.

Recapture of low-income housing credit. If you must recapture part of the low-income housing credit because there has been a decrease in the qualified basis of a building from the prior year or if you disposed of the building or an ownership interest in it, see **Form 8611,** Recapture of Low-Income Housing Credit, and section 42(j). If you attached **Form 8693,** Low-Income Housing Credit Disposition Bond, write on the dotted line to the left of line 8, Schedule J, "Form 8693 attached."

Line 12a. Alternative minimum tax.—Attach **Form 4626,** Alternative Minimum Tax — Corporations, if the taxable income plus adjustments and tax preference items of the corporation exceed $40,000. See Form 4626 for details.

In general, the alternative minimum taxable income of any corporation for any taxable year beginning in 1987, 1988, or 1989 shall be increased by 50% of the amount by which the adjusted net book income exceeds the alternative minimum taxable income for the taxable year (determined without regard to this adjustment or the alternative tax net operating loss deduction). Section 56(f)(1).

Corporate book income is the net income or loss reflected in the taxpayer's applicable financial statements. Life insurance companies will generally use their annual statement as their starting point for computing the net book income adjustment (see section 56(f)(3) for the order of priority of financial statements). Adjustments are made to net income to reflect consolidated tax returns, remove Federal and foreign income taxes, and other adjustments. See Temp. Reg. 1.56-1T for more information.

Note: *Section 56(f)(2)(H) provides special rules for life insurance companies for the computation of the book income preference item. (1) In respect to mutual life insurance companies, only reduce adjusted net book income for policyholders' dividends to the extent that those dividends exceed the year's differential earnings amount under section 809. (2) Make additional adjustments as determined by the Secretary, to make the calculation of adjusted net book income consistent among insurance companies.*

Line 12b. Environmental tax.—The corporation may be liable for the environmental tax if the modified alternative minimum taxable income of the corporation exceeds $2,000,000. See Form 4626 for details.

Line 14b. 1988 estimated tax payments.—Include on this line all estimated tax payments for 1988. If a special estimated tax payment is required, enter on line 14b the net of your total estimated tax payments (total estimated tax payments made less the special estimated tax payment), and write on the dotted line to the left of the entry space "Net of SETP", and attach a schedule showing your computation. See section 847(2) for more information.

Line 14h. Other payments.—Credit for overpaid crude oil 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." **Note:** *The Windfall profit tax does not apply to crude oil removed after August 22, 1988.*

Form **1120-PC**

Department of the Treasury
Internal Revenue Service

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

OMB No. 1545-1027

1988

For calendar year 1988, or tax year beginning ...., 1988, and ending ...., 19.......

▶ **For Paperwork Reduction Act Notice, see page 1 of the Instructions.**

Please type or print

Name	A Employer identification number
Number and street (or P.O. box number if mail is not delivered to street address)	B Date incorporated
City or town, state, and ZIP code	C Check if this is a consolidated return ▶ ☐

D Check applicable boxes: (1) ☐ Final return (2) ☐ Change in address (3) ☐ Amended return

E Check box if a section 953(c)(3)(C) election has been made ▶ ☐

F Check box for kind of company: (1) Mutual ☐ (2) Stock ☐

Taxable Income and Tax Computation

1	Taxable income (Schedule A, line 36)	1
2	Taxable investment income for electing small companies (Schedule B, line 21)	2
3	Check if you are a member of a controlled group (see sections 1561 and 1563) ▶ ☐	
a	Enter your share of the $50,000 amount and $25,000 amount (in that order) in each taxable income bracket: (i) $ .... (ii) $	
b	Enter your share of the additional tax (not to exceed $11,750) ▶ $	
4	Income tax—See instructions to compute the tax	4
5	Enter amount of tax that a reciprocal must include	5
6	Total (add lines 4 and 5)	6
7	Tax credits—a 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 8586 — 7c	
d	Credit for prior year minimum tax (attach Form 8801) — 7d	
e	Total credits (add lines 7a through 7d)	7e
8	Regular income tax (subtract line 7e from line 6)	8
9	Foreign corporations—Tax on income not connected with U.S. business	9
10	Recapture taxes. Check if from: ☐ Form 4255 ☐ Form 8611	10
11a	Alternative minimum tax (see instructions and attach Form 4626)	11a
b	Environmental tax (see instructions and attach Form 4626)	11b
12	Personal holding company tax (attach Schedule PH (Form 1120))	12
13	Total tax—Add lines 8 through 12	13
14	Credits and payments	
a	1987 overpayment allowed as a credit — 14a	
b	1988 total estimated tax payments — 14b	
c	1988 special estimated tax payments (See instructions) — 14c ( )	
d	1988 refund applied for on Form 4466 — 14d ( )	
e	Lines 14a and 14b minus lines 14c and 14d (if negative, enter negative) — 14e	
f	Tax deposited with Form 7004 — 14f	
g	Credit by reciprocal for tax paid by attorney-in-fact under section 835(d) — 14g	
h	Other refundable credits and payments — 14h	
i	Total credits and payments (add lines 14e 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 1989 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 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 **1120-PC** (1988)

Form 1120-PC (1988) Page 2

Schedule A—Taxable Income—Section 832

Income

1	Premiums earned—section 832(b)(4) (Schedule E, line 7)	1
2	Dividends—section 832(b)(2) (Schedule C, line 14, column 3)	2

	1. Interest received	2. Amortization of premium	3. Balance (Column 1 minus column 2)
3a Gross interest—section 832(b)(2)			
b Interest exempt under section 103			
c Taxable interest (line 3a minus line 3b)			3c

4	Rents—section 832(b)(2)	4
5	Royalties—section 832(b)(1)(C)	5
6	Capital gain net income—section 832(b)(1)(B) (attach separate Schedule D (Form 1120))	6
7	Net gain or (loss) from Form 4797, line 18, Part II (attach Form 4797)—section 832(b)(1)(B)	7
8	Certain mutual fire or flood insurance companies—2 percent of premiums earned—section 832(b)(1)(D)	8
9	Income on account of special income and deduction accounts—section 832(b)(1)(E)	9
10	Income from protection against loss account (Schedule K, line 2e)	10
11	Mutual interinsurers or reciprocal underwriters—decrease in subscriber accounts—section 832(f)(2)	11
12	Other income—section 832(b)(1)(C) (attach schedule)	12
13	Gross income (add lines 1 through 12)	13

Deductions

14	Compensation of officers—section 832(c)(1) (Schedule I)	14
15a	Salaries and wages—section 832(c)(1) ▶ .... b Less jobs credit ▶ .... Balance ▶	15c
16	Worthless agency balances and bills receivable—section 832(c)(6)	16
17	Rents—section 832(c)(1)	17
18	Taxes—section 832(c)(3)	18
19	Interest—section 832(c)(2)	19
20	Contributions—section 832(c)(9) (see instructions for limitation)	20
21	Depreciation (attach Form 4562)—section 832(c)(8)	21
22	Depletion—section 832(c)(8)	22
23	Pension, profit-sharing, etc., plans—section 832(c)(10)	23
24	Employee benefit programs—section 832(c)(1)	24
25	Losses incurred—section 832(c)(4) (Schedule F, line 10)	25
26	Additional deduction—section 847	26
27	Other capital losses—section 832(c)(5) (Schedule G, line 12, column 7)	27
28	Dividends to policyholders—section 832(c)(11)	28
29	Mutual interinsurers or reciprocal underwriters—increase in subscriber accounts—section 832(f)(1)	29
30	Other deductions—sections 832(c)(1) and 832(c)(10) (net of the annual statement change in unpaid loss adjustment expenses)(attach schedule)	30
31	Total deductions (add lines 14 through 30)	31
32	Subtotal (subtract line 31 from line 13)	32
33a	Special deduction for section 833 organizations—section 833(b) (Schedule H, line 6) — 33a	
b	Deduction on account of special income and deduction accounts—section 832(c)(13) — 33b	
c	Total (add lines 33a and 33b)	33c
34	Subtotal (subtract line 33c from line 32)	34
35a	Dividends-received deduction—section 832(c)(12) (Schedule C, line 27) — 35a	
b	Net operating loss deduction—section 832(c)(10) — 35b	
c	Total (add lines 35a and 35b)	35c
36	Taxable income or (loss) (subtract line 35c from line 34). Enter here and on page 1, line 1	36

Schedule B, Part I—Taxable Investment Income or (Loss) of Electing Small Companies—Section 834

Income

	(1) Interest received	(2) Amortization of premium	(3) Balance (column 1 minus column 2)
1a Gross interest—section 834(b)(1)(A)			
b Interest exempt under section 103			

c Taxable interest (line 1a minus line 1b)	1c	
2 Dividends—section 834(b)(1)(A) (Schedule C, line 14, column 3)	2	
3 Gross rents—section 834(b)(1)(A)	3	
4 Gross royalties—section 834(b)(1)(A)	4	
5 Gross income from trade or business other than insurance business and from Form 4797—section 834(b)(2)	5	
6 Income from leases described in sections 834(b)(1)(B) and 834(b)(1)(C)	6	
7 Gain from separate Schedule D (Form 1120)—section 834(b)(1)(D)	7	
8 Gross investment income. (Add lines 1c through 7)	8	

Deductions

9 Real estate taxes—section 834(c)(3)	9	
10 Other real estate expenses—section 834(c)(3)	10	
11 Depreciation (attach Form 4562)—section 834(c)(4)	11	
12 Depletion—section 834(c)(9)	12	
13 Trade or business deductions as provided in section 834(c)(8) (attach schedule)	13	
14 Interest—section 834(c)(5)	14	
15 Other capital losses—section 834(c)(6) (Schedule G, line 12, column 7)	15	
16 Total (add lines 9 through 15)	16	
17 Investment expenses—section 834(c)(2) (attach schedule)	17	
18 Total deductions (add lines 16 and 17)	18	
19 Subtract line 18 from line 8	19	
20 Dividends-received deduction—section 834(c)(7) (Schedule C, line 27)	20	
21 Taxable investment income or (loss) (subtract line 20 from line 19). Enter here and on page 1, line 2	21	

Schedule B, Part II—Invested Assets Book Values

(Complete only if you claim a deduction for general expenses allocated to investment income.)

		(1) Beginning of tax year	(2) End of tax year
1 Real estate	1		
2 Mortgage loans	2		
3 Collateral loans	3		
4 Policy loans, including premium notes	4		
5 Bonds of domestic corporations	5		
6 Stock of domestic corporations	6		
7 Government obligations, etc	7		
8 Bank deposits bearing interest	8		
9 Other interest-bearing assets (attach schedule)	9		
10 Total (add lines 1 through 9)	10		

11 Add columns (1) and (2), line 10	11	
12 Mean of the invested assets for the tax year (enter one-half of line 11)	12	
13 ¼ of 1% of line 12 (multiply line 12 by .0025)	13	
14 Income base (subtract line 16, Schedule B, Part I, from the total of line 8, Schedule B, Part I, plus line 1b, column 3, Schedule B, Part I)	14	
15 3¾% of line 12 (multiply line 12 by .0375)	15	
16 Subtract line 15 from line 14 (but do not enter less than zero)	16	
17 25% of line 16 (multiply line 16 by .25)	17	
18 Limitation on deduction for investment expenses (add lines 13 and 17)	18	

Schedule C—Dividends and Special Deductions (See instructions)

Income		Dividends Received (1) Not subject to section 832(b)(5)(B)	(2) Subject to section 832(b)(5)(B)	(3) Total dividends received (column 1 plus column 2)
1 Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)—section 243(a)	1			
2 Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)—section 243(c)	2			
3 Dividends on debt-financed stock of domestic and foreign corporations—section 246A	3			
4 Dividends on certain preferred stock of less-than-20%-owned public utilities	4			
5 Dividends on certain preferred stock of 20%-or-more-owned public utilities	5			
6 Dividends on stock of certain less-than-20%-owned foreign corporations and certain FSCs	6			
7 Dividends on stock of certain 20%-or-more-owned foreign corporations and certain FSCs	7			
8 Dividends on stock of wholly owned foreign subsidiaries and FSCs—section 245(b)	8			
9 Dividends from affiliated companies—section 243(a)(3)	9			
10 Other dividends from foreign corporations not included in lines 6, 7, and 8	10			
11 Income from controlled foreign corporations under subpart F (attach Forms 5471)	11			
12 Foreign dividend gross-up (section 78)	12			
13 Other dividends—attach schedule	13			
14 Total dividends—add lines 1 through 13. Enter the amount from column 3 on Schedule A, line 2, or Schedule B, Part I, line 2, whichever is applicable	14			

Deduction		Dividends-Received Deduction (1) Not subject to section 832(b)(5)(B)	(2) Subject to section 832(b)(5)(B)	(3) Total dividends-received deduction (column 1 plus column 2)
15 70% of line 1	15			
16 80% of line 2	16			
17 Deduction for line 3—see instructions	17			
18 41.176% of line 4	18			
19 47.059% of line 5	19			
20 70% of line 6	20			
21 80% of line 7	21			
22 100% of line 8	22			
23 Total (add lines 15 through 22)	23			
24 100% of line 9	24			
25 Total not subject to section 832(b)(5)(B)—add line 23, column 1, and line 24, column 1	25			
26 Total subject to section 832(b)(5)(B)—add line 23, column 2, and line 24, column 2. Enter here and on Schedule F, line 7	26			
27 Total deduction—add line 23, column 3, and line 24, column 3. Enter here and on Schedule A, line 35a, or Schedule B, Part I, line 20, whichever is applicable. (See instructions for limitation.)	27			

Schedule E—Premiums Earned (See Instructions)—Section 832

1 Net premiums written—section 832(b)(4)(A) 1

2 Plus: Unearned premiums on outstanding business at the end of the preceding taxable year:

a 100% of life insurance reserves included in unearned premiums (section 832(b)(7)(A)) and all unearned premiums of section 833 organizations . . . 2a

b 90% of unearned premiums attributable to insuring certain securities—section 832(b)(7)(B) 2b

c Discounted unearned premiums attributable to title insurance—section 832(b)(8) 2c

d 80% of all other unearned premiums—section 832(b)(4)(B) 2d

e Total (add lines 2a through 2d) 2e

3 Line 1 plus line 2e 3

4 Less: Unearned premiums on outstanding business at the end of the current taxable year:

a 100% of life insurance reserves included in unearned premiums (section 832(b)(7)(A)) and all unearned premiums of section 833 organizations . . . 4a

b 90% of unearned premiums attributable to insuring certain securities—section 832(b)(7)(B) 4b

c Discounted unearned premiums attributable to title insurance—section 832(b)(8) 4c

d 80% of all other unearned premiums—section 832(b)(4)(B) 4d

e Total (add lines 4a through 4d) 4e

5 Line 3 less line 4e 5

6 Transitional adjustment

a (1) Unearned premiums (other than title, life, and those described in sections 832(b)(7)(B) and 833) as of 12/31/86—section 832(b)(4)(C). (Fiscal year filers see instructions.) . . . . . 6a(1)

(2) Line 6a(1) times 3⅓% . . . . . × 3⅓% 6a(2)

b (1) Unearned premiums attributable to insuring certain securities as of 12/31/86—section 832(b)(7)(B). (Fiscal year filers see instructions.) 6b(1)

(2) Line 6b(1) times 1⅔% . . . . . × 1⅔% 6b(2)

c Adjustment for companies terminating as insurance company taxable under section 831(a)—section 832(b)(7)(C) 6c

d Total—add lines 6a(2), 6b(2), and 6c 6d

7 Premiums earned—line 5 plus line 6d. Enter here and on Schedule A, line 1 7

Schedule F—Losses Incurred—Section 832

1 Losses paid during the taxable year (attach schedule) (see instructions) 1

2 Plus:

a Unpaid losses on life insurance contracts outstanding at the end of the current taxable year—section 832(b)(5)(A)(ii) 2a

b Discounted unpaid losses outstanding at the end of the current taxable year—section 832(b)(5)(A)(ii) 2b

c Total—add lines 2a and 2b 2c

3 Line 1 plus line 2c 3

4 Less:

a Unpaid losses on life insurance contracts outstanding at the end of the preceding taxable year—section 832(b)(5)(A)(ii) 4a

b Discounted unpaid losses outstanding at the end of the preceding taxable year—section 832(b)(5)(A)(ii) 4b

c Total—add lines 4a and 4b 4c

5 Losses incurred—line 3 less line 4c—section 832(b)(5)(A) 5

6 Tax-exempt interest subject to section 832(b)(5)(B) 6

7 Dividends-received deduction subject to section 832(b)(5)(B)—Enter the amount from Schedule C, line 26 7

8 Total—line 6 plus line 7 8

9 Reduction of deduction under section 832(b)(5)(B)—line 8 times 15% . . . × .15 9

10 Losses incurred deductible under section 832(c)(4)—subtract line 9 from line 5. Enter here and on Schedule A, line 25 10

Schedule G—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 1

2 Losses paid 2

3 Expenses paid 3

4 Total (add lines 1, 2, and 3) 4

5 Interest received—adjusted to cash method if necessary 5

6 Dividends received—Schedule C, line 14, column 3, adjusted to cash method if necessary 6

7 Gross rents, gross royalties, lease income, etc., and gross income from a trade or business other than an insurance business including income from Form 4797 (include gains for invested assets only), adjusted to cash method if necessary 7

8 Net premiums received (adjusted to cash method if necessary) 8

9 Total (add lines 5 through 8) 9

10 Limitation on gross receipts from sales of capital assets (subtract line 9 from line 4, but do not enter less than zero) 10

11 (1) Description of capital asset	(2) Date acquired	(3) Gross sales price	(4) Cost or other basis	(5) Expense of sale	(6) Depreciation allowed (or allowable)	(7) Loss (col. (4) plus col (5) less the sum of cols. (3) and (6))
12 Totals—column (3) must not be more than line 10. (Enter column (7) in Schedule A, line 27, or Schedule B, line 15, whichever is applicable)						

Schedule H—Special Deduction for Section 833 Organizations

Part I Computation of Deduction

1 Claims incurred during the taxable year—section 833(b)(1)(A)(i) 1

2 Expenses incurred during the taxable year in connection with the administration, adjustment, or settlement of claims—section 833(b)(1)(A)(ii) 2

3 Total—add lines 1 and 2 3

4 25% of line 3 4

5 Beginning adjusted surplus (see instructions) 5

6 Special deduction—line 4 less line 5, but not less than zero. Enter here and on Schedule A, line 33a. (See instructions for limitation.) 6

Part II Computation of Ending Adjusted Surplus

7 Beginning adjusted surplus—enter amount from line 5, Part I 7

8 Special deduction (Schedule A, line 33a)—section 833(b)(3)(C)(i) 8

9 Net operating loss deduction (Schedule A, line 35b)—section 833(b)(3)(C)(ii) 9

10 Net exempt income—section 833(b)(3)(C)(iii) (see instructions):

a Adjusted tax-exempt income 10a

b Adjusted dividends-received deduction 10b

11 Taxable income or (loss)—section 833(b)(3)(C) (Schedule A, line 36) 11

12 Ending adjusted surplus—add lines 7 through 11 12

Schedule I—Compensation of Officers (See instructions for information to be attached.)

Schedule J—Additional Information Required

	Yes	No
G (1) Did the corporation 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: (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 the corporation's 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 G(2)(c) is checked "Yes," the corporation may have to file Form 5472.*		
H 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.)		
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.*		
I 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 the instructions for exceptions and filing requirements for form TD F 90-22.1.)		
If "Yes," write in the name of the foreign country. ▶		

	Yes	No
J Was the corporation the grantor of, or transferor to, a foreign trust that existed during the current tax year, whether or not it has any beneficial interest in it? (If "Yes," you may be required to file Forms 3520, 3520A, or 926.)		
K During this tax year did the corporation maintain any part of its accounting/tax records on a computerized system?		
L Check method of accounting: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (Specify) ▶		
M Has the corporation elected to use its own payout pattern for discounting unpaid losses and unpaid loss adjustment expenses?		
N (1) Enter the total unpaid losses shown on your annual statement: **(a)** for the current taxable year: $ ______ **(b)** for the previous taxable year: $ ______		
(2) Enter the total unpaid loss adjustment expenses shown on your annual statement: **(a)** for the current taxable year: $ ______ **(b)** for the previous taxable year: $ ______		
O Does the corporation discount any of the loss reserves shown on its annual statement?		
P Enter the amount of tax-exempt interest received or accrued during the tax year ▶ ______		

Schedule K—Subtractions From Protection Against Loss Account (See Instructions.)

References are to section 824(d)(1) prior to its repeal by P.L. 99-514.

1	Balance at beginning of year			1
2	Subtractions (attach computation of any items in lines 2a through 2d)			
a	Section 824(d)(1)(B)	2a		
b	Section 824(d)(1)(C)	2b		
c	Section 824(d)(1)(D)	2c		
d	Section 824(d)(1)(E)	2d		
e	Total—add lines 2a through 2d. Enter here and on Schedule A, line 10			2e
3	Balance at end of year—subtract line 2e from line 1			3

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

You are not required to 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 $ ______			
c Travel and Entertainment $ ______		9 Total of lines 7 and 8	
6 Total of lines 1 through 5		10 Income (Schedule A, line 34)—line 6 less line 9	

Schedule M-2—Analysis of Unappropriated Retained Earnings per Books (line 24, Schedule L)

You are not required to 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)	

1988 Instructions for Form 1120-PC

Department of the Treasury
Internal Revenue Service

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

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

Recordkeeping	104 hrs., 45 min.
Learning about the law or the form	42 hrs.
Preparing the form	78 hrs., 7 min.
Copying, assembling, and sending the form to IRS	9 hrs., 23 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service,** Washington, DC 20224, Attention: IRS Reports Clearance Officer, TR:FP; or the **Office of Management and Budget,** Paperwork Reduction Project (1545-1027), Washington, DC 20503.

General Instructions

A. Purpose of Form

Form 1120-PC, U.S. Property and Casualty Insurance Company Income Tax Return, is used to report income, gains, losses, deductions, and credits of insurance companies other than life insurance companies.

B. Filing Form 1120-PC

Who Must File

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

Exceptions.—A nonlife insurance company that is:

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

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

When To File

In general, a corporation must file its income tax return by the 15th day of the 3rd month after its tax year ends. A new corporation filing a short period return must generally file by the 15th day of the 3rd month after the short period ends. A corporation that has dissolved must generally file by the 15th day of the 3rd month after the date it dissolved. A foreign corporation that does not maintain an office or place of business in the U.S. has until the 15th day of the 6th month after the end of its tax year to file.

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 1988 return for calendar year 1988.

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
Connecticut, Maine, Massachusetts, New Hampshire, New York (all other counties) Rhode Island, Vermont	Andover, MA 05501
Florida, Georgia, South Carolina	Atlanta, GA 39901
Kansas, New Mexico, Oklahoma, Texas	Austin, TX 73301
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Illinois, Iowa, Minnesota, Missouri, Wisconsin	Kansas City, MO 64999
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee	Memphis, TN 37501
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calveras, 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
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia	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 Form 1120-PC, the Paid Preparer's space under "Signature of officer" should remain blank. If someone prepares Form 1120-PC and does not charge the corporation, that person should not sign the return. Certain others who prepare Form 1120-PC 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 Form 1120-PC must sign the return and fill in the other blanks in the Paid Preparer's Use Only area of the return.

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

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

Tax return preparers should be familiar with their responsibilities. See **Pub. 1045,** Information for Tax Practitioners, 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.

Unless the law specifically permits otherwise, the corporation may not change the method of accounting used to report taxable income in earlier years (for income as a whole or for any material item) unless it first secures IRS consent on **Form 3115,** Application for Change in Accounting Method.

For tax years beginning after December 31, 1986, existing Blue Cross or Blue Shield organizations and certain other organizations described in section 501(m) that provide commercial-type insurance are taxable under subchapter L.

Corporations (other than qualified personal service corporations) are not permitted to use the cash method of accounting if their average annual gross receipts are more than $5,000,000. Corporations required to change from the cash method because of this provision must complete and file Form 3115 in accordance with the requirements in Temporary Regulations section 1.448-1T(g) and 1.448-1T(h). Attach Form 3115 to Form 1120-PC. See section 448 for more information.

2. 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.

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**). Be sure to darken the "1120" box on the coupon. Make these tax deposits with either 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 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.

To help ensure proper crediting to your account, please write your employer identification number, the 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 **Pub. 583,** Information for Business Taxpayers.

4. Estimated Tax

Generally, a corporation must make estimated tax payments if it can expect its estimated tax (income tax minus credits) to be $500 or more. Use **Form 1120-W,** 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 the corporation files its tax return.

Caution: *Also see the instructions for page 1, line 14c and Section 847(2).*

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 determined with reasonable accuracy.

However, all the events that establish liability for the amount are treated as occurring only when economic performance takes place. There are exceptions. See section 461(h).

D. Interest and Penalties

Interest and penalty charges are described below. If a corporation files late or fails to pay the tax when due, it will be liable for penalties unless it can show that failure to file or pay was due to reasonable cause and not willful neglect.

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

2. Late Filing of Return.—A corporation that fails to file its return when due (including extensions) 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.

Since Regulations section 1.6012-2(c) requires that the annual statement approved by the National Association of Insurance Commissioners (NAIC) be filed as part of the return, a late filing penalty may be imposed for not including the annual statement when the return is filed.

3. Late Payment of Tax.—Generally, the penalty for not paying tax when due is ½ of 1% of the unpaid amount, up to a maximum of 25%, for each month or fraction of a month the tax remains unpaid. The penalty is imposed on the net amount due.

4. Underpayment of Estimated Tax.—A corporation that fails to make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. To avoid the estimated tax penalty, the corporation must make estimated tax payments of at least the smaller of 90% of the tax shown on the return, or 100% of its prior years tax. See section 6655 for details and exceptions. **Form 2220,** Underpayment of Estimated Tax by Corporations, is used to see if the corporation owes a penalty and to figure the penalty. Generally, the corporation does not have to file this form because IRS can figure the amount of any penalty and bill the corporation for it. However, you must complete and attach form 2220 even if the corporation does not owe the penalty if:

(a) the annualized income or adjusted seasonal installment method is used, or

(b) the corporation is a "large corporation" computing its first required installment based on the prior year's tax. If you attach Form 2220, be sure to check the box on line 15, and enter the amount of any penalty on that line.

5. Overstated Tax Deposits.—If deposits are overstated, the corporation may be subject to a penalty of 25% of the overstated deposit claim. See section 6656(b).

6. Other Penalties.—There are also penalties that can be imposed for negligence, substantial understatement of tax, and fraud. See sections 6653 and 6661.

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 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, R, and S. 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, and proceeds from real estate transactions. Also use these returns to report amounts that were received as a nominee on behalf of another person.

For more information, see **Pub. 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. Use this form to report contributions (including rollover contributions) to an individual retirement arrangement (IRA) and the value of an IRA or simplified employee pension account.

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

Form 8264. Application for Registration of a Tax Shelter. This form 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. This form 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,** Corporation Application for Tentative Refund) or an amended return) 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 Returns

If an affiliated group of corporations includes one or more domestic life insurance companies taxed under section 801, the common parent may elect to treat those companies as includible corporations. The life insurance companies must have been members of the group for the 5 tax years immediately preceding the tax year for which the election is made. See section 1504(c)(2) and regulations section 1.1502-47(d)(12).

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. Statements

NAIC Annual Statement.—Regulations section 1.6012-2(c) requires that the NAIC annual statement be filed with Form 1120-PC.

Stock ownership in foreign corporations.—Attach the required statement to Form 1120-PC 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 controlled corporation in exchange for property, and no gain or loss is recognized under section 351, the person (transferor) and the transferee must attach to their respective income tax returns the information required by Regulations section 1.351-3.

4. Attachments

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

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. 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.

Specific Instructions

Line A

Employer identification number.—Enter the corporation's employer identification number (EIN). 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-PC is mailed. If the EIN has not been received by the filing time for the corporation, write "Applied for" in the space provided for the EIN.

Line E

Check the box provided if the corporation is a foreign corporation and has made the election under section 953(c)(3)(C) to treat its related person insurance income as effectively connected with the conduct of a trade or business in the United States. A foreign corporation making this election should file its return with the Internal Revenue Service Center, Philadelphia, PA 19255.

Note: *Once made, this election shall apply to the taxable year for which it is made and to all subsequent taxable years unless revoked with the consent of the Secretary of the Treasury.*

Taxable Income and Tax Computation

Line 1, Taxable Income, and Line 2, Taxable Investment Income.—If the corporation is a small company as defined in section 831(b)(2) and makes the election under section 831(b)(2)(A)(ii) to be taxed on taxable investment income, complete Schedule B (ignore Schedule A) and enter the amount from Schedule B, line 21, on line 2, page 1. All other companies should complete Schedule A (ignore Schedule B) and enter on line 1, page 1, the amount from Schedule A, line 36.

Note: *Once a company elects to be taxed on taxable investment income, it must continue to be so taxed (as long as it qualifies) unless the Secretary of the Treasury consents to the revocation of the election.*

Tax Computation Instructions—Page 1, lines 3a–18

Corporations that are not a member of a controlled group should skip line 3, and use the line 4 instructions to figure their tax, including any additional tax, to enter on line 4. Members of a controlled group of corporations should check the box on line 3 and compute their tax by using the **Tax Computation Worksheet** below. Also, they should see the instructions below for lines 3a and 3b before computing their tax.

Line 3a.—Members of a controlled group, as defined in section 1563, are entitled to one $50,000 amount and one $25,000 amount (in that order) in each taxable income bracket on line 3b.

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

Equal Apportionment Plan. If no apportionment plan is adopted, the members of the controlled group must divide the amount in each taxable income bracket equally among themselves. For example, controlled group AB consists of Corporation A and Corporation B. They do not elect an apportionment plan. Therefore, Corporation A is entitled to $25,000 (one-half of $50,000) in the first taxable income bracket and $12,500 (one-half of $25,000) in the second taxable income bracket on line 3a. Corporation B is also entitled to the same apportionment in each taxable income bracket.

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

Line 3b.— Members of a controlled group of corporations are treated as one corporation for figuring the additional 5% tax. If the additional tax applies, each member of the group must attach a schedule that shows the taxable income of the entire group as well as how its portion of the additional tax (entered on line 3b) was figured.

The Tax Computation Worksheet includes the computation of an additional 5% tax on the excess of a corporation's taxable income over $100,000. The limitation on the additional tax is $11,750.

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

If the mutual insurance company's taxable income before including the section 835(b) amount is $100,000 or more, make no entry on line 5. Otherwise, this tax is 34% of the section 835(b) amount. If there is an entry on line 5, attach a statement showing how you computed the tax.

Reciprocal underwriters making the election under section 835(a) are allowed a credit on line 14g for the amount of tax paid by the attorney-in-fact that is attributable to the income received by the attorney-in-fact from the reciprocal in the taxable year.

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

Tax Computation Worksheet (For members of a controlled group)

1. Enter the taxable income (line 1 or 2, page 1) . . . . ______
2. Enter line 1 above or your share of the $50,000 taxable income bracket, whichever is less . . . . ______
3. Subtract line 2 from line 1 . . . . ______
4. Enter line 3 or your share of the $25,000 taxable income bracket, whichever is less . . . . ______
5. Subtract line 4 from line 3 . . . . ______
6. 15% of line 2 . . . . ______
7. 25% of line 4 . . . . ______
8. 34% of line 5 . . . . ______
9. If the taxable income of the controlled group exceeds $100,000, enter the portion of the **lesser** of 5% of the excess over $100,000 or $11,750 that this member must pay . . . . ______
10. Add lines 6 through 9. Enter here and on line 4, page 1 . . . . . . ______

Line 4. Income tax

If the amount on line 1 or 2 Form 1120-PC is:

Over—	But not over—	Its tax is:	Of the amount over—
0	$50,000	-------- 15%	0
$50,000	75,000	$7,500 + 25%	$50,000
75,000	-----	13,750 + 34%	75,000

Additional tax. If a corporation's taxable income exceeds $100,000, the total tax imposed under section 11 (see the table above) is increased by the lesser of: 5% of the excess over $100,000, or $11,750.

Include on line 4, page 1, Form 1120-PC, any interest charge for certain installment sales. See section 453(l)(3) and 453A(c) for details. Write on the dotted line to the left of line 4 "Sec. 453(l)(3) (or Sec. 453A(c)) interest—$(amount)". Attach a schedule showing the computation.

Line 7a. 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 7b. Other Credits.—

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. Compute the credit on **Form 5735**, Computation of Possessions Corporation Tax Credit Allowed Under Section 936. Include the credit in the amount shown on line 7b. On the line to the left of the entry space, write the amount of the credit and identify it as a section 936 credit.

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.

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.

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)).

Attach a schedule to Form 1120-PC 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 1120-PC 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.

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

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

Form 3800, General Business Credit.—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, it does 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.

Line 7d. Credit for prior year minimum tax.—If the corporation had an alternative minimum tax liability in a prior tax year beginning after 1986 but has no current year alternative minimum tax, it may be able to take the credit for prior year minimum tax. See **Form 8801**, Credit for Prior year Minimum Tax, and section 53.

Line 9. Foreign corporations.—A foreign corporation carrying on an insurance business within the U.S. is taxable in the same manner 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 that is not effectively connected with the conduct of a business within the U.S. is taxed at 30% (or at a lower treaty rate). See section 881. If you have this income, attach a schedule showing the kind and amount of income, the tax rate (30% or a lower treaty rate), and the amount of tax.

Additional taxes resulting from the net investment income adjustment may offset a company's 30% tax on U.S. source income. The tax reduction is determined by multiplying the 30% tax by the ratio of the amount of income adjustment to income subject to the 30% tax, computed without the exclusion for interest on state and local bonds or income exempted from taxation by treaty. See section 842(c)(2). Attach a statement showing how you figured the reduction of section 881 tax. Enter the net tax imposed by section 881 tax on line 9, page 1.

Note: *Interest received from certain portfolio debt investments that were issued after July 18, 1984, is not subject to the tax.*

Note: *Section 953(d) allows a foreign insurance company to elect to be taxed as a domestic corporation. Attach a statement if the corporation wishes to make the election. Include the additional tax required on line 13. See Section 953(d) for more details.*

Line 10. Recapture Taxes.—

Recomputing of 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 regular or energy investment credit, there may be a recapture of the credit. See **Form 4255**, Recapture of Investment Credit.

Recapture of low-income housing credit.—If you must recapture part of the low-income housing credit because there has been a decrease in the qualified basis of a building from the prior year or if you disposed of the building or an ownership interest in it, see **Form 8611**, Recapture of Low-Income Housing Credit, and section 42(j). If you attached **Form 8693**, Low-Income Housing Credit Disposition Bond, write on the dotted line to the left of line 10, "Form 8693 attached".

Line 11a. Alternative minimum tax.—Attach **Form 4626**, Alternative Minimum Tax—Corporations, if the taxable income plus adjustments and tax preference items of the corporation exceed $40,000. See Form 4626 for details.

Line 11b. Environmental tax.—The corporation may be liable for the environmental tax if the modified alternative minimum taxable income of the corporation exceeds $2,000,000. See Form 4626 for details.

Line 12. 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 taxable 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.

Line 13. Dealers in personal property.—If the corporation deferred the payment of certain tax for its first or second tax year ending after 1986 under the transition rule of 1986 Act section 811(c)(7), it must include the ratable portion of the tax due for the current tax year on line 13. Write on the dotted line to the left of line 13, "Sec. 453C tax—$(amount)." Attach a schedule showing the computation.

Deferred tax and interest on undistributed earnings of a qualified electing fund under section 1294. Follow the instructions for Form 8621 to determine the amount of tax owed or deferred to include in or subtract from the total tax on line 13. Write on the dotted line to the left of line 13, "Sec. 1294" and the amount of tax to be added to or subtracted from the total for line 13. (Show in brackets an amount to be subtracted.) Do not include on line 13 the interest charge due on the deferred tax. Instead, write "Sec. 1294 interest" and the amount owed in the bottom margin of page 1, Form 1120-PC.

Line 14c. 1988 Special estimated tax payments.—Indicate on this line the portion of your "Total estimated tax payments" that is to be applied to your 1988 special estimated tax payments. Attach a schedule showing your computations. If an additional deduction for undiscounted unpaid losses under section 847 is claimed on Schedule A, line 26, special estimated tax payments **MUST** be made in an amount equal to the tax benefit attributable to the deduction. See section 847(2) for additional information.

Line 14g. Credit by reciprocal for tax paid by attorney-in-fact under section 835(d).—Enter the amount of tax paid by an attorney-in-fact that is attributable to the income received by the attorney-in-fact from the reciprocal during the taxable year. For additional information see section 835, the related regulations, and the instructions for line 5.

Line 14h. Other refundable credits and payments.—*Overpaid crude oil windfall profit tax.*—Include on line 14h any overpayment from **Form 6249,** Computation of Overpaid Windfall Profit Tax. See the instructions for that form for more information. **Note:** *The windfall profit tax does not apply to crude oil removed after August 22, 1988.*

Sales or Exchanges of Capital Assets

Report sales or exchanges of capital assets on Schedule D (Form 1120). You must report every sale or exchange of a capital asset in detail, even if there is no gain or loss.

In general, corporate losses from sales or exchanges of capital assets are only allowed up to the gains from such sales or exchanges. However, for companies taxable under section 831, this general rule does not apply to losses from capital assets sold or exchanged to get funds needed 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 lesser of:

(1) Taxable income (computed without regard to gains or losses from sales or exchanges of capital assets); or

(2) Losses from the sale or exchange of capital assets sold or exchanged to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders.

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

For more information on gains and losses from sales or exchanges of property, see the instructions for Schedule D (Form 1120) and **Pub. 544,** Sales and Other Dispositions of Assets.

Schedule A—Taxable Income

Gross income.—The gross amounts of underwriting income and investment income should be computed on the basis of the underwriting and investment exhibit of the annual statement approved by the National Association of Insurance Commissioners.

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

Line 3a, column (1). Gross interest.— Enter the gross amount of interest income, including all tax-exempt interest.

Line 3b, column (1). Interest exempt under section 103.—Section 103(a) provides that interest on state or local bonds is excludible from gross income. This exclusion does not apply to: (1) any private activity bond which is not a qualified bond within the meaning of section 141; (2) any arbitrage bond within the meaning of section 148; or (3) any bond that does not meet the applicable requirements of section 149 (regarding the registration of tax-exempt bonds).

Lines 3a and 3b, column (2). Amortization of premium.—Enter on line 3a, column (2), the total amortization of bond premium, including amortization on tax-exempt bonds. Enter on line 3b, column (2), the amortization of bond premium on tax-exempt bonds only.

Line 4. Rents.—Enter gross rents, computed as indicated in the note above. Deduct rental expenses, such as repairs, interest, taxes, and depreciation on the proper lines in the deductions section (lines 14 through 30).

Line 5. Royalties.—Enter gross royalties. If you claim a deduction for depletion, report it on line 22.

Line 6. Capital gain net income.—Enter the capital gain net income (if any) shown on line 11 of Schedule D (Form 1120).

Line 8. Certain mutual fire or flood insurance companies.—Under the provisions of section 832(b)(1)(D), a mutual fire or flood insurance company whose principal business is the issuance of policies:

(i) for which the premium deposits are the same (regardless of the length of the term for which the policies are written), and

(ii) under which the unabsorbed portion of such premium deposits not required for losses, expenses, or establishment of reserves is returned or credited to the policyholder on cancellation or expiration of the policy,

must include in income an amount equal to 2% of the premiums earned on insurance contracts during the taxable year with respect to such policies returned or credited during the same taxable year.

Line 9. Income on account of the special income and deduction accounts.— Section 832(e) requires companies which write certain kinds of insurance to maintain special accounts. The following special accounts must be maintained:

(1) a company which writes mortgage guaranty insurance must maintain a mortgage guaranty account;

(2) a company which writes lease guaranty insurance must maintain a lease guaranty account; and

(3) a company which writes insurance on obligations the interest on which is excludible from gross income under section 103 must maintain an account with respect to insurance on state and local obligations.

Amounts that are required to be added to these special accounts under the provisions of section 832(e)(4) or 832(e)(6) are allowed as a deduction on line 33b of Schedule A. Amounts that are required to be subtracted from these accounts under the provisions of sections 832(e)(5) and 832(e)(6) must be reported as income on line 9 of Schedule A.

Additions to special accounts.— Generally, section 832(e) allows a deduction for additions to reserves for mortgage guaranty insurance losses, lease guaranty insurance losses, or losses on the insurance of state and local obligations resulting from adverse economic cycles. The deduction with respect to each of these types of insurance may not exceed 50% of premiums earned during the taxable year on that type of insurance. Further, no deduction is allowed unless the company purchases tax and loss bonds in an amount equal to the tax benefit attributable to such deduction.

These tax and loss bonds must be purchased on or before the date that any taxes (determined without regard to section 832(e)) due for the taxable year for which the deduction is allowed are due to be paid. If a company would make payments of estimated tax if section 832(e) did not apply, then whether or not such company pays estimated tax after the application of section 832(e), such bonds must be purchased on or before the date for paying such estimated tax in order for them to be considered purchased on or before the date that any taxes due for the taxable year are to be paid. If a deduction would be allowed but for the fact that tax and loss bonds were not timely purchased, such deduction shall be allowed to the extent such purchases are made within a reasonable time, as determined by the Secretary, if all applicable interest and penalties are paid.

Subtractions from special accounts.—The following subtractions from the special income and deduction accounts are required:

(1) any amount added to an account must be restored to income at the close of 10 years (20 years in the case of insurance on section 103 obligations);

(2) any excess of the aggregate amount in each account over the amount required by state law or regulation to be set aside in a reserve must be restored to income (see section 832(e)(5)(B) for special rules relating to the determination of such excess amount);

(3) an amount (if any) equal to the net operating loss for the taxable year computed without regard to section 832(e)(5)(C);

(4) any amount improperly subtracted from the account under subparagraphs (A), (B), or (C) of section 832(e)(5) to the extent that tax and loss bonds were redeemed with respect to such amount;

(5) if a company liquidates or otherwise terminates its mortgage guaranty, lease guaranty, or state and local obligation insurance business and does not transfer or distribute such business in an acquisition of assets referred to in section 381(a), the entire amount remaining in such account(s) shall be restored to income in the current taxable year; and

(6) except in the case where a company transfers or distributes its mortgage guaranty insurance, lease guaranty insurance, or state and local obligation insurance business in an acquisition of assets referred to in section 381(a), if the company is not subject to the tax imposed by section 831 for any taxable year, the entire amount in the account at the close of the preceding taxable year shall be subtracted from the account in such preceding taxable year.

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

See the instructions for line 29, Schedule A, for a definition of savings credited to subscriber accounts.

Line 12. Other income.—Enter on line 12 the total of all taxable income not reported on lines 1 through 11. Attach an itemized schedule listing the sources of all amounts included on line 12.

Deductions

Line 15a. Salaries and wages.—Enter salaries and wages paid or accrued during the taxable year. Do not include salaries and wages deducted elsewhere on your return, such as contributions to a simplified employee pension plan that are deducted on line 23 of Schedule A.

Caution: *If you provided taxable fringe benefits to your employees, such as the 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 15b. Less jobs credit.—Enter on line 15b the amount of the jobs credit from **Form 5884,** Jobs Credit.

Line 16. Worthless agency balances and bills receivable.—Enter agency balances and bills receivable that became worthless during the taxable year.

Line 17. Rents.—Enter rent paid or accrued for business property in which the company has no equity.

Line 18. Taxes.—Enter taxes paid or accrued during the taxable year. Do not include the following taxes:

- Federal income tax.
- Foreign income taxes or U.S. possessions income taxes if you are claiming a foreign or U.S. possessions tax credit.
- Taxes not imposed upon the corporation.
- Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property. Such taxes must be treated as a part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition.

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

Line 19. Interest.—Enter interest paid or accrued during the taxable year, except interest on indebtedness incurred or continued in order to purchase or carry obligations the interest on which is wholly tax exempt.

Generally, the interest and carrying charges on straddles cannot be deducted and must be capitalized or added to inventory costs. See section 263(g).

Interest paid or incurred after 1986 that is allocable to certain property produced by a corporation for its own use or for sale must be capitalized. In addition, a corporation must capitalize any interest on debt that it incurred or continued in connection with an asset used to produce the above property. See section 263A for definitions and for more information.

Line 20. 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 for any unused contributions carried over from prior years.

Corporations on the accrual basis may elect to deduct contributions paid by 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.

The total deduction allowable in any year may not exceed 10% of taxable income (line 36, Schedule A) computed without regard to:

(1) the deduction for charitable contributions;

(2) the deduction for dividends received;

(3) the deductions allowed under sections 249 and 250;

(4) any net operating loss carryback to the taxable year under section 172; and

(5) any capital loss carryback to the taxable year under section 1212(a)(1):

Charitable contributions in excess of the 10% limitation may not be deducted in the current taxable year but may be carried over to the next 5 taxable years. A contribution carryover is not allowed, however, to the extent that it increases a net operating loss deduction.

Special rule for contributions of certain property.—For a charitable contribution of property, you must reduce the contribution by the sum of:

1. The ordinary income or short-term capital gain that would have resulted if the property had been sold at its fair market value, and

2. All of the long-term capital gain that would have resulted if the property had been sold at its fair market value.

The reduction for 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).

Documentation required for certain contributions.—For contributions made in property other than money for which the total deduction claimed exceeds $500, attach a schedule showing the name of each organization to which such a contribution was made and the amount of the contribution. 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.

Corporations generally must complete and attach **Form 8283,** Noncash Charitable Contributions, to their returns for contributions of property other than money after June 6, 1988, if the total claimed deduction for all property contributed was more than $5,000.

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.

Line 21. Depreciation.—Besides depreciation, include on line 21 the part of the cost that the corporation elected to expense under section 179 (limited to $10,000) for certain recovery property placed in service during the taxable year.

Line 22. 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). The reduction in a corporation's depletion deduction for iron ore or coal (including lignite) is 20%.

Foreign intangible drilling costs and 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.

Attach **Form T (Timber),** Forest Industries Schedules, if a deduction for depletion of timber is taken.

Line 23. 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 penalty for overstating the pension plan deduction. See 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.

Note: *Contributions to a pension or annuity plan representing past service costs are now subject to the uniform capitalization rules of section 263A or the long-term contract rules of section 460. Thus, an allocable share of all otherwise allowable pension costs, whether they relate to current or past services, must be included in the basis of property produced or held for resale, including property the taxpayer produces under a long-term contract. This change in the law is effective for costs incurred after 1987 for property (other than inventory) produced by the taxpayer, including costs allocable to long-term contracts under section 460. For inventory costs the change is effective for tax years beginning after 1987, and is treated as a change in accounting method initiated by the taxpayer and made with IRS consent. Any adjustment required under section 481(a) must be included in income over a period not to exceed 4 years.*

Line 24. 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 23.

Line 26. Additional deduction (section 847).—Any insurance company that is required to discount unpaid losses under section 846 is allowed an additional deduction that is not to exceed the excess of (1) the amount of the undiscounted unpaid losses, over (2) the amount of the related discounted unpaid losses, to the extent the amount was not deducted in a preceding taxable year. Enter the amount of the additional deduction on this line, and attach a schedule showing your computation.

Note: *Any insurance company taking the additional deduction is required to: (1) make Special Estimated Tax Payments equal to the tax benefit attributable to the deduction, and (2) establish and maintain a Special Loss Discount Account. See section 847 for details.*

Line 28. Dividends to policyholders.—Enter the total dividends and similar distributions paid or declared to policyholders in their capacity as such, except in the case of a mutual fire insurance company exclusively issuing perpetual policies. Whether dividends have been paid or declared should be determined according to the method of accounting regularly employed in keeping the books of the insurance company.

The term "dividends and similar distributions" includes amounts returned or credited to policyholders on cancellation or expiration of policies issued by a mutual fire or flood insurance company—(1) where the premium deposits for the policy are the same (regardless of the length of the term for which the policies are written), and (2) under which the unabsorbed portion of such premium deposits not required for losses, expenses, or establishment of reserves is returned or credited to the policyholder on cancellation or expiration of the policy.

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

Line 29. Mutual interinsurers or reciprocal underwriters—increase in subscriber accounts.—A mutual insurance company that is an interinsurer or reciprocal underwriter may deduct the increase in savings credited to subscriber accounts for the tax year.

Savings credited to subscriber accounts means the surplus credited to the individual accounts of subscribers before the 16th day of the 3rd month following the close of the tax year. This is true only if the 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 30. Other deductions.—Enter the total deductions allowable under sections 832(c)(1) and 832(c)(10) (net of the annual statement change in undiscounted unpaid loss adjustment expenses) to the extent that they are not reported on lines 14 through 29. Attach a schedule itemizing the amounts included on line 30.

Note: Effective for tax years beginning after December 31, 1987, a deduction for additions to a reserve account for vacation pay is limited to the vacation pay that is paid during the current taxable year or within 2½ months after the close of the taxable year of the employer with respect to which the vacation pay was earned by the employees.

The change from the reserve method is treated as a change in method of accounting initiated by the taxpayer and made with IRS consent. The net amount of the adjustment required by the change in accounting method equals the excess of the amount in the reserve at the end of the year preceding the year of the change over the amount accrued at the end of the year preceding the year of change and paid within 2½ months after the close of that year. The net amount of the adjustment reduced by the balance in the suspense account under section 463(c) must be included in income as follows: 25% for the year of change, 5% in the first year after the year of change, 35% for the 2nd year after the year of change, and 35% in the 3rd year after the year of change. However, if Rev. Proc. 84-74 1984-2 C.B. 736 requires the adjustment to be taken into account over a period of less than 4 years, the adjustment is to be included in income ratably over the shorter period. See 1987 Act section 10201 for more information.

Line 33a. Special deduction for section 833 organizations.—Enter the amount shown on Schedule H, line 6. **Note:** *The amount claimed cannot exceed taxable income for the taxable year (determined without regard to this deduction).*

Line 33b. Deduction on account of the special income and deduction accounts. —Enter the total of the amounts required to be added to the special income and deduction accounts under the provisions of sections 832(e)(4) and 832(e)(6). See section 832(e) and the instructions for Schedule A, line 9, for more information.

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

Line 35a. Dividends-received deduction.—Enter the amount from Schedule C, line 27.

Note: *Generally, the dividends-received deduction allowed by sections 243(a)(1), 244(a), and subsections (a) and (b) of section 245 may not exceed 70% (80% in certain cases) of taxable income (or taxable investment income for electing small companies) computed without regard to: (1) the deduction allowed by section 172 (net operating loss); (2) the deductions allowed by section 243(a)(1), section 244(a), subsection (a) or (b) of section 245, and section 247; (3) any adjustment under section 1059; and (4) any capital loss carryback to the taxable year under section 1212(a)(1). However, this limitation does not apply for any taxable year for which there is a net operating loss as determined under section 172.*

Line 35b. Net operating loss deduction.—Enter the amount of any net operating loss deduction allowable under section 172. The net operating loss deduction for a given taxable year is the total of the net operating loss carryovers and carrybacks to the taxable year. Generally, you must carry a net operating loss back to each of the 3 years preceding the year of the loss and over to each of the 15 years following the year of the loss. There is, however, an election available whereby a company can elect to forego the carryback period and just carry the net operating loss over to 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.

The amount of the loss that may be carried to each succeeding year in the carryback or carryover period is the excess, if any, of the amount of such loss over the sum of the taxable income for each of the prior taxable years to which such loss may be carried. For this purpose, the taxable income for any such prior taxable year shall be computed as provided in section 172(b)(2). 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.

A net operating loss cannot be carried to or from any tax year for which the insurance company is not subject to tax under section 831(a), or to any taxable year if (between the taxable year from which such loss is being carried and such taxable year) there is an intervening taxable year for which the insurance company was not subject to tax imposed by section 831(a).

See section 172 for special rules, limitations, and definitions pertaining to net operating loss carrybacks and carryovers. Also see **Pub. 536**, Net Operating Losses.

See section 844 for special loss carryover rules for insurance companies.

Schedule B, Part I—Taxable Investment Income or (Loss) of Electing Small Companies

Note: *(1) Once an election to be taxed only on investment income is made, it can only be revoked with the consent of the Secretary, and (2) a company making this election must include in gross investment income any amount subtracted from a protection against loss account.*

Income

Line 1a, column (1). Gross interest.—Enter the gross amount of interest income including all tax-exempt interest income.

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

Lines 1a and 1b, column (2). Amortization of premiums.—Enter on line 1a, column (2), the total amortization of bond premiums, including amortization of premium on tax-exempt bonds. Enter on line 1b, column (2), the amortization of bond premium on tax-exempt bonds.

Line 3. Gross rents.—Enter the gross rents received or accrued during the taxable year. Deduct rental expenses such as repairs, interest, taxes and depreciation on the proper lines in the deductions section.

Line 4. Gross royalties.—Enter the gross royalties received or accrued during the taxable year. If you claim a deduction for depletion, see line 12, below.

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

Note: *New rules apply to installment sales by nondealers of property that is used in a taxpayer's trade or business or held for the production of rental income if the sales price is greater than $150,000. An interest charge is imposed on the tax that is deferred under the installment method to the extent the outstanding face amount of installment obligations arising from all dispositions of such property occurring during any year exceeds $5 million. See section 453A for more information.*

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

Line 7. Gain from separate Schedule D.—Enter the capital gain net income (if any) shown on line 11 of Schedule D (Form 1120).

Deductions

Line 9. Real estate taxes.—Enter taxes paid or accrued on real estate owned by the company and deductible under section 164. Also see section 834(d)(1) regarding the limitation of expenses on real estate owned and occupied in part or in whole by a mutual insurance company.

Line 10. Other real estate expenses.—Enter all ordinary and necessary real estate expenses, such as fire insurance, heat, light, and labor. Also enter the cost of incidental repairs that keep the property in an ordinary efficient operating condition but neither materially add to the property's value nor appreciably prolong its life. Do not include any amount paid for new buildings or for permanent improvements or betterments made to increase the value of any property or any amount spent on foreclosed property before the property is held for rent.

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

Line 11. Depreciation.—Enter depreciation on assets only to the extent that the assets are used to produce the income specified in section 834(b) and reported on lines 1 through 7 of Schedule B. Besides depreciation, include on line 11 the part of the cost you elect to expense for certain recovery property placed in service during the taxable year. See the instructions for **Form 4562**, Depreciation and Amortization Also see section 834(d)(1) regarding the limitation of depreciation and real estate expenses on real estate owned and occupied in part or in whole by a mutual insurance company.

Line 12. Depletion.—Enter any allowable depletion on the royalty income reported on line 4 of Schedule B. 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 13. Trade or business deductions.—Enter total deductions for any business income included in the insurance company's gross investment income under section 834(b)(2). Do not include deductions for any insurance business. Do not include losses from sales or exchanges of capital assets or property used in the business, or from the compulsory or involuntary conversion of property used in the trade or business.

Line 14. Interest.—Enter interest paid or accrued during the taxable year, except on indebtedness incurred or continued to purchase or carry obligations on which the interest income is wholly tax exempt.

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 17. 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 the amount shown on Schedule B, Part II, line 18. Attach a schedule showing the kind and amount of the items and group the minor items into one amount.

Schedule B, Part II—Invested Assets Book Values

Schedule B, Part II, is used to compute the limitation on investment expenses required under section 834(c)(2) when any general expenses are in part assigned to or included in the investment expenses deducted on Schedule B, Part I, line 17. In such cases, the total deductible investment expenses are limited to ¼ of 1% of the mean of the book value of the invested assets held at the beginning and end of the taxable year plus ¼ of the amount by which taxable investment income (computed without regard to any deduction for: (i) investment expenses under section 834(c)(2), (ii) tax-free interest excludible under section 834(c)(1), or (iii) any dividends-received deduction allowed by section 834(c)(7)) exceeds 3¾% of the book value of the mean of the invested assets held at the beginning and end of the taxable year.

Schedule C—Dividends and Special Deductions

Lines 1 through 9, column (1). Not subject to section 832(b)(5)(B).—Enter in column (1) of the appropriate line those dividends that are not subject to the provisions of section 832(b)(5)(B). This will include: (i) all dividends received on stock acquired before August 8, 1986; and (ii) 100% dividends on stock acquired after August 7, 1986, to the extent that such dividends are not attributable to prorated amounts.

Lines 1 through 9, column (2). Subject to section 832(b)(5)(B).—Enter in column (2) of the appropriate line those dividends that are subject to the provisions of section 832(b)(5)(B). This will include: (i) all dividends (other than 100% dividends) received on stock acquired after August 7, 1986; and (ii) 100% dividends received on stock acquired after August 7, 1986, to the extent that such dividends are attributable to prorated amounts.

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

Definitions.—

Acquisition date.—In the case of investments acquired by direct purchase, the trade date rather than the settlement date should be used for purposes of determining the acquisition date. In the case of investments acquired other than by direct purchase (such as those acquired through transfers among affiliates, tax-free reorganizations, or the liquidation of a subsidiary, etc.), the actual acquisition date should be used regardless of the holding period determined under section 1223.

In the case of dividends received from affiliates, a special rule applies in determining the acquisition date. This rule provides that the portion of any 100% dividend which is attributable to prorated amounts shall be treated as received with respect to stock acquired on the later of: (a) the date the payor acquired the stock or obligation to which the prorated amounts are attributable, or (b) the first day on which the payor and payee were members of the same affiliated group as defined in section 243(b)(5). Also, if the taxpayer is a member of an affiliated group filing a consolidated return, its determination of dividends received is made as if the group were not filing a consolidated return.

Prorated amounts.—The term "prorated amounts" means tax-exempt interest and dividends with respect to which a deduction is allowable under section 243, 244, or 245 (other than 100% dividends).

100% dividends.—The term "100% dividend" means any dividend if the percentage used for purposes of determining the deduction allowable under section 243, 244, or 245(b) is 100%. A special rule applies with regard to certain dividends received by a foreign corporation.

Line 1.—Enter dividends (except those received on debt-financed stock acquired after July 18, 1984) received from less-than-20%-owned domestic corporations subject to income tax and that qualify for the deduction allowable under section 243(a)(1).

Line 2.—Enter dividends (except those received on debt-financed stock acquired after July 18, 1984) received from 20%-or-more-owned domestic corporations subject to income tax and that qualify for the deduction allowable under section 243(c)(1).

Include on lines 1 and 2 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)). For dividends received from a regulated investment company, see section 854 for the amount that qualifies for the deduction.

So-called dividends or earnings received from mutual savings banks, money market certificates, etc., are really interest and should not be treated as dividends.

Line 3.—Enter dividends on debt-financed stock (acquired after July 18, 1984) that were 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 any debt-financed stock of foreign corporations that was acquired after July 18, 1984, are also subject to the rules of section 246A. For more information, see section 246A.

Line 4.—Enter dividends received on the preferred stock of a less-than-20%-owned public utility that is subject to income tax and is allowed the deduction provided in section 247.

Line 5.—Enter dividends received on the preferred stock of a 20%-or-more-owned public utility that is subject to income tax and is allowed the deduction provided in section 247.

Line 6.—Enter the U.S. source portion of dividends received from less-than-20%-owned foreign corporations that qualify for the 70% deduction under section 245(a). To qualify for the 70% deduction, the corporation must own at least 10% of the foreign corporation by vote and value. Also include dividends received from a foreign sales corporation (FSC) that are attributable to income treated as effectively connected with the conduct of a trade or business within the U.S. (excluding foreign trade income) and that qualify for the 70% deduction provided in section 245(c)(1)(B).

Line 7.—Enter the U.S.-source portion of dividends received from 20%-or-more-owned foreign corporations that qualify for the 80% deduction under section 245(a). Also include dividends received from a foreign sales corporation (FSC) that are attributable to income treated as effectively connected with the conduct of a trade or business within the U.S. (excluding foreign trade income) and that qualify for the 80% deduction provided in section 245(c)(1)(B).

Line 8.—Enter dividends received from wholly owned foreign subsidiaries that qualify for the 100% deduction under section 245(b) and dividends from a FSC that qualify for the deduction provided in section 245(c)(1)(A). 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 dividend, 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. Also include on line 5 all dividends received from a FSC that are attributable to export sales income and that qualify for the 100% deduction under section 245(c).

Line 9.—Enter dividends that qualify for the 100% dividends-received deduction under section 243(a)(3) and that are subject to the elective provisions of section 243(b).

Line 10, column (3). Other dividends from foreign corporations not included in lines 6, 7, and 8.—Enter dividends from foreign corporations that are not reportable on lines 6, 7 and 8. Exclude distributions of amounts constructively taxed under Subpart F (sections 951 through 964) in the current year or in earlier years.

Line 11, column (3). Income from controlled foreign corporations under Subpart F.—Enter dividends constructively received from controlled foreign corporations under Subpart F. The total reported should equal the total amount reported in Schedule J of **Form(s) 5471**, Information Return with Respect to Foreign Corporations.

Line 12, column 3. Foreign dividend gross-up.—Enter the gross-up required by section 78 of dividends received from certain foreign corporations for taxes considered paid under sections 902 and 906.

Line 13, column (3). Other dividends.—Enter the total other dividends received. Attach a schedule showing separately:

- 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 because of an obligation to make corresponding payments on similar stock.
- Any other taxable dividend income not properly reported above, including distributions under section 936(h)(4).

Line 17. Deduction for line 3.—Dividends received on debt-financed stock are not entitled to the full 70% or 80% dividends-received deduction. Instead, the 70% or 80% deduction is reduced under the provisions of section 246A by a percentage that is related to the amount of debt incurred to acquire the stock. For more information, see section 246A. Also see section 245(a) before making this computation for an additional limitation which applies to dividends received from foreign corporations.

A schedule showing how the dividends-received deduction on debt-financed stock was computed must be attached to Form 1120-PC.

Line 18. Deduction for line 4.—For dividends received on certain preferred stock of less-than-20%-owned public utilities, the dividends-received deduction percentage is 41.176%.

Line 19. Deduction for line 5.—For dividends received on certain preferred stock of 20%-or-more-owned public utilities, the dividends-received deduction percentage is 47.059%.

Multiply the dividends received by the proper percentage and enter the total in columns (1) and (2).

Line 20.—The dividends-received deduction percentage for line 6 is 70% for: (1) dividends from foreign corporations allowed the deduction under section 245(a); and (2) dividends from certain FSCs for which the deduction is allowed under section 245(c)(1)(B).

Line 21.—The dividends-received deduction percentages for line 7 are: (1) 80% for dividends from foreign corporations for which a deduction is allowed under section 245(a); and (2) 80% for dividends from certain FSCs for which a deduction is allowed under section 245(c)(1)(B).

Line 27. Total deduction.—

Note: *Two situations in which the dividends-received deduction will not be allowed on any share of stock are: (1) if the corporation held the stock, with regard to which the dividends were issued, for 45 days or less; or (2) to the extent that the corporation is under an obligation to make related payments for substantially similar or related property.*

Limitation on dividends-received deduction worksheet

Generally, line 27 of column (3) may not exceed the amount from the worksheet below. However, in a year in which a loss from operations occurs, this limitation does not apply even if the loss is created by the dividends-received deduction. (See sections 172(d) and 246(b)).

1. Enter the amount from Schedule A, line 36 or Schedule B, line 21, whichever applies, computed without regard to: the net operating loss deduction (section 172); dividend-received deduction (sections 243(a)(1), 244(a), 245(a) or (b), and 247); any adjustment under section 1059; and any capital loss carryback to the taxable year under section 1212(a)(1) . . . . . ________
2. Enter the amount from line 22, column (3), (without regard to wholly owned foreign subsidiary dividends) and line 24, column (3) . . . . . ________
3. Subtract line 2 from line 1 ________
4. Multiply the amount on line 3 by 80% . . . . ________
5. Enter the sum of the amounts on lines 16, 19, 21, and 22 (without regard to FSC dividends) of column (3) and the portion of the deduction on line 17 of column (3) that is attributable to dividends received from 20%-or-more-owned corporations ________
6. Enter the lesser of line 4 or line 5. (Do not complete the rest of this worksheet if line 5 is greater than line 4. Instead, enter the amount from line 6 on line 23 of column (3) (without regard to FSC dividends) . . . ________
7. Enter the total amount of dividends received from 20%-or-more-owned corporations . . . . ________
8. Subtract line 7 from line 3 ________
9. Multiply the amount on line 8 by 70% . . . . ________
10. Subtract line 5 from line 23 of column (3) (without regard to FSC dividends) ________
11. Enter the lesser of line 9 or line 10 . . . . . ________
12. Dividends-received deduction after limitation (section 246(b)). Add the amounts on lines 6 and 11and enter on line 23 of column (3) (without regard to FSC dividends) ________

Schedule E—Premiums Earned—Section 832

Line 1. Net premiums written.—From the amount of gross premiums written on insurance contracts during the taxable year, deduct return premiums and premiums paid for reinsurance. Enter the balance on line 1.

Lines 2a and 4a. 100% of life insurance reserves included in unearned premiums and all unearned premiums of section 833 organizations.—Include on lines 2a and 4a:

(1) all life insurance reserves, as defined in section 816(b) (but determined as provided in section 807), pertaining to the life, burial, or funeral insurance, or annuity business of an insurance company subject to the tax imposed by section 831 and not qualifying as a life insurance company under section 816; and

(2) all unearned premiums of a Blue Cross or Blue Shield organization to which section 833 applies.

Lines 2b and 4b. 90% of unearned premiums attributable to insuring certain securities.—Include on lines 2b and 4b 90% of unearned premiums attributable to insurance against default in the payment of principal or interest on securities described in section 165(g)(2)(C) (relating to worthless securities) with maturities of more than 5 years.

Lines 2c and 4c. Discounted unearned premiums attributable to title insurance.—Include on lines 2c and 4c the discounted unearned premiums attributable to title insurance. The amount of the discounted unearned premiums as of the end of any taxable year shall be the present value of such premiums (as of such time and separately with respect to premiums received in each calendar year) determined by using:

(1) the amount of the undiscounted unearned premiums at such time;

(2) the applicable interest rate; and

(3) the applicable statutory premium recognition pattern.

Definition of terms

"Undiscounted unearned premiums" means the unearned premiums shown in the annual statement filed for the year ending with or within such taxable year.

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

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

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

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

Line 6a(1). Unearned premiums (other than title, life, and those described in sections 832(b)(7)(B) and 833) as of 12/31/86.—Enter all unearned premiums other than those attributable to

(1) title insurance;

(2) life insurance;

(3) insurance against default in the payment of principal or interest on securities described in section 165(g)(2)(C) (relating to worthless securities) with maturities of more than 5 years; and

(4) organizations described in section 833.

In the case of a reciprocal or interinsurer that is required under state law to report unearned premiums on its annual statement, net of premium adjustment expenses, appropriate adjustments shall be made to reflect the amount by which unearned premium reserves at the close of the taxable year beginning before January 1, 1987, are greater or less than 80 percent of the sum of such unearned premium reserves plus premium acquisition expenses. See section 832(b)(7)(E).

Line 6b(1). Unearned premiums attributable to insuring certain securities as of 12/31/86.—Enter unearned premiums attributable to insurance against default in the payment of principal or interest on securities described in section 165(g)(2)(C) (relating to worthless securities) with maturities of more than 5 years.

Note: *Fiscal year filers completing lines 6a(1) and 6b(1) should enter unearned premiums on outstanding business as of the end of the most recent taxable year beginning before January 1, 1987.*

Line 6c. Adjustment for companies terminating as insurance companies taxable under section 831(a).—Except as provided in section 381(c)(22) (relating to carryovers in certain corporate readjustments), if, for any taxable year beginning before January 1, 1993, the taxpayer ceases to be an insurance company taxable under section 831(a), the aggregate adjustments which would be made under section 832(b)(4)(C) in such taxable year and in subsequent taxable years but for such cessation shall be made in the taxable year preceding such cessation year.

Schedule F—Losses Incurred

Line 1. Losses paid.—Enter the result of the following computation: to losses paid on insurance contracts during the taxable year, add salvage and reinsurance recoverable outstanding at the end of the preceding taxable year and deduct salvage and reinsurance recoverable outstanding at the end of the current taxable year.

An insurance company's treatment of salvage in determining its paid and unpaid losses is a method of accounting for Federal income tax purposes. In general, companies that did not previously treat salvage in accordance with the provisions of section 1.832-4T must change their method of accounting for the first tax year beginning after December 31, 1987. The "Fresh Start" provision of section 1023(e) of the Tax Reform Act of 1986 is not applicable to the adjustments required as a result of such a change of method. See Temp. Reg. 1.832-4T(d)(1) and Announcement 88-99, 1988-28 I.R.B. 38.

Salvage, in the course of liquidation, includes: (1) all property (other than cash), real or personal, tangible or intangible, regardless of how the salvage recoverable is reported for annual statement purposes; and (2) the estimated value of unaccrued subrogation claims contested by third parties. A schedule should be attached showing the computation of losses incurred during the taxable year.

Lines 2a and 4a. Unpaid losses on life insurance contracts.—Enter all unpaid losses on life insurance contracts. Unpaid losses must be adjusted for estimated recoveries of salvage and reinsurance attributable to unpaid losses. The amounts of such expected recoveries should be estimated based upon the facts in each case and the company's experience with similar cases.

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

In general, section 846 provides that the amount of the discounted unpaid losses shall be computed separately by line of business (except that the multiple peril lines shall be treated as a single line of business) and by accident year and shall be equal to the present value of such losses determined by using: (1) the amount of the undiscounted unpaid losses, (2) the applicable interest rate, and (3) the applicable loss payment pattern. Special rules apply with respect to unpaid losses related to disability insurance (other than credit disability insurance), noncancelable accident and health insurance, cancelable accident and health insurance, and to the international and reinsurance lines of business. With regard to the special rules for discounting unpaid losses on accident and health insurance (other than disability income insurance), unpaid losses are assumed to be paid in the middle of the year following the accident year.

As a rule, the amount of the undiscounted unpaid losses means the unpaid losses and unpaid loss adjustment expenses shown in the annual statement. *Under the provisions of* Temporary Regulations section 1.832-4T(b), however, unpaid losses must be adjusted to take into account estimated recoveries on account of salvage and reinsurance attributable to those losses. If the amounts shown in the annual statement were determined on a discounted basis and if the extent to which these losses were discounted can be determined on the basis of information disclosed on or with the annual statement, the amount of the undiscounted unpaid losses must be recomputed to eliminate any reduction attributable to such discounting. In no event can the amount of discounted unpaid losses determined under section 846 with respect to any line of business for an accident year exceed the aggregate amount of unpaid losses with respect to any line of business for an accident year as reported on the taxpayer's annual statement.

The applicable interest rate for each calendar year and the applicable loss payment pattern for each line of business are determined by the Secretary of the Treasury. The applicable interest rate for 1988, determined under section 846(c), for purposes of section 807, is 7.77%. (Revenue Ruling 88-16.) The applicable interest rate for 1987 and earlier years is 7.20%. The applicable loss payment patterns for such year have been published in Revenue Ruling 87-34, 1987-1 C.B. 168. The loss payment patterns for 1988 accident year have been published in Revenue Ruling 88-63, 1988-31 I.R.B. 5. However, under the provisions of section 846(e), corporations having sufficient historical experience to determine a loss payment pattern may, under certain circumstances, elect to use their own. If such an election is made, the loss payment patterns will be based on the most recent calendar year for which an annual statement was filed before the beginning of the accident year. No election under section 846(e) shall apply to any international or reinsurance line of business. If the corporation elects to use its own loss payment patterns, be sure to check the "Yes" column for question M in **Schedule J**, Additional Information Required. For more information regarding this election, see section 846(e). See also Notice 88-100, 1988-36 I.R.B. 46.

Note: *There is a special application of the fresh start provision in the case of an insurance company that: (1) is exempt from tax for its first tax year beginning after 1986 under section 501(a) by virtue of it being described in any paragraph of section 501(c) or, under section 831 (b), is taxed only on investment income, and (2) if such company later becomes subject to tax under section 831(a), the rules relating to the fresh start under the discounting provisions are to be applied by treating the last taxable year before the year in which the company becomes subject to tax under section 831(a) as the company's last taxable year beginning before 1987. See section 1010(e) of the Technical and Miscellaneous Revenue Act of 1988 and Notice 88-100.*

Line 6. Tax-exempt interest subject to section 832(b)(5)(B).—Enter the amount of tax-exempt interest received or accrued during the taxable year on investments made after August 7, 1986. For additional information regarding the determination of the acquisition date of an investment, see the instructions for Schedule C, lines 1 through 9, column (2).

Schedule G—Other Capital Losses

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

Total gross receipts from sales of capital assets (line 12, column (3)) 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) any sales reported in this schedule.

Schedule H—Special Deduction for Section 833 Organizations

Part I—Computation of Deduction

Line 1. Claims incurred during the taxable year.— Enter the total health care claims incurred during the taxable year.

Line 2. Expenses incurred during the taxable year in connection with the administration, adjustment, or settlement of claims.—Enter the total expenses incurred during the taxable year in connection with the administration, adjustment, or settlement of health care claims.

Line 5. Beginning adjusted surplus.—Enter on this line the amount from Schedule H, Part II, line 12 of the 1987 Form 1120-PC.

Line 6. Special deduction.—The deduction determined in Part I for any taxable year is limited to taxable income for such taxable year determined without regard to such deduction.

Note: *Under the provisions of section 833(b)(4), any determination under section 833(b) shall be made by only taking into account items attributable to the health-related business of the taxpayer.*

Part II—Computation of Ending Adjusted Surplus

The adjusted surplus as of the beginning of any taxable year is an amount equal to the adjusted surplus as of the beginning of the preceding taxable year—

(1) increased by the amount of any adjusted taxable income for such preceding taxable year, or

(2) decreased by the amount of any adjusted net operating loss for such preceding taxable year.

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

(1) without regard to the deduction determined under section 833(b)(1):

(2) without regard to any carryforward or carryback to such taxable year: and

(3) by increasing gross income by an amount equal to the net exempt income for the taxable year.

Line 10a. Adjusted tax-exempt income.—Reduce the total tax-exempt interest received or accrued during the taxable year by any amount (not otherwise deductible) which would have been allowable as a deduction for the taxable year if such interest were not tax exempt. Enter the result on line 10a.

Line 10b. Adjusted dividends-received deduction.—Reduce the aggregate amount allowed as a deduction under sections 243, 244, and 245 by the amount of any decrease in deductions allowable for the taxable year by reason of section 832(b)(5)(B) to the extent such decrease is attributable to deductions under sections 243, 244, and 245. Enter the result on line 10b.

Schedule I—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.

Schedule J—Additional Information Required

Be sure to answer questions G through P on page 7 of Form 1120-PC. The instructions that follow are keyed to these questions.

1. Question G. 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 I. 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 account(s) 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.

If "Yes" is checked for this question, file Form TD F 90-22.1 by June 30, 1989, 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-PC. 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.

Schedule K—Subtractions From Protection Against Loss Account

Section 1024 of the Tax Reform Act of 1986 repealed Code section 824 relating to the protection against loss account (PAL account). However, for taxable years beginning after December 31, 1986, PAL account balances are includible in income as though section 824 were still in effect.

Line 2a. Section 824(d)(1)(B).—Enter the amount (if any) by which the sum of the investment loss and the statutory underwriting loss for the taxable year exceeds the sum of the statutory underwriting income and the taxable investment income for the taxable year.

Line 2b. Section 824(d)(1)(C).—Enter (in the order in which the losses occurred) amounts equal to the unused loss carryovers to the taxable year.

Line 2c. Section 824(d)(1)(D).—Enter any amount remaining in the account which was added to the account for the fifth preceding taxable year minus one-half of the amount remaining in the account for such taxable year which was added by reason of section 824(a)(1)(B).

Line 2d. Section 824(d)(1)(E).—Enter the amount by which the total amount in the account exceeds whichever of the following is the greater:

(i) 10% of premiums earned on insurance contracts during the taxable year (as defined in section 832(b)(4)) less dividends to policyholders (as defined in section 832(c)(11)), or

(ii) the total amount in the account at the close of the preceding taxable year.

Form **1120-REIT**

Department of the Treasury
Internal Revenue Service

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

For calendar year 1988 or tax year beginning ...., 1988, ending ...., 19...

▶ For Paperwork Reduction Act Notice, see page 1 of the Instructions.

OMB No. 1545-1004

1988

A Year REIT status was elected

B ☐ Check if this is a Personal Holding Company

Please Type or Print

Name

Number and street (or P.O. box number if mail is not delivered to street address)

City or town, state, and ZIP code

C Employer identification number

D Date REIT established

E Total assets (See Specific Instructions.)

$

F Check applicable boxes: (1) ☐ Final return (2) ☐ Change in address (3) ☐ Amended return

Part I—Computation of Real Estate Investment Trust Taxable Income

Income (EXCLUDING income required to be reported in Part II or Part IV)

1	Dividends	1	
2	Interest	2	
3	Gross rents from real property	3	
4	Other gross rents	4	
5	Capital gain net income (attach Schedule D (Form 1120))	5	
6	Net gain (or loss) from Form 4797, Part II, line 18 (attach Form 4797)	6	
7	Other income (see instructions—attach schedule)	7	
8	Total income—Add lines 1 through 7 and enter here	8	

Deductions (EXCLUDING deductions directly connected with income required to be reported in Part II or Part IV)

9	Compensation of officers	9	
10a	Salaries and wages ______ b Less jobs credit ______ Balance ▶	10c	
11	Repairs	11	
12	Bad debts	12	
13	Rents	13	
14	Taxes	14	
15	Interest	15	
16	Depreciation (attach Form 4562)	16	
17	Advertising	17	
18	Other deductions (attach schedule)	18	
19	Total deductions—Add lines 9 through 18 and enter here	19	
20	Taxable income before net operating loss deduction, deduction for dividends paid, and section 857(b)(2)(E) deduction (line 8 less line 19)	20	
21	Less: a Net operating loss deduction (see instructions) — 21a		
	b Deduction for dividends paid (Schedule A) — 21b		
	c Section 857(b)(2)(E) deduction (Schedule J, line 3c) — 21c	21d	
22	Real estate investment trust taxable income (line 20 less line 21d)	22	

Tax and Payments

23	Total tax (Schedule J)	23	
24	Payments: a 1987 overpayment credited to 1988 — 24a		
	b 1988 estimated tax payments — 24b		
	c Less 1988 refund applied for on Form 4466 — 24c ( ) d Bal ▶ 24d		
	e Tax deposited with Form 7004 — 24e		
	f Credit from regulated investment companies (attach Form 2439) — 24f		
	g Credit for Federal tax on fuels (attach Form 4136) — 24g	24h	
25	Enter any penalty for underpayment of estimated tax—check ▶ ☐ if Form 2220 is attached	25	
26	Tax due—If the total of lines 23 and 25 is larger than line 24h, enter amount owed	26	
27	Overpayment—If line 24h is larger than the total of lines 23 and 25, enter amount overpaid	27	
28	Enter amount of line 27 you want: Credited to 1989 estimated tax ▶ Refunded ▶	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 **1120-REIT** (1988)

Form 1120-REIT (1988) Page **2**

Part II—Computation of Tax on Net Income From Foreclosure Property

(As defined in section 856(e)) (**Caution:** *See instructions before completing this part.*)

1	Net gain (or loss) from the sale or other disposition of foreclosure property described in section 1221(1) (attach schedule)	1	
2	Gross income derived from foreclosure property (attach schedule)	2	
3	Total income from foreclosure property (add lines 1 and 2)	3	
4	Deductions directly connected with the production of income shown on line 3 (attach schedule)	4	
5	Net income from foreclosure property—line 3 less line 4	5	
6	Tax on net income from foreclosure property—Enter 34% of line 5 here and on Schedule J, line 3b	6	

Part III—Computation of Tax Imposed Under Section 857(b)(5) for Failure To Meet Certain Source-of-Income Requirements

(**Caution:** *See instructions.*)

1a	Enter total income from Part I, line 8 — 1a		
b	Enter total income from foreclosure property from Part II, line 3 — 1b		
c	Total—add lines 1a and 1b	1c	
2	Multiply line 1c by 95% and enter the result here	2	
3	Enter the amount of income shown on line 1c that is derived from sources referred to in section 856(c)(2)	3	
4	Line 2 less line 3. (If less than zero, enter zero.)	4	
5	Multiply line 1c by 75% and enter the result here	5	
6	Enter the amount of income shown on line 1c that is derived from sources referred to in section 856(c)(3)	6	
7	Line 5 less line 6. (If less than zero, enter zero.)	7	
8	Enter the greater of line 4 or line 7. **(If this line is zero, do not complete the rest of Part III.)**	8	
9	Enter the amount shown in Part I, line 20	9	
10	Enter the net capital gain from Schedule D (Form 1120), line 10	10	
11	Line 9 less line 10	11	
12a	Enter total income from Part I, line 8 — 12a		
b	Enter the net short-term capital gain from Schedule D (Form 1120), line 4. (If line 4 is a loss, enter zero.) — 12b		
c	Add lines 12a and 12b	12c	
13	Enter capital gain net income from Part I, line 5	13	
14	Line 12c less line 13	14	
15	Divide line 11 by line 14 and enter the result. Carry out your answer to 5 decimal places	15	
16	Amount of section 857(b)(5) tax—Multiply line 8 by line 15 and enter the result here and on Schedule J, line 3c	16	

Part IV—Computation of Tax on Net Income From Prohibited Transactions

1	Gain from the sale or other disposition of property described in section 1221(1) which is not foreclosure property (Do NOT include sales that meet the requirements of section 857(b)(6)(C) or losses from prohibited transactions.)	1	
2	Deductions directly connected with the production of income shown on line 1	2	
3	Net income from prohibited transactions—line 1 less line 2	3	
4	Tax on net income from prohibited transactions—Enter 100% of line 3 here and on Schedule J, line 3d	4	

Schedule A Deduction for Dividends Paid

1	Dividends paid other than dividends paid after the end of the tax year (do not include dividends considered as paid in the preceding tax year under sections 857(b)(8) or 858(a), or deficiency dividends as defined in section 860)	1	
2	Dividends paid in 12-month period following the close of your tax year which you elect to be treated as paid during the tax year under section 858(a)	2	
3	Dividends declared in October, November, or December deemed paid on December 31 under section 857(b)(8). (See instructions.)	3	
4	Consent dividends (attach Forms 972 and 973)	4	
5	Total dividends paid—Add lines 1 through 4	5	
6	Deduction for dividends paid—If there is net income from foreclosure property (Part II, line 5), see instructions for limitation on deductible amount. Otherwise, enter amount from line 5 here and on line 21b, page 1	6	

Schedule J Tax Computation (See instructions.)

1 Check if you are a member of a controlled group (see sections 1561 and 1563) . . . . ▶ ☐			
2 If line 1 is checked:			
a Enter your share of the $50,000 and $25,000 taxable income bracket amounts (in that order): (i) $ (ii) $			
b Enter your share of the additional 5% tax (not to exceed $11,750) ▶ $			
3a Tax on real estate investment trust taxable income (see instructions to figure the tax)	3a		
b Tax from Part II (line 6, page 2)	3b		
c Tax from Part III (line 16, page 2)	3c		
d Tax from Part IV (line 4, page 2)	3d		
e Total—Add lines 3a through 3d		3e	
4a Foreign tax credit (attach Form 1118)	4a		
b General business credit. Enter here and check which forms are attached: ☐ Form 3800 ☐ Form 3468 ☐ Form 5884 ☐ Form 6478 ☐ Form 6765 ☐ Form 8586	4b		
c Credit for prior year minimum tax (attach Form 8801)	4c		
d Total—Add lines 4a through 4c		4d	
5 Line 3e less line 4d		5	
6 Personal holding company tax (attach Schedule PH (Form 1120))		6	
7 Recapture taxes. Check if from: ☐ Form 4255 ☐ Form 8611		7	
8 Alternative minimum tax (see instructions—attach Form 4626)		8	
9 Total tax—Add lines 5 through 8. Enter here and on line 23, page 1		9	

Additional Information (See instruction F.)

	Yes	No
G (1) Did the REIT 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; and (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.		
(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 REIT's voting stock (or beneficial interests)? (For rules of attribution, see section 267(c).) If "Yes," complete (a) through (c)		
(a) Attach a schedule showing name, address, and identifying number.		
(b) Enter percentage owned ▶		
(c) Was the owner of such voting stock (or beneficial interest) a person other than a U.S. person? (See instructions.) Note: *If "Yes," the REIT may have to file Form 5472*		
If "Yes," enter owner's country ▶		
H Was the REIT a U.S. shareholder of any controlled foreign corporation? (See sections 951 and 957.)		
If "Yes," attach Form 5471 for each such corporation.		
I At any time during the tax year, did the REIT 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 ▶		
J Was the REIT the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not the REIT has any beneficial interest in it?		
If "Yes," the REIT may have to file Forms 3520, 3520-A, or 926.		
K During this tax year, did the REIT pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the REIT's current and accumulated earnings and profits? (See sections 301 and 316.)		
If "Yes," file Form 5452.		
L During this tax year did the REIT maintain any part of its accounting/tax records on a computerized system?		
M Check method of accounting: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶		
N Check this box if the REIT issued publicly offered debt instruments with original issue discount ☐		
If so, the REIT may have to file Form 8281.		
O Enter the amount of tax-exempt interest received or accrued during the tax year ▶		

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 Federal and state government obligations				
4 Other current assets (attach schedule)				
5 Loans to stockholders				
6 Mortgage and real estate loans				
7 Other investments (attach schedule)				
8 Buildings and other depreciable assets				
a Less accumulated depreciation				
9 Land (net of any amortization)				
10 Intangible assets (amortizable only)				
a Less accumulated amortization				
11 Other assets (attach schedule)				
12 Total assets				
Liabilities and Stockholders' Equity				
13 Accounts payable				
14 Mortgages, notes, bonds payable in less than 1 year				
15 Other current liabilities (attach schedule)				
16 Loans from stockholders				
17 Mortgages, notes, bonds payable in 1 year or more				
18 Other liabilities (attach schedule)				
19 Capital stock: a Preferred stock				
b Common stock				
20 Paid-in or capital surplus				
21 Retained earnings—Appropriated (attach schedule)				
22 Retained earnings—Unappropriated				
23 Less cost of treasury stock		( )		( )
24 Total liabilities and stockholders' equity				

Schedule M-1 Reconciliation of Income per Books With Income per Return

(You are not required to complete this schedule if the total assets on line 12, column (d), of Schedule L are less than $25,000.)

1 Net income on books		7 Income recorded on books this year not included in this return (itemize):	
2a Federal income tax (Schedule J, line 9) . . $		a Tax-exempt interest $	
b Less: Section 857(b)(5) tax $ ( )			
c Balance ▶		8 Deductions in this tax return not charged against book income this year (itemize):	
3 Excess of capital losses over capital gains		a Depreciation . . $	
4 Income subject to tax not recorded on books this year (itemize):		b Net operating loss deduction (line 21a, page 1) . . $	
		c Dividends paid deduction (line 21b, page 1) $	
5 Expenses recorded on books this year not deducted in this return (itemize):			
a Depreciation . . $		9 Net income from foreclosure property	
b Section 4981 tax . . $		10 Net income from prohibited transactions	
c Travel and entertainment . $		11 Total of lines 7 through 10	
		12 REIT taxable income (line 22, page 1)—line 6 less line 11	
6 Total of lines 1 through 5			

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (line 22, Schedule L)

(You are not required to complete this schedule if the total assets on line 12, 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)	

★ U.S. G.P.O. 1988-205-225

1988 Department of the Treasury Internal Revenue Service

Instructions for Form 1120-REIT

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

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

Paperwork Reduction Act Notice

We ask for 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.

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

Recordkeeping	53 hrs., 49 min.
Learning about the law or the form	22 hrs., 38 min.
Preparing the form	63 hrs., 35 min.
Copying, assembling, and sending the form to IRS	11 hrs., 16 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service**, Washington, DC 20224, Attention: IRS Reports Clearance Officer, TR:FP; or the **Office of Management and Budget,** Paperwork Reduction Project, Washington, DC 20503.

Important Tax Law Changes

The Technical and Miscellaneous Revenue Act of 1988 made several changes affecting Form 1120-REIT and these instructions. Among the changes enacted were: changes in the types of income that are included for purposes of the 95% and 30% of gross income tests; a change in the date deemed paid for dividends declared in October, November, or December and actually paid during January; and exemption from the environmental tax for real estate investment trusts.

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

Form 1120-REIT is used to report the income, gains, losses, deductions, and credits of real estate investment trusts as defined in section 856.

B. Filing Form 1120-REIT

1. Who Must File

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

An electing real estate investment trust must be a corporation, trust, or association:

(a) that is managed by one or more trustees or directors;

(b) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest;

(c) that would otherwise be taxed as a domestic corporation;

(d) that is neither a financial institution referred to in section 582(c)(5), nor an insurance company to which subchapter L applies;

(e) the beneficial ownership of which is held by 100 or more persons (except this rule does not apply for the first tax year in which the election is made to be taxed as a real estate investment trust);

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

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

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

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

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

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

(1) the sum of:

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

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

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

See sections 856 and 857 for details and exceptions.

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

2. Termination of Election

Once the election to be treated as a real estate investment trust is made, it stays in effect for all years until it is terminated or revoked. The election terminates automatically for any tax year in which the corporation, trust, or association is not a qualified real estate investment trust as defined in section 856.

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

During the 4 years after the first year for which the termination or revocation is effective, the corporation, trust, or association may not make a new election to be taxed as a real estate investment trust, except as provided in section 856(g)(4).

3. When To File

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

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

Period covered.—File the 1988 return for calendar year 1988 and fiscal years that begin in 1988 and end in 1989. For a fiscal year, fill in the tax year space at the top of the form.

Note: *The 1988 Form 1120-REIT may also be used if: (1) the real estate investment trust has a tax year of less than 12 months that begins and ends in 1989; and (2) the 1989 Form 1120-REIT is not available by the time the real estate investment trust is required to file its return. However, the real estate investment trust must show its 1989 tax year on the 1988 Form 1120-REIT and incorporate any tax law changes that are effective for tax years beginning after December 31, 1988.*

Final return.—If the real estate investment trust ceases to exist, check the box for Final Return in item F at the top of the form.

4. Where To File

File your return at the applicable IRS address listed below.

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

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

5. 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 real estate investment trust.

If a corporate officer filled in the real estate investment trust 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 real estate investment trust, 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 real estate investment trust, 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 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 for Tax Practitioners, 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 real estate investment trust's books and records. In all cases, the method adopted must clearly reflect taxable income. See section 446.

Generally, real estate investment trusts with average annual gross receipts of more than $5,000,000 must use the accrual method of accounting. See section 448 for definitions and exceptions.

Unless the law specifically permits otherwise, the real estate investment trust 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.

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

2. Rounding Off to Whole-Dollar Amounts

The real estate investment trust 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 real estate investment trust 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 real estate investment trust income tax payments (and estimated tax payments) with **Form 8109**, Federal Tax Deposit Coupon. Be sure to darken the "1120" box on the coupon. Make these 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 real estate investment trust is located. Do not submit deposits directly to an IRS office; otherwise, the real estate investment trust may be subject to a failure to deposit penalty. Records of deposits will be sent to IRS for crediting to the real estate investment trust's account. See the instructions contained in the coupon book (Form 8109) for more information.

To help ensure proper crediting to your account, write your employer identification number, "Form 1120-REIT," and the tax period to which the deposit applies on your check or money order.

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.

4. Backup Withholding

If a person receives certain payments and does not give the payer the correct employer identification number, the payer will withhold taxes from those payments. This type of withholding is called "backup withholding." If the real estate investment trust has had any backup withholding withheld from payments, it should show this amount in the blank space in the right-hand column between lines 23 and 24h, page 1, Form 1120-REIT, and label the amount as "backup withholding." The real estate investment trust should then include the amount in the total for line 24h.

5. Estimated Tax

Generally, a real estate investment trust must make estimated tax payments if it can expect its estimated tax to be $500 or more. For estimated tax purposes, the estimated tax of the real estate investment trust is defined as its **alternative minimum tax** minus the credits for Federal tax on fuels and overpaid windfall profit tax. Use the Payment Coupons (Forms 8109) in making deposits of estimated tax.

If the real estate investment trust 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 real estate investment trust files its tax return.

6. 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, all the events that establish liability for the amount generally are treated as occurring only when economic performance takes place. There are exceptions for recurring items. See section 461(h).

7. 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 or 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. Interest and Penalties

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

2. Late Filing of Return.—A real estate investment trust that fails to file its return when due (including 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.

3. Late Payment of Tax.—Generally, the penalty for not paying tax when due is ½ of 1% of the unpaid amount, up to a maximum of 25%, for each month or fraction of a month the tax remains unpaid. The penalty is imposed upon the net amount due.

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

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

5. Overstated Tax Deposits.—If deposits are overstated, the real estate investment trust may be subject to a penalty of 25% of the overstated deposit claim. See section 6656(b).

6. Other Penalties.—There are also penalties that can be imposed for negligence, substantial understatement of tax, and fraud. See sections 6653 and 6661.

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

1. Forms

The real estate investment trust 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.

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

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

Form 1098. Mortgage Interest Statement. This form is used to report the receipt from any individual of $600 or more of mortgage interest in the course of the recipient's trade or business for any calendar year.

Forms 1099-A, B, DIV, INT, MISC, OID, PATR, R, and **S.** Information returns for reporting abandonments, acquisitions through foreclosure, proceeds from broker and barter exchange transactions, certain dividends and distributions, interest payments, medical and dental health care payments, miscellaneous income payments, nonemployee compensation, original issue discount, patronage dividends, total distributions from profit-sharing plans, retirement plans, and individual retirement arrangements, and proceeds from real estate transactions. 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 real estate investment trust 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. Use this form to report contributions (including rollover contributions) to an individual retirement arrangement (IRA) and the value of an IRA or simplified employee pension account.

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

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

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

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

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

2. Statements

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

A real estate investment trust 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 real estate investment trust 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 real estate investment trust receives stock or securities of a corporation in exchange for property, and no gain or loss is recognized under section 351, the real estate investment trust (transferor) must attach to Form 1120-REIT the information required by Regulations section 1.351-3.

3. Amended Return

To correct any error in a previously filed Form 1120-REIT, file an amended Form 1120-REIT and check the box for Amended Return in item F at the top of the form.

4. Attachments

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

In order to process the return, we ask that you complete every applicable entry space on Form 1120-REIT. Please do not attach statements and write "See attached" in lieu of completing the entry spaces on Form 1120-REIT.

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 the totals on the printed forms. Please use sheets that are the same size as the forms and schedules. Attach these separate sheets after all the schedules and forms. Also, put the real estate investment trust's employer identification number (EIN) on each sheet.

F. Additional Information

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

1. Question G(2)(c)

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;
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 I

Foreign financial accounts.—Check the "Yes" box if either **a** or **b,** below, applies to the real estate investment trust; otherwise, check the "No" box:

a. At any time during the year the real estate investment trust 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 real estate investment trust 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 real estate investment trust 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, 1989, with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return, so do not file it with Form 1120-REIT.

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

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

3. Question O

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

Specific Instructions

Employer identification number.—Enter the employer identification number (EIN) of the real estate investment trust.

A real estate investment trust that does not have an EIN should apply for one on **Form SS-4,** Application for Employer Identification Number. This form may be obtained from most IRS and Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center to which Form 1120-REIT is mailed. If the EIN has not been received by the filing time for the real estate investment trust tax return, write "Applied for" in the space for the EIN.

For more information concerning an EIN, see Publication 583.

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

Total assets.—Enter the total assets of the real estate investment trust as of the end of the tax year. If there are no assets at the end of the tax year, enter the total assets as of the beginning of the tax year.

Part I

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

Income

Line 1

Dividends

Enter the total amount of dividends received during the tax year.

Line 2

Interest

Enter interest on U.S. obligations and on loans, notes, mortgages, bonds, bank deposits, corporate bonds, tax refunds, etc.

Do not offset interest expense against interest income.

Line 3

Gross rents from real property

Enter the gross amount received for the rental of real property. Such term includes charges for services customarily furnished or rendered in connection with the rental of real property and rent attributable to personal property leased under or in connection with a lease of real property (provided the rent attributable to such personal property does not exceed 15% of the total rent for the tax year charged for both the real and personal property under such lease). See section 856(d)(2) for amounts excluded from the term "rents from real property."

Line 4

Other gross rents

Enter the gross amount received for the rental of property not included on line 3.

Line 5

Capital gain net income

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

Line 6

Net gain (or loss)

Enter the net gain (or loss) from **Form 4797,** Sales of Business Property, Part II, line 18.

Line 7

Other income

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

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

Deductions

Limitations on deductions.—

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

3. *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.

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

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

Line 9

Compensation of officers

Do not include compensation deductible elsewhere on the return, such as elective contributions to a section 401(k) cash or deferred arrangement or amounts contributed under a salary reduction SEP agreement.

Line 10

Salaries and wages

Enter on line 10a the amount of total salaries and wages paid or incurred for the tax year. Do not include salaries and wages deductible elsewhere on the return, such as elective contributions to a section 401(k) cash or deferred arrangement or amounts contributed under a salary reduction SEP agreement.

Effective for tax years beginning after 1987, the special election that allows accrual method taxpayers a deduction for additions to a reserve for vacation pay has been repealed. Generally, the amount now allowed as a deduction for vacation pay is limited to the amount of vacation pay earned during the year to the extent it is paid during the year or vested at the end of the year and paid within 2½ months after the end of the year.

The change from the reserve method is treated as a change in method of accounting initiated by the taxpayer and made with IRS consent. The net amount of the adjustment required by the change in accounting method equals the excess of the amount in the reserve at the end of the year preceding the year of change over the amount accrued at the end of the year preceding the year of change and paid within 2½ months after the close of that year. The net amount of the adjustment reduced by the balance in the suspense account under section 463(c) must be included in income as follows: 25% for the year of change, 5% in the 1st year after the year of change, 35% for the 2nd year after the year of change, and 35% in the 3rd year after the year of change. However, if Rev. Proc. 84-74, 1984-2 C.B. 736, requires the adjustment to be taken into account over a period of less than 4 years, the adjustment is to be included in income ratably over the shorter period. See P.L. 100-203 section 10201 for more information.

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 16 and 18.*

Enter on line 10b the amount of jobs credit from **Form 5884,** Jobs Credit.

Line 11

Repairs

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

Line 12

Bad debts

Enter the total debts that became worthless in whole or in part during the tax year.

Line 14

Taxes

Enter taxes paid or incurred during the tax year, but do not include the following:

1. Federal income taxes;
2. Foreign or U.S. possession income taxes if a tax credit is claimed;
3. Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (such taxes must be treated as a part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition);
4. Excise taxes imposed under section 4981 on undistributed real estate investment trust income; or
5. Taxes not imposed on the real estate investment trust.

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

Line 15

Interest

Do not include interest on indebtedness incurred or continued to purchase or carry obligations on which the interest is wholly exempt from tax.

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 1988 prepaid interest allocable to any period after 1988 can deduct only the amount allocable to 1988. 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 16

Depreciation

Besides depreciation, include on line 16 the part of the cost (up to $10,000) that the real estate investment trust elected to expense for certain recovery property placed in service during the tax year. See the instructions for **Form 4562,** Depreciation and Amortization.

Line 18

Other deductions

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

If a contribution deductible under section 170 is in property other than money and the total claimed deduction for all property contributed exceeds $500, real estate investment trusts (except those closely held) shall attach a schedule describing the kind of property contributed and the method used in determining its fair market value. Closely held real estate investment trusts must complete **Form 8283,** Noncash Charitable Contributions, and attach it to their returns. All other real estate investment trusts generally must complete and attach Form 8283 to their returns for contributions of property other than money after June 6, 1988, if the total claimed deduction for all property contributed was more than $5,000.

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 and for overstating the pension plan deduction. See sections 6652(e) and 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.

Generally, a deduction may not be taken for the amount of any item or part thereof allocable to a class of exempt income.

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

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

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

However, expenses paid or incurred for a facility (such as a yacht or hunting lodge) that is used for an activity that is usually considered entertainment, amusement, or recreation are not deductible. (**Note:** *The real estate investment trust 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.)

Note: *Do not deduct penalties imposed on real estate investment trusts such as those included in General Instruction D.*

Line 20

Taxable income before net operating loss deduction, deduction for dividends paid, and section 857(b)(2)(E) deduction

"At risk" rules.—Special "at risk" rules under section 465 generally apply to closely held real estate investment trusts engaged in any activity as a trade or business or for the production of income. Such taxpayers may have to adjust the amount on line 20. However, the "at risk" rules do not apply to: **(1)** holding real property (other than mineral property) placed in service by the taxpayer before 1987; **(2)** equipment leasing under sections 465(c)(4), (5), and (6); and **(3)** any qualifying business of a qualified corporation under section 465(c)(7). For more information, see section 465 and **Form 6198,** Computation of Deductible Loss From an Activity Described in Section 465(c).

Line 21a

Net operating loss deduction

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

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

Generally, a real estate investment trust may carry a net operating loss over to each of the 15 years following the year of loss. Real estate investment trusts are not permitted to carry back a net operating loss to any year preceding the year of such loss. In addition, a net operating loss from a year that is not a REIT year may not be carried back to any year that is a REIT year.

After applying the net operating loss to the first tax year to which it may be carried, the portion of the loss the real estate investment trust 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 real estate investment trust may carry the loss. (See section 172(b).)

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

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

Line 21b

Deduction for dividends paid

Enter the amount from line 6, Schedule A.

Line 21c

Section 857(b)(2)(E) deduction

Enter the amount from Schedule J, line 3c.

Line 24f

Credit for overpaid windfall profit tax

A real estate investment trust 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 "OWPT."

Note: *The windfall profit tax does not apply to crude oil removed after August 22, 1988.*

Part II

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

Property may be treated as foreclosure property only if the property meets the requirements of section 856(e) and the real estate investment trust elects to so treat such property in the year the property was acquired. Such election must be made by the due date for filing Form 1120-REIT (including extensions) by attaching a statement indicating that the election under section 856(e) is being made and identifying the property to which the election applies. The statement must also set forth the name, address, and EIN of the real estate investment trust, the date the property was acquired, and a brief description of how the property was acquired (including the name of the person from whom the property was acquired and a description of the lease or debt with respect to which default occurred or was imminent). Once made, the election is irrevocable. See section 856(e) and Regulations section 1.856-6 for additional information.

Line 2

Gross income derived from foreclosure property

Do NOT include on line 2 amounts described in sections 856(c)(3)(A), (B), (C), (D), (E), or (G). These amounts must be reported in Part I.

Line 4

Deductions

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

Part III

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

Caution: *If line 8 is greater than zero, the real estate investment trust MUST:*

(a) *attach a schedule to Form 1120-REIT listing the nature and amount of each item of its gross income described in sections 856(c)(2) and (3),*

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

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

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

Part IV

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

Line 1

Gain from the sale or other disposition of property

Include only gains from the sale or other disposition of property described in section 1221(1) that is not foreclosure property (as defined in section 856(e)) and that does not qualify as an exception under section 857(b)(6)(C).

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

Line 2

Deductions

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

Tax on Certain Built-In Gains

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

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

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

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

For more information, see Notice 88-19, 1988-8 I.R.B. 14.

Note: *Details on how to compute and report this tax on Form 1120-REIT (if the real estate investment trust makes the election described above) were not available at the time these instructions were printed but will be announced by IRS after publication of the regulations under section 337(d). If the real estate investment trust is required to file Form 1120-REIT before these details are announced, the fund should not include the built-in gains tax on Form 1120-REIT at the time of original filing. Rather, the tax should be shown on an amended Form 1120-REIT filed after the announcement is issued by IRS.*

Schedule A

Deduction for Dividends Paid

Lines 1 through 5

The rules in section 561 (taking into account sections 857(b)(8) and 858(a)) determine the deduction for dividends paid.

Line 3

For dividends declared after 1987, dividends declared in October, November, or December and payable to shareholders of record on a specified date in such a month are treated as having been paid by the real estate investment trust and received by each shareholder on December 31 of such year provided the dividends are actually paid in January of the following year. Enter on line 3 all such dividends that are not already included on line 1 or 2.

Line 6

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

Real estate investment trust taxable income (determined without regard to the deduction for dividends paid)
―――――――――――――――
Real estate investment trust taxable income (determined without regard to the deduction for dividends paid) + (Net income from foreclosure property minus the tax on net income from foreclosure property)

Schedule J

Tax Computation

Lines 1 and 2

Members of a controlled group, as defined in section 1563, are entitled to one $50,000 and one $25,000 taxable income bracket amount (in that order) on line 2a.

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

Equal apportionment plan. If no apportionment plan is adopted, the members of the controlled group must divide the amount in each taxable income bracket equally among themselves. For example, controlled group AB consists of corporation A and corporation B. They do not elect an apportionment plan. Therefore, both corporation A and corporation B are entitled to $25,000 (one-half of $50,000) in the $50,000 taxable income bracket on line 2a(i) and to $12,500 (one-half of $25,000) in the $25,000 taxable income bracket on line 2a(ii).

Unequal apportionment plan. Members of a controlled group may elect an unequal apportionment plan and divide the taxable income brackets as they wish. There is no need for consistency between taxable income brackets. Any member of the controlled group may be entitled to all, some, or none of the taxable income brackets. (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 must compute the tax on its REIT taxable income as follows:

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

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

Line 3a

A real estate investment trust must compute its tax on its real estate investment trust taxable income as follows (Members of a controlled group should see the instructions above for lines 1 and 2):

If its real estate investment trust taxable income (line 22, Form 1120-REIT) on page 1 is: Over—	But not over—	Its tax is:	Of the amount over—
0	$50,000	15%	0
$50,000	75,000	$7,500 + 25%	$50,000
75,000	....	$13,750 + 34%	75,000

Additional tax. If the real estate investment trust taxable income exceeds $100,000, the total tax imposed under section 857 (see the table above) is increased by the **lesser** of: 5% of the excess over $100,000, or $11,750.

Line 3e

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

Interest on tax deferred under the installment method for certain non-dealer installment obligations. If an obligation arising from the disposition of property to which section 453A applies is outstanding at the close of the year, the real estate investment trust must include the interest due under section 453A(c) in the amount to be entered on line 3e, Schedule J. Write on the dotted line to the left of line 3e, Schedule J, "Sec. 453A(c) interest — $(amount)." Attach a schedule showing the computation.

Deferred tax amount under section 1291. If the real estate investment trust was a shareholder in a passive foreign investment company (PFIC) that received an excess distribution or disposed of its investment in the PFIC during the year, it must include

the deferred tax amount due under section 1291(c) in the amount to be entered on line 3e, Schedule J. Write on the dotted line to the left of line 3e, Schedule J, "Sec. 1291 tax — $(amount)." Attach **Form 8621,** Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund.

Line 4a

Foreign tax credit. See **Form 1118,** Computation of Foreign Tax Credit—Corporations, for an explanation of when a real estate investment trust can take credit for payment of income tax to a foreign country.

Line 4b

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

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))).

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

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

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

Form 3800, *General Business Credit.* Enter the amount of the credit from Form 3800, and check the boxes indicating which forms are attached to the return. If the real estate investment trust 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 real estate investment trust has a carryforward or carryback of any of these credits (or a carryforward of an ESOP credit), it must use Form 3800.

Line 4c

Credit for prior year minimum tax. If the real estate investment trust had an alternative minimum tax liability in a prior tax year beginning after 1986 but has no current year alternative minimum tax, it may be able to take the credit for prior year minimum tax. See **Form 8801,** Credit for Prior Year Minimum Tax, and section 53.

Line 4d

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

Line 6

Personal holding company tax. A real estate investment trust 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.

Line 7

Recapture taxes

Recapture of investment credit. If property is disposed of or ceases to be qualified property before the end of the life-years used in computing the regular or energy investment credit, there may be a recapture of the credit. See **Form 4255,** Recapture of Investment Credit.

Recapture of low-income housing credit. If you must recapture part of the low-income housing credit because there has been a decrease in the qualified basis of a building from the prior year or if you disposed of the building or an ownership interest in it, see **Form 8611**, Recapture of Low-Income Housing Credit, and section 42(j). If you attached **Form 8693**, Low-Income Housing Credit Disposition Bond, write on the dotted line to the left of line 7, Schedule J, "Form 8693 attached."

Line 8

Alternative minimum tax. Attach **Form 4626**, Alternative Minimum Tax—Corporations, if the total of real estate investment trust taxable income (or loss) before the net operating loss deduction, net income from foreclosure property, and net income from prohibited transactions, plus adjustments and tax preference items of the trust exceeds $40,000 (or the allowable exemption amount, if less). See Form 4626 for details.

Line 9

Deferred tax and interest on undistributed earnings of a qualified electing fund under section 1294. Follow the instructions for Form 8621 to determine the amount of tax owed or deferred to include in or subtract from the total tax on line 9, Schedule J. Write on the dotted line to the left of line 9, Schedule J, "Sec. 1294" and the amount of tax to be added to or subtracted from the total for line 9. (Show in brackets an amount to be subtracted.) Do not include on line 9 the interest charge due on the deferred tax. Instead, write "Sec. 1294 interest" and the amount owed in the bottom margin of page 1, Form 1120-REIT.

Schedule M–1

Reconciliation of Income per Books With Income per Return

Line 5c

Travel and entertainment. Include on this line: 20% of meals and entertainment not allowed under section 274(n); expenses for the use of an entertainment facility; the part of business gifts in excess of $25; expenses of an individual allocable to conventions on cruise ships in excess of $2,000; employee achievement awards in excess of $400; the cost of entertainment tickets in excess of face value (also subject to 20% disallowance); ⅔ of the cost of skyboxes in excess of the face value of non-luxury box seat tickets; the part of the cost of luxury water travel not allowed under section 274(m); expenses for travel as a form of education; and other travel and entertainment expenses not allowed as a deduction.

*U.S. Government Printing Office: 1988-205-226

Form **1120-RIC**

Department of the Treasury
Internal Revenue Service

U.S. Income Tax Return for Regulated Investment Companies

For calendar year 1988 or tax year beginning ...., 1988, ending ...., 19 ....

▶ For Paperwork Reduction Act Notice, see page 1 of the instructions.

OMB No. 1545-1010

1988

A Year RIC status was elected	Please Type or Print	Name of fund	C Employer identification number
B Date fund was established		Number and street (or P.O. box number if mail is not delivered to street address)	D Total assets (See Specific Instructions.)
		City or town, state, and ZIP code	$

E Check applicable boxes: (1) ☐ Final return (2) ☐ Change in address (3) ☐ Amended return

F Check this box if the fund is a personal holding company or is not in compliance with Regulations section 1.852-6 for this tax year . . . . . ▶ ☐

Part I—Computation of Investment Company Taxable Income

Income	1 Dividends	1	
	2 Interest	2	
	3 Net foreign currency gain (or loss) from section 988 transactions (attach schedule)	3	
	4 Payments with respect to securities loans (see instructions)	4	
	5 Excess of net short-term capital gain over net long-term capital loss from Schedule D (Form 1120), line 9 (attach Schedule D (Form 1120))	5	
	6 Net gain (or loss) from Form 4797, Part II, line 18 (attach Form 4797)	6	
	7 Other income (see instructions—attach schedule)	7	
	8 **Total** income—Add lines 1 through 7 and enter here	8	
Deductions	9 Compensation of officers (Schedule E)	9	
	10a Salaries and wages ______ b Less jobs credit ______ Balance ▶	10c	
	11 Rents	11	
	12 Taxes	12	
	13 Interest	13	
	14 Depreciation (attach Form 4562)	14	
	15 Advertising	15	
	16 Registration fees	16	
	17 Insurance	17	
	18 Accounting and legal services	18	
	19 Management and investment advisory fees	19	
	20 Transfer agency, shareholder servicing, and custodian fees and expenses	20	
	21 Reports to shareholders	21	
	22 Other deductions (attach schedule)	22	
	23 **Total** deductions—Add lines 9 through 22 and enter here	23	
	24 Taxable income before deduction for dividends paid (line 8 less line 23)	24	
	25 **Less:** Deduction for dividends paid (Schedule A)	25	
	26 Investment company taxable income (line 24 less line 25)	26	

Tax and Payments

27 **Total tax** (Schedule J)	27	
28 **Payments:** a 1987 overpayment credited to 1988 28a ______		
b 1988 estimated tax payments 28b ______		
c Less 1988 refund applied for on Form 4466 28c (______) d Bal ▶ 28d ______		
e Tax deposited with Form 7004 28e ______		
f Credit from other regulated investment companies (attach Form 2439) 28f ______		
g Credit for Federal tax on fuels (attach Form 4136) 28g ______	28h	
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 28h, enter amount owed	30	
31 **Overpayment**—if line 28h is larger than the total of lines 27 and 29, enter amount overpaid	31	
32 Enter amount of line 31 you want: **Credited to 1989 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	

Form **1120-RIC** (1988)

Form 1120-RIC (1988) Page **2**

Part II—Computation of Tax on Undistributed Net Capital Gain Not Designated Under Section 852(b)(3)(D)

1 Net capital gain from Schedule D (Form 1120), line 10 (attach Schedule D (Form 1120))	1	
2 Less: Capital gain dividends (do not include any amount reported on Form 2438, line 9b)	2	
3 Amount subject to tax—line 1 less line 2	3	
4 Capital gains tax—Enter 34% of line 3 here and on line 3b, Schedule J	4	

Schedule A Deduction for Dividends Paid (Do not include capital gain dividends or exempt-interest dividends.)

1 Dividends paid other than dividends paid after the end of the tax year (do not include dividends considered as paid in the preceding tax year under sections 852(b)(7) or 855(a), or deficiency dividends as defined in section 860)	1	
2 Dividends paid in 12-month period following the close of your tax year which you elect to be treated as paid during the tax year under section 855(a)	2	
3 Dividends declared in October, November, or December deemed paid on December 31 under section 852(b)(7). (See instructions.)	3	
4 Consent dividends (attach Forms 972 and 973)	4	
5 Deduction for dividends paid—Add lines 1 through 4. Enter here and on line 25, page 1	5	

Schedule B Information Required With Respect to Income From Tax-Exempt Obligations

Did the fund qualify under section 852(b)(5) to pay exempt-interest dividends for 1988? . . . ☐ Yes ☐ No

If your answer to the above question is "Yes," complete lines 1 through 4:

1 Amount of interest excludible from gross income under section 103(a)	1	
2 Amounts disallowed as deductions under sections 265 and 171(a)(2)	2	
3 Net income from tax-exempt obligations—line 1 less line 2	3	
4 Amount of line 3 designated as exempt-interest dividends	4	

Schedule E Compensation of Officers (See instructions for line 9, page 1.)

Complete Schedule E only if total receipts 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 9, page 1

Schedule J Tax Computation (See instructions.)

1 Check if you are a member of a controlled group (see sections 1561 and 1563) . . . ▶ ☐		
2 If line 1 is checked:		
a Enter your share of the $50,000 and $25,000 taxable income bracket amounts (in that order): (i) $ ______ (ii) $ ______		
b Enter your share of the additional 5% tax (not to exceed $11,750) ▶ $ ______		
3a Tax on investment company taxable income (see instructions to figure the tax) 3a ______		
b Tax from line 4, Part II 3b ______		
c Total—Add lines 3a and 3b	3c	
4a Foreign tax credit (attach Form 1118) 4a ______		
b General business credit. Enter here and check which forms are attached: ☐ Form 3800 ☐ Form 3468 ☐ Form 5884 ☐ Form 6478 ☐ Form 6765 ☐ Form 8586 4b ______		
c Credit for prior year minimum tax (attach Form 8801) 4c ______		
d Total—Add lines 4a through 4c	4d	
5 Line 3c less line 4d	5	
6 Personal holding company tax (attach Schedule PH (Form 1120))	6	
7 Recapture taxes. Check if from: ☐ Form 4255 ☐ Form 8611	7	
8 Alternative minimum tax (see instructions—attach Form 4626)	8	
9 Total tax—Add lines 5 through 8. Enter here and on line 27, page 1	9	

Form 1120-RIC (1988) Page 3

Additional Information (See instruction F.)

	Yes	No
G (1) Did the fund 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; and (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.		
(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 fund's voting stock? (For rules of attribution, see section 267(c).) If "Yes," complete (a) through (c)		
(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 fund may have to file Form 5472*		
If "Yes," enter owner's country ▶		
H Was the fund a U.S. shareholder of any controlled foreign corporation? (See sections 951 and 957.) If "Yes," attach Form 5471 for each such corporation.		
I At any time during the tax year, did the fund 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 ▶		
J Was the fund the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not the fund has any beneficial interest in it? If "Yes," the fund may have to file Forms 3520, 3520-A, or 926.		
K During this tax year, did the fund pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the fund's current and accumulated earnings and profits? (See sections 301 and 316.) If "Yes," file Form 5452.		
L During this tax year did the fund maintain any part of its accounting/tax records on a computerized system?		
M Check method of accounting: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶		
N Check this box if the fund issued publicly offered debt instruments with original issue discount ☐ If so, the fund may have to file Form 8281.		
O Enter the amount of tax-exempt interest received or accrued during the tax year ▶		
P If this return is being filed for a series fund (as defined in section 851(h)(2)), please complete (1) and (2): (1) Name of regulated investment company in which the fund is a series ▶ .... (2) Date such regulated investment company was incorporated or organized ▶		
Q **Section 853 election**—Check this box if the fund meets the requirements of section 853(a) and elects to pass through the deduction or credit for foreign taxes it paid to its shareholders. See Regulations section 1.853-4(a) for additional requirements ☐		

Form 1120-RIC (1988) 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 Federal and state government obligations				
4 Other current assets (attach schedule)				
5 Loans to stockholders				
6 Mortgage and real estate loans				
7 Other investments (attach schedule)				
8 Buildings and other fixed depreciable assets				
a Less accumulated depreciation				
9 Land (net of any amortization)				
10 Intangible assets (amortizable only)				
a Less accumulated amortization				
11 Other assets (attach schedule)				
12 Total assets				
Liabilities and Stockholders' Equity				
13 Accounts payable				
14 Mortgages, notes, bonds payable in less than 1 year				
15 Other current liabilities (attach schedule)				
16 Loans from stockholders				
17 Mortgages, notes, bonds payable in 1 year or more				
18 Other liabilities (attach schedule)				
19 Capital stock				
20 Paid-in or capital surplus				
21 Retained earnings—Appropriated (attach schedule)				
22 Retained earnings—Unappropriated				
23 Less cost of treasury stock		( )		( )
24 Total liabilities and stockholders' equity				

Schedule M-1 Reconciliation of Income per Books With Income per Return

(You are not required to complete this schedule if the total assets on line 12, column (d), of Schedule L 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):	
		a Depreciation . $	
		b Dividends paid deduction (line 25, page 1) . $	
5 Expenses recorded on books this year not deducted in this return (itemize):			
a Depreciation . $			
b Expenses allocable to tax-exempt interest income . $		9 Net capital gain from Schedule D (Form 1120), line 10	
c Section 4962 tax . $		10 Designated undistributed capital gains from Form 2438, line 11	
d Travel and entertainment $		11 Total of lines 7 through 10	
		12 Investment company taxable income (line 26, page 1)—line 6 less line 11	
6 Total of lines 1 through 5			

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (line 22, Schedule L)

(You are not required to complete this schedule if the total assets on line 12, 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)	

★U.S.GPO:1988-0-205-227

1988 Instructions for Form 1120-RIC

Department of the Treasury
Internal Revenue Service

U.S. Income Tax Return for Regulated Investment Companies

(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.

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

Recordkeeping	51 hrs., 25 min.
Learning about the law or the form	19 hrs., 47 min.
Preparing the form	46 hrs., 37 min.
Copying, assembling, and sending the form to IRS	7 hrs., 14 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service**, Washington, DC 20224, Attention: IRS Reports Clearance Officer, TR:FP; or the **Office of Management and Budget**, Paperwork Reduction Project, Washington, DC 20503.

Important Tax Law Changes

The Technical and Miscellaneous Revenue Act of 1988 made several changes affecting Form 1120-RIC and these instructions. Among the changes enacted were: changes in the types of income that are included for purposes of the 90% and 30% of gross income tests; a provision allowing a corporation that elects to be treated as a business development company under the Investment Company Act of 1940 to elect to be a regulated investment company; a special rule allowing a fund that fails the 30% test by reason of abnormal redemptions to remain qualified as a regulated investment company; a change in the date deemed paid for dividends declared in October, November, or December and actually paid during January; and exemption from the environmental tax for regulated investment companies. Details on many of the changes can be found in these instructions.

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

Form 1120-RIC is used to report the income, gains, losses, deductions, and credits of regulated investment companies as defined in section 851.

B. Filing Form 1120-RIC

1. Who Must File

A domestic corporation that elects to be treated as a regulated investment company for the tax year (or has made such election for a prior tax year) and that meets the requirements listed below must file Form 1120-RIC. The election is made by computing taxable income as a regulated investment company on Form 1120-RIC.

An electing regulated investment company must be a domestic corporation—

(a) that is: **(1)** registered with the Securities and Exchange Commission throughout the tax year as a management company or unit investment trust under the Investment Company Act of 1940, or has in effect an election under such Act to be treated as a business development company, or **(2)** a common trust fund or similar fund excluded by section 3(c)(3) of such Act from the definition of "investment company" and is not included in the definition of "common trust fund" under section 584(a);

(b) that derives at least 90% of its gross income (including tax-exempt interest income) from dividends, interest, payments with respect to securities loans (as defined in section 512(a)(5)), and gains from the sale or other disposition of stock or securities (as defined in section 2(a)(36) of the Investment Company Act of 1940) or foreign currencies, or other income (including gains from options, futures, or forward contracts) derived with respect to its business of investing in such stock, securities, or currencies (**Note:** *Income from a partnership qualifies under the 90% test to the extent the company's distributive share of partnership income is attributable to items described above as realized by the partnership.*);

(c) that derives less than 30% of its gross income (including tax-exempt interest income) from the sale or other disposition of any of the following that was held for less than 3 months:

(1) stock or securities (as defined in section 2(a)(36) of the Investment Company Act of 1940);

(2) options, futures, or forward contracts (other than options, futures, or forward contracts on foreign currencies); and

(3) for tax years beginning after November 10, 1988, foreign currencies (or options, futures, or forward contracts on foreign currencies) but only if such currencies (or options, futures, or forward contracts) are not directly related to the company's principal business of investing in stock or securities (or options and futures on stocks or securities);

(d) that meets the diversification of investment requirements of sections 851(b)(4) and (c);

(e) that was treated as a regulated investment company for all tax years ending after November 7, 1983, or as of the end of the tax year, the corporation had no accumulated earnings and profits from any non-RIC year; and

(f) for which the deduction for dividends paid (excluding capital gain dividends) equals or exceeds the sum of:

(1) 90% of its investment company taxable income (determined without regard to the deduction for dividends paid); and

(2) 90% of its net income from tax-exempt obligations.

See sections 851 and 852 for details and exceptions.

If a regulated investment company has more than one fund (as defined below), each fund is treated as a separate corporation for purposes of the Internal Revenue Code (except with respect to the definitional requirement of paragraph (a) above).

However, any fund will not be disqualified for failure to meet the requirement of paragraph (c) above for any tax year by reason of sales resulting from abnormal redemptions on any day and occurring before the close of the 5th business day after such day if: **(1)** the sum of abnormal redemptions on that day and on prior days during the tax year exceeds 30% of net asset value and **(2)** all funds in the series to which the fund belongs would meet the requirement if treated as a single regulated investment company.

2. Definition of Fund

A fund is a separate portfolio of assets, the beneficial interests in which are owned by the holders of a class or series of stock that is preferred over all other classes or series with respect to that portfolio of assets.

Note: *As used in these instructions and Form 1120-RIC, the term "fund" refers to the above definition and to any regulated investment company that does not have more than one such portfolio of assets.*

3. When To File

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

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

Period covered.—File the 1988 return for calendar year 1988 and fiscal years that begin in 1988 and end in 1989. For a fiscal year, fill in the tax year space at the top of the form.

Note: *The 1988 Form 1120-RIC may also be used if: (1) the fund has a tax year of less than 12 months that begins and ends in 1989; and (2) the 1989 Form 1120-RIC is not available by the time the fund is required to file its return. However, the fund must show its 1989 tax year on the 1988 Form 1120-RIC and incorporate any tax law changes that are effective for tax years beginning after December 31, 1988.*

Final return.—If the fund ceases to exist, check the box for Final Return in item E at the top of the form.

4. Where To File

File your return at the applicable IRS address listed below.

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

5. Signature

The return must be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or any other 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 the fund.

Note: *If this return is being filed for a series fund (as defined in section 851(h)(2)), the return may be signed by any officer authorized to sign for the regulated investment company in which the fund is a series.*

If a corporate officer filled in the fund's 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 fund, 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 fund, 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 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 fund in addition to the copy filed with IRS.

Tax return preparers should be familiar with their responsibilities. See **Publication 1045**, Information for Tax Practitioners, 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 fund's books and records. In all cases, the method adopted must clearly reflect taxable income. See section 446.

Generally, funds with average annual gross receipts of more than $5,000,000 must use the accrual method of accounting. See section 448 for definitions and exceptions.

Unless the law specifically permits otherwise, the fund 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.

Change in accounting period.—Generally, before changing its accounting period, the fund must obtain the Commissioner's approval by filing **Form 1128**, Application for Change in Accounting Period. (See Regulations section 1.442-1 and Publication 538.)

2. Rounding Off to Whole-Dollar Amounts

The fund 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.

3. Depositary Method of Tax Payment

The fund 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 fund income tax payments (and estimated tax payments) with **Form 8109**, Federal Tax Deposit Coupon. Be sure to darken the "1120" box on the coupon. Make these 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 fund is located. Do not submit deposits directly to an IRS office; otherwise, the fund may be subject to a failure to deposit penalty. Records of deposits will be sent to IRS for crediting to the fund's account. See the instructions contained in the coupon book (Form 8109) for more information.

To help ensure proper crediting to your account, write your employer identification number, "Form 1120-RIC," and the tax period to which the deposit applies on your check or money order.

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.

4. Backup Withholding

If a person receives certain payments and does not give the payer the correct employer identification number, the payer will withhold taxes from those payments. This type of withholding is called "backup withholding." If the fund has had any backup withholding withheld from payments, it should show this amount in the blank space in the right-hand column between lines 27 and 28h, page 1, Form 1120-RIC, and label the amount as "backup withholding." The fund should then include the amount in the total for line 28h.

5. Estimated Tax

Generally, a fund must make estimated tax payments if it can expect its estimated tax to be $500 or more. For estimated tax purposes, the estimated tax of the fund is defined as its **alternative minimum tax** minus the credits for Federal tax on fuels and overpaid windfall profit tax. Use the Payment Coupons (Forms 8109) in making deposits of estimated tax.

If the fund overpaid estimated tax, it may be able to get a "quick refund" by filing **Form 4466**, Corporation Application for Quick Refund of 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 fund files its tax return.

6. 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, all the events that establish liability for the amount generally are treated as occurring only when economic performance takes place. There are exceptions for recurring items. See section 461(h).

7. 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 or 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. Interest and Penalties

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

2. Late Filing of Return.—A fund that fails to file its return when due (including 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.

3. Late Payment of Tax.—Generally, the penalty for not paying tax when due is ½ of 1% of the unpaid amount, up to a maximum of 25%, for each month or fraction of a month the tax remains unpaid. The penalty is imposed on the net amount due.

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

Form 2220, Underpayment of Estimated Tax by Corporations, is used to see if the fund owes a penalty and to figure the amount of the penalty. Generally, the fund does not have to file this form because IRS can figure the amount of any penalty and bill the fund for it. However, you must complete and attach Form 2220 even if the fund does not owe the penalty if: (a) the annualized income or adjusted seasonal installment method is used, or (b) the fund is a "large corporation" computing its first required installment based on the prior year's tax. If you attach Form 2220, be sure to check the box on line 29, page 1, Form 1120-RIC, and enter the amount of any penalty on this line.

5. Overstated Tax Deposits.—If deposits are overstated, the fund may be subject to a penalty of 25% of the overstated deposit claim. See section 6656(b).

6. Other Penalties.—There are also penalties that can be imposed for negligence, substantial understatement of tax, and fraud. See sections 6653 and 6661.

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

1. Forms

The fund 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.

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

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

Form 1098. Mortgage Interest Statement. This form is used to report the receipt from any individual of $600 or more of mortgage interest in the course of the recipient's trade or business for any calendar year.

Forms 1099-A, B, DIV, INT, MISC, OID, PATR, R, and **S.** Information returns for reporting abandonments, acquisitions through foreclosure, proceeds from broker and barter exchange transactions, certain dividends and distributions, interest payments, medical and dental health care payments, miscellaneous income payments, nonemployee compensation, original issue discount, patronage dividends, total distributions from profit-sharing plans, retirement plans, and individual retirement arrangements, and proceeds from real estate transactions. 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 fund 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 2438. Regulated Investment Company Undistributed Capital Gains Tax Return. If you designate undistributed capital gains under section 852(b)(3)(D), you must file this return and pay tax on the gains so designated within 30 days after the end of your tax year. In addition, a copy of Form 2438 (with Copy A of all Forms 2439) must be attached to the Form 1120-RIC you file.

Form 2439. Notice to Shareholder of Undistributed Long-Term Capital Gains. If you file Form 2438, you must complete Form 2439 for each shareholder for whom you paid tax on undistributed capital gains designated under section 852(b)(3)(D) and furnish a copy to each such shareholder within 60 days after the end of your tax year.

Form 5452. Corporate Report of Nontaxable Dividends.

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

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

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

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

Form 8613. Return of Excise Tax on Undistributed Income of Regulated Investment Companies. If you are liable for the 4% excise tax on undistributed income imposed under section 4982, you must file this return for the calendar year.

2. Statements

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

A fund 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 of the outstanding stock of a foreign corporation may have to file **Form 5471,** Information Return with Respect to a Foreign Corporation.

A fund 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 the fund receives stock or securities of a corporation in exchange for property, and no gain or loss is recognized under section 351, the fund (transferor) must attach to Form 1120-RIC the information required by Regulations section 1.351-3.

Election under Temporary Regulations section 1.67-2T(j)(2).—Generally, shareholders in a nonpublicly offered fund that are individuals or pass-through entities are treated as having received a dividend in an amount equal to the shareholder's allocable share of affected RIC expenses for the calendar year and as having paid or incurred an expense described in section 212 (and subject to the 2% limitation on miscellaneous itemized deductions) in the same amount for the calendar year. A nonpublicly offered fund may elect to treat its affected RIC expenses for a calendar year as equal to 40% of the amount determined under Temporary Regulations section 1.67-2T(j)(1)(i) for that calendar year. To make this election, attach to Form 1120-RIC for the tax year that includes the last day of the calendar year for which the fund makes the election a statement that it is making an election under paragraph (j)(2) of Temporary Regulations section 1.67-2T. Once made, the election remains in effect for all subsequent calendar years and may not be revoked without IRS consent. See Temporary Regulations section 1.67-2T for definitions and other details.

3. Amended Return

To correct any error in a previously filed Form 1120-RIC, file an amended Form 1120-RIC and check the box for Amended Return in item E at the top of the form.

4. Attachments

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

In order to process the return, we ask that you complete every applicable entry space on Form 1120-RIC. Please do not attach statements and write "See attached" in lieu of completing the entry spaces on Form 1120-RIC.

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. 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 fund's employer identification number (EIN) on each sheet.

F. Additional Information

Be sure to answer questions G through Q on page 3, Form 1120-RIC. The instructions that follow are keyed to these questions.

1. Question G(2)(c)

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;
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 I

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

a. At any time during the year the fund 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 fund 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 fund 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, 1989, 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-RIC.

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

Date fund was established.—If this return is being filed for a series fund (as defined in section 851(h)(2)), enter the date the fund was created. Otherwise, enter the date the regulated investment company was incorporated or organized.

Employer identification number.—Enter the employer identification number (EIN) of the fund. A fund 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-RIC is mailed. If the EIN has not been received by the filing time for the fund's tax 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 fund as of the end of the tax year. If there are no assets at the end of the tax year, enter the total assets as of the beginning of the tax year.

Part I

Income

Line 1

Dividends

Enter the total amount of dividends received during the tax year.

Line 2

Interest

Enter taxable interest on U.S. obligations and on loans, notes, mortgages, bonds, bank deposits, corporate bonds, tax refunds, etc.

Do not offset interest expense against interest income.

Line 3

Net foreign currency gain (or loss) from section 988 transactions

Enter the net foreign currency gain (or loss) from section 988 transactions that is treated as ordinary income or loss under section 988(a)(1)(A). Attach a schedule detailing each separate transaction.

Line 4

Payments with respect to securities loans

Enter the amount received or accrued from a broker as compensation for securities loaned by the fund to the broker for use in completing market transactions. Such payments must meet the requirements of section 512(a)(5).

Line 5

Excess of net short-term capital gain over net long-term capital loss

Enter on this line only the gain shown on line 9, **Schedule D (Form 1120),** Capital Gains and Losses. To report the net capital gain on line 10, Schedule D (Form 1120), see the instructions for Part II.

Note: *Every sale or exchange of a capital asset must be reported in detail on Schedule D (Form 1120), even though no gain or loss is indicated.*

Line 6

Net gain (or loss)

Enter the net gain (or loss) from **Form 4797,** Sales of Business Property, Part II, line 18.

Line 7

Other income

Enter any other taxable income not listed above, except net capital gain that must be reported in Part II, and explain its nature on an attached schedule. Examples of other income are gross rents; recoveries of fees or expenses in settlement or litigation; 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 it reduced income subject to tax in the year deducted (see section 111). Do not offset current year's taxes with tax refunds.

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

Deductions

Limitations on deductions.—

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

3. *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.

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

5. *Section 265(a)(3) limitation.* If the fund paid exempt-interest dividends during the tax year (including those dividends deemed paid under section 855), no deduction is allowed for that portion of otherwise deductible expenses which the amount of tax-exempt interest income bears to total gross income (including tax-exempt income but excluding capital gain net income).

6. The *net operating loss deduction* is not allowed.

7. *Passive activity limitations.* Limitations on passive activity losses and credits under section 469 apply to funds that are closely held (as defined in section 469(j)(1)). Funds subject to the passive activity limitations must complete **Form 8810,** Corporate Passive Activity Loss and Credit Limitations, to compute their allowable passive activity loss and credit.

Line 9

Compensation of officers

Besides entering the total officers' compensation on line 9, Form 1120-RIC filers must complete Schedule E on page 2 if their total receipts (line 8, Part I, plus net capital gain from line 1, Part II, and line 9a, Form 2438) are $150,000 or more. Do not include compensation deductible elsewhere on the return, such as elective contributions to a section 401(k) cash or deferred arrangement or amounts contributed under a salary reduction SEP agreement.

Complete Schedule E, columns (a) through (f), for all officers. The regulated investment company determines who is an officer under the laws of the state where it is incorporated.

Line 10

Salaries and wages

Enter on line 10a the amount of total salaries and wages paid or incurred for the tax year. Do not include salaries and wages deductible elsewhere on the return, such as elective contributions to a section 401(k) cash or deferred arrangement or amounts contributed under a salary reduction SEP agreement.

Effective for tax years beginning after 1987, the special election that allows accrual method taxpayers a deduction for additions to a reserve for vacation pay has been repealed. Generally, the amount now allowed as a deduction for vacation pay is limited to the amount of vacation pay earned during the year to the extent it is paid during the year or vested at the end of the year and paid within 2½ months after the end of the year.

The change from the reserve method is treated as a change in method of accounting initiated by the taxpayer and made with IRS consent. The net amount of the adjustment required by the change in accounting method equals the excess of the amount in the reserve at the end of the year preceding the year of change over the amount accrued at the end of the year preceding the year of change and paid within 2½ months after the close of that year. The net amount of the adjustment reduced by the balance in the suspense account under section 463(c) must be included in income as follows: 25% for the year of change, 5% in the 1st year after the year of change, 35% for the 2nd year after the year of change, and 35% in the 3rd year after the year of change. However, if Rev. Proc. 84-74, 1984-2 C.B. 736, requires the adjustment to be taken into account over a period of less than 4 years, the adjustment is to be included in income ratably over the shorter period. See P.L. 100-203 section 10201 for more information.

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 14 and 22.*

Enter on line 10b the amount of jobs credit from **Form 5884,** Jobs Credit.

Line 12

Taxes

Enter taxes paid or incurred during the tax year, but do not include the following:

1. Federal income taxes;

2. Foreign or U.S. possession income taxes if a tax credit is claimed or the fund made an election under section 853;

3. Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (such taxes must be treated as a part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition);

4. Excise taxes imposed under section 4982 on undistributed regulated investment company income; or

5. Taxes not imposed on the fund.

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

Line 13

Interest

Do not include interest on indebtedness incurred or continued to purchase or carry obligations on which the interest is wholly exempt from tax.

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 1988 prepaid interest allocable to any period after 1988 can deduct only the amount allocable to 1988. 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 14

Depreciation

Besides depreciation, include on line 14 the part of the cost (up to $10,000) that the fund elected to expense for certain recovery property placed in service during the tax year. See the instructions for **Form 4562,** Depreciation and Amortization.

Line 22

Other deductions

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

If a contribution deductible under section 170 is in property other than money and the total claimed deduction for all property contributed exceeds $500, the fund (except if closely held) shall attach a schedule describing the kind of property contributed and the method used in determining its fair market value. Closely held funds must complete **Form 8283,** Noncash Charitable Contributions, and attach it to their returns. All other funds generally must complete and attach Form 8283 to their returns for contributions of property other than money after June 6, 1988, if the total claimed deduction for all property contributed was more than $5,000.

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 and for overstating the pension plan deduction. See sections 6652(e) and 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.

Generally, a deduction may not be taken for the amount of any item or part thereof allocable to a class of exempt income.

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

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

All other ordinary and necessary travel expenses paid or incurred in the trade or business of the fund are generally fully deductible. However, expenses paid or incurred for a facility (such as a yacht or hunting lodge) that is used for an activity that is usually considered entertainment, amusement, or recreation are not deductible. (**Note:** *The fund 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.*)

Note: *Do not deduct penalties imposed on the fund such as those included in General Instruction D.*

Line 24

Taxable income before deduction for dividends paid

"At risk" rules.—Special "at risk" rules under section 465 generally apply to closely held funds engaged in any activity as a trade or business or for the production of income. Such taxpayers may have to adjust the amount on line 24. However, the at risk rules do not apply to: **(1)** holding real property (other than mineral property) placed in service by the taxpayer before 1987; **(2)** equipment leasing under sections 465(c)(4), (5), and (6); and **(3)** any qualifying business of a qualified corporation under section 465(c)(7). For more information see section 465 and **Form 6198,** Computation of Deductible Loss From an Activity Described in Section 465(c).

Line 25

Deduction for dividends paid

Enter the amount from line 5, Schedule A.

Line 28f

Credit for overpaid windfall profit tax

A fund 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 "OWPT."

Note: *The windfall profit tax does not apply to crude oil removed after August 22, 1988.*

Part II

Line 1

Net capital gain

Enter on this line only the gain shown on line 10, Schedule D (Form 1120). To report the excess of net short-term capital gain over net long-term capital loss, see the instructions for line 5, Part I.

Line 2

Capital gain dividends

Enter the deduction for dividends paid determined with reference to capital gain dividends only, as designated by the fund in accordance with section 852(b)(3)(C), but do not include any amount reported for the tax year on Form 2438, line 9b. The rules in section 561 (taking into account sections 852(b)(7) and 855(a)) determine the amount that is deductible for the tax year. To compute the deduction for capital gain dividends, it may be useful to prepare a worksheet similar to Schedule A, page 2, Form 1120-RIC.

Tax on Certain Built-In Gains

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

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

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

In the case of a corporation qualifying to be taxed as a regulated investment company, the regulations generally will apply to tax years beginning after June 9, 1987. However, the regulations will not apply to any corporation that was taxed as a regulated investment company for its tax year that included June 9, 1987. In addition, a previously qualifying regulated investment company that fails to meet the qualifications to be taxed as a regulated investment company for a single tax year generally will not be required to recognize net built-in gain under the regulations upon requalification as a regulated investment company. For carryover basis transactions, the regulations will generally apply to transactions occurring after June 9, 1987.

For more information, see Notice 88-19, 1988-8 I.R.B. 14, and Notice 88-96, 1988-35 I.R.B. 25.

Note: *Details on how to compute and report this tax on Form 1120-RIC (if the fund makes the election described above) were not available at the time these instructions were printed but will be announced by IRS after publication of the regulations under section 337(d). If the fund is required to file Form 1120-RIC before these details are announced, the fund should not include the built-in gains tax on Form 1120-RIC at the time of original filing. Rather, the tax should be shown on an amended Form 1120-RIC filed after the announcement is issued by IRS.*

Schedule A

Deduction for Dividends Paid

Lines 1 through 5

The rules in section 561 (taking into account sections 852(b)(7) and 855(a)) determine the deduction for dividends paid. In computing the amounts to be entered on lines 1 through 4, do not take into account capital gain dividends (as defined in section 852(b)(3)(C)) or exempt-interest dividends (as defined in section 852(b)(5)).

Line 3

For dividends declared after 1987, dividends declared in October, November, or December and payable to shareholders of record on a specified date in such a month are treated as having been paid by the fund and received by each shareholder on December 31 of such year provided the dividends are actually paid in January of the following year. Enter on line 3 all such dividends that are not already included on line 1 or 2.

Schedule B

Income From Tax-Exempt Obligations

If, at the close of each quarter of the tax year, at least 50% of the value of the fund's assets consisted of tax-exempt obligations under section 103(a), the fund qualifies under section 852(b)(5) to pay exempt-interest dividends for the tax year and must check the "Yes" box and complete lines 1 through 4 in Schedule B. See section 852(b)(5) for the definition of exempt-interest dividends and other details.

Schedule J

Tax Computation

Lines 1 and 2

Members of a controlled group, as defined in section 1563, are entitled to one $50,000 and one $25,000 taxable income bracket amount (in that order) on line 2a.

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

Equal apportionment plan. If no apportionment plan is adopted, the members of the controlled group must divide the amount in each taxable income bracket equally among themselves. For example, controlled group AB consists of corporation A and corporation B. They do not elect an apportionment plan.

Therefore, both corporation A and corporation B are entitled to $25,000 (one-half of $50,000) in the $50,000 taxable income bracket on line 2a(i) and to

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

Unequal apportionment plan. Members of a controlled group may elect an unequal apportionment plan and divide the taxable income brackets as they wish. There is no need for consistency between taxable income brackets. Any member of the controlled group may be entitled to all, some, or none of the taxable income brackets. (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 must compute the tax on its investment company taxable income as follows (except funds that are personal holding companies or that are not in compliance with Regulations section 1.852-6):

1. Enter investment company taxable income (line 26, page 1, Form 1120-RIC) . ________
2. Enter line 1 or the fund's share of the $50,000 taxable income bracket, whichever is less . . . . ________
3. Subtract line 2 from line 1 . ________
4. Enter line 3 or the fund's share of the $25,000 taxable income bracket, whichever is less . . . . ________
5. Subtract line 4 from line 3 . ________
6. Enter 15% of line 2 . . . ________
7. Enter 25% of line 4 . . . ________
8. Enter 34% of line 5 . . . ________
9. If the taxable income of the controlled group exceeds $100,000, enter this member's share of the **lesser** of: **(a)** 5% of the excess over $100,000, or **(b)** $11,750 (See instructions for additional 5% tax, below.) . . . . ________
10. Total of lines 6 through 9. Enter this amount on line 3a, Schedule J, Form 1120-RIC . . . . ________

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

Line 3a

The fund must compute its tax on its investment company taxable income as follows:

(1) Funds that are not personal holding companies and that are in compliance with Regulations section 1.852-6 regarding disclosure of the fund's actual stock ownership (Members of a controlled group should see the instructions above for lines 1 and 2):

If its investment company taxable income (line 26, Form 1120-RIC) on page 1 is: Over—	But not over—	Its tax is:	Of the amount over—
0	$50,000	.... 15%	0
$50,000	75,000	$7,500 + 25%	$50,000
75,000	....	13,750 + 34%	75,000

Additional tax. If the investment company taxable income of the fund exceeds $100,000, the total tax imposed under section 852 (see the table above) is increased by the **lesser** of: 5% of the excess over $100,000, or $11,750.

(2) Funds that are personal holding companies or that are not in compliance with Regulations section 1.852-6:

A fund that is a personal holding company or that is not in compliance with Regulations section 1.852-6 is taxed at a flat rate of 34% on its investment company taxable income.

Line 3c

Interest on tax deferred under the installment method for certain non-dealer installment obligations. If an obligation arising from the disposition of property to which section 453A applies is outstanding at the close of the year, the fund must include the interest due under section 453A(c) in the amount to be entered on line 3c, Schedule J. Write on the dotted line to the left of line 3c, Schedule J, "Sec. 453A(c) interest - $(amount)." Attach a schedule showing the computation.

Deferred tax amount under section 1291. If the fund was a shareholder in a passive foreign investment company (PFIC) that received an excess distribution or disposed of its investment in the PFIC during the year, it must include the deferred tax amount due under section 1291(c) in the amount to be entered on line 3c, Schedule J. Write on the dotted line to the left of line 3c, Schedule J, "Sec. 1291 tax -$(amount)." Attach **Form 8621**, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund.

Line 4a

Foreign tax credit. See **Form 1118**, Computation of Foreign Tax Credit—Corporations, for an explanation of when the fund can take credit for payment of income tax to a foreign country. The fund may not claim this credit if an election under section 853 was made for the tax year.

Line 4b

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.

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))).

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

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

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

Form 3800, *General Business Credit.* Enter the amount of the credit from Form 3800, and check the boxes indicating which forms are attached to the return. If the fund 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 fund has a carryforward or carryback of any of these credits (or a carryforward of an ESOP credit), it must use Form 3800.

Line 4c

Credit for prior year minimum tax. If the fund had an alternative minimum tax liability in a prior tax year beginning after 1986 but has no current year alternative minimum tax, it may be able to take the credit for prior year minimum tax. See **Form 8801**, Credit for Prior Year Minimum Tax, and section 53.

Line 4d

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

Line 6

Personal holding company tax. The fund 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.

Line 7

Recapture taxes

Recapture of investment credit. If property is disposed of or ceases to be qualified property before the end of the life-years used in computing the regular or energy investment credit, there may be a recapture of the credit. See **Form 4255**, Recapture of Investment Credit.

Recapture of low-income housing credit. If you must recapture part of the low-income housing credit because there has been a decrease in the qualified basis of a building from the prior year or if you disposed of the building or an ownership interest in it, see **Form 8611**, Recapture of Low-Income Housing Credit, and section 42(j). If you attached **Form 8693**, Low-Income Housing Credit Disposition Bond, write on the dotted line to the left of line 7, Schedule J, "Form 8693 attached."

Line 8

Alternative minimum tax. Attach **Form 4626**, Alternative Minimum Tax—Corporations, if the total of investment company taxable income (or loss) and retained capital gains not designated under section 852(b)(3)(D) plus adjustments and tax preference items of the fund exceeds $40,000 (or the allowable exemption amount, if less). See Form 4626 for details.

Line 9

Deferred tax and interest on undistributed earnings of a qualified electing fund under section 1294. Follow the instructions for Form 8621 to determine the amount of tax owed or deferred to include in or subtract from the total tax on line 9, Schedule J. Write on the dotted line to the left of line 9, Schedule J, "Sec. 1294" and the amount of tax to be added to or subtracted from the total for line 9. (Show in brackets an amount to be subtracted.) Do not include on line 9 the interest charge due on the deferred tax. Instead, write "Sec. 1294 interest" and the amount owed in the bottom margin of page 1, Form 1120-RIC.

Schedule M-1

Reconciliation of Income per Books With Income per Return

Line 5d

Travel and entertainment. Include on this line: 20% of meals and entertainment not allowed under section 274(n); expenses for the use of an entertainment facility; the part of business gifts in excess of $25; expenses of an individual allocable to conventions on cruise ships in excess of $2,000; employee achievement awards in excess of $400; the cost of entertainment tickets in excess of face value (also subject to 20% disallowance); ⅔ of the cost of skyboxes in excess of the face value of non-luxury box seat tickets; the part of the cost of luxury water travel not allowed under section 274(m); expenses for travel as a form of education; and other travel and entertainment expenses not allowed as a deduction.

*U.S. Government Printing Office: 1988-205-270

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

U.S. Income Tax Return for an S Corporation

For the calendar year 1988 or tax year beginning ...., 1988, ending ...., 19....

▶ For Paperwork Reduction Act Notice, see page 1 of the instructions.

OMB No. 1545-0130

1988

A Date of election as an S corporation	Use IRS label. Otherwise, please print or type.	Name	C Employer identification number
		Number and street (P.O. Box number if mail is not delivered to street address)	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) ☐ Initial return (2) ☐ Final return (3) ☐ Change in address (4) ☐ Amended return

G Check this box if this is an S corporation subject to the consolidated audit procedures of sections 6241 through 6245 (see instructions) ▶ ☐

H Enter number of shareholders in the corporation at end of the tax year ▶

Caution: Include **only** trade or business income and expenses on lines 1a through 21. See the instructions for more information.

Income

1a	Gross receipts or sales ______ b Less returns and allowances ______ c Bal ▶	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	Net gain (or loss) from Form 4797, line 18 (see instructions)	4	
5	Other income (see instructions—attach schedule)	5	
6	**Total** income (loss)—Combine lines 3, 4, and 5 and enter here ▶	6	

Deductions (See instructions for limitations.)

7	Compensation of officers	7	
8a	Salaries and wages ______ b Less jobs credit ______ c Bal ▶	8c	
9	Repairs	9	
10	Bad debts (see instructions)	10	
11	Rents	11	
12	Taxes	12	
13	Deductible interest expense not claimed or reported elsewhere on return (see instructions)	13	
14a	Depreciation from Form 4562 (attach Form 4562) 14a		
b	Depreciation reported on Schedule A and elsewhere on return 14b		
c	Subtract line 14b from line 14a	14c	
15	Depletion (**Do not deduct oil and gas depletion.** See instructions.)	15	
16	Advertising	16	
17	Pension, profit-sharing, etc. plans	17	
18	Employee benefit programs	18	
19	Other deductions (attach schedule)	19	
20	**Total** deductions—Add lines 7 through 19 and enter here ▶	20	
21	Ordinary income (loss) from trade or business activity(ies)—Subtract line 20 from line 6	21	

Tax and Payments

22	**Tax:**		
a	Excess net passive income tax (attach schedule) 22a		
b	Tax from Schedule D (Form 1120S) 22b		
c	Add lines 22a and 22b	22c	
23	**Payments:**		
a	Tax deposited with Form 7004 23a		
b	Credit for Federal tax on fuels (attach Form 4136) 23b		
c	Add lines 23a and 23b	23c	
24	**Tax due** (subtract line 23c from line 22c). See instructions for Paying the Tax ▶	24	
25	**Overpayment** (subtract line 22c from line 23c) ▶	25	

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** (1988)

Form 1120S (1988) Page **2**

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	
4a	Additional section 263A costs (attach schedule) (see instructions)	4a	
b	Other costs (attach schedule)	4b	
5	Total—Add lines 1 through 4b	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

(iii) ☐ Writedown of "subnormal" goods as described in Regulations section 1.471-2(c)

(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 Do the rules of section 263A (with respect to property produced or acquired for resale) apply to the corporation? ☐ Yes ☐ No

e Was there any change in determining quantities, cost, or valuations between opening and closing inventory? (If "Yes," attach explanation.) ☐ Yes ☐ No

Additional Information Required

		Yes	No
I	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; and (2) percentage owned.		
J	Refer to the listing of business activity codes at the end of the Instructions for Form 1120S and state your principal: (1) Business activity ▶ ....; (2) Product or service ▶		
K	Were you a member of a controlled group subject to the provisions of section 1561?		
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 instructions for exceptions and filing requirements for form TD F 90-22.1.)		
	If "Yes," enter the name of the foreign country ▶		
M	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.		
N	During this tax year did you maintain any part of your accounting/tax records on a computerized system?		
O	Check method of accounting: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶		
P	Check this box if the S corporation has filed or is required to file **Form 8264,** Application for Registration of a Tax Shelter ▶ ☐		
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,** Information Return for Publicly Offered Original Issue Discount Instruments.		
R	If the corporation: (1) filed its election to be an S corporation after December 31, 1986, (2) was a C corporation prior to making the election, and (3) at the beginning of the tax year has net unrealized built-in gain as defined in section 1374(d)(1), enter the net unrealized built-in gain (see instructions) ▶		

Designation of Tax Matters Person (See instructions.)

The following shareholder is hereby designated as the tax matters person (TMP) for the tax year for which this tax return is filed:

Name of designated TMP ▶ | Identifying number of TMP ▶

Address of designated TMP ▶

Form 1120S (1988) Page 3

Schedule K — Shareholders' Shares of Income, Credits, Deductions, Etc. (See Instructions.)

(a) Distributive share items		(b) Total amount
Income (Loss) and Deductions		
1 Ordinary income (loss) from trade or business activity(ies) (page 1, line 21)	1	
2a Gross income from rental real estate activity(ies) — 2a		
b Minus expenses (attach schedule) — 2b		
c Balance: net income (loss) from rental real estate activity(ies)	2c	
3a Gross income from other rental activity(ies) — 3a		
b Minus expenses (attach schedule) — 3b		
c Balance: net income (loss) from other rental activity(ies)	3c	
4 Portfolio income (loss):		
a Interest income	4a	
b Dividend income	4b	
c Royalty income	4c	
d Net short-term capital gain (loss) (Schedule D (Form 1120S))	4d	
e Net long-term capital gain (loss) (Schedule D (Form 1120S))	4e	
f Other portfolio income (loss) (attach schedule)	4f	
5 Net gain (loss) under section 1231 (other than due to casualty or theft) (see instructions)	5	
6 Other income (loss) (attach schedule)	6	
7 Charitable contributions (attach list)	7	
8 Section 179 expense deduction (attach schedule)	8	
9 Expenses related to portfolio income (loss) (attach schedule) (see instructions)	9	
10 Other deductions (attach schedule)	10	
Credits		
11a Jobs credit	11a	
b Low-income housing credit: (1) Partnership to which section 42(j)(5) applies	11b(1)	
(2) Other	11b(2)	
c Qualified rehabilitation expenditures related to rental real estate activity(ies) (attach schedule)	11c	
d Credits related to rental real estate activity(ies) other than on lines 11b and 11c (attach schedule)	11d	
e Credit(s) related to other rental activity(ies) (see instructions) (attach schedule)	11e	
12 Other credits (attach schedule)	12	
Investment Interest		
13a Interest expense on investment debts	13a	
b (1) Investment income included on lines 4a through 4f, Schedule K	13b(1)	
(2) Investment expenses included on line 9, Schedule K	13b(2)	
Tax Preference and Adjustment Items		
14a Accelerated depreciation of real property placed in service before 1987	14a	
b Accelerated depreciation of leased personal property placed in service before 1987	14b	
c Depreciation adjustment on property placed in service after 1986	14c	
d Depletion (other than oil and gas)	14d	
e (1) Gross income from oil, gas, or geothermal properties	14e(1)	
(2) Gross deductions allocable to oil, gas, or geothermal properties	14e(2)	
f Other items (attach schedule)	14f	
Foreign Taxes		
15a Type of income		
b Name of foreign country or U.S. possession		
c Total gross income from sources outside the U.S. (attach schedule)	15c	
d Total applicable deductions and losses (attach schedule)	15d	
e Total foreign taxes (check one): ▶ ☐ Paid ☐ Accrued	15e	
f Reduction in taxes available for credit (attach schedule)	15f	
g Other (attach schedule)	15g	
Other Items		
16 Total property distributions (including cash) other than dividends reported on line 18, Schedule K	16	
17 Other items and amounts not included in lines 1 through 16, Schedule K, that are required to be reported separately to shareholders (attach schedule).		
18 Total dividend distributions paid from accumulated earnings and profits contained in other retained earnings (line 26 of Schedule L)	18	

Form 1120S (1988) 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 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 21			
3 Other additions			
4 Total of lines 1, 2, and 3			
5 Distributions other than dividend distributions			
6 Loss from page 1, line 21			
7 Other reductions			
8 Add lines 5, 6, and 7			
9 Balance at end of tax year—Subtract line 8 from line 4			

*U.S. GPO 1988 0-205-229

1988 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.

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

Form	Recordkeeping	Learning about the law or the form	Preparing the form	Copying, assembling, and sending the form to IRS
1120S	59 hrs., 33 min.	21 hrs., 45 min.	36 hrs., 42 min.	3 hrs., 45 min.
Sch. D (1120S)	8 hrs., 37 min.	4 hrs., 13 min.	9 hrs., 13 min.	1 hr., 20 min.
Sch. K-1 (1120S)	17 hrs., 42 min.	10 hrs., 31 min.	14 hrs., 59 min.	1 hr., 4 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service**, Washington, DC 20224, Attention: IRS Reports Clearance Officer, TR:FP; or the **Office of Management and Budget**, Paperwork Reduction Project, Washington, DC 20503.

Voluntary Contributions To Reduce the Public Debt

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

Changes You Should Note

Changes to Schedule K-1

• **Shareholder participation in corporate activities.**—Under the provisions of temporary regulations section 1.469-5T, determinations as to the level of a shareholder's participation in a corporate activity must be made by the shareholder rather than the corporation.

Accordingly, the section 469 material and active participation questions (D and E on the 1987 Schedule K-1) were deleted from Schedule K-1. The **1988 Shareholder's Instructions for Schedule K-1 (Form 1120S)** provide details on how participation is determined.

Important Tax Law Changes

The Revenue Act of 1987 (**1987 Act**) and the Technical Corrections and Miscellaneous Revenue Act of 1988 (**1988 Act**) made many changes that affect S corporations and shareholders of the S corporation. Some of the major changes are summarized below.

• **Election of a Tax Year Other Than a Calendar Year.**—Under the provisions of section 444, an S corporation may elect to have a tax year other than a permitted tax year required under section 1378, but only if the deferral period of the tax year is not longer than 3 months. This election is made by filing **Form 8716**, Election To Have a Tax Year Other Than a Required Tax Year. A permitted tax year is a tax year ending December 31, or any other tax year for which the S corporation establishes a business purpose.

An S corporation may not make or continue an election under section 444 if it is a member of a tiered structure, other than a tiered structure that consists entirely of partnerships or S corporations (or both) all of which have the same tax year. For the S corporation to have a section 444 election in effect, it must make the payments required by section 7519. See the "Computation Schedule for Required Payments Under Section 7519 and related instructions" on page 20 of these instructions for information on required payments.

• **Vacation pay.**—The special election that allows accrual method taxpayers a deduction for additions to a reserve for vacation pay has been repealed. Generally, the amount now allowed as a deduction for vacation pay is limited to the amount of vacation pay earned during the year to the extent it is paid during the year or vested at the end of the year and paid within 2½ months after the end of the year.

The change from the reserve method is treated as a change in method of accounting initiated by the taxpayer and made with IRS consent. The net amount of the adjustment required by the change in accounting method equals the excess of the amount in the reserve at the end of the year preceding the year of change over the amount accrued at the end of the year preceding the year of change and paid within 2½ months after the close of that year. The net amount of the adjustment reduced by the balance in the suspense account under section 463(c) must be included in income as follows: 25% for the year of change, 5% in the 1st year after the year of change, 35% for the 2nd year after the year of change, and 35% in the 3rd year after the year of change. However, if Rev. Proc. 84-74, 1984-2 C.B. 736, requires the adjustment to be taken into account over a period of less than 4 years, the adjustment is to be included in income ratably over the shorter period. See 1987 Act section 10201 for more information.

• **Installment method for dealer dispositions of property.**—The installment method has been repealed for dispositions of property by dealers after 1987. In addition, the proportionate disallowance rules of section 453C have been repealed for dispositions after 1987. See section 453 for details and exceptions.

• **Installment sales: Nondealer dispositions.**—The proportionate disallowance rule related to the sale of nonfarm real property used in a business or rental activity if the sale price exceeds $150,000 has been repealed. However, to the extent that the amount of deferred payments from all dispositions of such real property during any tax year beginning after December 31, 1987, exceeds $5 million, an interest charge is imposed on the deferred tax. In addition, if any indebtedness is secured directly by an installment obligation that arises out of the disposition of such property, the net proceeds of the secured obligation will be treated as a payment on the installment obligation. This rule applies to any nondealer real property installment obligation that is pledged after December 17, 1987, in tax years ending after that date. See section 453A for details.

• **Long-term contracts.**—Effective for long-term contracts entered into after October 13, 1987, and before June 21, 1988, that are accounted for under the percentage of completion-capitalized cost method, the percentage of items taken into account under the percentage of completion method has been increased to 70%.

For long-term contracts (except certain residential construction contracts) entered into after June 20, 1988, that are accounted for under the percentage of completion-capitalized cost method, this percentage has been increased to 90%. Generally, builders of single-family residences and dwelling units in buildings containing 4 or fewer dwelling units are not required to use either the percentage of completion method or the percentage of completion-capitalized cost method for contracts entered into after June 20, 1988. See section 460 for details.

• **Capitalization of past service pension costs.**—Contributions to a pension or annuity plan representing past service costs are now subject to the uniform capitalization rules of section 263A or the long-term contract rules of section 460. Thus, an allocable share of all otherwise allowable pension costs, whether they relate to current or past services, must be included in the basis of property produced or held for resale, including property the taxpayer produces under a long-term contract. This change in law is effective for costs incurred after 1987 for property (other than inventory) produced by the taxpayer, including costs allocable to long-term contracts under section 460. For inventory costs, the change is effective for tax years beginning after 1987, and is treated as a change in method of accounting initiated by the taxpayer and made with IRS consent. Any adjustment required under section 481(a) must be included in income over a period not to exceed 4 years.

• **Payments for certain fringe benefits no longer deductible by an S corporation.**—Payments for fringe benefits for a "2% shareholder" are no longer deductible by the S corporation. See the specific instructions for line 18 of Form 1120S.

Reminders

• **Preaddressed label.**—Use the preaddressed label and envelope that comes with the tax package to help speed up the processing of your return.

• S corporations in several states will be filing their returns at a different service center this year. Use the envelope that came with your return or see the instructions for Where to File.

• Corporations subject to the consolidated audit procedures of sections 6241 through 6245 may designate a Tax Matters Person (TMP) on page 2 of Form 1120S.

• **Registration of tax shelter.**—If an S corporation is a tax shelter, is involved in a tax shelter, is considered to be the organizer of a tax shelter, or the corporation is a pass-through entity of tax 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 tax shelter reporting requirements.

The corporation must enter its tax shelter registration number in item C of Schedule K-1 if applicable. Also, complete item P 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.

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.

Form 1120S and related schedules can be filed via electronic transmission or on magnetic media. If the corporation files its return via electronic transmission or on magnetic media, it must file **Form 8453-S**, S Corporation Declaration for Magnetic Media/Electronic Filing. Form 8453-S, together with the magnetic media/electronic transmission, comprise the S corporation's tax return for the tax year. See Form 8453-S for more information.

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 22a for details on how to figure the tax.

Revocations.—The election may be revoked if shareholders who collectively own a majority of the stock in the corporation consent to a revocation. If 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 1988 Return

File the 1988 return for calendar year 1988 and fiscal years beginning in 1988 and ending in 1989. If the return is for a fiscal year, fill in the tax year spaces on the form.

Note: *The 1988 Form 1120S may also be used if: (1) the corporation has a tax year of less than 12 months that begins and ends in 1989; and (2) the 1989 Form 1120S is not available by the time the corporation is required to file its return. However, the corporation must show its 1989 tax year on the 1988 Form 1120S and incorporate any tax law changes that are effective for tax years beginning after December 31, 1988.*

Initial or Final Return

If this is the S corporation's initial return or final return, check the applicable box 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)

If the S corporation is subject to sections 6241 through 6245 (consolidated audit procedures), it may designate an individual shareholder as the TMP for the tax year for which the return is filed by completing the Designation of Tax Matters Person section at the bottom of page 2 of Form 1120S. Temporary Regulations section 301.6241-1T provides an exception to the consolidated provisions for small S corporations with 5 or fewer shareholders each of whom is a natural person or an estate. See sections 6241 through 6245 and Temporary Regulations 301.6241-1T for other details.

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, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Florida, Georgia, South Carolina	Atlanta, GA 39901
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, New Mexico, Oklahoma, Texas	Austin, TX 73301

Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Minnesota, Missouri, Wisconsin	Kansas City, MO 64999
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia	Philadelphia, PA 19255

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, 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.)

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.

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**, Accounting Periods and Methods. The S corporation may also elect under section 444 to have a tax year other than a calendar year. See **Election of a Tax Year Other Than a Calendar Year** under **Changes You Should Note** on page 1 of these instructions.

Paying the Tax

The corporation must pay the tax due (line 24, 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**). Be sure to darken the "1120" box on the coupon. 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.

Interest and Penalties

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

Late Filing of Return.—Form 1120S is required to be filed by sections 6037(a) 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.

Late Payment of Tax.—A corporation that does not pay the tax when due generally may have to pay a penalty of ½ of 1% 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).)

Failure To Furnish Information Timely.—Section 6037(b) requires the S corporation to furnish to each shareholder a copy of such information shown on Schedule K-1 (Form 1120S) that is attached to Form 1120S. The Schedule K-1 must be furnished to each shareholder on or before the day on which the Form 1120S was filed. Generally, Form 1120S must be filed by the 15th day of the 3rd month after the end of the S corporation's tax year.

There is a $50 penalty for each failure to furnish Schedule K-1 by the prescribed date. In addition, if a Schedule K-1 does not include all of the information required to be shown or includes incorrect information, an additional penalty may be imposed. See sections 6722, 6723, and 6724 for more information.

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

Stock Ownership in Foreign Corporations

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

A corporation that controls a foreign corporation; or that is 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.

General Information

In addition to the publications listed throughout these instructions, you may wish to get: **Publication 589**, Tax Information on S Corporations; **Publication 334**, Tax Guide for Small Business; **Publication 535**, Business Expenses; **Publication 550**, Investment Income and Expenses; and **Publication 556**, Examination of Returns, Appeal Rights, and Claims for Refund.

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).

Subject to limitations, the corporation's net operating loss is allowed as a deduction from the shareholders' gross income. (See section 1366.)

Attachments

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

To assist us in processing the return, 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 for Tax Practitioners, 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. Use this form to summarize and send information returns to the Internal Revenue Service Center.

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, S, 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, total distributions from profit-sharing plans, retirement plans, and individual retirement arrangements and proceeds from real estate transactions. Also use certain of these returns to report amounts that were received as a nominee on behalf of another person.

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. Do not issue Form 1099-DIV for dividends received by the corporation that are allocated to shareholders on line 4b 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 20 of Schedule K-1, or on the statement attached for line 20 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. **Note:** *The windfall profit tax does not apply to crude oil removed after August 22, 1988.*

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 line 23a, Form 1120S, for details on how the corporation claims the overpaid windfall profit tax on Form 1120S.*

Form 8697. Interest Computation Under the Look-Back Method of Completed Long Term Contracts. Certain S corporations that are not closely-held may have to file Form 8697. Form 8697 is used to figure the interest due or to be refunded under the look-back method of section 460(b)(3) on certain long-term contracts entered into after February 28, 1986, that are accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method. Closely-held corporations should see the instructions for line 20, item n, of Schedule K-1 for details on the Form 8697 information they must pass through to their shareholders.

Passive Activity Limitations

In general section 469 limits the amount of losses, deductions, and credits that shareholders may claim from "passive activities." Generally, passive activities include: (a) activities that involve the conduct of a trade or business in which the shareholder does not materially participate; and (b) any rental activity (see definition below), even if the shareholder materially participates. The level of each shareholder's participation in an activity must be determined by the shareholder.

The passive activity rules provide that losses and credits from passive activities can generally be applied only against income and tax from passive activities. Thus, passive losses and credits cannot be applied against income from salaries, wages, professional fees, or a business in which the shareholder materially participates; against "portfolio income" (see definition below); or against the tax related to any of these types of income.

Special provisions apply to certain activities. First, special transitional rules apply to losses with respect to corporate interests acquired and activities commenced before October 23, 1986. Second, special rules apply with respect to losses incurred by investors in qualified low-income housing projects. Third, special rules require that net income from certain activities that would otherwise be treated as passive income must be recharacterized as nonpassive income for purposes of the passive activity limitations.

The passive activity limitations do not apply to the corporation. Instead, they apply to each shareholder's share of any income or loss and credit attributable to a passive activity conducted through the S corporation. Because the treatment of each shareholder's share of the corporation's income or loss and credit depends upon the nature of the activity that generated it, the corporation must report income or loss and credits separately for each of the following: trade or business activities, rental real estate activities, rental activities other than rental real estate, and portfolio income. For definitions of each type of activity or income, see "Types of Activities and Income." For details on the special reporting requirements for passive activities, see "Passive Activity Reporting Requirements."

Types of Activities and Income

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

If the shareholder does not materially participate in the activity, a trade or business activity of the corporation is a passive activity for the shareholder. **Note:** *The section 469(c)(3) exception for a working interest in oil and gas properties is not applicable in the case of an S corporation because state law generally limits the liability of corporate shareholders, including shareholders of an S corporation.*

Accordingly, an activity of holding a working interest in oil or gas properties is a trade or business activity and the material participation rules apply to determine if the activity is a passive activity. See temporary regulations section 1.469-1T(e)(4).

The determination as to whether or not a shareholder materially participated in an activity must be made by each shareholder. As a result, while the corporation's overall trade or business income (loss) is reported on page 1 of Form 1120S, the specific income and deductions from each separate trade or business activity must be reported on attachments to Form 1120S. Similarly, while each shareholder's allocable share of the corporation's overall trade or business income (loss) is reported on line 1 of Schedule K-1, each shareholder's allocable share of the income and deductions from each trade or business activity must be reported on attachments to each Schedule K-1. See **Passive Activity Reporting Requirements**, on page 6 for more information.

2. Rental Activities.—In reporting the corporation's income or losses and credits from rental activities, the corporation must separately report (a) rental real estate activities and (b) rental activities other than rental real estate activities.

Definition of rental activities.—Generally, except as noted below, if the gross income from an activity consists of amounts paid principally for the use of real or personal tangible property held by the corporation, the activity is a rental activity. There are several exceptions to this general rule. Under these exceptions, an activity involving the use of real or personal tangible property is not a rental activity if: (a) the average period of customer use (see definition below) for such property is 7 days or less; (b) the average period of customer use for such property is 30 days or less and significant personal services (see definition below) are provided by or on behalf of the corporation; (c) extraordinary personal services (see definition below) are provided by or on behalf of the corporation; (d) the rental of such property is treated as incidental to a nonrental activity of the corporation under temporary regulations section 1.469-1T(e)(3)(vi); or (e) the corporation customarily makes the property available during defined business hours for nonexclusive use by various customers. In addition, if a corporation owns an interest in a partnership that conducts a nonrental activity, and the corporation provides property for use in that activity in the corporation's capacity as an owner of an interest in the partnership, the provision of the property is not a rental activity. Whether the corporation provides property used in an activity of a partnership in the corporation's capacity as an owner of an interest in the partnership is based on all the facts and circumstances.

Average period of customer use.—The average period of customer use of property is computed by dividing the total number of days in all rental periods by the number of rentals during the tax year.

Significant personal services.—Personal services include only services performed by individuals. In determining whether personal services are significant personal services, all of the relevant facts and circumstances are taken into consideration. Relevant facts and circumstances include the frequency that the services are provided, the type and amount of labor required to perform the services, and the value of the services in relation to the amount charged for the use of the property. The following services are excluded from consideration in determining whether personal services are significant: (a) services necessary to permit the lawful use of the rental property; (b) services performed in connection with improvements or repairs to the rental property that extend the useful life of the property substantially beyond the average rental period; and (c) services provided in connection with the use of any improved real property that are similar to those commonly provided in connection with long-term rentals of high-grade commercial or residential property (e.g., cleaning and maintenance of common areas, routine repairs, trash collection, elevator service, and security at entrances).

Extraordinary personal services.—Services provided in connection with making rental property available for customer use are extraordinary personal services only if the services are performed by individuals and the customers' use of the rental property is incidental to their receipt of the services. For example, a patient's use of a hospital room generally is incidental to the care that the patient receives from the hospital's medical staff. Similarly, a student's use of a dormitory room in a boarding school is incidental to the personal services provided by the school's teaching staff.

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

Rental property is incidental to an activity of holding property for investment if the main purpose for holding the property is to realize a gain from the appreciation of the property and the gross rental income is less than the smaller of 2 percent of the unadjusted basis of the property or 2 percent of the fair market value of the property.

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

The sale or exchange of property that is also rented during the tax year (where the gain or loss is recognized) is treated as incidental to the activity of dealing in property if, at the time of the sale or exchange, the property was held primarily for sale to customers in the ordinary course of the corporation's trade or business.

See temporary regulations section 1.469-1T(e)(3) for more information on the definition of rental activities for purposes of the passive activity limitations.

2(a). Rental real estate activities.—Generally, a rental real estate activity involves the renting or leasing of real property.

Shareholders who actively participate in a rental real estate activity may be able to deduct part or all of their rental real estate losses (and the deduction equivalent of rental real estate credits) against income (or tax) from nonpassive activities. Generally, the combined amount of rental real estate losses and the deduction equivalent of rental real estate credits from all sources (including rental real estate activities not held through the corporation) that may be claimed is limited to $25,000.

Special transitional rules apply to investors in qualified low-income housing projects. See section 502 of the 1986 Act and **Publication 925**, Passive Activity and At-Risk Rules, for more information.

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

Credits related to rental real estate activities are reported on lines 11c and 11d of Schedules K and K-1. Low-income housing credits are reported on line 11b of Schedules K and K-1.

2(b). Rental activities other than rental real estate activities.—Generally, this consists of activities involving the renting or leasing of tangible property other than real estate.

Income (loss) from rental activities other than rental real estate are reported on line 3 of Schedules K and K-1, and credits related to rental activities other than rental real estate are reported on line 11e of Schedules K and K-1.

3. Portfolio Income.—Generally, portfolio income includes all gross income, other than income derived in the ordinary course of a trade or business, that is attributable to: interest; dividends; royalties; income from a real estate investment trust, a regulated investment company, a real estate mortgage investment conduit, a common trust fund, a controlled foreign corporation, a qualified electing fund, or a cooperative; income from the disposition of property that produces income of a type defined as portfolio income; and income from the disposition of property held for investment.

For purposes of the above definitions, gross income derived in the ordinary course of a trade or business includes (and portfolio income, therefore, does not include) only the following types of income: (a) interest income on loans and investments made in the ordinary course of a trade or business of lending money; (b) interest on accounts receivable arising from the performance of services or the sale of property in the ordinary course of a trade or business of performing such services or selling such property, but only if credit is customarily offered to customers of the business; (c) income from investments made in the ordinary course of a trade or business of furnishing insurance or annuity contracts or reinsuring risks underwritten by insurance companies; (d) income or gain derived in the ordinary course of an activity of trading or dealing in any property if such activity constitutes a trade or business (unless the dealer held the property for investment at any time before such income or gain is recognized); (e) royalties derived by the taxpayer in the ordinary course of a trade or business of licensing intangible

property; (f) amounts included in the gross income of a patron of a cooperative by reason of any payment or allocation to the patron based on patronage occurring with respect to a trade or business of the patron; and (g) other income identified by the IRS as income derived by the taxpayer in the ordinary course of a trade or business.

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

Portfolio income is reported on line 4 of Schedules K and K-1, rather than on page 1 of Form 1120S.

Expenses related to portfolio income are reported on line 9 of Schedules K and K-1.

Recharacterization of Passive Income

Under the provisions of temporary regulations section 1.469-2T(f), net passive income from certain passive activities must be treated as nonpassive income. Net income from the following activities is subject to recharacterization: (1) significant participation activities, (2) activities of renting substantially nondepreciable property, (3) equity-financed lending activities, (4) rental activities incidental to a development activity, (5) activities of renting property to a nonpassive activity, and (6) activities related to an interest in a passthrough entity that licenses intangible property.

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

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

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

3. Equity-financed lending activities.—If the corporation has net income from an equity-financed lending activity, the lesser of the net passive income or equity-financed interest income from the activity is nonpassive income.

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

4. Rental activities incidental to a development activity.—Net rental activity income is nonpassive income for a shareholder if all of the following apply: (a) the corporation recognizes gain from the sale, exchange, or other disposition of the rental property during the tax year; (b) the use of the item of property in the rental activity started less than 24 months before the date of disposition (the use of an item of rental property begins when substantially all of the property is first held out for rent and is in a state of readiness for rental); and (c) the shareholder materially participated or significantly participated for any tax year in an activity that involved the performance of services for the purpose of enhancing the value of the property (or any other item of property, if the basis of the property disposed of is determined in whole or in part by reference to the basis of that item of property). "Net rental activity income" means the excess of passive activity gross income from renting or disposing of property over passive activity deductions (current year deductions and prior year unallowed losses) that are reasonably allocable to the rented property.

Because the corporation cannot determine a shareholder's level of participation, the corporation must identify net income from property described in items (a) and (b) of paragraph 4 as income that may be subject to recharacterization.

5. Activities involving property rented to a nonpassive activity.—If a taxpayer rents property to a trade or business activity in which the taxpayer materially participates, the taxpayer's net rental activity income from the property is nonpassive income. "Net rental activity income" means the excess of passive activity gross income from renting or disposing of property over passive activity deductions (current year deductions and prior year unallowed losses) that are reasonably allocable to the rented property.

6. Activities related to an interest in a passthrough entity that licenses intangible property.—Generally, net royalty income from intangible property is nonpassive income if the taxpayer acquired an interest in the passthrough entity after the passthrough entity created the intangible property or performed substantial services or incurred substantial costs in developing or marketing the intangible property. "Net royalty income" means the excess of passive activity gross income from licensing or transfering any right in intangible property over passive activity deductions (current year deductions and prior year unallowed losses) that are reasonably allocable to the intangible property.

See temporary regulations section 1.469-2T(f)(7)(iii) for exceptions to this rule.

Passive Activity Reporting Requirements

To allow shareholders to correctly apply the passive activity loss and credit limitation rules, any corporation that carries on more than one activity for which income or loss is reported on line 1, 2, or 3 of Schedule K-1, must:

1. Provide an attachment for each activity conducted through the corporation that identifies the type of activity conducted (trade or business, rental real estate, rental activity other than rental real estate, or investment).

2. On the attachment for each activity, provide a schedule, using the same line numbers as shown on Schedule K-1, detailing the net income (loss), credits, and all items required to be separately stated under section 1366(a)(1) from each trade or business activity, from each rental real estate activity, from each rental activity other than a rental real estate activity, and from investments.

3. With respect to each separately identified activity, identify any activity that is a pre-enactment activity conducted through the corporation. See the instructions for items D and E of Schedule K-1, and the instructions for Form 8582 for rules applicable to pre-enactment interest in corporate activities.

4. Identify the net income (loss) and the shareholder's share of corporation interest expense from each activity of renting a dwelling unit that the shareholder also uses for personal purposes during the year for more than the greater of 14 days or 10 percent of the number of days that the residence is rented at fair rental value.

5. Identify the net income (loss) and the shareholder's share of interest expense from each activity of trading personal property conducted through the corporation.

6. With respect to any gain (loss) from the disposition of an interest in an activity or of an interest in property used in an activity (including dispositions before 1987 from which gain is being recognized after 1986):

(a) identify the activity in which the property was used at the time of disposition;

(b) if the property was used in more than one activity during the 12 months preceding the disposition, identify the activities in which the property was used and the adjusted basis allocated to each activity; and

(c) with respect to gain only, if the property was substantially appreciated at the time of the disposition and the applicable holding period specified in temporary regulations section 1.469-2T(c)(2)(iii)(A) was not satisfied, identify the amount of the nonpassive gain and indicate whether or not the gain is investment income under the provisions of temporary regulations section 1.469-2T(c)(2)(iii)(E).

7. Specify the amount of gross portfolio income, the interest expense properly allocable to portfolio income, and expenses

other than interest expense that are clearly and directly allocable to portfolio income.

8. Identify the ratable portion of any section 481 adjustment (whether a net positive or a net negative adjustment) allocable to each corporate activity.

9. Identify any gross income from sources that are specifically excluded from passive activity gross income, including: income from intangible property if the shareholder is an individual and the shareholder's personal efforts significantly contributed to the creation of the property; income from a qualified low-income housing project (as defined in section 502 of the 1986 Act) conducted through the corporation; income from state, local, or foreign income tax refunds; and income from a covenant not to compete (in the case of a shareholder who is an individual and who contributed the covenant to the corporation).

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

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

12. Identify the following items with respect to activities which may be subject to the recharacterization rules under temporary regulations section 1.469-2T(f):

(a) net income from an activity of renting substantially nondepreciable property;

(b) the lesser of equity-financed interest income or net passive income from an equity-financed lending activity;

(c) net rental activity income from property that was developed (by the shareholder or the corporation), rented, and sold within 24 months after the rental of the property commenced;

(d) net rental activity income from the rental of property by the corporation to a trade or business activity in which the shareholder had an interest (either directly or indirectly); and

(e) net royalty income from intangible property if the shareholder acquired the shareholder's interest in the corporation after the corporation created the intangible property or performed substantial services or incurred substantial costs in developing or marketing the intangible property.

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

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

Specific Instructions

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

Item C. 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.

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

Item G. Consolidated Audit Procedures.—With certain exceptions, the tax treatment of S corporation items is determined at the S corporation level in a consolidated audit proceeding, rather than in separate proceedings with individual shareholders. Check the box for item G if any of the following apply:

1. The S corporation had more than 5 shareholders at any time during the tax year (for this purpose a husband and wife, and their estates, are treated as one shareholder); or

2. Any shareholder was other than a natural person or estate; or

3. The small S corporation (5 or less shareholders) has elected as provided in Temporary Regulations section 301.6241-1T(c)(2)(v) to be subject to the rules for consolidated proceedings.

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

Gross Income

Caution: *Report only trade or business activity income or loss on lines 1a through 6. Do not report rental activity income or portfolio income or loss on these lines. Rental activity income and expenses and portfolio income and expenses are reported separately on Schedule K. See instructions for lines 2, 3, and 4 of Schedule K for details.*

Note: *Do not include any income that is tax exempt in lines 1 through 5, or any nondeductible expenses in lines 7 through 19. 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 17 of Schedule K and line 20 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 trade or business operations except those you report on lines 4 and 5.

The rules for long-term contracts have been changed by the 1987 and 1988 Acts. See section 460 for more information.

Changes have also been made to the installment method. Effective for dispostions after 1987, the installment method is no longer available for dealer dispositions of property. In addition, the proportionate disallowance rules of section 453C have been repealed for dispositions after 1987. However, a dealer disposition does not include: (1) the disposition of property used or produced in the trade or business of farming, or (2) certain dispositions of timeshares and residential lots if the taxpayer elects to pay interest under section 453(l)(3). See the instructions for line 20, item j, of Schedule K-1 for information regarding this interest that must be passed through to each shareholder. See section 453(l) for more information.

Effective for tax years beginning after 1987, the installment method has also been repealed for installment obligations arising from dealer dispositions of property after February 28, 1986, and before January 1, 1988. If the corporation was reporting these obligations on the installment method, the gain that remains to be recognized as of the first day of the corporation's first tax year beginning after 1987 must be included in income as a section 481(a) adjustment over a period not to exceed 4 tax years. The rules of Revenue Procedure 84-74 are used to figure the amount includible each year, except that the section 481(a) adjustment must be included in income at a rate no slower than the rate of contraction of the corporation's dealer installment obligations. Do not include in the section 481(a) adjustment any gain that is taken into account under section 811(c)(6) of the 1986 Act (transition rule for sales of real property by dealers). Similarly, the section 481(a) adjustment is not affected by section 811(c)(7) of the 1986 Act, which permits the delayed payment of certain tax for sales of personal property by dealers. Both of these rules continue to apply to installment obligations arising out of dealer dispositions occurring after February 28, 1986, and before January 1, 1988. Include the amount reportable as income in 1988 on line 1a, page 1, and attach a computation. The change of accounting method is treated as initiated by the taxpayer and made with IRS consent.

For dealer dispositions of property before March 1, 1986, dispositions of property used or produced in the trade or business of farming, and certain dispositions of timeshares and residential lots reported under the installment method, enter on line 1a the gross profit on collections from installment sales and carry the same amount to line 3. Attach a schedule 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.

Line 2

Cost of goods sold and/or operations

See the instructions for Schedule A.

Line 4

Net Gain (Loss)

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

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

Do not include any recapture of expense deduction for recovery property (section 179). See the instructions for Schedule K-1, line 20, and the instructions for Form 4797 for more information.

Line 5

Other Income

Enter any other taxable trade or business income not listed above and explain its nature on an attached schedule. Examples of other income are: (1) interest income derived in the ordinary course of the corporation's trade or business such as interest charged on receivable balances (For details on other interest income, patronage dividends, etc. that is gross income derived in the ordinary course of a trade or business, see temporary regulations section 1.469-2T(c)(3)(ii)(A) through (G)); (2) recoveries of bad debts deducted in earlier years under the specific charge-off method; (3) the amount of credit for alcohol used as a fuel that was figured on **Form 6478**, Credit for Alcohol Used as Fuel; (4) 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 for details); (5) refunds of taxes deducted in earlier years; and (6) section 481 income adjustments (show the computation of the 481 income on an attached schedule). 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 5. A separate schedule need not be attached to the return in this case.

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

Deductions

Caution: Report only trade or business activity related expenses on lines 7 through 19. Do not report rental activity expenses or expenses related to portfolio income on these lines. Expenses related to rental activities and portfolio income are reported directly on Schedule K. See instructions for lines 2, 3, and 4 of Schedule K for details.

Limitations on deductions

a. Section 263A Uniform Capitalization Rules.— The uniform capitalization rules of section 263A require corporations to capitalize or include in inventory certain costs incurred in connection with the production of real and personal tangible property held in inventory or held for sale in the ordinary course of business. Tangible personal property produced by a taxpayer includes a film, sound recording, video, tape, book, or similar property. The rules also apply to personal property (tangible and intangible) acquired for resale. Taxpayers subject to the rules are required to capitalize not only direct costs but an allocable portion of most indirect costs (including taxes) that benefit the assets produced or acquired for resale. Interest expense paid or incurred in the course of production must be capitalized and is governed by special rules. For more information, see Notice 88-99, 1988-36 I.R.B. 29. The uniform capitalization rules also apply to the production of property constructed or improved by a taxpayer for use in its trade or business or in an activity engaged in for profit.

Section 263A does not apply to personal property acquired for resale if the taxpayer's annual average gross receipts are $10,000,000 or less. It does not apply to timber or to property produced under a long-term contract. See exception below for certain corporations engaged in farming. The rules do not apply to property which is produced for use by the taxpayer if substantial construction occurred before March 1, 1986.

In the case of inventory, some of the indirect costs that must now be capitalized, are administration expenses, taxes, insurance costs, compensation paid to officers attributable to services, rework labor, and contributions to pension, stock bonus, and certain profit-sharing, annuity, or deferred compensation plans. Current deductions may be claimed for research and experimental costs under section 174. Intangible drilling costs for oil and gas and geothermal property, and mining and exploration and development costs are still separately reported to shareholders for purposes of determinations under sections 59(e) and 613A(c)(13). Temporary Regulations section 1.263A-1T specifies other indirect costs that may be currently deducted and those that must be capitalized with respect to production or resale activities. For more information, see Temporary Regulations section 1.263A-1T.

Generally, corporations required to change their method of accounting under section 263A must complete section A (items 1a, 3a, 3b, 4a, 11, and 12) and section D of Form 3115 (Rev. 11-87 or later) and the section 263A checklist contained in Notice 88-92, 1988-34 I.R.B. 23 (reprinted as **Publication 1426**, Automatic Change in Method To Comply With Section 263A), for each trade or business to which section 263A applies. You may choose your own format for reproducing the questions and answers for the section 263A checklist referred to in the notice. The Form 3115 and section 263A checklist must be attached to Form 1120S for the year of the change. However, if the first return to which section 263A applies was filed before October 21, 1988, and Form 3115 and the section 263A checklist were not filed with that return (or Form 3115 was filed without the section 263A checklist), Form 3115 (or a copy of the previously filed Form 3115) and the section 263A checklist must be attached to the first return filed after October 20, 1988. Identify the change at the top of page 1 of Form 3115 by printing or typing "Automatic Change in Accounting Method Under Section 263A." See Notice 88-92 for details.

The requirement to file Form 3115 or the section 263A checklist does not apply to any corporation required to change its accounting method under section 263A with respect to property produced by the corporation to be used in the corporation's trade or business (but only if the corporation's average annual gross receipts for the 3 tax years preceding the year of change do not exceed $10 million).

Exception—Section 263A(d) provides an exception to the section 263A rules for certain S corporations engaged in farming. Shareholders of S corporations which are not required to use the accrual method of accounting may elect to deduct currently the preproduction costs of certain plants and animals that were deductible under prior law. Because the election to deduct these expenses is made by the shareholder, the farming corporation should not capitalize such preproductive expenses but should, instead, separately report these expenses on line 17 of Schedule K, and each shareholder's share on line 20 of Schedule K-1. See Temporary Regulations section 1.263A-1T(c) for definitions and other details.

b. Meals and Entertainment Expense.—For 1988, the amount deductible for business meals and entertainment expense is generally limited to 80% of the amount otherwise allowable. For information on the 80% limitation and other limitations and special rules, see the instructions for line 19 of page 1, Form 1120S, and line 10, item e, of Schedule K.

c. Section 291 Limitations.—If the S corporation was a C corporation for any of the 3 immediately preceding years, the corporation may be required to adjust deductions allowed to the corporation for depletion of iron ore and coal, intangible drilling and exploration costs, and the amortizable basis of pollution control facilities. See section 291 for figuring the amount of the adjustment. If an item of expense is passed through separately and figured at the shareholder level, the section 291 limitations do not apply.

d. Business Startup Expenses.—Section 195 provides that an election may be made to amortize business start-up expenses over a period of at least 60 months.

e. Transactions Between Related Taxpayers.—See section 267 for rules on treatment of losses, expenses, and interest on transactions between related taxpayers.

Line 7

Compensation of officers

Enter on line 7 the total compensation of all officers.

Line 8

Salaries and wages

Enter on line 8a 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 8b 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 9

Repairs

Enter the cost of incidental repairs related to any trade or business activity, 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 10

Bad debts

Generally, S corporations must use the specific charge-off method of accounting for bad debts, and deduct business bad debts when they become wholly or partially worthless.

If the corporation was required by the 1986 Act to change from the reserve method of computing bad debts, the balance in any reserve for bad debts is generally required to be included in income ratably over a 4-year period. See **Publication 548** for more information.

Line 12

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 12; they are reported separately on Schedules K and K-1, line 10.

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 on line 15 of Schedule K.

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

Note: *Taxes, including state and local sales taxes, paid or accrued in connection with the acquisition or disposition of business property must be added to the cost of the property, or, in the case of a disposition, subtracted from the amount realized. See section 164.*

Line 13

Interest

Include on line 13 only interest incurred in the trade or business activity(ies) of the corporation that is not claimed elsewhere on the return.

Caution:

a. Do not include interest expense on debt used to purchase rental property or debt used in rental activities for which income or loss is reported on lines 2 and 3 of Schedule K.

b. Do not include interest expense which is clearly and directly allocable to gross income that is portfolio or investment income which is reported separately on line 13a of Schedule K.

Do not include interest expenses on debt required to be allocated to the production of qualified property. Interest that is allocable to certain property produced by an S corporation for its own use or for sale must be capitalized. In addition, the corporation must also capitalize any interest on debt that is allocable to an asset used to produce the above property. A shareholder may have to capitalize interest that the shareholder incurs during the tax year with respect to the production expenditures of the S corporation. Similarly, interest incurred by an S corporation may have to be capitalized by a shareholder with respect to the shareholder's own production expenditures. The information required by the shareholder to properly capitalize interest for this purpose must be provided by the corporation in an attachment for line 20, item k, of Schedule K-1. See section 263A(f) and Notice 88-89, 1988-36 I.R.B. 29, for additional information.

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

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

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

Line 14

Depreciation

Enter depreciation expense from Form 4562. Include amortization expense from Form 4562 on line 19.

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 15

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 17 of Schedule K and line 20 of Schedule K-1 for information on oil and gas depletion that must be supplied to the shareholders by the corporation.

Line 17

Pension, profit-sharing, etc., plans

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

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

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

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

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

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

Line 18

Employee benefit programs

Do not deduct on this line any payments for:

(1) Fringe benefits for any 2% shareholder. A "2% shareholder" means any person who owns on any day during the tax year more than 2% of the outstanding stock of the S corporation or stock possessing more than 2% of the total combined voting power of any stock of the corporation.

(2) Any payments deducted on line 17 for fringe benefit programs or retirement programs.

Enter amounts paid for fringe benefits on behalf of employees and shareholders owning 2% or less of the corporation's stock. These amounts are deductible by the corporation, but amounts paid on behalf of more than 2% shareholders are not deductible by the corporation and are reported separately on line 10 of Schedules K and K-1. See section 1372 for additional information.

Line 19

Other deductions

Enter any other authorized deductions related to any trade or business activity for which there is no line on page 1 of the return. Do not include those items requiring separate computations which must be reported separately on Schedules K and K-1.

Do not include qualified expenditures to which an election under section 59(e) applies. See instructions for line 20 of Schedule K-1 for details on treatment of these items.

Include on line 19 the deduction taken for amortization. See instructions for Form 4562 for more information.

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.

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

Note for travel, meal, and entertainment expenses. Generally, the amount the corporation is allowed as a deduction for meal and entertainment expenses is limited to 80% of the amount that would otherwise be allowable. The 80% limitation of section 274(n) is applied after determining the otherwise allowable deduction under section 162, which permits a deduction for ordinary and necessary expenses, and after other provisions of section 274, which disallows a deduction for certain entertainment expenses. Expenditures for meals or beverages are disallowed to the extent they are lavish or extravagant. See sections 274(k), (m), and (n) for exceptions.

Because of the phase-in provisions of section 274(l)(2), skybox rental expenses will generally have to be separately reported on line 10 of Schedule K. See the instructions for item e, line 10 of Schedule K for more details on skybox expenses.

Generally, no deduction is allowed under section 212 for fees, travel, and meals and lodging expenses incurred in connection with investment seminars or similar meetings.

Note: *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.*

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

Line 21

Ordinary income (loss)

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

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

Line 22

Line 22a.—If the corporation has always been an S corporation, the excess net passive income tax does not apply to the corporation. If the corporation has subchapter C earnings and profits (defined in section 1362(d)(3)(B)) 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 11 of the worksheet below to figure the tax. Enter the tax on line 22a, 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 22a. See section 1366(f)(3).

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 22b.—If the corporation made its election to be an S corporation before January 1, 1987, and its net capital gain, line 10, Schedule D (Form 1120S), is $25,000 or less, the corporation is not liable for capital gains tax. If the net capital gain is more than $25,000, see instructions for Part IV of Schedule D (Form 1120S) to determine if the corporation is liable for the Part IV Tax Imposed on Certain Capital Gains.

If the corporation made its election to be an S corporation after December 31, 1986, see the instructions for Part V of Schedule D to determine if the corporation is liable for the Part V Tax Imposed on Certain Built-In Gains.

Note: *For purposes of line 11 of Part IV and line 19 of Part V of Schedule D, taxable income is determined in section 1375(b)(1)(B) and is generally figured in the same manner as taxable income for line 9 of the worksheet for line 22a of Form 1120S.*

Line 22c.—Include in the total for line 22c the following:

Section 47 Recapture Tax.—Section 1371(d) provides that an S corporation is liable for investment credit recapture attributable to credits allowed for tax years for which the corporation was not an S corporation.

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

Worksheet for Line 22a

1. Enter gross receipts for the tax year (see section 1362(d)(3)(C) for gross receipts from the sale of capital assets)* . . . . ________
2. Enter passive investment income as defined in section 1362(d)(3)(D)* . . . . ________
3. Enter 25% of line 1 (If line 2 is less than line 3, stop here. You are not liable for this tax.) . . ________
4. Excess passive investment income—Subtract line 3 from line 2 ________
5. Enter 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 above) . . . . ________
10. Enter smaller of line 8 or 9 . . ________
11. Excess net passive income tax—Enter 34% of line 10. Enter here and on line 22a, 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) and 1375(b)(4) for exceptions regarding lines 2 and 5.

LIFO Recapture Tax.—The corporation may be liable for section 1363(f) recapture of LIFO benefits. If the corporation made its election to be an S corporation after December 17, 1987, and used the LIFO inventory pricing method for its last tax year before its S election became effective, the corporation may be liable for LIFO recapture.

The LIFO recapture tax is figured for the last tax year the corporation was a C corporation. See the instructions for Form 1120/1120A for details. The LIFO tax is paid in 4 equal installments. The first installment is due with the corporation's Form 1120 (1120A) for the corporation's last tax year as a C corporation, and the 3 remaining deferral installments are paid with the corporation's Form 1120S for the 3 succeeding tax years. Include each year's installment in the total amount to be entered in line 22c, page 1, Form 1120S. Write to the left of the total on line 22c the installment amount and the words "LIFO tax".

Line 23

Line 23a.—Enter total tax deposited with Form 7004.

If the corporation elects to claim the overpaid windfall profit tax (overpayment) for its shareholders, it will complete Form 6249 and include the overpayment from Part IV of Form 6249 as a part of the total entered on line 23a. Also, write to the left of the line 23a total the amount of the overpayment and "OWPT." **Note:** *The windfall profit tax does not apply to crude oil removed after August 22, 1988.*

Line 23c.—If the S corporation is a beneficiary of a trust and the trust makes a section 643(g) election to credit its estimated tax overpayments to its beneficiaries, include the corporation's share of the overpayment (reported to the corporation on Schedule K-1 (Form 1041)) in the total amount entered in line 23c. Also write to the left of the line 23c total the amount of the overpayment and the words "section 643(g) election".

Schedule A

Cost of Goods Sold and/or Operations

Cost of Operations

If the entry on line 2, page 1, Form 1120S, is for the cost of operations, complete Schedule A, even if inventories are not used.

Inventory 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 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 valuing inventories. Under "lower of cost or market," market generally applies to normal market conditions when there is a current bid price prevailing at the date the inventory is valued. When no regular open market exists or when quotations are nominal because of inactive market conditions, use fair market prices from the most reliable sales or purchase transactions that occurred near the date the inventory is valued. For additional requirements, see Regulations section 1.471-4.

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 showing the information required by Form 970, 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 5, page 1) proportionately over a 3-year period that begins in the tax year you made this election. (See section 472(d).)

Section 263A Uniform Capitalization Rules.—The uniform capitalization rules of section 263A are discussed in general in the instructions for **Limitations on deductions** at the beginning of the specific instructions for lines 7–19. See those instructions before completing Schedule A.

Also see Notice 88-86, 1988-34 IRB 10, and Notice 88-99, 1988-36, IRB 29, for more information on section 263A uniform capitalization rules.

Line 4a.—An entry is required on this line only for corporations electing a simplified method of accounting. For corporations electing the simplified production method, additional section 263A costs are generally those costs, other than interest, that were not capitalized or included in inventory costs under the corporation's method of accounting immediately prior to the effective date in Temporary Regulations section 1.263A-1T that are now required to be capitalized under section 263A. For corporations electing the simplified resale method, additional section 263A costs are generally those costs incurred with respect to the following categories: off-site storage or warehousing; purchasing; handling, processing, assembly and repackaging; and general and administrative costs (mixed service costs). Enter on line 4a the balance of section 263A costs paid or incurred during the tax year not included on lines 2 and 3. See Temporary Regulations section 1.263A-1T for more information.

Line 4b.—Enter any other inventoriable costs paid or incurred during the tax year not entered on lines 2 through 4a.

Line 6.—See Temporary Regulations section 1.263A-1T for details on figuring the amount of additional section 263A costs to be capitalized and added to ending inventory.

Additional Information

Be sure to answer the questions and provide other information in items I through R.

Question L

Foreign financial accounts

Check the Yes box if either **Item 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 L is checked Yes, file form TD F 90-22.1 by June 30, 1989, 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 L is checked Yes, write the name of the foreign country or countries. Attach a separate sheet if you need more space.

Item R.—Complete item R if the corporation: (1) filed its election to be an S corporation after December 31, 1986; (2) was a C corporation before it elected to be an S corporation; and (3) has net unrealized built-in gain (defined in section 1374(d)(1)) at the beginning of its tax year.

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

Section 633(d)(8) of the Tax Reform Act of 1986 provides transition relief from the built-in gains tax for certain assets. However, the relief rule **does not apply** to assets whose disposition results in ordinary income and to capital assets held 6 months or less. See the instructions for Part V of Schedule D (Form 1120S) and Revenue Ruling 86-141, 1986-2 C.B. 151, for more information.

The corporation's net unrealized built-in gain is figured as of the 1st day of the 1st year it is an S corporation. See the instructions for Part V of Schedule D (Form 1120S) for details on figuring the gain. Enter in item R the corporation's net unrealized built-in gain at the beginning of the tax year. This is the net unrealized built-in gain reduced by prior year's net recognized built-in gain. See section 1374(c)(2) and (d)(1).

Schedule K and Schedule K-1

Shareholder's Share of Income, Credits, Deductions, Etc.

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 the corporation gives each shareholder a separate copy.

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

Note: *Instructions 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 22a, 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 16 of Schedule K correspond to lines 1 through 16 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 either (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).

Other substitute Schedules K-1 require approval. You may apply for approval of a substitute form by writing to: Internal Revenue Service, Attention: Substitute Forms Program Coordinator, TR: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. 88-7, I.R.B. 1988-3, dated January 19, 1988.

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 line item on Schedule K.

(Schedule K-1 only)

On each Schedule K-1: complete the date spaces at the top; enter the names, addresses, and identifying numbers of the shareholder and corporation; complete items A through E; 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 on line 20 (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 schedules required for any lines on Schedule K-1, or other amounts not shown in lines 1 through 19 of Schedule K-1. Please be sure to identify the applicable line number next to the information entered below line 20.*

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 1–20 of Schedule K-1) are figured by multiplying the Schedule K 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 1–20 of Schedule K-1) can also be figured on a daily basis, based on the percentage of stock held by the shareholder on each day. See sections 1377(a)(1) and (2) for details.

Item B (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.

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

Special reporting requirements for at-risk activities.—If the corporation is involved in one or more at-risk activities for which a loss is reported on Schedule K-1, the corporation must report information separately for each at-risk activity. See section 465(c) for a definition of at-risk activities. The information is reported in the Supplemental Schedules space for line 20 of Schedule K-1, or on an attachment to Schedule K-1 if more space is needed.

The following information must be shown:

1. A statement that the information is a breakdown of at-risk activity loss amount(s).
2. The identity of the at-risk activity, the loss amount for the activity, other income, deductions, and other information that relates to the activity.
3. Information relating to qualified nonrecourse financing for an activity of holding real property. For losses after 1986, the at-risk rules were extended to cover losses incurred in the holding of real property. Section 465(b)(6) provides that qualified nonrecourse financing is treated as amounts at-risk in the case of activities of holding real property. See Publication 925 and section 465 for more information on qualified nonrecourse financing.

Items D and E (Schedule K-1 only)

Items D and E.—Section 469(l) provides for a phase-in of the disallowance of losses and credits for passive activities. However, the phase-in provisions only apply to losses and credits attributable to pre-enactment interests. Generally, a pre-enactment interest is a qualified interest in a pre-enactment activity. A "qualified interest" means stock in the corporation held on **October 22, 1986, and at all times thereafter.** However, stock acquired after October 22, 1986, 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.

A "pre-enactment activity" is generally an activity that was conducted by the corporation on October 22, 1986. However, a pre-enactment activity also includes an activity that was acquired or constructed pursuant to a written binding contract in effect on August 16, 1986.

Item D.—Enter in item D the shareholder's weighted percentage increase in stock ownership for the 1988 tax year. Generally, a shareholder has a percentage increase in ownership if his or her stock ownership at any time during the corporation's 1988 tax year was greater than the percentage of ownership held by the shareholder on **October 22, 1986, and all times thereafter.** If a shareholder disposes of stock after October 22, 1986, and the percentage of ownership immediately after the disposition is less than that owned on October 22, 1986, this lesser percentage is considered to be the percentage owned on October 22, 1986. For example, in the case of a calendar year corporation, if shareholder Z had 40% ownership on October 22, 1986, and later disposed of stock on December 1, 1986, which resulted in a 20% ownership immediately afterwards, then any additional ownership in 1988 that is above 20% would result in a percentage increase for Z for 1988.

Any percentage increase is weighted for the number of days in 1988 the increased percentage is held. In the case of Z above, if the 20% owned after December 1, 1986, was increased to 50% for the last 6 months of the corporation's 1988 tax year, the 30% increase (50% less 20% = 30%) is weighted by 50% (6 months of tax year = 50%). The weighted percentage increase for item D would be 15% (30% × 50% = 15%).

Note: *A shareholder does not have to acquire stock in the corporation's 1988 tax year to have a percentage increase for 1988. For example, if stock acquired by shareholder Z in 1987, causes Z's percentage of ownership after the acquisition to be greater than on October 22, 1986, and Z's 1987 increased ownership is held during any part of 1988, then Z will have a percentage increase for 1988, and item D of Schedule K-1 should be completed. The percentage increase is weighted for the number of days in 1988 the stock is held.*

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

Lines 1 through 16 (Schedules K and K-1 unless otherwise noted)

Line 1, Ordinary Income (Loss) From Trade or Business Activity(ies).—Enter amount from line 21, 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. These limitations, if applicable, are determined at the shareholder level.

If the corporation is involved in more than one trade or business activity, see **Passive Activity Reporting Requirements** in the General Instructions for details on the information to be reported for each activity. The information for each activity may be reported in the line 20 Supplemental Schedules space, or on an attachment. If an at-risk activity loss is reported on line 1, see the **Special reporting requirements for at-risk activities** in the Specific Instructions for Schedules K and K-1.

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

Line 2, Income and Expenses of Rental Real Estate Activities.—Enter on lines 2a and 2b of Schedule K (line 2 of Schedule K-1) the income and expenses of rental real estate activities of the corporation.

If the corporation has income or loss from more than one rental real estate activity reported on line 3, see **Passive Activity Reporting Requirements** in the General Instructions for details on the information to be reported for each activity. The information for each activity may be reported in the line 20 Supplemental Schedules space, or on an attachment. If an at-risk activity loss is reported on line 2, see the **Special reporting requirements for at-risk activities** in the Specific Instructions for Schedules K and K-1.

Do not report on lines 2a and 2b (for shareholders that are qualified investors) the income and expenses of certain qualified low-income housing projects for which losses are incurred. These losses are exempt from the passive activity limitations under section 502 of the Tax Reform Act of 1986. Report such loss(es) on line 6 of Schedule K-1 and attach a statement identifying the loss. See section 502 for definitions and other information on qualified low-income housing projects.

Note: *If a qualified project has a gain, report the income and expenses for the gain on line 2. Also, report income and expenses for shareholders that are nonqualified investors on line 2.*

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

Line 3, Income and Expenses of Other Rental Activities.—Enter on lines 3a and 3b of Schedule K (line 3 of Schedule K-1) the income and expenses of rental activities other than the income and expenses reported on lines 2a and 2b (or line 6 as explained in the line 2 instructions above). If the corporation has more than one rental activity reported on line 3, see **Passive Activity Reporting Requirements** in the General Instructions for details on the information to be reported for each activity. The information for each activity may be reported in the line 20 Supplemental Schedules space, or on an attachment. If an at-risk activity loss is reported on line 3, see the **Special reporting requirements for at-risk activities.** Also see **Rental activities other than rental real estate activities** under **Passive Activity Limitations** in the General Instructions for a definition and other details on other rental activities.

Lines 4a through 4f, Portfolio Income (Loss).—Enter portfolio income (loss) on lines 4a through 4f. See **Portfolio Income** under **Passive Activity Limitations** in the General Instructions and Publication 925 for a definition of portfolio income. Do not reduce portfolio income by expenses allocated to it. Such expenses (other than interest expense) are reported on line 9 of Schedules K and K-1. Interest expense allocable to portfolio income is generally investment interest expense and is reported on line 13 of Schedules K and K-1.

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

Lines 4d and 4e.—Enter on line 4d the net short-term capital gain or loss (reduced by any applicable taxes) from line 4 of Schedule D (Form 1120S) that is portfolio income. Enter on line 4e the net long-term capital gain or loss (reduced by any applicable taxes) from line 7 of Schedule D (Form 1120S) that is portfolio income. If any income or loss from lines 4 and 7 of Schedule D is not portfolio income (i.e., transactions on Schedule D result in income or loss that is attributable to the corporation's normal trade or business), do not report this income or loss on lines 4d and 4e. Instead, report it on line 6 of Schedules K and K-1. If the income or loss is attributable to more than one activity, report the income or loss amount separately for each activity in the line 20 Supplemental Schedules space of Schedule K-1 and identify the activity to which the income or loss relates.

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

If the corporation holds a residual interest in a REMIC, report on an attachment for line 4f (or in the Supplemental Schedules space for line 20 of Schedule K-1) each shareholder's share of taxable income (net loss) from the REMIC (line 1b of Schedule Q

(Form 1066)); excess inclusion (line 2c of Schedule Q (Form 1066)); and section 212 expenses (line 3b of Schedule Q (Form 1066)). Because Schedule Q (Form 1066) is a quarterly statement, the corporation must follow the Schedule Q (Form 1066) Instructions for Residual Holder to figure the amounts to report to shareholders for the corporation's tax year.

Line 5.—Enter 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.

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

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

b. Recovery of tax benefit items (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 section 1256(f).

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.

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

If the corporation contributes property other than cash and the aggregate amount 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, as well as 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.—An S corporation may elect under section 179 to expense part of the cost of recovery property that is section 38 property (defined in section 48(a)) that the corporation purchased this year for use in its trade or business or rental activities. Complete Section A of Part I of Form 4562 to figure the corporation's section 179 expense. The corporation does not deduct the expense itself but passes the expense through to its shareholders. Show the total section 179 expense on line 8 of Schedule K and attach Form 4562 to Form 1120S. The limitations of Section A, Part I, of Form 4562 apply separately to the S corporation and to its shareholders.

Report each individual shareholder's pro rata share of the total expense on line 8 of Schedule K-1. Do not complete line 8 of Schedule K-1 for shareholders that are estates or trusts. In addition, show in the Supplemental Schedules space for line 20 of Schedule K-1 (or on an attached statement if more space is needed) the following information:

1. Each shareholder's share of each item of information on lines 1 through 5 of Section A, Part I, of the Form 4562 the corporation completed. Shareholders use this information, with information from other sources, to complete their Form 4562.

2. If the shareholder's section 179 expense is attributable to more than one activity, identify the activity(ies) and any section 179 property associated with the activity(ies).

The section 179 expense is limited to $10,000. Certain other limitations also apply. See the instructions for Form 4562 for more information. If recapture of the section 179 expense is required, report the necessary information on line 17 of Schedule K and line 20 of Schedule K-1. Each shareholder makes the section 179 recapture on his or her individual tax return if the section 179 expense was claimed in a prior year.

Depreciation, amortization, or investment credit may not be taken on any amount for which a deduction is allowed under section 179.

Line 9, Deductions Related to Portfolio Income.—Enter on line 9 the expenses allocable to portfolio income other than interest expense. Generally, these expenses are section 212 expenses and are subject to section 212 limitations at the shareholder level. Generally, interest expense related to portfolio income is investment interest expense and is reported on line 13a of Schedules K and K-1.

Note: *Section 274(h)(7) provides that no deduction is allowed under section 212 for expenses allocable to a convention, seminar, or similar meeting. Because these expenses are not deductible by shareholders, the corporation does not report these expenses on line 9 or line 10. The expenses are nondeductible and are reported as such on a schedule for line 17 of Schedule K and on line 20 of Schedule K-1 for each shareholder.*

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

a. Amounts (other than investment interest required to be reported on line 13a of Schedules K and K-1) 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 (other than reported on line 9) 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.

e. Skybox or other private luxury box seat rental expenses subject to limitations under section 274(l)(2). If the corporation leases a skybox or other private luxury box for more than one event, the rental expenses are limited under section 274(l)(2)(A) to the face value of nonluxury seat tickets generally held for sale to the public, multiplied by the number of seats in such box. The amount disallowed under section 274(l)(2)(A) is phased in over a 3-year period as provided by section 274(l)(2)(B). The 80% limitation of section 274(n) then applies to the amount allowed after the limitations of section 274(l)(2)(A), and also to the phase-in amount allowed under section 274(l)(2)(B).

Because the phase-in rule is controlled by the shareholder's tax year, rather than the corporation's tax year, the section 274(l)(2) expenses are separately reported to shareholders. Unless the corporation knows the beginning date of a shareholder's tax year, the attachment for line 10 must show each shareholder's share of the deductible amount under tax law provisions effective for tax years beginning in 1988 and for tax years beginning in 1989. If a shareholder's tax year is known, it is only necessary to report the deductible amount for the shareholder's specific tax year.

f. 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.

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

Credits

Note: *If the corporation has credits from more than one trade or business activity on line 11a or 12, and more than one rental activity on line 11b, 11c, 11d, or 11e, it must report separately in the line 20 Supplemental Schedules space of Schedule K-1, or on an attachment if more space is needed, the amount of each credit and provide any other applicable activity information listed in* ***Passive Activity Reporting Requirements*** *under the General Instructions for* ***Passive Activity Limitations.***

Line 11a.—Enter on line 11a of Schedule K the jobs credit computed by the corporation that is attributable to a trade or business activity. Enter on line 11d or 11e, the jobs credit attributable to rental activities. The jobs credit is figured on Form 5884 and the form(s) is attached to Form 1120S.

Enter each shareholder's share of the jobs credit on lines 11a, 11d, or 11e of Schedule K-1.

Line 11b.— Section 42 provides for a low-income housing credit that may be claimed by owners of low-income residential rental buildings. The credit is generally for buildings placed in service after 1986. If shareholders are eligible to claim the low-income housing credit, complete the applicable parts of **Form 8586**, Low-Income Housing Credit, and attach it to Form 1120S. Enter the credit figured by the corporation on Form 8586, and any low-income housing credit received from other entities in which the corporation is allowed to invest, on 11b(1) or 11b(2) as explained below. The corporation must also complete and attach **Form 8609**, Low-Income Housing Credit Allocation Certification, to Form 1120S. See the Instructions for Form 8586 and Form 8609 for information on completing these forms. **Note:** No credit can be claimed with respect to any building in a qualified low-income housing project for which any person was allowed to claim a loss from the project by reason of not being subject to the passive activity limitations of section 469 (see section 502 of the Tax Reform Act of 1986 for details).

Line 11b(1).—If the corporation invested in a partnership to which the provisions of section 42(j)(5) apply, report on line 11b(1) the low-income housing credit the section 42(j)(5) partnership reported to the corporation on line 12b(1) of the 1988 Schedule K-1 (Form 1065).

Line 11b(2).—Report on line 11b(2) any low-income housing credit not reported on line 11b(1). This would include credits related to any building in a project the corporation itself owned, or credits received from a partnership that was reported to the corporation on line 12b(2) of the 1988 Schedule K-1 (Form 1065).

Line 11c.—Enter total qualified rehabilitation expenditures related to rental real estate activities of the corporation, and for line 11c 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 2c of Schedule K. See Form 3468 for details on qualified rehabilitation expenditures. Attach Form 3468 to Form 1120S.

For line 11c of Schedule K-1 report the expenditures and show in the Supplemental Schedules space for line 20 of Schedule K-1, or on an attached statement if more space is needed, a listing of the shareholder's pro rata 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 2 of Schedule K-1.

Note: *Qualified rehabilitation expenditures for property that is **not** related to rental real estate activities must be listed separately for line 11e or for line 12 of Schedule K-1.*

Line 11d.—Show on line 11d of Schedule K, or list separately on an attached statement if more than one credit is involved, all other credits (other than credits on lines 11b or 11c) related to rental real estate activities.

Show on line 11d of Schedule K-1, or list separately in the Supplemental Schedules space for line 20 of Schedule K-1 if more than one credit is involved, the shareholder's distributive share of all other credits (other than credits on lines 11b or 11c) related to rental real estate activities. These credits may include any type of credit listed in the line 12 instruction.

Line 11e.—Enter any credit related to other rental activities for which income or loss is reported on line 3 of Schedules K and K-1.

Line 12.—Show on line 12 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 11a through 11e of Schedule K attached to Form 1120S). Show on line 12 of Schedule K-1, or in the Supplemental Schedules space for line 20 if more than one credit is reported, each shareholder's distributive share of all other credits (other than credits or expenditures shown or listed for lines 11a through 11e of Schedule K-1). See the listing below for types of credits or other information that could be reported.

a. 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:

- Credit for alcohol used as fuel. Complete and attach **Form 6478**, Credit for Alcohol Used as Fuel, to Form 1120S.
- 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.
- Nonconventional source fuel credit.
- Unused regular investment credit from cooperatives.
- Unused energy investment credit from cooperatives.
- 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 12 and identify the type of credit and the activity to which it relates in the space to the left of the amount. If the corporation has more than one credit, enter the total credits on line 12 and list the amounts of the credits on an attachment for line 12 of Schedule K. List each shareholder's share of each credit in the line 20 Supplemental Schedules space of Schedule K-1, or on an attachment if more space is needed.

b. Credits which are figured by the shareholder rather than the S corporation include:

- Regular and energy investment tax credit.— Complete the applicable parts of Form 3468 for property that continues to qualify for the regular investment credit and the energy investment credit. Attach Form 3468 to Form 1120S. See Form 3468 and related instructions for information on eligible property. Do not include that part of the cost of property the corporation has elected to expense under section 179.

Also, 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**, General Business Credit, regarding adjustments to be made to the basis of investment credit property as well as to the shareholders' adjusted basis in stock of the corporation.

Show in the line 20 Supplemental Schedules space of Schedule K-1, or on an attached schedule if more space is needed, each shareholder's share of the corporation's investment in regular investment credit or energy credit property. Indicate the lines of Form 3468 on which the shareholder should report each property. Also, identify the activity and the income or loss reported on Schedule K-1 for the activity.

Investment Interest

Lines 13a and 13b

Lines 13a and 13b must be completed whether or not a shareholder is subject to the investment interest rules.

Line 13a. Investment Interest Expense.—Include on this line the interest properly allocable to debt on property held for investment purposes. Property held for investment includes property that produces investment income (interest, dividends, annuities, royalties, etc.).

Investment interest **does not** include interest expense allocable to a passive activity. A passive activity is a trade or business activity in which the shareholder does not materially participate or a rental activity.

Report investment interest expense only on line 13a of Schedules K and K-1. Do not report it on any other line of Schedules K and K-1 or on page 1 of Form 1120S.

The amount on line 13a will be deducted by individual shareholders on Form 1040 after applying the investment interest expense limitations of section 163(d). The section 163(d) limitations are figured on **Form 4952**, Investment Interest Expense Deduction.

Enter the total investment income reported on lines 4a through 4f of Schedule K on line 13b(1). Enter on line 13b(2) the total expenses related to investment income included on line 9 of Schedule K. Shareholders use their share of the lines 13b(1) and (2) amounts to complete certain lines on Form 4952. See the instructions for Form 4952 for more information.

Tax Preference and Adjustment Items

Lines 14a through 14f.—Enter items of income and deductions that are tax preference or adjustment items. See **Form 6251**, Alternative Minimum Tax—Individuals, 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 59(e) may apply. Because these expenditures are subject to an election by each shareholder, the corporation cannot compute the amount of any tax preference related to them. Instead, the corporation must pass through to each shareholder the information needed to compute the deduction. Each shareholder computes both the deduction he or she will claim and the resulting tax preference item, if any.

Lines 14a and 14b.—Figure the preference items for lines 14a and 14b based only on property placed in service before 1987.

Line 14c.—Figure the adjustment item for line 14c based only on property placed in service after December 31, 1986 (and property placed in service after 7-31-86 and before 1-1-87 for which the corporation elected to use depreciation methods applicable to property placed in service after 1986).

Refigure depreciation as follows: For property other than real property and property on which the straight line method was used, use the 150 percent declining balance method, switching to straight line for the 1st tax year when that method gives a better result. Use the class life (instead of the recovery period) and the same conventions as you used on Form 4562. For personal property having no class life, use 12 years. For residential rental and nonresidential real property, use the straight line method over 40 years. Determine the depreciation adjustment by subtracting the recomputed depreciation from the depreciation claimed on Form 4562. If the recomputed depreciation exceeds the depreciation claimed on Form 4562, enter the differene as a negative amount. See the instructions for Form 6251 and Form 4562 for more information.

Line 14d.—Do not include any depletion on oil and gas wells. The shareholders must compute their depletion 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 14e(1) and 14e(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 21, page 1, Form 1120S.

If there are any items of income or deductions for oil, gas, and geothermal properties included in the amounts that are required to be passed through separately to the shareholders on Schedule K-1, give each shareholder a schedule for the line on which the income or deduction is included and which shows the amount of income or deductions included in the total amount for that line. Do not include any of these direct pass through amounts on lines 14e(1) or 14e(2). The shareholder is told in the Shareholder's Instructions for Schedule K-1 (Form 1120S) to adjust the amounts on lines 14e(1) and 14e(2) for any other income or deductions from oil, gas, or geothermal properties included on lines 2 through 10 and 20 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 14e(1) and 14e(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 14e(1) and 14e(2).

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

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

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

Line 14f.—Show in the line 20 Supplemental Schedules space of Schedule K-1, or on an attached statement if more space is needed,each shareholder's share of:

- Amortization of certified pollution control facilities.—Enter the amount by which the amortization deduction the corporation took for 1988 is more than the depreciation deduction otherwise allowable.
- 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 instructions for Form 6251 for more information.
- Installment method of accounting.—Applies to sales of inventory or stock in trade after 3/1/86 and sales of business or rental property where the sales price exceeds $150,000. See section 56(a)(6) and the instructions for 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, 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 instructions for 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 and E and on lines 1 through 3 of Schedule K-1) to figure this adjustment item. See section 58(b) for more information.
- Any other information needed to complete Form 6251 not listed above or on lines 14a through 14e.

Foreign Taxes

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

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

- Passive income
- High withholding tax interest income
- Financial services income
- Shipping income
- Dividends from an IC-DISC or former DISC
- Distributions from Foreign Sales Corporation (FSC) or former FSC
- General limitation income (all other income from sources outside U.S., including income from sources within U.S. possessions)

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

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

Line 15c.—Enter in U.S. dollars the total gross income from sources outside the U.S. Attach a schedule that shows each type of income as follows:

- Passive income
- High withholding tax interest income
- Financial services income
- Shipping income
- Dividends from an IC-DISC or former DISC
- Distributions from Foreign Sales Corporation (FSC) or former FSC
- General limitation income (all other income from sources outside U.S., including income from sources within U.S. possessions)

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

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

Line 15e.—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 15f.—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 15g.—Enter in U.S. dollars any items not covered in lines 15c, 15d, 15e, and 15f.

Line 16 (Schedule K-1).—Enter total distributions made to each shareholder other than dividends reported on line 18 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 18 (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.

Recapture of Tax Credits (Schedule K-1 only)

Lines 18a and 18b.—If recapture of part or all of the low-income housing credit is required because (1) prior year qualified basis of a building decreases or (2) the corporation disposed of a building or part of its interest in a building, see **Form 8611**, Recapture of Low-Income Housing Credit. The instructions for Form 8611 indicate when Form 8611 is completed by the corporation and what information is provided to shareholders when recapture is required. **Note:** *If a shareholder's ownership interest in a building decreases because of a transaction at the shareholder level, the corporation must provide the necessary information to the shareholder to enable the shareholder to compute the recapture.*

If the corporation posted a bond to avoid recapture of the credit, it must attach **Form 8693**, Low-Income Housing Credit Disposition Bond, to Form 1120S, and write "Form 8693 attached" to the left of the entry space for line 11b(2) of Schedule K.

Line 19.—Complete line 19 when regular or energy investment credit property is disposed of or ceases to be qualified property, or if there is a decrease in the business percentage before the end of the "life-years category" or "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 22c, page 1, Form 1120S, for details.

Other Items

Line 17 (Schedule K).—Attach a statement to Schedule K to report the corporation's total income, expenditures, or other information for items **a** through **o** of the line 20 (Schedule K-1) instruction below.

Line 20 (Schedule K-1).—Enter in the line 20 Supplemental Schedules space 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 1 through 19 that is required to be reported in detail, and items **a** through **o** 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 interest income. Include exempt-interest dividends the corporation realized as a shareholder in a mutual fund or other regulated investment company.

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. Each shareholder must determine the allowable amount to report on his or her return. See Publication 535 for more information.

e. Recapture of section 179 expense deduction. For property placed in service after 1986, the section 179 deduction is recaptured at any time the business use of property drops to 50% or less. Enter the amount that was originally passed through and the corporation's tax year in which it was passed through. 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 4 or 5, page 1, Form 1120S.

f. Total qualified expenditures (and the period paid or incurred during the tax year) to which an election under section 59(e) applies. Do not report these expenditures as tax preference items on line 14 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. If the corporation is involved in farming or fishing activities, report the gross income from these activities to shareholders.

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

l. Any information needed by a shareholder to compute the interest due under section 453(l)(3). If the corporation elected to report the dispositions of certain timeshares and residential lots on the installment method, each shareholder's tax liability must be increased by the shareholder's allocable share of the interest on tax attributable to the installment payments received during the taxable year.

m. Any information needed by a shareholder to properly capitalize interest as required by section 263A(f). See item **a** under **Limitations on deductions** on page 8 for additional information.

n. If the corporation is a closely-held S corporation (defined in section 260(b)) and it entered into any long-term contracts after 2-28-86 that are accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method, it must attach a schedule to Form 1120S showing the information required in items (a), (b), and (c) of the line 2 instructions for **Form 8697**, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts. It must also report the line 2 amounts to its shareholders as specified in the line 2 instructions for Form 8697. See the instructions for Form 8697 for more information.*

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

Schedules L and M

The balance sheets should 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** instruction 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 1988 tax year. If there is a beginning balance for the 1988 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.

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 1987 (lines 23 and 24 of Schedule L of the 1986 Form 1120S or Form 1120) and has not distributed this retained earnings.

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 1988, 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 1988 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 22a, 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 its 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. A distribution from the PTI account is tax free to the extent of a shareholder's basis in the account.

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 making distributions from PTI, it may if it elects to do so with the consent of all its shareholders. The statement of election must be attached to a timely filed Form 1120S for which the distributions are made. The election must be made separately for each tax year.

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

Codes for Principal Business Activity

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

Using the list below, enter on page 1, under B, the code number for the 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 and 5, page 1; and income (receipts only) on lines 2, 3, and 4a through 4f of Schedule K.

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

If, as its principal business activity, the corporation (1) purchases raw materials, (2) 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:

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	Misc. 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	Misc. 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.**

Misc. 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	
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	Misc repair services.

Amusement and recreation services:

Code	
7812	Motion picuture 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).

Computation Schedule for Required Payment Under Section 7519 (Attach this Schedule to Form 720.)

Name of Corporation	Identification number

1	Net income for base year (section 7519(d)) (not less than zero)	1	
2	Applicable payments (section 7519(d)) made during base year	2	
3	Base year deferral ratio (number of months in deferral period over number of months in tax year) expressed as a percentage	3	%
4	Line 1 deferred amount—Line 1 times percentage on line 3	4	
5	Line 2 deferred amount—Line 2 times percentage on line 3	5	
6	Applicable payments made during the deferral period of the base year	6	
7	Net line 2 deferred amount—Line 5 less line 6 (but not less than zero)	7	
8	Net base year income—Add lines 4 and 7	8	
9	Enter the adjusted highest section 1 tax rate percentage (Generally, for applicable election years beginning in 1988, the percentage is 29% (28% plus 1%).)	9	%
10	Applicable percentage (for applicable election years beginning in 1988, the percentage is 50%)	10	%
11	Section 7519(b)(1) percentage—Line 9 times percentage on line 10	11	%
12	Current year required payment—Line 8 times the percentage on line 11. (If this amount is more than \$500, enter it here and on Form 720, **IRS No. 11.** If the amount is \$500 or less, enter it here and enter zero on Form 720, **IRS No. 11.** Attach this schedule to Form 720. See instructions for line 12 below for obtaining a refund of prior year payments.)	12	

General Instructions for Section 7519 Computation Schedule

Required Payment.—If the corporation filed Form 8716, to elect under section 444 to have a fiscal tax year, and its election is still in effect, the corporation must make a required payment of tax as provided by section 7519. Any tax year the election is in effect is hereinafter referred to as the applicable election year. Willful failure of the corporation to make the required payment may result in the cancellation of the section 444 election.

If the election is in effect for its applicable election year beginning in 1988, use the above computation schedule to figure the required payment. See the instructions for line 12 of the worksheet for details on when and how to report and pay the required payment.

If the corporation made a required payment for its 1987 tax year, see the instruction below for **Obtaining refund or credit of prior year payment.**

Line-by-line Instructions

Note: *If the S corporation has a base year of less than 12 months (short base year), the corporation must figure its net base year income (lines 1 through 8 of the worksheet) under the special rule of temporary regulations section 1.7519-1T(b)(5)(v). See this regulation for additional details.*

Line 1. Net income for base year.—The base year is the tax year preceding the applicable election year. For example, if you are completing the worksheet for your tax year beginning 4-1-88 and ending 3-31-89, your base year is your tax year beginning 4-1-87 and ending 3-31-88.

If an applicable election year is the S corporation's first year of existence (i.e. it is a newly formed corporation and therefore does not have a base year), the required payment for such applicable election year is zero. See instructions for line 12 below for reporting payments of less than \$500.

Line 1 net income is the aggregate of the corporation's items of income and expenses (but not less than zero) described in section 1366(a) (other than credits and tax-exempt income). For purposes of figuring line 1, any limitation on the amount of any item described in section 1366(a) which may be taken into account for purposes of figuring the taxable income of the shareholder shall be disregarded.

If the S corporation was a C corporation for its base year, the C corporation's taxable income is treated as the net income of the S corporation for the base year. See regulations section 1.7519-1T(b)(5) for other details.

Line 2. Applicable payments made during base year.—In general, applicable payments means any amount deductible in the base year that is includible at any time, directly or indirectly, in the gross income of any shareholder that was a shareholder during the base year. Examples of applicable payments are officer's compensation, wages, and rental costs paid to any shareholder.

If the S corporation was a C corporation for its base year, the corporation shall be treated as an S corporation for the base year for purposes of applicable payments. Thus, amounts deductible by the C corporation in the base year that are includible at any time in the gross income of a taxpayer that is a shareholder during the base year are treated as if from an S corporation, and therefore within the meaning of the term "applicable payments."

Line 3. Base year deferral ratio.—The deferral period is the months between the beginning of the elected tax year and the close of the first required tax year (calendar year) ending within the elected tax year.

Line 10. Applicable percentage.—Generally, for applicable election years beginning in 1988 the applicable percentage is 50%.

Line 12. Current year required payment.—If the line 12 amount is more than \$500, report this amount on Form 720, IRS No. 11, attach the worksheet to Form 720, and complete the form based on the instructions for Form 720.

If the line 12 is \$500 or less, enter zero on Form 720, IRS No. 11, attach the computation schedule to Form 720, and complete the form based on the instructions for Form 720.

When required payments are due (or zero amounts reported).—For applicable election years beginning in 1988, the required payment must be made (or zero amount reported) on or before May 15, 1989. **Note:** *Regulations section 1.444-3T(b)(4)(iii) provides a special rule that extends the due date for required payments that relate to certain back-up section 444 elections.*

The payment may be remitted, by check or money order, with Form 720, or deposited with FTD deposit coupons. If you pay by check or money order, write the corporation's identification number and "IRS NO. 11 PAYMENT" on the check or money order.

Obtaining refund or credit of prior year payment.—To obtain a refund or credit of a required payment made for the preceding tax year, enter the prior year payment on line 4, Part II, of Form 720, and complete the form based on the instructions for Form 720. **Note:** *A claim for refund of a prior years required payment cannot be filed before April 15 of the tax year following the tax year for which the payment was made (see regulations section 1.7519-2T(a)(6)).*

SCHEDULE D (Form 1120S)

Department of the Treasury Internal Revenue Service

Capital Gains and Losses and Built-In Gains

▶ Attach to your tax return.
▶ See separate instructions.

OMB No. 1545-0130

1988

Name | Employer identification number

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less (Six Months or Less If Acquired Before 1/1/88)

(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 4d or 6 of Schedule K of Form 1120S	4	

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year (More Than Six Months If Acquired Before 1/1/88)

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 amounts in lines 5 and 6 and enter here). (Reduce this amount by any applicable tax on lines 17 and 25 below and enter this amount on line 4e or 6 of Schedule K of Form 1120S.)	7	
8 Enter section 1231 gain from line 7 or 9, Form 4797. (See instructions regarding casualties and thefts and the amount from this line 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 22a, page 1, Form 1120S), see line 10 instruction before completing line 10.*		
10 Net capital gain—Enter excess of net long-term capital gain (line 9) over net short-term capital loss (line 4). If line 10 is more than $25,000, see instructions for Part IV. If line 10 is $25,000 or less, do not complete Part IV.	10	

Part IV Tax Imposed on Certain Capital Gains

11 Taxable income (see instructions and attach computation schedule)	11	
12 Enter tax on line 11 amount (see instructions for computation of tax)	12	
13 Net capital gain from line 10	13	
14 Statutory minimum	14	$25,000
15 Subtract line 14 from line 13	15	
16 Tax—Enter 34% of line 15	16	
17 Enter smaller of line 12 or line 16 here and on line 22b, page 1, Form 1120S	17	

Part V Tax Imposed on Certain Built-In Gains

18 Taxable income (section 1374(d)(2)(A)(i)) (see instructions and attach computation schedule)	18	
19 Taxable income (Section 1374 (d)(2)(A)(ii)) (see instructions and attach computation schedule)	19	
20 Net recognized built-in gain—Enter smaller of line 18 or 19 (see instructions)	20	
21 Section 1374(b)(2) deduction	21	
22 Subtract line 21 from line 20. (If zero or less, enter zero here and on line 25)	22	
23 Enter 34% of line 22	23	
24 Business credit carryforwards under section 1374(b)(3) from years the corporation was a C corporation	24	
25 Tax—Subtract line 24 from line 23. Enter here and on line 22b, page 1, Form 1120S	25	

For Paperwork Reduction Act Notice, see page 1 of Instructions for Form 1120S.

1988 Department of the Treasury
Internal Revenue Service

Instructions for Schedule D (Form 1120S)

Capital Gains and Losses and Built-In Gains

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

Important Tax Law Changes

The Technical and Miscellaneous Revenue Act of 1988 made the following changes that affect Schedule D:

1) New Code section 1374(d)(2)(B) was added. It provides that any recognized built-in gain that is not subject to the built-in gains tax due to the taxable income limitation shall be treated as recognized built-in gain for the following tax year. See the instructions for line 20 for the effective date and other details.

2) Other clarifying revisions were made to section 1374 that provides for the built-in gains tax computation. See Part V of Schedule D and the instructions for Part V for more information.

3) Code sections 1363(d) and (e) were repealed for corporations that made their election to be an S corporation after 1986. These sections provide for recognition of gain on distribution of appreciated property to shareholders.

Purpose of Schedule D

a. Schedule D is used by all S corporations to report and summarize capital gain transactions attributable to: (1) sale or exchange of capital assets, and (2) if the corporation made its election to be an S corporation before 1987, gains on distributions to shareholders of appreciated assets that are capital assets (hereinafter referred to as distributions).

b. If the corporation filed its election to be an S corporation before 1987 (or filed its election after 1986 and qualifies for the transitional relief from the built-in gain tax described in Part V below), and had net capital gain (line 10) of more than **$25,000**, it may be liable for a capital gains tax on the gain in excess of **$25,000**. The tax is figured in Part IV of Schedule D.

c. Generally, if the corporation (1) filed its election to be an S corporation after 1986, (2) was a C corporation at the time it made the election, and (3) has net recognized built-in gain as defined in section 1374(d)(2), **it is liable** for the built-in gain tax. The tax is figured in Part V of Schedule D.

Note: *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**, Sales of Business Property.*

Parts I and II

Generally, you should report sales and exchanges (including like-kind exchanges) even though there is no gain or loss. Corporations that elected to be S corporations before 1987, report gain, but not loss, on a distribution. In Part I, report the sale, exchange, or distribution of capital assets held 1 year or less (6 months or less if acquired before 1/1/88). In Part II, report the sale, exchange, or distribution (if applicable) of capital assets held more than 1 year (more than 6 months if acquired before 1/1/88). Use the trade dates for the date of acquisition and sale of stocks and bonds on an exchange or over-the-counter market.

For more information, see **Pub. 544**, Sales and Other Dispositions of Assets, and **Pub. 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 Pub. 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 "-0-" in column (f).

Special Rules for the Treatment of Certain Gains and Losses

• **Gain on Distributions of Appreciated Property.**—Generally, for corporations that made their election to be S corporations before 1987, gain is recognized 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.

See section 1363(e) for exceptions.

• **Gain From Installment Sales.**—If an S corporation has a gain this year from the sale of real property or a casual sale of personal property other than inventory and is to receive any payment in a later year, it must use the installment method (unless it elects not to) and file **Form 6252**, 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 the corporation received a note or other obligation and is 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 **Pub. 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 the 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. (See 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 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.

Line 8.—If the corporation has a gain from line 7 or 9 of Form 4797, enter it on line 8.

If the line 8 gain is from line 7 or 9 of Form 4797, and it contains gain from line 21, Section B, of Form 4684 and 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**, and the corporation elected to be an S corporation before 1987, the corporation may be liable for income tax on the gain. Answer the questions in the instructions for Part IV to determine if the corporation is liable for income tax on its net capital gain.

Line 10.—If the corporation is liable for the tax on excess net passive income (line 22a, page 1, Form 1120S), and capital gain income was included in the computation of the tax, the amount to be entered on line 10 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 line 10 the net capital gain (if any) based on revised lines 4 and 9.

Part IV—Capital Gains Tax Computation

If the corporation made its election to be an S corporation before 1987, section 1374 (as in effect before the enactment of the Tax Reform Act of 1986) continues to impose a tax on certain capital gains of the S corporation.

By answering the following questions, you can determine if the corporation is liable for the tax. If net capital gain is more than $25,000, and the corporation is not liable for the tax, you should answer questions A through D below and attach the Part IV instructions to Schedule D as your explanation of why it is not liable for the tax.

If answers to questions A, B, and C or A, B, and D are "Yes," the tax applies and you must complete Part IV of Schedule D. Otherwise, the corporation is not liable for the tax.

Note: *Taxable income referred to in questions A and B below is NOT the income figured on line 21, page 1, of Form 1120S. See the instruction for line 9 of the worksheet in the instructions for line 22a, page 1, Form 1120S, for details.*

A. Is taxable income more than $25,000? . . . . ☐ Yes ☐ No

B. Is net capital gain (line 10, Schedule D (Form 1120S)) more than $25,000, and more than 50% of taxable income? . . . ☐ Yes ☐ No

C. Has the corporation 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 beginning of 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 34%. See the instruction for line 10. If this amount is less than the tax figured on line 12, Part IV, enter this amount on line 17, 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) as in effect before the enactment of the Tax Reform Act of 1986.)

Line 11.—Line 11 taxable income is figured in the same manner as the taxable income used in the computation of tax for line 22a, page 1, Form 1120S. See the instruction for line 9 of the worksheet in the instructions for line 22a, page 1, Form 1120S, for details. Attach Form 1120 or other worksheets used in figuring taxable income to Schedule D. **Do not** enter the amount from line 21, 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 1988 Instructions for Form 1120 and 1120A to make your computation. Attach your computation of tax to Schedule D.

Part V—Built-In Gains Tax Computation

Section 1374 provides for a tax on built-in gains that applies to certain S corporations for tax years beginning after December 31, 1986. The tax applies only if the first tax year for which the corporation is an S corporation is pursuant to an S election made or filed after December 31, 1986. Also, the S corporation must have been a C corporation at the time it made the election.

Transitional Relief From Built-In Gains Tax.—Section 633(d)(8) of the Tax Reform Act of 1986 (1986 Act) provides special transitional relief from the built-in gains tax for qualified corporations. A qualified corporation is any corporation that: (1) on August 1, 1986, and all times thereafter, is more than 50% owned by 10 or fewer qualified persons, and (2) has an applicable value of $10,000,000 or less. A qualified person is an individual, an estate, or a trust that is described in section 1361(c)(2)(A)(ii) or (iii).

The 1986 Act section 633(d)(8) relief rule applies to qualified corporations that elect to be S corporations before January 1, 1989. However, the relief rule does **not** apply to the sale or distribution of certain assets. See the instructions for line 18 for details.

Line 18.—Enter the amount which would be the taxable income of the corporation for the tax year if (except for the provisions of section 1374(b)(2)) only recognized built-in gains and recognized built-in losses were taken into account.

Section 1374(d)(3) defines recognized built-in gain as any gain recognized during the recognition period (the 10-year period beginning on the 1st day of the 1st tax year for which the corporation is an S corporation) on the sale or distribution (disposition) of any asset except to the extent the corporation establishes that:

1. Such asset was not held on the 1st day of the 1st tax year the corporation was an S corporation, or

2. Such gain exceeds the excess (if any) of the fair market value of the asset on the 1st day over the adjusted basis of the asset on such 1st day.

3. Also, if item 4 below applies to the corporation and the disposition transaction that produced the gain is covered by the relief provisions, the gain is not recognized built-in gain. (However, section 1374 as it existed before the enactment of the Tax Reform Act of 1986 may apply to gain covered by these relief provisions. See Part IV above.)

Section 1374(d)(4) defines recognized built-in losses as any loss recognized during the recognition period (stated above) on the disposition of any asset to the extent the corporation establishes that:

1. Such asset was held by the corporation as of the beginning of the 1st tax year the corporation was an S corporation, or

2. Such loss does not exceed the excess of the adjusted basis of such asset as of the beginning of such 1st tax year, over the fair market value of such asset as of such time.

3. If item 4 below applies to the corporation and to the disposition transaction that produced the loss, the loss is not a recognized built-in loss for purposes of line 18.

4. The S corporation is a qualified corporation that qualifies for transitional relief (discussed above) from the section 1374 tax and such **gain** or **loss** was from the disposition of an asset covered by the transitional relief provision. **Note:** Gain or loss from the disposition of certain assets, such as capital assets held 6 months or less and assets which result in ordinary income (loss) when disposed of **do not qualify** for the relief even though the corporation is a qualified corporation. Accordingly, the disposition of these types of assets will always be included in the computation of the amount to enter on line 18. See Rev. Rul. 86-141, 1986-2 C.B. 151, for more information.

A qualified corporation must show on an attachment to Schedule D its total net recognized built-in gain and also list separately the gain or loss that is: (1) gain or loss from capital assets held 6 months or less, and (2) gain or loss from assets for which the disposition results in ordinary income or loss. A nonqualified corporation must show on an attachment its total net recognized built-in gain and list separately any capital gain or loss and ordinary gain or loss.

Line 19.—Enter taxable income as defined in section 1374(d)(2)(A)(ii). Generally, line 19 taxable income is figured in the same manner as taxable income for line 12 of Part IV. See the line 12 instructions above. Do not enter the amount from line 21, page 1, Form 1120S.

Line 20.—If, for any tax year, the taxable income on line 18 exceeds the taxable income on line 19, such excess shall be treated as a recognized built-in gain in the succeeding tax year. This carryover provision applies only in the case of an S corporation that made its election to be an S corporation on or after March 31, 1988.

Line 21.—Enter the section 1374(b)(2) deduction. Generally, this is any net operating loss (NOL) carryforward or capital loss carryforward arising in tax years for which the corporation was a C corporation. See section 1374(b)(2) for details.

Form **3468**

Department of the Treasury
Internal Revenue Service (X)

Computation of Investment Credit

▶ Attach to your tax return.

▶ Schedule B (Business Energy Investment Credit) on back.

OMB No. 1545-0155

1988

Attachment Sequence No. 52

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	

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(d), column (4), and line 2 (See instructions for special limits) . . . 3

4 Regular credit—(See instructions for line 4 for amount to enter) . . . 4

5 Qualified rehabilitation expenditures (enter qualified investment and multiply by percentage shown):

a **Transition Property and Certain Projects:**

(i) 30-year-old buildings . . . ________ × 10% 5a(i)

(ii) 40-year-old buildings . . . ________ × 13% 5a(ii)

(iii) Certified historic structures (attach NPS certificate) . . . ________ × 25% 5a(iii)

b **Rehabilitation Property** (not shown above):

(i) Pre-1936 buildings . . . ________ × 10% 5b(i)

(ii) Certified historic structures (attach NPS certificate) . . . ________ × 20% 5b(ii)

6 Credit from cooperatives—Enter regular investment credit from cooperatives . . . 6

7 Business energy investment credit—From line 6 of Schedule B (see back of this form) . . . 7

8 Current year investment credit—Add lines 4 through line 7 . . . 8

Note: *If you have a 1988 jobs credit (Form 5884), credit for alcohol used as fuel (Form 6478), research credit (Form 6765), or low-income housing credit (Form 8586) in addition to your 1988 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 1988 investment credit. If you have only a 1988 investment credit (which may include business energy investment credit), you may continue with lines 9 through 16 to claim your credit.*

Part III **Tax Liability Limitations**

9a Individuals—From Form 1040, enter amount from line 40
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 . . . 9

10a Individuals—From Form 1040, enter credits from lines 41, 42, and 43, plus any orphan drug credit, mortgage interest credit, and nonconventional source fuel credit included on line 46
b Corporations—From Form 1120, Schedule J, enter credits from lines 4a through 4d (Form 1120-A filers, enter zero)
c Other filers—See instructions for line 10c . . . 10

11 Income tax liability as adjusted (subtract line 10 from line 9) . . . 11

12 Tentative minimum tax—
a Individuals—From Form 6251, enter amount from line 17
b Corporations—From Form 4626, enter amount from line 13
c Estates and Trusts—From Form 8656, enter amount from Part III, line 10 . . . 12

13 Net income tax—
a Individuals—Enter the sum of line 11, above, and line 19 of Form 6251
b Corporations—Enter the sum of line 11, above, and line 16 of Form 4626
c Other filers—See instructions for line 13c . . . 13

14 If line 11 is more than $25,000—Enter 25% of the excess (see Instructions) . . . 14

15 Enter—Line 13 less whichever is greater, line 12 or line 14. (If the result is less than zero, enter zero.) 15

16 Total allowed credit—Enter the smaller of line 8 or line 15 (corporations, see instructions)—This is your **General Business Credit** for 1988. Enter here and on Form 1040, line 44; Form 1120, Schedule J, line 4e; Form 1120-A, Part I, line 2a; or the proper line of other returns . . . 16

For Paperwork Reduction Act Notice, see separate Instructions. Form **3468** (1988)

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 Multiply the portion of the line 2 amount attributable to the following types of property by the applicable percentages:
a Solar energy property (10%) . . . 3a
b Geothermal property (10%) . . . 3b
c Ocean thermal property (15%) . . . 3c

4 Certain other property (See instructions below for special limits):
a Certain long-term section 46(b)(2)(C) projects under way by 12-31-82 (10%) . . . 4a
b Hydroelectric generating property placed in service by 12-31-88 (if docketed with the Federal Energy Regulatory Commission by 12-31-85) (11%) . . . 4b

5 Cooperative credit—Enter business energy investment credit from cooperatives . . . 5

6 Tentative business energy investment credit—Add lines 3a through 5. Enter here and on line 7 of page 1 . . . 6

Instructions for Schedule B (Form 3468)

Items You Should Note

The business energy investment credit for solar energy property, geothermal property and ocean thermal property scheduled to expire on December 31, 1988, has been extended until December 31, 1989. See section 46(b)(2)(A) for details.

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) 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 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. Hydroelectric generating property
b. Solar equipment (but not passive solar equipment)
c. Ocean thermal equipment
d. 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 4.—You must reduce the basis for depreciation 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 4b, enter the megawatt capacity of the generator as shown on the nameplate of the generator.

You must reduce the energy credit(s) on lines 4a and 4b by 35%. *Enter the reduced credit on these lines.*

If you use **all** of the reduced credit in the current year, then none of the reduction may be carried to any other year.

If you are able to use **only a portion** of the reduced credit in the current year because you are limited by the tax liability limitations, then you may carry forward to your next year the unused portion of the reduced credit and a corresponding portion of the 35% reduction. If, for example, you are able to use half of the reduced credit in 1988, then you may carry forward the other half of the reduced credit and half of the reduction.

If you are **not** able to use **any** of the reduced credit because of the tax liability limitations, then you may carry forward to your next year the entire credit (both the reduced credit and the reduction).

* U.S. GPO 1988 - 205-258

1988

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.

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

Recordkeeping	20 hrs., 34 min.
Learning about the law or the form	8 hrs., 19 min.
Preparing the form	12 hrs., 45 min.
Copying, assembling, and sending the form to IRS	1 hr., 4 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either IRS or the Office of Management and Budget at the addresses listed in the instructions of the tax return with which this form is filed.

Items You Should Note

You cannot claim any investment credit for property placed in service after December 31, 1985, unless the property is:

- Transition property, as defined in the Specific Instructions for lines 1(a)–1(d);
- Qualified progress expenditure property, as defined in General Instructions D(1) under "Elections," and the Specific Instructions for lines 1(a)–1(d);
- 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.

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), and low-income housing credit (Form 8586). If you have more than one of these credits for 1988, 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 1988 investment credit, you do not have to file Form 3800 this year.

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 or 4).

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,** General Business 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.—You may take investment credit for property placed in service only if it qualifies as one of the items listed above under "Items You Should Note."

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.

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 section 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, "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 related 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

Lines 1(a)–1(d). Recovery Property.—The regular investment tax credit is not allowed for property placed in service after December 31, 1985. The only properties for which you can 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 Tax Reform Act of 1986.

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

You must reduce the basis for depreciation 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 depreciable 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 1988 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 amortizable basis 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 (as in effect before the Tax Reform Act of 1986), 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);
- 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) and 1(b) 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) and 1(d) 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 $150,000 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 $150,000 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 $75,000. If one of them has *no* qualifying used property, the other may claim up to $150,000.

The $150,000 limitation applies to a partnership, S corporation, estate, or trust. The $150,000 must be divided among the estate or trust and its beneficiaries based on the income of the estate or trust allocable to each. A $150,000 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.— Multiply line 3 by 10% (.10). However, you must reduce the regular 10% credit for transition and QPE property (but not for qualified timber property) by 35%, thus making the credit for this type of property 6.5% (10% minus 35% of 10%). Include the reduced credit on line 4.

If you use **all** of the transition or QPE credit in the current year, then none of the reduction may be carried to any other year.

If you are able to use **only a portion** of the reduced credit in the current year because you are limited by the tax liability limitations, then you may carry forward to your next year the unused portion of the reduced credit and a corresponding portion of the 35% reduction.

If, for example, you are able to use half of the reduced credit in 1988, then you may carry forward the other half of the reduced credit and half of the reduction.

If you are **not** able to use **any** of the reduced credit because of the tax liability limitations, then you may carry forward to your next year the entire credit (both the reduced credit and the reduction).

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	

Lines 5a and 5b. Rehabilitation Expenditures.— 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 and must be incurred 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.

For filers placing property in service in 1988, 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 Tax Reform Act of 1986 for transitional rules applicable to line 5a.

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 14a 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, and 14a. 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.

Line 8.—If you are an individual, estate, or trust and any credit on line 8 is from a passive activity, see **Form 8582-CR,** Passive Activity Credit Limitations, before carrying the credit to line 1 of Form 3800 or completing Part III of Form 3468. If you are a corporation and any credit on line 8 is from a passive activity, see **Form 8810,** Corporate Passive Activity Loss and Credit Limitations, before carrying the credit to line 1 of Form 3800 or completing Part III of Form 3468. If the credit is reduced by the passive activity limitations, the amount carried to line 1 of Form 3800 will be the line 8 credit reduced by the passive activity limitation. If you do not use Form 3800, the allowed credit on line 16 of Form 3468 may not exceed the line 8 credit reduced by the passive activity limitation.

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, and the credit for interest on certain home mortgages)
- Foreign tax credit
- Possessions corporation tax credit
- Orphan drug credit
- Nonconventional source fuel credit

Line 13c. Other Filers.—Enter the sum of line 11 and your alternative minimum tax from whichever alternative minimum tax form you file.

Line 14. Limitation.—If a husband and wife file separate returns, each must use $12,500 instead of $25,000. But if one of them has *no* investment credit, then the other 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 14a.

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. Use Form 3800.

Line 16.—If you are a "C" corporation with regular investment credit on line 4, your total allowed credit to be entered on line 16 will be figured differently than the instructions on the form direct. Use the worksheet in the instructions for **Form 3800,** General Business Credit, to figure the amount to enter here. If you figure your credit under this limitation, write "SEC 38(c)(2)" in the margin next to your entry on line 16.

If any of the credit reported on this form is from a passive activity, the amount entered on line 16 may not exceed the line 8 credit reduced by the passive activity limitation.

Form **3800**
Department of the Treasury
Internal Revenue Service

General Business Credit

▶ Attach to your tax return.

OMB No. 1545-0895
1988
Attachment Sequence No. 24

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 6)	2	
3	Credit for alcohol used as fuel (Form 6478, line 11)	3	
4	Credit for increasing research activities (Form 6765, line 25)	4	
5	Low-income housing credit (Form 8586, line 6)	5	
6	**Current year general business credit**—Add lines 1 through 5	6	
7	Carryforward of general business credit (investment (see instructions), WIN, jobs, alcohol fuel, research, ESOP, or low-income housing credits)	7	
8	Carryback of general business credit to 1988	8	
9	Tentative general business credit—Add lines 6, 7, and 8	9	

Part II Tax Liability Limitations

10a	Individuals—From Form 1040, enter amount from line 40		
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 credits from lines 41, 42, and 43, plus any orphan drug credit, mortgage interest credit, and nonconventional source fuel credit included on line 46		
b	Corporations—From Form 1120, Schedule J, enter credits from lines 4a through 4d (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	
13	Tentative minimum tax—		
a	Individuals—From Form 6251, enter amount from line 17		
b	Corporations—From Form 4626, enter amount from line 13		
c	Estates and Trusts—From Form 8656, enter amount from Part III, line 10	13	
14	Net income tax—		
a	Individuals—Enter the sum of line 12, above, and line 19 of Form 6251		
b	Corporations—Enter the sum of line 12, above, and line 16 of Form 4626		
c	Other filers—See instructions for line 14c	14	
15	If line 12 is more than $25,000—Enter 25% of the excess	15	
16	Enter—Line 14 less whichever is greater, line 13 or line 15 (if less than zero, enter zero)	16	
17	General business credit—Enter the smallerof line 9, or line 16 (corporations, see instructions) here and on Form 1040, line 44; Form 1120, Schedule J, line 4e; Form 1120-A, Part I, line 2a; or the proper line on other returns	17	

For Paperwork Reduction Act Notice, see page 1 of the separate Instructions to this form. Form **3800** (1988)

1988

Department of the Treasury
Internal Revenue Service

Instructions for Form 3800

General Business Credit

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

General Instructions

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Copying, assembling, and sending the form to IRS	5 hrs., 5 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either IRS or the Office of Management and Budget at the addresses listed in the instructions of the tax return with which this form is filed.

Items You Should Note.—If you have a carryforward of section 46(a)(1) **regular investment credit** to 1988, you must reduce this credit by 35% before entering it on line 7.

If you have credits from passive activities, see **Form 8810**, Corporate Passive Activity Loss and Credit Limitations (for corporations only), or **Form 8582-CR**, Passive Activity Credit Limitations (for individuals, trusts, and estates), before completing Form 3800.

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), and low-income housing credit (Form 8586). 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 1988, 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 1988 jobs credit, you may use Form 5884 to claim your credit. You do not have to file Form 3800 in this case.*

You do not have to take the jobs or alcohol fuel credits if you do not wish to.

For more information on investment credit, see **Form 3468**, Computation of Investment Credit, or **Publication 572**, General Business Credit.

For more information on the jobs credit, see **Form 5884**, Jobs Credit, or Publication 572.

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 572.

For more information on the low-income housing credit, see **Form 8586**, Low-Income Housing Credit, or Publication 572.

Carryback and Carryforward of Unused Credit.—If you cannot use part or all of the credit on line 6 because of the tax liability limitations, 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. 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.*

Note: *Recently enacted legislation prohibits carryback of the low-income housing credit to years ending before January 1, 1987.*

Although the investment, jobs, alcohol fuel, research, and low-income housing credits are aggregated as the general business credit, you should keep separate records of these credits to ensure that no credits or deductions are lost.

The order in which the general business credits are used is generally the following order as of the close of the tax year in which the credit is used:

- Regular investment credit
- Business energy investment credit
- Employee plan investment credit carryforward
- Rehabilitation investment credit
- Jobs credit
- Alcohol fuel credit
- Research credit
- Low-income housing credit
- WIN credit carryforward
- ESOP credit carryforward

Specific Instructions

Line 7.—All carryforwards of unused investment, jobs, alcohol fuel, research, low-income housing, WIN, and ESOP credits are added together and become a business credit carryforward to 1988.

You must reduce the portion of the business credit carryforward attributable to the section 46(a)(1) regular investment tax credit (other than for qualified timber property) by 35%. Use the following worksheet to compute the allowable portion and include the reduced credit (65%) on line 7.

1	Carryforward of section 46(a)(1) regular ITC from prior year(s)	$
2	Enter 65%	.65
3	Multiply line 1 by line 2 — this is the amount of the regular ITC carryforward you may use. Enter here and include with any other carryforwards on line 7 of Form 3800	$

If you cannot use all of the credit on line 3 above because you are limited by the tax liability limitations, then you may carry forward to your next tax year the unused portion of the credit and a corresponding portion of the 35% reduction. If, for example, you are able to use only half of the line 3 credit in 1988, then you may carry forward the other half of the credit and half of the 35% reduction.

Line 8.—Leave blank in 1988. Use only in subsequent years to carry back unused credits arising in those later years.

Line 11c.—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, and the credit for interest on certain home mortgages)
- Foreign tax credit
- Possessions corporation tax credit
- Orphan drug credit
- Nonconventional source fuel credit

Line 14c.—Other filers.—Enter the sum of line 12 and your alternative minimum tax, if any, from whichever alternative minimum tax form you file.

Line 15.—If a husband and wife file separate returns, each must use $12,500 instead of $25,000. But if one of them has no credit, then the other 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 15a.

See section 38(c)(3)(C) for limitations on the credit for mutual savings institutions, regulated investment companies, and real estate investment trusts.

Line 17.—If you are a C corporation with regular investment credit included in line 1 or line 7, and if (a) all of the credit cannot be used in the current year because of tax liability limitations, and (b) your taxable income or loss (before the net operating loss deduction) when combined with your adjustments and tax preference items (including the book income adjustment) totals more than $40,000 (or, if the taxpayer is a member of a controlled group, more than the exemption allowed by section 1561), then you may be entitled to a larger general business credit. Tentatively figure the credit through line 17 and then use the worksheet below to see if you are entitled to a larger credit. (Under certain circumstances part or all of the additional credit will be used on Form 4626 instead of on Form 3800.)

Section 38(c)(2) Limitation Worksheet (Applicable to C corporations only)

Tentatively complete Form 3468 or Form 3800, as applicable, and Form 4626, in accordance with the instructions for the form. If:

(a) The full amount of the credit shown on line 9, Form 3800, or on line 8, Form 3468, cannot be used during the current tax year due to tax liability limitations; AND

(b) Any portion of the credit is attributable to the regular investment credit under section 46; AND

(c) The taxable income (or loss) before the net operating loss deduction when combined with your adjustments and tax preference items (including the book income adjustment) totals more than $40,000 (or, if the taxpayer is a member of a controlled group, more than the exemption allowed by section 1561),

then complete this worksheet to determine the total allowable general business credit, including the additional amount of investment credit attributable to the regular percentage under section 46 that the corporation is entitled to offset against either the regular tax or the alternative minimum tax, as applicable.

1	Enter the portion of the credit shown on line 9, Form 3800 (or line 8, Form 3468, if you are filing only Form 3468) that is attributable to the regular investment credit under section 46		1
2	Enter the amount from line 13, Form 4626	2	
3	Multiply the amount on line 2 by 25% (.25)		3
4	Enter the amount from line 16, Form 3800 (or line 15, Form 3468, if appropriate)	4	
5	Enter the portion of the credit shown on line 9, Form 3800 (or line 8, Form 3468, if appropriate) that is NOT attributable to the regular investment credit under section 46	5	
6	Subtract line 5 from line 4 (if less than zero, enter zero)		6
7	Subtract line 6 from line 1 (if less than zero, enter zero)		7
8	Recompute the amount on line 11, Form 4626, by using zero on line 7, Form 4626, and enter the result here	8	
9	Multiply the amount on line 8 by 10% (.10)		9
10	Enter the amount from line 12, Form 3800 (or line 11, Form 3468, if appropriate)	10	
11	Recompute the amount on line 16, Form 4626, by using zero on line 14, Form 4626, and enter the result here	11	
12	Add lines 10 and 11		12
13	Enter the amount from line 17, Form 3800 (or line 16, Form 3468, if appropriate)	13	
14	Enter the amount from line 21, Form 8801	14	
15	Add lines 13 and 14		15
16	Subtract line 15 from line 12		16
17	Subtract line 9 from line 16		17
18	Enter the smallest of line 3, line 7, or line 17		18
19	Subtract line 18 from line 2		19
20	Enter the greater of: (a) line 19, above, or (b) line 15, Form 3800 (line 14, Form 3468, if appropriate)		20
21	Subtract line 20 from line 14, Form 3800 (line 13, Form 3468, if appropriate). DO NOT enter more than the amount on line 9, Form 3800 (or line 8, Form 3468, if appropriate)		21
22	Enter the lesser of: (a) line 21, above, or (b) line 12, Form 3800 (or line 11, Form 3468) here and on line 17, Form 3800 (or line 16, Form 3468) instead of the amount previously computed on that line. Write "Sec. 38(c)(2)" in the margin next to your entry		22
23	If line 21 is greater than line 22, enter the excess here and on line 14, Form 4626		23

Form **4562**

Department of the Treasury
Internal Revenue Service (X)

Depreciation and Amortization

▶ See separate instructions.
▶ Attach this form to your return.

OMB No. 1545-0172

1988

Attachment Sequence No. 67

Name(s) as shown on return | Identifying number

Business or activity to which this form relates

Part I Depreciation *(Use Part III for automobiles, certain other vehicles, computers, and property used for entertainment, recreation, or amusement.)*

Section A.—Election To Expense Depreciable Assets (Section 179)

	(a) Description of property	(b) Date placed in service	(c) Cost	(d) Expense deduction
1				

2	Listed property—Enter total from Part III, Section A, column (h)	
3	Total (add lines 1 and 2, but do not enter more than $10,000)	
4	Enter the amount, if any, by which the cost of all section 179 property placed in service during this tax year is more than $200,000	
5	Subtract line 4 from line 3. If less than zero, enter zero. (See instructions for other limitations.)	

Section B.—Depreciation

(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
6 Modified Accelerated Cost Recovery System (MACRS) (see instructions): For assets placed in service ONLY during tax year beginning in 1988					
a 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					
7 Alternative Depreciation System (ADS)					

8	Listed property—Enter total from Part III, Section A, column (g)	
9	MACRS deduction for assets placed in service prior to 1988 (see instructions)	

Section C.—ACRS and/or Other Depreciation

10	Property subject to section 168(f)(1) election (see instructions)	
11	ACRS and/or other depreciation (see instructions)	

Section D.—Summary

12	Total (add deductions on lines 5 through 11). Enter here and on the Depreciation line of your return (Partnerships and S corporations—Do NOT include any amounts entered on line 5.)		
13	For assets above placed in service during the current year, enter the portion of the basis attributable to section 263A costs. (see instructions)		

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 1988					
2 Amortization for property placed in service prior to 1988					
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 (1988)

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 8, 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 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.*		

1988 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.

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

Recordkeeping	29 hrs. and 39 min.
Learning about the law or the form	3 hrs. and 16 min.
Preparing and sending the form to IRS	3 hrs. and 54 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either IRS or the Office of Management and Budget at the addresses listed in the instructions of the tax return with which this form is filed.

Items You Should Note

- Individual taxpayers making an election under section 171 to amortize bond premium do not have to complete Part II to make such election. Instead, attach a statement to your return showing the computation of the deduction.
- Taxpayers claiming any type of deduction for listed property (such as automobiles, computers, and property used for purposes of entertainment, recreation and amusement) must complete Part III on page 2, regardless of when such property was placed in service.
- As an alternative to depreciating a vehicle, self-employed individuals may elect to use the standard mileage allowance if two or more vehicles are not used at the same time. For more information, see **Pub. 917,** Business Use of a Car.
- All details of depreciation should be retained as part of your permanent books and records. See **Pub. 534,** Depreciation, for examples of how to keep depreciation records.

Purpose of Form

Use Form 4562 to claim your deduction for depreciation and amortization; to make the election to expense recovery property; and to provide information on 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 on the return. If more space is needed, attach additional sheets.

For more information on depreciation, the election to expense newly acquired recovery property, and leased listed property, see Pub. 534 and Pub. 917. For more information on amortization (including depreciation/ amortization of leasehold expenses), see **Pub. 535,** Business Expenses.

Line-by-Line Instructions

Part I.—Depreciation

Depreciation is an amount deducted each year for assets, except land, acquired for business use or held to produce income. (Land is never depreciable.) Depreciation starts when you first use the property in your business. It ends when you take the property out of service, deduct all your depreciable cost, or no longer use the property in your business.

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 may have to be recaptured in the later year. Figure the depreciation and section 179 deduction to be recaptured on **Form 4797,** Sales of Business Property. Figure the investment credit to be recaptured on **Form 4255,** Recapture of Investment Credit.

Section A.—Election To Expense Depreciable Assets.—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 Pub. 534. To do so, you must have purchased (as defined in section 179(d)(2)) and placed the property in service during the 1988 tax year, or have a carryover of unused cost from 1987. If you take this deduction, the amount on which you figure your depreciation or amortization deduction must be reduced by the section 179 expense.

Note: *The following do not qualify as section 179 property: (1) property 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 property. A partnership or S corporation may elect to expense a maximum of $10,000 and pass through the allocable portion to its partners or shareholders. Each partner's or shareholder's total section 179 expense deduction from all sources is limited to $10,000. See Pub.534 for more information.

Line 1.—

Column (a).—Enter the class of property (that is, 3-year, 5-year, etc.) for which you make the election and a brief description of the item. For a carryover of unused cost from 1987, enter "1987 carryover" and skip columns (b) and (c).

Column (b).—Enter the month and year you placed the property in service.

Column (c).—Enter the property's cost. Omit any undepreciated basis on assets you traded in. For information on basis, see **Pub. 551,** Basis of Assets.

Column (d).—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 4.—If you purchased more than $210,000 of "section 38 property" during the year, you may not expense any property under section 179.

Line 5.—If you are married filing separately, each spouse is limited to half the allowable amount unless you elect to allocate the section 179 expense in a different manner.

The amount on line 5 is further limited to the total taxable income (before deducting the section 179 expense) from all active trades or businesses you are engaged in. (For individuals the taxable income is the aggregate net income from any trade or business; for other entities it is the taxable income.) Any amount disallowed under this rule is treated as a carryover of unused cost for next year.

Section B.—Depreciation.—

NOTE: *Lines 6a through 6h should be completed for assets, other than automobiles and other listed property, placed in service only during the tax year beginning in 1988 and depreciated under the Modified Accelerated Cost Recovery System (MACRS) rules contained in section 168 (as amended by the Tax Reform Act of 1986). The term "Modified Accelerated Cost Recovery System" (MACRS) is used to distinguish the deductions computed under post-'86 rules from deductions prescribed under pre-'87 rules of the Accelerated Cost Recovery System (ACRS).*

Depreciation may be considered an adjustment for alternative minimum tax (AMT) purposes. See the appropriate AMT form that you are required to file: Form 6251– individuals, Form 4626– corporations, or Form 8656–estates and trusts.

Column (a).—

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 a race horse over 2 years old at the time it is placed in service, and any other horse (other than a race horse) over 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 automobiles or general purpose trucks; qualified technological equipment which includes computers and peripheral equipment; 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 office furniture and equipment; railroad track; a 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. It includes vessels, barges, tugs, and similar water transportation equipment.

15-Year Property.—This is property with a class life of 20 years or more, but less than 25 years. It includes depreciable land improvements; municipal wastewater treatment plant; and any telephone distribution plant and comparable equipment used for 2-way exchange of voice and data communications.

20-Year Property.—This is property with a class life of 25 or more years. It includes 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 Pub. 534 for more information on class lives.

Column (b).—For lines 6g and 6h, enter the month and year the property was placed in service, or converted to use in a trade or business, or for the production of income.

Column (c).—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 deduction.

Column (d).—Enter the 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, the recovery period is 27½ years and for nonresidential real property, it is 31½ years.

If you use the alternative depreciation system (line 7), enter the recovery period or class life. (See section 168(g).)

Column (e).—Enter the 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 below.

How To Figure Depreciation

The following instructions apply to figuring depreciation for line 6, column (f). Also, read the instructions below under "Mid-Quarter Convention" for information on when that convention must be used.

Revenue Procedure 87-57, 1987-2 C.B. 687 describes the applicable depreciation methods, recovery periods, and conventions that must be used in computing depreciation deductions for the general depreciation system (referred to as MACRS) and the alternative depreciation system under section 168.

Complete tables for both pre-'87 and post-'86 rules for all classes of property are in Pub. 534.

3-year property, 5-year property, 7-year property, and 10-year property.—Apply the half-year convention, and use the 200% declining balance method, switching to the straight-line method for the first year in which that method would result in a higher deduction. You may use optional Table (a) on page 4 to figure your depreciation. Apply the percentage shown in the table to the original basis each year. The table reflects the switch to the straight-line method. Also, see "Mid-Quarter Convention" below for a special rule.

15-year property and 20-year property.—Apply the half-year convention, and use the 150% declining balance method, switching to straight-line method for the first year in which that method results in a higher deduction. You may use optional Table (a) on page 4 to figure your depreciation. Apply the percentage shown in the table to the original basis each year. The table reflects the switch to the straight-line method. Also, see "Mid-Quarter Convention" below for a special rule.

Nonresidential Real Property and Residential Rental Property.— Use the straight-line method and apply the mid-month convention. You may use optional Tables (b) or (c) on page 4 to figure your depreciation. Apply the percentage shown in the table to the original basis each year.

Mid-Quarter Convention.—If more than 40% of the total basis of all property placed in service during the tax year was 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 (lines 6a–6f). This rule does not apply to nonresidential real property and residential rental property (lines 6g and 6h). 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.

In making the determination whether the mid-quarter convention applies, property subject to pre-1987 rules is taken into account. However, the mid-quarter convention applies only to property subject to the post-1987 rules.

To use the mid-quarter convention, figure depreciation for each asset using Table (a) on page 4. Multiply that result by 2 (because Table (a) is based on the half-year convention), and then multiply by the number of full quarters that the property was in service, plus one-half (.5) for the quarter in which the property was placed in service. Then divide that result by 4.

Subsequent year's depreciation can also be figured from the percentages shown in the tables contained in Pub. 534.

Election.—You may also elect to use the straight-line method over the recovery period (instead of the class life), using the same conventions discussed above. If elected, this method must also be used for all property in the same class that is placed in service during the tax year.

Caution: *Pending legislation would allow you to use 150% DB instead of 200% DB or straight line depreciation over the class life of the property for property other than residential rental or nonresidential real property.*

Line 7.—Alternative Depreciation System (ADS).— Instead of the methods discussed above, you may make an irrevocable election to use the straight-line method to figure depreciation for one or more classes of property. If elected, this method must be used for all property in the same class that is placed in service only during 1988.

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 election for nonresidential real property and residential rental property may be made separately for each property.

ADS must be used for the following:

- any tangible property used mostly outside 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.

Line 9.—MACRS deduction for assets placed in service prior to 1988.—For assets placed in service after 1986, or depreciated under post-'86 rules, enter the MACRS deduction for the current year.

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.—ACRS and/or Other Depreciation.—Use Section C for property, other than automobiles and other listed property, you do not amortize or expense. This includes:

- ACRS property (pre-'87 rules);
- property placed in service before 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.

Line 10.—Property subject to section 168(f)(1) election.—Report property that you elect, under section 168(f)(1), to depreciate by the units-of-production method or any other method not based on a term of years (other than the retirement-replacement-betterment method).

On a separate sheet, attach: (1) a description of the property and what depreciation method you elect that excludes the property from ACRS or MACRS; and (2) the depreciable basis (cost or other basis reduced, if applicable, by salvage value, investment credit, and the section 179 expense).

Enter the depreciation deduction in column (f).

Line 11.—ACRS and/or other depreciation.— Enter the total depreciation attributable to assets, other than automobiles and other listed property, acquired before 1981 (pre-ACRS), property subject to ACRS, or property that cannot otherwise be depreciated under ACRS. For ACRS property, unless you use an alternate percentage, multiply your basis for depreciation by the applicable percentage as follows:

3-year property—1st year (25%), 2nd year (38%), 3rd year (37%);

5-year property—1st year (15%), 2nd year (22%), 3rd through 5th year (21%);

10-year property—1st year (8%), 2nd year (14%), 3rd year (12%), 4th through 6th year (10%), 7th through 10th year (9%);

15-year public utility property—1st year (5%), 2nd year (10%), 3rd year (9%), 4th year (8%), 5th and 6th year (7%), 7th through 15th year (6%);

15-year, 18-year, and 19-year real property and low-income housing—Use the tables in Pub. 534.

If you elected an alternate percentage for any property listed above, use the straight-line method over the recovery period you chose in the prior year. See Pub. 534 for more information.

Note: *Taxpayers placing property in service after 1986 who are covered by transitional rules should figure their depreciation using the rules for assets placed in service before 1987. See sections 203 and 204 of the Tax Reform Act of 1986, and Pub. 534 for more information.*

This amount should be calculated from your permanent books and records. **No attachment is necessary.** For a sample worksheet, see Pub. 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, attach a statement that specifies the items that still apply to those listed in Regulations section 1.167(a)-11(f)(2).

Line 13—Section 263A Uniform Capitalization Rules.—If you are subject to the uniform capitalization rules of section 263A, enter the increase in basis from costs that are required to be capitalized. For a detailed discussion of who is subject to these rules, which costs must be capitalized, and allocation of costs among activities, see Temporary Regulations section 1.263A-1T.

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.

For taxpayers (other than corporations) claiming a deduction for amortization of bond premium for bonds acquired after October 22, 1986, the deduction is treated as interest expense and is subject to the investment interest limitations. Use **Form 4952**, Investment Interest Expense Deduction, to compute the allowable deduction.

For reporting amortization of bond premium for bonds acquired before October 23, 1986, do not report the deduction here. See the instructions for Schedule A (Form 1040).

Line 1.—Complete line 1 only for property placed in service during your tax year beginning in 1988.

Column (a).—Describe the property you are amortizing. Amortizable property includes—

- Pollution control facilities (section 169, limited by section 291 for corporations).
- Certain bond premiums (section 171).
- Research and experimental expenditures (section 174).
- Business start-up expenditures (section 195).
- Qualified forestation and reforestation costs (section 194).
- Organizational expenditures for a corporation (section 248) or partnership (section 709).
- Optional write off of certain tax preferences over the period specified in section 59(e).

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 to make a valid election. For additional information, see Pub. 535.

Line 2.—Enter the amount of amortization attributable to property placed in service before 1988.

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 for 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. Nor does it include any computer or peripheral equipment used exclusively at a regular business establishment and owned or leased by the person operating the establishment.

Listed property does not include an ambulance, hearse, or 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 ; and

(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 used 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. Treat vehicles used by employees (who are not more than 5% owners) as being used 100% in your trade or business if the value of personal use is included in the employees' gross income or the employees reimburse the employer for the personal use.

Employers who report the amount of personal use of the vehicle in the employee's gross income, and withhold the appropriate taxes, enter "100%" for the percentage of business use. For more information, see Pub. 917. For listed property (such as computers or video equipment), allocate the use based on 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 percentage 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 half of any investment credit taken before 1986 (unless you took the reduced credit). For automobiles and other listed property placed in service after 1985 (i.e., "transition property"), reduce the depreciable basis by the entire investment credit.

Column (f).—Enter the method of figuring your depreciation deduction. Write "DDB," "150% DB," or "SL," for the depreciation method, and "½," "¹/₁₂," or "¼," for half-year, mid-month, or mid-quarter conventions, respectively. For property placed in service before 1987, write "PRE" if you used the prescribed percentages under ACRS. 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 listed property placed in service after 1986, and used 50% or less in your trade or business, you must use the alternative depreciation system. Enter 5 years for automobiles and computers. If placed in service before 1987, enter 5 years for automobiles and 12 years for computers.

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, Part I, line 11 for property placed in service before 1987 or from Table (a) on page 4 for property placed in service after 1986. Treat automobiles as 5-year property (3-year property if placed in service before 1987) 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 1986, figure column (g) by dividing column (e) by column (f) and using the same half-year or mid-quarter convention as discussed on page 2 of the instructions. If placed in service before 1987 and after June 18, 1984, multiply column (e) by 20% for automobiles and 9% for computers.

For property used 50% or less in a qualified trade or business, no section 179 expense deduction is allowed.

For property placed in service before 1987 that was disposed of during the year, enter zero.

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 $2,560.

For succeeding tax years in the recovery period 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; $4,800 if placed in service after April 2, 1985, and before January 1, 1987; $4,100 for the second tax year in the recovery period if placed in service after December 31, 1986; and $2,450 for the third tax year in the recovery period if placed in service after 1986.

Note: *These limitations are further reduced when the percentage of business use (column (c)) is less than 100%. For example, if an automobile placed in service in 1988 is used 60 percent for business, then the first year depreciation plus section 179 expense deduction is limited to 60 percent of $2,560, which is $1,536.*

For leased automobiles, see Pub. 917 and Temporary Regulations 1.280F-5T, for amounts to include in gross income.

See Temporary Regulations section 1.280F-7T for lease terms beginning after 1986.

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 must be completed for each vehicle identified in Section A.

Employees must provide their employers with the information requested in Questions 1 through 7 for each automobile or vehicle provided for their 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 must 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 separate records for substantiation.

Property Placed in Service After 12-31-86

Table (a).—3-year, 5-year, 7-year, 10-year, 15-year, and 20-year property (Half-year convention)

Year	Depreciation rate for recovery period					
	3-year	5-year	7-year	10-year	15-year	20-year
1	33.33%	20.00%	14.29%	10.00%	5.00%	3.750%
2	44.45%	32.00%	24.49%	18.00%	9.50%	7 219%
3	14.81%	19.20%	17.49%	14.40%	8.55%	6.677%

Table (b).—Residential Rental Property (27.5-year) (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
1	3.485	3.182	2.879	2.576	2.273	1.970	1.667	1.364	1 061	0 758	0 455	0.152%
2	3.636	3 636	3 636	3 636	3.636	3.636	3.636	3 636	3.636	3 636	3.636	3.636%
3	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636%

Table (c).—Nonresidential Real Property (31.5-year) (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
1	3.042	2.778	2.513	2.249	1.984	1.720	1.455	1.190	0.926	0.661	0.397	0.132%
2	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175%
3	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175%

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 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 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 use of the vehicle meets the conditions stated above.

An automobile is considered to have qualified demonstration use if the employer maintains a written policy statement that:

- prohibits its use by individuals other than full-time automobile salesmen;
- prohibits its use for personal vacation trips;
- prohibits storage of personal possessions in the automobile; and
- limits the total mileage outside the salesmen's normal working hours.

Form **4626**

Department of the Treasury
Internal Revenue Service

Alternative Minimum Tax—Corporations
(including environmental tax)

▶ **See separate instructions.**
▶ **Attach to your tax return.**

OMB No. 1545-0175

1988

Name as shown on tax return | Employer identification number

1	Taxable income or (loss) before net operating loss deduction			1
2	**Adjustments:**			
a	Depreciation of tangible property placed in service after 1986	2a		
b	Amortization of certified pollution control facilities placed in service after 1986	2b		
c	Amortization of mining exploration and development costs paid or incurred after 1986	2c		
d	Amortization of circulation expenditures paid or incurred after 1986 (personal holding companies only)	2d		
e	Basis adjustments in determining gain or loss from sale or exchange of property	2e		
f	Long-term contracts entered into after 2/28/86	2f		
g	Installment sales of certain property	2g		
h	Merchant marine capital construction funds	2h		
i	Section 833(b) deduction (Blue Cross, Blue Shield, and similar type organizations only)	2i		
j	Tax shelter farm activity loss (personal service corporations only)	2j		
k	Passive activity loss (closely held corporations and personal service corporations only)	2k		
l	Income with respect to the possessions tax credit and the alcohol fuel credit	2l		
m	Certain loss limitations	2m		
n	Beneficiaries of estates and trusts	2n		
o	Combine lines 2a through 2n			2o
3	**Tax preference items:**			
a	Depletion	3a		
b	Tax-exempt interest from private activity bonds issued after August 7, 1986	3b		
c	Appreciated property charitable deduction	3c		
d	Add lines 3a through 3c			3d
e	Intangible drilling costs	3e		
f	Reserves for losses on bad debts of financial institutions	3f		
g	Accelerated depreciation of real property placed in service before 1987	3g		
h	Accelerated depreciation of leased personal property placed in service before 1987 (personal holding companies only)	3h		
i	Amortization of certified pollution control facilities placed in service before 1987	3i		
j	Add lines 3e through 3i			3j
4	Combine lines 1, 2o, 3d, and 3j			4
5	**Excess book income adjustment:**			
a	Enter your adjusted net book income	5a		
b	Subtract line 4 from line 5a (even if one or both of these figures is a negative number). (Enter zero if the result is zero or less)	5b		
c	Multiply line 5b by 50%			5c
6	Combine lines 4 and 5c. If zero or less, stop here (you are not subject to the alternative minimum tax)			6
7	Alternative tax net operating loss deduction. (Do not enter more than 90% of line 6.)			7
8	Alternative minimum taxable income (subtract line 7 from line 6)			8
9	**Exemption phase-out computation:**			
a	Tentative exemption amount. Enter $40,000 (members of a controlled group, see instructions)	9a		
b	Enter $150,000 (members of a controlled group, see instructions)	9b		
c	Subtract line 9b from line 8. If zero or less, enter zero	9c		
d	Multiply line 9c by 25%	9d		
e	Exemption. Subtract line 9d from line 9a. If zero or less, enter zero			9e
10	Subtract line 9e from line 8. If zero or less, enter zero			10
11	Multiply line 10 by 20%			11
12	Alternative minimum tax foreign tax credit			12
13	Tentative minimum tax (subtract line 12 from line 11)			13
14	General business credit allowed against alternative minimum tax (see instructions)			14
15	Regular tax liability before all credits except the foreign tax credit and possessions tax credit			15
16	**Alternative minimum tax** (subtract the sum of lines 14 and 15 from line 13). Enter on line 9a, Schedule J, Form 1120, or on the comparable line of other income tax returns			16
17	**Environmental tax** (subtract $2,000,000 from line 6 (computed without regard to your environmental tax deduction), and multiply the result, if any, by 0.12% (.0012)). Enter on line 9b, Schedule J, Form 1120, or on the comparable line of other income tax returns (members of a controlled group, see instructions)			17

For Paperwork Reduction Act Notice, see separate instructions.

Form **4626** (1988)

1988 Department of the Treasury
Internal Revenue Service

Instructions for Form 4626

Alternative Minimum Tax—Corporations

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

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.

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

Recordkeeping	11 hrs., 14 min.
Learning about the law or the form	10 hrs., 25 min.
Preparing and sending the form to IRS	11 hrs., 4 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either IRS or the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

Who Must File.—You must file this form if your taxable income or (loss) before the net operating loss (**NOL**) deduction when combined with your adjustments and tax preference items (including the book income adjustment) totals more than $40,000. For more information, see **Publication 542**, Tax Information on Corporations.

Short Period Return.—If this is a short period return, use the formula in section 443(d) to determine your alternative minimum taxable income (**AMTI**) and your alternative minimum tax (**AMT**).

If you are preparing Form 4626 for a regulated investment company, real estate investment trust, or a common trust fund, see section 59(d) regarding the apportionment of "differently treated items."

Line-by-Line Instructions

Line 1.—Enter your taxable income or (loss) before the NOL deduction. For example, if you file Form 1120, subtract line 29(b) from line 28.

Important: *If you are subject to the environmental tax, you will generally need to figure that tax on line 17 of this form **before** completing line 1, since any environmental tax you **paid or incurred** during the tax year is allowed as a deduction in computing the taxable income you will enter on line 1.*

Line 2a—Depreciation of tangible property placed in service after 1986 (or after 7/31/86 if you made the transitional election under section 203(a)(1)(B) of the Tax Reform Act of 1986).

Caution: *If you have a depreciation adjustment attributable to a passive activity or a tax shelter farm activity, do not include that adjustment on line 2a. Instead, include the adjustment on line 2j or 2k.*

The depreciation expense allowable for regular tax purposes under section 167 with respect to any tangible property placed in service after 1986 must be recomputed for AMT purposes under the alternative depreciation system (**ADS**) described in section 168(g) as follows:

(1) For any tangible real property described in section 1250(c) (generally nonresidential real and residential rental), use the straight line method over 40 years using the same mid-month convention you used for regular tax purposes;

(2) For any tangible property (other than the tangible real property described in (1) above) with respect to which depreciation for regular tax purposes is determined using the straight line method, recompute your depreciation expense using the straight line method over the property's "class life" using the same convention you used for regular tax purposes;

(3) For all tangible property other than such property described in (1) or (2) above, use the 150% declining balance method, switching to straight line the first tax year it gives a larger deduction, over the property's class life. Use the same convention you used for regular tax purposes.

In applying the above rules:

(1) The "class life" to be used for AMT purposes has a different meaning than the recovery period used for regular tax purposes (although these periods could possibly be the same in some instances). The class lives you need to use for AMT purposes can be found in Rev. Proc. 87-56, 1987-2 C.B. 674 or in **Publication 534**, Depreciation. Use 12 years for any tangible personal property that does not have an assigned class life;

(2) See Rev. Proc. 87-57, 1987-2 C.B. 687, for optional tables (14 through 18) that can be used in computing depreciation for AMT purposes. (These optional tables have been reproduced in Publication 534.);

(3) Do not make an adjustment for property for which you made a section 168(f)(1) election for regular tax purposes to exclude such property from MACRS treatment and depreciate it under another method described in that section (such as the unit-of-production method) OR for property that is specifically excluded from MACRS treatment under sections 168(f)(2) through (4); and

(4) You must take into consideration the transitional rules (described in section 56(a)(1)(C)) and the normalization rules (described in section 56(a)(1)(D)).

Subtract your recomputed AMT expense from the depreciation expense you claimed for regular tax purposes and enter the result on line 2a. If the total recomputed AMT expense exceeds the depreciation expense you claimed for regular tax purposes, enter the difference as a negative amount. **Note:** *The line 2a depreciation adjustment differs from the depreciation tax preferences you may have to compute for lines 3g and 3h in that, on line 2a, you may net negative adjustments against positive adjustments, whereas the tax preferences of lines 3g and 3h include only amounts from specific assets that produce positive adjustments.*

Note also: *Depreciation that is capitalized to inventory under the uniform capitalization rules must be refigured using the rules described above.*

Line 2b—Amortization of certified pollution control facilities placed in service after 1986.—The amortization deduction you claimed for regular tax purposes is not allowed for AMT purposes.

For AMT purposes, you must use the ADS described in section 168(g). As such, use the straight line method over the facility's class life (which may be found in Rev. Proc. 87-56 or in Publication 534). **Note:** *Section 168(g) applies to 100% of the asset's amortizable basis. Do not reduce basis by the 20% cutback of section 291 as you did for regular tax purposes.*

Subtract your recomputed AMT expense from the expense you claimed for regular tax purposes and enter the result on line 2b. If your recomputed AMT expense is greater than the expense you claimed for regular tax purposes, enter the difference as a negative amount.

Note: *The line 2b amortization adjustment differs from the tax preference you may have to compute for line 3i in that, on line 2b, you may net negative adjustments against positive adjustments, whereas the tax preference of line 3i includes only amounts from specific assets that produce positive adjustments.*

Line 2c—Amortization of mining exploration and development costs paid or incurred after 1986.—*If, for regular tax purposes, you elected the optional 10-year writeoff under section 59(e) for all assets in this category, skip this line (no adjustment is necessary).*

The deduction you claimed for regular tax purposes under sections 616(a) and 617(a) is not allowed for AMT purposes. Instead, you must capitalize such costs and amortize them ratably over a 10-year period beginning with the tax year in which you made them. **Note:** *The 10-year amortization applies to 100% of the mining development and exploration costs paid or incurred during the tax year. Do not reduce basis by the 30% cutback of section 291 as you did for regular tax purposes.*

Subtract your recomputed AMT expense from the expense you claimed for regular tax purposes and enter the result on line 2c. If your recomputed AMT expense is greater than the expense you claimed for regular tax purposes, enter the difference as a negative amount. See section 56(a)(2)(B) if you had a loss with respect to any mine or other natural deposit (other than an oil, gas, or geothermal well).

Line 2d—Amortization of circulation expenditures paid or incurred after 1986 (personal holding companies only).—*If, for regular tax purposes, you elected the optional 3-year writeoff under section 59(e) for all of these expenditures, skip this line (no adjustment is necessary).*

The deduction you claimed for regular tax purposes (under section 173) for these expenditures incurred after 1986 is not allowed for AMT purposes. For AMT purposes, you must capitalize these expenditures and amortize them ratably over a 3-year period beginning with the tax year in which you made them.

Subtract your recomputed AMT expense from the expense you claimed for regular tax purposes and enter the result on line 2d. If your recomputed AMT expense is greater than the expense you claimed for regular tax purposes, enter the difference as a negative amount. See section 56(b)(2)(B) if you had a loss with respect to any property generating a circulation expenditure.

Line 2e—Basis adjustments in determining gain or loss from sale or exchange of property.—If, during the year, you disposed of property for which you are making (or have previously made) any of the adjustments described in lines 2a through 2d above, you must recompute the property's adjusted basis for AMT purposes. You must then recompute the property's gain or loss.

For AMT purposes, the property's adjusted basis is its cost less all applicable depreciation or amortization deductions allowed during the current tax year and previous tax years for AMT purposes. This recomputed basis is subtracted from the sales price to arrive at gain or loss for AMT purposes.

Enter the difference between the gain or loss reported on your tax return for regular tax purposes and your recomputed gain or loss for AMT purposes. If the gain recomputed for AMT purposes is less than the gain computed for regular tax purposes OR if the loss recomputed for AMT purposes is more than the loss computed for regular tax purposes OR if you recomputed a loss for AMT purposes and computed a gain for regular tax purposes, enter the difference as a negative amount.

Line 2f—Long-term contracts entered into after 2/28/86.—For AMT purposes, you must use the percentage of completion method rules described in section 460(b) to determine the taxable income from any "long-term contract" (defined in section 460(f)) you entered into after 2/28/86. However, this rule does not apply to any "home construction contract" (as defined in section 460(e)(6)) you entered into after 6/20/88 with respect to which you meet the two-year estimated completion requirement of section 460(e)(1)(B)(i) and the $10,000,000 ceiling on average annual gross receipts requirement of section 460(e)(1)(B)(ii). **Note:** *In the case of a contract described in section 460(e)(1), the percentage of the contract completed is to be determined using the simplified procedures for allocating costs outlined in section 460(b)(4).*

Subtract the income you reported for regular tax purposes from the income you recomputed for AMT purposes and enter the difference on line 2f. If the recomputed AMT income is less than the income you reported for regular tax purposes, enter the difference as a negative amount.

Line 2g—Installment sales of certain property.—With respect to any disposition of inventory (as defined in section 1221(1)) after 3/1/86, the installment method of accounting cannot be used in determining income for AMT purposes (except for certain dispositions of timeshares or residential lots for which you elected to pay interest under section 453(l)(2)(B)). **Note:** *For dispositions in tax years beginning before 1987, the above rule was different. As a result of the Revenue Act of 1987, the installment method may now be used for AMT purposes for **all nondealer** dispositions of property occurring in tax years beginning after 1986).*

Note also: *Under another provision of the Revenue Act of 1987, the installment method of accounting was repealed (for regular tax purposes) for "dealer dispositions" occurring after 1987.*

Application of rules in computing adjustment:

(1) Dealer dispositions: For dealer dispositions occurring after 3/1/86 but before 1/1/88, you will have adjustments with respect to those dispositions if you used the installment method for regular tax purposes but were required for AMT purposes to report the entire gain in the year of disposition. In such cases, enter the income you reported for regular tax purposes for the current year with respect to those dispositions on line 2g as a negative amount.

For dealer dispositions occurring after 1987, generally no adjustments are necessary since the installment method of accounting generally cannot be used for either regular tax purposes or for AMT purposes.

(2) Nondealer dispositions: For nondealer dispositions occurring after 3/1/86 but before the first day of your tax year that began in 1987, you will have adjustments with respect to those dispositions if you used the installment method for regular tax purposes but were required for AMT purposes to report the entire gain in the year of disposition. In such cases, enter the income you reported for regular tax purposes for the current year with respect to those dispositions on line 2g as a negative amount.

For nondealer dispositions occurring on or after the first day of your tax year that began in 1987, generally no adjustments are necessary since you are allowed to use the installment method of accounting for both regular tax purposes and AMT purposes.

Line 2h—Merchant marine capital construction funds.—Amounts deposited in these funds (established under section 607 of the Merchant Marine Act of 1936) after 1986 are not deductible for AMT purposes. Furthermore, earnings on these funds are not excludable from gross income for AMT purposes. Therefore, if you deducted these amounts or excluded them from taxable income for regular tax purposes, you must add them back on line 2h. See section 56(c)(2) for more information.

Line 2i—Section 833(b) deduction (Blue Cross, Blue Shield, and similar type organizations only).—This deduction is not allowed for AMT purposes. Therefore, if you took this deduction for regular tax purposes, you must add it back on line 2i.

Line 2j—Tax shelter farm activity loss (personal service corporations only).—Complete line 2j only if you have a gain or loss from a tax shelter farm activity (as defined in section 58(a)(2)) that is **not** a passive activity. If the tax shelter farm activity **is** a passive activity, you must include the gain or loss within your computations for line 2k below.

Recompute all gains and losses you reported for regular tax purposes from tax shelter farm activities by taking into account your AMT adjustments and tax preference items.
Important: *To avoid duplication, any AMT adjustment or tax preference item taken into account on line 2j should not be included within the amounts to be entered on any other line of this form.*

Determine your tax shelter farm activity gain or loss for AMT purposes using the same rules you used for regular tax purposes with the following modification: No recomputed loss is allowed, except to the extent the personal service corporation is insolvent (see section 58(c)(1)). Furthermore, a recomputed loss may not be used in the current tax year to offset gains from other tax shelter farm activities. Instead, any recomputed loss must be suspended and carried forward indefinitely until: **(1)** you have a gain in a subsequent tax year from that same tax shelter farm activity OR **(2)** the activity is disposed of.

Note: *The amount of any tax shelter farm activity loss that is not deductible (and is therefore carried forward) for AMT purposes is likely to differ from the amount (if any) that is carried forward for regular tax purposes. Therefore, it is essential that you retain adequate records for both AMT purposes and regular tax purposes.*

Enter on line 2j the difference between the gain or loss you recomputed for AMT purposes and the gain or loss you reported for regular tax purposes. If you reported a loss for AMT purposes and a gain for regular tax purposes OR if you recomputed a loss for AMT purposes that exceeds the loss you reported for regular tax purposes OR if you reported a gain for regular tax purposes that exceeds the gain you recomputed for AMT purposes, enter the difference as a negative amount.

Line 2k—Passive activity loss (closely held corporations and personal service corporations only).—Recompute all passive activity gains and losses you reported for regular tax purposes by taking into account your AMT adjustments and tax preference items.
Important: *To avoid duplication, any AMT adjustment or tax preference item taken into account on line 2k should not be included within the amounts to be entered on any other line of this form.*

Determine your passive activity gain or loss for AMT purposes using the same rules you used for regular tax purposes with the following modifications: **(1)** Do not use the phase-in of disallowance rules of section 469(m); and **(2)** If the corporation is insolvent, see section 58(c)(1).

Disallowed losses of a personal service corporation are suspended until such time it has income from that (or any other) passive activity or until such time the passive activity is disposed of. (In other words, its passive losses cannot offset "net active income" (defined in section 469(e)(2)(B)) or "portfolio income.") Disallowed losses of a closely held corporation that is not a personal service corporation are treated the same except that, in addition, they may be used to offset "net active income."

Note: *The amount of any passive activity loss that is not deductible (and is therefore carried forward) for AMT purposes is likely to differ from the amount (if any) that is carried forward for regular tax purposes. Therefore, it is essential that you retain adequate records for both AMT purposes and regular tax purposes.*

Enter on line 2k the difference between the gain or loss you recomputed for AMT purposes and the gain or loss you reported for regular tax purposes. If you reported a loss for AMT purposes and a gain for regular tax purposes OR if you recomputed a loss for AMT purposes that exceeds the loss you reported for regular tax purposes OR if you reported a gain for regular tax purposes that exceeds the gain you recomputed for AMT purposes, enter the difference as a negative amount.

Line 2l—Income with respect to the possessions tax credit and the alcohol fuel credit.—Your AMTI is not to include any income (from the sources described in section 936(a)(1)) that is eligible for the possessions tax credit of section 936 OR any amount with respect to the alcohol fuel credit that was included in your gross income in accordance with section 87. Therefore, if you included these types of income in your taxable income for regular tax purposes, subtract them out on line 2l.

Line 2m—Certain loss limitations.—Recompute gains and losses you reported for regular tax purposes from at-risk activities and partnerships by taking into account your AMT adjustments and tax preference items. If you have recomputed losses that must (in accordance with section 59(h)) be limited for AMT purposes by section 465 or by section 704(d) OR if, for regular tax purposes, you reported losses from at-risk activities or partnerships that were limited by those sections, compute the difference between the loss limited for AMT purposes and the loss limited for regular tax purposes with respect to each applicable at-risk activity or partnership. If the loss limited for regular tax purposes exceeds the loss limited for AMT purposes, the difference should be a negative number. Enter the total of all differences on line 2m.

Line 2n—Beneficiaries of estates and trusts.—If the corporation is a beneficiary, enter the amount included on Schedule K-1 (Form 1041), line 7.

Line 3a—Depletion.—In the case of mines, wells, and other natural deposits, enter the amount by which your depletion deduction under section 611 exceeds the adjusted basis of the property at the end of your tax year. In computing year-end adjusted basis, use the rules of section 1016; however, do not include a reduction for the current year's depletion deduction.

Figure the excess separately for each property. If the depletion deduction for any property does not exceed the property's year-end adjusted basis, the shortfall is not to be considered on line

3a. (In other words, do not use a shortfall in one property to offset the excess of depletion deduction over adjusted basis in any other property.)

Note: *In the case of iron ore and coal (including lignite), before figuring this tax preference item, the amount allowable as a deduction must be reduced by the cutback required under section 291.*

Line 3b—Tax-exempt interest from private activity bonds issued after August 7, 1986.—Enter the interest you earned on "specified private activity bonds" reduced by any deduction that would have been allowable if the interest were includible in gross income for regular tax purposes. Generally, the term "specified private activity bonds" means any private activity bond (as defined in section 141) issued after 8/7/86. See section 57(a)(5) for exceptions and for more information.

Line 3c—Appreciated property charitable deduction.—Enter the amount by which your contribution deduction allowable under section 170 would be reduced if all capital gain and section 1231 property were taken into account at its adjusted basis (rather than its fair market value).

Line 3e—Intangible drilling costs.—*If, for regular tax purposes, you elected the optional 10-year writeoff under section 59(e) for all assets in this category, skip this line (no adjustment is necessary).*

Intangible drilling costs **(IDCs)** from oil, gas, and geothermal properties are a tax preference item to the extent that "excess IDCs" exceed 65% of the "net income" from the properties. The tax preference item is computed separately for oil and gas properties that are not geothermal deposits and for oil and gas properties that are geothermal deposits.

"Excess IDCs" are the excess of: **(1)** the amount of IDCs you paid or incurred with respect to oil, gas, or geothermal properties that you elected to expense for regular tax purposes under section 263(c) (not including any section 263(c) deduction for nonproductive wells) reduced by the cutback required under section 291 for integrated oil companies; over **(2)** the amount that would have been allowed had you amortized that amount over a 120-month period starting with the month the well was placed in production.

Note: *If you prefer not to use the 120-month period, you can elect to use any method that is permissible in determining cost depletion.*

"Net income" is the gross income you received or accrued from all oil, gas, and geothermal wells less the deductions allocable to these properties (reduced by the excess IDCs).

Line 3f—Reserves for losses on bad debts of financial institutions.—Enter the excess of: **(1)** the deduction allowable for a reasonable addition to a reserve for bad debts of a financial institution to which section 585 or 593 applies (reduced by the cutback required under section 291) over **(2)** the amount that would have been allowable had the financial institution maintained its bad debt reserve for all tax years on the basis of actual experience.

Line 3g—Accelerated depreciation of real property placed in service before 1987.—Enter the excess of the depreciation claimed for the property for regular tax purposes over the depreciation allowable for AMT purposes as refigured using the straight line method. Figure this amount separately for each property and include only positive adjustments on line 3g. For 15, 18, or 19-year real property, or low-income housing, use the straight line method over 15, 18, or 19 years.

Line 3h—Accelerated depreciation of leased personal property placed in service before 1987 (personal holding companies only).—For leased personal property, other than recovery property, enter the excess of the depreciation claimed for the property for regular tax purposes over the depreciation allowable for AMT purposes as refigured using the straight line method. Figure this amount separately for each property and include only positive adjustments on line 3h.

For leased recovery property, other than 15, 18, or 19-year real property, or low-income housing, enter the amount by which your depreciation deduction determined for regular tax purposes is more than the deduction allowable for AMT purposes using the straight line method over the following recovery period:

3-year property	5 years
5-year property	8 years
10-year property	15 years
15-year public utility property	22 years

Line 3i—Amortization of certified pollution control facilities placed in service before 1987.—If, for regular tax purposes, you made an election under section 169 to amortize the basis of a certified pollution control facility over a 60-month period, your tax preference with respect to each such facility is computed as follows:

(1) Reduce the current year amortization deduction by the 20% cutback (15% if the facility was placed in service in 1983 or 1984, 0% if placed in service before 1983) required under section 291;

(2) Reduce the result in (1) above by the deduction you would have been allowed under section 167; and

(3) Multiply the result in (2) above by 59 $^5/_6$% (71.6% if the facility was placed in service in 1983 or 1984, 100% if placed in service before 1983). Include only positive adjustments on line 3i.

Line 5a—Adjusted net book income of corporation.—*If you are preparing Form 4626 for a regulated investment company or a real estate investment trust, skip lines 5a through 5c (they do not apply).*

If you are preparing Form 4626 for an affiliated group that has filed a consolidated tax return for the current tax year under the rules of section 1501, be sure to determine adjusted net book income (ANBI) on a consolidated basis using the specialized rules for related corporations listed below.

Determining your ANBI is a three-step process. The **first step** is to determine your applicable financial statement **(AFS)**. AFS is defined in section 56(f)(3). See Temporary Regulations section 1.56-1T(c) for details and examples.

The **second step** in determining your ANBI is to determine "net book income."

"Net book income" is the income or loss reported on the income statement of your AFS. Such income statement must reconcile with the balance sheet, if any, that is included in the AFS and must be used in computing changes in owner's equity reflected in the AFS.

Net book income must take into account all items of income, expense, gain, and loss for the tax year, including extraordinary items, income or loss from discontinued operations, and cumulative adjustments resulting from accounting method changes.

Net book income includes income or loss reported on the income statement of your AFS regardless of whether such income or loss is taken into account for other Federal income tax purposes. However, there is an exception (that applies for tax years beginning after 1986) for any income resulting from the transfer of stock by the corporation issuing such stock to a creditor in satisfaction of its indebtedness if, in such case, the corporation is a "debtor in a chapter 11 case" (as defined in section 108(d)(2)) or to the extent the corporation is "insolvent" (as defined in section 108(d)(3)).

Note: *If you do not have any of the types of financial statements or reports described in section 56(f)(3)(A), your net book income is your earnings and profits (E&P) for the current tax year.*

See Temporary Regulations sections 1.56-1T(b)(2)(iv) through (b)(7) for additional information and examples regarding the determination of net book income for: **(a)** consolidated groups; **(b)** foreign corporations; **(c)** corporations that have tax years and financial accounting years that differ; and **(d)** corporations that use current E&P.

The **third step** in determining your ANBI is to make adjustments to net book income. These adjustments include:

(1) Federal income taxes—You must adjust net book income to disregard any Federal income taxes which are directly or indirectly taken into account on your AFS.

Example: The AFS determined by Corporation A shows net book income of $120. In arriving at net book income, the AFS shows $20 of current and/or deferred state income tax expense and $60 of current and/or deferred Federal income tax expense. Assuming there are no other adjustments to net book income, Corporation A's ANBI is $180 ($120 of net book income + $60 of Federal income tax expense). **Note:** *No adjustment is made for state income tax expense.*

See Temporary Regulations section 1.56-1T(d)(3) for additional information and examples regarding more complex issues (such as extraordinary items shown on your AFS which are net of taxes and the effects of certain valuation adjustments) that may arise with respect to Federal income taxes on your AFS.

(2) Statements covering different periods—You must make appropriate adjustments to arrive at ANBI in any case in which an AFS covers a period other than the tax year. Generally, you need to include a pro rata portion of items from each AFS for each AFS accounting period that includes any portion of the tax year.

Example: Corporation B uses a September 30 year-end for accounting purposes and a calendar year for tax purposes. For its tax year ending December 31, 1988, after making all appropriate adjustments to the net book incomes of its AFSs, Corporation B will include 274/366 of the ANBI from its September 30, 1988, AFS and 92/366 of the ANBI from its September 30, 1989, AFS.

Note: *In this example, a problem arises in that the AFS for Corporation B's accounting period that ends September 30, 1989, will not be available before July 15, 1989, (which is the date Corporation B is required to file its tax return (including extensions) for the year ended December 31, 1988). In this case, Corporation B is required to make a reasonable estimate of the ANBI for the period in question. When the AFS covering the period becomes available, Corporation B must file an amended return within 90 days of the date of availability if the actual ANBI is higher than the estimate and results in additional tax liability.*

See Temporary Regulations section 1.56-1T(b) for additional information and examples regarding more complex issues that may arise with regard to statements covering different periods.

(3) Foreign taxes—Generally, you must adjust your net book income to "disregard" any income taxes imposed by any foreign country or U.S. possession that are directly or indirectly taken into account on your AFS. To apply this rule, the following adjustments must be made to the net book income of your AFS:

(a) Add back any "foreign taxes" deducted on your AFS to the extent they were not deductible for regular tax purposes. **Example:** Since for regular tax purposes, you are not permitted to deduct withholding or income taxes imposed by a U.S. possession on dividends received from a section 936 corporation, you are not permitted to deduct them on your AFS for AMT purposes. Therefore, any such taxes taken as a deduction on your AFS must be added back in arriving at net book income.

(b) Do not add back any income taxes imposed by any foreign country or U.S. possession that you deducted on your AFS if: for regular tax

purposes, you elected to deduct such taxes in lieu of taking the foreign tax credit OR you were denied the benefit of the foreign tax credit under section 901(j). **Example 1:** If, for regular tax purposes, you elected to deduct foreign taxes in lieu of taking the foreign tax credit, do not add back the related foreign taxes expense that was taken as a deduction on your AFS in arriving at net book income. **Example 2:** If, for regular tax purposes, you deducted foreign taxes due to the fact you were denied the foreign tax credit for those taxes under section 901(j), do not add back the related foreign taxes expense that was taken as a deduction on your AFS in arriving at net book income.

(c) Any income that is related to taxes that are not deductible for regular tax purposes must be reflected gross of such related taxes on your AFS.

(4) Related corporations—If you filed a consolidated tax return for regular tax purposes, the entities included in that consolidated group may differ from those included in your AFS. For example, your AFS may include foreign companies and section 936 corporations; however, these entities cannot be included within your consolidated group for regular tax purposes. If the entities included in your AFS differ from those included in your consolidated tax return, you must make adjustments to the net book income of your AFS so that it includes: **(a)** only the activity of related corporations included in your consolidated tax return, and **(b)** the actual or deemed distributions you received from related corporations not included as members on your consolidated tax return.

See Temporary Regulations section 1.56-1T(d)(6) for more information regarding any additional reversing, consolidation/elimination, or other type entries that may be necessary in adjusting the net book income of your AFS.

(5) Omissions or duplications—In computing ANBI, you must not omit or duplicate any item. For example, included within the Temporary Regulations are rules that prevent omissions and duplications resulting from: **(a)** a taxpayer that depreciates an asset below its cost; **(b)** a consolidated group that uses current E&P; and **(c)** a taxpayer that restates its prior year's AFS. For more details and examples, see Temporary Regulations section 1.56-1T(d)(4)(ii)–(iv).

(6) Adjustments resulting from disclosure—See Temporary Regulations section 1.56-1T(d)(5) for specialized rules regarding: **(a)** adjustments for footnote disclosure and other supplementary information; **(b)** equity adjustments; **(c)** amounts disclosed in an accountant's opinion; and **(d)** accounting method changes that result in cumulative adjustments to the current year's AFS. The Temporary Regulations contain examples that illustrate these rules.

(7) Foreign taxpayers with a U.S. trade or business—See Temporary Regulations section 1.56-1T(d)(7) for these specialized rules.

(8) Special rules that apply with regard to cooperatives, life insurance companies, Alaska native corporations, and dividends from section 936 corporations—See sections 56(f)(2)(E) through (H) for these specialized rules. For more detailed explanations, see Temporary Regulations section 1.56-1T(e).

Line 5b.—Subtract line 4 from line 5a (even if one or both of these figures is a negative number). Enter zero if the result is zero or less. If you are filing Form 4626 for a member of a controlled group, this calculation must be performed on a consolidated basis.

Example 1: Corporation C determines its line 5a ANBI to be $25,000. If its line 4 were $10,000, it would enter the $15,000 difference on line 5b. If its line 4 were instead $30,000, it would enter zero on line 5b since the difference is less than zero. Finally, if its line 4 were negative $100,000, it would enter the difference of $125,000 on line 5b.

Example 2: Corporation D determines its line 5a ANBI to be negative $25,000. If its line 4 were negative $30,000, it would enter the difference of $5,000 on line 5b.

See Temporary Regulations section 1.56-1T(a)(4) for additional information and examples.

Line 7—Alternative tax net operating loss deduction.— Your alternative tax net operating loss deduction **(ATNOLD)** is the NOL you determined for regular tax purposes under section 172, except that:

(1) In the case of a loss year beginning after 1986, the NOL you determined for regular tax purposes from such year must be: **(a)** reduced by the positive AMT adjustments and increased by the negative AMT adjustments provided in sections 56 and 58, and **(b)** reduced by the tax preference items you determined under section 57 (but only to the extent they increased the NOL you determined for regular tax purposes).

(2) In applying the rules outlined in section 172(b)(2) (regarding the determination of the amount of carrybacks and carryovers), you must use the modification to those rules described in section 56(d)(1)(B)(ii).

(3) If, for any tax year beginning before 1987, you have minimum tax that was deferred under section 56(b) (as in effect before the enactment of the Tax Reform Act of 1986) and that deferred tax has not been paid, the amount of NOL carryovers that you may carryover to this year for AMT purposes must be reduced by your tax preference items that gave rise to the deferred add-on minimum tax. (Section 701(f)(2)(B) of the Tax Reform Act of 1986.)

(4) Your ATNOLD is limited to 90% of your AMTI computed without regard to your ATNOLD. Therefore, enter on line 7 the smaller of the ATNOLD or 90% of the amount on line 6.

Note: *The amount of any NOL that is not deductible for AMT purposes may be carried back or carried over in accordance with the rules outlined in section 172(b). The amount carried back or carried over for AMT purposes is likely to differ from the amount (if any) that is carried back or carried over for regular tax purposes; therefore, it is essential that you retain adequate records for both AMT purposes and regular tax purposes.*

Lines 9a and b.—If you are preparing Form 4626 for a member of a controlled group, see section 1561 for the limitation on the $40,000 AMT exemption amount.

Line 12—Alternative minimum tax foreign tax credit.—Refigure the foreign tax credit you claimed for regular tax purposes as follows:

(1) For each separate limitation, recompute both the numerator (foreign source taxable income) and the denominator (worldwide taxable income) of the limitation fraction by taking into account your AMT adjustments and tax preference items. **Note:** *Any increase in AMTI by reason of the excess book income adjustment "shall have the same proportionate source (and character) as AMTI determined without regard to such increase." (Section 59(a)(1)(C));*

(2) Substitute your line 11 AMTI for the "total U.S. income tax against which the credit is allowed";

(3) For each separate limitation, multiply the fraction in (1) above by your AMTI in (2) above to determine your recomputed limitation;

(4) For each separate limitation, take the lesser of the total foreign taxes paid with respect to that separate limitation and the recomputed limitation from (3) above; and

(5) Add the credits you recomputed for each separate limitation and enter the result on line 12.

Note: *For purposes of determining whether any income is high-taxed (and therefore belongs in the "high withholding tax interest" separate limitation defined in section 904(d)(2)(B)), the AMT rate is to be used instead of the regular rate.*

Your AMT foreign tax credit cannot be more than the amount on line 11 less 10% of the amount that would be on that line if Form 4626 were recomputed using zero on line 7.

Note: *With respect to any separate limitation, any AMT foreign tax credit you cannot claim (because of the limitation fraction or the 90% limit discussed above) may be carried back or carried over in accordance with the rules outlined in section 904(c). However, foreign taxes paid or accrued in a tax year beginning after 1986 that are carried back (for regular tax purposes) to offset tax in a tax year beginning before 1987 may not be used in computing the AMT foreign tax credit for the current tax year. In other words, any such taxes that you carried back for regular tax purposes must be carried back for AMT purposes or they will be lost.*

Note also: *The amount of any foreign tax credit that you cannot claim (and is therefore carried back or carried over) for AMT purposes is likely to differ from the amount (if any) that is carried back or carried over for regular tax purposes. Therefore, it is essential that you retain adequate records for both AMT purposes and regular tax purposes.*

Line 14—General business credit allowed against AMT.—Enter the amount from line 23 of the worksheet in the Form 3800 Instructions.

Line 15.—Enter your regular tax liability for the tax year (as defined in section 26(b)) less your foreign tax credit and your possessions tax credit. Be sure to **include** any tax on accumulation distribution of trusts you computed on Form 4970. **Do not include** any recapture of investment credit you computed on Form 4255 or any recapture of low-income housing credit you computed on Form 8611. If you file Form 1120, this is line 3, Schedule J, minus the sum of lines 4a and 4b, Schedule J.

Line 17—Environmental tax.—*If you are preparing Form 4626 for a regulated investment company or a real estate investment trust, skip line 17 (it does not apply).*

Compute your environmental tax as follows:

(1) Complete your tax return (without the environmental tax deduction) through taxable income before the NOL deduction. (If you filed Form 1120, this would be line 28 minus line 29b.)

(2) Using the result in (1), complete Form 4626 through line 6, skip lines 7 through 16, and figure your environmental tax on line 17.

(3) Using the result in (2), complete your tax return through taxable income before the NOL deduction. Then figure your AMT on Form 4626 by completing lines 1 through 16.

If you are preparing Form 4626 for a member of a controlled group, see section 1561 for the limitation on the environmental tax exemption.

Form **5884**

Department of the Treasury
Internal Revenue Service

Jobs Credit

▶ Attach to your tax return.

OMB No. 1545-0219

1988

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 services of employees who are certified as members of a targeted group. **See instructions for special rules on qualified summer youth employees.**

	Number of employees	Total qualified wages
First year employees	a	b
Qualified summer youth employees	c	d

2 Enter 40% of line 1b 2

3 Enter 85% of line 1d (fiscal year filers see instructions if line 1d contains wages of employees that began work after 12-31-88) 3

4 Current year jobs credit—Add lines 2 and 3. 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.) 4

5 Flow-through jobs credits from other entities 5

If you are a—	Then enter total of current year jobs credit(s) from—
a Shareholder	Schedule K-1 (Form 1120S), lines 11 or 12
b Partner	Schedule K-1 (Form 1065), lines 12d, 12e, or 13
c Beneficiary	Schedule K-1 (Form 1041), line 11
d Patron	(see instructions for line 5d)

6 Total jobs credit for current year—Add lines 4 and 5 (S corporations, partnerships, estates, trusts, and cooperatives, see instructions for line 6.) 6

Note: *If you have a 1988 investment credit (Form 3468), credit for alcohol used as fuel (Form 6478), research credit (Form 6765), or low-income housing credit (Form 8586) in addition to your 1988 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 1988 jobs credit. If you have only a 1988 jobs credit, you may continue with lines 7 through 14 to claim your credit.*

Part II Tax Liability Limitation

7 a Individuals—From Form 1040, enter amount from line 40 . . . . .
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 7

8 a Individuals—From Form 1040, enter credits from lines 41, 42, and 43, plus any orphan drug credit, mortgage interest credit, and nonconventional source fuel credit included on line 46 . .
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 8c 8

9 Income tax liability as adjusted (subtract line 8 from line 7) 9

10 Tentative minimum tax—
a Individuals—From Form 6251, enter amount from line 17 . . . . .
b Corporations—From Form 4626, enter amount from line 13 . . . . .
c Estates and trusts—From Form 8656, enter amount from Part III, line 10 10

11 Net income tax—
a Individuals—Enter the sum of line 9, above, and line 19 of Form 6251 . . . . .
b Corporations—Enter the sum of line 9, above, and line 16 of Form 4626 . . . . .
c Other filers—See instructions for line 11c 11

12 If line 9 is more than $25,000—Enter 25% of the excess (See instructions) 12

13 Enter—Line 11 lesswhichever is greater, line 10 or line 12. (If the result is less than zero, enter zero.) 13

14 Total allowed jobs credit—Enter the smaller of line 6 or line 13. This is your **General Business Credit** for 1988. Enter here and on Form 1040, line 44; Form 1120, Schedule J, line 4(e); Form 1120-A, Part I, line 2a; or the proper line of other returns 14

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.

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

Recordkeeping	4 hrs., 4 min.
Learning about the law or the form	2 hrs., 20 min.
Preparing the form	7 hrs., 10 min.
Copying, assembling, and sending the form to IRS	1 hr., 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either IRS or the Office of Management and Budget at the addresses listed in the instructions of the tax return with which this form is filed.

Changes You Should Note

The Technical and Miscellaneous Revenue Act of 1988 made the following changes in the law:

- The targeted jobs credit is extended to qualified wages paid or accrued to employees who begin work for the employer before January 1, 1990.
- For economically disadvantaged youth employees who begin work for the employer after December 31, 1988, the youth must be at least age 18 but less than age 23 on the date they are hired.
- For summer youth employees who begin work for the employer after December 31, 1988, the credit is reduced from 85 percent to 40 percent of qualified wages.

General Business Credit.—The general business credit consists of the investment credit, jobs credit, credit for alcohol used as fuel, research credit, and low-income housing credit. If you have more than one of these credits for 1988 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 1988 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 572**, General Business Credit.

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 work for you between May 1 and September 15.

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;

(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); and

(7) the wages cannot be for services of replacement workers during a strike or walkout.

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 4 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 4.

Whether or not you complete lines 1 through 4, enter on line 5 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 figures the group credit in Part I and skips Part II. See sections 52(a) and 1563.

On separate Forms 5884, that member and every other member of the group skips lines 1 through 3 and enters its share of the group credit on line 4. Each member then completes lines 5 through 14 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, 1987, and you are a calendar year taxpayer, you would have figured your 1987 jobs credit based on the first-year wages you paid between September 1 and December 31, 1987. You would have figured your 1988 credit on the rest of the first-year wages you paid between January 1 and August 31, 1988.

Line 1d.—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 3.—Taxpayers with qualified summer youth employees.—Include 85% of the first $3,000 of wages paid to each qualified employee who began working for you before January 1, 1989. For qualified employees who begin working for you after December 31, 1988, the rate is reduced to 40%.

Line 4.—In general, you must subtract your current year jobs credit on line 4 from the deduction on your return for salaries and wages you paid or owe for 1988. 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 4 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 4 differs from the amount you subtract from your salary and wage deduction. See Publication 572 for details.

Line 5d.—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 5 your total excess jobs credit from all cooperatives to which you belong.

Line 6.—If you have credits from passive activities, see **Form 8582-CR**, Passive Activity Credit Limitations, or **Form 8810**, Corporate Passive Activity Loss and Credit Limitations, before completing the remainder of this form.

Estates and trusts: The jobs credit on line 6 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 6, the estate or trust should enter its own part of the total jobs credit. 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 6 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 8c. Other filers.—Before you can claim the jobs credit (which will be your general business credit for 1988) 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 the elderly or disabled, and credit for interest on certain home mortgages)
- Foreign tax credit
- Possessions corporation tax credit
- Orphan drug credit
- Nonconventional source fuel credit

Line 11c. Other filers.—Enter the sum of line 9 and your alternative minimum tax from whichever alternative minimum tax form you file.

Line 12. Limitation.—See section 38(c)(3) for special rules for married couples filing separate returns, for controlled corporate groups, and for estates and trusts.

Form **6478**

Department of the Treasury
Internal Revenue Service

Credit for Alcohol Used as Fuel

▶ Attach to your tax return.

▶ For Paperwork Reduction Act Notice, see instructions.

OMB No. 1545-0231

1988

Attachment Sequence No. **83**

Name(s) as shown on return | Identifying number

Type of Alcohol Fuel		Number of Gallons Sold or Used (a)	Credit or Tax Rate (b)	Column (a) × Column (b) (c)
1 Straight alcohol and alcohol mixtures:				
a 190 proof or greater (in gallons)	1a		.60	
b Less than 190 proof but at least 150 proof (in gallons)	1b		.45	
2 Add lines 1a and 1b in both columns	2			
3 Other fuels blended with the alcohol above	3			
4 Total gallons of fuel—Add lines 2 and 3 (column (a))	4			
5 Enter the number of gallons that contain less than 10% of 190-proof alcohol or that are exempt from excise taxes because of exemption, credit, or refund provisions other than the alcohol fuel credit	5			
6 Subtract line 5 from line 4. This is the number of gallons of fuel that benefited from an exemption from or a reduced rate of the excise tax because the fuel contained alcohol	6			
7 Break down line 6 into the number of gallons of: Noncommercial aviation fuel—				
a Alcohol or alcohol blended with aviation fuels	7a		.14	
b Alcohol blended with gasoline	7b		.09	
All other fuel on line 6—				
c Less than 85% alcohol blended with gasoline, diesel fuel, or special motor fuel	7c		.06	
d 85% or more alcohol:				
(i) Alcohol produced from other than petroleum or natural gas	7d(i)		.06	
(ii) Alcohol produced from natural gas	7d(ii)		.045	

Caution: *The separate amounts figured on lines 7a, 7b, 7c, or 7d (in column (c)) should not exceed the respective credit taken on that fuel on line 1a or 1b.*

8 Add amounts on lines 7a through 7d 8

9 Credit less excise tax benefit (subtract line 8 from line 2). **Note:** Include this amount in your income for 1988 9

10 Flow-through alcohol fuel credits from other entities

If you are a—	Then enter total of current year alcohol fuel credit(s) from—
a Shareholder	Schedule K-1 (Form 1120S), line 12
b Partner	Schedule K-1 (Form 1065), line 13
c Beneficiary	Schedule K-1 (Form 1041), line 11

. . . 10

11 Current year alcohol fuel credit—(add lines 9 and 10) 11

Note: *If you are claiming a 1988 investment credit (Form 3468), jobs credit (Form 5884), research credit (Form 6765), or low-income housing credit (Form 8586) in addition to your 1988 alcohol fuel 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 1988 alcohol fuel credit. If you have only a 1988 alcohol fuel credit, you may continue with lines 12 through 19 to claim your credit.*

12 a Individuals—From Form 1040, enter amount from line 40
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 12

13 a Individuals—From Form 1040, enter credits from lines 41, 42, and 43, plus any orphan drug credit, mortgage interest credit, and nonconventional source fuel credit included on line 46
b Corporations—From Form 1120, Schedule J, enter credits from lines 4a through 4d (Form 1120-A filers, enter zero)
c Other filers—See instructions for line 13c 13

14 Income tax liability as adjusted (subtract line 13 from line 12) 14

15 Tentative minimum tax—
a Individuals—From Form 6251, enter amount from line 17
b Corporations—From Form 4626, enter amount from line 13
c Estates and Trusts—From Form 8656, enter amount from Part III, line 10 15

16 Net income tax—
a Individuals—Enter the sum of line 14, above, and line 19 of Form 6251
b Corporations—Enter the sum of line 14, above, and line 16 of Form 4626
c Other filers—See instructions for line 16c 16

17 If line 14 is more than $25,000—Enter 25% of excess (See instructions for line 17) 17

18 Enter—Line 16 less whichever is greater, line 15 or line 17 (if less than zero, enter zero) 18

19 Alcohol fuel credit allowed for current year. Enter the smaller of line 11 or line 18. This is your **General Business Credit** for 1988. Enter here and on Form 1040, line 44; Form 1120, Schedule J, line 4e; Form 1120-A, Part I, line 2a; or the proper line of other returns 19

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.

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

Recordkeeping . . . . . 8 hrs., 8 min.
Learning about the law or the form . . . . . . 46 min.
Preparing the form . . . 1 hr., 52 min.
Copying, assembling, and sending the form to IRS . . . . 16 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either IRS or the Office of Management and Budget at the addresses listed in the instructions of the tax return with which this form is filed.

General Business Credit.—The general business credit consists of the investment credit (Form 3468), jobs credit (Form 5884), alcohol fuel credit (Form 6478), research credit (Form 6765), and low-income housing credit (Form 8586). If you have more than one of these credits for 1988 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 1988 alcohol fuel credit, you do not have to file Form 3800 this year.

You can take or revoke the alcohol fuel credit any time within three years from the due date of the return.

A. Purpose of Form.—Use Form 6478 to figure your credit for alcohol used as fuel. The credit is allowed for sale or use of straight alcohol fuel and qualified alcohol mixtures.

B. Alcohol Fuel and Amount of Credit.—

1. Straight Alcohol.—The credit is 60 cents a gallon for alcohol that is at least 190 proof. The alcohol must not be in a mixture with gasoline; diesel or special motor fuel (except for a denaturant) and either:

(a) used as a fuel, or
(b) sold at retail to another person and put in the fuel tank of that person's vehicle.

The credit is available to the taxpayer who uses the alcohol as fuel in a trade or business. However, even if the fuel is used in a trade or business by the user, the seller, not the user, claims the credit for straight alcohol sold at retail and placed in the fuel tank of the user's vehicle.

2. Alcohol Mixture.—The credit is 60 cents a gallon for alcohol that is at least 190 proof. The alcohol must be used to produce a qualified mixture. A qualified mixture combines alcohol with gasoline, diesel, or special motor fuel and the producer of the mixture either:

(a) uses it as fuel, or
(b) sells it as fuel to another person.

The credit is available only to the producer who blends the mixture. The producer must use or sell the mixture in a trade or business, and the credit is available only for the year the mixture is sold or used. The credit is not allowed for casual off-farm production of a qualified mixture.

3. Lower-Proof Alcohol.—The credit is 45 cents a gallon for alcohol that is less than 190 proof, but at least 150 proof.

C. Definitions and Special Rules.—

1. Alcohol.—Alcohol includes methanol and ethanol but does not include:

(a) alcohol produced from petroleum, natural gas, or coal (including peat), or
(b) alcohol of less than 150 proof. In figuring proof, disregard any denaturants (additives that make the alcohol unfit for human consumption). The volume of alcohol includes any denaturant up to 5% of the volume of the alcohol and denaturant combined.

2. Diesel Fuel.—Diesel fuel is any liquid other than gasoline that can be used as a fuel in a diesel-powered highway vehicle or a diesel-powered train.

3. Special Motor Fuel.—Special motor fuel is any liquid fuel other than gasoline that is suitable for use or is used in a motor vehicle or motor boat.

4. Tax If Alcohol Is Not Used As Fuel.—If you determined an alcohol fuel credit and later: (a) used the alcohol or mixture other than as a fuel, (b) separated the alcohol from a mixture, or (c) mixed alcohol on which a credit was allowable on a retail sale, then you must pay a tax of 60 cents for each gallon of alcohol or alcohol in a mixture. If the alcohol is less than 190 proof (but at least 150 proof), the tax is 45 cents a gallon. Report the tax on **Form 720**, Quarterly Federal Excise Tax Return.

Specific Instructions

Individuals.—Use lines 1 through 9 to figure any alcohol fuel credit from a sole proprietorship. If you have credits only from sources that shared their credit (S corporations, partnerships, estates, or trusts), skip lines 1 through 9.

Whether or not you complete lines 1 through 9, enter on line 10 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.

S corporations, partnerships, estates, and trusts.—Figure the total credit on lines 1 through 11. The credit is shared among the individual shareholders, partners, and beneficiaries in the same way that income and loss are divided.

Line 5.—Exemption provisions other than the alcohol fuel credit apply to fuel:

- Used on a farm for farming purposes.
- Supplied to military ships or aircraft or certain commercial ships or aircraft.
- Used as fuel by a state, any political subdivision of a state, or the District of Columbia.
- Used as fuel by a nonprofit educational organization.
- Used as fuel in an aircraft or vehicle by certain aircraft museums.
- Used in an intercity, local, or school bus.
- Used for certain helicopter uses.

Line 7.— If you sold or used alcohol or an alcohol mixture as fuel, you may have been entitled to an exemption or a reduced rate for the excise tax on that fuel. The alcohol fuel credit on lines 1a and 1b must be reduced to take into account any benefit provided by that exemption or reduced rate.

Lines 7a and 7b.—Noncommercial aviation is use of an aircraft other than in a business of transporting persons or property for pay.

Lines 7c and 7d.—This includes all other uses such as off-highway business use, use in a motor vehicle or motorboat, etc.

Line 9.—Include the line 9 amount in income, even if you cannot use all the credit because of limitations based on the amount of your tax.

Line 11.—If you are an individual, estate, or trust and any credit on line 11 is from a passive activity, see **Form 8582-CR**, Passive Activity Credit Limitations, before carrying the credit to Form 3800 or completing Part II of Form 6478. If you are a corporation and any credit on line 11 is from a passive activity, see **Form 8810**, Corporate Passive Activity Loss and Credit Limitations, before carrying the credit to Form 3800 or completing Part II of Form 6478. If the credit is limited by the passive activity limitations, the amount carried to Form 3800 will be the line 11 credit reduced by the passive activity limitation. If you do not use Form 3800, the allowed credit on line 19 of Form 6478 may not exceed the line 11 credit reduced by the passive activity limitation.

If you are an estate or trust, the credit on line 11 is shared among the beneficiaries and the estate or trust itself in proportion to the income each received from the estate or trust. In the margin to the right of line 11, the estate or trust identifies its own part and the beneficiaries' part of the total credit. The estate or trust then completes lines 12 through 19, as applicable, to figure the credit to take on Form 1041. It attaches to its Form 6478 a schedule showing how the total credit was divided.

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. Use Form 3800.

Line 13c—Other filers.—Before you can claim the alcohol fuel 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, and the credit for interest on certain home mortgages)
- Foreign tax credit
- Possessions corporation tax credit
- Orphan drug credit
- Nonconventional source fuel credit

Line 16c—Other filers.—Enter the sum of line 14 and your alternative minimum tax from whichever alternative minimum tax form you file.

Line 17—Limitation.— See code section 38(c)(3) for special rules for married couples filing separate returns, for controlled corporate groups, and for estates and trusts.

Line 19.— If the alcohol fuel credit is not listed separately on your 1988 return, include the credit on the "other credits" or "total credits" line; then write "ALCOHOL FUEL CREDIT" and the amount on the dotted line to the left of the entry amount.

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

1988

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 15(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 40 b Corporations—From Form 1120, Schedule J, enter tax from line 3 (Form 1120-A filers claiming the research credit, enter amount from Form 1120-A, Part I, line 1) c Other filers—Enter income tax before credits from return	5	
6a	Individuals—From Form 1040, enter credits from lines 41, 42, and 43 plus any mortgage interest credit b Corporations—From Form 1120, Schedule J, enter any credits from lines 4(a) and 4(b) (Form 1120-A filers, enter zero) c Other filers—Enter any personal credits, foreign tax credit, and possessions tax credit	6	
7	Income tax liability as adjusted (subtract line 6 from line 5)	7	
8	Tentative minimum tax— a Individuals—From Form 6251, enter amount from line 17 b Corporations—From Form 4626, enter amount from line 13 c Estates and Trusts—From Form 8656, enter amount from Part III, line 10	8	
9	Excess of income tax liability over tentative minimum tax—Subtract line 8 from 7	9	

Part III Allowed Orphan Drug Credit

10	Orphan drug credit—Enter here and on the appropriate line of your return the smaller of line 4 or line 9	10	

Part IV Research Credit

			(a) Current tax year	(b) Base period
11	Wages for qualified services (do not include wages used in figuring the jobs credit)	11		
12	Cost of supplies used in conducting qualified research	12		
13	Rental or lease costs of computers used in conducting qualified research	13		
14	65% of contract expenses for qualified research (but see line 20 below)	14		
15	Total qualified research expenses (add lines 11 through 14 in columns (a) and (b))	15		

16	Subtract line 15 column (b) from line 15 column (a)	16	
17	Limitation—Enter 50% of line 15 column (a)	17	
18	Enter the smaller of line 16 or line 17	18	
19	University basic research payments paid in cash during year (corporations only)	19	
20	Base period amount (see instructions)	20	
21	Subtract line 20 from line 19	21	
22	Add line 18 and line 21	22	
23	Tentative credit—Enter 20% of line 22	23	
24	Flow-through research credit(s) from a partnership, S corporation, estate or trust	24	
25	Total allowable research credit—Add lines 23 and 24	25	

Note: *If you have a 1988 investment credit (Form 3468), jobs credit (Form 5884), credit for alcohol used as fuel (Form 6478), or low-income housing credit (Form 8586) in addition to your 1988 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 1988 research credit. If you have only a 1988 research credit, you may continue with lines 26 through 31 to claim your credit.*

See Paperwork Reduction Act Notice on page 1 of the separate instructions. Form 6765 (1988)

Part V Allowed Research Credit

26	Income tax liability as adjusted for the research credit (from line 7 above, subtract any orphan drug credit shown on line 10 and any nonconventional source fuel credit shown on your return)	26	
27	Net income tax— a Individuals—Enter the sum of line 26, above, and line 19 of Form 6251 b Corporations—Enter the sum of line 26, above, and line 16 of Form 4626 c Other filers—See instructions for line 27c	27	
28	If line 26 is more than $25,000—Enter 25% of the excess (see instructions for line 28)	28	
29	Enter—Line 27 less whichever is greater, line 8 or line 28 (if less than zero, enter zero)	29	
30	Corporations—Enter here and on the appropriate line of your return the smaller of line 25 or line 29. This is your **General Business Credit** for 1988	30	
31	Individuals, estates, and trusts—Enter here and on the appropriate line of your return the smaller of line 25 or the amount from the formula in the instructions for line 31 (but do not enter more than line 29). This is your **General Business Credit** for 1988	31	

*U.S. Government Printing Office: 1988-205-119

1988 Department of the Treasury
Internal Revenue Service

Instructions for Form 6765

Credit for Increasing Research Activities (or for claiming the orphan drug credit)

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

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.

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

Recordkeeping	7 hrs., 39 min.
Learning about the law or the form	2 hrs., 16 min.
Preparing the form	6 hrs., 13 min.
Copying, assembling, and sending the form to IRS	1 hr., 4 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either IRS or the Office of Management and Budget at the addresses listed in the instructions of the tax return with which this form is filed.

Items You Should Note

- The research credit has been extended to December 31, 1989.
- For taxable years beginning after December 31, 1988, deductions under section 174 or any other provision for research expenses or basic research payments must be reduced by 50% of the taxpayer's research credit determined for the year, unless an election is made to have the research credit not apply. A similar rule applies where the taxpayer capitalizes, rather than expenses, qualified research expenses.
- For taxable years beginning after December 31, 1988, you may elect to have the research credit not apply.
- For special rules concerning the allocation and apportionment of research and experimental expenditures between U.S. and foreign source income, see Section 4009 of the Technical and Miscellaneous Revenue Act of 1988.

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, and low-income housing credit. If you have more than one of these credits for 1988 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 1988 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 paid or incurred before January 1, 1990 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, plus 20% of the university basic research payments of certain corporations.

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.—An individual, estate, trust, organization or corporation claiming a credit for increasing research activities or 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 25 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.

Special Rules

See section 41(f) for special rules on:

(1) Controlled groups of corporations and businesses under common control;
(2) Allocation of the credit by partnerships, estates and trusts;
(3) Adjustments if a major portion of a business is acquired or disposed of;
(4) Short tax years.

Carrybacks and Carryforwards.—If you cannot use the research credit because of the tax liability limitations, you may carry it back 3 years, then forward 15 years. Use Form 3800. (There are no carryback or carryover provisions for the orphan drug credit.)

For more information, get **Publication 572**, General Business Credit.

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 11 through 23 if you are claiming the research credit. Then enter the flow-through credit on line 3 or line 24 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: *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 4.—If you have credits from passive activities, see **Form 8582-CR**, Passive Activity Credit Limitations, or **Form 8810**, Corporate Passive Activity Loss and Credit Limitations, before completing the remainder of this form.

Line 10.—Include the orphan drug credit on the appropriate line of your 1988 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 11 through 14, 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 13.—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 14.—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. (See line 20.)

Line 17.—Base period research expenses cannot be less than 50% of current year research expenses. This rule applies both to existing and newly organized businesses.

Line 19.—*Corporations (other than S corporations, personal holding companies, and service organizations).*—You may be eligible for a new "basic research" credit if your 1988 payments in cash to a qualified university or scientific research organization (pursuant to a written contract) exceed a base period amount (based on your general university giving and certain other maintenance-of-effort levels for the 3 preceding years). Enter your 1988 payments on line 19. See section 41(e) for details.

Line 20.—Enter the base period amount as defined in section 41(e). The amount on line 20 (but not more than the amount on line 19), although not eligible for the 1988 university research credit, can be treated as 1988 contract research expenses on line 14(a) above (and subject to the 65% limitation).

Lines 3 and 24.—The credit(s) figured on lines 1 through 4 and on lines 11 through 25 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 24 of a separate Form 6765 to determine the allowed credit(s) to be entered on their tax returns.

Line 25. *Estates or trusts.*— Complete lines 11 through 25 and apportion the credit on line 25 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 25 of a separate Form 6765 and completes the rest of the form, as applicable, to determine its allowed credit.

If you are an individual, estate, or trust and any credit on line 25 is from a passive activity, see **Form 8582-CR**, Passive Activity Credit Limitations, before carrying the credit to Form 3800 or completing Part V of Form 6765. If you are a corporation and any credit on line 25 is from a passive activity, see **Form 8810**, Corporate Passive Activity Loss and Credit Limitations, before carrying the credit to Form 3800 or completing Part V of Form 6765. If the credit is limited by the passive activity limitations, the amount carried to Form 3800 will be the line 25 credit reduced by the passive activity limitation. If you do not use Form 3800, the allowed credit on line 30 or line 31 of Form 6765 may not exceed the line 25 credit reduced by the passive activity limitation.

Line 27c. Others filers.—Enter the sum of line 26 and your alternative minimum tax from whichever alternative minimum tax form you file.

Line 28. Limitations.—See section 38(c)(3) for special rules for married couples filing separate returns, for controlled corporate groups, and for estates and trusts.

Line 31. Limits.—If you are an individual, estate, or trust, the credit(s) on lines 23 or 24 is limited to the amount on line 29 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:

$$\text{Line 29} \times \frac{\text{Taxable income attributable to your interest in the unincorporated business, 1065, 1041, or 1120S entity}}{\text{Taxable income for the year (Form 1040, line 37)}}$$

When using the formula, the result is limited to 100% of the line 29 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.

★U.S. Government Printing Office: 1989-242-673/80039

Form **8586**

Department of the Treasury
Internal Revenue Service

Low-Income Housing Credit

▶ **Attach to your tax return**

Note: This 1988 form should also be used by taxpayers who have not yet filed their 1987 returns.

OMB No. 1545-0984

1988

Attachment Sequence No. **41**

Name(s) as shown on return | Taxpayer identification number

Part I Low-Income Housing Credit

1	Number of Forms 8609 attached. (see instructions) . . . . ▶ .... Please enter totals from your attached Form(s) 8609 on lines 2–4 below.		
2	Eligible basis of building(s) (total from attached Schedule(s) A (Form 8609), line 1)	2	
3a	Qualified basis of low-income building(s) (total from attached Schedule(s) A (Form 8609), line 3) . . .	3a	
b	Has there been a decrease in the qualified basis of any building(s) since the close of the preceding tax year? ☐ Yes ☐ No If Yes, enter the building identification number (BIN) of the building(s) that had a decreased basis. If more space is needed, attach a schedule to list the BINs. See instructions. (i) ________ (ii) ________ (iii) ________ (iv) ________		
4	Credit for the year (total from attached Schedule(s) A (Form 8609), line 16—see instructions) . . .	4	
5	Housing credits from flowthrough entities . . . . (If you are a— **a** Shareholder: Schedule K-1 (Form 1120S), lines 11b(1) and (2); **b** Partner: Schedule K-1 (Form 1065), lines 12b(1) and (2); **c** Beneficiary: Schedule K-1 (Form 1041), line 11; **d** Patron: Appropriate form — Then enter total of current year housing credit(s) from—)	5	
6	Current year credit—Add line 4 and line 5 (see instructions)	6	

If you are a—	Then enter total of current year housing credit(s) from—
a Shareholder	Schedule K-1 (Form 1120S), lines 11b(1) and (2)
b Partner	Schedule K-1 (Form 1065), lines 12b(1) and (2)
c Beneficiary	Schedule K-1 (Form 1041), line 11
d Patron	Appropriate form

Note: *If you have a 1988 investment credit (Form 3468), jobs credit (Form 5884), credit for alcohol used as fuel (Form 6478), or research credit (Form 6765) in addition to your 1988 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 1988 low-income housing credit. If you have only a low-income housing credit, you may continue with lines 7 through 14 to claim your credit.*

Part II Tax Liability Limitations

7a	Individuals—From Form 1040, enter amount from line 40		
b	Corporations—From Form 1120, Schedule J, enter tax from line 3 (or Form 1120-A, Part I, line 1) .	7	
c	Other filers—Enter income tax before credits from return		
8a	Individuals—From Form 1040, enter sum of the credits from lines 41, 42, and 43 and any orphan drug credit, mortgage interest credit, and nonconventional source fuel credit included on line 46 . .		
b	Corporations—From Form 1120, Schedule J, enter credits from lines 4a through 4d (Form 1120-A filers, enter zero)	8	
c	Other filers—See instructions for line 8c		
9	Income tax liability as adjusted (subtract line 8 from line 7)	9	
10	Tentative minimum tax—		
a	Individuals—From Form 6251, enter amount from line 17		
b	Corporations—From Form 4626, enter amount from line 13	10	
c	Estates and Trusts—From Form 8656, enter amount from Part III, line 10		
11	Net income tax—		
a	Individuals—Enter the sum of line 9, above, and line 19 of Form 6251		
b	Corporations—Enter the sum of line 9, above, and line 16 of Form 4626	11	
c	Other filers—See instruction for line 11c		
12	If line 9 is more than $25,000—Enter 25% of excess (see instructions)	12	
13	Enter—Line 11 less whichever is greater, line 10 or line 12. (If less than zero, enter zero.)	13	
14	Total allowed low-income housing credit—Enter the smaller of line 6 or line 13. This is your **General Business Credit** for 1988. Enter here and on Form 1040, line 44; Form 1120, Schedule J, line 4e; Form 1120-A, Part I, line 2a; or the proper line of other returns	14	

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.

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

Recordkeeping . . . . . 5 hrs., 1 min.
Learning about the law or the form . . . . . 3 hrs., 40 min.
Preparing the form . . . 10 hrs., 26 min.
Copying, assembling, and sending the form to IRS . . . . 1 hr., 53 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either **IRS** or the **Office of Management and Budget** at the addresses listed in the instructions of the tax return with which this form is filed.

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, jobs credit, credit for alcohol used as fuel, research credit, and low-income housing credit. If you have more than one of these credits for 1988 or a carryback or carryforward of any of these credits, attach the appropriate credit forms and summarize

them on **Form 3800**, General Business Credit. If you have only a 1988 low-income housing credit, you do not have to file Form 3800 this year.

Purpose of Form.—Owners of residential rental buildings providing low-income housing must use Form 8586 to claim the low-income housing credit.

Partnerships, S Corporations, Estates and Trusts.—Complete Part I to figure the credit to pass through to the partners, shareholders, or beneficiaries. Attach the Form 8586 to the entity's income tax return along with a **Form 8609**, Low-Income Housing Credit Allocation Certification, and **Schedule A (Form 8609)**, Annual Statement, for each building.

Caution: *No credit may be claimed on any building for which there has been allowed any relief from the passive loss rules under section 502 of the Tax Reform Act of 1986*

Introduction

The low-income housing credit determined under section 42 is a credit of 70% of the qualified basis of each new low-income building placed in service after 1986 (30% in the case of certain Federally subsidized new buildings or existing buildings). This credit is taken over a 10-year period so that the present value of the 10 annual credit amounts determined as of the last day of the first year of the credit period equals 70% (or 30%) of the building's qualified basis.

In general, the 10-year credit period starts at the beginning of the tax year in which the building is placed in service. However, you may elect to begin the 10-year credit period in the tax year after the year the building was placed in service by checking the "Yes" box in Part II, line 5a, of Form 8609.

Qualified Low-Income Housing Project.—The low-income housing credit can only be claimed for residential rental buildings in low-income housing 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.

Note: *Owners of buildings in projects located in New York City may not use the 40-60 test. Instead, they may use a 25-60 test: 25 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 (see section 142(d)(6))*

You may elect either test for the project, but once made, the election is irrevocable. The test elected must be the same for all buildings in the project. Use Form 8609 to make this election. See section 42(g) for more details.

You must obtain a Form 8609 (with Part I completed) from the state or local credit agency for each building for which you are claiming a credit. A copy of Form 8609 and accompanying Schedule A (Form 8609) for each building must be attached to your return for each year of the 15-year compliance period. You must also certify certain first-year information to the IRS on Form 8609. If this certification is not made, you may not claim a credit for that building.

However, you do not need to attach Form 8609 or Schedule A (Form 8609) to Form 8586 if the only credit claimed on Form 8586 is a credit from a flow-through entity. See Note at beginning of the Specific Instructions for details.

You may not take a low-income housing credit on a building if it has not received an allocation. Generally, the allocation must be received in the calendar year the building is placed in service. In addition, 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 the aggregate basis of the building and the land on which the building is located is financed with certain tax-exempt bonds and the building is placed in service by December 31, 1989, no allocation is needed from the agency (but you must still get a Form 8609 from the applicable housing credit agency (for purposes of determining the building's identification number) and you must still complete the appropriate parts of Form 8609 and attach it to your return). However, if a building is 70% or more financed with certain tax-exempt bonds and the building is placed in service after December 31, 1989, such building must receive an allocation of credit pursuant to section 42(h)(1)(E) before the housing credit agency's authority to allocate credit expires. "Aggregate basis" means the sum of the eligible basis of the qualified low-income building and land on which the building is located. "Land on which the building is located" includes only land that is functionally related and subordinate to the qualified low-income building (see Regulations section 1.103-8(b)(4)(iii) for the meaning of "functionally related and subordinate").

Recapture of credit. There is a 15-year compliance period during which the residential rental building 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 in any building from the previous year, you may have to recapture a part of the credit you have taken. Similarly, you may have to recapture part of the credits taken in previous years upon certain dispositions of the building or interests therein. Use **Form 8611**, Recapture of Low-Income Housing Credit. See section 42(j).

Recordkeeping Requirements.—You should keep a copy of this Form 8586 together with all Forms 8609, Schedule(s) A (Form 8609), 8611, and 8693 for 3 years after the 15-year compliance period ends.

Specific Instructions

Note: *If the only credit(s) figured on Form 8586 is a credit(s) you received from a partnership, S corporation, estate, or trust (flow-through entities), do not complete lines 1 through 4 or attach Forms 8609 to Form 8586. You need only complete lines 5 and 6 of Part I and the applicable lines of Part II, or Form 3800. The flow-through entities complete lines 1 through 6 of Form 8586 and attach Forms 8586 and 8609 with accompanying Schedule(s) A (Form 8609) to their respective returns.*

Line 1.—If any of the attached Forms 8609 are for buildings that are part of a multiple building project (defined in instructions for Part II, item 2b of Form 8609), attach a schedule listing the following information for each project: (1) name and address of each project, and (2) the building identification number (BIN) of each building in each project.

Line 3b.—If line 3b is checked "Yes" and more space is needed to list the building identification numbers (BINs) for buildings that had a decreased basis, attach a schedule to list the additional BINs. A decrease in qualified basis will result in recapture if the qualified basis at the close of the tax year is less than the qualified basis at the close of the first year of the credit period. **Important:** If the reduction in qualified basis at the close of the tax year also results in a violation of the minimum set-aside requirement, then no credit is allowable for the year. If you must recapture credits, use Form 8611. See also section 42(j) for additional information.

Line 4.—The line 4 credit for the year is figured on Schedule A (Form 8609) for each building. Copies of Form(s) 8609 and Schedule(s) A (Form 8609) must be attached to Form 8586 for each tax year a credit is claimed. Enter on line 4 the credit from line 16 of Schedule A (Form 8609). If more than one Form 8609 and related Schedules A are attached, enter on line 4 the total credit from all attached Schedules A.

If Form 8586 is completed by a flow-through entity and the line 4 credit is attributable to more than one building, the entity must attach a schedule to Form 8586 that shows each partner's, shareholder's, or beneficiary's name, taxpayer identification number, and share of the line 4 credit for each building and the BIN of each building.

Line 5.—If you have flow-through credits from a partnership, S corporation, cooperative under section 521, estate, or trust, total the credits from the appropriate forms and schedules and enter the total on line 5.

Line 6.—If you are an individual, estate, or trust and any credit on line 6 is from a passive activity, see **Form 8582-CR**, Passive Activity Credit Limitations, before carrying the credit to line 5 of Form 3800 or completing Part II of Form 8586. If you are a corporation and any credit on line 6 is from a passive activity, see **Form 8810**, Corporate Passive Activity Loss and Credit Limitations, before carrying the credit to line 5 of Form 3800 or completing Part II of Form 8586. If the credit is limited by the passive activity limitations, the amount carried to line 5 of Form 3800 will be the line 6 credit reduced by the passive activity limitation. If you do not use Form 3800, the allowed credit on line 14 of Form 8586 may not exceed the line 6 credit reduced by the passive activity limitation.

Line 8c. Other Filers.—Before you can claim the low-income housing credit against your tax liability, you must first reduce this tax liability by the following credits:

- Personal credits (child and dependent care credit, credit for elderly or disabled, and the credit for interest on certain home mortgages)
- Foreign tax credit
- Possessions corporation tax credit
- Orphan drug credit
- Nonconventional source fuel credit

Line 11c. Other Filers.—Enter the sum of line 9 and your alternative minimum tax, if any, from whichever alternative minimum tax form you file.

Line 12. Limitation.—See section 38(c)(4) for special rules for married couples filing separate returns, for controlled corporate groups, and for estates and trusts.

Carrybacks and Carryforwards.—If you cannot use part or all of the credit because of the tax liability limitations, you may carry the excess to other years. Use Form 3800.

Note: *No portion of the unused low-income housing credit may be carried back to a tax year ending before January 1, 1987. See Form 3800 and section 39(d)(4) for more information.*

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Form **6839** (11-91)
Department of the Treasury
Internal Revenue Service

User Survey

Statistics of Income — 1988 — 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.

1. How did you obtain this publication?
   - ☐ Purchased from the Government Printing Office
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   - ☐ Other *(specify)* ______

2. Have you ever used any other *Statistics of Income* publication?
   - ☐ Yes *(specify)* ______
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3. What subject matter in the report interests you particularly?
   - ☐ Asset size data
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   - ☐ Balance sheet data
   - ☐ Other *(specify)* ______
   - ☐ S Corporation data
   - ☐ Accounting period data
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4. Rank in order of importance to you the following sections of the publication.
   - _____ Tables
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   - _____ Explanation of terms
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5. How would you describe the readability of the text?
   - ☐ Too technical
   - ☐ Not detailed enough
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6. Have you ever used the *Corporation Source Book of Statistics of Income?*

Selected pages or complete book from IRS	☐ Yes	☐ No
Magnetic tape ordered from National Archives	☐ Yes	☐ No

   Other use *(specify)* ______

7. What type of organization are you connected with?
   - ☐ Federal government
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Corporation Income Tax Returns