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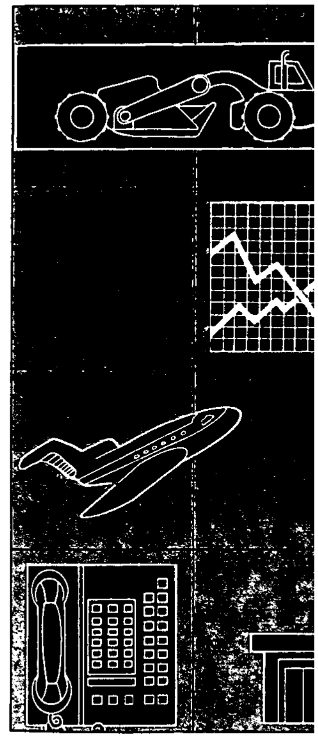

Department of the Treasury

Corporation Income Tax Returns

1987 Statistics of Income

Publication 16 (Rev. 12-90)

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—1987***. 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 1987 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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BUSINESS SOURCE BOOKS:

- *Corporation Source Book, 1987,* **Publication 1053 -- Price $175.00**

  This 480-page document presents detailed income statement, balance sheet, tax and investment credit 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 1986 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, at the minor, major and division industry levels. 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 deduction
  o Interest paid
  o Payroll
  o Payments to partners
  o Net income

  (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 *Statistics of Income 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 244-page document showing key proprietorship data for 1957 through 1984. Each page contains statistics for a particular industry. Tables show:

  o Number of businesses
  o Business receipts
  o Interest paid
  o Depreciation
  o Taxes paid deduction
  o Payroll
  o Net income

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 *Statistics of Income Bulletin.*

COMPENDIUMS:

- *Studies of International Income and Taxes, 1979-1983,* **Publication 1267 -- Price $45.00**

  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 corporation in the United States
  - o Foreign interests in 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 1978-1986. (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. Private foundations for 1982, 1983 and 1985 and nonprofit charitable organizations for 1983 and 1985 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 showing migration patterns, from where to where, by State and county, based on year-to-year changes in the tax return address. Data are 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 also 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
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Washington, DC 20402

Statistics of Income (SOI) Bulletin **(Quarterly), Publication No. 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 sole proprietorships and 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--1986, Corporation Income Tax Returns, **Publication No. 16**
Stock Number 048-004-02290-7 -- Price $10.00

This report presents more comprehensive and complete data on corporation income tax returns with accounting periods ended July 1986 through June 1987, than those published earlier in the *SOI Bulletin.*

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

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

Statistics of Income--1987, Individual Income Tax Returns, **Publication No. 1304**
Stock number 048-004-02296-6 -- Price $9.00

This report presents more comprehensive and complete data on individual income tax returns for 1986 than those published earlier in the *SOI Bulletin.*

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

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

Statistics of Income

SOI BULLETIN

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

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

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

GUIDE TO TABLES

This report contains 15 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 21 to determine the appropriate page number(s) for specific tables.

INCOME AND DEDUCTION ITEMS

- Total receipts (figures A,C, tables 1,2,3,4,5,6,7,8,9, 10,11,12)
  - Business receipts (tables 1,2,3,4,5,6,7,9,10,11,12)
  - Interest (tables 2,3,4,5,11,12)
  - Interest on Government obligations (tables 2,3,4,5, 10,13)
  - Rents and royalties received (tables 2,3,4,5,10,11, 12)
  - Net short-term and long-term capital gain (tables 2,3,4,5,9,10,11)
  - Net gain, (loss) noncapital assets (tables 2,3,4,5,9, 10,11,12)
  - Dividends received (tables 2,3,4,5,11,12,13)
- Total deductions (tables 2,3,4,5,9,10,11,12)
  - Cost of sales and operations (tables 1,2,3,4,5,6, 7,9,10,11,12,13)
  - Compensation of officers (tables 2,3,4,5,9,10,11, 12,13)
  - Repairs and bad debt expense (tables 2,3,4,5,9, 10,11,12,13)
  - Rent paid on business property (tables 2,3,4,5,9,10)
  - Taxes and interest paid (tables 2,3,4,5,6,7,9,10, 11,12)
  - Advertising, contributions or gifts (tables 2,3,4,5,9, 10,11,12)
  - Amortization and depletion deduction (tables 2,3,4, 5,9,10,11)
  - Depreciation deduction (tables 1,2,3,4,5,6,7,9,10, 11,12)
  - Pension and employee benefit plans (tables 2,3,4, 5,6,7,9,11,12)
  - Constructive taxable income from related foreign corporations (tables ,3,4,5,11,13)
  - Net income (less deficit), total (figures A,B,C, tables 2,4,6,7,8,9,10,11,12,13)
  - Net income (1,3,5,8,9,10,11,12,13,14,15)
  - Statutory special deductions, total (tables 8,13)

BALANCE SHEET ITEMS

- Total assets (figures A,C, tables 1,2,3,4,5,6,7,9,10,11)
  - Cash (tables 2,3,4,5,6,7,9,10,11)
  - Notes and accounts receivable (tables 2,3,4,5,6, 7,9,10,11)
  - Allowance for bad debts (tables 2,3,4,5,9,10,11)
  - Inventories (tables 2,3,4,5,6,7,9,10,11)
  - Investments in Government obligations (tables 2,3, 4,5,6,7,9,10,11)
  - Loans to stockholders (tables 2,3,4,5,6,7,9,10,11)
  - Mortgage and real estate loans (tables 2,3,4,5,6, 7,9,10,11)
  - Other investments (tables 2,3,4,5,6,7,9,11)
  - Depreciable assets (tables 1,2,3,4,5,6,7,9,10,11)
  - Accumulated depreciation (tables 2,3,4,5,6,7,9, 10,11)
  - Depletable assets (tables 2,3,4,5,6,7,9,11)
  - Accumulated depletion (tables 2,3,4,5,6,7,9,11)
  - Land (tables 2,3,4,5,6,7,9,10,11)
  - Intangible assets (amortizable) (tables 2,3,4,5,6,7, 9,11)
  - Accumulated amortization (tables 2,3,4,5,6,7,9,11)
- Total liabilities (tables 2,3,4,5,9,10,11)
  - Accounts payable (tables 2,3,4,5,6,7,9,10,11)
  - Loans from stockholders (tables 2,3,4,5,9,10,11)
  - Mortgages, notes, and bonds payable (tables 2,3, 4,5,6,7,9,11)
  - Capital stock (tables 2,3,4,5,6,7,9,10,11)
  - Paid-in or capital surplus (tables 2,3,4,5,6,7,9, 10,11)
  - Retained earnings (tables 2,3,4,5,6,7,11)
  - Shareholders undistributed taxable income (loss) (table 9)
  - Cost of treasury stock (tables 2,3,4,5,6,7,10,11)

TAX COMPUTATION ITEMS

- Income subject to tax, (figures A,C, tables 1,2,3,4,5, 6,7,8,11,12,13,14,15)
- Income tax (figures A,C, tables 1,2,3,4,5,6,7,8,10,11,12, 13,14,15)
- Foreign tax credit (tables 1,2,3,4,5,6,7,8,11,12,13, 14,15)

U.S. possessions tax credit (tables 1,2,3,4,5,6,7,8,11,12, 13,14,15)
Alternative minimum tax (tables 2,3,4,5,6,7,8,11,12,13)
Nonconventional source fuel credit (tables 2,3,4,5,6,7,8, 11,12,13,14,15)
General business credit (tables 1,2,3,4,5,6,7,8,11,12, 13,14,15)
Tax payments (tables 8,13)
Orphan drug credit (tables 2,3,4,5,6,7,8,11,12,13,15)

SELECTED SUBJECTS

Sampling selection ranges, and variability (figures D, E1, E2, F)
Accounting periods (figures B,C, table 8)
S corporations (table 9,13)
Form 1120-A corporations (table 10)
Consolidated returns (table 11)
Form 1120F corporations (table 12)
General business credit (table 14)

Section 1 INTRODUCTION

This report presents statistical estimates derived from a stratified sample of approximately 83,700 returns selected from the approximately 3.6 million active corporate returns filed for the 1987 Income Year.*

The report is divided into 6 sections. The first section provides statistics summarizing overall corporate activity for Income Year 1987. Section 2 discusses changes in law and regulations between this report and that for Income Year 1986. 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 1987 income tax liability, tax credits, net income, and other financial data. Section 5 contains detailed explanations of the terms used in the report. In most instances, the explanations include definitions of terms used as well as adjustments made in preparing the statistics and any limitations inherent in the data.

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

The statistics in this report provide additional detail on the data contained in the *Statistics of Income Bulletin*, Volume 10, Number 1, Summer 1990. [1]

OVERALL CORPORATE SUMMARY

Figure A presents corporation summary statistics for Income Years 1986 and 1987. Shown are the number of returns, total assets, total receipts, net income (less deficit), income subject to tax, and total income tax before and after credits. The total number of returns increased by 5.4 percent from 1986 to 1987, slightly greater than the 4.6 percent increase between 1985 and 1986.

Total assets increased by 8.1 percent to $15.3 trillion for 1987, the lowest percentage increase for over 10 years. The data indicate an upward trend for total receipts, net income (less deficit), income subject to tax, total income tax and total income tax after credits. Total receipts rose 10.5 percent, a much greater increase than the 3.2 percent increase from 1985 to 1986. Net income (less deficit) continued to rise with an increase of 22.2 percent from the previous year. Income subject to tax rose 12.9 percent in comparison to the 3.8 percent increase from 1985 to 1986. Total income tax increased by 6.6 percent and total tax credits continued to decrease resulting in total income tax after credits increasing from $73.9 billion in 1986 to $87.0 billion in 1987, an increase of 17.7 percent.

Returns with total assets of $250 million or more represented less than one percent of the total returns; nonetheless, for 1987, these 4,794 returns accounted for 51.9 percent of the total receipts and 65.2 percent of the total income tax after credits. In contrast for 1986 there were 4,471 such returns and they accounted for 50.5 percent of total receipts and 53.9 percent of total income tax after credits.

ACTIVITIES COVERED

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

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

*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 1986 and 1987

[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)
1986							
Total	3,428,515	14,163,209,894	8,669,378,501	269,530,240	276,172,502	111,140,137	73,876,301
Zero assets	210,160	—	172,977,785	1,344,130	7,929,858	3,299,818	2,775,612
$1 under $100,000	1,736,486	57,950,198	286,794,530	-211,922	4,435,338	773,215	669,452
$100,000 under $250,000	606,676	97,775,053	291,763,668	2,574,407	6,198,295	1,173,863	1,033,114
$250,000 under $500,000	348,276	123,669,775	304,406,534	3,298,835	6,395,000	1,405,970	1,228,978
$500,000 under $1,000,000	225,453	158,061,127	352,466,111	3,983,044	6,946,352	1,804,376	1,592,147
$1,000,000 under $5,000,000	223,619	458,542,021	985,805,877	13,461,925	18,384,542	6,588,400	5,963,489
$5,000,000 under $10,000,000	30,994	214,879,695	395,189,883	5,797,751	8,185,398	3,456,218	3,159,020
$10,000,000 under $25,000,000	21,094	328,002,609	436,225,299	8,957,186	11,347,440	4,948,765	4,323,991
$25,000,000 under $50,000,000	9,879	349,687,829	300,744,306	7,114,002	9,494,016	4,171,060	3,583,150
$50,000,000 under $100,000,000	6,592	464,711,768	313,271,054	9,192,843	10,989,143	4,844,299	3,964,356
$100,000,000 under $250,000,000	4,815	769,995,239	452,585,941	16,519,207	15,798,193	7,013,531	5,754,023
$250,000,000 or more	4,471	11,139,934,581	4,377,147,511	197,498,831	170,068,927	71,660,623	39,828,969
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

[1] Includes taxable income before net operating loss deduction and special deductions.
[2] Includes long-term gain taxed at alternative rates, taxable income less net operating loss deduction and special deductions.
[3] Includes regular and alternative tax, personal holding company tax, tax from recomputing prior-year investment credit, 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).
[4] Credits include foreign tax, U.S. possessions tax, nonconventional source fuel, orphan drug, general business and 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."

Figure B
Corporation Income Tax Returns and Net Income (less Deficit), by Accounting Periods, Income Year 1987

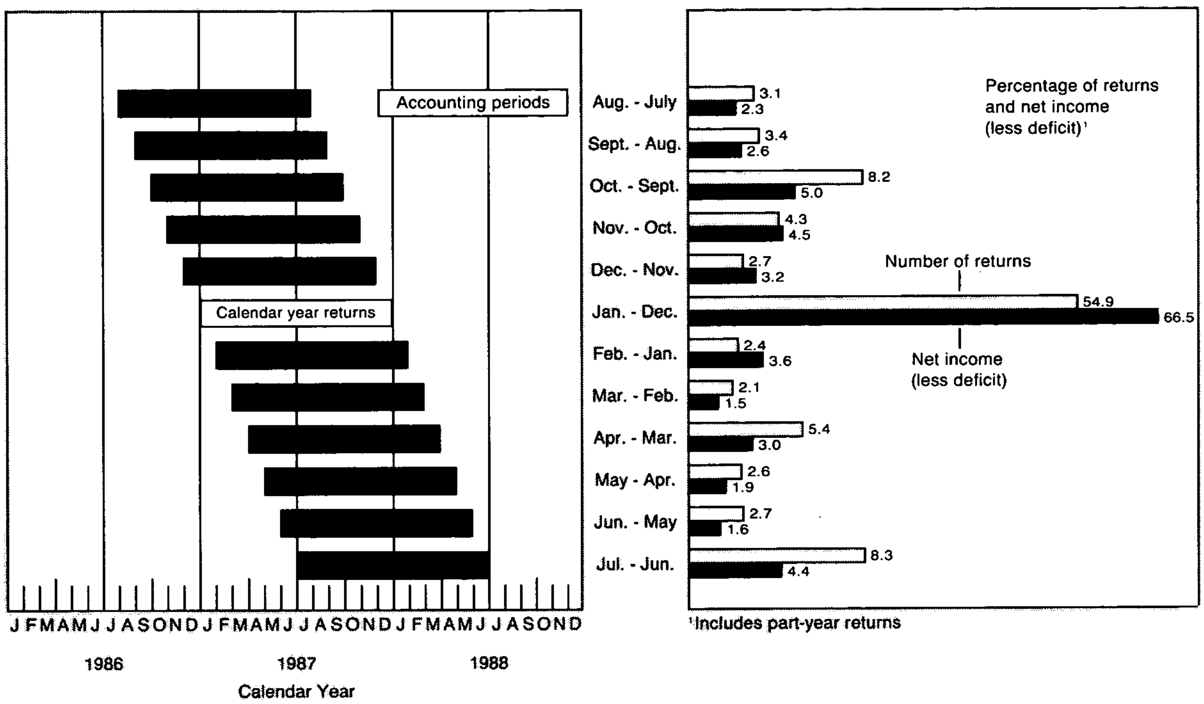

Figure C.—Returns of Active Corporations: Number of Returns, Total Assets, Total Receipts, Net Income (Less Deficit), Income Subject to Tax, Total Income Tax, and Total Income Tax After Credits, by Accounting Periods for Income Year 1987

[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	**3,612,133**	**15,310,615,602**	**9,580,720,701**	**328,223,710**	**311,840,615**	**118,484,975**	**86,988,756**
December 1987	1,981,357	11,983,091,871	5,971,954,241	218,309,532	221,089,258	86,533,301	59,749,634
Noncalendar year, total	1,630,776	3,327,523,731	3,608,766,460	109,914,178	90,751,357	31,951,674	27,239,122
July 1987	111,221	185,310,555	198,907,743	7,533,835	4,440,828	1,618,652	1,464,503
August 1987	121,040	194,707,606	209,960,074	8,381,532	4,830,846	1,795,751	1,562,375
September 1987	296,702	678,250,893	575,371,189	16,570,848	13,567,908	4,985,231	4,252,139
October 1987	155,618	304,104,472	299,917,885	14,754,547	7,366,481	2,638,993	2,218,142
November 1987	97,125	219,783,851	182,735,250	10,481,047	6,882,439	2,535,965	1,571,030
January 1988	86,794	251,229,262	390,138,808	11,939,509	11,072,565	4,183,250	4,003,434
February 1988	77,577	153,344,822	182,929,345	5,059,454	4,256,893	1,509,185	1,274,977
March 1988	193,574	397,636,861	512,652,728	9,863,482	9,576,090	3,241,663	2,980,422
April 1988	93,763	207,203,400	193,228,729	5,866,364	5,413,726	1,867,990	1,605,948
May 1988	98,457	162,767,101	230,603,405	5,165,429	5,213,953	1,746,034	1,491,176
June 1988	298,905	573,184,907	632,321,304	14,298,130	18,129,628	5,828,961	4,814,977

[1] Includes part-year returns.
[2] Includes taxable income before net operating loss deduction and special deductions.
[3] Includes net long-term gain taxed at alternative rates, taxable income less net operating loss deduction and special deductions.
[4] Includes regular and alternative tax, personal holding company tax, tax from recomputing prior-year 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 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."

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

The effect of foreign activity on the statistics varies by type of industry and by size of assets. Foreign income is reflected to a greater extent in Finance, insurance, and real estate since it has a higher incidence of foreign activity than the other industries. Also, foreign activity is almost totally concentrated on returns with assets $250 million or more.

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

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

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

Form 1120 (U.S. Corporations)	2,224,778
Form 1120-A (U.S. Short-Form Corporations)	238,730
Form 1120S (U.S. S Corporations)	1,127,905
Form 1120L (U.S. Life Insurance Companies)	2,273
Form 1120-PC (U.S. Property and Casualty Insurance Companies)	2,046
Form 1120-REIT (U.S. Real Estate Investment Trust)	145
Form 1120-RIC (U.S. Regulated Investment Companies)	1,980
Form 1120F (U.S. Returns of Foreign Corporations)	10,478
Form 1120-IC-DISC (Domestic International Sales Corporations) [5]	1,185
Form 1120-FSC (Foreign Sales Corporations)	2,613
Total*	3,612,133

*Detail may not add to total due to rounding.

In addition to inactive corporations, the statistics specifically exclude foreign corporations with no income "effectively connected" with a U.S. trade or business; information returns of certain joint undertakings; returns filed by political organizations under Code section 527; returns filed by General Stock Ownership Corporations (corporations established by a state for the benefit of the residents of a state); information returns reporting no tax because of a tax treaty or convention under Code section 894; nonprofit corporations (educational, charitable, and similar organizations) exempt from income tax under Code section 501; and 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 1987 through June 1988. 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, 1986, and closed on July 31, 1987, and the start of the last-included accounting period, which began on July 1, 1987, and closed on June 30, 1988. 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 54.9 percent of the 1987 returns were filed for the calendar year; and, since they included most of the larger corporations, these returns had approximately 78.6 percent of total assets, 62.3 percent of total receipts, 66.5 percent of net income (less deficit), 70.9 percent of income subject to tax, 73.3 percent of total income tax and 68.7 percent of total income tax after credits.

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

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

NOTES AND REFERENCES

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

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

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

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

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

Section 2 CHANGES IN LAW AND REGULATIONS

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

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

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.

Accounting Periods

Effective for Tax Year 1987, S corporations and qualified personal service corporations were generally required to conform their taxable year to the calendar taxable year of their owners. However, corporations affected by this provision could elect an accounting period other than the required calendar year by proving a business purpose for having a different tax year.

Previously, no special provisions applied to S corporations or personal service corporations which maintained a noncalendar taxable year.

Accrual Method of Accounting

Most corporations were required to use the accrual method of accounting under section 448 of the Internal Revenue Code of 1986. Exceptions to the new provision included: certain corporations engaged in farming activities, personal service corporations, and certain other corporations having $5 million or less as an average for gross receipts based on prior year accounting periods. However, family corporations which had more than $25 million in gross receipts from farming activities were required to use the accrual method of accounting.

Under previous law, most corporations were allowed to compute taxable income using the cash receipts and disbursement method (cash method) or other acceptable methods of accounting.

Alternative Minimum Tax

The alternative minimum tax replaced the former minimum tax. The alternative minimum tax was imposed on a broader income tax base and at a higher rate of tax (20 percent), compared to the minimum tax (which was imposed at a 15 percent rate). Effective for tax years beginning in 1987 and thereafter, corporations paid an alternative income tax when it exceeded the regular income tax. The total tax liability became the tax computed under the regular tax system plus the alternative minimum tax.

The alternative minimum tax (AMT) system was designed to reflect tax consequences that could be achieved through timing a tax calculation more closely with the actual timing of the economic event. Whereas, the regular tax system reflects a timing difference in the two events that is achieved through the use of accelerated expense items or tax deferral benefits.

Alternative Tax on Capital Gains

Generally, for tax years beginning after December 31, 1986, the 28 percent alternative tax on capital gains was repealed. However, an alternative tax at 34 percent was allowed until July 1, 1987, the effective date of the new lower corporate income tax rates. Capital losses continued to be deducted only against capital gains.

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 and interest paid by or to a foreign corporation from its trade or business activities conducted in the United States. The Internal Revenue Code of 1986 introduced the new provisions under section 884 to reduce the disparity of U.S. taxation between U.S. corporations owned by foreign persons and foreign corporations doing business through their own branches in the United States. The new U.S. tax laws also required coordination with income tax treaties between the United States and foreign countries.

Previously, a foreign corporation conducting business in the United States was conditionally obligated to a 30 percent withholding tax rate on portions of its dividend and interest payments which were attributable to U.S. operations. (U.S. corporations were obligated to a 30 percent withholding tax rate on their dividend and interest payments, as well.) However, a foreign payor corporation only became liable for the withholding tax if more than 50 percent of its gross income over a 3-year period was effectively connected to a U.S. trade or business (the ratio of U.S. income to total income influenced the U.S. tax withholding obligation of the foreign corporation). The disparity under prior law between taxation of U.S. corporations and foreign corporations with U.S. branches was evidenced at the shareholder level.

Changes in Corporate Tax Rates

Under the Tax Reform Act of 1986, the maximum corporate tax rate was reduced to 34 percent. The benefit of a graduated tax rate was phased out for income over $100,000. The number of tax brackets was reduced to three.

Because of the effective date (July 1, 1987) of the lower tax rates, corporations were required to compute their income tax liability for Tax Year 1987, using two tax rate schedules or a blended tax rate. For the period before July 1, 1987, the income tax was computed using the previous tax rates (46 percent) and for the period after July 1, 1987 using the new tax rates (34 percent). The tax liability was the sum of the tax computed under the old and new rates.

The corporate taxable income brackets and tax rates effective for tax years beginning on or after July 1, 1987 were as follows:

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 flat tax rate of 34 percent.

Under prior law, corporate taxable income was subject to tax under a five step graduated rate structure. The maximum rate was 46 percent on taxable income over $100,000. The corporate taxable income brackets and tax rates prior to Tax Year 1987 are presented below.

Taxable Income	Tax Rate
Not over $25,000	15
Over $25,000 but not over $50,000	18
Over $50,000 but not over $75,000	30
Over $75,000 but not over $100,000	40
Over $100,000	46

A corporation's taxable income in excess of $1 million was subject to the additional 5 percent tax. The maximum additional tax was $20,250. The additional tax was an adjustment which phased out the benefits of graduated corporate tax rates for corporations with taxable income in excess of $1,405,000. Corporate taxable income in excess of that amount was subject to a flat tax rate of 46 percent. The additional tax was added by the Deficit Reduction Act of 1984.

Completed Contract Method of Accounting for Sales from Long-Term Contracts

Corporations entering into long-term contracts after February 28, 1986 were required to account for the income and expense items, related to the contract, using either: the percentage of completion-capitalized cost method of accounting or the percentage of completion method, as defined under Code section 460. Corporations could no longer use the completed contract method of accounting for the income and expense items related to their sales from long-term contracts.

Corporations which previously used the completed contract method were required to change their method of accounting. The change in methods required that corporations report a portion of the income and expense items, related to the long-term contract, in each of its taxable years; whereas, previously such items were not included in the computation of taxable income until completion of the contract. The change specified that 40 percent of the items were to be accounted for within a current taxable year using the percentage of completion method. (This percentage was revised by the Omnibus Reconciliation Act of 1987 to 70 percent.) The remaining 60 percent was to be accounted for using the corporation's normal method of accounting (revised to 30 percent by the 1987 Act). The revised percentages were effective for contracts entered into after October 13, 1987.

Deduction for Bad Debt Reserves

Provisions of the 1986 Act changed the method of computing the deduction for bad debts allowed to mutual savings banks, domestic building and loans associations, and cooperative banks. For those businesses, the deduction was reduced from 40 percent to 8 percent of a modified taxable income, effective for taxable years beginning after December 31, 1986. For small business investment companies and large banks, the deduction for additions to the bad debt reserve account was repealed .

Previously, the reserve method or the specific charge-off method were the two methods allowed to all commercial banks for computing a deduction for bad debts, for federal income tax purposes. Under the reserve method, a deduction was computed for a reasonable addition to the bad debt reserve account at the close of the taxable year. Generally, the reasonable addition to the reserve account was the amount needed to increase the account to a computed maximum allowed ending balance. See "Bad Debts," in the Explanation of Terms section, for a discussion of the bad debt deduction under prior law.

Dividends Received Deduction

Beginning for Tax Year 1987, a corporation could deduct an amount equal to 80 percent of the dividends that it received from other domestic corporations as a special deduction against its taxable income. Prior to the Tax Reform Act, the allowable percentage was 85 percent. The new percentage was effective for dividends received or accrued after 1986.

Environmental Tax

As a result of the Superfund Amendments and Reauthorization Act of 1986, corporations were required to pay a new income tax—the environmental tax. The requirements for this tax were provided under the new section 59A of the Internal Revenue Code of 1986. 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," in the Explanation of Terms. 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 section 164 (a) of the Internal Revenue Code of 1986. In general, the environmental tax was effective for taxable years beginning after December 31, 1986 and before January 1, 1992.

Minimum Tax Credit

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

The credit was allowed for a recomputed alternative minimum tax from a prior year. The alternative minimum tax was recomputed to disregard the carryover of investment tax credits and 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 minimum tax credit could be carried forward indefinitely. There were no carryback provisions for the minimum tax credit.

Since some of the returns included in this report had accounting periods ending in 1988, a small amount of this credit was included in the 1987 statistics.

New Forms 1120–REIT, 1120–RIC, 1120–PC

As a result of the Tax Reform Act of 1986, certain new U.S. corporate income tax forms were developed:

a. Form 1120–REIT, U.S. Income Tax Return for Real Estate Investment Trusts
b. Form 1120–RIC, U.S. Income Tax Return for Regulated Investment Companies
c. Form 1120–PC, U.S. Property and Casualty Insurance Company Income Tax Return

The new forms were filed for tax years beginning after December 31, 1986. Tax Year 1987 was the first tax year for which the new tax forms were used to collect the data contained in the Statistics of Income reports. Data from the new forms were combined with data abstracted from other corporate tax forms for producing the tables in this report.

An election to be treated as a REIT or RIC, after December 31, 1986, was made by filing and computing taxable income and tax on the respective new form. Those entities created under previous elections, were required to file and compute their taxable income and tax on the new forms for tax years beginning after 1986, as well. Previously, those companies were required to file Form 1120, U.S. Corporation Income Tax Return or Form 1120–A, U.S. Corporation Short-Form Income Tax Return. See the Explanation of Terms section for a description of a Real Estate Investment Trust (REIT) and a Regulated Investment Company (RIC).

Nonlife mutual and stock insurance companies were required to compute taxable income on the new Form

1120-PC for tax years beginning after 1986. Previously, nonlife mutual insurance companies were required to file Form 1120M, U.S. Mutual Insurance Company Income Tax Return. The Form 1120M was made obsolete with the new Form 1120-PC. Nonlife stock insurance companies previously filed Form 1120 or Form 1120-A.

In the statistics, nonlife stock insurance companies were combined with other nonlife insurance companies. The other nonlife insurance companies (such as title insurance companies) continued to file Forms 1120, 1120A, 1120S, and 1120F, as they have in the past. With the new Form 1120-PC, balance sheet data for a mutual insurance company were compiled from the income tax return, whereas, data were previously compiled from the annual statement attached to the return or from reference books.

SECTION 3

DESCRIPTION OF THE SAMPLE AND LIMITATIONS OF THE DATA*

This section describes the 1987 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 1987, the sample proportion had decreased to 2.3 percent, or 83,656 returns selected from a population of over 3.6 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].

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 1987, see Section 1. The following chart gives the estimated number of active corporations by form type that filed during Tax Years 1983 through 1987.

	YEAR**				
FORM TYPE	1983	1984	1985	1986	1987
1120	2,329,650	2,277,675	2,294,081	2,331,809	2,224,778
1120-A	*	164,816	239,255	251,012	238,730
1120S	648,267	701,339	724,749	826,216	1,127,905
1120L	1,798	2,042	2,269	2,335	2,273
1120M	1,463	1,490	1,464	1,466	*
1120PC	*	*	*	*	2,046
1120RIC	*	*	*	*	1,980
1120REIT	*	*	*	*	145
1120F	7,996	10,900	11,678	11,336	10,478
1120-IC-DISC	9,898	12,480	1,383	1,443	1,185
1120-FSC	*	*	2,341	2,900	2,613
TOTAL	2,999,071	3,170,743	3,277,219	3,428,515	3,612,133

*Form not in existence at that time.
**Figures exclude out-of-scope returns (inactives, duplicates, etc.)

SAMPLE DESIGN

The current sample design is a stratified probability sample based on form type with one or both of the stratifiers: size of total assets and a measure of income. Forms 1120, 1120-A, 1120RIC, 1120REIT, 1120-FSC, and 1120-IC-DISC were stratified according to size of total assets and size of proceeds where proceeds is the measure of income and is defined to be the larger of the absolute value of net income (or deficit) or absolute value of "Cash Flow" (depreciation + depletion + net income). Forms 1120F, 1120L, and 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 85,000 [6]. Figures D, E1, and E2 give stratum boundary

*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.

limits, population and sample sizes, and sample rates for all form types. The final sample size for Tax Year 1987 was 83,656 returns for all form types.

Since 1981, the population has increased in size from 2.8 million to over 3.6 million in 1987. The sample size, on the other hand, has remained fixed at around 85,000. As a consequence, sampling rates have gone down considerably in recent years. The overall sampling percentage for all returns was 3.04% in 1981 and decreased to 2.32% in 1987. Issues raised by keeping the sample size relatively fixed over the years include the effects on cross-sectional estimates, the effects on short year-to-year changes and longitudinal sample composition. Research is currently being conducted on these issues and the findings will be used as a basis for future sample designs [7].

SAMPLE SELECTION

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

Sample selections for the 1987 corporation study took place during the period from July 1987 through June 1989. A twenty-four month sampling period is needed for two reasons. First, over 45% of all corporations have non-calendar year accounting periods (See figure B.) To allow for this, the 1987 SOI file represents all corporations filing returns with accounting periods ending during the period from July 1987 to June 1988. 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 1988 (1987 accounting period ending June 1988), could be timely filed as late as March 1989. Normal administrative processing time lags require that the sampling process remain open for the 1987 study until June 30, 1989. However, a few very large returns for Tax Year 1987 were added to the sample as late as December 1989.

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 1987, 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

Figure D.—Corporation Returns: Number Filed, Number in Sample, Prescribed and Achieved Sampling Rates, by Sample Selection Class, Income Year 1987

Sample Class Number	Description of Sample Selection Classes (See Notes)				Number of Returns		Sampling Rates (Percent)	
	Size of Total Assets	Size of Proceeds**	Industry Class	Year Sampled	Estimated Populat'n	Sample Size	Prescribed	Achieved
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	All Returns, Total		*	*	3,612,133	83,656	* %	2.32%
	Forms 1120, 1120A and 1120S with Form 5735 attached, Total		*	*	505	497	100.00	98.42
1	Under $50,000,000		B	All	422	414	100.00	98.10
	Under $100,000,000		A	All				
2	$50,000,000 or more		B	All	83	83	100.00	100.00
	$100,000,000 or more		A	All				
	Forms 1120, 1120A and 1120S (no Form 5735 attached), Total		*	*	3,593,023	77,393	*	2.16
3	Under $50,000	Under $25,000	All	All	1,307,212	3,979	0.30	0.30
4	$50,000 under $100,000	$25,000 under $50,000	All	All	575,766	2,514	0.40	0.44
5	$100,000 under $250,000	$50,000 under $100,000	All	All	697,536	4,769	0.65	0.68
6	$250,000 under $500,000	$100,000 under $250,000	All	All	414,334	5,961	1.40	1.44
7	$500,000 under $1,000,000	$250,000 under $500,000	All	All	256,931	6,634	2.50	2.58
8	$1,000,000 under $2,500,000	$500,000 under $1,000,000	All	All	183,572	10,210	5.50	5.56
9	$2,500,000 under $5,000,000	$1,000,000 under $1,500,000	All	All	68,489	5,386	8.00	7.86
10	$5,000,000 under $10,000,000	$1,500,000 under $2,500,000	All	All	36,336	5,540	15.00	14.96
11	$10,000,000 under $25,000,000	$2,500,000 under $5,000,000	All	All	25,062	9,857	42.00	39.33
12	$25,000,000 under $50,000,000	$5,000,000 under $10,000,000	All	7,8	8,557	3,413	42.00	39.88
	$25,000,000 under $50,000,000	$5,000,000 under $10,000,000	All	9				
13	$25,000,000 under $50,000,000	$5,000,000 or more	B	7,8	8,027	8,027	100.00	100.00
	$50,000,000 under $100,000,000	$10,000,000 or more	A	7,8				
	$50,000,000 under $100,000,000	$10,000,000 under $15,000,000	All	9				
14	$100,000,000 under $250,000,000		A	7,8	6,522	6,522	100.00	100.00
	$50,000,000 under $250,000,000		B	7,8				
	$100,000,000 under $250,000,000	$15,000,000 or more	All	9				
15	$250,000,000 or more		All	7,8	4,681	4,681	100.00	100.00
	Forms 1120L, Total		*	*	2,294	1,319	*	57.50
16	Under $50,000,000		All	All	1,960	985	50.00	50.25
17	$50,000,000 under $250,000,000		All	All	161	161	100.00	100.00
18	$250,000,000 or more		All	All	173	174	100.00	100.00
	Forms 1120F (with effectively connected income in U.S.), Total		*	*	10,438	2,330	*	22.32
19	Under $25,000,000		B	All	10,110	2,002	25.00	19.80
	Under $50,000,000		A	All				
20	$25,000,000 under $50,000,000		B	All	81	81	100.00	100.00
	$50,000,000 under $100,000,000		A	All				
21	$50,000,000 or more		B	All	247	247	100.00	100.00
	$100,000,000 or more		A	All				
	Forms 1120PC, Total		*	*	2,073	628	*	30.31
22	Under $50,000,000		All	8	1,765	342	*	19.39
	Under $100,000		6359	9				
23	$50,000,000 under $100,000,000		All	8	92	92	100.00	100.00
	$100,000 under $5,000,000		6359	9				
24	$100,000,000 or more		All	8	14	1	10.00	7.14
	$100,000 under $5,000,000		6359	9				
25	$5,000,000 under $50,000,000		6359	9	176	176	100.00	100.00
26	$5,000,000 under $50,000,000		6359	9	3	2	50.00	60.00
27	$50,000,000 under $250,000,000		6359	9	5	5	100.00	100.00
28	$250,000,000 or more		6359	9	3	3	100.00	100.00
29	Under $100,000		6356	9	4	2	.35	50.00
30	$100,000 under $5,000,000		6356	9	6	1	10.00	16.67
31	$5,000,000 under $50,000,000		6356	9	2	2	50.00	100.00
32	$50,000,000 under $250,000,000		6356	9	3	2	100.00	66.67
33	$250,000,000 or more		6356	9	0	0	100.00	100.00
	Forms 1120-IC-DISC, (See Figure E1)		*	*	1,185	702	*	59.29
	Forms 1120-FSC, (See Figure E2)		*	*	2,613	787	*	30.13

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
1987 Class	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
1988 Class	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Industry Code	3370	3440	3490	3550	3670	3698	3998	4200	5008	5050	5060	5098	5140	5150	5170	5190	5300	5410	5515
1987 Class	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
1988 Class	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A

Industry Code	5995	6030	6060	6090	6120	6140	6150	6199	6210	6359	6411	6511	6550	6599	6742	6749	7000	7389	7900	Other
1987 Class	B	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	B	B	B	B
1988 Class	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	B

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

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

EXAMPLE #2: A General Merchandise Store files a 1987 Form 1120 return and is sampled in 1987. The principal Business Activity (PBA) Code is listed as 5300. Reported total assets are $7,500,000 and reported Net Deficit is $3,000,000. The Industry Class is B and the year is 6. The sample class is 11 based on size of proceeds for Industry Class B and Sampled Year 6 rather than 10 based on size of total assets for all years and Indı stry Classes.

Figure E1.—Interest Charge Domestic International Sales Corporation Returns: Number Filed, Number in Sample, Prescribed and Achieved Sampling Rates, by Sample Selection Class, Income Year 1987

Description of Sample Selection Class		Number of Returns		Sampling Rates (Percent)	
Size of Total Assets	Size of Proceeds	Population	Sample	Prescribed	Achieved
(1)	(2)	(3)	(4)	(5)	(6)
All Forms 1120-IC-DISC Returns		1,185	702	*	54.0%
MCS under $10,000,000 & IC-DISC under $25,000	Under $10,000	85	3	5.0	3.5
MCS under $10,000,000 & IC-DISC $25,000 under $50,000	$10,000 under $25,000	65	10	10.0	15.4
MCS $10,000,000 under $25,000,000 & IC-DISC under $50,000	Under $25,000				
MCS under $25,000,000 & IC-DISC $50,000 under $100,000	$25,000 under $50,000	118	25	20.0	21.2
MCS $25,000,000 under $50,000,000 & IC-DISC under $100,000	Under $50,000				
MCS under $50,000,000 & IC-DISC $100,000 under $250,000	$50,000 under $100,000	204	68	30.0	33.3
MCS $50,000,000 under $100,000,000 & IC-DISC under $250,000	Under $100,000				
MCS under $100,000,000 & IC-DISC $250,000 under $500,000	$100,000 under $200,000	233	116	50.0	49.8
MCS $100,000,000 under $250,000,000 & IC-DISC under $500,000	Under $200,000				
MCS under $250,000,000 & IC-DISC $500,000 under $1,000,000	$200,000 under $500,000	237	237	100.0	100.0
MCS under $250,000,000 & IC-DISC $1,000,000 or more	$500,000 or more	243	243	100.0	100.0
MCS $250,000,000 or more & IC-DISC any amount	Any amount				

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

Figure E2.—Foreign Sales Corporation Returns: Number Filed, Number in Sample, Prescribed and Achieved Sampling Rates, by Sample Selection Class, Income Year 1987

Description of Sample Selection Class		Number of Returns		Sampling Rates (Percent)	
Size of Total Assets	Size of Proceeds	Population	Sample	Prescribed	Achieved
(1)	(2)	(3)	(4)	(5)	(6)
All Forms 1120-FSC Returns		2,613	787	*	30.1%
MCS under $10,000,000 & FSC under $500,000	Under $200,000	833	29	5.0	3.5
MCS under $10,000,000 & FSC $500,000 under $1,000,000	$200,000 under $500,000	462	43	10.0	9.3
MCS $10,000,000 under $25,000,000 & FSC under $1,000,000	Under $500,000				
MCS under $25,000,000 & FSC $1,000,000 under $2,500,000	$500,000 under $1,000,000	331	70	20.0	21.1
MCS $25,000,000 under $50,000,000 & FSC under $2,500,000	Under $1,000,000				
MCS under $50,000,000 & FSC $2,500,000 under $5,000,000	$1,000,000 under $1,500,000	277	75	30.0	27.1
MCS $50,000,000 under $100,000,000 & FSC under $5,000,000	Under $1,500,000				
MCS under $100,000,000 & FSC $5,000,000 under $10,000,000	$1,500,000 under $2,500,000	256	116	50.0	45.3
MCS $100,000,000 under $250,000,000 & FSC under $10,000,000	Under $2,500,000				
MCS under $100,000,000 & FSC $10,000,000 under $25,000,000	$2,500,000 under $5,000,000	20	20	100.0	100.0
MCS under $250,000,000 & FSC $25,000,000 or more	$5,000,000 or more	434	434	100.0	100.0
MCS $250,000,000 or more & FSC any amount	Any amount				

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

Center (DCC) for further processing. At this stage, the data are subjected to about 1100 consistency tests. These tests look for:

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

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

DATA COMPLETION

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

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

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

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

A ratio-based imputation procedure is used to fill in missing balance sheet items from all 1120 form types excluding Forms 1120-IC-DISC/FSC. Missing balance sheet items are imputed for returns with 12 month accounting periods. Imputation is not used on returns with less than 12 month accounting periods. The ratios are determined by major industry group from the previous year's data. The imputed amounts are calculated from these ratios and the business or total receipts available from the return [12]. A total of 361 returns in 1987 had balance sheet items imputed.

Data for unavailable critical corporations, corporations whose total assets are greater than or equal to two percent of their minor industry's total assets or whose total assets are over a specified limit (dependent on form type), are imputed in two ways. 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 1987. 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 eight of these cases in 1987.

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 1987, 24,173 returns were subjected to this type of imputation. Of these, 15,081 had "other income" schedules imputed, 17,684 had "other deduction" schedules imputed, and 10,476 had "other cost of goods sold" schedules imputed. It was estimated that SOI realized an annual cost savings of over $300,000 using this technique [13, 14].

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

- Inactive returns having neither income nor deductions;
- Duplicate returns;
- Amended returns not associated with the original returns and which were not earlier removed by the selection process;
- Tentative returns not associated with the revised returns and which were not earlier removed by the selection process;

- Returns exempt under Section 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 to1986 and having ending accounting periods before July 1987.

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

Type of Return	Year 1983	1984	1985	1986	1987
Inactive	120,104	155,778	152,945	186,524	237,631
Duplicate	43,999	59,106	64,110	72,090	68,045
Prior Year	32,305	46,234	67,848	90,637	59,248
Other	1,784	1,576	2,587	767	1,940
Total	198,192	262,694	287,490	350,018	366,864

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, 1120-FSC, 1120-IC-DISC, and Form 1120 with Form 5735 attached. A two-step process was used to determine the weights for Forms 1120, 1120-A, 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 1/0.5025 = 1.99. (See Figure D) These weights are used to produce the aggregated total frequencies and money amounts published in this report for Forms 1120L, 1120PC, 1120-FSC, 1120-IC-DISC, and Form 1120 with Form 5735 attached.

The two-step process is needed because industry estimates are desired. The first stage is identical to the one-step process as described above and provides an initial weight for the record. The second stage involves post-stratification by industry. During post-stratification certain cells have small sample sizes. To handle this problem, a raking ratio estimation approach to post-stratification is employed to determine the final weights [15, 16]. These final weights are used to produce the aggregated frequencies and money amounts published in this report for Forms 1120, 1120-A, 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 1987 data with the 1986 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 F. 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 pre-

Figure F—Coefficient of Variation of Estimated Number of Returns, Income Year 1987

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	Forms 1120-IC-DISC/FSC tables
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	(Percent) [2 3]									
200	128.61	85.22	58.52	43.43	29.15	16.85	8.77	(5)	128.61	37.66
300	105.01	69.58	47.78	35.46	23.80	13.76	7.16	(5)	105.01	30.75
400	90.94	60.26	41.38	30.71	20.61	11.92	6.20	(5)	90.94	26.63
500	81.34	53.90	37.01	27.47	18.43	10.66	5.55	(5)	81.34	23.82
600	74.25	49.20	33.79	25.08	16.83	9.73	5.07	(5)	74.25	21.74
700	68.74	45.55	31.28	23.22	15.58	9.01	4.69	(5)	68.74	20.13
800	64.30	42.61	29.26	21.72	14.57	8.43	4.39	(5)	64.30	18.83
900	60.63	40.17	27.59	20.47	13.74	7.94	4.14	(5)	60.63	17.75
1,000	57.52	38.11	26.17	19.42	13.03	7.54	3.92	(5)	57.52	16.84
1,200	52.50	34.79	23.89	17.73	11.90	6.88	3.58	(5)	52.50	15.38
1,400	48.61	32.21	22.32	16.42	11.02	6.37	3.22	(5)	48.61	14.24
1,600	45.47	30.13	20.69	15.36	10.30	5.96	3.10	(5)	45.47	13.32
1,800	42.87	28.41	19.51	14.48	9.72	5.62	2.92	(5)	42.87	12.55
2,000	40.67	26.95	18.51	13.73	9.22	5.33	2.77	(5)	40.67	11.91
2,500	36.38	24.10	16.55	12.28	8.24	4.77	2.48	(5)	36.38	10.65
3,000	33.21	22.00	15.11	11.21	7.53	4.35	2.27	(5)	33.21	9.72
4,000	28.76	19.06	13.09	9.71	6.52	3.77	1.96	(5)	28.76	(4)
5,000	25.72	17.04	11.70	8.69	5.83	3.37	1.75	(5)	25.72	(4)
7,000	21.74	14.40	9.89	7.34	4.93	2.85	1.48	(5)	21.74	(4)
10,000	18.19	12.05	8.28	6.14	4.12	2.38	1.24	(5)	18.19	(4)
15,000	14.85	9.84	6.76	5.02	3.37	1.95	1.01	(4)	14.85	(4)
25,000	11.50	7.62	5.23	3.88	2.61	1.51	.78	(4)	11.50	(4)
35,000	9.72	6.44	4.42	3.28	2.20	1.27	.66	(4)	9.72	(4)
50,000	8.13	5.39	3.70	2.75	1.84	(4)	(4)	(4)	8.13	(4)
75,000	6.64	4.40	3.02	2.24	1.51	(4)	(4)	(4)	6.64	(4)
100,000	4.86	3.22	2.21	1.64	1.10	(4)	(4)	(4)	4.86	(4)
150,000	4.70	3.11	2.14	1.59	1.06	(4)	(4)	(4)	4.70	(4)
250,000	3.64	2.41	1.66	1.23	(4)	(4)	(4)	(4)	3.64	(4)
500,000	2.57	1.70	1.17	(4)	(4)	(4)	(4)	(4)	2.57	(4)
700,000	2.17	1.44	(4)	(4)	(4)	(4)	(4)	(4)	2.17	(4)
1,000,000	1.82	(4)	(4)	(4)	(4)	(4)	(4)	(4)	1.82	(4)
1,500,000	1.49	(4)	(4)	(4)	(4)	(4)	(4)	(4)	1.49	(4)
2,000,000	1.29	(4)	(4)	(4)	(4)	(4)	(4)	(4)	1.29	(4)

[1] Includes zero assets and assets not reported.
[2] Coefficient of variation is zero for returns with total assets of $100,000,000 or more
[3] This percentage should normally not be used for estimates designated by a single asterisk (*) because the approximation shown here is inapplicable when the sample is too small to yield reliable confidence interval estimates.
[4] Not applicable because the estimated number of returns is greater than the population count.
[5] Coefficient of variation is less than .005 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 = 33.79%, divide CV by 10 = 3.38% for 60,000 returns.

scribed 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

$$X = 68{,}489 \text{ returns.}$$

A coefficient of variation (CV) of 1.55 percent for this frequency is obtained by using column 5 of Figure F and interpolating as indicated in the footnote found there.

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

$$\begin{aligned} SE(X) &= X * CV(X) \\ &= 68{,}489(.0155) \\ &= 1{,}062 \text{ returns} \end{aligned}$$

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:

$$(X - 2 * SE(X),\ X + 2 * SE(X))$$
$$(68{,}489 - 2 * 1{,}062,\ 68{,}489 + 2 * 1{,}062)$$
$$(68{,}489 - 2{,}124,\ 68{,}489 + 2{,}124)$$

Thus, the interval estimate is from 66,365 returns to 70,613 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 1987, there were 213 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 1984-1987.

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

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 for years 1985-1987.

Year	1985	1986	1987
Total	3,849	2,264	3,213

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	**3,612,133**	**1,995,452**	**9,580,720,701**	**7,246,439,617**	**8,414,537,647**	**5,596,218,574**	**465,234,737**	**137,011,027**	**311,840,615**
Agriculture, forestry, and fishing	**116,544**	**65,059**	**77,057,114**	**56,109,529**	**71,809,603**	**50,565,416**	**4,010,915**	**2,384,414**	**1,770,932**
Agricultural production	74,738	42,341	49,418,817	33,958,910	45,014,033	31,344,128	2,773,849	1,807,684	1,328,843
Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping	41,806	22,718	27,638,297	22,150,620	26,795,570	19,221,287	1,237,066	576,731	442,089
Mining	**42,050**	**16,764**	**96,805,871**	**49,211,356**	**85,846,689**	**56,325,162**	**6,039,881**	**5,764,833**	**3,237,322**
Metal mining	1,955	480	9,287,256	4,096,083	7,752,961	5,386,823	874,705	427,733	615,609
Iron ores	*29	*24	*1,452,421	*1,338,394	*1,245,133	*1,020,388	*147,040	*10,891	*106,300
Copper, lead and zinc, gold and silver ores	983	83	3,314,063	2,271,868	2,481,557	1,537,882	649,809	315,563	*479,076
Other metal mining	943	374	4,520,772	485,821	4,026,270	2,828,553	77,856	101,280	30,233
Coal mining	4,513	1,629	18,539,395	13,382,197	17,205,818	12,091,306	739,190	407,278	301,190
Oil and gas extraction	31,694	12,085	56,892,529	20,921,889	49,673,777	32,425,137	3,295,565	4,766,541	1,488,232
Crude petroleum, natural gas, and natural gas liquids	16,521	6,360	38,167,678	14,304,988	32,707,651	22,081,991	2,714,780	2,539,234	1,263,680
Oil and gas field services	15,173	5,725	18,724,851	6,616,901	16,966,127	10,343,146	580,786	2,227,307	224,552
Nonmetallic minerals, except fuels	3,888	2,571	12,086,690	10,811,187	11,214,132	6,421,896	1,130,421	163,281	832,292
Dimension, crushed, and broken stone; sand and gravel	2,987	2,043	8,168,967	7,427,723	7,775,377	4,709,223	680,547	95,568	451,964
Other nonmetallic minerals, except fuels	901	528	3,917,723	3,383,463	3,438,755	1,712,672	449,873	67,713	380,327
Construction	**371,169**	**222,498**	**454,831,094**	**343,388,108**	**442,491,245**	**344,505,785**	**15,360,778**	**6,660,136**	**7,843,763**
General building contractors and operative builders	155,676	85,203	218,480,158	159,812,463	211,051,191	176,208,958	6,778,935	3,554,752	3,031,464
General building contractors	152,281	83,510	207,710,782	150,823,881	201,228,009	169,827,488	5,989,377	3,450,678	2,662,630
Operative builders	3,395	1,693	10,769,376	8,988,582	9,823,182	6,381,470	789,558	104,074	368,833
Heavy construction contractors	21,192	12,518	64,849,318	50,013,226	62,232,032	48,446,576	2,668,065	830,614	1,571,520
Special trade contractors	194,301	124,777	171,501,619	133,562,419	169,208,022	119,850,250	5,913,779	2,274,769	3,240,780
Plumbing, heating, and air conditioning	40,076	28,117	37,473,896	29,735,922	37,008,541	26,947,106	1,151,110	429,455	703,408
Electrical work	28,712	18,453	29,117,149	23,073,422	28,649,660	20,977,112	960,617	280,598	528,760
Other special trade contractors and contractors not allocable	125,513	78,208	104,910,574	80,753,076	103,549,821	71,926,033	3,802,051	1,564,716	2,008,612
Manufacturing	**294,211**	**169,988**	**3,141,406,444**	**2,440,413,550**	**2,946,695,175**	**2,034,818,784**	**172,315,960**	**26,822,069**	**145,836,088**
Food and kindred products	18,785	9,955	343,866,908	285,096,417	329,603,236	233,053,010	15,484,976	1,985,514	13,079,814
Meat products	3,297	1,673	63,135,011	42,908,506	62,404,507	54,046,148	884,652	356,391	645,517
Dairy products	2,325	1,050	36,839,062	31,442,232	35,549,120	26,427,379	1,394,872	252,843	1,291,399
Preserved fruits and vegetables	427	221	21,146,089	19,511,962	19,955,660	13,538,959	1,352,104	85,915	900,561
Grain mill products	1,750	932	59,590,210	54,702,221	56,742,702	38,779,919	3,550,697	120,468	3,403,864
Bakery products	3,395	1,698	13,272,441	10,505,338	13,000,118	7,436,074	550,608	103,645	400,752
Sugar and confectionery products	1,762	824	22,882,328	20,251,672	22,016,623	13,845,445	1,074,600	105,097	838,464
Malt liquors and malt	18	7	16,074,089	11,764,813	15,616,128	8,739,638	917,640	152,860	905,495
Alcoholic beverages, except malt liquors and malt	990	745	9,556,284	7,459,934	8,423,300	5,461,919	950,869	102,108	729,102
Bottled soft drinks, and flavorings	1,508	866	43,638,480	34,950,815	40,669,466	22,627,326	2,477,398	387,926	2,120,969
Other food and kindred products	3,312	1,939	57,732,915	51,598,924	55,225,612	42,150,204	2,331,538	318,261	1,843,692
Tobacco manufactures	64	61	54,404,263	51,403,883	50,879,271	26,323,881	4,357,018	*76,660	4,191,280
Textile mill products	4,936	3,804	52,875,162	43,518,604	52,087,009	39,139,225	2,413,653	505,515	1,740,804
Weaving mills and textile finishing	713	547	19,064,060	16,204,634	18,782,343	13,791,548	904,894	150,553	740,670
Knitting mills	1,310	863	7,409,191	5,937,470	7,354,682	5,447,179	389,323	83,230	226,382
Other textile mill products	2,913	2,395	26,401,911	21,376,500	25,949,984	19,900,498	1,119,436	271,732	773,753
Apparel and other textile products	17,515	9,883	64,492,571	50,030,312	63,076,570	45,525,256	2,512,998	947,019	1,419,446
Men's and boys' clothing	2,237	2,005	15,761,872	12,104,084	15,298,472	10,966,574	513,303	164,520	274,889
Women's and children's clothing	5,429	2,570	27,824,063	21,720,829	27,199,475	19,846,602	1,309,175	546,896	789,916
Other apparel and accessories	4,392	2,259	8,731,681	6,297,943	8,614,266	6,109,994	239,860	123,399	136,585
Miscellaneous fabricated textile products; textile products, not elsewhere classified	5,457	3,048	12,174,955	9,907,457	11,964,357	8,602,086	450,661	112,204	218,057
Lumber and wood products	19,067	13,260	85,683,972	73,470,005	81,495,871	59,903,265	4,857,528	696,995	3,322,135
Logging, sawmills, and planing mills	7,549	5,897	33,588,651	31,532,240	31,555,368	23,083,166	2,159,137	113,996	1,493,219
Millwork, plywood, and related products	6,154	4,415	32,686,791	28,481,903	31,366,359	23,304,760	1,763,524	211,830	1,299,983
Other wood products, including wood buildings and mobile homes	5,364	2,949	19,408,530	13,455,862	18,574,145	13,515,339	934,868	371,170	528,932
Furniture and fixtures	8,994	4,649	36,499,923	28,251,465	35,729,290	24,951,399	1,940,546	400,994	1,610,888
Paper and allied products	2,736	2,304	100,149,258	94,114,343	96,411,125	64,306,061	6,385,677	235,593	5,693,871
Pulp, paper, and board mills	447	308	54,806,783	53,712,404	52,520,361	34,675,417	2,927,705	82,771	2,672,537
Other paper products	2,289	1,996	45,342,476	40,401,939	43,890,763	29,630,644	3,457,972	152,822	3,021,334
Printing and publishing	47,642	26,326	139,364,219	110,684,017	132,982,936	67,205,336	9,715,230	1,839,483	8,186,614
Newspapers	5,111	3,400	46,042,779	38,824,591	43,289,300	17,836,642	4,574,426	474,208	4,207,902
Periodicals	5,748	2,021	17,434,719	13,694,456	16,467,193	7,926,406	1,070,519	347,264	832,155
Books, greeting cards, and miscellaneous publishing	7,722	3,474	23,560,402	20,744,148	22,025,556	8,629,957	1,953,613	258,356	1,645,215
Commercial and other printing and printing trade services	29,062	17,431	52,326,319	37,420,821	51,200,887	32,812,332	2,116,671	759,655	1,501,342
Chemicals and allied products	10,545	5,687	306,409,318	276,971,642	282,921,980	170,591,337	29,490,192	1,601,169	27,026,208
Industrial chemicals, plastics materials and synthetics	4,843	2,414	147,277,975	134,526,731	135,782,348	87,909,136	13,351,082	585,961	12,126,365
Drugs	1,030	722	65,474,030	57,326,673	59,397,176	26,269,629	10,634,008	588,442	10,248,780
Soap, cleaners, and toilet goods	1,569	623	59,627,291	56,062,351	55,236,372	35,741,479	3,541,582	154,275	3,097,905
Paints and allied products	840	579	10,131,149	9,401,880	9,905,041	5,936,337	572,166	24,903	461,171
Agriculture and other chemical products	2,263	1,348	23,898,874	19,654,007	22,601,043	14,734,756	1,391,353	247,588	1,091,985
Petroleum (including integrated) and coal products	2,137	1,127	396,218,158	312,885,990	366,019,651	270,561,621	22,225,044	2,112,920	21,504,884
Petroleum refining (including integrated)	841	279	389,110,324	309,156,763	359,177,408	265,647,178	22,062,037	2,011,761	21,436,696
Petroleum and coal products, not elsewhere classified	1,296	848	7,107,835	3,729,227	6,842,243	4,914,443	163,008	101,159	68,188
Rubber and miscellaneous plastics products	12,574	8,222	67,640,160	58,149,731	64,634,090	44,807,251	3,966,316	585,391	3,071,659
Rubber products; plastics footwear, hose and belting	1,879	1,264	30,654,075	28,851,639	28,430,355	19,339,264	2,224,837	84,626	1,978,524
Miscellaneous plastics products	10,694	6,958	36,986,085	29,298,093	36,203,735	25,467,986	1,741,479	500,765	1,093,135
Leather and leather products	1,729	1,380	14,912,443	13,333,263	14,335,022	10,053,746	623,063	107,729	420,268
Footwear, except rubber	352	186	10,597,466	9,843,937	10,095,381	6,883,098	448,380	75,807	307,483
Leather and leather products, not elsewhere classified	1,377	1,193	4,314,977	3,489,325	4,239,642	3,170,648	174,683	31,922	112,785

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	8,532	5,759	63,135,676	50,843,162	59,041,313	39,410,185	4,089,053	603,104	3,323,534
Glass products	866	510	21,895,752	18,103,992	19,983,833	12,934,550	1,586,127	108,881	1,407,014
Cement, hydraulic	634	467	6,636,255	3,932,793	6,149,913	4,105,066	299,554	68,304	188,068
Concrete, gypsum, and plaster products	4,293	3,071	21,253,776	17,947,702	20,230,624	13,906,102	1,338,606	234,519	1,035,972
Other nonmetallic mineral products	2,740	1,710	13,349,894	10,858,676	12,676,943	8,464,467	864,766	191,400	692,481
Primary metal industries	4,590	3,369	117,289,829	85,932,108	112,087,231	88,127,078	4,066,573	857,075	2,226,536
Ferrous metal industries; miscellaneous primary mineral products	2,666	1,798	64,040,520	48,052,005	61,505,551	45,962,716	2,339,843	537,735	1,248,140
Nonferrous metal industries	1,924	1,571	53,249,310	37,880,103	50,581,680	42,164,362	1,726,730	319,339	978,396
Fabricated metal products	49,106	29,203	169,954,252	135,437,552	163,416,788	114,001,955	9,217,579	2,182,812	6,424,291
Metal cans and shipping containers	134	125	12,717,321	12,239,627	11,976,759	9,193,906	576,218	*9,429	478,269
Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products	5,258	3,538	20,960,779	18,118,626	19,787,795	12,457,526	1,999,867	218,252	1,684,261
Plumbing and heating, except electric and warm air	917	722	10,981,030	10,458,999	10,573,670	6,956,463	798,634	58,455	702,466
Fabricated structural metal products	9,914	5,509	37,809,524	27,267,047	36,727,795	26,789,664	1,374,652	460,083	954,014
Metal forgings and stampings	3,109	2,195	16,307,027	12,986,383	15,897,209	11,397,539	787,104	209,191	461,125
Coating, engraving, and allied services	2,655	2,188	4,663,440	3,917,453	4,600,196	2,731,187	252,533	62,047	144,038
Ordnance and accessories, except vehicles and guided missiles	435	407	1,640,076	1,410,301	1,602,667	1,209,824	88,322	*24,031	67,204
Miscellaneous fabricated metal products	26,684	14,519	64,875,054	49,039,115	62,250,697	43,265,846	3,340,249	1,141,324	1,932,915
Machinery, except electrical	26,831	15,157	241,395,755	192,941,918	209,786,702	135,154,419	15,781,169	3,096,858	13,690,934
Farm machinery	1,916	642	13,755,013	11,917,167	12,438,147	8,820,621	439,605	135,971	335,093
Construction and related machinery	2,012	1,405	29,863,307	22,807,824	28,408,769	20,377,965	1,126,460	700,733	834,709
Metalworking machinery	6,901	4,053	16,282,610	9,937,968	15,660,183	10,381,199	729,424	369,823	440,930
Special industry machinery	4,350	3,454	19,748,071	15,260,360	18,999,122	12,931,339	951,391	271,999	645,426
General industry machinery	3,931	2,123	23,836,175	15,459,147	23,069,577	15,841,654	970,395	238,593	684,350
Office, computing, and accounting machines	590	331	108,460,679	96,879,613	82,991,602	47,457,551	10,167,276	1,113,690	9,650,591
Other machinery, except electrical	7,130	3,148	29,449,899	20,679,839	28,219,303	19,344,091	1,396,618	266,049	1,099,835
Electrical and electronic equipment	22,112	10,629	260,693,649	212,886,973	244,731,250	159,354,860	12,427,420	3,596,811	10,351,053
Household appliances	225	184	14,587,314	12,650,184	14,024,341	10,005,200	736,057	64,710	614,239
Radio, television, and communication equipment	2,247	1,639	32,399,497	25,956,239	30,617,648	19,087,043	1,664,617	607,650	1,345,719
Electronic components and accessories	11,991	5,440	95,810,274	75,136,372	90,561,270	60,478,281	5,017,554	1,968,139	4,003,959
Other electrical equipment	7,650	3,365	117,896,564	99,144,177	109,527,991	69,784,336	5,009,192	956,313	4,387,137
Motor vehicles and equipment	2,483	1,020	360,339,280	141,457,272	336,428,731	269,221,474	7,248,761	2,043,922	6,238,789
Transportation equipment, except motor vehicles	4,175	2,411	137,055,269	121,914,549	128,870,974	97,305,304	7,869,936	814,437	6,234,584
Aircraft, guided missiles and parts	1,329	937	119,089,640	108,904,778	111,504,564	83,519,024	7,177,415	540,467	5,833,343
Ship and boat building and repairing	1,532	884	7,282,424	4,025,290	7,057,120	5,610,481	270,636	135,899	128,099
Other transportation equipment, except motor vehicles	1,313	590	10,683,205	8,984,481	10,309,291	8,175,799	421,886	138,070	273,142
Instruments and related products	9,150	5,893	67,808,448	57,000,941	63,463,996	37,360,786	4,433,380	1,023,711	3,950,917
Scientific instruments and measuring devices; watches and clocks	2,392	1,381	24,977,992	20,322,718	23,396,101	14,034,060	1,306,036	422,287	999,884
Optical, medical, and ophthalmic goods	5,201	3,677	24,466,184	19,037,046	22,787,794	12,140,908	2,164,484	517,924	2,030,962
Photographic equipment and supplies	1,556	835	18,364,272	17,641,178	17,280,101	11,185,818	962,860	83,501	920,071
Miscellaneous manufacturing and manufacturing not allocable	20,507	9,891	61,217,930	44,089,402	58,692,138	38,461,335	3,209,847	1,508,356	2,127,579
Transportation and public utilities	**147,893**	**80,304**	**786,179,466**	**633,499,893**	**736,633,389**	**339,840,645**	**50,070,763**	**12,604,037**	**43,818,326**
Transportation	117,817	63,170	297,405,135	226,878,587	277,451,752	126,727,406	11,615,920	5,087,620	8,189,361
Railroad transportation	602	311	49,827,749	47,618,164	44,540,299	20,559,686	2,543,805	761,706	1,945,728
Local and interurban passenger transit	11,482	6,625	10,732,333	8,695,809	9,524,426	3,801,263	311,475	160,648	154,135
Trucking and warehousing	56,316	31,946	94,050,019	67,182,694	91,160,313	35,950,789	2,546,425	1,305,970	1,523,529
Water transportation	6,353	2,426	16,520,845	10,648,025	15,281,541	9,222,684	692,016	909,039	486,624
Transportation by air	8,759	3,279	77,197,339	57,804,944	70,408,800	26,855,430	3,405,611	1,174,447	2,622,151
Pipelines, except natural gas	81	61	4,523,125	4,466,709	4,356,285	2,398,053	770,193	*7,729	734,656
Transportation services, not elsewhere classified	34,225	18,523	44,553,727	30,462,242	42,180,088	27,939,502	1,346,396	768,080	722,538
Communication	16,109	8,466	202,870,146	178,762,566	189,056,196	67,016,457	17,376,959	3,772,469	16,395,762
Telephone, telegraph, and other communication services	9,169	4,636	177,156,472	159,636,481	166,550,190	58,080,115	15,071,434	2,017,115	14,608,806
Radio and television broadcasting	6,940	3,830	25,713,673	19,126,085	22,506,006	8,936,342	2,305,525	1,755,353	1,786,956
Electric, gas, and sanitary services	13,967	8,668	285,904,184	227,858,741	270,125,441	146,096,783	21,077,884	3,743,949	19,233,203
Electric services	983	305	111,349,755	100,917,187	104,123,464	46,589,172	10,685,810	1,738,198	9,987,150
Gas production and distribution	1,545	1,076	84,622,222	47,094,540	78,843,509	58,045,353	2,753,129	1,228,141	2,302,762
Combination utility services	244	219	73,749,757	65,638,016	71,655,890	34,350,543	6,226,834	449,610	5,793,209
Water supply and other sanitary services	11,196	7,067	16,182,451	14,208,998	15,502,578	7,111,715	1,412,111	328,000	1,150,083
Wholesale and retail trade	**971,758**	**537,686**	**2,766,717,240**	**2,129,260,090**	**2,691,275,402**	**2,076,485,794**	**60,276,175**	**22,236,117**	**41,908,201**
Wholesale trade	316,571	188,016	1,337,358,874	1,040,089,318	1,304,663,738	1,084,747,907	27,778,742	10,022,305	18,358,449
Groceries and related products	26,055	17,853	191,933,515	164,100,619	188,922,826	163,991,929	2,313,050	588,311	1,679,813
Machinery, equipment, and supplies	49,256	28,385	132,496,452	108,131,702	127,906,909	96,685,566	3,654,522	1,435,455	2,450,808
Miscellaneous wholesale trade	241,259	141,778	1,012,928,907	767,856,997	987,834,004	824,070,412	21,811,170	7,998,539	14,227,827
Motor vehicles and automotive equipment	20,225	14,588	120,820,740	83,325,517	118,536,829	99,783,106	2,763,562	1,323,644	2,338,081
Furniture and home furnishings	8,685	3,958	14,420,249	11,006,611	14,169,472	9,884,082	404,330	161,535	262,312
Lumber and construction materials	12,110	8,267	50,394,522	41,932,696	49,528,425	40,822,737	1,184,613	212,389	762,144
Sporting, recreational, photographic, and hobby goods, toys, and supplies	8,513	4,583	19,320,953	15,441,802	19,068,455	14,367,363	581,500	507,744	346,481
Metals and minerals, except petroleum and scrap	6,449	4,457	112,663,493	75,203,190	104,886,239	98,100,284	1,181,861	633,058	604,757
Electrical goods	21,707	13,468	80,299,109	63,676,837	78,607,674	59,243,264	2,388,661	887,697	1,763,791
Hardware, plumbing, and heating equipment and supplies	13,875	9,783	42,014,849	34,073,626	41,239,600	31,280,358	1,157,936	159,651	751,706
Other durable goods	50,373	29,724	109,359,452	92,670,231	107,070,827	84,683,822	2,987,753	1,004,715	1,695,442
Paper and paper products	9,833	4,794	26,926,376	20,756,719	26,573,289	20,900,103	564,804	170,125	355,993
Drugs, drug proprietaries, and druggists' sundries	3,482	1,613	30,222,069	26,142,756	29,847,508	24,941,641	550,660	190,801	446,367
Apparel, piece goods, and notions	16,043	8,752	51,398,062	44,196,468	50,517,114	40,755,603	1,557,971	608,796	900,230
Farm-product raw materials	7,908	4,446	78,252,219	60,896,511	76,298,692	69,042,231	991,467	241,172	534,065
Chemicals and allied products	6,083	3,890	24,312,875	21,641,189	23,906,455	18,539,190	753,006	126,107	513,938
Petroleum and petroleum products	12,727	7,367	132,005,909	83,271,940	129,244,608	118,844,849	1,699,662	723,648	1,310,558
Alcoholic beverages	5,109	3,066	39,517,436	34,168,703	38,899,719	29,583,901	1,081,737	112,120	396,421
Miscellaneous nondurable goods; wholesale trade not allocable	38,139	19,021	81,000,595	59,452,204	79,439,096	63,297,879	1,961,645	935,337	1,245,539

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

RETURNS OF ACTIVE CORPORATIONS

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

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

Minor industry	Number of returns: Total	Number of returns: With net income	Total receipts: All returns	Total receipts: Returns with net income	Business receipts	Cost of sales and operations	Net income	Deficit	Income subject to tax
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Wholesale and retail trade—Continued									
Retail trade	650,196	346,067	1,422,714,053	1,084,111,157	1,380,076,778	986,654,635	32,374,772	12,150,322	23,479,833
Building materials, garden supplies, and mobile home dealers	42,085	25,012	79,337,464	63,814,200	77,188,918	55,708,018	2,319,616	838,179	1,404,487
Building materials dealers	18,839	11,314	57,191,904	46,705,034	55,871,226	40,737,513	1,664,358	565,098	965,229
Hardware stores	12,551	8,370	11,549,969	9,298,815	11,348,416	7,611,527	295,815	101,816	188,162
Garden supplies and mobile home dealers	10,694	5,328	10,595,591	7,810,351	9,969,276	7,358,978	359,443	171,265	251,095
General merchandise stores	10,884	7,162	230,273,290	214,827,557	216,694,150	140,246,288	8,114,760	506,644	7,596,478
Food stores	55,993	27,569	269,905,119	203,435,631	265,191,576	203,250,170	3,958,736	1,278,522	3,130,764
Grocery stores	29,153	16,681	249,200,676	189,535,844	244,917,852	189,113,302	3,527,848	926,603	2,931,170
Other food stores	26,841	10,888	20,704,443	13,899,787	20,273,724	14,136,868	430,888	351,919	199,594
Automotive dealers and service spations	90,562	53,074	384,130,039	267,701,504	375,740,924	320,881,984	3,967,624	1,997,273	1,949,230
Motor vehicle dealers	40,782	24,099	309,134,107	214,132,690	301,834,635	263,587,698	2,868,299	1,378,561	1,261,302
Gasoline service stations	20,505	12,024	41,161,234	28,472,028	40,756,993	33,651,525	428,337	230,900	230,410
Other automotive dealers	29,274	16,951	33,834,698	25,096,786	33,149,297	23,642,761	670,988	387,812	457,518
Apparel and accessory stores	52,491	27,428	68,605,864	51,106,535	66,904,188	39,959,119	2,564,950	1,055,230	2,079,109
Furniture and home furnishings stores	34,611	22,550	49,165,584	40,805,243	47,855,695	30,293,465	1,829,684	494,380	1,253,100
Eating and drinking places	149,443	65,345	122,837,008	84,472,761	116,747,101	52,016,049	3,516,180	2,777,702	2,116,363
Miscellaneous retail stores	214,128	117,926	218,459,685	157,947,726	213,754,227	144,299,542	6,103,222	3,202,392	3,950,301
Drug stores and proprietary stores	25,968	17,080	61,181,999	43,999,122	60,082,392	43,845,320	1,143,722	452,871	901,862
Liquor stores	16,035	8,751	11,969,828	7,099,585	11,796,874	9,063,087	175,221	142,879	89,562
Other retail stores	172,125	92,095	145,307,857	106,849,019	141,874,961	91,391,134	4,784,279	2,606,642	2,958,876
Wholesale and retail trade not allocable	4,992	3,603	6,644,312	5,059,615	6,534,885	5,083,252	122,660	63,490	69,920
Finance, insurance, and real estate	**521,136**	**275,637**	**1,589,218,435**	**1,137,746,058**	**818,286,705**	**470,673,440**	**129,179,849**	**41,776,631**	**51,171,985**
Banking	12,243	8,309	394,678,345	326,565,448	45,951,562	767,541	20,377,186	6,152,617	16,830,301
Mutual savings banks	396	357	24,357,427	21,356,271	1,899,016	291,106	2,660,965	149,056	1,671,460
Bank holding companies	5,008	3,417	290,674,398	246,210,835	36,218,499	401,935	13,507,178	3,697,141	11,596,225
Banks, except mutual savings banks and bank holding companies	6,839	4,536	79,646,521	58,998,342	7,834,047	74,499	4,209,043	2,306,420	3,562,616
Credit agencies other than banks	25,945	14,012	209,340,253	171,123,036	74,190,917	48,925,973	11,387,276	9,730,389	7,900,419
Savings and loan associations	3,431	2,333	116,061,995	86,119,776	11,190,850	1,924,192	7,534,007	8,312,123	4,930,534
Personal credit institutions	2,815	2,485	5,743,559	5,321,718	3,193,936	282,363	656,088	59,019	412,582
Business credit institutions	1,906	1,384	4,257,244	3,568,471	1,048,174	365,608	261,750	69,222	99,354
Other credit agencies, finance not allocable	17,792	7,810	83,277,455	76,113,071	58,757,957	46,353,810	2,935,431	1,290,024	2,457,949
Security, commodity brokers and services	17,333	7,526	62,145,404	33,727,811	39,227,902	10,899,254	2,975,306	1,911,829	2,320,540
Security brokers, dealers, and flotation companies	9,248	3,994	49,828,829	25,684,535	28,480,791	5,037,063	2,260,749	1,557,475	1,860,840
Commodity contracts brokers and dealers; security and commodity exchanges; and allied services	8,085	3,533	12,316,575	8,043,276	10,747,110	5,862,191	714,557	354,355	459,700
Insurance	8,293	5,294	614,122,747	387,775,401	466,471,543	315,518,190	22,781,023	10,733,682	13,950,405
Life insurance	2,342	1,630	332,790,723	175,868,690	228,110,088	148,725,999	5,846,460	5,445,241	3,808,832
Mutual insurance, except life or marine and certain fire or flood insurance companies	1,324	1,012	95,789,742	69,843,783	81,981,618	61,071,513	5,945,039	1,198,561	3,811,010
Other insurance companies	4,627	2,651	185,542,282	142,062,928	156,379,837	105,720,678	10,989,525	4,089,881	6,330,564
Insurance agents, brokers, and service	66,048	44,393	34,518,863	27,173,693	31,900,882	5,776,402	3,011,927	612,893	1,877,189
Real estate	350,293	174,267	113,436,448	71,683,363	84,771,958	39,229,271	9,810,740	9,261,937	4,337,902
Real estate operators and lessors of buildings	122,168	68,905	28,495,533	18,064,046	17,185,945	5,647,377	3,097,084	2,946,994	2,123,614
Lessors of mining, oil, and similar property	1,096	883	403,596	270,486	107,642	*81,851	128,218	18,525	103,057
Lessors of railroad property, and of real property, not elsewhere classified	3,686	2,120	382,733	247,877	164,397	85,392	58,953	27,987	42,885
Condominium management and cooperative housing associations	30,079	15,182	6,538,755	3,033,195	4,007,527	987,835	143,232	585,390	72,906
Subdividers and developers	53,584	23,905	37,576,833	25,816,887	31,355,140	22,325,390	3,464,290	2,699,660	812,913
Other real estate	139,680	63,272	40,038,997	24,250,871	31,951,307	10,101,425	2,918,963	2,983,381	1,182,528
Holding and other investment companies, except bank holding companies	40,982	21,835	160,976,375	119,697,306	75,771,942	49,556,809	58,836,390	3,373,284	3,955,229
Regulated investment companies	3,548	2,595	66,363,031	59,722,000	*1,032	—	52,539,436	40,183	40,988
Real estate investment trusts	240	184	3,241,902	2,786,192	*21,519	2,432	936,975	70,278	*8,712
Small business investment companies	4,511	1,582	365,418	229,266	189,780	39	74,655	132,932	34,349
Other holding and investment companies, except bank holding companies	32,683	17,475	91,006,025	56,959,848	75,559,612	49,554,338	5,285,324	3,129,891	3,871,180
Services	**1,119,604**	**619,923**	**663,133,101**	**453,188,593**	**616,469,154**	**219,817,625**	**27,731,097**	**18,479,168**	**16,169,311**
Hotels and other lodging places	23,016	8,318	33,501,040	21,693,471	29,783,809	13,783,255	1,548,136	1,569,280	885,826
Personal services	76,002	36,974	25,009,548	18,474,889	24,049,610	8,862,454	1,154,441	589,894	743,246
Business services	355,130	182,543	232,488,567	158,154,769	217,277,136	101,206,079	9,784,833	7,456,497	5,569,134
Advertising	31,134	18,363	34,682,428	24,543,647	33,687,554	19,027,366	1,012,644	821,596	587,220
Business services, except advertising	323,997	164,179	197,806,138	133,611,122	183,589,581	82,178,713	8,772,188	6,634,901	4,981,914
Auto repair; miscellaneous repair services	104,587	57,887	54,714,443	38,796,587	50,381,347	25,225,975	1,869,537	1,073,216	897,828
Auto repair and services	61,364	32,591	39,429,771	27,655,195	35,297,165	16,708,976	1,250,545	831,869	619,037
Miscellaneous repair services	43,223	25,296	15,284,672	11,141,393	15,084,182	8,516,999	618,992	241,348	278,791
Amusement and recreation services	78,099	31,167	65,875,520	41,673,035	56,330,506	23,357,313	3,083,620	2,879,325	1,699,535
Motion picture production, distribution, and services	15,239	5,992	27,488,695	15,976,359	22,105,643	12,135,967	975,482	908,615	757,612
Motion picture theaters	2,536	1,409	4,139,459	2,172,444	3,870,913	1,174,136	173,839	164,334	119,018
Amusement and recreation services, except motion pictures	60,325	23,765	34,247,365	23,524,232	30,353,951	10,047,210	1,934,299	1,806,377	822,904
Other services	482,770	303,035	251,543,983	174,395,842	238,646,747	47,382,550	10,290,530	4,910,957	6,373,743
Offices of physicians, including osteopathic physicians	143,244	95,379	66,769,788	46,315,820	64,980,658	4,297,176	2,341,450	740,136	1,682,300
Offices of dentists	44,929	31,370	15,505,164	11,192,359	15,296,183	1,808,571	517,107	133,534	358,820
Offices of other health practitioners	20,553	12,433	4,707,814	2,816,490	4,589,772	824,548	209,609	109,946	97,373
Nursing and personal care facilities	11,693	5,587	17,311,372	9,330,918	16,610,836	2,813,085	537,852	525,584	221,549
Hospitals	680	445	22,457,609	18,129,512	20,374,039	3,010,870	1,132,386	210,360	1,073,171
Medical laboratories	8,003	5,989	4,988,273	3,486,946	4,762,328	1,424,365	276,491	184,264	152,624
Other medical services	32,790	16,515	23,858,939	13,541,319	20,725,590	6,409,144	869,852	959,250	452,557
Legal services	54,389	35,430	23,483,433	17,185,664	21,820,934	1,410,831	1,259,702	276,748	670,853
Educational services	22,420	10,732	9,601,539	7,159,798	9,264,789	2,574,786	417,007	251,621	212,003
Social services	11,100	6,593	1,975,301	1,585,838	1,808,003	244,194	104,166	79,856	42,520
Membership organizations	14,637	6,254	5,119,638	3,439,996	4,269,438	1,783,291	155,936	153,133	113,442
Architectural and engineering services	51,914	32,376	33,691,798	23,883,418	32,689,201	12,894,744	1,380,916	700,017	782,296
Accounting, auditing, and bookkeeping services	31,020	24,147	7,828,840	6,257,537	7,624,321	939,787	460,353	111,390	220,739
Miscellaneous services (including veterinarians), not elsewhere classified	35,399	19,786	14,244,475	10,070,226	13,830,655	6,947,159	627,703	475,117	293,494
Nature of business not allocable	**27,767**	**7,592**	**5,371,937**	**3,622,440**	**5,030,285**	**3,185,924**	**249,319**	**283,620**	**84,687**

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

RETURNS OF ACTIVE CORPORATIONS

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

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

Minor industry	Total income tax	Foreign tax credit	U.S. possessions tax credit	Nonconventional source fuel credit	General business credit	Total income tax after credits [1]	Total assets	Depreciable assets	Depreciation deduction
	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
Total returns of active corporations	**118,484,975**	**20,812,861**	**2,666,634**	**52,439**	**7,959,117**	**86,988,756**	**15,310,615,602**	**3,602,960,891**	**316,710,668**
Agriculture, forestry, and fishing	**508,012**	**3,981**	**1,929**	**146**	**48,785**	**453,171**	**55,374,698**	**37,924,150**	**3,422,383**
Agricultural production	374,099	3,966	34	146	40,061	329.892	43,437,474	29,110,389	2,548,957
Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping	133,912	*14	1,895	—	8,723	123,279	11,937,225	8,813,761	873,426
Mining	**1,256,089**	**371,817**	**—**	**2,758**	**70,895**	**810,619**	**220,137,063**	**94,166,629**	**5,955,759**
Metal mining	193,600	*41,238	—	—	38,475	113,887	22,602,315	8,937,469	428,786
Iron ores	*42,457	28,382	—	—	3,940	*10,135	*2,517,075	*1,891,742	*37,441
Copper, lead and zinc, gold and silver ores	134,671	*2,504	—	—	34,529	97,639	9,679,586	3,530,077	230,849
Other metal mining	*16,472	10,352	—	—	7	*6,114	10,405,654	3,515,650	160,496
Coal mining	144,006	279	—	34	16,193	127,500	22,001,436	12,768,150	968,824
Oil and gas extraction	590,025	296,604	—	2,581	11,605	279,235	159,869,982	59,692,079	3,727,833
Crude petroleum, natural gas, and natural gas liquids	505,553	288,177	—	*1,707	3,465	212,204	123,899,773	35,396,889	2,053,871
Oil and gas field services	84,472	*8,427	—	*874	8,141	67,031	35,970,209	24,295,190	1,673,963
Nonmetallic minerals, except fuels	328,458	33,697	—	*143	4,621	289,997	15,663,330	12,768,932	830,316
Dimension, crushed, and broken stone; sand and gravel	176,406	40	—	*9	1,985	174,374	9,364,714	6,758,198	573,655
Other nonmetallic minerals, except fuels	152,052	33,657	—	134	2,637	115,624	6,298,616	6,010,734	256,661
Construction	**2,459,657**	**17,788**	**1,090**	***982**	**102,690**	**2,337,107**	**222,064,937**	**76,500,730**	**8,140,267**
General building contractors and operative builders	979,008	8,619	—	*7	29,997	940,384	128,106,554	24,505,278	2,389,905
General building contractors	840,139	8,619	—	*7	27,910	803,603	115,991,098	23,141,702	2,300,839
Operative builders	138,868	—	—	—	2,087	136,781	12,115,456	1,363,576	89,066
Heavy construction contractors	572,917	*9,102	1,090	*972	33,907	527,847	34,620,796	24,052,785	2,274,029
Special trade contractors	907,732	*67	—	*3	38,786	868,876	59,337,587	27,942,667	3,476,332
Plumbing, heating, and air conditioning	194,254	—	—	—	8,320	185,935	13,190,633	4,627,455	584,862
Electrical work	142,328	—	—	—	7,152	135,176	10,664,020	3,791,566	453,898
Other special trade contractors and contractors not allocable	571,150	*67	—	*3	23,314	547,765	35,482,934	19,523,646	2,437,572
Manufacturing	**57,286,912**	**16,931,616**	**2,564,058**	**28,576**	**3,709,348**	**34,048,160**	**3,111,708,665**	**1,339,121,025**	**121,174,522**
Food and kindred products	5,024,641	1,090,588	230,357	*72	214,156	3,489,468	253,979,672	97,156,175	9,037,108
Meat products	249,306	31,315	9,715	—	14,882	193,394	14,439,518	8,342,426	682,592
Dairy products	515,959	*43,169	95	*42	12,263	460,391	17,731,148	9,118,359	1,029,364
Preserved fruits and vegetables	341,180	80,993	—	—	17,408	242,779	16,753,593	6,621,102	605,834
Grain mill products	1,277,541	295,584	3,589	—	30,746	947,623	35,880,039	16,447,464	1,684,246
Bakery products	152,735	37	466	*27	7,257	144,948	7,642,601	4,636,642	414,903
Sugar and confectionery products	331,960	54,387	10,150	(2)	4,486	262,936	17,581,865	7,753,615	719,838
Malt liquors and malt	364,079	—	—	—	16,907	347,172	15,826,674	10,230,799	643,062
Alcoholic beverages, except malt liquors and malt	238,303	1,345	22,535	—	*1,038	213,386	22,065,766	2,302,272	164,003
Bottled soft drinks, and flavorings	845,485	*334,977	143,378	—	76,131	290,998	52,084,452	15,603,288	1,697,384
Other food and kindred products	708,093	248,783	40,430	2	33,038	385,841	53,974,015	16,100,208	1,395,882
Tobacco manufactures	1,631,756	176,888	23,843	—	*105,268	1,325,757	70,557,788	14,882,114	2,575,755
Textile mill products	683,534	27,450	243	—	18,564	637,276	37,597,576	21,538,607	1,758,893
Weaving mills and textile finishing	294,993	18,920	—	—	8,215	267,858	12,272,962	8,469,726	674,815
Knitting mills	87,476	—	110	—	*1,624	85,742	4,024,598	2,097,068	225,225
Other textile mill products	301,065	8,530	133	—	8,726	283,676	21,300,017	10,971,812	858,854
Apparel and other textile products	530,887	18,172	34,188	—	7,843	470,684	36,911,512	9,041,475	1,004,793
Men's and boys' clothing	104,760	*899	5,845	—	1,660	96,356	10,967,653	2,621,534	284,352
Women's and children's clothing	305,758	*15,588	17,121	—	3,928	269,120	15,857,032	3,071,740	337,259
Other apparel and accessories	47,359	1,030	8,336	—	520	37,473	4,663,732	1,279,879	181,158
Miscellaneous fabricated textile products; textile products, not elsewhere classified	73,010	*656	2,885	—	1,735	67,734	5,423,095	2,068,321	202,024
Lumber and wood products	1,233,036	48,906	—	3,967	102,230	1,077,934	62,391,537	36,384,844	2,781,933
Logging, sawmills, and planing mills	541,023	*46,194	—	—	89,973	404,855	27,843,311	17,191,207	1,114,172
Millwork, plywood, and related products	490,593	2,681	—	—	7,711	480,201	23,052,226	14,353,361	1,188,464
Other wood products, including wood buildings and mobile homes	201,420	30	—	3,967	4,546	192,878	11,496,000	4,840,276	479,297
Furniture and fixtures	607,125	18,487	367	*339	10,062	577,870	18,951,486	9,520,597	890,794
Paper and allied products	2,269,652	354,827	1,881	*290	187,002	1,725,651	90,214,143	64,357,590	5,483,312
Pulp, paper, and board mills	1,069,654	96,735	—	146	135,303	837,471	60,594,638	43,794,198	3,625,942
Other paper products	1,199,998	258,092	1,881	*145	51,699	888,180	29,619,505	20,563,392	1,857,370
Printing and publishing	3,183,059	119,564	5,320	1,619	105,895	2,950,661	123,806,832	53,998,023	5,829,380
Newspapers	1,674,479	25,498	1,433	1	50,223	1,597,324	55,607,729	21,588,893	2,254,965
Periodicals	305,843	37,037	—	—	15,234	253,571	12,800,932	4,273,938	486,994
Books, greeting cards, and miscellaneous publishing	657,568	56,014	2,055	1,618	7,334	590,547	24,516,852	7,156,860	809,474
Commercial and other printing and printing trade services	545,169	*1,013	1,832	—	33,103	509,220	30,882,220	20,978,333	2,277,947
Chemicals and allied products	10,525,724	2,989,377	1,454,644	*3,614	510,571	5,562,407	338,157,003	152,861,800	11,484,149
Industrial chemicals, plastics materials and synthetics	4,706,021	1,567,481	24,172	3,598	339,624	2,771,146	178,064,116	99,059,734	6,923,627
Drugs	4,098,013	928,890	1,399,322	*16	86,347	1,678,772	81,916,484	26,542,594	1,996,087
Soap, cleaners, and toilet goods	1,125,594	371,597	15,131	—	45,900	692,966	52,561,554	14,996,169	1,401,331
Paints and allied products	180,633	6,879	1,256	—	4,628	167,871	5,086,974	2,272,496	218,978
Agriculture and other chemical products	415,463	114,530	14,762	—	34,072	251,652	20,527,875	9,990,807	944,126
Petroleum (including integrated) and coal products	8,582,588	6,129,561	32,293	16,401	171,790	2,232,542	570,375,621	275,088,895	17,708,757
Petroleum refining (including integrated)	8,564,964	6,129,561	32,293	16,401	170,463	2,216,245	564,818,338	271,575,095	17,450,363
Petroleum and coal products, not elsewhere classified	17,624	—	—	—	*1,327	16,298	5,557,283	3,513,800	258,394
Rubber and miscellaneous plastics products	1,156,683	239,956	17,745	55	36,452	862,474	44,553,316	27,375,116	2,316,124
Rubber products; plastics footwear, hose and belting	754,345	160,185	5,388	55	17,725	570,992	22,715,304	14,637,211	982,664
Miscellaneous plastics products	402,338	79,771	12,357	—	18,727	291,482	21,838,012	12,737,906	1,333,459
Leather and leather products	160,575	2,425	12,338	—	5,211	140,602	9,233,735	2,462,846	208,884
Footwear, except rubber	121,243	2,205	10,058	—	2,534	106,447	7,189,802	1,887,650	160,540
Leather and leather products, not elsewhere classified	39,332	220	2,280	—	2,677	34,155	2,043,933	575,196	48,345

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

RETURNS OF ACTIVE CORPORATIONS

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

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

Minor industry	Total income tax	Foreign tax credit	U.S. possessions tax credit	Nonconventional source fuel credit	General business credit	Total income tax after credits 1	Total assets	Depreciable assets	Depreciation deduction
	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
Manufacturing—Continued									
Stone, clay, and glass products	1,282,717	206,190	2,104	63	28,145	1,046,215	72,794,833	36,556,291	2,917,419
Glass products	545,827	115,188	45	—	8,855	421,738	39,054,135	12,771,394	1,035,140
Cement, hydraulic	75,754	2,340	—	59	*5,362	67,993	8,370,452	5,788,366	401,501
Concrete, gypsum, and plaster products	396,698	*71,707	2,041	—	10,628	312,321	15,660,624	11,141,239	924,780
Other nonmetallic mineral products	264,439	16,955	18	4	3,299	244,163	9,709,623	6,855,292	555,998
Primary metal industries	914,226	115,534	—	48	123,440	675,204	96,548,304	66,696,765	3,623,619
Ferrous metal industries; miscellaneous primary mineral products	509,085	66,783	—	48	21,164	421,090	48,987,871	38,587,698	2,186,352
Nonferrous metal industries	405,141	48,751	—	—	102,276	254,113	47,560,434	28,109,068	1,437,267
Fabricated metal products	2,453,062	490,396	13,192	*495	67,958	1,881,019	132,045,568	60,473,316	5,617,420
Metal cans and shipping containers	189,502	58,440	9,797	—	4,569	116,696	14,847,619	4,567,475	441,780
Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products	663,634	330,002	1,166	450	11,228	320,788	19,702,766	8,238,151	767,152
Plumbing and heating, except electric and warm air	275,984	11,694	108	—	5,079	259,103	11,607,816	3,437,101	313,767
Fabricated structural metal products	356,007	53,513	—	1	9,877	292,616	24,208,231	12,707,040	1,059,108
Metal forgings and stampings	171,876	*1,724	—	—	4,141	166,011	10,427,104	6,434,285	579,126
Coating, engraving, and allied services	48,825	*24	—	—	4,182	44,619	2,250,357	1,914,095	204,889
Ordnance and accessories, except vehicles and guided missiles	25,249	10	—	—	*786	24,453	1,126,779	452,085	41,909
Miscellaneous fabricated metal products	721,985	34,989	2,122	*45	28,096	656,734	47,874,898	22,723,085	2,209,688
Machinery, except electrical	5,466,864	3,176,829	66,015	2	315,164	1,908,854	234,170,803	106,788,773	9,882,292
Farm machinery	134,930	1,266	—	—	2,165	131,499	12,605,648	4,763,194	409,798
Construction and related machinery	331,484	79,181	—	—	93,196	159,107	31,105,429	13,788,870	1,072,697
Metalworking machinery	155,212	*6,851	398	—	9,385	138,579	12,515,242	7,895,849	633,755
Special industry machinery	241,396	18,867	86	—	10,950	211,494	14,798,727	6,259,903	547,561
General industry machinery	267,306	46,066	11,217	2	6,736	203,284	20,111,802	9,856,466	783,593
Office, computing, and accounting machines	3,907,772	2,967,257	54,315	—	179,243	706,957	117,928,568	54,406,495	5,469,503
Other machinery, except electrical	428,764	57,341	—	—	13,488	357,934	25,105,387	9,817,996	965,387
Electrical and electronic equipment	4,087,443	605,545	442,544	*1,601	562,391	2,475,361	316,672,722	103,847,684	12,521,221
Household appliances	245,395	11,224	—	—	2,846	231,325	11,987,108	3,749,920	452,450
Radio, television, and communication equipment	515,390	32,593	69,242	—	91,219	322,335	28,413,574	11,187,716	1,575,132
Electronic components and accessories	1,558,873	301,206	127,930	611	92,284	1,036,841	79,132,264	32,087,228	3,797,857
Other electrical equipment	1,767,785	260,522	245,372	*990	376,041	884,860	197,139,776	56,822,820	6,695,782
Motor vehicles and equipment	2,598,909	430,095	1,060	9	196,439	1,971,305	380,143,878	111,343,723	17,622,804
Transportation equipment, except motor vehicles	2,515,911	122,277	6,735	—	843,245	1,543,653	109,593,513	40,843,510	4,053,216
Aircraft, guided missiles and parts	2,356,656	115,632	1,541	—	837,049	1,402,434	98,326,309	36,279,662	3,653,667
Ship and boat building and repairing	51,699	15	54	—	2,712	48,917	4,584,355	2,128,145	169,881
Other transportation equipment, except motor vehicles	107,556	6,629	5,140	—	3,484	92,303	6,682,849	2,435,703	229,668
Instruments and related products	1,557,933	480,044	164,564	—	76,541	836,742	64,131,570	30,236,934	2,225,543
Scientific instruments and measuring devices; watches and clocks	400,813	71,269	69,415	—	19,420	240,709	21,556,540	9,157,505	752,106
Optical, medical, and ophthalmic goods	802,185	340,701	94,717	—	40,425	326,300	25,184,971	7,776,006	760,975
Photographic equipment and supplies	354,935	*68,074	431	—	16,696	269,733	17,390,059	13,303,423	712,461
Miscellaneous manufacturing and manufacturing not allocable	820,588	88,505	54,624	—	20,980	656,479	48,877,253	17,665,946	1,631,104
Transportation and public utilities	**17,696,185**	**332,278**	**53,171**	**14,953**	**2,526,632**	**14,769,150**	**1,352,512,937**	**1,153,409,171**	**77,051,204**
Transportation	3,104,189	187,381	—	140	561,790	2,354,878	280,684,862	224,295,375	18,510,015
Railroad transportation	794,736	25,738	—	114	118,102	650,783	98,291,630	83,121,318	4,011,541
Local and interurban passenger transit	54,149	*3,523	—	26	7,021	43,579	10,297,540	5,324,678	721,107
Trucking and warehousing	537,954	*6,704	—	—	59,917	471,333	50,439,117	42,433,819	5,603,573
Water transportation	187,721	18,869	—	—	54,990	113,862	18,035,212	14,610,903	882,652
Transportation by air	982,422	45,231	—	—	294,850	642,341	75,946,289	57,305,714	5,469,071
Pipelines, except natural gas	297,396	*7,147	—	—	4,528	285,722	2,847,617	4,443,516	297,095
Transportation services, not elsewhere classified	249,811	*80,170	—	—	22,383	147,258	24,827,457	17,055,426	1,524,977
Communication	6,589,496	131,488	53,171	—	599,784	5,805,053	419,165,393	316,665,814	27,773,083
Telephone, telegraph, and other communication services	5,921,609	46,008	53,171	—	566,828	5,255,602	375,150,006	303,037,894	26,132,284
Radio and television broadcasting	667,887	85,480	—	—	32,956	549,451	44,015,387	13,627,920	1,640,800
Electric, gas, and sanitary services	8,002,500	13,409	—	14,813	1,365,058	6,609,219	652,662,682	612,447,982	30,768,106
Electric services	4,075,606	4,603	—	242	997,411	3,073,351	336,992,680	320,859,274	16,614,652
Gas production and distribution	939,153	86	—	12,561	55,407	871,100	118,859,113	92,795,964	4,392,365
Combination utility services	2,531,508	7,141	—	321	291,527	2,232,519	177,904,968	183,473,664	8,521,694
Water supply and other sanitary services	456,232	1,580	—	*1,690	20,714	432,249	18,905,921	15,319,080	1,239,394
Wholesale and retail trade	**14,956,044**	**591,850**	**8,946**	**632**	**359,849**	**13,994,767**	**1,177,668,920**	**369,468,490**	**38,736,624**
Wholesale trade	6,583,201	248,211	4,146	*521	115,494	6,214,830	536,419,206	130,362,240	14,103,568
Groceries and related products	587,460	771	125	—	15,459	571,104	38,891,560	15,314,933	1,654,258
Machinery, equipment, and supplies	860,635	16,538	230	226	18,499	825,142	67,306,493	19,659,946	2,629,804
Miscellaneous wholesale trade	5,135,107	230,901	3,791	*296	81,535	4,818,584	430,221,152	95,387,362	9,819,506
Motor vehicles and automotive equipment	918,067	4,077	93	—	5,849	908,048	47,864,947	11,460,615	2,025,909
Furniture and home furnishings	88,864	*19	180	—	*1,058	87,607	6,051,017	1,347,911	155,424
Lumber and construction materials	262,096	*27	109	3	4,396	257,562	16,154,243	5,249,264	520,316
Sporting, recreational, photographic, and hobby goods, toys, and supplies	122,314	3,264	—	—	2,283	116,767	8,804,215	1,693,932	202,901
Metals and minerals, except petroleum and scrap	221,027	3,988	139	—	5,225	211,675	99,655,846	5,643,939	496,693
Electrical goods	647,487	16,906	1,108	—	14,335	615,138	37,737,849	8,521,309	898,077
Hardware, plumbing, and heating equipment and supplies	256,348	*2,698	—	—	2,429	251,222	16,029,907	3,749,325	370,254
Other durable goods	564,644	8,517	360	—	15,701	540,066	43,524,008	9,825,249	1,106,417
Paper and paper products	126,823	4,242	—	—	1,329	121,252	9,248,383	2,226,769	230,563
Drugs, drug proprietaries, and druggists' sundries	168,778	1,781	—	—	3,755	163,242	10,444,742	1,853,790	209,583
Apparel, piece goods, and notions	328,178	*3,897	—	—	672	323,609	18,529,602	2,347,157	267,916
Farm-product raw materials	188,609	17,812	—	*271	4,372	166,155	26,209,831	9,510,481	444,599
Chemicals and allied products	191,126	*1,790	—	—	1,991	187,344	8,491,735	2,303,052	242,749
Petroleum and petroleum products	482,174	*147,383	—	—	7,877	326,915	37,691,483	16,144,814	1,358,001
Alcoholic beverages	143,989	10	1,691	*18	754	141,516	13,359,843	4,431,805	417,964
Miscellaneous nondurable goods; wholesale trade not allocable	424,582	14,490	111	4	9,510	400,466	30,423,502	9,077,949	872,140

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

RETURNS OF ACTIVE CORPORATIONS

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

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

Minor industry	Total income tax	Foreign tax credit	U.S. possessions tax credit	Nonconventional source fuel credit	General business credit	Total income tax after credits [1]	Total assets	Depreciable assets	Depreciation deduction
	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
Wholesale and retail trade—Continued									
Retail trade	8,356,298	343,639	4,781	*111	243,575	7,764,192	639,155,467	238,439,141	24,560,383
Building materials, garden supplies, and mobile home dealers	475,063	126	—	83	7,437	467,417	40,016,535	13,601,843	1,216,807
Building materials dealers	341,276	—	—	83	5,906	335,286	29,232,613	10,163,444	898,190
Hardware stores	50,696	126	—	—	835	49,735	5,059,066	1,668,070	147,254
Garden supplies and mobile home dealers	83,092	—	—	—	696	82,396	5,724,855	1,770,329	171,364
General merchandise stores	2,934,364	74,796	—	1	72,296	2,787,272	201,214,400	50,545,106	4,584,554
Food stores	1,186,351	209,897	4,341	*10	31,676	940,428	71,009,438	41,854,413	4,239,797
Grocery stores	1,120,758	208,270	4,341	*10	29,273	878,864	65,381,195	37,821,721	3,762,462
Other food stores	65,594	1,628	—	—	2,403	61,564	5,628,243	4,032,692	477,335
Automotive dealers and service stations	596,867	58	—	*11	32,886	563,913	101,024,703	32,065,508	4,139,978
Motor vehicle dealers	411,392	53	—	*11	26,317	385,011	78,755,219	21,187,862	2,943,111
Gasoline service stations	58,004	(2)	—	—	2,051	55,953	7,558,134	5,029,695	493,631
Other automotive dealers	127,471	4	—	—	4,518	122,948	14,711,350	5,847,951	703,237
Apparel and accessory stores	741,896	*4,948	134	—	6,534	730,281	33,287,117	12,355,687	1,314,484
Furniture and home furnishings stores	404,307	1,103	—	—	4,785	398,419	21,834,807	6,306,896	608,173
Eating and drinking places	762,800	34,910	290	6	62,952	664,643	76,369,764	49,436,586	4,914,943
Miscellaneous retail stores	1,254,647	17,801	17	—	25,009	1,211,820	94,398,703	32,273,103	3,541,647
Drug stores and proprietary stores	308,082	*14,558	—	—	4,430	289,095	22,785,725	7,813,732	773,478
Liquor stores	23,897	—	—	—	*589	23,307	3,355,604	1,461,656	130,049
Other retail stores	922,669	3,244	17	—	19,990	899,418	68,257,374	22,997,715	2,638,120
Wholesale and retail trade not allocable	16,544	—	20	—	*779	15,746	2,094,248	667,109	72,674
Finance, insurance, and real estate	**19,264,979**	**2,216,284**	**9,725**	**4,177**	**691,803**	**16,342,976**	**8,732,320,235**	**287,080,902**	**31,992,916**
Banking	6,765,723	1,366,848	4	327	341,270	5,057,260	3,717,713,577	79,706,694	14,097,939
Mutual savings banks	670,186	68	—	—	6,478	663,640	259,913,272	3,802,051	358,933
Bank holding companies	4,658,162	1,312,004	—	327	305,359	3,040,471	3,049,723,343	66,516,966	12,494,258
Banks, except mutual savings banks and bank holding companies	1,437,375	54,776	4	—	29,433	1,353,149	408,076,962	9,387,676	1,244,748
Credit agencies other than banks	3,171,685	121,709	8,238	—	63,738	2,977,999	1,550,150,098	30,079,462	3,208,555
Savings and loan associations	2,026,767	6,223	6,798	—	26,823	1,986,923	1,143,390,710	20,273,775	1,815,326
Personal credit institutions	154,149	44,964	868	—	*4,579	103,738	24,307,395	1,154,504	106,161
Business credit institutions	41,390	553	573	—	*2,530	37,734	42,601,309	526,056	95,688
Other credit agencies; finance not allocable	949,379	*69,968	—	—	29,806	849,605	339,850,684	8,125,127	1,191,381
Security, commodity brokers and services	883,986	32,916	37	*10	11,199	839,825	406,330,188	8,340,177	1,265,613
Security brokers, dealers, and flotation companies	709,410	32,837	37	*10	5,738	670,789	383,137,018	6,450,950	1,031,404
Commodity contracts brokers and dealers; security and commodity exchanges; and allied services	174,576	*79	—	—	5,461	169,036	23,193,169	1,889,227	234,208
Insurance	5,059,919	488,031	—	2,696	193,684	4,375,508	1,651,707,409	23,666,111	4,818,194
Life insurance	1,467,046	115,675	—	21	43,614	1,307,736	1,056,409,138	10,463,884	2,954,682
Mutual insurance, except life or marine and certain fire or flood insurance companies	1,418,888	38,483	—	—	24,730	1,355,675	167,603,078	3,039,549	657,698
Other insurance companies	2,173,985	333,873	—	2,675	125,341	1,712,096	427,695,193	10,162,677	1,205,815
Insurance agents, brokers, and service	647,917	*49,507	2	—	6,325	592,083	38,699,375	6,286,157	788,813
Real estate	1,298,801	1,203	367	*1,009	33,249	1,262,973	272,306,847	108,121,894	5,356,334
Real estate operators and lessors of buildings	629,305	896	7	*35	16,013	612,353	88,635,869	55,643,334	2,793,993
Lessors of mining, oil, and similar property	35,930	*17	—	973	*480	34,460	1,713,786	201,022	21,878
Lessors of railroad property, and of real property, not elsewhere classified	11,990	—	—	—	464	11,526	1,868,269	877,524	46,722
Condominium management and cooperative housing associations	12,802	—	—	—	*73	12,728	22,820,287	19,348,695	586,523
Subdividers and developers	277,433	*287	360	—	9,509	267,277	81,851,501	14,656,055	705,465
Other real estate	331,341	*3	—	*1	6,709	324,628	75,417,135	17,395,265	1,201,753
Holding and other investment companies, except bank holding companies	1,436,948	156,070	1,077	*134	42,338	1,237,329	1,095,412,743	30,880,407	2,457,468
Regulated investment companies	5,676	—	—	—	—	5,676	851,756,215	26,268	1,747
Real estate investment trusts	*2,361	—	—	—	74	*2,287	33,343,371	8,356,081	249,742
Small business investment companies	9,617	—	—	—	*38	9,579	2,457,517	195,250	15,459
Other holding and investment companies, except bank holding companies	1,419,294	156,070	1,077	*134	42,226	1,219,787	207,855,640	22,302,808	2,190,521
Services	**5,033,943**	**347,247**	**26,127**	***214**	**448,016**	**4,212,339**	**435,561,919**	**244,001,367**	**30,068,715**
Hotels and other lodging places	317,437	46,294	9,060	—	17,711	244,371	38,486,393	28,026,487	1,927,969
Personal services	222,811	6,638	—	—	8,188	207,984	14,501,260	10,824,275	1,100,638
Business services	1,842,306	154,868	12,218	*109	120,975	1,554,136	143,468,719	65,867,786	9,688,115
Advertising	197,284	35,921	—	*1	6,247	155,115	22,212,226	5,727,495	725,709
Business services, except advertising	1,645,022	118,947	12,218	108	114,728	1,399,021	121,256,493	60,140,290	8,962,406
Auto repair; miscellaneous repair services	270,199	*58	103	*105	38,142	231,791	39,573,692	32,859,417	5,373,673
Auto repair and services	206,016	28	103	*105	35,598	170,182	33,874,309	29,405,576	4,981,738
Miscellaneous repair services	64,182	*30	—	—	2,544	61,609	5,699,383	3,453,840	391,935
Amusement and recreation services	647,718	113,231	143	—	126,680	407,663	81,143,418	36,640,859	4,514,776
Motion picture production, distribution, and services	290,113	*82,699	(2)	—	97,063	110,352	39,477,174	6,870,273	1,719,595
Motion picture theaters	45,821	*77	36	—	*4,642	41,066	5,020,517	3,135,681	308,582
Amusement and recreation services, except motion pictures	311,784	30,456	108	—	24,975	256,245	36,645,728	26,634,905	2,486,600
Other services	1,733,473	26,158	4,603	—	136,319	1,566,393	118,388,437	69,782,544	7,463,543
Offices of physicians, including osteopathic physicians	356,908	—	—	—	26,362	330,546	13,425,003	10,821,682	1,395,143
Offices of dentists	65,868	—	—	—	9,882	55,987	3,243,246	3,376,797	371,281
Offices of other health practitioners	18,183	—	—	—	*46	18,137	1,386,716	1,070,375	142,391
Nursing and personal care facilities	72,681	—	—	—	4,214	68,467	13,636,188	9,277,905	643,158
Hospitals	404,871	4,838	—	—	44,943	355,091	31,520,402	17,411,224	1,671,175
Medical laboratories	46,989	136	—	—	4,889	41,964	2,807,276	1,564,576	181,928
Other medical services	145,616	*15,060	143	—	6,741	123,671	11,404,190	5,075,756	670,598
Legal services	151,442	*10	—	—	9,487	141,946	6,532,343	3,922,517	512,852
Educational services	65,064	*2,861	—	—	6,229	55,974	5,743,078	3,070,011	314,430
Social services	10,723	—	—	—	*2,624	8,098	2,752,781	1,079,700	84,640
Membership organizations	34,145	—	—	—	912	33,233	3,159,068	2,082,733	144,018
Architectural and engineering services	227,005	*411	20	—	12,340	214,233	12,708,768	5,876,314	725,997
Accounting, auditing, and bookkeeping services	47,354	—	22	—	3,639	43,693	2,700,416	1,723,506	231,228
Miscellaneous services (including veterinarians), not elsewhere classified	86,622	2,841	4,418	—	4,011	75,352	7,368,963	3,429,447	374,705
Nature of business not allocable	**23,155**	**1**	**1,588**	**—**	***1,099**	**20,467**	**3,266,227**	**1,288,428**	**168,277**

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

RETURNS OF ACTIVE CORPORATIONS

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

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

Item	Coefficient of variation (Percent)								
	Number of returns		Total receipts		Business receipts	Cost of sales and operations	Net income	Deficit	Income subject to tax
	Total	With net income	All returns	Returns with net income					
	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)
Total returns of active corporations	**0.23**	**0.69**	**0.50**	**0.60**	**0.48**	**0.61**	**0.81**	**1.72**	**1.01**
Agriculture, forestry, and fishing	**3.30**	**4.58**	**6.87**	**9.18**	**7.32**	**10.03**	**3.31**	**4.89**	**4.02**
Agricultural production	3.41	4.95	6.19	8.60	6.69	9.20	3.97	5.77	4.56
Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping	6.92	9.39	15.64	19.18	16.11	21.70	5.99	10.11	8.47
Mining	**5.64**	**8.98**	**1.66**	**3.06**	**1.78**	**1.37**	**8.16**	**6.78**	**1.67**
Metal mining	29.15	63.47	0.96	2.11	1.10	1.12	1.47	8.63	0.94
Iron ores	61.74	76.89	35.50	96.46	36.45	36.81	96.47	30.61	96.58
Copper, lead and zinc, gold and silver ores	36.65	50.26	1.50	1.82	1.79	1.82	1.53	9.28	1.03
Other metal mining	46.90	80.93	1.01	29.29	1.12	0.47	9.86	21.97	(4)
Coal mining	18.84	29.48	3.66	4.70	3.89	3.14	4.99	10.07	5.66
Oil and gas extraction	6.51	10.96	2.26	5.66	2.42	1.60	14.50	1.92	2.62
Crude petroleum, natural gas, and natural gas liquids	8.71	15.44	2.63	6.93	2.77	1.43	17.53	2.76	2.50
Oil and gas field services	9.74	15.58	4.29	9.81	4.67	3.97	7.59	2.64	10.16
Nonmetallic minerals, except fuels	15.22	18.11	5.06	5.39	5.36	6.32	3.83	16.93	3.62
Dimension, crushed, and broken stone; sand and gravel	16.75	19.55	6.52	6.96	6.72	7.84	5.71	24.73	6.02
Other nonmetallic minerals, except fuels	35.11	45.54	7.76	8.04	8.73	9.96	4.22	21.19	3.45
Construction	**1.88**	**2.70**	**1.36**	**1.63**	**1.39**	**1.45**	**1.78**	**2.70**	**2.31**
General building contractors and operative builders	2.43	4.12	1.96	2.40	2.01	2.09	2.52	3.55	3.47
General building contractors	2.43	4.16	2.04	2.52	2.08	2.15	2.76	3.61	3.87
Operative builders	23.15	29.75	5.98	6.31	6.46	7.55	5.27	19.38	5.85
Heavy construction contractors	7.54	8.96	3.06	3.62	3.13	3.26	4.40	7.47	5.33
Special trade contractors	2.91	3.80	2.35	2.73	2.36	2.51	3.03	5.21	3.75
Plumbing, heating, and air conditioning	6.91	8.35	4.93	5.67	4.94	5.16	6.44	13.20	7.73
Electrical work	8.48	10.12	5.52	6.49	5.52	5.71	7.65	15.01	9.25
Other special trade contractors and contractors not allocable	3.43	4.74	3.06	3.55	3.08	3.31	3.84	6.09	4.86
Manufacturing	**1.47**	**2.19**	**0.19**	**0.23**	**0.20**	**0.25**	**0.19**	**1.03**	**0.17**
Food and kindred products	8.18	9.31	1.32	1.26	1.37	1.73	0.81	4.06	0.63
Meat products	18.37	21.31	5.86	6.36	5.92	6.44	5.84	11.36	5.40
Dairy products	20.65	28.76	3.88	3.84	3.95	4.30	2.47	12.02	2.19
Preserved fruits and vegetables	24.70	19.32	2.97	2.55	3.11	3.64	2.45	20.24	2.19
Grain mill products	31.95	24.75	1.32	1.29	1.36	1.66	0.98	10.07	0.71
Bakery products	22.72	30.97	6.12	6.93	6.10	6.44	7.56	20.65	5.50
Sugar and confectionery products	29.55	26.69	2.34	2.49	2.38	2.64	3.48	18.07	2.21
Malt liquors and malt	14.89	(4)	0.93	(4)	0.94	0.92	(4)	0.46	(4)
Alcoholic beverages, except malt liquors and malt	39.38	50.45	5.70	8.42	5.69	6.09	5.08	17.13	5.33
Bottled soft drinks, and flavorings	26.63	17.44	2.08	2.43	2.20	2.78	2.08	3.77	1.48
Other food and kindred products	16.66	18.19	2.32	2.36	2.40	2.58	2.59	14.60	2.27
Tobacco manufactures	71.69	76.19	0.25	0.26	0.26	0.43	0.21	0.02	0.22
Textile mill products	13.78	16.27	2.43	2.67	2.46	2.61	2.78	9.25	2.60
Weaving mills and textile finishing	20.97	23.36	3.42	3.81	3.45	3.81	4.04	15.83	3.87
Knitting mills	25.89	31.90	9.29	9.70	9.33	10.14	7.68	30.65	7.20
Other textile mill products	19.93	23.02	3.26	3.67	3.29	3.40	4.16	11.46	3.97
Apparel and other textile finishing	9.15	10.82	3.07	3.58	3.10	3.26	3.22	6.74	3.18
Men's and boys' clothing	28.27	30.77	4.20	5.34	4.29	4.45	6.41	3.10	5.76
Women's and children's clothing	15.70	16.68	5.03	5.71	5.10	5.35	3.93	9.66	3.20
Other apparel and accessories	19.07	26.97	8.67	10.82	8.73	9.32	10.58	18.72	12.92
Miscellaneous fabricated textile products; textile products, not elsewhere classified	16.38	16.64	8.03	9.06	8.06	8.43	10.42	23.96	13.26
Lumber and wood products	8.75	10.37	2.19	2.33	2.28	2.37	2.23	8.49	2.00
Logging, sawmills, and planing mills	13.81	15.81	3.39	3.38	3.56	3.63	3.12	19.41	3.06
Millwork, plywood, and related products	16.78	20.15	3.21	3.26	3.31	3.46	3.53	18.04	2.68
Other wood products, including wood buildings and mobile homes	15.34	17.97	5.44	7.11	5.62	6.03	6.17	10.61	6.24
Furniture and fixtures	13.18	16.83	3.63	4.23	3.68	3.97	3.33	11.64	3.30
Paper and allied products	12.89	14.73	1.25	1.22	1.29	1.46	0.98	13.03	0.80
Pulp, paper, and board mills	28.09	31.69	0.70	0.65	0.73	0.83	0.76	25.66	0.69
Other paper products	14.48	16.36	2.63	2.70	2.69	3.02	1.70	14.51	1.38
Printing and publishing	5.83	7.90	1.41	1.53	1.46	1.85	1.19	4.78	0.90
Newspapers	18.38	23.80	1.48	1.48	1.52	2.12	1.24	6.26	0.93
Periodicals	18.46	26.59	4.13	4.26	4.33	5.65	4.13	13.82	3.10
Books, greeting cards, and miscellaneous publishing	16.77	24.20	2.87	2.89	3.00	3.90	2.58	13.02	1.33
Commercial and other printing and printing trade services	6.99	9.55	2.99	3.62	3.03	3.19	3.53	7.68	3.50
Chemicals and allied products	10.52	11.42	0.41	0.42	0.44	0.51	0.29	3.66	0.23
Industrial chemicals, plastics materials and synthetics	15.40	17.18	0.54	0.54	0.58	0.62	0.42	6.20	0.37
Drugs	31.68	43.65	0.55	0.48	0.60	0.96	0.25	6.48	0.23
Soap, cleaners, and toilet goods	29.03	22.01	0.70	0.71	0.74	0.79	1.07	10.43	0.74
Paints and allied products	17.80	19.32	4.76	4.66	4.78	5.28	4.20	41.64	4.03
Agriculture and other chemical products	25.92	25.93	2.73	3.10	2.84	3.11	2.66	6.99	1.52
Petroleum (including integrated) and coal products	24.52	30.75	0.27	0.34	0.29	0.31	0.32	1.77	0.17
Petroleum refining (including integrated)	45.30	52.76	0.13	0.08	0.13	0.16	0.19	1.72	0.09
Petroleum and coal products, not elsewhere classified	28.60	38.44	9.22	16.99	9.48	10.47	17.78	14.03	21.88
Rubber and miscellaneous plastics products	9.86	11.19	2.24	2.42	2.32	2.46	2.39	9.81	2.28
Rubber products; plastics footwear, hose and belting	23.84	20.21	2.05	2.10	2.19	2.32	1.98	19.25	1.76
Miscellaneous plastics products	10.85	12.77	3.73	4.33	3.76	3.96	4.83	10.99	5.54
Leather and leather products	22.95	27.76	4.29	4.09	4.43	5.02	4.60	21.80	4.27
Footwear, except rubber	28.90	28.46	2.91	2.47	3.03	3.51	3.82	25.15	2.25
Leather and leather products, not elsewhere classified	27.70	31.49	13.08	14.09	13.19	14.06	13.23	42.95	14.83

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

RETURNS OF ACTIVE CORPORATIONS

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

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

Item	Coefficient of variation (Percent): Number of returns: Total	Number of returns: With net income	Total receipts: All returns	Total receipts: Returns with net income	Business receipts	Cost of sales and operations	Net income	Deficit	Income subject to tax
	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)
Manufacturing—Continued									
Stone, clay, and glass products	10.95	13.25	1.88	2.08	1.98	2.10	1.78	7.75	1.69
Glass products	26.30	25.79	2.06	2.32	2.24	2.71	1.86	13.72	1.42
Cement, hydraulic	56.26	75.49	3.85	6.00	4.08	4.09	5.62	7.53	3.57
Concrete, gypsum, and plaster products	14.71	18.73	4.21	4.28	4.35	4.40	4.03	14.53	4.13
Other nonmetallic mineral products	20.98	21.71	4.36	4.97	4.51	4.68	4.01	14.52	4.22
Primary metal industries	13.51	17.02	1.10	1.41	1.14	1.24	1.42	4.22	1.88
Ferrous metal industries; miscellaneous primary mineral products	15.76	19.93	1.26	1.54	1.29	1.40	1.90	5.26	2.39
Nonferrous metal industries	23.76	28.53	1.89	2.54	1.98	2.09	2.13	7.04	2.99
Fabricated metal products	4.67	5.92	1.43	1.57	1.47	1.53	1.57	4.32	1.60
Metal cans and shipping containers	48.69	52.10	2.36	2.41	2.42	2.21	2.04	23.78	1.48
Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products	16.45	20.93	3.33	3.26	3.48	3.82	2.65	13.11	2.11
Plumbing and heating, except electric and warm air	38.81	48.16	3.17	3.03	3.26	3.42	2.87	29.23	2.17
Fabricated structural metal products	11.00	13.61	3.28	3.84	3.34	3.45	4.12	11.58	4.30
Metal forgings and stampings	13.47	15.69	5.22	5.77	5.28	5.44	6.26	15.37	8.57
Coating, engraving, and allied services	17.89	20.79	11.00	12.14	11.05	11.35	13.11	31.07	14.48
Ordnance and accessories, except vehicles and guided missiles	71.34	76.17	11.12	12.66	11.34	11.03	16.86	23.49	7.28
Miscellaneous fabricated metal products	6.23	8.13	2.50	2.93	2.57	2.69	3.08	5.18	3.75
Machinery, except electrical	6.76	7.72	0.80	0.89	0.90	0.98	0.74	2.81	0.61
Farm machinery	30.30	23.67	3.39	3.39	3.69	3.91	6.15	21.00	7.09
Construction and related machinery	19.20	25.26	2.07	2.36	2.14	2.05	4.00	3.18	2.94
Metalworking machinery	13.46	15.83	4.65	6.80	4.74	4.88	7.46	8.26	8.23
Special industry machinery	15.44	17.90	5.05	6.06	5.16	5.37	6.04	13.29	6.38
General industry machinery	18.23	19.34	3.40	4.68	3.46	3.61	4.50	10.40	4.15
Office, computing, and accounting machines	15.70	18.18	0.44	0.44	0.56	0.74	0.25	4.13	0.20
Other machinery, except electrical	14.30	17.11	2.73	3.35	2.80	2.75	3.33	13.53	3.61
Electrical and electronic equipment	7.81	10.21	0.61	0.65	0.64	0.67	0.85	3.27	0.77
Household appliances	35.68	42.41	2.23	2.54	2.28	2.32	2.50	10.60	2.13
Radio, television, and communication equipment	26.19	33.27	1.76	1.81	1.83	1.93	2.29	7.33	2.18
Electronic components and accessories	10.59	14.01	1.12	1.20	1.16	1.18	1.47	4.46	1.42
Other electrical equipment	13.41	16.86	0.83	0.89	0.88	0.95	1.23	6.71	1.06
Motor vehicles and equipment	24.43	26.72	0.23	0.50	0.24	0.23	0.71	2.23	0.60
Transportation equipment, except motor vehicles	17.16	21.98	0.60	0.59	0.63	0.65	0.56	4.79	0.43
Aircraft, guided missiles and parts	28.14	33.67	0.32	0.34	0.34	0.31	0.34	4.23	0.26
Ship and boat building and repairing	31.29	38.91	7.98	12.46	8.10	8.29	9.86	9.99	14.31
Other transportation equipment, except motor vehicles	29.55	44.67	4.12	4.01	4.24	4.23	5.99	20.67	4.61
Instruments and related products	13.48	16.16	1.26	1.33	1.32	1.35	1.39	6.74	1.34
Scientific instruments and measuring devices; watches and clocks	20.14	21.94	2.40	2.64	2.52	2.48	3.21	9.88	3.27
Optical, medical, and ophthalmic goods	19.00	22.38	2.14	2.48	2.25	2.35	1.95	9.99	1.96
Photographic equipment and supplies	36.13	45.13	1.68	1.46	1.77	2.05	1.47	22.06	0.98
Miscellaneous manufacturing and manufacturing not allocable	7.72	11.57	2.88	3.74	2.98	3.72	2.84	4.87	2.93
Transportation and public utilities	**2.58**	**4.13**	**0.51**	**0.55**	**0.54**	**0.96**	**0.31**	**2.01**	**0.22**
Transportation	3.91	5.27	1.45	1.59	1.53	2.56	1.27	4.57	1.06
Railroad transportation	41.77	56.23	0.45	0.40	0.48	0.74	0.57	1.76	0.55
Local and interurban passenger transit	13.74	16.80	7.21	7.28	7.97	11.15	13.94	12.35	17.79
Trucking and warehousing	5.29	7.22	2.72	3.28	2.76	4.58	3.95	6.34	3.81
Water transportation	15.69	23.16	5.50	4.06	5.87	7.18	5.16	12.09	5.58
Transportation by air	15.87	23.71	0.94	0.96	1.01	1.56	1.19	14.75	0.58
Pipelines, except natural gas	27.26	20.30	5.15	5.24	5.17	5.56	3.91	38.68	4.06
Transportation services, not elsewhere classified	7.73	10.31	6.67	8.13	6.99	9.08	4.69	8.82	5.09
Communication	9.84	14.18	0.46	0.46	0.47	0.87	0.44	2.65	0.31
Telephone, telegraph, and other communication services	13.48	18.81	0.47	0.46	0.48	0.98	0.40	3.20	0.28
Radio and television broadcasting	14.44	22.04	1.62	2.00	1.73	1.43	2.04	4.34	1.70
Electric, gas, and sanitary services	10.23	13.61	0.56	0.71	0.59	0.90	0.31	1.20	0.24
Electric services	41.20	81.78	0.12	0.09	0.13	0.18	0.08	0.96	0.01
Gas production and distribution	23.07	27.69	0.66	0.98	0.70	0.78	0.91	0.97	0.78
Combination utility services	35.01	38.64	0.20	0.21	0.20	0.27	0.18	0.88	0.19
Water supply and other sanitary services	11.89	15.92	7.51	8.38	7.80	14.74	3.11	12.10	2.50
Wholesale and retail trade	**0.68**	**1.31**	**0.41**	**0.50**	**0.42**	**0.48**	**0.56**	**1.35**	**0.57**
Wholesale trade	1.22	2.06	0.65	0.76	0.66	0.73	0.89	2.02	0.99
Groceries and related products	6.46	8.25	2.46	2.69	2.48	2.58	3.39	9.17	3.31
Machinery, equipment, and supplies	4.76	5.82	2.14	2.43	2.18	2.26	2.99	6.02	3.38
Miscellaneous wholesale trade	2.50	3.01	0.94	1.05	0.95	1.00	1.16	2.28	1.22
Motor vehicles and automotive equipment	8.23	9.64	1.82	2.44	1.83	1.82	2.04	3.04	1.60
Furniture and home furnishings	14.80	18.38	7.56	8.67	7.59	8.10	9.85	20.12	10.98
Lumber and construction materials	10.14	11.64	4.79	5.29	4.82	5.09	5.60	16.30	6.36
Sporting, recreational, photographic, and hobby goods, toys, and supplies	14.07	17.70	5.96	7.18	6.00	6.52	7.74	8.24	8.34
Metals and minerals, except petroleum and scrap	14.53	15.58	2.23	1.93	2.39	2.42	4.99	4.76	6.71
Electrical goods	8.45	9.88	2.63	3.04	2.66	2.77	3.42	7.52	3.45
Hardware, plumbing, and heating equipment and supplies	9.82	10.57	4.11	4.76	4.13	4.07	6.10	15.78	7.38
Other durable goods	5.47	6.89	3.02	3.35	3.06	3.35	3.76	7.66	4.26
Paper and paper products	13.86	18.58	5.17	5.83	5.19	5.27	6.13	20.07	6.45
Drugs, drug proprietaries, and druggists' sundries	21.77	26.49	4.05	3.66	4.05	4.13	5.55	15.64	4.53
Apparel, piece goods, and notions	10.62	13.31	3.45	3.69	3.46	3.34	4.80	10.40	5.17
Farm-product raw materials	12.50	14.48	4.52	4.71	4.60	4.88	4.38	13.42	6.36
Chemicals and allied products	15.31	16.86	5.75	6.06	5.79	6.43	5.83	23.05	5.39
Petroleum and petroleum products	8.58	9.93	3.33	4.10	3.38	3.43	3.35	6.38	3.23
Alcoholic beverages	14.87	16.48	5.16	5.46	5.18	5.31	5.74	18.51	8.32
Miscellaneous nondurable goods; wholesale trade not allocable	6.76	8.76	3.42	4.08	3.46	3.74	4.20	7.78	4.38

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

RETURNS OF ACTIVE CORPORATIONS

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

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

Item	Coefficient of variation (Percent)								
	Number of returns		Total receipts		Business receipts	Cost of sales and operations	Net income	Deficit	Income subject to tax
	Total	With net income	All returns	Returns with net income					
	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)
Wholesale and retail trade—Continued									
Retail trade	0.76	1.65	0.51	0.66	0.52	0.59	0.71	1.81	0.66
Building materials, garden supplies, and mobile home dealers	5.27	6.55	2.58	2.92	2.62	2.73	3.52	6.79	3.83
Building materials dealers	7.22	8.97	2.94	3.27	2.97	3.13	4.26	8.58	4.68
Hardware stores	9.86	12.36	7.44	8.77	7.47	7.54	10.72	18.62	13.29
Garden supplies and mobile home dealers	11.70	14.61	7.58	9.04	7.89	8.27	7.17	13.39	6.32
General merchandise stores	11.85	14.31	0.50	0.49	0.53	0.57	0.59	6.66	0.39
Food stores	4.70	7.49	1.51	1.76	1.52	1.60	1.85	4.90	1.65
Grocery stores	6.33	8.91	1.51	1.75	1.52	1.59	1.76	5.04	1.61
Other food stores	7.00	13.15	7.49	9.70	7.47	8.61	9.02	11.83	10.84
Automotive dealers and service stations	3.47	4.53	1.84	2.34	1.85	1.90	2.92	4.56	3.64
Motor vehicle dealers	4.33	5.45	2.05	2.63	2.06	2.09	3.53	5.28	4.55
Gasoline service stations	8.84	11.77	6.84	8.40	6.87	6.97	9.71	14.36	11.59
Other automotive dealers	6.40	8.51	4.37	5.19	4.41	4.58	5.68	11.20	7.08
Apparel and accessory stores	4.60	7.77	2.27	2.81	2.29	2.35	2.73	6.58	2.75
Furniture and home furnishings stores	5.78	7.34	3.50	3.94	3.55	3.82	3.67	8.88	3.62
Eating and drinking places	2.30	4.97	1.87	2.43	1.94	2.07	2.91	4.23	2.49
Miscellaneous retail stores	2.50	3.61	1.64	2.02	1.66	1.78	2.21	3.64	2.33
Drug stores and proprietary stores	7.52	9.02	2.19	2.70	2.22	2.15	4.13	5.43	3.82
Liquor stores	10.36	14.22	10.11	13.33	10.18	10.21	16.94	17.36	20.12
Other retail stores	2.74	4.09	2.13	2.63	2.16	2.40	2.57	4.27	2.82
Wholesale and retail trade not allocable	20.76	23.87	15.21	17.47	15.32	17.54	20.38	22.68	22.16
Finance, insurance, and real estate	**0.99**	**1.96**	**0.57**	**0.50**	**0.83**	**1.03**	**0.43**	**2.50**	**0.86**
Banking	1.66	1.82	1.14	1.38	5.21	0.47	2.38	1.16	2.39
Mutual savings banks	3.93	1.52	0.07	0.07	0.05	(4)	0.13	3.98	0.19
Bank holding companies	2.37	2.45	0.06	0.06	0.13	0.68	0.11	0.91	0.10
Banks, except mutual savings banks and bank holding companies	2.39	2.75	5.62	7.59	30.51	3.16	11.39	2.71	11.16
Credit agencies other than banks	7.72	9.83	0.35	0.29	0.88	1.02	0.56	0.86	0.58
Savings and loan associations	5.18	1.73	0.15	0.19	0.16	0.09	0.29	0.59	0.40
Personal credit institutions	18.76	20.23	2.60	2.60	3.61	17.49	3.68	32.09	4.52
Business credit institutions	29.23	35.37	4.26	4.93	15.42	24.45	10.27	21.37	15.10
Other credit agencies; finance not allocable	10.38	15.20	0.79	0.54	1.06	1.05	1.65	4.91	1.38
Security, commodity brokers and services	10.20	15.22	3.29	5.44	5.18	17.60	1.94	4.11	1.55
Security brokers, dealers, and flotation companies	13.47	22.02	3.47	6.67	6.04	32.85	1.78	4.24	1.51
Commodity contracts brokers and dealers; security and commodity exchanges; and allied services	15.62	21.34	8.91	8.27	10.13	17.05	5.75	11.98	4.56
Insurance	10.31	11.45	1.15	0.30	1.12	1.27	0.48	9.44	0.66
Life insurance	1.74	2.26	2.05	0.46	2.16	2.50	0.50	18.28	0.57
Mutual insurance, except life or marine and certain fire or flood insurance companies	5.68	7.01	0.85	0.84	0.92	1.00	1.17	5.70	1.58
Other insurance companies	19.05	23.80	11.63	7.84	12.32	16.53	7.31	26.37	7.72
Insurance agents, brokers, and service	4.40	6.11	3.72	4.21	3.89	11.76	3.40	8.68	3.18
Real estate	2.11	3.13	2.02	2.68	2.55	3.34	2.22	2.09	2.81
Real estate operators and lessors of buildings	3.45	4.77	3.02	4.13	4.39	6.41	3.53	3.50	4.00
Lessors of mining, oil, and similar property	38.26	45.98	10.93	15.46	20.51	12.69	21.70	45.49	25.84
Lessors of railroad property, and of real property, not elsewhere classified	21.96	28.66	12.81	19.11	11.27	9.22	25.90	17.67	28.14
Condominium management and cooperative housing associations	8.14	12.02	7.03	12.91	9.04	13.65	14.06	5.90	12.98
Subdividers and developers	5.13	7.44	3.16	4.05	3.61	4.12	3.89	3.85	5.95
Other real estate	3.39	5.46	4.23	5.69	5.15	8.40	4.37	4.04	5.86
Holding and other investment companies, except bank holding companies	5.75	7.77	1.24	1.47	2.57	2.72	0.23	2.89	2.33
Regulated investment companies	13.73	10.98	0.20	0.23	70.66	0.00	0.15	25.31	46.14
Real estate investment trusts	21.15	17.81	1.27	1.42	0.14	0.00	1.89	10.68	45.67
Small business investment companies	20.05	31.92	18.86	24.16	28.17	0.00	28.12	20.71	39.64
Other holding and investment companies, except bank holding companies	6.50	9.15	2.18	3.08	2.57	2.72	2.09	2.96	2.31
Services	**0.64**	**1.42**	**1.05**	**1.22**	**1.08**	**1.82**	**1.12**	**1.61**	**1.30**
Hotels and other lodging places	6.62	12.24	2.41	2.69	2.53	1.71	3.98	5.43	4.00
Personal services	4.83	7.59	4.72	5.27	4.83	7.39	5.41	10.34	5.73
Business services	2.30	3.45	2.28	2.50	2.41	3.48	2.13	2.71	2.38
Advertising	8.70	11.52	6.29	8.22	6.42	8.58	6.36	7.16	5.71
Business services, except advertising	2.38	3.63	2.45	2.55	2.60	3.80	2.26	2.92	2.58
Auto repair; miscellaneous repair services	4.15	6.03	3.07	3.76	3.30	4.22	4.41	5.65	6.13
Auto repair and services	5.22	7.93	3.19	3.97	3.51	4.71	4.64	6.15	6.82
Miscellaneous repair services	6.78	9.26	7.28	8.63	7.33	8.41	9.46	13.48	12.63
Amusement and recreation services	4.47	7.71	2.56	3.49	2.77	4.29	3.13	3.62	3.16
Motion picture production, distribution, and services	11.92	18.01	3.16	4.83	3.85	3.78	4.18	5.58	2.62
Motion picture theaters	25.94	34.75	6.41	9.25	6.46	9.12	15.08	11.30	15.81
Amusement and recreation services, except motion pictures	4.85	8.88	4.15	5.18	4.24	8.79	4.31	4.93	5.61
Other services	2.16	2.70	2.11	2.39	2.07	3.46	2.29	3.47	2.50
Offices of physicians, including osteopathic physicians	3.83	4.70	4.58	5.26	4.65	9.11	5.37	9.30	5.95
Offices of dentists	7.13	8.49	8.35	9.40	8.39	11.68	10.48	17.12	11.94
Offices of other health practitioners	11.25	14.60	13.05	16.23	13.22	18.48	16.24	23.08	24.23
Nursing and personal care facilities	11.59	15.54	5.69	8.62	5.85	10.41	10.52	11.35	12.72
Hospitals	42.84	56.16	2.01	2.34	2.13	4.10	1.40	5.05	0.53
Medical laboratories	17.01	19.90	11.87	14.27	12.16	15.11	14.18	19.87	15.25
Other medical services	8.44	11.30	9.18	8.76	6.69	8.88	7.58	8.33	7.73
Legal services	6.16	7.43	7.49	8.89	7.77	18.59	8.09	14.28	9.86
Educational services	10.81	15.09	9.32	11.61	9.50	17.99	10.33	14.78	13.34
Social services	15.67	20.62	15.66	18.14	16.90	27.83	25.41	27.85	48.00
Membership organizations	13.62	20.77	11.87	15.20	12.29	16.43	16.68	19.92	18.29
Architectural and engineering services	6.67	8.50	5.62	6.88	5.72	6.49	6.01	9.69	6.77
Accounting, auditing, and bookkeeping services	8.80	10.11	11.35	12.96	11.54	22.35	11.21	19.22	14.41
Miscellaneous services (including veterinarians), not elsewhere classified	8.35	11.03	8.91	8.69	9.13	13.36	9.29	10.11	10.64
Nature of business not allocable	**12.18**	**18.18**	**15.35**	**20.32**	**16.08**	**20.96**	**19.31**	**19.35**	**24.66**

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

RETURNS OF ACTIVE CORPORATIONS

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

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

Item	Coefficient of variation (Percent)								
	Total income tax	Foreign tax credit	U.S. possessions tax credit	Nonconventional source fuel credit	General business credit	Total income tax after credits [1]	Total assets	Depreciation assets	Depreciation deduction
	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)
Total returns of active corporations	**1.23**	**12.77**	**1.25**	**31.70**	**2.42**	**1.32**	**1.01**	**0.43**	**0.53**
Agriculture, forestry, and fishing	**4.09**	**21.66**	**(4)**	**(4)**	**8.31**	**4.18**	**1.22**	**2.07**	**2.49**
Agricultural production	4.74	21.74	(4)	(4)	9.51	5.09	2.14	2.87	3.28
Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping	8.10	25.31	(4)	—	18.52	8.53	3.94	5.52	5.96
Mining	**1.43**	**0.47**	**—**	**18.41**	**2.36**	**2.00**	**0.32**	**0.81**	**1.75**
Metal mining	1.10	0.02	—	—	(4)	1.61	0.89	1.67	2.57
Iron ores	96.58	(4)	—	—	(4)	96.58	24.40	29.27	41.82
Copper, lead and zinc, gold and silver ores	1.31	0.08	—	—	(4)	1.83	1.55	2.19	3.70
Other metal mining	6.43	(4)	—	—	(4)	6.43	0.93	1.49	3.49
Coal mining	4.28	(4)	—	(4)	7.27	4.39	1.34	2.65	2.64
Oil and gas extraction	2.04	0.59	—	19.66	9.86	4.21	0.48	1.15	2.68
Crude petroleum, natural gas, and natural gas liquids	1.96	0.01	—	20.63	8.41	4.65	0.54	0.94	4.11
Oil and gas field services	8.04	20.66	—	43.79	13.59	9.56	1.09	2.46	3.19
Nonmetallic minerals, except fuels	3.26	(4)	—	4.59	7.66	3.69	2.00	2.99	4.47
Dimension, crushed, and broken stone; sand and gravel	5.42	(4)	—	75.19	16.14	5.46	3.00	5.02	5.65
Other nonmetallic minerals, except fuels	3.26	(4)	—	(4)	1.90	4.26	2.21	2.89	7.13
Construction	**2.39**	**2.59**	**(4)**	**90.69**	**6.16**	**2.31**	**0.64**	**1.40**	**1.59**
General building contractors and operative builders	3.47	5.32	—	79.95	10.31	3.55	1.15	2.36	2.82
General building contractors	3.93	5.32	—	79.95	10.71	4.04	1.24	2.45	2.90
Operative builders	5.82	(4)	—	—	38.27	5.88	2.84	8.18	12.05
Heavy construction contractors	5.34	0.12	(4)	91.68	11.80	5.64	2.41	3.46	4.00
Special trade contractors	4.06	78.17	—	92.27	10.11	4.17	2.02	2.64	2.83
Plumbing, heating, and air conditioning	8.35	—	—	—	21.42	8.57	4.40	5.56	6.03
Electrical work	9.72	—	—	—	29.01	9.97	4.71	6.50	6.89
Other special trade contractors and contractors not allocable	5.28	78.17	—	92.27	12.18	5.43	2.59	3.31	3.55
Manufacturing	**0.16**	**0.03**	**0.29**	**4.89**	**0.31**	**0.26**	**0.07**	**0.12**	**0.17**
Food and kindred products	0.63	0.11	0.78	62.54	1.77	0.88	0.40	0.83	0.90
Meat products	5.29	(4)	(4)	—	8.52	6.70	3.15	4.03	4.54
Dairy products	2.05	2.81	(4)	92.86	4.93	2.27	2.10	3.67	3.42
Preserved fruits and vegetables	2.20	(4)	—	—	3.64	3.04	1.58	2.33	2.43
Grain mill products	0.72	(4)	(4)	—	8.16	0.90	0.63	1.13	1.19
Bakery products	5.31	(4)	(4)	80.69	20.27	5.13	3.83	6.34	6.43
Sugar and confectionery products	1.83	(4)	(4)	(4)	7.83	2.28	1.29	2.00	2.51
Malt liquors and malt	(4)	—	—	—	(4)	(4)	0.69	1.70	0.78
Alcoholic beverages, except malt liquors and malt	5.29	(4)	(4)	—	61.43	6.77	2.45	5.50	7.89
Bottled soft drinks, and flavorings	1.46	(3)	(4)	—	0.61	4.22	0.74	2.16	2.13
Other food and kindred products	2.37	0.03	(4)	(4)	5.37	4.28	0.88	2.25	2.56
Tobacco manufactures	0.21	(4)	(4)	—	(4)	0.26	0.08	0.13	0.05
Textile mill products	2.48	(4)	(4)	—	8.04	2.62	1.38	1.71	2.07
Weaving mills and textile finishing	3.67	(4)	—	—	4.27	4.10	2.20	2.36	2.48
Knitting mills	6.14	—	(4)	—	36.27	6.19	5.57	7.32	8.17
Other textile mill products	3.89	(4)	(4)	—	14.94	4.02	1.77	2.41	3.01
Apparel and other textile products	3.01	2.60	2.97	—	24.02	3.29	1.92	2.99	4.34
Men's and boys' clothing	5.41	6.00	(4)	—	37.29	5.81	2.43	3.98	5.94
Women's and children's clothing	3.02	0.18	4.41	—	43.39	3.23	2.99	4.68	5.36
Other apparel and accessories	12.54	(4)	(4)	—	15.00	15.67	6.00	7.70	17.13
Miscellaneous fabricated textile products; textile products, not elsewhere classified	13.88	71.56	(4)	—	29.13	14.66	6.64	8.68	8.92
Lumber and wood products	1.93	0.07	—	(4)	4.88	2.09	1.11	1.54	2.19
Logging, sawmills, and planing mills	3.01	0.07	—	—	5.03	3.64	1.54	2.48	4.28
Millwork, plywood, and related products	2.54	(4)	—	—	19.82	2.52	1.71	1.84	2.35
Other wood products, including wood buildings and mobile homes	6.04	(4)	—	(4)	31.63	6.21	3.27	5.23	5.20
Furniture and fixtures	3.15	0.52	(4)	79.61	11.30	3.28	2.67	3.14	3.98
Paper and allied products	0.75	0.04	(4)	22.46	0.90	0.97	0.64	0.64	0.71
Pulp, paper, and board mills	0.59	(4)	—	(4)	0.14	0.74	0.35	0.42	0.53
Other paper products	1.32	0.05	(4)	45.01	3.23	1.74	1.81	1.81	1.83
Printing and publishing	0.82	0.01	(4)	(4)	3.97	0.86	0.75	1.35	1.51
Newspapers	0.91	(4)	(4)	(4)	1.65	0.94	0.66	1.36	1.22
Periodicals	3.10	—	—	—	2.28	3.71	2.43	3.50	3.80
Books, greeting cards, and miscellaneous publishing	1.22	0.03	(4)	(4)	16.07	1.32	1.45	3.51	2.31
Commercial and other printing and printing trade services	3.15	0.77	(4)	—	10.16	3.23	2.28	2.87	3.50
Chemicals and allied products	0.22	0.03	0.31	0.32	0.38	0.39	0.18	0.26	0.35
Industrial chemicals, plastics materials and synthetics	0.36	0.05	8.79	(4)	0.34	0.59	0.23	0.30	0.43
Drugs	0.21	0.04	0.26	73.63	1.42	0.42	0.26	0.46	0.54
Soap, cleaners, and toilet goods	0.60	0.06	3.93	—	1.00	0.96	0.33	0.56	0.62
Paints and allied products	3.92	0.56	(4)	—	6.70	4.17	3.70	4.53	5.69
Agriculture and other chemical products	1.44	0.14	(4)	—	2.19	2.24	1.44	2.02	2.11
Petroleum (including integrated) and coal products	0.15	(4)	(4)	11.53	1.87	0.77	0.07	0.16	0.24
Petroleum refining (including integrated)	0.08	(4)	(4)	11.53	1.52	0.39	0.04	0.10	0.15
Petroleum and coal products, not elsewhere classified	29.96	—	—	—	61.96	31.94	4.55	5.99	8.15
Rubber and miscellaneous plastics products	2.25	0.32	6.10	(4)	6.86	2.94	1.62	1.93	2.76
Rubber products; plastics footwear, hose and belting	1.74	0.07	(4)	(4)	3.20	2.26	1.35	1.43	2.24
Miscellaneous plastics products	5.61	0.96	6.63	—	13.00	7.51	2.98	3.81	4.50
Leather and leather products	3.60	(4)	4.90	—	15.56	3.92	2.84	3.76	3.73
Footwear, except rubber	2.08	(4)	5.73	—	3.25	2.29	2.07	2.24	2.87
Leather and leather products, not elsewhere classified	13.38	(4)	(4)	—	30.46	14.64	10.65	14.56	13.15

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

RETURNS OF ACTIVE CORPORATIONS

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

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

Item	Coefficient of variation (Percent)								
	Total income tax	Foreign tax credit	U.S. possessions tax credit	Nonconventional source fuel credit	General business credit	Total income tax after credits [1]	Total assets	Depreciable assets	Depreciation deduction
	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)
Manufacturing—Continued									
Stone, clay, and glass products	1.57	0.02	(4)	(4)	6.72	1.90	0.78	1.36	1.76
Glass products	1.25	(4)	(4)	—	0.96	1.62	0.50	0.75	1.15
Cement, hydraulic	3.22	(4)	—	(4)	6.29	3.45	1.77	2.21	2.19
Concrete, gypsum, and plaster products	3.94	0.04	(4)	—	17.06	4.92	2.59	3.65	4.77
Other nonmetallic mineral products	3.94	0.16	(4)	(4)	14.95	4.24	3.26	3.47	3.93
Primary metal industries	1.78	0.07	—	(4)	1.25	2.37	0.52	0.62	1.01
Ferrous metal industries; miscellaneous primary mineral products	2.30	0.13	—	(4)	3.88	2.74	0.81	0.90	1.22
Nonferrous metal industries	2.79	(4)	—	—	1.28	4.37	0.64	0.81	1.73
Fabricated metal products	1.51	0.35	5.37	7.39	6.13	1.92	0.89	1.40	2.16
Metal cans and shipping containers	1.31	(4)	(4)	—	(4)	2.05	0.75	1.60	1.78
Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products	1.99	0.04	(4)	(4)	9.57	4.00	1.89	3.63	3.82
Plumbing and heating, except electric and warm air	2.09	(4)	(4)	—	14.96	2.18	1.69	2.65	2.80
Fabricated structural metal products	4.22	1.94	—	(4)	16.97	5.00	2.20	2.48	7.63
Metal forgings and stampings	8.34	4.01	—	—	22.38	8.53	4.10	5.43	8.58
Coating, engraving, and allied services	13.84	76.35	—	—	42.59	14.06	10.43	12.14	13.60
Ordnance and accessories, except vehicles and guided missiles	4.74	(4)	—	—	25.69	4.15	8.90	11.99	8.77
Miscellaneous fabricated metal products	3.64	3.97	6.52	81.26	10.60	3.88	1.69	2.54	2.87
Machinery, except electrical	0.56	0.07	(4)	(4)	1.16	1.54	0.45	0.68	0.69
Farm machinery	6.84	(4)	—	—	15.61	6.95	2.31	3.04	3.09
Construction and related machinery	2.48	(3)	—	—	1.20	5.03	1.05	1.79	2.36
Metalworking machinery	8.40	22.98	(4)	—	16.78	8.73	3.58	4.99	5.48
Special industry machinery	6.39	6.54	(4)	—	15.97	6.98	3.78	4.85	5.18
General industry machinery	3.88	0.92	(4)	(4)	9.29	4.98	2.21	3.13	3.51
Office, computing, and accounting machines	0.19	0.02	(4)	—	1.10	0.94	0.22	0.22	0.28
Other machinery, except electrical	3.44	0.16	—	—	10.92	4.02	1.61	3.01	3.03
Electrical and electronic equipment	0.74	0.13	1.15	46.03	0.65	1.14	0.28	0.42	0.47
Household appliances	2.06	(4)	—	—	16.15	2.15	1.48	3.85	2.97
Radio, television, and communication equipment	2.09	(4)	3.03	—	2.11	3.08	1.08	1.11	0.98
Electronic components and accessories	1.37	(4)	2.43	(4)	2.87	1.91	0.78	0.98	1.11
Other electrical equipment	1.00	(4)	1.40	74.42	0.40	1.88	0.26	0.41	0.52
Motor vehicles and equipment	0.53	(4)	(4)	(4)	0.21	0.69	0.11	0.20	0.13
Transportation equipment, except motor vehicles	0.42	(4)	(4)	—	0.16	0.67	0.35	0.57	0.53
Aircraft, guided missiles and parts	0.25	(4)	(4)	—	0.16	0.40	0.24	0.36	0.28
Ship and boat building and repairing	13.98	(4)	(4)	—	6.25	14.67	4.59	6.98	7.07
Other transportation equipment, except motor vehicles	4.69	(4)	(4)	—	7.54	5.34	2.99	4.98	6.17
Instruments and related products	1.28	0.08	1.50	—	3.47	2.25	0.80	0.78	1.23
Scientific instruments and measuring devices; watches and clocks	3.11	0.47	(4)	—	9.46	4.79	1.79	1.93	2.58
Optical, medical, and ophthalmic goods	1.87	0.04	1.78	—	3.36	4.40	1.25	1.85	2.37
Photographic equipment and supplies	0.91	(4)	(4)	—	8.13	1.04	0.70	0.45	1.00
Miscellaneous manufacturing and manufacturing not allocable	2.89	3.64	3.53	—	7.88	3.50	1.41	2.21	2.46
Transportation and public utilities	**0.19**	**2.26**	**(4)**	**0.25**	**0.21**	**0.21**	**0.08**	**0.11**	**0.22**
Transportation	0.91	4.35	—	(4)	0.83	1.10	0.46	0.66	1.02
Railroad transportation	0.52	(4)	—	(4)	0.26	0.60	0.24	0.29	0.50
Local and interurban passenger transit	17.55	98.32	—	(4)	21.94	19.34	3.04	6.60	7.47
Trucking and warehousing	3.47	(3)	—	—	6.14	3.76	1.69	2.42	2.58
Water transportation	5.00	(4)	—	—	2.15	8.05	2.39	3.60	4.78
Transportation by air	0.44	1.11	—	—	0.31	0.62	0.50	0.56	0.81
Pipelines, except natural gas	4.12	92.67	—	—	(4)	3.18	3.90	4.02	4.28
Transportation services, not elsewhere classified	3.92	0.36	—	—	5.92	6.49	2.25	3.00	4.54
Communication	0.28	(4)	(4)	—	0.36	0.31	0.18	0.20	0.25
Telephone, telegraph, and other communication services	0.25	(4)	(4)	—	0.37	0.28	0.15	0.17	0.22
Radio and television broadcasting	1.64	(4)	—	—	1.90	1.97	1.12	2.62	2.52
Electric, gas, and sanitary services	0.19	(4)	—	0.26	0.30	0.20	0.08	0.10	0.20
Electric services	0.00	(4)	—	(4)	0.00	(3)	0.05	0.04	0.06
Gas production and distribution	0.58	(4)	—	(4)	0.01	0.62	0.16	0.22	0.38
Combination utility services	0.16	(4)	—	(4)	0.01	0.18	0.06	0.05	0.08
Water supply and other sanitary services	2.09	(4)	—	2.23	10.22	2.04	1.82	2.54	3.48
Wholesale and retail trade	**0.54**	**1.01**	**3.26**	**42.76**	**2.10**	**0.57**	**0.20**	**0.41**	**0.49**
Wholesale trade	0.98	2.38	6.96	51.79	4.59	1.02	0.32	0.77	0.88
Groceries and related products	3.21	5.12	(4)	—	12.67	3.25	1.92	2.57	3.75
Machinery, equipment, and supplies	3.36	13.81	(4)	(4)	10.26	3.43	1.59	2.39	2.35
Miscellaneous wholesale trade	1.17	2.37	7.58	91.32	5.61	1.23	0.54	1.04	1.12
Motor vehicles and automotive equipment	1.27	(4)	(4)	—	12.27	1.28	1.37	2.09	1.46
Furniture and home furnishings	11.14	76.80	(4)	—	9.35	11.30	6.50	8.81	11.44
Lumber and construction materials	6.53	69.56	(4)	(4)	26.84	6.59	3.84	4.94	5.20
Sporting, recreational, photographic, and hobby goods, toys, and supplies	8.31	(4)	—	—	28.05	8.66	4.31	8.86	6.46
Metals and minerals, except petroleum and scrap	6.57	65.38	(4)	—	20.44	6.69	0.56	4.23	4.40
Electrical goods	3.33	1.57	(4)	—	7.08	3.48	1.93	2.46	3.16
Hardware, plumbing, and heating equipment and supplies	7.74	75.39	—	—	34.54	7.80	3.86	4.97	5.22
Other durable goods	4.35	44.82	(4)	—	11.73	4.40	2.18	3.60	3.94
Paper and paper products	6.18	(4)	—	—	33.25	6.40	4.05	6.61	7.45
Drugs, drug proprietaries, and druggists' sundries	4.39	(4)	—	—	4.74	4.52	3.22	4.01	5.47
Apparel, piece goods, and notions	5.16	19.20	—	—	27.70	5.22	3.08	4.64	6.78
Farm-product raw materials	5.92	0.80	—	99.48	23.52	6.65	1.73	3.05	6.06
Chemicals and allied products	5.14	5.29	—	—	38.11	5.18	4.64	6.76	7.78
Petroleum and petroleum products	2.96	0.09	—	—	16.60	4.33	1.84	2.99	3.61
Alcoholic beverages	8.32	(4)	(4)	91.93	24.74	8.46	3.73	5.80	6.73
Miscellaneous nondurable goods; wholesale trade not allocable	4.38	13.19	(4)	(4)	31.02	4.49	2.52	3.84	4.28

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

RETURNS OF ACTIVE CORPORATIONS

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

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

Item	Coefficient of variation (Percent)								
	Total income tax	Foreign tax credit	U.S. possessions tax credit	Nonconventional source fuel credit	General business credit	Total income tax after credits [1]	Total assets	Depreciable assets	Depreciation deduction
	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)
Wholesale and retail trade—Continued									
Retail trade	0.58	0.29	[4]	10.45	2.20	0.61	0.25	0.47	0.58
Building materials, garden supplies, and mobile home dealers	3.83	[4]	—	[4]	10.82	3.88	1.89	2.59	2.75
Building materials dealers	4.70	—	—	[4]	12.68	4.76	2.08	2.82	3.04
Hardware stores	14.57	[4]	—	—	33.13	14.81	6.68	8.20	8.15
Garden supplies and mobile home dealers	5.52	—	—	—	14.46	5.57	5.19	8.69	8.91
General merchandise stores	0.33	[4]	—	[4]	1.02	0.34	0.23	0.44	0.41
Food stores	1.45	[4]	[4]	76.35	6.78	1.80	0.91	1.19	1.34
Grocery stores	1.43	[4]	[4]	76.35	6.61	1.80	0.87	1.15	1.16
Other food stores	9.59	[4]	—	—	38.84	9.82	5.32	5.97	7.64
Automotive dealers and service stations	3.80	[4]	—	78.43	7.07	3.97	1.55	1.98	2.38
Motor vehicle dealers	4.80	[4]	—	78.43	7.47	5.07	1.79	2.22	2.75
Gasoline service stations	12.02	[4]	—	—	21.56	12.35	5.39	6.36	6.82
Other automotive dealers	6.82	[4]	—	—	25.62	6.93	3.70	4.80	6.39
Apparel and accessory stores	2.20	1.40	[4]	—	9.14	2.22	1.73	1.89	2.16
Furniture and home furnishings stores	3.41	[4]	—	—	11.93	3.45	2.72	3.74	4.48
Eating and drinking places	2.02	[4]	[4]	[4]	5.72	2.18	0.91	1.57	1.58
Miscellaneous retail stores	2.12	5.53	[4]	—	8.55	2.17	1.21	1.84	2.06
Drug stores and proprietary stores	2.83	0.01	—	—	17.30	3.00	1.63	1.92	2.16
Liquor stores	22.97	—	—	—	44.72	23.14	8.06	9.59	11.02
Other retail stores	2.66	30.34	[4]	—	9.90	2.70	1.53	2.42	2.64
Wholesale and retail trade not allocable	21.10	0.00	[4]	—	50.07	21.69	11.18	16.79	18.17
Finance, insurance, and real estate	**0.93**	**0.14**	**2.12**	**0.32**	**0.47**	**1.09**	**0.21**	**0.49**	**0.28**
Banking	2.49	[4]	[4]	[4]	0.16	3.34	0.07	0.10	0.08
Mutual savings banks	0.18	[4]	—	—	0.23	0.18	0.08	0.11	0.09
Bank holding companies	0.09	[3]	—	[4]	0.07	0.13	0.05	0.08	0.05
Banks, except mutual savings banks and bank holding companies	11.60	[3]	[4]	—	1.68	12.32	0.46	0.67	0.73
Credit agencies other than banks	0.51	0.01	[4]	—	1.04	0.54	0.10	0.60	0.74
Savings and loan associations	0.38	[4]	[4]	—	0.72	0.38	0.11	0.14	0.20
Personal credit institutions	3.83	[4]	[4]	—	1.04	5.69	1.50	2.49	3.31
Business credit institutions	14.08	[4]	[4]	—	9.23	15.44	0.90	18.65	15.28
Other credit agencies; finance not allocable	1.24	0.02	—	—	1.96	1.37	0.22	1.81	1.50
Security, commodity brokers and services	1.46	4.67	[4]	74.78	2.73	1.50	0.14	1.55	1.59
Security brokers, dealers, and flotation companies	1.50	4.68	[4]	74.78	5.33	1.52	0.12	1.29	1.31
Commodity contracts brokers and dealers; security and commodity exchanges; and allied services	3.81	5.01	—	—	0.23	3.94	1.42	5.26	6.38
Insurance	0.72	0.11	—	[4]	0.37	0.82	1.02	0.83	0.27
Life insurance	0.56	[3]	—	[4]	0.16	0.63	1.59	1.52	0.12
Mutual insurance, except life or marine and certain fire or flood insurance companies	1.65	[4]	—	—	1.54	1.73	0.61	1.72	0.89
Other insurance companies	7.83	0.16	—	[4]	0.19	1.51	0.29	0.99	0.91
Insurance agents, brokers, and service	2.93	0.01	[4]	—	18.44	3.20	2.01	3.62	4.21
Real estate	2.93	47.68	[4]	1.08	8.14	2.99	0.85	1.40	1.48
Real estate operators and lessors of buildings	4.26	64.03	[4]	31.13	12.80	4.33	1.56	2.05	2.12
Lessors of mining, oil, and similar property	25.20	20.84	—	[4]	64.28	26.58	5.56	14.22	7.46
Lessors of railroad property, and of real property, not elsewhere classified	32.82	—	—	—	[4]	34.15	10.55	22.13	22.81
Condominium management and cooperative housing associations	13.73	—	—	—	88.71	13.79	3.28	3.69	4.37
Subdividers and developers	5.94	1.51	[4]	—	9.17	6.14	1.58	2.91	2.74
Other real estate	6.04	73.88	—	78.41	22.52	6.13	1.45	3.02	3.37
Holding and other investment companies, except bank holding companies	2.24	1.60	[4]	2.32	1.62	2.58	0.68	1.38	1.47
Regulated investment companies	0.19	—	—	—	—	0.19	0.85	44.47	61.77
Real estate investment trusts	29.99	—	—	—	[4]	33.94	0.87	1.46	2.63
Small business investment companies	45.59	—	—	—	66.37	45.75	8.79	31.47	34.51
Other holding and investment companies, except bank holding companies	2.24	1.60	[4]	2.32	1.63	2.59	0.64	1.81	1.60
Services	**1.23**	**2.83**	**3.06**	**48.60**	**2.21**	**1.40**	**0.39**	**0.72**	**0.74**
Hotels and other lodging places	3.52	[4]	[4]	—	4.23	4.53	1.73	2.55	2.69
Personal services	4.80	[4]	—	—	15.19	5.02	3.33	4.31	4.66
Business services	2.26	5.98	[4]	0.94	4.71	2.52	1.01	1.76	1.64
Advertising	5.02	2.15	—	96.93	16.93	6.25	1.96	4.48	4.76
Business services, except advertising	2.46	7.76	[4]	[4]	4.88	2.71	1.14	1.88	1.73
Auto repair; miscellaneous repair services	5.52	24.00	[4]	99.28	10.41	5.91	1.63	1.86	1.91
Auto repair and services	5.56	[4]	[4]	99.28	10.82	5.83	1.58	1.86	1.97
Miscellaneous repair services	14.87	46.92	—	—	37.81	15.29	6.33	7.74	8.01
Amusement and recreation services	2.73	1.24	[4]	—	2.05	4.20	0.82	2.12	1.99
Motion picture production, distribution, and services	1.66	1.24	[4]	—	1.53	3.78	0.73	4.46	2.99
Motion picture theaters	15.69	3.31	[4]	—	1.14	17.50	3.69	6.69	4.70
Amusement and recreation services, except motion pictures	4.95	3.11	[4]	—	8.53	5.84	1.56	2.56	2.91
Other services	2.42	11.58	[4]	—	4.84	2.58	1.08	1.54	1.65
Offices of physicians, including osteopathic physicians	6.93	—	—	—	15.79	7.20	4.00	4.87	4.84
Offices of dentists	14.39	—	—	—	19.96	16.11	7.79	8.81	9.28
Offices of other health practitioners	24.61	—	—	—	83.06	24.65	13.14	14.07	13.86
Nursing and personal care facilities	13.66	—	—	—	20.28	14.45	3.66	4.41	4.32
Hospitals	0.35	[4]	—	—	0.58	0.36	0.67	0.90	0.82
Medical laboratories	15.14	[4]	—	—	17.68	16.83	8.16	12.09	11.76
Other medical services	7.33	13.31	[4]	—	21.70	7.95	3.62	5.40	5.94
Legal services	11.40	97.09	—	—	23.40	11.74	6.02	7.85	7.84
Educational services	13.17	79.07	—	—	16.54	14.35	5.68	7.26	6.73
Social services	50.43	—	—	—	82.08	59.56	5.00	15.26	14.71
Membership organizations	18.74	—	—	—	53.93	19.18	7.66	15.51	15.59
Architectural and engineering services	6.51	48.54	[4]	—	17.35	6.64	3.79	5.44	5.82
Accounting, auditing, and bookkeeping services	14.88	—	[4]	—	35.80	15.72	8.49	10.59	11.09
Miscellaneous services (including veterinarians), not elsewhere classified	11.08	[4]	[4]	—	34.51	12.51	4.70	6.52	8.14
Nature of business not allocable	**24.56**	**—**	**[4]**	**—**	**65.05**	**28.18**	**9.81**	**14.57**	**16.60**

* 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 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	Mining: Metal mining	Mining: Coal mining	Mining: Oil and gas extraction	Mining: Nonmetallic minerals, except fuels
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Number of returns, total	3,612,133	116,544	42,050	1,955	4,513	31,694	3,888
Total assets	15,310,615,602	55,374,698	220,137,063	22,602,315	22,001,436	159,869,982	15,663,330
Cash	754,042,297	4,020,884	7,612,885	976,324	937,892	4,763,766	934,903
Notes and accounts receivable	3,763,230,257	4,989,180	21,516,856	1,794,510	3,519,229	14,046,108	2,157,009
Less: Allowance for bad debts	95,203,843	38,641	401,289	31,961	46,671	288,082	34,575
Inventories	829,272,682	6,255,324	6,821,281	1,268,416	1,032,054	3,579,076	941,735
Investments in Government obligations	1,092,370,975	284,185	1,256,052	*29,470	282,870	800,152	143,560
Other current assets	836,599,341	1,878,764	6,054,834	1,018,515	1,299,934	3,173,407	562,978
Loans to stockholders	71,237,313	1,547,556	3,756,976	*2,335,209	54,694	1,296,293	70,780
Mortgage and real estate loans	1,455,222,233	771,939	597,681	*13,110	*6,467	572,672	*5,432
Other investments	3,227,237,568	4,535,860	92,695,707	5,252,710	3,793,556	81,059,285	2,590,156
Depreciable assets	3,602,960,891	37,924,150	94,166,629	8,937,469	12,768,150	59,692,079	12,768,932
Less: Accumulated depreciation	1,483,312,181	23,249,625	47,863,798	4,628,185	7,059,915	29,590,568	6,585,129
Depletable assets	123,104,144	1,231,459	30,838,840	1,549,768	4,230,084	24,287,674	771,315
Less: Accumulated depletion	49,686,832	658,486	13,790,564	326,304	1,175,152	12,154,808	134,300
Land	158,817,879	13,029,093	2,776,071	343,694	356,181	1,430,293	645,903
Intangible assets (amortizable)	262,309,525	189,538	6,194,903	967,570	806,788	4,294,079	126,465
Less: Accumulated amortization	55,540,169	72,272	1,890,034	136,958	153,719	1,583,011	16,346
Other assets	817,953,526	2,735,790	9,794,032	3,238,957	1,348,992	4,491,570	714,513
Total liabilities	15,310,615,602	55,374,698	220,137,063	22,602,315	22,001,436	159,869,982	15,663,330
Accounts payable	997,768,767	2,770,177	13,440,851	839,548	1,379,728	10,209,996	1,011,578
Mortgages, notes, and bonds payable in less than one year	1,247,450,987	9,345,668	11,986,100	1,078,097	903,791	8,899,966	1,104,246
Other current liabilities	4,822,312,874	2,402,560	11,248,123	1,348,471	1,474,123	7,686,355	739,173
Loans from stockholders	211,854,134	5,187,688	7,968,310	2,890,547	1,442,321	3,502,187	133,255
Mortgages, notes, and bonds payable in one year or more	2,141,169,042	15,107,663	47,779,341	6,171,591	3,862,111	34,423,774	3,321,865
Other liabilities	1,942,679,565	2,359,547	18,160,986	3,088,380	2,720,320	10,827,067	1,525,219
Capital stock	1,291,674,344	8,285,087	10,279,830	1,575,141	282,200	6,646,069	1,776,418
Paid-in or capital surplus	1,988,355,017	6,259,703	92,668,341	6,472,585	8,786,290	75,704,547	1,704,919
Retained earnings, appropriated	83,651,846	144,244	200,679	—	*98,385	70,504	*31,790
Retained earnings, unappropriated	1,257,000,416	4,704,889	8,730,514	−528,880	1,176,367	3,894,567	4,188,460
Other retained earnings, 1120S	75,873,478	−215,689	87,436	−159,270	143,643	−616,239	719,302
Less: Cost of treasury stock	749,174,866	976,840	2,413,447	173,897	267,842	1,378,811	592,896
Total receipts	9,580,720,701	77,057,114	96,805,871	9,287,256	18,539,395	56,892,529	12,086,690
Business receipts	8,414,537,647	71,809,603	85,846,689	7,752,961	17,205,818	49,673,777	11,214,132
Interest	674,891,063	479,647	2,597,692	217,348	320,445	1,837,283	222,615
Interest on Government obligations:							
State and local	30,764,430	10,754	24,878	74	6,634	15,771	2,399
Rents	92,105,433	350,839	422,968	16,452	98,658	253,319	54,539
Royalties	20,743,856	52,728	821,081	26,986	75,169	711,822	7,104
Net short-term capital gain reduced by net long-term capital loss	8,453,030	18,740	38,198	*3,277	3,116	28,286	*3,519
Net long-term capital gain reduced by net short-term capital loss	63,754,106	544,515	1,847,865	642,998	247,211	813,714	143,942
Net gain, noncapital assets	29,568,649	365,176	869,837	146,960	85,066	593,457	44,354
Dividends received from domestic corporations	13,864,647	57,761	222,907	60,732	19,429	131,487	11,260
Dividends received from foreign corporations	25,180,395	12,826	527,873	82,882	5,966	425,249	*13,775
Other receipts	206,857,448	3,354,525	3,585,884	336,587	471,882	2,408,363	369,051
Total deductions	9,243,903,854	75,422,713	96,660,686	8,845,259	18,216,080	58,481,198	11,118,149
Cost of sales and operations	5,596,218,574	50,565,416	56,325,162	5,386,823	12,091,306	32,425,137	6,421,896
Compensation of officers	200,048,676	1,610,555	1,263,855	35,380	137,588	798,059	292,828
Repairs	86,425,629	1,199,518	932,745	47,349	279,954	367,357	238,085
Bad debts	54,578,189	116,270	474,772	34,109	40,395	358,768	41,500
Rent paid on business property	153,781,416	1,560,326	1,351,714	97,612	312,887	840,204	101,011
Taxes paid	211,346,315	1,544,511	2,841,876	343,212	760,772	1,386,464	351,428
Interest paid	589,989,252	2,272,546	5,442,124	487,679	522,226	4,022,991	409,228
Contributions or gifts	4,980,027	25,575	29,461	3,465	5,987	8,899	11,109
Amortization	17,407,143	45,058	171,178	13,041	34,684	109,724	13,729
Depreciation	316,710,668	3,422,383	5,955,759	428,786	968,824	3,727,833	830,316
Depletion	8,460,962	59,779	2,097,949	299,197	445,907	1,032,518	320,327
Advertising	106,556,098	232,936	164,615	10,839	13,653	85,227	54,895
Pension, profit-sharing, stock bonus, and annuity plans	46,533,727	149,646	332,751	28,510	72,555	141,046	90,640
Employee benefit programs	84,603,727	281,312	936,262	64,166	288,790	460,990	122,316
Net loss, noncapital assets	12,047,435	262,549	1,052,820	2,334	28,814	1,005,277	16,395
Other deductions	1,754,216,022	12,074,334	17,287,646	1,562,758	2,211,738	11,710,704	1,802,445
Total receipts less total deductions	336,816,848	1,634,401	145,184	441,997	323,315	−1,588,669	968,542
Constructive taxable income from related foreign corporations	22,226,855	*3,684	154,806	*5,049	15,297	133,464	997
Net income (less deficit)	328,223,710	1,626,501	275,048	446,972	331,912	−1,470,976	967,140
Income subject to tax	311,840,615	1,770,932	3,237,322	615,609	301,190	1,488,232	832,292
Income tax, total	118,484,975	508,012	1,256,089	193,600	144,006	590,025	328,458
Regular and alternative tax	115,073,572	496,874	1,143,473	178,875	106,831	542,252	315,515
Tax from recomputing prior-year investment credit	783,953	2,972	13,533	596	984	10,910	1,043
Alternative minimum tax	2,229,107	7,146	91,392	12,838	35,341	32,472	10,741
Environmental tax	351,253	467	5,563	1,291	849	2,276	1,147
Foreign tax credit	20,812,861	3,981	371,817	*41,238	279	296,604	33,697
U.S. possessions tax credit	2,666,634	1,929	—	—	—	—	—
Orphan drug credit	5,154	—	—	—	—	—	—
Nonconventional source fuel credit	52,439	146	2,758	—	34	2,581	*143
General business credit	7,959,117	48,785	70,895	38,475	16,193	11,605	4,621

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

RETURNS OF ACTIVE CORPORATIONS

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

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

Item	Major industry—Continued: Construction: Total	Construction: General building contractors and operative builders	Construction: Heavy construction contractors	Construction: Special trade contractors	Manufacturing: Total	Manufacturing: Food and kindred products	Manufacturing: Tobacco manufactures	Manufacturing: Textile mill products	Manufacturing: Apparel and other textile products
	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Number of returns, total	**371,169**	**155,676**	**21,192**	**194,301**	**294,211**	**18,785**	**64**	**4,936**	**17,515**
Total assets	**222,064,937**	**128,106,554**	**34,620,796**	**59,337,587**	**3,111,708,665**	**253,979,672**	**70,557,788**	**37,597,576**	**36,911,512**
Cash	22,947,739	10,776,125	4,260,110	7,911,505	88,739,062	9,442,418	123,687	1,705,207	1,583,404
Notes and accounts receivable	57,689,915	26,041,278	9,595,398	22,053,239	701,026,139	41,459,853	5,499,153	10,430,538	7,725,874
Less: Allowance for bad debts	445,136	140,164	81,500	223,472	12,277,377	609,804	90,847	118,271	156,525
Inventories	33,352,955	24,753,747	1,807,283	6,791,925	331,733,231	27,230,048	6,292,419	7,678,738	10,492,106
Investments in Government obligations	3,323,820	2,619,743	499,810	204,267	28,424,375	1,949,267	17,003	90,028	55,330
Other current assets	24,885,875	16,238,704	3,306,416	5,340,755	176,708,666	9,902,845	4,403,311	1,048,134	1,947,291
Loans to stockholders	3,706,524	1,823,508	467,110	1,415,905	16,841,091	1,946,167	1,164,394	56,174	252,303
Mortgage and real estate loans	11,055,618	10,700,143	153,915	201,560	21,429,560	537,111	1,330	*19,445	21,926
Other investments	15,193,589	9,706,021	3,390,340	2,097,227	687,332,075	69,685,185	37,645,730	3,342,114	4,333,184
Depreciable assets	76,500,730	24,505,278	24,052,785	27,942,667	1,339,121,025	97,156,175	14,882,114	21,538,607	9,041,475
Less: Accumulated depreciation	44,174,868	11,718,980	15,076,909	17,378,979	646,641,920	42,672,828	5,261,131	11,086,740	4,390,140
Depletable assets	466,396	213,377	203,075	49,944	74,895,157	178,366	15,620	*10,498	1
Less: Accumulated depletion	86,371	31,931	34,316	20,124	28,781,201	40,836	6,702	*3,671	1
Land	7,518,593	5,530,279	894,820	1,093,494	33,576,552	4,203,857	352,630	224,374	241,668
Intangible assets (amortizable)	1,362,429	863,782	98,557	400,090	141,690,394	18,866,614	2,503,710	633,760	1,991,627
Less: Accumulated amortization	311,054	131,978	38,210	140,866	34,195,536	1,104,036	*315,821	54,444	246,481
Other assets	9,078,185	6,357,620	1,122,113	1,598,451	192,087,372	15,849,270	3,331,187	2,083,085	4,018,471
Total liabilities	**222,064,937**	**128,106,554**	**34,620,796**	**59,337,587**	**3,111,708,665**	**253,979,672**	**70,557,788**	**37,597,576**	**36,911,512**
Accounts payable	39,689,467	22,378,547	5,577,524	11,733,396	312,991,694	31,095,910	3,424,104	3,839,393	4,833,050
Mortgages, notes, and bonds payable in less than one year	30,450,778	21,243,327	3,108,268	6,099,184	277,201,332	19,211,858	2,501,718	3,013,984	5,329,277
Other current liabilities	33,063,045	17,841,629	4,650,698	10,570,718	322,650,832	21,305,762	7,688,836	2,738,656	3,131,802
Loans from stockholders	8,088,963	5,040,235	619,080	2,429,648	67,647,136	5,519,819	1,259,575	360,773	965,625
Mortgages, notes, and bonds payable in one year or more	41,641,804	29,206,034	5,682,621	6,753,150	635,648,257	53,419,270	13,361,259	10,817,350	8,144,622
Other liabilities	15,204,622	10,145,706	2,288,039	2,770,877	303,896,754	21,495,137	5,407,516	1,688,988	1,530,854
Capital stock	7,757,070	3,471,653	1,561,384	2,724,033	139,335,934	11,030,632	1,723,413	1,676,493	2,233,160
Paid-in or capital surplus	11,185,939	6,221,969	2,715,056	2,248,914	494,078,329	48,673,002	19,023,839	3,812,663	4,866,540
Retained earnings, appropriated	222,041	91,886	*66,995	63,159	23,917,474	1,381,585	343,532	*22,427	*15,806
Retained earnings, unappropriated	28,507,030	9,680,466	6,473,009	12,353,555	581,727,800	48,141,457	16,347,242	8,823,932	3,963,504
Other retained earnings, 1120S	10,028,329	4,039,889	2,716,382	3,272,057	32,749,992	3,537,130	—	1,562,061	2,690,349
Less: Cost of treasury stock	3,774,151	1,254,787	838,259	1,681,104	80,136,871	10,831,891	*523,247	759,145	793,075
Total receipts	**454,831,094**	**218,480,158**	**64,849,318**	**171,501,619**	**3,141,406,444**	**343,866,908**	**54,404,263**	**52,875,162**	**64,492,571**
Business receipts	442,491,245	211,051,191	62,232,032	169,208,022	2,946,695,175	329,603,236	50,879,271	52,087,009	63,076,570
Interest	3,416,672	2,564,075	428,728	423,869	48,674,814	2,652,204	1,130,193	224,389	317,801
Interest on Government obligations: State and local	62,667	25,799	23,372	13,496	1,659,589	37,541	*2,725	7,242	4,386
Rents	1,376,816	887,849	296,010	192,958	31,998,530	1,624,025	*413,804	50,425	119,412
Royalties	21,354	3,457	12,845	5,052	15,294,512	996,882	*300,106	25,572	225,041
Net short-term capital gain reduced by net long-term capital loss	61,591	28,927	28,813	3,851	1,195,095	207,637	1,355	31,430	*6,715
Net long-term capital gain reduced by net short-term capital loss	785,548	454,038	220,729	110,781	17,535,395	1,582,590	669,735	49,904	23,142
Net gain, noncapital assets	923,388	426,145	312,220	185,023	8,265,733	925,946	*32,272	59,779	17,685
Dividends received from domestic corporations	154,185	65,268	61,720	27,198	3,948,049	391,052	90,402	14,656	10,714
Dividends received from foreign corporations	70,815	47,958	*15,522	*7,335	21,252,535	1,706,636	*323,020	43,188	30,707
Other receipts	5,466,813	2,925,452	1,217,327	1,324,033	44,887,017	4,139,159	561,380	281,568	660,398
Total deductions	**446,096,648**	**215,256,399**	**62,991,068**	**167,849,181**	**3,012,111,231**	**331,628,313**	**50,429,989**	**50,994,754**	**62,980,289**
Cost of sales and operations	344,505,785	176,208,958	48,446,576	119,850,250	2,034,818,784	233,053,010	26,323,881	39,139,225	45,525,256
Compensation of officers	16,278,445	6,020,929	1,557,342	8,700,173	31,225,206	2,347,158	*106,220	709,542	1,587,736
Repairs	1,996,409	567,122	559,305	869,982	28,491,985	2,663,928	193,731	336,563	195,878
Bad debts	1,118,899	434,745	171,074	513,080	7,443,963	470,772	45,301	88,429	141,835
Rent paid on business property	3,497,818	1,104,202	501,585	1,892,031	31,921,300	2,847,055	308,302	383,151	904,537
Taxes paid	9,074,214	2,914,285	1,295,471	4,864,458	74,611,472	6,887,323	2,749,113	1,281,484	1,391,893
Interest paid	6,319,837	4,099,830	823,370	1,396,637	100,783,073	8,252,362	2,036,794	1,131,307	1,624,769
Contributions or gifts	123,365	50,999	22,144	50,221	2,530,518	376,046	111,129	23,818	22,126
Amortization	151,902	100,837	13,899	37,166	6,136,046	752,951	*105,176	41,472	151,323
Depreciation	8,140,267	2,389,905	2,274,029	3,476,332	121,174,522	9,037,108	2,575,755	1,758,893	1,004,793
Depletion	86,080	23,388	50,237	12,455	5,059,025	11,398	70	*290	*1,770
Advertising	1,312,819	607,552	58,112	647,155	48,427,173	13,663,886	4,539,927	286,405	907,082
Pension, profit-sharing, stock bonus, and annuity plans	1,725,303	558,906	343,487	822,910	16,833,570	1,153,767	212,197	261,081	211,627
Employee benefit programs	2,281,798	618,663	343,383	1,319,752	41,451,655	2,885,840	753,259	430,745	413,573
Net loss, noncapital assets	721,547	644,840	34,825	41,882	2,346,080	213,452	51,357	59,613	36,529
Other deductions	48,762,161	18,911,239	6,496,226	23,354,696	458,856,862	47,012,258	10,317,776	5,062,737	8,859,563
Total receipts less total deductions	8,734,446	3,223,758	1,858,249	3,652,438	129,295,213	12,238,595	3,974,273	1,880,408	1,512,282
Constructive taxable income from related foreign corporations	33,236	30,596	*2,573	*68	17,862,950	1,298,408	308,809	34,971	58,083
Net income (less deficit)	8,700,642	3,224,183	1,837,450	3,639,010	145,493,891	13,499,462	4,280,358	1,908,138	1,565,979
Income subject to tax	7,843,763	3,031,464	1,571,520	3,240,780	145,836,088	13,079,814	4,191,280	1,740,804	1,419,446
Income tax, total	2,459,657	979,008	572,917	907,732	57,286,912	5,024,641	1,631,756	683,534	530,887
Regular and alternative tax	2,351,230	935,519	549,642	866,069	56,040,361	4,935,201	1,620,721	676,921	525,105
Tax from recomputing prior-year investment credit	15,068	6,376	3,757	4,935	350,297	30,794	*4,088	2,038	566
Alternative minimum tax	91,057	35,953	18,886	36,218	712,520	43,820	1,000	3,394	4,187
Environmental tax	1,809	994	632	183	173,059	14,276	5,947	1,180	1,030
Foreign tax credit	17,788	8,619	*9,102	*67	16,931,616	1,090,588	176,888	27,450	18,172
U.S. possessions tax credit	1,090	—	1,090	—	2,564,058	230,357	23,843	243	34,188
Orphan drug credit	—	—	—	—	5,154	—	—	—	—
Nonconventional source fuel credit	*982	*7	*972	*3	28,576	*72	—	—	—
General business credit	102,690	29,997	33,907	38,786	3,709,348	214,156	*105,268	18,564	7,843

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	**19,067**	**8,994**	**2,736**	**47,642**	**10,545**	**2,137**	**12,574**	**1,729**	**8,532**
Total assets	**62,391,537**	**18,951,486**	**90,214,143**	**123,806,832**	**338,157,003**	**570,375,621**	**44,553,316**	**9,233,735**	**72,794,833**
Cash	3,060,201	1,052,390	1,968,959	4,979,830	10,408,507	5,254,647	1,574,310	1,094,667	1,827,498
Notes and accounts receivable	9,071,863	4,749,110	11,389,480	22,221,945	55,726,503	77,147,516	9,629,420	2,043,714	10,963,452
Less: Allowance for bad debts	136,435	116,976	271,362	1,116,988	1,147,714	965,270	240,827	37,297	292,280
Inventories	7,970,995	4,544,506	9,504,973	8,465,528	33,226,012	20,056,896	7,406,754	2,540,964	6,020,997
Investments in Government obligations	227,278	71,185	485,731	1,834,882	949,691	1,199,283	37,564	*71,578	408,762
Other current assets	4,534,461	705,184	2,040,070	5,995,542	22,913,908	29,163,642	2,209,463	411,461	2,425,581
Loans to stockholders	196,098	74,211	288,693	1,359,763	1,925,061	3,627,868	352,263	26,545	310,445
Mortgage and real estate loans	1,574,227	26,512	86,239	211,932	214,632	232,443	22,419	—	51,571
Other investments	8,188,522	1,255,984	18,510,874	21,154,364	87,590,998	201,519,063	5,594,510	1,380,269	12,563,028
Depreciable assets	36,384,844	9,520,597	64,357,590	53,998,023	152,861,800	275,088,895	27,375,116	2,462,846	36,556,291
Less: Accumulated depreciation	18,773,385	4,624,355	27,261,129	24,561,562	74,698,369	127,768,860	12,884,685	1,372,433	17,107,727
Depletable assets	5,519,256	*4,744	3,202,750	413,080	6,882,239	54,068,756	*12,285	*5,196	825,572
Less: Accumulated depletion	219,981	437	589,034	28,431	3,697,851	22,285,684	461	*3,893	277,146
Land	1,008,255	304,311	1,399,499	1,827,075	4,220,598	6,704,372	570,111	60,794	1,417,962
Intangible assets (amortizable)	885,005	636,933	1,924,621	16,662,803	14,870,794	43,686,443	1,218,692	96,044	1,775,429
Less: Accumulated amortization	38,419	50,496	211,143	1,657,047	2,403,395	22,843,497	205,266	20,477	228,892
Other assets	2,938,753	798,082	3,387,334	12,046,093	28,313,587	26,489,108	1,881,649	473,756	15,554,291
Total liabilities	**62,391,537**	**18,951,486**	**90,214,143**	**123,806,832**	**338,157,003**	**570,375,621**	**44,553,316**	**9,233,735**	**72,794,833**
Accounts payable	5,069,199	2,160,318	7,225,319	9,728,238	30,918,950	51,007,264	6,398,973	990,419	6,714,303
Mortgages, notes, and bonds payable in less than one year	4,893,073	1,365,481	3,851,330	7,842,565	21,026,155	25,444,665	3,284,800	893,358	3,932,574
Other current liabilities	6,983,458	1,905,751	6,080,250	13,298,220	33,657,365	43,700,884	4,465,372	849,139	4,429,997
Loans from stockholders	754,668	298,867	1,081,951	4,189,614	7,293,353	6,324,567	973,615	195,525	12,359,358
Mortgages, notes, and bonds payable in one year or more	15,475,169	3,972,857	21,276,698	34,025,511	61,381,371	111,449,563	11,516,431	2,523,115	16,779,123
Other liabilities	2,546,509	596,376	8,167,558	10,514,129	30,975,810	83,748,342	2,695,590	430,605	3,994,760
Capital stock	3,425,613	1,017,625	5,791,773	5,227,664	16,559,674	16,499,913	1,638,131	627,362	3,085,533
Paid-in or capital surplus	8,396,518	1,489,278	12,130,269	11,400,779	71,821,899	112,486,093	5,476,155	780,126	10,666,004
Retained earnings, appropriated	53,660	*17,247	44,401	71,616	561,275	14,202,345	*25,892	9,108	168,010
Retained earnings, unappropriated	13,556,283	5,670,130	25,891,842	28,449,132	75,641,918	125,428,009	7,634,803	1,832,489	11,183,923
Other retained earnings, 1120S	1,843,659	895,104	1,281,978	2,266,981	1,368,493	450,356	1,623,073	519,942	1,029,920
Less: Cost of treasury stock	606,271	437,549	2,609,224	3,207,616	13,049,262	20,366,380	1,174,517	417,453	1,548,671
Total receipts	**85,683,972**	**36,499,923**	**100,149,258**	**139,364,219**	**306,409,318**	**396,218,158**	**67,640,160**	**14,912,443**	**63,135,676**
Business receipts	81,495,871	35,729,290	96,411,125	132,982,936	282,921,980	366,019,651	64,634,090	14,335,022	59,041,313
Interest	1,072,427	104,530	579,883	1,254,992	3,937,974	10,339,086	469,733	246,914	957,647
Interest on Government obligations:									
State and local	3,238	10,557	16,029	61,712	355,196	26,605	10,344	6,745	8,267
Rents	133,830	120,289	203,625	509,468	1,168,192	2,139,865	178,963	34,996	162,999
Royalties	66,574	14,065	334,808	351,687	2,155,181	1,334,254	111,232	31,686	176,968
Net short-term capital gain reduced by net long-term capital loss	6,616	*397	19,073	17,365	250,866	13,271	1,922	*376	389,201
Net long-term capital gain reduced by net short-term capital loss	1,392,774	56,526	1,059,188	833,124	4,195,921	1,661,478	837,012	63,579	697,937
Net gain, noncapital assets	173,263	66,048	257,542	360,129	471,334	1,656,720	333,296	2,475	311,177
Dividends received from domestic corporations	29,162	22,309	95,864	177,359	882,810	571,711	44,358	5,141	84,469
Dividends received from foreign corporations	139,561	24,848	532,705	130,342	3,873,508	5,639,688	339,667	51,010	426,720
Other receipts	1,170,657	351,065	639,417	2,685,107	6,196,355	6,815,829	679,544	134,501	878,978
Total deductions	**81,571,685**	**34,972,480**	**94,310,120**	**131,524,074**	**282,355,039**	**380,311,605**	**64,494,143**	**14,392,801**	**59,869,056**
Cost of sales and operations	59,903,265	24,951,399	64,306,061	67,205,336	170,591,337	270,561,621	44,807,251	10,053,746	39,410,185
Compensation of officers	1,289,751	741,866	826,606	3,773,326	2,107,775	588,748	1,272,377	220,973	822,610
Repairs	1,321,770	152,573	2,098,131	884,611	4,050,163	4,920,485	551,524	72,210	1,135,594
Bad debts	205,990	109,383	118,013	886,128	534,183	507,772	169,683	41,078	212,088
Rent paid on business property	836,904	422,321	801,083	2,341,310	3,224,924	3,208,089	787,252	296,424	732,113
Taxes paid	1,893,981	909,595	2,027,788	4,048,793	5,591,414	16,493,270	1,360,913	301,705	1,578,319
Interest paid	2,412,913	528,283	2,351,181	4,335,044	9,090,009	17,972,744	1,685,993	447,638	2,528,371
Contributions or gifts	52,895	23,934	106,795	205,106	458,435	210,180	29,981	9,089	28,339
Amortization	81,949	38,748	81,918	999,466	733,308	796,943	90,893	8,890	163,312
Depreciation	2,781,933	890,794	5,483,312	5,829,380	11,484,149	17,708,757	2,316,124	208,884	2,917,419
Depletion	730,724	*1,687	217,371	50,244	421,072	2,875,523	32,118	*8	255,750
Advertising	418,509	493,995	1,015,916	2,485,060	9,394,263	1,101,998	755,899	270,543	365,163
Pension, profit-sharing, stock bonus, and annuity plans	413,418	206,108	475,088	1,005,267	1,783,458	1,051,186	382,677	60,273	316,742
Employee benefit programs	764,286	330,883	1,453,735	1,798,087	3,862,733	2,025,842	936,560	125,435	754,706
Net loss, noncapital assets	17,227	20,830	13,530	126,414	310,457	208,460	32,933	20,842	30,323
Other deductions	8,446,170	5,150,079	12,933,591	35,550,502	58,717,359	40,079,987	9,281,966	2,255,060	8,618,021
Total receipts less total deductions	4,112,288	1,527,443	5,839,138	7,840,145	24,054,279	15,906,553	3,146,017	519,643	3,266,620
Constructive taxable income from related foreign corporations	51,483	22,665	326,974	97,313	4,189,941	4,232,176	245,252	6,588	227,595
Net income (less deficit)	4,160,533	1,539,551	6,150,084	7,875,747	27,889,023	20,112,124	3,380,925	515,334	3,485,949
Income subject to tax	3,322,135	1,610,888	5,693,871	8,186,614	27,026,208	21,504,884	3,071,659	420,268	3,323,534
Income tax, total	1,233,036	607,125	2,269,652	3,183,059	10,525,724	8,582,588	1,156,683	160,575	1,282,717
Regular and alternative tax	1,215,208	603,519	2,182,898	3,141,139	10,381,268	8,486,368	1,132,086	156,047	1,249,128
Tax from recomputing prior-year investment credit	4,327	1,667	12,508	15,184	43,139	30,343	16,288	719	7,891
Alternative minimum tax	9,877	*435	66,954	17,799	71,316	36,499	5,421	*3,608	20,938
Environmental tax	3,623	1,241	6,961	8,672	29,948	29,379	2,089	171	3,962
Foreign tax credit	48,906	18,487	354,827	119,564	2,989,377	6,129,561	239,956	2,425	206,190
U.S. possessions tax credit	—	367	1,881	5,320	1,454,644	32,293	17,745	12,338	2,104
Orphan drug credit	—	—	—	—	5,112	—	—	—	—
Nonconventional source fuel credit	3,967	*339	*290	1,619	*3,614	16,401	55	—	63
General business credit	102,230	10,062	187,002	105,895	510,571	171,790	36,452	5,211	28,145

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	**4,590**	**49,106**	**26,831**	**22,112**	**2,483**	**4,175**	**9,150**	**20,507**
Total assets	**96,548,304**	**132,045,568**	**234,170,803**	**316,672,722**	**380,143,878**	**109,593,513**	**64,131,570**	**48,877,253**
Cash	3,904,304	5,482,764	8,816,633	11,092,519	3,645,461	5,839,788	2,944,402	2,937,466
Notes and accounts receivable	18,198,388	29,508,463	58,215,130	75,928,211	202,574,712	20,888,123	16,397,974	11,256,715
Less: Allowance for bad debts	325,788	505,936	1,219,185	2,057,088	1,742,210	301,759	372,453	452,360
Inventories	14,138,506	24,493,879	36,297,780	40,556,645	18,135,952	27,091,204	10,022,289	9,566,041
Investments in Government obligations	478,305	531,017	5,670,595	5,379,997	6,429,519	*1,873,943	341,918	321,499
Other current assets	5,497,875	5,435,446	15,775,596	36,370,553	12,104,497	7,864,079	3,317,132	2,642,593
Loans to stockholders	328,504	729,004	900,201	1,884,001	560,655	166,586	259,872	432,285
Mortgage and real estate loans	49,313	278,890	602,419	2,113,487	15,126,962	*48,669	109,292	100,740
Other investments	15,620,384	23,688,554	39,937,378	57,378,789	49,084,474	14,398,909	9,344,793	5,114,970
Depreciable assets	66,696,765	60,473,316	106,788,773	103,847,684	111,343,723	40,843,510	30,236,934	17,665,946
Less: Accumulated depreciation	34,946,083	30,832,819	56,091,639	54,296,978	55,691,353	19,520,228	14,619,227	8,180,252
Depletable assets	1,379,345	565,150	873,392	701,725	*5,715	105,560	*10,693	*115,213
Less: Accumulated depletion	675,452	169,670	485,242	246,829	2,712	15,118	*3,614	*28,436
Land	1,079,669	1,938,142	2,234,528	2,040,448	1,417,258	996,331	749,203	585,467
Intangible assets (amortizable)	1,336,821	5,501,120	7,028,161	6,780,831	5,847,290	2,988,998	3,009,204	3,445,495
Less: Accumulated amortization	190,173	671,406	1,246,475	870,278	651,318	293,577	474,847	418,049
Other assets	3,977,621	5,599,653	10,072,759	30,069,004	11,955,253	6,618,492	2,858,007	3,771,918
Total liabilities	**96,548,304**	**132,045,568**	**234,170,803**	**316,672,722**	**380,143,878**	**109,593,513**	**64,131,570**	**48,877,253**
Accounts payable	12,235,616	15,812,370	22,864,125	36,429,920	32,132,161	17,844,719	7,517,478	4,754,864
Mortgages, notes, and bonds payable in less than one year	5,573,874	10,202,948	17,679,816	38,678,712	82,153,713	9,362,683	4,910,424	6,048,323
Other current liabilities	8,862,255	16,443,539	33,602,213	31,617,390	46,702,452	22,638,795	7,290,205	5,258,491
Loans from stockholders	2,798,956	2,139,421	2,305,803	3,945,155	10,395,260	1,384,068	1,564,366	1,536,797
Mortgages, notes, and bonds payable in one year or more	22,411,393	25,349,641	43,786,342	45,718,198	96,106,717	17,325,826	9,004,251	11,803,550
Other liabilities	13,061,047	10,812,375	17,859,148	46,357,485	26,908,743	6,832,479	3,707,728	4,565,577
Capital stock	6,196,878	7,259,267	18,844,995	16,929,699	6,131,558	4,998,945	4,633,890	3,803,716
Paid-in or capital surplus	19,867,691	19,138,833	33,320,365	50,532,418	33,008,860	6,749,117	11,608,703	8,829,178
Retained earnings, appropriated	456,333	114,486	1,850,261	216,516	3,431,133	198,434	*665,385	68,023
Retained earnings, unappropriated	5,265,690	23,901,389	43,497,629	49,556,271	43,986,091	24,567,627	16,488,717	1,899,723
Other retained earnings, 1120S	933,945	4,556,345	3,109,051	1,885,668	840,229	640,278	491,116	1,224,314
Less: Cost of treasury stock	1,115,372	3,685,047	4,548,944	5,194,711	1,653,039	2,949,458	3,750,694	915,304
Total receipts	**117,289,829**	**169,954,252**	**241,395,755**	**260,693,649**	**360,339,280**	**137,055,269**	**67,808,448**	**61,217,930**
Business receipts	112,087,231	163,416,788	209,786,702	244,731,250	336,428,731	128,870,974	63,463,996	58,692,138
Interest	1,342,778	1,652,927	3,870,598	3,117,509	12,069,759	2,133,367	660,930	539,175
Interest on Government obligations: State and local	268,149	32,877	323,364	70,480	319,441	27,672	55,511	11,508
Rents	505,963	745,335	12,065,442	3,611,187	6,189,462	1,318,126	533,093	170,030
Royalties	108,175	210,143	6,185,698	1,673,726	109,129	202,042	514,227	167,317
Net short-term capital gain reduced by net long-term capital loss	54,129	34,666	25,502	105,861	*1,444	1,447	3,408	22,413
Net long-term capital gain reduced by net short-term capital loss	799,989	439,493	839,775	843,896	273,587	663,993	190,797	360,955
Net gain, noncapital assets	254,173	365,002	448,274	736,568	1,212,699	358,256	111,898	111,196
Dividends received from domestic corporations	89,632	527,094	248,107	204,057	153,166	143,976	73,997	88,012
Dividends received from foreign corporations	306,936	773,011	3,727,325	874,547	620,190	586,529	925,926	176,471
Other receipts	1,472,674	1,756,915	3,874,968	4,724,567	2,961,672	2,748,886	1,274,663	878,715
Total deductions	**114,031,065**	**163,353,084**	**231,558,334**	**252,513,468**	**356,081,041**	**130,182,628**	**64,956,632**	**59,600,633**
Cost of sales and operations	88,127,078	114,001,955	135,154,419	159,354,860	269,221,474	97,305,304	37,360,786	38,461,335
Compensation of officers	797,384	4,521,645	3,087,680	2,810,452	599,216	554,432	1,055,502	1,404,208
Repairs	2,438,217	1,197,743	1,654,237	1,387,171	1,738,494	804,816	398,002	296,142
Bad debts	248,531	480,518	657,111	810,938	1,116,485	177,197	146,223	276,306
Rent paid on business property	1,095,197	1,773,146	3,391,763	3,375,682	2,393,298	1,189,874	866,621	742,254
Taxes paid	2,109,796	4,074,633	5,824,402	5,701,953	5,255,143	2,438,462	1,354,216	1,337,275
Interest paid	2,958,602	4,617,550	6,734,401	9,037,441	16,502,526	3,176,266	1,417,287	1,941,593
Contributions or gifts	47,791	81,923	197,053	242,312	40,601	111,280	111,269	40,415
Amortization	98,016	337,215	438,477	489,903	113,192	292,722	141,796	178,378
Depreciation	3,623,619	5,617,420	9,882,292	12,521,221	17,622,804	4,053,216	2,225,543	1,631,104
Depletion	300,209	44,265	50,393	23,519	7,519	27,469	5,067	2,558
Advertising	199,196	1,153,847	2,154,755	3,135,455	2,497,614	431,708	1,804,615	1,351,337
Pension, profit-sharing, stock bonus, and annuity plans	1,446,904	1,065,339	1,363,863	1,567,819	2,190,759	854,126	558,627	253,242
Employee benefit programs	1,620,522	2,504,583	4,502,255	4,393,479	7,341,885	2,833,199	898,398	821,648
Net loss, noncapital assets	296,484	90,411	393,391	213,736	28,132	32,112	43,718	106,128
Other deductions	8,623,518	21,790,894	56,071,842	47,447,527	29,411,899	15,900,442	16,568,961	10,756,709
Total receipts less total deductions	3,258,765	6,601,167	9,837,422	8,180,181	4,258,239	6,872,641	2,851,816	1,617,297
Constructive taxable income from related foreign corporations	218,882	467,009	3,170,253	720,908	1,266,041	210,531	613,364	95,702
Net income (less deficit)	3,209,498	7,034,767	12,684,311	8,830,608	5,204,839	7,055,500	3,409,669	1,701,491
Income subject to tax	2,226,536	6,424,291	13,690,934	10,351,053	6,238,789	6,234,584	3,950,917	2,127,579
Income tax, total	914,226	2,453,062	5,466,864	4,087,443	2,598,909	2,515,911	1,557,933	820,588
Regular and alternative tax	863,681	2,393,910	5,243,160	3,979,762	2,462,568	2,454,252	1,532,344	805,075
Tax from recomputing prior-year investment credit	3,518	9,213	31,328	24,408	82,981	12,699	13,014	3,583
Alternative minimum tax	42,066	44,293	173,742	70,958	42,075	39,405	8,217	6,515
Environmental tax	4,415	5,620	16,756	11,249	11,284	9,556	4,031	1,666
Foreign tax credit	115,534	490,396	3,176,829	605,545	430,095	122,277	480,044	88,505
U.S. possessions tax credit	—	13,192	66,015	442,544	1,060	6,735	164,564	54,624
Orphan drug credit	—	—	—	—	—	—	42	—
Nonconventional source fuel credit	48	*495	2	*1,601	9	—	—	—
General business credit	123,440	67,958	315,164	562,391	196,439	843,245	76,541	20,980

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

RETURNS OF ACTIVE CORPORATIONS

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

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

Item	Major industry—Continued								
	Transportation and public utilities				Wholesale and retail trade				
						Wholesale trade			
	Total	Transportation	Communication	Electric, gas, and sanitary services	Total	Total	Groceries and related products	Machinery, equipment, and supplies	Miscellaneous wholesale trade
	(34)	(35)	(36)	(37)	(38)	(39)	(40)	(41)	(42)
Number of returns, total	**147,893**	**117,817**	**16,109**	**13,967**	**971,758**	**316,571**	**26,055**	**49,256**	**241,259**
Total assets	**1,352,512,937**	**280,684,862**	**419,165,393**	**652,662,682**	**1,177,668,920**	**536,419,206**	**38,891,560**	**67,306,493**	**430,221,152**
Cash	29,505,063	12,606,464	9,696,632	7,201,967	62,569,896	30,595,672	2,536,861	4,457,069	23,601,742
Notes and accounts receivable	120,701,418	34,345,676	44,826,998	41,528,744	265,898,465	153,528,720	11,394,020	20,247,311	121,887,389
Less: Allowance for bad debts	3,182,893	620,464	1,539,890	1,022,539	5,222,699	3,119,437	208,983	544,163	2,366,291
Inventories	31,236,728	6,094,834	8,310,437	16,831,456	336,380,034	158,316,348	9,959,810	19,547,374	128,809,165
Investments in Government obligations	9,525,733	3,294,193	482,635	5,748,905	27,590,157	15,690,650	73,657	267,973	15,349,020
Other current assets	49,374,589	18,304,420	10,318,492	20,751,676	63,797,682	30,754,108	1,463,909	2,998,076	26,292,124
Loans to stockholders	4,052,183	1,656,012	1,231,480	1,164,690	12,240,680	4,599,404	603,157	734,232	3,262,015
Mortgage and real estate loans	1,904,383	1,525,099	91,774	287,510	9,940,609	3,785,516	126,317	127,507	3,531,692
Other investments	195,349,922	38,246,339	94,637,328	62,466,255	95,212,180	42,486,636	2,071,562	6,470,900	33,944,174
Depreciable assets	1,153,409,171	224,295,375	316,665,814	612,447,982	369,468,490	130,362,240	15,314,933	19,659,946	95,387,362
Less: Accumulated depreciation	354,488,250	82,942,574	104,836,219	166,709,458	166,935,434	64,910,488	7,620,986	10,040,569	47,248,933
Depletable assets	8,699,545	662,066	*7,180	8,030,298	2,216,626	1,651,769	*37,655	86,758	1,527,356
Less: Accumulated depletion	4,595,548	276,867	*1,997	4,316,684	928,076	753,607	*19,123	38,889	695,595
Land	9,821,861	3,690,507	2,497,822	3,633,531	26,148,660	7,378,778	658,703	807,289	5,912,786
Intangible assets (amortizable)	30,992,857	4,618,954	21,700,916	4,672,986	26,072,502	8,350,175	1,217,808	634,061	6,498,306
Less: Accumulated amortization	3,779,297	627,374	1,834,501	1,317,422	4,647,359	1,637,035	207,453	198,003	1,231,579
Other assets	73,985,475	15,812,201	16,910,490	41,262,784	57,866,509	19,339,756	1,489,712	2,089,624	15,760,420
Total liabilities	**1,352,512,937**	**280,684,862**	**419,165,393**	**652,662,682**	**1,177,668,920**	**536,419,206**	**38,891,560**	**67,306,493**	**430,221,152**
Accounts payable	79,037,109	25,216,755	26,961,697	26,858,657	200,252,333	109,454,770	9,763,412	13,963,380	85,727,977
Mortgages, notes, and bonds payable in less than one year	55,584,423	15,879,466	16,029,322	23,675,635	208,362,394	117,032,195	4,328,988	11,501,814	101,201,393
Other current liabilities	98,033,639	28,384,771	23,937,213	45,711,656	146,433,537	67,128,175	3,327,735	7,495,128	56,305,312
Loans from stockholders	10,991,382	5,116,098	3,149,860	2,725,425	38,299,692	14,894,021	1,010,722	2,136,128	11,747,171
Mortgages, notes, and bonds payable in one year or more	423,390,784	76,431,908	120,505,103	226,453,774	220,577,820	68,606,185	7,538,358	9,905,760	51,162,067
Other liabilities	175,411,518	33,704,985	55,720,109	85,986,423	47,284,440	19,618,355	1,428,106	3,216,558	14,973,691
Capital stock	163,777,175	17,304,231	42,507,637	103,965,307	56,760,360	28,009,882	1,891,926	3,391,738	22,726,218
Paid-in or capital surplus	189,960,907	43,050,906	91,179,441	55,730,560	81,738,276	31,551,305	2,494,789	4,465,844	24,590,672
Retained earnings, appropriated	3,733,154	425,563	368,780	2,938,811	1,399,458	512,305	57,508	128,412	326,385
Retained earnings, unappropriated	159,943,459	38,209,626	42,681,686	79,052,147	165,079,364	68,081,478	6,500,693	9,737,451	51,843,334
Other retained earnings, 1120S	703,255	1,328,398	-804,967	179,824	29,597,731	19,720,998	1,442,740	2,694,971	15,583,287
Less: Cost of treasury stock	8,053,870	4,367,845	3,070,487	615,537	18,116,484	8,190,463	893,418	1,330,690	5,966,356
Total receipts	**786,179,466**	**297,405,135**	**202,870,146**	**285,904,184**	**2,766,717,240**	**1,337,358,874**	**191,933,515**	**132,496,452**	**1,012,928,907**
Business receipts	736,633,389	277,451,752	189,056,196	270,125,441	2,691,275,402	1,304,663,738	188,922,826	127,906,909	987,834,004
Interest	12,377,758	4,208,893	2,979,970	5,188,896	20,994,907	10,827,710	336,931	896,197	9,594,582
Interest on Government obligations:									
State and local	317,965	64,336	77,768	175,861	1,046,658	137,441	6,549	26,760	104,133
Rents	8,795,463	3,547,998	3,302,334	1,945,131	9,334,193	3,475,725	319,123	913,760	2,242,842
Royalties	313,098	163,962	92,260	56,876	1,460,270	509,019	37,031	93,864	378,125
Net short-term capital gain reduced by net long-term capital loss	244,852	172,718	21,385	50,749	159,696	85,389	2,396	25,960	57,033
Net long-term capital gain reduced by net short-term capital loss	7,573,644	2,815,419	1,974,292	2,783,933	3,466,368	1,357,387	149,495	167,934	1,039,957
Net gain, noncapital assets	4,838,002	3,117,022	359,495	1,361,485	2,562,469	1,143,280	77,815	316,888	748,577
Dividends received from domestic corporations	917,971	194,738	183,385	539,849	857,518	396,656	20,387	64,340	311,929
Dividends received from foreign corporations	531,532	341,947	134,668	54,917	921,154	356,818	11,518	29,969	315,332
Other receipts	13,635,791	5,326,350	4,688,394	3,621,047	34,638,604	14,405,710	2,049,444	2,053,872	10,302,394
Total deductions	**749,024,805**	**291,079,918**	**189,447,642**	**268,497,244**	**2,728,491,327**	**1,319,912,413**	**190,207,027**	**130,283,850**	**999,421,537**
Cost of sales and operations	339,840,645	126,727,406	67,016,457	146,096,783	2,076,485,794	1,084,747,907	163,991,929	96,685,566	824,070,412
Compensation of officers	6,550,899	4,331,115	1,006,002	1,213,781	42,048,877	19,985,361	1,845,402	3,270,607	14,869,353
Repairs	32,702,624	6,397,348	15,544,832	10,760,444	10,244,386	3,291,961	561,082	397,800	2,333,079
Bad debts	3,985,364	922,993	2,211,316	851,055	6,547,377	3,214,183	292,510	493,624	2,428,049
Rent paid on business property	22,077,502	13,289,169	5,721,763	3,066,570	46,068,201	10,643,997	1,388,607	1,343,523	7,911,867
Taxes paid	34,980,799	10,495,653	9,086,832	15,398,313	39,071,425	13,535,632	1,472,863	1,600,199	10,062,571
Interest paid	47,132,799	9,349,619	12,245,800	25,537,381	43,641,104	19,496,775	1,170,933	2,068,247	16,257,596
Contributions or gifts	568,757	122,392	285,288	161,077	643,433	251,671	38,118	32,652	180,901
Amortization	2,357,587	429,815	1,276,241	651,532	2,219,648	709,381	79,577	66,197	563,607
Depreciation	77,051,204	18,510,015	27,773,083	30,768,106	38,736,624	14,103,568	1,654,258	2,629,804	9,819,506
Depletion	722,941	227,968	*824	494,148	223,066	177,945	*440	6,814	170,690
Advertising	5,214,628	2,263,133	2,539,478	412,017	33,962,633	9,013,267	686,178	925,610	7,401,479
Pension, profit-sharing, stock bonus, and annuity plans	5,538,103	2,401,006	1,607,236	1,529,861	7,358,588	3,235,830	380,410	441,334	2,414,086
Employee benefit programs	11,481,379	4,577,148	4,787,543	2,116,687	11,645,009	3,970,341	586,005	619,981	2,764,354
Net loss, noncapital assets	1,830,017	497,401	973,642	358,974	936,943	458,633	33,152	69,918	355,562
Other deductions	156,989,558	90,537,736	37,371,306	29,080,516	368,658,222	133,075,961	16,025,563	19,631,973	97,418,425
Total receipts less total deductions	37,154,661	6,325,217	13,422,504	17,406,940	38,225,913	17,446,461	1,726,488	2,212,603	13,507,370
Constructive taxable income from related foreign corporations	632,551	269,940	259,755	102,856	871,652	447,417	4,800	33,225	409,393
Net income (less deficit)	37,466,726	6,528,300	13,604,491	17,333,935	38,040,057	17,756,437	1,724,739	2,219,068	13,812,630
Income subject to tax	43,818,326	8,189,361	16,395,762	19,233,203	41,908,201	18,358,449	1,679,813	2,450,808	14,227,827
Income tax, total	17,696,185	3,104,189	6,589,496	8,002,500	14,956,044	6,583,201	587,460	860,635	5,135,107
Regular and alternative tax	16,976,595	2,935,326	6,459,469	7,581,801	14,672,865	6,461,644	580,225	831,493	5,049,925
Tax from recomputing prior-year investment credit	171,996	35,297	94,235	42,464	103,546	48,146	4,949	18,893	24,304
Alternative minimum tax	483,404	121,763	15,261	346,380	140,193	57,802	1,532	8,159	48,112
Environmental tax	63,571	11,763	20,004	31,804	30,871	9,918	754	778	8,386
Foreign tax credit	332,278	187,381	131,488	13,409	591,850	248,211	771	16,538	230,901
U.S. possessions tax credit	53,171	—	53,171	—	8,946	4,146	125	230	3,791
Orphan drug credit	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	14,953	140	—	14,813	632	*521	—	226	*296
General business credit	2,526,632	561,790	599,784	1,365,058	359,849	115,494	15,459	18,499	81,535

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									Wholesale and retail trade not allocable
	Total	Building materials, garden supplies, and mobile home dealers	General mechandise stores	Food stores	Automotive dealers and service stations	Apparel and accessory stores	Furniture and home furnishings stores	Eating and drinking places	Miscellaneous retail stores	
	(43)	(44)	(45)	(46)	(47)	(48)	(49)	(50)	(51)	(52)
Number of returns, total	**650,196**	**42,085**	**10,884**	**55,993**	**90,562**	**52,491**	**34,611**	**149,443**	**214,128**	**4,992**
Total assets	**639,155,467**	**40,016,535**	**201,214,400**	**71,009,438**	**101,024,703**	**33,287,117**	**21,834,807**	**76,369,764**	**94,398,703**	**2,094,248**
Cash	31,749,864	2,184,004	3,942,369	4,158,841	6,249,810	2,540,713	1,785,353	4,021,151	6,867,622	224,360
Notes and accounts receivable	111,746,764	7,229,487	58,520,858	4,755,268	11,896,631	4,749,238	4,900,247	5,181,196	14,513,838	622,981
Less: Allowance for bad debts	2,052,712	189,355	656,059	40,250	229,594	137,663	160,325	119,043	520,423	50,550
Inventories	177,384,750	12,871,356	36,970,278	16,194,000	53,466,806	12,439,463	8,601,802	2,913,934	33,927,111	678,935
Investments in Government obligations	11,899,468	60,009	10,890,666	390,833	40,105	88,823	75,938	60,957	292,137	*39
Other current assets	32,953,570	1,049,003	17,700,967	2,447,441	2,993,919	1,377,738	919,907	3,530,623	2,933,972	90,004
Loans to stockholders	7,604,846	306,664	1,425,406	654,006	1,221,596	473,304	189,591	1,493,081	1,841,198	36,430
Mortgage and real estate loans	6,155,092	1,091,644	4,090,585	119,800	173,280	21,837	39,038	390,536	228,373	—
Other investments	52,636,741	2,649,996	23,240,091	5,702,219	2,496,372	2,446,550	998,549	6,230,666	8,872,298	88,803
Depreciable assets	238,439,141	13,601,843	50,545,106	41,854,413	32,065,508	12,355,687	6,306,896	49,436,586	32,273,103	667,109
Less: Accumulated depreciation	101,654,013	6,470,593	18,261,367	16,331,967	15,292,886	5,259,250	2,946,646	20,829,532	16,261,772	370,933
Depletable assets	564,596	*54,288	*259	144,759	77,118	*35,008	*2,042	59,703	191,420	261
Less: Accumulated depletion	174,278	*13,755	—	39,062	28,299	*13,771	660	*22,531	56,200	192
Land	18,733,796	1,694,156	3,518,015	3,164,717	2,821,143	282,538	417,009	4,877,338	1,958,881	36,085
Intangible assets (amortizable)	17,716,521	1,460,273	1,870,372	3,143,133	932,799	934,361	175,746	5,070,302	4,129,534	5,806
Less: Accumulated amortization	3,008,596	94,501	211,401	326,880	245,178	219,784	42,944	927,381	940,527	1,728
Other assets	38,459,915	2,532,016	7,628,253	5,018,167	2,385,575	1,172,324	573,265	15,002,178	4,148,137	66,838
Total liabilities	**639,155,467**	**40,016,535**	**201,214,400**	**71,009,438**	**101,024,703**	**33,287,117**	**21,834,807**	**76,369,764**	**94,398,703**	**2,094,248**
Accounts payable	90,364,567	5,481,046	30,761,188	12,703,949	8,292,756	5,301,391	3,673,395	6,785,630	17,365,212	432,997
Mortgages, notes, and bonds payable in less than one year	90,880,117	4,562,010	20,373,727	3,086,818	46,076,484	2,224,836	2,131,697	4,515,522	7,909,025	450,082
Other current liabilities	79,026,704	3,460,454	42,753,538	6,277,725	6,767,479	3,003,566	2,295,072	6,956,161	7,512,709	278,658
Loans from stockholders	23,212,772	1,138,992	1,023,953	1,857,332	3,659,244	1,724,399	918,058	5,255,498	7,635,295	192,900
Mortgages, notes, and bonds payable in one year or more	151,580,830	10,139,773	41,967,935	24,074,144	13,722,709	5,588,007	3,349,921	32,794,623	19,943,719	390,804
Other liabilities	27,590,156	1,185,565	12,196,499	3,581,828	1,946,684	1,110,186	994,969	3,633,255	2,941,171	75,929
Capital stock	28,596,605	2,453,599	3,367,820	3,310,828	4,977,200	2,639,674	1,176,127	4,092,952	6,578,405	153,873
Paid-in or capital surplus	49,571,189	3,893,192	15,398,176	4,814,653	3,094,060	3,172,642	1,409,963	7,756,691	10,031,814	615,782
Retained earnings, appropriated	881,094	154,131	262,184	12,597	56,362	*19,257	233,218	40,417	102,927	*6,060
Retained earnings, unappropriated	97,469,026	6,710,897	33,067,557	11,727,432	9,421,219	8,378,739	5,071,718	8,086,984	15,004,479	-471,141
Other retained earnings, 1120S	9,802,950	1,756,368	607,533	1,174,101	4,514,355	810,131	1,339,230	-1,375,295	976,526	*73,783
Less: Cost of treasury stock	9,820,544	919,492	565,711	1,611,968	1,503,849	685,709	758,561	2,172,674	1,602,579	*105,477
Total receipts	**1,422,714,053**	**79,337,464**	**230,273,290**	**269,905,119**	**384,130,039**	**68,605,864**	**49,165,584**	**122,837,008**	**218,459,685**	**6,644,312**
Business receipts	1,380,076,778	77,188,918	216,694,150	265,191,576	375,740,924	66,904,188	47,855,695	116,747,101	213,754,227	6,534,885
Interest	10,150,561	440,624	5,787,524	518,838	1,154,266	434,794	267,316	679,691	867,510	16,635
Interest on Government obligations:										
State and local	908,642	2,312	848,181	27,182	2,522	8,086	5,745	4,092	10,523	*575
Rents	5,845,238	211,091	1,403,786	635,968	1,123,370	110,433	141,602	1,557,115	661,874	13,230
Royalties	951,132	46,192	24,287	24,505	10,817	195,288	*1,430	520,534	128,078	*119
Net short-term capital gain reduced by net long-term capital loss	73,613	4,774	22,479	2,702	2,591	*1,099	3,124	8,106	28,738	*694
Net long-term capital gain reduced by net short-term capital loss	2,107,574	320,721	667,626	292,309	136,596	41,008	37,586	291,273	320,456	*1,407
Net gain, noncapital assets	1,409,265	81,360	96,805	294,527	416,347	11,014	22,543	284,285	202,384	9,923
Dividends received from domestic corporations	460,675	19,660	205,464	100,070	26,978	54,040	5,873	18,734	29,856	*188
Dividends received from foreign corporations	563,736	29,008	100,402	*357,454	*1,244	5,335	—	48,849	*21,443	*600
Other receipts	20,166,837	992,804	4,422,586	2,459,987	5,514,385	840,580	824,670	2,677,228	2,434,596	66,056
Total deductions	**1,401,994,347**	**77,854,086**	**221,968,466**	**267,417,893**	**382,156,007**	**67,091,607**	**47,824,536**	**122,116,275**	**215,565,477**	**6,584,567**
Cost of sales and operations	986,654,635	55,708,018	140,246,288	203,250,170	320,881,984	39,959,119	30,293,465	52,016,049	144,299,542	5,083,252
Compensation of officers	21,900,852	1,895,434	806,962	1,804,015	4,831,833	1,557,734	1,520,305	3,296,874	6,187,696	162,663
Repairs	6,930,730	401,244	1,163,675	1,420,432	901,306	265,361	199,920	1,587,336	991,455	21,695
Bad debts	3,313,009	309,485	1,133,033	215,258	399,286	197,689	254,671	159,633	643,954	20,185
Rent paid on business property	35,324,941	1,229,807	6,349,350	4,580,395	3,905,632	4,149,441	1,662,603	6,764,617	6,683,097	99,262
Taxes paid	25,450,876	1,479,344	4,930,625	3,504,494	4,123,666	1,544,354	999,661	4,806,830	4,061,902	84,917
Interest paid	24,066,636	1,489,461	8,568,377	2,705,898	3,901,578	908,353	594,416	2,753,186	3,145,368	77,692
Contributions or gifts	390,786	23,234	138,175	51,406	32,016	47,493	17,608	27,813	53,041	976
Amortization	1,507,957	40,590	262,022	154,445	118,443	123,535	29,571	335,020	444,332	2,310
Depreciation	24,560,383	1,216,807	4,584,554	4,239,797	4,139,978	1,314,484	608,173	4,914,943	3,541,647	72,674
Depletion	45,121	3,013	*481	9,824	4,769	439	*7,834	*5,271	13,491	—
Advertising	24,916,298	1,206,674	5,495,520	2,770,103	4,370,164	1,775,463	2,147,093	3,140,535	4,010,747	33,068
Pension, profit-sharing, stock bonus, and annuity plans	4,095,235	251,916	1,318,413	687,347	357,328	201,554	162,985	343,706	771,985	27,523
Employee benefit programs	7,661,521	425,973	1,275,046	2,333,781	1,317,663	326,621	206,129	781,767	994,542	13,147
Net loss, noncapital assets	478,033	24,099	42,513	76,536	44,049	35,504	15,951	125,003	114,378	*277
Other deductions	234,697,335	12,148,987	45,653,432	39,613,993	32,826,313	14,684,462	9,104,152	41,057,693	39,608,301	884,926
Total receipts less total deductions	20,719,707	1,483,378	8,304,824	2,487,226	1,974,033	1,514,257	1,341,048	720,733	2,894,208	59,745
Constructive taxable income from related foreign corporations	424,234	371	151,473	220,170	(1)	*3,549	—	21,839	*26,833	—
Net income (less deficit)	20,224,450	1,481,437	7,608,116	2,680,214	1,970,351	1,509,720	1,335,303	738,479	2,900,830	59,170
Income subject to tax	23,479,833	1,404,487	7,596,478	3,130,764	1,949,230	2,079,109	1,253,100	2,116,363	3,950,301	69,920
Income tax, total	8,356,298	475,063	2,934,364	1,186,351	596,867	741,896	404,307	762,800	1,254,647	16,544
Regular and alternative tax	8,194,890	467,640	2,896,715	1,155,182	579,911	735,426	396,731	723,079	1,240,208	16,331
Tax from recomputing prior-year investment credit	55,187	2,335	11,471	12,951	11,415	2,682	1,010	6,531	6,792	214
Alternative minimum tax	82,390	4,220	16,515	15,412	5,081	2,049	2,878	31,250	4,985	—
Environmental tax	20,953	838	9,512	2,652	271	1,740	2,116	1,872	1,952	—
Foreign tax credit	343,639	126	74,796	209,897	58	*4,948	1,103	34,910	17,801	—
U.S. possessions tax credit	4,781	—	—	4,341	—	134	—	290	17	20
Orphan drug credit	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*111	83	1	*10	*11	—	—	6	—	—
General business credit	243,575	7,437	72,296	31,676	32,886	6,534	4,785	62,952	25,009	*779

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	**521,136**	**12,243**	**25,945**	**17,333**	**8,293**	**66,048**	**350,293**	**40,982**
Total assets	**8,732,320,235**	**3,717,713,577**	**1,550,150,098**	**406,330,188**	**1,651,707,409**	**38,699,375**	**272,306,847**	**1,095,412,743**
Cash	497,778,506	355,938,821	54,004,685	10,459,211	22,420,677	7,449,241	17,777,454	29,728,418
Notes and accounts receivable	2,512,460,254	1,989,217,847	191,321,588	113,597,338	77,451,767	11,149,717	21,433,036	108,288,960
Less: Allowance for bad debts	69,897,149	50,974,751	16,524,438	187,839	854,750	132,083	398,028	825,260
Inventories	64,581,790	432,665	1,744,304	31,316,902	3,516,804	23,486	18,906,280	8,641,348
Investments in Government obligations	1,019,707,174	439,797,242	89,800,446	41,341,275	267,353,649	1,345,314	1,826,536	178,242,711
Other current assets	486,644,424	117,903,726	55,746,840	112,816,158	124,362,846	2,776,062	18,731,130	54,307,661
Loans to stockholders	19,624,673	1,460,702	7,723,513	789,826	893,863	871,155	4,273,692	3,611,923
Mortgage and real estate loans	1,405,797,490	272,124,821	871,315,501	8,153,287	216,431,766	186,371	17,337,855	20,247,888
Other investments	2,076,474,968	292,962,413	205,683,068	71,953,013	812,428,051	7,573,007	40,704,984	645,170,431
Depreciable assets	287,080,902	79,706,694	30,079,462	8,340,177	23,666,111	6,286,157	108,121,894	30,880,407
Less: Accumulated depreciation	91,100,436	28,367,303	9,657,065	2,620,066	5,624,253	3,016,994	32,716,195	9,098,559
Depletable assets	4,453,976	62,578	75,816	*45,154	365,473	*19,498	1,215,098	2,670,359
Less: Accumulated depletion	696,177	26,500	19,707	*20,020	149,945	*6,466	264,105	209,435
Land	52,797,021	5,884,451	4,776,377	226,177	1,834,012	241,492	35,691,493	4,143,018
Intangible assets (amortizable)	34,674,586	8,848,990	11,397,106	1,847,534	3,553,285	2,867,007	2,428,079	3,732,585
Less: Accumulated amortization	5,426,453	1,381,974	1,052,021	320,583	476,666	705,238	659,834	830,137
Other assets	437,364,688	234,123,155	53,734,622	8,592,645	104,534,719	1,771,648	17,897,476	16,710,423
Total liabilities	**8,732,320,235**	**3,717,713,577**	**1,550,150,098**	**406,330,188**	**1,651,707,409**	**38,699,375**	**272,306,847**	**1,095,412,743**
Accounts payable	312,906,546	52,907,928	39,853,227	114,756,687	55,458,879	12,893,589	9,058,242	27,977,995
Mortgages, notes, and bonds payable in less than one year	611,917,079	258,321,834	216,846,333	30,943,784	35,743,254	4,262,724	33,930,920	31,868,229
Other current liabilities	4,157,863,888	2,782,026,017	921,788,494	197,541,790	180,528,046	5,359,445	18,020,241	52,599,856
Loans from stockholders	51,386,768	8,238,446	8,823,331	1,912,738	4,794,280	507,635	19,583,933	7,526,404
Mortgages, notes, and bonds payable in one year or more	620,941,700	153,711,057	242,229,983	24,415,166	32,982,510	4,237,986	108,592,637	54,772,361
Other liabilities	1,342,379,019	162,288,257	57,039,810	12,362,122	1,058,030,714	2,645,277	21,442,256	28,570,584
Capital stock	880,321,412	56,552,881	11,653,166	3,989,151	17,662,813	1,909,169	21,197,934	767,356,297
Paid-in or capital surplus	1,051,429,664	121,960,022	42,906,248	11,077,185	107,756,823	4,470,412	41,871,234	721,387,739
Retained earnings, appropriated	53,425,269	4,184,003	7,437,874	142,930	33,611,872	123,360	644,960	7,280,270
Retained earnings, unappropriated	272,480,781	119,873,621	2,704,060	9,450,582	129,670,019	3,397,808	−149,004	7,533,696
Other retained earnings, 1120S	3,295,246	*−131	204,141	676,225	*−19,974	634,294	1,174,803	625,888
Less: Cost of treasury stock	626,027,137	2,350,359	1,336,570	938,172	4,511,827	1,742,325	3,061,309	612,086,575
Total receipts	**1,589,218,435**	**394,678,345**	**209,340,253**	**62,145,404**	**614,122,747**	**34,518,863**	**113,436,448**	**160,976,375**
Business receipts	818,286,705	45,951,562	74,190,917	39,227,902	466,471,543	31,900,882	84,771,958	75,771,942
Interest	578,714,874	300,518,674	119,333,050	14,199,448	91,906,603	825,110	5,249,672	46,682,317
Interest on Government obligations: State and local	27,429,091	9,696,007	635,072	285,495	8,501,830	40,880	85,679	8,184,128
Rents	31,151,392	9,008,971	2,129,810	436,203	7,928,569	153,319	9,834,702	1,659,819
Royalties	480,479	34,891	20,526	*4,005	47,839	*7,647	162,599	202,973
Net short-term capital gain reduced by net long-term capital loss	6,527,063	461,289	309,978	542,018	724,338	8,200	247,817	4,233,423
Net long-term capital gain reduced by net short-term capital loss	29,135,689	3,248,164	1,383,935	659,686	8,874,404	92,543	3,286,055	11,590,903
Net gain, noncapital assets	9,411,728	2,867,597	2,868,637	2,092,735	474,249	40,889	781,429	286,192
Dividends received from domestic corporations	7,144,998	826,699	386,298	346,556	3,806,365	42,619	214,535	1,521,925
Dividends received from foreign corporations	1,475,289	277,999	59,162	67,081	578,509	71,059	7,740	413,740
Other receipts	79,461,127	21,786,491	8,022,868	4,284,276	24,808,499	1,335,717	8,794,263	10,429,014
Total deductions	**1,476,737,395**	**371,784,728**	**207,255,110**	**60,918,470**	**594,342,302**	**32,148,321**	**112,784,591**	**97,503,873**
Cost of sales and operations	470,673,440	767,541	48,925,973	10,899,254	315,518,190	5,776,402	39,229,271	49,556,809
Compensation of officers	32,018,679	10,665,771	2,584,341	3,839,867	1,812,080	4,611,135	5,868,461	2,637,023
Repairs	5,351,480	2,056,674	646,618	150,712	287,897	173,323	1,636,648	399,608
Bad debts	31,485,175	19,065,798	8,943,995	669,998	1,015,676	217,194	812,407	760,106
Rent paid on business property	20,859,860	6,966,050	1,962,635	1,946,054	4,304,559	1,296,526	2,801,779	1,582,257
Taxes paid	27,814,280	6,879,026	2,300,390	1,040,623	9,984,653	1,056,131	4,804,901	1,748,556
Interest paid	364,541,038	216,656,309	100,908,421	12,896,739	12,010,254	681,459	12,060,613	9,327,244
Contributions or gifts	757,710	293,923	78,886	44,591	180,450	35,485	67,000	57,376
Amortization	3,601,614	907,173	436,184	174,495	1,118,997	233,829	412,128	318,806
Depreciation	31,992,916	14,097,939	3,208,555	1,265,613	4,818,194	788,813	5,356,334	2,457,468
Depletion	183,062	21,710	9,758	2,604	76,277	*3,193	36,880	32,639
Advertising	8,796,232	2,382,659	1,856,174	626,599	1,289,647	279,925	1,389,086	972,142
Pension, profit-sharing, stock bonus, and annuity plans	5,780,439	1,646,097	465,040	458,007	1,817,749	500,187	536,399	356,960
Employee benefit programs	9,286,407	3,837,078	911,751	500,012	2,354,437	553,867	473,702	655,560
Net loss, noncapital assets	4,115,186	2,139,111	964,077	88,824	299,226	17,796	302,191	303,961
Other deductions	459,479,878	83,401,868	33,052,311	26,314,479	237,454,015	15,923,055	36,996,793	26,337,356
Total receipts less total deductions	112,481,040	22,893,618	2,085,142	1,226,934	19,780,445	2,370,542	651,857	63,472,503
Constructive taxable income from related foreign corporations	2,370,431	1,026,958	206,817	122,038	768,726	69,372	*1,789	174,732
Net income (less deficit)	87,403,218	14,224,568	1,656,888	1,063,477	12,047,341	2,399,034	548,804	55,463,107
Income subject to tax	51,171,985	16,830,301	7,900,419	2,320,540	13,950,405	1,877,189	4,337,902	3,955,229
Income tax, total	19,264,979	6,765,723	3,171,685	883,986	5,059,919	647,917	1,298,801	1,436,948
Regular and alternative tax	18,510,796	6,484,540	3,066,164	865,531	4,810,638	641,405	1,255,026	1,387,492
Tax from recomputing prior-year investment credit	69,846	30,137	8,715	1,402	15,815	2,212	4,594	6,970
Alternative minimum tax	594,299	222,313	88,001	14,692	206,933	2,988	27,958	31,416
Environmental tax	67,224	23,382	8,682	2,361	26,533	1,312	1,684	3,270
Foreign tax credit	2,216,284	1,366,848	121,709	32,916	488,031	*49,507	1,203	156,070
U.S. possessions tax credit	9,725	4	8,238	37	—	2	367	1,077
Orphan drug credit	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	4,177	327	—	*10	2,696	—	*1,009	*134
General business credit	691,803	341,270	63,738	11,199	193,684	6,325	33,249	42,338

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: 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, total	**1,119,604**	**23,016**	**76,002**	**355,130**	**104,587**	**78,099**	**482,770**	**27,767**
Total assets	**435,561,919**	**38,486,393**	**14,501,260**	**143,468,719**	**39,573,692**	**81,143,418**	**118,388,437**	**3,266,227**
Cash	40,435,500	2,655,134	2,034,779	13,964,282	2,449,445	3,847,178	15,484,681	432,762
Notes and accounts receivable	78,353,913	2,121,897	1,860,780	33,317,495	6,165,652	15,643,389	19,244,700	594,117
Less: Allowance for bad debts	3,735,410	102,941	37,909	707,830	159,448	491,491	2,235,791	3,249
Inventories	18,485,400	414,517	723,762	6,214,223	3,278,947	5,828,627	2,025,323	425,939
Investments in Government obligations	2,256,149	74,816	132,018	848,205	114,260	136,167	950,683	*3,330
Other current assets	27,113,537	1,386,023	741,446	11,818,270	1,152,927	5,650,369	6,364,502	140,969
Loans to stockholders	9,416,773	406,840	380,550	3,024,704	489,795	648,505	4,466,378	50,857
Mortgage and real estate loans	3,618,360	841,879	66,425	945,414	148,689	252,788	1,363,165	106,593
Other investments	60,188,875	5,864,195	1,016,492	21,248,835	1,709,314	15,715,100	14,634,938	254,393
Depreciable assets	244,001,367	28,026,487	10,824,275	65,867,786	32,859,417	36,640,859	69,782,544	1,288,428
Less: Accumulated depreciation	108,377,567	9,838,031	5,928,493	33,507,260	12,843,111	16,544,568	29,716,104	480,282
Depletable assets	292,100	*34,935	*9,233	120,922	*5,007	*30,671	91,333	*10,044
Less: Accumulated depletion	148,773	*27,269	*4,236	61,970	*449	*23,755	31,095	*1,636
Land	12,988,870	3,357,885	616,160	1,860,243	1,121,293	2,712,001	3,321,289	161,158
Intangible assets (amortizable)	20,949,843	665,781	737,445	8,210,459	1,667,009	5,569,093	4,100,055	182,474
Less: Accumulated amortization	5,137,523	147,927	203,248	1,892,102	113,928	1,661,939	1,118,379	80,641
Other assets	34,860,506	2,752,172	1,531,779	12,197,044	1,528,874	7,190,423	9,660,214	180,970
Total liabilities	**435,561,919**	**38,486,393**	**14,501,260**	**143,468,719**	**39,573,692**	**81,143,418**	**118,388,437**	**3,266,227**
Accounts payable	36,144,758	1,291,363	918,403	18,171,206	3,276,293	5,696,532	6,790,961	535,831
Mortgages, notes, and bonds payable in less than one year	42,105,174	2,250,947	1,011,999	16,530,249	5,718,607	5,495,870	11,097,502	498,037
Other current liabilities	50,336,309	2,313,454	1,088,998	18,694,656	3,945,098	7,874,360	16,419,742	280,940
Loans from stockholders	21,840,019	2,642,175	1,095,350	7,603,230	1,769,128	3,647,671	5,082,465	444,175
Mortgages, notes, and bonds payable in one year or more	134,920,822	19,311,302	3,484,084	35,560,917	14,255,078	26,393,148	35,916,293	1,160,850
Other liabilities	37,799,192	4,101,471	1,669,814	11,047,680	2,340,415	9,855,157	8,784,655	183,487
Capital stock	24,834,272	2,107,833	1,184,260	8,813,819	1,563,263	5,012,443	6,152,655	323,205
Paid-in or capital surplus	60,615,835	5,134,449	1,301,948	22,545,290	2,566,230	13,089,652	15,978,267	418,022
Retained earnings, appropriated	607,691	77,349	87,762	234,363	*9,020	24,642	174,555	*1,836
Retained earnings, unappropriated	36,355,129	1,502,693	3,199,326	6,112,831	4,004,058	6,991,354	14,544,866	-528,549
Other retained earnings, 1120S	-380,341	-1,234,536	83,847	877,443	627,145	-1,606,313	872,072	7,517
Less: Cost of treasury stock	9,616,941	1,012,107	624,532	2,722,965	500,645	1,331,097	3,425,595	59,125
Total receipts	**663,133,101**	**33,501,040**	**25,009,548**	**232,488,567**	**54,714,443**	**65,875,520**	**251,543,983**	**5,371,937**
Business receipts	616,469,154	29,783,809	24,049,610	217,277,136	50,381,347	56,330,506	238,646,747	5,030,285
Interest	7,594,726	545,964	188,120	2,654,535	359,987	2,064,604	1,781,516	39,973
Interest on Government obligations: State and local	212,038	17,388	16,788	100,557	2,635	17,591	57,079	*791
Rents	8,585,385	814,387	132,364	3,845,305	2,003,826	856,285	933,218	89,847
Royalties	2,292,227	407,192	54,280	568,610	*20,637	1,158,309	83,200	*8,105
Net short-term capital gain reduced by net long-term capital loss	207,741	1,417	13,073	78,614	7,161	72,095	35,381	*55
Net long-term capital gain reduced by net short-term capital loss	2,817,374	573,012	49,957	633,816	117,042	555,164	888,384	47,707
Net gain, noncapital assets	2,331,880	141,192	77,512	630,379	857,423	300,174	325,200	*434
Dividends received from domestic corporations	549,447	122,696	14,434	162,196	7,565	100,219	142,338	*11,808
Dividends received from foreign corporations	388,371	*62,006	6,598	125,862	25,934	142,945	25,026	—
Other receipts	21,684,756	1,031,977	406,813	6,411,557	930,886	4,277,628	8,625,896	142,932
Total deductions	**653,953,599**	**33,509,165**	**24,434,181**	**230,179,960**	**53,915,847**	**65,754,952**	**246,159,494**	**5,405,448**
Cost of sales and operations	219,817,625	13,783,255	8,862,454	101,206,079	25,225,975	23,357,313	47,382,550	3,185,924
Compensation of officers	68,792,652	494,671	1,946,520	15,858,824	2,684,310	3,109,449	44,698,878	259,508
Repairs	5,466,701	624,310	316,257	1,519,730	583,077	674,854	1,748,473	39,782
Bad debts	3,379,116	121,362	101,721	977,247	188,157	481,025	1,509,604	27,253
Rent paid on business property	26,315,532	1,618,894	1,270,032	7,672,916	2,406,429	2,203,200	11,144,061	129,163
Taxes paid	21,295,199	1,457,997	1,015,952	7,012,334	1,759,973	1,896,467	8,152,476	112,541
Interest paid	19,750,647	2,316,618	429,054	5,543,926	1,914,410	4,860,974	4,685,665	106,084
Contributions or gifts	300,772	16,933	15,548	76,923	15,652	45,285	130,430	436
Amortization	2,711,993	112,157	66,818	828,696	82,001	1,089,946	532,376	12,117
Depreciation	30,068,715	1,927,969	1,100,638	9,688,115	5,373,673	4,514,776	7,463,543	168,277
Depletion	28,033	*255	*668	9,834	*1,486	*735	15,054	*1,029
Advertising	8,411,645	729,708	490,123	2,872,201	804,684	1,726,743	1,788,187	33,418
Pension, profit-sharing, stock bonus, and annuity plans	8,792,825	73,901	194,736	1,942,373	190,965	397,149	5,993,701	22,503
Employee benefit programs	7,225,832	334,050	166,998	2,405,046	418,810	384,552	3,516,375	14,073
Net loss, noncapital assets	743,074	42,770	20,320	337,432	31,551	130,725	180,276	*39,220
Other deductions	230,853,240	9,854,315	8,436,341	72,228,283	12,234,693	20,881,759	107,217,847	1,254,121
Total receipts less total deductions	9,179,501	-8,125	575,367	2,308,606	798,596	120,568	5,384,489	-33,511
Constructive taxable income from related foreign corporations	297,545	14,122	5,968	122,683	360	102,249	52,164	—
Net income (less deficit)	9,251,928	-21,144	564,547	2,328,336	796,320	204,295	5,379,573	-34,301
Income subject to tax	16,169,311	885,826	743,246	5,569,134	897,828	1,699,535	6,373,743	84,687
8								
Income tax, total	5,033,943	317,437	222,811	1,842,306	270,199	647,718	1,733,473	23,155
Regular and alternative tax	4,858,810	305,534	216,198	1,767,357	249,941	615,240	1,704,539	22,568
Tax from recomputing prior-year investment credit	56,620	4,542	3,155	22,859	5,956	10,818	9,289	*74
Alternative minimum tax	108,591	6,385	3,085	48,806	13,694	20,126	16,496	*505
Environmental tax	8,682	936	373	3,070	566	1,500	2,238	*6
Foreign tax credit	347,247	46,294	6,638	154,868	*58	113,231	26,158	1
U.S. possessions tax credit	26,127	9,060	—	12,218	103	143	4,603	1,588
Orphan drug credit	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*214	—	—	*109	*105	—	—	—
General business credit	448,016	17,711	8,188	120,975	38,142	126,680	136,319	*1,099

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

[1] Less than $500 per return.

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

RETURNS WITH NET INCOME

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

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

Item	All industries	Major industry: Agriculture, forestry, and fishing	Mining: Total	Mining: Metal mining	Mining: Coal mining	Mining: Oil and gas extraction	Mining: Nonmetalic minerals, except fuels
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Number of returns with net income	1,995,452	65,059	16,764	480	1,629	12,085	2,571
Total assets	11,522,209,786	35,820,228	76,836,448	9,035,910	17,163,167	36,828,119	13,809,251
Cash	603,648,031	3,070,588	4,659,966	727,963	666,013	2,414,244	851,746
Notes and accounts receivable	2,931,049,482	3,481,088	10,701,655	854,155	2,737,460	5,126,307	1,983,733
Less: Allowance for bad debts	71,581,091	27,038	151,044	*5,748	14,829	100,460	30,008
Inventories	578,969,987	4,472,917	3,368,247	394,255	700,669	1,453,444	819,879
Investments in Government obligations	816,539,864	237,685	713,495	29,369	226,746	321,490	135,890
Other current assets	616,969,286	1,185,629	3,101,830	476,631	1,034,008	1,245,080	346,111
Loans to stockholders	46,559,476	1,172,932	702,096	83,021	41,993	524,800	52,282
Mortgage and real estate loans	1,075,056,217	436,927	223,702	*12,827	*4,389	201,055	*5,432
Other investments	2,441,325,162	3,271,774	18,378,112	3,592,577	3,357,737	8,896,825	2,530,973
Depreciable assets	2,735,379,229	22,637,921	40,134,909	4,035,040	8,251,366	16,628,453	11,220,051
Less: Accumulated depreciation	1,130,295,640	14,626,334	20,448,315	2,216,877	4,246,675	8,260,926	5,723,836
Depletable assets	75,780,754	915,574	15,690,400	687,981	3,806,890	10,620,135	575,394
Less: Accumulated depletion	30,580,779	500,769	7,107,663	223,933	1,035,667	5,733,652	114,411
Land	98,007,585	8,241,713	1,686,518	37,770	240,414	837,632	570,702
Intangible assets (amortizable)	166,916,044	103,197	2,877,297	119,132	531,790	2,109,281	117,093
Less: Accumulated amortization	39,579,399	37,325	1,279,061	7,933	119,270	1,137,919	13,939
Other assets	608,045,578	1,783,748	3,584,305	439,683	980,135	1,682,328	482,159
Total liabilities	11,522,209,786	35,820,228	76,836,448	9,035,910	17,163,167	36,828,119	13,809,251
Accounts payable	709,142,092	1,886,987	5,512,583	570,395	870,812	3,209,132	862,244
Mortgages, notes, and bonds payable in less than one year	869,351,123	5,262,060	4,771,207	377,766	567,454	2,871,762	954,225
Other current liabilities	3,749,316,776	1,593,854	4,445,186	455,439	972,661	2,439,469	577,617
Loans from stockholders	115,585,847	1,603,572	2,693,104	*288,805	1,149,132	1,162,098	93,069
Mortgages, notes, and bonds payable in one year or more	1,432,265,951	7,792,068	13,885,568	2,522,528	2,942,396	5,923,864	2,496,779
Other liabilities	1,285,332,245	1,284,220	7,350,325	649,734	2,124,989	3,220,892	1,354,710
Capital stock	1,047,519,597	5,138,835	4,626,063	648,467	163,342	2,101,099	1,713,155
Paid-in or capital surplus	1,502,467,307	3,148,712	20,015,926	2,596,017	5,642,156	10,287,338	1,490,416
Retained earnings, appropriated	62,190,622	110,095	171,773	—	80,635	*59,348	*31,790
Retained earnings, unappropriated	1,301,008,747	6,781,239	12,175,760	908,548	2,253,671	4,913,000	4,100,541
Other retained earnings, 1120S	99,350,769	1,838,161	2,253,030	*52,454	568,787	938,003	693,786
Less: Cost of treasury stock	651,321,289	619,574	1,064,077	*34,243	172,867	297,885	559,082
Total receipts	7,246,439,617	56,109,529	49,211,356	4,096,083	13,382,197	20,921,889	10,811,187
Business receipts	6,354,316,205	52,261,711	42,233,974	3,136,326	12,336,189	16,757,574	10,003,885
Interest	516,457,968	380,765	1,231,156	109,530	269,924	648,772	202,930
Interest on Government obligations: State and local	20,849,069	8,978	22,058	74	5,800	13,785	2,399
Rents	69,242,963	245,248	210,201	6,404	34,746	116,351	52,700
Royalties	17,956,888	43,405	645,833	*4,940	42,650	591,961	6,284
Net short-term capital gain reduced by net long-term capital loss	7,521,396	18,511	28,006	271	*2,865	21,867	*3,003
Net long-term capital gain reduced by net short-term capital loss	55,567,247	482,973	1,544,296	451,389	209,196	742,107	141,605
Net gain, noncapital assets	21,836,274	256,081	673,356	98,211	75,904	458,213	41,029
Dividends received from domestic corporations	11,510,663	53,746	166,068	59,018	18,103	80,897	8,051
Dividends received from foreign corporations	23,821,667	12,813	291,782	53,834	1,990	230,192	*5,766
Other receipts	147,359,278	2,345,299	2,164,625	176,087	384,831	1,260,171	343,536
Total deductions	6,781,137,325	52,093,320	43,269,369	3,226,082	12,652,148	17,711,775	9,679,364
Cost of sales and operations	4,142,087,577	36,847,372	24,458,137	1,851,647	8,467,947	8,533,234	5,605,309
Compensation of officers	146,670,292	1,177,004	705,104	21,549	92,517	336,234	254,804
Repairs	71,611,202	779,690	626,150	18,233	232,098	154,085	221,733
Bad debts	33,568,217	58,632	144,253	20,097	12,658	89,430	22,068
Rent paid on business property	108,703,021	998,053	601,865	41,010	180,014	289,261	91,580
Taxes paid	163,066,311	1,050,042	1,598,392	180,111	527,088	581,571	309,623
Interest paid	425,771,260	1,266,843	2,006,264	150,885	382,733	1,149,290	323,355
Contributions or gifts	4,891,187	25,523	29,255	3,437	5,987	8,726	11,105
Amortization	9,659,094	17,694	74,910	5,255	20,554	38,890	10,210
Depreciation	235,187,967	1,985,915	2,898,321	204,725	666,459	1,336,059	691,078
Depletion	6,174,838	58,896	1,349,843	205,228	364,172	469,475	310,969
Advertising	83,584,716	153,285	97,809	3,028	6,934	44,062	43,785
Pension, profit-sharing, stock bonus, and annuity plans	37,478,243	122,804	195,279	10,762	30,038	66,432	88,046
Employee benefit programs	64,604,992	175,820	487,510	25,924	238,011	106,298	117,277
Net loss, noncapital assets	4,663,834	176,981	38,417	981	13,597	21,423	2,416
Other deductions	1,243,414,579	7,198,766	7,957,860	483,211	1,411,340	4,487,303	1,576,006
Total receipts less total deductions	465,302,293	4,016,209	5,941,987	870,001	730,049	3,210,114	1,131,823
Constructive taxable income from related foreign corporations	20,789,383	*3,684	120,018	4,778	15,006	99,237	997
Net income	465,234,737	4,010,915	6,039,881	874,705	739,190	3,295,565	1,130,421
Income subject to tax	311,439,636	1,770,932	3,237,322	615,609	301,190	1,488,232	832,292
Income tax, total	117,834,599	505,730	1,242,614	191,631	143,474	579,480	328,029
Regular and alternative tax	114,984,398	496,856	1,143,473	178,875	106,831	542,252	315,515
Tax from recomputing prior-year investment credit	629,296	2,458	5,229	501	891	2,812	1,025
Alternative minimum tax	1,841,473	5,844	86,325	11,012	34,912	30,071	10,331
Environmental tax	344,275	465	5,459	1,242	840	2,229	1,147
Foreign tax credit	20,803,122	3,981	371,817	*41,238	279	296,604	33,697
U.S. possessions tax credit	2,666,634	1,929	—	—	—	—	—
Orphan drug credit	5,154	—	—	—	—	—	—
Nonconventional source fuel credit	52,439	146	2,758	—	34	2,581	*143
General business credit	7,955,932	48,785	70,895	38,475	16,193	11,605	4,621

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

RETURNS WITH NET INCOME

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

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

Item	Major industry—Continued								
	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	**222,498**	**85,203**	**12,518**	**124,777**	**169,988**	**9,955**	**61**	**3,804**	**9,883**
Total assets	**158,778,240**	**88,472,648**	**25,929,220**	**44,376,372**	**2,428,854,535**	**215,296,734**	**56,955,578**	**24,637,927**	**28,105,215**
Cash	18,503,146	8,292,278	3,591,928	6,618,941	70,944,646	8,395,715	86,274	1,298,063	1,312,643
Notes and accounts receivable	42,048,753	18,112,919	6,901,487	17,034,347	506,316,570	36,282,776	4,689,788	5,991,349	5,969,696
Less: Allowance for bad debts	289,819	96,468	42,257	151,093	8,769,626	514,629	83,104	94,601	111,222
Inventories	22,625,274	16,237,913	1,246,885	5,140,476	264,947,490	23,024,211	5,784,974	5,592,677	7,931,162
Investments in Government obligations	2,229,903	1,699,266	336,254	194,383	24,231,694	1,898,683	17,003	89,614	43,673
Other current assets	16,827,584	10,924,871	2,291,160	3,611,553	142,109,853	7,975,757	3,925,385	829,687	1,506,845
Loans to stockholders	2,543,346	1,128,308	323,827	1,091,211	11,206,697	1,311,848	31,619	38,738	112,037
Mortgage and real estate loans	9,964,100	9,721,184	92,032	150,885	20,116,000	284,864	1,330	19,044	16,886
Other investments	11,587,200	7,357,601	2,924,649	1,304,950	572,151,748	64,119,290	*29,295,225	2,142,633	3,613,388
Depreciable assets	53,546,957	15,501,507	17,813,898	20,231,551	1,053,572,167	82,289,625	13,830,371	15,708,400	6,504,498
Less: Accumulated depreciation	31,850,970	8,051,479	11,179,684	12,619,807	511,122,804	36,669,027	4,859,034	8,435,080	3,182,801
Depletable assets	256,361	61,740	158,109	36,513	51,346,428	156,637	535	*10,498	—
Less: Accumulated depletion	68,063	20,682	29,480	*17,901	19,349,378	*32,758	185	*3,671	—
Land	4,634,908	3,180,782	701,457	752,670	25,972,182	3,486,369	306,362	171,172	174,585
Intangible assets (amortizable)	659,262	367,616	48,229	243,416	101,162,394	11,188,586	*1,317,938	458,492	1,448,469
Less: Accumulated amortization	168,565	48,780	17,590	102,195	27,418,247	624,107	248,430	41,889	128,457
Other assets	5,728,863	4,104,072	768,318	856,473	151,436,721	12,722,893	2,859,527	862,801	2,893,814
Total liabilities	**158,778,240**	**88,472,648**	**25,929,220**	**44,376,372**	**2,428,854,535**	**215,296,734**	**56,955,578**	**24,637,927**	**28,105,215**
Accounts payable	27,988,092	15,553,765	3,935,834	8,498,493	251,307,031	27,271,640	3,195,112	2,508,279	3,685,026
Mortgages, notes, and bonds payable in less than one year	17,452,109	11,550,670	1,958,034	3,943,404	184,416,154	15,230,415	2,421,254	1,720,485	3,553,628
Other current liabilities	23,373,221	12,431,139	3,392,733	7,549,349	252,018,164	18,507,299	6,946,247	1,976,187	2,214,839
Loans from stockholders	3,967,530	2,207,453	341,967	1,418,110	46,191,640	3,667,549	158,826	255,995	423,748
Mortgages, notes, and bonds payable in one year or more	28,186,419	19,959,446	3,921,294	4,305,679	444,019,188	38,611,103	*11,485,717	4,886,823	5,479,075
Other liabilities	9,556,797	6,188,098	1,412,328	1,956,371	237,264,538	19,547,521	3,316,522	1,021,331	807,475
Capital stock	4,889,911	2,041,930	1,127,782	1,720,198	101,458,906	9,111,392	1,660,355	1,362,087	1,501,898
Paid-in or capital surplus	8,016,551	4,871,580	2,014,509	1,130,462	375,616,749	40,785,694	12,108,785	2,381,671	3,957,923
Retained earnings, appropriated	191,273	90,492	*37,750	63,031	22,698,692	1,355,828	339,322	*22,404	*15,806
Retained earnings, unappropriated	28,266,493	10,381,445	5,998,596	11,886,452	554,927,535	48,090,455	15,845,016	7,542,592	4,584,408
Other retained earnings, 1120S	9,777,454	4,130,792	2,410,569	3,236,093	32,134,942	3,759,437	—	1,497,493	2,516,314
Less: Cost of treasury stock	2,887,610	934,163	622,177	1,331,270	73,199,002	10,641,599	*521,578	537,418	634,925
Total receipts	**343,388,108**	**159,812,463**	**50,013,226**	**133,562,419**	**2,440,413,550**	**285,096,417**	**51,403,883**	**43,518,604**	**50,030,312**
Business receipts	334,074,375	154,379,064	47,905,544	131,789,767	2,274,681,446	272,187,211	48,211,598	42,946,520	48,920,126
Interest	2,727,080	2,065,711	334,211	327,159	38,803,370	2,281,759	908,308	134,223	268,533
Interest on Government obligations: State and local	54,581	23,511	20,272	10,798	1,214,348	35,380	*2,725	7,147	4,129
Rents	813,977	399,858	261,097	153,023	27,941,271	1,545,525	*410,632	39,781	66,330
Royalties	14,711	2,716	7,897	*4,099	13,953,101	990,292	*269,363	16,673	212,357
Net short-term capital gain reduced by net long-term capital loss	35,576	13,012	18,740	3,824	1,106,035	202,809	1,355	31,370	*6,643
Net long-term capital gain reduced by net short-term capital loss	602,567	347,287	164,777	90,503	16,408,568	1,459,514	669,735	30,355	15,489
Net gain, noncapital assets	706,848	340,439	239,256	127,154	6,382,757	872,411	*32,272	53,299	12,276
Dividends received from domestic corporations	140,204	61,190	59,703	19,310	3,549,375	365,249	89,784	12,906	10,165
Dividends received from foreign corporations	59,513	*45,834	*13,570	*110	20,425,494	1,705,005	*313,058	37,681	24,438
Other receipts	4,158,676	2,133,842	988,161	1,036,673	35,947,786	3,451,260	495,053	208,648	489,826
Total deductions	**328,005,242**	**153,039,886**	**47,327,447**	**127,637,910**	**2,283,690,856**	**270,873,083**	**47,352,949**	**41,132,760**	**47,570,944**
Cost of sales and operations	255,128,494	126,888,751	36,397,923	91,841,820	1,517,939,262	189,742,040	24,944,031	32,096,724	34,910,626
Compensation of officers	12,318,148	4,309,387	1,194,574	6,814,187	24,039,840	1,842,279	*100,272	595,992	1,299,762
Repairs	1,447,117	367,828	418,086	661,203	24,053,062	2,260,064	183,077	273,214	154,707
Bad debts	648,307	170,466	120,429	357,413	4,968,389	258,842	*37,120	67,470	88,038
Rent paid on business property	2,420,782	727,226	307,552	1,386,005	24,838,420	2,345,964	269,041	265,784	643,215
Taxes paid	6,832,201	2,063,114	1,025,888	3,743,198	59,624,450	5,608,180	2,697,512	1,017,166	1,006,420
Interest paid	4,285,625	2,820,698	543,798	921,129	72,253,105	6,404,532	1,746,212	702,115	1,082,641
Contributions or gifts	121,845	50,408	21,418	50,019	2,487,373	374,716	111,129	23,609	21,572
Amortization	87,536	50,941	11,856	24,739	4,120,847	406,409	41,919	31,211	108,903
Depreciation	5,793,373	1,536,312	1,663,912	2,593,149	92,811,550	7,570,468	2,491,128	1,476,931	686,817
Depletion	68,212	20,725	35,219	12,268	3,872,467	11,184	70	283	*1,770
Advertising	962,626	418,273	43,569	500,785	41,549,977	12,189,920	4,313,159	213,836	682,314
Pension, profit-sharing, stock bonus, and annuity plans	1,465,034	473,392	283,013	708,629	13,878,666	988,697	205,162	222,609	191,741
Employee benefit programs	1,785,986	443,674	286,326	1,055,985	31,696,715	2,475,599	*718,469	324,861	322,520
Net loss, noncapital assets	61,616	30,752	14,765	16,099	1,416,333	160,241	9,565	3,224	21,982
Other deductions	34,578,342	12,667,939	4,959,121	16,951,283	364,140,400	38,233,947	9,485,083	3,817,731	6,347,918
Total receipts less total deductions	15,382,865	6,772,577	2,685,779	5,924,509	156,722,694	14,223,334	4,050,934	2,385,844	2,459,368
Constructive taxable income from related foreign corporations	*32,494	29,869	*2,558	*68	16,807,635	1,297,023	308,809	34,956	57,759
Net income	15,360,778	6,778,935	2,668,065	5,913,779	172,315,960	15,484,976	4,357,018	2,413,653	2,512,998
Income subject to tax	7,839,561	3,027,261	1,571,520	3,240,780	145,745,819	13,079,814	4,191,280	1,740,804	1,419,446
Income tax, total	2,433,354	970,386	567,976	894,992	57,130,704	5,021,831	1,629,456	682,445	530,663
Regular and alternative tax	2,349,801	934,090	549,642	866,069	56,017,772	4,935,201	1,620,721	676,921	525,105
Tax from recomputing prior-year investment credit	12,475	5,226	3,371	3,877	265,631	29,602	*2,788	1,405	387
Alternative minimum tax	69,114	29,913	14,331	24,870	665,852	42,236	—	2,939	4,142
Environmental tax	1,798	990	632	176	171,755	14,242	5,947	1,180	1,030
Foreign tax credit	17,788	8,619	*9,102	*67	16,931,616	1,090,588	176,888	27,450	18,172
U.S. possessions tax credit	1,090	—	1,090	—	2,564,058	230,357	23,843	243	34,188
Orphan drug credit	—	—	—	—	5,154	—	—	—	—
Nonconventional source fuel credit	*982	*7	*972	*3	28,576	*72	—	—	—
General business credit	102,690	29,997	33,907	38,786	3,709,348	214,156	*105,268	18,564	7,843

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	**13,260**	**4,649**	**2,304**	**26,326**	**5,687**	**1,127**	**8,222**	**1,380**	**5,759**
Total assets	**54,866,472**	**14,399,586**	**86,131,140**	**95,347,724**	**290,720,116**	**445,475,586**	**38,268,505**	**8,530,104**	**58,755,717**
Cash	1,956,036	806,851	1,837,432	3,782,471	8,554,605	3,664,538	1,345,767	1,067,024	1,435,544
Notes and accounts receivable	7,560,637	3,672,740	10,568,312	17,565,181	48,230,448	63,563,474	8,113,204	1,828,439	8,931,448
Less: Allowance for bad debts	101,499	83,195	246,366	933,605	897,973	830,323	201,947	33,057	230,364
Inventories	6,656,902	3,375,354	8,788,124	6,344,155	28,604,257	15,808,804	6,322,081	2,289,392	4,665,626
Investments in Government obligations	218,982	51,960	485,731	1,730,475	921,194	1,148,985	37,342	*70,247	403,974
Other current assets	4,356,142	570,287	1,936,361	4,850,026	20,949,131	17,507,493	2,006,043	380,853	1,950,915
Loans to stockholders	149,649	42,420	281,652	1,144,786	1,623,635	2,816,860	299,190	26,545	96,670
Mortgage and real estate loans	1,552,208	*19,609	86,239	201,611	201,276	120,289	16,004	—	41,679
Other investments	7,814,470	991,594	18,318,484	15,392,526	74,769,831	172,337,403	5,000,353	1,318,916	8,847,734
Depreciable assets	33,108,299	7,211,513	61,378,927	43,334,125	136,279,670	210,946,435	23,606,705	2,262,640	28,340,055
Less: Accumulated depreciation	17,254,101	3,480,924	26,118,896	19,978,446	67,354,014	96,795,693	11,265,142	1,263,921	13,591,630
Depletable assets	5,254,067	*4,744	3,202,738	349,361	6,766,879	32,527,319	11,659	*3,613	712,562
Less: Accumulated depletion	201,340	437	589,034	*28,240	3,679,670	13,548,768	93	*3,613	261,372
Land	838,825	202,096	1,356,950	1,396,776	2,474,325	5,463,712	490,729	52,073	1,136,589
Intangible assets (amortizable)	308,228	384,072	1,849,675	12,397,624	11,970,747	36,405,871	1,046,633	88,758	1,381,432
Less: Accumulated amortization	19,197	28,326	199,913	1,149,449	2,091,266	19,718,484	179,580	19,480	182,994
Other assets	2,668,163	659,228	3,194,725	8,948,346	23,397,039	14,057,670	1,619,557	461,674	15,077,849
Total liabilities	**54,866,472**	**14,399,586**	**86,131,140**	**95,347,724**	**290,720,116**	**445,475,586**	**38,268,505**	**8,530,104**	**58,755,717**
Accounts payable	4,382,670	1,474,996	6,596,655	7,119,931	26,907,440	42,535,469	5,155,349	794,471	5,282,578
Mortgages, notes, and bonds payable in less than one year	4,032,512	768,572	3,300,923	5,364,557	15,982,274	19,458,833	2,446,348	710,125	2,796,402
Other current liabilities	5,278,892	1,410,671	5,763,744	10,675,052	29,722,532	29,522,180	4,034,083	787,006	3,513,040
Loans from stockholders	572,698	174,505	916,055	2,111,203	4,617,083	1,276,240	741,323	97,449	11,912,912
Mortgages, notes, and bonds payable in one year or more	13,437,258	2,215,444	19,673,888	21,831,552	47,403,808	82,757,755	9,304,401	2,412,720	13,007,805
Other liabilities	2,218,257	509,044	7,968,833	8,787,363	27,976,251	57,996,583	2,419,510	375,164	3,376,805
Capital stock	2,988,927	683,938	5,429,265	3,451,941	11,860,462	12,756,381	1,387,942	591,129	2,000,906
Paid-in or capital surplus	7,091,844	1,037,098	11,749,707	7,832,775	59,911,725	92,359,949	4,620,315	695,634	7,415,766
Retained earnings, appropriated	53,660	*6,099	44,401	56,268	292,502	14,018,773	*25,857	9,108	90,293
Retained earnings, unappropriated	13,554,460	5,599,409	25,960,329	28,667,765	76,663,122	111,124,237	7,651,964	1,884,727	9,771,743
Other retained earnings, 1120S	1,794,356	831,417	1,270,153	2,310,098	1,448,299	430,531	1,597,713	530,876	1,046,213
Less: Cost of treasury stock	539,061	311,606	2,542,814	2,860,782	12,065,383	18,761,344	1,116,300	358,306	1,458,747
Total receipts	**73,470,005**	**28,251,465**	**94,114,343**	**110,684,017**	**276,971,642**	**312,885,990**	**58,149,731**	**13,333,263**	**50,843,162**
Business receipts	69,886,067	27,654,336	90,451,576	105,492,983	255,724,501	288,192,182	55,317,410	12,771,392	47,344,055
Interest	808,356	78,126	563,683	981,306	3,255,277	7,425,602	437,614	244,093	708,820
Interest on Government obligations:									
State and local	2,714	10,363	15,546	58,326	117,193	9,970	10,256	5,472	6,945
Rents	123,707	105,789	201,156	437,370	891,914	1,959,124	173,985	34,449	114,896
Royalties	44,831	8,837	332,236	244,768	2,031,978	954,086	106,858	31,621	163,708
Net short-term capital gain reduced by net long-term capital loss	6,489	*382	19,073	9,938	230,306	*11,240	1,431	*376	388,307
Net long-term capital gain reduced by net short-term capital loss	1,325,328	47,679	1,048,074	767,069	4,111,220	1,616,182	829,811	59,164	657,536
Net gain, noncapital assets	155,506	61,917	246,926	322,741	419,036	1,006,609	283,995	1,670	261,306
Dividends received from domestic corporations	20,321	21,105	95,370	166,711	858,585	470,643	41,053	3,545	73,304
Dividends received from foreign corporations	138,533	22,984	532,278	121,221	3,844,078	5,522,087	339,437	51,010	408,204
Other receipts	958,153	239,947	608,424	2,081,585	5,487,553	5,718,264	607,880	130,471	716,082
Total deductions	**68,659,339**	**26,322,965**	**88,040,093**	**101,006,362**	**251,481,363**	**294,843,429**	**54,418,411**	**12,711,315**	**46,957,670**
Cost of sales and operations	51,295,719	19,092,877	59,574,046	50,365,141	151,749,731	208,383,734	37,683,134	8,751,429	31,131,950
Compensation of officers	1,030,448	542,112	756,007	2,809,291	1,715,305	404,234	1,050,645	197,452	649,117
Repairs	1,163,366	119,002	2,067,801	725,807	3,801,572	3,760,737	502,119	68,387	917,686
Bad debts	93,208	69,935	105,359	682,828	416,785	442,533	126,662	38,300	159,070
Rent paid on business property	724,415	279,039	763,715	1,833,244	2,838,956	2,609,609	679,662	283,452	515,650
Taxes paid	1,607,989	704,959	1,918,372	3,300,102	5,087,598	13,118,126	1,142,807	271,044	1,257,292
Interest paid	1,574,968	308,389	2,142,992	2,906,463	7,368,516	12,685,241	1,372,483	410,115	2,062,764
Contributions or gifts	52,880	23,931	106,774	203,706	455,873	209,954	29,900	9,089	28,325
Amortization	45,213	23,279	72,480	650,068	467,114	608,848	74,893	7,265	146,615
Depreciation	2,373,239	650,097	5,240,483	4,546,386	10,263,765	13,710,859	1,888,525	186,260	2,250,158
Depletion	707,933	*1,687	217,290	34,370	353,578	1,926,996	32,118	*8	223,532
Advertising	287,116	373,190	988,483	2,133,297	8,921,018	917,092	653,080	252,395	306,102
Pension, profit-sharing, stock bonus, and annuity plans	384,961	192,014	457,020	890,212	1,693,209	754,242	361,140	58,018	218,340
Employee benefit programs	648,522	246,745	1,374,502	1,452,246	3,488,383	1,615,873	819,436	115,338	581,640
Net loss, noncapital assets	9,572	5,153	10,995	59,333	216,146	145,822	19,551	20,718	11,096
Other deductions	6,659,788	3,690,557	12,243,777	28,413,868	52,643,815	33,549,531	7,982,255	2,042,045	6,498,332
Total receipts less total deductions	4,810,666	1,928,500	6,074,249	9,677,655	25,490,279	18,042,561	3,731,320	621,948	3,885,492
Constructive taxable income from related foreign corporations	49,576	22,409	326,974	95,901	4,117,107	4,192,453	245,252	6,588	210,506
Net income	4,857,528	1,940,546	6,385,677	9,715,230	29,490,192	22,225,044	3,966,316	623,063	4,089,053
Income subject to tax	3,322,135	1,610,888	5,693,871	8,186,614	27,026,208	21,504,884	3,071,659	416,538	3,323,534
Income tax, total	1,232,750	606,992	2,268,382	3,179,542	10,521,083	8,571,688	1,155,500	159,622	1,275,999
Regular and alternative tax	1,215,208	603,519	2,182,898	3,141,139	10,381,268	8,486,368	1,132,086	155,094	1,249,128
Tax from recomputing prior-year investment credit	4,087	1,587	12,447	14,214	40,380	22,493	15,856	719	7,799
Alternative minimum tax	9,831	*383	65,749	15,346	69,448	33,482	4,861	*3,608	14,384
Environmental tax	3,623	1,241	6,957	8,666	29,934	29,344	2,089	171	3,890
Foreign tax credit	48,906	18,487	354,827	119,564	2,989,377	6,129,561	239,956	2,425	206,190
U.S. possessions tax credit	—	367	1,881	5,320	1,454,644	32,293	17,745	12,338	2,104
Orphan drug credit	—	—	—	—	5,112	—	—	—	—
Nonconventional source fuel credit	3,967	*339	*290	1,619	*3,614	16,401	55	—	63
General business credit	102,230	10,062	187,002	105,895	510,571	171,790	36,452	5,211	28,145

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	3,369	29,203	15,157	10,629	1,020	2,411	5,893	9,891
Total assets	71,225,022	107,297,115	179,997,583	271,027,917	200,320,579	97,812,921	52,529,599	31,153,394
Cash	3,393,594	4,516,748	6,750,022	8,879,569	2,085,332	5,622,600	2,218,071	1,935,747
Notes and accounts receivable	13,101,731	24,139,655	47,219,460	65,436,861	93,365,168	18,826,169	13,701,102	7,558,933
Less: Allowance for bad debts	235,213	377,967	826,742	1,685,497	519,512	264,058	201,148	297,607
Inventories	10,100,031	19,930,791	27,624,097	32,491,136	10,900,645	24,881,453	7,705,929	6,125,688
Investments in Government obligations	401,129	455,152	5,527,936	5,317,641	3,001,135	*1,861,119	298,094	251,624
Other current assets	3,607,185	4,277,729	11,853,959	33,848,124	8,054,524	7,254,656	2,670,912	1,797,840
Loans to stockholders	302,030	539,043	678,640	512,672	505,537	119,737	224,211	349,178
Mortgage and real estate loans	20,445	84,180	541,575	2,111,109	*14,548,972	*48,669	*108,120	91,889
Other investments	12,413,080	20,444,469	26,991,646	49,969,674	34,052,923	12,987,634	7,575,235	3,755,241
Depreciable assets	48,549,945	45,304,844	83,745,033	87,147,726	51,434,004	34,623,087	26,455,379	11,510,888
Less: Accumulated depreciation	25,126,893	22,756,409	43,869,246	46,574,810	27,347,955	16,914,728	12,854,907	5,429,148
Depletable assets	1,011,960	397,099	*14,358	698,105	*5,508	97,713	*7,394	*113,681
Less: Accumulated depletion	600,583	97,903	*5,778	*246,595	2,591	15,118	*3,592	*28,040
Land	761,796	1,538,251	1,762,121	1,679,862	834,877	851,234	627,138	366,339
Intangible assets (amortizable)	643,162	4,517,475	5,094,348	4,162,934	732,437	2,594,295	1,825,959	1,345,255
Less: Accumulated amortization	108,819	379,407	864,965	588,960	91,567	269,331	252,625	231,001
Other assets	2,990,442	4,763,365	7,761,119	27,868,364	8,761,143	5,507,790	2,424,326	1,936,886
Total liabilities	71,225,022	107,297,115	179,997,583	271,027,917	200,320,579	97,812,921	52,529,599	31,153,394
Accounts payable	8,399,490	11,920,092	16,724,344	30,453,691	21,036,694	16,668,028	6,243,928	2,951,147
Mortgages, notes, and bonds payable in less than one year	3,248,696	6,900,288	13,177,573	34,219,061	35,963,231	6,831,848	3,133,697	3,155,429
Other current liabilities	6,255,160	13,962,446	26,055,257	26,925,334	28,565,605	20,880,093	5,787,283	3,235,213
Loans from stockholders	2,303,327	1,097,880	1,292,219	2,030,066	9,940,749	775,905	1,140,449	685,457
Mortgages, notes, and bonds payable in one year or more	16,386,369	17,961,589	30,536,462	34,736,825	42,666,151	15,090,210	7,560,316	6,573,918
Other liabilities	9,211,386	8,881,490	15,397,732	43,944,056	12,455,610	6,189,275	2,738,976	2,125,354
Capital stock	4,160,288	5,044,990	14,667,952	9,788,459	3,428,428	4,609,428	3,093,371	1,879,369
Paid-in or capital surplus	13,738,882	15,253,271	18,733,222	38,480,327	21,341,895	5,155,331	6,668,155	4,296,779
Retained earnings, appropriated	443,006	103,737	1,273,231	212,801	*3,425,942	*195,573	*664,692	49,389
Retained earnings, unappropriated	7,082,503	24,548,121	43,306,225	52,941,040	22,136,899	23,768,623	18,706,174	5,497,722
Other retained earnings, 1120S	784,548	4,372,524	2,841,815	1,833,497	865,226	535,406	448,634	1,420,392
Less: Cost of treasury stock	788,633	2,749,312	4,008,450	4,537,240	1,505,852	2,886,799	3,656,075	716,776
Total receipts	85,932,108	135,437,552	192,941,918	212,886,973	141,457,272	121,914,549	57,000,941	44,089,402
Business receipts	82,006,159	129,794,561	164,206,858	198,879,077	125,058,537	114,104,117	53,170,986	42,361,195
Interest	1,059,211	1,494,745	3,232,835	2,673,116	9,410,599	2,058,942	493,777	284,443
Interest on Government obligations: State and local	266,695	31,978	310,045	68,418	161,327	25,927	53,166	10,623
Rents	458,219	629,593	11,682,028	3,529,605	3,631,609	1,272,315	490,053	143,190
Royalties	86,924	183,319	5,948,516	1,493,849	54,558	178,811	491,401	108,115
Net short-term capital gain reduced by net long-term capital loss	48,941	10,873	18,884	95,258	*197	*1,361	3,269	17,533
Net long-term capital gain reduced by net short-term capital loss	719,898	332,799	696,789	668,251	224,056	620,726	166,373	342,519
Net gain, noncapital assets	145,530	301,871	316,889	669,141	749,468	297,781	97,557	74,556
Dividends received from domestic corporations	47,831	511,625	195,012	180,449	96,152	139,112	69,362	81,090
Dividends received from foreign corporations	299,919	754,733	3,560,320	727,658	439,095	579,061	883,412	121,283
Other receipts	792,781	1,391,454	2,773,745	3,902,150	1,631,675	2,636,395	1,081,587	544,855
Total deductions	81,759,041	126,653,945	179,869,401	201,066,020	134,713,692	114,189,063	53,116,895	40,952,114
Cost of sales and operations	63,387,200	88,631,965	103,086,997	126,033,672	93,532,124	85,492,243	30,894,317	27,159,562
Compensation of officers	596,603	3,460,673	2,320,321	2,002,235	427,131	452,000	783,441	1,004,519
Repairs	1,535,876	979,505	1,351,225	1,203,624	1,684,824	730,809	341,085	228,576
Bad debts	173,023	294,076	453,720	535,153	513,129	154,902	83,842	174,392
Rent paid on business property	900,713	1,323,903	2,567,062	2,544,102	1,282,908	1,083,652	658,381	425,951
Taxes paid	1,545,201	3,212,873	4,689,054	4,716,653	2,582,373	2,057,201	1,125,913	957,617
Interest paid	1,906,042	3,511,718	5,029,373	7,647,516	8,632,043	2,712,725	1,066,880	979,377
Contributions or gifts	47,765	81,712	196,992	238,523	40,592	78,761	111,269	40,300
Amortization	63,137	224,275	330,710	313,545	87,518	236,393	104,334	76,718
Depreciation	2,470,688	4,181,905	7,922,007	10,674,934	7,916,741	3,379,640	1,825,464	1,105,057
Depletion	252,018	43,190	7,378	20,551	6,839	27,469	*1,901	*2,303
Advertising	148,595	982,569	1,680,919	2,318,761	1,235,585	383,701	1,636,835	932,010
Pension, profit-sharing, stock bonus, and annuity plans	696,056	893,996	1,099,209	1,453,894	1,710,848	754,508	453,658	199,133
Employee benefit programs	1,407,710	2,022,921	3,356,078	3,818,325	2,999,905	2,696,858	691,726	519,059
Net loss, noncapital assets	207,279	37,619	271,500	111,381	19,141	19,465	14,567	41,982
Other deductions	6,421,136	16,771,043	45,506,857	37,433,150	12,041,992	13,928,736	13,323,282	7,105,558
Total receipts less total deductions	4,173,067	8,783,607	13,072,518	11,820,953	6,743,580	7,725,485	3,884,047	3,137,288
Constructive taxable income from related foreign corporations	160,200	465,973	3,018,696	674,886	666,508	170,378	602,500	83,181
Net income	4,066,573	9,217,579	15,781,169	12,427,420	7,248,761	7,869,936	4,433,380	3,209,847
Income subject to tax	2,226,536	6,424,247	13,690,934	10,351,053	6,152,294	6,234,584	3,950,917	2,127,579
Income tax, total	911,439	2,449,667	5,460,472	4,081,342	2,503,337	2,513,856	1,556,186	818,453
Regular and alternative tax	863,681	2,393,143	5,243,160	3,979,762	2,441,700	2,454,252	1,532,344	805,075
Tax from recomputing prior-year investment credit	1,653	7,867	27,952	19,858	29,446	10,786	12,095	2,209
Alternative minimum tax	41,704	43,013	170,778	69,427	21,954	39,263	7,395	5,910
Environmental tax	4,401	5,619	16,705	11,230	10,238	9,556	4,025	1,666
Foreign tax credit	115,534	490,396	3,176,829	605,545	430,095	122,277	480,044	88,505
U.S. possessions tax credit	—	13,192	66,015	442,544	1,060	6,735	164,564	54,624
Orphan drug credit	—	—	—	—	—	—	42	—
Nonconventional source fuel credit	48	*495	2	*1,601	9	—	—	—
General business credit	123,440	67,958	315,164	562,391	196,439	843,245	76,541	20,980

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	**80,304**	**63,170**	**8,466**	**8,668**	**537,686**	**188,016**	**17,853**	**28,385**	**141,778**
Total assets	**1,107,458,904**	**225,030,109**	**358,841,671**	**523,587,124**	**841,450,316**	**354,709,661**	**32,291,609**	**50,854,677**	**271,563,375**
Cash	24,827,888	10,268,416	8,453,447	6,106,025	50,068,095	24,765,412	2,187,992	3,410,940	19,166,480
Notes and accounts receivable	95,549,559	26,604,820	40,500,515	28,444,224	207,351,469	115,001,039	9,382,377	15,814,023	89,804,639
Less: Allowance for bad debts	2,380,749	394,857	1,288,647	697,245	3,764,236	2,134,230	181,600	349,208	1,603,422
Inventories	24,364,819	4,703,582	6,273,850	13,387,387	228,604,848	94,776,374	8,534,686	15,018,182	71,223,506
Investments in Government obligations	7,797,202	2,655,135	403,358	4,738,708	13,202,407	1,533,627	73,598	260,731	1,199,298
Other current assets	38,846,258	15,273,845	7,865,303	15,707,110	41,531,094	18,323,506	1,261,187	1,897,300	15,165,019
Loans to stockholders	2,997,828	1,187,357	779,726	1,030,745	9,216,629	3,426,354	522,805	534,968	2,368,581
Mortgage and real estate loans	885,719	805,880	56,433	23,406	6,680,455	1,380,164	119,708	108,321	1,152,135
Other investments	160,531,811	32,957,826	83,059,283	44,514,701	71,231,554	30,657,663	1,769,949	5,141,526	23,746,188
Depreciable assets	971,094,662	178,837,179	285,933,701	506,323,782	272,479,169	96,015,203	12,684,940	13,409,406	69,920,858
Less: Accumulated depreciation	298,395,265	66,159,645	94,819,816	137,415,803	124,311,028	49,067,023	6,358,048	6,779,308	35,929,667
Depletable assets	4,186,411	605,983	3,195	3,577,233	1,723,315	1,412,932	*37,655	*29,325	1,345,951
Less: Accumulated depletion	2,298,882	242,097	1,789	2,054,996	742,755	655,720	*19,123	5,062	631,535
Land	7,830,065	2,639,801	2,018,720	3,171,544	19,023,330	5,255,686	547,608	582,801	4,125,277
Intangible assets (amortizable)	16,177,214	2,645,328	9,542,238	3,989,647	14,329,433	5,055,662	563,623	413,597	4,078,442
Less: Accumulated amortization	2,215,127	307,667	698,153	1,209,307	2,637,130	982,740	150,429	104,090	728,220
Other assets	57,659,491	12,949,222	10,760,305	33,949,964	37,463,668	9,945,752	1,314,681	1,471,226	7,159,845
Total liabilities	**1,107,458,904**	**225,030,109**	**358,841,671**	**523,587,124**	**841,450,316**	**354,709,661**	**32,291,609**	**50,854,677**	**271,563,375**
Accounts payable	62,079,230	19,676,039	24,333,948	18,069,244	150,474,250	79,624,750	8,096,351	10,376,291	61,152,108
Mortgages, notes, and bonds payable in less than one year	41,310,926	9,283,442	12,771,415	19,256,069	114,485,208	55,485,924	3,255,832	8,216,445	44,013,647
Other current liabilities	74,732,569	20,950,939	19,349,449	34,432,180	98,734,269	30,737,191	2,754,232	5,909,151	22,073,809
Loans from stockholders	6,779,817	2,840,222	1,589,239	2,350,357	18,860,665	8,518,516	609,905	1,355,295	6,553,316
Mortgages, notes, and bonds payable in one year or more	308,140,148	51,599,277	87,935,324	168,605,547	140,219,883	41,810,003	6,059,660	6,157,029	29,593,313
Other liabilities	154,518,306	30,044,697	50,421,412	74,052,197	31,959,389	12,535,952	1,036,003	2,355,110	9,144,839
Capital stock	138,977,157	9,697,741	39,614,442	89,664,974	35,994,171	18,293,026	1,435,205	1,977,721	14,880,100
Paid-in or capital surplus	157,753,344	33,243,888	77,114,315	47,395,141	53,641,686	18,579,790	1,736,521	1,890,608	14,952,661
Retained earnings, appropriated	2,620,273	403,857	324,772	1,891,643	1,214,870	377,014	57,064	96,595	223,355
Retained earnings, unappropriated	164,143,668	48,808,899	47,478,900	67,855,869	173,869,484	75,106,181	6,587,626	11,067,568	57,450,987
Other retained earnings, 1120S	3,531,810	2,367,024	646,548	518,238	35,783,607	19,530,622	1,403,525	2,518,956	15,608,141
Less: Cost of treasury stock	7,128,344	3,885,916	2,738,094	504,335	13,787,163	5,889,308	740,315	1,066,092	4,082,901
Total receipts	**633,499,893**	**226,878,587**	**178,762,566**	**227,858,741**	**2,129,260,090**	**1,040,089,318**	**164,100,619**	**108,131,702**	**767,856,997**
Business receipts	593,879,911	210,843,588	167,004,056	216,032,268	2,075,702,143	1,019,957,471	161,384,607	104,739,486	753,833,378
Interest	8,788,531	3,443,141	2,240,895	3,104,496	11,222,443	4,214,183	301,159	733,818	3,179,207
Interest on Government obligations: State and local	291,406	63,258	65,038	163,109	989,153	89,164	6,443	16,066	66,656
Rents	7,682,909	2,661,068	3,181,893	1,839,948	7,387,370	2,709,249	288,423	630,555	1,790,271
Royalties	292,800	161,410	85,801	45,589	1,194,396	424,443	35,337	71,072	318,033
Net short-term capital gain reduced by net long-term capital loss	191,374	169,148	13,158	9,068	128,355	70,943	2,346	24,920	43,676
Net long-term capital gain reduced by net short-term capital loss	6,980,515	2,624,853	1,767,901	2,587,761	3,037,214	1,189,724	130,569	136,606	922,548
Net gain, noncapital assets	3,871,434	2,531,163	241,758	1,098,513	1,946,179	839,980	69,080	237,723	533,178
Dividends received from domestic corporations	662,447	165,172	168,537	328,738	707,716	335,795	14,771	61,726	259,298
Dividends received from foreign corporations	483,117	340,226	130,645	12,246	846,763	288,489	11,489	27,773	249,226
Other receipts	10,375,450	3,875,560	3,862,886	2,637,004	26,098,357	9,969,878	1,856,396	1,451,958	6,661,524
Total deductions	**583,694,916**	**215,450,597**	**161,564,508**	**206,679,811**	**2,068,817,901**	**1,012,634,715**	**161,785,918**	**104,492,472**	**746,356,326**
Cost of sales and operations	263,144,203	92,486,977	62,157,216	108,500,010	1,589,025,983	839,662,483	140,172,362	79,283,863	620,206,258
Compensation of officers	4,704,360	3,056,456	666,332	981,572	31,817,857	15,835,701	1,511,719	2,628,933	11,695,048
Repairs	29,828,450	5,040,806	14,962,411	9,825,233	7,648,164	2,537,849	461,311	291,952	1,784,586
Bad debts	3,126,813	525,137	1,867,019	734,657	4,599,061	2,071,402	201,454	277,587	1,592,362
Rent paid on business property	16,768,094	10,024,082	4,739,164	2,004,848	33,074,505	7,722,333	1,136,454	939,669	5,646,210
Taxes paid	30,062,696	8,158,649	8,387,700	13,516,347	29,824,987	10,576,592	1,236,652	1,234,910	8,105,031
Interest paid	34,318,720	6,750,485	8,887,189	18,681,046	25,376,259	9,564,518	943,308	1,429,903	7,191,306
Contributions or gifts	566,873	120,621	285,264	160,988	633,775	247,339	35,888	32,652	178,799
Amortization	1,233,779	278,377	408,946	546,456	1,219,248	427,707	56,114	47,577	324,016
Depreciation	63,690,872	14,083,101	24,375,255	25,232,515	28,265,344	10,268,931	1,377,813	1,921,501	6,969,617
Depletion	532,205	223,463	*824	307,918	161,731	138,521	*135	*6,471	131,915
Advertising	4,054,621	1,666,808	2,106,160	281,654	25,138,298	6,149,946	515,857	718,034	4,916,055
Pension, profit-sharing, stock bonus, and annuity plans	4,844,238	2,040,260	1,485,773	1,318,204	6,380,816	2,684,003	351,830	375,971	1,956,203
Employee benefit programs	9,807,433	3,603,722	4,524,959	1,678,752	9,148,722	2,991,793	504,716	457,035	2,030,043
Net loss, noncapital assets	1,307,634	156,791	927,251	223,592	314,940	164,171	11,191	19,276	133,703
Other deductions	115,703,925	67,234,862	25,783,044	22,686,018	276,188,211	101,591,426	13,269,114	14,827,139	73,495,173
Total receipts less total deductions	49,804,977	11,427,989	17,198,058	21,178,930	60,442,189	27,454,603	2,314,701	3,639,231	21,500,671
Constructive taxable income from related foreign corporations	559,713	253,709	243,940	62,063	824,300	413,304	4,791	31,357	377,155
Net income	50,070,763	11,615,920	17,376,959	21,077,884	60,276,175	27,778,742	2,313,050	3,654,522	21,811,170
Income subject to tax	43,818,326	8,189,361	16,395,762	19,233,203	41,895,926	18,358,449	1,679,813	2,450,808	14,227,827
Income tax, total	17,506,322	3,096,763	6,578,548	7,831,011	14,909,900	6,557,661	586,446	856,470	5,114,745
Regular and alternative tax	16,976,595	2,935,326	6,459,469	7,581,801	14,668,995	6,461,644	580,225	831,493	5,049,925
Tax from recomputing prior-year investment credit	154,084	34,090	86,025	33,969	84,097	39,382	4,017	16,537	18,829
Alternative minimum tax	313,046	115,559	13,080	184,408	119,702	42,624	1,450	6,471	34,704
Environmental tax	62,504	11,749	19,975	30,781	30,732	9,875	754	777	8,344
Foreign tax credit	332,278	187,381	131,488	13,409	591,129	248,211	771	16,538	230,901
U.S. possessions tax credit	53,171	—	53,171	—	8,946	4,146	125	230	3,791
Orphan drug credit	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	14,953	140	—	14,813	632	*521	—	226	*296
General business credit	2,526,632	561,790	599,784	1,365,058	359,849	115,494	15,459	18,499	81,535

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 mechandise stores	Food stores	Automotive dealers and service stations	Apparel and accessory stores	Furniture and home furnishings stores	Eating and drinking places	Miscellaneous retail stores	Wholesale and retail trade not allocable
	(43)	(44)	(45)	(46)	(47)	(48)	(49)	(50)	(51)	(52)
Number of returns with net income	**346,067**	**25,012**	**7,162**	**27,569**	**53,074**	**27,428**	**22,550**	**65,345**	**117,926**	**3,603**
Total assets	**485,291,356**	**29,130,773**	**178,586,731**	**47,048,550**	**67,933,870**	**23,397,656**	**17,980,056**	**57,381,327**	**63,832,392**	**1,449,299**
Cash	25,129,340	1,678,629	3,599,570	3,314,339	4,776,477	1,826,598	1,535,008	3,011,439	5,387,280	173,342
Notes and accounts receivable	91,861,751	5,788,429	51,610,342	3,613,395	8,197,303	3,907,407	4,186,767	3,966,992	10,591,116	488,679
Less: Allowance for bad debts	1,584,642	150,889	501,345	18,572	167,314	109,010	128,792	85,174	423,546	45,364
Inventories	133,360,896	9,826,114	34,765,082	11,977,119	35,482,833	8,914,733	6,936,801	2,088,707	23,369,506	467,579
Investments in Government obligations	11,668,741	43,843	10,856,498	389,299	38,332	*45,367	75,920	48,557	170,924	*39
Other current assets	23,160,450	777,476	12,008,558	1,860,829	2,056,446	908,096	789,304	2,964,047	1,795,693	47,138
Loans to stockholders	5,761,647	210,105	1,404,235	566,831	834,453	296,327	139,166	1,173,972	1,136,558	28,628
Mortgage and real estate loans	5,300,291	539,419	4,085,060	99,386	137,526	18,083	34,179	208,317	178,323	—
Other investments	40,531,620	1,042,358	21,104,054	2,274,954	1,759,730	1,515,782	902,968	5,599,528	6,332,246	42,271
Depreciable assets	176,026,527	10,135,014	46,078,867	29,450,990	22,013,586	8,508,355	4,936,642	32,757,924	22,145,148	437,439
Less: Accumulated depreciation	75,002,339	4,921,267	16,282,948	11,706,906	10,928,907	3,580,808	2,283,927	13,975,051	11,322,525	241,666
Depletable assets	310,384	*43,200	*259	*53,434	32,979	*10,032	*2,042	*23,795	144,642	—
Less: Accumulated depletion	87,035	*13,075	—	*11,202	*13,683	*7,925	660	*13,972	26,518	—
Land	13,750,588	1,310,248	3,113,334	1,812,560	1,857,637	179,552	317,733	3,678,717	1,480,807	17,056
Intangible assets (amortizable)	9,268,893	1,216,728	1,517,364	1,030,624	541,676	408,139	113,292	2,901,046	1,540,024	4,878
Less: Accumulated amortization	1,652,856	70,830	193,186	192,362	127,465	104,498	23,771	496,311	444,435	1,535
Other assets	27,487,101	1,675,268	5,420,989	2,533,833	1,442,261	661,424	447,383	13,528,791	1,777,152	30,815
Total liabilities	**485,291,356**	**29,130,773**	**178,586,731**	**47,048,550**	**67,933,870**	**23,397,656**	**17,980,056**	**57,381,327**	**63,832,392**	**1,449,299**
Accounts payable	70,547,121	3,828,215	28,869,458	9,411,413	5,546,748	3,640,467	2,761,828	4,782,498	11,706,493	302,379
Mortgages, notes, and bonds payable in less than one year	58,746,807	3,302,327	14,647,035	1,967,057	29,432,034	1,277,354	1,632,747	1,928,699	4,559,553	252,477
Other current liabilities	67,766,057	2,193,067	41,724,014	4,405,389	4,546,908	2,369,405	1,861,328	5,274,732	5,391,212	231,022
Loans from stockholders	10,187,449	709,875	773,267	971,389	1,838,931	753,915	533,479	1,244,315	3,362,277	154,701
Mortgages, notes, and bonds payable in one year or more	98,223,507	6,342,125	32,109,443	12,254,150	7,790,103	2,960,343	2,471,403	24,623,370	9,672,570	186,373
Other liabilities	19,388,778	769,506	9,314,053	2,177,122	1,278,929	439,084	916,126	2,656,747	1,837,210	34,659
Capital stock	17,575,805	1,274,331	2,494,875	2,445,913	2,991,985	1,703,823	834,199	1,886,267	3,944,411	125,339
Paid-in or capital surplus	34,489,555	2,424,519	15,295,521	2,280,417	1,527,290	1,404,405	996,211	4,851,844	5,709,349	572,340
Retained earnings, appropriated	831,796	147,932	262,184	*11,196	46,457	*18,004	227,451	37,670	80,903	*6,060
Retained earnings, unappropriated	99,152,844	6,823,468	32,977,948	10,879,313	8,986,108	8,324,470	4,940,958	10,535,510	15,685,069	−389,541
Other retained earnings, 1120S	16,178,547	2,026,581	604,949	1,548,169	4,920,429	1,034,150	1,445,070	1,530,065	3,069,134	*74,438
Less: Cost of treasury stock	7,796,909	711,174	486,016	1,302,979	972,051	527,764	640,743	1,970,391	1,185,791	*100,947
Total receipts	**1,084,111,157**	**63,814,200**	**214,827,557**	**203,435,631**	**267,701,504**	**51,106,535**	**40,805,243**	**84,472,761**	**157,947,726**	**5,059,615**
Business receipts	1,050,776,844	62,155,443	203,728,751	199,929,494	261,883,992	49,718,162	39,699,999	79,186,718	154,474,286	4,967,829
Interest	6,994,025	261,535	3,798,476	319,256	872,269	371,468	235,716	576,212	559,092	14,235
Interest on Government obligations: State and local	899,736	2,222	847,255	23,713	1,779	6,816	4,868	3,517	9,566	*254
Rents	4,669,448	164,626	1,274,483	517,646	717,465	58,350	78,352	1,419,362	439,164	8,674
Royalties	769,835	46,028	*22,446	8,550	*10,049	193,919	498	382,173	106,172	*119
Net short-term capital gain reduced by net long-term capital loss	57,412	1,286	21,385	2,527	1,960	*158	*817	4,339	24,940	—
Net long-term capital gain reduced by net short-term capital loss	1,847,372	315,968	642,035	196,330	110,264	33,208	22,431	265,855	261,282	*119
Net gain, noncapital assets	1,096,507	66,433	84,227	239,467	283,776	7,167	17,770	229,598	168,069	9,692
Dividends received from domestic corporations	371,763	18,443	152,098	94,348	11,539	51,313	5,010	12,879	26,134	*158
Dividends received from foreign corporations	557,674	29,008	98,438	357,409	*1,244	1,335	—	48,846	*21,393	*600
Other receipts	16,070,543	753,209	4,157,963	1,746,892	3,807,168	664,640	739,782	2,343,261	1,857,628	57,936
Total deductions	**1,051,246,485**	**61,492,606**	**206,011,940**	**199,673,352**	**263,730,941**	**48,537,640**	**38,970,692**	**80,974,898**	**151,854,414**	**4,936,701**
Cost of sales and operations	745,544,386	44,716,819	132,141,025	153,998,684	222,487,457	29,505,172	24,848,716	34,166,434	103,680,080	3,819,113
Compensation of officers	15,837,351	1,473,909	690,393	1,193,734	3,514,870	1,100,897	1,204,144	2,177,960	4,481,445	144,805
Repairs	5,095,579	308,347	1,086,921	1,053,262	616,260	181,976	156,364	1,015,206	677,241	14,736
Bad debts	2,508,652	189,551	1,007,449	164,898	255,639	143,172	211,900	110,151	425,892	19,007
Rent paid on business property	25,291,249	913,652	5,908,362	3,232,655	2,529,116	2,800,911	1,281,313	4,313,565	4,311,676	60,923
Taxes paid	19,184,998	1,163,389	4,571,099	2,582,271	2,823,417	1,142,618	822,825	3,245,954	2,833,426	63,397
Interest paid	15,765,178	941,659	6,605,850	1,676,284	2,324,421	520,540	452,274	1,673,957	1,570,195	46,564
Contributions or gifts	385,460	23,131	138,159	51,274	31,750	47,468	16,182	27,064	50,433	976
Amortization	789,418	22,122	243,063	80,649	54,932	51,413	20,049	152,676	164,514	2,123
Depreciation	17,944,396	941,880	4,150,936	3,105,182	2,808,884	886,740	483,655	3,214,728	2,352,391	52,017
Depletion	23,210	1,342	*481	5,764	4,209	(1)	*5,166	*247	*6,003	—
Advertising	18,963,912	920,725	5,094,143	2,021,756	2,920,221	1,297,382	1,760,413	2,121,772	2,827,499	24,440
Pension, profit-sharing, stock bonus, and annuity plans	3,671,729	221,658	1,299,958	563,349	289,140	162,521	148,397	304,190	682,517	25,084
Employee benefit programs	6,145,513	362,134	1,180,525	2,001,914	887,736	245,058	175,456	551,131	741,559	11,415
Net loss, noncapital assets	150,513	7,122	26,703	19,639	13,742	11,150	7,903	35,507	28,746	*256
Other deductions	173,944,941	9,285,167	41,866,873	27,922,040	22,169,148	10,440,623	7,375,936	27,864,356	27,020,797	651,845
Total receipts less total deductions	32,864,673	2,321,594	8,815,617	3,762,279	3,970,563	2,568,895	1,834,551	3,497,863	6,093,311	122,914
Constructive taxable income from related foreign corporations	410,996	244	146,399	220,170	(1)	2,871	—	21,836	*19,477	—
Net income	32,374,772	2,319,616	8,114,760	3,958,736	3,967,624	2,564,950	1,829,684	3,516,180	6,103,222	122,660
Income subject to tax	23,467,558	1,404,487	7,596,478	3,130,764	1,949,230	2,079,109	1,253,100	2,116,363	3,938,026	69,920
Income tax, total	8,335,710	474,184	2,932,872	1,182,853	593,018	740,139	403,994	761,159	1,247,489	16,529
Regular and alternative tax	8,191,021	467,640	2,896,715	1,155,182	579,911	735,426	396,731	723,079	1,236,338	16,331
Tax from recomputing prior-year investment credit	44,516	1,929	11,373	9,818	8,318	2,243	894	5,156	4,786	*199
Alternative minimum tax	77,078	3,749	15,183	15,047	4,361	737	2,682	30,984	4,336	—
Environmental tax	20,858	836	9,450	2,652	247	1,733	2,116	1,872	1,951	—
Foreign tax credit	342,918	126	74,796	209,897	58	*4,948	1,103	34,910	17,081	—
U.S. possessions tax credit	4,781	—	—	4,341	—	134	—	290	17	20
Orphan drug credit	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*111	83	1	*10	*11	—	—	6	—	—
General business credit	243,575	7,437	72,296	31,676	32,886	6,534	4,785	62,952	25,009	*779

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	**275,637**	**8,309**	**14,012**	**7,526**	**5,294**	**44,393**	**174,267**	**21,835**
Total assets	**6,606,813,351**	**3,150,617,530**	**1,185,334,261**	**166,024,415**	**1,080,128,161**	**30,736,798**	**112,522,167**	**881,450,018**
Cash	401,819,876	299,553,269	40,030,860	4,814,485	16,851,116	5,966,600	11,205,874	23,397,672
Notes and accounts receivable	2,018,229,127	1,656,689,979	158,524,303	28,727,777	68,706,232	8,848,476	10,973,161	85,759,200
Less: Allowance for bad debts	53,708,805	40,073,772	12,154,595	59,139	748,765	89,128	157,435	425,969
Inventories	19,534,473	316,161	712,261	211,034	3,311,533	16,339	8,911,237	6,055,908
Investments in Government obligations	766,541,407	369,003,906	75,430,457	17,055,494	191,670,011	889,727	946,298	111,545,514
Other current assets	356,005,995	97,299,858	44,560,676	76,658,962	82,569,308	2,123,656	9,251,599	43,541,937
Loans to stockholders	12,397,082	1,376,552	4,659,125	515,051	827,582	637,005	2,259,148	2,122,619
Mortgage and real estate loans	1,034,338,775	237,445,432	655,364,685	818,782	116,202,792	162,011	6,710,801	17,634,271
Other investments	1,567,245,911	262,111,863	161,025,852	29,248,637	526,269,965	6,322,823	15,834,541	566,432,230
Depreciable assets	174,338,114	63,137,877	20,344,461	3,451,722	18,316,155	4,860,540	45,153,295	19,074,065
Less: Accumulated depreciation	60,717,455	22,315,096	6,187,463	1,232,237	4,786,621	2,395,197	18,159,426	5,641,415
Depletable assets	1,506,182	48,197	61,911	*6,841	320,449	*3,018	796,108	269,658
Less: Accumulated depletion	449,986	24,421	18,147	*3,088	*139,289	*1,199	144,478	119,364
Land	23,567,293	4,465,834	2,513,461	98,054	1,355,368	200,131	12,580,569	2,353,877
Intangible assets (amortizable)	21,150,625	7,127,407	5,913,978	765,638	2,265,896	2,441,873	897,835	1,737,998
Less: Accumulated amortization	3,494,586	1,034,799	557,087	168,208	370,456	557,383	272,001	534,651
Other assets	328,509,322	215,489,285	35,109,523	5,114,612	57,506,886	1,307,505	5,735,041	8,246,471
Total liabilities	**6,606,813,351**	**3,150,617,530**	**1,185,334,261**	**166,024,415**	**1,080,128,161**	**30,736,798**	**112,522,167**	**881,450,018**
Accounts payable	187,339,653	45,355,348	35,304,775	26,497,091	47,476,931	10,319,770	4,551,763	17,833,975
Mortgages, notes, and bonds payable in less than one year	481,001,240	228,681,280	171,458,727	9,847,600	31,870,444	3,804,804	13,741,526	21,596,860
Other current liabilities	3,263,474,089	2,322,937,860	665,354,440	102,139,489	129,432,482	3,911,156	7,181,481	32,517,181
Loans from stockholders	27,522,470	7,146,631	7,133,506	291,919	4,520,904	225,006	5,433,069	2,771,437
Mortgages, notes, and bonds payable in one year or more	421,734,653	127,417,278	187,942,181	8,812,379	28,113,252	2,867,239	36,292,986	30,289,338
Other liabilities	821,409,359	150,152,562	42,566,981	5,118,588	602,285,714	1,872,666	8,755,986	10,656,863
Capital stock	743,846,022	46,578,686	7,933,177	1,194,164	14,569,794	1,269,518	7,483,708	664,816,975
Paid-in or capital surplus	855,413,752	104,164,353	31,370,536	5,753,141	84,868,495	3,466,496	11,698,019	614,092,712
Retained earnings, appropriated	34,743,530	3,703,245	5,276,674	120,657	18,162,964	34,432	437,825	7,007,733
Retained earnings, unappropriated	310,190,659	116,390,255	31,477,591	6,019,999	123,105,149	3,743,645	15,142,465	14,311,555
Other retained earnings, 1120S	6,101,770	*92	446,232	461,945	—	798,776	3,949,402	445,323
Less: Cost of treasury stock	545,963,847	1,910,059	930,559	232,556	4,277,967	1,576,710	2,146,061	534,889,934
Total receipts	**1,137,746,058**	**326,565,448**	**171,123,036**	**33,727,811**	**387,775,401**	**27,173,693**	**71,683,363**	**119,697,306**
Business receipts	556,884,139	38,553,041	66,992,547	22,176,957	301,548,302	25,070,854	54,263,479	48,278,960
Interest	448,156,378	248,154,460	92,773,575	7,378,621	54,429,561	665,651	2,483,974	42,270,536
Interest on Government obligations: State and local	18,081,223	8,303,909	552,196	137,854	7,240,979	26,612	65,313	1,754,360
Rents	18,867,597	7,900,314	969,159	171,038	3,358,636	110,905	5,745,042	612,503
Royalties	379,894	29,918	16,580	*4,005	38,786	*7,607	118,002	164,997
Net short-term capital gain reduced by net long-term capital loss	5,876,223	386,644	287,938	326,676	550,595	7,364	170,339	4,146,667
Net long-term capital gain reduced by net short-term capital loss	24,080,989	2,957,799	1,149,861	508,580	5,745,389	71,641	2,390,707	11,257,011
Net gain, noncapital assets	6,220,094	2,494,766	2,223,509	383,501	402,083	36,871	508,297	171,068
Dividends received from domestic corporations	5,774,259	752,892	354,255	148,150	2,889,856	39,520	170,750	1,418,836
Dividends received from foreign corporations	1,406,683	266,734	57,655	39,852	572,791	*67,386	2,294	399,971
Other receipts	52,018,580	16,764,971	5,745,761	2,452,579	10,998,423	1,069,282	5,765,166	9,222,398
Total deductions	**992,665,869**	**298,859,068**	**159,388,934**	**30,630,981**	**358,513,095**	**24,202,517**	**61,805,244**	**59,266,031**
Cost of sales and operations	302,425,603	607,105	46,889,811	6,821,782	186,544,689	4,166,686	24,838,174	32,557,355
Compensation of officers	23,796,146	9,241,696	1,783,388	1,907,293	1,309,772	3,604,994	4,034,892	1,914,111
Repairs	3,707,260	1,703,262	493,235	74,562	205,649	135,926	862,271	232,356
Bad debts	18,058,378	12,385,710	3,963,898	181,871	800,363	149,191	264,931	312,414
Rent paid on business property	13,575,387	5,641,394	1,338,446	692,706	2,691,688	979,455	1,493,886	737,811
Taxes paid	19,927,374	5,868,143	1,720,934	602,833	7,242,216	834,370	2,543,346	1,115,533
Interest paid	275,062,723	176,827,481	74,663,671	6,488,965	8,064,258	468,720	4,123,038	4,426,591
Contributions or gifts	730,539	290,987	78,624	44,529	158,728	35,369	65,123	57,179
Amortization	2,015,534	710,948	184,822	83,080	601,448	166,680	122,671	145,884
Depreciation	21,040,842	11,662,278	1,881,471	476,759	2,877,825	624,757	2,319,621	1,198,131
Depletion	118,314	17,885	8,369	615	41,147	*3,174	23,802	23,323
Advertising	6,468,038	2,045,968	1,546,667	327,291	859,656	210,899	839,516	638,041
Pension, profit-sharing, stock bonus, and annuity plans	4,299,279	1,469,648	379,338	278,784	1,118,753	432,541	359,432	260,784
Employee benefit programs	6,865,797	3,097,804	692,641	252,396	1,730,090	446,373	246,370	400,122
Net loss, noncapital assets	1,071,873	383,277	381,469	32,246	37,054	8,618	53,292	175,916
Other deductions	293,502,783	66,905,482	23,382,151	12,365,269	144,229,758	11,934,764	19,614,880	15,070,480
Total receipts less total deductions	145,080,189	27,706,380	11,734,103	3,096,830	29,262,307	2,971,176	9,878,119	60,431,275
Constructive taxable income from related foreign corporations	2,183,627	974,715	205,369	16,330	759,695	67,364	*679	159,475
Net income	129,179,849	20,377,186	11,387,276	2,975,306	22,781,023	3,011,927	9,810,740	58,836,390
Income subject to tax	50,888,055	16,823,013	7,896,186	2,298,470	13,726,455	1,872,330	4,328,668	3,942,933
Income tax, total	19,085,036	6,729,907	3,164,595	866,494	4,979,888	643,979	1,280,355	1,419,817
Regular and alternative tax	18,453,121	6,481,833	3,064,476	857,190	4,775,748	639,529	1,251,248	1,383,097
Tax from recomputing prior-year investment credit	55,889	27,664	8,174	1,182	11,929	1,047	2,025	3,868
Alternative minimum tax	496,519	196,525	83,160	5,928	166,106	2,104	20,627	22,069
Environmental tax	63,382	20,365	8,665	2,194	26,104	1,298	1,624	3,130
Foreign tax credit	2,207,265	1,366,264	121,709	24,576	487,936	*49,507	1,203	156,070
U.S. possessions tax credit	9,725	4	8,238	37	—	2	367	1,077
Orphan drug credit	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	4,177	327	—	*10	2,696	—	*1,009	*134
General business credit	688,618	341,046	63,738	11,199	192,137	6,325	33,249*	40,925

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	Services: Hotels and other lodging places	Services: Personal services	Services: Business services	Services: Auto repair, miscellaneous repair services	Services: Amusement and recreation services	Services: Other services	Nature of business not allocable
	(61)	(62)	(63)	(64)	(65)	(66)	(67)	(68)
Number of returns with net income	**619,923**	**8,318**	**36,974**	**182,543**	**57,887**	**31,167**	**303,035**	**7,592**
Total assets	**264,560,668**	**19,945,213**	**10,893,379**	**84,534,268**	**28,075,211**	**41,168,044**	**79,944,553**	**1,637,096**
Cash	29,496,025	1,987,474	1,658,134	9,986,805	1,897,899	2,487,653	11,478,061	257,802
Notes and accounts receivable	46,973,638	1,222,973	1,505,542	21,965,440	4,383,485	4,803,332	13,092,865	397,623
Less: Allowance for bad debts	2,487,668	59,684	31,453	382,426	128,513	281,550	1,604,042	*2,106
Inventories	10,889,288	274,594	611,098	3,736,967	2,282,873	2,823,529	1,160,225	162,630
Investments in Government obligations	1,584,576	40,422	*127,741	587,678	100,721	63,117	664,898	1,495
Other current assets	17,263,915	759,847	533,231	6,992,805	821,554	4,148,053	4,008,425	97,128
Loans to stockholders	6,283,314	197,322	247,305	1,780,070	322,708	385,027	3,350,882	39,551
Mortgage and real estate loans	2,402,840	502,975	61,110	535,276	92,145	184,907	1,026,426	*7,698
Other investments	36,795,021	3,950,144	783,063	10,853,587	1,235,171	8,384,643	11,588,414	132,031
Depreciable assets	146,877,108	12,804,335	7,618,849	35,983,205	23,094,949	21,639,659	45,736,111	698,220
Less: Accumulated depreciation	68,501,037	5,182,073	4,360,214	18,893,003	8,879,912	10,329,110	20,856,724	322,432
Depletable assets	146,625	*34,935	*5,133	37,901	*3,704	*7,964	56,989	*9,459
Less: Accumulated depletion	61,647	*27,269	*1,646	4,974	—	*4,967	22,791	*1,634
Land	6,998,979	1,368,307	446,128	914,457	710,130	1,510,361	2,049,595	52,597
Intangible assets (amortizable)	10,402,969	289,240	570,959	3,530,778	1,394,690	2,433,848	2,183,454	*53,653
Less: Accumulated amortization	2,313,897	48,622	144,239	912,011	63,940	465,115	679,969	*15,460
Other assets	21,810,618	1,830,292	1,262,637	7,821,713	807,547	3,376,692	6,711,736	68,841
Total liabilities	**264,560,668**	**19,945,213**	**10,893,379**	**84,534,268**	**28,075,211**	**41,168,044**	**79,944,553**	**1,637,096**
Accounts payable	22,346,544	634,160	624,710	11,598,429	2,481,999	3,286,460	3,720,786	207,723
Mortgages, notes, and bonds payable in less than one year	20,293,692	658,763	621,950	7,287,662	3,943,693	2,350,032	5,431,591	358,528
Other current liabilities	30,782,937	1,271,603	768,517	11,111,948	3,160,061	3,784,630	10,686,177	162,486
Loans from stockholders	7,826,965	439,190	359,030	2,308,972	680,496	1,571,612	2,467,665	140,084
Mortgages, notes, and bonds payable in one year or more	68,060,902	8,095,357	2,247,003	17,326,478	8,865,432	9,674,090	21,852,542	227,122
Other liabilities	21,929,906	2,939,947	1,346,651	5,212,181	1,735,362	4,450,992	6,244,774	59,406
Capital stock	12,488,753	767,226	722,913	4,275,588	823,565	2,919,879	2,979,581	99,780
Paid-in or capital surplus	28,680,804	2,403,394	823,464	9,148,434	1,782,482	5,599,661	8,923,370	179,783
Retained earnings, appropriated	440,111	*52,803	*62,614	162,860	*4,039	*15,071	142,724	*6
Retained earnings, unappropriated	50,488,513	2,735,740	3,339,165	14,996,135	4,010,551	7,842,340	17,564,582	165,396
Other retained earnings, 1120S	7,853,328	504,584	516,539	3,136,738	980,930	782,189	1,932,348	76,668
Less: Cost of treasury stock	6,631,786	557,553	539,178	2,031,158	393,399	1,108,912	2,001,587	39,885
Total receipts	**453,188,593**	**21,693,471**	**18,474,889**	**158,154,769**	**38,796,587**	**41,673,035**	**174,395,842**	**3,622,440**
Business receipts	421,159,276	18,906,458	17,710,661	148,178,199	35,662,605	34,736,993	165,964,360	3,439,229
Interest	5,126,353	327,088	153,542	1,598,429	199,181	1,637,131	1,210,982	21,892
Interest on Government obligations: State and local	186,783	15,216	16,638	88,880	2,115	14,117	49,818	*540
Rents	6,035,502	506,719	113,626	2,513,780	1,692,601	621,633	587,143	58,888
Royalties	1,424,719	402,284	*47,508	473,384	13,488	432,630	55,424	*8,029
Net short-term capital gain reduced by net long-term capital loss	137,300	*1,309	12,007	49,597	4,635	46,146	23,606	*16
Net long-term capital gain reduced by net short-term capital loss	2,410,103	518,783	41,807	524,989	85,658	435,593	803,274	20,023
Net gain, noncapital assets	1,779,351	103,975	67,797	457,434	635,614	260,376	254,156	*172
Dividends received from domestic corporations	454,824	119,121	13,248	143,462	7,147	47,402	124,444	*2,024
Dividends received from foreign corporations	295,503	13,617	6,598	107,550	18,278	*124,684	24,776	—
Other receipts	14,178,878	778,901	291,458	4,019,065	475,265	3,316,330	5,297,859	71,627
Total deductions	**425,527,270**	**20,137,542**	**17,309,778**	**148,399,782**	**36,925,293**	**38,647,458**	**164,107,417**	**3,372,581**
Cost of sales and operations	150,896,228	10,085,921	6,644,546	69,948,375	18,350,040	13,242,877	32,624,469	2,222,297
Compensation of officers	47,916,031	308,849	1,273,570	11,230,858	1,729,390	2,192,806	31,180,557	195,802
Repairs	3,493,256	330,473	228,482	883,387	397,320	403,150	1,250,444	28,053
Bad debts	1,959,819	74,568	66,648	488,971	125,053	309,468	895,111	*4,565
Rent paid on business property	16,355,541	864,547	772,086	4,341,092	1,688,687	1,171,745	7,517,385	70,375
Taxes paid	14,085,132	778,850	758,852	4,475,078	1,218,125	1,250,071	5,604,156	61,036
Interest paid	11,145,013	1,008,826	275,292	2,607,829	1,190,827	3,301,591	2,760,647	56,708
Contributions or gifts	295,569	16,928	15,402	74,962	15,350	45,148	127,780	433
Amortization	888,139	53,453	46,924	316,794	47,706	138,054	285,208	1,407
Depreciation	18,616,553	907,197	763,090	5,778,073	3,468,484	2,640,651	5,059,058	85,196
Depletion	12,768	*255	*200	3,248	*12	*525	8,528	*401
Advertising	5,144,296	363,022	341,840	1,896,090	452,774	1,005,386	1,085,184	15,765
Pension, profit-sharing, stock bonus, and annuity plans	6,271,175	62,097	145,082	1,493,072	97,973	262,939	4,210,012	20,953
Employee benefit programs	4,627,014	206,978	137,675	1,370,942	288,141	247,504	2,375,775	9,994
Net loss, noncapital assets	274,864	4,137	5,894	146,141	12,484	60,065	46,142	*1,178
Other deductions	143,545,873	5,071,442	5,834,194	43,344,871	7,842,927	12,375,477	69,076,961	598,417
Total receipts less total deductions	27,661,323	1,555,929	1,165,112	9,754,986	1,871,294	3,025,577	10,288,425	249,859
Constructive taxable income from related foreign corporations	257,913	7,423	5,968	119,150	357	73,092	51,922	—
Net income	27,731,097	1,548,136	1,154,441	9,784,833	1,869,537	3,083,620	10,290,530	249,319
Income subject to tax	16,159,008	876,559	743,246	5,568,151	897,828	1,699,535	6,373,690	84,687
Income tax, total	4,997,924	312,657	222,737	1,827,731	268,675	640,984	1,725,142	23,016
Regular and alternative tax	4,855,216	302,384	216,198	1,767,023	249,941	615,240	1,704,430	22,568
Tax from recomputing prior-year investment credit	49,360	4,388	3,085	18,266	5,502	10,585	7,534	*74
Alternative minimum tax	84,706	4,963	*3,081	39,204	12,676	13,810	10,973	*365
Environmental tax	8,173	922	373	3,024	557	1,314	1,983	*6
Foreign tax credit	347,247	46,294	6,638	154,868	*58	113,231	26,158	1
U.S. possessions tax credit	26,127	9,060	—	12,218	103	143	4,603	1,588
Orphan drug credit	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*214	—	—	*109	*105	—	—	—
General business credit	448,016	17,711	8,188	120,975	38,142	126,680	136,319	*1,099

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

[1] Less than $500 per return.

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

RETURNS OF ACTIVE CORPORATIONS

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

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

Item	Total returns of active corporations	Size of total assets				
		Zero assets	$1 under $100,000	$100,000 under $250,000	$250,000 under $500,000	$500,000 under $1,000,000
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns	**3,612,133**	**280,022**	**1,809,278**	**620,593**	**353,031**	**233,352**
Total assets	**15,310,615,602**	—	**60,422,391**	**99,974,588**	**124,777,375**	**164,135,875**
Cash	754,042,297	—	13,855,488	17,435,825	19,094,804	20,355,930
Notes and accounts receivable	3,763,230,257	—	6,649,545	15,254,184	21,846,569	32,886,547
Less: Allowance for bad debts	95,203,843	—	131,128	189,135	269,981	450,800
Inventories	829,272,682	—	7,171,685	15,250,790	20,809,068	31,084,296
Investments in Government obligations	1,092,370,975	—	94,412	92,642	353,051	859,034
Other current assets	836,599,341	—	2,855,225	4,648,803	6,438,481	8,632,946
Loans to stockholders	71,237,313	—	4,320,465	5,804,756	4,682,764	4,124,617
Mortgage and real estate loans	1,455,222,233	—	363,642	1,122,824	1,727,147	2,095,096
Other investments	3,227,237,568	—	1,747,149	4,477,653	6,402,874	8,514,467
Depreciable assets	3,602,960,891	—	53,418,197	65,710,004	74,845,357	89,455,874
Less: Accumulated depreciation	1,483,312,181	—	35,752,747	40,420,017	44,424,416	51,498,527
Depletable assets	123,104,144	—	237,945	358,875	354,579	863,059
Less: Accumulated depletion	49,686,832	—	134,510	145,547	134,567	467,610
Land	158,817,879	—	1,706,394	4,332,386	6,850,190	10,332,004
Intangible assets (amortizable)	262,309,525	—	1,958,751	2,457,484	2,458,762	2,718,625
Less: Accumulated amortization	55,540,169	—	1,007,145	980,851	965,862	1,011,896
Other assets	817,953,526	—	3,069,024	4,763,914	4,708,555	5,642,211
Total liabilities	**15,310,615,602**	—	**60,422,391**	**99,974,588**	**124,777,375**	**164,135,875**
Accounts payable	997,768,767	—	8,363,809	13,408,227	17,105,870	24,836,746
Mortgages, notes, and bonds payable in less than one year	1,247,450,987	—	7,096,546	10,389,102	13,795,795	20,622,577
Other current liabilities	4,822,312,874	—	7,409,311	8,839,698	10,072,658	13,133,547
Loans from stockholders	211,854,134	—	19,606,138	15,649,122	13,561,119	13,220,891
Mortgages, notes, and bonds payable in one year or more	2,141,169,042	—	14,937,207	21,385,057	25,614,747	33,355,135
Other liabilities	1,942,679,565	—	2,899,550	3,975,388	4,083,438	5,767,147
Capital stock	1,291,674,344	—	13,525,104	12,580,844	12,694,401	14,271,483
Paid-in or capital surplus	1,988,355,017	—	7,300,350	7,969,405	8,150,812	11,921,886
Retained earnings, appropriated	83,651,846	—	122,291	158,353	388,738	630,860
Retained earnings, unappropriated	1,257,000,416	—	-8,351,299	12,278,987	22,565,964	27,695,404
Other retained earnings, 1120S	75,873,478	—	-9,675,369	-3,101,365	507,316	3,791,847
Less: Cost of treasury stock	749,174,866	—	2,811,244	3,558,229	3,763,483	5,111,647
Total receipts	**9,580,720,701**	**185,727,143**	**305,081,024**	**312,429,485**	**306,062,084**	**373,088,504**
Business receipts	8,414,537,647	126,793,559	296,832,570	302,598,006	297,179,431	362,691,557
Interest	674,891,063	45,636,108	703,218	1,119,551	1,377,301	1,724,289
Interest on Government obligations:						
State and local	30,764,430	157,175	3,499	11,974	17,277	25,551
Rents	92,105,433	827,866	848,383	1,083,633	1,745,714	2,149,685
Royalties	20,743,856	106,684	142,986	109,873	123,306	168,523
Net short-term capital gain reduced by net long-term capital loss	8,453,030	103,635	131,028	32,565	36,776	43,050
Net long-term capital gain reduced by net short-term capital loss	63,754,106	1,111,188	416,304	409,200	628,213	719,193
Net gain, noncapital assets	29,568,649	1,156,988	583,543	489,112	491,201	670,940
Dividends received from domestic corporations	13,864,647	107,227	43,142	79,923	121,595	117,240
Dividends received from foreign corporations	25,180,395	305,461	*259	*76	*390	9,137
Other receipts	206,857,448	9,421,251	5,376,091	6,495,570	4,340,879	4,769,340
Total deductions	**9,243,903,854**	**183,174,246**	**305,384,260**	**309,759,050**	**302,403,332**	**368,566,235**
Cost of sales and operations	5,596,218,574	82,832,022	130,207,194	163,009,189	174,395,207	238,095,403
Compensation of officers	200,048,676	4,942,939	39,961,587	29,185,182	21,621,486	18,504,449
Repairs	86,425,629	825,234	2,467,623	2,496,004	2,435,909	2,671,561
Bad debts	54,578,189	1,839,477	723,987	765,310	1,012,145	1,374,651
Rent paid on business property	153,781,416	3,081,765	13,060,124	9,770,275	8,038,381	8,133,983
Taxes paid	211,346,315	3,207,379	9,171,326	8,599,293	8,091,737	9,225,672
Interest paid	589,989,252	44,807,334	2,630,187	3,382,427	3,971,813	5,347,416
Contributions or gifts	4,980,027	36,432	61,439	72,547	81,611	93,113
Amortization	17,407,143	377,618	338,340	323,392	274,661	279,600
Depreciation	316,710,668	3,853,550	6,766,184	7,466,702	7,943,381	8,802,821
Depletion	8,460,962	97,343	21,952	25,789	35,259	49,140
Advertising	106,556,098	1,517,071	3,207,658	3,079,847	2,710,483	3,238,302
Pension, profit-sharing, stock bonus, and annuity plans	46,533,727	688,270	3,206,630	2,647,376	2,094,495	1,941,051
Employee benefit programs	84,603,727	991,546	1,439,730	1,795,926	1,605,627	1,901,423
Net loss, noncapital assets	12,047,435	1,596,426	290,619	225,371	204,566	179,294
Other deductions	1,754,216,022	32,479,843	91,829,679	76,914,422	67,886,569	68,728,359
Total receipts less total deductions	336,816,848	2,552,897	-303,236	2,670,435	3,658,752	4,522,269
Constructive taxable income from related foreign corporations	22,226,855	158,717	—	—	—	*2,536
Net income (less deficit), total	328,223,710	2,551,151	-306,735	2,648,011	3,639,574	4,496,858
Net income	465,234,737	10,478,896	11,051,602	10,237,964	10,024,876	11,382,532
Deficit	137,011,027	7,927,745	11,358,337	7,589,953	6,385,302	6,885,674
Income subject to tax	311,840,615	4,829,468	3,647,320	5,577,765	5,864,504	6,295,490
Income tax, total	118,484,975	1,780,734	600,667	1,005,710	1,215,439	1,527,662
Regular and alternative tax	115,073,572	1,719,673	595,094	996,421	1,197,870	1,494,758
Tax from recomputing prior-year investment credit	783,953	10,748	4,990	7,401	7,954	12,616
Alternative minimum tax	2,229,107	30,149	252	655	8,391	18,668
Environmental tax	351,253	7,494	—	*15	—	*22
Foreign tax credit	20,812,861	195,564	*22	*25	*3,951	3,412
U.S. possessions tax credit	2,666,634	20,884	20	2	186	1,664
Orphan drug credit	5,154	—	—	—	—	—
Nonconventional source fuel credit	52,439	—	—	*376	*105	—
General business credit	7,959,117	73,107	48,576	72,894	87,145	89,251

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

RETURNS OF ACTIVE CORPORATIONS

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

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

Item	Size of total assets—Continued						
	$1,000,000 under $5,000,000	$5,000,000 under $10,000,000	$10,000,000 under $25,000,000	$25,000,000 under $50,000,000	$50,000,000 under $100,000,000	$100,000,000 under $250,000,000	$250,000,000 or more
	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Number of returns	**231,945**	**33,929**	**23,532**	**10,234**	**6,498**	**4,926**	**4,794**
Total assets	**480,177,708**	**234,362,652**	**368,288,492**	**363,874,824**	**458,310,051**	**788,733,117**	**12,167,558,530**
Cash	46,829,646	19,199,243	28,131,284	24,841,023	28,160,782	41,990,068	494,148,204
Notes and accounts receivable	106,640,044	53,068,362	93,037,727	103,187,035	129,250,797	186,415,496	3,014,993,951
Less: Allowance for bad debts	1,921,205	1,129,990	2,430,298	2,414,366	3,369,863	5,482,410	77,414,668
Inventories	107,518,745	49,388,441	55,433,543	35,006,864	33,929,719	49,389,126	424,290,404
Investments in Government obligations	3,063,534	4,359,119	21,623,082	37,637,729	53,206,542	75,153,488	895,928,343
Other current assets	26,479,301	14,501,688	21,867,309	18,936,185	22,676,263	36,706,767	672,856,373
Loans to stockholders	7,174,801	2,430,828	2,321,926	1,483,577	1,453,464	5,169,377	32,270,737
Mortgage and real estate loans	5,180,573	3,178,345	9,899,419	21,255,237	43,513,188	109,188,241	1,257,698,523
Other investments	28,178,611	17,821,534	37,405,997	41,837,748	61,343,964	131,980,080	2,887,527,492
Depreciable assets	220,667,460	96,608,827	127,898,271	92,942,638	95,257,662	153,727,487	2,532,429,114
Less: Accumulated depreciation	115,665,068	46,283,936	57,555,546	38,881,742	38,988,731	60,111,683	953,729,768
Depletable assets	1,978,996	1,575,324	2,686,889	2,979,025	3,396,944	5,029,871	103,642,636
Less: Accumulated depletion	895,435	845,547	1,408,584	1,354,133	1,685,145	1,790,606	40,825,149
Land	24,622,717	9,429,357	12,251,605	7,484,791	7,163,633	10,557,801	64,087,001
Intangible assets (amortizable)	6,580,828	4,183,239	6,188,300	6,667,385	8,067,821	19,072,853	201,955,476
Less: Accumulated amortization	2,130,686	1,277,215	1,546,680	1,490,466	1,401,714	3,300,524	40,427,129
Other assets	15,874,847	8,155,035	12,484,249	13,756,292	16,334,725	35,037,686	698,126,990
Total liabilities	**480,177,708**	**234,362,652**	**368,288,492**	**363,874,824**	**458,310,051**	**788,733,117**	**12,167,558,530**
Accounts payable	75,598,919	32,964,587	40,411,215	27,864,773	27,888,464	41,892,728	687,433,429
Mortgages, notes, and bonds payable in less than one year	82,276,432	40,501,724	47,948,331	30,706,223	28,530,225	42,544,022	923,040,010
Other current liabilities	45,993,645	29,053,026	83,813,076	137,496,370	204,083,322	328,169,352	3,954,248,869
Loans from stockholders	24,167,853	7,229,925	7,637,387	4,331,524	3,861,359	8,663,092	93,925,725
Mortgages, notes, and bonds payable in one year or more	92,409,915	44,322,778	66,391,292	54,530,752	57,711,019	106,621,375	1,623,889,767
Other liabilities	18,040,815	12,246,876	20,780,293	21,640,950	24,886,849	56,930,000	1,771,428,260
Capital stock	32,539,157	15,150,095	21,035,320	16,385,868	25,769,203	47,036,320	1,080,686,550
Paid-in or capital surplus	36,595,046	21,360,572	38,452,697	39,662,777	54,428,378	116,137,588	1,646,375,506
Retained earnings, appropriatad	1,253,007	476,865	798,226	975,136	1,233,326	3,056,530	74,558,514
Retained earnings, unappropriated	57,157,623	19,438,906	26,543,007	23,841,435	31,247,159	48,313,769	996,269,461
Other retained earnings, 1120S	25,840,717	15,827,764	19,441,213	9,863,070	6,302,100	4,930,814	2,145,371
Less: Cost of treasury stock	11,695,421	4,210,465	4,963,565	3,424,052	7,631,353	15,562,474	686,442,931
Total receipts	**1,034,506,681**	**449,526,357**	**503,481,914**	**321,464,157**	**320,294,069**	**492,645,294**	**4,976,413,989**
Business receipts	1,004,439,972	433,772,170	478,551,355	294,071,799	285,236,856	432,463,237	4,099,907,134
Interest	4,639,848	2,742,960	8,326,747	13,450,216	20,143,008	35,137,034	539,890,782
Interest on Government obligations:							
State and local	115,724	108,897	385,666	699,672	1,132,776	1,911,175	26,195,043
Rents	5,157,246	2,448,777	2,943,570	2,374,673	2,461,034	4,516,400	65,548,451
Royalties	388,687	223,162	334,977	316,414	473,964	676,961	17,678,319
Net short-term capital gain reduced by net long-term capital loss	163,378	103,576	111,906	110,294	208,886	576,032	6,831,903
Net long-term capital gain reduced by net short-term capital loss	2,049,022	1,231,634	1,486,034	1,753,545	1,679,559	3,418,818	48,851,395
Net gain, noncapital assets	1,561,265	721,108	979,941	572,519	1,180,089	1,323,938	19,838,006
Dividends received from domestic corporations	402,251	225,006	378,799	481,592	350,944	604,202	10,952,724
Dividends received from foreign corporations	22,612	32,330	109,369	116,656	194,349	472,552	23,917,204
Other receipts	15,566,675	7,916,736	9,873,550	7,516,777	7,232,604	11,544,946	116,803,028
Total deductions	**1,019,173,779**	**441,877,004**	**493,238,625**	**312,680,306**	**308,616,498**	**475,084,823**	**4,723,945,696**
Cost of sales and operations	728,625,798	327,851,329	353,936,559	211,825,927	205,361,852	302,076,097	2,678,001,996
Compensation of officers	32,520,937	9,188,602	8,559,914	4,683,663	3,736,561	4,646,742	22,496,614
Repairs	5,345,544	1,814,929	2,244,127	1,432,258	1,585,999	2,635,073	60,471,369
Bad debts	3,302,579	1,651,393	2,203,175	1,905,445	2,166,895	3,223,011	34,410,121
Rent paid on business property	14,845,315	5,220,274	6,161,831	3,896,780	4,243,146	6,808,903	70,520,640
Taxes paid	20,109,929	7,664,599	9,004,323	5,705,087	5,840,845	9,254,925	115,471,200
Interest paid	15,116,839	7,157,312	12,208,592	13,095,757	17,242,069	30,024,464	435,005,041
Contributions or gifts	236,215	106,477	150,433	135,963	168,202	237,467	3,600,127
Amortization	870,644	483,978	719,738	736,187	725,552	1,281,557	10,995,875
Depreciation	20,810,417	8,931,519	11,719,198	8,194,893	8,468,630	14,048,982	209,704,393
Depletion	180,627	112,028	186,094	227,683	229,806	517,871	6,777,369
Advertising	8,299,032	4,030,156	4,616,915	3,480,177	3,487,863	5,936,141	62,952,455
Pension, profit-sharing, stock bonus, and annuity plans	4,327,263	1,511,552	1,577,632	1,051,540	1,044,619	1,823,047	24,620,252
Employee benefit programs	5,487,591	2,792,875	3,187,178	2,497,936	2,574,482	4,456,638	55,872,775
Net loss, noncapital assets	569,223	254,781	418,982	293,573	612,077	1,280,592	6,121,931
Other deductions	158,525,828	63,105,200	76,343,934	53,517,436	51,127,901	86,833,313	926,923,537
Total receipts less total deductions	15,332,902	7,649,353	10,243,290	8,783,851	11,677,572	17,560,471	252,468,293
Constructive taxable income from related foreign corporations	8,441	*9,026	46,436	125,774	141,421	431,642	21,302,864
Net income (less deficit), total	15,197,324	7,545,022	9,899,285	8,209,952	10,686,216	16,080,938	247,576,114
Net income	30,342,209	14,366,377	19,224,930	14,626,092	16,644,631	25,773,709	291,080,919
Deficit	15,144,885	6,821,355	9,325,646	6,416,140	5,958,415	9,692,771	43,504,805
Income subject to tax	16,077,038	7,595,905	10,848,793	9,399,396	11,122,216	17,311,652	213,271,066
Income tax, total	5,300,206	2,901,048	4,260,983	3,692,679	4,398,503	6,930,193	84,871,153
Regular and alternative tax	5,189,481	2,839,642	4,170,995	3,598,923	4,293,025	6,746,008	82,231,681
Tax from recomputing prior-year investment credit	32,204	16,607	20,512	15,937	19,246	31,097	604,643
Alternative minimum tax	73,613	42,602	59,762	71,090	76,169	127,793	1,719,971
Environmental tax	831	597	3,566	5,058	8,322	16,130	309,218
Foreign tax credit	19,429	18,731	52,215	81,514	137,488	276,827	20,023,682
U.S. possessions tax credit	27,634	32,940	153,939	234,725	362,566	418,237	1,413,837
Orphan drug credit	—	—	—	—	—	—	5,154
Nonconventional source fuel credit	*112	*1,486	2,473	*1,008	278	4,242	42,359
General business credit	217,981	103,786	129,308	101,758	132,710	213,185	6,689,415

*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	**1,995,452**	**122,688**	**889,121**	**377,617**	**234,276**	**156,813**
Total assets	**11,522,209,786**	**—**	**33,006,406**	**61,205,770**	**83,178,403**	**112,430,561**
Cash	603,648,031	—	8,910,762	12,892,016	14,755,042	15,924,981
Notes and accounts receivable	2,931,049,482	—	3,611,413	9,736,050	15,684,368	24,146,024
Less: Allowance for bad debts	71,581,091	—	30,287	76,389	179,891	290,149
Inventories	578,969,987	—	3,647,389	8,851,786	13,835,087	21,528,160
Investments in Government obligations	816,539,864	—	47,360	65,383	264,600	681,355
Other current assets	616,969,286	—	1,479,659	2,783,794	4,042,112	5,571,528
Loans to stockholders	46,559,476	—	2,862,171	4,030,782	3,409,717	2,736,841
Mortgage and real estate loans	1,075,056,217	—	192,409	697,533	1,027,233	2,306,783
Other investments	2,441,325,162	—	928,914	2,866,190	4,391,706	6,014,030
Depreciable assets	2,735,379,229	—	27,978,047	37,409,673	47,994,162	56,980,657
Less: Accumulated depreciation	1,130,295,640	—	19,400,726	23,845,498	29,979,373	34,044,570
Depletable assets	75,780,754	—	83,998	153,617	167,393	237,078
Less: Accumulated depletion	30,580,779	—	41,289	63,381	74,455	100,045
Land	98,007,585	—	762,460	2,246,863	3,966,456	6,414,376
Intangible assets (amortizable)	166,916,044	—	947,034	1,177,744	1,297,429	1,351,185
Less: Accumulated amortization	39,579,399	—	525,086	522,929	548,281	503,662
Other assets	608,045,578	—	1,552,178	2,802,537	3,125,100	3,475,989
Total liabilities	**11,522,209,786**	**—**	**33,006,406**	**61,205,770**	**83,178,403**	**112,430,561**
Accounts payable	709,142,092	—	3,407,819	7,138,150	11,142,354	16,343,205
Mortgages, notes, and bonds payable in less than one year	869,351,123	—	2,744,354	4,669,283	7,292,360	11,818,024
Other current liabilities	3,749,316,776	—	3,260,298	5,262,047	6,319,949	9,403,229
Loans from stockholders	115,585,847	—	5,819,962	5,706,500	5,524,135	5,751,333
Mortgages, notes, and bonds payable in one year or more	1,432,265,951	—	5,309,907	9,382,930	13,490,549	17,642,501
Other liabilities	1,285,332,245	—	949,296	1,827,925	2,125,284	3,546,443
Capital stock	1,047,519,597	—	5,162,121	6,625,106	6,835,081	7,937,472
Paid-in or capital surplus	1,502,467,307	—	1,944,868	2,829,931	3,099,345	4,967,444
Retained earnings, appropriated	62,190,622	—	92,755	136,288	276,349	450,745
Retained earnings, unappropriated	1,301,008,747	—	5,340,042	17,150,534	25,588,784	31,287,452
Other retained earnings, 1120S	99,350,769	—	548,432	2,876,654	4,378,969	7,076,975
Less: Cost of treasury stock	651,321,289	—	1,573,449	2,399,577	2,894,757	3,794,262
Total receipts	**7,246,439,617**	**118,073,366**	**179,259,200**	**210,063,618**	**225,663,109**	**278,065,778**
Business receipts	6,354,316,205	78,833,344	173,972,399	204,083,518	218,987,927	270,257,885
Interest	516,457,968	31,754,881	433,782	823,355	1,077,978	1,263,375
Interest on Government obligations:						
State and local	20,849,069	96,724	1,069	7,922	11,839	21,692
Rents	69,242,963	331,441	539,927	749,832	1,264,177	1,657,180
Royalties	17,956,888	53,374	108,176	61,621	87,094	150,489
Net short-term capital gain reduced by net long-term capital loss	7,521,396	82,194	125,602	17,974	24,520	36,834
Net long-term capital gain reduced by net short-term capital loss	55,567,247	817,761	336,116	341,144	555,400	609,737
Net gain, noncapital assets	21,836,274	1,000,049	417,927	366,243	373,850	489,473
Dividends received from domestic corporations	11,510,663	87,248	18,169	71,029	108,664	126,616
Dividends received from foreign corporations	23,821,667	272,020	*168	*76	*346	9,078
Other receipts	147,359,278	4,744,330	3,305,866	3,540,904	3,171,314	3,443,419
Total deductions	**6,781,137,325**	**107,650,519**	**168,206,521**	**199,808,463**	**215,625,893**	**266,659,307**
Cost of sales and operations	4,142,087,577	49,775,515	69,863,725	105,542,949	128,228,532	176,348,722
Compensation of officers	146,670,292	2,721,288	24,675,313	21,483,963	16,329,698	14,434,963
Repairs	71,611,202	407,114	1,372,623	1,564,679	1,691,184	1,808,987
Bad debts	33,568,217	852,317	254,615	369,392	539,897	675,701
Rent paid on business property	108,703,021	1,507,204	7,179,649	5,973,210	5,423,606	5,703,863
Taxes paid	163,066,311	1,977,712	5,050,298	5,526,982	5,663,280	6,560,736
Interest paid	425,771,260	30,451,567	1,222,609	1,662,294	2,248,365	2,996,922
Contributions or gifts	4,891,187	34,232	58,363	71,170	80,599	90,925
Amortization	9,659,094	127,538	126,312	143,394	137,427	143,646
Depreciation	235,187,967	2,231,070	3,562,093	4,356,402	5,132,891	5,705,469
Depletion	6,174,838	47,592	16,114	21,522	21,284	25,427
Advertising	83,584,716	789,153	1,752,985	1,908,292	1,861,730	2,259,231
Pension, profit-sharing, stock bonus, and annuity plans	37,478,243	386,279	2,018,196	2,013,097	1,681,437	1,693,744
Employee benefit programs	64,604,992	481,579	854,005	1,053,041	1,138,267	1,354,643
Net loss, noncapital assets	4,663,834	117,019	37,020	37,429	54,580	63,174
Other deductions	1,243,414,579	15,743,340	50,162,601	48,080,647	45,393,116	46,893,155
Total receipts less total deductions	465,302,293	10,422,847	11,052,679	10,255,155	10,037,216	11,406,471
Constructive taxable income from related foreign corporations	20,789,383	152,772	—	—	—	*7,591
Net income	465,234,737	10,478,896	11,051,610	10,246,301	10,023,475	11,391,945
Income subject to tax	311,439,636	4,829,256	3,647,320	5,572,078	5,864,502	6,307,042
Income tax, total	117,834,599	1,764,717	598,957	1,001,758	1,213,997	1,521,393
Regular and alternative tax	114,984,398	1,718,812	595,094	994,488	1,197,869	1,499,439
Tax from recomputing prior-year investment credit	629,296	7,534	3,281	5,383	6,442	9,026
Alternative minimum tax	1,841,473	25,623	250	655	8,520	12,455
Environmental tax	344,275	4,497	—	*15	6	*31
Foreign tax credit	20,803,122	195,564	*22	*25	*3,951	3,412
U.S. possessions tax credit	2,666,634	20,884	20	2	186	1,664
Orphan drug credit	5,154	—	—	—	—	—
Nonconventional source fuel credit	52,439	—	—	*376	*105	—
General business credit	7,955,932	73,107	48,576	72,894	87,145	89,304

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

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

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

Item	Size of total assets—Continued						
	$1,000,000 under $5,000,000	$5,000,000 under $10,000,000	$10,000,000 under $25,000,000	$25,000,000 under $50,000,000	$50,000,000 under $100,000,000	$100,000,000 under $250,000,000	$250,000,000 or more
	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Number of returns	**158,240**	**22,780**	**15,386**	**6,892**	**4,589**	**3,526**	**3,523**
Total assets	**329,114,168**	**157,071,869**	**240,677,727**	**246,223,228**	**325,532,404**	**579,716,637**	**9,354,052,613**
Cash	37,038,406	14,488,281	20,226,800	17,628,595	21,026,851	32,226,974	408,529,323
Notes and accounts receivable	80,720,173	39,307,600	65,104,235	71,621,005	95,559,114	140,180,315	2,385,379,185
Less: Allowance for bad debts	1,208,581	728,431	1,329,929	1,500,522	2,364,252	3,914,734	59,957,927
Inventories	76,716,619	35,870.909	40,139,456	24,950,168	25,626,829	36,291,738	291,511,845
Investments in Government obligations	2,220,427	3,141,297	15,741,866	28,235,320	41,886,914	59,199,134	665,056,207
Other current assets	17,168,673	9,714,588	13,667,684	12,107,059	15,408,770	26,258,874	508,766,545
Loans to stockholders	4,721,481	1,614,550	1,365,370	796,435	804,827	1,234,616	22,982,685
Mortgage and real estate loans	3,216,249	1,527,357	6,061,571	15,637,819	32,517,609	83,365,703	928,505,951
Other investments	19,546,988	11,283,028	24,135,861	29,230,682	43,063,833	103,921,622	2,195,942,309
Depreciable assets	146,450,209	62,387,118	79,763,624	60,139,192	61,321,450	110,693,485	2,044,261,611
Less: Accumulated depreciation	82,575,718	32,864,493	39,455,170	27,444,431	26,521,902	44,239,785	769,923,973
Depletable assets	758,814	732,925	992,739	1,432,495	1,711,986	3,115,256	66,394,454
Less: Accumulated depletion	352,167	260,158	482,673	771,606	925,440	1,054,882	26,454,682
Land	13,167,287	4,962,943	5,732,358	3,864,886	3,957,451	5,936,555	46,995,950
Intangible assets (amortizable)	3,268,249	2,043,877	2,811,537	2,964,138	3,816,402	8,156,757	139,081,693
Less: Accumulated amortization	1,194,995	695,275	841,725	695,795	684,658	1,364,328	32,002,664
Other assets	9,452,055	4,545,754	7,044,124	8,027,789	9,326,617	19,709,336	538,984,099
Total liabilities	**329,114,168**	**157,071,869**	**240,677,727**	**246,223,228**	**325,532,404**	**579,716,637**	**9,354,052,613**
Accounts payable	54,305,387	23,946,390	28,463,284	19,359,750	19,627,874	29,625,850	495,782,029
Mortgages, notes, and bonds payable in less than one year	50,097,687	24,243,437	27,147,223	17,546,923	16,969,303	25,815,606	681,006,923
Other current liabilities	31,547,601	19,372,106	55,640,433	94,182,690	150,695,124	247,550,793	3,126,082,506
Loans from stockholders	10,974,050	2,988,828	2,678,132	1,844,114	1,755,070	2,703,472	69,840,249
Mortgages, notes, and bonds payable in one year or more	47,839,237	21,628,192	31,253,773	27,055,175	29,532,414	61,318,410	1,167,812,863
Other liabilities	10,679,042	7,676,760	11,535,032	12,727,793	15,157,921	36,290,005	1,182,816,743
Capital stock	18,329,977	8,809,006	11,936,542	10,521,216	18,694,263	34,621,764	918,047,049
Paid-in or capital surplus	13,762,338	8,255,195	17,126,579	21,555,062	36,782,832	84,580,376	1,307,563,338
Retained earnings, appropriated	1,037,490	302,273	505,181	747,163	1,033,116	2,243,745	55,365,517
Retained earnings, unappropriated	70,690,601	27,507,591	39,527,450	34,105,310	36,392,614	63,536,528	949,881,842
Other retained earnings, 1120S	28,766,300	15,475,149	18,723,375	9,254,476	5,752,771	4,472,540	2,025,128
Less: Cost of treasury stock	8,915,541	3,133,057	3,859,278	2,676,445	6,860,899	13,042,452	602,171,573
Total receipts	**792,981,377**	**342,931,680**	**378,468,363**	**238,864,084**	**240,063,050**	**368,060,434**	**3,873,945,558**
Business receipts	771,198,085	332,039,372	361,373,380	219,483,276	214,682,803	322,276,201	3,187,128,015
Interest	3,379,592	1,835,253	5,561,996	9,458,557	15,100,679	26,894,107	418,874,414
Interest on Government obligations:							
State and local	87,175	85,244	290,982	533,500	796,154	1,313,599	17,603,170
Rents	3,255,927	1,551,726	1,603,783	1,337,544	1,536,636	3,023,284	52,391,506
Royalties	303,893	193,158	257,085	253,396	379,048	448,761	15,660,794
Net short-term capital gain reduced by net long-term capital loss	116,580	88,787	75,906	85,041	170,003	521,174	6,176,781
Net long-term capital gain reduced by net short-term capital loss	1,766,217	1,053,072	1,171,602	1,444,748	1,405,005	3,302,375	42,764,072
Net gain, noncapital assets	1,291,939	532,394	690,333	378,325	661,858	1,016,114	14,617,768
Dividends received from domestic corporations	349,734	191,776	309,751	437,592	313,271	573,027	8,923,785
Dividends received from foreign corporations	22,708	22,810	104,346	106,285	168,703	440,212	22,674,916
Other receipts	11,209,529	5,338,089	7,029,199	5,345,819	4,848,890	8,251,581	87,130,337
Total deductions	**762,400,228**	**328,481,257**	**359,004,638**	**223,721,117**	**222,666,214**	**339,879,514**	**3,587,033,654**
Cost of sales and operations	557,735,984	249,089,839	266,907,492	156,160,605	152,374,263	218,251,045	2,011,808,906
Compensation of officers	26,003,377	7,263,759	6,480,311	3,429,714	2,741,470	3,463,114	17,643,322
Repairs	3,806,474	1,275,241	1,556,418	967,588	1,107,042	2,172,560	53,881,291
Bad debts	2,033,538	796,844	1,000,259	824,283	937,971	1,496,309	23,787,091
Rent paid on business property	10,078,743	3,583,004	3,874,189	2,470,099	2,737,157	4,619,525	55,552,773
Taxes paid	14,796,243	5,746,273	6,498,144	4,328,278	4,504,962	7,827,536	94,585,864
Interest paid	8,689,292	3,953,555	6,681,580	7,924,167	11,340,539	19,898,260	328,702,109
Contributions or gifts	234,852	104,724	148,505	133,596	163,472	261,412	3,509,337
Amortization	411,884	232,738	317,750	288,268	299,226	612,175	6,818,734
Depreciation	14,173,164	5,902,388	7,305,585	5,331,469	5,544,330	9,912,426	166,030,681
Depletion	127,002	87,703	134,753	197,172	136,335	390,659	4,969,275
Advertising	5,864,021	2,812,694	3,241,085	2,473,487	2,575,231	5,127,848	52,918,959
Pension, profit-sharing, stock bonus, and annuity plans	3,796,320	1,317,325	1,311,345	862,424	863,616	1,530,333	20,104,127
Employee benefit programs	3,956,897	1,965,238	2,241,798	1,750,487	1,927,417	3,391,593	44,490,028
Net loss, noncapital assets	145,732	76,619	93,980	82,176	399,070	259,474	3,297,560
Other deductions	110,546,704	44,273,313	51,211,444	36,497,305	35,014,113	60,665,244	698,933,597
Total receipts less total deductions	30,581,150	14,450,423	19,463,725	15,142,967	17,396,836	28,180,920	286,911,904
Constructive taxable income from related foreign corporations	9,896	*5,526	39,928	118,980	127,394	399,353	19,927,941
Net income	30,500,507	14,370,618	19,211,511	14,728,447	16,728,076	27,266,675	289,236,675
Income subject to tax	16,162,501	7,594,664	10,842,522	9,452,464	11,211,547	18,629,201	211,326,540
Income tax, total	5,318,995	2,884,088	4,241,132	3,697,095	4,411,453	7,362,563	83,818,452
Regular and alternative tax	5,223,292	2,839,339	4,169,166	3,618,700	4,326,570	7,207,402	81,594,227
Tax from recomputing prior-year investment credit	26,620	12,250	16,008	12,028	15,660	28,216	486,847
Alternative minimum tax	64,738	31,105	49,675	60,362	59,430	99,967	1,428,693
Environmental tax	1,051	601	3,536	5,188	8,225	17,813	303,312
Foreign tax credit	47,811	18,731	52,215	91,933	110,737	267,615	20,011,105
U.S. possessions tax credit	27,634	32,940	153,939	234,725	382,974	397,830	1,413,837
Orphan drug credit	—	—	—	—	—	—	5,154
Nonconventional source fuel credit	*112	*1,486	2,473	*1,008	1,251	3,269	42,359
General business credit	221,923	103,774	129,542	102,149	132,301	262,149	6,633,066

* 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	3,612,133	280,022	1,809,278	620,593	353,031	233,352	231,945	33,929	23,532	10,234	6,498	4,926	4,794
Total assets	15,310,615,602	—	60,422,391	99,974,588	124,777,375	164,135,875	480,177,708	234,362,652	368,288,492	363,874,824	458,310,051	788,733,117	12,167,558,530
Notes and accounts receivable, net	3,668,026,414	—	6,518,417	15,065,049	21,576,588	32,435,747	104,718,839	51,938,372	90,607,429	100,772,669	125,880,934	180,933,086	2,937,579,283
Inventories	829,272,682	—	7,171,685	15,250,790	20,809,068	31,084,296	107,518,745	49,388,441	55,433,543	35,006,864	33,929,719	49,389,126	424,290,404
Cash, Government obligations and other current assets	2,683,012,613	—	16,805,125	22,177,270	25,886,336	29,847,910	76,372,481	38,060,050	71,621,675	81,414,937	104,043,587	153,850,323	2,062,932,920
Other investments and loans	4,753,697,114	—	6,431,256	11,405,233	12,812,785	14,734,180	40,533,985	23,430,707	49,627,342	64,576,562	106,310,616	246,337,698	4,177,496,752
Depreciable assets	3,602,960,891	—	53,418,197	65,710,004	74,845,357	89,455,874	220,667,460	96,608,827	127,898,271	92,942,638	95,257,662	153,727,487	2,532,429,114
Less: Accumulated depreciation	1,483,312,181	—	35,752,747	40,420,017	44,424,416	51,498,527	115,665,068	46,283,936	57,555,546	38,881,742	38,988,731	60,111,683	953,729,768
Other capital assets less reserves	439,004,547	—	2,761,435	6,022,347	8,563,102	12,434,182	30,156,420	13,065,158	18,171,530	14,286,602	15,541,539	29,569,395	288,432,835
Accounts and notes payable	2,245,219,754	—	15,460,355	23,797,329	30,901,665	45,459,323	157,875,351	73,466,311	88,359,546	58,570,996	56,418,689	84,436,750	1,610,473,439
Other current liabilities	4,822,312,874	—	7,409,311	8,839,698	10,072,658	13,133,547	45,993,645	29,053,026	83,813,076	137,496,370	204,083,322	328,169,352	3,954,248,869
Mortgages, notes, and bonds payable in one year or more	2,141,169,042	—	14,937,207	21,385,057	25,614,747	33,355,135	92,409,915	44,322,778	66,391,292	54,530,752	57,711,019	106,621,375	1,623,889,767
Net worth	3,947,380,235	—	109,833	26,327,995	40,543,748	53,199,833	141,690,129	68,043,737	101,306,898	87,304,234	111,348,813	203,912,547	3,113,592,471
Cost of property used for investment credit	43,174,681	90,191	*10,447	74,060	23,998	24,897	147,279	131,573	301,103	234,533	296,372	907,305	40,932,922
Total receipts	9,580,720,701	185,727,143	305,081,024	312,429,485	306,062,084	373,088,504	1,034,506,681	449,526,357	503,481,914	321,464,157	320,294,069	492,645,294	4,976,413,989
Business receipts	8,414,537,647	126,793,559	296,832,570	302,598,006	297,179,431	362,691,557	1,004,439,972	433,772,170	478,551,355	294,071,799	285,236,856	432,463,237	4,099,907,134
Cost of sales and operations	5,596,218,574	82,832,022	130,207,194	163,009,189	174,395,207	238,095,403	728,625,798	327,851,329	353,936,559	211,825,927	205,361,852	302,076,097	2,678,001,996
Taxes paid	211,346,315	3,207,379	9,171,326	8,599,293	8,091,737	9,225,672	20,109,929	7,664,599	9,004,323	5,705,087	5,840,845	9,254,925	115,471,200
Interest paid	589,989,252	44,807,334	2,630,187	3,382,427	3,971,813	5,347,416	15,116,839	7,157,312	12,208,592	13,095,757	17,242,069	30,024,464	435,005,041
Depreciation	316,710,668	3,853,550	6,766,184	7,466,702	7,943,381	8,802,821	20,810,417	8,931,519	11,719,198	8,194,893	8,468,630	14,048,982	209,704,393
Pension, profit-sharing, stock bonus, and annuity plans	46,533,727	688,270	3,206,630	2,647,376	2,094,495	1,941,051	4,327,263	1,511,552	1,577,632	1,051,540	1,044,619	1,823,047	24,620,252
Employee benefit programs	84,603,727	991,546	1,439,730	1,795,926	1,605,627	1,901,423	5,487,591	2,792,875	3,187,178	2,497,936	2,574,482	4,456,638	55,872,775
Net income (less deficit)	328,223,710	2,551,151	-306,735	2,648,011	3,639,574	4,496,858	15,197,324	7,545,022	9,899,285	8,209,952	10,686,216	16,080,938	247,576,114
Income subject to tax, total	311,840,615	4,829,468	3,647,320	5,577,765	5,864,504	6,295,490	16,077,038	7,595,905	10,848,793	9,399,396	11,122,216	17,311,652	213,271,066
Income tax, total	118,484,975	1,780,734	600,667	1,005,710	1,215,439	1,527,662	5,300,206	2,901,048	4,260,983	3,692,679	4,398,503	6,930,193	84,871,153
Alternative minimum tax	2,229,107	30,149	252	655	8,381	18,668	73,613	42,602	59,762	71,090	76,169	127,793	1,719,971
Environmental tax	351,253	7,494	—	*15	—	*22	831	597	3,566	5,058	8,322	16,130	309,218
Foreign tax credit	20,812,861	195,564	*22	*25	*3,951	3,412	19,429	18,731	52,215	81,514	137,488	276,827	20,023,682
U.S. possessions tax credit	2,666,634	20,884	20	2	186	1,664	27,634	32,940	153,939	234,725	362,566	418,237	1,413,837
Orphan drug credit	5,154	—	—	—	—	—	—	—	—	—	—	—	5,154
Nonconventional source fuel credit	52,439	—	—	*376	*105	—	*112	*1,486	2,473	*1,008	278	4,242	42,359
General business credit	7,959,117	73,107	48,576	72,894	87,145	89,251	217,981	103,786	129,308	101,758	132,710	213,185	6,689,415
Agriculture, Forestry, and Fishing													
Number of returns	116,544	7,822	46,579	20,983	18,048	13,717	8,417	576	259	78	41	19	6
Total assets	55,374,698	—	1,528,935	3,457,194	6,389,233	9,679,909	15,151,201	3,863,197	4,077,306	2,666,805	2,897,692	3,022,765	2,640,461
Notes and accounts receivable, net	4,950,539	—	73,920	143,881	380,124	525,974	1,281,227	542,647	446,691	428,181	456,217	489,115	182,562
Inventories	6,255,324	—	89,395	170,756	409,318	764,235	1,713,124	397,012	710,148	491,678	415,375	518,160	576,122
Cash, Government obligations and other current assets	6,183,833	—	348,611	541,191	917,756	1,078,735	1,431,503	373,314	440,858	237,593	256,226	263,148	294,900
Other investments and loans	6,855,355	—	146,343	370,615	701,687	882,614	1,601,238	493,388	548,771	368,756	476,706	387,452	877,788
Depreciable assets	37,924,150	—	2,237,376	4,205,853	5,420,803	6,974,096	9,215,506	2,292,137	2,344,822	1,344,398	1,404,094	1,396,634	1,088,432
Less: Accumulated depreciation	23,249,625	—	1,624,981	2,835,432	3,591,248	4,641,508	5,782,705	1,203,538	1,190,782	549,715	628,851	621,301	579,563
Other capital assets less reserves	13,719,332	—	175,951	731,970	1,830,007	3,448,019	4,840,443	813,685	613,518	230,329	408,528	456,683	170,195
Accounts and notes payable	12,115,845	—	471,263	801,544	999,619	1,527,130	3,220,875	832,882	1,234,884	690,027	843,344	837,379	656,900
Other current liabilities	2,402,560	—	87,894	99,123	155,480	256,275	562,045	190,540	231,604	290,910	202,157	230,745	95,787
Mortgages, notes, and bonds payable in one year or more	15,107,663	—	378,763	1,121,369	1,869,387	2,933,521	4,398,317	1,034,312	1,161,624	612,018	849,641	584,543	164,167
Net worth	18,201,394	—	-79,061	559,320	2,296,988	3,881,058	4,854,727	1,230,051	1,135,210	805,477	730,530	1,142,210	1,644,882
Cost of property used for investment credit	50,082	—	—	*6,271	*8,619	*12,628	*9,189	*995	*5,598	*220	3,508	1,099	1,954
Total receipts	77,057,114	1,185,944	5,494,266	11,078,871	7,353,878	12,198,779	16,654,540	3,802,875	5,492,440	3,134,483	4,033,869	3,969,851	2,657,319
Business receipts	71,809,603	1,063,424	5,138,509	10,642,119	6,623,402	11,216,357	15,553,361	3,498,347	5,220,323	2,866,669	3,778,274	3,843,383	2,365,436
Cost of sales and operations	50,565,416	612,851	3,016,503	8,218,247	4,231,967	8,075,586	11,170,199	2,472,495	4,089,110	2,104,382	2,786,896	2,368,787	1,418,394
Taxes paid	1,544,511	30,926	131,767	170,397	210,747	267,703	353,495	75,758	85,155	50,880	50,513	77,998	39,173
Interest paid	2,272,546	67,319	102,159	191,907	232,159	420,783	602,930	130,954	173,230	92,909	118,359	87,481	52,356
Depreciation	3,422,383	124,396	228,183	399,411	460,126	608,970	749,442	186,685	187,005	115,869	130,375	121,304	110,619
Pension, profit-sharing, stock bonus, and annuity plans	149,646	*1,954	*11,901	*14,006	5,806	28,141	45,595	8,059	8,856	5,366	3,857	11,297	4,808
Employee benefit programs	281,312	2,592	10,603	22,350	26,257	29,426	63,966	11,592	23,261	15,800	21,463	28,447	25,556
Net income (less deficit)	1,626,501	-5,275	20,398	55,786	302,040	249,342	299,944	93,714	126,599	80,618	177,442	106,533	119,359
Income subject to tax, total	1,770,932	35,925	73,104	137,480	205,306	297,942	360,149	131,859	133,170	49,255	80,687	133,605	132,451
Income tax, total	508,012	8,826	11,396	25,347	37,838	61,188	108,211	49,823	49,995	19,831	31,752	52,645	51,158
Alternative minimum tax	7,146	—	—	—	—	*65	3,962	*96	711	*719	1,074	518	—
Environmental tax	467	—	—	—	—	(1)	*10	*11	44	69	68	152	115
Foreign tax credit	3,981	—	—	—	—	*815	*32	1	5	*607	10	331	2,179
U.S. possessions tax credit	1,929	—	—	(1)	—	—	33	1,036	—	859	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	146	—	—	—	—	—	—	—	—	—	146	—	—
General business credit	48,785	*1,572	862	3,886	5,398	11,985	9,869	1,826	2,796	3,965	3,257	1,471	1,897

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

RETURNS OF ACTIVE CORPORATIONS

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

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

Industrial division, item	Total returns of active corporations	Size of total assets											
		Zero assets	$1 Under $100,000	$100,000 under $250,000	$250,000 under $500,000	$500,000 under $1,000,000	$1,000,000 under $5,000,000	$5,000,000 under $10,000,000	$10,000,000 under $25,000,000	$25,000,000 under $50,000,000	$50,000,000 under $100,000,000	$100,000,000 under $250,000,000	$250,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Mining													
Number of returns	42,050	3,756	19,113	7,532	4,437	2,955	2,789	582	433	192	111	80	71
Total assets	220,137,063	—	625,737	1,162,458	1,597,156	2,061,948	5,876,746	4,053,134	6,424,018	6,875,696	10,138,806	21,523,640	159,797,723
Notes and accounts receivable, net	21,115,567	—	83,359	260,628	277,640	307,087	919,477	658,887	883,980	1,020,106	1,420,518	2,472,268	12,811,619
Inventories	6,821,281	—	*6,824	32,039	102,008	39,091	163,761	135,114	281,546	242,654	427,064	1,210,501	4,180,679
Cash, Government obligations and other current assets	14,923,771	—	164,654	177,823	352,446	458,703	1,179,244	945,259	1,202,338	1,072,421	1,577,869	1,987,970	5,805,044
Other investments and loans	97,050,364	—	88,861	130,370	221,998	348,334	818,037	517,413	954,738	792,638	2,054,510	5,578,391	85,545,075
Depreciable assets	94,166,629	—	943,653	1,463,962	1,522,265	1,908,984	4,101,476	2,573,174	4,284,273	3,695,874	6,171,547	9,892,812	57,608,610
Less: Accumulated depreciation	47,863,798	—	762,272	1,124,953	1,069,556	1,484,067	2,595,928	1,708,526	2,775,928	2,231,532	3,729,094	5,258,560	25,123,382
Other capital assets less reserves	24,129,216	—	54,858	104,384	119,906	352,238	924,585	784,488	1,296,449	1,445,740	1,709,349	2,914,221	14,423,001
Accounts and notes payable	25,426,951	—	516,700	571,288	562,140	621,665	1,632,725	970,179	1,195,588	1,256,903	1,719,181	2,285,028	14,095,552
Other current liabilities	11,248,123	—	57,254	91,707	54,742	138,132	457,735	402,602	421,154	646,215	702,599	1,838,611	6,437,372
Mortgages, notes, and bonds payable in one year or more	47,779,341	—	267,303	327,255	299,362	598,021	1,580,090	719,617	1,351,730	1,743,407	2,174,233	5,820,595	32,897,729
Net worth	109,553,353	—	-753,593	-302,300	33,580	442,938	1,369,098	1,417,620	2,215,517	2,547,889	4,169,207	6,333,383	92,080,015
Cost of property used for investment credit	254,198	—	—	—	*6,406	—	*1,193	—	*3,497	*7,741	19,512	33,908	181,941
Total receipts	96,805,871	2,034,795	1,349,458	2,370,659	2,195,693	2,329,731	5,240,515	3,380,190	4,404,936	4,359,646	6,281,221	12,178,507	50,680,519
Business receipts	85,846,689	1,765,778	1,130,810	2,235,998	1,996,607	2,148,215	4,774,164	2,912,171	3,973,900	3,823,092	5,428,075	10,768,523	44,889,356
Cost of sales and operations	56,325,162	613,750	348,026	1,043,860	746,333	750,897	2,690,927	1,814,135	2,641,602	2,472,435	3,936,790	8,098,456	31,167,952
Taxes paid	2,841,876	77,326	38,536	104,584	86,852	114,864	197,748	115,060	145,922	129,665	162,549	424,612	1,244,160
Interest paid	5,442,124	127,977	37,827	56,195	50,537	84,025	185,463	92,824	173,477	184,975	285,665	587,277	3,575,881
Depreciation	5,955,759	177,637	81,579	135,435	159,815	154,536	376,917	228,093	336,901	270,703	340,098	511,284	3,182,761
Pension, profit-sharing, stock bonus, and annuity plans	332,751	*17,061	—	*2,487	*830	9,623	24,904	19,481	8,757	12,546	17,438	22,469	197,154
Employee benefit programs	936,262	22,446	*5,433	19,372	12,196	11,153	24,897	16,340	33,265	27,130	42,823	88,941	632,267
Net income (less deficit)	275,048	403,413	-71,312	-89,204	-67,477	-110,743	-164,918	35,881	-95,472	12,828	293,737	96,052	32,263
Income subject to tax, total	3,237,322	*3,845	21,938	30,230	37,367	58,735	127,510	103,058	152,023	130,677	355,310	318,605	1,898,024
Income tax, total	1,256,089	2,529	3,427	6,055	7,931	16,856	47,449	40,586	62,401	59,585	139,378	134,331	735,562
Alternative minimum tax	91,392	*991	*55	*335	*50	*2,511	4,827	2,887	4,048	9,141	6,294	11,353	48,900
Evironmental tax	5,563	*40	—	*15	—	—	3	*27	116	184	670	747	3,761
Foreign tax credit	371,817	—	*21	—	—	—	2	*2,327	[1]	4,179	31,459	31,167	302,661
U.S. possessions tax credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	2,758	—	—	—	*105	—	*58	*380	*543	—	96	1,408	168
General business credit	70,895	—	*418	*16	2,398	*183	*751	*623	1,662	3,270	9,528	4,335	47,712
Construction													
Number of returns	371,169	17,994	193,975	61,966	37,442	27,885	26,502	3,136	1,634	379	152	66	38
Total assets	222,064,937	—	6,483,574	10,070,206	13,314,953	19,767,384	53,373,857	21,811,161	24,145,024	12,787,015	10,625,857	10,728,468	38,957,439
Notes and accounts receivable, net	57,244,779	—	1,001,491	2,438,302	3,217,506	5,175,153	16,162,337	6,747,856	7,138,373	3,565,895	2,616,722	3,336,209	5,844,933
Inventories	33,352,955	—	554,065	1,242,165	2,091,694	3,304,930	9,581,234	4,092,272	4,522,691	1,938,963	1,832,600	814,595	3,377,747
Cash, Government obligations and other current assets	51,157,434	—	1,903,498	2,587,256	3,256,517	4,859,419	12,871,873	5,150,971	5,563,101	3,033,870	2,482,302	2,328,172	7,120,454
Other investments and loans	29,955,731	—	728,534	927,061	1,096,968	1,380,998	3,387,392	1,333,877	1,963,661	1,218,554	1,089,869	1,482,669	15,346,147
Depreciable assets	76,500,730	—	5,881,150	5,960,446	7,103,062	9,571,245	19,190,718	7,429,039	7,148,894	4,042,254	2,991,041	2,710,837	4,472,044
Less: Accumulated depreciation	44,174,868	—	3,965,662	3,822,512	4,358,853	5,903,626	11,444,013	4,520,805	4,016,546	2,133,817	1,440,317	1,118,957	1,449,759
Other capipal assets less reserves	8,949,993	—	207,284	420,625	546,272	893,578	1,952,161	859,377	980,369	537,039	391,218	667,338	1,494,730
Accounts and notes payable	70,140,245	—	2,123,291	3,188,951	4,158,835	6,877,429	19,676,369	7,775,781	8,194,994	3,961,899	2,961,382	2,900,399	8,320,917
Other current liabilities	33,063,045	—	834,865	990,522	1,483,037	2,385,122	9,017,744	4,354,236	4,819,838	2,267,849	2,466,068	1,904,785	2,538,978
Mortgages, notes, and bonds payable in one year or more	41,641,804	—	1,239,007	1,523,785	2,093,845	2,729,681	6,562,082	2,670,942	3,116,536	2,078,328	1,808,853	2,268,035	15,550,710
Net worth	53,926,258	—	600,433	2,939,102	4,292,198	5,878,108	13,720,953	5,118,746	5,302,331	3,041,475	2,269,033	2,733,703	8,030,174
Cost of property used for investment credit	170,073	232	*950	—	*168	—	*249	—	*1,412	*13,120	17,410	5,237	131,296
Total receipts	454,831,094	4,881,525	45,152,881	37,798,806	37,642,494	49,512,167	116,224,990	42,117,042	40,401,425	19,109,955	13,920,679	17,135,412	30,933,717
Business receipts	442,491,245	4,556,804	44,642,505	37,407,952	37,049,950	48,743,692	113,910,847	41,157,143	39,261,651	18,295,154	13,335,861	16,577,226	27,552,461
Cost of sales and operations	344,505,785	3,370,406	28,541,759	25,918,906	26,343,953	36,763,502	91,100,355	34,682,548	33,486,657	15,699,780	11,737,255	14,686,267	22,174,397
Taxes paid	9,074,214	115,535	1,342,203	1,016,431	970,235	1,181,783	2,280,612	692,830	584,910	283,598	146,786	166,064	293,228
Interest paid	6,319,837	132,662	315,378	336,491	388,849	495,535	1,091,809	363,292	431,603	232,609	201,612	249,270	2,080,728
Depreciation	8,140,267	82,222	861,215	824,319	875,482	1,075,184	2,019,040	687,053	596,276	333,001	245,381	182,216	358,877
Pension, profit-sharing, stock bonus, and annuity plans	1,725,303	13,513	98,062	109,944	152,362	257,124	521,773	153,541	128,071	55,138	29,719	27,938	178,118
Employee benefit programs	2,281,798	26,740	204,383	246,611	192,736	294,450	561,940	203,641	164,904	149,665	28,781	36,773	171,174
Net income (less deficit)	8,700,642	88,630	326,745	432,760	782,520	728,945	2,708,918	1,168,134	1,244,746	524,649	355,907	-225,374	564,063
Income subject to tax, total	7,843,763	107,590	437,009	687,775	864,382	831,621	2,027,465	771,551	789,199	379,261	322,902	224,417	400,590
Income tax, total	2,459,657	33,468	67,898	117,866	190,972	216,291	676,926	303,140	314,017	150,404	129,987	94,068	164,620
Alternative minimum tax	91,057	*131	—	—	*851	10,234	32,638	17,211	11,331	3,959	4,881	4,831	4,991
Environmental tax	1,809	*12	—	—	—	—	9	37	220	225	321	235	750
Foreign tax credit	17,788	[1]	—	—	*48	—	—	—	*656	512	93	—	16,479
U.S. possessions tax credit	1,090	—	—	—	—	—	—	1,090	—	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*982	—	—	—	—	—	3	*972	7	—	—	—	—
General business credit	102,690	*630	5,127	11,530	7,388	9,666	27,482	15,304	10,485	4,067	3,643	1,701	5,666

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	294,211	13,730	108,006	46,469	36,057	31,194	41,167	7,590	5,401	1,883	1,006	787	922
Total assets	3,111,708,665	—	4,010,462	7,822,219	13,067,786	22,262,835	89,532,791	53,056,693	83,716,290	65,883,361	70,837,695	123,570,959	2,577,947,574
Notes and accounts receivable, net	688,748,762	—	836,626	1,861,049	3,433,889	6,042,823	23,684,831	13,287,530	19,917,767	14,769,686	15,127,526	24,985,233	564,801,799
Inventories	331,733,231	—	549,998	1,336,552	2,399,089	4,984,958	21,584,187	12,966,629	20,006,751	14,823,108	14,246,760	22,883,406	215,951,794
Cash, Government obligations and other current assets	293,872,103	—	906,263	1,484,107	2,400,288	3,353,499	12,929,414	6,766,740	10,385,854	7,781,761	9,180,746	15,006,190	223,677,243
Other investments and loans	725,602,726	—	246,754	516,648	715,189	1,164,660	4,432,839	3,078,979	5,436,344	5,852,239	6,785,208	13,652,601	683,721,265
Depreciable assets	1,339,121,025	—	3,866,368	6,090,843	10,109,820	15,064,217	53,804,771	29,207,619	44,162,553	32,143,574	33,594,642	56,085,960	1,054,990,658
Less: Accumulated depreciation	646,641,920	—	2,634,442	4,027,940	6,683,361	9,505,536	31,703,687	15,658,478	21,918,087	15,147,841	15,312,060	24,331,448	499,719,041
Other capital assets less reserves	187,185,366	—	88,369	197,664	292,204	572,990	2,725,125	1,970,339	3,017,174	2,736,964	3,732,361	7,805,405	164,046,771
Accounts and notes payable	590,193,026	—	1,426,327	2,183,340	3,479,554	6,627,269	26,700,605	14,706,646	21,243,006	14,863,371	12,791,341	20,504,519	465,667,050
Other current liabilities	322,650,832	—	442,602	933,767	1,046,578	1,876,018	8,836,465	5,001,790	7,715,574	5,876,431	7,016,647	12,755,139	271,149,820
Mortgages, notes, and bonds payable in one year or more	635,648,257	—	911,778	1,676,018	2,363,887	4,308,219	14,071,693	9,496,459	15,915,475	13,368,023	14,324,910	29,800,508	529,411,287
Net worth	1,191,672,658	—	−717,289	1,725,665	4,662,136	7,521,237	33,593,403	21,163,467	34,470,942	27,663,557	32,303,859	51,310,205	977,975,478
Cost of property used for investment credit	15,014,258	6,044	—	*11,922	—	*7,324	*11,922	37,915	117,638	69,637	72,928	286,896	14,392,033
Total receipts	3,141,406,444	29,461,837	18,189,949	22,855,924	35,110,840	51,963,287	192,192,618	105,393,942	148,588,521	100,830,405	98,257,945	157,374,032	2,181,187,144
Business receipts	2,946,695,175	28,143,858	17,888,981	22,540,574	34,490,299	51,183,024	189,003,708	103,443,739	145,463,048	98,192,587	95,169,752	151,304,833	2,009,870,770
Cost of sales and operations	2,034,818,784	20,851,119	10,652,680	13,239,467	21,325,006	33,622,201	132,384,204	75,511,736	105,735,046	70,779,049	65,881,855	103,807,030	1,381,029,390
Taxes paid	74,611,472	659,214	557,522	786,726	1,059,335	1,456,199	4,537,012	2,118,477	2,988,662	1,820,873	2,176,305	3,047,556	53,403,590
Interest paid	100,783,073	1,027,259	225,325	268,478	420,394	680,806	2,645,884	1,570,699	2,344,159	1,859,651	1,878,787	3,814,095	84,047,536
Depreciation	121,174,522	889,577	513,804	745,270	1,220,320	1,536,384	5,040,355	2,637,391	3,989,837	2,905,790	2,928,490	5,122,431	93,644,873
Pension, profit-sharing, stock bonus, and annuity plans	16,833,570	137,296	34,603	138,807	223,297	281,332	1,066,767	431,219	597,358	398,566	452,384	842,545	12,229,395
Employee benefit programs	41,451,655	312,132	104,237	154,341	300,027	416,804	1,640,209	867,569	1,361,728	1,035,460	1,131,306	2,008,305	32,119,537
Net income (less deficit)	145,493,891	72,135	−375,412	101,510	121,244	690,349	3,902,493	2,731,284	4,850,134	3,936,911	5,086,485	7,342,923	117,033,835
Income subject to tax, total	145,836,088	677,690	218,113	442,770	660,431	1,002,902	4,101,285	2,566,591	4,302,435	3,760,799	4,970,523	7,433,139	115,699,408
Income tax, total	57,286,912	244,316	39,733	83,419	130,953	249,024	1,409,952	1,000,808	1,706,410	1,492,704	1,954,078	2,947,055	46,028,461
Alternative minimum tax	712,520	3,990	*97	*162	*775	*24	5,057	5,792	15,293	14,276	12,727	29,926	624,400
Environmental tax	173,059	681	—	—	—	—	83	124	1,104	1,791	3,531	6,671	159,074
Foreign tax credit	16,931,616	*36,548	—	—	*25	*15	1,200	6,435	20,554	24,813	75,180	165,609	16,601,237
U.S. possessions tax credit	2,564,058	17,902	—	—	23	1,379	23,169	26,697	148,893	222,462	355,414	413,801	1,354,319
Orphan drug credit	5,154	—	—	—	—	—	—	—	—	—	—	—	5,154
Nonconventional source fuel credit	28,576	—	—	—	—	—	*38	*113	*1,849	*998	2	148	25,428
General business credit	3,709,348	14,994	4,394	8,047	20,672	22,066	79,569	40,188	57,026	46,131	50,335	97,334	3,268,593
Transportation and Public Utilities													
Number of returns	147,893	9,954	73,012	25,607	16,013	9,478	10,373	1,416	996	370	174	177	324
Total assets	1,352,512,937	—	2,537,655	4,043,674	5,711,441	6,613,391	21,691,322	9,720,256	14,795,606	13,287,477	12,174,705	35,791,833	1,226,145,578
Notes and accounts receivable, net	117,518,525	—	296,494	689,410	988,761	1,367,167	4,347,961	1,742,957	2,424,401	1,698,604	1,559,716	5,180,600	97,222,452
Inventories	31,236,728	—	54,718	50,535	155,071	84,987	485,986	239,306	237,117	278,581	232,869	790,033	28,627,524
Cash, Government obligations and other current assets	88,405,385	—	683,332	780,632	1,120,609	1,225,901	3,770,730	1,433,697	2,334,453	1,739,580	1,445,079	3,867,456	70,003,917
Other investments and loans	201,306,488	—	224,403	408,547	448,602	407,244	1,406,453	1,034,517	1,207,664	1,399,416	890,448	4,091,066	189,788,127
Depreciable assets	1,153,409,171	—	3,017,087	4,558,142	6,917,122	6,947,472	19,160,955	7,814,542	11,972,245	9,571,860	9,055,051	23,451,688	1,050,943,007
Less: Accumulated depreciation	354,488,250	—	1,970,301	2,847,377	4,420,179	4,009,899	9,885,504	3,427,108	5,347,022	3,458,651	3,404,564	8,604,606	307,113,039
Other capital assets less reserves	41,139,418	—	79,504	117,313	289,813	284,586	1,284,129	432,136	1,116,344	1,306,989	1,451,013	3,759,498	31,018,087
Accounts and notes payable	134,621,532	—	630,484	1,006,860	1,449,134	2,023,550	5,755,298	2,433,491	3,301,550	2,154,662	2,252,764	6,080,374	107,533,368
Other current liabilities	98,033,639	—	223,584	352,112	447,289	417,140	1,938,685	837,925	1,333,270	1,066,215	1,041,138	3,085,372	87,290,908
Mortgages, notes, and bonds payable in one year or more	423,390,784	—	699,193	1,354,886	1,664,557	1,723,055	6,444,701	3,005,210	4,968,788	5,612,296	4,633,631	13,722,311	379,562,157
Net worth	510,064,080	—	25,599	676,071	1,462,254	1,595,073	5,284,296	2,532,844	3,384,180	3,067,161	2,822,695	8,158,108	481,055,801
Cost of property used for investment credit	22,160,674	39,121	—	*25,272	—	—	*26,879	*68,390	118,589	37,729	63,871	281,929	21,498,893
Total receipts	786,179,466	8,006,940	13,484,293	14,145,685	16,047,978	15,727,521	41,093,003	13,862,934	18,101,138	10,813,728	10,883,832	26,008,579	598,003,834
Business receipts	736,633,389	7,621,234	13,224,306	13,765,908	15,658,125	15,265,088	39,676,753	13,215,215	17,089,726	9,958,105	9,993,983	23,592,516	557,572,430
Cost of sales and operations	339,840,645	4,578,383	7,551,947	7,213,864	7,284,608	7,882,634	20,964,467	7,068,045	8,631,268	4,557,358	4,479,260	11,573,542	248,055,270
Taxes paid	34,980,799	175,199	312,753	465,807	586,452	523,986	1,377,378	506,665	666,304	365,101	336,635	945,061	28,719,456
Interest paid	47,132,799	474,937	150,480	201,036	258,936	264,239	817,914	381,834	583,661	536,267	557,308	1,654,432	41,251,756
Depreciation	77,051,204	377,307	426,661	596,878	851,346	865,718	2,169,800	847,689	1,163,724	917,950	788,037	2,005,297	66,040,798
Pension, profit-sharing, stock bonus, and annuity plans	5,538,103	30,300	*6,963	28,398	55,412	52,861	173,597	52,663	90,841	57,584	42,877	125,647	4,820,958
Employee benefit programs	11,481,379	63,273	50,766	79,447	107,243	148,711	276,282	141,687	208,541	97,419	113,394	389,656	9,804,961
Net income (less deficit)	37,466,726	−315,488	−42,705	−36,633	180,826	145,509	626,982	136,179	26,570	176,502	50,605	692,719	35,825,659
Income subject to tax, total	43,818,326	148,983	105,746	169,270	237,481	258,678	797,896	322,056	474,630	436,643	351,183	1,222,452	39,293,309
Income tax, total	17,696,185	58,139	18,252	28,507	48,790	64,108	271,757	122,280	189,401	179,588	143,268	500,569	16,071,525
Alternative minimum tax	483,404	*1,598	—	—	*476	*1,039	3,782	1,747	3,663	5,870	4,288	13,448	447,495
Environmental tax	63,571	202	—	—	—	2	*31	*80	188	555	349	1,510	60,653
Foreign tax credit	332,278	21	—	—	*3,496	*43	*7,147	(1)	*4,010	*635	2,592	628	313,706
U.S. possessions tax credit	53,171	—	—	—	—	—	—	—	—	—	—	—	53,171
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	14,953	—	—	—	—	—	—	—	*51	—	—	1,271	13,631
General business credit	2,526,632	*7,038	*973	5,166	6,810	7,195	17,915	7,327	12,230	13,113	16,611	31,558	2,400,695

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	971,758	62,455	410,258	203,433	117,631	79,357	80,533	10,306	5,093	1,310	635	405	342
Total assets	1,177,668,920	—	16,062,366	32,848,540	41,922,061	55,462,631	166,033,923	70,019,301	76,520,849	45,685,599	44,071,524	64,305,387	564,736,739
Notes and accounts receivable, net	260,675,766	—	1,785,025	5,072,024	7,788,820	11,830,979	38,333,267	16,778,895	19,447,566	11,349,072	10,725,935	13,975,281	123,588,902
Inventories	336,380,034	—	4,964,347	11,088,778	13,726,608	19,570,730	67,186,714	27,974,035	25,202,547	13,945,795	12,873,681	17,568,348	122,278,451
Cash, Government obligations and other current assets	153,957,735	—	3,063,003	5,359,810	6,758,685	7,939,233	19,743,968	7,675,164	8,322,809	4,963,786	5,037,944	6,886,972	78,206,361
Other investments and loans	117,393,469	—	910,907	2,127,500	2,732,630	3,053,406	7,255,265	2,853,307	4,482,958	3,096,304	2,939,625	5,182,288	82,759,279
Depreciable assets	369,468,490	—	11,471,597	15,913,818	18,661,882	22,490,439	54,425,957	21,122,979	25,484,293	15,652,543	14,498,497	22,308,851	147,437,634
Less: Accumulated depreciation	166,935,434	—	7,590,402	9,589,047	10,762,552	13,064,772	29,554,899	10,403,872	11,659,523	6,895,855	5,646,015	8,371,879	53,396,617
Other capital assets less reserves	48,862,353	—	541,446	1,350,748	1,647,853	2,098,954	4,977,001	2,272,097	3,016,440	2,059,911	2,018,219	3,793,484	25,086,199
Accounts and notes payable	408,614,727	—	4,893,084	9,523,743	12,487,676	18,410,310	71,779,620	32,836,532	32,323,014	17,427,873	16,068,973	20,068,191	172,795,712
Other current liabilities	146,433,537	—	1,486,999	2,324,730	2,931,005	3,930,426	12,065,923	5,778,910	6,459,281	4,371,519	3,933,664	5,516,847	97,634,234
Mortgages, notes, and bonds payable in one year or more	220,577,820	—	5,518,899	6,461,311	7,617,068	8,834,588	21,026,918	8,793,015	12,199,559	8,540,839	8,022,177	14,398,367	119,165,079
Net worth	316,458,705	—	-2,723,771	7,775,948	13,886,233	19,074,116	51,397,714	19,227,752	22,332,644	11,741,250	13,940,760	19,895,299	139,910,760
Cost of property used for investment credit	946,556	*19,657	*868	*10,997	*7,430	*403	51,320	*6,648	18,813	19,594	12,877	80,717	717,231
Total receipts	2,766,717,240	55,315,631	81,026,931	120,523,995	135,684,419	173,340,617	538,863,000	228,150,049	217,856,482	117,668,463	108,773,497	154,476,082	835,038,073
Business receipts	2,691,275,402	53,784,231	79,823,266	118,812,305	133,763,508	170,874,444	529,812,094	223,647,361	213,148,789	114,915,120	106,128,281	150,393,250	796,172,754
Cost of sales and operations	2,076,485,794	42,918,192	48,346,990	81,067,303	93,547,388	125,509,187	419,760,982	183,110,489	170,916,194	91,929,566	84,931,935	118,989,135	615,458,433
Taxes paid	39,071,425	703,510	2,238,936	2,530,794	2,622,400	3,355,114	7,108,675	2,614,216	2,567,090	1,426,680	1,266,538	1,937,734	10,699,738
Interest paid	43,641,104	656,368	610,749	1,119,453	1,277,926	1,672,004	5,001,722	2,171,120	2,353,448	1,405,337	1,303,560	2,216,438	23,852,979
Depreciation	38,736,624	589,924	1,417,419	1,781,281	1,996,055	2,331,828	5,632,992	2,259,639	2,724,523	1,533,293	1,550,487	2,316,414	14,602,769
Pension, profit-sharing, stock bonus, and annuity plans	7,358,588	85,184	222,483	322,510	386,354	602,626	1,426,315	471,976	438,409	224,986	197,503	271,048	2,709,194
Employee benefit programs	11,645,009	226,660	244,156	364,056	407,461	545,419	1,808,205	828,878	768,520	427,761	465,787	826,834	4,731,273
Net income (less deficit)	38,040,057	149,067	-1,204,075	319,055	1,092,212	1,626,342	6,377,161	3,049,529	3,518,265	1,714,747	2,055,331	2,390,152	16,952,272
Income subject to tax, total	41,908,201	542,295	614,594	1,381,310	1,761,340	2,133,434	5,590,512	2,220,624	2,605,928	1,688,641	1,931,395	2,938,082	18,500,044
Income tax, total	14,956,044	194,931	111,323	246,628	340,961	490,713	1,779,431	838,134	1,024,869	656,020	765,357	1,172,149	7,335,528
Alternative minimum tax	140,193	4,533	43	154	323	3,463	8,354	6,233	8,098	7,708	8,773	9,603	82,908
Environmental tax	30,871	1,484	—	—	—	2	648	121	1,206	826	1,459	2,571	22,554
Foreign tax credit	591,850	*1,900	—	*25	3	*15	*302	*4,930	7,285	12,995	4,357	18,917	541,121
U.S. possessions tax credit	8,946	—	—	—	99	245	1,321	141	1,108	1,691	—	4,341	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	632	—	—	*271	—	—	—	*18	*21	—	3	310	9
General business credit	359,849	4,125	7,214	11,831	18,417	18,499	42,785	19,229	23,953	11,401	13,388	31,276	157,731
Finance, Insurance, and Real Estate													
Number of returns	521,136	41,298	238,766	84,748	52,887	35,957	36,931	7,098	7,862	5,417	4,061	3,161	2,951
Total assets	8,732,320,235	—	7,662,379	13,902,858	18,604,664	25,477,406	78,083,367	49,864,312	128,372,349	195,487,418	285,234,537	493,141,141	7,436,489,804
Notes and accounts receivable, net	2,442,563,105	—	578,068	1,390,894	2,003,458	3,009,581	9,697,286	7,816,369	34,519,133	63,760,684	89,424,620	123,367,003	2,106,996,008
Inventories	64,581,790	—	*61,547	264,404	662,322	994,684	4,358,847	2,504,996	3,247,866	2,383,603	2,855,168	4,248,268	43,000,085
Cash, Government obligations and other current assets	2,004,130,104	—	2,647,527	3,930,199	4,615,774	6,258,982	15,879,067	11,906,783	38,005,335	59,119,009	80,721,047	118,579,168	1,662,467,216
Other investments and loans	3,501,897,131	—	1,125,559	2,413,104	3,738,559	5,240,989	16,251,262	11,706,165	30,514,286	48,887,779	88,729,071	210,976,442	3,082,313,914
Depreciable assets	287,080,902	—	4,858,752	6,749,759	7,917,037	9,925,507	27,155,820	13,136,786	17,112,958	16,223,104	16,897,973	22,168,768	144,934,439
Less: Accumulated depreciation	91,100,436	—	2,935,868	3,522,942	3,768,252	4,121,436	9,214,807	3,845,848	4,813,879	4,628,201	4,737,535	6,369,705	43,141,964
Other capital assets less reserves	85,802,953	—	956,670	2,071,696	2,610,180	3,236,313	10,166,807	4,551,629	6,019,297	4,495,204	4,279,456	6,225,651	41,190,052
Accounts and notes payable	924,823,625	—	1,228,031	2,075,590	3,033,617	4,334,280	17,110,649	8,427,030	13,677,561	13,700,434	15,463,802	25,075,495	820,697,134
Other current liabilities	4,157,863,888	—	743,990	1,061,363	1,087,524	1,499,809	6,603,386	9,686,006	58,284,651	120,252,105	185,765,284	298,763,873	3,474,115,897
Mortgages, notes, and bonds payable in one year or more	620,941,700	—	1,814,023	3,203,950	4,487,367	6,500,177	23,184,357	12,264,646	18,589,721	16,406,384	19,071,811	27,852,532	487,566,731
Net worth	1,634,925,235	—	588,518	4,231,278	6,840,960	8,814,071	20,590,568	12,507,351	25,619,670	33,097,187	49,591,989	105,081,418	1,367,962,226
Cost of property used for investment credit	3,245,125	16,830	—	—	*174	*174	*12,851	*4,003	11,880	70,069	83,931	33,689	3,011,525
Total receipts	1,589,218,435	66,472,881	20,967,512	15,141,485	14,387,965	16,547,265	39,781,173	22,716,458	36,397,969	42,094,633	54,098,309	89,638,073	1,170,974,712
Business receipts	818,286,705	13,260,155	19,108,711	12,944,487	11,958,564	13,369,645	31,536,157	17,906,551	25,190,276	25,054,392	29,950,288	47,641,420	570,366,060
Cost of sales and operations	470,673,440	6,141,012	4,803,904	2,281,117	3,509,921	5,442,671	15,763,307	10,775,486	14,557,266	14,944,838	19,919,500	30,013,028	342,521,390
Taxes paid	27,814,280	879,802	642,756	572,934	542,368	624,508	1,408,531	644,224	991,505	933,694	995,679	1,809,826	17,768,451
Interest paid	364,541,038	41,847,128	377,357	371,510	570,916	879,482	2,792,171	1,611,619	4,900,826	7,977,711	12,019,137	19,892,777	271,300,406
Depreciation	31,992,916	653,081	439,291	469,792	502,871	545,751	1,326,309	686,037	979,744	1,014,411	1,216,805	1,715,840	22,442,984
Pension, profit-sharing, stock bonus, and annuity plans	5,780,439	70,417	136,913	132,342	221,044	138,129	301,560	90,699	128,262	140,340	187,267	339,014	3,894,453
Employee benefit programs	9,286,407	166,486	113,797	90,669	120,936	81,746	227,843	117,831	234,420	327,318	351,099	639,350	6,814,913
Net income (less deficit)	87,403,218	1,609,288	-61,354	329,186	374,883	496,878	1,041,989	150,525	174,029	1,257,752	1,902,919	5,538,891	74,588,230
Income subject to tax, total	51,171,985	2,535,260	384,711	584,825	642,684	823,462	1,695,113	862,424	1,657,830	2,121,762	2,356,736	3,989,048	33,518,130
Income tax, total	19,264,979	1,007,108	61,645	104,765	126,516	202,648	535,920	316,361	622,051	802,312	929,560	1,611,760	12,944,333
Alternative minimum tax	594,299	13,774	*49	4	41	460	7,142	5,748	11,621	21,283	29,528	43,298	461,352
Environmental tax	67,224	4,878	—	—	—	*11	25	121	381	861	1,181	2,751	57,017
Foreign tax credit	2,216,284	153,763	—	—	—	*62	886	*1,593	985	8,171	4,901	26,758	2,019,164
U.S. possessions tax credit	9,725	—	—	2	—	7	37	1,077	1,232	502	427	95	6,346
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	4,177	—	—	—	—	—	*11	4	2	*10	30	997	3,123
General business credit	691,803	15,305	1,952	3,808	2,461	4,321	8,361	3,100	5,090	9,147	15,694	24,824	597,741

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

RETURNS OF ACTIVE CORPORATIONS

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

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

Industrial division, item	Total returns of active corporations	Size of total assets											
		Zero assets	$1 Under $100,000	$100,000 under $250,000	$250,000 under $500,000	$500,000 under $1,000,000	$1,000,000 under $5,000,000	$5,000,000 under $10,000,000	$10,000,000 under $25,000,000	$25,000,000 under $50,000,000	$50,000,000 under $100,000,000	$100,000,000 under $250,000,000	$250,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Services													
Number of returns	1,119,604	117,508	702,098	167,767	68,621	32,384	24,938	3,181	1,824	595	319	231	140
Total assets	435,561,919	—	21,159,126	26,328,916	23,566,201	22,529,029	49,901,025	21,640,498	29,758,453	20,857,301	22,329,234	36,648,925	160,843,212
Notes and accounts receivable, net	74,618,503	—	1,826,094	3,172,425	3,450,417	4,123,829	10,125,735	4,329,354	5,680,281	4,102,303	4,549,681	7,127,377	26,131,008
Inventories	18,485,400	—	830,953	1,044,627	1,102,221	1,313,799	2,338,673	1,055,605	1,202,124	897,379	1,046,201	1,355,814	6,298,002
Cash, Government obligations and other current assets	69,805,186	—	6,999,766	7,232,413	6,318,741	4,636,434	8,475,741	3,781,120	5,299,060	3,430,499	3,342,374	4,931,247	15,357,786
Other investments and loans	73,224,008	—	2,948,651	4,491,631	3,115,302	2,242,201	5,354,295	2,288,928	4,370,979	2,934,898	3,345,180	4,986,789	37,145,158
Depreciable assets	244,001,367	—	20,952,521	20,583,078	16,969,748	16,366,334	33,401,036	12,921,004	15,302,797	10,193,801	10,644,818	15,711,938	70,954,291
Less: Accumulated depreciation	108,377,567	—	14,176,287	12,574,228	9,675,753	8,677,462	15,391,301	5,509,163	5,822,441	3,819,007	4,090,296	5,435,227	23,206,403
Other capital assets less reserves	28,944,517	—	626,807	985,067	1,182,752	1,522,839	3,269,435	1,363,646	2,100,147	1,391,520	1,551,394	3,947,115	11,003,797
Accounts and notes payable	78,249,932	—	4,065,959	4,409,951	4,553,635	5,003,319	11,767,783	5,461,459	6,926,383	4,351,366	4,317,903	6,685,368	20,706,807
Other current liabilities	50,336,309	—	3,503,354	2,979,699	2,837,613	2,596,930	6,445,814	2,735,267	4,507,190	2,714,823	2,955,764	4,073,980	14,985,874
Mortgages, notes, and bonds payable in one year or more	134,920,822	—	4,011,505	5,244,050	5,057,649	5,618,865	15,087,913	6,182,261	9,060,833	6,085,592	6,825,763	12,174,484	59,571,907
Net worth	112,415,645	—	3,230,842	9,024,737	6,969,493	5,933,227	10,765,293	4,779,650	6,703,847	5,296,462	5,520,738	9,258,220	44,933,134
Cost of property used for investment credit	1,328,761	8,309	*8,629	*19,597	*1,201	*4,369	*33,676	13,622	*18,721	16,422	22,335	183,830	998,048
Total receipts	663,133,101	18,060,101	118,497,885	88,083,884	56,805,833	51,125,979	83,195,790	29,945,011	31,431,707	23,138,764	24,044,718	31,864,757	106,938,671
Business receipts	616,469,154	16,321,463	115,053,216	83,840,952	54,860,594	49,564,905	78,930,277	27,858,934	28,461,375	20,665,143	21,452,342	28,342,086	91,117,867
Cost of sales and operations	219,817,625	3,610,818	26,507,900	23,869,068	17,025,092	19,951,297	33,856,152	12,325,339	13,171,719	9,095,255	11,688,362	12,539,853	36,176,771
Taxes paid	21,295,199	561,690	3,885,502	2,933,877	1,979,555	1,689,765	2,829,054	895,311	972,010	693,118	705,840	846,073	3,303,405
Interest paid	19,750,647	468,816	793,495	823,046	756,856	842,505	1,961,917	829,230	1,232,198	798,850	877,642	1,522,693	8,843,399
Depreciation	30,068,715	937,125	2,759,729	2,494,568	1,861,301	1,664,404	3,464,337	1,392,883	1,733,905	1,096,598	1,268,958	2,074,196	9,320,710
Pension, profit-sharing, stock bonus, and annuity plans	8,792,825	332,357	2,695,684	1,898,787	1,048,232	560,999	756,568	283,849	176,499	157,014	113,575	183,089	586,173
Employee benefit programs	7,225,832	168,881	702,631	818,532	437,131	373,713	881,480	602,946	391,957	417,304	419,830	438,333	1,573,095
Net income (less deficit)	9,251,928	569,938	1,156,157	1,563,761	825,449	662,966	389,227	166,587	56,735	497,845	763,789	139,041	2,460,432
Income subject to tax, total	16,169,311	777,455	1,785,350	2,124,354	1,443,809	883,895	1,361,415	607,646	730,953	819,543	753,479	1,052,303	3,829,110
Income tax, total	5,033,943	231,354	285,973	389,528	328,689	225,980	465,255	226,569	290,771	327,119	305,123	417,615	1,539,967
Alternative minimum tax	108,591	5,132	8	(1)	*5,865	*873	7,852	2,566	4,823	8,126	8,604	14,817	49,926
Environmental tax	8,682	197	—	—	—	7	*23	75	301	549	743	1,492	5,295
Foreign tax credit	347,247	*3,332	—	—	*379	*2,462	*9,859	*3,445	18,719	29,602	18,897	33,418	227,133
U.S. possessions tax credit	26,127	2,982	20	—	63	33	1,486	2,900	2,706	9,211	6,726	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*214	—	—	*105	—	—	1	—	—	—	—	108	—
General business credit	448,016	29,442	27,635	28,611	23,602	14,698	31,152	16,188	15,984	10,383	20,254	20,687	209,380
Nature of Business not Allocable													
Number of returns	27,767	5,506	17,471	2,088	1,896	425	294	*45	31	10	**	—	—
Total assets	3,266,227	—	352,158	338,522	603,879	281,343	533,475	*334,101	478,598	344,152	**	—	—
Notes and accounts receivable, net	590,868	—	37,339	36,435	35,970	*53,153	166,717	*33,876	*149,238	78,139	—	—	—
Inventories	425,939	—	59,839	*20,934	160,737	*26,880	106,220	*23,472	*22,753	5,104	—	—	—
Cash, Government obligations and other current assets	577,061	—	88,470	83,842	145,517	*37,006	90,942	*27,001	67,866	36,421	—	—	—
Other investments and loans	411,843	—	*11,244	*19,757	*41,851	*13,734	*27,204	*124,133	*147,939	25,979	—	—	—
Depreciable assets	1,288,428	—	189,692	184,103	223,618	207,580	211,222	*111,546	85,437	75,231	**	—	—
Less: Accumulated depreciation	480,282	—	92,531	75,586	94,661	90,221	92,224	*6,598	11,337	17,123	**	—	—
Other capital assets less reserves	271,399	—	*30,546	*42,881	*44,114	*24,666	*16,734	*17,760	*11,791	82,906	—	—	—
Accounts and notes payable	1,033,868	—	105,216	*36,062	177,455	*34,370	231,426	*22,312	*262,567	164,461	**	—	—
Other current liabilities	280,940	—	28,768	*6,676	29,390	*33,695	65,848	*65,749	40,513	10,302	**	—	—
Mortgages, notes, and bonds payable in one year or more	1,160,850	—	96,737	472,432	161,624	109,007	53,845	*156,316	*27,026	83,864	**	—	—
Net worth	162,906	—	-61,844	-301,824	99,907	60,004	114,077	*66,257	142,553	43,776	—	—	—
Cost of property used for investment credit	*4,955	—	—	—	—	—	—	—	*4,955	—	—	—	—
Total receipts	5,371,937	307,489	917,849	430,176	832,983	343,158	1,261,051	*157,857	807,297	314,078	**	—	—
Business receipts	5,030,285	*276,613	822,264	407,712	778,383	*326,188	1,242,611	*132,710	*742,267	301,537	**	—	—
Cost of sales and operations	3,185,924	*135,491	437,485	157,357	380,940	*97,429	935,203	*91,057	*707,697	243,264	**	—	—
Taxes paid	112,541	4,176	21,350	17,745	33,793	11,749	17,425	*2,060	2,766	1,477	**	—	—
Interest paid	106,084	*4,868	17,418	14,312	15,241	8,038	17,030	*5,739	15,991	7,448	**	—	—
Depreciation	168,277	*22,282	38,303	19,748	16,065	*20,045	31,226	*6,048	7,282	7,277	**	—	—
Pension, profit-sharing, stock bonus, and annuity plans	22,503	*186	*20	*94	*1,158	*10,216	*10,184	*66	*580	—	—	—	—
Employee benefit programs	14,073	*2,336	*3,725	*549	*1,639	1	*2,769	*2,391	*582	79	**	—	—
Net income (less deficit)	-34,301	-20,556	-55,178	-28,210	27,877	7,270	15,527	*13,189	-2,320	8,100	**	—	—
Income subject to tax, total	84,687	*426	*6,755	*19,751	*11,704	*4,819	*15,694	*10,097	*2,626	12,816	—	—	—
Income tax, total	23,155	*65	*1,020	*3,594	*2,788	*853	*5,306	*3,347	*1,067	5,116	**	—	—
Alternative minimum tax	*505	—	—	—	—	—	—	*323	*174	7	**	—	—
Environmental tax	6	—	—	—	—	—	—	—	6	—	—	—	—
Foreign tax credit	1	—	1	—	—	—	—	—	—	—	—	—	—
U.S. possessions tax credit	1,588	—	—	—	—	—	1,588	—	—	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	—	—	—	—	—	—	—	—	—	—	—	—	—
General business credit	*1,099	—	—	—	—	*639	*98	—	*82	280	—	—	—

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

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

[1] Less than $500 per return.

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

RETURNS OF ACTIVE CORPORATIONS

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

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

Industrial division, item	Total returns of active corporations	Size of business receipts											
		Under $100,000 [1]	Under $25,000 [1]	$25,000 under $50,000	$50,000 under $100,000	$100,000 under $250,000	$250,000 under $500,000	$500,000 under $1,000,000	$1,000,000 under $2,500,000	$2,500,000 under $5,000,000	$5,000,000 under $10,000,000	$10,000,000 under $50,000,000	$50,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
All Industries													
Number of returns	3,612,133	1,424,832	788,091	267,265	369,476	659,417	531,579	391,319	330,342	131,010	70,935	60,023	12,677
Total assets	15,310,615,602	164,417,678	101,356,313	22,811,704	40,249,660	91,781,203	107,858,305	154,845,008	323,621,984	374,989,911	484,517,057	1,397,523,058	12,211,061,399
Notes and accounts receivable, net	3,668,026,414	13,460,334	8,352,337	1,904,822	3,203,175	8,994,935	14,041,348	26,481,360	79,566,419	108,499,863	135,469,826	321,774,135	2,959,738,195
Inventories	829,272,682	7,904,846	4,726,502	1,000,083	2,178,261	7,369,296	12,814,862	20,696,543	42,313,171	40,557,740	47,135,762	118,463,647	532,016,814
Cash, Government obligations and other current assets	2,683,012,612	31,677,472	18,455,793	4,607,325	8,614,353	19,951,118	22,314,369	32,738,824	72,611,338	89,682,082	108,121,411	285,414,252	2,020,501,746
Other investments and loans	4,753,697,114	41,149,056	28,899,808	4,916,445	7,332,803	15,056,563	16,239,972	21,545,337	45,417,986	64,268,964	115,851,299	456,693,922	3,977,474,014
Depreciable assets	3,602,960,891	64,712,364	33,444,378	10,527,388	20,740,597	53,199,411	63,306,846	82,173,207	127,504,412	104,893,953	106,456,908	252,968,718	2,747,745,072
Less: Accumulated depreciation	1,483,312,181	28,331,471	13,414,098	4,744,773	10,172,600	29,113,967	35,462,422	45,608,598	68,563,493	54,302,345	54,301,754	115,882,122	1,051,746,009
Other capital assets less reserves	439,004,546	22,917,782	13,300,921	3,316,426	6,300,435	11,450,165	9,296,671	10,378,821	14,452,149	11,515,482	12,460,592	36,600,934	309,931,950
Accounts and notes payable	2,245,219,754	28,782,006	19,322,453	2,836,192	6,623,361	16,501,739	22,263,528	33,924,451	72,495,773	68,165,859	78,702,207	205,519,675	1,718,864,517
Other current liabilities	4,822,312,874	12,873,799	9,081,115	1,320,394	2,472,290	7,366,290	9,024,073	19,850,064	84,147,306	144,992,812	208,861,470	564,564,222	3,770,632,838
Mortgages, notes, and bonds payable in one year or more	2,141,169,042	46,669,895	28,928,866	6,785,816	10,955,213	27,482,517	27,036,477	34,821,505	56,558,486	47,086,462	50,135,894	145,504,080	1,705,873,726
Net worth	3,947,380,235	34,029,008	17,551,366	5,689,106	10,788,536	20,560,124	32,191,272	46,452,419	84,021,093	93,632,820	120,979,473	401,810,716	3,113,703,310
Cost of property used for investment credit	43,174,681	96,747	85,324	*5,142	*6,281	83,187	52,790	72,041	157,372	222,737	124,427	562,192	41,803,189
Total receipts	9,580,720,701	60,698,287	20,529,398	11,162,740	29,006,149	115,137,654	195,031,732	281,864,248	521,705,281	466,050,233	502,870,517	1,231,570,623	6,205,792,126
Business receipts	8,414,537,647	38,362,827	4,051,796	8,816,412	25,494,618	106,651,343	186,376,490	270,882,410	500,415,939	439,709,387	467,935,762	1,124,589,401	5,279,614,086
Cost of sales and operations	5,596,218,574	13,496,835	1,953,415	2,901,272	8,642,148	39,246,501	79,144,262	136,535,435	298,129,710	289,634,519	330,557,886	836,701,743	3,572,771,683
Taxes paid	211,346,315	2,822,700	1,055,878	548,262	1,218,560	4,326,127	6,547,055	8,566,518	13,411,728	10,248,777	10,106,415	20,923,716	134,393,279
Interest paid	589,989,252	4,073,705	2,278,648	577,366	1,217,691	3,071,497	3,880,507	5,553,992	11,926,000	14,099,034	18,313,699	52,953,831	476,116,985
Depreciation	316,710,668	4,901,393	2,223,547	863,385	1,814,461	5,190,393	6,727,833	8,384,829	13,121,578	10,498,030	10,746,782	24,501,797	232,638,033
Pension, profit-sharing, stock bonus, and annuity plans	46,533,727	456,677	200,032	71,397	185,248	1,272,801	2,221,281	2,472,828	3,294,287	2,475,903	2,180,491	3,960,346	28,199,113
Employee benefit programs	84,603,727	337,052	132,598	63,542	140,912	601,922	1,084,387	1,546,087	2,985,337	2,687,832	2,876,845	7,788,578	64,695,687
Net income (less deficit)	328,223,710	-7,554,927	-6,077,547	-998,040	-479,341	-104,812	1,650,400	2,667,523	6,404,354	7,247,432	9,680,645	35,107,909	273,125,185
Income subject to tax, total	311,840,615	3,300,050	1,648,801	477,428	1,173,821	3,193,755	4,261,140	5,770,769	9,141,620	8,123,188	9,448,174	25,938,973	242,662,946
Income tax, total	118,484,975	764,246	468,813	79,256	216,177	612,177	846,061	1,252,681	2,377,265	2,571,108	3,389,599	10,141,214	96,530,624
Alternative minimum tax	2,229,107	11,819	10,451	*25	1,343	2,201	4,273	18,084	36,790	48,428	68,532	173,510	1,865,469
Environmental tax	351,253	834	823	—	11	*9	1,605	55	174	404	1,328	12,420	334,423
Foreign tax credit	20,812,861	5,521	5,386	*78	*57	1,401	8,260	6,930	7,340	13,024	27,292	152,538	20,590,555
U.S. possessions tax credit	2,666,634	18,631	17,355	1,236	40	37	106	435	8,450	25,450	52,773	448,920	2,111,830
Orphan drug credit	5,154	—	—	—	—	—	—	—	—	—	—	—	5,154
Nonconventional source fuel credit	52,439	*297	*297	—	(3)	*23	*259	—	*148	*90	*991	3,581	47,050
General business credit	7,959,117	42,129	23,850	3,470	14,809	30,748	55,761	81,177	135,810	118,521	107,716	302,445	7,084,809
Agriculture, Forestry, and Fishing													
Number of returns	116,544	61,497	33,189	11,581	16,728	22,878	13,181	8,300	6,740	2,216	873	775	86
Total assets	55,374,698	10,824,317	4,585,411	2,111,046	4,127,860	6,288,356	5,820,409	5,093,179	6,340,192	4,067,184	3,363,105	5,886,570	7,691,386
Notes and accounts receivable, net	4,950,539	569,977	223,818	114,284	231,875	161,355	217,131	375,550	579,827	489,451	543,285	907,045	1,106,918
Inventories	6,255,324	212,041	77,835	21,103	113,104	337,271	414,246	472,267	875,884	483,736	627,177	1,257,141	1,575,560
Cash, Government obligations and other current assets	6,183,833	1,226,471	495,543	301,968	428,960	758,449	676,614	706,777	693,347	466,852	371,217	577,059	707,048
Other investments and loans	6,855,355	1,504,954	839,037	333,143	332,773	661,485	535,861	512,978	674,713	368,205	337,988	582,920	1,676,250
Depreciable assets	37,924,150	5,395,785	2,204,076	964,854	2,226,855	5,054,971	5,009,128	4,654,873	5,317,731	2,920,468	2,193,762	3,645,324	3,732,108
Less: Accumulated depreciation	23,249,625	3,245,906	1,174,421	608,724	1,462,761	3,391,717	3,439,345	3,115,515	3,229,435	1,718,572	1,348,065	1,912,781	1,848,289
Other capital assets less reserves	13,719,332	4,439,125	1,601,438	863,463	1,974,224	2,312,913	2,009,753	1,206,215	1,189,198	900,611	446,277	668,410	546,829
Accounts and notes payable	12,115,846	980,897	306,755	203,270	470,872	891,252	1,044,777	988,366	1,757,139	1,065,025	1,065,702	2,133,558	2,189,129
Other current liabilities	2,402,560	256,109	83,935	93,211	78,963	152,700	104,081	109,616	352,150	199,396	187,704	456,113	584,689
Mortgages, notes, and bonds payable in one year or more	15,107,663	2,914,893	1,119,274	548,769	1,246,850	1,968,195	1,831,026	1,617,812	2,052,552	1,253,400	933,669	1,251,543	1,284,573
Net worth	18,201,395	3,715,802	1,688,045	679,827	1,347,930	2,441,720	2,161,514	1,620,744	1,448,199	1,166,992	928,147	1,573,701	3,144,577
Cost of property used for investment credit	50,082	*11,104	*5,951	*5,142	*12	*7,470	*2,304	*5,763	*6,117	*5,556	*353	5,333	6,082
Total receipts	77,057,114	3,149,682	778,325	678,837	1,692,519	4,561,955	5,107,485	6,327,442	11,403,059	8,358,870	6,137,548	18,358,119	13,652,955
Business receipts	71,809,603	1,767,542	165,736	419,119	1,182,687	3,872,450	4,544,158	5,807,586	10,876,967	8,111,528	5,854,427	17,882,086	13,092,860
Cost of sales and operations	50,565,416	982,338	139,493	290,981	551,864	1,857,798	2,094,501	3,118,463	7,340,667	6,041,914	4,251,521	15,769,143	9,109,072
Taxes paid	1,544,511	173,906	59,475	35,627	78,805	156,721	174,672	183,805	253,693	164,469	111,610	144,832	180,803
Interest paid	2,272,546	300,648	77,622	62,027	160,999	285,477	292,899	247,640	317,352	185,421	155,397	247,309	240,404
Depreciation	3,422,383	432,718	145,448	97,974	189,296	439,598	450,017	399,513	499,717	321,850	212,842	326,105	340,022
Pension, profit-sharing, stock bonus, and annuity plans	149,646	8,503	*3,193	*994	*4,316	10,101	19,669	20,830	15,307	12,861	23,449	13,233	25,693
Employee benefit programs	281,312	22,878	4,534	3,764	14,580	17,859	22,911	26,546	26,586	31,464	17,889	33,324	81,855
Net income (less deficit)	1,626,501	-189,614	-112,275	-79,450	2,111	100,273	179,594	340,386	220,387	17,107	160,664	320,792	476,912
Income subject to tax, total	1,770,932	226,867	88,572	49,459	88,835	188,087	186,026	186,577	179,424	142,979	105,729	187,062	368,180
Income tax, total	508,012	45,007	20,788	7,819	16,400	33,643	39,567	40,312	50,366	45,534	38,108	70,613	144,861
Alternative minimum tax	7,146	*160	*160	—	—	—	*12	*22	*51	*730	*553	4,283	*1,335
Environmental tax	467	*4	*4	—	—	—	—		—	*6	*35	73	350
Foreign tax credit	3,981	*51	(3)	*50	—	—	—	*765	*32	*6	—	*607	2,520
U.S. possessions tax credit	1,929	—	—	—	—	(3)	—	—	33	—	1,036	—	859
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	146	—	—	—	—	—	—	—	146	—	—	—	—
General business credit	48,785	6,281	3,910	*465	1,907	3,397	7,132	7,226	4,881	2,988	2,606	2,873	11,400

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	42,050	27,102	19,951	2,622	4,529	5,298	2,338	2,873	1,958	1,344	525	449	163
Total assets	220,137,063	6,588,177	5,111,266	666,563	810,348	1,674,472	1,964,771	3,033,869	4,339,031	4,252,129	5,467,123	14,629,684	178,187,806
Notes and accounts receivable, net	21,115,567	1,163,978	949,351	65,816	148,811	212,322	141,068	451,824	597,116	546,521	707,006	1,834,974	15,460,759
Inventories	6,821,281	35,066	19,592	*8,082	*7,392	30,557	58,068	84,803	122,199	121,494	156,621	509,368	5,703,104
Cash, Government obligations and other current assets	14,923,771	1,301,682	973,421	186,572	141,689	303,560	327,100	476,217	999,281	997,096	1,000,584	2,057,485	7,460,765
Other investments and loans	97,050,363	1,656,671	1,330,618	122,941	203,113	313,066	193,966	568,527	600,925	753,629	806,838	2,907,345	89,249,396
Depreciable assets	94,166,629	2,468,747	1,730,714	319,459	418,574	1,143,411	1,210,444	2,320,638	2,570,887	2,639,341	3,541,889	9,953,797	68,317,476
Less: Accumulated depreciation	47,863,798	1,553,336	1,074,369	206,723	272,244	797,774	885,815	1,680,761	1,683,496	1,714,307	2,208,597	6,277,810	31,061,901
Other capital assets less reserves	24,129,217	985,223	726,281	125,701	133,240	280,698	444,093	639,635	972,734	785,245	1,299,496	2,800,335	15,921,758
Accounts and notes payable	25,426,951	1,624,262	1,317,341	94,614	212,307	787,372	776,677	673,695	1,180,175	636,556	1,215,585	2,871,808	15,660,821
Other current liabilities	11,248,123	454,430	347,940	40,690	65,800	97,159	117,160	174,778	449,582	334,130	380,594	1,035,920	8,204,369
Mortgages, notes, and bonds payable in one year or more	47,779,341	1,386,870	1,174,583	*64,272	148,015	352,409	413,767	848,350	1,073,521	915,916	1,423,069	2,976,857	38,388,582
Net worth	109,553,352	986,620	1,050,209	-17,910	-45,678	245,346	353,040	511,316	723,381	1,859,501	1,528,617	5,829,130	97,516,401
Cost of property used for investment credit	254,198	*288	—	—	*288	*6,406	—	—	—	*1,471	*2,626	24,758	218,649
Total receipts	96,805,871	1,562,957	955,203	144,345	463,409	1,032,153	956,677	2,317,044	3,507,865	4,767,819	4,019,947	10,164,844	68,476,564
Business receipts	85,846,689	509,639	80,802	103,124	325,713	849,125	814,111	2,105,378	3,045,374	4,332,620	3,598,313	9,081,625	61,510,503
Cost of sales and operations	56,325,162	204,568	56,380	34,794	113,394	298,235	326,593	647,213	1,473,528	1,805,073	1,893,621	5,703,612	43,972,719
Taxes paid	2,841,876	69,692	44,471	8,320	16,901	37,461	40,660	92,202	141,065	222,492	135,994	334,491	1,767,819
Interest paid	5,442,124	169,198	138,792	10,875	19,532	40,280	47,302	90,628	180,179	91,185	177,875	425,478	4,219,998
Depreciation	5,955,759	176,283	101,393	18,235	56,655	96,130	111,778	186,143	268,101	301,162	289,563	712,679	3,813,920
Pension, profit-sharing, stock bonus, and annuity plans	332,751	3,104	*479	*2,501	*124	*3,497	*1,748	*6,791	8,175	30,294	12,125	30,473	236,543
Employee benefit programs	936,262	14,577	2,012	*497	12,068	3,739	4,388	12,333	17,040	29,235	19,823	62,064	773,064
Net income (less deficit)	275,048	-444,368	-345,512	-110,207	11,352	-152,462	-86,396	-71,671	-191,155	565,441	18,779	183,399	453,480
Income subject to tax, total	3,237,322	187,554	152,103	*404	35,047	36,561	*13,890	50,124	64,472	113,936	105,766	423,697	2,241,323
Income tax, total	1,256,089	59,163	52,724	*61	6,378	8,539	3,335	16,997	22,074	43,455	45,182	174,365	882,980
Alternative minimum tax	91,392	*836	*585	—	251	*414	*713	1,468	3,815	3,290	7,314	12,627	60,915
Environmental tax	5,563	*151	*145	—	6	—	—	*9	*22	*94	138	559	4,590
Foreign tax credit	371,817	*82	*82	—	(3)	—	—	—	—	—	*2,327	6,009	363,399
U.S. possessions tax credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	2,758	(3)	—	—	(3)	*12	*151	—	—	*89	*949	*549	1,007
General business credit	70,895	*560	*351	—	209	*519	*344	*534	1,914	*1,357	*448	5,769	59,450
Construction													
Number of returns	371,169	107,531	53,543	19,599	34,389	70,374	62,268	53,306	46,158	17,430	8,609	5,008	485
Total assets	222,064,937	10,686,893	7,628,727	977,087	2,081,080	5,305,087	8,809,696	14,434,181	27,053,725	24,871,920	25,118,465	44,681,290	61,103,680
Notes and accounts receivable, net	57,244,779	982,796	677,930	89,397	215,468	776,908	1,337,193	2,974,088	6,848,971	7,058,523	7,565,711	15,150,584	14,550,006
Inventories	33,352,955	1,891,584	1,456,666	160,026	274,891	828,821	1,668,679	2,677,141	5,048,970	4,174,217	5,137,378	6,568,097	5,358,069
Cash, Government obligations and other current assets	51,157,433	2,763,643	1,825,074	363,022	575,547	1,399,909	2,173,331	3,342,128	6,686,919	6,655,057	6,022,143	10,588,036	11,526,266
Other investments and loans	29,955,731	1,797,447	1,362,853	88,180	346,414	571,457	891,509	1,286,562	1,861,644	1,507,378	1,425,184	3,161,118	17,453,432
Depreciable assets	76,500,730	3,430,331	1,919,789	465,638	1,044,905	3,391,941	4,946,049	7,585,383	11,958,680	10,039,763	8,479,530	15,216,885	11,452,167
Less: Accumulated depreciation	44,174,868	1,986,742	1,043,904	301,773	641,066	2,215,385	2,975,178	4,707,407	7,116,110	5,968,843	5,198,677	8,872,865	5,133,662
Other capital assets less reserves	8,949,993	980,984	776,153	52,992	151,839	321,636	425,264	821,694	912,941	882,381	894,065	1,447,130	2,263,897
Accounts and notes payable	70,140,245	2,726,291	2,056,991	228,774	440,526	1,241,464	2,625,137	4,341,379	9,781,873	9,351,963	8,656,910	15,842,210	15,573,019
Other current liabilities	33,063,045	1,411,106	963,012	130,544	317,549	852,985	1,047,439	1,874,905	3,617,195	4,348,213	4,913,399	8,219,278	6,778,525
Mortgages, notes, and bonds payable in one year or more	41,641,804	2,128,718	1,641,754	180,883	306,081	1,372,865	1,556,334	2,419,323	3,820,325	3,188,889	2,786,498	5,798,819	18,570,032
Net worth	53,926,258	1,889,133	1,093,502	215,192	580,439	916,829	2,331,044	4,077,564	7,358,403	5,848,490	6,283,430	11,221,216	14,000,148
Cost of property used for investment credit	170,073	—	—	—	—	*950	—	*192	232	—	*1,964	*7,629	159,107
Total receipts	454,831,094	5,170,520	1,544,927	945,554	2,680,039	12,166,581	22,583,486	38,204,106	72,521,693	61,283,078	59,343,260	98,885,687	84,672,684
Business receipts	442,491,245	3,531,211	299,915	707,985	2,523,310	11,924,121	22,132,398	37,656,555	71,597,632	60,286,230	58,402,362	96,808,744	80,151,993
Cost of sales and operations	344,505,785	1,756,830	217,355	331,151	1,208,323	6,525,564	13,134,869	25,105,024	52,430,367	47,315,219	47,176,594	82,059,719	69,001,600
Taxes paid	9,074,214	221,865	81,576	31,636	108,654	473,388	732,163	1,067,173	1,734,788	1,312,196	1,171,394	1,541,476	819,771
Interest paid	6,319,837	208,711	131,225	20,928	56,558	167,057	251,105	447,212	701,958	550,472	546,966	884,973	2,561,383
Depreciation	8,140,267	306,076	134,922	48,318	122,837	418,208	637,333	924,800	1,422,593	1,134,206	928,353	1,395,112	973,586
Pension, profit-sharing, stock bonus, and annuity plans	1,725,303	47,607	24,009	*10,399	13,198	13,976	55,997	143,254	351,655	253,593	239,338	333,431	286,452
Employee benefit programs	2,281,798	25,736	8,423	2,581	14,733	60,538	129,114	199,031	400,515	331,551	320,085	468,913	346,315
Net income (less deficit)	8,700,642	-205,606	-171,228	5,545	-39,923	148,389	544,439	653,463	1,089,375	1,019,692	1,234,125	2,863,135	1,353,629
Income subject to tax, total	7,843,763	217,483	135,757	19,432	62,294	212,030	411,619	791,964	1,221,560	964,137	977,561	1,819,239	1,228,170
Income tax, total	2,459,657	55,735	41,024	3,587	11,123	37,972	72,446	155,903	300,653	286,276	345,211	707,571	497,890
Alternative minimum tax	91,057	*1,302	*1,290	*12	—	*559	*1,793	*1,200	11,357	12,797	24,098	23,823	14,129
Environmental tax	1,809	—	—	—	—	—	*1	4	*1	*22	*28	374	1,379
Foreign tax credit	17,788	*48	*48	—	—	—	—	—	—	—	*14	*640	*17,086
U.S. possessions tax credit	1,090	—	—	—	—	—	—	—	—	—	—	1,090	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*982	—	—	—	—	—	—	—	—	—	*3	*972	*7
General business credit	102,690	1,309	*593	*233	*483	4,223	4,147	7,928	15,363	14,262	15,290	24,192	15,977

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	294,211	73,639	42,673	14,989	15,977	42,103	38,423	40,337	45,727	22,794	14,153	13,223	3,813
Total assets	3,111,708,665	9,957,772	7,689,206	838,075	1,430,490	4,446,348	6,714,127	14,038,180	35,022,515	40,461,050	53,082,874	166,744,517	2,781,241,281
Notes and accounts receivable, net	688,748,762	744,644	546,097	71,239	127,307	654,750	1,464,958	3,008,937	8,922,993	10,535,200	13,192,003	39,354,562	610,870,715
Inventories	331,733,231	548,415	325,133	86,831	136,450	726,517	1,063,369	2,601,176	7,429,212	9,155,469	12,368,404	37,453,637	260,387,031
Cash, Government obligations and other current assets	293,872,104	2,400,830	2,005,352	146,571	248,906	916,102	1,232,670	2,570,475	5,366,409	6,207,624	7,105,838	21,581,578	246,490,579
Other investments and loans	725,602,726	1,909,900	1,392,190	181,866	335,844	361,718	595,215	879,095	2,014,473	2,407,468	3,424,582	13,877,732	700,132,543
Depreciable assets	1,339,121,025	4,566,655	3,228,351	486,402	851,902	3,303,448	4,568,827	10,475,418	23,549,477	23,658,503	30,444,015	83,205,185	1,155,349,497
Less: Accumulated depreciation	646,641,920	1,513,876	818,209	253,269	442,398	1,902,034	2,791,719	6,363,303	14,377,852	13,917,530	17,049,260	41,938,475	546,787,870
Other capital assets less reserves	187,185,365	559,435	430,547	54,885	74,004	174,800	235,118	453,533	1,232,488	1,359,850	1,902,579	7,061,694	174,205,868
Accounts and notes payable	590,193,026	2,658,828	2,231,178	129,850	297,800	953,409	1,705,257	3,637,741	9,156,274	11,748,149	14,365,080	40,990,167	504,978,122
Other current liabilities	322,650,832	1,385,960	1,296,476	10,015	79,468	348,275	618,901	1,262,776	2,898,764	3,414,412	4,914,204	15,896,889	291,910,651
Mortgages, notes, and bonds payable in one year or more	635,648,257	2,366,498	1,749,717	291,675	325,107	1,063,056	1,839,716	3,206,124	6,437,143	6,373,835	9,379,980	30,903,244	574,078,662
Net worth	1,191,672,659	764,296	422,610	69,010	272,676	1,128,558	1,430,726	4,378,194	13,304,601	16,206,570	21,110,448	69,467,177	1,063,882,089
Cost of property used for investment credit	15,014,258	*20,775	*19,913	—	863	—	*4,940	*20,887	*112,048	*18,803	*22,367	130,549	14,683,888
Total receipts	3,141,406,444	3,102,115	1,170,016	672,523	1,259,576	7,631,143	14,458,311	29,175,108	73,136,934	81,914,194	100,762,070	280,150,198	2,551,076,372
Business receipts	2,946,695,175	1,889,119	177,124	529,512	1,182,483	7,260,418	14,140,620	28,707,935	71,774,614	80,544,524	98,738,907	273,233,454	2,370,405,583
Cost of sales and operations	2,034,818,784	1,141,734	286,412	226,597	628,725	3,598,201	7,854,144	16,730,380	45,505,714	54,490,271	68,990,582	194,633,825	1,641,873,932
Taxes paid	74,611,472	137,716	63,613	22,798	51,305	275,894	550,957	1,002,660	2,184,477	2,041,184	2,368,678	5,671,213	60,378,694
Interest paid	100,783,073	244,091	187,758	19,756	36,577	170,670	264,406	442,602	1,080,542	1,115,883	1,602,540	4,716,324	91,146,014
Depreciation	121,174,522	254,922	139,038	45,714	70,169	339,656	615,219	1,157,761	2,408,582	2,249,708	2,785,797	7,674,019	103,688,857
Pension, profit-sharing, stock bonus, and annuity plans	16,833,570	4,167	799	*1,478	*1,890	24,026	85,560	195,286	451,808	460,342	544,360	1,155,335	13,912,685
Employee benefit programs	41,451,655	37,959	18,493	6,438	13,029	60,864	117,729	230,736	650,599	679,619	892,797	2,675,757	36,105,595
Net income (less deficit)	145,493,891	-1,393,443	-1,036,278	-108,529	-248,636	-191,190	-433,324	79,172	681,599	1,660,738	2,671,437	10,223,571	132,195,330
Income subject to tax, total	145,836,088	282,033	231,180	16,872	33,981	204,678	228,754	660,350	1,436,629	1,758,801	2,480,438	8,691,018	130,093,386
Income tax, total	57,286,912	91,678	80,627	3,267	7,784	40,666	39,187	133,914	371,997	566,923	909,400	3,428,294	51,704,853
Alternative minimum tax	712,520	*188	*188	—	—	*97	132	*716	1,996	2,267	3,289	32,567	671,269
Environmental tax	173,059	*62	*62	—	—	*4	5	*18	*1	*13	115	2,491	170,350
Foreign tax credit	16,931,616	*15	*15	—	—	—	—	*134	*1,134	*302	8,209	44,585	16,877,237
U.S. possessions tax credit	2,564,058	17,373	16,104	1,236	33	—	64	223	7,127	15,511	48,006	435,323	2,040,431
Orphan drug credit	5,154	—	—	—	—	—	—	—	—	—	—	—	5,154
Nonconventional source fuel credit	28,576	—	—	—	—	—	—	—	—	—	*38	*1,939	26,599
General business credit	3,709,348	3,508	*2,775	—	*733	2,172	5,857	19,072	32,233	43,902	32,249	124,576	3,445,779
Transportation and Public Utilities													
Number of returns	147,893	61,168	30,678	11,330	19,160	23,114	18,870	15,648	16,840	6,269	3,267	2,035	682
Total assets	1,352,512,937	8,492,552	5,720,852	847,137	1,924,563	2,759,229	4,575,732	6,235,287	12,568,829	11,902,060	12,583,609	35,131,351	1,258,264,288
Notes and accounts receivable, net	117,518,525	698,884	504,643	63,056	131,184	343,073	460,335	856,532	1,993,093	2,041,548	2,322,237	5,186,095	103,616,729
Inventories	31,236,728	40,109	33,378	*4,124	*2,607	53,898	85,313	121,283	182,419	249,990	282,546	589,154	29,632,016
Cash, Government obligations and other current assets	88,405,385	1,433,594	1,010,806	129,315	293,472	421,669	865,129	1,189,040	2,356,997	1,596,062	2,058,819	4,612,530	73,871,543
Other investments and loans	201,306,488	1,492,529	1,133,517	56,355	302,657	225,577	475,943	579,362	968,295	1,009,119	1,063,849	2,712,793	192,779,020
Depreciable assets	1,153,409,171	5,815,932	3,286,505	744,877	1,784,551	2,577,090	4,816,347	6,275,610	11,965,169	11,183,708	10,342,436	24,381,670	1,076,051,209
Less: Accumulated depreciation	354,488,250	2,473,193	1,226,576	333,226	913,391	1,328,360	2,650,326	3,557,366	6,483,442	5,515,994	5,033,011	9,598,896	317,847,662
Other capital assets less reserves	41,139,416	636,082	415,007	66,827	154,248	145,405	288,474	438,597	953,862	761,771	953,927	5,166,288	31,795,011
Accounts and notes payable	134,621,532	1,697,662	1,297,251	121,476	278,934	857,436	830,788	1,492,870	3,255,192	2,714,552	2,873,800	6,634,048	114,265,186
Other current liabilities	98,033,639	518,118	402,366	47,240	68,512	147,066	352,652	320,529	1,131,209	933,115	1,046,940	3,313,030	90,270,980
Mortgages, notes, and bonds payable in one year or more	423,390,784	3,065,189	1,968,852	316,160	780,176	1,001,716	1,681,845	2,204,279	4,109,672	4,034,965	4,189,112	12,942,922	390,161,083
Net worth	510,064,081	1,421,779	853,734	139,152	428,893	268,651	994,373	1,241,674	2,380,728	2,988,469	3,230,500	8,754,770	488,783,138
Cost of property used for investment credit	22,160,674	*24,748	*24,748	—	—	6,384	*36,824	*33,549	*16,914	102,387	*18,916	133,195	21,787,758
Total receipts	786,179,466	3,687,114	1,696,489	465,169	1,525,455	4,099,278	7,191,509	11,242,012	26,784,687	22,226,303	22,883,947	41,976,412	646,088,205
Business receipts	736,633,389	1,937,491	142,439	398,870	1,396,182	3,851,351	6,820,328	10,969,610	26,129,389	21,513,540	22,304,792	39,869,628	603,237,260
Cost of sales and operations	339,840,645	608,457	74,993	109,613	423,851	1,054,107	2,195,412	4,898,551	12,691,362	10,873,284	12,520,647	21,419,448	273,579,378
Taxes paid	34,980,799	153,245	67,710	21,876	63,659	163,917	303,110	452,547	918,872	724,089	766,539	1,320,108	30,178,370
Interest paid	47,132,799	310,279	195,881	32,335	82,063	133,287	207,599	265,245	549,390	504,835	507,221	1,465,991	43,188,952
Depreciation	77,051,204	495,422	224,810	79,975	190,637	321,476	574,645	725,802	1,362,511	1,230,694	1,209,021	2,460,367	68,671,266
Pension, profit-sharing, stock bonus, and annuity plans	5,538,103	13,610	*8,506	*277	*4,827	*6,722	15,662	24,412	97,776	96,068	100,193	144,235	5,039,424
Employee benefit programs	11,481,379	21,978	12,700	*1,548	7,730	16,504	52,072	71,075	194,840	174,095	164,137	417,668	10,369,009
Net income (less deficit)	37,466,726	-362,767	-287,137	-47,226	-28,404	-4,203	8,849	-62,975	289,462	192,041	349,700	531,383	36,525,237
Income subject to tax, total	43,818,326	203,555	124,608	17,559	61,387	76,481	165,609	215,019	548,123	419,812	411,839	1,135,384	40,642,503
Income tax, total	17,696,185	56,506	40,552	2,915	13,038	16,763	37,738	51,022	156,308	142,709	152,521	449,532	16,633,087
Alternative minimum tax	483,404	*315	*315	—	—	—	*239	*1,087	1,563	2,835	1,444	10,946	464,975
Environmental tax	63,571	*47	*47	—	—	—	*12	(3)	*56	*33	56	1,079	62,288
Foreign tax credit	332,278	*382	*382	—	—	*43	*7,152	—	—	*7,147	—	*3,245	314,310
U.S. possessions tax credit	53,171	—	—	—	—	—	—	—	—	—	—	—	53,171
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	14,953	26	26	—	—	—	—	—	—	—	—	*51	14,876
General business credit	2,526,632	2,454	*1,521	*456	*478	1,944	4,811	2,528	15,379	15,132	11,126	26,069	2,447,189

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	971,758	253,314	126,953	46,457	79,903	160,449	170,774	139,325	131,311	53,774	30,804	27,862	4,145
Total assets	1,177,668,920	15,643,448	9,195,210	1,863,523	4,584,715	12,828,950	23,407,454	35,672,779	70,590,432	62,191,748	67,260,765	168,850,028	721,223,317
Notes and accounts receivable, net	260,675,766	1,933,693	1,098,464	172,914	662,315	1,332,870	3,447,492	6,291,265	14,727,576	14,646,679	16,283,694	40,048,550	161,963,947
Inventories	336,380,034	2,225,354	716,492	420,744	1,088,118	3,685,829	7,852,491	12,232,254	24,386,076	23,080,221	25,417,558	65,430,170	172,070,082
Cash, Government obligations and other current assets	153,957,735	3,078,045	1,987,911	448,627	641,506	2,223,998	3,610,909	5,289,605	10,415,684	8,422,409	7,897,411	18,019,260	95,000,414
Other investments and loans	117,393,468	3,095,059	2,562,275	188,679	344,105	930,918	1,577,884	2,208,514	4,253,927	3,209,664	2,995,602	7,970,866	91,151,034
Depreciable assets	369,468,490	5,942,997	2,645,013	777,437	2,520,547	7,004,515	11,630,179	16,478,777	29,073,191	22,238,419	23,579,630	52,797,050	200,723,732
Less: Accumulated depreciation	166,935,434	2,667,028	1,082,438	369,545	1,215,045	3,813,956	6,936,966	9,650,686	17,104,820	12,680,810	12,994,514	25,434,003	75,652,651
Other capital assets less reserves	48,862,353	1,037,978	666,953	108,428	262,598	695,825	1,102,443	1,523,321	2,649,816	1,819,023	2,250,636	5,897,544	31,885,768
Accounts and notes payable	408,614,728	4,146,852	2,587,904	487,348	1,071,600	3,214,144	6,135,543	10,550,846	23,659,937	23,535,473	28,262,862	76,456,701	232,652,371
Other current liabilities	146,433,537	1,311,388	843,066	176,227	292,095	848,981	1,505,368	2,472,410	5,007,763	4,585,963	5,155,559	14,051,365	111,494,739
Mortgages, notes, and bonds payable in one year or more	220,577,820	5,423,405	3,595,637	478,651	1,349,117	3,230,846	5,147,578	6,898,663	11,772,686	8,728,834	8,692,994	23,660,308	147,022,505
Net worth	316,458,705	-1,012,258	-1,285,189	-6,060	278,991	567,525	5,439,847	10,919,952	23,648,519	21,299,467	21,297,659	47,088,296	187,209,698
Cost of property used for investment credit	946,556	*33,287	*33,287	—	—	*10,183	—	*3,216	*351	*29,166	*13,993	37,663	818,697
Total receipts	2,766,717,240	10,614,881	2,383,111	1,904,964	6,326,806	27,916,591	63,349,687	101,213,132	209,437,805	191,917,374	219,777,650	560,580,591	1,381,909,530
Business receipts	2,691,275,402	8,460,417	764,449	1,714,677	5,981,292	26,997,951	62,077,617	99,537,469	206,144,929	188,964,533	215,922,127	549,969,017	1,333,201,341
Cost of sales and operations	2,076,485,794	4,706,025	515,621	929,072	3,261,332	14,788,523	36,452,734	63,295,289	142,355,292	141,240,649	168,501,535	447,947,668	1,057,198,079
Taxes paid	39,071,425	387,173	114,934	71,326	200,913	918,089	1,691,276	2,470,961	4,187,425	3,054,677	3,166,707	6,659,243	16,535,873
Interest paid	43,641,104	440,050	276,208	38,974	124,868	424,560	810,174	1,217,435	2,142,926	1,878,866	2,041,508	5,489,387	29,196,199
Depreciation	38,736,624	607,861	246,717	76,830	284,315	790,182	1,278,549	1,747,951	3,197,414	2,348,974	2,512,352	5,856,625	20,396,718
Pension, profit-sharing, stock bonus, and annuity plans	7,358,588	36,775	14,580	*7,398	14,796	134,946	151,118	313,946	726,230	654,303	608,545	1,116,593	3,616,133
Employee benefit programs	11,645,009	39,078	11,597	7,547	19,933	98,867	229,016	341,125	701,331	673,068	700,883	1,951,397	6,910,244
Net income (less deficit)	38,040,057	-1,475,910	-742,175	-253,620	-480,114	-635,122	-77,830	498,342	2,489,815	2,305,004	2,886,947	7,374,543	24,674,268
Income subject to tax, total	41,908,201	257,998	127,304	29,266	101,427	359,522	858,435	1,339,643	2,818,327	2,371,204	2,469,960	5,631,167	25,801,945
Income tax, total	14,956,044	61,374	38,834	4,598	17,943	65,996	165,193	253,789	629,115	657,436	802,891	2,102,512	10,217,737
Alternative minimum tax	140,193	3,944	3,178	—	*767	*2	*4	*3	6,371	3,385	3,952	14,278	108,254
Environmental tax	30,871	*467	*462	—	5	—	*1,576	*3	*5	*31	611	689	27,488
Foreign tax credit	591,850	*874	*860	*14	—	—	*2	*4	*1,911	*49	*10,484	14,443	564,084
U.S. possessions tax credit	8,946	—	—	—	—	—	—	159	327	774	1,514	141	6,032
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	632	*271	*271	—	—	—	—	—	—	—	—	*29	*332
General business credit	359,849	5,367	*3,873	*82	1,411	4,000	5,614	11,177	27,093	20,718	23,253	45,513	217,113
Finance, Insurance, and Real Estate [2]													
Number of returns	521,136	316,392	194,190	58,174	64,029	84,164	44,561	29,010	21,606	9,930	6,307	6,543	2,623
Total assets	8,732,320,235	70,368,828	39,953,508	11,604,074	18,811,246	38,230,173	31,795,867	49,039,924	133,490,104	200,913,250	293,071,099	912,636,433	7,002,774,557
Notes and accounts receivable, net	2,442,563,105	4,099,093	1,863,433	1,037,705	1,197,955	3,803,715	3,867,373	8,556,748	39,538,672	67,820,930	89,800,925	208,322,978	2,016,752,671
Inventories	64,581,790	2,300,396	1,698,161	194,072	408,163	1,002,054	720,644	1,258,496	2,365,069	2,073,964	1,931,641	4,223,047	48,706,479
Cash, Government obligations and other current assets	2,004,130,103	13,325,552	6,238,770	2,302,508	4,784,274	8,604,948	7,052,405	12,790,747	39,105,996	60,618,619	79,100,498	219,655,170	1,563,876,168
Other investments and loans	3,501,897,131	22,084,129	14,598,999	3,130,382	4,354,748	8,735,389	8,163,577	12,261,699	31,479,520	52,310,279	103,068,914	420,143,283	2,843,650,342
Depreciable assets	287,080,902	19,464,535	8,191,339	4,088,591	7,184,604	13,039,447	11,522,536	12,868,974	18,336,491	14,507,509	13,863,258	37,551,458	145,926,695
Less: Accumulated depreciation	91,100,436	6,646,581	2,440,763	1,446,732	2,759,086	5,046,770	4,185,555	4,468,088	5,952,166	4,510,634	4,458,681	10,834,597	44,997,365
Other capital assets less reserves	85,802,953	12,169,999	7,327,777	1,823,681	3,018,541	6,345,875	3,567,789	3,582,861	4,813,580	3,538,634	3,302,321	10,243,161	38,238,733
Accounts and notes payable	924,823,625	9,529,350	5,556,003	952,364	3,020,982	5,337,656	4,824,496	6,949,257	15,327,065	12,679,215	16,138,839	49,326,253	804,711,496
Other current liabilities	4,157,863,888	4,246,480	2,597,838	540,711	1,107,930	2,697,601	2,702,794	10,449,855	66,564,257	127,516,378	188,525,398	515,226,599	3,239,934,528
Mortgages, notes, and bonds payable in one year or more	620,941,700	19,134,821	10,929,580	3,585,193	4,620,047	11,391,043	8,678,353	10,017,034	17,598,215	15,210,852	15,770,023	54,538,555	468,602,802
Net worth	1,634,925,235	22,829,195	11,840,621	4,339,199	6,649,374	12,191,330	11,963,719	16,313,980	26,932,884	38,061,892	61,635,799	244,595,105	1,200,401,332
Cost of property used for investment credit	3,245,125	*705	*446	—	*260	*5,743	*1,415	*2,143	16,319	63,072	55,174	61,496	3,039,057
Total receipts	1,589,218,435	7,974,142	1,293,004	2,092,199	4,588,940	13,955,955	15,744,498	19,752,437	34,055,954	35,180,492	43,919,367	137,223,074	1,281,412,516
Business receipts	818,286,705	4,663,897	572,338	1,153,071	2,938,488	10,576,759	12,157,551	14,872,260	22,234,463	17,547,411	19,214,343	58,401,459	658,618,563
Cost of sales and operations	470,673,440	751,317	120,560	178,729	452,028	1,703,114	2,350,335	4,068,731	7,785,601	7,372,188	8,245,494	31,904,522	406,492,138
Taxes paid	27,814,280	772,257	258,884	188,160	325,213	704,517	697,843	794,604	1,077,402	910,217	960,057	2,652,602	19,244,781
Interest paid	364,541,038	1,290,945	527,707	262,207	501,030	970,605	1,063,993	1,659,040	5,509,037	8,723,372	12,267,552	37,882,512	295,173,983
Depreciation	31,992,916	762,368	227,588	186,206	348,574	721,956	670,557	762,031	1,087,263	934,781	1,078,574	2,862,089	23,113,299
Pension, profit-sharing, stock bonus, and annuity plans	5,780,439	34,069	5,475	*4,246	24,348	155,331	141,052	241,594	256,132	194,325	221,269	460,363	4,076,304
Employee benefit programs	9,286,407	35,959	10,784	7,091	18,085	96,800	113,635	112,400	246,211	242,074	291,963	819,274	7,328,092
Net income (less deficit)	87,403,218	-2,255,782	-2,241,123	31,567	-46,226	281,428	509,267	105,003	815,283	956,373	2,307,974	12,091,349	72,592,322
Income subject to tax, total	51,171,985	744,033	156,641	213,468	373,925	836,300	756,306	866,047	1,487,389	1,535,561	2,300,269	6,338,903	36,307,177
Income tax, total	19,264,979	127,926	28,938	35,001	63,987	170,089	186,091	241,885	492,851	567,719	881,972	2,538,718	14,057,728
Alternative minimum tax	594,299	526	*194	*7	325	432	856	6,908	8,284	19,269	23,387	61,373	473,265
Environmental tax	67,224	—	—	—	—	*5	*6	*8	50	160	323	6,467	60,206
Foreign tax credit	2,216,284	90	*26	*14	*50	562	1,091	*1,094	69	4,185	3,146	44,570	2,161,477
U.S. possessions tax credit	9,725	7	—	—	7	37	—	—	674	1,579	986	1,830	4,612
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	4,177	—	—	—	—	*11	*3	—	—	*1	—	*41	4,121
General business credit	691,803	1,751	524	*176	1,051	3,303	4,537	6,125	6,406	5,241	8,964	28,656	626,821

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

RETURNS OF ACTIVE CORPORATIONS

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

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

Industrial division, item	Total returns of active corporations	Size of business receipts: Under $100,000 [1]	Under $25,000 [1]	$25,000 under $50,000	$50,000 under $100,000	$100,000 under $250,000	$250,000 under $500,000	$500,000 under $1,000,000	$1,000,000 under $2,500,000	$2,500,000 under $5,000,000	$5,000,000 under $10,000,000	$10,000,000 under $50,000,000	$50,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Services													
Number of returns	1,119,604	502,330	268,778	100,096	133,457	248,153	179,598	101,827	59,493	17,121	6,315	4,091	676
Total assets	435,561,919	30,595,087	20,388,155	3,854,736	6,352,196	20,047,298	24,518,259	26,981,527	33,850,789	26,113,446	24,259,113	48,745,493	200,450,907
Notes and accounts receivable, net	74,618,504	3,135,035	2,385,462	290,393	459,180	1,664,189	3,079,982	3,923,028	6,299,312	5,300,038	4,981,711	10,907,731	35,327,479
Inventories	18,485,400	551,192	300,313	105,100	145,778	673,952	884,466	1,193,629	1,873,592	1,183,073	1,156,723	2,385,186	8,583,586
Cash, Government obligations and other current assets	69,805,186	5,908,042	3,694,386	722,291	1,491,365	5,265,918	6,333,373	6,323,551	6,942,817	4,652,142	4,533,008	8,301,918	21,544,416
Other investments and loans	73,224,007	7,343,097	5,455,994	811,862	1,075,241	3,250,729	3,781,439	3,198,048	3,552,991	2,697,328	2,709,415	5,308,965	41,381,997
Depreciable assets	244,001,367	17,190,710	9,881,153	2,642,366	4,667,191	17,609,417	19,477,354	21,340,032	24,450,677	17,641,701	13,959,454	26,147,774	86,184,248
Less: Accumulated depreciation	108,377,567	8,157,006	4,478,039	1,223,332	2,455,635	10,582,335	11,530,798	11,972,398	12,499,843	8,239,266	5,994,096	10,992,291	28,409,535
Other capital assets less reserves	28,944,518	2,012,150	1,277,297	217,082	517,771	1,162,777	1,203,152	1,684,873	1,680,695	1,448,711	1,365,358	3,312,815	15,073,987
Accounts and notes payable	78,249,933	5,170,099	3,733,578	615,991	820,530	3,178,063	4,274,836	5,180,174	8,205,901	6,269,503	6,053,109	11,166,634	28,751,612
Other current liabilities	50,336,309	3,234,134	2,528,140	280,498	425,496	2,203,909	2,540,475	3,160,817	4,104,836	3,619,067	3,707,772	6,317,736	21,447,562
Mortgages, notes, and bonds payable in one year or more	134,920,822	9,455,076	6,003,417	1,305,417	2,146,242	7,080,600	5,838,922	7,516,436	9,610,074	7,361,907	6,881,235	13,411,501	67,765,071
Net worth	112,415,645	3,639,820	2,080,526	289,521	1,269,772	2,759,008	7,457,666	7,338,120	8,148,297	6,219,873	4,877,211	13,243,929	58,731,720
Cost of property used for investment credit	1,328,761	*5,839	*980	—	*4,859	*46,052	*7,306	*6,291	*5,390	*2,282	*9,036	156,614	1,089,951
Total receipts	663,133,101	24,972,580	10,431,360	4,171,893	10,369,327	43,276,712	65,072,405	73,088,632	90,159,157	59,866,506	45,447,292	83,499,454	177,750,363
Business receipts	616,469,154	15,343,278	1,766,152	3,708,381	9,868,744	40,860,347	63,138,306	70,692,818	87,938,554	57,879,914	43,333,401	78,637,142	158,645,395
Cost of sales and operations	219,817,625	3,260,657	518,465	781,336	1,960,856	9,167,910	14,446,914	18,335,930	28,327,844	20,201,946	18,539,963	36,698,830	70,837,632
Taxes paid	21,295,199	879,228	344,615	166,394	368,218	1,587,253	2,331,323	2,493,089	2,893,926	1,810,627	1,418,456	2,594,292	5,287,005
Interest paid	19,750,647	1,068,008	709,339	126,545	232,125	877,034	935,619	1,170,411	1,432,260	1,042,921	1,005,463	1,833,956	10,384,974
Depreciation	30,068,715	1,820,096	973,124	301,744	545,228	2,048,943	2,376,085	2,463,817	2,831,476	1,970,534	1,723,156	3,196,037	11,638,571
Pension, profit-sharing, stock bonus, and annuity plans	8,792,825	308,821	142,970	44,103	121,748	924,201	1,750,381	1,526,715	1,383,287	760,552	426,645	706,374	1,005,847
Employee benefit programs	7,225,832	137,726	63,101	34,076	40,550	243,074	415,523	551,837	745,689	525,682	468,136	1,356,730	2,781,435
Net income (less deficit)	9,251,928	-1,144,849	-1,084,981	-409,311	349,443	391,250	998,441	1,110,003	986,269	530,650	53,825	1,501,653	4,824,686
Income subject to tax, total	16,169,311	1,152,736	606,431	130,967	415,338	1,266,890	1,638,752	1,660,240	1,374,737	813,890	583,897	1,707,656	5,970,513
Income tax, total	5,033,943	260,193	158,899	22,009	79,285	235,955	302,168	358,737	351,620	260,575	209,829	667,234	2,387,631
Alternative minimum tax	108,591	4,548	4,542	7	—	*697	*523	6,680	3,223	3,855	4,489	13,247	71,329
Environmental tax	8,682	103	103	—	—	—	5	*12	*41	46	22	681	7,772
Foreign tax credit	347,247	*3,979	*3,972	—	*7	*796	*15	*4,934	*4,193	*1,335	*3,112	38,439	290,443
U.S. possessions tax credit	26,127	1,250	1,250	—	—	—	42	53	289	7,520	1,232	9,015	6,726
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	*214	—	—	—	—	—	*105	—	*1	—	—	—	108
General business credit	448,016	20,897	10,302	2,058	8,537	11,189	23,319	26,467	32,023	14,824	13,780	44,715	260,801
Nature of Business not Allocable													
Number of returns	27,767	21,859	18,139	*2,417	*1,304	2,883	1,565	694	510	*133	82	*36	*5
Total assets	3,266,227	1,260,603	1,083,977	*49,463	*127,164	201,291	251,991	316,081	366,367	*217,124	*310,905	*217,691	*124,176
Notes and accounts receivable, net	590,868	132,236	103,137	*18	*29,080	45,754	*25,818	*43,388	*58,859	*60,973	*73,253	*61,617	*88,970
Inventories	425,939	100,689	98,931	—	*1,758	30,396	67,586	*55,493	*29,750	*35,577	*57,714	*47,847	886
Cash, Government obligations and other current assets	577,062	239,613	224,528	*6,450	*8,634	56,566	42,839	50,283	43,888	*66,220	*31,893	*21,215	*24,545
Other investments and loans	411,844	265,269	224,326	*3,037	*37,906	*6,225	*24,577	*50,553	*11,498	*5,895	*18,928	*28,899	—
Depreciable assets	1,288,428	436,672	357,440	*37,764	*41,468	75,172	125,982	173,501	282,109	*64,542	*52,934	*69,576	*7,940
Less: Accumulated depreciation	480,282	87,802	75,378	*1,450	*10,975	35,635	66,721	*93,075	116,328	*36,389	*16,853	*20,404	*7,074
Other capital assets less reserves	271,399	96,806	79,469	*3,368	*13,969	*10,236	*20,585	*28,091	*46,835	*19,254	*45,934	*3,558	100
Accounts and notes payable	1,033,868	247,766	235,450	*2,506	*9,810	40,943	46,018	110,123	172,218	*165,423	*70,320	*98,296	*82,761
Other current liabilities	280,940	56,074	18,340	*1,258	*36,476	17,615	*35,202	*24,377	*21,549	*42,138	*29,899	*47,293	*6,793
Mortgages, notes, and bonds payable in one year or more	1,160,850	794,424	746,052	*14,795	*33,578	*21,786	*48,935	*93,483	84,299	*17,864	*79,314	*20,331	415
Net worth	162,906	-205,378	-192,693	*-18,826	*6,140	41,158	59,343	50,877	76,081	*-18,435	*87,662	*37,393	*34,206
Cost of property used for investment credit	*4,955	—	—	—	—	—	—	—	—	—	—	*4,955	—
Total receipts	5,371,937	464,298	276,962	*87,257	*100,079	497,285	567,675	544,335	698,127	*535,597	579,437	*732,245	*752,938
Business receipts	5,030,285	260,234	82,841	*81,673	*95,720	458,823	551,402	532,798	674,017	*529,087	567,089	*706,246	*750,589
Cost of sales and operations	3,185,924	84,910	24,137	*19,000	*41,774	253,048	288,761	335,853	219,335	*293,976	437,929	*564,977	*707,134
Taxes paid	112,541	27,617	20,600	*2,125	*4,893	8,886	25,051	9,477	20,079	*8,826	6,979	*5,461	*164
Interest paid	106,084	41,776	34,117	*3,720	*3,939	*2,528	7,410	13,780	12,355	*6,079	9,179	*7,901	*5,076
Depreciation	168,277	45,647	30,507	*8,388	*6,752	14,243	13,651	*17,010	43,920	*6,122	7,125	*18,766	*1,795
Pension, profit-sharing, stock bonus, and annuity plans	22,503	*20	*20	—	—	—	*94	—	*3,917	*13,564	*4,567	*309	*32
Employee benefit programs	14,073	1,159	954	—	*205	*3,678	—	*1,004	*2,525	*1,042	*1,133	*3,452	*79
Net income (less deficit)	-34,301	-82,589	-56,837	*-26,809	*1,057	-43,174	7,359	15,799	23,318	*385	-2,806	*18,084	*29,322
Income subject to tax, total	84,687	27,791	26,204	—	*1,587	*13,206	*1,748	*805	*10,958	*2,867	*12,715	*4,847	*9,750
Income tax, total	23,155	6,664	6,426	—	*238	*2,555	*336	*121	*2,282	*481	*4,485	*2,375	*3,858
Alternative minimum tax	*505	—	—	—	—	—	—	—	*133	—	7	*365	—
Evironmental tax	*6	—	—	—	—	—	—	—	—	—	—	*6	—
Foreign tax credit	1	1	1	—	—	—	—	—	—	—	—	—	—
U.S. possessions tax credit	1,588	—	—	—	—	—	—	—	—	66	—	1,522	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	—	—	—	—	—	—	—	—	—	—	—	—	—
General business credit	*1,099	—	—	—	—	—	—	*121	*518	*98	—	*82	280

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

RETURNS OF ACTIVE CORPORATIONS

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

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

Item	Total returns of active corporations: Number of returns	Total returns of active corporations: Amount	Accounting period ended[1]: July 1987	August 1987	September 1987	October 1987	November 1987	December 1987	January 1988	February 1988	March 1988	April 1988	May 1988	June 1988
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Returns With and Without Net Income														
Number of returns	3,612,133	—	111,221	121,040	296,702	155,618	97,125	1,981,357	86,794	77,577	193,574	93,763	98,457	298,905
Total receipts	3,442,196	9,580,720,701	198,907,743	209,960,074	575,371,189	299,917,885	182,735,250	5,971,954,241	390,138,808	182,929,345	512,652,728	193,228,729	230,603,405	632,321,304
Net income (less deficit)	3,574,668	328,223,710	7,533,835	8,381,532	16,570,848	14,754,547	10,481,047	218,309,532	11,939,509	5,059,454	9,863,482	5,866,364	5,165,429	14,298,130
Total income tax	1,162,693	118,484,975	1,618,652	1,795,751	4,985,231	2,638,993	2,535,965	86,533,301	4,183,250	1,509,185	3,241,663	1,867,990	1,746,034	5,828,961
Returns With and Without Net Income, Other Than Forms 1120S, 1120-IC-DISC and 1120-FSC														
Number of returns	2,480,430	—	97,305	104,673	248,663	133,488	79,621	1,026,730	80,778	71,709	181,968	87,134	91,358	277,002
Total receipts	2,397,155	8,586,151,245	181,097,617	195,876,335	528,089,069	272,371,001	166,593,006	5,234,728,729	375,526,873	167,751,087	481,493,187	174,658,933	217,111,570	590,853,840
Net income (less deficit)	2,449,102	302,521,335	7,142,306	7,845,583	14,638,096	13,840,741	10,070,385	202,985,510	11,116,382	4,260,890	8,289,966	5,131,984	4,440,219	12,759,273
Statutory special deductions, total	564,978	60,412,287	1,249,918	1,327,656	3,335,500	1,761,671	1,148,635	40,627,755	1,473,391	1,176,104	2,570,894	976,266	1,196,190	3,568,307
Net operating loss deduction	468,072	49,022,993	931,622	1,214,997	2,991,439	1,443,363	985,876	31,981,953	1,238,411	1,073,070	2,345,671	854,464	1,101,926	2,860,202
Total special deductions	108,082	11,389,294	318,296	112,659	344,061	318,308	162,759	8,645,802	234,980	103,034	225,223	121,802	94,265	708,105
Income subject to tax, total	1,122,646	310,362,332	4,420,329	4,822,414	13,529,373	7,322,488	6,871,425	219,995,088	11,034,756	4,253,918	9,515,479	5,403,725	5,174,329	18,019,007
Net long-term capital gain taxed at alternative rates	20,964	29,013,635	186,432	358,730	1,195,439	535,117	919,165	24,214,626	382,537	246,401	351,914	359,927	188,116	75,230
Income taxed at regular rates	1,121,943	281,348,697	4,233,896	4,463,684	12,333,935	6,787,371	5,952,261	195,780,461	10,652,219	4,007,517	9,163,565	5,043,798	4,986,213	17,943,777
Income tax, total	1,152,344	117,901,113	1,610,058	1,792,067	4,968,471	2,621,316	2,530,951	86,081,330	4,177,084	1,507,037	3,228,890	1,860,173	1,730,523	5,793,213
Regular and alternative tax	1,122,634	114,534,015	1,585,057	1,764,341	4,904,832	2,594,776	2,520,010	83,406,751	4,095,824	1,459,673	3,118,042	1,768,694	1,676,757	5,639,259
Personal holding company tax	2,750	10,214	*227	*645	*562	*228	27	3,910	*746	*55	*646	*767	*229	2,172
Tax from recomputing prior-year investment credit	85,407	761,915	12,457	12,036	42,421	18,653	9,174	572,626	19,566	4,833	20,135	7,141	13,393	29,479
Alternative minimum tax	17,168	2,227,011	12,226	12,989	19,320	7,270	1,204	1,788,555	48,338	38,016	80,488	78,686	33,521	106,396
Environmental tax	8,719	351,110	90	2,056	1,336	390	537	297,461	12,582	3,775	7,136	4,856	5,172	15,721
Foreign tax credit	4,683	20,812,819	26,071	91,495	388,150	236,685	287,707	18,567,519	69,759	163,818	128,030	145,458	152,653	555,472
U.S. possessions tax credit	459	2,666,634	27,065	23,022	63,850	56,494	570,308	1,660,426	11,942	29,252	17,745	63,827	8,287	134,417
Orphan drug credit	8	5,154	—	2,373	—	—	—	2,780	—	—	—	—	—	—
Nonconventional source fuel credit	618	52,439	*11	4,220	6,759	*550	*1,614	35,283	*4	*1,631	*417	*1,068	*223	659
General business credit	201,410	7,959,117	101,001	112,266	274,334	127,122	105,282	6,517,643	98,111	39,507	115,036	51,688	93,695	323,432
Total income tax after credits[2]	1,062,600	86,404,936	1,455,909	1,558,691	4,235,379	2,200,465	1,566,041	59,297,678	3,997,268	1,272,829	2,967,649	1,598,131	1,475,665	4,779,231
Returns With Net Income, Other Than Forms 1120S, 1120-IC-DISC and 1120-FSC														
Number of returns	1,418,531	—	58,917	60,844	149,203	82,404	46,891	558,999	43,803	42,069	110,845	50,066	54,555	159,934
Total receipts	1,418,531	6,497,387,978	133,823,192	155,688,324	387,866,270	207,894,673	127,592,117	3,931,578,342	311,763,143	131,345,972	355,910,953	137,816,322	172,591,629	443,517,041
Net income	1,418,531	418,685,444	9,530,942	10,223,594	24,058,522	17,529,755	12,346,832	269,714,780	14,085,234	7,301,549	15,607,986	7,448,704	7,080,081	23,757,467
Statutory special deductions, total	542,820	56,875,913	1,240,600	1,320,164	3,127,875	1,747,046	1,138,735	37,495,930	1,456,247	1,152,304	2,530,584	956,232	1,191,594	3,518,601
Net operating loss deduction	467,375	47,051,026	931,622	1,214,997	2,825,024	1,443,363	984,792	30,179,733	1,238,411	1,073,070	2,343,889	854,464	1,101,926	2,859,736
Total special deductions	86,534	9,824,886	308,978	105,167	302,851	303,684	153,943	7,316,197	217,836	79,234	186,695	101,768	89,669	658,866
Income subject to tax, total	1,122,568	309,998,089	4,420,329	4,822,414	13,529,373	7,322,441	6,871,425	219,639,986	11,031,453	4,253,918	9,512,480	5,403,535	5,174,329	18,016,406
Net long-term capital gain taxed at alternative rates	20,958	28,867,199	186,432	358,730	1,195,439	535,117	919,165	24,068,190	382,537	246,401	351,914	359,927	188,116	75,230
Income taxed at regular rates	1,121,866	281,130,891	4,233,896	4,463,684	12,333,935	6,787,324	5,952,261	195,571,795	10,648,916	4,007,517	9,160,566	5,043,608	4,986,213	17,941,176
Income tax, total	1,130,644	117,276,315	1,606,920	1,790,610	4,952,212	2,617,170	2,529,921	85,550,550	4,168,722	1,501,703	3,213,220	1,849,926	1,724,625	5,770,735
Regular and alternative tax	1,122,556	114,458,520	1,585,057	1,764,341	4,904,832	2,594,769	2,520,010	83,334,203	4,094,547	1,459,673	3,117,322	1,768,636	1,676,757	5,638,375
Personal holding company tax	2,729	9,681	*227	*645	*562	*228	—	3,496	*746	*52	*558	*767	*229	2,172
Tax from recomputing prior-year investment credit	65,871	611,448	10,714	10,679	29,380	14,965	8,278	456,853	18,092	3,143	15,692	6,275	12,000	25,378
Alternative minimum tax	14,693	1,839,403	10,836	12,889	16,104	6,829	1,097	1,456,764	42,780	34,382	70,261	69,398	29,056	89,007
Environmental tax	8,527	344,132	85	2,056	1,334	379	537	290,752	12,534	3,769	7,104	4,821	5,143	15,618
Foreign tax credit	4,677	20,803,079	26,071	91,495	388,150	236,685	287,707	18,558,500	69,759	163,818	127,309	145,458	152,653	555,472
U.S. possessions tax credit	459	2,666,634	27,065	23,022	63,850	56,494	570,308	1,660,426	11,942	29,252	17,745	63,827	8,287	134,417
Orphan drug credit	8	5,154	*	2,373	—	—	—	2,780	—	—	—	—	—	—
Nonconventional source fuel credit	618	52,439	*11	4,220	6,759	*550	*1,614	35,283	*4	*1,631	*417	*1,068	*223	659
General business credit	201,398	7,955,932	101,001	112,266	274,334	127,122	105,282	6,514,476	98,111	39,507	115,036	51,688	93,695	323,414
Total income tax after credits[2]	1,040,903	85,793,063	1,452,771	1,557,234	4,219,120	2,196,319	1,565,011	58,779,085	3,988,906	1,267,495	2,952,700	1,587,884	1,469,767	4,756,772
Estimated tax payments:														
1986 overpayments claimed as a credit	290,671	6,810,618	128,876	146,523	410,370	176,318	109,504	4,378,379	242,510	84,560	306,190	144,295	137,724	545,370
1987 estimated tax payments	497,928	70,879,295	1,155,404	1,246,231	3,668,977	1,734,311	1,138,737	49,665,327	3,024,553	1,012,998	2,121,900	1,341,743	1,185,761	3,583,354
Less: Refund of estimated tax payments	4,879	2,317,001	85,767	69,769	133,803	42,801	19,853	1,705,339	25,133	11,770	46,697	76,458	21,867	77,743
Payments with applications for:														
Extension of filing time	187,274	15,354,775	336,119	270,126	684,204	462,043	398,612	9,722,675	1,033,285	241,206	735,995	265,830	258,812	945,868
Other credits and payments, total[3]	20,535	225,937	1,579	2,363	6,934	2,244	2,552	189,527	2,362	1,255	2,939	4,172	1,982	8,029
Tax due at time of filing	631,101	5,841,042	171,599	177,811	429,126	232,044	160,469	3,294,719	159,629	119,320	347,694	151,626	138,194	458,811
Tax overpayment	422,932	11,022,286	252,855	213,835	839,957	365,067	222,929	6,827,825	444,715	177,858	507,378	241,274	228,612	699,981

* Estimate should be used with caution because of the small number of sample returns on which it is based.
[1] Includes full and part-year returns.
[2] Credits include foreign tax, U.S. possessions tax, nonconventional source fuel, orphan drug, general business, and 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	**1,127,905**	**46,796**	**13,734**	**115,705**	**83,980**	**55,722**	**327,354**	**135,672**	**339,640**	**9,303**
With net income	**573,583**	**20,478**	**5,128**	**70,773**	**41,342**	**28,821**	**161,515**	**63,281**	**179,230**	**3,017**
Total assets	**443,723,257**	**15,086,809**	**7,073,341**	**46,326,190**	**84,222,461**	**19,835,534**	**143,281,030**	**69,938,951**	**57,170,242**	**788,699**
Cash	44,333,827	1,194,476	1,002,221	5,689,380	8,143,744	1,900,702	13,497,203	5,895,592	6,876,699	133,810
Notes and accounts receivable	84,436,427	1,165,160	928,640	10,624,374	21,156,710	2,976,758	29,102,339	10,164,345	8,251,597	66,504
Less: Allowance for bad debts	1,371,508	3,562	6,803	66,462	367,463	39,577	599,776	129,741	157,950	*174
Inventories	94,372,378	1,419,953	328,775	9,432,664	19,609,385	321,397	53,053,922	7,888,224	2,177,836	140,220
Investments in Government obligations	4,924,700	152,444	*148,087	342,118	946,817	153,756	430,240	2,512,183	238,993	*61
Other current assets	26,002,752	382,698	312,407	5,625,149	3,388,287	1,121,808	4,747,963	7,630,610	2,738,281	55,548
Loans to shareholders	8,214,204	422,877	171,622	980,675	889,366	385,657	1,824,124	1,717,967	1,818,885	*3,031
Mortgage and real estate loans	7,066,408	272,144	*24,951	751,633	280,378	72,237	554,143	4,413,703	648,240	*48,978
Other investments	26,990,394	1,363,266	953,159	2,176,689	4,593,594	1,003,742	4,731,515	8,514,004	3,649,468	*4,957
Depreciable assets	208,872,909	11,158,706	5,186,101	15,934,276	45,692,795	17,762,215	54,391,959	14,174,124	44,186,040	386,692
Less: Accumulated depreciation	106,634,188	6,810,177	3,385,852	9,296,810	25,338,488	8,920,292	27,852,648	4,514,439	20,352,207	163,273
Depletable assets	1,888,051	283,412	936,326	117,502	208,826	*54,992	115,662	106,671	64,660	—
Less: Accumulated depletion	715,112	159,798	356,126	30,946	44,094	*20,453	39,704	23,412	40,578	—
Land	22,240,158	3,623,402	334,068	2,263,211	1,651,244	540,045	3,658,456	7,144,324	2,973,964	51,445
Intangible assets (amortizable)	9,667,720	55,690	81,420	185,796	1,976,561	1,407,662	3,024,530	899,759	2,012,078	*24,224
Less: Accumulated amortization	3,309,249	21,668	11,337	64,854	751,275	384,499	1,019,591	313,049	732,740	*10,236
Other assets	16,743,387	587,786	425,682	1,661,794	2,186,076	1,499,386	3,660,691	3,858,085	2,816,975	46,913
Total liabilities	**443,723,257**	**15,086,809**	**7,073,341**	**46,326,190**	**84,222,461**	**19,835,534**	**143,281,030**	**69,938,951**	**57,170,242**	**788,699**
Accounts payable	58,095,429	654,847	609,979	7,693,194	11,605,049	1,974,771	24,838,843	5,541,114	5,098,528	79,105
Mortgages, notes, and bonds payable in less than one year	69,239,166	2,619,270	416,474	7,644,630	8,301,700	2,201,975	30,090,065	11,003,972	6,839,960	121,121
Other current liabilities	39,762,608	393,409	351,600	7,046,129	7,248,627	1,229,641	10,380,820	7,497,068	5,587,114	28,201
Loans from shareholders	44,694,469	2,612,118	1,420,580	2,914,818	4,057,458	2,544,973	12,485,853	8,240,634	10,300,145	117,890
Mortgages, notes, and bonds payable in one year or more	94,253,472	4,338,756	1,429,705	6,263,830	13,268,480	7,076,075	22,059,215	20,180,939	19,432,888	203,584
Other liabilities	17,972,375	646,650	451,466	2,801,692	2,381,958	989,725	2,346,408	5,645,867	2,617,170	91,439
Capital stock	23,106,941	2,195,971	401,411	1,131,331	3,559,470	1,323,127	7,505,512	3,285,434	3,589,181	115,504
Paid-in or capital surplus	28,499,527	2,183,108	2,065,372	1,495,711	3,148,346	2,091,489	6,708,960	5,673,369	5,089,837	*43,336
Shareholders' undistributed taxable income previously taxed[1]	-2,016,435	-492,938	-419,388	115,660	613,461	-722,418	651,750	-815,395	-977,015	*29,847
Accumulated adjustments account[1]	-1,047,355	-1,227,002	-1,387,974	2,240,983	4,637,471	-1,518,697	905,029	140,299	-4,779,033	-58,431
Other adjustments account[1]	1,267,730	-7,003	89,230	160,790	443,240	87,314	217,111	160,159	116,975	*-86
Other retained earnings[1]	77,669,537	1,511,255	1,805,568	7,510,895	27,055,820	2,857,056	27,823,841	3,810,183	5,258,732	36,187
Less: Cost of treasury stock	7,774,206	341,630	160,681	693,474	2,098,618	299,497	2,732,377	424,692	1,004,239	*18,998
Total receipts	**972,246,266**	**21,345,878**	**7,467,589**	**98,147,701**	**178,761,781**	**36,193,733**	**477,666,231**	**42,117,731**	**109,305,372**	**1,240,251**
Business receipts	951,305,832	20,359,287	6,992,279	96,672,310	176,466,911	35,289,696	470,997,341	37,738,346	105,604,058	1,185,604
Net long-term capital gain reduced by net short-term capital loss	55,563	*831	*65	*4,373	*4,683	*2,521	*10,849	*19,163	*13,079	—
Net gain, noncapital assets	1,707,940	97,319	60,202	117,976	299,823	220,708	352,077	221,724	338,111	—
Other receipts[2]	19,176,930	888,442	415,042	1,353,042	1,990,364	680,807	6,305,964	4,138,498	3,350,124	54,646
Total deductions	**948,039,189**	**21,361,622**	**6,853,887**	**94,766,560**	**170,351,790**	**35,868,014**	**470,482,254**	**40,486,387**	**106,680,649**	**1,188,026**
Cost of sales and operations	652,887,817	15,059,683	3,405,117	74,386,390	123,936,067	17,948,754	362,671,222	16,190,473	38,678,424	611,688
Compensation of officers	34,448,476	384,451	200,866	3,264,225	6,182,579	1,162,878	10,003,340	4,124,890	9,093,944	*31,303
Repairs	5,292,068	322,595	70,933	361,745	809,075	567,371	1,858,041	184,385	1,109,755	8,167
Bad debts	2,286,225	45,816	18,079	150,774	492,049	89,343	935,315	228,051	323,996	*2,800
Rent paid on business property	18,269,050	426,784	67,820	640,948	1,679,281	1,218,693	8,143,507	963,952	5,086,389	41,677
Taxes paid	19,226,129	386,296	295,266	1,854,893	3,594,039	1,126,634	6,973,403	984,879	3,967,977	42,742
Interest paid	13,072,055	645,229	174,821	900,259	2,014,591	823,056	4,225,160	1,908,297	2,357,480	23,162
Amortization	1,269,254	6,813	6,117	33,831	219,576	155,409	423,235	153,626	269,183	*1,465
Depreciation	20,179,878	1,013,026	545,562	1,617,388	4,139,652	2,200,820	5,341,018	739,449	4,545,113	37,850
Depletion	176,541	*242	142,409	12,678	12,572	*1,884	5,826	*145	*785	—
Advertising	10,031,353	56,046	24,473	327,847	1,537,338	217,006	5,878,355	521,163	1,455,723	13,401
Pension, profit-sharing, stock bonus, and annuity plans	3,480,002	31,538	35,876	311,302	915,428	104,134	1,001,545	265,469	809,830	*4,879
Employee benefit programs	5,014,431	40,633	104,691	493,561	1,343,018	269,395	1,521,766	218,302	1,019,524	*3,540
Net loss, noncapital assets	240,591	6,578	*5,076	4,789	20,912	8,411	101,819	20,327	72,490	*189
Other deductions	162,165,324	2,935,893	1,756,781	10,405,929	23,455,611	9,974,227	61,398,703	13,982,979	37,890,038	365,162
Total receipts less total deductions	24,207,077	-15,744	613,701	3,381,141	8,409,991	325,719	7,183,977	1,631,344	2,624,723	52,225
Net income (less deficit)	24,151,513	-16,575	613,636	3,376,768	8,405,308	323,197	7,173,128	1,612,181	2,611,643	52,225
Net income	44,994,123	1,080,281	1,114,493	5,077,296	10,774,145	1,747,217	12,616,778	5,100,561	7,387,792	95,559

*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.

[2] Other receipts include other income, and rents and royalties reported from returns filing on 1986 forms. Starting with the 1987 Form 1120S rents and royalties were reported on Schedule K (Shareholders' Shares of Income) and not included in total receipts.

NOTE: Active S Corporations filing Form 1120S returns reported "Income subject to tax" of $185,902,000 and "Income tax" of $76,705,000. Detail may not add to total because of rounding. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS, FORM 1120-A

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

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

Item	All industrial divisions	Industrial division								
		Agriculture, forestry, and fishing	Mining	Construction	Manufacturing	Transportation and public utilities	Wholesale and retail trade	Finance, insurance, and real estate	Services	Nature of business not allocable
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Number of returns, total	**238,730**	**5,918**	**4,213**	**21,710**	**10,072**	**9,814**	**49,259**	**46,334**	**88,306**	**5,103**
With net income	**106,364**	**2,635**	***1,631**	**9,673**	**5,105**	**4,149**	**22,080**	**19,951**	**40,234**	***905**
Total assets	**7,961,632**	**268,067**	**215,039**	**638,995**	**414,591**	**234,538**	**1,601,485**	**2,061,574**	**2,418,911**	**108,433**
Cash	1,586,207	42,418	17,762	175,984	83,109	49,028	249,002	348,896	592,794	27,214
Notes and accounts receivable	767,381	*9,205	*47,694	90,774	78,841	*20,811	171,974	156,641	173,384	*18,057
Less: Allowance for bad debts	6,650	*53	—	*175	*107	*24	*4,671	*1,505	*111	*4
Inventories	642,255	*19,149	*1,215	44,999	38,123	*3,309	429,791	—	89,865	*15,803
Investments in Government obligations	44,104	—	—	*2,416	—	—	*7,242	*7,606	*26,840	—
Other current assets	426,712	*7,094	*29,371	34,276	23,578	*11,719	53,544	72,132	187,495	*7,502
Loans to stockholders	609,637	*9,957	*16,206	61,550	*17,768	*7,700	98,423	135,508	262,521	*3
Mortgage and real estate loans	155,283	*4,531	—	*184		*7,507	*11,553	103,150	*28,245	*113
Depreciable, depletable, and intangible assets	5,317,322	302,610	162,809	441,610	404,825	167,940	961,345	1,257,049	1,608,604	*10,531
Less: Accumulated depreciation, depletion, and amortization	3,091,812	211,377	121,588	291,164	257,537	89,445	574,093	605,220	935,674	*5,713
Land	719,383	*50,175	*4,694	*41,976	*129	*68	58,388	429,865	123,775	*10,312
Other assets	791,809	34,356	*56,876	36,564	25,863	55,926	138,986	157,452	261,174	24,613
Total liabilities	**7,961,632**	**268,067**	**215,039**	**638,995**	**414,591**	**234,538**	**1,601,485**	**2,061,574**	**2,418,911**	**108,433**
Accounts payable	649,298	14,170	*6,490	62,385	27,768	*4,210	234,027	129,042	152,416	*18,790
Other current liabilities	609,837	9,336	*14,835	53,050	11,523	8,468	130,794	156,720	217,388	*7,723
Loans from stockholders	1,530,792	52,474	127,817	76,579	112,549	19,793	488,650	276,891	351,741	*24,298
Mortgages, notes, and bonds payable in one year or more	2,458,569	130,850	*102,000	145,481	131,237	91,894	403,431	895,229	537,952	*20,497
Other liabilities	761,821	*7,233	*5	11,462	38,560	*3,555	39,424	554,307	88,920	*18,355
Capital stock	2,041,975	213,410	76,386	67,054	126,591	69,570	528,084	531,902	388,739	40,239
Paid-in or capital surplus	677,829	*13,352	*13,655	32,011	*47,506	*19,560	67,466	318,028	172,855	* −6,603
Retained earnings, unappropriated	−536,842	−156,326	−125,807	195,371	−27,753	17,531	−254,550	−749,454	578,957	−14,810
Less: Cost of treasury stock	231,647	*16,431	*341	*4,398	*53,390	*42	35,840	51,091	70,057	*56
Total receipts	**14,655,332**	**463,311**	**103,482**	**1,586,630**	**825,488**	**429,587**	**4,116,291**	**1,625,347**	**5,419,759**	**85,438**
Business receipts	13,841,221	425,910	*77,183	1,570,714	803,565	408,492	4,017,177	1,308,825	5,173,852	55,502
Interest	100,790	*2,849	*1,916	7,062	4,802	*2,738	5,617	31,570	42,873	*1,362
Interest on Government obligations: State and local	*931	—	—	—	—	—	—	*17	*914	—
Rents	281,919	*4,091	*5,246	*788	*922	*3,554	*46,901	199,774	20,644	—
Royalties	*16,481	—	*14,085	—	*967	—	—	*1,429	—	—
Net short-term capital gain reduced by net long-term capital loss	*8,423	—	—	*1,981	—	—	*700	*2,380	*3,362	—
Net long-term capital gain reduced by net short-term capital loss	58,994	*2,155	—	*278	*3,448	—	*879	*15,881	*8,895	*27,458
Net gain, noncapital assets	29,110	*431	*623	*3,470	*941	*14,488	*912	*3,920	*4,324	—
Dividends received from domestic corporations	10,469	*330	*487	—	—	—	*629	*1,494	*7,530	—
Other receipts	306,962	*27,545	*3,941	2,335	10,813	*315	43,476	60,056	157,364	*1,116
Total deductions	**14,813,653**	**474,994**	**109,140**	**1,590,518**	**855,036**	**430,631**	**4,189,387**	**1,681,354**	**5,378,376**	**104,216**
Cost of sales and operations	5,076,489	227,410	*11,146	719,229	348,456	200,063	2,148,563	173,738	1,224,923	*22,962
Compensation of officers	1,902,289	*19,971	*9,807	188,724	97,020	*32,910	286,167	214,131	1,048,407	*5,153
Repairs	212,114	15,420	*4,031	15,578	10,599	26,611	26,171	52,912	56,517	*4,275
Bad debts	41,749	—	—	*3,467	*2,982	*445	14,180	*13,651	5,774	*1,250
Rent paid on business property	888,862	44,572	*1,560	31,180	44,376	*4,508	302,443	83,703	367,117	*9,403
Taxes paid	596,467	14,981	6,516	87,080	27,460	12,189	146,625	90,420	208,141	3,054
Interest paid	255,698	15,730	*4,467	13,137	16,160	13,719	51,411	68,586	69,782	*2,706
Contributions or gifts	6,345	*296	*58	*342	*284	*16	813	1,293	3,242	—
Amortization	18,456	*94	*154	*121	*2,325	*335	4,464	6,963	4,001	—
Depreciation	600,520	36,178	*18,611	56,883	45,585	23,579	120,743	90,608	201,905	*6,428
Net loss, noncapital assets	*1,269	—	—	*723	—	*45	*11	*313	*177	—
Other deductions	5,210,431	100,343	52,789	471,510	259,653	116,212	1,087,744	885,038	2,188,389	48,754
Total receipts less total deductions	−158,321	−11,684	−5,659	−3,888	−29,548	−1,044	−73,095	−56,008	41,383	−18,778
Net income (less deficit)	−159,252	−11,684	−5,659	−3,888	−29,548	−1,044	−73,095	−56,025	40,469	−18,778
Net income	733,792	15,132	*10,434	67,782	37,370	20,900	148,095	125,112	301,831	*7,137
Income tax, total	81,731	*1,827	*818	7,024	3,342	*2,323	13,001	14,586	37,165	*1,644
Regular and alternative tax	81,352	*1,827	*763	7,024	3,342	*1,998	13,001	14,586	37,165	*1,644
Tax from recomputing prior year investment credit	*379	—	*54	—	—	*325	—	—	—	—
Alternative minimum tax	—	—	—	—	—	—	—	—	—	—
General business credit	3,062	*88	*16	*459	—	*17	*701	*454	*1,328	—

* 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 $510,176,000. Detail may not add to total because of rounding. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

RETURNS OF ACTIVE CORPORATIONS, CONSOLIDATED RETURNS

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

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

Item	All industrial divisions [1]	Selected industrial divisions									
		Agriculture, forestry, and fishing	Mining	Construction	Manufacturing	Transportation and public utilities	Wholesale and retail trade			Finance, insurance, and real estate	Services
							Total [2]	Wholesale trade	Retail trade		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Returns of active corporations, consolidated returns:											
Number of returns, total	**80,070**	**1,057**	**1,556**	**4,545**	**13,219**	**3,983**	**20,778**	**10,466**	**10,116**	**22,389**	**12,423**
Total assets	**12,115,191,911**	**10,464,995**	**189,544,342**	**76,484,507**	**2,787,256,582**	**1,246,999,036**	**713,059,725**	**308,635,439**	**403,818,311**	**6,845,023,435**	**245,934,131**
Cash	531,885,617	476,590	4,615,318	4,340,199	57,010,649	22,421,990	20,396,419	10,100,002	10,259,626	410,552,864	12,029,187
Notes and accounts receivable	3,218,227,382	1,434,420	17,504,426	18,484,682	622,710,032	108,514,678	156,650,510	77,033,028	79,386,307	2,245,597,959	47,263,282
Less: Allowance for bad debts	85,583,815	23,567	337,845	183,977	10,791,665	3,012,221	3,141,025	1,685,716	1,411,354	65,060,855	3,031,584
Inventories	534,218,733	1,608,548	5,599,439	7,393,884	262,517,547	29,250,241	165,427,524	85,962,804	79,296,922	52,361,739	10,002,424
Investments in Government obligations	798,966,819	47,635	763,415	2,588,978	25,704,006	8,345,481	26,549,742	15,038,233	11,511,470	733,631,541	1,334,357
Other current assets	645,348,174	541,451	4,753,671	7,735,416	163,507,730	45,052,589	47,586,090	21,873,975	25,653,729	360,414,942	15,738,979
Loans to stockholders	34,440,437	124,399	3,084,994	278,145	14,123,900	2,844,039	5,547,582	1,790,235	3,754,624	7,520,570	908,015
Mortgage and real estate loans	1,205,338,392	112,983	464,690	9,429,127	20,582,152	1,414,709	8,477,354	3,175,408	5,301,946	1,162,947,573	1,909,021
Other investments	2,437,593,945	1,396,930	88,367,658	9,580,123	664,176,701	190,998,158	80,008,355	34,017,754	45,976,749	1,358,915,065	44,099,649
Depreciable assets	2,813,659,453	5,674,070	74,328,654	18,165,338	1,161,333,541	1,054,076,144	205,226,861	66,122,209	138,883,264	182,548,455	112,224,093
Less: Accumulated depreciation	1,092,391,293	2,844,808	35,730,562	9,006,242	551,327,308	316,465,336	78,941,338	29,140,601	49,674,808	57,913,769	40,132,553
Depletable assets	110,789,556	733,180	21,841,000	276,460	73,656,766	8,501,822	1,687,584	1,497,324	189,999	3,939,774	152,971
Less: Accumulated depletion	44,286,435	398,689	9,440,422	37,164	28,486,938	4,532,763	744,199	690,542	53,465	560,071	86,190
Land	86,729,131	1,129,415	1,903,526	2,189,535	28,130,818	7,998,463	15,898,741	3,675,663	12,209,639	23,064,782	6,371,737
Intangible assets (amortizable)	234,586,103	71,360	5,578,871	864,029	135,084,572	27,669,797	18,724,566	6,321,173	12,399,470	31,142,235	15,381,953
Less: Accumulated amortization	46,465,140	20,083	1,664,100	117,951	32,293,188	2,697,713	2,253,657	950,681	1,301,866	4,354,744	3,020,249
Other assets	732,134,852	401,161	7,911,609	4,503,926	181,617,266	66,618,959	45,958,619	14,495,172	31,436,059	400,275,375	24,789,040
Total liabilities	**12,115,191,911**	**10,464,995**	**189,544,342**	**76,484,507**	**2,787,256,582**	**1,246,999,036**	**713,059,725**	**308,635,439**	**403,818,311**	**6,845,023,435**	**245,934,131**
Accounts payable	760,908,366	720,979	10,502,136	12,368,782	268,196,064	70,647,497	105,498,232	49,159,961	56,237,042	275,181,369	17,692,201
Mortgages, notes, and bonds payable in less than one year	935,755,665	1,668,394	8,963,049	8,107,631	242,572,170	47,371,065	120,416,581	80,940,838	39,251,410	486,231,130	20,367,144
Other current liabilities	4,289,085,835	803,042	9,572,447	9,068,898	293,664,362	90,720,157	110,926,690	48,925,014	61,857,350	3,747,311,451	26,965,029
Loans from stockholders	109,006,129	188,571	5,107,547	682,437	54,918,422	6,468,711	8,093,390	4,063,463	3,987,191	30,447,946	3,086,498
Mortgages, notes, and bonds payable in one year or more	1,687,773,536	2,419,464	40,553,379	22,459,442	581,416,601	378,003,702	152,922,995	41,956,228	110,807,778	424,953,752	84,947,496
Other liabilities	1,759,333,515	551,934	15,557,528	6,837,758	293,667,071	166,505,098	38,248,013	15,379,114	22,846,725	1,210,408,616	27,511,550
Capital stock	410,507,029	877,698	7,790,874	2,684,751	113,669,344	157,685,517	25,568,254	14,415,740	11,149,272	91,300,108	10,923,960
Paid-in or capital surplus	1,151,150,486	1,826,387	83,029,300	6,584,053	465,669,241	181,017,062	61,048,239	22,315,320	38,168,390	309,321,044	42,499,567
Retained earnings, appropriated	69,874,956	*23,168	124,029	93,011	23,349,441	3,512,040	688,336	152,553	535,783	41,974,886	110,037
Retained earnings, unappropriated	1,048,129,793	1,494,985	10,243,410	8,490,243	521,817,470	151,660,082	97,367,909	34,472,511	63,462,317	240,205,025	16,944,781
Less: Cost of treasury stock	106,333,400	109,628	1,899,357	892,500	71,683,605	6,591,897	7,718,915	3,145,301	4,484,947	12,311,891	5,114,131
Total receipts	**5,995,846,905**	**15,249,097**	**71,678,546**	**102,711,591**	**2,529,747,400**	**651,427,030**	**1,231,283,186**	**587,837,221**	**642,139,125**	**1,173,347,720**	**219,493,026**
Business receipts	5,104,834,724	14,274,032	63,243,599	96,686,721	2,346,999,261	607,389,011	1,180,068,436	565,680,713	613,135,237	601,777,375	193,568,891
Interest	529,000,139	143,472	2,189,839	2,426,683	46,400,694	11,411,926	17,652,865	9,395,932	8,248,203	443,540,386	5,222,761
Interest on Government obligations: State and local	19,920,662	2,335	12,262	32,620	1,554,785	312,998	991,778	105,719	886,059	16,845,308	168,039
Rents	76,483,570	70,089	291,785	740,374	31,226,748	8,238,603	7,122,286	2,456,816	4,656,230	23,025,536	5,765,490
Royalties	19,320,672	20,473	484,006	20,059	14,988,883	310,631	1,162,803	401,793	761,010	275,634	2,058,108
Net short-term capital gain reduced by net long-term capital loss	3,759,679	*3,975	34,652	46,002	1,147,427	239,034	101,705	59,435	41,577	2,048,864	138,012
Net long-term capital gain reduced by net short-term capital loss	46,330,000	175,883	1,647,080	375,126	16,735,059	6,886,247	2,582,690	988,968	1,592,432	15,932,820	1,994,840
Net gain, noncapital assets	23,454,489	64,326	631,329	359,455	7,312,288	4,005,352	1,416,219	704,310	708,231	8,346,315	1,318,941
Dividends received from domestic corporations	11,010,369	9,029	120,823	109,177	3,701,430	892,427	564,690	224,685	339,818	5,215,466	397,211
Dividends received from foreign corporations	24,808,196	*3,291	527,076	70,462	21,113,770	530,762	884,104	323,861	560,243	1,310,459	368,272
Other receipts	136,924,406	482,192	2,496,096	1,844,913	38,567,055	11,210,040	18,735,611	7,494,991	11,210,086	55,029,556	8,492,462
Total deductions	**5,786,747,081**	**14,609,364**	**71,961,246**	**101,439,577**	**2,422,887,674**	**615,194,720**	**1,211,449,722**	**582,127,204**	**628,009,567**	**1,131,963,941**	**216,329,290**
Cost of sales and operations	3,371,656,497	9,828,847	44,732,741	80,389,408	1,621,216,318	273,963,442	913,407,262	491,017,974	421,409,390	344,982,970	82,471,558
Compensation of officers	42,883,823	130,154	463,472	1,432,772	10,889,612	2,270,573	5,634,445	2,861,882	2,751,340	17,927,163	4,122,920
Repairs	66,405,526	138,683	499,435	345,908	25,298,474	29,992,518	4,591,889	1,331,211	3,255,184	3,594,899	1,943,069
Bad debts	42,504,108	26,358	331,541	272,493	5,658,105	3,589,108	3,147,844	1,159,707	1,980,478	27,424,739	2,050,896
Rent paid on business property	89,531,517	109,986	963,160	708,615	25,308,568	17,983,312	20,400,362	3,812,307	16,570,854	16,521,382	7,529,322
Taxes paid	138,142,402	246,384	1,799,948	1,513,664	60,424,902	30,419,443	16,312,947	4,517,232	11,777,154	20,710,141	6,707,841
Interest paid	469,903,663	373,248	4,376,191	3,159,616	92,149,288	42,598,255	29,887,797	13,512,668	16,345,254	284,690,279	12,656,868
Contributions or gifts	4,160,943	9,339	24,793	40,446	2,344,578	538,285	407,789	139,181	268,435	649,398	146,246
Amortization	13,822,587	25,292	134,092	73,067	5,427,644	2,017,449	1,270,104	446,393	823,157	2,928,677	1,945,466
Depreciation	240,269,776	493,973	4,217,834	1,514,430	104,184,000	67,893,388	21,245,894	7,099,710	14,125,795	25,885,023	14,811,158
Depletion	7,635,265	52,912	1,478,714	52,260	4,996,249	715,086	179,831	151,064	28,767	147,550	12,036
Advertising	75,487,138	71,159	109,626	305,748	43,044,774	4,496,315	17,004,268	4,508,675	12,485,393	7,055,322	3,397,546
Pension, profit-sharing, stock bonus, and annuity plans	28,566,791	28,314	254,071	366,280	13,641,463	5,091,378	3,475,319	939,872	2,532,785	4,445,863	1,263,987
Employee benefit programs	65,918,505	87,499	724,438	537,765	36,170,100	10,481,493	6,782,028	1,902,894	4,876,297	7,942,524	3,188,434
Net loss, noncapital assets	9,302,944	165,373	937,305	629,113	1,885,427	1,739,142	508,215	283,316	224,666	3,019,434	395,220
Other deductions	1,120,555,597	2,821,844	10,913,884	10,097,990	370,248,172	121,405,533	·167,193,730	48,443,118	118,554,620	364,038,575	73,686,723
Total receipts less total deductions	209,099,824	639,734	−282,700	1,272,015	106,859,726	36,232,310	19,833,464	5,710,017	14,129,558	41,383,780	3,163,736
Constructive taxable income from related foreign corporations	22,018,570	*1,155	151,959	33,236	17,758,743	632,551	820,505	397,208	423,297	2,344,761	275,659
Net income (less deficit), total	211,197,732	638,553	−143,002	1,272,631	123,063,684	36,551,863	19,662,192	6,001,506	13,666,796	26,883,233	3,271,356
Income subject to tax, total	239,560,443	478,985	2,499,330	2,021,227	125,436,688	40,488,926	24,197,807	8,492,429	15,694,278	37,140,429	7,284,201
Income tax, total	95,079,646	182,732	988,670	793,734	49,830,617	16,556,826	9,532,487	3,353,709	6,174,934	14,311,994	2,877,273
Regular and alternative tax	92,106,031	179,065	897,539	760,530	48,649,544	15,856,540	9,328,168	3,274,144	6,050,219	13,681,543	2,747,988
Tax from recomputing prior-year investment credit	674,137	812	10,420	5,416	329,357	165,457	64,667	28,602	36,026	64,790	33,219
Alternative minimum tax	1,968,131	2,454	75,813	26,212	679,724	473,144	113,979	43,329	70,650	508,674	87,934
Environmental tax	326,315	401	4,898	1,577	168,477	61,635	25,258	7,377	17,881	55,961	8,110
Foreign tax credit	20,554,127	*3,132	332,355	17,705	16,867,718	317,582	562,579	221,378	341,201	2,134,916	318,140
U.S. possessions tax credit	89,284	—	—	—	89,284	—	—	—	—	—	—
Orphan drug credit	5,154	—	—	—	5,154	—	—	—	—	—	—
Nonconventional source fuel credit	50,762	—	2,141	*976	28,122	14,902	351	*250	*101	4,161	108
General business credit	7,114,885	13,846	65,675	30,302	3,470,314	2,359,838	228,744	57,143	171,291	646,275	299,611

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

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

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

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

Item	All industrial divisions	Industrial division: Agriculture, forestry, and fishing	Mining	Construction	Manufacturing	Transportation and public utilities	Wholesale and retail trade	Finance, insurance, and real estate	Services	Nature of business not allocable
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Number of returns of active foreign corporations with U.S. business operations, total	**10,478**	**330**	**456**	**94**	**208**	**247**	**433**	**8,097**	**567**	***45**
With net income	3,306	86	150	47	88	*25	181	2,512	202	*15
Total receipts	**61,004,223**	**91,794**	**492,599**	**195,151**	**1,549,370**	**1,371,329**	**7,464,569**	**49,020,877**	**791,285**	***27,247**
Business receipts	19,971,381	74,803	417,690	171,700	1,515,167	1,353,202	7,422,990	8,407,740	582,635	*25,454
Interest	37,934,117	4,192	27,247	7,029	5,232	*1,417	10,102	37,860,644	18,184	*68
Interest on Government obligations: State and local	36,126	*21	*18	—	—	—	—	36,074	—	*13
Rents	496,514	5,209	*1,576	*3,633	*6,322	*714	*1,944	361,596	115,519	—
Royalties	8,003	*348	*48	—	714	—	—	5,799	*1,094	—
Net short-term capital gain reduced by net long-term capital loss	7,991	—	3	—	—	—	*43	7,945	(3)	—
Net long-term capital gain reduced by net short-term capital loss	349,788	*1,481	*405	*323	*1	*178	*1,195	345,649	*266	*291
Net gain, noncapital assets	70,627	*297	*901	*96	*266	*67	2,525	40,969	*25,506	—
Dividends received from domestic corporations	42,745	(3)	*25	—	*10	—	*67	42,643	—	—
Dividends received from foreign corporations	*1,249	—	*13	—	—	—	—	*1,236	—	—
Other receipts	2,085,682	5,442	44,675	*12,370	21,657	15,753	25,702	1,910,582	48,080	*1,420
Total deductions	**61,130,044**	**173,085**	**548,585**	**198,264**	**1,641,720**	**1,737,577**	**7,508,374**	**48,458,891**	**835,377**	***28,171**
Cost of sales and operations	11,728,444	43,703	166,414	164,304	1,258,767	788,703	7,018,759	2,110,670	162,316	*14,809
Compensation of officers	220,266	*189	*5,172	*165	5,997	*3,403	10,612	186,048	8,680	—
Repairs	97,779	780	*8,781	*458	1,593	1,311	4,784	61,489	17,439	*1,145
Bad debts	663,752	*43	*727	*48	2,276	*733	24,879	627,146	7,875	*24
Rent paid on business property	513,822	*2,455	12,890	*645	10,109	15,461	34,381	337,349	100,513	*17
Taxes paid	608,266	3,065	11,240	2,051	16,482	6,987	14,827	523,612	29,575	*428
Interest paid	36,611,462	13,690	97,520	*8,207	37,789	78,228	38,385	36,271,749	63,884	*2,008
Contributions or gifts	2,861	*20	*127	—	*55	*6	*185	2,404	63	—
Amortization	68,387	780	2,631	*6	*8,762	1,255	573	51,573	2,807	*1
Depreciation	649,426	52,396	56,067	*3,582	33,813	31,573	14,563	394,337	61,513	*1,583
Depletion	20,583	*382	19,150	—	65	—	*572	*271	*143	—
Advertising	150,070	*426	*3,070	*160	26,990	*39,950	29,900	26,673	22,901	—
Pension, profit-sharing, stock bonus, and annuity plans	52,779	—	*3,160	—	*1,995	—	*699	42,321	*4,419	*186
Employee benefit programs	137,819	*29	*7,980	*91	13,729	*14,128	5,383	80,983	14,736	*759
Net loss, noncapital assets	282,438	*21,336	*3,824	*87	*240	*7	*5,188	251,121	635	—
Other deductions	9,321,888	33,791	149,832	18,460	223,056	755,832	304,683	7,491,146	337,878	*7,211
Total receipts less total deductions	−125,821	−81,290	−55,986	−3,113	−92,350	−366,248	−43,805	561,986	−44,092	*−924
Foreign dividend income resulting from foreign taxes deemed paid	—	—	—	—	—	—	—	—	—	—
Net income (less deficit)	−161,948	−81,312	−56,004	−3,113	−92,350	−366,248	−43,805	525,911	−44,092	*−937
Net income	2,243,914	4,828	27,518	7,268	31,408	*6,481	34,487	2,097,908	33,716	*301
Deficit	2,405,862	86,140	83,521	*10,380	123,758	372,728	78,291	1,571,997	77,808	*1,238
Income subject to tax, total	1,647,056	*2,203	*1,688	*1,361	*22,392	*5,708	13,193	1,589,956	10,262	*291
Total income tax	669,637	*642	*1,137	*463	8,683	*2,166	9,199	643,350	3,953	*45
Alternative minimum tax	8,868	—	282	*131	*15	—	2,581	5,484	375	—
Foreign tax credit	52,776	—	—	—	—	—	—	52,776	—	—
U.S. possessions tax credit	—	—	—	—	—	—	—	—	—	—
Orphan drug credit	—	—	—	—	—	—	—	—	—	—
Nonconventional source fuel credit	—	—	—	—	—	—	—	—	—	—
General business credit	3,017	—	—	(3)	*220	—	*263	2,521	*12	—
Tax from Section I [1]	30,997	—	(3)	*61	—	*478	*401	30,017	3	*37
Tax from Section II [2]	581,396	*612	*838	*332	*8,109	*2,126	4,461	561,493	3,380	*45
U.S. income tax paid or withheld	62,246	*319	*8	*61	*164	*646	*396	60,121	*411	*120
Branch tax	11,654	*29	*2	—	*338	40	*1,866	9,214	*164	—

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

[1] Tax from Section I is excluded from total income tax amounts since the income from U.S. sources is not effectively connected with the conduct of a trade or business in the U.S.

[2] Tax from Section II is the total tax from Schedule J Tax Computation on effectively connected income with the conduct of a trade or business in the U.S.

[3] Less than $500 per return.

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

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

Item	All industrial divisions [1]	Selected industrial divisions									
		Agriculture, forestry, and fishing	Mining	Construction	Manufacturing	Transportation and public utilities	Wholesale and retail trade			Finance, insurance, and real estate	Services
							Total [2]	Wholesale trade	Retail trade		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Number of Returns With Income Tax											
Number of returns with—											
Income tax, total	1,162,693	33,197	8,401	125,535	108,179	39,397	305,332	118,246	184,136	168,050	371,025
Form 1120S	8,083	212	61	890	1,509	431	2,844	1,328	1,516	1,079	1,056
Regular and alternative tax before credits	1,125,552	32,443	7,374	120,775	102,352	38,095	295,513	112,999	179,569	162,974	362,463
Tax from recomputing prior-year investment credit	91,924	2,646	1,470	10,717	14,916	4,116	28,712	14,340	13,982	8,306	21,030
Total income tax after—											
Nonconventional source fuel, orphan drug, general business and minimum tax credits	1,073,890	28,614	7,482	116,301	100,208	33,665	286,641	111,685	172,006	163,985	333,575
Foreign tax, U.S. possessions tax, nonconventional source fuel, orphan drug, general business and minimum tax credits	1,072,920	28,574	7,185	116,297	99,898	33,664	286,556	111,602	172,004	163,939	333,388
Returns With and Without Net Income											
Number of returns	3,612,133	116,544	42,050	371,169	294,211	147,893	971,758	316,571	650,196	521,136	1,119,604
Dividends received from domestic corporations, total	13,864,647	57,761	222,907	154,185	3,948,049	917,971	857,518	396,656	460,675	7,144,998	549,447
Amount qualifying for Sect. 243(a)(1) deduction	12,902,357	57,405	173,448	150,517	3,458,512	870,268	761,834	316,131	445,514	6,902,454	516,111
Amount on certain preferred stock of public utility	82,976	*41	*62	*912	22,660	*171	615	*162	*453	57,467	*1,048
Intragroup dividends qualifying for 100 percent deduction	325,371	—	45,391	*2,263	91,124	*2,858	48,902	35,703	13,199	112,959	*21,875
Amounts received from IC-DISCS or former DISCS	419,208	*316	*3,081	*205	346,213	1,345	34,810	34,043	*767	23,076	10,161
Dividends received from foreign corporations, total	25,180,395	12,826	527,873	70,815	21,252,535	531,532	921,154	356,818	563,736	1,475,289	388,371
Amount qualifying for Sec. 245(a) deduction	47,947	—	1,642	*316	24,952	14	*3,408	*3,274	*135	7,687	9,927
Intragroup dividends qualifying for 100 percent deduction	2,155,665	*1,484	*9,941	—	2,021,793	2,585	48,958	37,342	*11,615	55,012	15,892
Other foreign dividends	22,976,784	11,342	516,289	70,499	19,205,789	528,933	868,788	316,203	551,986	1,412,590	362,552
Constructive taxable income from related foreign corporations, total	22,226,855	*3,684	154,806	33,236	17,862,950	632,551	871,652	447,417	424,234	2,370,431	297,545
Includable income of Controlled Foreign Corporations	8,371,724	102	71,186	20,858	5,707,659	325,760	446,721	255,334	191,386	1,669,446	129,992
Foreign dividend income resulting from foreign taxes deemed paid	13,855,131	*3,583	83,620	12,378	12,155,290	306,791	424,931	192,083	232,848	700,984	167,553
Net income (less deficit)	328,223,710	1,626,501	275,048	8,700,642	145,493,891	37,466,726	38,040,057	17,756,437	20,224,450	87,403,218	9,251,928
Statutory special deductions, total	60,416,946	1,165,852	1,898,041	2,541,995	16,476,892	4,720,626	5,734,939	2,982,427	2,729,495	23,472,185	4,329,249
Net operating loss deduction	49,027,616	1,118,625	1,703,412	2,418,233	11,573,377	3,956,442	5,039,607	2,661,855	2,354,884	19,274,311	3,875,904
Dividends received deduction	11,325,934	47,227	194,629	123,762	4,880,978	724,177	695,332	320,571	374,611	4,197,023	453,344
Deduction for dividends paid on certain public utility stock	63,396	—	—	—	22,537	40,007	(3)	(3)	—	852	—
Income subject to tax	311,840,615	1,770,932	3,237,322	7,843,763	145,836,088	43,818,326	41,908,201	18,358,449	23,479,833	51,171,985	16,169,311
Income tax, total	118,484,975	508,012	1,256,089	2,459,657	57,286,912	17,696,185	14,956,044	6,583,201	8,356,298	19,264,979	5,033,943
Regular and alternative tax	115,073,572	496,874	1,143,473	2,351,230	56,040,361	16,976,595	14,672,865	6,461,644	8,194,890	18,510,796	4,858,810
Personal holding company tax	10,215	—	*12	—	4,044	52	1,172	*296	*875	4,845	*89
Tax from recomputing prior-year investment credit	783,953	2,972	13,533	15,068	350,297	171,996	103,546	48,146	55,187	69,846	56,620
Alternative minimum tax	2,229,107	7,146	91,392	91,057	712,520	483,404	140,193	57,802	82,390	594,299	108,591
Environmental tax	351,253	467	5,563	1,809	173,059	63,571	30,871	9,918	20,953	67,224	8,682
Foreign tax credit	20,812,861	3,981	371,817	17,788	16,931,616	332,278	591,850	248,211	343,639	2,216,284	347,247
U.S. possessions tax credit	2,666,634	1,929	—	1,090	2,564,058	53,171	8,946	4,146	4,781	9,725	26,127
Orphan drug credit	5,154	—	—	—	5,154	—	—	—	—	—	—
Nonconventional source fuel credit	52,439	146	2,758	*982	28,576	14,953	632	*521	*111	4,177	*214
General business credit	7,959,117	48,785	70,895	102,690	3,709,348	2,526,632	359,849	115,494	243,575	691,803	448,016
Total income tax after											
Nonconventional source fuel, orphan drug, general business and minimum tax credits	110,468,251	459,080	1,182,437	2,355,984	53,543,834	15,154,599	14,595,563	6,467,186	8,112,612	18,568,984	4,585,712
Foreign tax, U.S. possessions tax, nonconventional source fuel, orphan drug, general business and minimum tax credits	86,988,756	453,171	810,619	2,337,107	34,048,160	14,769,150	13,994,767	6,214,830	7,764,192	16,342,976	4,212,339
Estimated tax payments:											
1986 overpayments claimed as a credit	7,444,657	47,879	80,679	223,723	2,688,881	1,104,504	1,218,452	600,237	615,844	1,503,566	574,293
1987 estimated tax payments	73,464,425	316,626	612,520	1,434,552	29,698,116	12,287,510	11,539,909	5,185,846	6,341,353	14,594,324	2,969,409
Less: Refund of 1987 estimated tax payments	3,461,907	23,171	26,176	42,335	1,315,779	227,528	404,557	198,995	204,418	1,284,948	137,411
Payments with application for extension of filing time	15,763,129	70,913	223,562	642,874	5,260,041	2,488,807	2,796,021	1,132,395	1,655,845	3,219,137	1,055,851
Credit for tax paid by regulated investment companies	188,877	*150	11	*44	166,428	12,559	2,540	2,504	*36	6,774	*371
Credit for tax on special fuels, nonhighway gasoline, and lubricating oil	201,356	11,739	2,801	10,219	126,577	25,078	8,609	4,465	4,133	9,237	7,097
Tax from Section 1 (1120 F only)	30,997	—	(3)	*61	—	*478	*401	5	*396	30,017	3
U.S. tax paid or withheld at source (1120 F only)	62,246	*319	*8	*61	*164	*646	*396	—	*396	60,121	*411
Branch tax (1120F)	11,654	*29	*2	—	*338	40	*1,866	*1,866	—	9,214	*164
Overpaid windfall profit tax	484	—	175	—	*239	6	*40	5	*35	*24	(3)
Tax due at time of filing	6,014,114	123,850	66,632	588,460	1,762,036	451,118	1,061,960	567,477	492,610	1,209,086	744,475
Tax overpayment	12,645,506	93,601	148,785	512,609	4,316,949	1,367,318	2,210,400	1,069,512	1,133,039	3,000,597	989,360
Returns of S Corporations, Form 1120S											
Number of returns	1,127,905	46,796	13,734	115,705	83,980	55,722	327,354	82,756	244,104	135,672	339,640
Net income:											
Number of returns	573,583	20,478	5,128	70,773	41,342	28,821	161,515	44,118	117,270	63,281	179,230
Amount	44,994,123	1,080,281	1,114,493	5,077,296	10,774,145	1,747,217	12,616,778	6,257,632	6,329,399	5,100,561	7,387,792
Deficit	20,842,610	1,096,855	500,857	1,700,528	2,368,837	1,424,019	5,443,650	1,290,741	4,151,630	3,488,380	4,776,149
Income subject to corporation tax	185,902	—	—	*44,854	*67,295	*5,835	*12,592	*1,911	*10,681	*22,814	*32,512
Income tax, total	76,705	747	2,849	5,834	14,232	1,642	19,415	9,498	9,917	12,620	19,365
Regular and alternative tax	34,529	*17	—	*4,260	2,448	*436	*4,313	*730	*3,583	*8,521	*14,534

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

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

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

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

Item	All industrial divisions [1]	Selected industrial divisions									
		Agriculture, forestry, and fishing	Mining	Construction	Manufacturing	Transportation and public utilities	Wholesale and retail trade			Finance, insurance, and real estate	Services
							Total [2]	Wholesale trade	Retail trade		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Returns of active corporations other than Forms 1120S, 1120-IC-DISC and 1120-FSC:											
Number of returns	2,480,430	69,748	28,315	255,464	210,232	92,169	640,733	230,174	406,072	385,464	779,842
Net income	418,685,444	2,930,635	4,925,388	10,283,482	161,541,814	48,323,004	46,140,601	20,005,080	26,042,865	124,079,288	20,307,477
Income subject to tax	310,362,332	1,770,932	3,237,322	7,798,909	145,768,793	43,812,179	40,622,090	17,084,281	23,468,145	51,149,171	16,118,254
Income tax before credits:											
Total	117,901,113	507,265	1,253,240	2,453,822	57,272,680	17,694,413	14,436,642	6,074,176	8,345,960	19,252,358	5,007,541
Regular and alternative tax	114,534,015	496,856	1,143,473	2,346,970	56,037,913	16,976,029	14,170,686	5,963,507	8,190,887	18,502,276	4,837,247
Credits:											
Foreign tax credit	20,812,819	3,981	371,817	17,788	16,931,616	332,278	591,808	248,169	343,639	2,216,284	347,247
U.S. possessions tax credit	2,666,634	1,929	—	1,090	2,564,058	53,171	8,946	4,146	4,781	9,725	26,127
Nonconventional source fuel credit	52,439	146	2,758	*982	28,576	14,953	632	*521	*111	4,177	*214
Orphan drug credit	5,154	—	—	—	5,154	—	—	—	—	—	—
General business credit	7,959,117	48,785	70,895	102,690	3,709,348	2,526,632	359,849	115,494	243,575	691,803	448,016
Minimum tax credit	*14	—	—	—	—	—	—	—	—	*14	—
General business credit items:											
Tentative general business credit	31,841,304	336,723	1,716,054	654,103	11,769,933	9,643,740	1,912,181	854,526	1,053,913	2,808,674	2,972,788
Current year regular investment credit	3,932,578	5,324	24,231	28,552	1,333,646	1,916,825	97,286	23,808	73,417	353,890	172,415
Tentative business energy investment credit	110,863	*1	286	*3,873	45,590	30,850	8,126	*1,231	6,895	20,084	*2,053
Total allowable research credit	1,053,341	2,743	1,271	1,838	867,852	62,100	23,607	21,417	2,191	17,349	76,023
Total jobs credit for current year	278,164	1,054	1,123	2,473	83,021	7,479	134,630	5,999	128,078	16,507	31,878
Current year alcohol fuel credit	*2,143	—	—	—	*1,791	—	*348	—	*348	4	—
Current year employee stock ownership credit	23,949	205	59	*33	14,404	1,308	*1,424	*112	1,312	4,451	2,066
Current year low-income housing credit	1,668	—	—	*29	360	9	*298	*65	*233	972	—
Carryforward of general business credit from prior years	26,427,444	327,389	1,689,076	617,220	9,426,204	7,625,078	1,648,103	802,207	842,769	2,378,594	2,689,638
Income tax after credits	86,404,936	452,424	807,770	2,331,272	34,033,928	14,767,378	13,475,407	5,705,846	7,753,854	16,330,355	4,185,937

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

[1] Includes "Nature of business not allocable" which is not shown separately.

[2] Includes "Wholesale and retail trade not allocable" which is not shown separately.

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

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

Table 15—Number of Returns and Selected Tax Items, by Size of Total Income Tax After Credits

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

Size of total income tax after credits	Number of returns of active corporations, other than Forms 1120S, 1120-IC-DISC, and 1120-FSC	Total income subject to tax	Income tax before credits[1]		Foreign tax credit	U.S. possessions tax credit	Nonconventional source fuel credit	Orphan drug credit	General business credit	Income tax after credits[1]
			Total	Regular and alternative tax						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Total	**2,480,430**	**310,362,332**	**117,901,113**	**114,534,015**	**20,812,819**	**2,666,634**	**52,439**	**5,154**	**7,959,117**	**86,404,936**
Returns with net income	1,418,531	309,998,089	117,276,315	114,458,520	20,803,079	2,666,634	52,439	5,154	7,955,932	85,793,063
Returns without net income	1,061,899	[2]364,243	624,798	75,495	9,739	—	—	—	3,185	611,873
Returns with total income tax before credits[1]	1,152,344	310,362,332	117,901,113	114,534,015	20,812,819	2,666,634	52,439	5,154	7,959,117	86,404,936
Returns with total income tax after credits[1]	1,062,600	306,900,490	116,772,618	113,405,521	20,775,614	1,742,577	50,491	5,154	7,793,832	86,404,936
Under $6,000	772,035	9,557,598	1,666,060	1,631,995	16,647	217,145	*57	—	164,063	1,268,136
$6,000 under $10,000	90,021	4,263,690	737,857	719,309	509	9,775	*11	—	40,389	687,173
$10,000 under $15,000	51,942	3,446,658	707,952	686,985	5,462	30,986	*3	—	34,327	637,174
$15,000 under $20,000	24,080	2,101,007	510,675	492,030	10,876	63,426	*445	—	17,606	418,323
$20,000 under $25,000	17,592	1,681,385	432,103	416,722	*11,715	3,371	*83	—	23,055	393,879
$25,000 under $50,000	38,527	5,100,108	1,569,974	1,507,268	19,180	138,450	*569	—	65,469	1,346,306
$50,000 under $75,000	16,010	3,369,215	1,194,791	1,127,248	19,022	134,286	*618	—	50,509	990,356
$75,000 under $100,000	10,153	2,614,916	961,029	912,602	19,986	24,386	*38	—	39,970	876,650
$100,000 under $250,000	21,738	10,451,174	4,045,595	3,887,320	61,191	461,568	*103	—	139,890	3,382,844
$250,000 under $500,000	8,812	8,599,015	3,437,703	3,291,971	157,374	108,754	1,129	—	97,766	3,072,679
$500,000 under $1,000,000	5,084	10,230,889	4,132,622	3,989,336	152,063	285,593	2,156	—	119,820	3,572,990
$1,000,000 under $10,000,000	5,564	47,626,124	19,226,701	18,425,600	2,641,180	264,838	11,849	741	926,912	15,381,182
$10,000,000 under $50,000,000	796	58,989,056	23,311,893	22,448,505	4,664,017	—	14,914	2,602	1,771,408	16,858,953
$50,000,000 under $100,000,000	137	38,081,316	15,072,055	14,630,887	4,180,612	—	8,304	983	1,163,948	9,718,208
$100,000,000 or more	108	100,788,341	39,765,606	39,237,743	8,815,780	—	10,213	828	3,138,700	27,800,086

[1] Credits include foreign tax, U.S. possessions tax, nonconventional source fuel, orphan drug, general business, and 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 TO EXPLANATION OF TERMS

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

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

Accounting Periods (#)

Among the several classifications used in this report, tax return data are classified according to the accounting periods used by corporations. For a detailed discussion of this classification, see "Time Period Employed" in section 1, Introduction. See also Changes in the Law for a discussion of required accounting periods introduced by the Tax Reform Act of 1986.

Accounts and Notes Payable

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

Accounts Payable

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

Accumulated Adjustments Account

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

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

Additional Tax for Tax Preferences (#)

Effective for tax years beginning in 1987 the alternative minimum tax replaced the additional tax for tax preferences. See "Alternative Minimum Tax," in this section of this report. For returns with accounting periods beginning prior to 1987, a minimum tax was computed. The minimum tax for those returns was included in the alternative minimum tax in the statistics for Tax Year 1987.

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

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

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

Tax preference items were: (1) accelerated depreciation (depreciation in excess of the amount computed under the straight-line method allowed on real property); (2) amortization of certified pollution control facilities (special rapid write-offs in excess of what otherwise would have been a depreciation deduction under Code section 167); (3) reserves for losses on bad debts of financial institutions (additions to reserves for bad debts in excess of actual bad debt losses, based on prescribed rules for other than large banks for tax years beginning in 1987); (4) depletion (depletion deduction in excess of the cost or other basis of the property, reduced by depletion taken in prior years); and (5) capital gains (net long-term capital gain in excess of net short-term capital loss) when this amount was taxed at the special lower capital gains rate; the preference item applied only if the alternative tax under Code section 1201 applied. (The preference item equaled the tax if alternative tax had not been used minus the alternative tax, divided by 0.46). Other tax preference items that personal holding companies took into account included (1) accelerated depreciation on leased property; (2) mining exploration and development costs; (3) circulation and research and experimental expenditures; and (4) intangible drilling costs. There were also special rules in effect for timber income, including both gains from the cutting of timber and the long-term gains from the sale of timber.

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

Advertising

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

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

Alcohol Fuel Credit (#)

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

The 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 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.

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. Additionally, the allowance was not available from balance sheets of tax returns filed by life and certain mutual insurance companies for prior years. The statistics for both the allowance and for the gross amount of "Notes and Accounts Receivable" were understated by these unidentified amounts. However, data for these accounts became available for Tax Year 1987, from income tax returns filed by certain mutual insurance companies other than life, as well as for certain stock insurance companies which filed the new 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 the item in the allowance for bad debts. If, on the other hand, these reserves were reported in supporting schedules, they were later added to the allowance for bad debts during statistical processing. However, in some cases, the supporting schedules were not attached to the return and the amount may be understated.

Alternative Minimum Tax (#)

The alternative minimum tax replaced the former minimum tax. The alternative minimum tax was imposed on a broader income tax base and at a higher rate of tax (20 percent), compared to the minimum tax (which was imposed at a 15 percent rate). Effective for tax years beginning in 1987 and thereafter, corporations paid an alternative income tax when it exceeded the regular income tax. The total tax liability became the tax computed under the regular tax system plus the alternative minimum tax.

The alternative minimum tax (AMT) system was designed to reflect tax consequences that could be achieved through timing a tax calculation more closely with the actual timing of the economic event. Whereas, the regular tax system reflects a timing difference in the two events that is achieved through the use of accelerated expense items or tax deferral benefits.

To compute the alternative minimum tax, adjustments are made to the income subject to regular tax (before the net operating loss deduction). The adjustments are needed to reflect the difference in treatment of certain items under the AMT system versus the treatment under the regular tax system. Certain stages in the computation of the alternative minimum taxable income (AMTI) are critical. Specific instructions on Form 4626, Alternative Minimum Tax—Corporations, provide that the accelerated aspect of specific income tax items under the regular system be adjusted and that the same items be adjusted to satisfy the intent of the AMT system. The AMT adjustment, was the difference between the two systems for each item.

The items that were adjusted are listed below.

(1) Accelerated depreciation on real and personal property placed in service after 1986;
(2) Circulation expenses of personal holding companies only;
(3) Mining exploration and development costs;
(4) Completed contract method;
(5) Amortization of certified pollution control facilities placed in service after 1986;
(6) Installment sales of certain property;
(7) Basis adjustment for property sold during the year;
(8) Certain loss limitations;
(9) Losses from tax shelter farm activities;
(10) Passive activity losses;
(11) Capital construction funds of shipping companies; and
(12) Reported profits not taxed (book income or adjusted current earnings).

Tax preference items are added to the income base of the alternative minimum tax, as they were to the income base of the former minimum tax. Three of the tax preference items are related to the AMT adjusted items. The related tax preference items for property placed in service before 1987 are: (1) accelerated depreciation on real property, (2) accelerated depreciation on leased personal property, and (3) amortization of certified pollution control facilities. The remaining tax preference items added to the income base of the alternative minimum tax are:

(1) Percentage depletion;
(2) Intangible drilling costs;
(3) Bad debt deductions of financialinstitutions;
(4) Tax-exempt interest on specified private activity bonds; and
(5) Charitable contribution of appreciated property.

Before the alternative minimum taxable income is reduced by the net operating loss deduction, a "minimum amount of tax liability" is determined. The minimum tax liability of a corporation must be equal to at least 10 percent of the alternative minimum taxable income before the NOLD. The use of the NOLD, foreign tax credit, and investment credit (under the AMT system) cannot reduce a corporation's alternative minimum tax below its minimum tax liability.

After the minimum tax liability is determined, the alternative minimum taxable income is reduced by the NOLD, and the amount of income exempt from the alternative minimum tax. The maximum exemption amount is $40,000. No exemption applies when the alternative minimum taxable income exceeds $310,000. The "tentative minimum tax" is determined by applying the 20 percent rate of tax to the alternative minimum taxable income after the reduction for the NOLD and the income exemption.

The tentative minimum tax may be reduced by a foreign tax credit and carryover of unused investment credits. The foreign tax credit is computed under the AMT system and does not become part of that credit allowed under the regular tax system. The NOLD and foreign tax credit combined may not reduce the tentative minimum tax below the minimum tax liability (computed before the NOLD reduced the alternative minimum taxable income). Up to 25 percent of the tentative minimum tax remaining after the foreign tax credit may be reduced by the carryover of investment tax credits. However; the investment tax credit may not reduce the tentative minimum tax below the minimum tax liability.

The amount by which the remaining tentative minimum tax exceeds the regular tax after reduction for the foreign tax credit (under the regular system) is the alternative minimum tax.

The alternative minimum tax in the statistics includes additional tax on tax preferences for certain returns. Some corporations with accounting periods ending before July 1987, computed the additional tax on tax preferences (or minimum tax) rather than the alternative minimum tax for the Tax Year 1987.

See "Additional Tax for Tax Preferences."

Alternative Tax (#)

See "Income Tax."

Amortization (#)

Amortization was a deduction for recovery of certain expenditures over a certain period of time in a manner similar to straight-line depreciation. Typically, the period of time over which the expenditure was written off was much shorter than if depreciation had been used; 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 costs paid or incurred (Code section 195)
child care facilities (Code section 188)
construction period interest and taxes on real property (except low-income housing) (Code section 189)
forestation and reforestation expenditures (Code section 194)
lessee's improvements to leased property, leasehold improvements (Code section 178)
motion picture film, videotape, sound recording and books (Code section 280)
organizational expenditures of corporations (Code section 248)
pollution control facilities (Code section 169 limited by Code section 291)
railroad rolling stock (Code section 184)
railroad tunnel bores and grading (Code section 185)
research and experimental expenditures (Code section 174)
trademark and trade name expenditures (Code section 177).

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

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

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

See also "Additional Tax for Tax Preferences."

Bad Debts (#)

Bad debts occurring during the year, or a reasonable addition to an allowance or reserve for bad debts, were allowable as a deduction under Code sections 166 and 585, respectively.

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

For commercial banks, deductible additions to the reserves were to decrease in three transitional steps. The decrease was to be achieved through a decline in allowable percentages of eligible outstanding loans. For taxable years beginning after 1975, but before 1982, the percentage for the deduction was 1.2 percent; 1.0 percent was used for taxable years beginning in l982. The allowable percentage of eligible outstanding loans had been reduced to 0.6 by 1983. The transitional steps were to be completed by 1988, at which time the deduction would have to be based on actual losses for the current and 5 preceding years, the same as for other businesses.

For 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. See "Deduction for Bad Debts," in the Changes in Law and Regulations section.

A bank was treated as a large bank, for any taxable year beginning after December 31, 1986, if the average adjusted bases 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 may suspend the recapture of its reserves for any year in which it is 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 income 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 additional 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. Those organizations, which met certain asset qualifications, could deduct a maximum of 40 percent of an adjusted taxable income, provided it did not increase the reserve beyond 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). The Tax Reform Act of 1986 reduced the allowable percentage of taxable income to 8 percent.

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

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

See also "Additional Tax for Tax Preferences."

Branch Tax of Foreign Coprporations (#)

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 new 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 branches in the United States. The new U.S. tax laws also required coordination with income tax treaties between the United States and foreign countries.

The branch profits tax is imposed on the "dividend equivalent amount" or the earnings and profits of a U.S. branch of a foreign corporation that is 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 may vary based on the treaty conditions with the country in which the foreign corporation is a resident. The effectively connected earnings and profits are 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 are 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 are exempt from the branch profits tax. The exclusions include (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 are 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 that are organized in certain U.S. possessions described in Code section 881(b) of the Internal Revenue Code; and (5) earnings derived by certain insurance companies that elect to have income treated as effectively connected income.

The branch tax is 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 is included in "Total income tax" in the statistics. It is also shown separately in the statistics for foreign corporations with U.S. business operations in Table 12 in 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.

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

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

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

Also in the finance, insurance, and real estate industries, premium income of most insurance companies was included in business receipts. However, certain insurance companies other than life whose net written premiums or direct written premiums (whichever is greater) exceeded $350,000 but not over $1,200,000 could elect not to report premium income. Therefore, total business receipts for insurance carriers are slightly understated.

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

For 1987, the profit or loss from the sale of stocks, commodities, or real estate was included in the statistics for business receipts reported by stock and commodity brokers, dealers, and exchanges, by condominium management and cooperative housing associations, and by real estate subdividers, developers, and operative builders. Previously, the net profit or loss from those sales was included in the statistics for net gain or loss from sales or exchanges of noncapital assets for these companies.

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

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

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

Calendar Year Returns (#)

Calendar year returns were those filed for the 12-month period beginning in January and ending in December. The Tax Reform Act of 1986 provided that the calendar year be a "required taxable year" for some taxpayers. See, "Accounting Periods," in the Changes in Law and Regulations section of this report. 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.

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

Compensation of Officers

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

Consolidated Returns (#)

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

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

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

Constructive Taxable Income from Related Foreign Corporations (#)

This item represented the sum of (1) "Includable Income from Controlled Foreign Corporations" identified as

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

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

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

Subpart F income, defined in Code section 952, included:
(1) income attributable to premiums received by foreign insurance companies that were Controlled Foreign Corporations whose insurance business was on U.S. risks (as determined under Code section 953); and
(2) "foreign base company income," which included:
   (a) "foreign personal holding company income" (income derived from portfolio investments or from "passive" investments);
   (b) "foreign base company sales income" (generally from the sale of property produced in the United States or a foreign country by one corporation and sold by a related corporation, generally a trading company, organized in another country having a low rate of taxation, for use outside that country);
   (c) "foreign base company services income" (in general, income from services performed or furnished for a related person, which included corporations, outside the country of incorporation of the Controlled Foreign Corporation, but with certain exceptions);
   d) "foreign base company shipping income" (in general, income derived from use of aircraft or vessels in foreign commerce or income derived in connection with the performance of services directly related to any such aircraft or vessel); and
   (e) "foreign base company oil-related income" (in general, this is foreign oil related income other than income derived from a source within a foreign country in connection with oil or gas which was extracted within such country, or oil or gas or derived products, which were sold by the foreign corporation for use or consumption within such country).
(3) international boycott income;
(4) illegal bribes, kickbacks, or other payments to a government official.
(5) income derived from a country described in Code section 952(a)(5). For tax years after 1986, this amount is income from a controlled foreign corporation from any country described in Code section 901(j).

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

Analysis of returns of some of the larger corporations revealed instances where amounts reported as foreign dividend income resulting from foreign taxes deemed paid were actually dividends received from foreign corporations, and instances where amounts reported as dividends received from foreign corporations were actually the gross-up of foreign taxes deemed paid. (Both of these items were reported on the dividends received schedule of the income tax return.) When these amounts were clearly identified on supporting schedules, they were reallocated to their respective items in the statistics.

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

Contributions or Gifts

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

(3) any 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;
(6) any capital loss carryback to the tax year;

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

Cost of Property Used for Investment Credit

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

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

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

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 under prior law were required to be capitalized or included in inventory under new uniform capitalization rules of Code section 263A. The new rules 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 new 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 shown for the separate deduction for "Taxes Paid." Similarly, expenses for depreciation, depletion, amortization, rent of buildings or real estate, advertising, contributions to pension plans, contributions to employee benefit programs, bad debts, compensation of officers, contributions to charitable organizations, intangible drilling costs and interest were transferred to their respective deduction categories when identified in cost of goods sold schedules.

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

See also "Business Receipts."

Cost of Treasury Stock

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

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

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

Code section 39 allowed a credit in full or in stated amounts for excise taxes on:
(1) gasoline used on farms for farming purposes (Code section 6420);
(2) gasoline used for nonhighway purposes or by local transit systems (Code section 6421); and
(3) fuel not used for taxable purposes (Code section 6427).

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

Credit for Tax Paid by Regulated Investment Companies

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

Deficit (#)

See "Net Income (or Deficit)."

Depletable Assets

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

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

Depletion

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

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

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

See also "Additional Tax for Tax Preferences."

Depreciable Assets

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

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

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

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

Depreciation (#)

The Tax Reform Act of 1986 introduced the Modified Accelerated Cost Recovery System (MACRS) and changed the rules for section 179 property for property placed in service after December 31, 1986. Corporations could also elect to use the new rules for property placed in service between July 31, 1986 and January 1, 1987. The maximum amount of 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 1987 accounting period, the property was considered transition property. The ACRS rules were applied for depreciation.

Under ACRS, the cost of eligible property was recovered over a 3-, 5-, 10-, 15-, 18-, or 19- year period, depending on the type of property. The deduction was determined by applying the statutory percentage for the appropriate class of property to its unadjusted basis. An Alternate Depreciation System, a straight-line method, could have been used for 3-, 5-, and 10- year property using a half-year convention. The Alternate System could have also been elected for 15-, 18-, 19- year real property and low income housing property, but the mid-month convention applied.

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.")

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

For most of the domestic dividends received, the deductible portion was equal to 80 percent (85 percent before January 1, 1987) (about 60 percent for dividends received on certain preferred stock of public utilities). However, a 100-percent deduction was allowed for dividends received by members of a controlled group from other members of the same controlled group when a consolidated return was not used to report for the group as a whole. This deduction was allowed when the group did not elect to file a consolidated return and agreed instead to apportion a single tax bracket 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.

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

Dividends Received from Foreign Corporations (#)

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

Dividends received from foreign corporations consisted of:

(1) dividends, subject to the 80-percent (85 percent before January 1, 1987) deduction, received by U.S. corporations from those foreign corporations at least 50 percent or more of whose gross income was "effectively connected" with business conducted in the United States;

(2) dividends, subject to the 100-percent deduction, received by U.S. corporations from wholly-owned foreign subsidiaries all of whose gross income was

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

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

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

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

Domestic International Sales Corporation Returns

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

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

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

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

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

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

85 percent deduction and from debt-financed stock of domestic corporations.

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

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

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

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

Employee Benefit Programs (#)

Contributions made by employers to such plans as death benefit plans, health plans, accident and sickness plans, and other welfare plans were deductible under Code section 162. The amounts reported were not incidental parts of any pension, profit-sharing, stock bonus, or annuity plans. The statistics for this item also include amounts identified in the cost of sales and operations schedules.

Employee Stock Ownership (ESOP) Credit (#)

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

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

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

Since for some of the returns included in this report, the accounting periods began before the effective date of the repeal of the credit, an amount of ESOP credit is included in the 1987 statistics. The ESOP 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.

Environmental Tax (#)

As a result of the Superfund Amendments and Reauthorization Act of 1986, corporations were required to pay a new income tax—the environmental tax. The requirements for this tax were provided under the new section 59A of the Internal Revenue Code of 1986. 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," in the Explanation of Terms. 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 section 164 (a) of the Internal Revenue Code of 1986. In general, the environmental tax was effective for taxable years beginning after December 31, 1986 and before January 1, 1992.

Estimated Tax Payments (#)

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

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

Separate statistics are presented for the components of net estimated tax payments which include 1986 overpayments claimed as a credit, 1987 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 that 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 highest corporate regular tax rate. 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 Sales Corporation

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

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

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

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

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

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

Foreign Tax Credit (#)

Code section 901 allowed a credit against the U.S. income tax for income, war profits and excess profits taxes paid or accrued to foreign countries or U.S. possessions including Puerto Rico. Credit was also allowed against the U.S. tax under Code sections 902 and 960 for foreign taxes "deemed paid" including taxes deemed paid on distributions constructively received from controlled foreign corporations under Code section 951. The credit was allowed for these distributions if the domestic corporation owned 10 percent or more of the voting stock of the first-tier controlled foreign corporation 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, and also by foreign corporations engaged in trade or business in the United States for foreign taxes on income "effectively connected" with the U.S. business.

However, the credit was not allowed for S Corporations 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. Since Interest Charge Domestic International Sales Corporations (IC-DISC's) themselves were not taxable, the foreign tax credit was not applicable; however, IC-DISC stockholders could claim a credit for foreign taxes paid by an IC-DISC.

A corporation that claimed the foreign tax credit could not also claim a business deduction for the same foreign taxes paid. The credit may 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 tax from recomputing prior-year investment credit, the alternative minimum tax, the Personal Holding Company tax and the environmental tax.

After 1986, the foreign tax credit must be computed separately for foreign taxes paid or accrued with respect to nine categories of income. These are (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 must be computed subject to a limitation which prevents the corporations from using foreign tax credits to reduce U.S. tax liability on income from sources within the U.S. 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 that repeatedly provide support for international terrorism, with which the United States does not have diplomatic relations or whose governments are not recognized by the United States.

General Business Credit (#)

The Tax Reform Act of 1986 made several changes to the general business credit. This credit is now 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 Tax Act repealed the credit for employee stock ownership plan, as of December 31, 1986. The orphan drug credit, which is also reported on Form 6765 is not included as part of the general business credit. If a taxpayer claimed more than one of these credits on their tax return, Form 3800 was to be filed with the return. The purpose of the general business credit was to provide a uniform limitation on the amount that may 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.

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 is shown separately in Table 14, as a component of the general business credit. Use of carryback provisions require that a prior year return be amended. Amended returns are not included in the corporate sample. Therefore, the statistics do not reflect any changes in tax liability due to carryback of unused business credits.

Income Subject to Tax (#)

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

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

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

Depending on which resulted in the lowest tax, the tax base for S corporations electing to be taxed through their shareholders was: (1) net income; (2) net long-term capital gain in excess of $25,000, when net long-term capital gain was more than 50 percent of a net income that was over $25,000; or (3) the amount attributed to gain from the disposition of property using a "substituted basis" (i.e., the basis that was transferred from another corporation which was not a S corporation electing to be taxed through its shareholders). No net operating loss or "special deductions" were available. In addition, S corporations were subject to 46 percent or 34 percent or the blend of the two on excess net passive income, which is described in this section.

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

In the case of regulated investment companies and real estate investment trusts, any net long-term capital gain (reduced by net short-term capital loss) which was not distributed to stockholders was taxed to the companies at the capital gains rate, even though the alternative tax method was not allowed. The balance of undistributed income was taxed at the normal tax rates.

See also "Income Tax."

Income Tax (#)

Under the Tax Reform Act of 1986, the maximum corporate regular tax rate was reduced to 34 percent. The benefit of a graduated tax rate was phased out for income over $100,000. The number of tax brackets was reduced to three. The corporate taxable income brackets and regular tax rates effective for tax years beginning on or after July 1, 1987 were as follows:

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.

Because of the effective date (July 1, 1987) for the lower tax rates, corporations were required to compute their regular income tax liability for Tax Year 1987, using the new and old tax rates, or a blended tax rate (see "Changes in Corporate Tax Rates," in the Changes in Law and Regulations section).

Under prior law, the corporate tax rates were:

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

Prior to the 1986 tax reforms, certain corporations also paid an additional tax as well as the regular income tax. For tax years beginning after 1983, a corporation with taxable income over $1,000,000, paid an additional tax equal to the lesser of: 5 percent of its taxable income that exceeded $1,000,000, or $20,250. Component members of a controlled group of corporations were treated as one corporation for the purpose of the additional tax. The taxable income of all component members was taken into account, and the additional tax was divided among them in the same manner as they shared the group's single taxable income amount in each tax bracket.

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 regular method. This alternative tax on capital gains was repealed by the 1986 Tax Act (see the Changes in Law and Regulations section of this report). After July 1987, capital gains were taxed at the regular income tax rate of 34 percent for all corporations. However, alternative tax on capital gains was included in the 1987 statistics for regular and alternative tax for corporations whose accounting periods began prior to July 1987. For those corporations, the excess of net long-term capital gain over net short-term capital loss was taxed at the former capital gains rate of 28 percent for the portion of the tax year before January 1, 1987 and at the new income tax rate of 34 percent for the portion of the tax year between January 1, 1987 and July 1, 1987. The balance of income for those corporations was taxed using blended graduated tax rates. The alternative method of computing income tax was not available to regulated investment companies and real estate investment trusts. (See "Net Capital Gains" in this section.)

For corporations which elected to be treated as S corporations, an income tax was imposed on certain long-term capital gains and built-in gains from years as a C corporation. The tax was not passed onto the shareholders of the corporation. The capital gains were taxed at those rates noted above. For 1987, a blended tax rate was imposed on the built-in gains from years as a C corporation. These taxes were included in the statistics for regular and alternative tax. The regular and alternative tax shown in the statistics is the amount before reduction by tax credits for: foreign taxes; U.S. possessions tax; orphan drug research; the production or sale of fuels from nonconventional sources; general business incentives, and the minimum tax. Regular and alternative tax is shown separately and included in total income tax in the statistics.

A small number of returns without net income had an income tax liability. The tax for those returns was included in the statistics as regular income tax; it was not an alternative 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.

While net income in the statistics represented the aggregate for the separate components of a return filed under a 1504(c) election, the tax was not computed using the aggregate income for the return. The separate components of the consolidation computed an income tax based on their own taxable income. The consolidated income tax was the sum of the tax computed by those separate components. Therefore, a deficit for one component could have offset income from the other components having an income tax liability.

Statistics for income tax do not reflect any adjustments to the tax liability that may result from (a) audit examinations and other enforcement activities and (b) 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 cause adjustments to income tax through recomputed credits.

The use of these carryback provisions require that a corporation file an amended income tax return. Amended returns are 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 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. Also included in this item were amounts received on loans, notes, mortgages, bonds, bank deposits, tax refunds, and corporate bonds. The amounts shown for this item were 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.

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

Interest on Government Obligations: State and Local

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

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

Interest Paid

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

Inventories

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

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

See also "Cost of Sales and Operations."

Investment Credit (#)

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

(1) Transition property, for example, construction in progress on December 31, 1985;
(2) Qualified progress expenditure property;
(3) Qualified timber property treated as section 38 property under 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 Tax Act also extended the business energy portion of the investment credit for three years 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 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. However, for tax years beginning after June 30, 1987, a 35 percent reduction was to be applied to the regular 10 percent investment credit for those properties. The amount of the reduction could not be carried to any other tax year. For tax years beginning before and ending after July 1, 1987 the 35 percent reduction was computed on a prorated basis for the number of months after June 1987 in the taxable year. Transition rules for carryover of the reduction amount were established for these tax years.

Generally, investment credit property included the following:

(1) tangible personal property defined in Code section 48(a)(1). Tangible personal property comprised all property contained in or attached to a building, such as, machinery or equipment. Certain types of property, even though physically located outside a building or accessory to a building, were also considered tangible personal property;

(2) elevators and escalators;

(3) other tangible property, including certain real property, used as an integral part of manufacturing, production, or extraction, or used as a research facility or bulk storage facility;

(4) livestock other than horses as long as not sold and replaced by substantially identical animals during a relatively short period of time;

(5) certain single-purpose agricultural or horticultural structures defined in Code section 48(p);

(6) rehabilitation expenditures for qualified 30-year buildings, 40-year buildings, and certified historic structures;

(7) forestation and reforestation expenditures that are amortizable under Code section I94; and

(8) petroleum storage facilities.

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 tax from recomputing prior-year investment credit; the additional tax for tax preferences; the Personal Holding Company tax; and the special capital gains tax of S corporations. (These corporations were not eligible to claim the investment credit, their investment was allocated among the stockholders who then claimed the credit.)

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 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; the regular investment credit shown does not include the tentative business energy 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".

In the Changes in Law and Regulations section, see "Alternative Minimum Tax" and "Minimum Tax 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.

Beginning with Tax Year 1987, the income tax returns for mutual insurance companies were filed on the new Form 1120-PC. A separate schedule for reporting the balance sheet data was provided as part of the new form. Tax Year 1987 was the first year for which balance sheet data could be obtained from the income tax return for these companies. For previous Statistics of Income reports, the balance sheet data were obtained from the annual statements attached to the returns or from reference books.

For Tax Year 1987, mutual insurance companies frequently reported "Investments in Government Obligations" as "Other Investments" on the income tax return. When identified, the amounts were excluded from "Other Investments" and included in "Investments in Government Obligations" during statistical processing. Comparison of data reported on the annual statement for prior years to that reported on the tax return for 1987 indicated that "Investments in Government Obligations" may have been more clearly identified on the annual statement than on the income tax return. Thus for 1987, "Investments in Government Obligations" may be understated while "Other Investments" may be overstated to the extent that "Investments in Government Obligations were not identified on the income tax return.

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, 1987.

The credit was taken with respect to wages paid to employees who began work after December 31, 1985. The credit was limited to the sum of: 40 percent of the first $6,000 of "qualified first-year wages," 25 percent of the first $6,000 of "qualified second-year wages" for employees who began work before January 1, 1986, and 5 percent of the first $3,000 of "qualified summer youth employee wages," for work done in any 90-day period between May 1 and September 15.

The jobs credit was 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 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.

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 replace existing tax incentives for low-income housing such as preferential depreciating, five-year amortization of rehabilitation expenditures and special treatment of construction period interest and taxes.

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

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

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

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

A unit is "rent restricted" if the gross rent does not exceed 30 percent of the income limitation in (1) or (2) above for individuals occupying the unit. A corporation may elect to classify a project under either one of the above criteria. Once made, the election is 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.

Starting with taxable years beginning after December 31, 1980, insurance companies were allowed 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. Interest Charge Domestic International Sales Corporations (IC–DISC's) were generally members of controlled groups, however, control was defined in terms of 50 percent stock ownership. Foreign Sales Corporations (FSC's) were also likely to be controlled group members, however a FSC could not be a member of a controlled group of corporations of which an IC–DISC was a member at any time during the taxable year.

Minimum Tax Credit (#)

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

The credit was allowed for a recomputed alternative minimum tax from a prior year. The alternative minimum tax was recomputed to disregard the carryover of investment tax credits and 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 minimum tax credit could be carried forward indefinitely. There were no carryback provisions for the minimum tax credit.

Since some of the returns included in this report had accounting periods ending in 1988, a small amount of this credit was included in the 1987 statistics.

Mortgage and Real Estate Loans

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

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

Mortgages, Notes, and Bonds Payable

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

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

Net Capital Gains

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

Net short-term gains (reduced by net long-term losses) were taxed as ordinary income. However, net long-term gains (reduced by net short-term losses) were taxed at an alternative rate of 28 or 34 percent, depending upon when the corporation's tax year began. See "Net Long-Term Capital Gains Taxed at Alternative Rates" for further information.

Excess net losses could be carried back as short-term losses to be applied against the net capital gains of the 3 preceding years; any losses remaining after carryback were carried over the 5 succeeding years. Use of the carryback for excess net losses was limited; it was not allowed to increase or cause a deductible "net operating loss" for prior years and was not allowed for foreign expropriation capital losses (although a special carryover period of 10 years for such losses was allowed instead) or for capital losses of S corporations electing to be taxed through their shareholders. A net capital loss for a Regulated Investment Company may 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 are 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;
(6) real property used in the trade or business; and
(7) certain copyrights, literary, musical, or artistic compositions or similar properties.

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

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

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

(1) real and depreciable property used in the trade or business, held for more than 6 months 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 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 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 and
(5) certain livestock.

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

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

See also, "Additional Tax for Tax Preferences."

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

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

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

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

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

Code sections 1245 and 1250:

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

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

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

Under Code section 1245, the amount of gain treated as ordinary income was based on the depreciation (or amortization in the case of defense "emergency facilities") allowed or allowable after 1961 (after 1963 for elevators and escalators and after 1969 for livestock (including furbearing animals such as chinchillas, minks, and foxes)).

This "depreciation recapture" applied to dispositions of property made during taxable years beginning after 1962 (after 1963 for elevators and escalators and after 1969 for livestock).

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

Code sections 1252:

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

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

Code section 1254:

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

Code section 617:

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

Net Income (or Deficit) (#)

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

The statistics for net income are generally larger than the amounts shown for "Income Subject to Tax." Certain statutory special deductions including the net operating loss deduction were allowed most corporations in computing their income subject to tax. Income subject to tax is derived by reducing net income by the statutory special deductions.

Included in the net income statistics are amounts from the trade or business activities of S corporations (although the income was primarily taxable to the shareholders). Only certain long-term capital gains and gains from previous years as a C corporation were taxable to S corporations. Also, included are amounts from Interest Charge Domestic International Sales Corporations (IC–DISC's); these corporations were not taxable. Net income from Foreign Sales Corporations (FSC's) also was included. For FSC's net income (or deficit) represents the amount after an exemption of certain foreign trade income and Subpart F income taxable to its corporate owners.

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

For insurance companies other than life subject to tax under Code section 831, the net income (or deficit) in this report is 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 insurance companies other than life 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.

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

See "Net Capital Gains" in this section.

Net Long-Term Capital Gain Taxed at Alternative Rate (#)

This part of the tax base was used for the tax computation for those returns using the alternative tax rate. The alternative method, allowed under Code section 1201, was used if it provided a lower tax liability than did the use of the tax rates on total taxable income. The alternative tax on capital gains was repealed by the Tax Reform Act of 1986. See the Changes in Law and Regulations section. See also, the discussions of "Income Subject to Tax" and "Income Tax," in this section.

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

For most corporations, use of the alternative tax did not affect the amount shown as "Income Subject to Tax."

However, when net long-term capital gain (reduced by net short-term capital loss) was greater than taxable income (net income minus statutory special deductions), the alternative rate (28 percent) applied to the capital gains was less than the regular rates applied to taxable income. Therefore, the capital gains, rather than taxable income, became the tax base and was used for the "Income Subject to Tax" statistics.

Use of the alternative tax rate was eliminated for tax years beginning in 1987 when the lower corporate tax rates came into effect. However, a transitional rule applied to corporations with tax years which began in 1986 and ended by June 30, 1987. In this case, the tax on the net capital gain was the sum of 28 percent of the lesser of its pre-January 1, 1987 net capital gain or its net capital gain for the total year plus 34 percent of any excess of net capital gain for the tax year over the amount of net capital gain taken into account above.

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

See "Net Capital Gains" in this section.

Net Worth (#)

Net worth represented the stockholders' equity in the corporation (total assets minus the claims of creditors). In the statistics, net worth comprises the net sum of the following items:

(1) capital stock;
(2) paid-in or capital surplus;
(3) retained earnings, appropriated;
(4) retained earnings, unappropriated;
(5) less the cost of treasury stock;

Four additional items are included in net worth for corporations filing Form 1120S:

(6) accumulated adjustments account;
(7) other adjustments account;
(8) other retained earnings, 1120S; and
(9) shareholders' undistributed taxable income.

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

Noncalendar Year Returns

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

Nonconventional Source Fuel Credit

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

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

The credit was available for production and sale of the following:

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

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

Nonqualifying Interest and Dividends (#)

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

Nonqualifying interest and dividends were not reported as a separate line item on the 1987 Form 1120-S and are not shown separately in the tables in this report. However, they are included in other receipts.

Notes and Accounts Receivable

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

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

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

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

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

Number of Returns

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

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

Orphan Drug Credit

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

Other Adjustments Account

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

Other Assets

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

Includable were items such as deposits on contracts reported as noncurrent by the corporation, interest discounts when reported as noncurrent by the corporation, and guaranty deposits. Other assets of life insurance companies included the market value of real estate and that portion of stock and bond holdings in excess of book value.

For Interest Charge Domestic International Sales Corporations (IC–DISC's), this item also included "nonqualified assets" (i.e., assets that were not export-related or that failed to meet the requirements indicated for "qualified export assets" in Code section 993). It does not include any asset with a life of less than one year, nor any asset properly considered an investment.

Other Capital Assets Less Reserves

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

Other Credits and Payments

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

Other Current Assets

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

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

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

Other Current Liabilities (#)

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

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

Beginning with Tax Year 1987, the income tax returns for mutual insurance companies were filed on the new Form 1120–PC. A separate schedule for reporting the balance sheet data was provided as part of the new form. Tax Year 1987 was the first year for which balance sheet data could be obtained from the income tax return for these companies. For previous Statistics of Income reports, the balance sheet data were obtained from the annual statements attached to the returns or from reference books.

For Tax Year 1987, mutual 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 for 1987, "Other Current Liabilities" may be understated while "Other Liabilities" may be overstated, compared to prior year data obtained from the annual statement.

Other Deductions (#)

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

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

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

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

Other Investments (#)

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

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

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

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

Beginning with Tax Year 1987, the income tax returns for mutual insurance companies were filed on the new Form 1120–PC. A separate schedule for reporting the balance sheet data was provided as part of the new form. Tax Year 1987 was the first year for which balance sheet data could be obtained from the income tax return for these companies. For previous Statistics of Income reports, the balance sheet data were obtained from the annual statements attached to the returns or from reference books.

For Tax Year 1987 mutual insurance companies frequently reported "Investments in Government Obligations" on the income tax return as "Other Investments". When identified, the amounts were excluded from "Other Investments" and included in "Investments in Government Obligations" during statistical processing. Comparison of data reported on the annual statement for prior years to that reported on the tax return for 1987 indicated that "Investments in Government Obligations" may have been more clearly identified on the annual statement than on the income tax return. Thus for 1987, "Other Investments" may be overstated while "Investments in Government Obligations" may be understated to the extent that "Investments in Government Obligations" may not have been identified.

Other Investments and Loans

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

Other Liabilities (#)

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

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

Beginning with Tax Year 1987, the income tax returns for mutual insurance companies were filed on the new Form 1120–PC. A separate schedule for reporting the balance sheet data was provided as part of the new form. Tax Year 1987 was the first year for which balance sheet data could be obtained from the income tax return for these companies. For previous Statistics of Income reports, the balance sheet data were obtained from the annual statements attached to the returns or from reference books.

For Tax Year 1987, mutual 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 for 1987, "Other Liabilities" may be overstated while "Other Current Liabilities" may be understated, compared to prior year data obtained from the annual statement.

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, as well as the nonqualifying interest and dividends of S corporations.

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

See also "Business Receipts."

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

This item was previously included in the statistics as "Retained Earnings, 1120S."

Overpaid Windfall Profit Tax (#)

A corporation that overpaid its windfall profit tax could claim a tax credit for such overpayment as a credit on its income tax return. The windfall profit tax was a federal excise tax on the "windfall" profit from domestically produced crude oil. For newly discovered oil, the tax rate was 22.5 percent in 1987. 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.

Overpaid windfall profits tax credit is shown in Table 13.

Overpayments Claimed as a Credit (#)

This was the amount of the 1986 overpayment the corporation specifically requested to be credited to the 1987 year's estimated tax, in lieu of requesting a refund in 1986. The credit is reflected in the amount shown as estimated tax payments in Table 8.

Paid-In or Capital Surplus

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

Part-Year Returns

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

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

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

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

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

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

Employers who maintain a pension, profit-sharing or other funded deferred compensation plan are required to file a Form 5500, 5500-C, 5500-R, or 5500EZ depending on the number of participants. Contributions made by employers to these plans were deductible under Code section 404. The statistics for this item include such amounts identified in the cost of sales and operations schedules. Excess contributions could be carried over to succeeding years.

Personal Holding Company Tax

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

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

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

Real Estate Investment Trust (#)

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

To qualify as a real estate investment trust for any tax year, the trust must also meet certain gross income and diversification of investment requirements. These requirements are established through limitations on income. The limitations are 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 is excluded from the total gross income.

At least 95 percent of the total gross income of a real estate investment trust must 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 is 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 must 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 is 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) amounts received or accrued as consideration for entering into agreements: (1) to make loans secured by mortgages on real property or on interests in real property or (2) to purchase or lease real property (including interests in real property and interests in mortgages on real property), and (h) gain from the sale of a real estate asset which is not a prohibited sale.

Less than 30 percent of the total gross income of a real estate investment trust can 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 is 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 is foreclosure property.

A real estate investment trust must also meet certain asset requirements at the close of each quarter of a taxable year. At least 75 percent of its total assets must consist of real estate assets, cash, and cash items (including receivables), and Government securities. No more than 25 percent of its total assets can consist of securities other than Government securities. Limitations are further imposed on the amount of securities that can be issued to the trust by any one issuer. For a single issuer, the value of securities is 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 may not make this election. Foreign corporations are also excluded from this provision of U.S. tax law.

Refunds of Estimated Tax Payments (#)

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

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

Regular and Alternative Tax (#)

See "Income Tax," in this section.

Regulated Investment Company (#)

A regulated investment company must be a domestic corporation which is registered with the Securities and Exchange Commission 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) that is not exempt from taxation as a corporation under section 584 of the Internal Revenue Code.

A regulated investment company must 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 can be be derived from the sale or other disposition of stock or securities held for less then three months.

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

A regulated investment company must also meet certain requirements pertaining to diversification of investment at the close of each quarter of its taxable year. At least 50 percent of its total assets must be cash and cash items (including receivables), Government securities, securities of other regulated investment companies and other securities. Limitations are further imposed on the amount of securities that can be issued to a regulated investment company by any one issuer. For a single issuer, the value of securities is 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 can 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 has more than one fund, each fund is treated as a separate corporation for income tax purposes. This provision was effective for tax years beginning October 23, 1986.

Rent Paid on Business Property

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

Rents (#)

These were the gross amounts received for the use or occupancy of property. Expenses related to rental property, such as depreciation, repairs, interest paid, and taxes paid, were not deducted directly from the rental income, but were reported as business deductions from total receipts. 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 "Business Receipts" rather than in rents. The rental income of real estate operators and condominium management and cooperative housing associations were included in "Business Receipts" rather than in rents, if the expense schedule indicated the operation of the building(s) by the owner rather than as a lessor.

Repairs

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

Research Activities Credit (#)

The Tax Reform Act of 1986 extended the research credit beyond 1985 and made several major changes. The credit will be available for eligible expenses paid or incurred through December 31, 1988. The credit was reduced from 25 percent to 20 percent of the increase in research expenses, and the definition of qualified research was narrowed considerably. A new credit for 20 percent of a corporation's payments for university basic research became effective for tax years beginning after 1986. Previously, the research credit included 65 percent of a corporation's expenditures for basic research.

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

Two types of research were considered to be qualified for this credit. The first type consisted of the expenses incurred for the taxpayer's own wages and supplies for research, plus certain other charges for the use of research equipment. The other type consisted of the expenses paid to qualified organizations, such as colleges and other tax-exempt organizations, for basic research. Qualified research involves 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. It must be done within the United States and may not involve the social sciences or humanities. Research funded by another person, by a grant, or by a government agency was also ineligible for the credit.

The research activities credit (but not the orphan drug credit) was claimed as one of the component 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 research activities 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.

Retained Earnings, Appropriated

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

Retained Earnings, Unappropriated

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

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

Retained Earnings, 1120S (#)

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 are defined for this report as returns showing no item of income or deduction. Financial data from these returns were excluded from the statistics.

Returns With Net Income

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

Returns Without Net Income

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

Royalties

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

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

S Corporation Returns (#)

Form 1120S, U.S. Income Tax Return for an S Corporation, was filed by corporations electing to be taxed through 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. 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 pro-rata on a per-share, daily basis. The income or loss from passive investments were also passed through to the shareholders. The income or loss from both 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 accounting period for which the corporation established a business purpose to the satisfaction of the Internal Revenue Service.

Also added by the 1986 Tax Act, new 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.

Effective for tax years beginning after December 31, 1986, a new 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 bases 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 purposes of computing the taxable income on which the built-in gains tax was imposed, the S corporation was allowed a net operating loss carryforward from the period when it was not an S corporation. Certain business credit carryforwards from when the S corporation was a C corporation could also reduce the recognized built-in gains tax. The tax was imposed using a blended tax rate for 1987, at a 46 percent rate for the portion of the tax year before July 1, 1987 and at a 34 percent rate for the remainder of the tax year. The recognized built-in gains tax was included in income tax in the tables, the taxable income on which the tax was based was excluded from the tables for 1987.

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; (2) the gain from the disposition of property using a "substituted basis" (i.e., the basis that was transferred from another corporation which was not also an electing S corporation); or (3) net income computed as though the corporation were not an S corporation. For corporations whose accounting periods began prior to July 1987, the tax was imposed using a blended tax rate for 1987, at a 28 percent rate for the portion of the tax year before January 1, 1987 and at a 34 percent rate for for the portion of the tax year between January 1, 1987 and July 1, 1987. 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 (although 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 (#)

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

Size of Business Receipts

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

Size of Income Tax After Credits (#)

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

Size of Total Assets

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

Statutory Special Deductions (#)

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

In general, net income less statutory special deductions equaled income subject to tax. However, the 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. Statutory special deductions were not allowed to S corporations for which an election was made to be taxed through shareholders.

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

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

(1) *Net operating loss deduction* (NOLD).—The total net operating loss deduction was based on statutory net operating losses of prior or subsequent years which could be used to reduce taxable income for a specified number of years. The amount shown in this report, however, consists only of losses from prior years actually used to reduce taxable income for the current year. Losses incurred after the current year and carried back to that year at a later date could not be reported on the returns used for this report. In general, losses were carried back over a 3-year period, chronologically, and any amount not offset against income during that time could then be carried forward against income for a period not exceeding 15 years. A corporation however, may carry back for 10 years, the part of a net operating loss attributable to a product liability loss. Real Estate Investment Trusts (REIT's) and Regulated Investment Companies (RIC's) cannot carry back a NOLD. Instead, a fifteen year carryover is allowed for REIT's and an eight year carryover is allowed for RIC's. Banks had a ten year carryback and a five year carryover period which was repealed for taxable years beginning after 1986. Banks can now carryback for 3 years and forward for 15, except for a special 10 year carryback provision for certain commercial banks which compute a specific charge-off method for 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 is allowed, and capital losses are only deductible to the extent of capital gains. A deduction for dividends received is allowed without regard to limitations.

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

(2) *Total special deductions.*—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) A deduction equal to 80 percent of dividends received from domestic corporations which were themselves subject to the income tax—

This particular deduction accounted for the major portion of the dividends received deduction. Since IC–DISC's were not subject to tax, the intercorporate dividends received deduction was not allowed for dividends received by their stockholders. However, if the dividends were paid out of earnings and profits from a year before the election was made to become an IC–DISC, the stockholders were entitled to the deduction for such dividends. A small business investment company, operating under the Small Business Investment Act of 1958 may deduct 100 percent of dividends received from domestic corporations subject to income tax.

(2) A deduction reduced from the 80 percent dividends received from debt-financed portfolio stock—

The 80 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.

(3) A deduction equal to 80 percent of certain dividends received from foreign corporations—
(a) which had been engaged in a trade or business within the United States for at least 3 years and
(b) which also had at least 50 percent of their gross income "effectively connected" with the U.S. trade or business. 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 $25,000 amount in each of the income tax brackets under Code section 1561;

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

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

(7) 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 80 percent 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 deduction of 80 percent of dividends received 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 30.4 percent of the dividends paid on such stock.

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

Taxable Income (#)

See "Income Subject to Tax"

Tax Due at Time of Filing

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

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

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

Tax from Recomputing Prior Year Investment Credit

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

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

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

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

See also "Investment Credit" in this section.

Tax Overpayment (#)

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

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

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

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

Tax Preference Items (#)

See "Additional Tax for Tax Preferences."

Taxes Paid (#)

Taxes paid included the amounts reported as an ordinary and necessary business deduction as well as identifiable amounts reported in the cost of sales and operations schedules. Included among the deductible taxes were ordinary State and local taxes paid or accrued during the year; social security and payroll taxes; unemployment insurance taxes; import and tariff duties; and business, license and privilege taxes. Income and profit taxes paid to foreign countries or U.S. possessions were also deductible unless claimed as a credit against income tax. However, S corporations (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 was 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 included Federal income and excess profits taxes, gift taxes and taxes assessed against local benefits.

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

Total Assets and Total Liabilities (#)

Total assets and total liabilities were those reported in the end-of-year balance sheet in the corporations' books of account. Total assets were net amounts after reduction by accumulated depreciation, accumulated amortization, accumulated depletion, and the reserve for bad debts. When reserves for bad debts were reported as liabilities, they were treated as reductions from the asset accounts to which they related and 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 return form or by using either reference books or relationships between income statement and balance sheet items on similar returns in the same industrial group.

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.

Beginning with Tax Year 1987, the income tax returns for mutual insurance companies were filed on the new Form 1120-PC. A separate schedule for reporting the balance sheet data was provided as part of the new form. Therefore, Tax Year 1987 was the first year for which balance sheet data could be obtained from the income tax return for these companies. For previous Statistics of Income reports, the balance sheet data for these companies were obtained from the annual statements or reference books. (See also "Size of Total Assets.")

Total Deductions (#)

As presented in the tables of this publication, total deductions comprised (1) the cost of sales and operations, (2) the ordinary and necessary business deductions from gross income, and (3) net loss from sales of noncapital assets. Components of total deductions are shown in the income statement segment of various tables throughout this report.

For certain small insurance companies other than life, with net or written premiums (whichever was greater) over $350,000 but not over $1,200,000 total deductions represents only investment expenses; 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) the regular and alternative taxes before reduction by credits (see "Income Tax," in this section);
(1) the personal holding company tax (described under a separate heading);
(2) the tax from recomputing a prior-year investment credit (described under a separate heading);
(3) the alternative minimum tax (see Changes in the Law and Regulations);
(4) the environmental tax (see Changes in the Law and Regulations);
(5) the tax on excess net passive income of S corporations (described under a separate heading);
(6) tax on undistributed net capital gain as provided under Code section 852(b)(3) for regulated investment companies.
(7) the tax from certain income of real estate investment trusts:
   (a) net income on foreclosure property;
   (b) section 857(b) income from failure to meet source of income requirements; and
   (c) net income from prohibited transactions;

(8) the branch tax computed by foreign corporations on the earnings and profits and interest income of their U.S. branches (Form 1120 F)(see Changes in the Law and Regulations)

Some taxes included in total income tax were not imposed on income subject to tax, such as the tax from recomputing a prior year investment credit. Because of the special nature of some of these taxes, a small number of returns without net income and a regular or alternative tax were included in the statistics for total income tax. See also "Income Tax" for a description of returns without net income having regular and alternative tax and returns with adjustments to tax from audit 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 insurance companies, other than life, with net or written premiums (whichever was greater) over $350,000 but not over $1,200,000 the gross taxable receipts included in the statistics represent only the receipts from investments; operating income was excluded by law. (See also "Total Deductions.")

Total Receipts Less Total Deductions

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

U.S. Possessions Tax Credit

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

For each year in which the credit is claimed, the corporation must satisfy the requirements of two income tests under Code section 936. A domestic corporation had to: (1) receive for the "applicable" period immediately preceding the close of the taxable year at least 80 percent of its gross income from sources within a U.S. possession, and (2) receive for the "applicable" period at least 65 percent of its gross income from the active conduct of a trade or business within a U.S. possession. "Applicable" period was the lesser of 3 years or the period during which the corporation was engaged in the active conduct of a trade or business within a U.S. possession. IC-DISC's and FSC's were ineligible for the credit. A possessions corporation cannot claim a foreign tax credit for the same taxes credited under the possessions tax credit. In addition, if the possessions tax credit is taken, a corporation is prohibited from joining in a consolidated return.

Zero Assets

In general, returns in this 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

Contents

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

U.S. Corporation Income Tax Return

For calendar 1987 or tax year beginning ...., 1987, ending ...., 19 ....
▶ For Paperwork Reduction Act Notice, see page 1 of the instructions.

OMB No. 1545-0123

1987

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

Use IRS label. Otherwise please print or type.
Name
Number and street
City or town, state, and ZIP code

D Employer identification number
E Date incorporated
F Total assets (See Specific Instructions.)
Dollars | Cents
$

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

Income

1a	Gross receipts or sales .... b Less returns and allowances .... Balance ▶	1c	
2	Cost of goods sold and/or operations (Schedule A)	2	
3	Gross profit (line 1c less line 2)	3	
4	Dividends (Schedule C)	4	
5	Interest	5	
6	Gross rents	6	
7	Gross royalties	7	
8	Capital gain net income (attach separate Schedule D)	8	
9	Net gain or (loss) from Form 4797, line 18, Part II (attach Form 4797)	9	
10	Other income (see instructions—attach schedule)	10	
11	TOTAL income—Add lines 3 through 10 and enter here ▶	11	

Deductions (See instructions for limitations on deductions)

12	Compensation of officers (Schedule E)	12	
13a	Salaries and wages .... b 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	Less depreciation claimed in Schedule A and elsewhere on return 21a	21b	
22	Depletion	22	
23	Advertising	23	
24	Pension, profit-sharing, etc., plans	24	
25	Employee benefit programs	25	
26	Other deductions (attach schedule)	26	
27	TOTAL deductions—Add lines 12 through 26 and enter here ▶	27	
28	Taxable income before net operating loss deduction and special deductions (line 11 less line 27)	28	
29	Less: a Net operating loss deduction (see instructions) 29a		
	b Special deductions (Schedule C) 29b	29c	

Tax and Payments

30	Taxable income (line 28 less line 29c)	30	
31	TOTAL TAX (Schedule J)	31	
32	Payments: a 1986 overpayment credited to 1987		
b	1987 estimated tax payments		
c	Less 1987 refund applied for on Form 4466 ( )		
d	Tax deposited with Form 7004		
e	Credit from regulated investment companies (attach Form 2439)		
f	Credit for Federal tax on gasoline and special fuels (attach Form 4136)	32	
33	Enter any PENALTY for underpayment of estimated tax—check ▶ ☐ if Form 2220 is attached	33	
34	TAX DUE—If the total of lines 31 and 33 is larger than line 32, enter AMOUNT OWED	34	
35	OVERPAYMENT—If line 32 is larger than the total of lines 31 and 33, enter AMOUNT OVERPAID	35	
36	Enter amount of line 35 you want: Credited to 1988 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 ▶

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)	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 (other than for section 263A purposes) 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	Domestic corporations subject to section 243(a) deduction (other than debt-financed stock)		see instructions	
2	Debt-financed stock of domestic and foreign corporations (section 246A)		see instructions	
3	Certain preferred stock of public utilities		see instructions	
4	Foreign corporations and certain FSCs subject to section 245 deduction		see instructions	
5	Wholly owned foreign subsidiaries and FSCs subject to 100% deduction (sections 245(b) and (c))		100	
6	Total—Add lines 1 through 5. See instructions for limitation			
7	Affiliated groups subject to the 100% deduction (section 243(a)(3))		100	
8	Other dividends from foreign corporations not included in lines 4 and 5			
9	Income from controlled foreign corporations under subpart F (attach Forms 5471)			
10	Foreign dividend gross-up (section 78)			
11	IC-DISC or former DISC dividends not included in lines 1 and/or 2 (section 246(d))			
12	Other dividends			
13	Deduction for dividends paid on certain preferred stock of public utilities (see instructions)			
14	Total dividends—Add lines 1 through 12. Enter here and on line 4, page 1 ▶			
15	Total deductions—Add lines 6, 7, and 13. Enter here and on line 29b, page 1 ▶			

Schedule E **Compensation of Officers** (See instructions for line 12, page 1.)
Complete Schedule E only if total receipts (line 1a, plus lines 4 through 10, of page 1, Form 1120) are $150,000 or more.

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

Form 1120 (1987) Page 3

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, see instructions. If your tax year includes June 30, 1987, complete both a and b below. Otherwise, complete only b.

a (i) $ .... (ii) $ .... (iii) $ .... (iv) $ ....

b (i) $ .... (ii) $ ....

3 Income tax (see instructions to figure the tax; enter this tax or alternative tax from Schedule D, whichever is less). Check if from Schedule D ▶ ☐	3	
4a Foreign tax credit (attach Form 1118)	4a	
b Possessions tax credit (attach Form 5735)	b	
c Orphan drug credit (attach Form 6765)	c	
d Credit for fuel produced from a nonconventional source (see instructions)	d	
e General business credit. Enter here and check which forms are attached ☐ Form 3800 ☐ Form 3468 ☐ Form 5884 ☐ Form 6478 ☐ Form 6765 ☐ Form 8586	e	
5 Total—Add lines 4a through 4e	5	
6 Line 3 less line 5	6	
7 Personal holding company tax (attach Schedule PH (Form 1120))	7	
8 Tax from recomputing prior-year investment credit (attach Form 4255)	8	
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 Did the corporation claim a deduction for expenses connected with:		
(1) An entertainment facility (boat, resort, ranch, etc.)?		
(2) Living accommodations (except employees on business)?		
(3) Employees attending conventions or meetings outside the North American area? (See section 274(h).)		
(4) Employees' families at conventions or meetings?		
If "Yes," were any of these conventions or meetings outside the North American area? (See section 274(h).)		
(5) Employee or family vacations not reported on Form W-2?		
I (1) Did the corporation at the end of the tax year own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).)		
If "Yes," attach a schedule showing: (a) name, address, and identifying number; (b) percentage owned; (c) taxable income or (loss) before NOL and special deductions of such corporation for the tax year ending with or within your tax year; (d) highest amount owed by the corporation to such corporation during the year; and (e) highest amount owed to the corporation by such corporation during the year.		
(2) Did any individual, partnership, corporation, estate, or trust at the end of the tax year own, directly or indirectly, 50% or more of the corporation's voting stock? (For rules of attribution, see section 267(c).) If "Yes," complete (a) through (d)		
(a) Attach a schedule showing name, address, and identifying number. Enter percentage owned ▶		
(b) 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 ▶		
(c) Enter highest amount owed by the corporation to such owner during the year ▶		
(d) Enter highest amount owed to the corporation by such owner during the year ▶		
Note: *For purposes of I(1) and I(2), "highest amount owed" includes loans and accounts receivable/payable.*		
J Refer to the list in the instructions and state the principal: Business activity ▶ .... Product or service ▶		
K Was the corporation a U.S. shareholder of any controlled foreign corporation? (See sections 951 and 957.)		
If "Yes," attach Form 5471 for each such corporation.		
L At any time during the tax year, did the corporation have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)?		
(See instruction F and filing requirements for form TD F 90-22.1.) If "Yes," enter name of foreign country ▶		
M Was the corporation the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not the corporation has any beneficial interest in it?		
If "Yes," the corporation may have to file Forms 3520, 3520-A, or 926.		
N During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.)		
If "Yes," file Form 5452. If this is a consolidated return, answer here for parent corporation and on Form 851, Affiliations Schedule, for each subsidiary.		
O During this tax year did the corporation maintain any part of its accounting/tax records on a computerized system?		
P Check method of accounting: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶		
Q Check this box if the corporation issued publicly offered debt instruments with original issue discount ☐ If so, the corporation may have to file Form 8281.		
R Enter the amount of tax-exempt interest received or accrued during the tax year ▶		
S If you are a member of a controlled group, enter the amount of taxable income for the entire group ▶		

Form 1120 (1987) Page 4

Schedule L Balance Sheets

	Beginning of tax year		End of tax year	
Assets	(a)	(b)	(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 $		9 Total of lines 7 and 8	
6 Total of lines 1 through 5		10 Income (line 28, page 1)—line 6 less line 9	

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (line 24, Schedule L)

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)	

Form **1120-A** U.S. Corporation Short-Form Income Tax Return 1235

To see if you qualify to file Form 1120-A, see instructions.

OMB No. 1545-0890

Department of the Treasury Internal Revenue Service

For calendar 1987 or tax year beginning ______, 1987, ending ______, 19 ___

1987

See instructions for list of principal business: A Activity; B Product or service; C Code

Use IRS label. Otherwise, please type or machine print: Name; Number and street; City or town, state, and ZIP code

D Employer identification number (EIN)

E Date incorporated

F Total assets (See Specific Instructions.) Dollars | Cents $

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

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

Income	1a	Gross receipts or sales ____ b Less returns and allowances ____ Balance ▶	1c	
	2	Cost of goods sold and/or operations (see instructions)	2	
	3	Gross profit (line 1c less line 2)	3	
	4	Domestic corporation dividends subject to the Section 243(a)(1) deduction	4	
	5	Interest	5	
	6	Gross rents	6	
	7	Gross royalties	7	
	8	Capital gain net income (attach separate Schedule D (Form 1120))	8	
	9	Net gain or (loss) from Form 4797, line 18, Part II (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 (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	Less depreciation claimed elsewhere on return . . . 21a	21b	
	22	Other deductions (attach schedule)	22	
	23	TOTAL deductions—Add lines 12 through 22	23	
	24	Taxable income before net operating loss deduction and special deductions (line 11 less line 23)	24	
	25	Less: a Net operating loss deduction (see instructions) . . . 25a		
		b Special deductions (see instructions) . . . 25b	25c	
Tax and Payments	26	Taxable income (line 24 less line 25c)	26	
	27	TOTAL TAX (from Part I, line 6 on page 2)	27	
	28	Payments:		
	a	1986 overpayment allowed as a credit		
	b	1987 estimated tax payments		
	c	Less 1987 refund applied for on Form 4466 ( )		
	d	Tax deposited with Form 7004		
	e	Credit from regulated investment companies (attach Form 2439)		
	f	Credit for Federal tax on gasoline and special fuels (attach Form 4136)	28	
	29	Enter any PENALTY for underpayment of estimated tax—Check ▶ ☐ if Form 2220 is attached	29	
	30	TAX DUE—If the total of lines 27 and 29 is larger than line 28, enter AMOUNT OWED	30	
	31	OVERPAYMENT—If line 28 is larger than the total of lines 27 and 29, enter AMOUNT OVERPAID	31	
	32	Enter amount of line 31 you want: Credited to 1988 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** (1987)

Form 1120-A (1987) Page 2

Part I Tax Computation (See instructions.) Enter EIN ▶

1	Income tax (See instructions to figure the tax. Enter lesser of this tax or alternative tax from Schedule D.) Check if from Schedule D ▶ ☐	1	
2	Credits. Check if from: ☐ Form 3800 ☐ Form 3468 ☐ Form 5884 ☐ Form 6478 ☐ Form 6765 ☐ Form 8586	2	
3	Line 1 less line 2	3	
4	Tax from recomputing prior-year investment credit (attach Form 4255)	4	
5	Alternative minimum tax (see instructions—attach Form 4626)	5	
6	Total tax—Add lines 3 through 5. Enter here and on line 27, page 1	6	

Additional Information (See instruction F.)

I Was a deduction taken for expenses connected with:
(1) An entertainment facility (boat, resort, ranch, etc.)? Yes ☐ No ☐
(2) Employees' families at conventions or meetings? Yes ☐ No ☐

J Did any individual, partnership, estate, or trust at the end of the tax year own, directly or indirectly, 50% or more of the corporation's voting stock? (For rules of attribution, see section 267(c).) If "Yes," complete (1) and (2) . . . Yes ☐ No ☐
(1) Attach a schedule showing name, address, and identifying number.
(2) Enter "highest amount owed;" include loans and accounts receivable/payable:
(a) Enter highest amount owed by the corporation to such owner during the year ▶
(b) Enter highest amount owed to the corporation by such owner during the year ▶

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

L (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 ▶
(b) Additional sec. 263A costs (see instructions) ▶
(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 ☐

M At any time during the tax year, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See instruction F for filing requirements for Form TD F 90-22.1.) . . . Yes ☐ No ☐
If "Yes," write in the name of the foreign country ▶

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

O Enter amount of cash distributions and the book value of property (other than cash) distributions made in this tax year ▶

Part II Balance Sheets

			(a) Beginning of tax year	(b) End of tax year
Assets	1	Cash		
	2	Trade notes and accounts receivable		
	a	Less: allowance for bad debts	( )	( )
	3	Inventories		
	4	Federal and state government obligations		
	5	Other current assets (attach schedule)		
	6	Loans to stockholders		
	7	Mortgage and real estate loans		
	8	Depreciable, depletable, and intangible assets		
	a	Less: accumulated depreciation, depletion, and amortization	( )	( )
	9	Land (net of any amortization)		
	10	Other assets (attach schedule)		
	11	Total assets		
Liabilities and Stockholders' Equity	12	Accounts payable		
	13	Other current liabilities (attach schedule)		
	14	Loans from stockholders		
	15	Mortgages, notes, bonds payable		
	16	Other liabilities (attach schedule)		
	17	Capital stock (preferred and common stock)		
	18	Paid-in or capital surplus		
	19	Retained earnings		
	20	Less cost of treasury stock	( )	( )
	21	Total liabilities and stockholders' equity		

Part III Reconciliation of Income per Books With Income per Return (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			
3 Income subject to tax not recorded on books this year (itemize)		6 Deductions in this tax return not charged against book income this year (itemize)	
4 Expenses recorded on books this year not deducted in this return (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	

1	1	1	1	1	1	2	2	2	3	3	3	3	3	3	3	4	4	4	4	4	5	5	5	5	5	6	6	6	6	6	7	8
1	1	1	1	1	2	2	2	2	2	3	3	3	3	3	3	3	4	4	5	6	6	7	7	7	7	7	7	8	9	10	11	

1987 Instructions for Forms 1120 and 1120-A

Department of the Treasury
Internal Revenue Service

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

Changes You Should Note

The Tax Reform Act of 1986 made several changes to the way corporations compute their taxable income and their tax liability. Many of these changes are contained in these instructions. For information on other changes, see **Publication 921**, Explanation of the Tax Reform Act of 1986 for Business.

Form 1120-A

If a corporation meets **all** the qualifications under General Instruction B, Who May File Form 1120-A, it can file **Form 1120-A**, U.S. Corporation Short-Form Income Tax Return, instead of **Form 1120**, U.S. Corporation Income Tax Return.

Form 1120-A is printed in a special colored ink to permit processing by optical character recognition (OCR) equipment. This equipment cannot process photocopies. Therefore, please file the original Form 1120-A, rather than a copy.

Voluntary Contributions To Reduce the Public Debt

Quite often inquiries are received about how voluntary contributions to reduce the public debt may be made. A corporation may contribute by enclosing a **separate** check, payable to "Bureau of the Public Debt," with the tax return. These amounts are tax deductible subject to the rules and limitations for charitable contributions. Please keep the contribution to reduce the public debt **separate** from any amount payable with the tax return. Tax remittances should be made payable to "Internal Revenue Service."

Paperwork Reduction Act Notice

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

General Instructions

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

A. Purpose of Form

In general, Form 1120 and Form 1120-A are used to report income, gains, losses, deductions, and credits of U.S. corporations.

B. Filing Form 1120 and Form 1120-A

Who Must File

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 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 80% deduction.
- It has no nonrefundable tax credits other than the general business credit, which is the sum of the investment credit, jobs credit, alcohol fuel credit, research credit, and low-income housing credit.
- It is not required to file a special tax return as stated below under Special Returns for Certain Organizations.
- It is not subject to environmental tax under section 59A.

Form 1120-A Filers

To make it easier for us to process Form 1120-A, we ask all filers to:

- Keep all entries inside the entry boxes;
- Not use dollar signs;
- If possible, type or machine print all entries on the tax return; and
- File the original form instead of a copy.

Special Returns for Certain Organizations

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

- Foreign corporations other than life and 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 who 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 electing under section 860D to be treated as real estate mortgage investment conduits (REMICS): 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 1987 return for calendar year 1987 and fiscal years that begin in 1987 and end in 1988. For a fiscal year, fill in the tax year space at the top of the form.

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

Corporations having their principal place of business outside the United States or claiming a possessions tax credit (section 936) must file with the Internal Revenue Service Center, Philadelphia, PA 19255.

The separate income tax returns of a group of corporations located in several Service Center regions may be filed with the Service Center for the area in which the principal office of the managing corporation that keeps all the books and records is located.

Signature

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

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

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

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

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

Tax return preparers should be familiar with their responsibilities. See **Publication 1045**, Information 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.

Unless the law specifically permits otherwise, the corporation may change the method of accounting used to report taxable income in earlier years (for income as a whole or for any material item) only by first getting consent on **Form 3115**, Application for Change in Accounting Method. Also see **Publication 538**, Accounting Periods and Methods.

Note: *The Tax Reform Act of 1986 changed several of the rules governing accounting methods:*

(1) *For tax years beginning after 1986, corporations (other than qualified personal service corporations), are generally 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 a Form 3115 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 Regulations section 1.448-1T(g) and 1.448-1T(h) for more information. Include the amount reportable as income in 1987 under section 481(a) on line 10, page 1.*

(2) *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 and Notice 87-61, 1987-38, I.R.B. 40, for more information.*

(3) *The reserve method of computing bad debts has been repealed for tax years beginning after 1986 for most taxpayers. See the instructions for line 15 for details.*

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.

Note: *For tax years beginning after 1986, personal service corporations as defined in section 441(i)(2) must adopt a calendar year unless the corporation can establish to the satisfaction of the Secretary that there is a business purpose for having a different tax year. See section 441.*

A corporation which is adopting a calendar year must file a short period return for its first taxable year beginning after 1986. These taxpayers should type or legibly print at the top of the first page of the return for the first required tax year "FILED UNDER SECTION 806 OF THE TAX REFORM ACT OF 1986."

Personal service corporations who wish to establish a business purpose for having a different tax year should see Rev. Rul. 87-57, 1987-28, I.R.B. 7, for more information. Also see Rev. Proc. 87-32, 1987-28, I.R.B. 14, for procedures to use in adopting, retaining, or changing the corporation's tax year. Personal service corporations who wish to adopt or retain a non-calendar tax year must file requests to do so on Form 1128 in accordance with the procedures outlined in Rev. Proc. 87-32 and Announcement 87-82, 1987-37, I.R.B. 30. Announcement 87-82 provides rules regarding extensions of time for these corporations to file Form 1128, and information on extensions of time for personal service corporations filing short period returns.

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.

In order for us to better process your deposits, please write your employer identification number, type of tax paid, and the tax period to which the deposit applies on your check.

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

For more information concerning deposits, see **Publication 583**, Information for Business Taxpayers.

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 32, page 1, Form 1120, and label the amount as backup withholding. The corporation should then include the amount in the total for line 32. On Form 1120-A, include the amount of backup withholding in line 28, page 1, and write "backup withholding" and the amount in the margin.

5. Estimated Tax

A corporation must make estimated tax payments if it can expect its estimated tax (income tax minus credits) to be $40 or more. Use **Form 1120-W,** Corporation Estimated Tax, as a worksheet to compute estimated tax. Use the Payment Coupons (Forms 8109) in making deposits of estimated tax.

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, 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 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 a least 90% of the tax shown on the return. See section 6655.

If a corporation underpaid estimated tax, attach **Form 2220,** Underpayment of Estimated Tax by Corporations, to show either how the penalty was figured or the exceptions which apply. Also be sure to check the box on line 33, Form 1120 or line 29, Form 1120-A. If the corporation owes a penalty, enter the amount of the penalty on this line. Corporations using the annualization exception may be able to avoid penalties under section 6655 for installment payments due before July 1, 1987, by using the safe harbor provided in Regulations section 1.6655-2T.

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, and **R.** Information returns for reporting abandonments, acquisitions through foreclosure, proceeds from brokers, barter exchange, and 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 **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 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 8582. Passive Activity Loss Limitations. It is used to figure the amount of passive activity loss allowed for the

current tax year and the loss to be reported on your tax return. Form 8582 applies to personal service corporations and closely held C corporations who have losses from passive activities.

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 Gasoline and Special Fuels, after page 4, Form 1120, or page 2, Form 1120-A. Attach schedules in alphabetical order and other forms in numerical order after the Form 4136.

In order to process the return we ask that you complete every applicable entry space on Form 1120. Please do not attach statements and write "See attached" in lieu of completing the entry spaces on Form 1120.

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

F. Additional Information

Be sure to answer questions H through S on page 3, Form 1120, or questions I through O on page 2, Form 1120-A. The instructions that follow are keyed to these questions.

1. Question I(2)(b), Form 1120 only

U.S. person.—The term "U.S. person" means:

1. A citizen or resident of the United States;
2. A domestic partnership;
3. A domestic corporation; or
4. Any estate or trust (other than a foreign estate or trust within the meaning of section 7701(a)(31)).

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

2. Question L, Form 1120, and Question M, Form 1120-A

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

a. At any time during the year the corporation had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account); AND

- The combined value of the accounts was more than $10,000 at any time during the year; AND
- The account was NOT with a U.S. military banking facility operated by a U.S. financial institution.

b. The corporation owns more than 50% of the stock in any corporation that would answer "Yes" to item a above.

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

If "Yes" is checked for this question, file form TD F 90-22.1 by June 30, 1988, 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 R, Form 1120, and Question K, 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

Employer identification number. If the employer identification number (EIN) on the label is wrong or if the corporation did not receive a label, enter the correct number at the top of the return. Also, filers of Form 1120-A should enter their EIN at the top of page 2 of the return.

A corporation that does not have an EIN should apply for one on **Form SS-4,** Application for Employer Identification Number. This form may be obtained from most IRS and Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center to which Form 1120 or Form 1120-A is mailed. If the EIN has not been received by the filing time for the corporation return, write "Applied for" in the space for the EIN.

For more information concerning an EIN, see Publication 583.

Total Assets. Enter the total assets of the corporation. If there are no assets at the end of the tax year, enter the total assets as of the beginning of the tax year.

Income

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 in 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 Tax Reform Act of 1986. See section 460 for more information.

Changes have also been made to the installment method. Effective for tax years beginning after 1986, the installment method is no longer available for any sale of personal property under a revolving credit plan.

The use of the installment method is limited by the proportionate disallowance rules of new section 453C for sales of real property held for sale to customers or the sale of personal property by a dealer after February 28, 1986. Additional income (in the case of sales of real property by dealers), or additional tax (in the case of sales of personal property by dealers) generated by the application of the proportionate disallowance rules is taken into account or treated as imposed ratably over a period of three years. See sections 811(c)(6) and 811(c)(7) of the Tax Reform Act of 1986 for more information. Dealers in personal property, see also the Instructions for Schedule J, Tax

Computation. The proportionate disallowance rules do not apply to certain sales by manufacturers to dealers. A seller may elect to have the proportionate disallowance rules not apply to certain sales of timeshares and residential lots. See section 453C for more information.

If the installment method is used, enter on line 1 the gross profit on collections from installment sales (real estate dealers enter this amount as modified by section 811(c)(6) of the Tax Reform Act of 1986) and carry the same amount to line 3. Attach a schedule showing the following for the current year and the three 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. Increase the amount collected by any allocable installment indebtedness required by section 453C.

After 1986, 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)). 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), the net amount accrued, and Form 3115. The net amount should be entered on line 1a. For more information and guidelines on this "non-accrual experience method," see 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 L(1)(a), Form 1120-A) . . . . ________
3. Cost of labor (enter here and include in total on page 2, item L(1)(c), Form 1120-A) ________
4a. Additional section 263A costs (enter here and on page 2, item L(1)(b)) (see instructions) . . . . ________
b. Other costs (enter here and include on page 2, item L(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, 1984-2 C.B. 738.

In line 8a of Schedule A, Form 1120 only, check the method(s) used for valuing inventories. Under "lower of cost or market," market generally applies to normal market conditions where there is a current bid price prevailing at the date the inventory is valued. When no regular open market exists or when quotations are nominal because of inactive market conditions, use fair market prices from the most reliable sales or purchase transactions that occurred near the date the inventory is valued. For more requirements, see Regulations section 1.471-4.

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

If this is the first year the "Last-in First-out" (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method provided in section 472, attach **Form 970,** Application To Use LIFO Inventory Method, or a statement with the information required by Form 970. Also check the LIFO box in line 8b of Schedule A, Form 1120 only. Enter the amount or percent of total closing inventories covered under section 472 in line 8c. Estimates are acceptable.

If the corporation changed or extended its inventory method to LIFO and had to "write up" its opening inventory to cost in the year of election, report the effect of this writeup as income (line 10, page 1) proportionately over a 3-year period that begins in the tax year you made this election. (Section 472(d))

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 6. See those instructions before proceeding.

Corporations subject to section 263A will be required to make adjustments to the cost of goods sold computation on Schedule A or on the worksheet used by Form 1120-A filers. To the extent that section 263A costs were not included in inventory in prior years, corporations must revalue their beginning inventory. Corporations may elect one of the simplified methods of accounting for section 263A costs provided in the regulations for purposes of both revaluing their inventory and accounting for costs in subsequent years. (See the instructions for Form 1120, Schedule A, line 4a.) Absent the election of a simplified method, taxpayers are required to allocate additional costs to be included in inventory under section 263A with the same degree of specificity as was required of inventoriable costs under prior law.

Schedule A, Form 1120

Line 1.—For tax years beginning after 1986, beginning inventory must be revalued as if the section 263A rules had been in effect for all prior periods. Enter the revalued beginning inventory on line 1. An adjustment to income is required under section 481(a). This adjustment should be included on page 1, line 10, "Other income" and separately identified on an attached schedule. The section 481 adjustment is taken into account over a period not to exceed 4 years. In addition, since the application of section 263A is considered to be a change in accounting method, corporations are required to complete Form 3115 to show their computation of the section 481(a) adjustment. Attach Form 3115 to Form 1120 or Form 1120-A. Be sure to use the 1987 revision of Form 3115. See the Regulations for more information on revaluing beginning inventory.

Line 4a.—An entry is required on this line only for corporations electing a simplified method of accounting. In the case of taxpayers electing 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 Regulations section 1.263A-1T, but that are now required to be capitalized under section 263A. In the case of taxpayers 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 taxable year not included on lines 2 and 3. See 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 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.

Form 1120-A Filers

Form 1120-A filers should complete the inventory worksheet on this page. Before completing the worksheet, read the instructions for lines 1, 4a, and 6 of Schedule A, Form 1120 above. These instructions also apply to lines 1, 4a, and 6 of the worksheet, and explain adjustments

to be made as a result of the new section 263A uniform capitalization rules. In completing the worksheet, enter additional section 263A costs on line 4a only to the extent that: (1) The corporation elects one of the simplified methods discussed in the instructions for line 4a, Schedule A, (Form 1120), and (2) The costs are not included on line 2, "Purchases," or as part of the cost of labor on line 3 or in "Other costs" on line 4b.

Line 4

Dividends

Form 1120-A filers.—Because Form 1120-A can be filed by corporations that only received dividends from domestic corporations (which are not from debt-financed stock) which qualify for the 80% 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 income against interest expense.

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 in the proper lines for deductions.

Line 8

Capital gain net income

Every sale or exchange of a capital asset must be reported in detail on **Schedule D (Form 1120),** Capital Gains and Losses, even though no gain or loss is indicated.

If the net long-term capital gain is more than the net short-term capital loss, or if there is only a net long-term capital gain, compute the alternative tax using Schedule D to see if it produces a smaller tax. Corporations whose tax years begin after June 30, 1987, are not eligible for alternative tax.

Line 9

Net gain or (loss)

Enter the net gain or (loss) from line 18, Part II, **Form 4797,** Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions.

Line 10

Other income

Enter any other taxable income not listed above, and explain its nature on an attached schedule. Examples of other income are recoveries of bad debts deducted in prior years under the specific charge-off method (also see instructions for line 15, Bad debts); the amount of credit for alcohol used as fuel (determined without regard to the limitation based on tax) that was entered on **Form 6478,** Credit for Alcohol Used as Fuel; and refunds of taxes deducted in prior years to the extent they reduced income subject to tax in the year deducted (see section 111). Do not offset current year's taxes with tax refunds.

If "other income" consists of only one item, explain what it is in parentheses on line 10.

Many changes made by the Tax Reform Act of 1986 result in a change in method of accounting for the corporation and require income adjustments under section 481(a). Include any section 481(a) adjustment on line 10, "Other income" and attach a schedule identifying the nature and amount of the adjustment.

Deductions

Limitations on deductions

1. Section 263A Uniform capitalization rules.—Many items that were deductible under prior law must now be capitalized or included in inventory under the new uniform capitalization rules of section 263A. The new 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 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. 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.

The uniform capitalization rules are generally effective for costs and interest paid or incurred after December 31, 1986. With respect to inventory, the uniform capitalization rules apply to tax years beginning after 1986. Transitional rules are contained in section 803 of the Tax Reform Act of 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 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. 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 Regulations section 1.263A-1T.

2. Meals and entertainment.—For tax years after 1986, 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 will be 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 disallowed to the extent that it exceeds the sum of the face value on non-luxury box seats for the seats in the box covered by the lease. This limitation is fully effective in 1989. In 1987, ⅓ of the excess cost of the skybox is disallowed. In 1988 tax years, ⅔ of the excess cost is disallowed. Both the limitation on tickets to entertainment activities and the limitation on skybox rentals is calculated before the application of the 20% reduction required by section 274(n). See Notice 87-23, 1987-9, I.R.B. 6, for more information on meals, entertainment, and travel expense.

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 section 267 for limitation on deductions for unpaid expenses and interest.

4. 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.

5. Golden parachute payments.—A portion of the payments made by a corporation to key personnel that exceeds their usual compensation may not be deductible. This occurs when the corporation has an agreement (golden parachute) with these key employees to pay them these excessive amounts if control of the corporation changes. See section 280G for changes to the golden parachute rules.

6. 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.

Line 12

Compensation of officers

Besides entering the total officers' compensation on line 12, Form 1120 filers must complete Schedule E on page 2 if their total receipts (line 1a, plus lines 4 through 10, of page 1, Form 1120) are $150,000 or more.

Complete Schedule E, columns (a) through (f), for all officers. The corporation determines who is an officer under the laws of the state where incorporated.

In a consolidated return, each member of an affiliated group must furnish this information.

Line 13

Salaries and wages

Enter on line 13a the amount of total salaries and wages paid or incurred for the tax year. Do not include salaries and wages deducted elsewhere on the return, such as contributions to a simplified employee pension.

Caution: If you provided taxable fringe benefits to your employees, such as personal use of a car, do not deduct as wages the amount allocated for depreciation and other expenses that you claimed on lines 20 and 26, Form 1120, or lines 20 and 22, Form 1120-A.

Enter on line 13b the amount of jobs credit from **Form 5884**, Jobs Credit.

The jobs credit has been extended through 1988.

Line 14

Repairs

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

Line 15

Bad debts

Enter the total debts that became worthless in whole or in part during the tax year.

The reserve method of computing bad debts has been repealed for tax years beginning after 1986 for all taxpayers except small banks and thrift institutions. If a corporation-maintained such a reserve for its last tax year beginning before 1987, it must change to the specific charge-off method in 1987. The corporation must include the balance remaining in the reserve in income ratably over a 4-year period. Include the amount reportable as income in 1987 on line 10, page 1, and attach a computation. The change from the reserve method to the specific charge-off method is treated as a change in accounting method and shall be considered as approved by the Commissioner. A small bank or thrift institution using the reserve method in 1987 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 1987 prepaid interest allocable to any period after 1987 can deduct only the amount allocable to 1987. See **Publication 545**, Interest Expense.

Generally, the interest and carrying charges on straddles cannot be deducted and must be capitalized. (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 also capitalize any interest on debt it incurred or continued in connection with an asset needed to produce the above property. See section 263A for definitions and more information.

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

Line 19

Contributions

Enter contributions or gifts actually paid within the tax year to or for the use of charitable and governmental organizations described in section 170(c) and any unused contributions carried over from prior years.

The total amount claimed may not be more than 10% of taxable income (line 30, Form 1120, or line 26, Form 1120-A) computed without regard to the following:

1. Any deduction for contributions;
2. The special deductions in line 29b, Form 1120, or line 25b, Form 1120-A;
3. Deductions allowed under sections 249 and 250;
4. Any net operating loss carryback to the tax year under section 172; and
5. Any capital loss carryback to the tax year under section 1212(a)(1).

Charitable contributions over the 10% limitation may not be deducted for the tax year but may be carried over to the next 5 tax years.

A contribution carryover is not allowed, however, to the extent that it increases a net operating loss carryover. See section 170(d)(2)(B).

Corporations on the accrual basis may elect to deduct contributions paid by the 15th day of the 3rd month after the end of the tax year if the contributions are authorized by the board of directors during the tax year. Attach to the return a declaration, signed by an officer, stating that the resolution authorizing the contributions was adopted by the board of directors during the tax year. Also attach a copy of the resolution.

If a contribution is in property other than money and the total claimed value of all property contributed exceeds $500, corporations (except closely held and personal service corporations) shall attach a schedule describing the kind of property contributed and the method used in determining its fair market value.

Closely held corporations and personal service corporations must complete **Form 8283**, Noncash Charitable Contributions, and attach it to their returns.

Also, a corporation must keep records, as required by the regulations for section 170, for all of its charitable contributions.

If the corporation made a "qualified conservation contribution" under section 170(h), also include the fair market value of the underlying property before and after the donation, as well as the type of legal interest contributed, and describe the conservation purpose furthered by the donation.

If a contribution carryover is included, show the amount and how it was determined.

Special rule for contributions of certain property. For a charitable contribution of property, the corporation must reduce the contribution by the sum of:

1. The ordinary income, short-term capital gain that would have resulted if the property were sold at its fair market value; and
2. For contributions made in tax years beginning after 1986, 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 personal service organization) can receive a larger deduction for contributing scientific property used for research to an institution of higher education. For further information, see section 170(e).

Line 20

Depreciation

Besides depreciation, include in line 20 the part of the cost that the corporation elected to expense for certain recovery property placed in service during tax year 1987. For property placed in service after December

31, 1986, the amount the taxpayer may expense under section 179 has been raised from $5,000 to $10,000.

The deduction for amortization of trademark and trade name expenses has been repealed for expenses paid or incurred after 1986. See the instructions for Form 4562 for more information on changes to the rules for depreciation brought about by the Tax Reform Act of 1986.

Line 22, Form 1120 only

Depletion

See sections 613 and 613A for percentage depletion rates applicable to natural deposits. Also, see section 291 for the limitation on the depletion deduction for iron ore and coal (including lignite). The reduction in a corporation's depletion deduction for iron ore or coal (including lignite) has been increased from 15% to 20% for tax years beginning after 1986. (See section 291.)

Foreign intangible drilling costs and foreign exploration and development costs paid or incurred after 1986 must either be added to the corporation's basis for cost depletion purposes or be deducted ratably over a 10-year period. See sections 263(i), 616, 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.

In addition, there is a new penalty for overstating the pension plan deduction for returns filed after October 22, 1986. See new section 6659A.

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

Form 5500-C or 5500-R.—Complete the applicable form for each plan with fewer than 100 participants.

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

Line 25, Form 1120 only

Employee benefit programs

Enter the amount of contributions to employee benefit programs (for example, insurance, health and welfare programs) that are not an incidental part of a pension, profit-sharing, etc., plan included on line 24.

Line 26, Form 1120, and Line 22, Form 1120-A

Other deductions

Include in this line the deduction taken for amortization of pollution control facilities, organization expenses, etc. See Form 4562.

A corporation may deduct dividends it pays in cash on stock held by an employee stock ownership plan. However, a deduction may only be taken if, according to the plan, the dividends are:

1. Paid in cash directly to the plan participants; or
2. Paid to the plan, which distributes them in cash to the plan participants no later than 90 days after the end of the plan year in which the dividends are paid. (See section 404(k).) 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, a corporation can deduct all ordinary and necessary travel and entertainment expenses paid or incurred in its trade or business, subject to certain limitations. (See the discussion of "Meals and entertainment" in the **Limitations on deductions** section earlier in these instructions.) However, it cannot deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) that is used for an activity that is usually considered entertainment, amusement, or recreation. (**Note:** *The corporation may be able to deduct the expense if the amount is treated as compensation and reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.*)

See **Publication 463**, Travel, Entertainment, and Gift Expenses, for more details.

Note: *Do not deduct penalties imposed on corporations such as those included in General Instruction D.*

Form 1120-A filers.—These filers should also include on line 22 of Form 1120-A the expenses described above for lines 22, 24, and 25 of Form 1120 and any other deductible expense not discussed above.

Line 28, Form 1120, and Line 24, Form 1120-A

Taxable income before NOL deduction and special deductions—"At risk" rules and passive activity loss limitations.

Special "at risk" rules under section 465 generally apply to closely held corporations (section 465(a)(1)(B)) 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 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.

Passive activity loss limitations.

The passive loss rules of section 469 apply to closely held C corporations and personal service corporations. Corporations subject to the passive loss rules must complete Form 8582, Passive Activity Loss Limitations, to compute their allowable passive activity loss. Before completing Form 8582, see 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 and **Publication 925,** Passive Activity and At-Risk Rules. A corporation subject to the passive activity loss limitations may also be required to adjust credits attributable to passive activities on **Form 8582-CR,** Passive Activity Credit Limitations.

Special Instructions for Form 8582.—Corporations subject to the passive loss rules should complete the following sections of Form 8582: Part I (only lines 2a through 2g, and 3) and if applicable, all of Part III. Also complete the applicable worksheets in the Instructions for Form 8582. Special rules apply to closely held corporations (see below).

In completing worksheets 2, 4, and 5 in the Instructions for Form 8582, enter net income or (loss) from each separate activity in the appropriate column of these worksheets. Also, show the net gain or loss for each transaction reportable on Schedule D or Form 4797 as a separate activity in these worksheets.

If line 3 of Form 8582 is net income, all of the corporation's passive activity losses are allowed. Complete Form 1120 (or 1120-A) and related forms and schedules in the regular manner, disregarding the passive activity loss limitation rules.

If line 3 is a loss, enter -0- on line 9 and complete lines 10 through 19 of Form 8582. Use worksheets 4 and 5 in the Form 8582 instructions to figure the allowed and unallowed amount of each loss. From column (c) of worksheet 5, enter the allowed portion of any Schedule D or Form 4797 loss on Schedule D or Form 4797.

If the corporation's passive losses consist only of Schedule D and/or Form 4797 losses, no adjustment to line 28 of Form 1120, or line 24 of Form 1120-A is necessary. If the corporation's passive losses are limited to (a) both Schedule D and/or Form 4797 losses **and** losses on "other passive activities," or (b) just losses on "other passive activities," the amount of the unallowed loss(es) for "other passive activities" is the amount in column (c) of worksheet 4. Add the total of these unallowed "other passive activity loss(es)" and increase the taxable income (or reduce the loss—which may result in taxable income if the adjustment is significant) shown on line 28, Form 1120, or line 24, Form 1120-A by this amount.

Write the amount of the adjustment in the space to the left of line 27, Form 1120, or line 23, Form 1120-A, and label as PALA (Passive Activity Loss Adjustment).

Closely held corporations.—Closely held corporations can use "net active income" to offset any loss on Form 8582, line 2g. Net active income is your taxable income for the taxable year determined without regard to any income, expenses, gain, or loss from a passive activity and any item of gross income, expenses, gain or loss under section 469 (e)(1)(A). Closely held C corporations should combine the loss, if any, on line 2g with net active income and enter the result on line 3. The net active income should also be added in on line 18, Form 8582, along with any other income entered on lines 2a and 2d.

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.

Effective January 1, 1987, section 382 limits the amount of taxable income against which net operating loss carryforwards may be applied after an ownership change occurs with respect to a loss corporation. The limitation is described in section 382(b) and generally applies when one or more 5% shareholders increase their ownership in a corporation by more than 50 percentage points. See 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 taxable year that it is a loss corporation. Also see section 382 and Regulations sections 1.382-1T and 1.382-2T for other rules and definitions.

Note: The rule allowing financial institutions to carry their net operating losses back 10 years and forward 5 years is generally repealed for tax years after 1986. For taxable years beginning after 1986, most financial institutions may carry net operating losses back 3 years and forward 15 years. A special 10-year carryback provision applies to certain commercial banks that compute their deduction for bad debts using the specific charge-off method. See section 172(b)(1)(L) for more information.

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.

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

Special deductions

Form 1120 filers.— See the instructions for Schedule C, line 6, column (c) below.

Form 1120-A filers.—Enter 80% of line 4, page 1, on line 25b for dividends received in 1987.

However, this deduction may not be more than 80% 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 80% limitation does not apply, even if the loss is created by the dividends-received deduction. (See sections 172(d) and 246(b).)

Line 32e, Form 1120, and Line 28e, Form 1120-A

Credit for overpaid windfall profit tax

A corporation that has overpaid its windfall profit tax may claim a credit on its income tax return. Use **Form 6249**, Computation of Overpaid Windfall Profit Tax, to figure the credit. Include the amount of the credit in the total for this line. Write in the margin, next to the entry on this line, the amount of the credit and identify it as "Overpaid Windfall Profit Tax."

Schedule C Form 1120 Only

Dividends and Special Deductions

Line 1, Column (a)

Enter dividends (except those received on debt-financed stock acquired after July 18, 1984—see section 246A and line 2, column (a)) that are received from domestic corporations subject to income tax and that are subject to the deduction under section 243(a)(1). Include on this line taxable distributions from an IC-DISC or former DISC that are designated as being eligible for the section 243(a)(1) deduction and certain dividends of Federal Home Loan Banks. (See section 246(a)(2).)

Small business investment companies must enter dividends received from domestic corporations subject to income tax even though a deduction is allowed for the entire amount of such dividends in line 1, column (c). For dividends received from a regulated investment company, see section 854 for the amount subject to the section 243(a)(1) deduction.

So-called dividends or earnings received from mutual savings banks, etc., are really interest. Do not treat them as dividends.

Line 2, Column (a)

Enter dividends on debt-financed stock (acquired after July 18, 1984) that are received from domestic and foreign corporations subject to income tax and that would otherwise be subject to the dividends-received deduction under sections 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 3, Column (a)

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

Line 4, Column (a)

Enter dividends that are received from foreign corporations and that qualify for the deduction under section 245(a). Also enter on line 4, column (a), dividends received from a FSC that are attributable to qualified interest and carrying charges and that qualify for the deduction provided in section 245(c)(1)(B).

Line 5, Column (a)

Enter dividends that are received from wholly owned foreign subsidiaries and from FSCs that are attributable to export sales income, and that are eligible for the 100% deduction provided in sections 245(b) and (c)(1)(A), respectively.

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

1. All of its outstanding stock is owned (directly or indirectly) by the domestic corporation receiving the dividends, and
2. All of its gross income from all sources is effectively connected with the conduct of a trade or business within the U.S.

Line 1, Columns (b) and (c)

The dividends-received deduction percentage for dividends received after December 31, 1986, is 80%. Multiply the dividends received by 80% to determine the dividends-received deduction.

A small business investment company operating under the Small Business Investment Act of 1958 may deduct 100% of dividends received from domestic corporations subject to income tax. (See section 243(a)(2).)

Line 2, Columns (b) and (c)

The dividends-received deduction for dividends received on debt-financed stock is explained in section 246A. This section applies both to dividends received from debt-financed stock of domestic and foreign corporations acquired after July 18, 1984.

Dividends received on debt-financed stock are not entitled to the full 80% dividends-received deduction. The 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 which applies to dividends received from foreign corporations. A schedule showing how the amount on line 2, column (c) was figured must be attached to Form 1120.

Line 3, Columns (b) and (c)

For dividends on certain preferred stock of public utilities received after December 31, 1986, but before July 1, 1987, the dividends-received deduction percentage is 55.652%. For those dividends received after June 30, 1987, the dividends-received deduction percentage is 47.059%.

Multiply the dividends received in each period by the proper percentage to determine the correct dividends-received deduction.

Line 4, Columns (b) and (c)

The dividends-received deduction percentage for dividends received from foreign corporations entitled to the dividends-received deduction under section 245(a) and section 245(c)(1)(B) for certain FSCs is 80% for dividends received after December 31, 1986. 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 6, Column (c)

Limitation on dividends-received deduction. Line 6 of column (c) may not be more than 80% of the difference between line 28, page 1, Form 1120, and line 7 of column (c). For this purpose, compute line 28 (Form 1120) without regard to any adjustment under section 1059 and without regard to any capital loss carryback to the tax year under section 1212(a)(1).

In a year in which a net operating loss occurs, this 80% limitation does not apply even if the loss is created by the dividends-received deduction. (See sections 172(d) and 246(b).)

For a small business investment company, the dividends-received deduction of 100% included in line 6 of column (c) is not subject to the overall limitation. The 100% dividends-received deduction under section 245(c)(1) for dividends received from a FSC included in line 6 of column (c) is not subject to the overall 80% limitation.

Certain financial institutions to which section 593(a) applies should see section 596 for the special limitation on the dividends-received deduction.

Line 7, Columns (a) and (c)

Enter only those dividends that are subject to the elective provisions of section 243(b) and that are entitled to the 100% dividends-received deduction under section 243(a)(3). Corporations making this election are subject to the provisions of section 1561.

Line 8, Column (a)

Enter foreign dividends not reportable on lines 4 and 5 of column (a). Exclude distributions of amounts constructively taxed in the current year or in prior years under subpart F (sections 951 through 964).

Line 9, Column (a)

Include income constructively received from controlled foreign corporations under subpart F. This amount should equal the total of amounts reported on Schedule J, Form(s) 5471.

Line 10, Column (a)

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

Line 11, Column (a)

Enter taxable distributions from an IC-DISC or former DISC that are designated as not being eligible for the 80% deduction.

No deduction is allowed under section 243 for a dividend from an IC-DISC or former DISC (as defined in section 992(a)) to the extent the dividend:

1. Is paid out of the corporation's accumulated IC-DISC income or previously taxed income, or
2. Is a deemed distribution under section 995(b)(1).

Line 12, Column (a)

Include the following:

1. Dividends (other than capital gain dividends and exempt-interest dividends) that are received from regulated investment companies and that are not subject to the deduction.
2. Dividends from tax-exempt organizations.
3. Dividends (other than capital gain dividends) received from a real estate investment trust which, for the tax year of the trust in which the dividends are paid, qualify under sections 856 through 860.
4. Dividends not eligible for a dividends-received deduction because of the holding period of the stock or an obligation to make corresponding payments with respect to similar stock.

Two situations in which the dividends-received deduction will not be allowed on any share of stock are:

(1) If the corporation held it 45 days or less (see section 246(c)(1)(A)), or

(2) To the extent the corporation is under an obligation to make related payments for substantially similar or related property.

5. Any other taxable dividend income not properly reported above (including distributions under section 936(h)(4)). If patronage dividends or per-unit retain allocations are included in Schedule C, line 12, column (a), identify the total of these amounts in a schedule attached to Form 1120.

Line 13, Column (c)

Deduction for dividends paid on certain preferred stock of public utilities. Section 247 allows public utilities a deduction of 30.435% (for dividends received before July 1, 1987) or 41.176% (for dividends received after June 30, 1987), of the lesser of:

1. Dividends paid on their preferred stock during the tax year, or
2. Taxable income computed without regard to this deduction.

In a year in which a net operating loss occurs, compute the deduction without regard to section 247(a)(1)(B). (See section 172(d).)

Tax Computation

Line 1, Part I, Form 1120-A
Line 3, Schedule J, Form 1120.

Any corporation that files Form 1120 or 1120-A should compute its tax on its taxable income using Schedules A and B of the Tax Computation Worksheet on page 12. Members of a controlled group, see the instructions below for lines 1 and 2 under heading B before proceeding to page 12. If the corporation is a dealer in personal property and is using the installment method in 1987, it should see section 811(c)(7) of the Tax Reform Act of 1986 to figure the ratable portion of tax attributable to section 453C to be included in line 3 of Schedule J, or line 1 of Part I, Form 1120-A. Write in the space to the left of line 3, Schedule J, or line 1, Part I, Form 1120-A, "Sec. 453C tax computation." Attach a schedule showing the computation.

Additional Tax

The Tax Computation Worksheet includes the computation of an additional 5% tax on the excess of a corporation's taxable income over a specified amount. The "specified amount" was changed, effective July 1, 1987, from $1,000,000 to $100,000. The maximum amount of the additional tax (previously $20,250) has been changed to $11,750 effective July 1, 1987.

Alternative Tax

If the tax year of the corporation begins before July 1, 1987, and the corporation has a net capital gain on line 10, Schedule D (Form 1120), the alternative tax computation may apply. To compute the alternative tax, complete Schedules A and B of the Tax Computation Worksheet on page 12 as instructed, and enter the amount from line 34, Schedule B, on line 12, Part IV, Schedule D (Form 1120). Complete the rest of Part IV, Schedule D (Form 1120), and enter the lesser of the alternative tax or the tax figured by the regular method on line 3, Schedule J, Form 1120, or line 1, Part I, Form 1120-A.

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

General business credit. This credit is made up of the sum of the following credits:

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

Jobs credit. The jobs credit, if elected, is allowed for hiring members of targeted groups during the tax year. See **Form 5884**, Jobs Credit, for definitions, special rules, and limitations.

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 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.

The *credit for increasing research activities* is part of the general business credit. See **Form 6765**. Also, a *low-income* *housing credit* is part of the general business credit for expenditures made after 1986. See section 42 and **Form 8586**, Low-Income Housing Credit.

Form 3800, *General Business Credit*. Enter on the appropriate line of the corporate tax return the amount of the credit from Form 3800, and check the boxes indicating which forms are 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 4

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

Line 5

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.

B. Form 1120, Schedule J

Lines 1 and 2

Members of a controlled group, as defined in section 1563, with tax years that begin before July 1, 1987 are entitled to only one $25,000 amount in each taxable income bracket on line 2a. Members of a controlled group that have tax years that end after June 30, 1987, are entitled to one $50,000 amount and one $25,000 amount (in that order) in each taxable income bracket on line 2b.

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

Equal Apportionment Plan. If no apportionment plan is adopted, the members of the controlled group must divide the amount in each taxable income bracket among themselves. For example, controlled group AB consists of corporation A and corporation B, both corporations with tax years which include July 1, 1987. They do not elect an apportionment plan. Therefore, corporation A is entitled to $12,500 (one-half of $25,000) in each taxable income bracket on line 2a. Corporation B is also entitled to $12,500 in each taxable income bracket. Each income bracket on line 2b is also equally divided.

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 answer Question S in the Additional Information section of Form 1120.

Note: *Members of a controlled group of corporations are treated as one corporation for purposes of figuring the applicability of the additional 5% tax. If the additional tax applies, each member of the group must attach to its tax return a schedule that shows the taxable income of the entire group as well as how its portion of the additional tax was figured.*

Line 3

Bank holding companies. Section 6158 provides that a bank holding company may elect to pay in installments the tax attributable to the sale of certain assets whose divestiture is certified by the Board of Governors of the Federal Reserve System. If the bank holding company chooses this election, attach a statement showing the tax computation and the amount of the installment paid with this return. Also, in the right-hand margin next to line 3, Schedule J, enter the amount of the installment payment followed by the words "computed under section 6158." If an election under section 1103(g) or (h) applies, enter the words "section 1103(g) election" or "section 1103(h) election," as the case may be.

Mutual savings bank conducting life insurance business. The tax under section 594 consists of the sum of: **(1)** a partial tax computed on Form 1120 on the taxable income of the bank determined without regard to income or deductions allocable to the life insurance department, and **(2)** a partial tax on the taxable income computed on Form 1120L of the life insurance department. Enter the combined tax on line 3 of Schedule J, Form 1120. Attach Form 1120L as a schedule and identify it as such.

Line 4a

Foreign tax credit. See **Form 1118**, Computation of Foreign Tax Credit—Corporations, for an explanation of when a corporation can take this credit for payment of income tax to a foreign country.

Line 4b

Possessions tax credit. See **Form 5712**, Election To be Treated as a Possessions Corporation Under Section 936, for rules on how to elect to claim the possessions tax credit (section 936). Compute the credit on **Form 5735**, Computation of Possessions Corporation Tax Credit Allowed Under Section 936.

Line 4c

Orphan drug credit. See section 28 and **Form 6765**, Credit for Increasing Research Activities (or for claiming the orphan drug credit), for an explanation of when a corporation can take this credit, as well as how it is figured.

Line 4d

Credit for fuel produced from a nonconventional source. A credit is allowed for the sale of qualified fuels produced from a nonconventional source. Section 29 contains a definition of qualified fuels, provisions for figuring the credit, and other special rules. Attach a separate schedule to the return showing the computation of the credit.

Line 4e

General business credit. See the earlier instructions for Form 1120-A, line 2, under the heading **Tax Computation**.

Line 7

Personal holding company tax. A corporation is taxed as a personal holding company under section 542 if:

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

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

Line 8

Tax from recomputing prior-year investment credit. See the earlier instructions for Form 1120-A, Line 4, under the heading **Tax Computation.**

Line 9a

Alternative minimum tax. Attach Form 4626, Alternative Minimum Tax—Corporations, if the taxable income plus adjustments and tax preference items of the corporation exceeds $40,000. See Form 4626.

Line 9b

Environmental tax. The Superfund Amendments and Reauthorization Act of 1986 added new section 59A, which requires that corporations pay an environmental tax. The environmental tax is 0.12 per cent of modified alternative minimum taxable income of the corporation in excess of $2,000,000. See Form 4626 for computation of environmental tax.

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.

Schedules A and B Tax Computation Worksheet

Effective July 1, 1987, the tax rates for corporations were reduced. The new rates of tax are:

15% on the first $50,000 of income;
25% on the next $25,000 of income; and
34% on any amount over $75,000.

Also, an additional tax of 5% is applied against income in excess of $100,000. The maximum amount of this additional tax is $11,750.

Corporations with tax years beginning after June 30, 1987, should complete Schedule B only.

Schedule A **Tax Computed for Period Before July 1, 1987**

1	Taxable income (line 30, Form 1120, or line 26, Form 1120-A)	
2	Net capital gain (If the alternative tax applies, enter net capital gain from line 10, Schedule D (Form 1120). If the alternative tax does not apply, enter zero. See instructions.)	
3	Subtract line 2 from line 1	
4	Enter the lesser of line 3 or $25,000 (members of a controlled group, see instructions)	
5	Subtract line 4 from line 3	
6	Enter the lesser of line 5 or $25,000 (members of a controlled group, see instructions)	
7	Subtract line 6 from line 5	
8	Enter the lesser of line 7 or $25,000 (members of a controlled group, see instructions)	
9	Subtract line 8 from line 7	
10	Enter the lesser of line 9 or $25,000 (members of a controlled group, see instructions)	
11	Subtract line 10 from line 9	
12	Multiply line 4 times 15%	
13	Multiply line 6 times 18%	
14	Multiply line 8 times 30%	
15	Multiply line 10 times 40%	
16	Multiply line 11 times 46%	
17	Additional tax. If line 3 is greater than $1,000,000, enter the lesser of: (a) 5% of the excess of line 3 over $1,000,000 or (b) $20,250 (members of a controlled group, see instructions)	
18	Add amounts on lines 12 through 17	

Schedule B **Tax Computed for Period After June 30, 1987**

19	Taxable income (line 30, Form 1120, or line 26, Form 1120-A)	
20	Net capital gain (If the alternative tax applies, enter net capital gain from line 10, Schedule D (Form 1120). If the alternative tax does not apply, enter zero. See instructions.)	
21	Subtract line 20 from line 19	
22	Enter the lesser of line 21 or $50,000 (members of a controlled group, see instructions)	
23	Subtract line 22 from line 21	
24	Enter the lesser of line 23 or $25,000 (members of a controlled group, see instructions)	
25	Subtract line 24 from line 23	
26	Multiply line 22 times 15%	
27	Multiply line 24 times 25%	
28	Multiply line 25 times 34%	
29	Additional tax. If line 21 is more than $100,000, enter the lesser of: (a) 5% of the excess of line 21 over $100,000 or (b) $11,750 (members of a controlled group, see instructions)	
30	Add lines 26 through 29. (If only Schedule B was completed, skip lines 31 through 34. Enter the amount from line 30 on line 3, Schedule J, Form 1120, or on line 1, Part I, Form 1120-A.)	
31	Enter amount from line 18, Schedule A (Above)	
32	Line 31 × $\frac{\text{number of days in tax year before 7-1-87}}{\text{number of days in tax year}}$	
33	Line 30 × $\frac{\text{number of days in tax year after 6-30-87}}{\text{number of days in tax year}}$	
34	Tax liability before credits. Add amounts on lines 32 and 33. Enter here and on line 3, Schedule J, Form 1120, or on line 1, Part I, Form 1120-A. If alternative tax applies, enter on line 12, Schedule D (Form 1120)	

Instructions for Schedules A and B, Tax Computation Worksheet

Net Capital Gain and Alternative Tax (Lines 2 and 20).—In general, the alternative tax is the sum of (a) a tax computed on taxable income reduced by the net capital gain using the applicable tax brackets and tax rates, and (b) a tax of 34% of the net capital gain.

For tax years beginning on or after July 1, 1987, the alternative tax computation does not apply. If a corporation's tax year begins before July 1, 1987, and the corporation has a net capital gain, both computations (the regular tax computation and the alternative tax computation) should be made to determine which results in the lower tax.

The alternative tax is computed by using Schedules A and B of the tax computation worksheet and Part IV of Schedule D (Form 1120). If the alternative tax is less than the regular tax computed on taxable income using the applicable tax brackets and tax rates, then the corporation may enter the alternative tax from Schedule D in Part I, line 1, page 2, Form 1120-A, or line 3, Schedule J, Form 1120, and check the block for alternative tax.

Lines 4, 6, 8, 10, 22 and 24.—Members of a controlled group must enter their portion of each taxable income bracket. See the instructions for Schedule J (Form 1120) for rules regarding how controlled groups (as defined in section 1563) may divide these amounts.

Line 17.—If the total taxable income of the controlled group of corporations is more than $1,000,000, each member should enter its portion of the additional tax on line 17 as explained in the instructions for Schedule J (Form 1120).

Line 29.—If total taxable income of the controlled group of corporations is more than $100,000, each member should enter its portion of the additional tax on line 29. See section 1561 for rules on determining each member's share of the additional tax.

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 C, the code number for the specific industry group from which the largest percentage of "total receipts" is derived. "Total receipts" means gross receipts (line 1a, page 1) plus all other income (lines 4 through 10, page 1).

On page 3, under J, Form 1120 or items A and B, page 1, Form 1120-A, state the principal business activity and principal product or service that account for the largest percentage of total receipts. For example, if the principal business activity is "Grain mill products," the principal product or service may be "Cereal preparations."

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

Agriculture, Forestry, and Fishing

Code

- 0400 Agricultural production
- 0600 Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping

Mining

Metal mining

- 1010 Iron ores
- 1070 Copper, lead and zinc, gold and silver ores
- 1098 Other metal mining
- 1150 Coal mining

Oil and gas extraction

- 1330 Crude petroleum, natural gas, and natural gas liquids
- 1380 Oil and gas field services

Nonmetallic minerals, except fuels

- 1430 Dimension, crushed and broken stone; sand and gravel
- 1498 Other nonmetallic minerals, except fuels

Construction

General building contractors and operative builders

- 1510 General building contractors
- 1531 Operative builders
- **1600 Heavy construction contractors**

Special trade contractors

- 1711 Plumbing, heating, and air conditioning
- 1731 Electrical work
- 1798 Other special trade contractors

Manufacturing

Food and kindred products

- 2010 Meat products
- 2020 Dairy products
- 2030 Preserved fruits and vegetables
- 2040 Grain mill products
- 2050 Bakery products
- 2060 Sugar and confectionary products
- 2081 Malt liquors and malt
- 2088 Alcoholic beverages, except malt liquors and malt
- 2089 Bottled soft drinks, and flavorings
- 2096 Other food and kindred products
- **2100 Tobacco manufacturers**

Textile mill products

- 2228 Weaving mills and textile finishing
- 2250 Knitting mills
- 2298 Other textile mill products

Apparel and other textile products

- 2315 Men's and boys' clothing
- 2345 Women's and children's clothing
- 2388 Other apparel and accessories
- 2390 Miscellaneous fabricated textile products

Lumber and wood products

- 2415 Logging, sawmills, and planing mills
- 2430 Millwork, plywood, and related products
- 2498 Other wood products, including wood buildings and mobile homes
- **2500 Furniture and fixtures**

Code

Paper and allied products

- 2625 Pulp, paper, and board mills
- 2699 Other paper products

Printing and publishing

- 2710 Newspapers
- 2720 Periodicals
- 2735 Books, greeting cards, and miscellaneous publishing
- 2799 Commercial and other printing, and printing trade services

Chemicals and allied products

- 2815 Industrial chemicals, plastics materials, and synthetics
- 2830 Drugs
- 2840 Soap, cleaners, and toilet goods
- 2850 Paints and allied products
- 2898 Agricultural and other chemical products

Petroleum refining and related industries (including those integrated with extraction)

- 2910 Petroleum refining (including integrated)
- 2998 Other petroleum and coal products

Rubber and misc. plastics products

- 3050 Rubber products, plastics footwear, hose and belting
- 3070 Misc. plastics products

Leather and leather products

- 3140 Footwear, except rubber
- 3198 Other leather and leather products

Stone, clay, and glass products

- 3225 Glass products
- 3240 Cement, hydraulic
- 3270 Concrete, gypsum, and plaster products
- 3298 Other nonmetallic mineral products

Primary metal industries

- 3370 Ferrous metal industries; misc. primary metal products
- 3380 Nonferrous metal industries

Fabricated metal products

- 3410 Metal cans and shipping containers
- 3428 Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products
- 3430 Plumbing and heating, except electric and warm air
- 3440 Fabricated structural metal products
- 3460 Metal forgings and stampings
- 3470 Coating, engraving, and allied services
- 3480 Ordnance and accessories, except vehicles and guided missiles
- 3490 Misc. fabricated metal products

Machinery, except electrical

- 3520 Farm machinery
- 3530 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 store
- 5995 Other retail stores

Finance, Insurance, and Real Estate

Banking

- 6030 Mutual savings banks
- 6060 Bank holding companies
- 6090 Banks, except mutual savings banks and bank holding companies

Credit agencies other than banks

- 6120 Savings and loan associations
- 6140 Personal credit institutions
- 6150 Business credit institutions
- 6199 Other credit agencies

Security, commodity brokers and services

- 6210 Security brokers, dealers, and flotation companies
- 6299 Commodity contracts brokers and dealers; security and commodity exchanges; and allied services

Insurance

- 6355 Life insurance
- 6356 Mutual insurance, except life or marine and certain fire or flood insurance companies
- 6359 Other insurance companies
- 6411 Insurance agents, brokers, and service

Real estate

- 6511 Real estate operators and lessors of buildings
- 6516 Lessors of mining, oil, and similar property
- 6518 Lessors of railroad property and other real property
- 6530 Condominium management and cooperative housing associations
- 6550 Subdividers and developers
- 6599 Other real estate

Holding and other investment companies, except bank holding companies

- 6744 Small business investment companies
- 6749 Other holding and investment companies except bank holding companies

Services

- **7000 Hotels and other lodging places**
- **7200 Personal services**

Business services

- 7310 Advertising
- 7389 Business services, except advertising

Auto repair; misc. repair services

- 7500 Auto repair and services
- 7600 Misc. repair services

Amusement and recreation services

- 7812 Motion picture production, distribution, and services
- 7830 Motion picture theaters
- 7900 Amusement and recreation services, except motion pictures

Other services

- 8015 Offices of physicians, including osteopathic physicians
- 8021 Offices of dentists
- 8040 Offices of other health practitioners
- 8050 Nursing and personal care facilities
- 8060 Hospitals
- 8071 Medical laboratories
- 8099 Other medical services
- 8111 Legal services
- 8200 Educational services
- 8300 Social services
- 8600 Membership organizations
- 8911 Architectural and engineering services
- 8930 Accounting, auditing, and bookkeeping
- 8980 Miscellaneous services (including veterinarians)

SCHEDULE D (Form 1120)

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

To be filed with Forms 1120, 1120-A, 1120-IC-DISC, 1120F, 1120-FSC, 1120-H, 1120L, 1120-PC, 1120-POL, 1120-REIT, 1120-RIC, 990-C, and certain Forms 990-T

OMB No. 1545-0123

1987

Name | **Employer identification number**

Part I **Short-term Capital Gains and Losses—Assets Held Six Months or Less (One year or less if acquired after 12/31/87)**

(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 23 or 31	2	
3 Unused capital loss carryover (attach computation)	3	( )
4 Net short-term capital gain or (loss)	4	

Part II **Long-term Capital Gains and Losses—Assets Held More Than Six Months (More than one year if acquired after 12/31/87)**

5					

6 Enter gain from Form 4797, line 7 or 9	6	
7 Long-term capital gain from installment sales from Form 6252, line 23 or 31	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.

Part IV **Alternative Tax Computation (If your tax year begins after June 30, 1987, do not complete Part IV. Forms 1120-H, 1120-IC-DISC, and 1120-RIC filers also omit Part IV.)**

12 Partial tax. a Form 1120—Enter the amount from line 34, Schedule B, Tax Computation Worksheet, in the instructions for Forms 1120 and 1120-A. b Others—See the tax computation instructions for applicable return	12	
13 Enter 34% of line 10 (Form 1120-REIT filers, see instructions)	13	
14 Alternative tax—total of lines 12 and 13. If less than amount of tax figured by regular method, enter here and on Form 1120, Schedule J, line 3; or the proper line on other returns. Also check box for Schedule D.	14	

Instructions

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

New Law Changes.—The alternative tax has been repealed for tax years beginning after June 30, 1987. See Parts III and IV below for more information about alternative tax.

The Tax Reform Act of 1986 changed some of the rules governing corporate distributions. 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. Certain exceptions to the gain recognition rule that were contained in section 311 have been repealed. See section 311 for more information. For liquidations completed after 1986, gain or loss is generally 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.

Purpose of Form

This Schedule D should be used by a taxpayer whose tax year begins in 1987 and who files either Forms 1120, 1120-A, 1120-IC-DISC, 1120F, 1120-FSC, 1120-H, 1120L, 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**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions. See the instructions for Form 4797 for more information.

If property is involuntarily converted because of a casualty or theft, use **Form 4684**, Casualties and Thefts.

Parts I and II

Generally, a corporation should report sales and exchanges, including "like-kind" exchanges, even though there is no gain or loss. No loss is allowed for a wash sale of stock or securities or from a transaction between related persons (sections 1091 and 267).

In Part I, report the sale or exchange of capital assets held 6 months or less. In Part II, report the sale or exchange of capital assets held more than 6 months. For property acquired after December 31, 1987, the holding period has been changed to 1 year.

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.**—For tax years beginning after 1986, 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 8582**, Passive Activity Loss Limitations, before completing Schedule D.

A capital gain on the sale or exchange of an entire interest in a passive activity in a fully taxable disposition to an unrelated party is reported on Schedule D. The gain (reduced by any current year operating loss from that activity) is also included on Form 8582 if the corporation has other passive activity losses.

Capital losses from a fully taxable disposition of an entire interest in a passive activity to an unrelated party are allowed in full under the passive activity loss rules, but may be subject to the capital loss limitations. Enter the loss on Schedule D, but do not enter it on Form 8582.

Capital gains and losses from a disposition of less than an entire interest in a passive activity are treated the same as any other passive activity gain or loss. The gain is entered on Schedule D and also on Form 8582 as passive activity income if the corporation has other passive activity losses. The loss is not entered on Schedule D until the passive activity loss allowed is figured on Form 8582.

Report the allowed losses computed on worksheet 5 of the Form 8582 instructions as separate short-term or long-term losses in column (f) of Schedule D. Include in the description for column (a) "Loss from Form 8582." Complete any remaining columns according to the column headings.

- **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**, Computation of 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.

For tax years beginning after 1986, 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.

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. The at-risk rules now apply to the holding of real property placed in service after 1986.

Part III—Summary of Parts I and II

If the net long-term capital gain is more than the net short-term capital loss, there is a net capital gain. If the corporation's tax year begins before July 1, 1987, and there is a net capital gain, the corporation may want to complete Part IV to determine if the resulting alternative tax is less than the tax figured using the regular method.

Part IV—Alternative Tax Computation

Form 1120L and Form 1120-REIT filers should see the instructions for those forms before figuring alternative tax.

In figuring the alternative tax, do not refigure deductions limited by the amount of taxable income (such as contributions and the special deductions in Schedule C of Form 1120).

Certain dairy farmers see section 406 of the Tax Reform Act of 1986.

If the alternative tax amount on line 14 is less than the tax figured by the regular method, enter the amount of alternative tax on Form 1120, Schedule J, line 3; or the proper line on other returns. Also check the box for Schedule D.

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

U.S. Income Tax Return of a Foreign Corporation

For calendar year 1987 or other tax year beginning , 1987, and ending , 19

OMB No. 1545-0126

1987

Please type or print

Name	Employer identification number
Number and street (see instructions)	Check box if there has been a change in address from the previous year ▶ ☐
City or town, state and ZIP code, or country	

Note: *Complete Section I to compute tax on income from U.S. sources that is NOT effectively connected with the conduct of a trade or business in the U.S. Complete Sections II and III to compute tax on income effectively connected with the conduct of a trade or business in the U.S. Corporations having only income that is NOT effectively connected need file only pages 1 and 2.*

A Country of incorporation ....

B Foreign country under whose laws the income reported on this return is subject to tax ....

C Date incorporated ....

D The corporation's books are in care of .... located at ....

E Were you at any time during the tax year engaged in a trade or business in the U.S.? ☐ Yes ☐ No

F At any time during the tax year, did you have a permanent establishment in the U.S. for purposes of applying section 894(b) and any applicable tax treaty between the U.S. and a foreign country? ☐ Yes ☐ No
If "Yes," name the foreign country ....

G (1) Did you at the end of the tax year own, directly or indirectly, 50% or more of the voting stock of a U.S. corporation? (For rules of attribution, see section 267(c).) ☐ Yes ☐ No
If "Yes," attach a schedule showing: (a) name, address, and identifying number, (b) percentage owned, (c) taxable income or (loss) before NOL and special deductions from line 28, page 1, Form 1120, for the tax year ending with or within your tax year, (d) highest amount owed by you to that corporation during the year, and (e) highest amount owed to you by that corporation during the year.

(2) Did any corporation, individual, partnership, trust, or association at the end of the tax year own, directly or indirectly, 50% or more of your voting stock? (For rules of attribution, see section 267(c).) ☐ Yes ☐ No
If "Yes," attach a schedule showing: (a) name, address, and identifying number, (b) percentage owned; and
(c) Enter the highest amount owed by you to that owner during the year ▶ ....
(d) Enter the highest amount owed to you by that owner during the year ▶ ....
Note: *For purposes of G(1) and G(2), "highest amount owed" includes loans and accounts receivable/payable.*

H Have you filed a U.S. income tax return for the preceding tax year? ☐ Yes ☐ No

I If you had an agent in the U.S. at any time during the year, enter:
Kind of agent ....
Name ....
Address ....

J Are you a foreign personal holding company under section 552? ☐ Yes ☐ No
If "Yes," has Form 5471 been filed? (Sec. 6035) ☐ Yes ☐ No

K Are you a personal holding company? (See Schedule PH (Form 1120).) ☐ Yes ☐ No

L Are you a controlled foreign corporation? (Sec. 957) ☐ Yes ☐ No

1	Tax from Section I (line 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** Overpayment from 1986 allowed as a credit		
b	1987 estimated tax payments		
c	Less refund of 1987 estimated tax applied for on Form 4466 ( )		
d	Tax deposited with Form 7004		
e	Credit from regulated investment companies (attach Form 2439)		
f	Federal tax on gasoline and special fuels (attach Form 4136)		
g	U.S. income tax paid or withheld at the source (add line 12, page 2, and amount from Form 8288-A (attach Form 8288-A))		
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 1988 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** (1987)

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.

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 $ .... Balance ▶	1c		
2 Cost of goods sold and/or operations (Schedule A)	2		
3 Gross profit (subtract line 2 from line 1c)	3		
4 Dividends (Schedule C, line 11)	4		
5 Interest	5		
6 Gross rents	6		
7 Gross royalties	7		
8 Capital gain net income (attach Schedule D (Form 1120))	8		
9 Net gain or (loss) from line 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 12) ... 30b	30		
31 Taxable income or (loss) (subtract line 30 from line 29)	31		

Schedule A.—Cost of Goods Sold and/or Operations (see Instructions)

1 Inventory at beginning of year	1		
2 Purchases	2		
3 Cost of labor	3		
4 a Additional section 263A costs (see instructions)	4a		
b Other costs (attach schedule)	4b		
5 Total—Add lines 1 through 4	5		
6 Inventory at end of year	6		
7 Cost of goods sold—Subtract line 6 from line 5. Enter here and on line 2, Section II	7		

8 a Check all methods used for valuing closing inventory:

(i) ☐ Cost

(ii) ☐ Lower of cost or market as described in regulations section 1.471-4 (see instructions)

(iii) ☐ Writedown of "subnormal" goods as described in regulations section 1.471-2(c) (see instructions)

(iv) ☐ Other. (Specify method used and attach explanation.) ▶ ....

b Check if the LIFO inventory method was adopted this tax year for any goods ☐
If checked, attach Form 970.

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 (other than for section 263A purposes) 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 Domestic corporations subject to the section 243(a) deduction		See Inst.	
2 Debt-financed stock of domestic and foreign corporations		See Inst.	
3 Certain preferred stocks of public utilities		See Inst.	
4 Foreign corporations and certain FSCs subject to the section 245(a) deduction		See Inst.	
5 Total—Add lines 1 through 4, column (c). See instructions for limitation			
6 Deduction for dividends paid on certain preferred stocks of public utilities (see instructions)			
7 Other dividends from foreign corporations			
8 Foreign dividend gross-up (section 78)			
9 Taxable dividends from an IC-DISC or former DISC not included in line 1 and/or line 2 (section 246(d))			
10 Other dividends			
11 Total dividends—Add lines 1 through 10, column (a). Enter here and on line 4, Section II, page 3			
12 Total special deductions—Add lines 5 and 6, column (c). Enter here and on line 30b, Section II, page 3			

Schedule E.—Compensation of Officers. Complete Schedule E only if your total receipts (line 1a plus lines 4 through 10 of Section II, page 3) are $150,000 or more (see Instructions)

(a) Name of officer	(b) Social security number	(c) Percent of time devoted to business	Percent of corporation stock owned: (d) Common	(e) Preferred	(f) Amount of compensation
Total compensation of officers—Enter here and on line 12, Section II, page 3					

Schedule 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 and your tax year includes June 30, 1987, enter your portion of the $25,000 amount in each tax bracket on line a; and the portion of the $50,000 and $25,000 tax bracket on line b. If your tax year begins after June 30, 1987, complete only line b.

a (i) $ .... (ii) $ .... (iii) $ .... (iv) $ ....

b (i) $ .... (ii) $ ....

3 Income tax (see instructions to figure the tax; enter this tax or alternative tax, whichever is less). Check if alternative tax used ▶ ☐			3	
4a Foreign tax credit (attach Form 1118)	4a			
b Credit for fuel produced from a nonconventional source	4b			
c Orphan drug credit (attach Form 6765)	4c			
d General business credit. Enter here and check which forms are attached: ☐ Form 3800 ☐ Form 3468 ☐ Form 5884 ☐ Form 6478 ☐ Form 6765 ☐ Form 8586	4d			
5 Total—Add lines 4a through 4d			5	
6 Subtract line 5 from line 3			6	
7 Tax from recomputing prior-year investment credit (attach Form 4255)			7	
8 Total tax—Add lines 6 and 7. Enter here and on line 2, page 1			8	

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

Part I Computation of Branch Profits Tax

1	Enter the effectively connected taxable income or (loss) from line 31, Section II	1	
2	Adjustments to arrive at effectively connected earnings and profits. (Make postive adjustments (such as tax-exempt interest income) and negative adjustments (such as Federal income taxes) required by section 312. See instructions for certain types of income included in effectively connected taxable income but not taken into account when computing effectively connected earnings and profits.) (Attach a schedule to Form 1120F showing the nature and amount of these adjustments.)	2	
3	Effectively connected earnings and profits. Combine line 1 and line 2	3	
4	Enter U.S. net equity at the end of the current tax year. (See instructions for definition of U.S. net equity.)	4	
5	Enter U.S. net equity at the end of the prior tax year	5	
6	Increase in U.S. net equity. Subtract line 5 from line 4. Enter zero if the result is less than zero. **(Exception:** *Corporations with more than one tax year beginning in 1987 may have a decrease in U.S. net equity and may be required to enter an amount less than zero and should see instructions.)*	6	
7	Dividend equivalent amount. Subtract line 6 from line 3. Enter zero if less than zero	7	
8	Branch profits tax. Multiply line 7 by 30% or lower treaty rate (if corporation is a qualified resident). Enter here and on line 3a, page 1. (If treaty rate applies, attach a statement to Form 1120F explaining why the corporation is a qualified resident.)	8	

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 U.S. trade or business of the foreign corporation	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.)	4	

Other Deductions

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

Additional Information Required

M Business description (see page 12 of instructions)
(1) Business code number ....
(2) Principal business activity ....
(3) Principal product or service ....

N Did you claim a deduction for expenses connected with:	Yes	No
(1) Entertainment facility (boat, resort, ranch, etc.)?		
(2) Living accommodations (except for employees on business)?		
(3) Employees attending conventions or meetings outside the North American area? (See section 274(h).)		
(4) Employees' families at conventions or meetings? If "Yes," were any of these conventions or meetings outside the North American area? (See section 274(h).)		
(5) Employee or family vacations not reported on Form W-2?		
O During the tax year was any part of your accounting /tax records maintained on a computerized system?		

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

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

Schedule L.—Balance Sheets

	Beginning of tax year (a)	(b)	End of tax year (c)	(d)
ASSETS				
1 Cash				
2 Trade notes and accounts receivable				
a Less allowance for bad debts				
3 Inventories				
4 Federal and state government obligations				
5 Other current assets (attach schedule)				
6 Loans to stockholders				
7 Mortgage and real estate loans				
8 Other investments (attach schedule)				
9 Buildings and other fixed depreciable assets				
a Less accumulated depreciation				
10 Depletable assets				
a Less accumulated depletion				
11 Land (net of any amortization)				
12 Intangible assets (amortizable only)				
a Less accumulated amortization				
13 Other assets (attach schedule)				
14 Total assets				
LIABILITIES AND STOCKHOLDERS' EQUITY				
15 Accounts payable				
16 Mtges., notes, bonds payable in less than 1 year				
17 Other current liabilities (attach schedule)				
18 Loans from stockholders				
19 Mtges., notes, bonds payable in 1 year or more				
20 Other liabilities (attach schedule)				
21 Capital stock: a Preferred stock				
b Common stock				
22 Paid-in or capital surplus				
23 Retained earnings—Appropriated (attach schedule)				
24 Retained earnings—Unappropriated				
25 Less cost of treasury stock		( )		( )
26 Total liabilities and stockholders' equity				

Schedule M-1.—Reconciliation of Income Per Books With Income Per Return. 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) a Tax-exempt interest $	
2 Federal income tax			
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 Contributions carryover . $	
5 Expenses recorded on books this year not deducted in this return (itemize) a Depreciation . . . $ ...... b Contributions carryover . $			
		9 Total of lines 7 and 8	
6 Total of lines 1 through 5		10 Income (line 29, page 3)—line 6 less line 9	

Schedule M-2.—Analysis of Unappropriated Retained Earnings Per Books (line 24 above). 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)	

1987 Instructions for Form 1120F

Department of the Treasury
Internal Revenue Service

U.S. Income Tax Return of a Foreign Corporation

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

Items You Should Note

The Tax Reform Act of 1986 made several changes to the way corporations compute their taxable income and their tax liability. Many of these changes are contained in the instructions. For more information, see **Publication 921**, Explanation of the Tax Reform Act of 1986 for Business.

Paperwork Reduction Act Notice

We ask for the information to carry out the Internal Revenue laws of the United States. The information is used to ensure that taxpayers are complying with these laws and to allow us to figure and collect the correct amount of tax. You are required to give us this information.

General Instructions

A. Purpose of Form

Form 1120F is used to report a foreign corporation's income, deductions, credits, and tax to the United States. If a refund is due, Form 1120F may be used to claim it.

B. Filing the Return

1. Who Files Form 1120F.—Except for corporations described in instruction B2, every foreign corporation must file this form if, during the tax year, it did any of the following:

- Had income from any U.S. source.
- Engaged in a trade or business in the U.S., whether or not it had income from that trade or business.
- Had tax preference items, as described in section 57, that affect the corporation's computation of its unrelated business income.
- Overpaid income tax that it wants refunded.

The foreign corporation must file Form 1120F even if its income is tax exempt under an income tax treaty or Code section.

The Mexican or Canadian branch of a U.S. mutual life insurance company must file Form 1120F on the same basis as a foreign corporation if the U.S. company elects to exclude the branch's income and expenses from its own gross income.

A receiver, assignee, or trustee in dissolution or bankruptcy must file Form 1120F if that person has or holds title to virtually all of a foreign corporation's property or business. Form 1120F is due whether or not the property or business is being operated.

An agent in the U.S. must file the return if the foreign corporation has no office or place of business in the U.S. when due.

Consolidated returns.—A foreign corporation cannot belong to an affiliated group of corporations that files a consolidated return. An exception is made for some Canadian and Mexican subsidiaries maintained solely to own and operate property under Canadian or Mexican law.

2. Who Does Not File Form 1120F.—A foreign corporation does not need to file Form 1120F in any of the following cases:

- It did not engage in a trade or business in the U.S. during the year, and its full U.S. tax was withheld at the source.
- It is a beneficiary of an estate or trust engaged in a trade or business in the U.S., but would itself otherwise not need to file.
- It files **Form 1120L**, U.S. Life Insurance Company Income Tax Return, as a foreign life insurance company or **Form 1120PC**, 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 U.S. investments, stock, bonds, or other securities, or interest on bank accounts in the U.S., or financial instruments used in governmental policy are not subject to U.S. taxation. However, income from commercial activities and income from controlled commercial entities are subject to U.S. taxation after June 30, 1986. In addition, these types of income are subject to withholding after October 21, 1986.

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.

See Rev. Rul 87-66, 1987-29, I.R.B. 6 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, 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.

These corporations are granted under regulations section 1.6081-2(a) an automatic 3-month extension of time to file, without using Form 7004. If a 6-month extension is anticipated, these corporations should file Form 7004 by the 15th day of the 3rd month following the close of the tax year. However, this extension does not extend the time for payment of tax .

Period covered.—File the 1987 return for calendar year 1987 and fiscal years that began in 1987 and end in 1988. 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, write "Final return" at the top of the form.

6. Address.—The address used on the return should be the location of the books and records used in the preparation of the return. For foreign corporations engaged in a trade or business in the United States, this will generally be a U.S. address.

7. Where To File.—File Form 1120F with the Internal Revenue Service Center, Philadelphia, PA 19255.

8. Other Forms, Schedules, and Statements That May Be Required.—

(a) Forms. 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 certain foreign corporations.

Form 5472.—Information Return of a Foreign Owned Corporation. A foreign corporation that is engaged in a trade or business in the United States and is controlled by a foreign person may have to file Form 5472.

Form 1042S.—Foreign Person's U.S. Source Income Subject to Withholding. This form is used to report income payments that are subject to withholding and the amount of tax withheld.

Form 1042.—Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, 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-DIV, INT, MISC, and R.—These are some of the information returns that must be filed to report certain payments, such as dividends and interest. For more information, see 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 two taxes.

Form 4626 is used to compute the alternative minimum tax and the environmental tax. See Form 4626 for computation of the alternative minimum tax and 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, 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 8582. Passive Activity Loss Limitations. It is used to figure the amount of passive activity loss allowed for the current tax year and the loss to be reported on your tax return. Form 8582 applies to personal service corporations and to closely held C corporations who have losses from passive activities.

(b) Statements.

Transfers to corporation controlled by transferor.—If a person acquires stock or securities of a corporation in exchange for property, and no gain or loss is recognized under section 351, the transferor and transferee must attach the information required by regulations section 1.351-3.

Statement in place of schedules.—If the foreign corporation has no gross income for the tax year, do not complete the Form 1120F schedules. Instead, attach a statement to the return showing what types and amounts of income are excluded from gross income.

(c) Amended return.

To correct an error in a Form 1120F already filed, file an amended Form 1120F and write "Amended" across the top.

(d) Attachments.

Attach **Form 4136**, Computation of Credit for Federal Tax on Gasoline and Special Fuels, after page 6, Form 1120F. Attach schedules in alphabetical order and other forms in numerical order after Form 4136.

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.)

Unless the law specifically permits otherwise, the corporation may change from the method of accounting it used to report taxable income in earlier years (for income as a whole or for any material item) only by first getting consent on **Form 3115**, Application for Change in Accounting Method. Also see **Publication 538**, Accounting Periods and Methods.

Note: The Tax Reform Act of 1986 changed several of the rules governing accounting methods.

(1) For tax years beginning after 1986, corporations (other than qualified personal service corporations) are generally required to use the accrual method of accounting if their average annual 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 and attach it to Form 1120F.

The corporation must attach a schedule to Form 3115 showing the amount of income to be taken into account as a result of the section 481(a) adjustment over a 4-year period beginning with the year of change. The schedule should also show the basis used in determining the section 481 adjustment. See section 448 and regulations sections 1.448-1T(g) and 1.448-1T(h) for more information. Report the amount of section 481 adjustment on line 10, page 3.

(2) 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-capitalization cost method. See section 460 and Notice 87-61, 1987-38, IRB 40 for more information.

(3) The reserve method of computing bad debts has been repealed for tax years beginning after 1986 for most taxpayers. See instruction for line 15 for details.

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.

Note: *For tax years beginning after 1986, personal service corporations, as defined in section 441(i)(2), must adopt a calendar tax year unless the corporation can establish to the satisfaction of the Secretary that there is a business purpose for having a different tax year.*

A corporation that is adopting a calendar year must file a short-period return for the first tax year beginning after 1986. These taxpayers should type or legibly print "FILED UNDER SECTION 806 OF THE TAX REFORM ACT OF 1986" at the top of the first page of the return for the first required tax year.

Personal service corporations that wish to establish a business purpose for having a different tax year should see Rev. Rul. 87-57, 1987-28, IRB 7, for more information. Personal service corporations that wish to retain a non-calendar tax year must file Form 1128 in accordance with the procedures outlined in Rev. Proc. 87-32, and Announcement 87-82, 1987-37, IRB 30.

2. Gross Income.—For purposes of Form 1120F, a foreign corporation that only has U.S. sourced income that is not effectively connected with the U.S. is taxed on its gross income. This income is entered on Section I. The income is 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 that is 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 all payments.*

B. Foreign corporations with an office or place of business in the U.S. must pay the tax due in full when they file their tax return, but not later than the 15th day of the 3rd month after the end of the tax year. Write the corporation's employer identification number on all payments.

Also, foreign corporations with an office or place of business in the U.S. must deposit their income tax payments (and estimated tax payments) with a Federal Tax Deposit Coupon **(Form 8109)**.

Make these tax deposits with a financial institution qualified as a depositary for Federal taxes or the Federal Reserve bank or branch serving the geographic area where the corporation is located. Do not submit deposits directly to an IRS office; otherwise, the corporation may be subject to a Federal tax deposit penalty. Records of deposits will be sent to the IRS for crediting to the corporation's account. See the instructions contained in the coupon book for more information.

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 employer identification number, the payer will withhold taxes from those payments. If this type of withholding was withheld from payments, the corporation should show this amount in the blank space in the right hand column between lines 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 $40 or more.

Use **Form 1120-W (WORKSHEET)**, Corporation Estimated Tax, as a worksheet to compute estimated tax.

If the corporation overpaid estimated tax, it may be able to get a "quick refund" by filing **Form 4466**, Corporation Application for Quick Refund of Overpayment of Estimated Tax. The overpayment must be both: (1) at least 10% of expected income tax liability, and (2) at least $500. To apply, file Form 4466 within 2½ months after the end of the tax year and before Form 1120F is filed.

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, 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 .5% a month or fraction of a month, up to a maximum of 25%, for each month the tax is not paid. The penalty is imposed on the net amount due.

4. Underpayment of Estimated Tax.—A corporation that does not pay the proper estimated tax when due may be subject to an underpayment penalty. To avoid the estimated tax penalty, deposit at least 90% of the corporation's tax liability. See sections 6655.

If the corporation underpaid estimated tax, attach **Form 2220**, Underpayment of Estimated Tax by Corporations, to show how the corporation figured the penalty or which exceptions the corporation believes it meets.

If there is tax due on line 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.

Corporations using the annualization exceptions may be able to avoid penalties under section 6655 for installment payments due before July 1, 1987, by using the safe harbor rules provided in regulations section 1.6655-2T.

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

F. Rounding Off

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

G. Overpaid Windfall Profit Tax

A corporation that has overpaid its windfall profit tax may claim a credit on its income tax return. Use **Form 6249**, Computation of Overpaid Windfall Profit Tax, to figure the credit. Include the amount of the credit in the total for line 7e, page 1, Form 1120F, and enter the amount of credit in the margin next to line 7e and identify it as "overpaid windfall profit tax."

H. Schedules L, M-1, and M-2

Foreign corporations that are subject to the branch profits tax must 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.

Other foreign corporations may limit these schedules to effectively connected assets and income; or they may use worldwide assets and income.

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.

I. New 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. These new source rules are generally effective for tax years beginning after 1986, but foreign corporations other than controlled foreign corporations must use these new source rules for transactions entered into after March 18, 1986. See section 865 for definitions, and for exceptions for intangible property and depreciable property. See section 988 for new rules for sourcing income from certain foreign currency transactions.

New 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 the 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 thereof), the testing period is the tax year in which payment is made.

A new source rule also applies to dividends paid by 80-20 corporations. In general, dividends paid after 1986 by an 80-20 corporation to a foreign corporation are treated as U.S. source income. If, however, 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 80-20 corporation's active foreign business income to total income for the testing period (section 861(c)(2)(A)). Generally, these new rules are effective for payments made after 1986. For more information, including exceptions and withholding rules, see section 1214 of the Tax Reform Act of 1986.

Basis of Property and Inventory Costs for Property Imported by a Related Person.—If property is imported into the U.S. by a related person in a transaction entered into after March 18, 1986, and the property has a customs value, the basis or inventory cost to the importer cannot exceed the customs value. For more information, see section 1059A.

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).

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, 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 effectively connected interest), 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. For rules regarding payments received after September 15, 1984 on original issue discount obligations issued after March 31, 1972, withholding is imposed on the proceeds from sale, exchange, or retirement (see section 881(a)(3)). For rules regarding income received on original issue discount obligations issued before April 1, 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).

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 new tax is levied 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. Also attach to the return any information required by regulations under section 887.

The gross transportation tax will not be imposed on effectively connected income. Whether the tax 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 is 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 that case, the interest is treated as effectively connected income; or
- Has gain or loss from disposition of interest in U.S. real property.

Income

(Numbered to correspond with the line numbers in Section II of the return.)

In lines 1 through 10, enter gross income (regardless of source) that is effectively connected with the conduct of a trade or business within the U.S.

1. Gross receipts.—Enter gross receipts or sales from all business operations except those that must be reported in lines 4 through 10. For reporting advance payments, see regulations section 1.451-3. The rules for long-term contracts have been changed by the Tax Reform Act of 1986. See section 460 for more information.

Changes have also been made to the installment method. Effective for tax years beginning after 1986, the installment method is no longer available for any sale of personal property under a revolving credit plan.

The use of the installment method is limited by the proportionate disallowance rules of new section 453C for sales of real property held for sale to customers or the sale of personal property by a dealer after February 28, 1986.

Additional income (in the case of sales of real property by dealers) or additional tax (in the case of sales of personal property by dealers) generated by the application of the proportionate disallowance rules is taken into account or treated as being imposed ratably over a three-year period. See sections 811(c)(6) and 811(c)(7) of the Tax Reform Act of 1986 for more information. Dealers of personal property should also see the instructions for Schedule J, Tax Computation. The proportionate disallowance rules do not apply to certain sales by manufacturers to dealers. A seller of real property may also elect to have the proportionate disallowance rules not apply in certain sales of timeshares and residential lots.

If the installment method is used, enter on line 1 the gross profit on collection from installment sales (real property dealers enter this amount as modified by section 811(c)(6) of the Tax Reform Act of 1986) and carry this amount to line 3. Attach a schedule showing the following for the current tax year and the three preceding tax years: a) gross sales, b) cost of goods sold, c) gross profits, d) percentage of gross profits to gross sales, e) amounts collected, and f) gross profit on amounts collected.

Increase the amount collected by any allocable installment indebtedness required by section 453C.

After 1986, accrual basis corporations generally need not accrue income from the performance of services which, on the basis of their experience, will not be collected (section 448(d)(5)). Corporations that fall under this provision should attach Form 3115 and 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, Section II. For information and guidelines on this "non-accrual experience method," see regulations section 1.448-2T.

2. Cost of goods sold.—See instructions for Schedule A.

4. Dividends.—See instructions for Schedule C.

5. Interest.—Enter interest on U.S. obligations and loans, notes, mortgages, bonds, bank deposits, corporate bonds, tax refunds, etc. Do not offset interest income against interest expense.

6. Gross rents.—Enter the gross amount received for the rent of property. Deduct expenses such as repairs, interest, taxes, and depreciation on the proper lines for deductions.

8. Capital gain net income.—Every sale or exchange of a capital asset must be reported in detail in Schedule D (Form 1120), even though there is no gain or loss. For purposes of computing the adjustments to the accumulated earnings tax under section 535(b)(5), foreign corporations must only include capital gains and losses that are effectively connected with a trade or business in the U.S.

If the net long-term capital gain is more than the net short-term capital loss, or if there is only a net long-term capital gain, compute the alternative tax on Schedule D (Form 1120) to see if it produces a smaller tax. Corporations whose tax years begin after June 30, 1987, are not eligible for the alternative tax.

9. Net gain or (loss).—Enter the net gain or loss from Part II, **Form 4797**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions.

10. Other income.—Enter any other taxable income not listed above and explain its nature on an attached schedule. Examples of other income would be recoveries of bad debts deducted in earlier years under the specific charge-off method (also see instructions for line 15, Bad Debts); 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 from 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.

Many changes made by the Tax Reform Act of 1986 result in a change in method of accounting for the corporation and require income adjustments under section 481(a). Include any section 481(a) adjustment on line 10 and attach a schedule showing the nature and amount of the adjustment.

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.

Many items that were deductible under prior law must now be capitalized or included in inventory under the new uniform capitalization rules of section 263A. The new 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 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. 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 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. The uniform capitalization rules are generally effective for costs and interest paid or incurred after 1986. With respect to inventory, the uniform capitalization rules apply to tax years beginning after 1986. Transitional rules are contained in section 803 of the Tax Reform Act of 1986.

In the case of inventory, some of the indirect costs which may not have been capitalized before the Tax Reform Act of 1986 which must now be capitalized are administrative 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, gas, and geothermal property, mining, and exploration and development costs incurred in the U.S. 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 regulations section 1.263A-1T.

2. Meals and Entertainment.—For tax years beginning after 1986, the amount deductible for business meals and entertainment is generally limited to 80% of the amount otherwise deductible. In addition, meals may not be lavish or extravagant; a bonafide 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. If the corporation rents a skybox in the same arena for more than one event, the deduction is limited to the sum of the face value of non-luxury box seats for all the events.

The limitation is phased in over a three year period. For tax years that begin in 1987, only one-third of the difference between the cost of luxury sky box and the value of the non-luxury box seats will be disallowed. For tax years beginning in 1988, two-thirds of the difference will be disallowed. For tax years beginning in 1989 and thereafter, only the costs of the non-luxury box seats will be allowed. After these reductions have been made, the 80% limitation is applied.

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 section 267 for limitation on deductions for unpaid expenses and interest.**

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 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.

Deductions.—*Numbers correspond with line numbers in Section II.*

12. Compensation of officers.—Enter on line 12 the total compensation of officers.

Complete Schedule E only if your total receipts (line 1a plus lines 4 through 10 of Section II, page 3) are $150,000 or more. Complete Schedule E for all officers.

13. Salaries and wages.—Enter on line 13a the total salaries and wages paid or incurred for the tax year. Do not include salaries and wages deducted elsewhere on the return, such as contributions to a simplified employee pension.

***Caution:** If you provide taxable fringe benefits to your employees, such as personal use of a car, do not deduct as wages the amount allocated for depreciation and other expenses that you claimed on lines 20 and 27.*

Enter on line 13b the amount of jobs credit from **Form 5884**, Jobs Credit, determined without regard to the limitation on tax.

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

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

The reserve method of computing bad debts has been repealed for tax years beginning after 1986 for all taxpayers except small banks and thrift institutions. If a corporation maintained such a reserve for its last tax year beginning before 1987, it must change to the specific charge-off method in 1987. The corporation must include the balance remaining in the reserve in income ratably over a 4-year period. Include the amount reportable as income on line 10, Section II, and attach a computation. The change from the reserve method to the specific charge-off method is treated as a change in accounting method and shall be considered as approved by the Commissioner. A small bank or thrift using the reserve method in 1987 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 in 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.

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.

Also see section 7872 for information on the deductibility of foregone interest on certain below-market rate loans.

Generally, the interest and carrying charges as to straddles are not deductible and must be capitalized. 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 also must capitalize any interest on debt it incurred or continued in connection with an asset needed to produce the above property. See section 263A for definitions and more information.

Generally, a cash basis taxpayer cannot deduct prepaid interest allocable to years after 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 earlier years.

The total amount claimed may not exceed 10% of taxable income (line 31) computed without regard to the following: (1) any deduction for contributions, (2) the special deductions in line 30b, (3) deductions allowed under sections 249 and 250, (4) any net operating loss carryback to the tax year under section 172, and (5) any capital loss carryback to the tax year under section 1212(a)(1).

Charitable contributions over the 10% limitation may not be deducted for the tax year but may be carried over to the next 5 tax years. A contribution carryover is not allowed, however, to the extent that it increases a net operating loss carryover. See section 170(d)(2)(B).

Corporations on the accrual basis may elect to deduct contributions paid on or before the 15th day of the 3rd month after the end of the tax year if the contributions are authorized by the board of directors during the tax year. Attach to the return a declaration, signed by an officer, stating that the resolution authorizing the contributions was adopted by the board of directors during the tax year. Also attach a copy of the resolution.

If a contribution is in property other than money and the total claimed value of all property contributed is more than $500, corporations (other than closely held and personal service corporations) shall attach a schedule describing the kind of property contributed and the method used in determining its fair market value.

Closely held corporations and personal service corporations must complete **Form 8283**, Noncash Charitable Contributions, and attach it to Form 1120F.

If you made a "qualified conservation contribution" under section 170(h), also include the fair market value of the underlying property before and after the donation, the type of legal interest contributed, and describe the conservation purpose furthered by the donation.

If a contribution carryover is included, show the amount and how it was determined.

Special rule for contributions of certain property.—For a charitable contribution of property, reduce the contribution by the sum of:

(1) the ordinary income, short-term capital gain that would have resulted if the property were sold at its fair market value; and

(2) for certain contributions made in tax years beginning after June 30, 1986, 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 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 personal 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.—New depreciation rules apply to corporations for tax years beginning after 1986. See **Form 4562**, Depreciation and Amortization, for more details. In addition, the maximum deduction under section 179 has been raised from $5,000 to $10,000. The section 179 deductions will be recaptured if the business use drops to 50% or less.

The deduction for amortization of trademark and trade name expenses has been repealed for expenses paid or incurred after 1986. See the instruction for Form 4562 for more information on changes to the rules for depreciation brought about by the Tax Reform Act of 1986.

23. Depletion.—See section 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 deduction for iron ore and coal (including lignite) has been increased from 15% to 20%.

Foreign intangible drilling costs and foreign exploration and development costs paid or incurred after 1986 must be added to the corporations's basis for computing cost depletion or be ratably deducted over a 10-year period.

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.

In addition, there is a penalty for overstating the pension plan deduction. For more information, see new section 6659A.

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

Form 5500-C or 5500-R.—Complete the applicable form for each plan with fewer than 100 participants.

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

26. Employee benefit programs.—Enter the amount of contributions to employee benefit programs (for example, insurance, health and welfare programs) that are not an incidental part of a pension, profit-sharing, etc., plan included on line 25.

27. Other deductions.—Generally, a deduction may not be taken for any amount allocable to a class of exempt income including income exempt by tax treaty.

If an item is indirectly attributable both to taxable income and exempt income, allocate a reasonable portion of the item to each class of income. Make the allocation in light of all the facts involved.

Attach a statement showing: (1) each class of exempt income, and (2) the expense items allocated to each class. Show separately the amount allocated by apportionment.

A corporation may deduct dividends it pays in cash on stock held by an employee stock ownership plan that the corporation maintains. However, a deduction may only be taken if the dividends are:

1. Paid directly in cash to the plan participants; or
2. Paid to the plan, which distributes them in cash to the plan participants, no later than 90 days after the end of the plan year in which the dividends are paid. (See section 404(k).)

For other allowable deductions, see section 404(k)(2)(C).

Generally, deduct all ordinary and necessary travel and entertainment expenses paid or incurred in your trade or business. However, do not deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) that is used for an activity that is usually considered entertainment, amusement, or recreation. **(Note:** *You may be able to deduct the expense if the amount is treated as compensation and reported on* ***Form W-2****, Wage and Tax Statement, for an employee or* ***Form 1099-MISC****, Statement for Recipients of Miscellaneous Income, for an independent contractor.) See* ***Publication 463****, Travel, Entertainment, and Gift Expenses, for more details.*

Note: *Do not deduct penalties imposed on corporations such as those included in General Instruction E.*

29. Taxable income before NOL deduction and special deductions.—At-risk and passive loss limitations.

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 such as a trade or business or for the production of income. Such corporations may have to adjust the amount on line 29. However, the at-risk rules do not apply to: (1) holding real property (other than mineral property) placed in service by the taxpayer before 1987 ; (2) equipment leasing under section 465(c)(4), (5), and (6); and (3) any qualifying business of a qualified corporation described in section 465(c)(7).

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.

A corporation involved in more than one activity that incurs a loss for the year, should report each loss separately and file **Form 6198**, Computation of Deductible Loss From an Activity Described in section 465(c), for each "at-risk" activity.

If the corporation sells or otherwise disposes of an asset, or its interest (either total or partial) in an activity to which the "at-risk" rules apply, determine the net profit or loss from the activity by combining the gain or loss on the sale or disposition with the profit or loss from the activity. If the corporation has a net loss, it may be limited because of the at-risk rules.

Treat any loss from an activity not allowed for the tax year as a deduction allocable to the activity in the next tax year.

Passive Activity Loss Limitations

The passive loss rules of section 469 apply to closely held C corporations and personal service corporations. Corporations subject to the passive loss rules must complete **Form 8582**, Passive Activity Loss Limitations, to compute their allowable passive activity loss. Before completing Form 8582, see 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 activity rules apply. For more information, see section 469 and **Publication 925**, Passive Activity and At-Risk Rules. A corporation subject to the passive loss limitations may also be required to adjust credits attributable to passive activities on **Form 8582-CR**, Passive Activity Credit Limitations.

Special Instructions for Form 8582.—Corporations subject to the passive loss rules should complete the following sections of Form 8582: Part I (only lines 2a through 2g and 3), and, if applicable, all of Part III. Also complete the applicable worksheets in the Instructions for Form 8582. Special rules apply to closely held corporations (see below).

In completing Worksheets 2, 4, and 5 (in the instructions for Form 8582), enter net income or (loss) from each separate activity in the appropriate column of these worksheets. Also, show the net gain or (loss) for each transaction reportable on Schedule D or Form 4797 as a separate activity in those worksheets.

If line 3 of Form 8582 is net income, all of the corporation's passive activity losses are allowed. Complete Form 1120F and related forms and schedules in the regular manner, disregarding the passive activity loss limitation rules.

If line 3 is a loss, enter -0- on line 9 and complete lines 10 through 19 of Form 8582. Use worksheets 4 and 5 to figure the allowed and unallowed amount of each loss. From column (c) of worksheet 5, enter the allowed portion of any Schedule D or Form 4797 loss on Schedule D or Form 4797.

If the corporation's passive losses consist only of Schedule D or Form 4797 losses, no adjustment to line 29 of Form 1120F is necessary. If the corporation's passive losses are limited to: a) Schedule D or Form 4797 losses and losses from "other passive activities;" or b) just losses from "other passive activities," the amount of unallowed loss(es) for other "passive activities" is the amount in column (c) of Worksheet 4. Add the total of these unallowed "other passive activities loss(es)" and increase the taxable income (or reduce the loss, which may result in taxable income if the adjustment is significant) shown on line 29, Form 1120F by this amount. Write the amount of the adjustment in the space to the left of line 28, and label as PALA (Passive Activity Loss Adjustment).

Closely held corporations.—Closely held corporations may use the "net active income" to offset any loss on line 2g, Form 8582. Net active income is taxable income for the tax year determined without regard to any income, expense, gain, or loss from a passive activity and any item of gross income, expense, gain or loss, under section 469(e)(1)(A). Closely held C corporations should combine the loss, if any, on line 2g, Form 8582, with net active income and enter the result on line 3, Form 8582. The net active income should also be added in on line 18, Form 8582, along with any other income entered on line 2a and 2d.

30a. Net operating loss deduction.—The net operating loss deduction is the sum of the net operating loss carryovers and carrybacks to the tax year. (Section 172(a).) If the deduction is taken, explain its computation on an attached sheet.

Generally, a corporation may carry a net operating loss back to each of 3 years before the year of the loss and a carryover to each of the 15 years after the year of loss.

The corporation may also elect to carry-over the loss just to each of the 15 years after the year of loss. The election is made by attaching a statement to a timely filed return, including extensions. The election is irrevocable.

The corporation may carry back 10 years the part of the net operating loss attributable to product liability losses. (See section 172(b)(1)(L)). 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. The election may be made by attaching a statement to a timely filed return, including extensions. The election is irrevocable.

After applying the net operating loss to the first tax year to which it may be carried, the part of the loss you may carry to each of the remaining tax years is any excess of 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. (Section 6411.)

Limitations on Net Operating Loss Carryovers and On Excess Credit Carryovers

Net operating loss carryovers and excess credit carryovers will be limited when there is an ownership change or an equity structure switch. An ownership change occurs when one or more shareholders increase their ownership by more than 50 percentage points.

See section 382 and regulations sections 1.382-1T and 1.382-2T for rules and other information.

Note: *The rule allowing financial institutions to carry their net operating loss back 10 years and forward 5 years is generally repealed for tax years beginning after 1986. For tax years beginning after 1986, most financial institutions may carry net operating losses back 3 years and forward 15 years. A special 10-year carryback provision applies to certain commercial banks that compute their deduction for bad debts using the specific charge-off method. See section 172(b)(1)(L) for more information.*

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

See section 172 for special rules, limitations, and definitions pertaining to net operating loss carrybacks and carryovers. Also see **Publication 536**, Net Operating Losses.

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.)

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

Taxpayers using erroneous valuation methods should file Form 3115 to change to a method permitted for Federal income tax purposes. For further details, see regulations section 1.446-1(e)(3) and Rev. Proc. 84-74, 1984-2 C.B. 738.

Section 263A Uniform Capitalization Rules.—The uniform capitalization rules of section 263A are discussed in general in the instructions for limitation on deduction on page 5. See those instructions before proceeding.

Corporations subject to section 263A will be required to make adjustments to the cost of goods sold computation on Schedule A. To the extent that section 263A costs were not included in inventory for prior years, corporations must revalue their beginning inventory. Corporations may elect one of the simplified methods of accounting for section 263A costs provided in the regulations for purposes of both revaluing their inventory and accounting for costs in subsequent years. (See the instructions for line 4a below.) If a simplified method is not elected, taxpayers are required to allocate additional costs to be included in inventory under section 263A with the same degree of specificity as was required of inventoriable costs under prior law.

Line 1.—Beginning inventory for tax years beginning after 1986 must be revalued as if the section 263A rules had been in effect for all prior periods. Enter the revalued beginning inventory on line 1. An adjustment to income is required by section 481. The amount of the adjustment should appear on line 10, page 3 and be identified as an adjustment required by section 263A. If more than 1 item is included on line 10, attach a separate schedule identifying the section 263A adjustment and other items included on line 10. The section 481 adjustment is taken into account over a period not to exceed 4 years. In addition, since the application of section 263A is considered a change of accounting method, corporations are required to show a computation of the adjustment by attaching the November 1987 revision of Form 3115 to Form 1120F. See the regulations for more information on revaluing beginning inventory.

Line 4a.—An entry is required on this line only for corporations electing a simplified method of accounting. In the case of a taxpayer 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 taxpayer's method of accounting immediately prior to the effective date in regulations section 1.263A-1T but that are now required to be capitalized under section 263A. In the case of taxpayers 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 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 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

(Line references are to the lines in Schedule C.)

Column (a)

Line 1. Enter dividends received from domestic corporations subject to income tax and the deduction under section 243(a)(1) and certain dividends received from Federal Home Loan Banks (section 246(a)(2)). For dividends received from a regulated investment company, see section 854 for the amount subject to the section 243(a) deduction.

Include on this line taxable distributions received from an IC-DISC or former DISC that are designated as being eligible for the section 243(a) dividends-received deduction.

So-called dividends or earnings received from mutual savings banks, etc., are really interest. Do not treat them as dividends.

Do not enter on this line any dividends received on "debt-financed" stock acquired after July 18, 1984. "Debt-financed" stock is stock that the corporation incurred a debt in acquiring.

Line 2. 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 section 243(a)(1) or 245(a).

Line 3. Enter dividends received on the preferred stock of a public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

Line 4. Enter the dividends from foreign corporations and dividends received from FSCs that are attributable to qualified carrying charges and interest. Do not enter dividends on this line from any dividends on debt-financed stock acquired after July 18, 1984.

Line 7. Enter all other dividends received from foreign corporations that do not qualify for a dividends-received deduction.

Line 8. If the corporation claims the foreign tax credit, the tax that is deemed paid under section 902(a) (relating to credit for a corporate stockholder in a foreign corporation) must be treated as a dividend received from the foreign corporation. (See section 906(b)(4).)

Line 9. Enter taxable distributions from an IC-DISC or former DISC that are designated as not being eligible for the dividends-received deduction. See sections 246(d), 995(b), and 996(a)(3).

Line 10. Include dividends (other than capital gain dividends and exempt interest dividends) received from regulated investment companies that do not qualify for the section 243(a) deduction; dividends from tax-exempt organizations; dividends (other than capital gain dividends) received from a real estate investment trust that, for the tax year of the trust in which the dividends are paid, qualifies under sections 856–860; dividends not eligible for a dividends-received deduction because of the holding period of the stock or an obligation to make corresponding payments with respect to similar stock; and any other taxable dividend income not properly reported above (including distributions under section 936(h)(4)).

Line 1, columns (b) and (c)

The dividends-received deduction percentage for dividends on domestic corporation stock that is not debt-financed is 80%.

A small business investment company operating under the Small Business Investment Act of 1958 may deduct 100% of dividends received from domestic corporations subject to income tax. (Section 243(a)(2)).

Line 2, columns (b) and (c)

The dividends-received deduction for dividends received on debt-financed stock is explained in section 246A. This section applies to dividends received from domestic and foreign corporations after July 18, 1984. The dividends-received deduction for dividends received on debt-financed stock is explained in section 246A.

Dividends-received on debt- financed stock are not entitled to the full 80% dividends-received deduction. The 80% deduction is reduced by a percentage that is related to the amount of debt incurred to acquire the stock. See section 246A.

Attach a schedule showing how you have computed the amount of allowable deduction for each share or block of shares that were "debt-financed."

Line 3, columns (b) and (c)

Dividends on certain preferred stock of public utilities are entitled to a dividends-received deduction percentage of 55.652% if they are received before July 1, 1987. For these dividends received after June 30, 1987, the dividends-received deduction percentage is 47.059%.

Multiply the dividends received in each period by the proper percentage to determine the correct dividends-received deduction.

Line 4, columns (b) and (c)

For tax years beginning after 1986, only corporations that have at least a 10% interest in a foreign corporation may claim a deduction for dividends received from a foreign corporation. The dividends-received deduction is only allowed on the U.S.-source portion of the post-1986 earnings. For more information, see section 245(a).

In addition, only domestic corporations can claim a dividends-received deduction for dividends received from a FSC.

Eligible for the 80% dividends-received deductions is the portion of a FSC's income that is attributable to qualified carrying charges and interest.

Column (c)

Exclusion of certain dividends.—In general, no dividends-received deduction will be allowed on any share of stock, (a) if the corporation held it 45 days or less (see section 246(c)(1)(A)), or (b) to the extent the corporation is under an obligation to make corresponding payments for substantially identical stock or other securities.

No dividends-received deduction is allowed under section 243 for a dividend from an IC–DISC or former DISC to the extent the dividend is paid out of the corporation's accumulated DISC income, previously taxed income, or is a deemed distribution under section 995(b)(1).

Line 5. Limitation on dividends-received deduction.—Line 5 may not be more than 80% of line 29, page 3. For this purpose compute line 29, page 3, without regard to any adjustment under section 1059 and any capital loss carryback to the tax year under section 1212(a)(1).

In a year in which a net operating loss occurs, this 80% limit does not apply even if the loss is created by the dividends-received deduction. (See sections 172(d) and 246(b).)

Line 6. Deduction for dividends paid on certain preferred stock of public utilities.—Section 247 allows public utilities a deduction of 30.435% (for dividends paid before July 1, 1987) OR 41.176% (for dividends paid after June 30, 1987) of the lesser of:

1. Dividends paid on their preferred stock during the tax year, or

2. Taxable income computed without regard to this deduction.

In a year in which a net operating loss occurs, compute the deduction without regard to section 247(a)(1)(B). (See section 172(d).)

Schedule J—Tax Computation

Foreign corporations should compute their tax liability on Schedules A and B of the Tax Computation Worksheet on page 11. Members of a controlled group, see instructions for lines 1 and 2 below before proceeding to page 11. If the corporation is a dealer in personal property and is using the installment method in 1987, see section 811(c)(7) of the Tax Reform Act of 1986 to figure the ratable portion of its tax attributable to section 453C to be included in line 3, Schedule J. Write in the space to the left of line 3, Schedule J, "Sec. 453C tax computation." Attach a schedule showing the computation.

Additional Tax

The Tax Computation Worksheet includes the computation of an additional 5% tax on the excess of a corporation's taxable income over a specified amount. The "specified amount" has been changed effective July 1, 1987 from $1,000,000 to $100,000. The maximum amount of the additional tax (previously $20,250) has been changed to $11,750.

Alternative Tax

If the tax year of the corporation begins before July 1, 1987, and the corporation has a net capital gain on line 10, Schedule D (Form 1120), the alternative tax computation may apply. To compute the alternative tax, complete Schedules A and B of the Tax Computation Worksheet on page 11 as instructed, and enter the amount from line 34, Schedule B on line 12, Part IV, Schedule D (Form 1120). Complete the rest of Part IV, and enter the lesser of the alternative tax or the tax figured by the regular method on line 3, Schedule J, Form 1120F.

Lines 1 and 2.—Members of a controlled group, as defined in section 1563, are entitled to only the amount in each taxable income bracket.

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

Equal Apportionment Plan. If no apportionment plan is adopted, the members of the controlled group must divide the amount in each taxable income bracket equally among themselves.

Unequal Apportionment Plan. Members of a controlled group may elect an unequal apportionment plan and divide the amount in each taxable income bracket as they wish. Any member of the controlled group may be entitled to all, some, or none of the amount in a taxable income bracket. (But the total amount for all members of the controlled group cannot be more than the total amount in any taxable income bracket.)

Line 3.—Enter on line 3 the amount of taxable income from line 31, page 3.

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, and provisions for figuring the credit. Attach a separate schedule showing the computation of the credit.

Line 4c. Orphan drug credit.—See section 28 and **Form 6765**, Credit for Increasing Research Activities (or for claiming the orphan drug credit).

Line 4d. General business credit.—See **Form 3800**, General Business Credit, for rules that apply when claiming this credit, which encompasses: the investment credit, **(Form 3468)**; jobs credit, **(Form 5884)**; alcohol fuel credit, **(Form 6478)**; the credit for increasing research activities **(Form 6765)**; and low income housing credit **(Form 8586)**.

Line 7. Tax from recomputing a prior year investment credit.—If property is disposed of or ceases to be qualified property before the end of the life-years category used in computing the regular or energy investment credit, there may be a recapture of the investment credit. (See **Form 4255**, Recapture of Investment Credit.)

Section III—Branch Profits Tax

For tax years beginning after 1986, 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." The dividend equivalent amount is the effectively connected earnings and profits of the foreign corporation 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 active 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 distribution treated as effectively connected with the conduct of a trade or business in the U.S. under section 921(d) or 926(b); 3. gain on the disposition of an interest in a U.S. corporation that is a U.S. real property interest under section 897(c)(1)(A)(ii); and 4. income of a related person insurance company which a taxpayer elects to treat as effectively connected with the conduct of a trade or business in the U.S. under section 953(c)(3)(C).

Adjustments

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 previous increases in U.S. net equity that decreased effectively connected earnings and profits, to the extent not previously taken into account.

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. 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 increase in U.S. net equity during year 1).

Example 3.—In year 3, the foreign corporation has $100 of effectively connected earnings and profits. It sells $30 of its U.S. assets, and its U.S. liabilities increase by $10. The foreign corporation's U.S. net equity at the end of year 3 has decreased by $40 to $940. The foreign corporation's dividend equivalent amount is $100. The decrease of $40 in U.S. net equity does not increase the dividend equivalent amount since the $40 increase in U.S. net equity in year 1 has already been taken into account in year 2.

Part I

Line 6.—If this tax year is not the corporation's first tax year beginning in 1987 and the amount on line 6 is less than zero, enter the amount of decrease in U.S. net equity that does not exceed the amount of increase in U.S. net equity in the prior tax years beginning in 1987 that decreased effectively connected earnings and profits to the extent not previously taken into account.

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. assets are money and the adjusted basis (for computing earnings and profits) of property of the foreign corporation treated as being connected with the conduct of a trade or business in the U.S.
- U.S. liabilities are liabilities that are treated as being connected with the conduct of a trade or business in the U.S.

Coordination with Withholding Tax

In general, if a foreign corporation is subject to the branch profits tax in a tax year, it will not also be subject to withholding at source (sections 871(a), 881(a), 1441, or 1442) on dividends paid by it during the tax year.

Branch-Level Interest Tax

When a branch makes a payment of interest, the payment will be treated as if it were paid by a domestic corporation. The foreign corporation is required to withhold on payments made by the branch to foreign persons and to file Form 1042S with respect to the payments unless the payments are exempt from withholding under the Code.

In addition, if the amount of interest paid by the branch 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

An income tax treaty between the U.S. and a foreign country will not exempt a foreign corporation from or reduce the rate of, the branch profits tax unless: (1) the foreign corporation is a qualified resident of that country, or (2) the treaty permits a withholding tax on dividends paid by the foreign corporation that are described in section 861(a)(2)(B).

An income tax treaty between the U.S. and a foreign country will not reduce the rate of the branch level interest tax unless a foreign corporation is a qualified resident of that country. See section 884(e)(4).

A foreign corporation is a qualified resident of a foreign country if: (1) at least 50% of its stock (by value) is owned by individuals who are residents of that country or who are U.S citizens or residents, and 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 the U.S.

Stock owned by a corporation, partnership, trust, or estate is treated as proportionately owned by the individual owners of such entity.

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 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 on dividends paid by a wholly-owned domestic corporation to the foreign corporation.

A corporation which is a resident of a foreign country will be considered a qualified resident of the foreign country if the stock of the corporation is primarily and regularly traded on an established securities market in the foreign country or if the foreign corporation is wholly owned (directly or indirectly) by another foreign corporation organized in the same foreign country whose stock is traded in the same manner described above.

Additional Information

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.

Corporations with tax years beginning after June 30, 1987, should complete Schedule B only.

Schedule A Tax Computation for Period Before July 1, 1987.

1	Taxable income (line 31, Section II, Form 1120F)	
2	Net capital gain (If the alternative tax applies, enter net capital gain from line 10, Schedule D (Form 1120). If the alternative tax does not apply, enter zero. See instructions.)	
3	Subtract line 2 from line 1	
4	Enter the lesser of line 3 or $25,000 (members of a controlled group, see instructions)	
5	Subtract line 4 from line 3	
6	Enter the lesser of line 5 or $25,000 (members of a controlled group, see instructions)	
7	Subtract line 6 from line 5	
8	Enter the lesser of line 7 or $25,000 (members of a controlled group, see instructions)	
9	Subtract line 8 from line 7	
10	Enter the lesser of line 9 or $25,000 (members of a controlled group, see instructions)	
11	Subract line 10 from line 9	
12	Multiply line 4 times 15%	
13	Multiply line 6 times 18%	
14	Multiply line 8 times 30%	
15	Multiply line 10 times 40%	
16	Multiply line 11 times 46%	
17	Additional tax. If line 3 is more than $1,000,000, enter the lesser of (a) 5% of the excess of line 3 over $1,000,000 or (b) $20,250 (members of a controlled group, see instructions)	
18	Tax liability before credits. Add amounts on lines 12 through 17	

Schedule B Tax Computation for Period After June 30, 1987.

19	Taxable income (line 31, Section II, Form 1120F)	
20	Net capital gain (If the alternative tax applies, enter the net capital gain from line 10, Schedule D (Form 1120). If the alternative tax does not apply, enter zero. See instructions.)	
21	Subtract line 20 from line 19	
22	Enter the smaller of line 21 or $50,000 (members of a controlled group, see instructions)	
23	Subtract line 22 from line 21	
24	Enter the smaller of line 23 or $25,000 (members of a controlled group, see instructions)	
25	Subtract line 24 from line 23	
26	Multiply line 22 by 15%	
27	Multiply line 24 by 25%	
28	Multiply line 25 by 34%	
29	Additional tax. If line 21 is more than $100,000, enter the lesser of: (a) 5% of the excess of line 21 over $100,000 or (b) $11,750 (members of a controlled group, see instructions)	
30	Add lines 26 through 29. (If only Schedule B was completed, skip lines 31 through 34. Enter the amount from line 30 on line 3, Schedule J.)	
31	Enter amount from line 18, Schedule A	
32	Line 31 × $\frac{\text{Number of days in tax year before July 1, 1987}}{\text{Number of days in tax year}}$	
33	Line 30 × $\frac{\text{Number of days in tax year after June 30, 1987}}{\text{Number of days in tax year}}$	
34	Tax liability before credits. Add amounts on lines 32 and 33. Enter here and on line 3, Schedule J. If alternative tax applies, enter on line 12, Schedule D (Form 1120)	

Instructions for Schedules A and B, Tax Computation Worksheet

Lines 2 and 20.—In general, the alternative tax is the sum of: (a) a tax computed on taxable income reduced by the net capital gain using the applicable tax brackets and tax rates, and (b) a tax of 34% of the net capital gain.

For tax years beginning after June 30, 1987, the alternative tax computation does not apply. If a corporation's tax year begins before July 1, 1987, and the corporation has a net capital gain, both computations (the regular tax computation and the alternative tax computation) should be made to determine which results in the lower tax.

The alternative tax is computed using Schedules A and B of the tax computation worksheet and Part IV of Schedule D (Form 1120). If the alternative tax is less than the regular tax computed on taxable income using the applicable tax brackets and tax rates, then the corporation may enter the alternative tax from Schedule D (Form 1120) on line 3, Schedule J, and check the box for alternative tax.

Lines 4, 6, 8, 10, 22 and 24.—Members of a controlled group must enter their portion of each taxable income bracket. See the instructions for Schedule J for rules regarding how controlled groups (as defined in section 1563) may divide these amounts.

Line 17

If the total taxable income of the controlled group is more than $1,000,000, each member of a controlled group should enter its portion of the additional tax on line 17. See the instructions for Schedule J for rules on allocating the additional tax among members of a controlled group.

Line 29

If the total taxable income of the controlled group is more than $100,000, each other member should enter its portion of the additional tax on line 29. See section 1561 for rules on allocating the additional tax among members of a controlled group.

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 M, the code number for the specific industry group from which the largest percentage of "total receipts" is derived. "Total receipts" means gross receipts (line 1a, page 3) plus all other income (lines 4 through 10, page 3).

Also, on page 5, under M, state the principal business activity and principal product or service that account for the largest percentage of total receipts. For example, if the principal business activity is "Grain mill products," the principal product or service may be "Cereal preparations."

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

Agriculture, Forestry, and Fishing

Code

- 0400 Agricultural production.
- 0600 Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping.

Mining

Metal mining:

- 1010 Iron ores.
- 1070 Copper, lead and zinc, gold and silver ores.
- 1098 Other metal mining.
- 1150 Coal mining.

Oil and gas extraction:

- 1330 Crude petroleum, natural gas, and natural gas liquids.
- 1380 Oil and gas field services.

Nonmetallic minerals, except fuels:

- 1430 Dimension, crushed and broken stone; sand and gravel.
- 1498 Other nonmetallic minerals, except fuels.

Construction

General building contractors and operative builders:

- 1510 General building contractors.
- 1531 Operative builders.
- **1600 Heavy construction contractors.**

Special trade contractors:

- 1711 Plumbing, heating, and air conditioning.
- 1731 Electrical work.
- 1798 Other special trade contractors.

Manufacturing

Food and kindred products:

- 2010 Meat products.
- 2020 Dairy products.
- 2030 Preserved fruits and vegetables.
- 2040 Grain mill products.
- 2050 Bakery products.
- 2060 Sugar and confectionery products.
- 2081 Malt liquors and malt.
- 2088 Alcoholic beverages, except malt liquors and malt.
- 2089 Bottled soft drinks, and flavorings.
- 2096 Other food and kindred products.
- **2100 Tobacco manufacturers.**

Textile mill products:

- 2228 Weaving mills and textile finishing.
- 2250 Knitting mills.
- 2298 Other textile mill products.

Apparel and other textile products:

- 2315 Men's and boys' clothing.
- 2345 Women's and children's clothing.
- 2388 Other apparel and accessories.
- 2390 Miscellaneous fabricated textile products.

Lumber and wood products:

- 2415 Logging, sawmills, and planing mills.
- 2430 Millwork, plywood, and related products.
- 2498 Other wood products, including wood buildings and mobile homes.
- **2500 Furniture and fixtures.**

Paper and allied products:

- 2625 Pulp, paper, and board mills.
- 2699 Other paper products.

Printing and publishing:

- 2710 Newspapers.
- 2720 Periodicals.
- 2735 Books, greeting cards, and miscellaneous publishing.
- 2799 Commercial and other printing, and printing trade services.

Code

Chemicals and allied products:

- 2815 Industrial chemicals, plastics materials and synthetics.
- 2830 Drugs.
- 2840 Soap, cleaners, and toilet goods.
- 2850 Paints and allied products.
- 2898 Agricultural and other chemical products.

Petroleum refining and related industries (including those integrated with extraction):

- 2910 Petroleum refining (including integrated).
- 2998 Other petroleum and coal products.

Rubber and misc. plastics products:

- 3050 Rubber products: plastics footwear, hose and belting.
- 3070 Misc. plastics products.

Leather and leather products:

- 3140 Footwear, except rubber.
- 3198 Other leather and leather products.

Stone, clay, and glass products:

- 3225 Glass products.
- 3240 Cement, hydraulic.
- 3270 Concrete, gypsum, and plaster products.
- 3298 Other nonmetallic mineral products.

Primary metal industries:

- 3370 Ferrous metal industries; misc. primary metal products.
- 3380 Nonferrous metal industries.

Fabricated metal products:

- 3410 Metal cans and shipping containers.
- 3428 Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products.
- 3430 Plumbing and heating, except electric and warm air.
- 3440 Fabricated structural metal products.
- 3460 Metal forgings and stampings.
- 3470 Coating, engraving, and allied services.
- 3480 Ordnance and accessories, except vehicles and guided missiles.
- 3490 Misc. fabricated metal products.

Machinery, except electrical:

- 3520 Farm machinery.
- 3530 Construction and related machinery.
- 3540 Metalworking machinery.
- 3550 Special industry machinery.
- 3560 General industrial machinery.
- 3570 Office, computing, and accounting machines.
- 3598 Other machinery except electrical.

Electrical and electronic equipment:

- 3630 Household appliances.
- 3665 Radio, television, and communication equipment.
- 3670 Electronic components and accessories.
- 3698 Other electrical equipment.
- **3710 Motor vehicles and equipment**

Transportation equipment, except motor vehicles:

- 3725 Aircraft, guided missiles and parts.
- 3730 Ship and boat building and repairing
- 3798 Other transportation equipment, except motor vehicles.

Instruments and related products:

- 3815 Scientific instruments and measuring devices; watches and clocks.
- 3845 Optical, medical, and ophthalmic goods.
- 3860 Photographic equipment and supplies.
- **3998 Other manufacturing products.**

Transportation and Public Utilities

Code

Transportation:

- 4000 Railroad transportation.
- 4100 Local and interurban passenger transit.
- 4200 Trucking and warehousing.
- 4400 Water transportation.
- 4500 Transportation by air.
- 4600 Pipe lines, except natural gas.
- 4700 Miscellaneous transportation services.

Communication:

- 4825 Telephone, telegraph, and other communication services.
- 4830 Radio and television broadcasting.

Electric, gas, and sanitary services:

- 4910 Electric services.
- 4920 Gas production and distribution.
- 4930 Combination utility services.
- 4990 Water supply and other sanitary services.

Wholesale Trade

Durable:

- 5008 Machinery, equipment, and supplies.
- 5010 Motor vehicles and automotive equipment.
- 5020 Furniture and home furnishings.
- 5030 Lumber and construction materials.
- 5040 Sporting, recreational, photographic, and hobby goods, toys and supplies.
- 5050 Metals and minerals, except petroleum and scrap.
- 5060 Electrical goods.
- 5070 Hardware, plumbing and heating equipment and supplies.
- 5098 Other durable goods.

Nondurable:

- 5110 Paper and paper products.
- 5129 Drugs, drug proprietaries, and druggists' sundries.
- 5130 Apparel, piece goods, and notions.
- 5140 Groceries and related products.
- 5150 Farm-product raw materials.
- 5160 Chemicals and allied products.
- 5170 Petroleum and petroleum products.
- 5180 Alcoholic beverages.
- 5190 Misc. nondurable goods.

Retail Trade

Building materials, garden supplies, and mobile home dealers:

- 5220 Building materials dealers.
- 5251 Hardware stores.
- 5265 Garden supplies and mobile home dealers.
- **5300 General merchandise stores.**

Food stores:

- 5410 Grocery stores.
- 5490 Other food stores.

Automotive dealers and service stations:

- 5515 Motor vehicle dealers.
- 5541 Gasoline service stations.
- 5598 Other automotive dealers.
- **5600 Apparel and accessory stores.**
- **5700 Furniture and home furnishings stores.**
- **5800 Eating and drinking places.**

Misc. retail stores:

- 5912 Drug stores and proprietary stores.
- 5921 Liquor stores.
- 5995 Other retail stores.

Finance, Insurance, and Real Estate

Code

Banking:

- 6030 Mutual savings banks.
- 6060 Bank holding companies.
- 6090 Banks, except mutual savings banks and bank holding companies.

Credit agencies other than banks:

- 6120 Savings and loan associations.
- 6140 Personal credit institutions.
- 6150 Business credit institutions.
- 6199 Other credit agencies.

Security, commodity brokers and services:

- 6210 Security brokers, dealers, and flotation companies.
- 6299 Commodity contracts brokers and dealers; security and commodity exchanges; and allied services.

Insurance:

- 6355 Life insurance
- 6356 Mutual insurance, except life or marine and certain fire or flood insurance companies.
- 6359 Other insurance companies.
- 6411 Insurance agents, brokers, and service.

Real estate:

- 6511 Real estate operators and lessors of buildings.
- 6516 Lessors of mining, oil, and similar property.
- 6518 Lessors of railroad property and other real property.
- 6530 Condominium management and cooperative housing associations.
- 6550 Subdividers and developers.
- 6599 Other real estate.

Holding and other investment companies, except bank holding companies:

- 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.
- 8090 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 183-197-1987

Form **1120L**

Department of the Treasury
Internal Revenue Service

U.S. Life Insurance Company Income Tax Return

For calendar 1987, or tax year beginning ...., 1987, and ending ...., 19....

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

OMB No. 1545-0128

1987

Please type or print

Name	A Employer identification number
Number and street	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) . . . . ▶ ☐
If checked and your tax year includes June 30, 1987, complete 5a and 5b; otherwise complete only 5b.
a Enter your share of the $25,000 amount in each taxable income bracket:
(i) $.............. (ii) $.............. (iii) $.............. (iv) $..............
b Enter your share of tax bracket amounts for the period after June 30, 1987:
(i) $.............. (ii) $..............

6	Income tax (see instructions to figure the tax). If you use the alternative tax, check this box ☐ and enter the tax from your attached schedule		6
7a	Foreign tax credit (attach Form 1118)	7a	
b	Other credits (see instructions)	7b	
c	General business credit. Check if from: ☐ Form 3800 ☐ Form 3468 ☐ Form 5884 ☐ Form 6478 ☐ Form 6765 ☐ Form 8586	7c	
8	Total credits (add lines 7a through 7c)		8
9	Balance of tax (subtract line 8 from line 6)		9
10	Foreign corporations—tax on income not connected with U.S. business (see *Tax Computation Instructions*)		10
11	Increase in tax from refiguring an earlier year investment credit (attach Form 4255)		11
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 1986 allowed as a credit	14a	
b	1987 estimated tax payments	14b	
c	Less refund of 1987 estimated tax applied for on Form 4466	14c ( )	
d	Tax deposited with Form 7004	14d	
e	Credit from regulated investment companies (attach Form 2439)	14e	
f	Federal tax on gasoline and special fuels (attach Form 4136)	14f	
g	U.S. income tax paid or withheld at source	14g	
h	Other payments (see instructions)	14h	
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 1988 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 ▶	

Form **1120L** (1987)

Form 1120L (1987) Page **2**

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 reimbursable by taxpayer		
14	Other deductions (attach schedule—see instructions)		
15	Dividends-received deduction (Schedule G, column (c), line 12—see instructions for limitation and attach schedule if applicable), enter here and on Schedule M, line 2c		
16	Operations loss deduction (attach schedule)		
17	Total deductions (add lines 8 through 16)		
18	Gain or (loss) from operations (subtract line 17 from line 7), enter here and on Schedule H, line 1		
19	Small life insurance company deduction (Schedule H, line 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 12)	
3	Gross rents	
4	Gross royalties	
5	Leases, terminations, etc.	
6	Excess of net short-term capital gain over net long-term capital loss (line 9, Schedule D (Form 1120))	
7	Gross income from trade or business other than insurance (attach schedule)	
8	Investment income (add lines 1 through 7), enter here and on Schedule A, line 4	
9	Tax-exempt interest, enter here and on Schedule K, line 5 and on Schedule M, line 2d	
10	Add lines 8 and 9	
11	100% qualifying dividends (see instructions)	
12	Gross investment income (line 10 less line 11), enter here and on Schedule K, line 1	

SCHEDULE E **Policyholder Dividends (Section 808)**

1	Amounts paid or accrued	
2	Excess interest	
3	Premium adjustments	
4	Experience-rated refunds	
5	Total (add lines 1 through 4)	
6	Differential 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		
2	Nonadmitted financial assets (attach schedule)		
3	Excess of statutory reserves over tax reserves on section 807(c) items		
4	Deficiency reserves		
5	Mandatory securities valuation reserve		
6	Other voluntary reserves		
7	50% of the amount of any provision for policyholder dividends payable in the next tax year		
8a	Subtotal (add lines 1 through 7)		
b	Adjustment for equity allocable to noncontiguous Western Hemisphere countries and other adjustments		
c	Combine line 8a and line 8b, both columns		
9	Total of line 8c, columns (a) and (b)		
10	Tentative average equity base—Enter 50% of line 9		
11	Other adjustments		
12	Total of lines 10 and 11		
13	High surplus adjustment (section 809 (i))—attach schedule		
14	Average equity base (line 12 less line 13)		
15	Differential earnings amount (line 14 times the differential earnings rate), enter here and on 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	Certain domestic corporations		.80	
2	Certain debt-financed stock		see instructions	
3	Certain public utility corporations		see instructions	
4	Certain foreign corporations		see instructions	
5	Certain foreign corporations		1.00	
6	Certain affiliated company dividends		1.00	
7	Gross dividends-received deduction (add lines 1 through 6 of column (c))			
8	Company share percentage (Schedule K, line 25)			
9	Prorated amount (line 7 times line 8)			
	Dividends not subject to proration			
10	Affiliated company dividends		see instructions	
11	Other corporate dividends			
12	Total (add lines 1 through 11 in column (a) and lines 9 and 10 in column (c)). (Reduce the deduction as provided in section 805(a)(4)(D)(ii).)—Enter the amount from line 12, column (a), on Schedule C, line 2, and enter the amount from line 12, column (c), on Schedule A, line 15			

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)		
2a	Less: noninsurance income		
b	Plus: noninsurance deductions		
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	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 6 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** (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)		
2	Policy interest (Schedule L, line 6)		
3	Line 1 less line 2		
4	Life insurance company gross income		
5	Tax-exempt interest (Schedule C, line 9)		
6	Add lines 4 and 5		
7	Increase in reserves (Schedule B, line 8) (If a decrease in reserves, enter "0".)		
8	Line 6 less line 7		
9	Investment income ratio (line 3 divided by line 8)		
10	Deductible policyholder dividends (Schedule E, line 7)		
11	Deductible excess interest (Schedule L, line 2)		
12	Deductible dividends on employee pension funds		
13	Deductible dividends on deferred annuities		
14	Deductible premium and mortality charges for contracts paying excess interest		
15	Add lines 11 through 14		
16	Line 10 less line 15		
17	Investment portion of dividends (line 9 times line 16)		
18	Policy interest (Schedule L, line 6)		
19	Policyholder share amount (add lines 17 and 18)		

SCHEDULE K **Part II**

20	Gross investment income (line 1)	
21	Net investment income (see instructions)	
22	Policyholder share amount (line 19)	
23	Company share of net investment income (line 21 less line 22)	
24	Total share percentage	100%
25	Company share percentage (line 23 divided by line 21). Enter here and on Schedule G, line 8	
26	Policyholders' share percentage (line 24 less line 25)	

SCHEDULE L Policy Interest (Section 812(b)(2))

1 Required interest on reserves under sections 807(c)(1), (3), (4), (5), and (6)—attach schedule
2 Deductible excess interest (Schedule E, line 2 times Schedule E, line 9). Enter here and on Schedule K, line 11
3 Deductible amounts credited to employee pension funds
4 Deductible amounts credited to deferred annuities
5 Deductible interest on amounts left on deposit (section 812(b)(2)(D))
6 Total policy interest (add lines 1 through 5). Enter here and on 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)
b Small life insurance company deduction allowed by section 806(a) (Schedule A, line 19)
c Dividends-received deduction (Schedule A, line 15)
d Tax-exempt interest (Schedule C, line 9)
3 Total (add lines 1c through 2d)
4 Tax liability 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	
2	Stocks	
3	Proportionate share of partnership and trust assets	
4	Other assets (attach schedule)	
5	Total assets of controlled groups	
6	Total (add lines 1 through 5)	

SCHEDULE O Total Assets and Total Insurance Liabilities—*Continued*

Part II—Total Insurance Liabilities (Section 813(a)(4)(B))

Item	(a) Section	(b) Description of item	(c) Liabilities at close of tax year
1	816(c)(1)	Reserve for life policies and contracts	
2	816(c)(2)	Reserve for accident and health policies	
3	807(c)(3)	Supplementary contracts without life contingencies	
4	816(c)(2)	Policy and contract claims, life	
5	816(c)(3)	Policy and contract claims, accident and health	
6	807(c)(4)	Policyholders' dividend and coupon accumulations	
7	807(c)(5)	Premiums and annuity considerations received in advance Less: Discount	
8	807(c)(5)	Liability for premium and other deposit funds	
9		Miscellaneous insurance liabilities, not included above:	
	807(c)(6)	a Special contingency reserves for group life, health and accident insurance	
	807(c)(3)	b Amounts held at interest under insurance, annuity or deposit administration contracts, or pension trust side funds	
	807(c)(3)	c Funds held to provide for future conversion of policies or contracts	
	807(c)(3)	d Amounts held pending issue of contracts supplementary to insurance or annuity contracts	
	816(c)(3)	e Other insurance liability or adjustments:	
		(i) Reserves for mortality fluctuations	
		(ii) Liability for insurance or annuity benefits for employees and agents	
	816(c)(3)	f Other items (please describe):	
10		Total	

SCHEDULE P Limitation on Noninsurance Losses (Section 806(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, omit 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
9 Limitation on noninsurance losses (line 5 less line 8)—Enter here and on page 1, line 2

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 noncancellable life, health or accident policies not included in life insurance reserves is to your total reserves (section 816(c)) ____________ %. Attach a schedule of your computation.		
I Do you have any variable annuity contracts outstanding?		
J (1) Did you, at the end of the tax year, own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).)		
If "Yes," attach a schedule showing: (*a*) Name, address, and identification number; (*b*) Percentage owned; and (*c*) Taxable income or (loss) before NOL or special deductions from line 28, page 1, Form 1120 (or line 24, page 1, Form 1120-A) of that corporation for the tax year ending with or within your tax year.		
(2) Did any individual, partnership, corporation, estate, or trust, at the end of the tax year, own, directly or indirectly, 50% or more of your voting stock? (For rules of attribution, see section 267(c).)		
If "Yes," attach a schedule showing: (*a*) Name, address, and identification number; (*b*) Percentage owned; and (*c*) If the owner of that voting stock was a person other than a U.S. person (see instructions), check "Yes" and show owner's country. ▶ ____________		

Note: *If question J(2)(c) is checked "Yes," the corporation may have to file Form 5472.*

	Yes	No
K Did you claim a deduction for:		
(1) Entertainment facility (boat, resort, ranch, etc.)?		
(2) Living accommodations (except for employees on business)?		
(3) Employees attending conventions or meetings outside the North American area? (See section 274(h).)		
(4) Employees' families at conventions or meetings?		
If "Yes," were any of these conventions or meetings outside the North American area? (See section 274(h).)		
(5) Employee or family vacations not reported on Form W-2?		
L Were you a U.S. shareholder of any controlled foreign corporation? (See sections 951 and 957, and the instructions.) If "Yes," attach Form 5471 for each corporation.		
M At any time during the tax year, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See the instructions for exceptions and filing requirements for Form TD F 90-22.1.) If "Yes," write the name of the foreign country. ▶ ____________		
N Were you ever the grantor of or transferor to a foreign trust which existed during the current tax year, whether or not you have any beneficial interest in it? (See instructions.) If "Yes," you may be required to file Forms 926, 3520, or 3520-A.		
O During the tax year did you maintain any of your accounting/tax records on a computerized system?		
P Check method of accounting: (1) ☐ Accrual (2) ☐ Other (Specify) ____________		
Q Enter the amount of tax-exempt interest received or accrued during the tax year $ ____________		
R Have you elected to use your own payout pattern for discounting unpaid losses and unpaid loss adjustment expenses?		
S Do you discount any of the loss reserves shown on your annual statement?		
T (1) Enter the total unpaid losses shown on your annual statement: (a) for the current year: $ ____________ (b) for the previous year: $ ____________		
(2) Enter the total unpaid loss adjustment expenses shown on your annual statement: (a) for the current year: $ ____________ (b) for the previous year: $ ____________		

SCHEDULE R **Reconciliation** (See instructions.)

SCHEDULE S **Compensation of Officers** (See instructions.)

1987 Instructions for Form 1120L

Department of the Treasury
Internal Revenue Service

U.S. Life Insurance Company Income Tax Return

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

Changes You Should Note

The Tax Reform Act of 1986 made several changes to the way corporations compute their taxable income and their tax liability. Many of these changes are contained in the instructions. For information on other changes, see **Publication 921**, Explanation of the Tax Reform Act of 1986 for Business.

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

General Instructions

Purpose of Form.— Form 1120L 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 noncancellable 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 noncancellable.

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 noncancellable 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 1987 return for calendar year 1987 and fiscal years that begin in 1987 and end in 1988. For a fiscal year, fill in the tax year space at the top of the form.

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

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 corporation 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 **Publication 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.

In order for us to better process your deposits, 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 **Publication 583**, Information for Business Taxpayers.

4. Estimated Tax.—A corporation must make estimated tax payments if it can expect its estimated tax (income tax minus credits) to be $40 or more. Use **Form 1120-W**, Corporation Estimated Tax, as a worksheet to compute estimated tax. Use the payment coupons (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, 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 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. See section 6655.

If the corporation underpaid estimated tax, attach **Form 2220**, Underpayment of Estimated Tax by Corporations, to show either how the penalty was figured or the exceptions which apply. Corporations using the annualization exception may be able to avoid penalties under section 6655 for installment payments due before July 1, 1987, by using the safe harbor provided in Regulations section 1.6655-2T. Also, be sure to check the box on line 16, Form 1120L. If the corporation owes a penalty, enter the amount of the penalty on this 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, and R. 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 **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) totalling $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 those 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 new penalty for overstating the pension plan deduction for returns filed after October 22, 1986. See new section 6659A.

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

Form 5500-C or 5500-R.—Complete the applicable form for each plan with fewer than 100 participants.

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

3. 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 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 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 paragraph (1); 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,** Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions, 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).

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 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 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, then 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.

Note: *Section 807(c), as amended by the Tax Reform Act of 1986, 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 new 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 tax 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)).

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 Schedule.

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. For certain contributions of long-term capital gain property made in tax years beginning after 1986, 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, 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 new uniform capitalization rules of section 263A. The new 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.

The uniform capitalization rules are generally effective for costs and interest paid or incurred after December 31, 1986. With respect to inventory, the uniform capitalization rules apply to tax years beginning after 1986. Transitional rules are contained in section 803 of the Tax Reform Act of 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. 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 Regulations section 1.263A-1T.

Meals and entertainment.—For tax years after 1986, 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 will be 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. This limitation is fully effective in 1989. In 1987, ⅓ of the amount that would otherwise be disallowed under the skybox rule is disallowed. 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 Notice 87-23, 1987-9 I.R.B. 6, for more information on meals, entertainment, and travel expense.

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).

Line 1. Life insurance reserves.—For rules dealing with the method of computing life insurance reserves, see sections 807(d) and (e).

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.

As a rule, the amount of the undiscounted unpaid losses means the unpaid losses and unpaid loss adjustment expenses shown in the annual statement. However, 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 1987 and earlier years is 7.20%. The applicable loss payment patterns have been published in Revenue Ruling 87-34, 1987-17 C.B. 4. 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 R in Schedule Q, Additional Information Required. For more information regarding this election, see section 846(e).

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.

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.

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. The Service publishes both tentative and final differential rates as this information is developed. For 1986, the tentative differential earnings rate was 10.837% and the final differential earnings rate was 10.539%. Both the tentative recomputed differential earnings rate for 1986 and the tentative differential earnings rate for 1987 will be published in early 1988.

To compute the differential earnings amount for 1987, multiply the average equity base (line 14, Schedule F) by the differential earnings rate for 1987. 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) that were received from 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 on debt-financed stock (acquired after July 18, 1984) that were 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 3, column (a).—Enter dividends received on the preferred stock of a public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

Line 4, column (a).—Enter dividends that are received from foreign corporations and that qualify for the deduction under section 245(a). Also enter on line 4, column (a), dividends received from a Foreign Sales Corporation (FSC) that are attributable to qualified interest and carrying charges and that qualify for the deduction provided in section 245(c)(1)(B).

Line 5, 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 5, 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 6, 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 2, columns (b) and (c).—Dividends received on debt-financed stock are not entitled to the full 80% dividends-received deduction. Instead, the 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 3, columns (b) and (c).—For dividends received on certain preferred stock of public utilities after December 31, 1986, but before July 1, 1987, the dividends-received deduction percentage is 55.652%. For such dividends received after June 30, 1987, the dividends-received deduction percentage is 47.059%.

Multiply the dividends received in each period by the proper percentage and enter the total in line 3, column (c).

Line 4, columns (b) and (c).—The dividends-received deduction percentages for line 4 are: (1) 80% for dividends from foreign corporations for which the deduction is allowed under section 245(a); and (2) 85% for dividends from certain FSCs for which the deduction is allowed under section 245(c)(1)(B).

Note: *If pending technical corrections legislation is passed, the 85% deduction allowed under section 245(c)(1)(B) for dividends from certain FSCs will be reduced to 80%.*

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, column (c).—The total dividends-received deduction allowed by sections 243(a)(1), 244(a), and 245 on line 7, column (c), may not be more than 80% of line 2, page 1, plus line 7, Schedule A, less the total of lines 8 through 14 of Schedule A (*i.e.*, 80% of life insurance company taxable income as modified by section 806(b)(3)(C) and computed without regard to: the small life insurance company deduction under section 806; the operations loss deduction under section 810; the dividends-received deductions under sections 243(a)(1), 244(a), and 245; and any capital loss carryback to the current taxable year under section 1212(a)(1)).

In a year in which there is a loss from operations, the 80% limitation does not apply, even if the loss is created by the dividends-received deduction. For more information, see sections 810(c)(2) and 246(b).

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.*

Line 10, column (a).—Enter dividends that qualify for the 100% dividends-received deduction and that are not reported on lines 5 or 6 because they were not distributed out of tax-exempt interest or out of dividends that do not qualify as 100% dividends, or because they were paid by a life insurance company.

Note: *Certain dividends received by a foreign corporation are not subject to proration. Attach a schedule showing your computation.*

Line 11, column (a).—Enter the total of other dividends received. Attach a schedule showing separately:

- Foreign dividends not reportable on lines 4, 5, or 10. 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, 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).

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.

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 in order 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.

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 what adjustments have been 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 do the following: (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; (4) enter the result of step 3 on line 2b.

Line 2c.—To compute the amount to be entered on line 2c, you must do the following: (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; (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 813(a)(4)(B))

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 813(a).

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 T 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 M. 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, 1988, 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 Q. —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 worksheets on page 12. Members of a controlled group should see the instructions below for lines 5a and 5b before proceeding to page 12.

Additional Tax

The worksheets on page 12 include the computation of an additional 5% tax on the excess of a corporation's taxable income over a specified amount. The specified amount was changed effective July 1, 1987, from $1,000,000 to $100,000. The limitation on the additional tax (previously $20,250) has been changed to $11,750, effective July 1, 1987.

Alternative Tax

If the tax year of the corporation begins before July 1, 1987, and the corporation has a net capital gain on line 10, Schedule D (Form 1120), the alternative tax computation may apply. To compute the alternative tax, complete Schedules A and B of the tax computation worksheets on page 12, as instructed, and enter the amount from line 34, Schedule B, on line 12, Part IV, Schedule D (Form 1120). Complete the rest of Part IV, Schedule D (Form 1120), and enter the lesser of the alternative tax or the tax figured by the regular method on line 6, page 1, of Form 1120L.

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.

Lines 5a and 5b.—Members of a controlled group, as defined in section 1563, with tax years that begin before July 1, 1987, are entitled to only one $25,000 amount in each taxable income bracket on line 5a. Members of a controlled group that have tax years that end after June 30, 1987, are entitled to one $50,000 amount and one $25,000 amount (in that order) in each taxable income bracket on line 5b.

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, both corporations with tax years which include July 1, 1987. They do not elect an apportionment plan. Therefore, corporation A is entitled to $12,500 (one-half of $25,000) in each taxable income bracket on line 5a. Corporation B is also entitled to $12,500 in each taxable income bracket. Each income bracket on line 5b is also equally divided.

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.)

Note: *Members of a controlled group of corporations are treated as one corporation for purposes of figuring the applicability of the additional 5% tax. If the additional tax applies, each member of the group must attach to its tax return a schedule that shows the taxable income of the entire group, as well as how its portion of the additional tax was figured.*

Line 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 (section 936). 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 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.—A new low-income housing credit is part of the general business credit for expenditures made after 1986. See section 42 and **Form 8586,** Low-Income Housing Credit.

Form 3800, General business credit. Enter on 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 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.

When the surplus a foreign life insurance company holds in the U.S. is less than a specified minimum, section 813 requires an adjustment. When this minimum surplus adjustment applies, the tax imposed by section 881 is reduced under section 813(a)(5). Attach a statement showing how you figured the reduction of section 881 tax. Enter the net tax imposed by section 881 on line 10, page 1.

Line 11. Tax from recomputing prior-year investment credit.—If property is disposed of or ceases to be qualified property before the end of the life-years used in computing the regular or energy investment credit, there may be a recapture of the credit. See **Form 4255,** Recapture of Investment Credit.

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.

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 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."

Line 16. Penalty for underpayment of estimated tax.—If the corporation underpaid its estimated tax, attach **Form 2220,** Underpayment of Estimated Tax by Corporations, to show how the corporation figured the penalty or which exceptions the corporation believes it meets. Also, be sure to check the box on line 16, page 1 of Form 1120L if Form 2220 is attached. If the corporation owes a penalty, enter the amount of the penalty on line 16.

Instructions for Schedules A and B, Tax Computation Worksheet (Page 12)

Net Capital Gain and Alternative Tax (Lines 2 and 20).—In general, the alternative tax is the sum of: (a) a tax computed on life insurance company taxable income (determined as provided in section 801(a)(2)(C)) reduced by the net capital gain using the applicable tax brackets and tax rates, and (b) a tax of 34% on the net capital gain.

Generally, for tax years beginning on or after July 1, 1987, the alternative tax computation does not apply. If a corporation's tax year begins before July 1, 1987, and the corporation has a net capital gain, both computations (the regular tax computation and the alternative tax computation) should be made to determine which results in the lower tax.

The alternative tax is computed by using Schedules A and B of the tax computation worksheet and Part IV of Schedule D (Form 1120). If the alternative tax is less than the regular tax computed on taxable income using the applicable tax brackets and tax rates, the corporation may enter the alternative tax from Schedule D (Form 1120) on line 6, Form 1120L. Check the block for alternative tax.

Note: *Under the provisions of section 1011(d) of the Tax Reform Act of 1986, specified life insurance companies may include on lines 2 and/or 20 gain representing market discount recognized by such companies on the redemption at maturity of any bond which was issued before July 19, 1984, and acquired by the company on or before September 25, 1985.*

Lines 4, 6, 8, 10, 22, and 24.—Members of a controlled group must enter their portion of each taxable income bracket. See the instructions for lines 5a and 5b, page 1, Form 1120L, for rules regarding how controlled groups (as defined in section 1563) may divide these amounts.

Line 17.—If the total taxable income of the controlled group of corporations is more than $1,000,000, each member should enter its portion of the additional tax on line 17 as explained in the instructions for lines 5a and 5b, page 1, Form 1120L.

Line 29.—If the total taxable income of the controlled group of corporations is more than $100,000, each member should enter its portion of the additional tax on line 29. See section 1561 for rules on determining each member's share of the additional tax.

Schedules A and B, Tax Computation Worksheet

Effective July 1, 1987, the tax rates for corporations were reduced. The new rates of tax are:

15% on the first $50,000 of income;
25% on the next $25,000 of income;
34% on any amount over $75,000.
Also, an additional tax of 5% is applied against income in excess of $100,000. The maximum amount of this additional tax is $11,750.

Corporations with tax years beginning after June 30, 1987, should complete Schedule B only.

Schedule A — Tax Computed for Period Before July 1, 1987

1	Taxable income (line 4, page 1, Form 1120L)	
2	Net capital gain (If the alternative tax applies, enter the net capital gain from line 10, Schedule D (Form 1120). If the alternative tax does not apply, enter zero. See instructions.)	
3	Subtract line 2 from line 1	
4	Enter the lesser of line 3 or $25,000 (members of a controlled group, see instructions)	
5	Subtract line 4 from line 3	
6	Enter the lesser of line 5 or $25,000 (members of a controlled group, see instructions)	
7	Subtract line 6 from line 5	
8	Enter the lesser of line 7 or $25,000 (members of a controlled group, see instructions)	
9	Subtract line 8 from line 7	
10	Enter the lesser of line 9 or $25,000 (members of a controlled group, see instructions)	
11	Subtract line 10 from line 9	
12	Multiply line 4 times 15%	
13	Multiply line 6 times 18%	
14	Multiply line 8 times 30%	
15	Multiply line 10 times 40%	
16	Multiply line 11 times 46%	
17	Additional tax. If line 3 is greater than $1,000,000, enter the lesser of: (a) 5% of the excess of line 3 over $1,000,000; or (b) $20,250 (members of a controlled group, see instructions)	
18	Add amounts on lines 12 through 17	

Schedule B — Tax Computed for Period After June 30, 1987

19	Taxable income (line 4, Page 1, Form 1120L)	
20	Net capital gain (If the alternative tax applies, enter the net capital gain from line 10, Schedule D (Form 1120). If the alternative tax does not apply, enter zero. See instructions.)	
21	Subtract line 20 from line 19	
22	Enter the lesser of line 21 or $50,000 (members of a controlled group, see instructions)	
23	Subtract line 22 from line 21	
24	Enter the lesser of line 23 or $25,000 (members of a controlled group, see instructions)	
25	Subtract line 24 from line 23	
26	Multiply line 22 times 15%	
27	Multiply line 24 times 25%	
28	Multiply line 25 times 34%	
29	Additional tax. If line 21 is more than $100,000, enter the lesser of: (a) 5% of the excess of line 21 over $100,000, or (b) $11,750 (members of a controlled group, see instructions)	
30	Add lines 26 through 29. If only Schedule B was completed, skip lines 31 through 34 and enter the amount from line 30 on line 6, page 1, Form 1120L	
31	Enter amount from line 18, Schedule A	
32	Line 31 × $\frac{\text{number of days in tax year before 7-1-87}}{\text{number of days in tax year}}$	
33	Line 30 × $\frac{\text{number of days in tax year after 6-30-87}}{\text{number of days in tax year}}$	
34	Tax liability before credits. Add amounts on lines 32 and 33. If alternative tax applies, enter here and on line 12, Schedule D (Form 1120). Otherwise, enter here and on line 6, page 1, Form 1120L	

Form **1120-PC**

Department of the Treasury
Internal Revenue Service

U.S. Property and Casualty Insurance Company Income Tax Return

For calendar year 1987, or tax year beginning .... 1987, and ending .... 19.....

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

OMB No. 1545-1027

1987

Please type or print

Name	A Employer identification number
Number and Street	B Date incorporated
City or town, state, and ZIP code	C Check if this is a consolidated return ▶ ☐

D Check 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 35) 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) .... ▶ ☐

If checked and your tax year includes June 30, 1987, complete lines 3a and 3b; otherwise, complete only line 3b.

a Enter your share of the $25,000 in each taxable income bracket for the period before July 1, 1987:
(i) $ .... (ii) $ .... (iii) $ .... (iv) $ ....

b Enter your share of tax bracket amounts for the period after June 30, 1987:
(i) $ .... (ii) $ ....

4 Income tax—See instructions to compute the tax. Check box if alternative tax (section 1201) is used ▶ ☐ 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 Total credits (add lines 7a through 7c) 7d

8 Regular income tax (subtract line 7d from line 6) 8

9 Foreign corporations—Tax on income not connected with U.S. business 9

10 Tax from recomputing prior year investment credit (attach Form 4255) 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 1986 overpayment allowed as a credit 14a

b 1987 estimated tax payments 14b

c Less: 1987 refund applied for on Form 4466 .... 14c ( )

d Tax deposited with Form 7004 .... 14d

e Credit by reciprocal for tax paid by attorney-in-fact under section 835(d) 14e

f Other refundable credits and payments 14f

g Total credits and payments (add lines 14a through 14f) 14g

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 14g, enter AMOUNT OWED 16

17 **OVERPAYMENT**—If line 14g is larger than the total of lines 13 and 15, enter AMOUNT OVERPAID 17

18 Enter amount of line 17 you want: **Credited to 1988 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** (1987)

Schedule A—Taxable Income

Income

1 Premiums earned—section 832(b)(4) (Schedule E, line 7) 1

2 Dividends—section 832(b)(2) (Schedule C, line 11, 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 Other capital losses—section 832(c)(5) (Schedule G, line 12, column 7) 26

27 Dividends to policyholders—section 832(c)(11) 27

28 Mutual interinsurers or reciprocal underwriters—increase in subscriber accounts—section 832(f)(1) 28

29 Other deductions—sections 832(c)(1) and 832(c)(10) (net of the annual statement change in unpaid loss adjustment expenses) (attach schedule) 29

30 Total deductions (add lines 14 through 29) 30

31 Subtotal (subtract line 30 from line 13) 31

32a Special deduction for section 833 organizations—section 833(b) (Schedule H, line 6) 32a

b Deduction on account of special income and deduction accounts—section 832(c)(13) 32b

c Total (add lines 32a and 32b) 32c

33 Subtotal (subtract line 32c from line 31) 33

34a Dividends-received deduction—section 832(c)(12) (Schedule C, line 21) 34a

b Net operating loss deduction—section 832(c)(10) 34b

c Total (add lines 34a and 34b) 34c

35 Taxable income or (loss) (subtract line 34c from line 33). Enter here and on page 1, line 1 35

Schedule B, Part I—Taxable Investment Income or (Loss) of Electing Small Companies—Section 834

	Line		(1) Interest received	(2) Amortization of premium	(3) Balance (Column 1 minus column 2)		
Income	1a	Gross interest—section 832(b)(2)					
	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 11, 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 21)				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.)

Line			(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)

Line	Income		Dividends Received: (1) Not subject to section 832(b)(5)(B)	Dividends Received: (2) Subject to section 832(b)(5)(B)	(3) Total dividends received (column 1 plus column 2)
1	Dividends on stock (other than debt-financed stock) of domestic corporations—section 243(a)	1			
2	Dividends on debt-financed stock of domestic and foreign corporations—section 246A	2			
3	Dividends on certain preferred stock of public utilities—section 244	3			
4	Dividends on stock of certain foreign corporations and certain FSCs—sections 245(a) and 245(c)(1)(B)	4			
5	Dividends on stock of wholly owned foreign subsidiaries and FSCs—sections 245(b) and 245(c)(1)(A)	5			
6	Dividends from affiliated companies—section 243(a)(3)	6			
7	Other dividends from foreign corporations not included in lines 4 and 5	7			
8	Income from controlled foreign corporations under subpart F (attach Forms 5471)	8			
9	Foreign dividend gross-up (section 78)	9			
10	Other dividends—attach schedule	10			
11	Total dividends—add lines 1 through 10. Enter the amount from column 3 on Schedule A, line 2, or Schedule B, Part I, line 2, whichever is applicable	11			

Line	Deduction		Dividends-Received Deduction: (1) Not subject to section 832(b)(5)(B)	Dividends-Received Deduction: (2) Subject to section 832(b)(5)(B)	(3) Total dividends-received deduction (column 1 plus column 2)
12	80% of line 1	12			
13	Deduction for line 2—see instructions	13			
14	Deduction for line 3—see instructions	14			
15	Deduction for line 4—see instructions	15			
16	100% of line 5	16			
17	Total (add lines 12 through 16)	17			
18	100% of line 6	18			
19	Total not subject to section 832 (b)(5)(B)—add line 17, column 1, and line 18, column 1	19			
20	Total subject to section 832 (b)(5)(B)—add line 17, column 2, and line 18, column 2. Enter here and on Schedule F, line 7			20	
21	Total deduction—add line 17, column 3, and line 18, column 3. Enter here and on Schedule A, line 34(a), or Schedule B, Part I, line 20, whichever is applicable. (See instructions for limitation.)				21

Schedule E—Premiums Earned (See Instructions)

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

1	Losses paid during the taxable year		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 20	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 11, 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 not less than zero)		10	

	(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))
11							
12	Totals—column (3) must not be more than line 10. (Enter column (7) in Schedule A, line 26, 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 32(a). (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 32(a))—section 833(b)(3)(C)(i)	8	
9	Net operating loss deduction (Schedule A, line 34(b))—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 35)	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
F (1) Did you at the end of this tax year own, directly or indirectly, 50% or more of the voting stock of a domestic corporation (for rules of attribution, see section 267(c))?		
If "Yes," attach a schedule showing: (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 F(2)(c) is checked "Yes," the corporation may have to file Form 5472.*		
G Were you 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.*		
H Did you claim a deduction for expenses connected with:		
(1) Entertainment facility (boat, resort, ranch, etc.)?		
(2) Living accommodations (except employees on business)?		
(3) Employees attending conventions or meetings outside the North American area? (See section 274(h).)		
(4) Employees' families at conventions or meetings?		
If "Yes," were any of those conventions or meetings outside the North American area? (See section 274(h).)		
(5) Employee or family vacations not reported on Form W-2?		

	Yes	No
I At any time during the tax year, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See the instructions for exceptions and filing requirements for form TD F 90-22.1.)		
If "Yes," write in the name of the foreign country. ▶		
J Were you the grantor of, or transferor to, a foreign trust that existed during the current tax year, whether or not you have any beneficial interest in it? (If "Yes," you may be required to file Forms 3520, 3520A, or 926.)		
K During the tax year did you maintain any part of your accounting/tax records on a computerized system?		
L Check method of accounting: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (Specify) ▶		
M Have you elected to use your 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 Do you discount any of the loss reserves shown on your 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 $			
		9 Total of lines 7 and 8	
6 Total of lines 1 through 5		10 Income (Schedule A, line 33)—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)	

1987

Department of the Treasury
Internal Revenue Service

Instructions for Form 1120-PC

U.S. Property and Casualty Insurance Company Income Tax Return

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

Changes You Should Note

New **Form 1120-PC,** U.S. Property and Casualty Insurance Company Income Tax Return, has been developed for use by both mutual and stock insurance companies (other than life insurance companies) for tax years beginning after December 31, 1986, as a result of changes made by the Tax Reform Act of 1986 ("Act"). Previously, nonlife mutual insurance companies were required to file **Form 1120M,** U.S. Mutual Insurance Company Income Tax Return, which has been obsoleted. Nonlife stock insurance companies that formerly were required to file **Form 1120,** U.S. Corporation Income Tax Return, or **Form 1120-A,** U.S. Corporation Short-Form Income Tax Return, must now file Form 1120-PC.

The Act made several other changes to the way corporations compute their taxable income and their tax liability. Many of these changes are contained in the Instructions. For information on other changes, see **Publication 921,** Explanation of the Tax Reform Act of 1986 for Business.

Paperwork Reduction Act Notice

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

General Instructions

A. Purpose of Form

Form 1120-PC 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 1987 return for calendar year 1987.

Where To File

If the corporation's principal business, office, or agency is located in	Use the following Internal Revenue Service Center address
New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, Minnesota, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 39901
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
Arkansas, Indiana, North Carolina, Tennessee, Virginia	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	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 corporation 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 **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.

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.

Note: *The Tax Reform Act of 1986 changed several of the rules governing accounting methods:*

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. Such organizations may be required to use tax accounting methods different from those used in the past for reporting their insurance activity. See Revenue Procedure 87-51, 1987-41 I.R.B. 34, for information on how to expeditiously obtain the consent of the Commissioner to change a method of accounting.

For tax years beginning after 1986, corporations (other than qualified personal service corporations) are not permitted to use the cash method of accounting if their annual average gross receipts are $5,000,000 or more. Corporations required to change from the cash method because of this provision must complete and file Form 3115 in accordance with the requirements in 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 servicing the geographic area where the corporation is located. Do not submit deposits directly to an IRS office; otherwise, the corporation may be subject to a failure to deposit penalty. Records of deposits will be sent to IRS for crediting to the corporation's account. See the instructions contained in the coupon book (Form 8109) for more information.

In order for us to better process your deposits, please write your employer identification number, 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 **Publication 583,** Information for Business Taxpayers.

4. Estimated Tax

A corporation must make estimated tax payments if it can expect its estimated tax (income tax minus credits) to be $40 or more. Use **Form 1120-W,** Corporation Estimated Tax, as a worksheet to compute estimated tax.

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.

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, 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 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 90% of the tax shown on the return. See sections 6655(b)(1) and (d)(3).

If the corporation underpaid estimated tax, attach **Form 2220,** Underpayment of Estimated Tax by Corporations, to show either how the penalty was figured or the exceptions which apply. Corporations using the annualization exception may be able to avoid penalties under section 6655 for installment payments due before July 1, 1987, by using the safe harbor provided in regulations section 1.6655-2T. Also, be sure to check the box on line 15, Form 1120-PC. If the corporation owes a penalty, enter the amount of the 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, Retirement 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, and R. 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 **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. 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. Pension, Profit-Sharing, Etc., Plans

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

In addition there is a new penalty for overstating the pension plan deduction for returns filed after October 22, 1986. See new section 6659A.

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

Form 5500-C or 5500-R.—Complete the applicable form for each plan with fewer than 100 participants.

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

4. 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.

5. Attachments

In order to process the return we ask that you complete every applicable entry space on Form 1120-PC. Please 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 D

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 block.

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 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 35.

Note: *Pending legislation provides that 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.*

Lines 3a and 3b.—Members of a controlled group, as defined in section 1563, with tax years that begin before July 1, 1987, are entitled to only one $25,000 amount in each taxable income bracket on

line 3a. Members of a controlled group that have tax years that end after June 30, 1987, 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, both corporations with tax years which include July 1, 1987. They do not elect an apportionment plan. Therefore, Corporation A is entitled to $12,500 (one-half of $25,000) in each taxable income bracket on line 3a. Corporation B is also entitled to $12,500 in each taxable income bracket. Each income bracket on line 3b is also equally divided.

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.

Note: *Members of a controlled group of corporations are treated as one corporation for purposes of figuring the applicability of the additional 5% tax. If the additional tax applies, each member of the group must attach to its tax return a schedule that shows the taxable income of the entire group as well as how its portion of the additional tax was figured.*

Tax Computation Instructions—Page 1, lines 4–18

Any corporation that files Form 1120-PC should compute its tax using the tax computation worksheets on page 5. Members of a controlled group should see the instructions above for lines 3a and 3b before proceeding to page 5.

Additional Tax

The worksheets on page 5 include the computation of an additional 5% tax on the excess of a corporation's taxable income over a specified amount. The specified amount was changed effective July 1, 1987, from $1,000,000 to $100,000. The limitation on the additional tax (previously $20,250) has been changed to $11,750, effective July 1, 1987.

Alternative Tax

If the tax year of the corporation begins before July 1, 1987, and the corporation has a net capital gain on line 10, Schedule D (Form 1120), the alternative tax computation may apply. To compute the alternative tax, complete Schedules A and B of the tax computation worksheets on page 5, as instructed, and enter the amount from line 34, Worksheet Schedule B, on line 12, Part IV, Schedule D (Form 1120). Complete the rest of Part IV, Schedule D (Form 1120), and enter the lesser of the alternative tax or the tax figured by the regular method on line 4, page 1, of Form 1120-PC.

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 $1,000,000 or more (for taxable years beginning before July 1, 1987) or $100,000 or more (for taxable years beginning after June 30, 1987), make no entry on line 5. Otherwise, you must compute the tax on the section 835(b) amount at the highest rate of tax specified in section 11(b). If the company's taxable year begins before July 1, 1987, this may involve using a blended tax computation applying a 46% tax rate for the period before July 1, 1987, and a 34% tax rate for the period after June 30, 1987. 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 14e 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.

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 (section 936). 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 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.—The credit for increasing research activities is now part of the general business credit. See Form 6765.

Low-income housing credit.—A new low-income housing credit is part of the general business credit for expenditures made after 1986. See section 42 and **Form 8586**, Low-Income Housing Credit.

Form 3800, General Business Credit.—Enter on 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 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

Worksheet Schedules A and B Tax Computation

Effective July 1, 1987, the tax rates for corporations were reduced. The new rates of tax are:

- 15% on the first $50,000 of income;
- 25% on the next $25,000 of income; and
- 34% on any amount over $75,000.

Also, an additional tax of 5% is applied against income in excess of $100,000. The maximum amount of this additional tax is $11,750.

Note: *Corporations with tax years beginning after June 30, 1987, should complete Worksheet Schedule B only.*

Worksheet Schedule A—Tax Computed for Period Before July 1, 1987

1	Taxable income or taxable investment income, whichever is applicable (line 1 or 2, Form 1120-PC)	1	
2	Net capital gain (If the alternative tax applies, enter the net capital gain from line 10, Schedule D (Form 1120). If the alternative tax does not apply, enter zero. See instructions.)	2	
3	Subtract line 2 from line 1	3	
4	Enter the lesser of line 3 or $25,000 (members of a controlled group, see instructions)	4	
5	Subtract line 4 from line 3	5	
6	Enter the lesser of line 5 or $25,000 (members of a controlled group, see instructions)	6	
7	Subtract line 6 from line 5	7	
8	Enter the lesser of line 7 or $25,000 (members of a controlled group, see instructions)	8	
9	Subtract line 8 from line 7	9	
10	Enter the lesser of line 9 or $25,000 (members of a controlled group, see instructions)	10	
11	Subtract line 10 from line 9	11	
12	Multiply line 4 times 15%	12	
13	Multiply line 6 times 18%	13	
14	Multiply line 8 times 30%	14	
15	Multiply line 10 times 40%	15	
16	Multiply line 11 times 46%	16	
17	Additional tax. If line 3 is greater than $1,000,000, enter the lesser of: (a) 5% of the excess of line 3 over $1,000,000 or (b) $20,250 (members of a controlled group, see instructions)	17	
18	Add amounts on lines 12 through 17	18	

Worksheet Schedule B—Tax Computed for Period After June 30, 1987

19	Taxable income or taxable investment income, whichever is applicable (line 1 or line 2, Form 1120-PC)	19	
20	Net capital gain (If the alternative tax applies, enter the net capital gain from line 10, Schedule D (Form 1120). If the alternative tax does not apply, enter zero. See instructions.)	20	
21	Subtract line 20 from line 19	21	
22	Enter the lesser of line 21 or $50,000 (members of a controlled group, see instructions)	22	
23	Subtract line 22 from line 21	23	
24	Enter the lesser of line 23 or $25,000 (members of a controlled group, see instructions)	24	
25	Subtract line 24 from line 23	25	
26	Multiply line 22 times 15%	26	
27	Multiply line 24 times 25%	27	
28	Multiply line 25 times 34%	28	
29	Additional tax. If line 21 is more than $100,000, enter the lesser of (a) 5% of the excess of line 21 over $100,000 or (b) $11,750 (members of a controlled group, see instructions)	29	
30	Add lines 26 through 29. If only Worksheet Schedule B was completed, skip lines 31 through 34. Enter the amount from line 30 on line 4, Form 1120-PC	30	
31	Enter amount from line 18, Worksheet Schedule A	31	
32	Line 31 × (number of days in tax year before 7-1-87 / number of days in tax year)	32	
33	Line 30 × (number of days in tax year after 6-30-87 / number of days in tax year)	33	
34	Tax liability before credits. Add amounts on lines 32 and 33. If alternative tax applies, enter here and on line 12, Schedule D (Form 1120). Otherwise, enter here and on line 4, Form 1120-PC	34	

Instructions for Worksheet Schedules A and B

Net Capital Gain and Alternative Tax (Lines 2 and 20).—In general, the alternative tax is the sum of (a) a tax computed on taxable income reduced by the net capital gain using the applicable tax brackets and tax rates, and (b) a tax of 34% on the net capital gain.

For tax years beginning on or after July 1, 1987, the alternative tax computation does not apply. If a corporation's tax year begins before July 1, 1987, and the corporation has a net capital gain, both computations (the regular tax computation and the alternative tax computation) should be made to determine which results in the lower tax.

The alternative tax is computed by using Worksheet Schedules A and B and Part IV of Schedule D (Form 1120). If the alternative tax is less than the regular tax computed on taxable income using the applicable tax brackets and tax rates, then the corporation may enter the alternative tax from Schedule D (Form 1120) on line 4, Form 1120-PC, and check the block for alternative tax.

Lines 4, 6, 8, 10, 22, and 24.—Members of a controlled group must enter their portion of each taxable income bracket. See the instructions for lines 3a and 3b, page 1, Form 1120-PC, for rules regarding how controlled groups (as defined in section 1563) may divide these amounts.

Line 17.—If the total taxable income of the controlled group of corporations is more than $1,000,000, each member should enter its portion of the additional tax on line 17 as explained in the instructions for lines 3a and 3b, page 1, Form 1120-PC.

Line 29.—If the total taxable income of the controlled group of corporations is more than $100,000, each member should enter its portion of the additional tax on line 29. See section 1561 for rules on determining each member's share of the additional tax.

showing the kind and amount of income, the tax rate (30% or a lower treaty rate), and the amount of tax.

Note: *Interest received from certain portfolio debt investments that were issued after July 18, 1984, is no longer subject to the tax.*

Line 10. Tax from recomputing prior-year investment credit.—If property is disposed of or ceases to be qualified property before the end of the life-years used in computing the regular or energy investment credit, there may be a recapture of the credit. See **Form 4255,** Recapture of Investment Credit.

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 14e. 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 14f. Other payments.—*Overpaid crude oil windfall profit tax.*—Include on line 14f any overpayment from **Form 6249,** Computation of Overpaid Windfall Profit Tax. See the instructions for that form for more information.

Line 15. Penalty for underpayment of estimated tax.—If the corporation underpaid its estimated tax, attach **Form 2220,** Underpayment of Estimated Tax by Corporations, to show how the corporation figured the penalty or which exceptions the corporation believes it meets. Also, be sure to check the box on line 15, page 1, of Form 1120-PC if Form 2220 is attached. If the corporation owes a penalty, enter the amount of the penalty on line 15.

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 **Publication 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 29).

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 sections 832(e)(4) or 832(e)(6) are allowed as a deduction on line 32b 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 28, 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.

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

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 35, 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. For certain contributions of long-term capital gain property made in tax years beginning after 1986, 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, 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.

Line 21. Depreciation.—Besides depreciation, include in line 21 the part of the cost that the corporation elected to expense for certain recovery property placed in service during the taxable year. For property placed in service after December 31, 1986, the amount the taxpayer may expense under section 179 has been raised from $5,000 to $10,000.

The deduction for amortization of trademark and trade name expenses has been repealed for expenses paid or incurred after 1986. See the instructions for **Form 4562**, Depreciation and Amortization, for more information on changes to the rules for depreciation brought about by the Tax Reform Act of 1986.

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) has been increased from 15% to 20% for taxable years beginning after 1986. (See section 291.)

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 new penalty for overstating the pension plan deduction for returns filed after October 22, 1986. See new section 6659A.

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

Form 5500-C or 5500-R.—Complete the applicable form for each plan with fewer than 100 participants.

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

Line 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 27. 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.

Line 28. 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 29. 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 28. Attach a schedule itemizing the amounts included on line 29.

Line 32a. 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 32b. 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 34a. Dividends-received deduction.—Enter the amount from Schedule C, line 21.

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 80% 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 34b. 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 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 844 for special loss carryover rules for insurance companies.

Schedule B, Part I— Taxable Investment Income or (Loss) of Electing Small Companies

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, report it on 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**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions, on investment assets only.

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. 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 Schedule, 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 is 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 6, 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 (defined below) on stock acquired after August 7, 1986, to the extent that such dividends are not attributable to prorated amounts.

Lines 1 through 6, 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.

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) that were received from domestic corporations subject to income tax and that qualify for the deduction allowable under section 243(a)(1).

Include on line 1 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.—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 3.—Enter dividends received on the preferred stock of a public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

Line 4.—Enter dividends received from foreign corporations that qualify for the deduction under section 245(a) and dividends received from a foreign sales corporation (FSC) that are attributable to qualified interest and carrying charges and that qualify for the deduction provided in section 245(c)(1)(B).

Line 5.—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 6.—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 7, column (3). Other dividends from foreign corporations not included in lines 4 and 5.—Enter dividends from foreign corporations that are not reportable on lines 4 or 5. Exclude distributions of amounts constructively taxed under Subpart F (sections 951 through 964) in the current year or in earlier years.

Line 8, 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 9, 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 960.

Line 10, 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 13. Deduction for line 2.—Dividends received on debt-financed stock are not entitled to the full 80% dividends-received deduction. Instead, the 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 14. Deduction for line 3.—For dividends received on certain preferred stock of public utilities after December 31, 1986, but before July 1, 1987, the dividends-received deduction percentage is 55.652%. For such dividends received after June 30, 1987, the dividends-received deduction percentage is 47.059%.

Multiply the dividends received in each period by the proper percentage and enter the total in columns (1) and (2).

Line 15. Deduction for line 4—see instructions.—The dividends-received deduction percentages for line 4 are: (1) 80% for dividends from foreign corporations for which a deduction is allowed under section 245(a); and (2) 85% for dividends from certain FSCs for which a deduction is allowed under section 245(c)(1)(B).

Note: *If pending technical corrections legislation is passed, the 85% deduction allowed under section 245(c)(1)(B) for dividends from certain FSCs will be reduced to 80%.*

Line 21. Total deduction.—The total dividends-received deduction allowed by sections 243(a)(1), 244(a), and subsections (a) and (b) of section 245 may not be more than 80% of taxable income or taxable investment income, whichever is applicable, computed without regard to:

(1) any net operating loss deduction allowed by section 172 (Schedule A, line 34b);

(2) any dividends-received deduction allowed by sections 243(a)(1), 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).

In a year in which there is a loss from operations, the 80% limitation does not apply, even if the loss is created by the dividends-received deduction. For more information, see section 246(b).

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 E—Premiums Earned

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.

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.

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 incurred.—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.

Under the provisions of regulations section 1.832-4(c), salvage in the course of liquidation includes all property (other than cash), real or personal, tangible or intangible, except property not included by reason of express statutory provisions (or rules and regulations of an insurance department) of any state or territory or the District of Columbia in which the company does business. Any company which does not meet the exception provided in the regulation should attach a schedule detailing its 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.

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), noncancellable accident and health insurance, cancellable accident and health insurance, and to the international and reinsurance lines of business.

As a rule, the amount of the undiscounted unpaid losses means the unpaid losses and unpaid loss adjustment expenses shown in the annual statement. However, 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 1987 and earlier years is 7.20%. The applicable loss payment patterns have been published in Revenue Ruling 87-34, 1987-17 C.B. 4. 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).

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 6, 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.—The adjusted surplus as of the beginning of the organization's first taxable year beginning after December 31, 1986, is its surplus as of such time. For this purpose, the term "surplus" means the excess of the total assets over the total liabilities as shown on the annual statement.

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 (other than the first taxable year beginning after December 31, 1986) 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.

Line 12. Ending adjusted surplus.—This amount will also be the beginning adjusted surplus for the next taxable year.

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 F through P on page 7 of Form 1120-PC. The instructions that follow are keyed to these questions.

1. Question F. 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 (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, 1988, 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.

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 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 ½ 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 1987 or tax year beginning ...., 1987, ending ...., 19....

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

OMB No. 1545-1004

1987

A Year REIT status was elected	Use IRS label. Other-wise, please print or type. Name	C Employer identification number
B ☐ Check if this is a Personal Holding Company	Number and street (or P.O. box number if mail is not delivered to street address)	D Date REIT established
	City or town, state, and ZIP code	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** 1986 overpayment credited to 1987		
	b 1987 estimated tax payments		
	c Less 1987 refund applied for on Form 4466 ( )		
	d Tax deposited with Form 7004		
	e Credit from regulated investment companies (attach Form 2439)		
	f Credit for Federal tax on gasoline and special fuels (attach Form 4136)	24	
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 24, enter AMOUNT OWED	26	
27	**OVERPAYMENT**—If line 24 is larger than the total of lines 23 and 25, enter AMOUNT OVERPAID	27	
28	Enter amount of line 27 you want: **Credited to 1988 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** (1987)

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 (see instructions for Part II Tax Computation Worksheet). Enter 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 December deemed paid on December record date under section 857(b)(8) (do not include any amounts shown on lines 1 or 2)	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	

Form 1120-REIT (1987) Page 3

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, see instructions and enter your share of tax bracket amounts. If your tax year includes June 30, 1987, complete both a and b below. Otherwise, complete only b.

a (i) $.............. (ii) $.............. (iii) $.............. (iv) $..............

b (i) $.............. (ii) $..............

3a Tax on real estate investment trust taxable income (see instructions to figure the tax; enter this tax or alternative tax from Schedule D (Form 1120), whichever is less). Check if from Schedule D (Form 1120) ▶ ☐	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 Total—Add lines 4a and 4b			4c	
5 Line 3e less line 4c			5	
6 Personal holding company tax (attach Schedule PH (Form 1120))			6	
7 Tax from recomputing prior-year investment credit (attach Form 4255)			7	
8a Alternative minimum tax (see instructions—attach Form 4626)			8a	
b Environmental tax (see instructions—attach Form 4626)			8b	
9 Total tax—Add lines 5 through 8b. Enter here and on line 23, page 1			9	

Additional Information (See instruction F.)

	Yes	No
G Did the REIT claim a deduction for expenses connected with:		
(1) An entertainment facility (boat, resort, ranch, etc.)?		
(2) Living accommodations (except employees on business)?		
(3) Employees attending conventions or meetings outside the North American area? (See section 274(h).)		
(4) Employees' families at conventions or meetings?		
If "Yes," were any of these conventions or meetings outside the North American area? (See section 274(h).)		
(5) Employee or family vacations not reported on Form W-2?		
H (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; (c) taxable income (or loss) before NOL and special deductions (e.g., if a Form 1120: from Form 1120, line 28, page 1) of such corporation for the tax year ending with or within your tax year; (d) highest amount owed by the REIT to such corporation during the year; and (e) highest amount owed to the REIT by such corporation during the year.		
(2) Did any individual, partnership, corporation, estate, or trust at the end of the tax year own, directly or indirectly, 50% or more of the REIT's voting stock (or beneficial interests)? (For rules of attribution, see section 267(c).) If "Yes," complete (a) through (e)		
(a) Attach a schedule showing name, address, and identifying number.		
(b) Enter percentage owned ▶		
(c) Was the owner of such voting stock (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 ▶		
(d) Enter highest amount owed by the REIT to such owner during the year ▶		
(e) Enter highest amount owed to the REIT by such owner during the year ▶		
Note: *For purposes of H(1) and H(2), "highest amount owed" includes loans and accounts receivable/payable.*		
I 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.		
J 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 ▶		
K 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 Form 3520, 3520-A, or 926.		
L 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.		
M During this tax year did the REIT maintain any part of its accounting/tax records on a computerized system?		
N Check method of accounting: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶		
O Check this box if the REIT issued publicly offered debt instruments with original issue discount . . . ☐ If so, the REIT may have to file Form 8281.		
P Enter the amount of tax-exempt interest received or accrued during the tax year ▶		
Q If the REIT is a member of a controlled group, enter the amount of taxable income for the entire group ▶		

Form 1120-REIT (1987) 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 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	
		11 Total of lines 7 through 10	
6 Total of lines 1 through 5		12 REIT taxable income (line 22, page 1)—line 6 less line 11	

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)	

1987

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.

General Instructions

Note: *In addition to those publications listed throughout these instructions, taxpayers may wish to get:* ***Publication 534,*** *Depreciation;* ***Publication 535,*** *Business Expenses;* ***Publication 542,*** *Tax Information on Corporations; and* ***Publication 921,*** *Explanation of the Tax Reform Act of 1986 for Business.*

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 1987 return for calendar year 1987 and fiscal years that begin in 1987 and end in 1988. For a fiscal year, fill in the tax year space at the top of the form.

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

Use the preaddressed envelope. If you do not use the envelope, 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, Minnesota, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 39901
Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and	Ogden, UT 84201

(continued on next page)

Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
Arkansas, Indiana, North Carolina, Tennessee, Virginia	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania	Philadelphia, PA 19255

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.

In order for us to better process your deposits, please write on your check your employer identification number, type of tax paid, and the tax period to which the deposit applies.

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 24, 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 24.

5. Estimated Tax

A real estate investment trust must make estimated tax payments if it can expect its estimated tax to be $40 or more. For estimated tax purposes, the estimated tax of the real estate investment trust is defined as the sum of its **alternative minimum tax and environmental tax** (minus the credits for Federal tax on gasoline and special 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.

Caution: *Pending legislation would exempt real estate investment trusts from the imposition of the environmental tax. If this provision becomes law, the requirement to make payments of estimated tax will no longer apply to real estate investment trusts.*

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, 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 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 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. To avoid the estimated tax penalty, the real estate investment trust must make estimated tax payments of at least 90% of the sum of its alternative minimum tax and environmental tax (minus the credits for Federal tax on gasoline and special fuels and overpaid windfall profit tax) as shown on the return. See sections 6655(b)(1) and (d)(3).

If the real estate investment trust underpaid estimated tax, attach **Form 2220**, Underpayment of Estimated Tax by Corporations, to show either how the penalty was figured or the exceptions which apply. Also be sure to check the box on line 25, Form 1120-REIT. If the real estate investment trust owes a penalty, enter the amount of the 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, and **R.** Information returns for reporting abandonments, acquisitions through foreclosure, proceeds from brokers and barter exchange transactions, real estate transactions, certain dividends and distributions, interest payments, medical and dental health care payments, miscellaneous income payments, nonemployee compensation, original issue discount, patronage dividends, and total distributions from profit-sharing plans, retirement plans, and individual retirement arrangements. Also use these returns to report amounts that were received as a nominee on behalf of another person.

For more information, see **Publication 916**, Information Returns.

Note: *Every 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) totalling $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 calendar years beginning after 1986.

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 person receives stock or securities of a corporation in exchange for property, and no gain or loss is recognized under section 351, that person (transferor) and the transferee 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 Gasoline and Special 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 Q on page 3, Form 1120-REIT. The instructions that follow are keyed to these questions.

1. Question H(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 J

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, 1988, 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 P

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.—If the employer identification number (EIN) on the label is wrong or if the real estate investment trust did not receive a label, enter the correct number at the top of the return.

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.

If your tax year begins before July 1, 1987, and the net long-term capital gain exceeds the net short-term capital loss, compute the alternative tax to see if it produces a smaller tax.

Line 6

Net gain (or loss)

Enter the net gain (or loss) from **Form 4797**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions, 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, explain what it is 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 over a period of 60 months. See section 195.

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 deducted elsewhere on the return, such as contributions to a simplified employee pension plan.

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.

The reserve method of computing bad debts has been repealed for tax years beginning after 1986. If the real estate investment trust maintained such a reserve for its last tax year beginning before 1987, it must include the balance remaining in the reserve in income ratably over a 4-year period. Include the amount reportable as income in 1987 on line 7, page 1, and attach a computation. The change from the reserve method to the specific charge-off method is treated as a change in accounting method and shall be considered as approved by the Commissioner.

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 1987 prepaid interest allocable to any period after 1987 can deduct only the amount allocable to 1987. 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 in line 16 the part of the cost that the real estate investment trust elected to expense for certain recovery property placed in service during the tax year.

The rules for depreciation for property placed in service in 1987 or later years have been changed. Effective for property placed in service after 1986, the amount the taxpayer may expense under section 179 has been raised from $5,000 to $10,000. See the instructions for **Form 4562,** Depreciation and Amortization, for more information.

Line 18

Other deductions

Include in 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 value of 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.

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. 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 skybox rentals, luxury water travel, convention expenses, and entertainment tickets. See section 274 and **Publication 463,** Travel, Entertainment, and Gift Expenses, for more 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).

Passive activity limitations.—Section 469 generally limits the deduction of passive activity losses and passive activity credits for real estate investment trusts that are closely held. Such taxpayers may have to adjust the amount on line 20 and the credits claimed on line 4b, Schedule J. See section 469 and **Form 8582,** Passive Activity Loss Limitations, for details.

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 new limitations on the amount of net operating loss carryovers when there has been a change in ownership or equity for net operating losses incurred after 1986.

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 24e

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

Part II Tax Computation Worksheet

(a) Enter the amount from line 5, Part II, Form 1120-REIT . . .	
(b) Multiply the amount on line (a) by 46%	
(c) Multiply the amount on line (a) by 34%	
(d) Line (b) × $\frac{\text{number of days in tax year before 7-1-87}}{\text{number of days in tax year}}$ . . .	
(e) Line (c) × $\frac{\text{number of days in tax year after 6-30-87}}{\text{number of days in tax year}}$ . . .	
(f) Tax on net income from foreclosure property. Add amounts on lines (d) and (e). Enter here and on line 6, Part II, Form 1120-REIT.	

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."

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.

Line 6

Tax on net income from foreclosure property

Real estate investment trusts whose tax year begins after June 30, 1987, enter 34% of line 5 on line 6, Part II.

Real estate investment trusts whose tax year begins before July 1, 1987, must use the Part II Tax Computation Worksheet (above) to figure the correct amount of tax to enter on line 6, 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 for 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.

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 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:

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

Schedule J

Tax Computation

Lines 1 and 2

Members of a controlled group, as defined in section 1563, whose tax years begin before July 1, 1987, are entitled to only one $25,000 amount in each taxable income bracket on line 2a.

Members of a controlled group that have tax years that end after June 30, 1987, are entitled to only one $50,000 amount and one $25,000 amount (in that order) in each taxable income bracket on line 2b.

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

Note: *Members of a controlled group of corporations are treated as one corporation for purposes of figuring the applicability of the additional tax imposed under section 11(b) that must be paid by corporations with taxable income in excess of a specified amount. If the additional tax applies, each member of the controlled group will pay that tax based on the portion of the amount that is used in each taxable income bracket. (See section 1561(a).) Each member of the group must attach to its tax return a schedule that shows the taxable income of the entire group as well as how its portion of the additional tax was figured.*

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 $12,500 (one-half of $25,000) in each taxable income bracket on line 2a. Corporation B is also entitled to $12,500 in each taxable income bracket. Each income bracket on line 2b is also equally divided.

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.)

Line 3a

A real estate investment trust that files Form 1120-REIT will compute the tax on its real estate investment trust taxable income using Schedules A and B Tax Computation Worksheet, page 8. If the alternative tax does not apply (see below), enter on line 3a, Schedule J, the tax figured by the regular method from line 30 or 34 (as applicable) Schedule B, page 8.

Alternative Tax. If the tax year of the real estate investment trust begins before July 1, 1987, and the trust has a net capital gain on line 10, Schedule D (Form 1120), the alternative tax computation may apply. To compute the alternative tax, complete Schedules A and B Tax Computation Worksheet, page 8, as instructed and enter the amount from line 34, Schedule B, on line 12, Part IV, Schedule D (Form 1120). On line 13, Part IV, Schedule D (Form 1120), enter the product of: (1) the net capital gain from line 10, Schedule D (Form 1120), reduced by the deduction for dividends paid determined with reference to capital gain dividends only; and (2) 34%. Complete line 14, Part IV, Schedule D (Form 1120) as instructed and enter the lesser of the alternative tax or the tax figured by the regular method on line 3a, Schedule J, Form 1120-REIT.

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 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 4c, Schedule J. Write next to the entry for line 4c 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

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

Line 8a

Alternative minimum tax. Attach **Form 4626**, Alternative Minimum Tax—Corporations, if the total of real estate investment trust taxable income, net income from foreclosure property, and net income from prohibited transactions, plus adjustments and tax preference items of the trust exceeds $40,000. See Form 4626 for details.

Line 8b

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

Caution: *At the time Form 1120-REIT and these instructions were printed, legislation was pending that would exempt real estate investment trusts from the imposition of the environmental tax.*

Instructions for Schedules A and B Tax Computation Worksheet

Lines 1 and 19.—If the alternative tax applies, you must modify the computation of the real estate investment trust taxable income, for purposes of these lines, by recomputing the deduction for dividends paid (line 21b, Part I, Form 1120-REIT) without taking into account capital gain dividends.

Lines 4, 6, 8, 10, 22, and 24.—Members of a controlled group (as defined in section 1563) must enter their portion of each taxable income bracket. See the instructions for Schedule J for rules regarding how controlled groups may divide these amounts.

Line 17.—If the total taxable income of the controlled group of corporations is more than $1,000,000, each member should enter its portion of the additional tax on line 17 as explained in the instructions for Schedule J.

Line 29.—If the total taxable income of the controlled group of corporations is more than $100,000, each member should enter its portion of the additional tax on line 29 as explained in the instructions for Schedule J.

Schedules A and B Tax Computation Worksheet

Effective July 1, 1987, the tax rates on real estate investment trust taxable income were reduced. The new rates of tax are:

15% on the first $50,000 of income;
25% on the next $25,000 of income; and
34% on any amount over $75,000.
Also, an additional tax of 5% is applied against income in excess of $100,000. The maximum amount of this additional tax is $11,750.

If the tax year of the real estate investment trust begins after June 30, 1987, only Schedule B must be completed.

Schedule A — Tax Computed for Period Before July 1, 1987

1	Real estate investment trust taxable income (line 22, Part I, Form 1120-REIT) (If the alternative tax applies, see instructions on page 7.)	
2	Net capital gain (If the alternative tax applies, enter net capital gain from line 10, Schedule D (Form 1120), reduced by the deduction for dividends paid determined with reference to capital gain dividends only. Otherwise, enter zero.)	
3	Subtract line 2 from line 1	
4	Enter the lesser of line 3 or $25,000 (members of a controlled group, see instructions on page 7)	
5	Subtract line 4 from line 3	
6	Enter the lesser of line 5 or $25,000 (members of a controlled group, see instructions on page 7)	
7	Subtract line 6 from line 5	
8	Enter the lesser of line 7 or $25,000 (members of a controlled group, see instructions on page 7)	
9	Subtract line 8 from line 7	
10	Enter the lesser of line 9 or $25,000 (members of a controlled group, see instructions on page 7)	
11	Subtract line 10 from line 9	
12	Enter 15% of line 4	
13	Enter 18% of line 6	
14	Enter 30% of line 8	
15	Enter 40% of line 10	
16	Enter 46% of line 11	
17	Additional tax. If line 3 is greater than $1,000,000, enter the lesser of: (a) 5% of the excess of line 3 over $1,000,000 or (b) $20,250 (members of a controlled group, see instructions on page 7)	
18	Add lines 12 through 17	

Schedule B — Tax Computed for Period After June 30, 1987

19	Real estate investment trust taxable income (line 22, Part I, Form 1120-REIT) (If the alternative tax applies, see instructions on page 7.)	
20	Net capital gain (If the alternative tax applies, enter net capital gain from line 10, Schedule D (Form 1120), reduced by the deduction for dividends paid determined with reference to capital gain dividends only. Otherwise, enter zero.)	
21	Subtract line 20 from line 19	
22	Enter the lesser of line 21 or $50,000 (members of a controlled group, see instructions on page 7)	
23	Subtract line 22 from line 21	
24	Enter the lesser of line 23 or $25,000 (members of a controlled group, see instructions on page 7)	
25	Subtract line 24 from line 23	
26	Enter 15% of line 22	
27	Enter 25% of line 24	
28	Enter 34% of line 25	
29	Additional tax. If line 21 is more than $100,000, enter the lesser of: (a) 5% of the excess of line 21 over $100,000 or (b) $11,750 (members of a controlled group, see instructions on page 7)	
30	Add lines 26 through 29. (If only Schedule B was completed, skip lines 31 through 34. Enter the amount from line 30 on line 3a, Schedule J, Form 1120-REIT.)	
31	Enter amount from line 18, Schedule A, above	
32	Line 31 × $\frac{\text{number of days in tax year before 7-1-87}}{\text{number of days in tax year}}$	
33	Line 30 × $\frac{\text{number of days in tax year after 6-30-87}}{\text{number of days in tax year}}$	
34	Tax on real estate investment trust taxable income. Add amounts on lines 32 and 33. If the alternative tax applies, enter on line 12, Schedule D (Form 1120). Otherwise, enter on line 3a, Schedule J, Form 1120-REIT.	

Form **1120-RIC** — Department of the Treasury, Internal Revenue Service

U.S. Income Tax Return for Regulated Investment Companies

For calendar year 1987 or tax year beginning ...., 1987, ending ...., 19 ....

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

OMB No. 1545-1010

1987

A Year RIC status was elected

B Date fund was established

Use IRS label. Otherwise, please print or type.

Name of fund

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 Total assets (See Specific Instructions.) $

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 1986 overpayment credited to 1987		
b 1987 estimated tax payments		
c Less 1987 refund applied for on Form 4466 ( )		
d Tax deposited with Form 7004		
e Credit from other regulated investment companies (attach Form 2439)		
f Credit for Federal tax on gasoline and special fuels (attach Form 4136)	28	
29 Enter any **PENALTY** for underpayment of estimated tax—check ▶ ☐ if Form 2220 is attached	29	
30 **TAX DUE**—If the total of lines 27 and 29 is larger than line 28, enter AMOUNT OWED	30	
31 **OVERPAYMENT**—If line 28 is larger than the total of lines 27 and 29, enter AMOUNT OVERPAID	31	
32 Enter amount of line 31 you want: **Credited to 1988 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** (1987)

Form 1120-RIC (1987) 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 December deemed paid on December record date under section 852(b)(7) (do not include any amounts shown on lines 1 or 2)	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 1987? ☐ 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, see instructions and enter your share of tax bracket amounts. If your tax year includes June 30, 1987, complete both a and b. Otherwise, complete only b.

a (i) $ .... (ii) $ .... (iii) $ .... (iv) $ ....

b (i) $ .... (ii) $ ....

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 Total—Add lines 4a and 4b			4c	
5 Line 3c less line 4c			5	
6 Personal holding company tax (attach Schedule PH (Form 1120))			6	
7 Tax from recomputing prior-year investment credit (attach Form 4255)			7	
8a Alternative minimum tax (see instructions—attach Form 4626)			8a	
b Environmental tax (see instructions—attach Form 4626)			8b	
9 Total tax—Add lines 5 through 8b. Enter here and on line 27, page 1			9	

Form 1120-RIC (1987) Page 3

Additional Information (See instruction F.) | Yes | No

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

H (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; (c) taxable income (or loss) before NOL and special deductions (e.g., if a Form 1120: from Form 1120, line 28, page 1) of such corporation for the tax year ending with or within your tax year; (d) highest amount owed by the fund to such corporation during the year; and (e) highest amount owed to the fund by such corporation during the year.

(2) Did any individual, partnership, corporation, estate, or trust at the end of the tax year own, directly or indirectly, 50% or more of the fund's voting stock? (For rules of attribution, see section 267(c).) If "Yes," complete (a) through (e)
- (a) Attach a schedule showing name, address, and identifying number.
- (b) Enter percentage owned ▶
- (c) Was the owner of such voting stock a person other than a U.S. person? (See instructions.) **Note:** *If "Yes," the fund may have to file Form 5472*
  If "Yes," enter owner's country ▶
- (d) Enter highest amount owed by the fund to such owner during the year ▶
- (e) Enter highest amount owed to the fund by such owner during the year ▶

Note: *For purposes of H(1) and H(2), "highest amount owed" includes loans and accounts receivable/payable.*

I 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.

J 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 ▶

K 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 Form 3520, 3520-A, or 926.

L 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.

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

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

O Check this box if the fund issued publicly offered debt instruments with original issue discount ☐
If so, the fund may have to file Form 8281.

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

Q If the fund is a member of a controlled group, enter the amount of taxable income for the entire group ▶

R 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 registered investment company within which the fund is a series ▶
- (2) Date such registered investment company was incorporated or organized ▶

S **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 (1987) Page 4

Schedule L Balance Sheets

	Beginning of tax year (a)	Beginning of tax year (b)	End of tax year (c)	End of tax year (d)
Assets				
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: 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
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 Expenses allocable to tax-exempt interest income $
- c Section 4982 tax $

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 Dividends paid deduction (line 25, page 1) $

9 Net capital gain from Schedule D (Form 1120), line 10
10 Designated undistributed capital gains from Form 2438, line 11
11 Total of lines 7 through 10
12 Investment company taxable income (line 26, page 1)—line 6 less line 11

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
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)

1987 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.

Pending Legislation May Affect Form 1120-RIC

At the time Form 1120-RIC and these instructions were printed, Congress was considering a tax bill to make technical corrections to the Tax Reform Act of 1986 and for other purposes. Among the proposed changes that may affect Form 1120-RIC are: a provision requiring regulated investment companies to include dividends in income on the ex-dividend date (rather than on the date received), 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 electing to be treated as a business development company under the Investment Company Act of 1940 to be eligible to elect regulated investment company status; and, exclusion of regulated investment companies from the imposition of the environmental tax.

General Instructions

Note: *In addition to those publications listed throughout these instructions, taxpayers may wish to get:* ***Publication 534****, Depreciation;* ***Publication 535****, Business Expenses;* ***Publication 542****, Tax Information on Corporations; and* ***Publication 921****, Explanation of the Tax Reform Act of 1986 for Business.*

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, business development company, or unit investment trust under the Investment Company Act of 1940, 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;

(c) that derives less than 30% of its gross income (including tax-exempt interest income) from the sale or other disposition of stock or securities held for less than 3 months;

(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). For tax years beginning before October 23, 1986, this statutory provision was not in effect. A regulated investment company with more than one fund that had previously been treated as a single corporation must allocate the tax attributes of the company among its funds. No gain or loss is recognized by the company, its funds, or shareholders as a result of this rule.

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 1987 return for calendar year 1987 and fiscal years that begin in 1987 and end in 1988. For a fiscal year, fill in the tax year space at the top of the form.

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

Use the preaddressed envelope. If you do not use the envelope, 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 Servic Center address ▼
New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 0050
New York (all other counties), Connecticut, Maine, Massachusetts, Minnesota, New Hampshire, Rhode Island, Vermont	Andover, MA 0550
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 3990
Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 4599
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 7330
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 8420 / Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
Arkansas, Indiana, North Carolina, Tennessee, Virginia	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania	Philadelphia, PA 19255

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 of the registered investment company (within which the fund is a series) authorized to sign.*

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 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 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.

In order for us to better process your deposits, please write on your check your employer identification number, type of tax paid, and the tax period to which the deposit applies.

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 28, page 1, Form 1120-RIC, and label the amount as backup withholding. The fund should then include the amount in the total for line 28.

5. Estimated Tax

The fund must make estimated tax payments if it can expect its estimated tax to be $40 or more. For estimated tax purposes, the estimated tax of the fund is defined as the sum of its **alternative minimum tax and environmental tax** (minus the credits for Federal tax on gasoline and special 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.

Caution: *Pending legislation would exempt regulated investment companies from the imposition of the environmental tax. If this provision becomes law, the requirement to make payments of estimated tax will no longer apply to regulated investment companies.*

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, 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 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. To avoid the estimated tax penalty, the fund must make estimated tax payments of at least 90% of the sum of its alternative minimum tax and environmental tax (minus the credits for Federal tax on gasoline and special fuels and overpaid windfall profit tax) as shown on the return. See sections 6655(b)(1) and (d)(3).

If the fund underpaid estimated tax, attach **Form 2220**, Underpayment of Estimated Tax by Corporations, to show either how the penalty was figured or the exceptions which apply. Also be sure to check the box on line 29, Form 1120-RIC. If the fund owes a penalty, enter the amount of the 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, and **R.** Information returns for reporting abandonments, acquisitions through foreclosure, proceeds from brokers and barter exchange transactions, real estate transactions, certain dividends and distributions, interest payments, medical and dental health care payments, miscellaneous income payments, nonemployee compensation, original issue discount, patronage dividends, and total distributions from profit-sharing plans, retirement plans, and individual retirement arrangements. Also use these returns to report amounts that were received as a nominee on behalf of another person.

For more information, see **Publication 916**, Information Returns.

Note: *Every 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) totalling $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 this form 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 calendar years beginning after 1986.

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 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-RIC the information required by Regulations section 1.351-3.

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 Gasoline and Special 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 S on page 3, Form 1120-RIC. The instructions that follow are keyed to these questions.

1. Question H(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 J

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, 1988, 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.—If the employer identification number (EIN) on the label is wrong or if the fund did not receive a label, enter the correct number at the top of the return.

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**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions, 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, explain what it is 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 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.

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.

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 deducted elsewhere on the return, such as contributions to a simplified employee pension plan.

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 1987 prepaid interest allocable to any period after 1987 can deduct only the amount allocable to 1987. 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 in line 14 the part of the cost that the fund elected to expense for certain recovery property placed in service during the tax year.

The rules for depreciation for property placed in service in 1987 or later years have been changed. Effective for property placed in service after 1986, the amount the taxpayer may expense under section 179 has been raised from $5,000 to $10,000. See the instructions for **Form 4562**, Depreciation and Amortization, for more information.

Line 22

Other deductions

Include in 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 value of 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.

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.

Forms 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. 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 more 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 section 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).

Passive activity limitations.—Section 469 generally limits the deduction of passive activity losses and passive activity credits for closely held funds. Such taxpayers may have to adjust the amount on line 24 and the credits claimed on line 4b, Schedule J. See section 469 and **Form 8582**, Passive Activity Loss Limitations, for details.

Line 25

Deduction for dividends paid

Enter the amount from line 5, Schedule A.

Line 28e

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 "Overpaid Windfall Profit Tax."

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.

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)).

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, whose tax years begin before July 1, 1987, are entitled to only one $25,000 amount in each taxable income bracket on line 2a.

Members of a controlled group that have tax years that end after June 30, 1987, are entitled to only one $50,000 amount and one $25,000 amount (in that order) in each taxable income bracket on line 2b.

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

Note: *Members of a controlled group of corporations are treated as one corporation for purposes of figuring the applicability of the additional tax imposed under section 11(b) that must be paid by corporations with taxable income in excess of a specified amount. If the additional tax applies, each member of the controlled group will pay that tax based on the portion of the amount that is used in each taxable income bracket. (See section 1561(a).) Each member of the group must attach to its tax return a schedule that shows the taxable income of the entire group as well as how its portion of the additional tax was figured.*

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 $12,500 (one-half of $25,000) in each taxable income bracket on line 2a. Corporation B is also entitled to $12,500 in each taxable income bracket. Each income bracket on line 2b is also equally divided.

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.)

Line 3a

A fund that is not a personal holding company and that is in compliance with Regulations section 1.852-6 regarding disclosure of its actual stock ownership will compute the tax on its investment company taxable income using Tax Computation Worksheet 1, page 7.

A fund that is a personal holding company **or** is not in compliance with Regulations section 1.852-6 must compute the tax on its investment company taxable income using Tax Computation Worksheet 2, page 8. See the instructions for line 6, Schedule J, to determine if the fund is treated as a personal holding company for income tax purposes.

Enter the tax from the applicable worksheet on line 3a, Schedule J, Form 1120-RIC.

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 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 4c, Schedule J. Write next to the entry for line 4c 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

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

Line 8a

Alternative minimum tax. Attach Form 4626, Alternative Minimum Tax—Corporations, if the total of investment company taxable income and retained capital gains not designated under section 852(b)(3)(D) plus adjustments and tax preference items of the fund exceeds $40,000. See Form 4626 for details.

Line 8b

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

Caution: *At the time Form 1120-RIC and these instructions were printed, legislation was pending that would exempt regulated investment companies from the imposition of the environmental tax.*

Tax Computation Worksheet 1 for Funds That Are Not Personal Holding Companies And That Are in Compliance with Regulations Section 1.852-6 (See instructions for line 3a, Schedule J, Form 1120-RIC.)

Effective July 1, 1987, the tax rates on investment company taxable income were reduced. The new rates of tax are:

15% on the first $50,000 of income;

25% on the next $25,000 of income; and

34% on any amount over $75,000.

Also, an additional tax of 5% is applied against income in excess of $100,000. The maximum amount of this additional tax is $11,750.

If the tax year of the fund begins after June 30, 1987, only Schedule B must be completed.

Schedule A **Tax Computed for Period Before July 1, 1987**

1 Investment company taxable income (line 26, Part I, Form 1120-RIC)	
2 Enter the lesser of line 1 or $25,000 (members of a controlled group, see instructions below)	
3 Subtract line 2 from line 1	
4 Enter the lesser of line 3 or $25,000 (members of a controlled group, see instructions below)	
5 Subtract line 4 from line 3	
6 Enter the lesser of line 5 or $25,000 (members of a controlled group, see instructions below)	
7 Subtract line 6 from line 5	
8 Enter the lesser of line 7 or $25,000 (members of a controlled group, see instructions below)	
9 Subtract line 8 from line 7	
10 Enter 15% of line 2	
11 Enter 18% of line 4	
12 Enter 30% of line 6	
13 Enter 40% of line 8	
14 Enter 46% of line 9	
15 Additional tax. If line 1 is greater than $1,000,000, enter the lesser of: (a) 5% of the excess of line 1 over $1,000,000; or (b) $20,250 (members of a controlled group, see instructions below)	
16 Add lines 10 through 15	

Schedule B **Tax Computed for Period After June 30, 1987**

17 Investment company taxable income (line 26, Part I, Form 1120-RIC)	
18 Enter the lesser of line 17 or $50,000 (members of a controlled group, see instructions below)	
19 Subtract line 18 from line 17	
20 Enter the lesser of line 19 or $25,000 (members of a controlled group, see instructions below)	
21 Subtract line 20 from line 19	
22 Enter 15% of line 18	
23 Enter 25% of line 20	
24 Enter 34% of line 21	
25 Additional tax. If line 17 is more than $100,000, enter the lesser of: (a) 5% of the excess of line 17 over $100,000; or (b) $11,750 (members of a controlled group, see instructions below)	
26 Add lines 22 through 25 (If only Schedule B was completed, skip lines 27 through 30. Enter the amount from line 26 on line 3a, Schedule J, Form 1120-RIC.)	
27 Enter amount from line 16, Schedule A, above	
28 Line 27 × $\frac{\text{number of days in tax year before 7-1-87}}{\text{number of days in tax year}}$	
29 Line 26 × $\frac{\text{number of days in tax year after 6-30-87}}{\text{number of days in tax year}}$	
30 Tax on investment company taxable income. Add amounts on lines 28 and 29 and enter the total on line 3a, Schedule J, Form 1120-RIC	

Instructions for Tax Computation Worksheet 1

Lines 2, 4, 6, 8, 18, and 20.—Members of a controlled group (as defined in section 1563) must enter their portion of each taxable income bracket. See the instructions for Schedule J for rules regarding how controlled groups may divide these amounts.

Line 15.—If the total taxable income of the controlled group of corporations is more than $1,000,000, each member should enter its portion of the additional tax on line 15 as explained in the instructions for Schedule J.

Line 25.—If the total taxable income of the controlled group of corporations is more than $100,000, each member should enter its portion of the additional tax on line 25 as explained in the instructions for Schedule J.

Tax Computation Worksheet 2 for Funds That Are Personal Holding Companies Or That Are Not in Compliance with Regulations Section 1.852-6 (See instructions for line 3a, Schedule J, Form 1120-RIC.)

Funds whose tax year begins after June 30, 1987, enter 34% of the amount on line 26, Part I, Form 1120-RIC, on line 3a, Schedule J, Form 1120-RIC.

Funds whose tax year begins before July 1, 1987, use the worksheet below to figure the correct amount of tax to enter on line 3a, Schedule J, Form 1120-RIC:

1 Enter the amount from line 26, Part I, Form 1120-RIC	
2 Multiply the amount on line 1 by 46%	
3 Multiply the amount on line 1 by 34%	
4 Line 2 × $\frac{\text{number of days in tax year before 7-1-87}}{\text{number of days in tax year}}$	
5 Line 3 × $\frac{\text{number of days in tax year after 6-30-87}}{\text{number of days in tax year}}$	
6 Tax on investment company taxable income. Add amounts on lines 4 and 5. Enter here and on line 3a, Schedule J, Form 1120-RIC	

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

U.S. Income Tax Return for an S Corporation

For the calendar year 1987 or tax year beginning ...., 1987, ending ...., 19....

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

OMB No. 1545-0130

1987

A Date of election as an S corporation	Use IRS label. Other-wise, please print or type.	Name	C Employer identification number
B Business code no. (see Specific Instructions)		Number and street (P.O. Box number if mail is not delivered to street address)	D Date incorporated
		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 Was this corporation in operation at the end of 1987 (see instructions)? . . . Yes ☐ No ☐

I How many months in 1987 was this corporation in operation (see instructions)? . . . ▶

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 .... Balance ▶	1c	
	2	Cost of goods sold and/or operations (Schedule A, line 7)	2	
	3	Gross profit (subtract line 2 from line 1c)	3	
	4	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 .... Balance ▶	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 gasoline and special 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** (1987)

Form 1120S (1987) 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)	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 (see instructions)

(iii) ☐ Writedown of "subnormal" goods as described in Regulations section 1.471-2(c) (see instructions)

(iv) ☐ Other (Specify method used and attach explanation) ▶ ....

b Check this box if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) . . . . ☐

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

d 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 (other than for section 263A purposes) in determining quantities, cost, or valuations between opening and closing inventory? (If "Yes," attach explanation.) . . . ☐ Yes ☐ No

Additional Information Required (Yes | No)

J 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; (3) Highest amount owed by you to such corporation during the year; and

(2) Percentage owned; (4) Highest amount owed to you by such corporation during the year.

(**Note:** *For purposes of J(3) and J(4), "highest amount owed" includes loans and accounts receivable/payable.*)

K Refer to the listing of business activity codes at the end of the Instructions for Form 1120S and state your principal:

Business activity ▶ ....; Product or service ▶ ....

L Were you a member of a controlled group subject to the provisions of section 1561?

M Did you claim a deduction for expenses connected with:

(1) Entertainment facilities (boat, resort, ranch, etc.)?

(2) Living accommodations (except for employees on business)?

(3) Employees attending conventions or meetings outside the North American area? (See section 274(h).)

(4) Employees' families at conventions or meetings?

If "Yes," were any of these conventions or meetings outside the North American area? (See section 274(h).)

(5) Employee or family vacations not reported on Form W-2?

N 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 ▶ ....

O 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

P During this tax year did you maintain any part of your accounting/tax records on a computerized system?

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

R Check this box if the S corporation has filed or is required to file **Form 8264**, Application for Registration of a Tax Shelter . . . ▶ ☐

S 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.

T If section 1374 (new built-in gains tax) applies to the corporation, enter the corporation's net unrealized built-in gain as defined in section 1374(d)(1) (see instructions) ▶

Designation of Tax Matters Person

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 ▶

Schedule K **Shareholders' Shares of Income, Credits, Deductions, etc.** (See Instructions.)

(a) Distributive share items		(b) Total amount
Income (Losses) 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)	5	
6 Other income (loss) (attach schedule)	6	
7 Charitable contributions (attach schedule)	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 (attach Form 5884)	11a	
b Low-income housing credit (attach Form 8586)	11b	
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 rental activity(ies) other than on lines 11b, 11c, and 11d (attach schedule)	11e	
12 Other credits (attach schedule)	12	
Tax Preference and Adjustment Items		
13a Accelerated depreciation of real property placed in service before 1987	13a	
b Accelerated depreciation of leased personal property placed in service before 1987	13b	
c Depreciation adjustment on property placed in service after 1986	13c	
d Depletion (other than oil and gas)	13d	
e (1) Gross income from oil, gas, or geothermal properties	13e(1)	
(2) Gross deductions allocable to oil, gas, or geothermal properties	13e(2)	
f Other items (attach schedule)	13f	
Investment Interest		
14a Interest expense on investment debts	14a	
b (1) Investment income included on lines 4a through 4f, Schedule K	14b(1)	
(2) Investment expenses included on line 9, Schedule K	14b(2)	
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 dividend distributions 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	

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			

1987 Department of the Treasury
Internal Revenue Service

Instructions for Form 1120S

U.S. Income Tax Return for an S Corporation

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

Paperwork Reduction Act Notice

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

Voluntary Contributions To Reduce the Public Debt

Quite often, inquiries are received about how voluntary contributions to reduce the public debt may be made. A corporation may contribute by enclosing a separate check, payable to "Bureau of the Public Debt," with the tax return. Please keep the contribution to reduce the public debt separate from any amount payable with the tax return. Tax remittances should be made payable to "Internal Revenue Service."

Changes You Should Note

Changes to Form 1120S

- Page 1 of Form 1120S is used only to report income and expenses related to trade or business activities of the corporation. Income and expenses of rental activities and portfolio or investment income and related expenses are not reported on page one but are now reported on Schedule K. This change was made to provide shareholders with information to comply with the passive activity limitations of section 469. See page 3 for more information.
- 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.

Tax Reform Act of 1986 (Act)

- For tax years beginning after 1986, all S corporations must have a permitted tax year. See **"Permitted Tax Year Required"** in the End of Election instruction for details.
- **Minimum Tax.**—For tax years beginning after 1986, the S corporation is not subject to the minimum tax for capital gain income.
- Many changes made by the Act are contained throughout the instructions. For information on other changes, see **Publication 921**, Explanation of the Tax Reform Act of 1986 for Business.

Reminders

- **Preaddressed Label.**—Use the preaddressed label and envelope that comes with the tax package to help speed up the processing of your return.
- **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 R 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.

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.

Permitted Tax Year Required.—For tax years beginning after 1986, section 1378 requires that all S corporations have a permitted 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. If an S corporation has a tax year which is not a permitted tax year, it must change to a permitted tax year for its first tax year beginning in 1987. See Revenue Ruling 87-57, IRB 1987-28, dated July 13, 1987, for information on what is a business purpose and Revenue Procedure 87-32, IRB 1987-28, dated July 13, 1987, for information on adopting, retaining, or changing your tax year. See "Change in Accounting Period" for other details.

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

When To File

In general, file Form 1120S by the 15th day of the 3rd month after the end of the tax year. However, an S corporation that is required to file a return for a short period beginning in 1987 in order to comply with revised section 1378, may file its short period return on or before the latest of: (1) the normal due date, (2) October 15, 1987, or (3) 30 days after the date Form 1128 is approved. See Announcement 87-82, IRB 1987-37, dated September 14, 1987.

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 1987 Return

File the 1987 return for calendar year 1987 and fiscal years beginning in 1987 and ending in 1988. If the return is for a fiscal year, fill in the tax year spaces on the form.

The 1987 form should also be used for fiscal year corporations adopting a calendar year as required by section 1378.

Note: *The 1987 Form 1120S may also be used if: (1) the corporation has a tax year of less than 12 months that begins and ends in 1988; and (2) the 1988 Form 1120S is not available by the time the corporation is required to file its return. However, the corporation must show its 1988 tax year on the 1987 Form 1120S and incorporate any tax law changes that are effective for tax years beginning after December 31, 1987.*

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

Accounting Methods

Figure ordinary income using the method of accounting regularly used in keeping the corporation's books and records. Such method may include the cash receipts and disbursements method, 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. Several changes were made to accounting method provisions of the Code for tax years beginning after 1986. These changes are discussed throughout the instructions. See the 1987 revision of Form 3115 and **Publication 538**, Accounting Periods and Methods, for more information.

Rounding Off to Whole-Dollar Amounts

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

Change in Accounting Period

To change an accounting period, see Regulations section 1.442-1 and **Form 1128**, Application for Change in Accounting Period. Also see Publication 538. For tax years beginning after 1986, certain fiscal year corporations will have to change to the calendar year. See "Permitted Tax Year Required" in the **End of Election** instruction on page 1 for details.

Generally, an S corporation that received permission on or after July 1, 1974, to use a fiscal year that did not result in a 3-month or less deferral of income to shareholders may retain its approved fiscal tax year (grandfathered fiscal year). Such a corporation should type or print at the top of the Form 1120S filed for their 1st tax year beginning after 1986, "GRANDFATHERED FISCAL YEAR" and attach a copy of the ruling letter that granted the corporation permission to use its present tax year.

S corporations that adopt, retain, or change to a permitted tax year (other than S corporations that retain a calendar tax year) under section 1378, as amended by Act section 806, should type or print at the top of Form 1120S for their 1st tax year beginning after 1986 the following: "FILED UNDER SECTION 806 OF THE TAX REFORM ACT OF 1986." See section 5.02 of Revenue Procedure 87-32, IRB 1987-28, July 13, 1987, for other details.

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.

Penalties

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% 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.

The penalties are in addition to the interest charge imposed on unpaid tax at a rate under section 6621.

Stock Ownership in Foreign Corporations

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

A taxpayer who controls a foreign corporation, or who is a 10% or more shareholder of a controlled foreign corporation, may have to file **Form 5471**, Information Return With Respect to a Foreign Corporation.

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.

For information on tax law changes you may also wish to get new **Publication 920**, Explanation of the Tax Reform Act of 1986 for Individuals, and new **Publication 921**, Explanation of the Tax Reform Act of 1986 for Business.

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 Gasoline and Special 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 and R. You may have to file these information returns to report abandonments and acquisitions through foreclosure, proceeds from broker and barter exchange transactions and real estate transactions, certain dividends, interest payments, medical and dental health care payments, miscellaneous income, original issue discount, patronage dividends, and total distributions from profit-sharing plans, retirement plans, and individual retirement arrangements. Also use certain of these returns to report amounts that were received as a nominee on behalf of another person.

For more information, see **Publication 916**, Information Returns.

Use Form 1099-DIV to report actual dividends paid by the corporation. Only distributions from accumulated earnings and profits are classified as dividends. 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 19 of Schedule K-1, or on the statement attached for line 19 of Schedule K-1, the shareholder's share of windfall profit tax. The individual shareholder figures his or her overpaid windfall profit tax on **Form 6249**, Computation of Overpaid Windfall Profit Tax.

Caution: *Some S corporations may elect to be treated as authorized to act on behalf of the shareholders. If the corporation makes this election, the preceding paragraph will not apply. See the instructions for line 23a, Form 1120S, for details on how the corporation claims the overpaid windfall profit tax on Form 1120S.*

Passive Activity Limitations

For tax years beginning after 1986, new section 469 provides for limitations on losses and credits from passive activities. Generally, a passive activity is any activity of the S corporation which involves the conduct of any trade or business in which a shareholder does not materially participate or any rental activity. Certain portfolio or investment income and expenses are excluded from passive activity income or loss by section 469(e).

The passive activity limitations do not apply to the S corporation, but to each shareholder's share of any loss or credit(s) attributable to a passive activity. Because the limitations are different for trade or business activities than for rental activities, the corporation must report income or loss and credits separately for each of the activities defined below:

1. Trade or business activity.—Generally, any activity of the S corporation involving the conduct of any trade or business is a passive activity for a shareholder if the shareholder does not materially participate in the activity. 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 the provisions of subchapter S of the Code limits the liability of shareholders of the S corporation. Accordingly, income or loss attributable to an activity involving a working interest in oil or gas properties is reported on page 1 of Form 1120S, and the material participation rule must be applied to determine if the activity is a passive activity.

A shareholder is treated as materially participating only if the shareholder is involved in the operation of the trade or business on a regular, continuous, and substantial basis. See the instructions for question D on Schedule K-1, section 469(h), and related regulations for more information.

2. Rental real estate activity.—Generally, a rental real estate activity is a rental activity which involves the rental or leasing of real estate. However, where significant services are provided in connection with the rental of real estate (such as in the renting of hotel rooms), the activity is treated as a trade or business and not a rental real estate activity.

3. Rental activity other than rental real estate activity.—Generally, this term means an activity the income from which consists of payments principally for the use of tangible property. However, as in the case of a hotel, if significant services are involved, the rental service is treated as a trade or business and not a rental activity.

4. Investment or portfolio income or loss.—Generally, investment income and certain related expenses of the corporation (for example, interest, dividend, and royalty income) are not treated as passive activity income and must be accounted for separately. Portfolio income includes interest, dividends, royalties, and annuity income not derived in the ordinary course of a trade or business, and gain or loss on the disposition of property held for investment. Portfolio income also includes income (such as interest) earned on working capital. It does not include amounts derived in the ordinary course of a trade or business. See **Publication 925**, Passive Activity and At-Risk Rules, and section 469(e) for more information.

Specific Instructions

Item B. Business Code No.—See "Codes for Principal Business Activity" at the end 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.

Questions H and I. Answer these questions for the calendar year 1987, even if the corporation has a fiscal tax year. For example, enter for Question I the number of months during the 12 month period from 1/1/87 to 12/31/87, that the corporation was in operation without regard to when the corporation's tax year begins or ends.

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 19 of Schedule K-1.*

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

Line 1

Gross receipts

Enter gross receipts or sales from all trade or business operations except those you report on lines 4 and 5. For reporting advance payments, see Regulations section 1.451-5. The rules for long-term contracts have been changed. See section 460 and Notice 87-61, 1987-38, I.R.B. 40, for details.

Changes have also been made to the installment method. For tax years beginning after 1986, the installment method is no longer available for any sale of personal property under a revolving credit plan.

The use of the installment method is limited by the proportionate disallowance rules of new section 453C for sales of real property held for sale to customers or the sale of personal property after February 28, 1986, by a dealer. Additional income (in the case of sales of real property by dealers), or additional tax (in the case of sales of personal property by dealers) generated by the application of the proportionate disallowance rules is taken into account or treated as imposed ratably over a period of 3 years. See sections 811(c)(6) and 811(c)(7) of the Tax Reform Act of 1986 for more information. The proportionate disallowance rules do not apply to certain sales by manufacturers to dealers. See section 453C for special rules and other details.

If the installment method is used, enter on line 1 the gross profit on collections from installment sales (real estate dealers enter gross profits as modified by section 811(c)(6) of the Act as explained above) 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. Increase the amount collected by any allowable installment indebtedness required by section 453C.

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**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions, 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 19, 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; (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**, Computation of Credit for Federal Tax on Gasoline and Special Fuels, for details); (5) refunds of taxes deducted in earlier years; and (6) section 481 income adjustments discussed below. 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.

Several changes made by the Act may result in changes in methods of accounting of the corporation (e.g. method of figuring bad debts or inventory valuation methods) and require income adjustments under section 481. Include any section 481 income adjustments on line 5 and attach a schedule identifying the type and amount of the adjustments.

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

1. Section 263A Uniform Capitalization Rules.—Many items that were deductible under prior law must now be capitalized or included in inventory under the new uniform capitalization rules of section 263A. The new 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, 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. 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. The uniform capitalization rules are generally effective for costs and interest paid or incurred after 1986. With respect to inventory, the uniform capitalization rules apply to tax years beginning after 1986. Transitional rules are contained in section 803 of the Tax Reform Act of 1986.

In the case of inventory, some of the indirect costs which may not have been capitalized before 1987, which 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.

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 19 of Schedule K-1. See Temporary Regulations section 1.263A-1T(c) for definitions and other details.

2. Meals and Entertainment Expense.—For 1987, 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.

3. 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.

4. Business Start-Up Expenses.—Section 195 provides that an election may be made to amortize business start-up expenses over a period of at least 60 months.

5. 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

For tax years beginning before 1987, an S corporation could treat bad debts in either of two ways: (1) as a deduction for specific debts that become worthless, in whole or in part, or (2) as a deduction for a reasonable addition to a reserve for bad debts. After 1986, the S corporation can only use the specific charge-off method for figuring its bad debt deduction. See section 166.

When changing to the specific charge-off method, the following rules apply:

a. The change is treated as a change in the corporation's accounting method that is initiated by the corporation,

b. The change shall be considered as approved by the Commissioner, and

c. The net amount of adjustments required by section 481 because of the change in accounting method must be reported as income as explained below.

The adjustment referred to in item c above is the amount of the balance of the corporation's reserve for bad debts at the close of its 1986 tax year. The balance of the reserve is reported as income ratably in each of the first 4 tax years beginning after 1986. Report each year's ratable portion of the income on line 5, page 1, Form 1120S. For more information, see Act section 805(d)(2).

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.

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.

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

Line 13

Interest

Include on line 13 only interest incurred in the trade or business activity(ies) of the corporation that is not claimed elsewhere on the return.

Caution:

a. Do not include interest expense incurred to purchase (or to carry) rental property 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 14a of Schedule K.

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.

These regulations also provide transitional rules concerning business or rental activity debt outstanding on December 31, 1986. One of these transitional rules provides that interest on certain business or rental activity debt outstanding on December 31, 1986, may be allocated in the same manner as in prior years if the corporation allocates the debt in a reasonable and consistent manner. The corporation may specify how the debt is allocated by attaching a statement to Form 1120S for the first tax year beginning after 1986. This statement should be labeled "Transitional Allocation Statement Under Section 1.163-8T(n)(3)" and should include the following: (1) description of the activity, (2) amount of debt allocated, (3) assets among which the debt is allocated, (4) manner in which the debt is allocated, and (5) amount of debt allocated to each asset.

Note: *The corporation may elect, however, not to use the new debt allocation rules based on the use of debt proceeds. The election not to use the transition rule is also made by attaching a statement to Form 1120S for the corporation's first tax year beginning after 1986. This statement should be identified as "Election Out Under Section 1.163-8T(n)(3)."*

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

Also, interest incurred during construction or improvement of real property may not be deductible when incurred. See section 263A(a) for information on capitalization of allocable costs for certain property.

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 19 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

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

Enter the amount of contributions to employee benefit programs (such as insurance and health and welfare programs) that are not an incidental part of a pension, profit-sharing, etc., plan included on line 17.

Section 1372, added by Public Law 97-354 (Subchapter S Revision Act of 1982 (Act)), provides for partnership-type rules for fringe benefits. Generally, section 6(d) of the Act provides that, in the case of existing fringe benefits of a corporation which as of September 28, 1982, was an S corporation, section 1372 only applies for tax years beginning after December 31, 1987. For this purpose, existing fringe benefit means any employee fringe benefit of a type which the corporation provided to its employees as of September 28, 1982. See Act section 6(d) for exceptions to this rule and other details.

Also include the corporation's contributions to a qualified group legal services plan established for the exclusive benefit of employees (including shareholders) or their spouses or dependents.

Note: *Section 120, which provided an exclusion for employees of contributions and legal services provided by employers, does not apply to tax years ending after December 31, 1987.*

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 19 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.

A new rule applies in the case 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.

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 and other provisions of section 274. Section 162 permits a deduction for ordinary and necessary expenses of a trade or business; however, section 274(l) limits the deduction for certain entertainment expenses, and section 274(k) does not allow a deduction for any expense of any food or beverages to the extent they are lavish or extravagant.

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.

Tax law provisions that provide for the deduction of expenses for luxury water travel, convention expenses, and tickets for entertainment have also been changed. For example, no deduction is allowed under section 212 for fees, travel, and meals and lodging expenses incurred in connection with investment seminars or similar meetings. See section 274(m) for exceptions and other details.

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.*

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 15 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 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 purpose of line 11 of Part IV and line 18 of Part V of Schedule D, taxable income is defined in section 1374(d)(4) and is 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 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.

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."

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.

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.

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. Enter 46% of line 10 . . . . ______
12. Enter 34% of line 10 . . . . ______
13. Line 11 × $\frac{\text{number of days in tax year before 7/1/87}}{\text{number of days in tax year}}$ ______
14. Line 12 × $\frac{\text{number of days in tax year after 6/30/87}}{\text{number of days in tax year}}$ ______
15. Excess net passive income tax—Add lines 13 and 14. 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)(ii)–(v) for exceptions regarding lines 2 and 5.

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.

Corporations subject to section 263A will be required to make adjustments to the cost of goods sold computation. To the extent section 263A costs were not included in inventory in prior years, corporations must revalue their beginning inventory. Corporations may elect one of the simplified methods of accounting for section 263A costs provided in Temporary Regulations section 1.263A-1T for purpose of both revaluing their inventory and accounting for costs in subsequent years. Absent the election of a simplified method, the corporation is required to allocate additional costs to be included in inventory under section 263A with the same degree of specificity as was required of inventoriable costs under prior law.

Line 1.—For tax years beginning after 1986, the beginning inventory must be revalued as if section 263A rules had been in effect for all prior tax years. Enter the revalued beginning inventory on line 1. The revaluation is considered a change of accounting and accordingly an adjustment to income is required under section 481. The adjustment required by section 481 is reported in income over a period of not more than 4 years. Report each year's portion of the income on line 5, page 1, Form 1120S. Attach a schedule of how the income amount was figured. Also, the corporation must complete Form 3115 to show their computation of the section 481(a) adjustment. Attach Form 3115 to Form 1120S. Be sure to use the 1987 revision of Form 3115. See Act section 803(d) and regulations under section 263A for more information on revaluing beginning inventory.

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 section 263A and 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 J through T. The instructions that follow are keyed to these items.

Question N

Foreign financial accounts

Check the Yes box if either **1.** or **2.** below applies to you. Otherwise, check the No box.

1. At any time during the year, the corporation had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account). **Exception:** Check No if either of the following applies to you:

- The combined value of the accounts was $10,000 or less during the whole year.
- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.

2. The corporation owns more than 50% of the stock in any corporation that would answer the question "Yes" based on Item 1 above.

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

If question N is checked Yes, file form TD F 90-22.1 by June 30, 1988, 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 N is checked Yes, write the name of the foreign country or countries. Attach a separate sheet if you need more space.

Item T.—Complete item T if the section 1374 tax on built-in gains applies to the corporation. Generally, section 1374 applies 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 as defined in section 1374(d)(1).

The corporation is liable for section 1374 tax if (1), (2), and (3) above apply and it also has recognized built-in gains (section 1374(d)(2)) and taxable income (section 1374(d)(4)) for its tax year.

Act section 633(d)(8) provides transition relief from the built-in gains tax for certain assets. The relief rule **does not apply** to assets whose disposition results in ordinary income; capital assets held 6 months or less (12 months or less if acquired after 12/31/87); and section 453B gain. 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 T the net unrealized built-in gain as of the 1st day. If the corporation has 2 tax years beginning in 1987, see section 1374(c)(2) for figuring the amount to enter in item T for the 2nd tax year.

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 each shareholder receives his or her own separate copy.

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

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

General Instructions

The corporation is liable for taxes on lines 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) may be prepared and given to each shareholder in lieu of the complete Instructions for Schedule K-1 (Form 1120S).

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

You may be subject to a penalty if you file a substitute Schedule K-1 that does not conform to the specifications of Rev. Proc. 85-3, 1985-1 C.B. 459.

Shareholder's Distributive Share Items

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

A transferee shareholder (rather than the transferor) is considered to be the owner of stock on the day it is transferred.

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

Specific Instructions

(Schedule K only)

Enter the total distributive amount for each applicable 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 H; and enter the shareholder's distributive share of each item. Schedule K-1 must be prepared and given to each shareholder on or before the day on which Form 1120S is filed.

Note: *Space has been provided below line 19 (Supplemental Schedules) of Schedule K-1 for you to provide information to shareholders. This space, if sufficient, should be used in place of any applicable schedules required for lines 6, 8, 9, 10, 11c, 11d, 11e, 12, 13f, 15c, 15d, 15f, 15g, or other amounts not shown in lines 1 through 18 of Schedule K-1. Please be sure to identify the applicable line number next to the information entered below line 19.*

Line-by-Line Instructions

Item A(1) (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(1) for each shareholder. Each shareholder's distributive share items (lines 1–19 of Schedule K-1) are figured by multiplying the Schedule K amount on the corresponding line of Schedule K by the percentage in A(1).

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(1).

	a.	b.	c. (a x b)	
	% of total stock owned	% of tax year held	% of ownership for the year	
A	50% 40	50% 50	25% +20	45%
B	50 40	50 50	25 +20	45%
C	20	50	10	10%
Total				100%

If there was a change in stock ownership during the tax year, each shareholder's distributive share items (lines 1–19 of Schedule K-1) 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 passive activities.—If items of income, loss, deduction, or credit from more than one activity are reported on Schedule K-1, the corporation must report information separately for each activity which is a passive activity for a shareholder. The information is reported separately in the Supplemental Schedules space for line 19 of Schedule K-1, or on an attachment to Schedule K-1 if more space is needed. Rental activities are passive activities to all shareholders, and trade or business activities are passive activities to shareholders who do not materially participate in the activity.

The following information must be shown:

1. A statement that the information is a break down by activity of passive activity amounts reported on Schedule K-1.

2. The identity of the specific activity and the type of passive activity (i.e. trade or business, rental real estate, or other rental).

3. The income, loss, deduction, or credit from the activity and the line of Schedule K-1 in which the amount is included.

4. If the statement is for trade or business activities, and the shareholder materially participates in some but not all such activities, the statement must specify the shareholder's participation for each activity. See the instructions for question D of Schedule K-1.

5. If the statement is for rental real estate activities and the shareholder actively participates in some but not all such activities, the statement must specify the shareholder's participation for each activity. See the instructions for question E of Schedule K-1.

6. If any activity was started or acquired by the corporation after 10-22-86, and the starting date is not shown on Schedule K-1, the date must be reported. See the instructions for items F and G of Schedule K-1.

7. If applicable, a statement that the corporation disposed of its interest in the activity in a fully taxable disposition to an unrelated party. See the instruction for Disposition of Passive Activity on page 10.

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 19 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 break down of at-risk activity loss amount(s).

2. The identity of 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 through H (Schedule K-1 only)

Disposition of Passive Activity

In addition to completing items D through G, if the corporation disposed of its entire interest in a passive activity, in a fully taxable disposition to an unrelated party, the corporation must advise shareholders, for whom the activity was a passive activity, of the disposition and identify the activity that was disposed of. The corporation may do this in the line 19 Supplemental Schedules space on page 2 of Schedule K-1, or on an attached statement if more space is needed. This notification is necessary so that the shareholder can apply the rules of section 469(g) which allow the shareholder to use passive activity losses not allowed in prior years. See the instructions for Form 8582 for more information on dispositions.

Item D.—Check the Yes or No box in item D to indicate that the shareholder (for which the Schedule K-1 is completed) did or did not materially participate in the trade or business activity(ies) for which income or loss is reported on line 1, or a credit(s) related to the activity(ies) is reported on line 12 of Schedule K-1. An activity involving a working interest in oil or gas properties is a trade or business activity and income or loss from the activity is reported on line 1 of Schedule K-1.

In general, a taxpayer is treated as materially participating in an activity only if the taxpayer is involved in the operations of the activity on a regular, continuous, and substantial basis. See section 469(h) and related regulations for other details.

If no income or loss is reported on line 1, do not complete item D.

If income or loss from more than one activity is reported on line 1, the corporation must complete item D for each line 1 activity. It must also provide the dates requested in item G for each activity. The determination of what constitutes a separate activity is intended to be made in a realistic economic sense. The items D, E, and G information for each activity must be shown separately in the Supplemental Schedules space for line 19, or on an attached schedule if more space is needed.

Item E.—Check the Yes or No box in item E to indicate that the shareholder did or did not actively participate in the rental real estate activity(ies) for which income or loss is reported on line 2 or for which a credit(s) is reported on lines 11b, c, and d, of Schedule K-1. If income or loss from more than one activity is reported on line 2, complete item E for each line 2 activity. Generally, a shareholder is not considered to actively participate in a rental real estate

activity if, at any time during the year (or shorter relevant period), the interest of the shareholder and the shareholder's spouse in the activity is less than 10% (by value) of all interests in an activity. For purposes of applying the less than 10% test, separate buildings are treated as separate rental real estate activities unless the degree of integration of the building and other relevant factors indicate they should be treated as parts of a larger activity (for example, an integrated shopping center).

If no income or loss is reported on line 2, do not complete item E.

If the shareholder owns a 10% or more interest in the corporation, the shareholder will be considered to actively participate in an activity so long as he or she participates, for example, in the making of management decisions or arranging for others to provide services (such as repairs), in a significant and bona fide sense. The material participation standards of regular, continuous, and substantial involvement in operations are not required.

Active participation in a rental real estate activity is not required for the shareholder to take the low-income housing and rehabilitation investment tax credits. The low-income housing credit is reported on line 11b, and qualified rehabilitation expenditures are reported on line 11c, and other information relating to the expenditures is reported on an attachment for line 11c of Schedule K-1.

The limitations on passive activity losses do not apply to losses of a qualified investor from a qualified low-income housing project for any tax year in the relief period. Do not complete question E or item G for an activity that is a qualified project with a loss for shareholders that are qualified investors in the project. See section 502 of the Tax Reform Act of 1986 for a definition of qualified investor, qualified low-income housing project, and the relief period. The low-income housing credit may not be taken for any qualified low-income housing project for which losses are allowed by reason of the exception provided in Act section 502. Report these losses on line 6 of Schedules K and K-1.

Items F and G.—Section 469(l) provides for a phase-in (1987 to 1990) 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 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.

Enter in item F the shareholder's weighted percentage increase in stock ownership for the 1987 tax year. Generally, a shareholder has a percentage increase in ownership if his or her stock ownership at any time during the corporation's 1987 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 1987 that is above 20% would result in a percentage increase for Z for 1987.

Any percentage increase is weighted for the number of days in 1987 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 1987 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 F would be 15% (30% × 50% = 15%).

Note: *A shareholder does not have to acquire stock in the corporation's 1987 tax year to have a percentage increase for 1987. For example, if stock acquired by shareholder Z in 1986, after October 22, 1986, causes Z's percentage of ownership after the acquisition to be greater than on October 22, 1986, and Z's increased ownership is held during any part of 1987, then Z will have a percentage increase for 1987, and item F of Schedule K-1 should be completed. The percentage increase is weighted for the number of days in 1987 the stock is held.*

If an activity is acquired or started by the corporation after October 22, 1986, the phase-in rule generally does not apply regardless of when the shareholder acquires his or her stock. However, an activity starting after October 22, 1986, is considered as being conducted on October 22, 1986, if the property used in the activity is acquired pursuant to a binding written contract in effect on August 16, 1986, or construction of such property began on or before that date. See section 469(l) for other details.

Item H.—Check the box for short tax year in item H if:

1. The corporation was an S corporation for a tax year beginning in 1986,

2. The corporation is filing a 1987 short-year return (less than 12 months), and

3. The short-year is a result of a change in the corporation's tax year required by section 1378 that requires S corporations with tax years beginning after December 31, 1986, to have a permitted tax year.

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.

If the corporation is involved in more than one trade or business activity, and one or more of these activities is a passive activity to the shareholder, identify in the line 19 Supplemental Schedules space, or on an attachment, the income or loss from each passive activity and provide any other applicable information listed in the instruction for **Special reporting requirements for passive activities** on page 9. If an at-risk activity loss is reported on line 1, see the **Special reporting requirements for at-risk activities.**

Date Space (line 1, Schedule K-1).—If question D of Schedule K-1 is checked No and item G is checked, enter the date (month, day, year) specified in item G. If question D is checked Yes, or is not completed, leave the date space blank.

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 more than one rental real estate activity reported on line 2, identify in the line 19 Supplemental Schedules space, or on an attachment, the income or loss from each activity and provide any other applicable information listed in the instruction for **Special reporting requirements for passive activities** on page 9. If an at-risk activity loss is reported on line 2, see the **Special reporting requirements for at-risk activities.**

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 Act. Report such loss(es) on line 6 of Schedule K-1 and attach a statement identifying the loss. See Item E above and section 502 of the Act for definitions and other information on qualified low-income housing projects.

Note: *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 income or loss is reported on lines 2 and 3, and the corporation started an activity after 10-22-86 for which income or loss is reported on lines 2 and 3, enter the date (month, day, year) of the start or acquisition in the date space area. Leave the date space blank if no activities were started after 10-22-86.

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, identify in the line 19 Supplemental Schedules space, or on an attachment, the income or loss from each activity and provide any other applicable information listed in the instruction for **Special reporting requirements for passive activities** on page 9. If an at-risk activity loss is reported on line 3, see the **Special reporting requirements for at-risk activities.** See page 4 of these 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 page 4 of these 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 14 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.

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 a passive activity for a shareholder, report the income or loss amount separately in the line 19 Supplemental Schedules space for line 19 of Schedule K-1 and identify the passive 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 19 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, 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.

Report each shareholder's pro rata share of the total expense on line 8 of Schedule K-1. In addition, show in the Supplemental Schedules space for line 19 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 a passive activity, or more than one passive activity, identify the activity(ies) and any section 179 property associated with the activity(ies).

For 1987, 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 19 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 14a 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 19 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 14a 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). See Notice 87-23, IRB 1987-9 of March 2, 1987.

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 1987 and for tax years beginning in 1988. 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.

Credits

Note: *If the corporation has credits from more than one passive activity on line 11b, 11c, 11d, 11e, or 12, it must report separately in the line 19 Supplemental Schedules space for line 19 of Schedule K-1, or on an attachment if more space is needed, the amount of each credit and provide any other applicable passive activity information listed in the instruction for* **Special reporting requirements for passive activities** *on page 9.*

Line 11a.—Enter on line 11a of Schedule K the jobs credit computed by the corporation that is not attributable to a passive activity. If the corporation has a jobs credit for a nonpassive activity and a passive activity, separate computations may have to be made by each shareholder to determine the credit for each. Enter on line 11d, 11e, or 12 the jobs credit attributable to passive 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, 11e, or 12 of Schedule K-1.

Line 11b.—Enter on line 11b the low-income housing credit figured by the corporation. The credit is figured at the corporate level on Form 8586 and the form is attached to Form 1120S. The credit is based on qualified expenditures made after 12-31-86. See Form 8586 for other details on the credit.

The credit is not allowed for any qualified low-income housing projects for which losses are allowed by reason of the exception in Act section 502. See section 502 of the Act and the instructions for Item E of Schedule K-1 for more information.

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 19 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 as follows: (1) If the expenditures relate to passive activities for which income or loss is reported on lines 1 or 3 of Schedule K-1, show these expenditures separately in a schedule for line 12 of Schedule K-1; and (2) If the expenditures relate to nonpassive activities for which income or loss is reported on line 1 of Schedule K-1, show the expenditures with other investment credit property listed 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 19 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) or on Form 3468 attached to Form 1120S). Show on line 12 of Schedule K-1, or in the Supplemental Schedules space for line 19 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.

If both passive activity and nonpassive activity credits are reported for line 12 of Schedules K and K-1, list the credits separately. Identify the passive activity to which any passive activity credit relates.

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 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 Supplemental Schedules space for line 19 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 Supplemental Schedules space for line 19 of Schedule K-1, or on an attached schedule if more space is needed, each shareholder's share of the corporation's investment-in regular investment credit or energy credit property. Indicate the lines of Form 3468 on which the shareholder should report each property. Also, if the property is used or will be used in a passive activity, identify the activity and the income or loss reported on Schedule K-1 for the activity.

Tax Preference and Adjustment Items

Lines 13a through 13f.—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.

Lines 13a and 13b.—Figure the preference items for lines 13a and 13b based only on property placed in service before 1987.

Line 13c.—Figure the adjustment item for line 13c 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. See the instructions for Form 4562 for more information.

Line 13d.—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 13e(1) and 13e(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 13e(1) or 13e(2). The shareholder is told in the Shareholder's Instructions for Schedule K-1 (Form 1120S) to adjust the amounts on lines 13e(1) and 13e(2) for any other income or deductions from oil, gas, or geothermal properties included on lines 2 through 10 and 19 of Schedule K-1 in order to determine the total income or deductions from oil, gas, and geothermal properties for the corporation.

Figure the amount for lines 13e(1) and 13e(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 13e(1) and 13e(2).

Line 13e(1).—Enter the aggregate amount of gross income (within the meaning of section 613(a)) from all oil, gas, and geothermal properties received or accrued during the tax year that was included on page 1, Form 1120S.

Line 13e(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 13f.—Show in the Supplemental Schedules space for line 19 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 1987 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 through G 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 13a through 13e.

Investment Interest

Lines 14a and 14b

Lines 14a and 14b must be completed whether or not a shareholder is subject to the investment interest rules.

Line 14a. Investment Interest Expense.—Include on this line the interest paid or accrued on debt incurred to purchase or carry property held for investment. Property held for investment includes property that produces investment income or portfolio 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 14a 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 14a 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 14b(1). Enter on line 14b(2) the total expenses related to investment income included on line 9 of Schedule K. Shareholders use their share of the lines 14b(1) and (2) amounts to complete certain lines on Form 4952. See the instructions for Form 4952 for more information.

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.

Property Subject to Recapture of Investment Credit

Line 18 (Schedule K-1).—Complete line 18 when regular or energy investment credit property is disposed of, ceases to 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 j of the line 19 (Schedule K-1) instruction below.

Line 19 (Schedule K-1).—Enter in the Supplemental Schedules space for line 19 of Schedule K-1, or on an attached schedule if more space is needed, each shareholder's share of any information asked for on lines 1 through 18 that is required to be reported in detail, and items **a** through **j** below. Please identify the applicable line number next to the information entered in the Supplemental Schedules space. Show income or gains as a positive number. Show losses with the number in parentheses.

a. Tax-exempt 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 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 13 of Schedules K and K-1.

g. Intangible drilling costs under section 263(c). See Publication 535 to determine the amount to pass through to each shareholder.

h. Deduction and recapture of certain mining exploration expenditures paid or incurred (section 617).

i. Any information or statements the corporation is required to furnish to shareholders to allow them to comply with requirements under section 6111 (registration of tax shelters) or 6661 (substantial understatement of tax).

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

Schedules L and M

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 1987 tax year. If there is a beginning balance for the 1987 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).

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 1987, 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 1987 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 aministration 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 K, state the principal business activity and principal product or service that account for the largest percentage of total receipts. For example, if the principal business activity is "Grain mill products," the principal product or service may be "Cereal preparations."

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

Agriculture, Forestry, and Fishing

Code	
0400	Agricultural production.
0600	Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping.

Mining

Code	
Metal mining:	
1010	Iron ores.
1070	Copper, lead and zinc, gold and silver ores.
1098	Other metal mining.
1150	Coal mining.
Oil and gas extraction:	
1330	Crude petroleum, natural gas, and natural gas liquids.
1380	Oil and gas field services.
Nonmetallic minerals, except fuels:	
1430	Dimension, crushed and broken stone; sand and gravel.
1498	Other nonmetallic minerals, except fuels.

Construction

Code	
General building contractors and operative builders:	
1510	General building contractors.
1531	Operative builders.
1600	**Heavy construction contractors.**
Special trade contractors:	
1711	Plumbing, heating, and air conditioning.
1731	Electrical work.
1798	Other special trade contractors.

Manufacturing

Code	
Food and kindred products:	
2010	Meat products.
2020	Dairy products.
2030	Preserved fruits and vegetables.
2040	Grain mill products.
2050	Bakery products.
2060	Sugar and confectionery products.
2081	Malt liquors and malt.
2088	Alcoholic beverages, except malt liquors and malt.
2089	Bottled soft drinks, and flavorings.
2096	Other food and kindred products.
2100	**Tobacco manufacturers.**
Textile mill products:	
2228	Weaving mills and textile finishing.
2250	Knitting mills.
2298	Other textile mill products.
Apparel and other textile products:	
2315	Men's and boys' clothing.
2345	Women's and children's clothing.
2388	Other apparel and accessories.
2390	Miscellaneous fabricated textile products.
Lumber and wood products:	
2415	Logging, sawmills, and planing mills.
2430	Millwork, plywood, and related products.
2498	Other wood products, including wood buildings and mobile homes.
2500	**Furniture and fixtures.**
Paper and allied products:	
2625	Pulp, paper, and board mills.
2699	Other paper products.
Printing and publishing:	
2710	Newspapers.
2720	Periodicals.
2735	Books, greeting cards, and miscellaneous publishing.
799	Commercial and other printing, and printing trade services.
Chemicals and allied products:	
2815	Industrial chemicals, plastics materials and synthetics.
2830	Drugs.
2840	Soap, cleaners, and toilet goods.
2850	Paints and allied products.
2898	Agricultural and other chemical products.
Petroleum refining and related industries (including those integrated with extraction):	
2910	Petroleum refining (including integrated).
2998	Other petroleum and coal products.
Rubber and misc. plastics products:	
3050	Rubber products: plastics footwear, hose, and belting.
3070	Misc. plastics products.
Leather and leather products:	
3140	Footwear, except rubber.
3198	Other leather and leather products.
Stone, clay, and glass products:	
3225	Glass products.
3240	Cement, hydraulic.
3270	Concrete, gypsum, and plaster products.
3298	Other nonmetallic mineral products.
Primary metal industries:	
3370	Ferrous metal industries; misc. primary metal products.
3380	Nonferrous metal industries.
Fabricated metal products:	
3410	Metal cans and shipping containers.
3428	Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products.
3430	Plumbing and heating, except electric and warm air.
3440	Fabricated structural metal products.
3460	Metal forgings and stampings.
3470	Coating, engraving, and allied services.
3480	Ordnance and accessories, except vehicles and guided missiles.
3490	Misc. fabricated metal products.
Machinery, except electrical:	
3520	Farm machinery.
3530	Construction and related machinery.
3540	Metalworking machinery.
3550	Special industry machinery.
3560	General industrial machinery.
3570	Office, computing, and accounting machines.
3598	Other machinery except electrical.
Electrical and electronic equipment:	
3630	Household appliances.
3665	Radio, television, and communication equipment.
3670	Electronic components and accessories.
3698	Other electrical equipment.
3710	**Motor vehicles and equipment**
Transportation equipment, except motor vehicles:	
3725	Aircraft, guided missiles and parts.
3730	Ship and boat building and repairing
3798	Other transportation equipment, except motor vehicles.
Instruments and related products:	
3815	Scientific instruments and measuring devices; watches and clocks.
3845	Optical, medical, and ophthalmic goods
3860	Photographic equipment and supplies.
3998	**Other manufacturing products.**

Transportation and Public Utilities

Code	
Transportation:	
4000	Railroad transportation.
4100	Local and interurban passenger transit.
4200	Trucking and warehousing.
4400	Water transportation.
4500	Transportation by air.
4600	Pipe lines, except natural gas.
4700	Miscellaneous transportation services.
Communication:	
4825	Telephone, telegraph, and other communication services.
4830	Radio and television broadcasting.
Electric, gas, and sanitary services:	
4910	Electric services.
4920	Gas production and distribution.
4930	Combination utility services.
4990	Water supply and other sanitary services.

Wholesale Trade

Code	
Durable:	
5008	Machinery, equipment, and supplies.
5010	Motor vehicles and automotive equipment.
5020	Furniture and home furnishings.
5030	Lumber and construction materials.
5040	Sporting, recreational, photographic, and hobby goods, toys and supplies.
5050	Metals and minerals, except petroleum and scrap.
5060	Electrical goods.
5070	Hardware, plumbing and heating equipment and supplies.
5098	Other durable goods.
Nondurable:	
5110	Paper and paper products.
5129	Drugs, drug proprietaries, and druggists' sundries.
5130	Apparel, piece goods, and notions.
5140	Groceries and related products.
5150	Farm-product raw materials.
5160	Chemicals and allied products.
5170	Petroleum and petroleum products.
5180	Alcoholic beverages.
5190	Misc. nondurable goods.

Retail Trade

Code	
Building materials, garden supplies, and mobile home dealers:	
5220	Building materials dealers.
5251	Hardware stores.
5265	Garden supplies and mobile home dealers.
5300	**General merchandise stores.**
Food stores:	
5410	Grocery stores.
5490	Other food stores.
Automotive dealers and service stations:	
5515	Motor vehicle dealers.
5541	Gasoline service stations.
5598	Other automotive dealers.
5600	**Apparel and accessory stores.**
5700	**Furniture and home furnishings stores.**
5800	**Eating and drinking places.**
Misc. retail stores:	
5912	Drug stores and proprietary stores.
5921	Liquor stores.
5995	Other retail stores.

Finance, Insurance, and Real Estate

Code	
Banking:	
6030	Mutual savings banks.
6060	Bank holding companies.
6090	Banks, except mutual savings banks and bank holding companies.
Credit agencies other than banks:	
6120	Savings and loan associations.
6140	Personal credit institutions.
6150	Business credit institutions.
6199	Other credit agencies.
Security, commodity brokers and services:	
6210	Security brokers, dealers, and flotation companies.
6299	Commodity contracts brokers and dealers; security and commodity exchanges; and allied services.
Insurance:	
6355	Life insurance
6356	Mutual insurance, except life or marine and certain fire or flood insurance companies.
6359	Other insurance companies.
6411	Insurance agents, brokers, and service.
Real estate:	
6511	Real estate operators and lessors of buildings.
6516	Lessors of mining, oil, and similar property.
6518	Lessors of railroad property and other real property.
6530	Condominium management and cooperative housing associations.
6550	Subdividers and developers.
6599	Other real estate.
Holding and other investment companies, except bank holding companies:	
6744	Small business investment companies.
6749	Other holding and investment companies except bank holding companies.

Services

Code	
7000	**Hotels and other lodging places.**
7200	**Personal services.**
Business services:	
7310	Advertising.
7389	Business services, except advertising.
Auto repair; miscellaneous repair services:	
7500	Auto repair and services.
7600	Misc. repair services.
Amusement and recreation services:	
7812	Motion picuture production, distribution, and services.
7830	Motion picture theaters.
7900	Amusement and recreation services, except motion pictures.
Other services:	
8015	Offices of physicians, including osteopathic physicians.
8021	Offices of dentists.
8040	Offices of other health practitioners.
8050	Nursing and personal care facilities.
8060	Hospitals.
8071	Medical laboratories.
8099	Other medical services.
8111	Legal services.
8200	Educational services.
8300	Social services.
8600	Membership organizations.
8911	Architectural and engineering services.
8930	Accounting, auditing, and bookkeeping.
8980	Miscellaneous services (including veterinarians).

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

1987

Name	Employer identification number

Part I — Short-Term Capital Gains and Losses—Assets Held 6 Months or Less (One year or less if acquired after 12/31/87)

(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 23 or 31	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 6 Months (More than one year if acquired after 12/31/87)

5					

6	Long-term capital gain from installment sales from Form 6252, line 23 or 31	6	
7	Net long-term capital gain (or loss) (combine lines 5 and 6 and enter here). (Reduce this amount by any applicable tax on lines 17 and 29 below and enter this amount on line 4e or 6 of Sch. K of Form 1120S.)	7	
8	Enter section 1231 gain from line 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 (See Instructions.)

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 (See Instructions.)

18	Taxable income (see instructions and attach computation schedule)	18	
19	Recognized built-in gain (section 1374 (d)(2)) (see instructions and attach computation schedule)	19	
20	Enter smaller of line 18 or 19	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 29.)	22	
23	Enter 46% of line 22	23	
24	Enter 34% of line 22	24	
25	Line 23 × (number of days in tax year before 7-1-87 / number of days in tax year)	25	
26	Line 24 × (number of days in tax year after 6-30-87 / number of days in tax year)	26	
27	Add lines 25 and 26	27	
28	Business credit carryforwards under section 1374(b)(3) from years the corporation was a C corporation	28	
29	Tax—Subtract line 28 from line 27. Enter here and on line 22b, page 1, Form 1120S	29	

For Paperwork Reduction Act Notice, see page 1 of Instructions for Form 1120S.

Schedule D (Form 1120S) 1987

1987

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.)

Changes You Should Note

a. For property acquired after 12/31/87, the holding period for long-term capital gains and loss is more than 1 year.

b. Section 1374 provides for a new tax on built-in gains for certain corporations electing to be an S corporation after 1986. See Part V and the related instructions.

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) 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, 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 December 31, 1986, (2) was a C corporation at the time it made the election, (3) has recognized built-in gain as defined in section 1374(d)(2), **and** (4) has taxable income as defined in section 1374(d)(4), it is liable for the built-in gains 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****, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions.*

Parts I and II

Generally, you should report sales and exchanges (including like-kind exchanges) even though there is no gain or loss. Report gain, but not loss, on a distribution. In Part I, report the sale, exchange, or distribution of capital assets held 6 months or less (one year or less if acquired after 12/31/87). In Part II, report the sale, exchange, or distribution of capital assets held more than 6 months (more than one year if acquired after 12/31/87).

For more information, see **Publication 544**, Sales and Other Dispositions of Assets, and **Publication 589**, Tax Information on S Corporations.

Exchange of like-kind property.—Report the exchange of like-kind property on Schedule D or on Form 4797, whichever applies. Report it even though no gain or loss is recognized when you exchange business or investment property for property of like-kind. For exceptions, see Publication 544.

If you use Schedule D, identify the property you disposed of in column (a). Enter the date you acquired it in column (b), and the date you exchanged it in column (c). Write "like-kind exchange" in column (d). Enter the cost or other basis in column (e). Enter zero in column (f).

Special Rules for the Treatment of Certain Gains and Losses

- **Gain on distributions of appreciated property.**—Except as stated below, gain is recognized by an S corporation on a distribution of appreciated property to shareholders in the same manner as if the property had been sold to the shareholder at its fair market value. Like other capital gains, it is subject to the capital gains tax and is passed through to shareholders.

Exception—The above rule does not apply to distributions in tax-free reorganizations where gain or loss is not recognized by the distributee shareholders.

- **Gain from installment sales.**—Except as explained below, if you sold property at a gain this year and will receive any payment in a later tax year, you must use the installment method to report your gain. You must file **Form 6252**, Computation of Installment Sale Income, to report the sale and gain as payments are received.

Note: *The installment method can no longer be used for sales of publicly traded property. Year-end stock sales that are made on an established market should use the trade date as the date sold, and not the settlement date. See the Instructions for Form 6252 for new rules that apply to installment sales of real property used in a trade or business or held for the production of rental income if the real property was sold for more than $150,000.*

If the corporation wants to elect out of the installment method, it must do the following on a timely filed return (including extensions):

(1) Report the full amount of the sale on Schedule D (Form 1120S).

(2) If you received a note or other obligation and are reporting it at less than face value, state that fact in the margin and enter the face amount of percentage of valuation.

For additional information, get **Publication 537**, Installment Sales.

- **Gains and losses on section 1256 contracts and straddles.**—Use **Form 6781**, Gains and Losses From Section 1256 Contracts and Straddles, to report section 1256 gains and losses. See instructions for Form 6781 for more information.
- **Gain or loss on an option to buy or sell property.**—See section 1234 for the rules that apply to a purchaser or grantor of an option.
- **Gain or loss from a short sale of property.**— Report the gain or loss to the extent that the property used to close the short sale is considered a capital asset in the hands of the taxpayer. A loss from a wash sale of stock or securities or from certain transactions between related persons is not deductible. (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 you are allowed a charitable contribution deduction because you sold property to a charitable organization, figure the adjusted basis for determining gain from the sale by dividing the amount realized by the fair market value and multiplying that result by the adjusted basis.

Line 8.—If the corporation has a gain from line 9 of Form 4797, enter it on line 8.

If the line 8 gain is from line 9 of Form 4797, and it contains gain from line 21, Section B, of Form 4684 and other gain or loss under section 1231, enter the gain from Form 4684 on a schedule for line 6 of Schedule K and report the portion that is gain or loss under section 1231 (reduced by any capital gains tax applicable to the gain) on line 5 of Schedule K.

Part III—Summary of Schedule D Gains

If the net long-term capital gain is more than the net short-term capital loss, there is a net capital gain. If this gain exceeds $25,000, 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, below, 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.

See section 1375(c)(2) for more information.

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 you are liable for the tax. If your net capital gain is more than $25,000, and you are not liable for the tax, you should answer questions A through D below and attach the Part IV instructions to Schedule D as your explanation of why you are 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, you are not liable for the tax.

Note: *Taxable income referred to in questions A and B below is NOT the income figured on line 21, page 1, of Form 1120S. See the instruction for "Taxable income" in the instructions for lines 22b and 22a, page 1, Form 1120S.*

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. Have you been other than an S corporation at any time during the 3 tax years just before this year or since existence, if less than 4 years? . . . . . . ☐ Yes ☐ No

D. If the answer to question C is "No," does any long-term capital gain (line 9, Schedule D (Form 1120S)) represent gain from property described in each of items 1, 2, and 3 that follow? . ☐ Yes ☐ No

1. Property was acquired during the tax year or within 36 months before the 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 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.)

For purposes of questions C and D above, a corporation is not considered to be in existence for any tax year before the first tax year in which the corporation has shareholders, acquires assets, or begins business; whichever occurs first.

Line 11.—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 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 1987 Instructions for Form 1120 and 1120A to make your computation. Disregard all references to alternative tax in the Schedule J instructions as the alternative tax is figured on lines 13 through 17 of Schedule D (Form 1120S). Attach your computation of tax to Schedule D.

Part V— Built-In Gains Tax Computation

Section 1374 provides for a new 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 638(d)(8) of the Tax Reform Act of 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 50% or more 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 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 and section 453B gain.** See the instructions for line 19 for details.

Line 18.—Enter taxable income as defined in section 1374(d)(4). Line 18 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 to figure taxable income to Schedule D. Do **NOT** enter amount from line 21, page 1, Form 1120S.

Line 19.—Enter recognized built-in capital gain for the tax year. Section 1374(d)(2) defines this gain as any gain recognized during the recognition period (10 years after the 1st day of the 1st tax year the corporation elected to be 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, or

3. the S corporation is a qualified corporation that qualifies for transitional relief from the section 1374 tax (discussed above) and such gain was from the disposition of an asset covered by the transitional relief provision. **Note:** *Gain from the disposition of certain assets, such as capital assets held 6 months or less (12 months or less if acquired after 12/31/87); assets which result in ordinary income when disposed of; and any gain to the extent section 453B applies,* ***do not qualify*** *for the relief even though the corporation is a qualified corporation. Accordingly, the disposition of these types of assets and section 453B gain will always be included in the computation of the amount to enter on line 19. See Rev. Rul. 86-141, 1986-2, CB 151 for more information.*

A qualified corporation must show on an attachment to Schedule D its total 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 (12 months or less if acquired after 12/31/87), (2) gain or loss from assets for which the disposition results in ordinary income or loss, and (3) section 453B gain. A nonqualified corporation must show on an attachment its total recognized built-in gain and list separately any capital gain or loss and ordinary gain or loss.

Generally, the gain to be entered on line 19 is limited to the corporation's net unrealized built-in gain. The corporation's net unrealized built-in gain is figured as of the 1st day of the 1st tax year it is an S corporation. See the instructions for item T, page 2, Form 1120S, and section 1374(d)(1) for details. If the corporation has 2 tax years beginning in 1987, see section 1374(c)(2).

If the corporation is liable for the tax on excess net passive income (line 22a, page 1, Form 1120S), and any disposition otherwise subject to the built-in gains tax was included in the computation of the line 22a tax, the disposition is not subject to the built-in gains tax.

Line 21.—Enter the section 1374(b)(2) deduction. Generally, this is any net operating loss (NOL) carryforward arising in tax years for which the corporation was a C corporation (reduced by any NOL carryforward used in prior years to figure the section 1374(b)(2) deduction). See section 1374(b)(2) for more information.

Line 29.—If both Part IV and V tax apply, combine lines 17 and 29 and enter the total on line 22b, page 1, Form 1120S.

Form **1120-IC-DISC**

Department of the Treasury
Internal Revenue Service

Interest Charge Domestic International Sales Corporation Return

(Please Type or Print)

OMB No. 1545-0938

1987

For calendar year 1987 or other tax year beginning , 1987, and ending , 19

A Date of IC-DISC election	Name	C Employer identification number
	Number and street	D Date incorporated
B Business code number (See page 11 of Instructions.)	City or town, state, and ZIP code	E Enter total assets from line 3, column (b), Schedule L (See specific instructions.) $

	Yes	No
F (1) Did any corporation, individual, partnership, trust or estate at the end of your tax year own, directly or indirectly, 50% or more of your voting stock? (see instructions) If "Yes," complete the following schedule (see instructions).		

Name	Identifying number	Address	Percentage of voting stock owned	Total assets (Corporations only)	Foreign owner Yes	Foreign owner No

(2) Enter the following for any corporation listed in F(1) that will report the IC-DISC's income:

Tax year of first corporation	IRS Service Center where return will be filed
Tax year of second corporation	IRS Service Center where return will be filed

G(1) Check the appropriate box(es) to indicate any intercompany pricing rules that were applied to 25% or more of total receipts (line 1 below):
☐ 50-50 combined taxable income method ☐ 4% gross receipts method ☐ Section 482 method ("arm's length pricing")
(2) Check here ☐ if the marginal costing rules under section 994(b)(2) were applied in figuring the combined taxable income for any transactions.

All Computations Must Reflect Intercompany Pricing Rules If Used (Section 994) (See Separate Schedule P (Form 1120-IC-DISC).)

Taxable Income

1 Enter amount from Schedule B, line 4, column (e)	1	
2 Cost of goods sold and/or operations (Schedule A, line 7)	2	
3 Total income (subtract line 2 from line 1)	3	
4 Enter amount from Schedule E, line 3	4	
5 Taxable income before net operating loss deduction and dividends-received deduction (subtract line 4 from line 3)	5	
6a Net operating loss deduction (see instructions—attach schedule) 6a		
b Dividends-received deduction from line 6, Schedule C 6b		
c Add lines 6a and 6b	6c	
7 Taxable income (subtract line 6c from line 5)	7	
8 Refund of U.S. tax on gasoline and special fuels (attach Form 4136) (see instructions)	8	

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

Paid Preparer's Use Only
Preparer's signature ▶ | Date | Check if self-employed ▶☐ | Preparer's social security no.
Firm's name (or yours if self-employed) and address ▶ | E.I. No. ▶ | ZIP code ▶

For Paperwork Reduction Act Notice, see page 1 of the instructions. Form **1120-IC-DISC** (1987)

SCHEDULE A.—Cost of Goods Sold and/or Operations (See pages 4 and 5 of Instructions.)
Reflect ACTUAL purchases from a related supplier at the transfer price determined under the intercompany pricing rules of section 994, if used. See separate Schedule P (Form 1120-IC-DISC).

1 Inventory at the beginning of the year	1	
2 Purchases	2	
3 Cost of labor	3	
4a Additional section 263A costs (attach schedule)	4a	
b Other costs (attach schedule)	4b	
5 Total (add lines 1 through 4b)	5	
6 Inventory at the end of the year	6	
7 Cost of goods sold and/or operations (subtract line 6 from line 5)—Enter here and on line 2, page 1	7	

8a Check all methods used for valuing closing inventory:
(i) ☐ Cost (ii) ☐ Lower of cost or market as described in regulations section 1.471-4 (see instructions)
(iii) ☐ Writedown of "subnormal" goods as described in regulations section 1.471-2(c) (see instructions)
(iv) ☐ Other (Specify method used and attach explanation) ▶
b Check if the LIFO inventory method was adopted this tax year for any goods. (If checked, attach Form 970.) ☐
c If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO 8c
d Was there any change (other than for section 263A purposes) in determining quantities, cost, or valuations between the opening and closing inventory? (If "Yes," attach explanation.) ☐Yes ☐No
e Do the rules of section 263A (with respect to property produced or acquired for resale) apply to the corporation? ☐Yes ☐No

SCHEDULE B.—Gross Income (See page 5 of Instructions.)

(a) Type of receipts	Commission sales (b) Gross receipts	Commission sales (c) Commission	(d) Other receipts	(e) Total (add columns (c) and (d))
1 Qualified export receipts from the sale of export property:				
a To unrelated purchasers:				
(i) Direct foreign sales				
(ii) Foreign sales through a related foreign entity				
(iii) To persons in the U.S. (other than an unrelated IC-DISC)				
(iv) To an unrelated IC-DISC				
b To related purchasers:				
(i) Direct foreign sales				
(ii) To persons in the U.S.				
c Total				
2 Other qualified export receipts:				
a Leasing or renting of export property				
b Services related and subsidiary to a qualified export sale or lease				
c Engineering and architectural services				
d Export management services				
e Qualified dividends (line 12, Schedule C)				
f Interest on producer's loans				
g Other interest (attach schedule)				
h Capital gain net income (attach Schedule D (Form 1120))				
i Net gain (or loss) from Part II, Form 4797 (attach Form 4797; see instructions)				
j Other (see instructions—attach schedule)				
k Total				
3 Nonqualified gross receipts:				
a Ultimate use in U.S.				
b Exports subsidized by the U.S. Government (see instructions)				
c Certain direct or indirect sales or leases for use by the U.S. Government				
d Sales to other IC-DISCs in the same controlled group				
e Nonqualified dividends (line 13, Schedule C)				
f Other (see instructions—attach schedule)				
g Total				
4 Total—Enter amount in column (e) on line 1, page 1				

SCHEDULE C.—Dividends and Special Deductions (See page 6 of Instructions.)

		(a) Dividends received	(b) %	(c) Special deductions: (multiply (a) × (b))
1	Domestic corporations subject to section 243(a) deduction (other than debt-financed stock)		see instructions	
2	Debt-financed stock of domestic and foreign corporations (section 246A)		see instructions	
3	Certain preferred stock of public utilities (section 244)		see instructions	
4	Foreign corporations and certain FSCs subject to section 245 deduction		see instructions	
5	Wholly owned foreign subsidiaries subject to 100% deduction (section 245(b))		100	
6	Total—Add lines 1 through 5, column (c). See instructions for limitation. Enter here and on line 6b, page 1			
7	Other dividends from foreign corporations not included in lines 4 and 5			
8	Income from controlled foreign corporations under subpart F (attach Form 5471)			
9	IC-DISC or former DISC dividends not included in line 1 and/or 2 (section 246(d))			
10	Other dividends			
11	Total dividends (add lines 1 through 10, column (a))			
12	Qualified dividends—Enter here and on line 2e, column (d), Schedule B			
13	Nonqualified dividends (subtract line 12 from line 11)—Enter here and on line 3e, column (d), Schedule B			

SCHEDULE E.—Deductions (See page 7 of the instructions for Limitations on Deductions before completing Schedule E.)

1	Export promotion expenses:	
a	Market studies	
b	Advertising	
c	Depreciation (attach Form 4562)	
d	Salaries and wages	
e	Rents	
f	Sales commissions	
g	Warehousing	
h	Freight (excluding insurance— see instructions)	
i	Compensation of officers	
j	Repairs (see instructions)	
k	Pension, profit-sharing, etc., plans (see instructions)	
l	Employee benefit programs	
m	Other (list):	
n	Total (add lines 1a through 1m)	
2	Other expenses not deducted on line 1:	
a	Bad debts (see instructions)	
b	Taxes	
c	Interest	
d	Contributions (not over 10% of line 7, page 1, adjusted per instructions)	
e	Freight (see instructions)	
f	Freight insurance	
g	Other (list):	
h	Total (add lines 2a through 2g)	
3	**Total deductions** (add lines 1n and 2h)—Enter here and on line 4, page 1	

SCHEDULE J.—Deemed and Actual Distributions to Shareholders for the Tax Year (See page 8 of Instructions.)

Part I.—Deemed Distributions Under Section 995(b)(1)

1	Gross interest derived during the tax year from producer's loans (section 995(b)(1)(A))	1	
2	Gain recognized on the sale or exchange of section 995(b)(1)(B) property (attach schedule)	2	
3	Gain recognized on the sale or exchange of section 995(b)(1)(C) property (attach schedule)	3	
4	50% of taxable income attributable to military property (section 995(b)(1)(D)) (see instructions—attach schedule)	4	
5	Taxable income from line 7, Part II	5	
6	Taxable income of the IC-DISC (from line 7, page 1)	6	
7	Add lines 1, 2, 3, 4 and 5	7	
8	Subtract line 7 from line 6	8	
9	If you have shareholders that are C corporations, enter one-seventeenth of line 8 (.0588235 times line 8)	9	
10	International boycott income (see instructions)	10	
11	Illegal bribes and other payments (see instructions)	11	
	Note: *Separate computations are required for shareholders that are C corporations and shareholders other than C corporations for lines 12-23. Complete lines 12, 14, 15, 17a, 18, 20, and 22 for shareholders other than C corporations. Complete lines 13, 14, 16, 17b, 19, 21, and 23 for shareholders that are C corporations.*		
12	Total of lines 7, 10, and 11	12	
13	Total of lines 7, 9, 10, and 11	13	
14	Earnings and profits for the tax year (see instructions—attach schedule)	14	
15	Enter smaller of line 12 or 14	15	
16	Enter smaller of line 13 or 14	16	
17	Foreign investment attributable to producer's loans (see instructions—attach schedule):		
a	Computation of amount for shareholders other than C corporations	17a	
b	Computation of amount for shareholders that are C corporations	17b	
18	Add lines 15 and 17a	18	
19	Add lines 16 and 17b	19	
20	Enter percentage of stock owned by shareholders other than C corporations	20	%
21	Enter percentage of stock owned by shareholders that are C corporations	21	%
22	Multiply line 18 by line 20 (see instructions)	22	
23	Multiply line 19 by line 21 (see instructions)	23	
24	Total deemed distributions under section 995(b)(1) for all shareholders—Add lines 22 and 23	24	

Part II.—Section 995(b)(1)(E) Computation

1	Total qualified export receipts (see instructions)	1	
2	Statutory maximum	2	$10,000,000
3	Controlled group member's portion of the statutory maximum (see instructions)	3	
4	Enter smaller of: (a) number of days in tax year divided by 365, or (b) 1 (one) (see instructions)	4	
5	Proration—Line 2 or 3, whichever is applicable, times line 4	5	
6	Excess qualified export receipts—Line 1 less line 5. (If line 5 exceeds line 1, enter zero here and on line 7 below.)	6	
7	Taxable income attributable to line 6 receipts—Enter here and on line 5 of Part I (see instructions)	7	

Part III.—Deemed Distributions Under Section 995(b)(2)

1	Annual installment of distribution attributable to revocation of election in an earlier year	1	
2	Annual installment of distribution attributable to not qualifying as a DISC or IC-DISC in an earlier year	2	
3	Total deemed distributions under section 995(b)(2) (add lines 1 and 2)	3	

Part IV.—Actual Distributions

1	Distributions to meet qualification requirements under section 992(c) (attach computation)			1	
2	Other actual distributions			2	
3	Total (add lines 1 and 2)			3	
4	Amount on line 3 treated as distributed from:				
a	Previously taxed income (see instructions)	4a			
b	Accumulated IC-DISC income (including IC-DISC income of the current year)	4b			
c	Other earnings and profits	4c			
d	Other	4d			

Part V.—Deferred DISC Income Under Section 995(f)(3)

1	Accumulated IC-DISC income (for periods after 1984) at end of computation year	1	
2	Distributions-in-excess-of-income for the tax year following the computation year to which line 1 applies	2	
3	Deferred DISC income—Subtract line 2 from line 1	3	

Form 1120-IC-DISC (1987) Page 5

SCHEDULE N.—Export Gross Receipts of the IC-DISC and Related U.S. Persons (See page 9 of instructions.)

1 Enter product code and percentage of total export gross receipts for a the largest and b 2nd largest product or service sold or provided by the IC-DISC: a Code .... Percentage of total ....% b Code .... Percentage of total ....%

2 Export gross receipts for 1987

(a) Export gross receipts of the IC-DISC	Export gross receipts of related U.S. persons	
	(b) Related IC-DISCs	(c) All other related U.S. persons

3 If item 2(b) or 2(c) is completed, complete the following (if more space is needed, attach a schedule using the format as shown below):

Related U.S. Persons, Except IC-DISCs, in Your Controlled Group

Name	Address	Identifying number

IC-DISCs in Your Controlled Group

Name	Address	Identifying number

Additional Information	Yes	No
H Did you claim a deduction for expenses connected with:		
(1) Entertainment facility (boat, resort, ranch, etc.)?		
(2) Living accommodations (except employees on business)?		
(3) Employees attending conventions or meetings outside the North American area? (See section 274(h).)		
(4) Employees' families at conventions or meetings?		
If "Yes," were any of these conventions or meetings outside the North American area? (See section 274(h).)		
(5) Employee or family vacations not reported on Form W-2?		
I Refer to page 11 of the instructions and state the main: Business activity ▶ .... Product or service ▶		
J Were you a U.S. shareholder of any controlled foreign corporation? (See sections 951 and 957.) If "Yes," attach Form 5471 for each corporation.		
K (1) Did 95% or more of your gross receipts for the tax year consist of qualified export receipts (defined in section 993(a))?		
(2) Did the adjusted basis of your qualified export assets (as defined in section 993(b)) at the end of the tax year equal or exceed 95% of the sum of the adjusted basis of all your assets at the end of the tax year?		
(3) If the answer to K(1) or (2) is "No," did you make a pro rata distribution of property as defined in section 992(c)?		
L Did you have more than one class of stock at any time during the tax year?		
M Was the par or stated value of your stock at least $2,500 on each day of the tax year (for a new corporation, on the last day for making an election and for each later day)?		
N Did you have your own bank account?		
O Did you keep separate books and records?		
P At any time during the tax year, did you have an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See instructions for exceptions and filing requirements for form TD F 90-22.1.)		
If "Yes," write the name of the foreign country ▶		
Q Were you the grantor of, or transferor to, a foreign trust that existed during the current tax year, whether or not you have any beneficial interest in it? If "Yes," you may have to file Forms 3520, 3520-A, or 926		
R During this tax year did the corporation maintain any part of its accounting/tax records on a computerized system?		
S (1) Do you or any member of your controlled group (as defined in section 993(a)(3)) have operations in or related to any country (or with the government, a company, or a national of that country) associated with carrying out the boycott of Israel that is on the list kept by the Secretary of the Treasury under section 999(a)(3)?		
(2) Did you or any member of the controlled group of which you are a member have operations in any unlisted country that you know or have reason to know requires participation in or cooperation with an international boycott against Israel?		
(3) Did you or any member of the controlled group of which you are a member have operations in any country that you know or have reason to know requires participation in or cooperation with an international boycott other than the boycott of Israel?		
If you answered "Yes" to any of the questions in S, see instructions and Form 5713, International Boycott Report.		
T Enter the amount of tax-exempt interest income received or accrued during the tax year ▶		

Form 1120-IC-DISC (1987) Page 6

SCHEDULE L.—Balance Sheets

		(a) Beginning of the tax year	(b) End of the tax year
Assets	1 Qualified assets:		
	a Working capital (cash and necessary temporary investments)		
	b Funds awaiting investment (cash in U.S. banks in excess of working capital needs to acquire other qualified export assets)		
	c Export-Import Bank obligations		
	d Trade receivables (accounts and notes receivable)		
	(i) Subtract allowance for bad debts	( )	( )
	e Export property (net) (including inventory and qualified property held for lease)		
	f Producer's loans		
	g Investment in related foreign export corporations		
	h Depreciable assets		
	(i) Subtract accumulated depreciation	( )	( )
	i Other (attach schedule)		
	2 Nonqualified assets (net) (list):		
	3 Total assets		
Liabilities and Stockholders' Equity	4 Accounts payable		
	5 Other current liabilities (attach schedule)		
	6 Mortgages, notes, bonds payable in 1 year or more		
	7 Other liabilities (attach schedule)		
	8 Capital stock		
	9 Paid-in or capital surplus		
	10 Other earnings and profits		
	11 Previously taxed income (section 996(f)(2))		
	12 Accumulated pre-1985 DISC income (see instructions)		
	13 Accumulated IC-DISC income (see instructions)		
	14 Subtract cost of treasury stock	( )	( )
	15 Total liabilities and stockholders' equity		

SCHEDULE M-1.—Reconciliation of Income per Books With Income per Return

1 Net income on books		6 Income recorded on books this year and not included in this return (itemize)	
2 Excess of capital losses over capital gains			
3 Taxable income not recorded on books this year (itemize)		7 Deductions in this return not charged against book income this year (itemize)	
4 Expenses recorded on books this year and not deducted in this return (itemize)		8 Add lines 6 and 7	
5 Add lines 1 through 4		9 Income (line 7, page 1) (line 5 less line 8)	

SCHEDULE M-2.—Analysis of Other Earnings and Profits (Line 10 above)

1 Balance at the beginning of the year		5 Distributions to qualify under section 992(c)	
2 Increases (itemize)		6 Other decreases (itemize)	
3 Add lines 1 and 2		7 Add lines 4, 5, and 6	
4 Deficit in earnings and profits		8 Balance at end of year (line 3 less line 7)	

SCHEDULE M-3.—Analysis of Previously Taxed Income (Line 11 above)

1 Balance at the beginning of the year		5 Deficit in earnings and profits	
2 Deemed distributions under section 995(b)		6 Distributions to qualify under section 992(c)	
3 Other increases (itemize)		7 Other decreases (itemize)	
		8 Add lines 5, 6, and 7	
4 Add lines 1, 2, and 3		9 Balance at end of year (line 4 less line 8)	

SCHEDULE M-4.—Analysis of Accumulated IC-DISC Income (Line 13 above)

1 Balance at the beginning of the year		6 Distributions to qualify under section 992(c)	
2 Increases (itemize)		7 Distributions upon disqualification (sec. 995(b)(2))	
		8 Other decreases (itemize)	
3 Add lines 1 and 2		9 Add lines 4 through 8	
4 Deficit in earnings and profits			
5 Redemptions under section 996(d)		10 Balance at end of year (line 3 less line 9)	

*U.S. GOVERNMENT PRINTING OFFICE: 1987-183-1925

1987 Instructions for Form 1120-IC-DISC

Department of the Treasury
Internal Revenue Service

Interest Charge Domestic International Sales Corporation Return

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

Paperwork Reduction Act Notice

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

Voluntary Contributions To Reduce the Public Debt

Quite often, inquiries are received about how voluntary contributions to reduce the public debt may be made. A domestic international sales corporation may contribute by enclosing a **separate** check payable to "Bureau of the Public Debt," with Form 1120-IC-DISC. These amounts are tax deductible, subject to the rules and limitations for charitable contributions.

Changes You Should Note

Tax Reform Act of 1986 (Act)

The Act made many changes to the Internal Revenue Code that affect the IC-DISC and its shareholders. Many of these changes are contained in the instructions. For information on other changes, see **Publication 921**, Explanation of the Tax Reform Act of 1986 for Business.

General Instructions

A. Purpose of Form

Form 1120-IC-DISC is an information return filed by interest charge domestic international sales corporations (IC-DISCs), former DISCs, and former IC-DISCs.

B. What Is an IC-DISC

An IC-DISC is a domestic corporation that has elected to be an IC-DISC and its election is still in effect. The IC-DISC election is made by filing **Form 4876A**, Election To Be Treated as an Interest Charge DISC.

Generally, an IC-DISC is not taxed on its income. Shareholders of an IC-DISC are taxed on its income when the income is actually or deemed distributed. In addition, section 995(f) imposes an interest charge on shareholders for their share of DISC-related deferred tax liability. See **Form 8404**, Computation of Interest Charge on DISC-Related Deferred Tax Liability, for details.

To be an IC-DISC, a corporation must be organized under the laws of a state or the District of Columbia and meet the following tests:

- Its tax year must conform to the tax year of the principal shareholder who at the beginning of the tax year has the highest percentage of voting power. If two or more shareholders have the highest percentage of voting power, the IC-DISC must elect a tax year that conforms to that of any one of the principal shareholders. (See section 441(h) and the regulations thereunder for additional information.)
- Its election to be treated as an IC-DISC is in effect for the tax year.
- At least 95% of its gross receipts during the tax year are qualified export receipts.
- At the end of the tax year, the adjusted basis of its qualified export assets is at least 95% of the sum of the adjusted basis of all its assets.
- It has only one class of stock, and its outstanding stock has a par or stated value of at least $2,500 on each day of the tax year (or, for a new corporation, on the last day to elect IC-DISC status for the year and on each later day).
- On each day of the tax year, it has its own bank account and keeps separate books and records.
- It is not a member of any controlled group of which a foreign sales corporation (FSC) is a member.

See section 992 and related regulations for details and Instruction D for definitions.

Distribution to meet qualification requirements.—An IC-DISC that does not meet the gross receipts test or qualified export asset test during the tax year will still be considered to have met them if, after the tax year ends, the IC-DISC makes a pro rata property distribution to its shareholders and specifies at the time that this is a distribution to meet the qualification requirements.

If the IC-DISC did not meet the gross receipts test, the distribution equals the part of its taxable income attributable to gross receipts that are not qualified export gross receipts. If it did not meet the qualified export asset test, the distribution equals the fair market value of the assets that are not qualified export assets on the last day of the tax year. If the IC-DISC did not meet either test, the distribution equals the sum of both amounts. Regulations section 1.992-3 explains how to figure the distribution.

"Interest" on late distribution.—If the IC-DISC makes this distribution after the date Form 1120-IC-DISC is due, interest must be paid to the Internal Revenue Service Center where you filed the form. The charge is 4½% of the distribution times the number of tax years that begin after the tax year to which the distribution relates until the date the IC-DISC made the distribution.

If you must pay this interest, send the payment to the service center within 30 days of making the distribution. On the payment write the IC-DISC's name, address, and employer identification number; the tax year involved; and a statement that the payment represents the interest charge under regulations section 1.992-3(c)(4).

Ineligible organizations.—The following organizations are not eligible for IC-DISC status. File the return indicated instead of Form 1120-IC-DISC:

- Tax-exempt organizations (section 501): File the appropriate return in the Form 990 series.
- Personal holding companies (section 542): File Form 1120 and Schedule PH (Form 1120).
- Financial institutions affected by section 581 or 593: File Form 1120.
- Insurance companies (subchapter L): File Form 1120L or 1120-PC.
- Regulated investment companies (section 851(a)): File Form 1120-RIC.
- Real estate investment trusts (section 856): File Form 1120-REIT.
- S corporations (section 1361(a)): File Form 1120S.

C. Filing Form 1120-IC-DISC

1. Who Files Form 1120-IC-DISC.—You must file Form 1120-IC-DISC if your corporation elected, by filing Form 4876A, to be treated as an IC-DISC.

If the corporation is a former DISC or former IC-DISC, you must file Form 1120-IC-DISC for it, in addition to any other return required. A former DISC is a corporation that was a DISC on or before December 31, 1984, but failed to qualify as a DISC sometime prior to December 31, 1984, or did not elect to be an IC-DISC after 1984; and at the beginning of the year, it had undistributed income that was previously taxed or accumulated DISC income. A former IC-DISC is a corporation that was an IC-DISC in an earlier year but did not qualify as an IC-DISC at the end of its 1986 tax year; and at the beginning of the year, it had undistributed income that was previously taxed or accumulated IC-DISC income. (See section 992 and related regulations.)

A former DISC or former IC-DISC need not complete page 1 and the Schedules for figuring taxable income, but must complete Schedules J, L, and M of Form 1120-IC-DISC and Schedule K (Form 1120-IC-DISC). Write "Former DISC" or "Former IC-DISC" across the top of the return.

2. When To File.—File Form 1120-IC-DISC by the 15th day of the 9th month after the tax year ends. No extensions are allowed for time to file.

Period covered.—File the 1987 return for calendar year 1987 and fiscal years that begin in 1987. If the return is for a fiscal year, fill in the tax year space at the top of the form.

Amended return.—To correct any error in a Form 1120-IC-DISC already filed, file an amended Form 1120-IC-DISC and write "Amended" across the top.

Change in tax year.—To change your tax year, file **Form 1128**, Application for Change in Accounting Period.

Final return.—If the corporation ceased to exist during 1986, write "Final return" across the top of the form.

3. Where To File.—

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

If the IC-DISC is one of a group of IC-DISCs controlled by a common parent, file with the service center where the common parent files.

A group of corporations in several service center regions may file their separate returns with the service center for the principal office of the managing corporation that keeps all the books and records.

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

If your corporate officer filled in Form 1120-IC-DISC, the Paid Preparer's space under Signature of Officer should remain blank. If someone prepares Form 1120-IC-DISC and does not charge the corporation, that person should not sign the return. Certain others who prepare Form 1120-IC-DISC should not sign. For example, a regular, full-time employee of the corporation such as a clerk or secretary does not have to sign. (This list is not all-inclusive.)

Generally, anyone who is paid to prepare Form 1120-IC-DISC must sign the return and fill in the other blanks in the Paid Preparer's Use Only area of the return.

The preparer required to sign the return MUST:

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

Tax return preparers should be familiar with their responsibilities. See **Publication 1045**, Information for Tax Practitioners, for more details.

5. Other Returns and Statements That May Be Required.—

a. Financial statements.

The balance sheets must agree with your books and records. Reconcile any differences.

b. Stock in foreign corporation.

If, on the last day of your tax year, you owned at least 5% in value of a foreign personal holding company's outstanding stock and the corporation was required to include in its gross income any undistributed foreign personal holding company income, attach a statement showing the foreign company's gross income, deductions, credits, taxable income, and undistributed foreign personal holding company income. See section 551(c).

If you controlled a foreign corporation or owned at least 10% of the shares in a controlled foreign corporation, you may have to file **Form 5471**, Information Return With Respect to a Foreign Corporation.

c. Forms

The IC-DISC may have to file any of the following:

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

Form W-2P. Statement for Recipients of Annuities, Pensions, Retired Pay, or IRA Payments.

Form 966. Corporate Dissolution or Liquidation.

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

Form 1098. Mortgage Interest Statement. This form is used to report the receipt from any individual of $600 or more of mortgage interest in the course of the corporation's trade or business for any calendar year.

Forms 1099-A, B, DIV, INT, MISC, OID, PATR, and R. Information returns for reporting abandonments, acquisitions through foreclosure, proceeds from brokers, barter exchange, and 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 **Publication 916**, Information Returns.

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

Form 5452. Corporate Report of Nontaxable Dividends.

Form 5498. Individual Retirement Arrangement Information. It is to be used to provide IRS with contribution information on individual retirement arrangements, simplified employee pensions, and deductible voluntary employee contributions.

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

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

Form 8271. Investor Reporting of Tax Shelter Registration Number. It is used by taxpayers who have acquired an interest in a tax shelter, which is required to be registered, to report the tax shelter's registration number.

Form 8271 must be attached to any tax return (including an application for tentative refund (Form 1139) and an amended Form 1120-IC-DISC) on which a deduction, credit, loss, or other tax benefit 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).

Forms 1042 and 1042S.—File Form **1042**, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, and **Form 1042S**, Foreign Person's U.S. Source Income Subject to Withholding, to report tax withheld from amounts paid to nonresident aliens and foreign corporations (sections 1441 through 1443 and 1461). In addition, please inform your shareholders who are nonresident alien individuals or foreign corporations, trusts, or estates that if they have gains from disposing of stock in the IC-DISC, former DISC, or former IC-DISC, or distributions from accumulated IC-DISC income, including deemed distributions, they must treat these amounts as effectively connected with the conduct of a trade or business conducted through a permanent establishment in the U.S., and derived from sources within the U.S.

D. Definitions

1. The following definitions are based on section 993.

a. Qualified export receipts, in general, are any of the following:

(1) Gross receipts from selling, exchanging, or otherwise disposing of export property.
(2) Gross receipts from renting export property that the lessee uses outside the U.S.
(3) Gross receipts from supporting services related to any qualified sale, exchange, rental, or other disposition of export property by the corporation.
(4) Gross receipts, if there is a gain, from selling, exchanging, or otherwise disposing of qualified export assets that are not export property.
(5) Dividends or amounts includible in gross income under section 951 regarding stock of a related foreign export corporation.
(6) Interest on any obligation that is a qualified export asset.
(7) Gross receipts for engineering or architectural services on construction projects outside the U.S.
(8) Gross receipts for managerial services performed for an unrelated IC-DISC.

For more information, see regulations section 1.993-1.

b. Qualified export assets are any of the following:

(1) Export property.
(2) Assets used mainly in performing the engineering or architectural services listed under qualified export receipts, item (7), or managerial services that further the production of qualified export receipts, items (1), (2), (3), and (7) above; or assets used mainly in assembling, servicing, handling, selling, leasing, packaging, transporting, or storing of export property.
(3) Accounts receivable produced by transactions listed under qualified export receipts, items (1)–(4), (7), or (8).
(4) Temporary investments, such as money and bank deposits, in an amount reasonable to meet the corporation's needs for working capital.
(5) Obligations related to a producer's loan.
(6) A related foreign export corporation's stock or securities that the IC-DISC holds
(7) Certain obligations that are issued or insured by the U.S. Export-Import Bank or the Foreign Credit Insurance Association and that the IC-DISC acquires from the bank, the association, or the person who sold or bought the goods from which the obligations arose.
(8) Certain obligations, held by the IC-DISC that were issued by a domestic corporation organized to finance export property sales under an agreement with the Export-Import Bank, by which the corporation makes export loans that the bank guarantees.
(9) Other deposits in the U.S. used to acquire qualified export assets within the time provided by regulations section 1.993-2(j).

Regulations section 1.993-2 gives more information.

c. Export property must meet all the following terms. It is:

(1) Made, grown, or extracted in the U.S. by someone other than an IC-DISC.
(2) Neither excluded under section 993(c)(2) nor declared in short supply under section 993(c)(3).
(3) Held mainly for sale or rent in the ordinary course of trade or business, by or to an IC-DISC for direct use, consumption, or disposition outside the U.S.
(4) Property not more than 50% of the fair market value of which is attributable to articles imported into the U.S.
(5) Neither sold nor leased by or to another IC-DISC that, immediately before or after the transaction, either belongs to the same controlled group (defined in section 993(a)(3)) as your IC-DISC or is related to your IC-DISC in a way that would result in losses being denied under section 267.

See regulations section 1.993-3 for details.

d. A producer's loan must meet all the following terms:

(1) Satisfy sections 993(d)(2) and (3) limiting loans the IC-DISC makes to any one borrower.
(2) Not raise the unpaid balance due the IC-DISC on all its producer's loans above the level of accumulated IC-DISC income it had at the start of the month in which it made the loan.
(3) Be indicated by written evidence of debt, such as a note, that has a stated maturity date no more than 5 years after the date of the loan.
(4) Be made to a person in the U.S. in the trade or business of making, growing, or extracting export property.
(5) Be designated as a producer's loan when made.

For more information, see Schedule Q (Form 1120-IC-DISC), Borrower's Certificate of Compliance with the Rules for Producer's Loans, and regulations section 1.993-4.

e. A related foreign export corporation of any of the following kinds can pay dividends and interest to the IC-DISC without loss of IC-DISC status. The IC-DISC's investment must be related to exports from the U.S.

(1) A *foreign international sales corporation* is a related foreign export corporation if:

(i) The IC-DISC directly owns more than 50% of the total voting power of the foreign corporation's stock,
(ii) For the tax year that ends with your IC-DISC's tax year or ends within it, at least 95% of the foreign corporation's gross receipts consists of the qualified export receipts described in items (1)–(4) of definition **a** above and interest on the qualified export assets listed in items (3) and (4) of definition **b** above, and
(iii) The adjusted basis of the qualified export assets that are listed in items (1)–(4) of **b** above and that the foreign corporation held at the end of the tax year is at least 95% of the adjusted basis of all assets it held then.

(2) A *real property holding company* is a related foreign export corporation if:

(i) The IC-DISC directly owns more than 50% of the total voting power of the foreign corporation's stock, and
(ii) Applicable foreign law forbids the IC-DISC to hold title to real property; the foreign corporation's sole function is to hold the title; and only the IC-DISC uses the property, under lease or otherwise.

(3) An *associated foreign corporation* is a related foreign export corporation if:

(i) The IC-DISC or a controlled group of corporations to which the IC-DISC belongs owns less than 10% of the total voting power of the foreign corporation's stock (section 1563 defines a controlled group in this sense, and sections 1563(d) and (e) define ownership), and
(ii) The IC-DISC's ownership of the foreign corporation's stock or securities reasonably furthers transactions that lead to qualified export receipts for the IC-DISC.

See regulations section 1.993-5 for more information about related foreign export corporations.

f. Gross receipts are the IC-DISC's total receipts from (1) selling or renting property that the corporation holds for sale or rental in the course of its trade or business and (2) all other sources. For commissions on selling or renting property, include gross receipts from selling or renting the property on which the commissions arose. Regulations section 1.993-6 gives more information.

g. United States, as used in these instructions, includes Puerto Rico and U.S. possessions, as well as the 50 states and the District of Columbia.

2. Inter-company pricing rules (section 994).—If a related person described in section 482 sells export property to the IC-DISC, use the inter-company pricing rules to figure taxable income for the IC-DISC and the seller. These rules generally do not permit the related person to price at a loss. Under inter-company pricing, the IC-DISC's taxable income from the sale (regardless of the price actually charged) may not exceed the greatest of:

(a) 4% of qualified export receipts on the IC-DISC's sale of the property plus 10% of the IC-DISC's export promotion expenses attributable to the receipts,

(b) 50% of the IC-DISC's and the seller's combined taxable income from qualified export receipts on the property, derived from the IC-DISC's sale of the property plus 10% of the IC-DISC's export promotion expenses attributable to the receipts, or
(c) taxable income based on the sale price actually charged, provided that under section 482 the price actually charged clearly reflects the taxable income of the IC-DISC and the related person.

Schedule P (Form 1120-IC-DISC), Computation of Inter-company Transfer Price or Commission, explains the inter-company pricing rules in more detail.

3. Export promotion expenses (section 994(c)).—These expenses are incurred to help distribute or sell export property for use or distribution outside the U.S. These expenses do not include income tax, but do include 50% of the cost of shipping the export property on U.S.-owned and -operated aircraft or ships if U.S. law or regulations do not require that it be shipped on them.

E. Penalties

The IC-DISC may have to pay the following penalties unless it can show that it had reasonable cause for not giving information or not filing a return:

- $100 for each instance of not giving required information, up to $25,000 during the calendar year.
- $1,000 for not filing a return.

See section 6686 for other details.

Specific Instructions

File a Complete Return

To assist us in processing the return, we ask that you complete every applicable entry space on Form 1120-IC-DISC. Please do not attach statements and write "See attached" in lieu of completing the entry space on Form 1120-IC-DISC.

Accounting methods.—Compute taxable income by the accounting method regularly used to keep the IC-DISC's books and records. The method used must clearly reflect taxable income. See section 446.

A member of a controlled group must avoid using an accounting method that would distort any group member's income, including its own. For example, an IC-DISC acts as a commission agent for property sales by a related corporation that uses the accrual method and pays the IC-DISC its commission more than 2 months after the sale. The IC-DISC, then, should not use the cash method of accounting, because it materially distorts the income of the IC-DISC.

Unless the law specifically permits otherwise, the IC-DISC may change from the accounting method it used to report taxable income in earlier years (for income as a whole or for any material item) only by first getting consent on **Form 3115**, Application for Change in Accounting Method.

Rounding off.—You may show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents, and increase any amount from 50 cents through 99 cents to the next higher dollar.

Attachments.—If you need more space, attach separate sheets to the back of Form 1120-IC-DISC. Attach **Form 4136**, Computation of Credit for Federal Tax on Gasoline and Special Fuels, after page 6, Form 1120-IC-DISC. Attach schedules in alphabetical order and other forms in numerical order after the Form 4136. Be sure to put the IC-DISC's name and employer identification number (EIN) on each sheet.

Page 1

Employer Identification Number.— Enter the IC-DISC's employer identification number (EIN). If the IC-DISC does not have an EIN, it should apply for one on **Form SS-4**, Application for Employer Identification Number. You can get this form at most IRS or Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center to which you send Form 1120-IC-DISC. If you have not received the EIN by the time for filing Form 1120-IC-DISC, write "Applied for" in the space for the EIN.

Question E.—Total assets.—Enter the total assets of the IC-DISC. If there are no assets at the end of the tax year, enter the assets as of the beginning of the tax year.

Question F.—For rules of stock attribution, see section 267(c). If the owner of the voting stock of the IC-DISC was an alien individual or a foreign corporation, partnership, trust, or estate, check the "Yes" box in the "Foreign Owner" column and enter the name of the owner's country, in parentheses, in the address column. "Owner's country" for individuals is their country of residence; for other foreign entities, it is the country in which organized or otherwise created, or in which administered.

Lines 1 through 8

An IC-DISC must figure its taxable income although it does not pay most taxes. Of the taxes imposed by sections 1 through 1564, an IC-DISC is subject only to the tax imposed by sections 1491 through 1494 on certain transfers to avoid tax. An IC-DISC is exempt from corporate income tax, minimum tax on tax preference items, and accumulated earnings tax.

An IC-DISC and its shareholders are not entitled to the possessions corporation tax credit (section 936). Also, an IC-DISC cannot claim the investment tax credit, the jobs credit, research credit, alcohol fuel credit, general business credit, and credit for fuel produced from a nonconventional source. In addition, these credits do not pass through to shareholders of an IC-DISC.

2. Cost of goods sold and/or operations.— See Instructions for Schedule A.

6a. Net operating loss deduction.—The "net operating loss deduction" is the amount of the net operating loss carryovers and carrybacks that can be deducted in the tax year. See section 172 and **Publication 536**, Net Operating Losses, for details.

6b. Dividends-received deduction.—See the instructions for Schedule C, line 6, Column (c) for details.

A deficit in earnings and profits is chargeable in the following order:

(1) First, to any earnings and profits other than accumulated IC-DISC income or previously taxed income;
(2) Second, to any accumulated IC-DISC income; and
(3) Finally, to previously taxed income. Do not apply any deficit in earnings and profits against accumulated IC-DISC income that, as a result of the corporation's revoking its election to be treated as an IC-DISC (or other disqualification), is deemed distributed to the shareholders. (See section 995(b)(2)(A).)

7. Taxable income.—If you use either the gross receipts method or combined taxable income method to compute the IC-DISC's taxable income attributable to any transactions involving products or product lines, attach Schedule P (Form 1120-IC-DISC). Show in detail the IC-DISC's taxable income attributable to each such transaction or group of transactions.

8. Refund of U.S. tax on gasoline and special fuels.—Enter the credit from Form 4136. Also, if the IC-DISC is a producer of domestic crude oil and overpaid the windfall profit tax, include the overpayment from **Form 6249**, Computation of Overpaid Windfall Profit Tax, in the total on line 8. Also enter the overpayment separately in the margin beside line 8 and identify it as "Overpaid windfall profit tax." Attach Form 6249 to Form 1120-IC-DISC.

Schedule A.—Cost of Goods Sold and/or Operations

If you use inter-company pricing rules, reflect in Schedule A actual purchases from a related supplier. See General Instruction **D2** and use the transfer price you compute in Part II of Schedule P (Form 1120-IC-DISC).

If the IC-DISC acts as another person's commission agent on a sale, do not enter any amount in Schedule A for the sale. See Schedule P (Form1120-IC-DISC).

Cost of operations.—If the entry on line 2, page 1, of Form 1120-IC-DISC is for the cost of operations, complete Schedule A even if inventories are not used.

Valuation methods.—Your inventories can be valued at: (1) cost; (2) cost or market value (whichever is lower); or (3) any other method that is approved by the Commissioner of Internal Revenue and that conforms to the provisions of the applicable regulations cited below.

Taxpayers using erroneous valuation methods must change to a method permitted for Federal income tax purposes. Such changes should be made by filing Form 3115. For more information about the change, see Regulations section 1.446-1(e)(3) and Rev. Proc. 84-74, 1984-2 C B. 738.

In line 8a, check the method(s) used for valuing inventories. Under "lower of cost or market," market generally applies to normal market conditions when there is a current bid price prevailing at the date the inventory is valued. When no regular open market exists or when quotations are nominal because of inactive market conditions, use fair market prices from the most reliable sales or purchase transactions that occurred near the date the inventory is valued. For more requirements, see Regulations section 1.471-4.

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

In (iv) of 8a, indicate whether you used a method of inventory valuation other than those described in 8a (i) through (iii). Attach a statement describing the method used.

If this is the first year the "last-in first-out" (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method, provided in section 472, attach **Form 970**, Application To Use LIFO Inventory Method, or a statement with the information required by Form 970. Also check the LIFO box in line 8b. In line 8c, enter the amount or percent of total closing inventories valued using the LIFO method. Estimates are acceptable.

If the IC-DISC changed or extended its inventory method to LIFO and had to write up its opening inventory to cost in the year of election, report the effect of this writeup as income (line 3f, Schedule B) proportionately over the 3-year period that begins in the tax year the corporation made its LIFO 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 in the Schedule E instructions. See those instructions before completing Schedule A

Corporations subject to section 263A will be required to make adjustments to the cost of goods sold computation on Schedule A. To the extent section 263A costs were not included in inventory in prior years, corporations must revalue their beginning inventory. Corporations may elect one of the simplified methods of accounting for section 263A costs provided in Temporary Regulations section 1.263A-1T for purposes of both revaluing their inventory and accounting for costs in subsequent years. See the instruction for line 4a below. Absent the election of a simplified method, the corporation is required to allocate additional costs to be included in inventory under section 263A with the same degree of specificity as was required of inventoriable costs under prior law

Line 1.—For tax years beginning after 1986, beginning inventory must be revalued as if section 263A rules had been in effect for all prior tax years. Enter the revalued beginning inventory on line 1. An adjustment to income is required under section 481(a). This adjustment should be included in income on line 2j (or 3f if applicable) of Schedule B, Form 1120-IC-DISC, and separately identified on an attached schedule. The section 481 adjustment is taken into account over a period not to exceed 4 years. In addition, since the application of section 263A is considered to be a change in accounting method, the corporation is required to complete Form 3115 to show its computation of the section 481(a) adjustment. Attach Form 3115 to Form 1120-IC-DISC. Be sure to use the 1987 revision of Form 3115. See section 803(d) of the Tax Reform Act of 1986 and regulations under section 263A for more information on revaluing beginning inventory.

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 sections 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 other inventoriable costs paid or incurred during the tax year not entered on lines 2 through 4a.

Line 6.—See section 263A and Temporary Reglations section 1.263A-1T for details on figuring the amount of additional section 263A costs to be capitalized and added to ending inventory.

Schedule B.—Gross Income

If an income item falls into two or more categories, report each part on the applicable line. For example, if interest income consists of qualified interest from a foreign international sales corporation and nonqualified interest from a domestic obligation, enter the qualified interest on an attached schedule for line 2g and the nonqualified interest on an attached schedule for line 3f.

For gain from selling qualified export assets, you will need to attach a separate schedule in addition to the forms required for lines 2h and 2i

If you use the installment method of reporting, attach a schedule showing for the current and 3 preceding years. (a) gross sales, (b) cost of goods sold, (c) gross profit, (d) percentage of gross profit to gross sales, (e) amount collected, and (f) gross profit on the amount collected

For tax years beginning after 1986, corporations that sell personal property on a revolving credit plan are not permitted to account for such sales on the installment method.

Also, use of the installment method is limited by the proportionate disallowance rules of new section 453C for sale to customers of personal property. See section 453C and section 811(c)(7) of the Tax Reform Act of 1986 for details.

Commissions: special rule.—If the IC-DISC received commissions on selling or renting property or furnishing services, list in column (b) the gross receipts from the sales, rentals, or services on which the commissions arose, and in column (c), list the commissions earned. In column (d) report receipts from noncommissioned sales or rentals of property or furnishing of services, as well as all other receipts.

For purposes of completing line 1a and line 1b, related purchasers are members of the same controlled group (as defined in section 993(a)(3)) as the IC-DISC. All other purchasers are unrelated.

A qualified export sale or lease must meet a use test and a destination test in order to qualify

The **use test** applies at the time of the sale or lease. If the property is used predominantly outside the U.S., and the sale or lease is not for ultimate use in the U.S., it is a qualified export sale or lease. Otherwise, if a reasonable person would believe that the property will be used in the U.S., the sale or lease is not a qualified export sale or lease.

For example, if property is sold to a foreign wholesaler and it is known in trade circles that the wholesaler, to a substantial extent, supplies the U.S. retail market, the sale would not be a qualified export sale, and the receipts would not be qualified export receipts.

Destination test.—Regardless of where title or risk of loss shifts from the seller or lessor, the property must be delivered under one of the following conditions.

(a) Within the U.S. to a carrier or freight forwarder for ultimate delivery outside the U.S. to a buyer or lessee

(b) Within the U.S. to a buyer or lessee who, within 1 year of the sale or lease, delivers it outside the U.S. or delivers it to another person for ultimate delivery outside the U.S.

(c) Within or outside the U.S. to an IC-DISC that is not a member of the same controlled group (as defined in section 993(a)(3)) as the IC-DISC that is making the sale or lease.

(d) Outside the U.S. by means of the seller's delivery vehicle (ship, plane, etc.).

(e) Outside the U.S. to a buyer or lessee at a storage or assembly site if the property was previously shipped from the U.S. by the IC-DISC.

(f) Outside the U.S. to a purchaser or lessee if the property was previously shipped by the seller or lessor from the U.S. and if the property is located outside the U.S. pursuant to a prior lease by the seller or lessor, and either (a) the prior lease terminated at the expiration of its term (or by the action of the prior lessee acting alone), (b) the sale occurred or the term of the subsequent lease began after the time at which the term of the prior lease would have expired, or (c) the lessee under the subsequent lease is not a related person (a member of the same controlled group as defined in section 993(a)(3) or a relationship that would result in a disallowance of losses under section 267 or section 707(b)) immediately before or after the lease with respect to the lessor and the prior lease was terminated by the action of the lessor (acting alone or together with the lessee).

Line-by-Line Instructions

Qualified export receipts to be entered in line 1 are received from the sale of property, such as inventory, that is produced in the U.S. for direct use, consumption, or disposition outside the U.S. These sales are qualified export sales.

1a. Enter the IC-DISC's qualified export receipts from export property sold to foreign, unrelated buyers for delivery outside the U.S. Do not include amounts entered on line 1b.

1b. Enter the IC-DISC's qualified export receipts from export property sold for delivery outside the U.S. to (i) a related foreign entity for resale to a foreign, unrelated buyer or (ii) an unrelated buyer when a related foreign entity acts as commission agent.

2a. Enter the gross amount received from leasing or subleasing export property to unrelated persons for use outside the U.S.

Receipts from leasing export property may qualify in some years and not in others, depending on where the lessee uses the property. Enter only receipts that qualify during the tax year. (Use Schedule E to deduct expenses such as repairs, interest, taxes, and depreciation.)

2b. A service connected to a sale or lease is related to it if the service is usually furnished with that type of sale or lease in the trade or business where it took place. A service is subsidiary if it is less important than the sale or lease.

2c. Include receipts from engineering or architectural services on foreign construction projects abroad or proposed for location abroad. These services include feasibility studies, design and engineering, and general supervision of construction, but do not include services connected with exploring for minerals.

2d. Include receipts for export management services provided to unrelated IC-DISCs.

2f. Include interest received on any loan that qualifies as a producer's loan.

2g. Enter interest on any qualified export asset other than interest on producer's loans.

For example, include interest on accounts receivable from sales in which the IC-DISC acted as a principal or agent and interest on certain obligations issued, guaranteed, or insured by the Export-Import Bank or the Foreign Credit Insurance Association.

2h. On Schedule D (Form 1120) report in detail every sale or exchange of a capital asset, even if there is no gain or loss.

In addition to Schedule D (Form 1120), attach a separate schedule computing gain from the sale of qualified export assets.

2i. Enter the net gain or loss from line 18, Part II, Form 4797

In addition to Form 4797, attach a separate schedule computing gain from the sale of qualified export assets.

2j. Enter any other qualified export receipts for the tax year not reported on lines 2a through 2i. Such receipts include the IC-DISC's allocable portion of an adjustment to income required under section 481(a) because of a change in accounting method. For example, section 481(a) income must be reported if the IC-DISC has to revalue its beginning inventory as a result of the uniform capitalization rules of new section 263A. See the instruction for line 1 of Schedule A for details.

3b. Enter receipts from selling products subsidized under a U.S. program if they have been designated as excluded receipts.

3c. Enter receipts from selling or leasing property or services for use by any part of the U.S. Government if law or regulations require U.S. products or services to be used.

3d. Enter receipts from any IC-DISC that belongs to the same controlled group (as defined in section 993(a)(3)).

3f. Include in an attached schedule any nonqualified gross receipts not reported on lines 3a through 3e. Do not offset an income item against a similar expense item.

Schedule C.—Dividends and Special Deductions

(Numbered to correspond to line numbers in Schedule C.)

Column (a)

1. Enter dividends received (except those received on debt-financed stock—see line 2 instruction below) from domestic corporations that are subject to the deduction under section 243(a)(1).

Include taxable distributions from an IC-DISC, former DISC, or former IC-DISC only if such distributions are eligible for this deduction. See line 9 instruction below for distributions not eligible for this deduction.

For dividends from a regulated investment company, see section 854 for the amount subject to the section 243(a)(1) deduction.

So-called dividends or earnings from mutual savings banks, etc., are really interest. Report them on Schedule B, not on Schedule C.

2. Enter dividends on debt-financed stock (acquired after July 18, 1984) that are received from domestic corporations subject to income tax and that would otherwise be subject to the dividends-received deduction under section 243(a)(1). Also enter dividends on debt-financed stock of foreign corporations acquired after July 18, 1984. Generally, debt-financed stock is stock that the corporation acquired, and in doing so, incurred a debt (for example, it borrowed money to buy the stock).

See section 246A for more information.

3. Enter dividends received on the preferred stock of a public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

4. Enter dividends received from foreign corporations and certain FSCs that qualify for the deduction under section 245(a), and dividends received from certain FSCs that qualify for the deduction under section 245(c).

5. Enter dividends you can deduct that you received from wholly owned foreign subsidiaries. See section 245(b).

7. Enter foreign dividends that are not reportable on lines 4 and 5. Exclude distributions of amounts constructively taxed under subpart F for your 1986 tax year or in earlier years.

8. Enter amount required to be included in gross income from controlled foreign corporations under subpart F (sections 951-964). This amount should equal the total of amounts reported on Schedule J of Form 5471. If a controlled foreign corporation is a related foreign export corporation, enter subpart F inclusions on line 12 of Schedule C.

9. Enter taxable distributions from an IC-DISC or former DISC or former IC-DISC that are not eligible for the dividends-received deduction. See sections 246(d), 995(b), and 996(a)(3).

No deduction is allowed for dividends received from another IC-DISC or former DISC or former IC-DISC if the dividend is paid from accumulated IC-DISC income or previously taxed income or if it is a deemed distribution under section 995(b)(1).

10. Include: dividends, except capital gain dividends, from regulated investment companies that do not qualify for the section 243(a) deduction; dividends from tax-exempt organizations; dividends, except capital gain dividends, from a real estate investment trust that, for the trust's tax year in which the dividends are paid, qualifies under sections 856 through 860; dividends not eligible for a dividends-received deduction because of the holding period of the stock or an obligation to make corresponding payments for similar stock; and other taxable dividend income not reported above.

Two situations in which the dividends-received deduction will not be allowed on any share of stock are:

(1) If the corporation held it 45 days or less (see section 246(c)(1)(A)), or

(2) To the extent the corporation is under an obligation to make related payments for substantially similar or related property.

12. Enter qualified dividends from the IC-DISC's investment in a related foreign export corporation (defined in General Instruction **D1e**). Include income from controlled foreign corporations under subpart F. Generally, the investment will be in stock or securities of the IC-DISC's foreign selling subsidiary that qualifies as a foreign international sales corporation

Columns (b) and (c)

1. The dividends-received deduction percentage for dividends received after December 31, 1986, is 80%.

2. The dividends-received deduction for dividends received on debt-financed stock is explained in section 246A. This section applies to dividends received on debt-financed portfolio stock acquired after July 18, 1984.

Dividends received on debt-financed stock are not entitled to the full 80% dividends-received deduction. The 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 which applies to dividends received from foreign corporations. A schedule showing how the amount on line 2, column (c) was figured must be attached to Form 1120-IC-DISC.

3. For dividends on certain preferred stock of public utilities received after December 31, 1986, but before July 1, 1987, the dividends-received deduction percentage is 55.652%. For dividends received after June 30, 1987, the dividends-received deduction percentage is 47.059%.

Multiply the dividends received in each period by the proper percentage to determine the correct dividends-received deduction.

4. The dividends-received deduction percentage(s) for line 4 is: (1) 80% for dividends from foreign corporations for which the deduction is allowed under section 245(a), and (2) 85% for dividends from certain FSCs for which the deduction is allowed under section 245(c)(1)(B).

Note: *The 85% will be reduced to 80% if pending technical corrections legislation is enacted.*

6. Line 6 of Schedule C may not exceed 80% of line 5, page 1. For this purpose, figure line 5, page 1, without any net operating loss deduction under section 172 and without any dividends-received deductions, without regard to any adjustment under section 1059, and to any capital loss carryover to the tax year under section 1212(a)(1).

In a year when a net operating loss occurs, this 80% limit does not apply even if the dividends-received deduction creates the loss.

Schedule E.—Deductions

(Numbered to correspond to line numbers in Schedule E.)

Limitations on deductions

a. Section 263A Uniform Capitalization Rules.—Many items that were deductible under prior law must now be capitalized or included in inventory under the new uniform capitalization rules of section 263A. The new 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, 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. 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. The rules do not apply to property which is produced for use by the taxpayer if substantial construction occurred before March 1, 1986.

The uniform capitalization rules are generally effective for costs and interest paid or incurred after 1986. With respect to inventory, the uniform capitalization rules apply to tax years beginning after 1986. Transitional rules are contained in section 803 of the Tax Reform Act of 1986.

In the case of inventory, some of the indirect costs which may not have been capitalized before 1987, which 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 purpose 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 the instructions for Schedule A on pages 4 and 5 and Temporary Regulations section 1.263A-1T.

b. Meals and Entertainment Expense.—For tax years beginning after 1986, the amount deductible for business meals and entertainment expense is generally limited to 80% of the amount otherwise allowable. For more information on the 80% limitation and other limitations, see section 274.

c. 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 limitations on deductions for unpaid expenses and interest.

Line-by-Line Instructions

1. Enter export promotion expenses on lines 1a through 1m. Export promotion expenses are an IC-DISC's ordinary and necessary expenses paid or incurred to obtain qualified export receipts. Do not include income taxes. Any part of an expense not incurred to obtain qualified export receipts should be entered on lines 2a through 2g.

1c. Attach **Form 4562**, Depreciation, if you deduct depreciation. Enter on line 1c the depreciation not claimed on Schedule A or elsewhere on the return.

Besides depreciation, include in line 1c the part of the cost that the corporation elected to expense for certain recovery property placed in service during the 1987 tax year. Generally, for property placed in service after December 31, 1986, the amount the IC-DISC may expense under section 179 has been raised from $5,000 to $10,000. See the instructions for Form 4562 for other limitations.

1h. Enter half the freight expenses (except insurance) for shipping export property aboard U.S. flagships and U.S.-owned and -operated aircraft, unless by law or regulations you are required to use U.S. ships or aircraft.

1i. Attach a schedule showing the name, social security number, and amount of compensation paid to all officers.

An officer is a person, such as a regular officer or chairman of the board, who is elected or appointed to office or is designated as an officer in the corporation's charter or bylaws.

1j. Enter the cost of incidental repairs, such as labor and supplies, that do not add to the property's value or appreciably prolong its life.

1k. If the IC-DISC has any kind of funded deferred compensation plan, such as a pension or profit-sharing plan, file one of the forms described below.

There are penalties for failure to file these forms on time.

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

Form 5500-C or **5500-R.**—Complete the applicable form for each plan with fewer than 100 participants.

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

1l. Enter your contributions to employee benefit programs, such as insurance or health and welfare programs, that are not an incidental part of a plan included on line 1k. Also include contributions to a qualified group legal services plan. Section 120 gives certain rules that the IC-DISC must follow for its employees (including spouses and dependents) to be able to exclude from their income the IC-DISC's contributions to the legal services plan.

1m. Enter any other deduction not claimed above. Include amortization expense from Form 4562.

Note: *The deduction for amortization of trademark and trade name expenses has been repealed for expenses paid or incurred after 1986.*

2a. You may take a deduction for specific debts that become worthless, in whole or in part. (See section 166.)

For tax years beginning before 1987, an IC-DISC could treat bad debts in either of two ways: (1) as a deduction for specific debts that become worthless, in whole or in part, or (2) as a deduction for a reasonable addition to a reserve for bad debts. For tax years beginning after 1986, the IC-DISC can only use the specific charge off method for figuring its bad-debt deduction. See section 166.

When changing to the specific charge off method, the following rules apply:

- **a.** The change is treated as a change in the IC-DISC's accounting method that is initiated by the IC-DISC;
- **b.** The change shall be considered as approved by the Commissioner; and
- **c.** The net amount of adjustments required by section 481 because of the change in accounting method must be reported as income as explained below.

The amount of the adjustment referred to in item c above is the balance of the bad-debt reserve at the close of the IC-DISC's 1986 tax year (column (g), Schedule F, page 3, Form 1120-IC-DISC). The adjustment is reported as income ratably in each of the first 4 tax years beginning after 1986. Report each year's ratable portion of the income on line 2j, Schedule B, Form 1120-IC-DISC if the amount reported related to a class of receivables that are qualified export asset; otherwise report the amount on line 3f of Schedule B. For more information, see section 805(d)(2) of the Tax Reform Act of 1986.

2b. Enter taxes paid or accrued during the tax year.

Do not include 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.

2c. Do not deduct interest on debts incurred or continued to buy or carry obligations on which the interest is wholly exempt from income tax. (See section 265.)

Section 267 limits deductions for unpaid expenses and interest in transactions between related taxpayers. Section 461(g) limits a cash basis taxpayer's deduction for prepaid interest.

2d. Enter contributions or gifts paid within the tax year to or for the use of charitable and governmental organizations described in section 170(c).

The IC-DISC may claim up to 10% of modified adjusted taxable income as contributions. The limit is 10% of the amount on line 7, page 1, figured without the deduction for contributions, and before taking the dividends-received deduction (line 6b, page 1), premiums paid on bond repurchases (section 249), or payments made to the National Railroad Passenger Corporation (section 250); and before figuring carrybacks to the 1987 tax year for net operating loss (section 172) or capital loss (section 1212(a)(1)). Do not deduct charitable contributions above the 10% limit for the 1987 tax year. The amount of contributions made in the 1987 tax year in excess of the 10% limitation, however, may be carried over in order of time to the next 5 succeeding tax years until deducted against the 10% limitation of one of the 5 succeeding tax years.

A corporation on the accrual basis may elect to deduct contributions paid by the 15th day of the 3rd month after the tax year ends if the board of directors authorized the contributions during the tax year. Attach both of the following to the return: a declaration, signed by an officer, stating that the board of directors adopted the resolution authorizing the contributions during the tax year, and a copy of the resolution.

If a contribution is made in property other than money, attach a schedule describing the kind contributed and what method was used to determine the fair market value.

Special rules for contributions of certain property.—For a charitable contribution of property, the corporation must reduce the contribution by the sum of:

1. The ordinary income, short-term capital gain that would have resulted if the property were sold at its fair market value; and

2. For contributions made in tax years beginning after 1986, 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.

2e. Enter the freight expense not deducted on line 1h as an export promotion expense.

2g. Do not deduct any amount allocable to exempt income. Items directly attibutable to wholly exempt income must be allocated to that income, and items directly attributable to any class of taxable income must be allocated to that income. If an item is indirectly attributable to both taxable and exempt income, allocate a reasonable proportion to each.

Attach a statement showing: (1) the amount of each class of exempt income, and (2) the amount of expense items allocated to each class. Show apportioned amounts separately.

Schedule J.—Parts I Through V

(Numbered to correspond to line numbers in Schedule J.)

Part I.—Deemed Distributions Under Section 995(b)(1)

1. Enter gross interest derived during the tax year from producer's loans (section 995(b)(1)(A)).

2. Enter gain recognized during the tax year on the sale or exchange of property which in the hands of the IC-DISC was not a qualified export asset and which was previously transferred to the IC-DISC in a transaction in which the transferor realized gain but did not recognize the gain in whole or part. See section 995(b)(1)(B). Show the computation of the gain on a separate schedule. Include no more of the IC-DISC's gain than the amount of gain the transferor did not recognize on the earlier transfer.

3. Enter gain recognized on the sale or exchange of property described in section 995(b)(1)(C). Show the computation of the gain. Do not include any gain included in the computation of line 2. Include only the amount of the IC-DISC's gain that the transferor did not recognize on the earlier transfer and that would have been treated as ordinary income if the property had been sold or exchanged rather than transferred to the IC-DISC. Do not include gain on sale or exchange of the IC-DISC's stock in trade or other property that either would be included in inventory if on hand at the end of the tax year or is held primarily for sale in the normal course of business.

4. Enter 50 percent of taxable income attributable to military property (section 995(b)(1)(D)). Show the computation of this income. To figure taxable income attributable to military property, use the gross income attributable to military property for the year and the deductions property allocated to that income. See Regulations section 1.995-6. Military property is defined in section 38 of the International Security Assistance and Arms Export Control Act of 1976 (22 USC 2778) and related regulations (22 CFR 121.01).

6. Enter the taxable income from line 7, page 1, of Form 1120-IC-DISC.

9. Line 9 provides for the computation of the one-seventeenth deemed distribution of section 995(b)(1)(F)(i). Line 9 only applies to shareholders of the IC-DISC that are C corporations. It does not apply to shareholders of the IC-DISC that are other than C corporations.

10. An IC-DISC is deemed to distribute any income that resulted from cooperating with an international boycott (section 995(b)(1)(F)(ii)). See **Form 5713**, International Boycott Report, to compute this deemed distribution and for reporting requirements for any IC-DISC with operations related to a boycotting country.

11. An IC-DISC is deemed to distribute the amount of any illegal payments, such as bribes or kickbacks, that it pays, directly or indirectly, to government officials, employees, or agents (section 995(b)(1)(F)(iii)).

14. Attach a computation showing the earnings and profits for the tax year.

Generally, the allowance for depreciation (and any amortization) is the amount that would be allowable if the IC-DISC had used the straight-line method of depreciation for each tax year. See section 312(k)(2) for exceptions.

See section 312(n) for certain adjustments to earnings and profits that are required to be made to more accurately reflect economic income and loss (including adjustments for construction period carrying charges, organizational expenditures, LIFO inventories, installment sales, and the completed contract accounting method).

Line 17a. To figure the amount for line 17a, attach a computation showing: (1) the IC-DISC's foreign investment in producer's loans during the tax year; (2) accumulated earnings and profits (including earnings and profits for the 1987 tax year) less the amount on line 15, Part I; and (3) accumulated IC-DISC income. Enter the least of these amounts (but not less than zero) on line 17a.

Line 17b. To figure the amount for line 17b, attach a computation showing: (1) the IC-DISC's foreign investment in producer's loans during the year; (2) accumulated earnings and profits (including earnings and profits for the 1987 tax year) less the amount on line 16, Part I; and (3) accumulated IC-DISC income. Enter the least of these amounts (but not less than zero) on line 17b.

For purposes of lines 17a and 17b, foreign investment in producer's loans is the least of:

(1) The net increase in foreign assets by members of the controlled group (defined in section 993(a)(3)) to which the IC-DISC belongs.

(2) The actual foreign investment by the group's domestic members.

(3) The IC-DISC's outstanding producer's loans to members of the controlled group.

"Net increase in foreign assets" and "actual foreign investment" are defined in sections 995(d)(2) and (3).

See Regulations section 1.995-5 for additional information on computing foreign investment attributable to producer's loans.

20 and 21. The percentages on lines 20 and 21 must add up to 100 percent.

22 and 23. Allocate the line 22 amount to shareholders that are individuals, partnerships, S corporations, trusts, and estates. Allocate the line 23 amount to shareholders that are C corporations.

Part II.—Deemed Distribution Under Section 995(b)(1)(E)

Generally, any taxable income of the IC-DISC attributable to qualified export receipts that exceed $10 million will be deemed distributed.

1. If there were no commission sales, leases, rentals or services for tax year, enter on line 1, Part II, the total of lines 1c and 2k, column (e), Schedule B.

2. If there were commission sales, leases, rentals or services for the tax year, the total qualified export receipts to be entered on line 1, Part II, is figured as follows (section 993(f)):

1. Enter total of lines 1c and 2k, column (b), Schedule B
2. Enter total of lines 1c and 2k, column (d), Schedule B
3. Add lines 1 and 2. Enter on line 1, Part II, Schedule J

3. If the IC-DISC is a member of a controlled group (as defined in section 993(a)(3)) that includes more than one IC-DISC, only one $10 million limit is allowed to the group. If an allocation is required, a statement showing each member's portion of the $10 million limit must be attached to Form 1120-IC-DISC. See proposed Regulations section 1.995-8(f) for details.

4 and 5. The $10 million limit (or the controlled group member's share) is prorated on a daily basis. Thus, for example if for its 1987 tax year an IC-DISC has a short tax year of 73 days, the limit that would be entered on line 5 of Part II is $2 million (73/365 times $10 million).

Note: *Use 366 days instead of 365 days as the denominator if the IC-DISC's tax year includes February 29, 1988, and it is filing for a 12 month tax year.*

7. Enter the taxable income attributable to line 6 qualified export receipts. The IC-DISC may select the qualified export receipts to which the line 5 limitation is allocated.

See Proposed Regulations section 1.995-8 for details on determining the IC-DISC's taxable income attributable to qualified export receipts in excess of the $10 million amount. Special rules are provided in Proposed Regulations section 1.995-8 for allocating the taxable income attributable to any related and subsidiary services, and for the ratable allocation of the taxable income attributable to the first transaction selected by the IC-DISC which exceeds the $10 million amount. Deductions must be allocated and apportioned according to the rules of Regulations section 1.861-8. The selection of the excess receipts by the IC-DISC is intended to permit the IC-DISC to allocate the $10 million limitation to the qualified export receipts of those transactions occurring during the tax year which permit the greatest amount of taxable income to be allocated to the IC-DISC under the inter-company pricing rules of section 994.

To avoid double counting of the deemed distribution, if an amount of taxable income for the tax year attributable to excess qualified export receipts is also deemed distributed under either line 1, 2, 3, or 4 of Part I, such amount of taxable income is only includable on that line of Part I, and must be subtracted from the amount otherwise reportable on line 7 of Part II and carried to line 5 of Part I. See Proposed Regulations section 1.995-8(d).

After filing the IC-DISC's 1987 tax return, the allocation of the $10 million limitation and the computation of the line 7, Part II deemed distribution may be changed by filing an amended Form 1120-IC-DISC return only under the conditions specified in Regulations section 1.995-8(b)(1).

Part III.—Deemed Distributions Under Section 995(b)(2)

If the corporation is a former DISC or a former IC-DISC that revoked IC-DISC status or lost IC-DISC status for failure to satisfy one or more of the conditions specified in section 992(a)(1) for 1987, each shareholder is deemed to have received a distribution taxable as a dividend on the last day of the 1987 tax year. The deemed distribution equals the shareholder's prorated share of the DISC's or IC-DISC's income accumulated during the years just before DISC or IC-DISC status ended. The shareholder will be deemed to receive the distribution in equal parts on the last day of each of the 10 tax years of the corporation following the year of the termination or disqualification of the IC-DISC (but in no case over more than twice the number of years the corporation was a DISC or IC-DISC).

Part IV.—Actual Distributions

1. If the corporation is required to pay interest under section 992(c)(2)(B) on the amount of a distribution to meet the qualification requirements of section 992(c), report this interest on line 2c, Schedule E. Also include the amount on line 1, Part IV of Schedule J and show the computation of the interest on an attached schedule.

4a. Include in line 4a any distributions of pre-1985 accumulated DISC income that is nontaxable. Also, in the space to the left of the line 4a amount, enter the dollar amount of the distribution and identify it as "nontaxable pre-1985 DISC income." Do not include distributions of pre-1985 DISC income that are made under section 995(b)(2) because of prior year revocations or disqualifications.

Part V.—Deferred DISC Income

In general, deferred DISC income is:

(1) Accumulated IC-DISC income (for periods after 1984) of the IC-DISC as of the close of the computation year, over

(2) The amount of distributions in excess of income for the tax year of the IC-DISC following the computation year.

Generally, the computation year is the IC-DISC's last tax year beginning in 1985.

For purposes of item (2) above, distributions in excess of income means the excess (if any) of:

(1) Actual distributions to shareholders out of accumulated IC-DISC income, over

(2) The amount of IC-DISC income (as defined in section 996(f)(1)) for the tax year following the computation year.

See section 995(f) and Proposed Regulation section 1.995(f)-1 for more information on figuring deferred DISC income.

The amount on line 3, Part V, is allocated to each shareholder on line 2, Part III, of Schedule K (Form 1120-IC-DISC).

Separate Schedule K.—Shareholder's Statement of IC-DISC Distributions

Attach a separate Copy A, Schedule K (Form 1120-IC-DISC), to Form 1120-IC-DISC for each shareholder who had an actual or deemed distribution or to whom you reported deferred DISC income during the IC-DISC's tax year.

Schedule N.—Export Gross Receipts of the IC-DISC and Related U.S. Persons

1. Product Code and Percentage.—Enter in **1a** the code number and percentage of total receipts for the product or service that accounts for the largest portion of the IC-DISC's gross receipts. The product codes are located on page 12 of these instructions. On line **1b** enter the same information for the IC-DISC's next largest product or service.

Example: An IC-DISC has export gross receipts of $10 million; selling agricultural chemicals accounts for $4.5 million (45%) of that amount, which is the IC-DISC's largest product or service. The IC-DISC should enter "287" (the product code for agricultural chemicals) and "45%" in line 1a.

Selling industrial chemicals accounts for $2 million (20% of the $10 million total), and is the IC-DISC's second largest product or service. The IC-DISC should enter "281" (the product code for industrial chemicals) and "20%" in line 1b.

2. Columns (a), (b), and (c)

Export Gross Receipts.—These are receipts from any of the following:

(a) Selling for direct use, consumption, or disposition outside the U.S. property (such as inventory) produced in the U.S.,

(b) Renting this property to unrelated persons for use outside the U.S.,

(c) Providing services involved in such a sale or rental,

(d) Providing engineering or architectural services for construction projects located outside the U.S., and

(e) Providing export management services.

For commission sales, "export gross receipts" include the total receipts on which the IC-DISC earned the commission.

For purposes of item 2, Schedule N only, no reduction is to be made for receipts attributable to military property. Therefore, an IC-DISC's "export gross receipts" for purposes of item 2 is the total of the amounts from page 2, Schedule B, columns (b) and (d), lines 1c, 2a, 2b, 2c, and 2d.

Related Persons.—The following are "related persons":

(a) An individual, partnership, trust, or estate that controls the IC-DISC,

(b) A corporation that controls the IC-DISC or is controlled by it, and

(c) A corporation controlled by the same person or persons who control the IC-DISC.

"Control" means direct or indirect ownership of more than 50% of the total voting power of all classes of stock entitled to vote. (See section 993(a)(3).)

U.S. Person.—A "U.S. person" is:

(a) A citizen or resident of the U.S.,

(b) A domestic corporation or partnership, or

(c) An estate or trust (other than a foreign estate or trust as defined in section 7701(a)(31)).

U.S.—U.S. includes the Commonwealth of Puerto Rico and possessions of the U.S. (See section 993(g).)

Export Gross Receipts for 1987

Column (a).—All IC-DISCs should complete column (a) in item 2. If two or more IC-DISCs are related persons, only the IC-DISC with the largest export gross receipts should complete columns (b) and (c). If an IC-DISC acts as a commission agent for a related person, attribute the total amount of the transaction to the IC-DISC.

Complete column (a) to report the IC-DISC's export gross receipts from all sources (including the U.S.) for the 1987 tax year.

Column (b).—Export gross receipts of related IC-DISCs.—Complete column (b) to report related IC-DISCs' export gross receipts from all sources (including the U.S.).

Column (c).—Export gross receipts of all other related U.S. persons.—Complete column (c) to report other related U.S. persons' export gross receipts from all sources except the U.S.

3. Related U.S. Persons.—Report the name, address, and identifying number of related U.S. persons in your controlled group.

If items 2(b) and 2(c) are completed, show first in item 3(b) the name, address, and identifying number of the IC-DISC that completed 2(b) and 2(c).

Additional Information

Question P.—Check the "Yes" box if either (1) or (2) below applies to you; otherwise check the "No" box:

(1) At any time during the year you had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account); AND

- The combined value of the accounts was more than $10,000 at any time during the year; AND
- The account was NOT with a U.S. military banking facility operated by a U.S. financial institution.

(2) The IC-DISC owns more than 50% of the stock in any corporation that would answer the question "Yes" based on item (1) above.

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

If question P, is checked "Yes," file form TD F 90-22.1 by June 30, 1987, with the Department of the Treasury at the address shown on the form. **Form TD F 90-22.1 is not a tax return, so do not file it with the IRS.**

You can get form TD F 90-22.1 from many IRS offices.

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

Question S.—File Form 5713 if the IC-DISC or any member of its controlled group (defined in section 993(a)) has operations in or related to a boycotting country (or with the government, a company, or a national of that country). An IC-DISC that cooperates with an international boycott is also deemed to distribute part of its income. See Form 5713 for more information.

Question T.—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 L.—Balance Sheets

12. If the corporation was a qualified DISC as of December 31, 1984, the accumulated pre-1985 DISC income will generally be treated as previously taxed income (exempt from tax) when distributed to DISC shareholders after December 31, 1984.

Exception: The exemption does not apply to distributions of accumulated pre-1985 DISC income of an IC-DISC or former DISC that was made taxable under section 995(b)(2) because of a prior revocation of the DISC election or disqualification of the DISC. For more details on these distributions, see Regulations section 1.921-1T(a)(6).

13. Accumulated IC-DISC income (for periods after 1984) is accounted for on line 13 of Schedule L. The balance of this account is used in figuring deferred DISC income in Part V of Schedule J.

Separate Schedule P.—Computation of Inter-company Transfer Price or Commission

Complete and attach a separate Schedule P (Form 1120-IC-DISC) for each transaction or group of transactions to which you apply the inter-company pricing rules of section 994(a)(1) and (2). (Please see General Instruction D2.)

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 for SIC codes. Also, certain activities such as manufacturing do not apply to an IC-DISC.

Using the list below, enter on page 1, under B, the code number for the specific industry group from which the largest percentage of "total receipts" is derived. "Total receipts" means all income (line 1, page 1). On page 5, under question I, state the principal business activity and principal product or service that account for the largest percentage of total receipts. For example, if the principal business activity is "Wholesale trade: Machinery, equipment, and supplies," the principal product or service may be "Engines and turbines."

TRANSPORTATION, COMMUNICATION, ELECTRIC, GAS, AND SANITARY SERVICES

Code	
Transportation:	
4400	Water transportation
4700	Other transportation services
Electric, gas, and sanitary services:	
4910	Electric services
4920	Gas production and distribution
4930	Combination utility services

WHOLESALE TRADE

Code	
Durable	
5008	Machinery, equipment, and supplies
5010	Motor vehicles and automotive equipment
5020	Furniture and home furnishings
5030	Lumber and construction materials
5040	Sporting, recreational, photographic, and hobby goods, toys, and supplies
5050	Metals and minerals, except petroleum and scrap
5060	Electrical goods
5070	Hardware, plumbing and heating equipment
5098	Other durable goods
Nondurable	
5110	Paper and paper products
5129	Drugs, drug proprietaries, and druggists' sundries
5130	Apparel, piece goods, and notions
5140	Groceries and related products
5150	Farm-product raw materials
5160	Chemicals and allied products
5170	Petroleum and petroleum products
5180	Alcoholic beverages
5190	Miscellaneous nondurable goods

RETAIL TRADE

Code	
Building materials, hardware, garden supply, and mobile home dealers:	
5220	Building materials dealers
5251	Hardware stores
5265	Garden supplies and mobile home dealers
5300	**General merchandise stores**
5410	Grocery stores
5490	Other food stores
Automotive dealers and service stations:	
5515	Motor vehicle dealers
5541	Gasoline service stations
5598	Other automotive dealers
5600	Apparel and accessory stores
5700	Furniture and home furnishings stores
5800	Eating and drinking places
Miscellaneous retail stores:	
5912	Drugstores and proprietary stores
5921	Liquor stores
5995	Other miscellaneous retail stores

FINANCE, INSURANCE, AND REAL ESTATE

Code	
Credit agencies other than banks:	
6199	Other credit agencies

SERVICES

Code	
Business services:	
7389	Export management services
Auto repair and services: miscellaneous repair services:	
7500	Lease or rental of motor vehicles
Amusement and recreation services:	
7812	Motion picture production, distribution, and services
Other services:	
8911	Architectural and engineering services
8930	Accounting, auditing, and bookkeeping
8980	Miscellaneous services

Schedule N Product Code System

(These codes are to be used only with Schedule N, page 5, Form 1120-IC-DISC.)

Using the list below, enter on line 1 of Schedule N the product code number and percent of export gross receipts as explained in the Specific Instructions.

This product code system is divided into two categories—(1) nonmanufactured product groups and services, and (2) manufactured product groups.

NONMANUFACTURED PRODUCT GROUPS AND SERVICES

Code	
011	Grains and soybeans.
013	Cotton.
019	Crops, except cotton, grains and soybeans.
021	Livestock and livestock products.
070	Agricultural services.
090	Fishery products and services.
100	Metal mining, except iron ores, products and services.
101	Iron ores.
110	Coal mining (anthracite, bituminous and lignite) products and services.
130	Crude petroleum and natural gas products and services.
147	Chemical and fertilizer mineral products and services.
149	Other nonmetallic mineral products and services.
400	Transportation services (land, air and water).
490	Electric, gas, and sanitary services.
600	Finance, insurance, and real estate services.
730	Export management services.
780	Motion picture distribution.
850	Engineering and architectural services.
990	Miscellaneous nonmanufactured products and services.

MANUFACTURED PRODUCT GROUPS

Code	
Ordnance and accessories:	
191	Guns, howitzers, mortars, and related equipment.
192	Ammunition, except for small arms.
193	Tanks and tank components.
194	Sighting and fire control equipment.
195	Small arms.
196	Small arms ammunition.
199	Ordnance and accessories, not elsewhere classified
Food and kindred products:	
201	Meat products
202	Dairy products.
203	Canned and preserved fruits, vegetables and seafoods.
204	Grain mill products
205	Bakery products.
206	Sugar
207	Confectionery and related products.
208	Beverages.
209	Miscellaneous food preparations and kindred products.
Tobacco manufactures:	
211	Cigarettes.
212	Cigars.
213	Tobacco (chewing and smoking) and snuff
214	Tobacco stemming and redrying.
Textile mill products:	
221	Broad woven fabric mills, cotton
222	Broad woven fabric mills, man-made fiber and silk.
223	Broad woven fabric mills, wool (including dyeing and finishing).
224	Narrow fabrics and other smallwares mills: cotton, wool, silk, and man-made fiber
225	Knitting mills.
226	Dyeing and finishing textiles, except wool fabrics and knit goods.
227	Floor covering mills.
228	Yarn and thread mills.
229	Miscellaneous textile goods.
Apparel and other finished products made from fabrics and similar materials:	
231	Men's, youths', and boys' suits, coats, and overcoats.
232	Men's, youths', and boys' furnishings, work clothing, and allied garments.
233	Women's, misses', and juniors' outerwear
234	Women's, misses', children's, and infants' undergarments.
235	Hats, caps, and millinery.
236	Girls', children's, and infants' outerwear
237	Fur goods.
238	Miscellaneous apparel and accessories.
239	Miscellaneous fabricated textile products.
Lumber and wood products, except furniture:	
241	Logging camps and logging contractors.
242	Sawmills and planing mills.
243	Millwork, veneer, plywood, and prefabricated structural wood products.
244	Wooden containers.
249	Miscellaneous wood products
Furniture and fixtures:	
251	Household furniture
252	Office furniture.
253	Public building and related furniture.
254	Partitions, shelving, lockers, and office and store fixtures.
259	Miscellaneous furniture and fixtures.
Paper and allied products:	
261	Pulp mills.
262	Paper mills, except building paper mills.
263	Paperboard mills.
264	Converted paper and paperboard products, except containers and boxes.
265	Paperboard containers and boxes.
266	Building paper and building board mills.
Printing, publishing, and allied products:	
271	Newspapers: publishing, publishing and printing.
272	Periodicals: publishing, publishing and printing.
273	Books.
274	Miscellaneous publishing.
275	Commercial printing.
276	Manifold business forms.
277	Greeting card publishing.
278	Blankbooks, looseleaf binders, and bookbinding and related work.
279	Service industries for the printing trade
Chemicals and allied products:	
281	Industrial inorganic and organic chemicals.
282	Plastics materials and synthetic resins, synthetic rubber, synthetic and other man-made fibers, except glass.
283	Drugs.
284	Soap, detergents, and cleaning preparations, perfumes, cosmetics, and other toilet preparations.
285	Paints, varnishes, lacquers, enamels, and allied products.
286	Gum and wood chemicals.
287	Agricultural chemicals.
289	Miscellaneous chemical products.
Petroleum refining and related products:	
291	Petroleum refining.
295	Paving and roofing materials.
299	Miscellaneous products of petroleum and coal.
Rubber and miscellaneous plastics products:	
301	Tires and inner tubes.
302	Rubber footwear
303	Reclaimed rubber
306	Fabricated rubber products, not elsewhere classified
307	Miscellaneous plastics products.
Leather and leather products:	
311	Leather tanning and finishing.
312	Industrial leather belting and packing.
313	Boot and shoe cut stock and findings.
314	Footwear, except rubber
315	Leather gloves and mittens.
316	Luggage
317	Handbags and other personal leather goods.
319	Leather goods, not elsewhere classified.
Stone, clay, glass, and concrete products:	
321	Flat glass.
322	Glass and glassware, pressed or blown.
323	Glass products, made or purchased glass.
324	Cement, hydraulic.
325	Structural clay products.
326	Pottery and related products.
327	Concrete, gypsum, and plaster products.
328	Cut stone and stone products.
329	Abrasive, asbestos, and miscellaneous nonmetallic mineral products.
Primary metal products:	
331	Blast furnaces, steel works, and rolling and finishing mills.
332	Iron and steel foundries.
333	Primary smelting and refining of nonferrous metals.
334	Secondary smelting and refining of nonferrous metals.
335	Rolling, drawing, and extruding of nonferrous metals.
336	Nonferrous foundries.
339	Miscellaneous primary metal products.
Fabricated metal products, other than ordnance, machinery, and transportation equipment:	
341	Metal cans.
342	Cutlery, hand tools, and general hardware
343	Heating apparatus (except electric) and plumbing fixtures.
344	Fabricated structural metal products.
345	Screw machine products, and bolts, nuts, screws, rivets and washers.
346	Metal stampings.
347	Coating, engraving, and allied services.
348	Miscellaneous fabricated wire products.
349	Miscellaneous fabricated metal products.
Machinery other than electrical:	
351	Engines and turbines.
352	Farm machinery and equipment.
353	Construction, mining, and materials handling machinery and equipment.
354	Metalworking machinery and equipment.
355	Special industry machinery, except metalworking machinery.
356	General industrial machinery and equipment
357	Office, computing, and accounting machines.
358	Service industry machines.
359	Miscellaneous machinery, except electrical
Electrical machinery, equipment, and supplies:	
361	Electric transmission and distribution equipment
362	Electrical industrial apparatus.
363	Household appliances.
364	Electric lighting and wiring equipment.
365	Radio and television receiving sets, except communication types.
366	Communication equipment.
367	Electronic components and accessories.
369	Miscellaneous electrical machinery, equipment, and supplies.
Transportation equipment:	
371	Motor vehicles and motor vehicle equipment
372	Aircraft and parts.
373	Ship and boat building and repairing.
374	Railroad equipment.
375	Motorcycles, bicycles, and parts.
379	Miscellaneous transportation equipment
Professional, scientific, and controlling instruments; photographic and optical goods; watches and clocks:	
381	Engineering, laboratory, and scientific and research instruments and associated equipment
382	Instruments for measuring, controlling, and indicating physical characteristics.
383	Optical instruments and lenses.
384	Surgical, medical, and dental instruments and supplies.
385	Ophthalmic goods.
386	Photographic equipment and supplies
387	Watches and clocks.
Miscellaneous manufactured products:	
391	Jewelry, silverware, and plated ware.
393	Musical instruments.
394	Toys, amusement, sporting and athletic goods.
395	Pens, pencils, and other office and artists' materials.
396	Costume jewelry, costume novelties, buttons, and miscellaneous notions, except precious metal.
399	Miscellaneous manufactured products.

U.S. GOVERNMENT PRINTING OFFICE : 1987 - 183-193

Form **1120-FSC**

Department of the Treasury
Internal Revenue Service

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

(Please Type or Print)

For calendar year 1987 or other tax year beginning ...., 1987 and ending ...., 19 ....

OMB No. 1545-0935

1987

A Date of FSC or Small FSC election	Name	D Business code number (see page 11 of Instructions)
B Check type of election made: ☐ FSC ☐ Small FSC	Number and street	E Employer identification number
C Country or U.S. Possession of Incorporation (see instructions)	City or town, state, ZIP code, or country	F Date incorporated

G Enter total assets from line 14, column (d), Schedule L (see specific instructions) . . . . . ▶ $ (Dollars | Cents)

H Complete the following for the shareholder (individual, corporation, partnership, trust, or estate) who at the beginning of the FSC tax year was the principal shareholder. If two or more shareholders owned equal amounts of stock, enter the information for the shareholder that has the same tax year as the tax year of the corporation.

(1) Name		(2) Identifying number
(3) Address		(4) Total assets (corporations only) $
(5) Percentage of voting stock owned	(6) Tax year ends (month)	(7) Foreign owner ☐ Yes ☐ No

Note: If the FSC is a member of a controlled group of corporations as defined in section 927(d)(4) and the principal shareholder for which information is provided in H(1) through H(7) above is not the common parent of the group, complete H(8), (9), and (10) below for the common parent of the group. (See instructions.)

(8) Name of common parent	(9) Identifying number	(10) Total assets (consolidated if applicable)

I Check the appropriate box(es) to indicate the pricing rule(s) used in determining the taxable income on transactions resulting in foreign trading gross receipts:

(1) ☐ 1.83% of gross receipts (2) ☐ 23% of combined taxable income (3) ☐ Marginal costing if 23% method is used (4) ☐ Section 482 method

Computation of Tax Due and Tax Overpayment

1 Total tax from Schedule J, line 8 1

2 Payments:

a Overpayment from 1986 allowed as a credit . . . . .

b 1987 estimated tax payments . . . . .

c Less refund of 1987 estimated tax applied for on Form 4466 ( )

d Tax deposited with Form 7004 . . . . .

e Federal tax on gasoline and special fuels (attach Form 4136) . . . . .

f U.S. income tax paid or withheld at the source (attach Form 1042S) . . . . .

3 Total—add lines 2c through 2f 3

4 **Tax Due**—Line 1 less line 3. (See General Instruction E.) 4

5 **Overpayment**—Line 3 less line 1 5

6 Enter amount of line 5 you want:

a Credited to 1988 tax year's estimated tax ▶ **b Refunded ▶** 6

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

▶ Signature of officer | Date | ▶ Title

Paid Preparer's Use Only — Preparer's signature ▶ | Date | Check if self-employed ▶ ☐ | Preparer's social security no.

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

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Form 1120-FSC (1987) Page 2

Schedule A Cost of Goods Sold and/or Operations Relating to Foreign Trading Gross Receipts (See Instructions.)

			(a) Using Administrative Pricing Rules	(b) Not Using Administrative Pricing Rules
1	Inventory at the beginning of the year	1		
2	Purchases	2		
3	Cost of labor	3		
4a	Additional section 263A costs (see instructions)	4a		
b	Other costs (attach schedule)	4b		
5	Total (add lines 1 through 4b)	5		
6	Inventory at the end of the year	6		
7	Cost of goods sold and/or operations—Line 5 less line 6. (Enter here and on line 7 of Schedule B. Small FSC, see instructions.)	7		

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 (other than for section 263A purposes) in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation. ☐ Yes ☐ No

Additional Information Required

(Yes | No)

J Highest number of shareholders in the corporation at any time during the tax year ▶

K Do you maintain an office outside the U.S. in a "designated" country or U.S. possession in which a complete set of books and records (including invoices) for the corporation is maintained?

L Do you have at least one non-U.S. resident on your board of directors?

M During this tax year, did you maintain any part of your accounting/tax records on a computerized system?

N Foreign management tests (These questions do not apply to Small FSCs):

(1) Did all formally convened meetings of the board of directors of the corporation and all formally convened meetings of the shareholders of the corporation take place outside the United States?

(2) Did the corporation maintain its principal bank account in a country that satisfies the exchange of information requirements of section 927(e)(3) or in a U.S. possession as defined in section 927(d)(5) at all times during the tax year from which all dividends, legal and accounting fees, salaries of officers, and salaries or fees of members of the board of directors were disbursed?

Bank name ▶ Account number ▶

O Refer to page 11 of the instructions and enter the main:

Business activity ▶ Product or service ▶

P Did you have any preferred stock issued and outstanding at any time during the tax year?

Q Were you at any time during the tax year engaged in a trade or business in the U.S.?

R Are you a foreign personal holding company or a personal holding company? (See instructions.)

S Enter the amount of tax-exempt interest income received or accrued during the tax year . . . $

T If you are a member of a controlled group, enter the amount of taxable income for the entire group . . $

U Foreign Economic Process Requirements (these requirements do not apply to small FSCs):

Check the box or boxes below to indicate that the FSC (or any person acting under contract with the FSC) met the requirements of section 924(d) for all transactions relating to foreign trading gross receipts reported on lines 1 through 5 of Schedule B.

(1) ☐ The FSC (or any person acting under contract with the FSC) met the 50% test of section 924(d)(1) for transactions relating to foreign trading gross receipts reported on lines 1 through 5 of Schedule B.

(2) ☐ The FSC (or any person acting under contract with the FSC) met the alternative 85% test of section 924(d)(2) for transactions relating to foreign trading gross receipts reported on lines 1 through 5 of Schedule B.

If the section 924(d)(1) or (d)(2) requirements are not met for any transaction(s), attach a separate schedule showing the income and expenses relating to the transaction(s). Report the income as nonforeign trade income on line 15 of Schedule F. Enter related expenses on line 18 of Schedule F.

V Check here to show that the FSC and related supplier(s) make the election under Temporary Regulations section 1.925(a)-1T(b)(2)(ii) in order that the requirements of section 925(c) are deemed to have been met (see instructions) . . . . . ▶ ☐

Schedule B Taxable Income

PART I—Income Attributable to Foreign Trade Income

Type of Receipt (see instructions)		(a) Using Administrative Pricing Rules	(b) Not Using Administrative Pricing Rules
1 Sale, exchange, or other disposition of export property. (Include only 50% of military property sales. Include the other 50% on line 1, Schedule F.)			
2 Lease or rental of export property for use outside the U.S.			
3 Services related and subsidiary to:			
a Sale, exchange, or other disposition of export property. (Include only 50% of services relating to the sale or other disposition of military property. Include the other 50% on line 1, Schedule F.)			
b Lease or rental of export property			
4 Engineering or architectural services for construction projects outside the U.S.			
5 Managerial services for an unrelated FSC or IC-DISC. (See instructions for determination of qualifying amount.)			
6 Total Foreign Trading Gross Receipts:			
a All FSCs—Add lines 1 through 5. (FSCs that are not small FSCs, skip lines 6b through 6h and go to line 7. Small FSCs, complete lines 6b through 6h to determine their foreign trading gross receipts.)			
b Small FSC limitation (section 924(b)(2)(B))	$5,000,000		
c Controlled group member's share of line 6b (see instructions)			
d Enter smaller of (a) number of days in tax year divided by 365 or (b) 1 (one)			
e Proration of limitation—Line 6b or line 6c (whichever applies) times line 6d			
f Enter total of columns (a) and (b), line 6a (If commission income is included in line 6a, see special computation rule in line 6f instruction.)			
g Small FSC foreign trading gross receipts: Enter smaller of line 6e or 6f			
Note: *If line 6f exceeds line 6e, enter the excess on line 7 of Schedule F. See line 6h instruction if commission income is involved.*			
h Allocate the amount from line 6g to columns (a) and (b) but do not enter in either column more than that shown for the column on line 6a above (see instructions)			
7 Cost of goods sold (Schedule A) (Small FSCs, enter only that portion of cost of goods sold that is attributable to the receipts on line 6h above.) (See Schedule A instructions.)			
8 Foreign trade income—Line 6a or 6h (whichever applies) less line 7			
9a Exemption percentage from line 3d, Schedule E			
b Exemption percentage from line 2d, Schedule E			
10 Exempt foreign trade income—Multiply line 8 by lines 9a and 9b			
11 Nonexempt foreign trade income—Line 8 less line 10			
12 Enter nonexempt foreign trade income from line 6, Schedule F			
13 Add lines 11 and 12			
14 Allowable deductions from line 18, Schedule G			
15 Net income attributable to nonexempt foreign trade income—Line 13 less line 14			

PART II—Total Taxable Income

16 Taxable income attributable to foreign trade income—Enter total of columns (a) and (b), line 15, reduced by any nontaxable income included in column (b). (See instructions.)		
17 Taxable income from line 19, Schedule F		
18 Taxable income (or loss) before net operating loss deduction and special deductions— Add lines 16 and 17		
19 Less: a Net operating loss deduction (see instructions—attach schedule)		
b Special deductions—(see instructions—attach schedule)		
c Add lines 19a and 19b		
20 Taxable income (or loss)—Line 18 less line 19c (Enter here and see instructions for Schedule J for figuring the tax on this income.)		

Schedule E Percentages (expressed as decimals to 5 places) To Be Used in Figuring Exempt Foreign Trade Income—Sections 923(a)(2) and (3) and 291(a)(4)

Note: *If all shareholders are C corporations, enter .30000 on line 2d and .65217 on line 3d and skip all other lines.*
If all shareholders are other than C corporations, enter .32000 on line 2d and .69565 on line 3d and skip all other lines.

1 Percentage (express as decimal to 5 places) of voting stock owned by shareholders that are C corporations	1	
2 Exemption for foreign trade income determined without regard to administrative pricing rules:		
a Difference between section 923(a)(2) and section 291(a)(4) percentage	2a	.02000
b Section 923(a)(2) percentage	2b	.32000
c Line 2a times line 1	2c	
d Exemption percentage—Line 2b less line 2c. (Enter here and on line 9b, Schedule B; and line 16b, Schedule G.)	2d	
3 Exemption percentage for foreign trade income determined under administrative pricing rules:		
a Difference between section 923(a)(3) fraction and section 291(a)(4) fraction (16/23 − 15/23 = 1/23) expressed as a decimal	3a	.04348
b Section 923(a)(3) fraction (16/23) expressed as a decimal	3b	.69565
c Line 3a times line 1	3c	
d Exemption percentage—Line 3b less line 3c. (Enter here and in line 9a, Schedule B; and line 16a, Schedule G.)	3d	

Schedule F Nonexempt Foreign Trade Income (Excluded from section 923) and Nonforeign Trade Income

Part I—Nonexempt Foreign Trade Income (excluded from section 923)

	(a) Using Administrative Pricing Rules	(b) Not Using Administrative Pricing Rules
1 Enter 50% of total receipts attributable to the sale, exchange, or other disposition of military property and related services (see instructions for line 1 of Schedule B)		
2 International boycott income (see instructions)		
3 Illegal bribes and other payments (see instructions)		
4 Add lines 1, 2, and 3		
5 Enter cost of goods sold and other expenses related to above income		
6 Nonexempt foreign trade income—Line 4 less line 5. (Enter here and on line 12, columns (a) and (b), Schedule B.)		

Part II—Nonforeign Trade Income

7 Small FSCs—If line 6f of Schedule B exceeds line 6e of Schedule B, enter the excess. (Include the deduction for cost of goods sold attributable to the excess on line 18 below.)	7	
8 Interest income	8	
9 Dividend income (attach schedule—see instructions)	9	
10 Carrying charges	10	
11 Royalties	11	
12 Other investment income	12	
13 Receipts excluded under section 924(f) on basis of use, subsidized receipts and receipts from related parties	13	
14 Income from excluded property under sections 927(a)(2) and (3)	14	
15 Income from transactions that did not qualify as foreign trade income because the foreign economic process test of section 924(d) was not met	15	
16 Other income	16	
17 Total—Add lines 7 through 16	17	
18 Enter deductions allocated or apportioned to line 17 income (attach schedule—see instructions)	18	
19 Taxable nonforeign trade income—Line 17 less line 18. (Enter here and on line 17, Schedule B.)	19	

Form 1120-FSC (1987) Page 5

Schedule G **Deductions Allocated or Apportioned to Foreign Trade Income (See instructions for limitations on deductions before completing lines 1 through 14.)**

		(a) Using Administrative Pricing Rules	(b) Not Using Administrative Pricing Rules
1 Foreign direct costs:			
a Section 924(e)(1) (advertising, etc.)	1a		
b Section 924(e)(2) (processing, etc.)	1b		
c Section 924(e) (3) (transportation, etc.)	1c		
d Section 924(e)(4) (transmittal, etc.)	1d		
e Section 924(e)(5) (assumption of credit risk)	1e		
f Total of lines 1a through line 1e	1f		
Enter all other applicable costs on lines 2 through 14 below. Do not enter a cost on more than one line.			
2 Advertising	2		
3 Interest	3		
4 Depreciation from Form 4562 (less depreciation claimed elsewhere on this return) (attach Form 4562)	4		
5 Salaries and wages	5		
6 Rents	6		
7 Sales commissions	7		
8 Warehousing	8		
9 Freight	9		
10 Compensation of officers	10		
11 Bad debts (see instructions)	11		
12 Pension, profit-sharing, etc., plans (see instructions)	12		
13 Employee benefit programs	13		
14 Other (list): ▶	14		
15 Total (add lines 1f through 14)	15		
16a Exemption percentage from line 3d, Schedule E	16a		
b Exemption percentage from line 2d, Schedule E	16b		
17 Deductions relating to exempt foreign trade income—Line 15 (column (a)) times line 16a and line 15 (column (b)) times line 16b	17		
18 Total deductions relating to nonexempt foreign trade income—Line 15 less line 17. (Enter here and on line 14, columns (a) and (b), Schedule B.)	18		

Schedule J **Tax Computation (See Instructions.)**

1 Check if you are a member of a controlled group (see section 927(d)(4)) ▶ ☐		
2 If line 1 is checked, see instructions. If your tax year includes June 30, 1987, complete both a and b below. Otherwise, complete only b.		
a (i) $........ (ii) $........ (iii) $........ (iv) $........		
b (i) $........ (ii) $........		
3 Income tax (see instructions to figure the tax; enter this tax or alternative tax from Schedule D (Form 1120), whichever is less). Check if from Schedule D ▶ ☐	3	
4 Foreign tax credit (attach Form 1118) (see instructions)	4	
5 Line 3 less line 4	5	
6 Alternative minimum tax and environmental tax (see instructions—attach Form 4626)	6	
7 Personal holding company tax (attach Schedule PH (Form 1120))	7	
8 Total tax—Add lines 5, 6, and 7. Enter here and on line 1, page 1	8	

Form 1120-FSC (1987) Page 6

Schedule L **Balance Sheets**

ASSETS	Beginning of tax year (a)	(b)	End of tax year (c)	(d)
1 Cash				
2a Trade notes, and accounts receivable				
b Commissions receivable				
c Less allowance for bad debts				
3 Inventories				
4 Federal and state government obligations				
5 Other current assets (attach schedule)				
6 Loans to stockholders				
7 Mortgage and real estate loans				
8 Other investments (attach schedule)				
9 Buildings and other fixed depreciable assets				
a Less accumulated depreciation				
10 Depletable assets				
a Less accumulated depletion				
11 Land (net of any amortization)				
12 Intangible assets (amortizable only)				
a Less accumulated amortization				
13 Other assets (attach schedule)				
14 Total assets				
LIABILITIES AND STOCKHOLDERS' EQUITY				
15 Accounts payable				
16 Mtges., notes, bonds payable in less than 1 year				
17 Transfer prices payable				
18 Other current liabilities (attach schedule)				
19 Loans from stockholders				
20 Mtges., notes, bonds payable in 1 year or more				
21 Other liabilities (attach schedule)				
22 Capital stock				
23 Paid-in or capital surplus				
24 Retained earnings—Appropriated (attach schedule)				
25 Retained earnings—Unappropriated				
26 Less cost of treasury stock		( )		( )
27 Total liabilities and stockholders' equity				

Schedule M-1 **Reconciliation of Income per Books With Income per Return**

1 Net income on books		7 Income recorded on books this year not included in this return (itemize):	
2 Federal income tax		a Tax-exempt interest . $	
3 Excess of capital losses over capital gains		b Exempt foreign trade income . $	
4 Income subject to tax not recorded on books this year (itemize):			
5 Expenses recorded on books this year not deducted in this return (itemize):		8 Deductions in this tax return not charged against book income this year (itemize):	
a Depreciation . . . $		a Depreciation . . . $	
b Deductions attributable to exempt foreign trade income $			
		9 Total of lines 7 and 8	
6 Total of lines 1 through 5		10 Taxable income—line 6 less line 9	

Schedule M-2 **Analysis of Unappropriated Retained Earnings per Books (line 25 above)**

1 Balance at beginning of year		5 Distributions: a Cash	
2 Net income on books		b Stock	
3 Other increases (itemize):		c Property	
		6 Other decreases (itemize):	
		7 Total of lines 5a, b, c, and 6	
4 Total of lines 1, 2, and 3		8 Balance at end of year (line 4 less line 7)	

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1987 Instructions for Form 1120-FSC

Department of the Treasury
Internal Revenue Service

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

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

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. The information is used to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Changes You Should Note

The Tax Reform Act of 1986 (Act) made several changes to the way foreign sales corporations figure their taxable income and their tax liability. Many of these changes are contained in these instructions. For information on other changes, see **Publication 921**, Explanation of the Tax Reform Act of 1986 for Business.

General Instructions

A. Purpose of Form

Form 1120-FSC is used to report a foreign sales corporation's (FSC) income, deductions, credits, and tax. If a refund is due, Form 1120-FSC may be used to claim it.

B. What Is a FSC?

A FSC is a foreign corporation that has elected to be a FSC or small FSC and its election is still in effect. The FSC election is made by filing **Form 8279**, Election To Be Treated as a FSC or as a Small FSC.

To be a FSC (or small FSC), a corporation must meet all of the following tests:

1. It must be a corporation created or organized under the laws of a qualifying foreign country or a U.S. possession (other than Puerto Rico). The foreign country must meet the requirements of section 927(e)(3).

2. It may not have more than 25 shareholders.

3. It may not have preferred stock.

4. It must maintain an office in a qualifying foreign country or U.S. possession (other than Puerto Rico) and maintain a set of permanent books of account at that office. It must also maintain at a location in the U.S. such books and records as are sufficient under section 6001 to establish the amount of gross income, deductions, credits or other matters required to be shown on its tax return.

5. It must have at least one director who is not a resident of the U.S.

6. It may not be a member of a controlled group of which an interest charge DISC is a member.

7. Its tax year must conform to the tax year of the principal shareholder who, at the beginning of the FSC's tax year, has the highest percentage of voting power. If two or more shareholders have the highest percentage of voting power, the FSC must elect a tax year that conforms to that of any one of the shareholders. See section 441(h).

8. A FSC, other than a small FSC, must also meet certain foreign management and foreign economic process requirements. See general instructions F2 and F3 for details.

C. Filing Form 1120-FSC

1. Who Files.—You must file Form 1120-FSC if your corporation elected, by filing Form 8279, to be treated as a FSC or small FSC and the election is still in effect.

2. When To File.—File Form 1120-FSC by the 15th day of the 3rd month after the end of the tax year.

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

Period covered.—File the 1987 return for calendar year 1987 and fiscal years that begin in 1987. If the return is for a fiscal year, fill in the tax year space at the top of the form.

Amended return.—To correct any error in a Form 1120-FSC already filed, file a revised Form 1120-FSC and write "Amended" across the top.

Change in tax year.—To change your tax year, file **Form 1128**, Application for Change in Accounting Period.

Final return.—If the corporation ceased to exist during the tax year, write "Final Return" at the top of the form.

3. Where To File.—File Form 1120-FSC with the Internal Revenue Service Center, Philadelphia, PA 19255.

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

If your corporate officer filled in Form 1120-FSC, the Paid Preparer's space under Signature of Officer should remain blank. If someone prepares Form 1120-FSC and does not charge the corporation, that person should not sign the return. Certain others who prepare Form 1120-FSC should not sign. For example, a regular, full-time employee of the corporation such as a clerk or secretary does not have to sign. (This list is not all inclusive.)

Generally, anyone who is paid to prepare Form 1120-FSC must sign the return and fill in the other blanks in the Paid Preparer's Use Only area of the return.

The preparer required to sign the return MUST:

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

Tax return preparers should be familiar with their responsibilities. See **Publication 1045**, Information for Tax Practitioners, for more details.

D. Other Returns and Statements That May Be Required

1. Financial statements.—The balance sheets must agree with your books and records. Reconcile any differences.

2. Forms.—The FSC may also have to file other forms. A partial list includes:

Form 5471, Information Return With Respect to a Foreign Corporation.—Shareholders, directors, or officers of a FSC do not have to file Form 5471 when the FSC is organized. However, Form 5471 will be required with respect to subsequent changes in ownership as required under section 6046 and related regulations. Provided that a Form 1120-FSC is filed, a Form 5471 need not be filed to satisfy the requirements of section 6038. See temporary regulations section 1.921-1T(b), Question 3, for more information. However, if the FSC is involved in other than FSC activities, Form 5471 and applicable schedules may have to be filed.

Form 1096, Annual Summary and Transmittal of U.S. Information Returns.—Used to transmit certain information returns.

Form 1098, Mortgage Interest Statement.—This form is used to report the receipt from any individual of $600 or more of mortgage interest in the course of the corporation's trade or business for any calendar year.

Forms 1099-DIV, INT, MISC, and R.—These are some of the information returns that must be filed to report certain payments, such as dividends and interest. For more information, see Form 1096 and its instructions, and **Publication 916**, Information Returns.

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

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

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 on Form 1139 and 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 8300, Report of Cash Payments Over $10,000 Received in a Trade or Business.—Generally, this form is used to report the receipt of more than $10,000 in cash or foreign currency in one transaction (or in a series of related transactions). However, transactions that take place entirely outside the U.S. do not have to be reported.

E. Paying the Tax

1. FSCs with no office or place of business in the U.S. must pay the tax due in full when they file their tax return, but not later than the 15th day of the 6th month after the end of the tax year.

The tax may be paid by check or money order, payable to the Internal Revenue Service Center, Philadelphia, PA 19255. In order for us to better process your deposits, please write your employer identification number, "Form 1120-FSC," and the period to which the deposit applies on your check.

2. FSCs with an office or place of business in the U.S. must pay the tax due in full when they file their tax return, but not later than the 15th day of the 3rd month after the end of the tax year.

FSCs with an office or place of business in the U.S. must deposit their income tax (and estimated tax payments) with a Federal Tax Deposit Payment Coupon **(Form 8109)**. Be sure to darken the "1120" box on the coupon.

Make these tax deposits with a financial institution qualified as a depository for Federal taxes or the Federal Reserve Bank or Branch serving the geographic area where the corporation's office or place of business in the U.S. is located. Do not submit deposits directly to an IRS office, otherwise the corporation may be subject to a failure to deposit penalty. Records of deposits will be sent to the IRS for crediting to the corporation's account. In order for us to better process your deposits, please write your employer identification number, "Form 1120-FSC," and the period to which the deposit applies on your check.

To get more deposit coupons, use the reorder form (Form 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.

3. Estimated Tax.—A FSC with an office or place of business in the U.S. must make estimated tax payments if it can expect its estimated tax (income tax minus credits) to be $40 or more.

Use Form 1120-W (WORKSHEET), Corporation Estimated Tax, as a worksheet to compute estimated tax. Use the FTD payment coupons in making deposits of estimated tax.

If the corporation overpaid estimated tax, it may be able to get a "quick refund" by filing **Form 4466**, Corporation Application for Quick Refund of Overpayment of Estimated Tax. The overpayment must be both: (1) at least 10% of expected income tax liability, and (2) at least $500. To apply, file Form 4466 within 2½ months after the end of the tax year and before Form 1120-FSC is filed.

F. Definitions, etc.

1. Small FSC.—A corporation must have filed Form 8279 and elected to be a small FSC. The small FSC cannot be a member of a controlled group which includes another FSC unless such other FSC is also a small FSC.

A small FSC is treated as a FSC on the first $5,000,000 of its foreign trading gross receipts without meeting the foreign management and foreign economic process requirements. The $5,000,000 limit is reduced if the small FSC has a short tax year, or may be reduced if the small FSC is a member of a controlled group that contains other small FSCs. Any gross receipts in excess of the limitation are treated as nonforeign trading gross receipts.

See regulations section 1.921-2(b) for more information.

Note: *Although a small FSC does not have to satisfy the foreign management requirements below, it has to meet the requirements of section 925(c) in order to use the administrative pricing rules. See item V, page 2, of Form 1120-FSC and Regulations section 1.925(a)-1T(b)(2)(ii) for details on section 925(c) requirements for the FSC and its related supplier.*

2. Foreign Management Requirements.—A FSC (other than a small FSC) is treated as having foreign trading gross receipts for the tax year only if the management of the FSC during the year takes place outside the United States. These management activities include:

a. Meeting of the board of directors and of shareholders.

b. Disbursement of cash, dividends, legal and accounting fees, salaries of officers, and salaries or fees of directors out of the principal bank account.

c. Maintaining the principal bank account at all times during the tax year.

Meetings of directors and of shareholders.—All meetings of the board of directors of the FSC and all meetings of the shareholders of the FSC that take place during the tax year must take place outside the United States. Only meetings that are formally convened as meetings of the board of directors or as shareholders' meetings are taken into account. If the participants in a meeting are not all physically present in the same location, the location of the meeting is determined by the location of the person exercising a majority of the voting power participating in the meeting. In addition, all such meetings must comply with the local laws of the foreign country or U.S. possession in which the FSC was created or organized. The local laws determine whether a meeting must be held, when and where it must be held; who must be present, quorum requirements, use of proxies, and so on.

Principal bank account(s).—The bank account(s) that is regarded as the principal bank account of a FSC is the bank account from which disbursement of cash, dividends, legal and accounting fees, salaries of officers, and salaries or fees of directors are made. The bank account(s) regarded as the principal bank account must be maintained in a country which satisfies the exchange of information requirements of section 927(e)(3), or in any possession of the U.S. as defined in section 927(d)(5) and it generally must be so maintained for each day of the tax year. The principal bank account(s) must be maintained in an institution that is engaged in the conduct of banking, financing, or similar business.

The principal bank account(s) must be designated on Form 1120-FSC.

For more details, see regulations under section 1.924(c)-1(c).

3. Economic Processes Requirements.—A FSC (other than a small FSC) has foreign trading gross receipts from any transaction only if economic processes for such transaction takes place outside the U.S. The regulations set forth the rules for determining whether a sufficient amount of the economic processes of a transaction takes place outside the U.S. Generally, a transaction will qualify if the FSC satisfies two different requirements: participation outside the U.S. in the sales portion of the transaction, and satisfaction of either the 50% or the 85% foreign direct cost test. The activities comprising these economic processes may be performed by the FSC or by any other person acting under contract with the FSC.

The FSC (or other person) may act upon standing instructions from another person in the performance of any activity, whether a sales activity or an activity relating to the disposition of export property.

Participation outside the U.S. in the sales portion of the transaction.—The requirement is met for the gross receipts of a FSC derived from any transaction if the FSC (or other person) has participated outside the United States in the following sales activities relating to such transaction:

a. Solicitation (other than advertising),

b. Negotiation, and

c. Making of the contract.

If any sales activity occurs with respect to a single contract for more than one transaction (or for items grouped separately for other purposes), that sales activity will apply to each transaction (or item), regardless of the fact that the transactions (or items) are grouped separately for other purposes (such as satisfying the foreign direct cost tests).

The FSC may elect on an annual basis to group transactions for purposes of satisfying the economic process requirements. Providing the necessary documentation and other rules of regulations section 1.924(d)-1(e) are met, transactions may be grouped on the basis of product or product line, customer, contract, or product or product line within customer or contract groupings. For more details, see regulations section 1.924(d)-1(e).

Solicitation (other than advertising) refers to any communication (by any method including, but not limited to, telephone, telegraph, mail, or in person) by the FSC (or other person), at any time during the 12-month period immediately preceding the execution of a contract relating to the transaction, to a specific, targeted customer or potential customer, that specifically addresses the customer's attention to the product or service covered by the transaction. Activities that would otherwise constitute advertising (such as sending sales literature to a customer or potential customer) will be considered solicitation (other than advertising) if the activities are not taken into account as advertising under the foreign direct costs tests. An exception to this rule is provided for second mailings in regulations section 1.924(e)-1(a)(1)(iv).

Negotiation refers to any communication by the FSC (or other person) to a customer or potential customer of one or more of the terms of a transaction including, but not limited to, price, credit terms, quantity, or time or manner of delivery. Negotiation does not include the mere receipt of a communication from a customer (such as an order) that includes terms of a sale.

Making of a contract refers to performance by the FSC (or other person) of any of the elements necessary to complete a sale, such as making an offer or accepting an offer. Acceptance of an unsolicited bid or order is considered the "making of a contract" even if no solicitation or negotiation occurred with respect to the transaction.

The written confirmation by the FSC (or other person) to the customer of an oral or written agreement which confirms variable contract terms or specifies (directly or by cross-reference) additional contract terms, will be considered the making of a contract. A written confirmation is any confirmation expressed in writing, including a telegram, telex, or other similar written communication.

Exception for military property.—The requirement that the FSC participate outside the U.S. in the sales portion of the transaction does not apply in connection with foreign military sales. (The activities described in section 924(e), however, must be satisfied with respect to foreign military sales.) The FSC is deemed to have satisfied the requirements of section 924(d)(1)(A). See regulations section 1.924(d)-1(f) for details.

Satisfaction of either the 50% or the 85% foreign direct cost test.—For the gross receipts of a transaction to qualify as foreign trading gross receipts, the foreign direct costs incurred by the FSC attributable to the transaction must equal or exceed 50% of the total direct costs incurred by the FSC attributable to the transaction. Direct costs are those costs described in the five categories of section 924(e). Instead of satisfying the 50% foreign direct cost test described above, the FSC may incur foreign direct costs attributable to activities described in each of two of the section 924(e) categories that equal or exceed 85% of the total direct costs attributable to the activity described in that category. If no direct costs are incurred by the FSC in a particular category, that category is not taken into account for purposes of determining whether the FSC has met either the 50% or the 85% foreign direct cost test.

Direct costs are those costs that are incidental to and necessary for the performance of any activity described in section 924(e). Direct costs include the cost of materials which are consumed in the performance of the activity, and the cost of labor which can be identified or associated directly with the performance of the activity (but only to the extent of wages, salaries, fees for professional services, and other amounts paid for personal services actually rendered, such as bonuses or compensation paid for services on the basis of a percentage of profits). Direct costs also include the cost of equipment or facilities (or the use thereof) that can be specifically identified or associated with the activity, as well as the contract price of an activity performed on behalf of the FSC by a contractor.

"Total direct costs" means all of the direct costs of any transaction attributable to any of the activities described in section 924(e). For the 50% foreign direct cost test, total direct costs are determined based on the direct costs of all activities described in all of the paragraphs of section 924(e). For the 85% foreign direct cost test, however, the total direct costs are determined separately for each paragraph of section 924(e).

"Foreign direct costs" means the portion of the total direct costs of any transaction that is attributable to activities performed outside of the U.S. For the 50% foreign direct cost test, foreign direct costs are determined based on the direct costs of all activities described in all of the paragraphs of section 924(e). For the 85% foreign direct cost test, however, foreign direct costs are determined separately for each paragraph of section 924(e).

For more details, see regulations under section 1.924(d)-1.

4. Section 925(c) Requirement.—In order to use the administrative pricing rules to determine the FSC's (or small FSC's) profit on a transaction or group of transactions, the FSC must perform (or have another person acting under contract to it perform) all of the economic process activities relating to the transaction or group of transactions. All of the direct and indirect expenses relating to the performance of those activities must be reflected on the books of the FSC and on Form 1120-FSC. Under Regulations section 1.925(a)-1T(b)(2)(ii), an election may be made to include on the FSC's books all expenses, other than cost of goods sold, that are necessary to compute combined taxable income for the transaction or group of transactions.

G. Penalties

The corporation may have to pay the following penalties unless it can show that not filing or not paying was due to reasonable cause and not willful neglect. (These penalties are in addition to the interest charge on unpaid tax at a rate established under section 6621.)

A corporation that does not file its tax return when due (including any extension of time for filing) may be subject to a penalty of 5% a month or fraction of a month, up to a maximum of 25%, for each month the return is not filed. (The penalty is imposed on the net amount due.) The minimum penalty for failure to file a tax return within 60 days of the due date (including extensions) is the lesser of the underpayment of tax or $100.

A corporation that does not pay the tax when due may generally be subject to a penalty of ½% a month or fraction of a month, up to a maximum of 25%, for each month the tax is not paid. (The penalty is imposed on the net amount due.)

A corporation that does not pay the proper estimated tax when due may be subject to an underpayment penalty for the period of underpayment. To avoid the estimated tax penalty, the amount of estimated tax payments required to be made by a corporation is 90%. See section 6655.

If the corporation underpaid estimated tax, attach **Form 2220**, Underpayment of Estimated Tax by Corporations, to show how the corporation figured the penalty or which exceptions the corporation believes it meets.

If there is a tax due on line 4, page 1, include the penalty in the total. If there is a refund due, subtract the penalty from the overpayment on line 5, page 1.

Penalty for Overstated Tax Deposits.—If deposits are overstated, the corporation may be subject to a penalty. See section 6656(b).

Other Penalties

The FSC may have to pay the following section 6686 penalties unless it can show that it had reasonable cause for not giving information or not filing a return:

- $100 for each instance of not giving information, up to $25,000 during the calendar year.
- $1,000 for not filing a return.

H. Cooperatives

Special rules may apply when cooperatives described in section 1381 are shareholders in a FSC. These special rules apply to the nonexempt portion of foreign trade income from the sale or other dispositions of agricultural or horticultural products by the FSC. The FSC may distribute its nonexempt foreign trade income to the cooperative and thereby not be taxed on this amount. The cooperative must include this amount in income for its tax year that includes the last day of the FSC's tax year, even though the FSC does not have to distribute the income until the due date of its income tax return.

I. Foreign Personal Holding Company

If the corporation is a foreign personal holding company as defined in section 552, certain officers, directors, and shareholders of the corporation must file Form 5471. See section 552 and Form 5471 for details. If the corporation is a personal holding company but not a foreign personal holding company, it must file Schedule PH (Form

1120) with Form 1120-FSC. See section 542 and Schedule PH (Form 1120) for details.

J. Tax Treaty Benefits

A FSC may not claim any benefits under any income tax treaty between the U.S. and any foreign country.

K. Section 263A Uniform Capitalization Rules.—The uniform capitalization rules of section 263A are discussed in general at the beginning of the instructions for Schedule G. See these instructions before completing Schedules A, F, and G.

FSCs subject to section 263A will be required to make adjustments to the cost of goods sold (COGS) computation in Schedule A, and in any COGS worksheets prepared for lines 5 and 18 of Schedule F. To the extent that section 263A costs were not included in inventory in prior years, FSCs must revalue their beginning inventory. FSCs may elect one of the simplified methods of accounting for section 263A costs provided in the regulations. Absent the election of a simplified method, taxpayers are required to allocate additional costs to be included in inventory under section 263A with the same degree of specificity as was required of inventory costs under prior law.

Specific Instructions

Accounting methods.—Compute taxable income by the accounting method regularly used to keep the FSC's books and records. The method used must clearly reflect taxable income. (See section 446.)

A member of a controlled group must avoid using an accounting method that would distort any group member's income, including its own. For example, a FSC acts as a commission agent for property sales by a related corporation that uses the accrual method and pays the FSC its commission more than 2 months after the sale. The FSC, then, should not use the cash method of accounting, because it materially distorts the income of the FSC.

Unless the law specifically permits otherwise, the FSC may change from the accounting method it used to report taxable income in earlier years (for income as a whole or for any material item) only after obtaining consent by filing **Form 3115**, Application for Change in Accounting Method.

Rounding Off.—You may show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents, and increase any amount from 50 cents through 99 cents to the next higher dollar.

Attachments.—If you need more space, attach separate sheets to the back of Form 1120-FSC. Attach **Form 4136**, Computation of Credit for Federal Tax on Gasoline and Special Fuels, after page 6, Form 1120-FSC. Attach schedules in alphabetical order and other forms in numerical order after the Form 4136. Be sure to put the FSC's name and employer identification number (EIN) on each sheet.

To assist us in processing the return, we ask that you complete every applicable entry space on Form 1120-FSC. Please do not attach statements and write "See attached" in lieu of completing the entry space on Form 1120-FSC.

Page 1

Address.—The address used on the return should be the location of the books and records in the U.S. (as required by section 6001).

Employer Identification Number.—Enter the FSC's employer identification number (EIN). If the FSC does not have an EIN, it should apply for one on **Form SS-4**, Application for Employer Identification Number. You can get this form at most IRS or Social Security Administration offices. Send Form SS-4 to the Internal Revenue Service Center, Philadelphia, PA 19255. If you have not received the EIN by the time for filing Form 1120-FSC, write "Applied for" in the space for the EIN.

Item C. Country or U.S. Possession of Incorporation.—Enter the name of the foreign country or U.S. possession in which the FSC was incorporated. See sections 927(d)(5) and 927(e)(3).

Item G.—Enter the total assets of the FSC from line 14, column (d), Schedule L. If there are no assets at the end of the tax year, enter the assets as of the beginning of the tax year.

Item H.—Items (8), (9), and (10) of item H are completed if the FSC is a member of a controlled group of corporations and the principal shareholder of the FSC that completes items H(1) through (7) is not the group member that is the common parent of the group. For purposes of items (8), (9), and (10), the common parent of the group is the member that is the common parent of the controlled group as defined in section 927(d)(4). If the controlled group does file a consolidated tax return, enter the consolidated assets of the group in item (10); otherwise, only enter the common parent's assets.

Page 2

Item N.—All FSCs (except small FSCs) must complete questions (1) and (2) under item N. For more information, see "Foreign Management Requirements" in General Instruction F2.

Item U.—A FSC (other than a small FSC) must complete item U to show that it satisfied the foreign economic process requirements of section 924(d) for all transactions for which foreign trading gross receipts were reported on lines 1 through 5 of Schedule B. While these rules are generally applied on a transaction by transaction basis, the FSC may make an annual election to group the transactions (regulations section 1.924(d)-1(e)).

A FSC meets the foreign economic process tests for any transaction, if on an aggregate basis, the foreign direct costs attributable to the transaction are 50% or more of the total direct costs attributable to the transaction for the following activities: 1) advertising and sales promotion, 2) processing of customer orders and arranging for delivery, 3) transportation of property from the time of acquisition by the FSC (or in the case of a commission relationship, from the beginning of such relationship for such transaction) to delivery to the customer, 4) determination and transmittal of final invoice or statement of account and receipt of payment, and 5) assumption of credit risk. Alternatively, the FSC meets the foreign economic process test for any transaction if the foreign direct costs attributable to the activities described in at least two of the above categories is 85% or more of the total direct costs attributable to the activities described in those categories.

In item U indicate which test(s) apply to the transactions that gave rise to the gross receipts entered on lines 1 through 5, Schedule B. If only one test applies, check the appropriate box. If both tests apply, check both boxes.

In addition to completing item U, the FSC must keep sufficient records to show it met the requirements for each transaction (or group of transactions). These records must be made available on examination of the FSC return.

Item V.—Complete item V to make the election allowed by Temporary Regulations 1.925(a)-1T(b)(2)(ii) for the FSC and related supplier to meet the requirements of section 925(c).

Schedule A—Cost of Goods Sold and/or Operations Relating to Foreign Trading Gross Receipts

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

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

A small FSC will have to make two separate computations for cost of goods sold if its foreign trading gross receipts exceed the limitation amount on line 6e of Schedule B. In this case, a deduction for cost of goods sold will be figured separately for the income on line 6h of Schedule B, and separately for the income on line 7 of Schedule F. Attach the computation for the cost of goods sold deduction entered on line 18 of Schedule F to Form 1120-FSC.

Also, complete a separate computation for cost of goods sold and other expenses attributable to income reported on line 4 of Schedule F. Attach this schedule to Form 1120-FSC.

Complete lines 1 through 7, column (a) of Schedule A, to show the cost of goods sold for inventory acquired in transactions using the administrative pricing rules. Complete lines 1 through 7, column (b), to show the cost of goods sold for inventory acquired in transactions in which the administrative pricing rules were not used. For details on administrative or nonadministrative pricing rules, see separate **Schedule P (Form 1120-FSC)**, Computation of Transfer Price or Commission.

Section 263A Uniform Capitalization Rules.—The uniform capitalization rules of section 263A are discussed in general in General Instruction K and the instructions for Schedule G. See those instructions before proceeding.

FSCs subject to section 263A will be required to make adjustments to the cost of goods sold computation(s) for Schedules A, F, and G where applicable. To the extent that section 263A costs would have been included in inventory in prior years, FSCs must revalue their beginning inventory. FSCs may elect one of the simplified methods of accounting for section 263A costs provided in Temporary Regulations section 1.263A-1T, for purposes both of revaluing their inventory and to account for costs in subsequent years. Absent the election of a simplified method, FSCs are required to allocate additional costs to be included in inventory under section 263A with the same degree of specificity as was required of inventoriable costs under prior law.

Line 1.—For tax years beginning after 1986, beginning inventory must be revalued as if the section 263A rules had been in effect for all prior periods. For inventory that when sold results in foreign trade income, enter the revalued beginning inventory on line 1 of Schedule A. For inventory that when sold results in nonexempt foreign trade income or nonforeign trade income, enter the revalued beginning inventory on the computation schedule for lines 5 and 18 of Schedule F.

In addition to the revaluation, an adjustment to income is required under section 481(a). The section 481 adjustment is taken into account over a period not to exceed 4 years. Also, since the application of section 263A is considered to be a change in accounting method, the FSC is required to complete Form 3115 to show the computation of the section 481(a) adjustment. Attach Form 3115 to Form 1120-FSC. Be sure to use the 1987 revision of Form 3115. See the regulations for more information on revaluing beginning inventory.

The section 481(a) income adjustment relating to schedule A is entered in columns (a) and (b), between lines 5 and 6, of Schedule B. Also write to the left of the column (a) amount "481/263A income." Allocate the section 481(a) income to columns (a) and (b) of Schedule B in the same way as the beginning inventory was allocated to columns (a) and (b) of Schedule A. Enter the section 481(a) income attributable to beginning inventory for the computation of the cost of goods sold for line 5 of Schedule F in the total for line 4, columns (a) and (b), of Schedule F. Write to the left of column (a) of line 4 "481/263A income" and the amounts of the 481(a) income entered in columns (a) and (b). Enter the section 481(a) income attributable to beginning inventory for the computation of cost of goods sold for line 18 of Schedule F in line 16 of Schedule F. Write to the left of the line 16 amount "481/263A income" and the amount of the 481(a) income.

Line 4a.—An entry is required on this line only for FSCs electing a simplified method of accounting. In the case of FSCs 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 regulations section 1.263A-1T but that are now required to be capitalized under section 263A. In the case of taxpayers electing the simplified resale method, additional section 263A costs are [illegible] section 263A costs paid or incurred during the tax year that were not included on lines 2 and 3. See 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 Regulations section 1.263A-1T for more information on figuring the amount of additional section 263A costs to be capitalized and added to ending inventory.

Note: *The instructions for lines 1, 4a, 4b, and 6 also apply to the computation of the cost of goods sold for purposes of lines 5 and 18 of Schedule F.*

Line 8a. Valuation methods.—Inventories can be valued at: (a) cost, (b) cost or market value, whichever is lower, or (c) any other method approved by the Commissioner of Internal Revenue, that conforms to the applicable regulations cited below.

Taxpayers using erroneous valuation methods should file Form 3115 to change to a method permitted for Federal income tax purposes. For further details, see regulations section 1.446-1(e)(3) and Rev. Proc. 84-74, 1984-2 C.B. 738.

In line 8a, check the method(s) used for valuing inventories. Under lower of cost or market, market generally applies to normal market conditions when a current bid price prevails at the date the inventory is valued. When no regular open market exists or when quotations are nominal because of inactive market conditions, use fair market prices from the most reliable sales or purchase transactions that occurred near the date the inventory is valued. For more requirements, see regulations section 1.471-4.

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

If this is the first year the "Last-in First-out" (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method, provided in section 472, attach Form 970, Application To Use LIFO Inventory Method, or a statement with the information required by Form 970. Also check the LIFO box in line 8b. Enter the amount or percent of total closing inventories covered under section 472 in line 8c. Estimates are acceptable.

If the corporation changed or extended its inventory method to LIFO and had to "write up" opening inventory to cost in the year of election, report the effect of this writeup as income (appropriately in Schedule F, line 16) proportionately over a 3-year period that begins in the tax year the election was first made. See section 472(d).

Schedule B—Taxable Income

Schedule B provides for the computation of [illegible]

Changes for Tax Years Beginning after 1986

a. The installment method is no longer available for any sale of personal property under a revolving credit plan.

b. The use of the installment method is limited by the proportionate disallowance rules of section 453C. Additional tax is generated by the application of the proportionate disallowance rules of section 453C for sale of personal property by a dealer after February 28, 1986. The tax is taken into account or treated as imposed ratably over a period of 3 years. The additional tax is included in the tax entered on line 3 of Schedule J of Form 1120-FSC. See section 811(c)(7) of the Tax Reform Act of 1986, and the instructions for line 3 of Schedule J for more information. This rule may be applicable to both Schedule B and Schedule F income.

c. Passive activity limitations may apply to FSCs that are closely held corporations. See instructions for line 20 of Schedule B.

Part I

Part I provides for the computation of income attributable to foreign trade income. Income and expenses on lines 1 through 15 are reported in column (a) or (b) based on the method of pricing (administrative or nonadministrative) used in the transaction that produced the income.

Report in column (b) all foreign trade income from all transactions in which the administrative pricing rules were not used. This income may or may not be effectively connected with a U.S. trade or business. Attach a schedule showing the computation of the taxable amount. (Only the taxable portion is included in line 16 of Schedule B.) Such income would be effectively connected and taxable more often for a small FSC, as it normally has a place of business in the U.S.

Lines 1 through 5—Enter foreign trading gross receipts as defined in section 924(a).

Report commission income on lines 1 or 2 based on the sale, lease, or rental of property on which such commission arose.

Line 5—Gross receipts from the performance of managerial services for an unrelated FSC or IC–DISC are foreign trading gross receipts if two conditions are met. These conditions are:

1. The managerial services must be performed with respect to activities that result in the sale, exchange, or other disposition of export property, the rental or lease by the lessee of export property outside the U.S., or that are related to and subsidiary to the activities described above; AND

2. At least 50% of the FSC's gross receipts for the tax year must be derived from the sale, exchange, or other disposition of export property, the lease or rental of export property outside the U.S., and services that are related or subsidiary to these activities. Gross receipts are defined in section 927(b).

For example, if receipts reported on lines 1, 2, and 3 of Schedule B are less than 50% of gross receipts for the year, managerial services would not qualify as foreign trading

gross receipts for the year. In this case, these receipts would be reported on line 16 of Schedule F.

Lines 6b through 6h—Determination of limit on foreign trading gross receipts for the small FSC. See General Instruction F1 and section 924(b)(2) before completing this part.

Line 6f—If commission income is reported on lines 1 or 2 of Schedule B, total receipts for purposes of line 6f are figured as follows:

1. Enter total of columns (a) and (b), line 6a, Schedule B . .	______
2. Enter total commission income reported on line 1 or 2, Schedule B	______
3. Line 1 less line 2	______
4. For the commissions reported on line 2 above, enter total gross receipts for the sale, lease, or rental of property on which the commissions arose. (Section 927(b)(2)) . . .	______
5. Add lines 3 and 4. Enter on line 6f, Schedule B	______

Line 6h—When making the line 6h allocation, only allocate the commission income attributable to the gross receipts on line 4 above. If the foreign trading gross receipts of the FSC exceed the line 6g, Schedule B, limitation, the FSC may select the gross receipts to which the limitation is allocated. See regulations section 1.921-2(b) Q-4.

Line 7—Enter the deduction for cost of goods sold from line 7, Schedule A, page 2.

Line 10—Provides for exclusion of exempt foreign trade income based on exemption percentages on lines 9a and 9b.

Line 14—Enter deductions from Schedule G that are attributable to nonexempt foreign trade income.

Part II

Part II is a summary of taxable foreign trade income and taxable income from Schedule F.

Line 16—Combine the income on line 15, column (a), with any taxable amount in line 15, column (b). See instruction for Part I, column (b) above, regarding taxable income in column (b). Attach a schedule showing the computation of the taxable amount.

Line 19a. Net operating loss deductions.—The net operating loss (NOL) deduction is the amount of the NOL carryovers and carrybacks that can be deducted in the tax year. Generally, a FSC may carry a NOL back to each of the 3 tax years **preceding** the year of the loss and carry it over to each of the 15 tax years following the year of the loss. See section 172 and related regulations for special rules, limitations, and definitions pertaining to NOL carrybacks and carryovers. Also, see **Publication 536,** Net Operating Losses, for more information.

Line 19b. Special Deductions.—A FSC may be entitled to a dividends-received deduction for dividends it receives from other corporations. Complete a dividend worksheet similar to that on page 6 to determine the total amount of dividends received by the FSC and to figure the dividends-received deduction. Attach your worksheet to Form 1120-FSC.

Line 20. Taxable Income (loss).—If the FSC is a closely held corporation and has a section 469(d) passive activity loss or credit, section 469 loss limitations apply to the FSC for tax years beginning after 1986. Generally, a passive activity loss or credit would be attributable to FSC operations that generate nonforeign trade income or loss. If the FSC has passive activity loss or credit for 1987, the loss is limited in figuring line 20 taxable income or loss, and any passive activity credit entered on Schedule J of Form 1120-FSC is limited.

For information on passive activity limitations, see **Publication 925,** Passive Activity and At-Risk Rules; **Form 8582,** Passive Activity Loss Limitations; **Form 8582-CR,** Passive Activity Credit Limitations; and section 469. If the limitations apply to a loss or credit, complete Form 8582 or Form 8582-CR, as applicable, to determine the limitations. Attach the forms to Form 1120-FSC. **Note:** *The instructions for line 28 of page 1,* **Form 1120,** *U.S. Corporation Income Tax Return, give a brief explanation of how Form 8582 is completed by a closely held U.S. corporation.*

Schedule E—Percentages To Be Used in Figuring Exempt Trade Income, etc.

Schedule E is used to figure the exemption percentages that are used in figuring exempt foreign trade income (Schedule B, line 10) as well as deductions attributable to exempt foreign trade income (Schedule G, line 17).

A C corporation means a corporation other than an S corporation. Shareholders other than C corporations are individuals, partnerships, S corporations, trusts, and estates.

Use lines 2a through 2d to figure the exemption percentage for foreign trade income that was determined without regard to the administrative pricing rules of section 923(a)(2).

Use lines 3a through 3d to figure the exemption percentage for foreign trade income that was determined by using the administrative pricing rules of section 923(a)(3).

Schedule F—Nonexempt Foreign Trade Income and Nonforeign Trade Income

Changes for Tax Years Beginning after 1986

a. Before completing Schedule F, see Changes for Tax Years Beginning after 1986 in the instructions for Schedules B and G for changes that also affect Schedule F income and expenses.

b. The use of the installment method is limited by the proportionate disallowance rules of section 453C. Additional income is generated by the application of the proportionate disallowance rules of section 453C for sale of real property held for sale to customers by a FSC that is a dealer. The income is taken into account ratably over a period of 3 years. The income is reported on line 16 of Schedule F. See section 811(c)(6) of the Tax Reform Act of 1986 for more information. Dealers in the sale of personal property that produced Schedule F income should see the Schedule B instructions referenced in item a above.

c. Schedule F was expanded for 1987 to include nonexempt foreign trade income (line 1 of Schedule F) that was previously reported directly on Schedule B.

Schedule F—Part I.—Enter nonexempt foreign trade income and related expenses in Part I.

Line 1.—Enter 50% of total receipts attributable to the sale, exchange, or other disposition of military property and related services. (**Note:** *The other 50% of this income is reported on lines 1 and 3 of Schedule B.)*

Line 2.—Enter FSC income that resulted from the FSC's cooperation with an international boycott. See Form 5713 for reporting requirements for any FSC with operations in or related to a boycotting country. See section 927(e)(2).

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

Schedule F—Part II.—Enter the taxable portion of gross income of the FSC that is not derived from foreign trade gross receipts. This type of income includes amounts specifically excluded from foreign trade income by law (line 7); investment type income (lines 8 through 12); income from property that is subsidized, deemed in short supply, or destined for use in the U.S. (lines 13 and 14); amounts from transactions that did not meet the foreign economic process tests (line 15); and other nonforeign trade income (line 16). For more details, see sections 924(f) and 927(a)(2) and (3).

Line 9—See instructions for the dividend worksheet below to figure the dividend income to report on line 9. Attach the dividend worksheet you prepare to Form 1120-FSC.

Instructions for Dividend Worksheet on Page 7

Column (a) Instructions

Line 1. Enter dividends received from domestic corporations subject to income tax and the deduction under section 243(a)(1) and certain dividends received from Federal Home Loan Banks (section 246(e)(2)). For dividends received from a regulated investment company, see section 854 for the amount subject to deduction.

So-called dividends or earnings received from mutual savings banks, etc., are really interest. Do not treat them as dividends.

Do not enter on line 1 any dividends received on "debt-financed" stock acquired after July 18, 1984. See section 246A and line 2, column (a), instruction below.

Line 2. Enter dividends that would have been eligible for the section 243(a)(1) or section 245 deduction except that they are from "debt-financed" stock acquired after July 18, 1984. "Debt-financed" stock is stock that the corporation incurred a debt in acquiring.

Line 3. Enter dividends received on the preferred stock of [illegible]

Line 4. Enter dividends that are received from foreign corporations and that qualify for the deduction provided in section 245(a). Also enter dividends received from other FSCs that are attributable to qualified interest and carrying charges and that qualify for the deduction provided in section 245(c)(1)(B).

Line 6. Enter all other dividends received from foreign corporations that do not qualify for a dividends-received deduction.

Line 7. If the FSC claims the foreign tax credit, the tax that is deemed paid under section 902(a) (relating to credit for a corporate stockholder in a foreign corporation) must be treated as a dividend received from the foreign corporation. (See section 906(b)(4).)

Line 8. Include dividends (other than capital gain dividends and exempt interest dividends) received from regulated investment companies that do not qualify for the dividend-received deduction; dividends (other than capital gain dividends) received from a real estate investment trust that, for the tax year of the trust in which the dividends are paid, qualifies under sections 856-860; dividends not eligible for a dividends-received deduction because of the holding period of the stock or an obligation to make corresponding payments with respect to similar stock; and any other taxable dividend income not properly reported above (including distributions under section 936(h)(4)).

Line 1, Columns (b) and (c)

The dividends-received deduction percentage for dividends received after December 31, 1986, is 80%. Multiply the dividends received by 80% to determine the dividends-received deduction.

A small business investment company operating under the Small Business Investment Act of 1958 may deduct 100% of dividends received from domestic corporations subject to income tax. (Section 243(a)(2))

Line 2, Columns (b) and (c)

The dividends-received deduction for dividends received on debt-financed stock is explained in section 246A. This section applies both to dividends received from debt-financed stock of domestic and foreign corporations acquired after July 18, 1984.

Dividends received on debt-financed stock are not entitled to the full 80% dividends-received deduction. The 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 the computation for an additional limitation which applies to dividends received from foreign corporations. A schedule showing the computation of the amount on line 2, column (c), of the worksheet must be attached to Form 1120-FSC along with the dividend worksheet.

Line 3, Columns (b) and (c)

For dividends on certain preferred stock of public utilities received after December 31, 1986, but before July 1, 1987, the dividends-received deduction percentage is 55.652%. For these dividends received after June 30, 1987, the dividends-received deduction percentage is 47.059%.

Multiply the dividends received in each period by the proper percentage to determine the correct dividends-received deduction.

Line 4, Columns (b) and (c)

The dividends-received deduction percentage for dividends received from foreign corporations entitled to the dividends-received deduction under section 245(a) is 80% for dividends received after December 31, 1986. The corporation must have at least a 10% interest in the foreign corporation.

Column (c) Instructions

Exclusion of certain dividends.—In general, no dividends-received deduction will be allowed on any share of stock (a) if the corporation held the stock 45 days or less (see section 246(c)(1)(A)) or (b) to the extent the corporation is under an obligation to make corresponding payments with respect to substantially identical stock or other securities.

Line 5. Limitation on dividends-received deduction.—Line 5 may not be more than 80% of line 18, Schedule B. For this purpose compute line 18, Schedule B, without regard to any adjustment under section 1059 and any capital loss carryback to the tax year under section 1212(a)(1).

In a year in which a net operating loss occurs, this 80% limit does not apply even if the loss is created by the dividends-received deduction. (See sections 172(d) and 246(b).)

Line 18—Enter on line 18 of Schedule F the deductions allocated or apportioned to income on lines 7 through 16. Make a separate computation for any cost of goods sold deduction included in the line 18 amount. Attach the computation to Form 1120-FSC.

Schedule G—Deductions Relating to Foreign Trade Income

Changes for Tax Years Beginning after 1986

a. Section 263A Uniform Capitalization Rules.—Many items that were deductible under prior law must now be capitalized or included in inventory under the new uniform capitalization rules of section 263A. The new rules require FSCs 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. The uniform capitalization rules also apply to the production of property constructed by a taxpayer for use in 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 occurred before March 1, 1986.

The uniform capitalization rules are generally effective for costs and interest paid or incurred after December 31, 1986. The uniform capitalization rules relating to inventory apply to tax years beginning after 1986. Transitional rules are contained in section 803 of the Tax Reform Act of 1986.

In the case of inventory, some of the indirect costs which may not have been capitalized before 1987 which now must 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 still be claimed for research and experimental costs under section 174, and mining and exploration and development costs. 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 section 263A, Uniform Capitalization Rules in the instructions for Schedule A; and Regulations section 1.263A-1T.

b. Deduction for Bad Debts.—Before 1987, the FSC could treat bad debts in either of two ways: (1) as a deduction for specific debts that become worthless in whole or in part, or (2) as a deduction for a reasonable addition to a reserve for bad debts. For 1987, the FSC can only use the specific charge off method of figuring its bad debt deduction. If the reserve method was used in prior years, see the instruction for line 11 of Schedule G for rules on changing to the specific charge-off method.

c. Meals and entertainment expenses.—For tax years beginning after 1986, the amount a FSC is allowed as a deduction for food 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 and other provisions of section 274. Section 162 permits a deduction for ordinary and necessary expenses of a trade or business; however, section 274(l) limits the deduction for certain entertainmnet expenses, and section 274(k) does not allow a deduction for any expenses of any food or beverages to the extent they are lavish or extravagant. See section 274 for more information.

Line Instructions

Line 1. Only enter foreign direct costs in lines 1a through 1e. See section 924(e) and regulations section 1.924(e)-1T(a) through (e) for definitions and rules on direct activity costs relating to foreign trade income. If you take a deduction for bad debts on line 1e, and you use the reserve method to figure the deduction, attach a schedule as explained in the line 11 instruction below.

Line 4.—Besides depreciation, include in line 4 the part of the cost that the FSC elects to expense under section 179. See the instructions for Form 4562. For property placed in service after 1986, the section 179 expense is limited to $10,000.

Line 11. Bad debts.—Generally, for tax years beginning after 1986, the FSC can only use the specific charge-off method of figuring its bad debt deduction. See section 166 for more information.

When changing to the specific charge off method for 1987, the following rules apply:

a. The change is treated as a change in the FSC's accounting method that is initiated by the FSC,

b. The change shall be considered as approved by the Commissioner, and

c. The net amount of adjustments required by section 481 because of the change in accounting method must be reported as income as explained below.

The adjustment referred to in item c above is the amount of the balance of the FSC's reserve for bad debts at the close of its 1986 tax year. The balance of the reserve is reported ratably in each of the first 4 tax years beginning after 1986. Report each year's ratable portion of the income in Schedule B and Schedule F based on the percentage of each type of sales income to total sales income for the tax years the reserve was established. For more information see section 805(d)(2) of the Tax Reform Act of 1986.

Schedule J—Tax Computation

Lines 1 and 2

Members of a controlled grouip, as defined in section 927(d)(4), with tax years that began before July 1, 1987, are entitled to only one $25,000 amount in each taxable income bracket on line 2a. Members of a controlled group that have tax years that end after June 30, 1987, are entitled to one $50,000 amount and one $25,000 amount (in that order) in each taxable income bracket on line 2b.

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

Equal Apportionment Plan.—If no apportionment plan is adopted, the members of the controlled group must divide the amount in each taxable income bracket equally among themselves. For example, controlled group AB consists of corporation A and corporation B, both corporations with tax years which include July 1, 1987. They do not elect an unequal apportionment plan. Therefore, corporation A is entitled to $12,500 (one-half of $25,000) in each taxable income bracket on line 2a. Corporation B is also entitled to $12,500 in each taxable income bracket. Each income bracket on line 2b of Schedule J is also equally divided.

Unequal Apportionment Plan.—Members of a controlled group may elect an unequal apportionment plan and divide the amount in each taxable income bracket as they wish. There is no need for consistency among taxable income brackets. Any member of the controlled group may be entitled to all, some, or none of the amount in a taxable income bracket. (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 complete item T on page 2 of Form 1120-FSC.

Note: *Members of a controlled group of corporations are treated as one corporation for purposes of figuring the applicability of the additional 5% tax. If the additional tax applies, each member of the group must attach to its tax return a schedule that shows the taxable income of the entire group as well as how its portion of the additional tax was figured.*

Tax Computation

Line 3.—The FSC figures the tax on its taxable income by using Schedules A and B of the Tax Computation Worksheet on page 10 of the instructions. Members of a controlled group, see the instructions below for lines 1 and 2 of Schedule J before proceeding to page 10. If the FSC is a dealer in personal property and is using the installment method for 1987, it should see section 811(c)(7) of the Tax Reform Act of 1986 to figure the ratable portion of the tax attributable to section 453C to be included in line 3 of Schedule J. Write in the space to the left of line 3 "Sec. 453C tax computation." Attach your schedule showing the computation to Form 1120-FSC.

Additional Tax.—The Tax Computation Worksheet includes the computation for an additional 5% tax on the excess of the FSC's taxable income over a specified amount. The "specified amount" was changed, effective July 1, 1987, from $1,000,000 to $100,000. The maximum amount of the additional tax (previously $20,250) has been changed to $11,750 effective July 1, 1987.

Alternative Tax.—If the tax year of the FSC begins before July 1, 1987, and the corporation has a net capital gain on line 10, Schedule D (Form 1120), the alternative tax computation may apply. To compute the alternative tax, complete Schedules A and B of the Tax Computation Worksheet on page 10 as instructed and enter the amount from line 34 of the worksheet on line 12, Part IV, Schedule D (Form 1120). Complete the rest of Part IV, Schedule D (Form 1120), and enter the lesser of the alternative tax or the tax figured by the regular method on line 3, Schedule J, Form 1120-FSC.

Dividend Worksheet	(a) Dividends received	(b) Deduction %	(c) Special deductions (Multiply (a) by (b))
1. Domestic corporations subject to the section 243(a) deduction		See Inst.	
2. Debt-financed stock of domestic and foreign corporations (246A)		See Inst.	
3. Certain preferred stock of public utilities		See Inst.	
4. Foreign corporations subject to the section 245 deduction		See Inst.	
5. Total dividends-received deduction—Add lines 1 through 4, Column (c). Enter here and on line 19b, Schedule B			
6. Other dividends from foreign corporations			
7. Foreign dividend gross-up (section 78)			
8. Other dividends			
9. Total dividends—Add amounts on lines 1 through 8, Column (a). Enter here and on line 9, Schedule F			

Line 4. Foreign tax credit.—Generally, neither a FSC nor its shareholders may claim a foreign tax credit. The FSC may, however, claim a foreign tax credit for any foreign taxes imposed on foreign source nonforeign trade income that is effectively connected with a U.S. trade or business. This income is subject to a separate limitation when computing the foreign tax credit.

A shareholder of a FSC may be entitled to a foreign tax credit on certain distributions from a FSC. These distributions are from foreign-sourced foreign trade income that was determined without using administrative pricing. See Regulations section 1.921-3T(d).

Line 6. Alternative minimum tax (and environmental tax).—Attach **Form 4626**, Alternative Minimum Tax—Corporations, if the taxable income plus adjustments and the tax preference items of the FSC exceeds $40,000. See Form 4626 for more information. Attach Form 4626 to Form 1120-FSC.

Also, if the FSC is liable for the section 59A environmental tax figured on Form 4626, enter this tax on line 6. Write to the left of line 6 "Sec. 59A tax" and the amount of the tax. See Form 4626 for more information. Attach Form 4626 to Form 1120-FSC.

Line 7. Personal holding company tax.—If the FSC is a personal holding company described in section 542 but not a foreign personal holding company described in section 552, it may be liable for the personal holding company tax. Use **Schedule PH (Form 1120)**, Computation of U.S. Personal Holding Company Tax, to figure this tax. Enter the tax on line 7 and attach Schedule PH (Form 1120) to Form 1120-FSC.

Schedule P (Form 1120-FSC).—Complete and attach a separate Schedule P (Form 1120-FSC) for each transaction or group of transactions to which you apply the transfer pricing rules of section 925. See Schedule P (Form 1120-FSC) for details on completing the schedule.

Schedules A and B—Tax Computation Worksheet

Effective July 1, 1987, the tax rates for corporations were reduced. The new rates of tax are:

15% on the first $50,000 of income;
25% on the next $25,000 of income; and
34% on any amount over $75,000.
Also, an additional tax of 5% is applied against income in excess of $100,000. The maximum amount of this additional tax is $11,750.

Corporations with tax years beginning after June 30, 1987, should complete Schedule B (below) only.

Schedule A Tax Computed for Period Before July 1, 1987

1	Taxable income (line 20, Schedule B, page 3, Form 1120-FSC)	
2	Net capital gain (If the alternative tax applies, enter net capital gain from line 10, Schedule D (Form 1120). If the alternative tax does not apply, enter zero. See instructions.)	
3	Subtract line 2 from line 1	
4	Enter the lesser of line 3 or $25,000 (members of a controlled group, see instructions)	
5	Subtract line 4 from line 3	
6	Enter the lesser of line 5 or $25,000 (members of a controlled group, see instructions)	
7	Subtract line 6 from line 5	
8	Enter the lesser of line 7 or $25,000 (members of a controlled group, see instructions)	
9	Subtract line 8 from line 7	
10	Enter the lesser of line 9 or $25,000 (members of a controlled group, see instructions)	
11	Subtract line 10 from line 9	
12	Multiply line 4 times 15%	
13	Multiply line 6 times 18%	
14	Multiply line 8 times 30%	
15	Multiply line 10 times 40%	
16	Multiply line 11 times 46%	
17	If line 3 is more than $1,000,000, enter the lesser of: (a) 5% of the excess of line 3 over $1,000,000 or (b) $20,250 (members of a controlled group, see instructions)	
18	Add amounts on lines 12 through 17	

Schedule B Tax Computed for Period After June 30, 1987

19	Enter amount from line 3, Schedule A, above	
20	Net capital gain (If the alternative tax applies, enter net capital gain from line 10, Schedule D (Form 1120). If the alternative tax does not apply, enter zero. See instructions.)	
21	Subtract line 20 from line 19	
22	Enter the lesser of line 21 or $50,000 (members of a controlled group, see instructions)	
23	Subtract line 22 from line 21	
24	Enter the lesser of line 23 or $25,000 (members of a controlled group, see instructions)	
25	Subtract line 24 from line 23	
26	Multiply line 22 times 15%	
27	Multiply line 24 times 25%	
28	Multiply line 25 times 34%	
29	Additional tax. If line 21 is more than $100,000, enter the lesser of: (a) 5% of the excess of line 21 over $100,000 or (b) $11,750 (members of a controlled group, see instructions)	
30	Add lines 26 through 29 (If only Schedule B was completed, skip lines 31 through 34. Enter the amount from line 30 on line 3, Schedule J, Form 1120-FSC.)	
31	Enter amount from line 18, Schedule A, above	
32	Line 31 × $\frac{\text{number of days in tax year before 7-1-87}}{\text{number of days in tax year}}$	
33	Line 30 × $\frac{\text{number of days in tax year after 6-30-87}}{\text{number of days in tax year}}$	
34	Tax liability before credits. Add amounts on lines 32 and 33. Enter here and on line 3, Schedule J, Form 1120-FSC. If the alternative tax applies, enter on line 12, Schedule D (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 1, under D, the code number for the specific industry group from which the largest percentage of "total receipts" is derived. "Total receipts" means the total of receipts on line 6a, Schedule B, and lines 4 and 17 of Schedule F.

On page 2, under O, state the principal business activity and principal product or service that accounts for the largest percentage of total receipts. For example, if the principal business activity is "Wholesale trade: Machinery, equipment, and supplies," the principal product or service may be "Engines and turbines."

Agriculture, Forestry, and Fishing

Code	
0400	Agricultural production.
0600	Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping.

Mining

Code	
Metal mining:	
1010	Iron ores.
1070	Copper, lead and zinc, gold and silver ores.
1098	Other metal mining.
1150	Coal mining.
Oil and gas extraction:	
1330	Crude petroleum, natural gas, and natural gas liquids.
1380	Oil and gas field services.
Nonmetallic minerals, except fuels:	
1430	Dimension, crushed and broken stone; sand and gravel.
1498	Other nonmetallic minerals, except fuels.

Construction

Code	
General building contractors and operative builders:	
1510	General building contractors.
1531	Operative builders.
1600	**Heavy construction contractors.**
Special trade contractors:	
1711	Plumbing, heating, and air conditioning.
1731	Electrical work.
1798	Other special trade contractors.

Manufacturing

Code	
Food and kindred products:	
2010	Meat products.
2020	Dairy products.
2030	Preserved fruits and vegetables.
2040	Grain mill products.
2050	Bakery products.
2060	Sugar and confectionery products.
2081	Malt liquors and malt.
2088	Alcoholic beverages, except malt liquors and malt.
2089	Bottled soft drinks, and flavorings.
2096	Other food and kindred products.
2100	**Tobacco manufacturers.**
Textile mill products:	
2228	Weaving mills and textile finishing.
2250	Knitting mills.
2298	Other textile mill products.
Apparel and other textile products:	
2315	Men's and boys' clothing.
2345	Women's and children's clothing.
2388	Other apparel and accessories.
2390	Miscellaneous fabricated textile products.
Lumber and wood products:	
2415	Logging, sawmills, and planing mills.
2430	Millwork, plywood, and related products.
2498	Other wood products, including wood buildings and mobile homes.
2500	**Furniture and fixtures.**
Paper and allied products:	
2625	Pulp, paper, and board mills.
2699	Other paper products.
Printing and publishing:	
2710	Newspapers.
2720	Periodicals.
2735	Books, greeting cards, and miscellaneous publishing.
2799	Commercial and other printing, and printing trade services.
Chemicals and allied products:	
2815	Industrial chemicals, plastics materials and synthetics.
2830	Drugs.
2840	Soap, cleaners, and toilet goods.
2850	Paints and allied products.
2898	Agricultural and other chemical products.
Petroleum refining and related industries (including those integrated with extraction):	
2910	Petroleum refining (including integrated).
2998	Other petroleum and coal products.
Rubber and misc. plastics products:	
3050	Rubber products: plastics footwear, hose and belting.
3070	Miscellaneous plastics products.
Leather and leather products:	
3140	Footwear, except rubber.
3198	Other leather and leather products.
Stone, clay, and glass products:	
3225	Glass products.
3240	Cement, hydraulic.
3270	Concrete, gypsum, and plaster products.
3298	Other nonmetallic mineral products.
Primary metal industries:	
3370	Ferrous metal industries; misc. primary metal products.
3380	Nonferrous metal industries.
Fabricated metal products:	
3410	Metal cans and shipping containers.
3428	Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products.
3430	Plumbing and heating, except electric and warm air.
3440	Fabricated structural metal products.
3460	Metal forgings and stampings.
3470	Coating, engraving, and allied services.
3480	Ordnance and accessories, except vehicles and guided missiles.
3490	Misc. fabricated metal products.
Machinery, except electrical:	
3520	Farm machinery.
3530	Construction and related machinery.
3540	Metalworking machinery.
3550	Special industry machinery.
3560	General industrial machinery.
3570	Office, computing, and accounting machines.
3598	Other machinery except electrical.
Electrical and electronic equipment:	
3630	Household appliances.
3665	Radio, television, and communication equipment.
3670	Electronic components and accessories.
3698	Other electrical equipment.
3710	**Motor vehicles and equipment**
Transportation equipment, except motor vehicles:	
3725	Aircraft, guided missiles and parts.
3730	Ship and boat building and repairing
3798	Other transportation equipment, except motor vehicles.
Instruments and related products:	
3815	Scientific instruments and measuring devices; watches and clocks.
3845	Optical, medical, and ophthalmic goods.
3860	Photographic equipment and supplies.
3998	**Other manufacturing products.**

Transportation and Public Utilities

Code	
Transportation:	
4000	Railroad transportation.
4100	Local and interurban passenger transit.
4200	Trucking and warehousing.
4400	Water transportation.
4500	Transportation by air.
4600	Pipe lines, except natural gas.
4700	Miscellaneous transportation services.
Communication:	
4825	Telephone, telegraph, and other communication services.
4830	Radio and television broadcasting.
Electric, gas, and sanitary services:	
4910	Electric services.
4920	Gas production and distribution.
4930	Combination utility services.
4990	Water supply and other sanitary services.

Wholesale Trade

Code	
Durable:	
5008	Machinery, equipment, and supplies.
5010	Motor vehicles and automotive equipment.
5020	Furniture and home furnishings.
5030	Lumber and construction materials.
5040	Sporting, recreational, photographic, and hobby goods, toys and supplies.
5050	Metals and minerals, except petroleum and scrap.
5060	Electrical goods.
5070	Hardware, plumbing and heating equipment and supplies.
5098	Other durable goods.
Nondurable:	
5110	Paper and paper products.
5129	Drugs, drug proprietaries, and druggists' sundries.
5130	Apparel, piece goods, and notions.
5140	Groceries and related products.
5150	Farm-product raw materials.
5160	Chemicals and allied products.
5170	Petroleum and petroleum products.
5180	Alcoholic beverages.
5190	Miscellaneous nondurable goods.

Retail Trade

Code	
Building materials, garden supplies, and mobile home dealers:	
5220	Building materials dealers.
5251	Hardware stores.
5265	Garden supplies and mobile home dealers.
5300	**General merchandise stores.**
Food stores:	
5410	Grocery stores.
5490	Other food stores.
Automotive dealers and service stations:	
5515	Motor vehicle dealers.
5541	Gasoline service stations.
5598	Other automotive dealers.
5600	**Apparel and accessory stores.**
5700	**Furniture and home furnishings stores.**
5800	**Eating and drinking places.**
Miscellaneous 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

Code	
7000	**Hotels and other lodging places.**
7200	**Personal services.**
Business services:	
7310	Advertising.
7389	Business services, except advertising.
Auto repair; miscellaneous repair services:	
7500	Auto repair and services
7600	Miscellaneous repair services.
Amusement and recreation services:	
7812	Motion picture production, distribution, and services.
7830	Motion picture theaters.
7900	Amusement and recreation services, except motion pictures.
Other services:	
8015	Offices of physicians, including osteopathic physicians
8021	Offices of dentists.
8040	Offices of other health practitioners.
8050	Nursing and personal care facilities.
8060	Hospitals.
8071	Medical laboratories.
8099	Other medical services.
8111	Legal services.
8200	Educational services.
8300	Social services.
8600	Membership organizations
8911	Architectural and engineering services.
8930	Accounting, auditing, and bookkeeping.
8980	Miscellaneous services (including veterinarians)

Form **3468**

Department of the Treasury
Internal Revenue Service (0)

Computation of Investment Credit

▶ Attach to your tax return.

▶ Schedule B (Business Energy Investment Credit) on back.

OMB No. 1545-0155

1987

Attachment Sequence No. 24

Name(s) as shown on return | Identifying number

Part I — Elections (Check the box(es) below that apply to you (See Instruction D).)

A I elect to increase my qualified investment by all qualified progress expenditures (QPE) made this and all later tax years . . . . . ☐
Enter total qualified progress expenditures included in column (4), Part II ▶ ....

B I claim full credit on certain ships under section 46(g)(3) (See **Instruction B** for details) . . . . . ☐

Part II — Qualified Investment (Certain Transition Property, QPE Property, and Qualified Timber Property)

1 Recovery Property		Line	(1) Class of Property	(2) Cost or Other Basis	(3) Applicable Percentage	(4) Qualified Investment (Column 2 x column 3)
Regular Percentage	New Property	(a)	3-year		60	
		(b)	Other		100	
	Used Property	(c)	3-year		60	
		(d)	Other		100	

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 placed in service after 12-31-86:**

(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) **placed in service after 12-31-86:**

(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 line 4 through line 7. . . . . . . | 8 |

Note: *If you have a 1987 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 1987 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 1987 investment credit. If you have only a 1987 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 43 . . . . . .
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 credit from line 44, plus any orphan drug and nonconventional source fuel credits 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 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 19 . . . . . .
c Estates and Trusts—From Form 8656, enter amount from line 20 . . . . . . | 12 |

13 Excess of income tax liability over tentative minimum tax—Subtract line 12 from line 11 . . . . | 13 |

14a Enter smaller of line 11 or $25,000 (See instructions for line 14) . . . . . . | 14a |

b If line 11 is more than $25,000—Enter 75% of the excess . . . . . . | 14b |

15 Add lines 14a and 14b . . . . . . | 15 |

16 Total allowed credit—Enter the smallest of line 8, line 13, or line 15 (corporations, see instructions)—This is your **General Business Credit** for 1987. Enter here and on Form 1040, line 45; Form 1120, Schedule J, line 4(e); Form 1120-A, Part I, line 2; or the proper line of other returns | 16 |

For Paperwork Reduction Act Notice, see separate Instructions. • U.S. Government Printing Office 1987 — 183-235 Form **3468** (1987)

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 (12%) . . . . . . | 3a |

b Biomass and 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)(A)(i) projects underway by 12-31-82 (10%) . . . . . . | 4a |

b Hydroelectric generating property placed in service during the year (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)

Energy property must meet the same requirements as regular investment credit property, except that the provisions of sections 48(a)(1) and 48(a)(3) do not apply. See the separate Instructions for Form 3468 for definitions and rules regarding regular investment credit property.

Energy property must be acquired new. See sections 46(b)(2) and 48(l)(1) through (17) for details.

See section 48(l)(17) for special rules on public utility property, and section 48(l)(11) (as amended by the Crude Oil Windfall Profit Tax Act of 1980) for special rules on property financed by Industrial Development Bonds.

Specific Instructions

One Credit Only.—If property qualifies as more than one kind of energy property, you may take only one credit for the property.

Line 1—Type of Property.— For definition of recovery and nonrecovery property, see the separate Instructions for Form 3468.

Line 1—Column (2).—Use the code letters from the following list to indicate the kind of property for which you are claiming a credit. If you enter more than one kind of property on a line, enter the code letter for each kind of property in column (2) and the code letter and dollar amount of each kind of property in the right hand margin.

The code letters are:

a. Biomass property
b. Hydroelectric generating property
c. Solar equipment (but not passive solar equipment)
d. Ocean thermal equipment
e. Geothermal equipment

See sections 48(l)(4) and 48(l)(3)(A)(viii) and (ix) for definitions and special rules that apply to these kinds of property.

Line 4.—The section 48(q)(4) election to take a reduced credit instead of adjusting the basis of the energy property on line 4 is not available for property placed in service after 1985, and 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.

If your tax year begins before and ends after July 1, 1987, the energy credit(s) on lines 4a and 4b must be reduced by a percentage figured from the following formula:

$$35\% \times \frac{\text{number of months in your tax year after June 1987}}{\text{total number of months in your tax year}}$$

Enter the reduced credit on lines 4a and 4b. Although this reduction may not be used in the current year or carried back to a prior year, it may be carried forward to your next tax year under the following rules.

If you are able to 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 reduction. If, for example, you are able to use half of the reduced credit in 1987, 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).

For tax years beginning after June 30, 1987, you must reduce the energy credit(s) on lines 4a and 4b by the full 35%. Enter the reduced credit. (This reduction may not be carried to any other year.)

1987 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.

Items You Should Note

The Tax Reform Act of 1986 repealed the investment credit for most taxpayers. In general, for property placed in service after December 31, 1985, you cannot claim any investment credit unless the property is:

- Transition property, as defined in the Specific Instructions for lines 1(a)–1(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., unless it was transition property on December 31, 1985, or it falls into one of the other categories above.

The Tax Reform Act of 1986 changed the alternative minimum tax rules for the general business credits. This will require an additional tax liability limitation computation on lines 12 and 13.

If you have credits from passive activities, see **Form 8582-CR**, Passive Activity Credit Limitations, before completing Form 3468.

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 1987, 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 1987 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 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.—In general, the Tax Reform Act of 1986 repeals the regular investment tax credit for property placed in service after December 31, 1985. The only properties for which you can now claim a regular credit are (1) transition property, (2) qualified progress expenditure (QPE) property, and (3) qualified timber property.

Transition Property.—There are several types of transition property that may be placed in service after 1985 and still be eligible for the regular credit in that year:

- Binding contract on 12-31-85: Property that is constructed, reconstructed, or acquired under a written contract that was binding on December 31, 1985.
- Construction in progress on 12-31-85: Property that is constructed or reconstructed if at least 5% of the cost, or $1 million, had been incurred or committed by December 31, 1985.
- Equipped building or plant facility in progress on 12-31-85: If construction had begun pursuant to a written specific plan and more than one-half the cost had been incurred or committed by December 31, 1985.
- Specific projects listed in the Act.

Transition property must be placed in service before the date shown in the following table. Otherwise, no credit will be allowed:

Property class life (years)	Must be placed in service before
3 or more but less than 5	July 1, 1986
5 or more but less than 7	January 1, 1987
7 or more but less than 20 . . .	January 1, 1989
20 or more	January 1, 1991

The section 48(q)(4) election to take a reduced credit instead of adjusting the basis of property is not available for transition property. You must reduce the basis 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 1987 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 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.

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 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 $125,000 of the cost of used property in any one year. This does not include the basis of any property traded in unless the trade-in caused the recapture of all or part of an investment credit allowed earlier or a reduction in an investment credit carryback or carryforward. Determine the $125,000 amount before applying the percentages based on the class of property or useful life. Enter the cost (subject to the dollar limitation) of used property placed in service during the year. Property inherited, received as a gift, or acquired from certain related persons does not qualify for the investment credit.

If a husband and wife file separate returns, each may claim up to $62,500. If one of them has *no* qualifying used property, the other may claim up to $125,000.

The $125,000 limitation applies to a partnership, S corporation, estate, or trust. The $125,000 must be divided among the estate or trust and its beneficiaries based on the income of the estate or trust allocable to each. A $125,000 limitation also applies to each partner, shareholder, or beneficiary. Controlled corporate groups must divide the limitation among all component members. See section 48(c) and related regulations.

Line 4.—The credit for qualified timber property included in line 3 is 10%. The credit for transition property and QPE property included in line 3 depends on your tax year. If your tax year begins before and ends after July 1, 1987, the regular 10% credit for transition and QPE property must be reduced by a percentage figured from the following formula:

$$35\% \times \frac{\text{number of months in your tax year after June 1987}}{\text{total number of months in your tax year}}$$

Example: Your 1987calendar tax year shows a qualified investment in transition or QPE property on line 3 of $100,000. Since six months of the twelve ($^6/_{12}$) are after June 1987, you must reduce your regular credit of $10,000 (10% × $100,000) by 17.5% (35% × $^6/_{12}$). The credit reduction is $1,750 ($10,000 × .175), and the reduced credit of $8,250 ($10,000 – $1,750) would be entered on line 4.

Although this reduction ($1,750 in the example) may not be used in the current year or carried back to a prior year, it may be carried forward to your next tax year under the following rules.

If you are able to use **all** of the reduced credit ($8,250 in the example) in the current year, then none of the $1,750 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 reduction. If, under the example, you are able to use half of the $8,250 reduced credit in 1987, then you may carry forward the other half of the reduced credit and half of the $1,750 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).

For tax years beginning after June 30, 1987, you must reduce the regular 10% credit for transition and QPE property (but not for qualified timber property) by the full 35%. Enter the reduced credit on line 4. (This reduction may not be carried to any other year.)

Lines 5a and 5b. Rehabilitation Expenditures.—The Tax Reform Act of 1986 generally changed the rules for claiming the rehabilitation portion of the investment credit for property placed in service after December 31, 1986, in tax years ending after that date.

You may take a credit for certain capital costs incurred for additions or improvements to qualified existing buildings and for rehabilitation of certified historic structures. The expenditures must be added to the basis of the building and depreciated by the straight-line method 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 1987, the expenditures must be for either:

(1) nonresidential real property,

(2) residential rental property, or

(3) real property that has a class life of more than 12½ years.

See section 48(g) for other details and section 251(d) of the Act for transitional rules applicable to line 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.

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 10c. Other Filers.—Before you can claim the investment credit against your income tax liability, you must reduce this tax liability by the credits listed below:

- Personal credits (child and dependent care credit, credit for elderly or disabled, residential energy credit carryforward, and the credit for interest on certain home mortgages)
- Foreign tax credit
- Possessions corporation tax credit
- Orphan drug credit
- Nonconventional source fuel credit

Line 14. Limitation.—If the tax liability on line 11 is $25,000 or less, your investment credit is limited to that tax liability. If the tax liability is more than $25,000, your credit is limited to $25,000 plus 75% of the excess.

If 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.

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. See Publication 572 for the amount to enter. If you figure your credit under this limitation, write "SEC 38(c)(3)" in the margin next to your entry on line 16.

Form **3800**
Department of the Treasury
Internal Revenue Service

General Business Credit

▶ Attach to your tax return.

OMB No. 1545-0895
1987
Attachment Sequence No. 25

Name(s) as shown on return	Identifying number

Part I Tentative Credit

1	Investment credit (Form 3468, line 8)	1	
2	Jobs credit (Form 5884, line 7)	2	
3	Credit for alcohol used as fuel (Form 6478, line 11)	3	
4	Credit for increasing research activities (Form 6765, line 25)	4	
5	Low-income housing credit (Form 8586, line 8)	5	
6	**Current year general business credit**—Add lines 1 through 5	6	
7	Carryforward of general business credit (or investment (see instructions), WIN, jobs, alcohol fuel, research, ESOP, or low-income housing credits)	7	
8	Carryback of general business credit to 1987	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 43		
b	Corporations—From Form 1120, Schedule J, enter tax from line 3 (or Form 1120-A, Part I, line 1)		
c	Other filers—Enter income tax before credits from return	10	
11a	Individuals—From Form 1040, enter credit from line 44, plus any orphan drug and nonconventional source fuel credits 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 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 19		
c	Estates and Trusts—From Form 8656, enter amount from line 20	13	
14	Excess of income tax liability over tentative minimum tax—Subtract line 13 from line 12	14	
15a	Enter smaller of line 12 or $25,000 (see instructions for line 15)	15a	
b	If line 12 is more than $25,000—Enter 75% of the excess	15b	
16	Add lines 15a and 15b	16	
17	General business credit—Enter smallest of line 9, line 14, or line 16 (corporations, see instructions) here and on Form 1040, line 45; Form 1120, Schedule J, line 4(e); Form 1120-A, Part I, line 2; or the proper line on other returns	17	

General Instructions

(Section references are to the Internal Revenue Code.)

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

Changes You Should Note.—The Tax Reform Act of 1986 changed the alternative minimum tax rules for the general business credits. This will require an additional tax liability limitation computation on lines 13 and 14. The Act also repealed the Employee Stock Ownership Plan (ESOP) credit as of 12-31-86.

If you have credits from passive activities, see **Form 8582-CR**, Passive Activity Credit Limitations, 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 1987, 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 1987 investment credit, you may use Form 3468 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 the 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

(Continued on back)

of the 3 preceding tax years, beginning with the earliest. If you have an unused credit after carryback, it may be carried forward to each of the 15 years after the year of the credit. In general, credits unused after 15 years may be deducted in the 16th year (or earlier if the taxpayer dies or goes out of business). Unused ESOP credits are deductible in the 15th year if unused by that time. **Note:** *Generally, only half the unused investment credit is deductible. If you had originally made a section 48(q)(4) election to take a reduced credit instead of adjusting the basis of the property, then none is deductible.*

Although the investment, jobs, alcohol fuel, research, and low-income housing credits are aggregated as the general business credit, you may want to keep separate records of these credits to ensure that no credits or deductions are lost.

Specific Instructions

Line 7.—All carryforwards of unused investment, jobs, WIN, alcohol fuel, research, ESOP, and low-income housing credits are added together and become a business credit carryforward to 1987.

Note: *Carryforward of regular investment credit for filers with tax years beginning before and ending after July 1, 1987.*—Under section 49(c) you must reduce the portion of the business credit carryforward attributable to the section 46(a)(1) regular investment credit (other than for qualified timber property) by a percentage figured from the following formula:

$$35\% \times \frac{\text{number of months in your tax year after June 1987}}{\text{total number of months in your tax year}}$$

Enter the reduced credit on line 7. Although this reduction may not be used in the current year or carried back to a prior year, it may be carried forward to your next tax year under the following rules.

If you are able to 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 reduction. If, for example, you are able to use half of the reduced credit in 1987, 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).

Carryforward of regular investment credit for filers with years beginning after June 30, 1987.—You must reduce the portion of the business credit carryforward attributable to the section 46(a)(1) regular investment credit (other than for qualified timber property) by the full 35%. Enter the reduced credit on line 7. *(This reduction may not be carried to any other year.)*

Line 8.—Leave blank in 1987. 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, residential energy credit carryforward, and the credit for interest on certain home mortgages)
- Foreign tax credit
- Possessions corporation tax credit
- Orphan drug credit
- Nonconventional source fuel credit

Line 15.—If your adjusted tax liability (line 12) is $25,000 or less, your general business credit is limited to that liability. If the tax liability is more than $25,000, your credit is limited to $25,000 plus 75% of the excess.

If 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)(4)(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)(4)(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, your total allowed credit to be entered on line 17 will be figured differently than the instructions on the form direct. See Publication 572 for the amount to enter. If you figure your credit under this limitation, write "SEC 38(c)(3)" in the margin next to your entry on line 17.

Form **4562**

Department of the Treasury
Internal Revenue Service

Depreciation and Amortization

▶ See separate instructions.
▶ Attach this form to your return.

OMB No 1545-0172

1987

Attachment Sequence No **67**

Name(s) as shown on return | Identifying number

Business or activity to which this form relates

Part I **Depreciation** (Do not use this part for automobiles, certain other vehicles, computers, and property used for entertainment, recreation, or amusement. Instead, use Part III.)

Section A.—Election To Expense Depreciable Assets Placed in Service During This Tax Year (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 result is 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 Accelerated Cost Recovery System (ACRS) (see instructions): *For assets placed in service* **ONLY** *during tax year beginning in 1987*					
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 Listed property—Enter total from Part III, Section A, column (g)					
8 ACRS deduction for assets placed in service prior to 1987 (see instructions)					

Section C.—Other Depreciation

9 Property subject to section 168(f)(1) election (see instructions)	
10 Other depreciation (see instructions)	

Section D.—Summary

11 Total (add deductions on lines 5 through 10). Enter here and on the Depreciation line of your return (Partnerships and S corporations—Do NOT include any amounts entered on line 5.)		
12 For assets above placed in service during the current year, enter the portion of the basis attributable to additional section 263A costs. (See instructions for who must use.)		

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 1987					
2 Amortization for property placed in service prior to 1987					
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** (1987)

Form 4562 (1987) Page **2**

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 7, page 1.)							

Section B.—Information Regarding Use of Vehicles

Complete this section as follows, if you deduct expenses for vehicles:

- *Always complete this section for vehicles used by a sole proprietor, partner, or other more than 5% owner or related person.*
- *If you provided vehicles to employees, first answer the questions in Section C to see if you meet an exception to completing this section for those items.*

	Vehicle 1		Vehicle 2		Vehicle 3		Vehicle 4		Vehicle 5		Vehicle 6	
1 Total miles driven during the year												
2 Total business miles driven during the year												
3 Total commuting miles driven during the year												
4 Total other personal (noncommuting) miles driven												
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
5 Was the vehicle available for personal use during off-duty hours?												
6 Was the vehicle used primarily by a more than 5% owner or related person?												
7 Is another vehicle available for personal use?												

Section C.—Questions for Employers Who Provide Vehicles for Use by Employees.

(Answer these questions to determine if you meet an exception to completing Section B. **Note:** *Section B must always be completed for vehicles used by sole proprietors, partners, or other more than 5% owners or related persons.)*

	Yes	No
8 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?		
9 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? (See instructions for vehicles used by corporate officers, directors, or 1% or more owners.)		
10 Do you treat all use of vehicles by employees as personal use?		
11 Do you provide more than five vehicles to your employees and retain the information received from your employees concerning the use of the vehicles?		
12 Do you meet the requirements concerning fleet vehicles or qualified automobile demonstration use (see instructions)?		

Note: *If your answer to 8, 9, 10, 11, or 12 is "Yes," you need not complete Section B for the covered vehicles.*

1987 Instructions for Form 4562

Department of the Treasury
Internal Revenue Service

Depreciation and Amortization

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

Paperwork Reduction Act Notice

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

Items You Should Note

- Recent legislation changed the way you figure your deduction for depreciation and the section 179 deduction for property placed in service after 12/31/86. Figure your allowable deduction in Part I, Sections A and B.
- State and local sales taxes paid on the purchase of an asset are no longer deductible but can be added to the basis of the asset and depreciated.
- Many other items that were deductible under prior law must now be capitalized or included in inventory costs. See the instructions for line 12.
- All taxpayers claiming any type of deduction for any listed property (such as automobiles, computers, and property used for purposes of entertainment, recreation and amusement) are required to complete Part III on page 2, regardless of when such property was placed in service.
- As an alternative to 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 **Publication 917,** Business Use of a Car.
- All details of depreciation should be retained as part of your permanent books and records. See **Publication 534,** Depreciation, for example of how to keep depreciation records.

Purpose of Form

Use Form 4562 to claim your deduction for depreciation and amortization, to make the election to expense recovery property, and to provide information concerning the business use of automobiles and other listed property.

In using this form, a taxpayer should prepare and submit a separate Form 4562 for each business or activity in the return.

For more information about depreciation, the election to expense newly acquired recovery property, and leased listed property, see Publication 534 and Publication 917. For more information about amortization (including depreciation/amortization of leasehold expenses), see **Publication 535,** Business Expenses.

Line-by-Line Instructions

Part I.—Depreciation

Depreciation is an amount you can deduct each year for assets, except land, you acquire to use in your business or hold to produce income. (Land is never depreciable.) Depreciation starts when you first start using the property in your business. It ends when you take the property out of service, deduct all of your depreciable cost, or no longer use the property in your business.

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 amount of depreciation and section 179 deduction to be recaptured on **Form 4797**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions. Figure the amount of investment credit to be recaptured on **Form 4255,** Recapture of Investment Credit.

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 Publication 534. To do so, you must have purchased (as defined in section 179(d)(2)) the property and placed it in service during the 1987 tax year. 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 that is used 50% or less in your trade or business; and (2) property held for the production of income (section 212 property).*

An estate or trust may not elect to expense property. A partnership or S corporation may choose to expense and pass through to its partners or shareholders a maximum of $10,000. Partners or shareholders add their share of the partnership or S corporation amount to their own section 179 expense they choose to take, and deduct the combined amount up to the limit. See Publication 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.

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 about basis, see **Publication 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 5.—If you are married filing separately, each spouse is limited to one-half of 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 from your trade or business (an amount disallowed under this rule is treated as cost of section 179 property 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 1987.*

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 which is more than 2 years old at the time it is placed in service, and any other horse which is more than 12 years old at the time it is placed in service.

5-Year Property.—This is property with a class life of more than 4, but less than 10 years. It includes an automobile or light general purpose truck; semiconductor manufacturing equipment; computer based telephone central office switching equipment; qualified technological 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 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.

15-Year Property.—This is property with a class life of 20 years or more, but less than 25 years. It includes a municipal wastewater treatment plant and any telephone distribution plant and comparable equipment used for 2-way exchange of voice and data communications of information.

20-Year Property.—This is property with a class life of 25 or more years. It includes municipal sewers.

Residential Rental Property.—This is a building in which 80 percent or more of the total rent is from dwelling units.

Nonresidential Real Property.—This is real property, other than residential rental property, which has a class life of at least 27.5 years.

See **Publication 534,** Depreciation, for more information on class lives.

Column (b).—For lines 6g and 6h, enter the month and year you placed the property in service.

Column (c).—Enter the basis for depreciation of the assets you placed in service in the current tax year. To find the basis for depreciation, multiply the cost or other basis of the property by the percent of business use. From that result, subtract any section 179 expense deduction and any applicable investment credit.

Certain taxpayers are not subject to the new depreciation rules for property placed in service after 12-31-86. See the note in the instructions for line 8 below.

Column (d).—Enter your recovery period. This is usually the number of years that corresponds to the class of property in column (a). For example, for 3-year property the recovery period is 3 years; for 5-year property the recovery period is 5 years, etc. For residential rental property, your recovery period is 27½ years and nonresidential real property, 31½ years.

If you use the alternative depreciation system, enter your recovery period or class life (for real property, enter 40).

Column (e).—Enter your method of figuring depreciation and convention by writing "DDB," "150% DB," or "SL," for depreciation method, and "½," "1/12," or "¼," for half-year, mid-month, or mid-quarter conventions, respectively.

Column (f).—Figure your depreciation deduction according to the instructions given 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.

3-year property, 5-year property, 7-year property, and 10-year property.—For this property, use the 200% declining balance method, switching to straight-line for the first year in which that method would result in a higher deduction. You may use optional Table 2(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 special rule.

See Publication 534 for a more detailed method for computing depreciation.

15-year property and 20-year property.— Use the 150% declining balance method, switching to straight-line for the first year in which that method results in a higher deduction. You may use optional Table 2(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 special rule.

See Publication 534 for a more detailed method for computing depreciation.

Nonresidential Real Property and Residential Rental Property.—For this property you must use the straight-line method and apply the mid-month convention. You may use optional Tables 2(b) or 2(c) on page 4 to figure your depreciation. Apply the percentage shown in the table to the original basis each year.

See Publication 534 for a more detailed method for computing depreciation.

Mid-Quarter Convention.—If more than 40% 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, 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.

To use the mid-quarter convention, figure depreciation for each asset using Table 2(a) on page 4. Multiply that result by 2 (because Table 2(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 a quarter for the quarter in which the property was placed in service. Then divide that result by 4.

Filers with 2nd year depreciation of property placed in service after 12/31/86 should take a full year's depreciation as shown in the table. For additional information see **Publication 534.** Depreciation.

Alternative Depreciation System.—Instead of the methods discussed above, you may elect to use the straight-line method of figuring 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 during the tax year. However, the election for nonresidential real property and residential rental property may be made separately for each property.

To figure depreciation under this method, divide the basis for depreciation by the class life, and use the same conventions as explained above. If personal property does not have a class life, use 12 years. For certain exceptions, see section 168(g)(3)(B). For nonresidential real property and residential rental property, divide the basis for depreciation by 40, and use the mid-month convention.

The alternative depreciation system must be used for the following: any tangible property used mostly outside the United States; any tax-exempt use property; any tax-exempt bond financed property; and any imported property covered by an Executive Order of the President of the United States.

You may also elect to use the straight-line method over the recovery period (instead of the class life), using the same conventions as discussed above. If elected, this method must also be 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 8.—ACRS deduction for assets placed in service prior to 1987.—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%);

Low-income housing, 15-year, 18-year, and 19-year real property-Use the tables on page 4 of the instructions for 15-, 18-, and 19-year real property, and the table in Publication 534 for low-income housing.

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 Publication 534 for more information.

The basis and amounts claimed for depreciation in prior years should be part of your permanent books and records. No attachment is necessary.

Note: *Certain taxpayers placing property in service in the current year are covered by transitional rules and should figure their depreciation using the rules for assets placed in service before 1/1/87. This includes property under a binding contract or under construction on March 1, 1986, and certain other transition property. These taxpayers must reduce their basis by the full investment credit. Use line 6, Part I, modifying the column (a) headings if necessary. See sections 203 and 204 of the Tax Reform Act of 1986, and Publication 534 for more information.*

Section C.—Other Depreciation.—Use Section C for property, other than automobiles and other listed property, you do not amortize, expense, or use ACRS to depreciate. This includes:

- Property placed in service before January 1, 1981;
- Certain public utility property, which does not meet certain normalization requirements;
- Certain property acquired from related persons;
- Property acquired in certain nonrecognition transactions; and
- Certain sound recordings, movies, and videotapes.

Line 9.—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; 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 10.—Enter the total amount of depreciation attributable to assets, other than automobiles and other listed property, acquired before January 1, 1981 (pre-ACRS), or property that cannot otherwise be depreciated under ACRS. This amount should be calculated from your permanent books and records. **No attachment is necessary.** For a sample worksheet, see Publication 534.

Include any amounts attributable to the Class Life Asset Depreciation Range (CLADR) system. If you previously elected the CLADR system, you must continue to use it to depreciate assets left in your vintage accounts. You must continue to meet recordkeeping requirements.

If you elect CLADR for assets that do not qualify for ACRS, attach a statement that specifies the items that still apply to those listed in Regulations section 1.167(a)-11(f)(2).

Line 12—New Section 263A Uniform Capitalization Rules.—Under the Tax Reform Act of 1986 many items that were deductible under prior law must now be capitalized. If you produce property for use in your business then you should fill in line 12. Otherwise leave it blank.

Part II.—Amortization

Each year you may elect to deduct part of certain capital expenses over a fixed period. If you amortize property, the part you amortize does not qualify for the election to expense recovery property or depreciation.

Line 1.—Complete line 1 only for property placed in service during your tax year beginning in 1987.

Column (a).—Describe the property you are amortizing. Amortizable property includes—

- Pollution control facilities (section 169, limited by section 291 for corporations).
- Bond premiums (section 171).
- Amounts paid for research or experiments (section 174).
- Business start-up expenditures (section 195).
- Qualified forestation and reforestation costs (section 194).
- Organizational expenses for a corporation (section 248) or partnership (section 709).
- Optional write-off of certain tax preferences over the period specified in section 59(e).

Note: *Generally you may no longer amortize trademark or trade name expenditures or railroad grading and tunnel bore expenditures made after December 31, 1986.*

Column (b).—Enter the date you acquired or completed the property or spent the amount you are amortizing.

Column (c).—Enter the total amount you are amortizing. See the applicable Code section for limits on the amortizable amount.

Column (d).—Enter the Code section under which you amortize the property.

Attach any other information the Code and Regulations may require in order to make a valid election. For additional information, see Publication 535.

Line 2.—Enter the amount of amortization attributable to property placed in service before 1987.

Part III.— Automobiles and Other Listed Property

All taxpayers claiming any type of deduction for automobiles and other listed property, regardless of the tax year such property was placed in service, must provide the information requested in Part III. Listed property includes, but is not limited to:

- Passenger automobiles weighing 6,000 pounds or less.
- Any other property used as a means of transportation if the nature of the property lends itself to personal use, such as motorcycles, pick-up trucks, etc.
- Any property of a type generally used for purposes of entertainment, recreation, or amusement (such as photographic, phonographic, communication, and video recording equipment).
- Computers or peripheral equipment.

Listed property does not include photographic, phonographic, communication, or video equipment used exclusively in a taxpayer's trade or business or regular business establishment. It does not include any computer or peripheral equipment used exclusively at a regular business establishment and owned or leased by the person operating such establishment.

Listed property does not include an ambulance, hearse, or a vehicle used for transporting persons or property for hire.

Section A.—Depreciation

Column (a).—List on a property-by-property basis all of your listed property in the following order:

(1) Automobiles and other vehicles ;
(2) Other listed property (computers and peripheral equipment, etc.);

In column (a), list the make and model of automobiles, and give a general description of listed property.

If you have more than five vehicles used 100% in your trade or business, you may group them by tax year. Otherwise, list all vehicles separately.

Column (b).—Enter the date the property was placed in service. This is the date you first start using the property for any purpose, whether personal or business.

Column (c).—Enter the percentage of business use. For automobiles and other "vehicles," this is determined by dividing the number of miles the vehicle is driven for purposes of a trade or business during the year by the total number of miles the vehicle is driven for any purpose. 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.

If the employer reports the amount of personal use of the vehicle in the employee's gross income, and withholds the appropriate taxes, for purposes of this form the employer is to enter "100%" for the percentage of business use. For more information see Publication 917. For listed property (such as computers or video equipment), allocate the use on a basis of the most appropriate unit of time the property is actually used. See Temp. Regs. 1.280F-6T.

If you have property that is used solely for personal use that is converted to business use during the tax year, figure the percent of business use only for the number of months the property is used in your business. Multiply that percentage by the number of months the property is used in your business, and divide the result by 12.

Column (d).—Enter the property's actual cost. For leased property, enter the lease payment for the year.

Column (e).— Multiply column (d) by the percentage in column (c). From that result, subtract any section 179 expense and one-half of investment credit taken 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. If you are using the prescribed method explained on page 2, enter "PRE." If you elect an alternate percentage, or if the business percentage is 50% or less, enter "S/L." .

Also, enter your recovery period. See the instructions to Part I, Section B, Column (d) for property used more than 50% in your trade or business. For listed property placed in service after 12/31/86, 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 1/1/87, 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 8 for property placed in service before 1/1/87 or from Table 2(a) on page 4 for property placed in service after 12/31/86. Treat automobiles as 5-year property (3-year property if placed in service before 1/1/87) 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 12/31/86, figure column (g) by dividing column (e) by column (f) and using the same half-year or mid-quarter conventions as discussed on page 2 of the instructions. If placed in service before 1/1/87 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.

Enter zero, if the property placed in service before 1/1/87 was disposed of during the year.

Limitations for automobiles.—When calculating your depreciation plus section 179 expense deduction for automobiles for the first tax year in the recovery period, your deduction is limited to $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; and $4,100 for the second tax year in the recovery period if placed in service after December 31, 1986.

Note: *These limitations are further reduced when the percentage of business use (column (c)) is less than 100%. For example, if an automobile is placed in service in 1987 and 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 Publication 917 and Temporary Regulations 1.280F-5T, for amounts to be included in gross income.

Column (h).—Enter the amount you choose to expense for property used more than 50% in a qualified business use (subject to limitations noted above).

Section B.—Information Regarding Use of Vehicles

The information requested in Questions 1 through 7 is to be completed for each vehicle identified in Section A.

Employees are to provide their employers with the information requested in Questions 1 through 7 for each automobile or vehicle provided for his or her use.

Employers providing more than five vehicles to their employees, who are not more than 5% owners or related persons, are not required to complete Questions 1 through 7 for such vehicles. Instead, they are to obtain this information from their employees, check "Yes" to Question 11, and retain the information received as part of their permanent records.

Section C.—Questions For Employers Who Provide Vehicles For Use By Employees

For employers providing vehicles to their employees, a written policy statement regarding the use of such vehicles, if initiated and kept by the employer, will relieve the employee of keeping a separate set of records for substantiation requirements.

There are two types of written policy statements that will satisfy the employer's substantiation requirements under section 274(d). The first type which prohibits personal use, including commuting, must meet the following conditions:

- The vehicle is owned or leased by the employer and is provided to one or more employees for use in connection with the employer's trade or business;
- When the vehicle is not used in the employer's trade or business, it is kept on the employer's business premises, unless it is temporarily located elsewhere, for example, for maintenance or because of a mechanical failure;
- No employee using the vehicle lives at the employer's business premises;
- No employee may use the vehicle for personal purposes, other than de minimis personal use (such as a stop for lunch between two business deliveries); and
- The employer reasonably believes that, other than de minimis use, no employee uses the vehicle for any personal purpose.

The second type prohibits personal use, except for commuting. This is NOT available if the employee using the vehicle for commuting is an officer, director, or 1% or more owner. This type of written policy statement must meet the following conditions:

- The vehicle is owned or leased by the employer and is provided to one or more employees for use in connection with the employer's trade or business and is used in the employer's trade or business;
- For bona fide noncompensatory business reasons, the employer requires the employee to commute to and/or from work in the vehicle;
- The employer establishes a written policy under which the employee may not use the vehicle for personal purposes, other than commuting or de minimis personal use (such as a stop for a personal errand between a business delivery and the employee's home);
- The employer reasonably believes that, except for de minimis use, the employee does not use the vehicle for any personal purpose other than commuting; and
- The employer accounts for the commuting use by including an appropriate amount in the employee's gross income.

For both written policy statements there must be evidence that would enable the IRS to determine whether the use of the vehicle meets the conditions stated above.

An automobile is considered to have qualified demonstration use if the employer maintains a written policy statement prohibiting its use by individuals other than full-time automobile salesmen, prohibiting its use for personal vacation trips, prohibiting storage of personal possessions in the automobile, and limiting the total mileage outside the salesmen's normal working hours.

Table 1.—Property Placed in Service Before 1-1-87 (mid-month convention)

15-year real property.—Property placed in service 1/1/80–3/15/84.

Year	Use the column for the month of taxable year placed in service											
	1	2	3	4	5	6	7	8	9	10	11	12
1st	12%	11%	10%	9%	8%	7%	6%	5%	4%	3%	2%	1%
2nd	10%	10%	11%	11%	11%	11%	11%	11%	11%	11%	11%	12%
3rd	9%	9%	9%	9%	10%	10%	10%	10%	10%	10%	10%	10%
4th	8%	8%	8%	8%	8%	8%	9%	9%	9%	9%	9%	9%
5th	7%	7%	7%	7%	7%	7%	8%	8%	8%	8%	8%	8%
6th	6%	6%	6%	6%	7%	7%	7%	7%	7%	7%	7%	7%
7th	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
8th	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%

18-year real property.—Property placed in service 3/16/84–5/8/85.

Year	Use the column for the month of taxable year placed in service											
	1	2	3	4	5	6	7	8	9	10	11	12
1st	9%	9%	8%	7%	6%	5%	4%	4%	3%	2%	1%	0.4%
2nd	9%	9%	9%	9%	9%	9%	9%	9%	9%	10%	10%	10%
3rd	8%	8%	8%	8%	8%	8%	8%	8%	9%	9%	9%	9%
4th	7%	7%	7%	7%	7%	8%	8%	8%	8%	8%	8%	8%
5th	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%

19-year real property.—Property placed in service 5/9/85–12/31/86.

Year	Use the column for the month of taxable year placed in service											
	1	2	3	4	5	6	7	8	9	10	11	12
1st	8.8%	8.1%	7.3%	6.5%	5.8%	5.0%	4.2%	3.5%	2.7%	1.9%	1.1%	0.4%
2nd	8.4%	8.5%	8.5%	8.6%	8.7%	8.8%	8.8%	8.9%	9.0%	9.0%	9.1%	9.2%
3rd	7.6%	7.7%	7.7%	7.8%	7.9%	7.9%	8.0%	8.1%	8.1%	8.2%	8.3%	8.3%
4th	6.9%	7.0%	7.0%	7.1%	7.1%	7.2%	7.3%	7.3%	7.4%	7.4%	7.5%	7.6%

Property Placed in Service After 12-31-86

Table 2(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 2(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 2(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%

Form **4626**

Department of the Treasury
Internal Revenue Service

Alternative Minimum Tax—Corporations
(including environmental tax)

▶ **See separate instructions.**
▶ **Attach to Forms 1120, 1120-A, etc.**

OMB No. 1545-0175

1987

Name as shown on tax return | Employer identification number

1	Taxable income before net operating loss deduction			1	
2	**Adjustments:** (see instructions)				
a	Depreciation of property placed in service after 1986	2a			
b	Mining exploration and development costs paid or incurred after 1986	2b			
c	Long-term contracts entered into after 2/28/86	2c			
d	Pollution control facilities placed in service after 1986	2d			
e	Installment sales of certain property	2e			
f	Circulation expenses (personal holding companies only)	2f			
g	Merchant marine capital construction funds	2g			
h	Section 833(b) deduction (Blue Cross, Blue Shield, and similar type organizations only)	2h			
i	Basis adjustment	2i			
j	Certain loss limitations	2j			
k	Tax shelter farm loss (personal service corporations only)	2k			
l	Passive activity loss (closely held corporations and personal service corporations only)	2l			
m	Total adjustments (combine lines 2(a) through 2(l))			2m	
3	**Tax preference items:**				
a	Accelerated depreciation of real property placed in service before 1987	3a			
b	Accelerated depreciation of leased personal property placed in service before 1987 (personal holding companies only)	3b			
c	Amortization of certified pollution control facilities placed in service before 1987	3c			
d	Appreciated property charitable deduction	3d			
e	Tax-exempt interest from private activity bonds issued after August 7, 1986	3e			
f	Intangible drilling costs	3f			
g	Depletion	3g			
h	Reserves for losses on bad debts of financial institutions	3h			
i	Total tax preference items (add lines 3(a) through 3(h))			3i	
4	Combine lines 1, 2(m), and 3(i)			4	
5	Adjusted net book income of corporation	5			
6	If line 5 is more than line 4, enter difference; otherwise enter zero	6			
7	Multiply line 6 by 50% (.5)			7	
8	Add line 4 and line 7			8	
9	Alternative tax net operating loss deduction. (Do not enter more than 90% of line 8.)			9	
10	Alternative minimum taxable income (subtract line 9 from line 8)			10	
11	Enter $40,000 (Controlled corporations, see instructions.)			11	
12	Enter $150,000 (Controlled corporations, see instructions.)			12	
13	Subtract line 12 from line 10. If zero or less, enter zero			13	
14	Multiply line 13 by 25% (.25)			14	
15	Exemption. Subtract line 14 from line 11. If zero or less, enter zero			15	
16	Subtract line 15 from line 10. If zero or less, enter zero			16	
17	Multiply line 16 by 20% (.2)			17	
18	Alternative minimum tax foreign tax credit			18	
19	Tentative minimum tax (subtract line 18 from line 17)			19	
20	Income tax before credits minus foreign tax credit			20	
21	Alternative minimum tax (subtract line 20 from line 19). Enter on your tax return on the line identified as alternative minimum tax			21	
22	Environmental tax (subtract $2,000,000 from line 8, and multiply the result, if any, by .12% (.0012)). Enter on your tax return on the line identified as environmental tax (Controlled corporations, see instructions.)			22	

For Paperwork Reduction Act, see separate instructions. Form **4626** (1987)

1987 Department of the Treasury **Internal Revenue Service**

Instructions for Form 4626

Alternative Minimum Tax—Corporations

(Section references are to the Internal Revenue Code.)

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

Changes You Should Note.—The Tax Reform Act of 1986 created an alternative minimum tax for corporations, similar to the one for individuals. This alternative minimum tax replaces the minimum tax.

Who Must File.—File this form if your taxable income plus your adjustments and tax preference items total more than $40,000. For more information, see **Publication 542,** Tax Information on Corporations.

Environmental Tax.—Figure your environmental tax as follows:

Step 1: Complete your tax return without the environmental tax deduction, through Taxable income before NOL deduction. (Form 1120, line 28 minus line 29b)

Step 2: Using the result in step 1, complete Form 4626 through line 8, skip lines 9 through 21, and figure your environmental tax on line 22.

Step 3: Using the result in step 2, complete your tax return through Taxable income before NOL deduction. Then figure your alternative minimum tax on Form 4626, by completing lines 1 through 21.

Short Period Return.—If this is a short period return, use the formula in section 443(d) to determine your alternative minimum taxable income and alternative minimum tax.

Puerto Rico and Possession Tax Credit.—If the corporation is allowed a credit under section 936, alternative minimum taxable income does not include taxable income from sources outside the United States from an active trade or business in a possession of the U.S., and qualified possession source investment income referred to in section 936.

Regulated investment companies, real estate investment trusts, and common trust funds, see section 59(d).

Beneficiaries of estates and trusts.—If the corporation is a beneficiary, enter the difference between the distribution included in income for purposes of the regular tax and the amount included on Schedule K-1 (Form 1041), line 7. Include in the total on Form 4626, line 2(m).

Line-by-Line Instructions

Line 1.—Enter your taxable income before net operating loss deduction. For example, Form 1120 filers, this is line 28 minus line 29(b).

Line 2a—Depreciation of property placed in service after 1986, or after 7/31/86 if election was made.—Refigure your depreciation as follows: For property other than real property and property on which the straight line method was used, use the 150% 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. See **Publication 534,** Depreciation, for class lives. 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 your depreciation adjustment by subtracting your recomputed depreciation from the depreciation you took on Form 4562. Enter the difference on line 2(a).

Note: *If depreciation is included in your inventory, refigure the inventory based on the depreciation adjustment discussed above.*

Line 2b—Mining exploration and development costs paid or incurred after 1986.—With respect to each mine or other natural deposit (other than an oil, gas, or geothermal well) refigure your expenses (before the 30% reduction under section 291(b)) by amortizing them over ten years beginning with the year in which the expenses were made. Figure your adjustment by subtracting the refigured amount from the deduction you took under section 616(a) or 617(a) after the 30% reduction. If you had a loss with respect to those expenses, see section 56(a)(2)(B).

Line 2c.—If you entered into a long-term contract after 2/28/86, determine your taxable income from such contract under the percentage of completion method of accounting as modified by section 460(b), and using your alternative minimum tax adjustments and tax preference items. Determine the difference between that result and the result you got on the contract when figuring your regular tax, and enter the difference on this line. If the refigured taxable income is less than the result when determining your regular tax, enter the difference as a negative amount.

Line 2d.—For any certified pollution control facility placed in service after 1986, figure your entry for this line in the same manner you figured line 2(a) without reducing your basis by 20% under section 291(a)(5), but use the straight line method of depreciation instead of 150% declining balance..

Line 2e—Installment sales of certain property.—In the case of any disposition after 3/1/86 of property which is inventory or stock in trade, or other disposition if an obligation arising from such disposition would be an applicable installment obligation under section 453C, determine the income from such disposition without using the installment method. Include a sale of rental property after 8/16/86 with a combined sales price of more than $150,000 from one sale. Your adjustment will be the difference between this result and the result you obtained when figuring your regular tax. If this result is less than the result you obtained when figuring your regular tax, enter the difference as a negative amount. This adjustment does not apply to property for which you made an election under section 453C(e)(4).

Line 2f—*Personal holding companies only.*—For circulation expenses paid or incurred after 1986, refigure your deduction by amortizing such expenses over three years beginning with the year the expenses were made. Figure your adjustment by subtracting this refigured amount from the deduction you took under section 173. Enter the difference on line 2(f). If you had a loss with respect to those expenses, see section 56(b)(2)(B).

Line 2g.—In the case of a capital construction fund established under section 607 of the Merchant Marine Act of 1936, section 7518(c)(1)(A), (B), and (C) will not apply to any amount deposited in such fund after 1986 or any earnings on amounts in such fund after 1986. In addition, no reduction in basis should be made under section 7518(f) with respect to the withdrawal from the fund of any amount described in the preceding sentence.

Line 2h.—The section 833(b) deduction is not allowed.

Line 2i.—Basis adjustment.—If you disposed of property during the year, refigure your gain or loss from such sale taking into consideration your alternative minimum tax adjustments on lines 2(a), (b), (d), and (f). Enter the difference between the gain or loss reported on your tax return for purposes of the regular tax and your recomputed gain or loss. If the recomputed gain is less, or the loss is more, enter the difference as a negative amount.

Line 2j—Certain loss limitations.—Refigure your allowable losses from at-risk activities and basis limitations applicable to partnerships, taking into account your alternative minimum tax adjustments and tax preference items. See sections 59(h), 465, and 704(d). Enter the difference between the loss reported on your tax return for purposes of the regular tax and your recomputed loss, as a negative amount on line 2(j) if the recomputed loss is more than the loss reported for purposes of the regular tax.

Line 2k.—*Personal service corporations only,* figure the amount of any disallowed loss from a tax shelter farm activity as defined in section 464(c) and any other farm activity which is a passive activity under section 469(d). Enter on this line the difference between the amount of such disallowed losses and the amount of losses from these activities which are disallowed for regular tax purposes, such as under the passive activity loss rules. In figuring the amount of the loss, take into consideration your alternative minimum tax adjustments and tax preference items. Any loss entered on this line shall be treated as a deduction allocable to such activity in the first succeeding year.

Line 2l.—*Closely held corporations and personal service corporations only,* refigure your allowable passive activity loss taking into consideration your alternative minimum tax adjustments and your tax preference items from passive activities. Refigure this loss on Form 8582, but do not complete lines 10 through 15, relating to the phase in of the disallowance. Enter on line 2(l) the difference between your recomputed loss and the loss obtained when figuring your regular tax. If the recomputed allowable loss is more than the allowable loss for purposes of the regular tax, enter as a negative amount. For purposes of this line, do not take into consideration any losses from tax shelter farm activities.

Note: *If you are insolvent at the end of the tax year, reduce (but not below zero) lines 2(k) and 2(l) by that amount. Insolvent means the excess of liabilities over fair market value of assets.*

Line 3a—Accelerated depreciation of real property placed in service before 1987.— Enter on this line (never less than zero) the difference between the depreciation taken for this property in determining the regular tax and depreciation as refigured using the straight line method. Figure this amount separately for each property. For 15, 18, or 19-year real property, or low income housing, use the straight line method over 15, 18, or 19 years, using the half-year convention and no salvage value.

Line 3b—Accelerated depreciation of leased personal property placed in service before 1987 (or before 8/1/86 if election was made).—*Personal holding companies only,* for leased personal property, other than recovery property, enter the difference (never less than zero) between the depreciation taken for this property in determining your regular tax and depreciation as refigured using the straight line method. Figure this amount separately for each property.

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 your regular tax is more than the deduction allowable using the straight line method, with a half-year convention, no salvage value, and the following recovery period: 3-year property (5 years), 5-year property (8 years), 10-year property (15 years), and 15-year public utility property (22 years).

Note: *If the recovery period actually used is longer than the recovery period in 3(a) or 3(b), do not complete those lines with respect to that recovery property.*

Line 3c.—For any certified pollution control facility placed in service before 1987 (or before 8/1/86 if election was made), enter the amount by which the amortization allowable under section 169 is more than the depreciation deduction otherwise allowable. Before figuring this tax preference item, reduce the amortizable basis by 20%. Include only 59 $^{5}/_{6}$% (71.6% if placed in service in 1983 or 1984; 100% before 1983) as a tax preference item.

Line 3d—Appreciated property charitable deduction.—Enter the amount by which your contribution deduction for capital gain and section 1231 property would be reduced if such property was taken into account at its cost or other basis, rather than fair market value. Do not include property for which you made an election under section 170(b)(1)(c)(iii).

Line 3e—Tax-exempt interest.—Enter your interest on private activity bonds issued after August 7, 1986, reduced by any deduction attributable to it. Private activity bonds are bonds where more than 10% of the proceeds are to be used for any private business use and the private security or payment test of section 141(b)(2) is met. A bond is also considered a private activity bond if it meets the private loan financing test of section 141(c). See section 57(a)(5) for more information.

Line 3f—Intangible drilling costs.—Enter the amount by which your excess intangible drilling costs are more than 65% of your net income from oil, gas, and geothermal properties.

Figure excess intangible drilling costs as follows: From the intangible drilling and development costs allowable under section 263(c) or 291(b) (except costs in drilling a nonproductive well), subtract the amount that would have been allowable if you had capitalized these costs and either amortized them over the 120 months that started when production began, or treated them according to any election you made under section 57(b)(2).

Your net income from oil, gas, and geothermal properties is your gross income from them, minus the deductions allocable to them, except for excess intangible drilling costs and nonproductive well costs.

Figure the line 3f amount separately for oil and gas properties which are not geothermal deposits and for oil and gas properties which are geothermal deposits.

Line 3g—Depletion.—In the case of mines, wells, and other natural deposits, enter the amount by which your deduction for depletion under section 611 is more than the adjusted basis of the property at the end of your tax year. Figure the adjusted basis without regard to the depletion deduction and figure the excess separately for each property. See section 291(a)(2) for reduction in amount allowable as a deduction in the case of iron ore and coal.

Line 3h—Reserves for losses on bad debts of financial institutions.—In the case of a financial institution, enter the excess of the deduction allowable (after reducing by 20% under section 291(a)(3)) for a reasonable addition to a reserve for bad debts over the amount that would have been allowable had the institution maintained its bad debt reserve for all tax years based on actual experience.

Line 5—Adjusted net book income of corporation.—This is the net income or loss of the corporation as set forth on the applicable financial statement as defined in section 56(f)(3), disregarding any Federal income taxes, and foreign income taxes if a foreign tax credit is claimed. See section 56(f)(2) for adjustments for related corporations, statements covering different periods, cooperatives, dividends from 936 corporations, Alaska native corporations, and omission or duplication of any item. This line does not apply to an S corporation, regulated investment company, real estate investment trust, or REMIC. See regulation section 1.56-1T for more information.

Line 9—Alternative tax net operating loss deduction.—For 1987, this will be your net operating loss deduction. However, if the minimum tax was deferred in a prior year, reduce your net operating loss carryovers to this year by your tax preference items for the year the tax was deferred.

Lines 11 and 12.—Controlled corporations should see section 1561 for a limitation on the alternative minimum tax exemption.

Line 18—Alternative minimum tax foreign tax credit.—This is your foreign tax credit with the following adjustments:

(a) Using Form 1118, substitute alternative minimum taxable income from sources outside the United States for taxable income from sources outside the United States.

In figuring alternative minimum taxable income from sources outside the United States, use your taxable income, adjustments, and tax preference items from those sources.

(b) Your alternative minimum tax foreign tax credit cannot be more than the amount on Form 4626, line 17 less 10% of the amount that would be on that line if Form 4626 was refigured using zero on line 9.

Line 19.—If the corporation has an investment credit attributable to the regular percentage under section 46(a)(1), see section 38(c)(3) for limitation on the credit allowed against the tentative minimum tax.

Line 20.—Form 1120 filers, Schedule J (Form 1120), line 3 less line 4(a). Do not include any section 667(b) tax (Form 4970) on line 20.

Line 22.—Controlled corporations should see section 1561 for a limitation on the environmental tax exemption.

Note: *At the time this form was developed, Congress was considering legislation to allow the Possessions Tax Credit to be subtracted from regular tax in determining the alternative minimum tax.*

Form **5884**

Department of the Treasury
Internal Revenue Service

Jobs Credit

▶ Attach to your tax return.

OMB No. 1545-0219

1987

Attachment
Sequence No. 77

Name(s) as shown on return	Identifying number

Part I Jobs Credit

1 Enter the number of employees and total qualified wages paid or incurred during the tax year (up to $6,000 for each employee for each of the first two years) for services of employees who are certified as members of a targeted group. **Note:** Second-year wages apply only to employees who began work before January 1, 1986. See instructions for special rules on qualified summer youth employees.

		Number of employees		Total qualified wages
First year (Do not include summer youth employees)	a		b	
Second year (Do not include summer youth employees)	c		d	
Qualified summer youth employees	e		f	

2	Enter 40% of line 1b	2
3	Enter 25% of line 1d (for employees who began work before 1-1-86)	3
4	Enter 85% of line 1f	4
5	Current year jobs credit—Add lines 2, 3, and 4. Enter here and include on Schedule C (Form 1040), line 28b; Form 1120, line 13(b), page 1; or the corresponding line on other returns. (Members of a group of trades or businesses under common control, see Specific Instructions.)	5

6 Flow-through jobs credits from other entities

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 9
d Patron	(see instructions for line 6d)

6

7 Total jobs credit for current year—Add lines 5 and 6 (S corporations, partnerships, estates, trusts, and cooperatives, see instructions for line 7.) 7

Note: *If you have a 1987 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 1987 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 1987 jobs credit. If you have only a 1987 jobs credit, you may continue with lines 8 through 15 to claim your credit.*

Part II Tax Liability Limitation

8 a Individuals—From Form 1040, enter amount from line 43
b Corporations—From Form 1120, Schedule J, enter tax from line 3 (or Form 1120-A, Part I, line 1)
c Other filers—Enter income tax before credits from return ... 8

9 a Individuals—From Form 1040, enter credit from line 44, plus any orphan drug and nonconventional source fuel credits 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 9c ... 9

10 Income tax liability as adjusted (subtract line 9 from line 8) ... 10

11 Tentative minimum tax—
a Individuals—From Form 6251, enter amount from line 17
b Corporations—From Form 4626, enter amount from line 19
c Estates and trusts—From Form 8656, enter amount from line 20 ... 11

12 Excess of income tax liability over tentative minimum tax—Subtract line 11 from line 10 ... 12

13 a Enter smaller of line 10 or $25,000 (See instructions for line 13) ... 13a
b If line 10 is more than $25,000—Enter 75% of the excess ... 13b

14 Add lines 13a and 13b ... 14

15 Total allowed jobs credit—Enter the smallest of line 7, line 12, or line 14. This is your **General Business Credit** for 1987. Enter here and on Form 1040, line 45; Form 1120, Schedule J, line 4(e); Form 1120-A, Part I, line 2; or the proper line of other returns ... 15

Instructions

(Section references are to the Internal Revenue Code.)

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

Changes You Should Note.— The Tax Reform Act of 1986 changed the alternative minimum tax rules for the general business credits. This will require an additional tax liability limitation computation on lines 11 and 12.

If you have credits from passive activities, see **Form 8582-CR**, Passive Activity Credit Limitations, before completing Form 5884.

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 1987 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 1987 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 first worked for you between May 1 and September 15, 1987.

In addition, to claim a jobs credit on an employee's wages:

(1) more than half the wages received from you must be for working in your trade or business;

(2) the employee must be certified, as explained below, as belonging to a targeted group;

(3) you may not claim a credit on wages that were repaid by a Federally funded on-the-job training program, or for which you received work supplementation payments under the Social Security Act;

(4) the employee cannot be your relative or dependent (see section 51(i));

(5) the employee cannot be your rehired employee if he or she was not a targeted group member when employed earlier; and

(6) the employee must have worked for you for at least 90 days (14 days for a summer youth employee) or completed at least 120 hours of services (20 hours for a summer youth employee).

Certification is done by a local agency, generally an office of the State Employment Security Agency (Jobs Service). The agency gives the employer a form certifying that the employee is in a targeted group. The certification must be completed or the employer must request, in writing, a certification from the certifying agency by the date the employee begins work (or within 5 days if the employer has received a written preliminary determination that the employee is in a targeted group).

Certification of a Youth in a Cooperative Education Program.—The certification is completed by the school administering the cooperative program. The school gives the employer a completed **Form 6199**, Certification of Youth Participating in a Qualified Cooperative Education Program.

Specific Instructions

Part I

On lines 1 through 5 figure your credit for wages you paid or accrued. If you have credits only from sources that shared a jobs credit (S corporations, partnerships, estates, trusts, or cooperatives), skip lines 1 through 5.

Whether or not you complete lines 1 through 5, enter on line 6 any credits you received from sources that share the credit. Complete the rest of the form to figure the credit to enter on your income tax return.

Controlled groups: The group member proportionately contributing the most first-year wages (or second-year wages if no first-year wages are involved) figures the group credit in Part I and skips Part II.

On separate Forms 5884, that member and every other member of the group skips lines 1 through 4 and enters its share of the group credit on line 5. Each member then completes lines 6 through 15 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.

Line 1c.—Enter the number of employees **who began work before January 1, 1986**, for whom you have second-year wages.

Line 1d.—Enter the second-year wages. They are limited to $6,000 for each employee. If you paid second-year wages to any of these employees last year, subtract those wages from the $6,000 limit for that employee.

For example, if a jobs credit employee began working in your business on September 1, 1985, and you are a calendar year taxpayer, you would have figured your 1985 jobs credit based on the first-year wages you paid between September 1 and December 31, 1985. You would have figured your 1986 credit on the rest of the first-year wages you paid between January 1 and August 31, 1986; and on the second-year wages paid between September 1 and December 31, 1986. Figure your 1987 credit on the rest of the second-year wages you paid between January 1 and August 31, 1987.

Line 1f.—For each qualified summer youth employee, wages are limited to those paid for any 90-day period between May 1 and September 15, up to $3,000. You cannot claim a credit for an employee who was your employee in any prior period. Also, the summer youth employee must have worked for you at least 14 days, or completed at least 20 hours of services.

Line 4.—Taxpayers with qualified summer youth employees.—Include 85% of the first $3,000 of wages paid to each qualified employee.

Line 5.—In general, you must subtract your current year jobs credit on line 5 from the deduction on your return for salaries and wages you paid or owe for 1987. This is true even if you cannot take the full credit this year and must carry part of it back or forward.

An exception is a credit based on salaries and wages you capitalize for depreciation. If you have such a credit, reduce the amount on which you figure depreciation by the part of the current year jobs credit on line 5 that applies to the jobs credit wages you capitalize.

Another exception involves the full absorption method of inventory costing. See the regulations under section 280C to reduce your basis in inventory for the jobs credit.

If either exception applies to you, attach a statement to your return to explain why the amount on line 5 differs from the amount you subtract from your salary and wage deduction. See Publication 572 for details.

Line 6.—If you have flow-through credits from more than one entity or type of entity, add them up and enter the total on line 6.

Line 6d.—If you belong to a cooperative that has an excess jobs credit, the cooperative should have given you a statement showing your share of the excess. Include on line 6 your total excess jobs credit from all cooperatives to which you belong.

Line 7.—*Estates and trusts:* The jobs credit on line 7 is shared between the estate or trust itself and the beneficiaries in proportion to the income allocable to each. On the dotted line to the left of the amount on line 7, the estate or trust should enter its own part of the total jobs credit. Please label it "1041 PORTION" and use *this amount* in Part II to figure the jobs credit to take on Form 1041.

S corporations and partnerships: Prorate the jobs credit on line 7 among the shareholders or partners. Attach Form 5884 to the return and on Schedule K-1 show the credit for each shareholder or partner.

Cooperatives: Most tax-exempt organizations cannot take the jobs credit; but a cooperative described in section 1381(a) takes the jobs credit to the extent it has tax liability. Any excess is shared among its patrons.

Carrybacks and carryforwards: If you cannot use part of the credit because of the tax liability limitations, you may carry it back 3 years, then forward 15 years. Use Form 3800.

Part II

Line 9c. Other filers.—Before you can claim the jobs credit (which will be your general business credit for 1987) against your income tax liability, you must reduce this tax liability by the credits listed below:

- Personal credits (child and dependent care credit, credit for elderly or disabled, residential energy credit carryforward, and the credit for interest on certain home mortgages)
- Foreign tax credit
- Possessions corporation tax credit
- Orphan drug credit
- Nonconventional source fuel credit

Line 13. Limitation.—If the tax liability on line 10 is $25,000 or less, your jobs credit is limited to that tax liability. If the tax liability is more than $25,000, your credit is limited to $25,000 plus 75% of the excess.

If 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)(4)(B).

Estates and trusts, see section 38(c)(4)(D)

Form **6765**

Department of the Treasury
Internal Revenue Service

Credit for Increasing Research Activities

(or for claiming the orphan drug credit)

▶ **Attach to your tax return**

OMB No. 1545-0619

1987

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 43		
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)	5	
c	Other filers—Enter income tax before credits from return		
6a	Individuals—From Form 1040, enter any foreign tax credit from line 44		
b	Corporations—From Form 1120, Schedule J, enter any credits from lines 4(a) and 4(b) (Form 1120-A filers, enter zero)	6	
c	Other filers—Enter any personal credits, foreign tax credit, and possessions tax credit		
7	Income tax liability as adjusted (subtract line 6 from line 5)	7	
8	Tentative minimum tax—		
a	Individuals—From Form 6251, enter amount from line 17		
b	Corporations—From Form 4626, enter amount from line 19	8	
c	Estates and Trusts—From Form 8656, enter amount from line 20		
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 1987 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 1987 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 1987 research credit. If you have only a 1987 research credit, you may continue with lines 26 through 31 to claim your credit.*

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	Excess of income tax liability over tentative minimum tax—Subtract line 8 from line 26	27	
28a	Enter the smaller of line 26 or $25,000 (see instructions for line 28)	28a	
b	If line 26 is more than $25,000—Enter 75% of the excess	28b	
29	Add lines 28a and 28b	29	
30	Corporations—Enter here and on the appropriate line of your return the smallest of line 25, line 27, or line 29. This is your **General Business Credit** for 1987	30	
31	Individuals, estates and trusts—Enter here and on the appropriate line of your return the smallest of line 25, line 27, 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 1987	31	

Changes You Should Note

The Tax Reform Act of 1986 changed the alternative minimum tax rules for the general business credits. This will require an additional tax liability limitation computation on lines 8, 9, and 27.

The Act also added a new university basic research credit in place of 65% of a corporation's expenditures for basic research. The new credit is figured on lines 19 through 21 and becomes part of the tentative credit on line 23.

If you have credits from passive activities, see **Form 8582-CR**, Passive Activity Credit Limitations, before completing Form 6765.

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

Instructions

(Section references are to the Internal Revenue Code as amended by the Tax Reform Act of 1986, unless otherwise noted.)

General Business Credit.—The general business credit consists of the investment credit, jobs credit, credit for alcohol used as fuel, credit for increasing research activities, and low-income housing credit. If you have more than one of these credits for 1987 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 1987 research credit, you do not have to file Form 3800 this year.

Purpose of Form.—Use Form 6765 to figure and claim the general business credit for increasing the research activities of a trade or business and to claim the orphan drug credit. Complete Parts II, IV, and V to figure the research credit. Complete Parts I, II, and III to figure the orphan drug credit.

The research credit applies only to research expenditures incurred in carrying on a trade or business you are already engaged in. It does not apply to those incurred before beginning a trade or business. Generally, the research credit is 20% of the increase in qualified research expenses paid or incurred in the current tax year over base period research expenses, 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: *In order to claim the credit, the expenses must be for a drug that has been designated as an orphan drug under section 526 of the Federal Food, Drug, and Cosmetic Act, and related regulations.*

Line 2.—You must reduce the deduction for qualified clinical testing expenses otherwise allowable on your income tax return by the amount of the credit shown on line 2. See section 280C(b) for special rules.

Line 10.—Include the orphan drug credit on the appropriate line of your 1987 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 1987 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 1987 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 1987 university research credit, can be treated as 1987 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.

Line 28. Limitations.—See section 38(c)(4) 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:

$$\text{Line 29} \times \frac{\text{Taxable income attributable to your interest in the unincorporated business, 1065, 1041, or 1120S entity}}{\text{Taxable income for the year (Form 1040, line 36)}}$$

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.

Form **8586**

Department of the Treasury
Internal Revenue Service

Low-Income Housing Credit

▶ **Attach to your tax return**

OMB No. 1545-0984

1987

Attachment Sequence No. **78**

Name(s) as shown on return | Identifying number

Part I — Low-Income Housing Credit

		Building A	Building B	Total (A + B)
1 Date building was placed in service (MO-YR)	1			
2 Eligible basis of building—See instructions	2			
3 Low-income portion (lesser of unit percentage or floor-space percentage—see instructions)	3			
4 Qualified basis of low-income building (multiply line 2 by line 3)	4			
5 Credit percentage—See instructions	5			
6 Multiply line 4 by line 5	6			

7 Flow-through housing credits from other entities

If you are a—	Then enter total of current year housing credit(s) from—
a Shareholder	Schedule K-1 (Form 1120S), line 11b
b Partner	Schedule K-1 (Form 1065), line 12b
c Beneficiary	Schedule K-1 (Form 1041), line 9
d Patron	Appropriate form

. . . . . . **7**

8 Current year credit—Add line 6 (third column) and line 7 . . . . . **8**

Note: *If you have a 1987 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 1987 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 1987 low-income housing credit. If you have only a low-income housing credit, you may continue with lines 9 through 16 to claim your credit.*

Part II — Tax Liability Limitations

9a Individuals—From Form 1040, enter amount from line 43 **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 credit from line 44, plus any orphan drug and nonconventional source fuel credits 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 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 19 **c** Estates and Trusts—From Form 8656, enter amount from line 20	12	
13 Excess of income tax liability over tentative minimum tax—Subtract line 12 from line 11	13	
14a Enter smaller of line 11 or $25,000 (see instructions for line 14)	14a	
b If line 11 is more than $25,000—Enter 75% of the excess	14b	
15 Add lines 14a and 14b	15	
16 Total allowed credit—Enter smallest of line 8, line 13, or line 15. This is your **General Business Credit** for 1987. Enter here and on Form 1040, line 45; Form 1120, Schedule J, line 4(e); Form 1120-A, Part I, line 2; or the proper line of other returns	16	

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

Changes You Should Note.—The Tax Reform Act of 1986 changed the alternative minimum tax rules for the general business credits. This will require an additional computation on lines 12 and 13.

If you have credits from passive activities, see **Form 8582-CR,** Passive Activity Credit Limitations, before completing Form 8586.

Caution: *Legislation pending at the time this form was printed would affect several areas of the housing credit. It includes provisions that:*

(1) prohibit carryback of the credit to years ending before 1-1-87;

(2) clarify when a building in a multiple building project is considered to be part of a qualified low-income housing project;

(3) permit some of the basis of housing units whose cost is disproportionate to that of the low-income units to be included in eligible basis;

(4) permit an owner to obtain an advance binding commitment for a credit allocation for a later year.

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 1987 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 1987 low-income housing credit, you do not have to file Form 3800 this year.

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 income tax return.

Purpose of Form.—Owners of residential rental projects providing low-income housing should use Form 8586 to claim the low-income housing credit.

Caution: *You cannot claim the credit on any project for which any person was allowed relief from the passive loss rules under section 502 of the Tax Reform Act of 1986.*

Introduction

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

You may elect to begin the 10-year credit period in the tax year **after** the year the building was placed in service. Use **Form 8609**, Low-Income Housing Credit Allocation Certification, to make this election.

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

(A) 20-50 Test: 20 percent or more of the residential units in the project must be both rent restricted and occupied by individuals whose income is 50 percent or less of the area median gross income, or

(B) 40-60 Test: 40 percent or more of the residential units in the project must be both rent restricted and occupied by individuals whose income is 60 percent or less of the area median gross income.

A unit is "rent restricted" if the gross rent does not exceed 30 percent of the income limitation in (A) or (B) above for the individuals occupying the unit. You may choose to meet either test for the project, but once made, the election is irrevocable. Use Form 8609 to make this election. See section 42(g) for more details.

You must obtain a completed Form 8609 from the state or local credit agency for each building to cover the amount of the credit you wish to claim. A copy of Form 8609 must be attached to your return for each building for each year. For calendar-year 1987 filers the allocation *must* be made by December 31, 1987. For FY 1987-88 filers the allocation must be made by the earlier of: (1) 60 days after the close of your tax year, or (2) December 31, 1988.

You may not take a low-income housing credit on a building if it has not received an allocation. Similarly, no credit will be allowed in excess of the amount allocated to the building by the housing credit agency. See section 42(h). An allocation is not needed to the extent that a building is financed with certain tax-exempt bonds. If 70% or more of a building is financed with tax-exempt bonds, no allocation is needed from the agency (but you must still complete the appropriate parts of Form 8609 and attach it to your return).

Certification of first-year credit. You must certify certain first-year information to the IRS on Form 8609. If you fail to file this certification, you may not claim a credit for that building for any year ending before the certification is made.

Recapture of credit. There is a 15-year compliance period during which the rental project must continue to meet certain requirements. If, as of the close of any tax year in this period, there is a reduction of the qualified basis from the previous year, you may have to recapture all or a part of the credit you have taken. Use **Form 8611,** Recapture of Low-Income Housing Credit. See section 42(j).

Specific Instructions

Lines 1 through 6.—If you have more than two buildings, attach a schedule and enter the totals in the third column.

Line 1.—Please make sure this date agrees with the date shown on the attached Form 8609 for that building.

Line 2. Eligible Basis.—Generally, the eligible basis of a building for its entire 15-year compliance period is figured as of the date it is placed in service. For housing projects consisting of two or more buildings, figure the credit separately for each building.

For new buildings the eligible basis is generally the cost of construction.

For existing buildings the eligible basis is the cost of acquisition plus any rehabilitation expenditures incurred before the close of the first tax year of the credit period. The building must have been acquired by purchase from an unrelated person and there must have been at least 10 years since the building was last placed in service or substantially improved.

Rehabilitation expenditures that are not Federally subsidized may be treated as a separate new building eligible for the 9% credit if the expenditures incurred during any 24-month period average $2,000 or more per low-income unit in a building. If such rehabilitation expenditures are Federally subsidized they may be treated as a separate new building eligible for the 4% credit. The expenditures will be treated as placed in service at the close of the 24-month period. See section 42(e).

When figuring the eligible basis of a new or existing building, do not include the cost of land. Furthermore, you must reduce the basis by the amount of any Federal grants received and by any basis allocable to non-low-income units that are above the average quality standard of the low-income units in the building.

Residential rental property may qualify for the credit even though part of the building in which the residential units are located is used for commercial use. To figure the eligible basis of such property, do not include the cost of the nonresidential rental property. You may generally include the basis of common areas or tenant facilities, such as swimming pools or parking areas. See section 42(d).

Line 3. Low-Income Portion.—Only the portion of the basis on line 2 attributable to the low-income rental units qualifies for the credit. This is the lesser of: (1) the percentage of low-income units to all residential rental units (the "unit percentage"), or (2) the percentage of floor space of the low-income units to the floor space of all residential rental units (the "floor-space percentage"). Low-income units are those units presently occupied by qualifying tenants, while residential rental units are all units, whether or not occupied.

For the first year of the credit period you must use a modified percentage on line 3 to reflect the average portion of a 12-month period that the units in a building were occupied by low-income individuals. Find the low-income portion of each building (the lesser of the unit percentage or the floor-space percentage) as of the end of each full month that the building was in service during the year. Add these percentages together and divide by 12. Enter the result on line 3. For example, if a building was in service for the last three months of your tax year, and was half occupied as of the end of each of those three months, then you would enter .125 ((.5 + .5 + .5] + 12) on line 3. This first year adjustment does not affect the amount of qualified basis on which the credit is claimed in the remaining nine years of the credit period, and the amount of the reduction may be claimed in the eleventh year.

Line 4. Qualified Basis of Low-Income Building.—This is the portion of the qualified low-income building attributable to the low-income rental units.

At-risk limitation for individuals and closely held corporations. The basis of property may be limited if you borrowed against the property and are protected against loss, or if you borrowed money from a person who has other than a creditor interest in the property. See section 42(k).

Line 5. Credit Percentage.—This is generally 9% (.09) or 4% (.04) for buildings placed in service during 1987. However, this percentage may be limited if you did not receive an allocation from the housing credit agency for the full amount of the credit.

If the agency has made an allocation on Form 8609, enter on line 5 of Form 8586 the credit percentage shown on Form(s) 8609, Part I, line 3.

If an allocation is not required to be made by an agency, enter on line 5 of Form 8586 the applicable percentage as follows:

Newly constructed buildings not Federally subsidized	9%
Rehabilitation expenditures treated as separate new building	9%
Newly constructed buildings that are Federally subsidized	4%
Existing buildings	4%

For buildings placed in service after 12/31/87 the credit percentage will be adjusted monthly to reflect the present value at the time the building is placed in service. See the revenue ruling published monthly by the IRS that deals with applicable Federal interest rates.

Line 7.—If you have flow-through credit(s) from a partnership, S corporation, cooperative, estate, or trust, add them up and enter the total on line 7.

Line 10c. 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.
- Foreign tax credit.
- Possessions corporation tax credit.
- Orphan drug credit.
- Nonconventional source fuel credit.

Line 14. 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.

Form **6839** (10-90)
Department of the Treasury
Internal Revenue Service

User Survey

Statistics of Income — 1987 — Corporation Income Tax Returns

Please take a few moments to answer the following questions concerning this *Statistics of Income* publication. Your responses will enable us to direct our efforts to meeting the needs of our users. After indicating your responses, please fold, tape, and mail. No postage is required. Thank you for your assistance.

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