

## 2006 Form 1120S, U.S Income Tax Return for an S Corporation

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

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

**Prior Version:** The 2005 Form 1120S is available at:

<http://www.irs.gov/pub/irs-pdf/f1120s.pdf>

**Instructions:** The 2006 Instructions for Form 1120S will be circulated at a later date. The 2005 instructions are available at:

<http://www.irs.gov/pub/irs-pdf/i1120s.pdf>

**Other Products:** Circulations of draft tax forms, instructions, notices, and publications are posted at: [http://taxforms.web.irs.gov/draft\\_products.html](http://taxforms.web.irs.gov/draft_products.html)

**Comments:** Please forward any comments by **June 28, 2006**.

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### Major Changes to the 2006 Form 1120S

#### Page 1

- We added new line H where S corporations will indicate if new Schedule M-3 (Form 1120S) is required to be attached.
- We collapsed lines 14a through 14c into a single line 14 to reflect changes to Form 1120 and save space for 2 lines.
- We added “or LIFO recapture” to line 22a to give it more prominence than it received as a write in on line 23d (requested by SBSE and LMSB).
- We revised the text on lines 23a, 25, and 27 to reflect changes to Form 1120.
- **We also plan to renumber line 23d as 23e and insert new line 23d to reflect Treasury’s recent decision to refund the telephone excise tax. The text for new line 23d will read, “Credit for federal telephone excise tax paid (attach Form 8913).”**

#### Page 2

- We revised question 3 of Schedule B to ask S corporations to identify their QSUB elections (requested by LMSB). We also removed the request for an address on the attached statement to conform to the similar request on Form 1120 (Schedule K, question 3).
- We revised item 8 of Schedule B to replace the checkbox with a request for an amount (requested by LMSB to provide information more useful for both subsequent practitioners and the Service).
- We changed the title of Schedule K from “Shareholders’ Shares of Income, Deductions, Credits, etc.” to “Shareholders’ Pro Rata Share Items” to conform to Form 1065 and save space. The new title was formerly the subtitle of Schedule K.

#### Page 3

- We renumbered line 17e as line 18 and placed it in its own “reconciliation” section to reflect its importance and conform to Form 1065. We also removed text requiring its completion only when Schedule M-1 was required. (Requested by LMSB.) Now all filers must complete this line.

Department of the Treasury  
Internal Revenue Service

▶ **Do not file this form unless the corporation has filed Form 2553 to elect to be an S corporation.**  
▶ **See separate instructions.**

**2006**

For calendar year 2006 or tax year beginning \_\_\_\_\_, 2006, ending \_\_\_\_\_, 20

<b>A</b> Effective date of S election	<b>Use IRS label. Otherwise, print or type.</b>	Name	<b>C</b> Employer identification number
		Number, street, and room or suite no. If a P.O. box, see instructions.	
<b>B</b> Business activity code number (see instructions)		City or town, state, and ZIP code	<b>E</b> Total assets (see instructions)
			\$ _____

**F** Check if: (1)  Initial return (2)  Final return (3)  Name change (4)  Address change (5)  Amended return

**G** Enter the number of shareholders in the corporation at the end of the tax year \_\_\_\_\_ ▶

**H** Check if Schedule M-3 is required (attach Schedule M-3) \_\_\_\_\_ ▶

**Caution.** Include **only** trade or business income and expenses on lines 1a through 21. See the instructions for more information.

<b>Income</b>	<b>1a</b> Gross receipts or sales	_____	<b>b</b> Less returns and allowances	_____	<b>c</b> Bal ▶	<b>1c</b>	
	<b>2</b> Cost of goods sold (Schedule A, line 8)	_____				<b>2</b>	
	<b>3</b> Gross profit. Subtract line 2 from line 1c	_____				<b>3</b>	
	<b>4</b> Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)	_____				<b>4</b>	
	<b>5</b> Other income (loss) (see instructions—attach statement)	_____				<b>5</b>	
	<b>6</b> Total income (loss). Add lines 3 through 5. ▶	_____				<b>6</b>	
<b>Deductions</b> (see instructions for limitations)	<b>7</b> Compensation of officers	_____				<b>7</b>	
	<b>8</b> Salaries and wages (less employment credits)	_____				<b>8</b>	
	<b>9</b> Repairs and maintenance	_____				<b>9</b>	
	<b>10</b> Bad debts	_____				<b>10</b>	
	<b>11</b> Rents	_____				<b>11</b>	
	<b>12</b> Taxes and licenses	_____				<b>12</b>	
	<b>13</b> Interest	_____				<b>13</b>	
	<b>14</b> Depreciation not claimed on Schedule A or elsewhere on return (attach Form 4562)	_____				<b>14</b>	
	<b>15</b> Depletion (Do not deduct oil and gas depletion.)	_____				<b>15</b>	
	<b>16</b> Advertising	_____				<b>16</b>	
	<b>17</b> Pension, profit-sharing, etc., plans	_____				<b>17</b>	
	<b>18</b> Employee benefit programs	_____				<b>18</b>	
	<b>19</b> Other deductions (attach statement)	_____				<b>19</b>	
	<b>20</b> Total deductions. Add lines 7 through 19. ▶	_____				<b>20</b>	
	<b>21</b> Ordinary business income (loss). Subtract line 20 from line 6	_____				<b>21</b>	
<b>Tax and Payments</b>	<b>22a</b> Excess net passive income or LIFO recapture tax (see instructions)	_____	<b>22a</b>				
	<b>b</b> Tax from Schedule D (Form 1120S)	_____	<b>22b</b>				
	<b>c</b> Add lines 22a and 22b (see instructions for additional taxes)	_____				<b>22c</b>	
	<b>23a</b> 2006 estimated tax payments and 2005 overpayment credited to 2006	_____	<b>23a</b>				
	<b>b</b> Tax deposited with Form 7004	_____	<b>23b</b>				
	<b>c</b> Credit for federal tax paid on fuels (attach Form 4136)	_____	<b>23c</b>				
	<b>d</b> Add lines 23a through 23c	_____				<b>23d</b>	
	<b>24</b> Estimated tax penalty (see instructions). Check if Form 2220 is attached ▶ <input type="checkbox"/>	_____				<b>24</b>	
	<b>25</b> Amount owed. If line 23d is smaller than the total of lines 22c and 24, enter amount owed	_____				<b>25</b>	
	<b>26</b> Overpayment. If line 23d is larger than the total of lines 22c and 24, enter amount overpaid	_____				<b>26</b>	
<b>27</b> Enter amount from line 26 Credited to 2007 estimated tax ▶	_____				<b>27</b>		

**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	<div style="border: 1px solid black; padding: 5px;">         May the IRS discuss this return with the preparer shown below (see instructions)? <input type="checkbox"/> Yes <input type="checkbox"/> No       </div>
_____	_____	_____	

<b>Paid Preparer's Use Only</b>	Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN
	Firm's name (or yours if self-employed), address, and ZIP code	_____		EIN
				Phone no. ( ) _____

**Schedule A Cost of Goods Sold** (see instructions)

<b>1</b>	Inventory at beginning of year . . . . .	<b>1</b>		
<b>2</b>	Purchases . . . . .	<b>2</b>		
<b>3</b>	Cost of labor . . . . .	<b>3</b>		
<b>4</b>	Additional section 263A costs (attach statement) . . . . .	<b>4</b>		
<b>5</b>	Other costs (attach statement) . . . . .	<b>5</b>		
<b>6</b>	<b>Total.</b> Add lines 1 through 5 . . . . .	<b>6</b>		
<b>7</b>	Inventory at end of year . . . . .	<b>7</b>		
<b>8</b>	<b>Cost of goods sold.</b> Subtract line 7 from line 6. Enter here and on page 1, line 2 . . . . .	<b>8</b>		

**9a** Check all methods used for valuing closing inventory: (i)  Cost as described in Regulations section 1.471-3  
(ii)  Lower of cost or market as described in Regulations section 1.471-4  
(iii)  Other (Specify method used and attach explanation.) ▶ \_\_\_\_\_

**b** Check if there was a writedown of subnormal goods as described in Regulations section 1.471-2(c) . . . . .

**c** Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) . . . . .

**d** If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO . . . . . **9d** \_\_\_\_\_

**e** If property is produced or acquired for resale, do the rules of section 263A apply to the corporation? . . . . .  Yes  No

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

**Schedule B Other Information** (see instructions)

		Yes	No
<b>1</b>	Check accounting method: <b>a</b> <input type="checkbox"/> Cash <b>b</b> <input type="checkbox"/> Accrual <b>c</b> <input type="checkbox"/> Other (specify) ▶ _____		
<b>2</b>	See the instructions and enter the: <b>a</b> Business activity ▶ _____ <b>b</b> Product or service ▶ _____		
<b>3</b>	At the end of the tax year, did the corporation 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 statement showing: (a) name and employer identification number (EIN), (b) percentage owned, and (c) if 100% owned, was a QSub election made? . . . . .		
<b>4</b>	Was the corporation a member of a controlled group subject to the provisions of section 1561? . . . . .		
<b>5</b>	Has this corporation filed, or is it required to file, a return under section 6111 to provide information on any reportable transaction? . . . . .		
<b>6</b>	Check this box if the corporation issued publicly offered debt instruments with original issue discount . . . . . <input type="checkbox"/> If checked, the corporation may have to file <b>Form 8281</b> , Information Return for Publicly Offered Original Issue Discount Instruments.		
<b>7</b>	If the corporation: (a) was a C corporation before it elected to be an S corporation or the corporation acquired an asset with a basis determined by reference to its basis (or the basis of any other property) in the hands of a C corporation and (b) has net unrealized built-in gain (defined in section 1374(d)(1)) in excess of the net recognized built-in gain from prior years, enter the net unrealized built-in gain reduced by net recognized built-in gain from prior years . . . . . ▶ \$ _____		
<b>8</b>	Enter the accumulated earnings and profits of the corporation at the end of the tax year. \$ _____		
<b>9</b>	Are the corporation's total receipts (see instructions) for the tax year and its total assets at the end of the tax year less than \$250,000? If "Yes," the corporation is not required to complete Schedules L and M-1.		

**Note:** If the corporation, at any time during the tax year, had assets or operated a business in a foreign country or U.S. possession, it may be required to attach **Schedule N (Form 1120)**, Foreign Operations of U.S. Corporations, to this return. See Schedule N for details.

**Schedule K Shareholders' Pro Rata Share Items**

		Total amount	
Income (Loss)	<b>1</b> Ordinary business income (loss) (page 1, line 21) . . . . .	<b>1</b>	
	<b>2</b> Net rental real estate income (loss) (attach Form 8825) . . . . .	<b>2</b>	
	<b>3a</b> Other gross rental income (loss) . . . . . <b>3a</b>		
	<b>b</b> Expenses from other rental activities (attach statement) . . . . . <b>3b</b>		
	<b>c</b> Other net rental income (loss). Subtract line 3b from line 3a . . . . . <b>3c</b>		
	<b>4</b> Interest income . . . . .	<b>4</b>	
	<b>5</b> Dividends: <b>a</b> Ordinary dividends . . . . . <b>5a</b> <b>b</b> Qualified dividends . . . . . <b>5b</b>		
	<b>6</b> Royalties . . . . .	<b>6</b>	
	<b>7</b> Net short-term capital gain (loss) (attach Schedule D (Form 1120S)) . . . . .	<b>7</b>	
	<b>8a</b> Net long-term capital gain (loss) (attach Schedule D (Form 1120S)) . . . . . <b>8a</b> <b>b</b> Collectibles (28%) gain (loss) . . . . . <b>8b</b> <b>c</b> Unrecaptured section 1250 gain (attach statement) . . . . . <b>8c</b>		
<b>9</b> Net section 1231 gain (loss) (attach Form 4797) . . . . .	<b>9</b>		
<b>10</b> Other income (loss) (see instructions) . . . . . Type ▶	<b>10</b>		

		Shareholders' Pro Rata Share Items (continued)	Total amount	
<b>Deductions</b>	<b>11</b>	Section 179 deduction ( <i>attach Form 4562</i> ) . . . . .	<b>11</b>	
	<b>12a</b>	Contributions . . . . .	<b>12a</b>	
	<b>b</b>	Investment interest expense . . . . .	<b>12b</b>	
	<b>c</b>	Section 59(e)(2) expenditures <b>(1) Type</b> ▶ ----- <b>(2) Amount</b> ▶	<b>12c(2)</b>	
	<b>d</b>	Other deductions ( <i>see instructions</i> ) . . . . . Type ▶	<b>12d</b>	
<b>Credits</b>	<b>13a</b>	Low-income housing credit (section 42(j)(5)) . . . . .	<b>13a</b>	
	<b>b</b>	Low-income housing credit (other) . . . . .	<b>13b</b>	
	<b>c</b>	Qualified rehabilitation expenditures (rental real estate) ( <i>attach Form 3468</i> ) . . . . .	<b>13c</b>	
	<b>d</b>	Other rental real estate credits ( <i>see instructions</i> ) Type ▶	<b>13d</b>	
	<b>e</b>	Other rental credits ( <i>see instructions</i> ) . . . . . Type ▶	<b>13e</b>	
	<b>f</b>	Credit for alcohol used as fuel ( <i>attach Form 6478</i> ) . . . . .	<b>13f</b>	
	<b>g</b>	Other credits ( <i>see instructions</i> ) . . . . . Type ▶	<b>13g</b>	
<b>Foreign Transactions</b>	<b>14a</b>	Name of country or U.S. possession ▶ -----	<b>14a</b>	
	<b>b</b>	Gross income from all sources . . . . .	<b>14b</b>	
	<b>c</b>	Gross income sourced at shareholder level . . . . .	<b>14c</b>	
		<i>Foreign gross income sourced at corporate level</i> . . . . .	<b>14d</b>	
	<b>d</b>	Passive . . . . .	<b>14d</b>	
	<b>e</b>	Listed categories ( <i>attach statement</i> ) . . . . .	<b>14e</b>	
	<b>f</b>	General limitation . . . . .	<b>14f</b>	
		<i>Deductions allocated and apportioned at shareholder level</i> . . . . .	<b>14g</b>	
	<b>g</b>	Interest expense . . . . .	<b>14g</b>	
	<b>h</b>	Other . . . . .	<b>14h</b>	
		<i>Deductions allocated and apportioned at corporate level to foreign source income</i> . . . . .	<b>14i</b>	
	<b>i</b>	Passive . . . . .	<b>14j</b>	
	<b>j</b>	Listed categories ( <i>attach statement</i> ) . . . . .	<b>14j</b>	
<b>k</b>	General limitation . . . . .	<b>14k</b>		
	<i>Other information</i> . . . . .	<b>14l</b>		
	<b>l</b>	Total foreign taxes (check one): ▶ <input type="checkbox"/> Paid <input type="checkbox"/> Accrued . . . . .	<b>14l</b>	
	<b>m</b>	Reduction in taxes available for credit ( <i>attach statement</i> ) . . . . .	<b>14m</b>	
	<b>n</b>	Other foreign tax information ( <i>attach statement</i> ) . . . . .	<b>14n</b>	
<b>Alternative Minimum Tax (AMT) Items</b>	<b>15a</b>	Post-1986 depreciation adjustment . . . . .	<b>15a</b>	
	<b>b</b>	Adjusted gain or loss . . . . .	<b>15b</b>	
	<b>c</b>	Depletion (other than oil and gas) . . . . .	<b>15c</b>	
	<b>d</b>	Oil, gas, and geothermal properties—gross income . . . . .	<b>15d</b>	
	<b>e</b>	Oil, gas, and geothermal properties—deductions . . . . .	<b>15e</b>	
	<b>f</b>	Other AMT items ( <i>attach statement</i> ) . . . . .	<b>15f</b>	
<b>Items Affecting Shareholder Basis</b>	<b>16a</b>	Tax-exempt interest income . . . . .	<b>16a</b>	
	<b>b</b>	Other tax-exempt income . . . . .	<b>16b</b>	
	<b>c</b>	Nondeductible expenses . . . . .	<b>16c</b>	
	<b>d</b>	Property distributions . . . . .	<b>16d</b>	
	<b>e</b>	Repayment of loans from shareholders . . . . .	<b>16e</b>	
<b>Other Information</b>	<b>17a</b>	Investment income . . . . .	<b>17a</b>	
	<b>b</b>	Investment expenses . . . . .	<b>17b</b>	
	<b>c</b>	Dividend distributions paid from accumulated earnings and profits . . . . .	<b>17c</b>	
	<b>d</b>	Other items and amounts ( <i>attach statement</i> ) . . . . .	<b>17d</b>	
<b>Reconciliation</b>	<b>18</b>	<b>Income/loss reconciliation.</b> Combine the amounts on lines 1 through 10 in the far right column. From the result, subtract the sum of the amounts on lines 11 through 12d and 14l	<b>18</b>	

**Note:** The corporation is not required to complete Schedules L and M-1 if question 9 on Schedule B is answered "Yes."

Schedule L	Balance Sheets per Books	Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
<b>Assets</b>					
1	Cash . . . . .				
2a	Trade notes and accounts receivable . . . . .				
b	Less allowance for bad debts . . . . .	( )		( )	
3	Inventories . . . . .				
4	U.S. government obligations . . . . .				
5	Tax-exempt securities (see instructions) . . . . .				
6	Other current assets ( <i>attach statement</i> ) . . . . .				
7	Loans to shareholders . . . . .				
8	Mortgage and real estate loans . . . . .				
9	Other investments ( <i>attach statement</i> ) . . . . .				
10a	Buildings and other depreciable assets . . . . .				
b	Less accumulated depreciation . . . . .	( )		( )	
11a	Depletable assets . . . . .				
b	Less accumulated depletion . . . . .	( )		( )	
12	Land (net of any amortization) . . . . .				
13a	Intangible assets (amortizable only) . . . . .				
b	Less accumulated amortization . . . . .	( )		( )	
14	Other assets ( <i>attach statement</i> ) . . . . .				
15	Total assets . . . . .				
<b>Liabilities and Shareholders' Equity</b>					
16	Accounts payable . . . . .				
17	Mortgages, notes, bonds payable in less than 1 year . . . . .				
18	Other current liabilities ( <i>attach statement</i> ) . . . . .				
19	Loans from shareholders . . . . .				
20	Mortgages, notes, bonds payable in 1 year or more . . . . .				
21	Other liabilities ( <i>attach statement</i> ) . . . . .				
22	Capital stock . . . . .				
23	Additional paid-in capital . . . . .				
24	Retained earnings . . . . .				
25	Adjustments to shareholders' equity ( <i>attach statement</i> ) . . . . .				
26	Less cost of treasury stock . . . . .	( )		( )	
27	Total liabilities and shareholders' equity . . . . .				

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return (see instructions)	
1 Net income (loss) per books . . . . .	5 Income recorded on books this year not included on Schedule K, lines 1 through 10 (itemize):
2 Income included on Schedule K, lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10, not recorded on books this year (itemize): . . . . .	a Tax-exempt interest \$ . . . . .
3 Expenses recorded on books this year not included on Schedule K, lines 1 through 12 and 14l (itemize):	6 Deductions included on Schedule K, lines 1 through 12 and 14l, not charged against book income this year (itemize):
a Depreciation \$ . . . . .	a Depreciation \$ . . . . .
b Travel and entertainment \$ . . . . .	
4 Add lines 1 through 3 . . . . .	7 Add lines 5 and 6 . . . . .
	8 Income (loss) (Schedule K, line 18). Line 4 less line 7

Schedule M-2 Analysis of Accumulated Adjustments Account, Other Adjustments Account, and Shareholders' Undistributed Taxable Income Previously Taxed (see instructions)			
	(a) Accumulated adjustments account	(b) Other adjustments account	(c) Shareholders' undistributed taxable income previously taxed
1 Balance at beginning of tax year . . . . .			
2 Ordinary income from page 1, line 21 . . . . .			
3 Other additions . . . . .			
4 Loss from page 1, line 21 . . . . .	( )		
5 Other reductions . . . . .	( )	( )	
6 Combine lines 1 through 5 . . . . .			
7 Distributions other than dividend distributions . . . . .			
8 Balance at end of tax year. Subtract line 7 from line 6 . . . . .			