

2006 Schedule N (Form 1120), Foreign Operations of U.S. Corporations

Purpose: This is the first circulated draft of the 2006 Schedule N (Form 1120) for your review and comments. See below for a discussion of the major changes.

TPCC Meeting: None, but may be arranged if requested.

Other Products: Circulations of draft tax forms, instructions, notices, and publications are posted at: http://taxforms.web.irs.gov/draft_products.html

Comments: Please email, fax, call, or mail any comments by **June 20, 2006**.

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Major Change to 2006 Schedule N (Form 1120)

On page 1, we modified line 1a and the related instructions to clarify the circumstances under which a corporation is required to attach Form 8858.

SCHEDULE N (Form 1120)

Foreign Operations of U.S. Corporations

OMB No. 1545-0123

Department of the Treasury Internal Revenue Service

Attach to Form 1120, 1120-IC-DISC, 1120-L, 1120-PC, 1120-REIT, 1120-RIC, or 1120S.

2006

Name

Employer identification number (EIN)

Foreign Operations Information

Table with 2 columns: Question, Yes, No. Contains questions 1a through 7c regarding foreign operations, including ownership of foreign entities, filing of Forms 8858, 8865, 5471, 3520, and 8873.

Instructions

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

Who Must File

Corporations that, at any time during the tax year, had assets in or operated a business in a foreign country or a U.S. possession may have to file Schedule N.

Question 1a

Check the "Yes" box if the corporation is the "tax owner" (defined below) of a foreign disregarded entity (FDE) or it is

required to file Form 5471 or Form 8865 with respect to a CFC or a CFP that is the tax owner of an FDE.

Tax owner of an FDE. The tax owner of an FDE is the person that is treated as owning the assets and liabilities of the FDE for purposes of U.S. income tax law.

A corporation that is the tax owner of an FDE is generally required to attach Form 8858 to its return. However, if the Exception below applies, the corporation should attach a statement (described below) in lieu of Form 8858.

Exception. In certain cases where a corporation owns an FDE indirectly or constructively through a foreign entity, the corporation may not be required to attach Form 8858. See Who Must File on page 1 of the instructions for Form 8858.

Statement in lieu of Form 8858. This statement must list the name, country under whose laws the entity was organized, and EIN (if any) of each applicable FDE.

Question 3

If the corporation owned at least a 10% interest, directly or indirectly, in any foreign partnership (other than any partnership for which a Form 8865 is attached to the tax return), attach a statement listing the following information for each foreign partnership. For this purpose, a foreign partnership includes an entity treated as a foreign partnership under Regulations section 301.7701-2 or 301.7701-3.

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

Question 5

The corporation may be required to file Form 3520 if:

- It directly or indirectly transferred money or property to a foreign trust (for this purpose, any U.S. person who created a foreign trust is considered a transferor),
- It is treated as the owner of any part of the assets of a foreign trust under the grantor trust rules, or
- It received a distribution from a foreign trust.

For more information, see the Instructions for Form 3520.

Note. An owner of a foreign trust must ensure that the trust files an annual information return on **Form 3520-A**, Annual Information Return of Foreign Trust With a U.S. Owner. For details, see Form 3520-A.

Question 6

Check the "Yes" box if either **1** or **2** below applies to the corporation. Otherwise, check the "No" box.

1. At any time during the 2006 calendar year, the corporation had an interest in or signature or other authority over a bank, securities, or other financial account in a foreign country (see Form TD F 90-22.1) **and:**

- The combined value of the accounts was more than \$10,000 at any time during the calendar year and
- The account was **not** 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 "Yes" to item **1** above.

If "Yes" is checked for this question:

- Enter the name of the foreign country or countries (attach a separate sheet if more space is needed) and
- File Form TD F 90-22.1 on or before June 30, 2007, with the Department of the Treasury at the address shown on the form. Because Form TD F 90-22.1 is not a tax form, do not file it with the corporation's tax return. You can order Form TD F 90-22.1 by calling 1-800-TAX-FORM (1-800-829-3676) or you can download it from the IRS website at **www.irs.gov**.

