

Instructions for Form 1120-FSC

(Rev. January 2024)

U.S. Income Tax Return of a Foreign Sales Corporation

Volume 2 of 2



Department of the Treasury
Internal Revenue Service

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Line 2. Parent-subsidary controlled

group. If the FSC is a subsidiary in a parent-subsidary controlled group and the principal shareholder is not the common parent of the group, complete lines 2a through 2g for the common parent. Enter the consolidated total assets on line 2d for a group that files a consolidated return; otherwise, enter only the common parent's total assets.

Note. Check the “Yes” box on line 2 if the FSC is a subsidiary in a parent-subsidary controlled group. This applies even if the FSC is a subsidiary member of one group and the parent corporation of another.

A “parent-subsidary controlled group” is one or more chains of corporations connected through stock ownership (sections 927(d)(4) and 1563(a)(1)). Both of the following requirements must be met:

1. More than 50% of the total combined voting power of all classes of stock entitled to vote or more than 50% of

the total value of all classes of stock of each corporation in the group (except the parent) must be owned by one or more of the other corporations in the group.

2. The common parent must own more than 50% of the total combined voting power of all classes of stock entitled to vote or more than 50% of the total value of all classes of stock of at least one of the other corporations in the group.

Stock owned directly by other members of the group is not counted when computing the voting power or value.

See sections 927(d)(4) and 1563(d)(1) for the definition of “stock” for purposes of determining stock ownership above.

Tax and Payments

Line 2h. Backup withholding. If the FSC had income tax withheld from any payments it received due to backup withholding, include the amount withheld in the total for line 2h. Show the amount withheld in the blank space in the right-hand column between lines 1 and 2h, and write “backup withholding.”

Note. Do not include backup withholding amounts on line 2g. Include on line 2g only amounts withheld under Chapter 3 or 4 of the Code.

Line 3. Estimated tax penalty. A FSC that does not make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. Generally, a FSC is subject to the penalty if its tax liability is \$500 or more and it did not timely pay at least the smaller of:

- Its tax liability for the current year, or

- Its prior year's tax.

Use Form 2220, Underpayment of

Estimated Tax by Corporations, to see if the FSC owes a penalty and to figure the amount of the penalty. If Form 2220 is completed, enter the penalty on line 3, Estimated tax penalty.

Schedule A

Complete Schedule A only for the cost of goods sold deduction related to foreign trading gross receipts reported on lines 1 through 5 of Schedule B.

Complete column (a) to show the cost of goods sold for inventory acquired in transactions using the administrative pricing rules. Complete column (b) to show the cost of goods sold for inventory acquired in transactions that did not use the administrative pricing rules. For details on the

administrative pricing rules, see the Instructions for Schedule P (Form 1120-FSC).

If the FSC acts as another person's commission agent on a sale, do not enter any amount on Schedule A for the sale.

Small FSCs will have to make two separate computations for cost of goods sold if their foreign trading gross receipts exceed the limitation amount on line 6e of Schedule B. In this case, a deduction for cost of goods sold will be figured separately for the income on line 6h of Schedule B, and separately for the income on line 7 of Schedule F.

Inventories

Generally, unless you are a small business taxpayer, inventories are required at the beginning and end of each tax year if the purchase or sale of merchandise is an income-producing factor. See Regulations section 1.471-1. Additionally, if inventories

are required, you generally must use an overall accrual method of accounting.

If a FSC is a small business taxpayer (defined below), it may adopt or change its accounting method to account for inventories in the same manner as materials and supplies that are non-incidental, or conform to the FSC's treatment of inventories in an applicable financial statement (as defined in section 451(b)(3)), or if the FSC does not have an applicable financial statement, the method of accounting used in the FSC's books and records prepared in accordance with the FSC's accounting procedures. Changing an accounting method generally requires IRS consent. See the *Change in accounting method* section, earlier.

Small business taxpayer. For tax years beginning in 2023, a FSC qualifies as a small business taxpayer if (a) it has average annual gross receipts of \$29 million or less for the 3

prior tax years, and (b) is not a tax shelter (as defined in section 448(d)(3)).

All FSCs should see Section 263A uniform capitalization rules in the instructions for Schedule G, later. See those instructions before completing Schedule A.

If the FSC uses intercompany pricing rules (for purchases from a related supplier), use the transfer price figured in Part II of Schedule P (Form 1120-FSC).

Line 1. Inventory at beginning of year. If the FSC is changing its method of accounting for the current tax year, it must refigure last year's closing inventory using its new method of accounting and enter the result on line 1. If there is a difference between last year's closing inventory and the refigured amount, attach an explanation and take it into account when figuring the FSC's section 481(a) adjustment (explained earlier).

Line 4. Additional section 263A costs. If the FSC has elected a simplified method of accounting, enter on line 4 the balance of section 263A costs paid or incurred during the tax year not includible on lines 2, 3, and 5.

Line 5. Other costs. Enter on line 5 any costs paid or incurred during the tax year not entered on lines 2 through 4. Attach a statement listing details of the costs.

Line 7. Inventory at end of year. See Regulations sections 1.263A-1 through 1.263A-3 for details on determining the amount of additional section 263A costs to be included in ending inventory.

Lines 9a through 9f. Inventory valuation methods. Inventories may be valued at:

- Cost,
- Cost or market value (whichever is lower),
or

- Any other method approved by the IRS that conforms to the requirements of the applicable regulations.

FSCs that use erroneous valuation methods must change to a method permitted for federal income tax purposes. To make this change, use Form 3115. See the Instructions for Form 3115. Also see Pub. 538.

Line 9a. Method of valuing closing inventory. On line 9a, check the method(s) used for valuing inventories. Under lower of cost or market, the term “market” (for normal goods) means the current bid price prevailing on the inventory valuation date for the particular merchandise in the volume usually purchased by the taxpayer. If section 263A applies to the taxpayer, the basic elements of cost must reflect the current bid price of all direct costs and all indirect costs properly allocable to goods on hand at the inventory date.

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 due to damage, imperfections, shop wear, etc. The goods may be valued at the bona fide selling price, minus direct cost of disposition (but not less than scrap value). Bona fide selling price means actual offering of goods during a period ending not later than 30 days after inventory date.

Lines 9c and 9d. LIFO method. 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 9c. On line 9d, enter the amount of total closing

inventories computed under section 472. Estimates are acceptable.

If the FSC changed or extended its inventory method to LIFO and had to write up the opening inventory to cost in the year of election, report the effect of the write-up as other income (as appropriate on Form 1120-FSC, Schedule F, line 16), proportionately over a 3-year period that begins with the year of the LIFO election.

For more information on inventory valuation methods, see Pub. 538. For more information on changes in the method of accounting for inventory, see Form 3115 and the Instructions for Form 3115.

Additional Information

Line 2. Enter any **tax-exempt interest** received or accrued. Include any exempt-interest dividends received as a shareholder in a mutual fund or other regulated

investment company. Also include this amount on Schedule M-1, line 7a.

Line 5. If the FSC owned at least a 10% interest, directly or indirectly, in any foreign partnership, attach a statement listing the following information for each foreign partnership. For this purpose, a foreign partnership includes an entity treated as a foreign partnership under Regulations section 301.7701-2 or 301.7701-3.

1. Name and EIN (if any) of the foreign partnership;
2. Identify which, if any, of the following forms the foreign partnership filed for its tax year ending with or within the FSC's tax year: Form 1042, 1065, or 8804;
3. Name of the partnership representative (if any); and
4. Beginning and ending dates of the foreign partnership's tax year.

Line 6. Generally, if the FSC has a net operating loss (NOL) for the current tax year, it can elect to waive the entire carryback period for the NOL and instead carry the NOL forward to future tax years. To do so, check the box on line 6 and file the tax return by its due date, including extensions. Do not attach the statement described in Temporary Regulations section 301.9100-12T. Generally once made, the election is irrevocable.

If the FSC timely filed its return for the loss year without making the election, it can make the election on an amended return filed within 6 months of the due date of the loss year return (excluding extensions). Attach the election to the amended return and write "Filed pursuant to section 301.9100-2" on the election statement. See the Instructions for Form 1139.

Line 7. Enter the amount of the NOL carryover to the tax year from prior years, even if some of the loss is used to offset

income on this return. The amount to enter is the total of all NOLs generated in prior years but not used to offset income (either as a carryback or carryover) to a tax year prior to the current tax year. Do not reduce the amount by any NOL deduction reported on line 19a, Part II, of Schedule B.

Lines 8c and 9b(2). See Definition of a Foreign Sales Corporation (FSC), earlier, for definitions of qualifying foreign country and U.S. possession.

Line 9. All FSCs (except small FSCs) must answer these questions. For more information, see Foreign Management Rules, earlier.

Line 10. All FSCs (except small FSCs) must answer these questions. On line 10b, indicate how the FSC met the foreign direct costs requirement of section 924(d) for all transactions that generated foreign trading gross receipts reported on lines 1 through 5 of Schedule B. Also, complete line 10a and/or

line 10d to make an election to use either of the annual grouping election(s) indicated. See Foreign Economic Process Rules, earlier, for details.

Schedule B

Use Schedule B to compute taxable income from all sources.

Part I

Use Part I to compute net income attributable to nonexempt foreign trade income. Income and expenses on lines 1 through 15 are reported in column (a) if the administrative pricing rules were used in the transaction that produced the income.

Report in column (b) all foreign trade income from all transactions in which the administrative pricing rules were not used. Attach a statement that shows the computation of the taxable and nontaxable

income included on line 15, column (b).
Include only the taxable amount on line 16.

Nonaccrual experience method for service providers. Accrual method FSCs are not required to accrue certain amounts to be received from the performance of services that, based on their experience, will not be collected, if:

- The services are in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting; or
- The FSC meets the section 448(c) gross receipts test for all prior years.

This provision does not apply to any amount if interest is required to be paid on the amount or if there is any penalty for failure to timely pay the amount. See Regulations section 1.448-3 for more information on the nonaccrual experience method, including information on safe harbor methods.

FSCs that qualify to use the nonaccrual experience method should attach a statement showing total gross receipts, the amount not accrued because of the application of section 448(d)(5), and the net amount accrued. Enter the net amount on the applicable line of Schedule B.

Lines 1 through 5. Enter the foreign trading gross receipts requested on lines 1 through 5. See section 924 and Foreign Trading Gross Receipts, earlier, for receipts that are excluded and other details. Report commission income on line 1 or line 2 based on the sale, lease, or rental of property on which that commission arose.

Line 5. If the 50% gross receipts test of section 924(a)(5) is not met, report the FSC's gross receipts that would have otherwise qualified under that section on line 16, Schedule F, instead of line 5, Schedule B.

Lines 6b through 6h. See section 924(b)(2)(B) for the rules regarding the limitation on the amount of foreign trading gross receipts that a small FSC can take into account in determining its exempt foreign trade income.

Line 6d. Temporary Regulations section 1.921-1T(b)(5) indicates that, in the case of a small FSC having a short tax year, the dollar limitation reported on line 6b or 6c is to be prorated on a daily basis. A small FSC having a short tax year must divide the number of days in its short tax year by the number of days that would have made up a full tax year and enter the resulting fraction on line 6d as a decimal less than 1.00000.

Example. For its 2023 calendar year tax year, a small FSC has a short tax year of 73 days. The FSC enters 0.20 (73/365) on line 6d.

Line 6f. If commission income is reported in the total for line 6a of Schedule B, total receipts for purposes of line 6f are figured as follows:

- 1.** Enter total of columns (a) and (b), line 6a, Schedule B.... **1.** _____
- 2.** Enter total commission income reported on line 1 and line 2, Schedule B..... **2.** _____
- 3.** Subtract line 2 from line 1... **3.** _____
- 4.** With respect to the commission income reported on line 2 above, enter total gross receipts on the sale, lease, or rental of property on which the commission income arose (section 927(b)(2))... **4.** _____

5. Add lines 3 and 4. Enter here
and on line 6f, Schedule B..... **5.** _____

Line 6h. When making the line 6h allocation, allocate only the commission income from the gross receipts on line 4 above. If the small FSC's foreign trading gross receipts for the tax year (line 6f, Schedule B) exceed its allowable limitation (line 6e, Schedule B), the small FSC may select the gross receipts to which the limitation is allocated. In such a case, allocate the amount on line 6g between columns (a) and (b) on line 6h based on whether the administrative pricing rules were used for the gross receipts selected. See Regulations section 1.921-2(b), Q&A-4.

Part II

Line 19a. Net operating loss deduction. A FSC may use the NOL incurred in one tax year to reduce its taxable income in another tax year. Enter on line 19a the total NOL carryovers from other tax years, but do not

enter more than the FSC's taxable income (after the dividends-received deduction). Attach a statement showing the computation of the NOL deduction. Also complete line 7 in *Additional Information* on page 2 of the form.

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

Line 19b. Dividends-received deduction.

A FSC may be entitled to a deduction for dividends it receives from other corporations. Complete the worksheet on page 12 using the *Instructions for Dividends and Dividends-Received Deduction Worksheet*, later. Attach the completed worksheet to Form 1120-FSC.

Line 20. Taxable income or (loss). If line 20 is zero or less, the FSC may have an NOL that may be carried back or forward as a deduction to other tax years.

Only farming losses can be carried back. The carryback period for these losses is 2 years. For NOLs that can be carried back, the FSC can elect to waive the carryback period and instead carry the NOL forward to future tax years.

See the instructions for *Additional Information, line 6*, earlier, for information on making the election to waive the entire carryback period for farming losses. See the Instructions for Form 1139 for other special rules and elections.

See section 172 for additional information.

Schedule E

For purposes of the *Note* at the top of Schedule E, a C corporation is a corporation other than an S corporation. Shareholders, other than C corporations, are individuals, partnerships, S corporations, trusts, and estates.

Use lines 2a through 2d to figure the exemption percentage for foreign trade income determined by not using the administrative pricing rules. See section 923(a)(2).

Use lines 3a through 3d to figure the exemption percentage for foreign trade income that was determined by using the administrative pricing rules (see section 923(a)(3)). If a qualified cooperative is a shareholder of the FSC, see section 923(a)(4).

Schedule F

Part I

Enter net income from nonexempt foreign trade income and related expenses in Part I.

Line 2. Enter FSC income that resulted from the FSC's cooperation with an international boycott. See section 927(e)(2) and Form 5713 and related schedules and instructions.

Line 3. Enter the amount, if any, of illegal payments, bribes, or kickbacks that the FSC paid, directly or indirectly, to government officials, employees, or agents. See section 927(e)(2).

Line 5. See the instructions for Schedule A before completing this line.

Part II

Enter the taxable portion of gross income of the FSC that was not derived from foreign trading gross receipts. This type of income includes:

- Small FSCs only. Amounts specifically excluded from foreign trade income because of the small FSC limitation (the amount by which line 6f of Schedule B exceeds line 6e of Schedule B). (Enter the excess, if any, on line 7 of Schedule F.)
- Investment type income. (Enter on lines 8 through 12 of Schedule F.)

- Income from property that is subsidized, deemed in short supply, or destined for use in the United States. (Enter on lines 13 and 14 of Schedule F.)
- Amounts from transactions that did not meet the foreign economic process requirements. (Enter on line 15 of
- Schedule F.)
- Other nonforeign trade income. (Enter on line 16 of Schedule F.)

For more details, see sections 924(f) and 927(a)(2) and (3).

Line 9. See the Dividends and Dividends-Received Deduction Worksheet, later, to figure the total dividends to report on line 9. Attach the completed worksheet to Form 1120-FSC.

Line 18. Enter the deductions allocated or apportioned to line 17 income. Attach to Form 1120-FSC a statement listing each type of

deduction. Show deductions related to cost of goods sold separately. See the instructions for Schedule A, earlier, before completing this line.

Passive activity limitations. Section 469 generally limits the deduction of passive activity losses for closely held FSCs and FSCs that are personal service corporations. See section 469 and the Instructions for Form 8810 for details.

Instructions for Dividends and Dividends-Received Deduction Worksheet

For purposes of the 20% ownership test on lines 1 through 7, the percentage of stock owned by the FSC is based on voting power and value of the stock.

Line 1, Column (a)

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

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

Also include on line 1 dividends (except those received on certain debt-financed stock acquired after July 18, 1984) from a regulated investment company (RIC). The amount of dividends eligible for the dividends-received deduction under section 243 is limited by section 854(b). The FSC should receive a notice from the RIC specifying the amount of dividends that qualify for the deduction.

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

Line 2, Column (a)

Enter dividends (except those received on certain debt-financed stock acquired after July 18, 1984) that are received from 20%-or-more-owned domestic corporations subject to income tax and that are subject to the 65% deduction under section 243(c).

Line 3, Column (a)

Enter the following.

- Dividends received on certain debt-financed stock acquired after July 18, 1984, from domestic and foreign corporations subject to income tax that would otherwise be subject to the dividends-received deduction under section 243(a)(1), 243(c), or 245(a). Generally, debt-financed stock is stock that the FSC acquired by incurring a debt

(for example, it borrowed money to buy the stock).

- Dividends received from a RIC on debt-financed stock. The amount of dividends eligible for the dividends-received deduction is limited by section 854(b). The FSC should receive a notice from the RIC specifying the amount of dividends that qualify for the deduction.

Line 3, Columns (b) and (c)

Dividends received on certain debt-financed stock acquired after July 18, 1984, are not entitled to the full 50% or 65% dividends-received deduction under section 243 or 245(a). The 50% or 65% deduction is reduced by a percentage that is related to the amount of debt incurred to acquire the stock. See section 246A. Also, see section 245(a) before making this computation for an additional limitation that applies to certain dividends received from foreign corporations. Attach a statement to Form 1120-FSC

showing how the amount on line 3, column (c), was computed.

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 23.3% deduction provided in sections 244 and 247 (as affected by P.L. 113-295, Div. A, section 221(a)(41)(A), Dec. 19, 2014, 128 Stat. 4043) 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 26.7% deduction provided in sections 244 and 247 (as affected by P.L. 113-295, Div. A, section 221(a)(41)(A), Dec. 19, 2014, 128 Stat. 4043) 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
- Qualify for the 50% deduction under section 245(a). To qualify for the 50% deduction, the FSC 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 65% deduction under sections 243 and 245(a).

Line 8, Column (c)

Limitation on dividends-received deduction. Generally, line 8, column (c), may not exceed the amount on line 10 of the

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

- 1.** Refigure line 18, Part II, Schedule B (page 3 of Form 1120-FSC) without any adjustment under section 1059 and without any capital loss carryback to the tax year under section 1212(a)(1)..... **1.** _____
- 2.** Multiply line 1 by 65% (0.65)..... **2.** _____
- 3.** Add lines 2, 5, and 7, column (c), and the part of the deduction on line 3, column (c), that is attributable to dividends **3.** _____

from 20%-or-more-owned corporations.....

- 4.** Enter the smaller of line 2 or line 3. If line 3 is greater than line 2, stop here; enter the amount from line 4 on line 8, column (c), and do not complete lines 5–10 below..... **4.** _____
- 5.** Enter the total amount of dividends from 20%-or-more-owned corporations that are included on lines 2, 3, 5, and 7, column (a).... **5.** _____
- 6.** Subtract line 5 from line 1.. **6.** _____
- 7.** Multiply line 6 by 50% (0.50)..... **7.** _____

8. Subtract line 3 above from
line 8, column (c)..... **8.** _____

9. Enter the smaller of line 7
or line 8..... **9.** _____

**10. Dividends-received
deduction after
limitation (sec. 246(b)).**

Add lines 4 and 9. Enter the
result here and on line 8,
column (c)..... **10.** _____

Line 10, Column (a)

Include the following.

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

2. Dividends from tax-exempt organizations.
3. Dividends (other than capital gain distributions) received from a real estate investment trust that, for the tax year of the trust in which the dividends are paid, qualifies under sections 856 through 860.
4. Dividends not eligible for a dividends-received deduction, which include the following.
 - a. Dividends received on any share of stock held for less than 46 days during the 91-day period beginning 45 days before the ex-dividend date. When counting the number of days the FSC held the stock, you may not count certain days during which the FSC's risk of loss was diminished. See section 246(c)(4) and

Regulations section 1.246-5 for more details.

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

- c. Dividends on any share of stock to the extent the FSC is under an obligation (including a short sale) to make related payments with respect to positions in substantially similar or related property.
- 5. Any other taxable dividend income not properly reported elsewhere on the Dividends and Dividends-Received Deduction Worksheet.

If patronage dividends or per-unit retain allocations are included on line 10, identify the total of these amounts in a statement attached to Form 1120-FSC.

Schedule G

Limitations on Deductions

Section 263A uniform capitalization rules. The uniform capitalization rules of section 263A require FSCs to capitalize

certain costs to inventory or other property. In general, FSCs subject to the section 263A uniform capitalization rules are required to capitalize:

1. Direct costs of property produced or acquired for resale, and
2. Certain indirect costs (including taxes) that are properly allocable to property produced or property acquired for resale.

Indirect costs properly allocable to property acquired for resale are generally those costs in the following categories:

- Off-site storage or warehousing.
- Purchasing.
- Handling, such as processing, assembling, repackaging, and transporting.
- General and administrative costs (mixed service costs). For details, see Regulations section 1.263A-3(d).

In general, the FSC cannot deduct the costs required to be capitalized under section 263A until it sells, uses, or otherwise disposes of the property (to which the costs relate). The FSC recovers these costs through depreciation, amortization, or costs of goods sold.

A small business taxpayer (defined earlier) is not required to capitalize costs under section 263A. A small business taxpayer that wants to discontinue capitalizing costs under section 263A must change its method of accounting. See section 263A(i) and Regulations section 1.263A-1(j). Also, see the Instructions for Form 3115.

For more information on the uniform capitalization rules, see Pub. 538. Also, see Regulations sections 1.263A-1 through 1.263A-3.

Transactions between related taxpayers.

Generally, an accrual basis taxpayer may only deduct business expenses and interest owed

to a related party in the year the payment is included in the income of the related party. See sections 163(e)(3) and 267(a)(2) for limitations on deductions for unpaid interest and expenses.

Limitations on business interest expense.

Business interest expense may be limited. See section 163(j) and Form 8990.

Line 1. Enter only foreign direct costs on lines 1a through 1e. See section 924(e) and Regulations sections 1.924(e)-1(a) through (e) for definitions and rules on direct activity costs related to foreign trade income.

Line 5. Salaries and wages. Enter the total salaries and wages paid for the tax year. Do not include salaries and wages deductible elsewhere on the return, such as amounts included in officers' compensation, cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement or a SIMPLE IRA plan.

Line 10. Compensation of officers. Enter deductible officers' compensation on line 10. Do not include compensation deductible elsewhere on the return, such as amounts included in cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement or a SIMPLE IRA plan. See the Instructions for Form 1125-E for more information on officers' compensation, including any special rules and limitations that may apply. You are **not** required to complete Form 1125-E or attach it to Form 1120-FSC.

Line 14. Other. Attach a statement, listing by type and amount, all allowable deductions that are not deductible elsewhere on Form 1120-FSC. Enter the total on line 14.

Examples of other deductions include:

- Amortization. See Part VI of Form 4562.
- Insurance premiums.

- Legal and professional fees.
- Supplies used and consumed in the business.
- Utilities. Do not deduct:
- Amounts paid or incurred to, or at the direction of, a government or governmental entity for the violation, or investigation or inquiry into the potential violation, of a law. However, see section 162(f) for exceptions to the general rule.
- Any amount that is allocable to a class of exempt income. See section 265(b) for exceptions.

See Pub. 542 and the Instructions for Form 1120 for details on other deductions that may apply to corporations.

Schedule J

Line 1

If the FSC is a member of a controlled group, as defined in section 927(d)(4), it must check the box on line 1 and complete Schedule O (Form 1120), Consent Plan and

Apportionment Schedule for a Controlled Group. See Schedule O and the Instructions for Schedule O for more information.

Line 2

FSCs, including FSCs that are qualified personal service corporations (as defined in section 448(d)(2)), figure their tax by multiplying taxable income (Schedule B, line 20) by 21%. Enter this amount on line 2.

Line 3

If the corporation had gross receipts of at least \$500 million in any 1 of the 3 tax years preceding the current tax year, complete and attach Form 8991. Enter on line 3 the base

erosion minimum tax from Form 8991, Part IV, line 5e. See section 59A and the Instructions for Form 8991.

Line 4

A FSC generally enters on line 4 the sum of Schedule J, lines 2 and 3. However, if the FSC is an applicable corporation under section 59(k) and is subject to the corporate alternative minimum tax (CAMT), complete Form 4626 and attach it to Form 1120-FSC. Enter on line 4 the sum of (a) the amount from Form 1120-FSC, Schedule J, lines 2 and 3, and (b) the amount from Form 4626, Part II, line 13.

Dividends and Dividends-Received Deduction Worksheet

Keep for Your Records 

(See Instructions for Dividends and Dividends-Received Deduction Worksheet, earlier.)			
	(a) Dividends received	(b) %	(c) Dividends-received deduction: (a) x (b)
1 Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)		50	
2 Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)		65	
3 Dividends on certain debt-financed stock of domestic and foreign corporations (section 246A)		See Inst.	
4 Dividends on certain preferred stock of less-than-20%-owned public utilities		23.3	
5 Dividends on certain preferred stock of 20%-or-more-owned public utilities		26.7	
6 Dividends from less-than-20%-owned foreign corporations		50	
7 Dividends from 20%-or-more-owned foreign corporations		65	
8 Total dividends-received deduction. Add lines 1 through 7. See instructions for limitation. Enter here and on Schedule B, line 19b			
9 Other dividends from foreign corporations not included on line 3, 6, or 7			
10 Other dividends			
11 Total dividends. Add lines 1 through 10. Enter here and on Schedule F, line 9			

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Line 5

Foreign tax credit. Generally, a FSC may not claim a foreign tax credit. It may, however, claim a foreign tax credit for any foreign taxes imposed on foreign source taxable nonforeign trade income

(Schedule F, Part II) that is treated as effectively connected with a U.S. trade or business. See Temporary Regulations section 1.921-3T(d)(2) for more details.

Schedule L

The balance sheet should agree with the FSC's books and records. Include certificates of deposit as cash on line 1, Schedule L.

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

- State and local government obligations, the interest on which is excludible from gross income under section 103(a), and
- Stock in a mutual fund or other regulated investment

company that distributed exempt-interest dividends during the tax year of the FSC.

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

- Foreign currency translation adjustments
- The excess of additional pension liability over unrecognized prior service cost.

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

Schedule M-1

Line 5c. Travel and entertainment.

- Include on line 5c any of the following.
- Entertainment expenses not deductible under section 274(a).
- Meal expenses not deductible under section 274(n).

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

Line 7a. Tax-exempt interest. Report any tax-exempt interest received or accrued, including any exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company. Also report this same amount on line 2, *Additional Information*, on page 2 of the form.

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

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

Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103.

The estimated burden for taxpayers filing this form is approved under OMB control number 1545-0123.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form and related schedule simpler, we would be happy to hear from you. You can send us comments through [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or you can write to the Internal Revenue Service, Tax Forms and Publications Division, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Do not send the tax form to this address. Instead, see Where To File, earlier, near the beginning of the instructions.

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Forms 1120-FSC Principal Business Activity Codes

This list of principal business activities and their associated codes is designed to classify an enterprise by the type of activity in which it is engaged to facilitate the administration of the Internal Revenue Code. These principal business activity codes are based on the North American Industry Classification System.

Using the list of activities and codes below, determine from which activity the FSC derives the largest percentage of its "total receipts." Total receipts is defined as the sum of the foreign trading gross receipts on Form 1120-FSC, page 3, Schedule B, line 6a, and the total income on page 4, Schedule F, lines 4 and 17. If the FSC's largest percentage of its total receipts is derived from the wholesale trading of durable goods, the FSC must use one of the corresponding codes from the list below (423100-423990).

Once the principal business activity is determined, entries must be made on Form 1120-FSC, page 2, Additional Information, lines 1a, 1b, and 1c. For the business activity code number, enter the six digit code selected from the list below. On line 1b, enter a brief description of the FSC's business activity. Finally, enter a description of the principal product or service of the FSC on line 1c.

Wholesale Trade		424300 Apparel, Piece Goods, & Notions	513210 Software Publishers	532210 Consumer Electronics & Appliances Rental
Merchant Wholesalers, Durable Goods		424400 Grocery & Related Products	Motion Picture and Sound Recording Industries	532281 Formal Wear & Costume Rental
423100 Motor Vehicle & Motor Vehicle Parts & Supplies	424500 Farm Product Raw Materials	424600 Chemical & Allied Products	512100 Motion Picture & Video Industries (except video rental)	532282 Video Tape & Disc Rental
423200 Furniture & Home Furnishings	424700 Petroleum & Petroleum Products	424800 Beer, Wine, & Distilled Alcoholic Beverages	512200 Sound Recording Industries	532283 Home Health Equipment Rental
423300 Lumber & Other Construction Materials	424910 Farm Supplies	424920 Book, Periodical, & Newspapers	Broadcasting, Content Providers, and Telecommunications	532284 Recreational Goods Rental
423400 Professional & Commercial Equipment & Supplies	424930 Flower, Nursery Stock, & Florists' Supplies	424940 Tobacco Products & Electronic Cigarettes	516100 Radio & Television Broadcasting	532289 All Other Consumer Goods Rental
423500 Metal & Mineral (except Petroleum)	424950 Paint, Varnish, & Supplies	424990 Other Miscellaneous Nondurable Goods	516210 Media Streaming, Social Networks, & Other Content Providers	532310 General Rental Centers
423600 Household Appliances and Electrical & Electronic Goods	Wholesale Electronic Markets and Agents and Brokers		517000 Telecommunications (including Wired, Wireless, Satellite, Cable & Other Program Distribution, Resellers, Agents, Other Telecommunications, & Internet Service Providers)	532400 Commercial & Industrial Machinery & Equipment Rental & Leasing
423700 Hardware & Plumbing & Heating Equipment & Supplies	425120 Wholesale Trade Agents & Brokers		Data Processing Services	Professional Services
423800 Machinery, Equipment, & Supplies	Information		518210 Computing Infrastructure Providers, Data Processing, Web Hosting, & Related Services	
423910 Sporting & Recreational Goods & Supplies	Publishing Industries (except Internet)		519200 Web Search, Rentals, Libraries, Archives, & Other Info. Services	
423920 Toy & Hobby Goods & Supplies	513110 Newspaper Publishers		Rental and Leasing	
423930 Recyclable Materials	513120 Periodical Publishers		Rental and Leasing Services	
423940 Jewelry, Watch, Precious Stone, & Precious Metals	513130 Book Publishers		532100 Automotive Equipment Rental & Leasing	
423990 Other Miscellaneous Durable Goods	513140 Directory & Mailing List Publishers			
Merchant Wholesalers, Nondurable Goods		513190 Other Publishers		
424100 Paper & Paper Products				
424210 Drugs & Druggists' Sundries				
				541310 Architectural Services
				541320 Landscape Architecture Services
				541330 Engineering Services
				541340 Drafting Services
				541350 Building Inspection Services
				541360 Geophysical Surveying & Mapping Services
				541370 Surveying & Mapping (except Geophysical) Services
				541380 Testing Laboratories
				Other Professional Services
				541600 Management, Scientific, & Technical Consulting Services

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