



# Instructions for Form 1120S

## U.S. Income Tax Return for an S Corporation

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

<b>Contents</b>	<b>Page</b>
The Taxpayer Advocate Service . . . . .	<a href="#">1</a>
General Instructions . . . . .	<a href="#">2</a>
Purpose of Form . . . . .	<a href="#">2</a>
Who Must File . . . . .	<a href="#">2</a>
Termination of Election . . . . .	<a href="#">2</a>
Electronic Filing . . . . .	<a href="#">2</a>
When To File . . . . .	<a href="#">3</a>
Where To File . . . . .	<a href="#">3</a>
Who Must Sign . . . . .	<a href="#">3</a>
Paid Preparer Authorization . . . . .	<a href="#">3</a>
Assembling the Return . . . . .	<a href="#">4</a>
Tax Payments . . . . .	<a href="#">4</a>
Electronic Deposit Requirement . . . . .	<a href="#">4</a>
Estimated Tax Payments . . . . .	<a href="#">4</a>
Interest and Penalties . . . . .	<a href="#">4</a>
Accounting Methods . . . . .	<a href="#">5</a>
Accounting Period . . . . .	<a href="#">5</a>
Rounding Off to Whole Dollars . . . . .	<a href="#">6</a>
Recordkeeping . . . . .	<a href="#">6</a>
Amended Return . . . . .	<a href="#">6</a>
Other Forms and Statements That May Be Required . . . . .	<a href="#">6</a>
Passive Activity Limitations . . . . .	<a href="#">7</a>
Extraterritorial Income Exclusion . . . . .	<a href="#">12</a>
Specific Instructions . . . . .	<a href="#">12</a>
Period Covered . . . . .	<a href="#">12</a>
Name and Address . . . . .	<a href="#">12</a>
Item B. Business Code . . . . .	<a href="#">13</a>
Item C. Schedule M-3 Information . . . . .	<a href="#">13</a>
Item D. Employer Identification Number (EIN) . . . . .	<a href="#">13</a>
Item F. Total Assets . . . . .	<a href="#">13</a>
Item H. Final Return, Name Change, Address Change, Amended Return, or S Election Termination or Revocation . . . . .	<a href="#">13</a>
Income . . . . .	<a href="#">13</a>
Deductions . . . . .	<a href="#">15</a>
Tax and Payments . . . . .	<a href="#">20</a>
Schedule B . . . . .	<a href="#">21</a>
Schedules K and K-1 (General Instructions) . . . . .	<a href="#">22</a>
Specific Instructions (Schedule K-1 Only) . . . . .	<a href="#">23</a>
Specific Instructions (Schedules K and K-1, Part III) . . . . .	<a href="#">24</a>
Schedule L . . . . .	<a href="#">40</a>
Schedule M-1 . . . . .	<a href="#">40</a>
Schedule M-2 . . . . .	<a href="#">41</a>

<b>Contents</b>	<b>Page</b>
Principal Business Activity Codes . . . . .	<a href="#">44</a>
Index . . . . .	<a href="#">47</a>

### Future Developments

For the latest information about developments related to Form 1120S and its instructions, such as legislation enacted after they were published, go to [www.irs.gov/form1120s](http://www.irs.gov/form1120s).

### What's New

**Information reporting requirements for health insurance offers and coverage.** Beginning in 2015, under the Affordable Care Act, applicable employers with 50 or more full-time employees (including full-time equivalent employees) in the previous year are required to report the information required under sections 6055 and 6056 about offers of health coverage and enrollment in health coverage for their employees. For more information, see the 2015 Instructions for Forms 1094-C and 1095-C. Also, for information related to the Affordable Care Act, visit [www.irs.gov/Affordable-Care-Act](http://www.irs.gov/Affordable-Care-Act).

**Built-in gains.** For tax years beginning after 2014, the 5-year recognition period for built-in gains tax has been permanently extended. See the Instructions for Schedule D (Form 1120S).

### Reminders

**Election by a small business corporation.** Don't file Form 1120S unless the corporation has filed or is attaching Form 2553, Election by a Small Business Corporation. For details, see the Instructions for Form 2553.

**Schedule K-1 (Form 1120S).** Box 17, code U is used to report information related to the net investment income tax.

**Regulations section 1.1411-10(g) election.** The corporation can elect to include section 951 inclusions and section 1293 inclusions in net investment income for purposes of section 1411 in the same tax year as the amounts are included in income for

chapter 1 purposes. See [Regulations section 1.1411-10\(g\) \(section 1411 election with respect to CFCs and QEFs\)](#) under *Other Forms and Statements That May Be Required* for more information.

### Photographs of Missing Children

The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in these instructions on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

### The Taxpayer Advocate Service

The Taxpayer Advocate Service (TAS) is an **independent** organization within the IRS that helps taxpayers and protects taxpayer rights. TAS's job is to ensure that every taxpayer is treated fairly and knows and understands their rights under the [Taxpayer Bill of Rights](#).

As a taxpayer, the corporation has rights that the IRS must abide by in its dealings with the corporation. TAS can help the corporation if:

- A problem is causing financial difficulty for the business.
- The business is facing an immediate threat of adverse action.
- The corporation has tried repeatedly to contact the IRS but no one has responded, or the IRS hasn't responded by the date promised.

TAS has offices in every state, the District of Columbia, and Puerto Rico. Local advocates' numbers are in their local directories and at [www.taxpayeradvocate.irs.gov/](http://www.taxpayeradvocate.irs.gov/). The corporation can also call TAS at 1-877-777-4778.

TAS also works to resolve large-scale or systemic problems that affect many taxpayers. If the corporation knows of one of these broad issues, please report it to TAS through the

Systemic Advocacy Management System at [www.irs.gov/sams](http://www.irs.gov/sams).

For more information, go to [www.irs.gov/advocate](http://www.irs.gov/advocate).

## Direct Deposit of Refund

To ask for a direct deposit of the corporation's income tax refund into an account at a U.S. bank or other financial institution, attach Form 8050, Direct Deposit of Corporate Tax Refund. See the instructions for line 27.

## How To Get Forms and Publications

**Internet.** You can access the IRS website 24 hours a day, 7 days a week, at IRS.gov to:

- Download forms, instructions, and publications;
- Order IRS products online;
- Research your tax questions online;
- Search publications online by topic or keyword;
- View Internal Revenue Bulletins (IRBs) published in recent years; and
- Sign up to receive local and national tax news by email.

**Tax forms and publications.** The corporation can download or print all of the forms and publications it may need on [www.irs.gov/formspubs](http://www.irs.gov/formspubs). Otherwise the corporation can go to [www.irs.gov/orderforms](http://www.irs.gov/orderforms) to place an order and have forms mailed to it.

The corporation should receive its order within 10 business days.

---

## General Instructions

### Purpose of Form

Use Form 1120S to report the income, gains, losses, deductions, credits, etc., of a domestic corporation or other entity for any tax year covered by an election to be an S corporation.

### How To Make the Election

For details about the election, see Form 2553, Election by a Small Business Corporation, and the Instructions for Form 2553.

### Who Must File

A corporation or other entity must file Form 1120S if (a) it elected to be an S corporation by filing Form 2553, (b) the IRS accepted the election, and (c) the election remains in effect. After filing Form 2553, you should have received confirmation that Form 2553 was accepted. If you didn't receive notification of acceptance or

nonacceptance of the election within 2 months of filing Form 2553 (5 months if you checked box Q1 to ask for a letter ruling), take follow-up action by calling 1-800-829-4933. Don't file Form 1120S for any tax year before the year the election takes effect.

**Relief for late elections.** If you haven't filed Form 2553, or didn't file Form 2553 on time, you may be entitled to relief for a late filed election to be an S corporation. See the Instructions for Form 2553 for details.

### Termination of Election

Once the election is made, it stays in effect until it is terminated. If the election is terminated, the corporation (or a successor corporation) can make another election on Form 2553 only with IRS consent for any tax year before the fifth tax year after the first tax year in which the termination took effect. See Regulations section 1.1362-5 for details.

An election terminates automatically in any of the following cases.

1. The corporation is no longer a small business corporation as defined in section 1361(b). This kind of termination of an election is effective as of the day the corporation no longer meets the definition of a small business corporation. Attach to Form 1120S for the final year of the S corporation a statement notifying the IRS of the termination and the date it occurred.

2. The corporation, for each of three consecutive tax years, (a) has accumulated earnings and profits and (b) derives more than 25% of its gross receipts from passive investment income as defined in section 1362(d)(3)(C). The election terminates 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 the line 22a instructions for details on how to figure the tax.

3. The election is revoked. An election can be revoked only with the consent of shareholders who, at the time the revocation is made, hold more than 50% of the number of issued and outstanding shares of stock (including non-voting stock). The revocation can specify an effective revocation date that is on or after the day the revocation is filed. If no date is specified, the revocation is effective at the start of the tax year if the revocation is made on or before the 15th day of the 3rd month of that tax year. If no date is specified and the revocation is made after the 15th

day of the 3rd month of the tax year, the revocation is effective at the start of the next tax year.

To revoke the election, the corporation must file a statement with the appropriate service center listed under *Where To File* in the Instructions for Form 2553. In the statement, the corporation must notify the IRS that it is revoking its election to be an S corporation. The statement must be signed by each shareholder who consents to the revocation and contain the information required by Regulations section 1.1362-6(a)(3).

A revocation can be rescinded before it takes effect. See Regulations section 1.1362-6(a)(4) for details.

For rules on allocating income and deductions between an S short year and a C short year and other special rules that apply when an election is terminated, see section 1362(e) and Regulations section 1.1362-3.

If an election was terminated under (1) or (2) above, and the corporation believes the termination was inadvertent, the corporation can ask for permission from the IRS to continue to be treated as an S corporation. See Regulations section 1.1362-4 for the specific requirements that must be met to qualify for inadvertent termination relief.

### Electronic Filing

Corporations can generally electronically file (*e-file*) Form 1120S, related forms, schedules, statements, and attachments, Form 7004 (automatic extension of time to file), and Forms 940, 941, and 944 (employment tax returns). Form 1099 and other information returns can also be electronically filed. The option to *e-file* doesn't, however, apply to certain returns.

Certain corporations with total assets of \$10 million or more that file at least 250 returns a year are required to *e-file* Form 1120S. See Regulations section 301.6037-2. However, these corporations can ask for a waiver of the electronic filing requirements. See Notice 2010-13, 2010-4 I.R.B. 327.

For more information, visit [www.irs.gov/Filing](http://www.irs.gov/Filing). Click on the "Self-Employed & Small-Businesses" and "Corporations" links.

## Where To File

File the corporation's return at the applicable IRS address listed below.

If the corporation's principal business, office, or agency is located in:	And the total assets at the end of the tax year (Form 1120S, page 1, item F) are:	Use the following address:
Connecticut, Delaware, District of Columbia, Florida, Georgia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, West Virginia, Wisconsin	Less than \$10 million and Schedule M-3 isn't filed	Department of the Treasury Internal Revenue Service Center Cincinnati, OH 45999-0013
	\$10 million or more, or less than \$10 million and Schedule M-3 is filed	Department of the Treasury Internal Revenue Service Center Ogden, UT 84201-0013
Alabama, Alaska, Arizona, Arkansas, California, Colorado, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, Wyoming	Any amount	Department of the Treasury Internal Revenue Service Center Ogden, UT 84201-0013
A foreign country or U.S. possession	Any amount	Internal Revenue Service Center P.O. Box 409101 Ogden, UT 84409

Form 7004 by the regular due date of the return. See the Instructions for Form 7004.

## Who Must Sign

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.

If a return is filed on behalf of a corporation by a receiver, trustee, or assignee, the fiduciary must sign the return, instead of the corporate officer. Returns and forms signed by a receiver or trustee in bankruptcy on behalf of a corporation must be accompanied by a copy of the order or instructions of the court authorizing signing of the return or form.

If an employee of the corporation completes Form 1120S, the paid preparer space should remain blank. Anyone who prepares Form 1120S but doesn't charge the corporation shouldn't complete that section. Generally, anyone who is paid to prepare the return must sign it and fill in the "Paid Preparer Use Only" area.

The paid preparer must complete the required preparer information and:

- Sign the return in the space provided for the preparer's signature, and
- Give a copy of the return to the taxpayer.



*A paid preparer may sign original or amended returns by rubber stamp, mechanical device, or computer software program.*

## Paid Preparer Authorization

If the corporation wants to allow the IRS to discuss its 2015 tax return with the paid preparer who signed it, check the "Yes" box in the signature area of the return. This authorization applies only to the individual whose signature appears in the "Paid Preparer Use Only" section of the return. It doesn't apply to the firm, if any, shown in that section.

If the "Yes" box is checked, the corporation is authorizing the IRS to call the paid preparer to answer any questions that may arise during the processing of its return. The corporation is also authorizing the paid preparer to:

- Give the IRS any information that is missing from the return,

## When To File

Generally, an S corporation must file Form 1120S by the 15th day of the 3rd month after the end of its tax year. For calendar year corporations, the due date is March 15, 2016. A corporation that has dissolved must generally file by the 15th day of the 3rd month after the date it dissolved.

If the due date falls on a Saturday, Sunday, or legal holiday, the corporation can file on the next day that is not a Saturday, Sunday, or legal holiday.

If the S corporation election was terminated during the tax year and the corporation reverts to a C corporation, file Form 1120S for the S corporation's short year by the due date (including extensions) of the C corporation's short year return.

## Private Delivery Services

Corporations can use certain private delivery services designated by the IRS to meet the "timely mailing as timely filing" rule for tax returns. These private delivery services include only the following.

- Federal Express (FedEx): FedEx First Overnight, FedEx Priority Overnight,

FedEx Standard Overnight, FedEx 2 Day, FedEx International Next Flight Out, FedEx International Priority, FedEx International First, and FedEx International Economy.

- United Parcel Service (UPS): UPS Next Day Air Early AM, UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, UPS 2nd Day Air A.M., UPS Worldwide Express Plus, and UPS Worldwide Express.

The private delivery service can tell you how to get written proof of the mailing date.

For the IRS mailing address to use if you are using a private delivery service, go to IRS.gov and enter "private delivery services" in the search box.



*Private delivery services can't deliver items to P.O. boxes. You must use the U.S. Postal Service to mail any item to an IRS P.O. box address.*

## Extension of Time To File

File Form 7004, Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns, to ask for a 6-month extension of time to file. Generally, the corporation must file



- Call the IRS for information about the processing of the return or the status of any related refund or payment(s), and
- Respond to certain IRS notices about math errors, offsets, and return preparation.

The corporation isn't authorizing the paid preparer to receive any refund check, bind the corporation to anything (including any additional tax liability), or otherwise represent the corporation before the IRS.

The authorization will automatically end no later than the due date (excluding extensions) for filing the corporation's 2016 tax return. If the corporation wants to expand the paid preparer's authorization or revoke the authorization before it ends, see Pub. 947, Practice Before the IRS and Power of Attorney.

## Assembling the Return

To ensure that the corporation's tax return is correctly processed, attach all schedules and other forms after page 5 of Form 1120S in the following order.

1. Schedule N (Form 1120), Foreign Operations of U.S. Corporations.
2. Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation.
3. Form 8050.
4. Form 1125-A, Cost of Goods Sold.
5. Form 4136, Credit for Federal Tax Paid on Fuels.
6. Form 8941, Credit for Small Employer Health Insurance Premiums.
7. Additional schedules in alphabetical order.
8. Additional forms in numerical order.

Complete every applicable entry space on Form 1120S and Schedule K-1. Don't enter "See Attached" or "Available Upon Request" instead of completing the entry spaces. If more space is needed on the forms or schedules, attach separate sheets using the same size and format as the printed forms.

If there are supporting statements and attachments, arrange them in the same order as the schedules or forms they support and attach them last. Show the totals on the printed forms. Enter the corporation's name and EIN on each supporting statement or attachment.

## Tax Payments

Generally, the corporation must pay any tax due in full no later than the 15th day of the 3rd month after the end of the tax year. See the [instructions for line 25](#). If the due date falls on a Saturday, Sunday, or legal holiday, the payment is due on the next day that isn't a Saturday, Sunday, or legal holiday.

## Electronic Deposit Requirement

Corporations must use electronic funds transfers to make all federal tax deposits (such as deposits of employment, excise, and corporate income tax). Generally, electronic funds transfers are made using the Electronic Federal Tax Payment System (EFTPS). However, if the corporation doesn't want to use EFTPS, it can arrange for its tax professional, financial institution, payroll service, or other trusted third party to make deposits on its behalf. Also, it may arrange for its financial institution to submit a same-day wire payment (discussed below) on its behalf. EFTPS is a free service provided by the Department of the Treasury. Services provided by a tax professional, financial institution, payroll service, or other third party may have a fee.

To get more information about EFTPS or to enroll in EFTPS, visit [www.eftps.gov](http://www.eftps.gov) or call 1-800-555-4477 (TTY/TDD 1-800-733-4829).

**Depositing on time.** For any deposit made by EFTPS to be on time, the corporation must submit the deposit by 8 p.m. Eastern time the day before the date the deposit is due. If the corporation uses a third party to make deposits on its behalf, they may have different cutoff times.

**Same-day wire payment option.** If the corporation fails to submit a deposit transaction on EFTPS by 8 p.m. Eastern time the day before the date a deposit is due, it can still make its deposit on time by using the Federal Tax Collection Service (FTCS). To use the same-day wire payment method, the corporation will need to make arrangements with its financial institution ahead of time regarding availability, deadlines, and costs. Financial institutions may charge a fee for payment made this way. To learn more about the information the corporation will need to provide to its financial institution to make a same-day wire payment, visit the IRS website at [www.irs.gov/payments](http://www.irs.gov/payments) and click on "Same-day wire."

## Estimated Tax Payments

Generally, the corporation must make installment payments of estimated tax for the following taxes if the total of these taxes is \$500 or more: (a) the tax on built-in gains, (b) the excess net passive income tax, and (c) the investment credit recapture tax.

The amount of estimated tax required to be paid annually is the smaller of: (a) the total of the above taxes shown on the return for the tax year (or if no return is filed, the total of these taxes for the year) or (b) the sum of (i) the investment credit recapture tax and the built-in gains tax shown on the return for the tax year (or if no return is filed, the total of these taxes for the tax year) and (ii) any excess net passive income tax shown on the corporation's return for the preceding tax year. If the preceding tax year was less than 12 months, the estimated tax must be determined under (a).

The estimated tax is generally payable in four equal installments. However, the corporation may be able to lower the amount of one or more installments by using the annualized income installment method or adjusted seasonal installment method under section 6655(e).

For a calendar year corporation, the payments are due for 2016 by April 18, June 15, September 15, and December 15. For a fiscal year corporation, they are due by the 15th day of the 4th, 6th, 9th, and 12th months of the year. If any date falls on a Saturday, Sunday, or legal holiday, the installment is due on the next day that isn't a Saturday, Sunday, or legal holiday.

The corporation must make the payments using electronic funds transfers as described earlier.

For information on penalties that may apply if the corporation fails to make required payments, see the Instructions for Form 2220.

## Interest and Penalties



*If the corporation receives a notice about penalties after it files its return, send the IRS an explanation and we will determine if the corporation meets reasonable-cause criteria. **Don't** attach an explanation when the corporation's return is filed.*

**Interest.** Interest is charged on taxes paid late even if an extension of time to file is granted. Interest is also charged on penalties imposed for failure to file,

negligence, fraud, substantial valuation misstatements, substantial understatements of tax, and reportable transaction understatements 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 penalty may be charged if the return is filed after the due date (including extensions) or the return doesn't show all the information required, unless each failure is due to reasonable cause. See [Caution](#), earlier. For returns on which no tax is due, the penalty is \$195 for each month or part of a month (up to 12 months) the return is late or doesn't include the required information, multiplied by the total number of persons who were shareholders in the corporation during any part of the corporation's tax year for which the return is due. If tax is due, the penalty is the amount stated above plus 5% of the unpaid tax for each month or part of a month the return is late, up to a maximum of 25% of the unpaid tax. The minimum penalty for a return that is more than 60 days late is the smaller of the tax due or \$135.

**Late payment of tax.** A corporation that doesn't pay the tax when due generally may be penalized  $\frac{1}{2}$  of 1% of the unpaid tax for each month or part of a month the tax isn't paid, up to a maximum of 25% of the unpaid tax. The penalty won't be imposed if the corporation can show that the failure to pay on time was due to reasonable cause. See [Caution](#), earlier.

**Failure to furnish information timely.** For each failure to furnish Schedule K-1 to a shareholder when due and each failure to include on Schedule K-1 all the information required to be shown (or the inclusion of incorrect information), a \$260 penalty may be imposed with respect to each Schedule K-1 for which a failure occurs. If the requirement to report correct information is intentionally disregarded, each \$260 penalty is increased to \$520 or, if greater, 10% of the aggregate amount of items required to be reported. See sections 6722 and 6724 for more information.

The penalty won't be imposed if the corporation can show that not furnishing information timely was due to reasonable cause. See [Caution](#), earlier.

**Trust fund recovery penalty.** This penalty may apply if certain excise, income, social security, and Medicare taxes that must be collected or withheld aren't collected or withheld, or these

taxes aren't paid. These taxes are generally reported on:

- Form 720, Quarterly Federal Excise Tax Return;
- Form 941, Employer's QUARTERLY Federal Tax Return;
- Form 943, Employer's Annual Federal Tax Return for Agricultural Employees;
- Form 944, Employer's ANNUAL Federal Tax Return; or
- Form 945, Annual Return of Withheld Federal Income Tax.

The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to have been responsible for collecting, accounting for, or paying over these taxes, and who acted willfully in not doing so. The penalty is equal to the full amount of the unpaid trust fund tax. See the Instructions for Form 720, Pub. 15 (Circular E), Employer's Tax Guide, or Pub. 51 (Circular A), Agricultural Employer's Tax Guide, for details, including the definition of responsible persons.

**Other penalties.** Other penalties can be imposed for negligence, substantial understatement of tax, reportable transaction understatements, and fraud. See sections 6662, 6662A, and 6663.

## Accounting Methods

Figure income using the method of accounting regularly used in keeping the corporation's books and records. The method used must clearly reflect income. Permissible methods include cash, accrual, or any other method authorized by the Internal Revenue Code.

The following rules apply.

- Generally, an S corporation can't use the cash method of accounting if it is a tax shelter (as defined in section 448(d)(3)). See section 448 for details.
- Unless it is a qualifying taxpayer or a qualifying small business taxpayer, a corporation must use the accrual method for sales and purchases of inventory items. See the Form 1125-A instructions.
- Special rules apply to long-term contracts. See section 460.
- Generally, dealers in securities must use the mark-to-market accounting method. Dealers in commodities and traders in securities and commodities can elect to use the mark-to-market accounting method. See section 475.

### Change in accounting method.

Generally, the corporation must get IRS consent to change either an overall

method of accounting or the accounting treatment of any material item. To do so, the corporation generally must file Form 3115, Application for Change in Accounting Method. See the Instructions for Form 3115 for more information and exceptions, including filing exceptions for qualified small taxpayers and filing exceptions for certain first-year tangible property changes for small business taxpayers.

## Accounting Period

A corporation must figure its income on the basis of a tax year. A tax year is the annual accounting period a corporation uses to keep its records and report its income and expenses.

An S corporation must use one of the following tax years.

- A tax year ending December 31.
- A natural business year.
- An ownership tax year.
- A tax year elected under section 444.
- A 52-53-week tax year that ends with reference to a year listed above.
- Any other tax year (including a 52-53-week tax year) for which the corporation establishes a business purpose.

A new S corporation must use Form 2553 to elect a tax year. To later change the corporation's tax year, see Form 1128, Application To Adopt, Change, or Retain a Tax Year, and its instructions (unless the corporation is making an election under section 444, discussed next).

### Electing a tax year under section

**444.** Under the provisions of section 444, an S corporation can elect to have a tax year other than a required year, but only if the deferral period of the tax year isn't longer than the shorter of 3 months or the deferral period of the tax year being changed. This election is made by filing Form 8716, Election To Have a Tax Year Other Than a Required Tax Year.

An S corporation may not make or continue an election under section 444 if it is a member of a tiered structure, other than a tiered structure that consists entirely of partnerships and S corporations that have the same tax year. For the S corporation to have a section 444 election in effect, it must make the payments required by section 7519. See Form 8752, Required Payment or Refund Under Section 7519.

A section 444 election ends if an S corporation:

- Changes its accounting period to a calendar year or some other permitted year,
- Is penalized for willfully failing to comply with the requirements of section 7519, or
- Terminates its S election (unless it immediately becomes a personal service corporation).

If the termination results in a short tax year, enter at the top of the first page of Form 1120S for the short tax year, "SECTION 444 ELECTION TERMINATED."

## Rounding Off to Whole Dollars

The corporation can round off cents to whole dollars on its return and schedules. If the corporation does round to whole dollars, it must round all amounts. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, \$1.49 becomes \$1 and \$2.50 becomes \$3.

If two or more amounts must be added to figure the amount to enter on a line, include cents when adding the amounts and round off only the total.

## Recordkeeping

Keep the corporation's records for as long as they may be needed for the administration of any provision of the Internal Revenue Code. Usually, records that support an item of income, deduction, or credit on the return must be kept for 3 years from the date each shareholder's return is due or filed, whichever is later. Keep records that verify the corporation's basis in property for as long as they are needed to figure the basis of the original or replacement property.

The corporation should keep copies of all filed returns. They help in preparing future and amended returns.

## Amended Return

To correct a previously filed Form 1120S, file an amended Form 1120S and check box H(4) on page 1. Attach a statement that identifies the line number of each amended item, the corrected amount or treatment of the item, and an explanation of the reasons for each change.

If the income, deductions, credits, or other information provided to any shareholder on Schedule K-1 is incorrect, file an amended Schedule K-1 (Form 1120S) for that shareholder with the amended Form 1120S. Also give a

copy of the amended Schedule K-1 to that shareholder. Check the "Amended K-1" box at the top of the Schedule K-1 to indicate that it is an amended Schedule K-1.

A change to the corporation's federal return may affect its state return. This includes changes made as the result of an IRS examination. For more information, contact the state tax agency for the state(s) in which the corporation's return was filed.

## Other Forms and Statements That May Be Required

**Reportable transaction disclosure statement.** Disclose information for each reportable transaction in which the corporation participated. Form 8886, Reportable Transaction Disclosure Statement, must be filed for each tax year the corporation participated in the transaction. The corporation may have to pay a penalty if it is required to file Form 8886 and doesn't do so. The following are reportable transactions.

1. Any listed transaction, which is a transaction that is the same as or substantially similar to one of the types of transactions that the IRS has determined to be a tax avoidance transaction and identified by notice, regulation, or other published guidance as a listed transaction.
2. Any transaction offered under conditions of confidentiality for which the corporation (or a related party) paid an advisor a fee of at least \$50,000.
3. Certain transactions for which the corporation (or a related party) has contractual protection against disallowance of the tax benefits.
4. Certain transactions resulting in a loss of at least \$2 million in any single year or \$4 million in any combination of years.
5. Any transaction identified by the IRS by notice, regulation, or other published guidance as a "transaction of interest."

For more information, see Regulations section 1.6011-4. Also see the Instructions for Form 8886.

**Penalties.** The corporation may have to pay a penalty if it is required to disclose a reportable transaction under section 6011 and fails to properly complete and file Form 8886. Penalties may also apply under section 6707A if the corporation fails to file Form 8886 with its corporate return, fails to provide

a copy of Form 8886 to the Office of Tax Shelter Analysis (OTSA), or files a form that fails to include all the information required (or includes incorrect information). Other penalties, such as an accuracy-related penalty under section 6662A, may also apply. See the Instructions for Form 8886 for details on these and other penalties.

**Reportable transactions by material advisors.** Material advisors to any reportable transaction must disclose certain information about the reportable transaction by filing Form 8918, Material Advisor Disclosure Statement, with the IRS. For details, see the Instructions for Form 8918.

**Transfers to a corporation controlled by the transferor.** Every significant transferor (as defined in Regulations section 1.351-3(d)) that receives stock of a corporation in exchange for property in a nonrecognition event must include the statement required by Regulations section 1.351-3(a) on or with the transferor's tax return for the tax year of the exchange. The transferee corporation must include the statement required by Regulations section 1.351-3(b) on or with its return for the tax year of the exchange, unless all the required information is included in any statement(s) provided by a significant transferor that is attached to the same return for the same section 351 exchange.

**Election to reduce basis under section 362(e)(2)(C).** If property is transferred to a corporation subject to section 362(e)(2), the transferor and the acquiring corporation may elect, under section 362(e)(2)(C), to reduce the transferor's basis in the stock received instead of reducing the acquiring corporation's basis in the property transferred. Once made, the election is irrevocable. For more information, see section 362(e)(2) and Regulations section 1.362-4. If an election is made, a statement must be filed in accordance with Regulations section 1.362-4(d)(3).

**Regulations section 1.1411-10(g) (section 1411 election with respect to CFCs and QEFs).** A corporation that directly or indirectly owns stock of a controlled foreign corporation (CFC) (within the meaning of section 953(c)(1)(B) or section 957(a)) or a passive foreign investment company (within the meaning of section 1297(a)) that the corporation treats as a qualified electing fund (QEF) under section 1293 may make the election provided in Regulations section 1.1411-10(g). The



election must be made no later than the first tax year beginning after 2013 during which the corporation: (i) includes an amount in gross income for chapter 1 purposes under section 951(a) or section 1293(a) for the CFC or QEF, and (ii) has a direct or indirect owner that is subject to tax under section 1411 or would have been if the election were made. This election must be made on an entity-by-entity basis, and applies only to the particular CFCs and QEFs for which an election is made. In general, for purposes of section 1411, if an election is in effect for a CFC or QEF, the amounts included in income under section 951 and section 1293 derived from the CFC or QEF are included in net investment income, and distributions described in section 959(d) or section 1293(c) are excluded from net investment income. An election that is made under Regulations section 1.1411-10(g) can't be revoked. For more information regarding this election, see Regulations section 1.1411-10(g).

The election must be made in a statement that is filed with the corporation's original or amended return for the tax year in which the election is made. An election can be made on an amended return only if the tax year for which the election is made, and all tax years affected by the election, aren't closed by the period of limitations on assessments under section 6501. The statement must include:

- The name and EIN of the corporation making the election;
- A declaration that all of its shareholders consent to each election made in the statement;
- A declaration that the corporation elects under Regulations section 1.1411-10(g) to apply the rules in Regulations section 1.1411-10(g) to the CFCs and QEFs identified in the statement; and
- The following information for each CFC and QEF for which an election is made: (i) the name of the CFC or QEF; and (ii) either the EIN of the CFC or QEF, or, if the CFC or QEF doesn't have an EIN, the reference ID number of the CFC or QEF.

In addition, for each CFC or QEF held by the corporation for which an election under Regulations section 1.1411-10(g) has already been made by the corporation, the statement should include: (i) the name of the CFC or QEF, and (ii) either the EIN of the CFC or QEF, or, if the CFC or QEF doesn't have an EIN, the reference ID number of the CFC or QEF.

**Other forms and statements.** See Pub. 542, Corporations, for a list of other forms and statements a corporation may need to file in addition to the forms and statements discussed throughout these instructions.

## Passive Activity Limitations

In general, section 469 limits the amount of losses, deductions, and credits that shareholders can claim from "passive activities." The passive activity limitations don't apply to the corporation. Instead, they apply to each shareholder's share of any income or loss and credit attributable to a passive activity. Because the treatment of each shareholder's share of corporate income or loss and credit depends on the nature of the activity that generated it, the corporation must report income or loss and credits separately for each activity.

The following instructions and the instructions for Schedules K and K-1, later, explain the applicable passive activity limitation rules and specify the type of information the corporation must provide to its shareholders for each activity. If the corporation had more than one activity, it must report information for each activity on an attachment to Schedules K and K-1.

Generally, passive activities include (a) activities that involve the conduct of a trade or business if the shareholder doesn't materially participate in the activity, and (b) all rental activities (defined later) regardless of the shareholder's participation. For exceptions, see [Activities That Are Not Passive Activities](#), later. The level of each shareholder's participation in an activity must be determined by the shareholder.

The passive activity rules provide that losses and credits from passive activities can generally be applied only against income and tax (respectively) from passive activities. Thus, passive losses can't be applied against income from salaries, wages, professional fees, or a business in which the shareholder materially participates or against "portfolio income" (defined later). Passive credits can't be applied against the tax related to any of these types of income.

Special rules require that net income from certain activities that would otherwise be treated as passive income must be recharacterized as nonpassive income for purposes of the passive

activity limitations. See [Recharacterization of Passive Income](#), later.

To allow each shareholder to correctly apply the passive activity limitations, the corporation must report income or loss and credits separately by activity for each of the following.

- Trade or business activities.
- Rental real estate activities.
- Rental activities other than rental real estate.
- Portfolio income.

## Activities That Are Not Passive Activities

The following aren't passive activities.

1. Trade or business activities in which the shareholder materially participated for the tax year.
2. Any rental real estate activity in which the shareholder materially participated if the shareholder met both of the following conditions for the tax year.
  - a. More than half of the personal services the shareholder performed in trades or businesses were performed in real property trades or businesses in which he or she materially participated.
  - b. The shareholder performed more than 750 hours of services in real property trades or businesses in which he or she materially participated.

For purposes of this rule, each interest in rental real estate is a separate activity unless the shareholder elects to treat all interests in rental real estate as one activity.

If the shareholder is married filing jointly, either the shareholder or his or her spouse must separately meet both of the above conditions, without taking into account services performed by the other spouse.

A real property trade or business is any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business. Services the shareholder performed as an employee aren't treated as performed in a real property trade or business unless he or she owned more than 5% of the stock in the employer.

3. The rental of a dwelling unit used by a shareholder for personal purposes during the year for more than the greater of 14 days or 10% of the number of days that the residence was rented at fair rental value.

4. An activity of trading personal property for the account of owners of interests in the activity. For purposes of this rule, personal property means property that is actively traded, such as stocks, bonds, and other securities. See Temporary Regulations section 1.469-1T(e)(6).



*The section 469(c)(3) exception for a working interest in oil and gas properties doesn't apply to an S corporation because state law generally limits the liability of shareholders.*

## Trade or Business Activities

A trade or business activity is an activity (other than a rental activity or an activity treated as incidental to an activity of holding property for investment) that:

1. Involves the conduct of a trade or business (within the meaning of section 162),
2. Is conducted in anticipation of starting a trade or business, or
3. Involves research or experimental expenditures deductible under section 174 (or that would be if you chose to deduct rather than capitalize them).

If the shareholder doesn't materially participate in the activity, a trade or business activity of the corporation is a passive activity for the shareholder.

Each shareholder must determine if he or she materially participated in an activity. As a result, while the corporation's ordinary business income (loss) is reported on page 1 of Form 1120S, the specific income and deductions from each separate trade or business activity must be reported on attachments to Form 1120S. Similarly, while each shareholder's allocable share of the corporation's ordinary business income (loss) is reported in box 1 of Schedule K-1, each shareholder's allocable share of the income and deductions from each trade or business activity must be reported on statements attached to each Schedule K-1. See [Passive Activity Reporting Requirements](#), later, for more information.

## Rental Activities

Generally, except as noted below, if the gross income from an activity consists of amounts paid principally for the use of real or personal tangible property held by the corporation, the activity is a rental activity.

There are several exceptions to this general rule. Under these exceptions, an activity involving the use of real or

personal tangible property isn't a rental activity if any of the following apply.

- The average period of customer use (defined later) for such property is 7 days or less.
- The average period of customer use for such property is 30 days or less and significant personal services (defined later) are provided by or on behalf of the corporation.
- Extraordinary personal services (defined later) are provided by or on behalf of the corporation.
- The rental of such property is treated as incidental to a nonrental activity of the corporation under Temporary Regulations section 1.469-1T(e)(3)(vi) and Regulations section 1.469-1(e)(3)(vi)(D).
- The corporation customarily makes the property available during defined business hours for nonexclusive use by various customers.
- The corporation provides property for use in a nonrental activity of a partnership in its capacity as an owner of an interest in such partnership. Whether the corporation provides property used in an activity of a partnership in the corporation's capacity as an owner of an interest in the partnership is determined on the basis of all the facts and circumstances.

In addition, a guaranteed payment described in section 707(c) is never income from a rental activity.

### Average period of customer use.

Figure the average period of customer use for a class of property by dividing the total number of days in all rental periods by the number of rentals during the tax year. If the activity involves renting more than one class of property, multiply the average period of customer use of each class by the ratio of the gross rental income from that class to the activity's total gross rental income. The activity's average period of customer use equals the sum of these class-by-class average periods weighted by gross income. See Regulations section 1.469-1(e)(3)(iii).

### Significant personal services.

Personal services include only services performed by individuals. To determine if personal services are significant personal services, consider all the relevant facts and circumstances. Relevant facts and circumstances include:

- How often the services are provided,
- The type and amount of labor required to perform the services, and

- The value of the services in relation to the amount charged for use of the property.

The following services aren't considered in determining whether personal services are significant.

- Services necessary to permit the lawful use of the rental property.
- Services performed in connection with improvements or repairs to the rental property that extend the useful life of the property substantially beyond the average rental period.
- Services provided in connection with the use of any improved real property that are similar to those commonly provided in connection with long-term rentals of high-grade commercial or residential property. Examples include cleaning and maintenance of common areas, routine repairs, trash collection, elevator service, and security at entrances.

### Extraordinary personal services.

Services provided in connection with making rental property available for customer use are extraordinary personal services only if the services are performed by individuals and the customers' use of the rental property is incidental to their receipt of the services.

For example, a patient's use of a hospital room generally is incidental to the care received from the hospital's medical staff. Similarly, a student's use of a dormitory room in a boarding school is incidental to the personal services provided by the school's teaching staff.

**Rental activity incidental to a non-rental activity.** An activity isn't a rental activity if the rental of the property is incidental to a nonrental activity, such as the activity of holding property for investment, a trade or business activity, or the activity of dealing in property.

Rental of property is incidental to an activity of holding property for investment if both of the following apply.

- The main purpose for holding the property is to realize a gain from the appreciation of the property.
- The gross rental income from such property for the tax year is less than 2% of the smaller of the property's unadjusted basis or its fair market value.

Rental of property is incidental to a trade or business activity if all of the following apply.

- The corporation owns an interest in the trade or business at all times during the year.
- The rental property was mainly used in the trade or business activity during



the tax year or during at least 2 of the 5 preceding tax years.

- The gross rental income from the property for the tax year is less than 2% of the smaller of the property's unadjusted basis or its fair market value.

The sale or exchange of property that is also rented during the tax year (in which the gain or loss is recognized) is treated as incidental to the activity of dealing in property if, at the time of the sale or exchange, the property was held primarily for sale to customers in the ordinary course of the corporation's trade or business.

See Temporary Regulations section 1.469-1T(e)(3) and Regulations section 1.469-1(e)(3) for more information on the definition of rental activities for purposes of the passive activity limitations.

**Reporting of rental activities.** In reporting the corporation's income or losses and credits from rental activities, the corporation must separately report rental real estate activities and rental activities other than rental real estate activities.

Shareholders who actively participate in a rental real estate activity may be able to deduct part or all of their rental real estate losses (and the deduction equivalent of rental real estate credits) against income (or tax) from nonpassive activities. Generally, the combined amount of rental real estate losses and the deduction equivalent of rental real estate credits from all sources (including rental real estate activities not held through the corporation) that may be claimed is limited to \$25,000.

Report rental real estate activity income (loss) on Form 8825 and line 2 of Schedule K and box 2 of Schedule K-1, rather than on page 1 of Form 1120S. Report credits related to rental real estate activities on lines 13c and 13d of Schedule K (box 13, codes E and F, of Schedule K-1) and low-income housing credits on lines 13a and 13b of Schedule K (box 13, codes A, B, C, and D of Schedule K-1).

Report income (loss) from rental activities other than rental real estate on line 3 of Schedule K and credits related to rental activities other than rental real estate on line 13e of Schedule K and in box 13, code G, of Schedule K-1.

### Portfolio Income

Generally, portfolio income includes all gross income, other than income derived in the ordinary course of a trade or business, that is attributable to

interest; dividends; royalties; income from a real estate investment trust, a regulated investment company, a real estate mortgage investment conduit, a common trust fund, a controlled foreign corporation, a qualified electing fund, or a cooperative; income from the disposition of property that produces income of a type defined as portfolio income; and income from the disposition of property held for investment. See [Self-Charged Interest](#), later, for an exception.

Solely for purposes of the preceding paragraph, gross income derived in the ordinary course of a trade or business includes (and portfolio income, therefore, doesn't include) the following types of income.

- Interest income on loans and investments made in the ordinary course of a trade or business of lending money.
- Interest on accounts receivable arising from the performance of services or the sale of property in the ordinary course of a trade or business of performing such services or selling such property, but only if credit is customarily offered to customers of the business.
- Income from investments made in the ordinary course of a trade or business of furnishing insurance or annuity contracts or reinsuring risks underwritten by insurance companies.
- Income or gain derived in the ordinary course of an activity of trading or dealing in any property if such activity constitutes a trade or business (unless the dealer held the property for investment at any time before such income or gain is recognized).
- Royalties derived by the taxpayer in the ordinary course of a trade or business of licensing intangible property.
- Amounts included in the gross income of a patron of a cooperative by reason of any payment or allocation to the patron based on patronage occurring with respect to a trade or business of the patron.
- Other income identified by the IRS as income derived by the taxpayer in the ordinary course of a trade or business.

See Temporary Regulations section 1.469-2T(c)(3) for more information on portfolio income.

Report portfolio income and related deductions on Schedule K rather than on page 1 of Form 1120S.

### Self-Charged Interest

Certain self-charged interest income and deductions may be treated as

passive activity gross income and passive activity deductions if the loan proceeds are used in a passive activity. Generally, self-charged interest income and deductions result from loans between the corporation and its shareholders. Self-charged interest also occurs in loans between the corporation and another S corporation or partnership if each owner in the borrowing entity has the same proportional ownership interest in the lending entity.

The self-charged interest rules don't apply to a shareholder's interest in an S corporation if the S corporation makes an election under Regulations section 1.469-7(g) to avoid the application of these rules. To make the election, the S corporation must attach to its original or amended Form 1120S a statement that includes the name, address, EIN of the S corporation, and a declaration that the election is being made under Regulations section 1.469-7(g). The election will apply to the tax year for which it was made and all subsequent tax years. Once made, the election can only be revoked with the consent of the IRS.

For more details on the self-charged interest rules, see Regulations section 1.469-7.

### Grouping Activities

Generally, one or more trade or business or rental activities may be treated as a single activity if the activities make up an appropriate economic unit for measurement of gain or loss under the passive activity rules. Whether activities make up an appropriate economic unit depends on all the relevant facts and circumstances. The factors given the greatest weight in determining whether activities make up an appropriate economic unit are:

- Similarities and differences in types of trades or businesses,
- The extent of common control,
- The extent of common ownership,
- Geographical location, and
- Reliance between or among the activities.

**Example.** The corporation has a significant ownership interest in a bakery and a movie theater in Baltimore and a bakery and a movie theater in Philadelphia. Depending on the relevant facts and circumstances, there may be more than one reasonable method for grouping the corporation's activities. For instance, the following groupings may or may not be permissible.

- A single activity.

- A movie theater activity and a bakery activity.
- A Baltimore activity and a Philadelphia activity.
- Four separate activities.

Once the corporation chooses a grouping under these rules, it must continue using that grouping in later tax years unless either:

- The corporation determines that the original grouping was clearly inappropriate, or
- A material change in the facts and circumstances makes that grouping clearly inappropriate.

The IRS may regroup the corporation's activities if the corporation's grouping isn't an appropriate economic unit and one of the primary purposes for the grouping (or failure to regroup as required under Regulations section 1.469-4(e)) is to avoid the passive activity limitations.

**Limitation on grouping certain activities.** The following activities may not be grouped together.

1. A rental activity with a trade or business activity unless the activities being grouped together make up an appropriate economic unit and:
  - a. The rental activity is insubstantial relative to the trade or business activity or vice versa; or
  - b. Each owner of the trade or business activity has the same proportionate ownership interest in the rental activity. If so, the portion of the rental activity involving the rental of property to be used in the trade or business activity can be grouped with the trade or business activity.
2. An activity involving the rental of real property with an activity involving the rental of personal property (except personal property provided in connection with the real property or vice versa).

3. Any activity with another activity in a different type of business and in which the corporation holds an interest as a limited partner or as a limited entrepreneur (as defined in section 461(j)(4)) if that other activity is holding, producing, or distributing motion picture films or videotapes; farming; leasing section 1245 property; or exploring for or exploiting oil and gas resources or geothermal deposits.

**Activities conducted through partnerships.** Once a partnership determines its activities under these rules, the corporation as a partner can

use these rules to group those activities with:

- Each other,
- Activities conducted directly by the corporation, or
- Activities conducted through other partnerships.

The corporation can't treat as separate activities those activities grouped together by a partnership.

### Recharacterization of Passive Income

Under Temporary Regulations section 1.469-2T(f) and Regulations section 1.469-2(f), net passive income from certain passive activities must be treated as nonpassive income. Net passive income is the excess of an activity's passive activity gross income over its passive activity deductions (current year deductions and prior year unallowed losses).

Any net passive income recharacterized as nonpassive income is treated as investment income for purposes of figuring investment interest expense limitations if it is from (a) an activity of renting substantially nondepreciable property from an equity-financed lending activity, or (b) an activity related to an interest in a pass-through entity that licenses intangible property.

The amount of income from the activities in items (1) through (3) below that any shareholder will be required to recharacterize as nonpassive income may be limited under Temporary Regulations section 1.469-2T(f)(8). Because the corporation won't have information regarding all of a shareholder's activities, it must identify all corporate activities meeting the definitions in items (2) and (3) as activities that may be subject to recharacterization.

Income from the following six sources is subject to recharacterization.

**1. Significant participation passive activities.** A significant participation passive activity is any trade or business activity in which the shareholder participated for more than 100 hours during the tax year but didn't materially participate. Because each shareholder must determine his or her level of participation, the corporation won't be able to identify significant participation passive activities.

**2. Certain nondepreciable rental property activities.** Net passive income from a rental activity is nonpassive income if less than 30% of

the unadjusted basis of the property used or held for use by customers in the activity is subject to depreciation under section 167.

**3. Passive equity-financed lending activities.** If the corporation has net income from a passive equity-financed lending activity, the smaller of the net passive income or the equity-financed interest income from the activity is nonpassive income.

**4. Rental of property incidental to a development activity.** Net rental activity income is the excess of passive activity gross income from renting or disposing of property over passive activity deductions (current year deductions and prior year unallowed losses) that are reasonably allocable to the rented property. Net rental activity income is nonpassive income for a shareholder if all of the following apply.

- a. The corporation recognizes gain from the sale, exchange, or other disposition of the rental property during the tax year.
- b. The use of the item of property in the rental activity started less than 12 months before the date of disposition. The use of an item of rental property begins on the first day on which (a) the corporation owns an interest in the property, (b) substantially all of the property is either rented or held out for rent and ready to be rented, and (c) no significant value-enhancing services remain to be performed.
- c. The shareholder materially or significantly participated for any tax year in an activity that involved performing services to enhance the value of the property (or any other item of property, if the basis of the property disposed of is determined in whole or in part by reference to the basis of that item of property).

Because the corporation can't determine a shareholder's level of participation, the corporation must identify net income from property described above (without regard to the shareholder's level of participation) as income that may be subject to recharacterization.

**5. Rental of property to a nonpassive activity.** If a taxpayer rents property to a trade or business activity in which the taxpayer materially participates, the taxpayer's net rental activity income (defined in item (4)) from the property is nonpassive income.

**6. Acquisition of an interest in a pass-through entity that licenses intangible property.** Generally, net

royalty income from intangible property is nonpassive income if the taxpayer acquired an interest in the pass-through entity after the pass-through entity created the intangible property or performed substantial services or incurred substantial costs in developing or marketing the intangible property. Net royalty income is the excess of passive activity gross income from licensing or transferring any right in intangible property over passive activity deductions (current year deductions and prior year unallowed losses) that are reasonably allocable to the intangible property. See Temporary Regulations section 1.469-2T(f)(7)(iii) for exceptions to this rule.

## Passive Activity Reporting Requirements

To allow shareholders to correctly apply the passive activity loss and credit limitation rules, the corporation must do the following.

1. If the corporation carries on more than one activity, provide an attached statement for each activity conducted through the corporation that identifies the type of activity conducted (trade or business, rental real estate, rental activity other than rental real estate, or investment). See [Grouping Activities](#), earlier.

2. On the attached statement for each activity, provide a statement, using the same box numbers as shown on Schedule K-1, detailing the net income (loss), credits, and all items required to be separately stated under section 1366(a)(1) from each trade or business activity, from each rental real estate activity, from each rental activity other than a rental real estate activity, and from investments.

3. Identify the net income (loss) and the shareholder's share of corporation interest expense from each activity of renting a dwelling unit that any shareholder uses for personal purposes during the year for more than the greater of 14 days or 10% of the number of days that the residence is rented at fair rental value.

4. Identify the net income (loss) and the shareholder's share of interest expense from each activity of trading personal property conducted through the corporation.

5. For any gain (loss) from the disposition of an interest in an activity or of an interest in property used in an activity (including dispositions before 1987 from which gain is being recognized after 1986):

a. Identify the activity in which the property was used at the time of disposition;

b. If the property was used in more than one activity during the 12 months preceding the disposition, identify the activities in which the property was used and the adjusted basis allocated to each activity; and

c. For gains only, if the property was substantially appreciated at the time of the disposition and the applicable holding period specified in Regulations section 1.469-2(c)(2)(iii)(A) wasn't satisfied, identify the amount of the nonpassive gain and indicate whether or not the gain is investment income under Regulations section 1.469-2(c)(2)(iii)(F).

6. Specify the amount of gross portfolio income, the interest expense properly allocable to portfolio income, and expenses other than interest expense that are clearly and directly allocable to portfolio income.

7. Identify the ratable portion of any section 481 adjustment (whether a net positive or a net negative adjustment) allocable to each corporate activity.

8. Identify any gross income from sources specifically excluded from passive activity gross income, including:

a. Income from intangible property, if the shareholder is an individual whose personal efforts significantly contributed to the creation of the property;

b. Income from state, local, or foreign income tax refunds; and

c. Income from a covenant not to compete, if the shareholder is an individual who contributed the covenant to the corporation.

9. Identify any deductions that aren't passive activity deductions.

10. If the corporation makes a full or partial disposition of its interest in another entity, identify the gain (loss) allocable to each activity conducted through the entity, and the gain allocable to a passive activity that would have been recharacterized as nonpassive gain had the corporation disposed of its interest in property used in the activity (because the property was substantially appreciated at the time of the disposition, and the gain represented more than 10% of the shareholder's total gain from the disposition).

11. Identify the following items from activities that may be subject to the recharacterization rules (see

[Recharacterization of Passive Income](#), earlier).

a. Net income from an activity of renting substantially nondepreciable property.

b. The smaller of equity-financed interest income or net passive income from an equity-financed lending activity.

c. Net rental activity income from property developed (by the shareholder or the corporation), rented, and sold within 12 months after the rental of the property commenced.

d. Net rental activity income from the rental of property by the corporation to a trade or business activity in which the shareholder had an interest (either directly or indirectly).

e. Net royalty income from intangible property if the shareholder acquired the shareholder's interest in the corporation after the corporation created the intangible property or performed substantial services, or incurred substantial costs in developing or marketing the intangible property.

12. Identify separately the credits from each activity conducted by or through the corporation.

13. Identify the shareholder's pro rata share of the corporation's self-charged interest income or expense (see [Self-Charged Interest](#), earlier).

a. **Loans between a shareholder and the corporation.** Identify the lending or borrowing shareholder's share of the self-charged interest income or expense. If the shareholder made the loan to the corporation, also identify the activity in which the loan proceeds were used. If the proceeds were used in more than one activity, allocate the interest to each activity based on the amount of the proceeds used in each activity.

b. **Loans between the corporation and another S corporation or partnership.** If the corporation's shareholders have the same proportional ownership interest in the corporation and the other S corporation or partnership, identify each shareholder's share of the interest income or expense from the loan. If the corporation was the borrower, also identify the activity in which the loan proceeds were used. If the proceeds were used in more than one activity, allocate the interest to each activity based on the amount of the proceeds used in each activity.



## Net Investment Income Tax Reporting Requirements

**TIP** *The information described in this section should be given directly to the shareholder and shouldn't be reported by the corporation to the IRS.*

To allow shareholders to correctly figure the net investment income tax where a shareholder disposes of stock in the corporation during the tax year, the corporation may be required to provide the shareholder with certain information. The net investment income tax is a tax imposed on an individual's, trust's, or estate's net investment income. Net investment income includes the net gains or losses from the sale of stock in the corporation. A shareholder who is actively involved in one or more of the corporation or subsidiary pass-through entities' trades or businesses (other than trading in financial instruments or commodities) can reduce the amount of the gain or loss included in its net investment income. However, to figure its net investment income, the active shareholder needs certain information from the corporation.

Generally, the corporation must provide certain information to the shareholder if the corporation knows, or has reason to know, the following.

1. The shareholder disposed of stock in the corporation.
2. The shareholder materially participates (within the meaning of the passive activity loss rules (section 469)) in one or more of the trades or businesses (within the meaning of section 162) of the corporation or a subsidiary pass-through entity (other than trading in financial instruments or commodities).
3. The shareholder doesn't qualify for the optional simplified reporting method for figuring its net investment income associated with the disposition of the stock. For more information, see the instructions for Form 8960, line 5c.

**Information to be provided to shareholder.** Generally, the corporation must provide the shareholder with its pro rata share of the net gain and loss from the deemed sale for fair market value of the corporation's property, other than property that relates to the trades or businesses in which the shareholder materially participates, as determined under the passive activity

loss rules applicable to the transfer of an interest in a pass-through entity. For more information, see the instructions for Form 8960, line 5c.

**TIP** *If a shareholder, who qualifies for the optional simplified reporting method, prefers to determine net gain or loss under the general calculation, the corporation may, but isn't obligated to, provide the information to the shareholder at the shareholder's request.*

## Extraterritorial Income Exclusion

**CAUTION** *Generally, no exclusion is allowed for transactions after 2006. However, transactions that meet the transition rules may still be eligible for the exclusion. See the Instructions for Form 8873 for details.*

For details and to figure the amount of the exclusion, see Form 8873, Extraterritorial Income Exclusion, and its separate instructions. The corporation must report the extraterritorial income exclusion on its return as follows.

1. If the corporation met the foreign economic process requirements explained in the Instructions for Form 8873, it can report the exclusion as a nonseparately stated item on whichever of the following lines apply to that activity.
  - Form 1120S, page 1, line 19.
  - Form 8825, line 15.
  - Form 1120S, Schedule K, line 3b.

In addition, the corporation must report as an item of information on Schedule K-1, box 14, using code O, the shareholder's pro rata share of foreign trading gross receipts from Form 8873, line 15.

2. If the foreign trading gross receipts of the corporation for the tax year are \$5 million or less and the corporation didn't meet the foreign economic process requirements, it can't report the extraterritorial income exclusion as a nonseparately stated item on its return. Instead, the corporation must report the following separately stated items to the shareholders on Schedule K-1, box 14.

- Foreign trading gross receipts (code O). Report each shareholder's pro rata share of foreign trading gross receipts from line 15 of Form 8873 in box 14 using code O.
- Extraterritorial income exclusion (code P). Report each shareholder's pro rata share of the extraterritorial income

exclusion from line 52 of Form 8873 in box 14 using code P and identify on an attached statement the activity to which the exclusion relates. If the corporation is required to complete more than one Form 8873, combine the exclusions and report a single exclusion amount in box 14.

**TIP** *Upon request of a shareholder, the corporation should furnish a copy of the corporation's Form 8873 if that shareholder has a reduction for international boycott operations, illegal bribes, kickbacks, etc.*

## Specific Instructions

### Period Covered

File the 2015 return for calendar year 2015 and fiscal years that begin in 2015 and end in 2016. For a fiscal or short tax year return, fill in the tax year space at the top of the form.

The 2015 Form 1120S can also be used if:

- The corporation has a tax year of less than 12 months that begins and ends in 2016, and
- The 2016 Form 1120S isn't available at the time the corporation is required to file its return.

The corporation must show its 2016 tax year on the 2015 Form 1120S and take into account any tax law changes that are effective for tax years beginning after December 31, 2015.

### Name and Address

Enter the corporation's true name (as set forth in the charter or other legal document creating it) and address on the appropriate lines. Enter the address of the corporation's principal office or place of business. Include the suite, room, or other unit number after the street address. If the post office doesn't deliver mail to the street address and the corporation has a P.O. box, show the box number instead.

**TIP** *Don't use the address of the registered agent for the state in which the corporation is incorporated. For example, if a business is incorporated in Delaware or Nevada and the corporation's principal office is located in Little Rock, AR, the corporation should enter the Little Rock address.*

If the corporation receives its mail in care of a third party (such as an accountant or an attorney), enter on the street address line "C/O" followed by the

third party's name and street address or P.O. box.

If the corporation has a foreign address, include the city or town, state or province, country, and foreign postal code. Don't abbreviate the country name. Follow the country's practice for entering the name of the state or province and postal code.

## Item B. Business Code

See [Principal Business Activity Codes](#), later.

## Item C. Schedule M-3 Information

For 2015, a corporation that (a) is required to file Schedule M-3 (Form 1120S) and has less than \$50 million total assets at the end of the tax year or (b) isn't required to file Schedule M-3 (Form 1120S) and voluntarily files Schedule M-3 (Form 1120S), must either complete Schedule M-3 (Form 1120S) entirely or complete Schedule M-3 (Form 1120S) through Part I and complete Form 1120S, Schedule M-1 instead of completing Parts II and III of Schedule M-3 (Form 1120S). A corporation isn't required to file Form 8916-A, Supplemental Attachment to Schedule M-3. If a corporation chooses to complete Form 1120S, Schedule M-1 instead of completing Parts II and III of Schedule M-3 (Form 1120S), line 1 of Form 1120S, Schedule M-1 must equal line 11 of Part I of Schedule M-3 (Form 1120S).

Any corporation that completes Parts II and III of Schedule M-3 (Form 1120S) must complete all columns, without exception.

If you are filing Schedule M-3, check the "Check if Sch. M-3 attached" box. See the Instructions for Schedule M-3 for more details.

## Item D. Employer Identification Number (EIN)

Enter the corporation's EIN. If the corporation doesn't have an EIN, it must apply for one. An EIN can be applied for:

- Online—Click on the Employer ID Numbers (EINs) link at [www.irs.gov/businesses/small](http://www.irs.gov/businesses/small). The EIN is issued immediately once the application information is validated, and
- By faxing or mailing Form SS-4, Application for Employer Identification Number.

If the corporation hasn't received its EIN by the time the return is due, enter "Applied for" and the date the corporation applied in the space for the EIN. However, if the corporation is filing its returns electronically, an EIN is required at the time the return is filed. For more information, see the Instructions for Form SS-4.

## Item F. Total Assets

Enter the corporation's total assets (as determined by the accounting method regularly used in keeping the corporation's books and records) at the end of the tax year. If there were no assets at the end of the tax year, enter -0-.

If the corporation is required to complete Schedule L, enter total assets from Schedule L, line 15, column (d) on page 1, item F. If the S election terminated during the tax year, see the instructions for Schedule L, later, for special rules that may apply when figuring the corporation's year-end assets.

## Item H. Final Return, Name Change, Address Change, Amended Return, or S Election Termination or Revocation

- If this is the corporation's final return and it will no longer exist, check the "Final return" box. Also check the "Final K-1" box on each Schedule K-1.
- If the corporation changed its name since it last filed a return, check the "Name change" box. Generally, a corporation also must have amended its articles of incorporation and filed the amendment with the state in which it was incorporated.
- If the corporation has changed its address since it last filed a return (including a change to an "in care of" address), check the "Address change" box.
- If this amends a previously filed return, check the "Amended return" box. If Schedules K-1 are also being amended, check the "Amended K-1" box on each Schedule K-1.
- If the corporation has terminated or revoked its S election, check the "S election termination or revocation" box. See [Termination of Election](#), earlier.



**TIP** If a change in address or responsible party occurs after the return is filed, use Form 8822-B, *Change of Address or Responsible Party — Business*, to notify the IRS. See the instructions for Form 8822-B for details.

## Income



**CAUTION** Report only trade or business activity income on lines 1a through 5. Don't report rental activity income or portfolio income on these lines. See [Passive Activity Limitations](#), earlier, for definitions of rental income and portfolio income. Rental activity income and portfolio income are reported on Schedules K and K-1. Rental real estate activities are also reported on Form 8825.

**Tax-exempt income.** Don't include any tax-exempt income on lines 1a through 5. A corporation that receives any tax-exempt income other than interest, or holds any property or engages in any activity that produces tax-exempt income, reports this income on line 16b of Schedule K and in box 16 of Schedule K-1 using code B.

Report tax-exempt interest income, including exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company, on line 16a of Schedule K and in box 16 of Schedule K-1 using code A.

See [Deductions](#), later, for information on how to report expenses related to tax-exempt income.

**Election to defer income from canceled debt.** If the corporation elected under section 108(i) to defer COD income, the exclusions for COD income under section 108(a)(1)(A), (B), (C), and (D) don't apply to the deferred COD income for the tax year of the election or any later year.

For more information, see section 108(i); Regulations section 1.108(i)-1; Rev. Proc. 2009-37, 2009-36 I.R.B. 309; and Regulations section 1.108(i)-2.

A corporation that receives a Schedule K-1 from a partnership containing information relating to a section 108(i) election must report on the Schedules K-1 to its shareholders certain information relative to the section 108(i) election. See Rev. Proc. 2009-37 for details. Also see Regulations section 1.108(i)-2.

**Cancelled debt exclusion.** If the corporation has had debt discharged

resulting from a title 11 bankruptcy proceeding or while insolvent, see Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness, and Pub. 908, Bankruptcy Tax Guide.

### Line 1a. Gross Receipts or Sales

Enter on line 1a gross receipts or sales from all business operations except for amounts that must be reported on lines 4 and 5.

Special rules apply to certain income, as discussed below.

**Advance payments.** In general, advance payments are reported in the year of receipt. There are exceptions to this general rule for corporations that use an accrual method of accounting. To report income from long-term contracts, see section 460. For special rules for reporting certain advance payments for goods and long-term contracts, see Regulations section 1.451-5. For rules that allow a limited deferral of advance payments beyond the current tax year, see Rev. Proc. 2004-34, 2004-22 I.R.B. 991. For rules for the deferral of advance payments from the sale of certain gift cards, see Rev. Proc. 2011-18, 2011-5 I.R.B. 443, as modified and clarified by Rev. Proc. 2013-29, 2013-33 I.R.B. 141.

**Installment sales.** Generally, the installment method can't be used for dealer dispositions of property. A "dealer disposition" is any disposition of:

- Personal property by a person who regularly sells or otherwise disposes of personal property of the same type on the installment plan, or
- Real property held for sale to customers in the ordinary course of the taxpayer's trade or business.

These restrictions on using the installment method don't apply to dispositions of property used or produced in a farming business or sales of timeshares and residential lots for which the corporation elects to pay interest under section 453(l)(3).

For sales of timeshares and residential lots reported under the installment method, each shareholder's income tax is increased by the shareholder's pro rata share of the interest payable under section 453(l)(3).

Enter on line 1a the gross profit on collections from installment sales for any of the following.

- Dispositions of property used or produced in the trade or business of farming.

- Certain dispositions of timeshares and residential lots reported under the installment method.

Attach a statement showing the following information for the current and the 3 preceding years.

- Gross sales.
- Cost of goods sold.
- Gross profits.
- Percentage of gross profits to gross sales.
- Amount collected.
- Gross profit on the amount collected.

### Line 1b. Returns and Allowances

Enter cash and credit refunds the corporation made to customers for returned merchandise, rebates, and other allowances made on gross receipts or sales.

### Line 2. Cost of Goods Sold

Complete and attach Form 1125-A, Cost of Goods Sold, if applicable. Enter on line 2 the amount from Form 1125-A, line 8. See Form 1125-A and its instructions.

### Line 4. Net Gain (Loss) From Form 4797



*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 conversion of rental activity assets are reported separately on line 19 of Form 8825 or line 3 of Schedule K and box 3 of Schedule K-1, generally as a part of the net income (loss) from the rental activity.*

A corporation that is a partner in a partnership must include on Form 4797, Sales of Business Property, its share of ordinary gains (losses) from sales, exchanges, or involuntary conversions (other than casualties or thefts) of the partnership's trade or business assets.

Corporations shouldn't use Form 4797 to report the sale or other disposition of property if a section 179 expense deduction was previously passed through to any of its shareholders for that property. Instead, report it in box 17 of Schedule K-1 using code K. See [Dispositions of property with section 179 deductions \(code K\)](#), later, for details.

### Line 5. Other Income (Loss)

Enter any other trade or business income (loss) not included on lines 1a

through 4. List the type and amount of income on an attached statement.

Examples of other income include the following.

- Interest income derived in the ordinary course of the corporation's trade or business, such as interest charged on receivable balances. See Temporary Regulations section 1.469-2T(c)(3).
- Recoveries of bad debts deducted in prior years under the specific charge-off method.
- Taxable income from insurance proceeds.
- Any amount included in income from line 2 of Form 6478, Biofuel Producer Credit.
- Any amount included in income from line 8 of Form 8864, Biodiesel and Renewable Diesel Fuels Credit.
- The recapture amount under section 280F if the business use of listed property drops to 50% or less. To figure the recapture amount, complete Part IV of Form 4797.
- All section 481 income adjustments resulting from changes in accounting methods. Show the computation of the section 481 adjustments on an attached statement.
- Part or all of the proceeds received from certain corporate-owned life insurance contracts issued after August 17, 2006. Corporations that own one or more employer-owned life insurance contracts issued after this date must file Form 8925, Report of Employer-Owned Life Insurance Contracts. See section 101(j) for details.

Don't include items requiring separate computations by shareholders that must be reported on Schedules K and K-1. See the instructions for Schedules K and K-1 later in these instructions.

### Ordinary Income (Loss) From a Partnership, Estate, or Trust

Enter the ordinary income (loss) shown on Schedule K-1 (Form 1065) or Schedule K-1 (Form 1041), or other ordinary income (loss) from a foreign partnership, estate, or trust. Show the partnership's, estate's, or trust's name, address, and EIN on a separate statement attached to this return. If the amount entered is from more than one source, identify the amount from each source.

Don't include portfolio income or rental activity income (loss) from a partnership, estate, or trust on this line. Instead, report these amounts on



Schedules K and K-1, or on line 20a of Form 8825 if the amount is from a rental real estate activity.

Ordinary income or loss from a partnership that is a publicly traded partnership isn't reported on this line. Instead, report the amount separately on line 10 of Schedule K and in box 10 of Schedule K-1 using code E.

Treat shares of other items separately reported on Schedule K-1 issued by the other entity as if the items were realized or incurred by this corporation.

If there is a loss from a partnership, the amount of the loss that may be claimed by the S corporation is subject to the basis limitations.

If the tax year of the S corporation doesn't coincide with the tax year of the partnership, estate, or trust, include the ordinary income (loss) from the other entity in the tax year in which the other entity's tax year ends.

## Deductions



*Report only trade or business activity deductions on lines 7 through 19.*

Don't report the following expenses on lines 7 through 19.

- Rental activity expenses. Report these expenses on Form 8825 or line 3b of Schedule K.
- Deductions allocable to portfolio income. Report these deductions on line 12d of Schedule K and in box 12 of Schedule K-1 using code I, K, or L.
- Nondeductible expenses (for example, expenses connected with the production of tax-exempt income). Report nondeductible expenses on line 16c of Schedule K and in box 16 of Schedule K-1 using code C.
- Qualified expenditures to which an election under section 59(e) may apply. The instructions for line 12c of Schedule K and for Schedule K-1, box 12, code J explain how to report these amounts.
- Items the corporation must state separately that require separate computations by the shareholders. Examples include expenses incurred for the production of income instead of in a trade or business, charitable contributions, foreign taxes paid or accrued, intangible drilling and development costs, soil and water conservation expenditures, amortizable basis of reforestation expenditures, and

exploration expenditures. The pro rata shares of these expenses are reported separately to each shareholder on Schedule K-1.

## Limitations on Deductions

**Section 263A uniform capitalization rules.** The uniform capitalization rules of section 263A generally require corporations to capitalize, or include in inventory, certain costs incurred in connection with the following.

- The production of real property and tangible personal property held in inventory or held for sale in the ordinary course of business.
- Real property or personal property (tangible and intangible) acquired for resale.
- The production of real property and tangible personal property by a corporation for use in its trade or business or in an activity engaged in for profit.

Tangible personal property produced by a corporation includes a film, sound recording, videotape, book, or similar property.

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

**Exceptions.** Section 263A doesn't apply to the following.

- Inventoriable items accounted for in the same manner as materials and supplies that aren't incidental. See Form 1125-A and its instructions for more details.
- Personal property acquired for resale if the corporation's (or any predecessor's) average annual gross receipts for the 3 prior tax years were \$10 million or less.
- Timber.
- Most property produced under a long-term contract.
- Certain property produced in a farming business. See [Special rules for certain corporations engaged in farming](#), later.
- Geological and geophysical costs amortized under section 167(h).
- Capital costs incurred to comply with EPA sulfur regulations.

The corporation must report the following costs separately to the shareholders for purposes of determinations under section 59(e).

- Research and experimental costs under section 174.
- Intangible drilling costs for oil, gas, and geothermal property.

- Mining exploration and development costs.

**Indirect costs.** Corporations subject to the uniform capitalization rules are required to capitalize not only direct costs but an allocable part of most indirect costs (including taxes) that benefit the assets produced or acquired for resale, or are incurred because of the performance of production or resale activities.

For inventory, indirect costs that must be capitalized include the following.

- Administration expenses.
- Taxes.
- Depreciation.
- Insurance.
- Compensation paid to officers attributable to services.
- Rework labor.
- Contributions to pension, stock bonus, and certain profit-sharing, annuity, or deferred compensation plans.

Regulations section 1.263A-1(e)(3) specifies other indirect costs that relate to production or resale activities that must be capitalized and those that may be currently deductible.

Interest expense paid or incurred during the production period of designated property must be capitalized and is governed by special rules. For more details, see Regulations sections 1.263A-8 through 1.263A-15.

For more details on the uniform capitalization rules, see Regulations sections 1.263A-1 through 1.263A-3.

## Special rules for certain corporations engaged in farming.

For S corporations not required to use the accrual method of accounting, the rules of section 263A don't apply to expenses of raising any:

- Animal, or
- Plant that has a preproductive period of 2 years or less.

Shareholders of S corporations not required to use the accrual method of accounting may elect to currently deduct the preproductive period expenses of certain plants that have a preproductive period of more than 2 years. Because each shareholder makes the election to deduct these expenses, the corporation shouldn't capitalize them. Instead, the corporation should report the expenses separately on line 12d of Schedule K and report each shareholder's pro rata share in box 12 of Schedule K-1 using code M.

See *Uniform Capitalization Rules* in chapter 6 of Pub. 225, *Farmer's Tax*

Guide, sections 263A(d) and (e), and Regulations section 1.263A-4 for definitions and other details.

**Transactions between related taxpayers.** Generally, an accrual basis S corporation can deduct business expenses and interest owed to a related party (including any shareholder) only in the tax year of the corporation that includes the day on which the payment is includible in the income of the related party. See section 267 for details.

**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 items such as deductions for depletion of iron ore and coal, and the amortizable basis of pollution control facilities. If this applies, see section 291 to figure the adjustment.

**Business start-up and organizational costs.** A corporation can elect to deduct a limited amount of start-up and organizational costs it paid or incurred. Any remaining costs generally must be amortized over a 180-month period. See sections 195 and 248 and the related regulations.

**Time for making an election.** The corporation generally elects to deduct start-up or organizational costs by claiming the deduction on its income tax return filed by the due date (including extensions) for the tax year in which the active trade or business begins. However, for start-up or organizational costs paid or incurred before September 9, 2008, the corporation is required to attach a statement to its return to elect to deduct such costs.

For more details including special rules for costs paid or incurred before September 9, 2008, see the Instructions for Form 4562. Also see Pub. 535, Business Expenses.

If the corporation timely filed its return for the year without making an election, it can still make an election by filing an amended return within 6 months of the due date of the return (excluding extensions). Clearly indicate the election on the amended return and write "Filed pursuant to section 301.9100-2" at the top of the amended return. File the amended return at the same address the corporation filed its original return. The election applies when figuring taxable income for the current tax year and all subsequent years.

The corporation can choose to forgo the elections above by clearly electing to capitalize its start-up or organizational

costs on its income tax return filed by the due date (including extensions) for the tax year in which the active trade or business begins.



*The election to either amortize or capitalize start-up costs is irrevocable and applies to all start-up costs that are related to the trade or business.*

Report the deductible amount of start-up and organizational costs and any amortization on line 19. For amortization that begins during the current tax year, complete and attach Form 4562, Depreciation and Amortization.

**Reducing certain expenses for which credits are allowable.** If the corporation claims certain credits, it may need to reduce the otherwise allowable deductions for expenses used to figure the credit. This applies to credits such as the following.

- Work opportunity credit (Form 5884).
- Credit for increasing research activities (Form 6765).
- Orphan drug credit (Form 8820).
- Disabled access credit (Form 8826).
- Empowerment zone employment credit (Form 8844).
- Indian employment credit (Form 8845).
- Credit for employer social security and Medicare taxes paid on certain employee tips (Form 8846).
- Credit for small employer pension plan startup costs (Form 8881).
- Credit for employer-provided childcare facilities and services (Form 8882).
- Low sulfur diesel fuel production credit (Form 8896).
- Mine rescue team training credit (Form 8923).
- Credit for employer differential wage payments (Form 8932).
- Credit for small employer health insurance premiums (Form 8941).

If the corporation has any of these credits, figure the current year credit before figuring the deduction for expenses on which the credit is based. If the corporation capitalized any costs on which it figured the credit, it may need to reduce the amount capitalized by the credit attributable to these costs.

See the instructions for the form used to figure the applicable credit for more details.

## Line 7. Compensation of Officers and Line 8. Salaries and Wages



*Distributions and other payments by an S corporation to a corporate officer must be treated as wages to the extent the amounts are reasonable compensation for services rendered to the corporation.*

Enter on line 7 the total compensation of all officers paid or incurred in the trade or business activities of the corporation. The corporation determines who is an officer under the laws of the state where it is incorporated.

Enter on line 8 the total salaries and wages paid or incurred to employees (other than officers) during the tax year.



*If the corporation claims a credit for any wages paid or incurred, it may need to reduce the amounts on lines 7 and 8. See [Reducing certain expenses for which credits are allowable](#), earlier.*

Don't include salaries and wages reported elsewhere on the return, such as amounts included in cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement or a SIMPLE IRA plan.

If the corporation's total receipts (page 1, line 1a, plus lines 4 and 5; income reported on Schedule K, lines 3a, 4, 5a, and 6; income or net gain reported on Schedule K, lines 7, 8a, 9, and 10; and income or net gain reported on Form 8825, lines 2, 19, and 20a) are \$500,000 or more, complete Form 1125-E, Compensation of Officers. Enter on Form 1120S, line 7, the amount from Form 1125-E, line 4.

Include fringe benefit expenditures made on behalf of officers and employees owning more than 2% of the corporation's stock. Also report these fringe benefits as wages in box 1 of Form W-2. Don't include amounts paid or incurred for fringe benefits of officers and employees owning 2% or less of the corporation's stock. These amounts are reported on line 18. See the instructions for that line for information on the types of expenditures that are treated as fringe benefits and for the stock ownership rules.

Report amounts paid for health insurance coverage for a more-than-2% shareholder (including that shareholder's spouse, dependents, and

any children under age 27 who aren't dependents) as an information item in box 14 of that shareholder's Form W-2. A more-than-2% shareholder may be allowed to deduct such amounts on Form 1040, line 29. To find out if the shareholder can claim this deduction, see *Self-Employed Health Insurance Deduction* in chapter 6 of Pub. 535, *Business Expenses*.

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 to reflect the value of such services or capital. See section 1366(e).

### Line 9. Repairs and Maintenance

Enter the cost of repairs and maintenance not claimed elsewhere on the return, such as labor and supplies, that don't add to the value of the property or appreciably prolong its life. The corporation can deduct these repairs only to the extent they relate to a trade or business activity. See Regulations section 1.162-4. The corporation may elect to capitalize certain repair and maintenance costs consistent with its books and records. See Regulations section 1.263(a)-3(n) for information on how to make the election.

New buildings, machinery, or permanent improvements that increase the value of the property aren't deductible. They must be depreciated or amortized. However, amounts paid for routine maintenance on property, including buildings, may be deductible. See Regulations section 1.263(a)-3(i).

### Line 10. Bad Debts

Enter the total debts that became worthless in whole or in part during the tax year, but only to the extent such debts relate to a trade or business activity. Report deductible nonbusiness bad debts as a short-term capital loss on Form 8949, *Sales and Other Dispositions of Capital Assets*. A corporation that uses the cash method of accounting can't claim a bad debt deduction unless the amount was previously included in income.

### Line 11. Rents

Enter rent paid on business property used in a trade or business activity. Don't deduct rent for a dwelling unit occupied by any shareholder for personal use.

If the corporation rented or leased a vehicle, enter the total annual rent or lease expense paid or incurred in the trade or business activities of the corporation during the tax year. Also complete Part V of Form 4562. If the corporation leased a vehicle for a term of 30 days or more, the deduction for vehicle lease expense may have to be reduced by including in gross income an amount called the inclusion amount. The corporation may have an inclusion amount if:

The lease term began:	And the vehicle's FMV on the first day of the lease exceeded:
<b>Cars (excluding trucks and vans)</b>	
After 12/31/12 but before 1/1/16 . . . . .	\$19,000
After 12/31/07 but before 1/1/13 . . . . .	\$18,500
<b>Trucks and Vans</b>	
After 12/31/13 but before 1/1/16 . . . . .	\$19,500
After 12/31/09 but before 1/1/14 . . . . .	\$19,000
After 12/31/08 but before 1/1/10 . . . . .	\$18,500
After 12/31/07 but before 1/1/09 . . . . .	\$19,000

See Pub. 463, *Travel, Entertainment, Gift, and Car Expenses*, for instructions on figuring the inclusion amount. The inclusion amount for lease terms beginning in 2016 will be published in the *Internal Revenue Bulletin* in early 2016.

### Line 12. Taxes and Licenses

Enter taxes and licenses paid or incurred in the trade or business activities of the corporation, unless they are reflected elsewhere on the return. 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.

Don't deduct the following taxes on line 12.

- Federal income taxes (except for the portion of built-in gains tax allocable to ordinary income), or taxes reported elsewhere on the return.
- Section 901 foreign taxes. Report these taxes on line 14I of Schedule K and in box 14 of Schedule K-1 using codes L and M.

- Taxes allocable to a rental activity. Report taxes allocable to a rental real estate activity on Form 8825. Report taxes allocable to a rental activity other than a rental real estate activity on line 3b of Schedule K.
- Taxes allocable to portfolio income. Report these taxes on line 12d of Schedule K and in box 12 of Schedule K-1 using code K.
- Taxes paid or incurred for the production or collection of income, or for the management, conservation, or maintenance of property held to produce income. Report these taxes separately on line 12d of Schedule K and in box 12 of Schedule K-1 using code S.

See section 263A(a) for rules on capitalization of allocable costs (including taxes) for any property.

- Taxes not imposed on the corporation.
- Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (these 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).
- Taxes assessed against local benefits that increase the value of the property assessed (such as for paving, etc.).

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

### Line 13. Interest

Include only interest incurred in the trade or business activities of the corporation that isn't claimed elsewhere on the return.

- Don't include interest expense:
  - On debt used to purchase rental property or debt used in a rental activity. Interest allocable to a rental real estate activity is reported on Form 8825 and is used in arriving at net income (loss) from rental real estate activities on line 2 of Schedule K and in box 2 of Schedule K-1. Interest allocable to a rental activity other than a rental real estate activity is included on line 3b of Schedule K and is used in arriving at net income (loss) from a rental activity (other than a rental real estate activity). This net amount is reported on line 3c of Schedule K and in box 3 of Schedule K-1.
  - On debt used to buy property held for investment. Interest that is clearly and directly allocable to interest, dividend,



royalty, or annuity income not derived in the ordinary course of a trade or business is reported on line 12b of Schedule K and in box 12 of Schedule K-1 using code H. See the instructions for line 12b of Schedule K, for box 12, code H of Schedule K-1, and Form 4952, Investment Interest Expense Deduction, for more information on investment property.

- On debt proceeds allocated to distributions made to shareholders during the tax year. Instead, report such interest on line 12d of Schedule K and in box 12 of Schedule K-1 using code S. To determine the amount to allocate to distributions to shareholders, see Notice 89-35, 1989-1 C.B. 675.
- On debt required to be allocated to the production of designated property. Designated property includes real property, personal property that has a class life of 20 years or more, and other tangible property requiring more than 2 years (1 year in the case of property with a cost of more than \$1 million) to produce or construct. Interest allocable to designated property produced by a corporation for its own use or for sale must be capitalized. In addition, a corporation must also capitalize any interest on debt allocable to an asset used to produce designated property. A shareholder may have to capitalize interest that the shareholder incurs during the tax year for the S corporation's production expenditures. Similarly, interest incurred by an S corporation may have to be capitalized by a shareholder for the shareholder's own production expenditures. The information required by the shareholder to properly capitalize interest for this purpose must be provided by the corporation on an attachment for box 17 of Schedule K-1 using code P. See section 263A(f) and Regulations sections 1.263A-8 through 1.263A-15.

Special rules apply to:

- Allocating interest expense among activities so that the limitations on passive activity losses, investment interest, and personal interest 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. Temporary Regulations section 1.163-8T gives rules for tracing debt proceeds to expenditures.
- Prepaid interest, which generally can only be deducted over the term of the debt. See Regulations sections 1.163-7, 1.446-2, and 1.1273-2(g) for details. See also section 461(g).

- Interest which is allocable to unborrowed policy cash values of life insurance, endowment, or annuity contracts issued after June 8, 1997. See section 264(f). Attach a statement showing the computation of the deduction.

#### Line 14. Depreciation

Enter the depreciation claimed on assets used in a trade or business activity less any depreciation reported elsewhere (for example, on Form 1125-A). See the Instructions for Form 4562 or Pub. 946, How To Depreciate Property, to figure the amount of depreciation to enter on this line.

Complete and attach Form 4562 only if the corporation placed property in service during the tax year or claims depreciation on any car or other listed property.

Don't include any section 179 expense deduction on this line. This amount isn't deducted by the corporation. Instead, it is passed through to the shareholders in box 11 of Schedule K-1. However, reduce the basis of any asset of the S corporation by the amount of section 179 expense elected by the S corporation, even if a portion of that amount can't be passed through to its shareholders this year and must be carried forward because of limitations at the S corporation level. See Regulations section 1.179-1(f)(2).

#### Line 15. Depletion

If the corporation claims a deduction for timber depletion, complete and attach Form T (Timber), Forest Activities Schedule.



*Don't deduct depletion for oil and gas properties. Each shareholder figures depletion on oil and gas properties. See the instructions for Schedule K-1, box 17, code R, for the information on oil and gas depletion that must be supplied to the shareholders by the corporation.*

#### Line 17. Pension, Profit-Sharing, etc., Plans

Enter the deductible contributions not claimed elsewhere on the return made by the corporation for its employees under a qualified pension, profit-sharing, annuity, or simplified employee pension (SEP) or SIMPLE IRA plan, or any other deferred compensation plan.

If the corporation contributes to an individual retirement arrangement (IRA) for employees, include the contribution in salaries and wages on page 1, line 8,

or Form 1125-A, line 3, and not on line 17.

Employers who maintain a pension, profit-sharing, or other funded deferred compensation plan, whether or not the plan is qualified under the Internal Revenue Code and whether or not a deduction is claimed for the current tax year, generally must file the applicable form listed below.

- Form 5500, Annual Return/Report of Employee Benefit Plan.
- Form 5500-SF, Short Form Annual Return/Report of Small Employee Benefit Plan (generally filed instead of Form 5500 if there are under 100 participants at the beginning of the plan year).
- Form 5500-EZ, Annual Return of One-Participant (Owners and Their Spouses) Retirement Plan. File this form for a plan that only covers the owner (or the owner and his or her spouse) but only if the owner (or the owner and his or her spouse) owns the entire business.



*Form 5500 and Form 5500-SF must be filed electronically under the computerized ERISA Filing Acceptance System (EFAST2). For more information, see the EFAST2 website at [www.efast.dol.gov](http://www.efast.dol.gov).*

There are penalties for not filing these forms on time and for overstating the pension plan deduction. See sections 6652(e) and 6662(f).

#### Line 18. Employee Benefit Programs

Enter amounts for fringe benefits paid or incurred on behalf of employees owning 2% or less of the corporation's stock. These fringe benefits include (a) employer contributions to certain accident and health plans, (b) the cost of up to \$50,000 of group-term life insurance on an employee's life, and (c) meals and lodging furnished for the employer's convenience.

Don't deduct amounts that are an incidental part of a pension, profit-sharing, etc., plan included on line 17 or amounts reported elsewhere on the return or on Form 1125-A.

Report amounts for fringe benefits paid on behalf of employees owning more than 2% of the corporate stock on line 7 or 8 (or Form 1125-E), whichever applies. An employee is considered to own more than 2% of the corporation's stock if that person owns on any day during the tax year more than 2% of the outstanding stock of the corporation or

stock possessing more than 2% of the combined voting power of all stock of the corporation. See section 318 for attribution rules.

## Line 19. Other Deductions

Enter the total allowable trade or business deductions that aren't deductible elsewhere on page 1 of Form 1120S. Attach a statement listing by type and amount each deduction included on this line.

Examples of other deductions include the following.

- Amortization. See Part VI of Form 4562.
- Certain business start-up and organizational costs (discussed earlier).
- Insurance premiums.
- Legal and professional fees.
- Supplies used and consumed in the business.
- Travel, meal, and entertainment expenses. Special rules apply (discussed later).
- Utilities.
- Deduction for certain costs of energy efficient commercial building property placed in service during the tax year. See section 179D, Notice 2006-52, 2006-26 I.R.B. 1175, as clarified and amplified by Notice 2008-40, 2008-14 I.R.B. 725, as modified by Notice 2012-26, 2012-17 I.R.B. 847.
- Any net negative section 481(a) adjustment.

Don't deduct the following on line 19.

- Items that must be reported separately on Schedules K and K-1.
- Fines or penalties paid to a government for violating any law. Report these expenses on Schedule K, line 16c.
- Expenses allocable to tax-exempt income. Report these expenses on Schedule K, line 16c.

## Special Rules

### Commercial revitalization deduction.

If the corporation qualified for a commercial revitalization deduction for a building constructed, purchased, or substantially rehabilitated in a renewal community and placed in service before 2010, and it elected to amortize qualified capital expenditures, include any current year amortization deduction for a nonrental building on line 19. Include any current year amortization deduction for a rental real estate activity on Schedule K, line 12d. See section 1400I for details.



*The commercial revitalization deduction isn't available for buildings placed in service after 2009.*

### Travel, meals, and entertainment.

Subject to limitations and restrictions discussed below, a corporation can deduct ordinary and necessary travel, meals, and entertainment expenses paid or incurred in its trade or business. Also, special rules apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets. See section 274 and Pub. 463 for details.

**Travel.** The corporation can't deduct travel expenses of any individual accompanying a corporate officer or employee, including a spouse or dependent of the officer or employee, unless:

- That individual is an employee of the corporation, and
- His or her travel is for a bona fide business purpose and would otherwise be deductible by that individual.

### Meals and entertainment.

Generally, the corporation can deduct only 50% of the amount otherwise allowable for meals and entertainment expenses paid or incurred in its trade or business. In addition (subject to exceptions under section 274(k)(2)):

- Meals must not be lavish or extravagant;
- A bona fide business discussion must occur during, immediately before, or immediately after the meal; and
- An employee of the corporation must be present at the meal.

See section 274(n)(3) for a special rule that applies to expenses for meals consumed by individuals subject to the hours of service limits of the Department of Transportation.

**Membership dues.** The corporation can generally deduct amounts paid or incurred for membership dues in civic or public service organizations, professional organizations (such as bar and medical associations), business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards. However, no deduction is allowed if a principal purpose of the organization is to entertain, or provide entertainment facilities for members or their guests. In addition, corporations can't deduct membership dues in any club organized for business, pleasure, recreation, or other social purpose. This includes country clubs, golf and athletic clubs, airline and hotel clubs, and clubs

operated to provide meals under conditions favorable to business discussion.

**Entertainment facilities.** The corporation can't deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) used for an activity usually considered entertainment, amusement, or recreation.

**Amounts treated as compensation.** The corporation may be able to deduct otherwise nondeductible entertainment, amusement, or recreation expenses if the amounts are treated as compensation to the recipient and reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.

However, if the recipient is an officer, director, or beneficial owner (directly or indirectly) of more than 10% of the corporation's stock, the deductible expense is limited. See section 274(e)(2) and Regulations sections 1.274-9 and 1.274-10.

**Lobbying expenses.** Generally, lobbying expenses aren't deductible. Report nondeductible expenses on Schedule K, line 16c. These expenses include:

- Amounts paid or incurred in connection with influencing federal or state legislation (but not local legislation), or
- Amounts paid or incurred in connection with any communication with certain federal executive branch officials in an attempt to influence the official actions or positions of the officials. See Regulations section 1.162-29 for the definition of "influencing legislation."

Dues and other similar amounts paid to certain tax-exempt organizations may not be deductible. See section 162(e)(3). If certain in-house lobbying expenditures don't exceed \$2,000, they are deductible. For information on contributions to charitable organizations that conduct lobbying activities, see section 170(f)(9).

**Certain corporations engaged in farming.** Section 464(f) limits the deduction for certain expenditures of S corporations engaged in farming if they use the cash method of accounting, and their prepaid farm supplies are more than 50% of other deductible farming expenses.

Prepaid farm supplies include expenses for feed, seed, fertilizer, and

similar farm supplies not used or consumed during the year. They also include the cost of poultry that would be allowable as a deduction in a later tax year if the corporation were to (a) capitalize the cost of poultry bought for use in its farm business and deduct it ratably over the lesser of 12 months or the useful life of the poultry and (b) deduct the cost of poultry bought for resale in the year it sells or otherwise disposes of it.

If the limit applies, the corporation can deduct prepaid farm supplies that don't exceed 50% of its other deductible farm expenses in the year of payment. The excess is deductible only in the year the corporation uses or consumes the supplies (other than poultry, which is deductible as explained above). For exceptions and more details on these rules, see Pub. 225.

**Reforestation expenditures.** If the corporation made an election to deduct a portion of its reforestation expenditures on line 12d of Schedule K, it must amortize over an 84-month period the portion of these expenditures in excess of the amount deducted on Schedule K (see section 194). Deduct on line 19 only the amortization of these excess reforestation expenditures. See [Reforestation expense deduction \(code O\)](#), later.

## Line 21. Ordinary Business Income (Loss)

Enter this income or loss on line 1 of Schedule K. Line 21 income is **not** used in figuring the excess net passive income or built-in gains taxes. See the instructions for line 22a for figuring taxable income for purposes of these taxes.

## Tax and Payments

### Line 22a. Excess Net Passive Income and LIFO Recapture Tax

These taxes can apply if the corporation was previously a C corporation or if the corporation engaged in a tax-free reorganization with a C corporation.

**Excess net passive income tax.** If the corporation has accumulated earnings and profits (E&P) at the close of its tax year, has passive investment income for the tax year that is in excess of 25% of gross receipts, and has excess net passive income, the corporation must pay a tax on the excess net passive income. To make this determination, complete lines 1 through 3 and line 9 of the Excess Net Passive Income Tax Worksheet for Line 22a. If line 2 is greater than line 3 and the corporation has taxable income (see the instructions for line 9 of the worksheet), it must pay the tax. Complete a separate statement using the format of lines 1 through 11 of the worksheet to figure the tax. Enter the tax

on line 22a, page 1, Form 1120S, and attach the computation statement to Form 1120S.

Reduce each item of passive investment income passed through to shareholders by its portion of any excess net passive income tax reported on line 22a. See section 1366(f)(3).


**LIFO recapture tax.** The corporation may be liable for the additional tax due to LIFO recapture under Regulations section 1.1363-2 if:

- The corporation used the LIFO inventory pricing method for its last tax year as a C corporation, or
- A C corporation transferred LIFO inventory to the corporation in a nonrecognition transaction in which those assets were transferred basis property.

The additional tax due to LIFO recapture is figured for the corporation's last tax year as a C corporation or for the tax year of the transfer, whichever applies. See the Instructions for Form 1120 to figure the tax.

The tax is paid in four equal installments. The C corporation must pay the first installment by the due date (not including extensions) of Form 1120 for the corporation's last tax year as a C corporation or for the tax year of the transfer, whichever applies. The S corporation must pay each of the remaining installments by the due date (not including extensions) of Form 1120S for the 3 succeeding tax years. Include this year's installment in the total

## Excess Net Passive Income Tax Worksheet for Line 22a

Keep for Your Records 

<p>1. Enter gross receipts for the tax year (see section 1362(d)(3)(B) for gross receipts from the sale of capital assets)* .....</p>	<p>4. Excess passive investment income—Subtract line 3 from line 2 .....</p>	<p>8. Excess net passive income—Multiply line 6 by line 7 .....</p>
<p>2. Enter passive investment income as defined in section 1362(d)(3)(C)* .....</p>	<p>5. Enter deductions directly connected with the production of income on line 2 (see section 1375(b)(2))* .....</p>	<p>9. Enter taxable income (see instructions for taxable income below) .....</p>
<p>3. Multiply line 1 by 25% (0.25). (If line 2 is less than line 3, stop here. You aren't liable for this tax.) .....</p>	<p>6. Net passive income—Subtract line 5 from line 2 .....</p>	<p>10. Enter smaller of line 8 or line 9 .....</p>
	<p>7. Divide amount on line 4 by amount on line 2 .....</p>	<p>11. Excess net passive income tax—Multiply line 10 by 35% (0.35). Enter here and on Form 1120S, line 22a .....</p>

\*Income and deductions 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 imported separately on Schedule K. See section 1375(b)(4) for an exception regarding lines 2 and 5.

### Line 9 of Worksheet—Taxable Income

Taxable income, for this purpose, is defined in Regulations section 1.1374-1A(d)(1). 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 don't 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.



amount to be entered on line 22a. To the left of the total on line 22a, enter the installment amount and "LIFO tax."

### Line 22b. Tax From Schedule D (Form 1120S)

Enter the built-in gains tax from line 23 of Part III of Schedule D. See the instructions for Part III of Schedule D to determine if the corporation is liable for the tax.

### Line 22c

Include the following in the total for line 22c.

**Investment credit recapture tax.** The corporation is liable for any required investment credit recapture attributable to credits allowed for tax years for which the corporation wasn't an S corporation. The corporation is also liable for any required qualifying therapeutic discovery project grant recapture. Figure the corporation's investment credit recapture tax and qualifying therapeutic discovery project grant recapture tax by completing Form 4255, Recapture of Investment Credit.

To the left of the line 22c total, enter the amount of recapture tax and "Tax From Form 4255." Attach Form 4255 to Form 1120S.

**Interest due under the look-back method for completed long-term contracts.** If the corporation owes this interest, attach Form 8697, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts. To the left of the total on line 22c, enter the amount owed and "From Form 8697."

**Interest due under the look-back method for property depreciated under the income forecast method.** If the corporation owes this interest, attach Form 8866, Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method. To the left of the total on line 22c, enter the amount owed and "From Form 8866."

### Line 23d

If the 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 payment in the total for line 23d. Enter "T" and the amount on the dotted line to the left of the entry space.

### Line 24. Estimated Tax Penalty

If Form 2220 is attached, check the box on line 24 and enter the amount of any penalty on this line.

### Line 25. Amount Owed

If the corporation can't pay the full amount of tax owed, it can apply for an installment agreement online. The corporation can apply for an installment agreement online if:

- It can't pay the full amount shown on line 25,
- The total amount owed is \$25,000 or less, and
- The corporation can pay the liability in full in 24 months.

To apply using the Online Payment Agreement Application, go to [IRS.gov](http://IRS.gov) and click on "Tools" and then click on "Online Payment Agreement."

Under an installment agreement, the corporation can pay what it owes in monthly installments. There are certain conditions that must be met to enter into and maintain an installment agreement, such as paying the liability within 24 months and making all required deposits and timely filing tax returns during the length of the agreement.

If the installment agreement is accepted, the corporation will be charged a fee and it will be subject to penalties and interest on the amount of tax not paid by the due date of the return.

### Line 27

**Direct deposit of refund.** If the corporation wants its refund directly deposited into its checking or savings account at any U.S. bank or other financial institution instead of having a check sent to the corporation, complete Form 8050 and attach it to the corporation's return. However, the corporation can't have its refund from an amended return directly deposited.

---

## Schedule B. Other Information

Complete all items that apply to the corporation.

### Item 2

See [Principal Business Activity Codes](#) at the end of these instructions and enter the business activity and product or service.

### Question 4. Constructive Ownership of Other Entities

For purposes of determining the corporation's constructive ownership of

other entities, the constructive ownership rules of section 267(c) (excluding section 267(c)(3)) apply to ownership of interests in partnerships and trusts as well as corporate stock. Generally, if an entity (a corporation, partnership, or trust) is owned, directly or indirectly, by or for another entity (corporation, partnership, estate, or trust), the owned entity is considered to be owned proportionately by or for the owners (shareholders, partners, or beneficiaries) of the owning entity.

**Maximum percentage owned in partnership profit, loss, or capital.** For the purposes of question 4b, the term "maximum percentage owned" means the highest percentage of interest in a partnership's profit, loss, or capital as of the end of the partnership's tax year, as determined under the partnership agreement, when taking into account the constructive ownership rules earlier. If the partnership agreement doesn't express the partner's share of profit, loss, and capital as fixed percentages, use a reasonable method in arriving at the percentage items for the purposes of completing question 4b. Such method must be consistent with the partnership agreement. The method used to figure a percentage share of profit, loss, and capital must be applied consistently from year to year. Maintain records to support the determination of the share of profits, losses, and share of capital.

### Question 6

Answer "Yes" if the corporation filed, or is required to file, Form 8918, Material Advisor Disclosure Statement. For details, see the Instructions for Form 8918.

### Item 8

Complete item 8 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 below) in excess of the net recognized built-in gain from prior years.

The corporation is liable for section 1374 tax if (a) and (b) above apply and it has a net recognized built-in gain (defined in section 1374(d)(2)) for its tax year.

The corporation's net unrealized built-in gain is the amount, if any, by which the fair market value of the assets of the corporation at the beginning of its first S corporation year (or as of the date

the assets were acquired, for any asset with a basis determined by reference to its basis (or the basis of any other property) in the hands of a C corporation) exceeds the aggregate adjusted basis of such assets at that time.

Enter the corporation's net unrealized built-in gain reduced by the net recognized built-in gain from prior years. See sections 1374(c)(2) and (d)(1).

If the corporation has more than one pool of assets (as defined in Regulations section 1.1374-3(b)(4)), attach a statement showing for each pool of assets the amount of the corporation's net unrealized built-in gain reduced by the net recognized built-in gain from prior years.

### Item 9

If the corporation was a C corporation in a prior year, or if it engaged in a tax-free reorganization with a C corporation, enter the amount of any accumulated earnings and profits (E&P) at the close of its 2015 tax year. For details on figuring accumulated E&P, see section 312. Estimates based on retained earnings at the end of the tax year are acceptable. If the corporation has accumulated E&P, it may be liable for tax imposed on excess net passive income. See [Excess net passive income tax](#), earlier, for details on this tax.

### Question 10

Total receipts is the sum of the following amounts.

- Gross receipts or sales (page 1, line 1a).
- All other income (page 1, lines 4 and 5).
- Income reported on Schedule K, lines 3a, 4, 5a, and 6.
- Income or net gain reported on Schedule K, lines 7, 8a, 9, and 10.
- Income or net gain reported on Form 8825, lines 2, 19, and 20a.

### Question 12

Answer "Yes" if, during the tax year, the corporation revoked a qualified subchapter S (QSub) election or a QSub election of the corporation was terminated. If "Yes," see Regulations section 1.1361-5 for additional information.

### Questions 13a and 13b

If the corporation made any payment in 2015 that would require it to file any Form(s) 1099, check the "Yes" box for question 13a and answer question 13b. Otherwise, check the "No" box for

question 13a and skip question 13b. See [Am I Required to File a Form 1099 or Other Information Return?](#)

## Schedules K and K-1 (General Instructions)

### Purpose of Schedules

The corporation is liable for taxes on lines 22a, 22b, and 22c, on page 1 of Form 1120S. Shareholders are liable for tax on their shares of the corporation's income (reduced by any taxes paid by the corporation on income). Shareholders must include their share of the income on their tax return whether or not it is distributed to them. Unlike most partnership income, S corporation income isn't self-employment income and isn't subject to self-employment tax.

**Schedule K.** Schedule K is a summary schedule of all shareholders' shares of the corporation's income, deductions, credits, etc. All corporations must complete Schedule K.

**Schedule K-1.** Schedule K-1 shows each shareholder's separate share. Attach a copy of each Schedule K-1 to the Form 1120S filed with the IRS. Keep a copy for the corporation's records and give each shareholder a copy.

Give each shareholder a copy of the Shareholder's Instructions for Schedule K-1 (Form 1120S) or specific instructions for each item reported on the shareholder's Schedule K-1.

### Substitute Forms

The corporation doesn't need IRS approval to use a substitute Schedule K-1 if it is an exact copy of the IRS schedule. The boxes must use the same numbers and titles and must be in the same order and format as on the comparable IRS Schedule K-1. The substitute schedule must include the OMB number. The corporation must provide each shareholder with the Shareholder's Instructions for Schedule K-1 (Form 1120S) or instructions that apply to the specific items reported on the shareholder's Schedule K-1.

The corporation must ask for IRS approval to use other substitute Schedules K-1.

Each shareholder's information must be on a separate sheet of paper. Therefore, separate all continuously printed substitutes before you file them with the IRS.

The corporation may be subject to a penalty if it files a substitute

Schedule K-1 that doesn't conform to the specifications discussed in Pub. 1167, General Rules and Specifications for Substitute Forms and Schedules.

For more information, see Pub. 1167.

## Shareholder's Pro Rata Share Items

### General Rule

Items of income, gain, loss, deduction, or credit are allocated to a shareholder on a daily basis, according to the number of shares of stock held by the shareholder on each day of the corporation's tax year. See the detailed instructions for item F in [Part II, Information About the Shareholder](#), later.

Shareholders who dispose of stock are treated as shareholders for the day of their disposition. Shareholders who die are treated as shareholders for the day of their death.

### Special Rules

**Termination of shareholder's interest.** If a shareholder terminates his or her interest in a corporation during the tax year, the corporation, with the consent of all affected shareholders (including those whose interest is terminated), may elect to allocate income and expenses, etc., as if the corporation's tax year consisted of 2 separate tax years, the first of which ends on the date of the shareholder's termination.

To make the election, the corporation must attach a statement to a timely filed original or amended Form 1120S for the tax year for which the election is made. In the statement, the corporation must state that it is electing under section 1377(a)(2) and Regulations section 1.1377-1(b) to treat the tax year as if it consisted of 2 separate tax years. The statement must also explain how the shareholder's entire interest was terminated (for example, sale or gift), and state that the corporation and each affected shareholder consent to the corporation making the election. A single statement may be filed for all terminating elections made for the tax year. If the election is made, enter "Section 1377(a)(2) Election Made" at the top of each affected shareholder's Schedule K-1.

For more details, see Regulations section 1.1377-1(b).

**Qualifying dispositions.** If a qualifying disposition takes place during the tax year, the corporation may make an

irrevocable election 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 close of the day the qualifying disposition occurs.

A qualifying disposition is:

1. A disposition by a shareholder of at least 20% of the corporation's outstanding stock in one or more transactions in any 30-day period during the tax year,
2. A redemption treated as an exchange under section 302(a) or 303(a) of at least 20% of the corporation's outstanding stock in one or more transactions in any 30-day period during the tax year, or
3. An issuance of stock that equals at least 25% of the previously outstanding stock to one or more new shareholders in any 30-day period during the tax year.

To make the election, the corporation must attach a statement to a timely filed original or amended Form 1120S for the tax year for which the election is made. In the statement, the corporation must state that it is electing under Regulations section 1.1368-1(g)(2)(i) to treat the tax year as if it consisted of two separate tax years, give the facts relating to the qualifying disposition (for example, sale, gift, stock issuance, or redemption), and state that each shareholder who held stock in the corporation during the tax year consents to the election. A single election statement may be filed for all qualifying disposition elections for the tax year.

For more details, see Regulations section 1.1368-1(g)(2).

---

## Specific Instructions (Schedule K-1 Only)

### General Information

Generally, the corporation is required to prepare and give a Schedule K-1 to each person who was a shareholder in the corporation at any time during the tax year. Schedule K-1 must be provided to each shareholder on or before the day on which the corporation's Form 1120S is required to be filed.

### How To Complete Schedule K-1

If the return is for a fiscal year or a short tax year, fill in the tax year space at the top of each Schedule K-1. On each Schedule K-1, enter the information about the corporation and the

shareholder in Parts I and II (items A through F). In Part III, enter the shareholder's pro rata share of each item of income, deduction, and credit and any other information the shareholder needs to prepare his or her tax return. Use 10-point Courier font (if possible) for all entries if you are typing or using a computer to complete Schedule K-1.

**Codes.** In box 10 and boxes 12 through 17, identify each item by entering a code in the left column of the entry space. These codes are identified in these instructions and on the back of Schedule K-1.

**Attached statements.** Enter an asterisk (\*) after the code, if any, in the left column of the entry space for each item for which you have attached a statement providing additional information. For items that can't be reported as a single dollar amount, enter the code and asterisk in the left column and enter "STMT" in the right column to indicate that the information is provided on an attached statement. More than one attached statement can be placed on the same sheet of paper and should be identified in alphanumeric order by box number followed by the letter code (if any). For example: "Box 17, code R—Depletion information—oil and gas" (followed by the information the shareholder needs).

**Too few entry spaces on Schedule K-1?** If the corporation has more coded items than the number of entry spaces in box 10, or boxes 12 through 17, don't enter a code or dollar amount in the last entry space of the box. In the last entry space, enter an asterisk in the left column and enter "STMT" in the entry space to the right. Report the additional items on an attached statement and provide the box number, the code, description, and dollar amount or information for each additional item. For example: "Box 13, code J—Work opportunity credit—\$1,000."

### Special Reporting Requirements for Corporations With Multiple Activities

If items of income, loss, deduction, or credit from more than one activity (determined for purposes of the passive activity loss and credit limitations) are reported on Schedule K-1, the corporation must provide information separately for each activity to its shareholders. See [Passive Activity Reporting Requirements](#), earlier, for details on the reporting requirements.

### Special Reporting Requirements for At-Risk Activities

If the corporation is involved in one or more at-risk activities for which a loss is reported on Schedule K-1, the corporation must report information separately for each activity. See section 465(c) for a definition of activities.

The following information must be provided on an attachment to Schedule K-1 for each activity.

- A statement that the information is a breakdown of at-risk activity loss amounts.
- The identity of the at-risk activity, the loss amount for the activity, other income and deductions, and any other information that relates to the activity.

### Part I. Information About the Corporation

On each Schedule K-1, enter the corporation's name, address, and identifying number.

### Item C

If the corporation is filing its return electronically, enter "e-file." Otherwise, enter the name of the IRS service center where the corporation will file its return. See [Where To File](#), earlier.

### Part II. Information About the Shareholder

On each Schedule K-1, enter the shareholder's name, address, identifying number, and percentage of stock ownership.

**Truncating recipient's identification number on Schedule K-1.** The corporation can truncate a shareholder's identifying number on the Schedule K-1 the corporation sends to the shareholder. Truncation isn't allowed on the Schedule K-1 the corporation files with the IRS. Also, the corporation can't truncate its own identification number on any form.

To truncate, where allowed, replace the first five digits of the nine-digit number with asterisks (\*) or Xs (for example, an SSN xxx-xx-xxxx would appear as \*\*\*-\*\*-xxxx or XXX-XX-xxxx). For more information, see Regulations section 301.6109-4.

### Items D and E

For an individual shareholder, enter the shareholder's social security number (SSN) or individual taxpayer identification number (ITIN) in item D. For all other shareholders, enter the shareholder's EIN.



If stock of the corporation is held by a nominee, guardian, custodian, or an agent, enter the name, address, and identifying number of the person for whom the stock is held.

If a single-member limited liability company (LLC) owns stock in the corporation, and the LLC is treated as a disregarded entity for federal income tax purposes, enter the owner's identifying number in item D and the owner's name and address in item E. The owner must be eligible to be an S corporation shareholder. An LLC that elects to be treated as a corporation for federal income tax purposes isn't eligible to be an S corporation shareholder.

### Item F

Each shareholder's pro rata share items are figured separately for each period on a daily basis, based on the percentage of stock held by the shareholder on each day.

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 F for each shareholder. Each shareholder's pro rata share items (boxes 1 through 17 of Schedule K-1) are figured by multiplying the corresponding Schedule K amount by the percentage in item F.

If there was a change in shareholders or in the relative interest in stock the shareholders owned during the tax year, figure the percentage as follows.

- 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 presented in the illustration and is then entered in item F.

	a	b	c (a × b)	
	% of total stock owned	% of tax year held	% of ownership for the year	
A	50	50	25	45
	40	50	+20	
B	50	50	25	45
	40	50	+20	
C	20	50	10	10
Total				100%

- Each shareholder's pro rata share items generally are figured by multiplying the Schedule K amount by the percentage in item F. However, if a shareholder terminated his or her entire interest in the corporation during the year or a qualifying disposition took place, the corporation may elect to allocate income and expenses, etc., as if the tax year consisted of 2 tax years, the first of which ends on the day of the termination or qualifying disposition. See [Special Rules](#), earlier, for more details.

## Specific Instructions (Schedules K and K-1, Part III)

### Income (Loss)

**Reminder.** Before entering income items on Schedule K or K-1, reduce each item of passive investment income (within the meaning of section 1362(d)(3)(C)) by its proportionate share of the net passive income tax (Form 1120S, page 1, line 22a).

### Line 1. Ordinary Business Income (Loss)

Enter the amount from Form 1120S, page 1, line 21. Enter the income (loss) without reference to the shareholder's:

- Basis in the stock of the corporation and in any indebtedness of the corporation to the shareholders (section 1366(d)),
- At-risk limitations, and
- Passive activity limitations.

These limitations, if applicable, are determined at the shareholder level.

Line 1 shouldn't include rental activity income (loss) or portfolio income (loss).

**Schedule K-1.** Enter each shareholder's pro rata share of ordinary business income (loss) in box 1 of Schedule K-1. Identify on statements attached to Schedule K-1 any additional

information the shareholder needs to correctly apply the passive activity limitations. For example, if the corporation has more than one trade or business activity, identify the amount from each activity. See [Passive Activity Reporting Requirements](#), earlier.

### Line 2. Net Rental Real Estate Income (Loss)

Enter the net income (loss) from rental real estate activities of the corporation from Form 8825. Attach the form to Form 1120S.

**Schedule K-1.** Enter each shareholder's pro rata share of net rental real estate income (loss) in box 2 of Schedule K-1. Identify on statements attached to Schedule K-1 any additional information the shareholder needs to correctly apply the passive activity limitations. For example, if the corporation has more than one rental real estate activity, identify the amount from each activity. Also, for example, identify certain items from any rental real estate activities that may be subject to the recharacterization rules. See [Passive Activity Reporting Requirements](#), earlier.

### Line 3. Other Net Rental Income (Loss)

Enter on line 3a gross income from rental activities other than those reported on Form 8825. Include on line 3a gain (loss) from line 17 of Form 4797 that is attributable to the sale, exchange, or involuntary conversion of an asset used in a rental activity other than a rental real estate activity.

Enter on line 3b the deductible expenses of the activity. Attach a statement of these expenses to Form 1120S.

Enter on line 3c the net income (loss).

See [Rental Activities](#), earlier, and Pub. 925, *Passive Activity and At-Risk Rules*, for more information on rental activities.

**Schedule K-1.** Enter in box 3 of Schedule K-1 each shareholder's pro rata share of other net rental income (loss) reported on line 3c of Schedule K. Identify on statements attached to Schedule K-1 any additional information the shareholder needs to correctly apply the passive activity limitations. For example, if the corporation has more than one rental activity reported in

box 3, identify the amount from each activity. See [Passive Activity Reporting Requirements](#), earlier.

## Portfolio Income

See [Portfolio Income](#), earlier, for a definition of portfolio income.

Don't reduce portfolio income by deductions allocated to it. Report such deductions (other than interest expense) on line 12d of Schedule K. Report each shareholder's pro rata share of deductions in box 12 of Schedule K-1 using codes I, K, and L.

Interest expense allocable to portfolio income is generally investment interest expense reported on line 12b of Schedule K. Report each shareholder's pro rata share of interest expense allocable to portfolio income in box 12 of Schedule K-1 using code H.

## Line 4. Interest Income

Enter only taxable portfolio interest on this line. Taxable interest is interest from all sources except interest exempt from tax and interest on tax-free covenant bonds.

**Schedule K-1.** Enter each shareholder's pro rata share of interest income in box 4 of Schedule K-1.

## Line 5a. Ordinary Dividends

Enter only taxable ordinary dividends on line 5a, including any qualified dividends reported on line 5b.

**Schedule K-1.** Enter each shareholder's pro rata share of ordinary dividends in box 5a of Schedule K-1.

## Line 5b. Qualified Dividends

Enter qualified dividends on line 5b. Except as provided below, qualified dividends are dividends received from domestic corporations and qualified foreign corporations.

**Exceptions.** The following dividends aren't qualified dividends.

- Dividends the corporation received on any share of stock held for less than 61 days during the 121-day period that began 60 days before the ex-dividend date. When determining the number of days the corporation held the stock, don't count certain days during which the corporation's risk of loss was diminished. The ex-dividend date is the first date following the declaration of a dividend on which the purchaser of a stock isn't entitled to receive the next dividend payment. When counting the

number of days the corporation held the stock, include the day the corporation disposed of the stock but not the day the corporation acquired it.

- Dividends attributable to periods totaling more than 366 days that the corporation received on any share of preferred stock held for less than 91 days during the 181-day period that began 90 days before the ex-dividend date. When determining the number of days the corporation held the stock, don't count certain days during which the corporation's risk of loss was diminished. Preferred dividends attributable to periods totaling less than 367 days are subject to the 61-day holding period rule above.
- Dividends that relate to payments that the corporation is obligated to make with respect to short sales or positions in substantially similar or related property.
- Dividends paid by a regulated investment company that aren't treated as qualified dividend income under section 854.
- Dividends paid by a real estate investment trust that aren't treated as qualified dividend income under section 857(c).

See Pub. 550, Investment Income and Expenses, for more details.

**Qualified foreign corporation.** A foreign corporation is a qualified foreign corporation if it is:

1. Incorporated in a possession of the United States, or
2. Eligible for benefits of a comprehensive income tax treaty with the United States that the Secretary determines is satisfactory for this purpose and that includes an exchange of information program. See Notice 2011-64, 2011-37 I.R.B. 231, for details.

If the foreign corporation doesn't meet either (1) or (2), then it may be treated as a qualified foreign corporation for any dividend paid by the corporation if the stock associated with the dividend paid is readily tradable on an established securities market in the United States.

However, qualified dividends don't include dividends paid by an entity which was a passive foreign investment company (defined in section 1297) in either the tax year of the distribution or the preceding tax year.

See Notice 2004-71, 2004-45 I.R.B. 793, and Notice 2006-3, 2006-3 I.R.B. 306, for more details.

**Schedule K-1.** Enter each shareholder's pro rata share of qualified dividends in box 5b of Schedule K-1.



*If any amounts from line 5b are from foreign sources, see the instructions for lines 14d through 14f for additional statements required.*

## Line 6. Royalties

Enter the royalties received by the corporation.

**Schedule K-1.** Enter each shareholder's pro rata share of royalties in box 6 of Schedule K-1.

## Line 7. Net Short-Term Capital Gain (Loss)

Enter the gain (loss) that is portfolio income (loss) from Schedule D (Form 1120S), line 7.

**Schedule K-1.** Enter each shareholder's pro rata share of net short-term capital gain (loss) in box 7 of Schedule K-1.

## Line 8a. Net Long-Term Capital Gain (Loss)

Enter the gain or loss that is portfolio income (loss) from Schedule D (Form 1120S), line 15.

**Schedule K-1.** Enter each shareholder's pro rata share of net long-term capital gain (loss) in box 8a of Schedule K-1.



*If any gain or loss from line 7 or 15 of Schedule D is from the disposition of nondepreciable personal property used in a trade or business, it may not be treated as portfolio income. Instead, report it on line 10 of Schedule K and report each shareholder's pro rata share in box 10 of Schedule K-1 using code E.*

## Line 8b. Collectibles (28%) Gain (Loss)

Figure the amount attributable to collectibles from the amount reported on Schedule D (Form 1120S), line 15. A collectibles gain (loss) is any long-term gain or deductible long-term loss from the sale or exchange of a collectible that is a capital asset.

Collectibles include works of art, rugs, antiques, metal (such as gold, silver, or platinum bullion), gems, stamps, coins, alcoholic beverages, and certain other tangible property.

Also, include gain (but not loss) from the sale or exchange of an interest in a partnership or trust held for more than 1 year and attributable to unrealized appreciation of collectibles. For details, see Regulations section 1.1(h)-1. Also attach the statement required under Regulations section 1.1(h)-1(e).


**Schedule K-1.** Report each shareholder's pro rata share of the collectibles (28%) gain (loss) in box 8b of Schedule K-1.

### Line 8c. Unrecaptured Section 1250 Gain

The three types of unrecaptured section 1250 gain must be reported separately on an attached statement to Form 1120S.

**From the sale or exchange of the corporation's business assets.** Figure this amount in Part III of Form 4797 for each section 1250 property (except property for which gain is reported using the installment method on Form 6252, Installment Sale Income) for which you had an entry in Part I of Form 4797. Subtract line 26g of Form 4797 from the smaller of line 22 or line 24. Figure the total of these amounts for all section 1250 properties. Generally, the result is the corporation's unrecaptured section 1250 gain. However, if the corporation is reporting gain on the installment method for a section 1250 property held more than 1 year, see the next paragraph.

The total unrecaptured section 1250 gain for an installment sale of section 1250 property held more than 1 year is figured in a manner similar to that used in the preceding paragraph. However, the total unrecaptured section 1250 gain must be allocated to the installment payments received from the sale. To do so, the corporation generally must treat the gain allocable to each installment payment as unrecaptured section 1250 gain until all such gain has been used in full. Figure the unrecaptured section 1250 gain for installment payments received during the tax year as the smaller of (a) the amount from line 26 or line 37 of Form 6252 (whichever applies), or (b) the total unrecaptured section 1250 gain for the sale reduced by all gain reported in prior years (excluding section 1250 ordinary income recapture).

 *If the corporation chose not to treat all of the gain from payments received after May 6, 1997, and before August 24, 1999, as unrecaptured section 1250 gain, use*


*only the amount the corporation chose to treat as unrecaptured section 1250 gain for those payments to reduce the total unrecaptured section 1250 gain remaining to be reported for the sale. See Regulations section 1.453-12.*

**From the sale or exchange of an interest in a partnership.** Also report as a separate amount any gain from the sale or exchange of an interest in a partnership attributable to unrecaptured section 1250 gain. See Regulations section 1.1(h)-1 and attach the statement required under Regulations section 1.1(h)-1(e).

**From an estate, trust, REIT, or RIC.** If the corporation received a Schedule K-1 or Form 1099-DIV from an estate, a trust, a real estate investment trust (REIT), or a regulated investment company (RIC) reporting "unrecaptured section 1250 gain," don't add it to the corporation's own unrecaptured section 1250 gain. Instead, report it as a separate amount. For example, if the corporation received a Form 1099-DIV from a REIT with unrecaptured section 1250 gain, report it as "Unrecaptured section 1250 gain from a REIT."

**Schedule K-1.** Report each shareholder's pro rata share of unrecaptured section 1250 gain from the sale or exchange of the corporation's business assets in box 8c of Schedule K-1. If the corporation is reporting unrecaptured section 1250 gain from an estate, trust, REIT, or RIC, or from the corporation's sale or exchange of an interest in a partnership (as explained above), enter "STMT" in box 8c and an asterisk (\*) in the left column of the box and attach a statement that separately identifies the amount of unrecaptured section 1250 gain from:

- The sale or exchange of the corporation's business assets;
- The sale or exchange of an interest in a partnership; and
- An estate, trust, REIT, or RIC.

 *If any amounts from line 8c are from foreign sources, see the instructions for lines 14d through 14f for additional statements required.*

### Line 9. Net Section 1231 Gain (Loss)

Enter the net section 1231 gain (loss) from Form 4797, line 7.

Don't include net gain or loss from involuntary conversions due to casualty

or theft. Report net loss from involuntary conversions due to casualty or theft on line 10 of Schedule K (box 10, code B, of Schedule K-1). See the instructions for line 10 on how to report net gain from involuntary conversions.

**Schedule K-1.** Report each shareholder's pro rata share of net section 1231 gain (loss) in box 9 of Schedule K-1. If the corporation has more than one rental, trade, or business activity, identify on an attachment to Schedule K-1 the amount of section 1231 gain (loss) from each separate activity. See [Passive Activity Reporting Requirements](#), earlier.



*If any amounts from line 9 are from foreign sources, see the instructions for lines 14d through 14f for additional required statements.*

### Line 10. Other Income (Loss)

Enter any other item of income or loss not included on lines 1 through 9. On the line to the left of the entry space for line 10, identify the type of income. If there is more than one type of income, attach a statement to Form 1120S that separately identifies each type and amount of income for each of the following categories. The codes needed for Schedule K-1 reporting are provided for each category.

**Other portfolio income (loss) (code A).** Portfolio income not reported on lines 4 through 8. Report and identify other portfolio income or loss on an attachment for line 10.

If the corporation holds a residual interest in a REMIC, report on an attachment the shareholder's share of the following.

- Taxable income (net loss) from the REMIC (line 1b of Schedules Q (Form 1066)).
- Excess inclusion (line 2c of Schedules Q (Form 1066)).
- Section 212 expenses (line 3b of Schedules Q (Form 1066)).

Because Schedule Q (Form 1066) is a quarterly statement, the corporation must follow the Schedule Q instructions to figure the amounts to report to shareholders for the corporation's tax year.

### Involuntary conversions (code B).

Report net loss from involuntary conversions due to casualty or theft. The amount for this item is shown on Form 4684, Casualties and Thefts, line 38a or 38b.



Each shareholder's pro rata share must be entered on Schedule K-1.

Enter the net gain from involuntary conversions of property used in a trade or business (line 39 of Form 4684) on line 3 of Form 4797.

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, notify the shareholder. The corporation shouldn't complete Form 4684 for this type of casualty or theft. Instead, each shareholder will complete his or her own Form 4684.

**Section 1256 contracts and straddles (code C).** Report any net gain or loss from section 1256 contracts from Form 6781, Gains and Losses From Section 1256 Contracts and Straddles.

**Mining exploration costs recapture (code D).** Provide the information shareholders need to recapture certain mining exploration expenditures. See Regulations section 1.617-3.

**Other income (loss) (code E).**

Include any other type of income, such as the following.

- Recoveries of tax benefit items (section 111).
- Gambling gains and losses subject to the limitations in section 165(d). Indicate on an attached statement whether or not the corporation is in the trade or business of gambling.
- Disposition of an interest in oil, gas, geothermal, or other mineral properties. Report the following information on a statement attached to Schedule K-1: (a) a description of the property; (b) the shareholder's share of the amount realized on the sale, exchange, or involuntary conversion of each property (fair market value of the property for any other disposition, such as a distribution); (c) the shareholder's share of the corporation's adjusted basis in the property (except for oil or gas properties); and (d) total intangible drilling costs, development costs, and mining exploration costs (section 59(e) expenditures) passed through to the shareholder for the property. See Regulations section 1.1254-4 for more information.
- COD income deferred under section 108(i). Report COD income deferred under section 108(i) that must be included in income in the current tax year under section 108(i)(1) or section 108(i)(5)(D)(i) or (ii). For information on events that will cause previously deferred income to be reportable and allocating deferred income to the

shareholders, see section 108(i); Regulations section 1.108(i)-1; Rev. Proc. 2009-37, 2009-36 I.R.B. 309; and Regulations section 1.108(i)-2.

- Gain from the sale or exchange of qualified small business (QSB) stock (as defined in the Instructions for Schedule D) that is eligible for the section 1202 exclusion. The section 1202 exclusion applies only to QSB stock held by the corporation for more than 5 years. Additional limitations apply at the shareholder level. Report each shareholder's share of section 1202 gain on Schedule K-1. Each shareholder will determine if he or she qualifies for the exclusion. Report on an attachment to Schedule K-1 for each sale or exchange (a) the name of the corporation that issued the QSB stock, (b) the shareholder's pro rata share of the corporation's adjusted basis and sales price of the QSB stock, and (c) the dates the QSB stock was bought and sold.
- Gain eligible for section 1045 rollover (replacement stock purchased by the corporation). Include only gain from the sale or exchange of QSB stock (as defined in the Instructions for Schedule D) that was deferred by the corporation under section 1045 and reported on Schedule D. See the Instructions for Schedule D for more details. Additional limitations apply at the shareholder level. Report each shareholder's share of the gain eligible for section 1045 rollover on Schedule K-1. Each shareholder will determine if he or she qualifies for the rollover. Report on an attachment to Schedule K-1 for each sale or exchange (a) the name of the corporation that issued the QSB stock, (b) the shareholder's pro rata share of the corporation's adjusted basis and sales price of the QSB stock, and (c) the dates the QSB stock was bought and sold.
- Gain eligible for section 1045 rollover (replacement stock **not** purchased by the corporation). Include only gain from the sale or exchange of QSB stock (as defined in the Instructions for Schedule D) the corporation held for more than 6 months but that wasn't deferred by the corporation under section 1045. See the Instructions for Schedule D for more details. A shareholder may be eligible to defer his or her pro rata share of this gain under section 1045 if he or she purchases other QSB stock during the 60-day period that began on the date the QSB stock was sold by the corporation. Additional limitations apply at the

shareholder level. Report on an attachment to Schedule K-1 for each sale or exchange (a) the name of the corporation that issued the QSB stock, (b) the shareholder's pro rata share of the corporation's adjusted basis and sales price of the QSB stock, and (c) the dates the QSB stock was bought and sold.

- Any gain or loss from line 7 or 15 of Schedule D that isn't portfolio income (for example, gain or loss from the disposition of nondepreciable personal property used in a trade or business).

**Schedule K-1.** Enter each shareholder's pro rata share of the other income categories listed above in box 10 of Schedule K-1. Enter the applicable code A, B, C, D, or E (as shown above).

If you are reporting each shareholder's pro rata share of only one type of income under code E, enter the code with an asterisk (E\*) and the dollar amount in the entry space in box 10 and attach a statement that shows "Box 10, code E," and the type of income. If you are reporting multiple types of income under code E, enter the code with an asterisk (E\*) and enter "STMT" in the entry space in box 10 and attach a statement that shows "Box 10, code E," and the dollar amount of each type of income.

If the corporation has more than one trade or business or rental activity (for codes B through E), identify on an attachment to Schedule K-1 the amount from each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

## Deductions

### Line 11. Section 179 Deduction

A corporation can elect to expense part of the cost of certain property the corporation purchased during the tax year for use in its trade or business or certain rental activities. See Pub. 946 for a definition of what kind of property qualifies for the section 179 expense deduction and the Instructions for Form 4562 for limitations on the amount of the section 179 expense deduction.

Complete Part I of Form 4562 to figure the corporation's section 179 expense deduction. The corporation doesn't take the deduction itself, but instead passes it through to the shareholders. Attach Form 4562 to Form 1120S and show the total section 179 expense deduction on Schedule K, line 11.

Although the corporation can't take the section 179 deduction, it generally must still reduce the basis of the asset by the amount of the section 179 deduction it elected, regardless of whether any shareholder can use the deduction. However, the corporation doesn't reduce the basis for any section 179 deduction allocable to a trust or estate because they aren't eligible to take the section 179 deduction. See Regulations section 1.179-1(f).

Identify on an attachment to Schedules K and K-1 the cost of any section 179 property placed in service during the year that is qualified enterprise zone property or qualified real property. See the Instructions for Form 4562 for more details.

See the instructions for line 17d of Schedule K for sales or other dispositions of property for which a section 179 deduction has passed through to shareholders and for the recapture rules if the business use of the property dropped to 50% or less.

**Schedule K-1.** Report each shareholder's pro rata share of the section 179 expense deduction in box 11 of Schedule K-1. If the corporation has more than one rental, trade, or business activity, identify on an attachment to Schedule K-1 the amount of section 179 deduction from each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

Don't complete box 11 of Schedule K-1 for any shareholder that is an estate or trust; estates and trusts aren't eligible for the section 179 expense deduction.

### Line 12a. Charitable Contributions

Cash contributions must be supported by a dated bank record or receipt.

Generally, no deduction is allowed for any contribution of \$250 or more unless the corporation obtains a written acknowledgment from the charitable organization that shows the amount of cash contributed, describes any property contributed, and gives an estimate of the value of any goods or services provided in return for the contribution. The acknowledgment must be obtained by the due date (including extensions) of the corporation's return, or if earlier, the date the return is filed. Don't attach the acknowledgment to the tax return, but keep it with the corporation's records. These rules apply in addition to the filing requirements for

Form 8283, Noncash Charitable Contributions, described under [Contributions of property](#), later.

Enter charitable contributions made during the tax year. Attach a statement to Form 1120S that separately identifies the corporation's contributions for each of the following categories. See *Limits on Deductions* in Pub. 526, Charitable Contributions, for information on adjusted gross income (AGI) limitations on deductions for charitable contributions.

The codes needed for Schedule K-1 reporting are provided for each category.

**Cash contributions (50%) (code A).** Enter cash contributions subject to the 50% AGI limitation.

**Cash contributions (30%) (code B).** Enter cash contributions subject to the 30% AGI limitation.

**Noncash contributions (50%) (code C).** Enter noncash contributions subject to the 50% AGI limitation. Don't include food inventory contributions reported separately on an attached statement. If property other than cash is contributed and the claimed deduction for one item or group of similar items of property exceeds \$5,000, the corporation must give each shareholder a copy of Form 8283 to attach to the shareholder's return.

#### Food inventory contributions.

Provide the following information on a statement attached to Schedule K-1.

- The shareholder's pro rata share of the amount of the charitable contributions under section 170(e)(3) for qualified food inventory that was donated to charitable organizations for the care of the ill, needy, and infants. The food must meet all the quality and labeling standards imposed by federal, state, and local laws and regulations. The charitable contribution for donated food inventory is the lesser of (a) the basis of the donated food plus half of the appreciation (gain if the donated food were sold at fair market value on the date of the gift), or (b) twice the basis of the donated food. See section 170(e)(3)(C) for more details.
- The shareholder's pro rata share of the net income for the tax year from the corporation's trades or businesses that made the contributions of food inventory.

**Qualified conservation contribu-**  
**tions.** The AGI limit for qualified conservation contributions under

section 170(h) is generally 50%. However, if the corporation is a qualified farmer or rancher (farm income is more than 50% of gross income), the AGI limit for qualified conservation contributions of property used in agriculture or livestock production (or available for such production) is 100%. The carryover period is 15 years. See section 170(b) and Notice 2007-50, 2007-25 I.R.B. 1430, for details. Report qualified conservation contributions with a 50% AGI limitation on Schedule K-1 in box 12 using code C. Report qualified conservation contributions with a 100% AGI limitation on Schedule K-1 in box 12 using code G.

**Noncash contributions (30%) (code D).** Enter noncash contributions subject to the 30% AGI limitation.

**Capital gain property to a 50% or-**  
**ganization (30%) (code E).** Enter capital gain property contributions subject to the 30% AGI limitation.

**Capital gain property (20%) (code F).** Enter capital gain property contributions subject to the 20% AGI limitation.

**Contributions of property.** See *Contributions of Property* in Pub. 526 and Pub. 561, *Determining the Value of Donated Property*, for information on noncash contributions and contributions of capital gain property. If the deduction claimed for noncash contributions exceeds \$500, complete Form 8283 and attach it to Form 1120S.

Shareholders can deduct their pro rata share of the fair market value of property contributions, but will only need to adjust their stock basis by their pro rata share of the property's adjusted basis. Give each shareholder a statement identifying their pro rata share of both the fair market value and adjusted basis of the property.

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

If the corporation made a contribution of real property located in a registered historic district, restrictions apply. Generally, no deductions are allowed for structures or land (deductions are only allowed for buildings), and the charitable contribution may be reduced if rehabilitation credits were claimed for the building. A \$500 filing fee may apply

to certain deductions over \$10,000. See Pub. 526 for details.

### **Nondeductible contributions.**

Certain contributions made to an organization conducting lobbying activities aren't deductible. See section 170(f)(9) for more details. Also, see *Contributions You Cannot Deduct* in Pub. 526 for more examples of nondeductible contributions.



*An accrual basis S corporation can't elect to treat a contribution as having been paid in the tax year the board of directors authorizes the payment if the contribution isn't actually paid until the next tax year.*

**Contributions (100%) (code G).** If the corporation is a qualified farmer or rancher (farm income is more than 50% of gross income), enter qualified conservation contributions of property used in agriculture or livestock production (or available for such production). The contribution must be subject to a restriction that the property remain available for such production. See section 170(b) for details.

**Schedule K-1.** Report each shareholder's pro rata share of charitable contributions in box 12 of Schedule K-1 using codes A through G for each of the contribution categories shown earlier. See [Contributions of property](#), earlier, for information on statements you may be required to attach to Schedule K-1. The corporation must attach a copy of its Form 8283 to the Schedule K-1 of each shareholder if the deduction for any item or group of similar items of contributed property exceeds \$5,000, even if the amount allocated to any shareholder is \$5,000 or less.

### **Line 12b. Investment Interest Expense**

Include on this line the interest properly allocable to debt on property held for investment purposes. Property held for investment includes property that produces income (unless derived in the ordinary course of a trade or business) from interest, dividends, annuities, or royalties; and gains from the disposition of property that produces those types of income or is held for investment.

Investment interest expense doesn't include interest expense allocable to a passive activity.

Investment income and investment expenses other than interest are reported on lines 17a and 17b, respectively. This information is needed by shareholders to determine the investment interest expense limitation (see Form 4952 for details).

**Schedule K-1.** Report each shareholder's pro rata share of investment interest expense in box 12 of Schedule K-1 using code H.

### **Lines 12c(1) and 12c(2). Section 59(e)(2) Expenditures**

Generally, section 59(e) allows each shareholder to make an election to deduct their pro rata share of the corporation's otherwise deductible qualified expenditures ratably over 10 years (3 years for circulation expenditures). The deduction is taken beginning with the tax year in which the expenditures were made (or for intangible drilling and development costs, over the 60-month period beginning with the month in which such costs were paid or incurred).

The term "qualified expenditures" includes only the following types of expenditures paid or incurred during the tax year.

- Circulation expenditures.
- Research and experimental expenditures.
- Intangible drilling and development costs.
- Mining exploration and development costs.

If a shareholder makes the election, these items aren't treated as AMT tax preference items.

Because the shareholders make this election, the corporation can't deduct these amounts or include them as AMT items on Schedule K-1. Instead, the corporation passes through the information the shareholders need to figure their separate deductions.

On line 12c(1), enter the type of expenditures claimed on line 12c(2). Enter on line 12c(2) the qualified expenditures paid or incurred during the tax year for which a shareholder may make an election under section 59(e). Enter this amount for all shareholders whether or not any shareholder makes an election under section 59(e).

On an attached statement, identify the property for which the expenditures were paid or incurred. If the expenditures were for intangible drilling

or development costs for oil and gas properties, identify the month(s) in which the expenditures were paid or incurred. If there is more than one type of expenditure or more than one property, provide the amounts (and the months paid or incurred, if required) for each type of expenditure separately for each property.

**Schedule K-1.** Report each shareholder's pro rata share of section 59(e) expenditures in box 12 of Schedule K-1 using code J. Identify the following information on an attached statement.

- The type of expenditure.
- The property for which the expenditures are paid or incurred.
- For oil and gas properties only, the month in which intangible drilling costs and development costs were paid or incurred.

If there is more than one type of expenditure or the expenditures are for more than one property, provide each shareholder's pro rata share of the amounts (and the months paid or incurred for oil and gas properties) for each type of expenditure separately for each property.

### **Line 12d. Other Deductions**

Enter deductions not included on line 11, 12a, 12b, 12c(2), or 14I. On the line to the left of the entry space for line 12d, identify the type of deduction. If there is more than one type of deduction, attach a statement to Form 1120S that separately identifies the type and amount of each deduction for the following categories. The codes needed for Schedule K-1 reporting are provided for each category.

**Deductions—royalty income (code I).** Enter deductions related to royalty income.

**Deductions—portfolio (2% floor) (code K).** Enter deductions related to portfolio income that are subject to the 2% of AGI floor (see the Instructions for Schedule A (Form 1040)).

**Deductions—portfolio (other) (code L).** Enter any other deductions related to portfolio income.

No deduction is allowed under section 212 for expenses allocable to a convention, seminar, or similar meeting. Because these expenses aren't deductible by shareholders, the corporation doesn't report these expenses on line 12d of Schedule K. The expenses are nondeductible and are reported as such on line 16c of



Schedule K and in box 16 of Schedule K-1 using code C.

### **Preproductive period expenses**

**(code M).** If the corporation is required to use an accrual method of accounting under section 448(a)(3), it must capitalize these expenses. If the corporation is permitted to use the cash method, enter the amount of preproductive period expenses that qualify under Regulations section 1.263A-4(d). An election not to capitalize these expenses must be made at the shareholder level. See *Uniform Capitalization Rules* in Pub. 225.

### **Commercial revitalization deduction from rental real estate activities**

**(code N).** Enter the commercial revitalization deduction on line 12d only if it is for a rental real estate activity. If the deduction is for a nonrental building, enter it on line 19 of Form 1120S. See [Special Rules](#) under [Line 19. Other Deductions](#), earlier, for more information.

### **Reforestation expense deduction**

**(code O).** The corporation can elect to deduct a limited amount of its reforestation expenditures paid or incurred during the tax year. The amount the corporation can elect to deduct is limited to \$10,000 for each qualified timber property. See section 194(c) for a definition of reforestation expenditures and qualified timber property. See Notice 2006-47, 2006-20 I.R.B. 892, for details on making the election. The corporation must amortize over 84 months any amount not deducted. See [Reforestation expenditures](#), earlier.

**Schedule K-1.** Enter the shareholder's pro rata share of allowable reforestation expense in box 12 of Schedule K-1 using code O and attach a statement that provides a description of the qualified timber property. If the corporation is electing to deduct amounts from more than one qualified timber property, provide a description and the amount for each property.

### **Domestic production activities information**

**(code P).** If the corporation isn't eligible or chooses not to figure qualified production activities income (QPAI) at the corporate level, attach a statement with the following information to enable each shareholder to figure the domestic production activities deduction. Identify any amounts from oil-related production activities and list them separately.

- Domestic production gross receipts (DPGR).
- Gross receipts from all sources.
- Cost of goods sold allocable to DPGR.
- Cost of goods sold from all sources.
- Total deductions, expenses, and losses directly allocable to DPGR.
- Total deductions, expenses, and losses directly allocable to a non-DPGR class of income.
- Other deductions, expenses, and losses not directly allocable to DPGR or another class of income.
- Form W-2 wages.
- Any other information a shareholder using the section 861 method will need to allocate and apportion cost of goods sold and deductions between domestic production gross receipts and other receipts.

See Form 8903, Domestic Production Activities Deduction, and its instructions for details. If the corporation is eligible and chooses to figure QPAI at the corporate level, see the instructions below.

### **Qualified production activities income**

**(code Q).** If the corporation is eligible and chooses to figure QPAI at the corporate level, use code Q to report the shareholder's pro rata share of the corporation's QPAI. This amount may be less than zero. If any portion of QPAI is attributable to oil-related production activities, attach a separate statement to identify the oil-related portion. See the Instructions for Form 8903 for details.

### **Employer's Form W-2 wages**

**(code R).** If the corporation is eligible and chooses to report QPAI with code Q, use code R to report the shareholder's pro rata share of employer's Form W-2 wages properly allocable to domestic production gross receipts. See the Instructions for Form 8903 for details.

**Other deductions** **(code S).** Include any other deductions, such as the following.

- Amounts paid by the corporation that would be allowed as itemized deductions on any of the shareholders' income tax returns if they were paid directly by a shareholder for the same purpose. These amounts include, but aren't limited to, expenses under section 212 for the production of income other than from the corporation's trade or business. However, don't enter expenses related to portfolio income or investment interest expense reported on line 12b of Schedule K on this line.

- Soil and water conservation expenditures (section 175). See Pub. 225.
- Endangered species recovery expenditures (section 175).
- Expenditures paid or incurred for the removal of architectural and transportation barriers to the elderly and disabled that the corporation has elected to treat as a current expense. See section 190.
- Interest expense allocated to debt-financed distributions. See Notice 89-35, 1989-1 C.B. 675, or Pub. 535, chapter 4, for more information.
- Contributions to a capital construction fund. See Pub. 595, Capital Construction Fund for Commercial Fishermen.
- Any penalty on early withdrawal of savings because the corporation withdrew funds from its time savings deposit before its maturity.
- Film, television, and live theatrical production expenses. The corporation can elect to deduct certain costs of a qualified film, television, or live theatrical production commencing before January 1, 2017 (after December 31, 2015, and before January 1, 2017, for a live theatrical production), if the aggregate cost of the production doesn't exceed \$15 million. There is a higher dollar limitation for productions in certain areas. A live theatrical performance commences on the date of its first public performance for a paying audience. Provide a description of the film, television, or live theatrical production on an attached statement. If the corporation makes the election for more than one production, attach a statement to Schedule K-1 that shows each shareholder's pro rata share of the qualified expenditures separately for each production. The deduction is subject to recapture under section 1245 if the election is voluntarily revoked or the production fails to meet the requirements for the deduction. See section 181 and the related regulations.
- Current year section 108(i) original issue discount (OID) deduction. In general, if the corporation made a section 108(i) election for income from the COD attributable to the reacquisition of an applicable debt instrument and the corporation issued a debt instrument with OID that is subject to section 108(i) (2) because of the election, the deduction for all or a portion of the OID that accrues before the first tax year the COD is includible in income is deferred until the COD is includible in income. The aggregate amount of OID that is deferred during this period is generally

allowed as a deduction ratably over the 5-year period the COD is includible in income under section 108(i). The amount deferred is limited to the amount of COD subject to the section 108(i) election.

**Schedule K-1.** Enter each shareholder's pro rata share of the deduction categories listed above in box 12 of Schedule K-1 or provide the required information on an attached statement. Enter the applicable code shown above.

If you are reporting only one type of deduction under code S, enter code S with an asterisk (S\*) and the dollar amount in the entry space in box 12 and attach a statement that shows the box number, code, and type of deduction. If you are reporting multiple types of deductions under code S, enter the code with an asterisk (S\*), enter "STMT" in the dollar amount entry space in box 12, and attach a statement that shows the box number, code, and dollar amount of each type of deduction.

If the corporation has more than one trade or business activity, identify on an attachment to Schedule K-1 the amount for each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

## Credits



*Don't attach Form 3800, General Business Credit, to Form 1120S.*

### Low-Income Housing Credit

Section 42 provides a credit that can be claimed by owners of low-income residential rental buildings. To qualify for the credit, the corporation must file Form 8609, Low-Income Housing Credit Allocation and Certification, separately with the IRS. Don't attach Form 8609 to Form 1120S. Complete and attach Form 8586, Low-Income Housing Credit, and Form 8609-A, Annual Statement for Low-Income Housing Credit, to Form 1120S.

### Line 13a. Low-Income Housing Credit (Section 42(j)(5))

If the corporation invested in a partnership to which the provisions of section 42(j)(5) apply, report on line 13a the credit reported to the corporation in box 15 of Schedule K-1 (Form 1065) using code A or code C.

**Schedule K-1.** Report in box 13 of Schedule K-1 each shareholder's pro rata share of the low-income housing

credit reported on line 13a of Schedule K. Use code A to report the portion of the credit attributable to buildings placed in service before 2008. Use code C to report the portion of the credit attributable to buildings placed in service after 2007. If the corporation has credits from more than one activity, identify on an attachment to Schedule K-1 the amount for each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

### Line 13b. Low-Income Housing Credit (Other)

Report on line 13b any low-income housing credit not reported on line 13a. This includes any credit reported to the corporation in box 15 of Schedule K-1 (Form 1065) using code B or code D.

**Schedule K-1.** Report in box 13 of Schedule K-1 each shareholder's pro rata share of the low-income housing credit reported on line 13b of Schedule K. Use code B to report the portion of the credit attributable to buildings placed in service before 2008. Use code D to report the portion of the credit attributable to buildings placed in service after 2007. If the corporation has credits from more than one rental activity, identify on an attachment to Schedule K-1 the amount for each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

### Line 13c. Qualified Rehabilitation Expenditures (Rental Real Estate)

Enter on line 13c the total qualified rehabilitation expenditures related to rental real estate activities of the corporation. See the Instructions for Form 3468 for details on qualified rehabilitation expenditures.



*Qualified rehabilitation expenditures for property not related to rental real estate activities must be reported in box 17 using code C.*

**Schedule K-1.** Report each shareholder's pro rata share of qualified rehabilitation expenditures related to rental real estate activities in box 13 of Schedule K-1 using code E. Attach a statement to Schedule K-1 that provides the information and the shareholder's pro rata share of the basis and expenditure amounts the shareholder will need to figure the amounts to report on lines 11b through 11j and 11m of Form 3468. See the Instructions for Form 3468 for details. If the corporation has expenditures from more than one

rental real estate activity, identify on an attachment to Schedule K-1 the information and amounts for each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

### Line 13d. Other Rental Real Estate Credits

Enter on line 13d any other credit (other than credits reported on lines 13a through 13c) related to rental real estate activities. On the dotted line to the left of the entry space for line 13d, identify the type of credit. If there is more than one type of credit, attach a statement to Form 1120S that identifies the type and amount for each credit. These credits may include any type of credit listed in the instructions for line 13g.

**Schedule K-1.** Report in box 13 of Schedule K-1 each shareholder's pro rata share of other rental real estate credits using code F. If you are reporting each shareholder's pro rata share of only one type of rental real estate credit under code F, enter the code with an asterisk (F\*) and the dollar amount in the entry space in box 13 and attach a statement that shows "Box 13, code F" and the type of credit. If you are reporting multiple types of rental real estate credit under code F, enter the code with an asterisk (F\*) and enter "STMT" in the entry space in box 13 and attach a statement that shows "Box 13, code F" and the dollar amount of each type of credit. If the corporation has credits from more than one rental real estate activity, identify on the attached statement the amount of each type of credit for each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

### Line 13e. Other Rental Credits

Enter on line 13e any other credit (other than credits reported on lines 13a through 13d) related to rental activities. On the dotted line to the left of the entry space for line 13e, identify the type of credit. If there is more than one type of credit, attach a statement to Form 1120S that identifies the type and amount for each credit. These credits may include any type of credit listed in the instructions for line 13g.

**Schedule K-1.** Report in box 13 of Schedule K-1 each shareholder's pro rata share of other rental credits using code G. If you are reporting each shareholder's pro rata share of only one type of rental credit under code G, enter the code with an asterisk (G\*) and the dollar amount in the entry space in

box 13 and attach a statement that shows "Box 13, code G" and the type of credit. If you are reporting multiple types of rental credit under code G, enter the code with an asterisk (G\*) and enter "STMT" in the entry space in box 13 and attach a statement that shows "Box 13, code G" and the dollar amount of each type of credit. If the corporation has credits from more than one rental activity, identify on the attached statement the amount of each type of credit for each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

### Line 13f. Biofuel Producer Credit

Enter on line 13f the biofuel producer credit attributable to trade or business activities. If the credit is attributable to rental activities, enter the amount on line 13d or 13e.

Figure this credit on Form 6478. Attach it to Form 1120S. Include any amount shown on line 2 of Form 6478 in the corporation's income on line 5 of Form 1120S.

See section 40(f) for an election the corporation can make to have the credit not apply.

**Schedule K-1.** Report in box 13 of Schedule K-1 each shareholder's pro rata share of the biofuel producer credit reported on line 13f using code I. If the corporation has credits from more than one activity, identify on an attachment to Schedule K-1 the amount for each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

### Line 13g. Other Credits

Enter on line 13g any other credit, except credits or expenditures shown or listed for lines 13a through 13f or the credit for federal tax paid on fuels (which is reported on line 23c of page 1). On the line to the left of the entry space for line 13g, identify the type of credit. If there is more than one type of credit, attach a statement to Form 1120S that separately identifies each type and amount of credit for the following categories. The codes needed for box 13 of Schedule K-1 are provided in the heading of each category.

**Undistributed capital gains credit (code H).** This credit represents taxes paid on undistributed capital gains by a regulated investment company (RIC) or a real estate investment trust (REIT). As a shareholder of a RIC or REIT, the corporation will receive notice of the

amount of tax paid on undistributed capital gains on Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains.

**Work opportunity credit (code J).** Complete Form 5884 to figure the credit. Attach it to Form 1120S.

**Disabled access credit (code K).** Complete Form 8826 to figure the credit. Attach it to Form 1120S.

**Empowerment zone employment credit (code L).** Complete Form 8844 to figure the credit. Attach it to Form 1120S.

**Credit for increasing research activities (code M).** Complete Form 6765 to figure the credit. Attach it to Form 1120S.

**Credit for employer social security and Medicare taxes paid on certain employee tips (code N).** Complete Form 8846 to figure the credit. Attach it to Form 1120S.

**Backup withholding (code O).** This credit is for backup withholding on dividends, interest, and other types of income of the corporation.

**Other credits (code P).** Attach a statement to Form 1120S that identifies the type and amount of any other credits not reported elsewhere. Complete the credit form identified below and attach it to Form 1120S.

- Unused investment credit from the qualifying advanced coal project credit, qualifying gasification project credit, or qualifying advanced energy project credit allocated from cooperatives.
- Unused investment credit from the rehabilitation credit or energy credit allocated from cooperatives.
- Orphan drug credit (Form 8820).
- Renewable electricity, refined coal, and Indian coal production credit (Form 8835). Attach a statement to Form 1120S and Schedule K-1 showing separately the amount of the credit from Part I and from Part II of Form 8835 including the allocation of the Part II credit for production during the 4-year period beginning on the date the facility was placed in service and for production after that period.
- Indian employment credit (Form 8845).
- Biodiesel and renewable diesel fuels credit (Form 8864). Include any amount from line 8 of Form 8864 in the corporation's income on line 5 of Form 1120S. If this credit includes the small agri-biodiesel producer credit, identify on a statement attached to Schedule K-1 (a) the small

agri-biodiesel producer credit included in the total credit allocated to the shareholder, (b) the number of gallons for which the corporation claimed the small agri-biodiesel producer credit, and (c) the corporation's productive capacity for agri-biodiesel.

- New markets credit (Form 8874).
- Credit for small employer pension plan startup costs (Form 8881).
- Credit for employer-provided childcare facilities and services (Form 8882).
- Low sulfur diesel fuel production credit (Form 8896).
- Qualified railroad track maintenance credit (Form 8900).
- Distilled spirits credit (Form 8906).
- Energy efficient home credit (Form 8908).
- Alternative motor vehicle credit (Form 8910).
- Alternative fuel vehicle refueling property credit (Form 8911).
- Clean renewable energy bond credit (Form 8912). The amount of this credit (excluding any credits from partnerships, estates, and trusts) must also be reported as interest income on line 4 of Schedule K. In addition, the amount of this credit must also be reported on line 17d of Schedule K.
- Qualified zone academy bond credit (for bonds issued before October 4, 2008) (Form 8912). The amount of this credit must also be reported as interest income on line 4 of Schedule K. In addition, the amount of this credit must also be reported on line 17d of Schedule K.
- New clean renewable energy bond credit (Form 8912). The amount of this credit (excluding any credits from partnerships, estates, and trusts) must also be reported as interest income on line 4 of Schedule K. In addition, the amount of this credit must also be reported as a property distribution on line 16d of Schedule K.
- Qualified energy conservation bond credit (Form 8912). The amount of this credit (excluding any credits from partnerships, estates, and trusts) must also be reported as interest income on line 4 of Schedule K. In addition, the amount of this credit must also be reported as a property distribution on line 16d of Schedule K.
- Qualified zone academy bond credit (for bonds issued after October 3, 2008) (Form 8912). The amount of this credit (excluding any credits from partnerships, estates, and trusts) must also be reported as interest income on line 4 of Schedule K. In addition, the amount of this credit must also be



reported as a property distribution on line 16d of Schedule K.

- Qualified school construction bond credit (Form 8912). The amount of this credit (excluding any credits from partnerships, estates, and trusts) must also be reported as interest income on line 4 of Schedule K. In addition, the amount of this credit must also be reported as a property distribution on line 16d of Schedule K.
- Build America bond credit (Form 8912). The amount of this credit (excluding any credits from partnerships, estates, and trusts) must also be reported as interest income on line 4 of Schedule K. In addition, the amount of this credit must also be reported as a property distribution on line 16d of Schedule K.
- Mine rescue team training credit (Form 8923).
- Credit for employer differential wage payments (Form 8932).
- Carbon dioxide sequestration credit (Form 8933).
- Qualified plug-in electric drive motor vehicle credit (Form 8936).
- Credit for small employer health insurance premiums (Form 8941).
- General credits from an electing large partnership.

**Schedule K-1.** Enter in box 13 of Schedule K-1 each shareholder's pro rata share of the credits listed above. See additional Schedule K-1 reporting information provided in the instructions above. Enter the applicable code, H through P, in the column to the left of the dollar amount entry space.

If you are reporting each shareholder's pro rata share of only one type of credit under code P, enter the code with an asterisk (P\*) and the dollar amount in the entry space in box 13 and attach a statement that shows "Box 13, code P" and the type of credit. If you are reporting multiple types of credit under code P, enter the code with an asterisk (P\*) and enter "STMT" in the entry space in box 13 and attach a statement that shows "Box 13, code P" and the dollar amount of each type of credit. If the corporation has credits from more than one activity, identify on an attachment to Schedule K-1 the amount of each type of credit for each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

### Foreign Transactions

Line 14b must be completed if a shareholder may need this information to figure a foreign tax credit. Lines 14a and 14c through 14n must be

completed if the corporation has foreign income, deductions, or losses, or has paid or accrued foreign taxes.

On Schedule K-1, for items that require an attached statement, enter the code followed by an asterisk and the shareholder's pro rata share of the dollar amount. Attach a statement to Schedule K-1 providing the information described below. If the corporation had income from, or paid or accrued taxes to, more than one country or U.S. possession, see the requirement for an attached statement in the instructions for line 14a below. See Pub. 514, Foreign Tax Credit for Individuals, and the Instructions for Form 1116, Foreign Tax Credit, for more information.

### Line 14a. Name of Country or U.S. Possession (Code A)

Enter the name of the foreign country or U.S. possession from which the corporation had income or to which the corporation paid or accrued taxes. If the corporation had income from, or paid or accrued taxes to, more than one foreign country or U.S. possession, enter "See attached" and attach a statement for each country for lines 14a through 14n (codes A through N and code Q of Schedule K-1). On Schedule K-1, if there is more than one country, enter code A followed by an asterisk (A\*), enter "STMT," and attach a statement to Schedule K-1 for each country for the information and amounts coded A through N and Q.

### RIC pass-through amounts.

Aggregate all income passed through from RICs and report the total on a single line. Enter "RIC" on line 14a and report the total on line 14b. Note that the totals are being reported on a single line because it isn't necessary to report the RIC pass-through amounts on a per-country basis.

### Line 14b. Gross Income From All Sources (Code B)

Enter the corporation's gross income from all sources (both U.S. and foreign).

### Line 14c. Gross Income Sourced at Shareholder Level (Code C)

Enter the total gross income of the corporation that is required to be sourced at the shareholder level. This includes income from the sale of most personal property, other than inventory, depreciable property, and certain intangible property. See Pub. 514 and section 865 for details.



You must attach a statement to Form 1120S showing the following information.

- The amount of this gross income (without regard to its source) in each category identified in the instructions for lines 14d, 14e, and 14f.
- Specifically identify gains on the sale of personal property other than inventory, depreciable property, and certain intangible property on which a foreign tax of 10% or more was paid or accrued. Also list losses on the sale of such property if the foreign country would have imposed a 10% or higher tax had the sale resulted in a gain. In addition, separately identify the amounts of such gains or losses within each separate limitation category that are long-term capital gains and losses or collectibles (28%) gains and losses. See *Determining the Source of Income From the Sales or Exchanges of Certain Personal Property* in Pub. 514 and section 865.

### Lines 14d–14f. Foreign Gross Income Sourced at Corporate Level

Separately report gross income from sources outside the United States by category of income as follows. See Pub. 514 for more information on the categories of income.



You must attach a statement to Form 1120S that specifies foreign source qualified dividends, unrecaptured section 1250 gains, and net section 1231 gain (loss).

**Line 14d. Passive category (code D).** Passive category foreign source income.

**Line 14e. General category (code E).** General category foreign source income. Include all foreign income sourced at the corporate level that isn't reported on lines 14d and 14f.

**Line 14f. Other (code F).** Attach a statement showing the amount of foreign source income included in each of the following categories.

- Section 901(j) income.
- Income re-sourced by treaty.

### Lines 14g–14h. Deductions Allocated and Apportioned at Shareholder Level

**Line 14g. Interest expense (code G).** Enter the corporation's total interest expense (including interest equivalents

under Temporary Regulations section 1.861-9T(b)). Don't include interest directly allocable under Temporary Regulations section 1.861-10T to income from a specific property. This type of interest is allocated and apportioned at the corporate level and is included on lines 14i through 14k.

**Line 14h. Other (code H).** Enter the total of all other deductions or losses that are required to be allocated at the shareholder level. For example, include on line 14h research and experimental expenditures (see Regulations section 1.861-17(f)).

### **Lines 14i–14k. Deductions Allocated and Apportioned at Corporate Level to Foreign Source Income**

Separately report corporate deductions that are apportioned at the corporate level to:

- Passive category foreign source income,
- General category foreign source income, and
- Other foreign source income (see the instructions for lines 14d–14f).

Attach a statement showing the amount of deductions allocated and apportioned at the corporate level to each of the listed categories from line 14f. See Pub. 514 for more information.

### **Line 14l. Total Foreign Taxes Paid or Accrued**

Enter in U.S. dollars the total foreign taxes (described in section 901 or section 903) that were paid or accrued according to the corporation's method of accounting for such taxes. Translate these amounts into U.S. dollars by using the applicable exchange rate (see Pub. 514).

**Foreign taxes paid (code L).** If the corporation used the cash method of accounting, check the "Paid" box and enter foreign taxes paid during the tax year. Report each shareholder's pro rata share in box 14 of Schedule K-1 using code L.

**Foreign taxes accrued (code M).** If the corporation used the accrual method of accounting, check the "Accrued" box and enter foreign taxes accrued. Report each shareholder's pro rata share in box 14 of Schedule K-1 using code M.

A corporation reporting foreign taxes using the cash method can make an irrevocable election to report the taxes

using the accrual method for the year of the election and all future years. Make this election by reporting all foreign taxes using the accrual method on line 14l and checking the "Accrued" box (see Regulations section 1.905-1).

Attach a statement reporting the following information.

1. The total amount of foreign taxes (including foreign taxes on income sourced at the shareholder level) relating to each category of income (see the instructions for lines 14d–14f).

2. The dates on which the taxes were paid or accrued, the exchange rates used, and the amounts in both foreign currency and U.S. dollars, for the following.

- a. Taxes withheld at source on interest.
- b. Taxes withheld at source on dividends.
- c. Taxes withheld at source on rents and royalties.
- d. Other foreign taxes paid or accrued.

### **Line 14m. Reduction in Taxes Available for Credit (Code N)**

Enter the total reduction in taxes available for credit. Attach a statement showing the reductions for:

- Taxes on foreign mineral income (section 901(e)),
- Taxes on foreign oil and gas extraction income and foreign oil-related income (section 907(a)),
- Taxes attributable to boycott operations (section 908),
- Failure to timely file (or furnish all of the information required on) Forms 5471 and 8865,
- Foreign income taxes paid or accrued during the current tax year that have been suspended under section 909, and
- Any other items (specify).

### **Line 14n. Other Foreign Tax Information**

- **Foreign trading gross receipts (code O).** Report each shareholder's pro rata share of foreign trading gross receipts from line 15 of Form 8873 in box 14 using code O. See [Extraterritorial Income Exclusion](#), earlier.
- **Extraterritorial income exclusion (code P).** If the corporation isn't permitted to deduct the extraterritorial income exclusion as a non-separately stated item, attach a statement to

Schedule K-1 showing the shareholder's pro rata share of the extraterritorial income exclusion reported on line 52 of Form 8873. Also identify the activity to which the exclusion is related.

- **Other foreign transactions (code Q).** Report any other foreign transaction information the shareholders need to prepare their tax returns. Attach a statement that separately identifies any arrangement, along with the taxes paid or accrued in connection with the arrangement, in which the corporation participates that would qualify as a splitter arrangement under section 909 if one or more shareholders are covered persons with respect to an entity that took into account related income from the arrangement. Also indicate whether the corporation has taken into account any related income from any such splitter arrangement. (See section 909 and the regulations thereunder.)

### **Alternative Minimum Tax (AMT) Items**

Lines 15a through 15f must be completed for all shareholders.

Enter items of income and deductions that are adjustments or tax preference items for the AMT. For more information, see Form 6251, Alternative Minimum Tax—Individuals, or Schedule I (Form 1041), Alternative Minimum Tax—Estates and Trusts.

Don't include as a tax preference item any qualified expenditures to which an election under section 59(e) may apply. Instead, report these expenditures on line 12(c)(2). Because these expenditures are subject to an election by each shareholder, the corporation can't figure the amount of any tax preference related to them. Instead, the corporation must pass through to each shareholder in box 12, code J, of Schedule K-1 the information needed to figure the deduction.

**Schedule K-1.** Report each shareholder's pro rata share of amounts reported on lines 15a through 15f in box 15 of Schedule K-1 using codes A through F, respectively.

If the corporation is reporting items of income or deduction for oil, gas, and geothermal properties, you may be required to identify these items on a statement attached to Schedule K-1 (see the instructions for lines 15d and 15e). Also see the requirement for an attached statement in the instructions for line 15f.

## Line 15a. Post-1986 Depreciation Adjustment

Figure the adjustment for line 15a based only on tangible property placed in service after 1986 (and tangible property placed in service after July 31, 1986, and before 1987 for which the corporation elected to use the Modified Accelerated Cost Recovery System (MACRS)). Don't make an adjustment for motion picture films, videotapes, sound recordings, certain public utility property (see section 168(f)(2)), property depreciated under the unit-of-production method (or any other method not expressed in a term of years), qualified Indian reservation property, property eligible for a special depreciation allowance, qualified revitalization expenditures, or the section 179 expense deduction.

For property placed in service before 1999, refigure depreciation for the AMT as follows (using the same convention used for the regular tax).

- For section 1250 property (generally, residential rental and nonresidential real property), use the straight line method over 40 years.
- For tangible property (other than section 1250 property) depreciated using the straight line method for the regular tax, use the straight line method over the property's class life. Use 12 years if the property has no class life.
- For any other tangible property, use the 150% declining balance method, switching to the straight line method the first tax year it gives a larger deduction, over the property's AMT class life. Use 12 years if the property has no class life.



See Pub. 946 for a table of class lives.

For property placed in service after 1998, refigure depreciation for the AMT only for property depreciated for the regular tax using the 200% declining balance method. For the AMT, use the 150% declining balance method, switching to the straight line method the first tax year it gives a larger deduction, and the same convention and recovery period used for the regular tax.

Figure the adjustment by subtracting the AMT deduction for depreciation from the regular tax deduction and enter the result on line 15a. If the AMT deduction is more than the regular tax deduction, enter the difference as a negative amount. Depreciation capitalized to inventory must also be

refigured using the AMT rules. Include on this line the current year adjustment to income, if any, resulting from the difference.

## Line 15b. Adjusted Gain or Loss

If the corporation disposed of any tangible property placed in service after 1986 (or after July 31, 1986, if an election was made to use the General Depreciation System), or if it disposed of a certified pollution control facility placed in service after 1986, refigure the gain or loss from the disposition using the adjusted basis for the AMT. The property's adjusted basis for the AMT is its cost or other basis minus all depreciation or amortization deductions allowed or allowable for the AMT during the current tax year and previous tax years. Enter on this line the difference between the regular tax gain (loss) and the AMT gain (loss). If the AMT gain is less than the regular tax gain, or the AMT loss is more than the regular tax loss, or there is an AMT loss and a regular tax gain, enter the difference as a negative amount.

If any part of the adjustment is allocable to net short-term capital gain (loss), net long-term capital gain (loss), or net section 1231 gain (loss), attach a statement that identifies the amount of the adjustment allocable to each type of gain or loss.

For a net long-term capital gain (loss), also identify the amount of the adjustment that is collectibles (28%) gain (loss).

For a net section 1231 gain (loss), also identify the amount of adjustment that is unrecaptured section 1250 gain.

## Line 15c. Depletion (Other Than Oil and Gas)

Don't include any depletion on oil and gas wells. The shareholders must figure their oil and gas depletion deductions and preference items separately under section 613A.

Refigure the depletion deduction under section 611 for mines, wells (other than oil and gas wells), and other natural deposits for the AMT. Percentage depletion is limited to 50% of the taxable income from the property as figured under section 613(a), using only income and deductions for the AMT. Also, the deduction is limited to the property's adjusted basis at the end of the year as figured for the AMT. Figure this limit separately for each

property. When refiguring the property's adjusted basis, take into account any AMT adjustments made this year or in previous years that affect basis (other than the current year's depletion).

Enter the difference between the regular tax and AMT deduction. If the AMT deduction is greater, enter the difference as a negative amount.

## Oil, Gas, and Geothermal Properties—Gross Income and Deductions

Generally, the amounts to be entered on lines 15d and 15e are only the income and deductions for oil, gas, and geothermal properties that are used to figure the corporation's ordinary business income (loss) 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 (items not reported in box 1 of Schedule K-1), give each shareholder a statement that shows, for the box in which the income or deduction is included, the amount of income or deductions included in the total amount for that box. Don't include any of these direct pass-through amounts on line 15d or 15e. The shareholder is told in the Shareholder's Instructions for Schedule K-1 (Form 1120S) to adjust the amounts in box 15, code D or E, for any other income or deductions from oil, gas, or geothermal properties included in boxes 2 through 12, 16, or 17 of Schedule K-1 in order to determine the total income and deductions from oil, gas, and geothermal properties for the corporation.

Figure the amounts for lines 15d and 15e separately for oil and gas properties that aren't geothermal deposits and for all properties that are geothermal deposits.

Give each shareholder a statement that shows the separate amounts included in the computation of the amounts on lines 15d and 15e of Schedule K.

## Line 15d. Oil, Gas, and Geothermal Properties—Gross Income

Enter the total 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 and included on page 1, Form 1120S.

### Line 15e. Oil, Gas, and Geothermal Properties—Deductions

Enter any deductions allowed for the AMT that are allocable to oil, gas, and geothermal properties.

### Line 15f. Other AMT Items

Attach a statement to Form 1120S and Schedule K-1 that shows other items not shown on lines 15a through 15e that are adjustments or tax preference items or that the shareholder needs to complete Form 6251 or Schedule I (Form 1041). See these forms and their instructions to determine the amount to enter.

Other AMT items include the following.

- Accelerated depreciation of real property under pre-1987 rules.
- Accelerated depreciation of leased personal property under pre-1987 rules.
- Long-term contracts entered into after February 28, 1986. Except for certain home construction contracts, the taxable income from these contracts must be figured using the percentage of completion method of accounting for the AMT.
- Losses from tax shelter farm activities. No loss from any tax shelter farm activity is allowed for the AMT.

**Schedule K-1.** If you are reporting each shareholder's pro rata share of only one type of AMT item under code F, enter the code with an asterisk (F\*) and the dollar amount in the entry space in box 15 and attach a statement that shows the type of AMT item. If you are reporting multiple types of AMT items under code F, enter the code with an asterisk (F\*) and enter "STMT" in the entry space in box 15 and attach a statement that shows the dollar amount of each type of AMT item.

### Items Affecting Shareholder Basis

#### Line 16a. Tax-Exempt Interest Income

Enter on line 16a tax-exempt interest income, including any exempt-interest dividends received from a mutual fund or other regulated investment company. Individual shareholders must report this information on line 8b of Form 1040. Generally, under section 1367(a)(1)(A), the basis of the shareholder's stock is

increased by the amount shown on this line.

#### Line 16b. Other Tax-Exempt Income

Enter on line 16b all income of the corporation exempt from tax other than tax-exempt interest (for example, life insurance proceeds, but see section 101(j) for limits and reporting requirements). Generally, under section 1367(a)(1)(A), the basis of the shareholder's stock is increased by the amount shown on this line.

#### Line 16c. Nondeductible Expenses

Enter on line 16c nondeductible expenses paid or incurred by the corporation.

Don't include separately stated deductions shown elsewhere on Schedules K and K-1, capital expenditures, or items for which the deduction is deferred to a later tax year.

Generally, under section 1367(a)(2)(D), the basis of the shareholder's stock is decreased by the amount shown on this line.

#### Line 16d. Distributions

Enter the total distributions (including cash) made to each shareholder other than dividends reported on line 17c of Schedule K. Include the shareholder's pro rata share of any amounts included in interest income with respect to new clean renewable energy, qualified energy conservation, qualified zone academy (for bonds issued after October 3, 2008), qualified school construction, or build America bonds. Distributions of appreciated property are valued at fair market value. If property other than cash was distributed, attach a statement to provide the following information.

- The date the property was acquired.
- The date the property was distributed.
- The property's FMV on the date of distribution.
- The corporation's basis in the property.

See [Distributions](#), later, for the ordering rules.

#### Line 16e. Repayment of Loans From Shareholders

Enter any repayments made to shareholders during the current tax year.

**Schedule K-1.** Report each shareholder's pro rata share of amounts reported on lines 16a, 16b, and 16c (concerning items affecting shareholder basis) in box 16 of Schedule K-1 using codes A through C, respectively. Report property distributions (line 16d) and repayment of loans from shareholders (line 16e) on the Schedule K-1 of the shareholder(s) that received the distributions or repayments (using codes D and E).

### Other Information

#### Lines 17a and 17b. Investment Income and Expenses

Enter on line 17a the investment income included on lines 4, 5a, 6, and 10, of Schedule K. Don't include other portfolio gains or losses on this line.

Enter on line 17b the investment expense included on line 12d of Schedule K.

Investment income includes gross income from property held for investment, the excess of net gain attributable to the disposition of property held for investment over net capital gain from the disposition of property held for investment, any net capital gain from the disposition of property held for investment that each shareholder elects to include in investment income under section 163(d)(4)(B)(iii), and any qualified dividend income that the shareholder elects to include in investment income. Generally, investment income and investment expenses don't include any income or expenses from a passive activity. See Regulations section 1.469-2(f)(10) for exceptions.

Property subject to a net lease isn't treated as investment property because it is subject to the passive loss rules. Don't reduce investment income by losses from passive activities.

Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income. See the instructions for Form 4952 for more information.

**Schedule K-1.** Report each shareholder's pro rata share of amounts reported on lines 17a and 17b (investment income and expenses) in box 17 of Schedule K-1 using codes A and B, respectively.

If there are other items of investment income or expense included in the amounts that are required to be passed

through separately to the shareholders on Schedule K-1, such as net short-term capital gain or loss, net long-term capital gain or loss, and other portfolio gains or losses, give each shareholder a statement identifying these amounts.

### Line 17c. Dividend Distributions Paid From Accumulated Earnings and Profits (Schedule K Only)

Enter total dividends paid to shareholders from accumulated earnings and profits. Report these dividends to shareholders on Form 1099-DIV. Don't report them on Schedule K-1.

### Line 17d. Other Items and Amounts

Report the following information on a statement attached to Form 1120S. On Schedule K-1, enter the appropriate code in box 17 for each information item followed by an asterisk in the left-hand column of the entry space (for example, C\*). In the right-hand column, enter "STMT." The codes are provided for each information category.

**Qualified rehabilitation expenditures (other than rental real estate) (code C).** Enter total qualified rehabilitation expenditures from activities other than rental real estate activities. See the Instructions for Form 3468 for details on qualified rehabilitation expenditures.



*Report qualified rehabilitation expenditures related to rental real estate activities on line 13c.*

**Schedule K-1.** Report each shareholder's pro rata share of qualified rehabilitation expenditures related to activities other than rental real estate activities in box 17 of Schedule K-1 using code C. Attach a statement to Schedule K-1 that provides the information and the shareholder's pro rata share of the basis and expenditure amounts the shareholder will need to figure the amounts to report on lines 11b through 11j and 11m of Form 3468. See the Instructions for Form 3468 for details. If the corporation has expenditures from more than one activity, identify on a statement attached to Schedule K-1 the information and amounts for each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

**Basis of energy property (code D).** In box 17 of Schedule K-1, enter code D followed by an asterisk and enter

"STMT" in the entry space for the dollar amount. Attach a statement to Schedule K-1 that provides the shareholder's pro rata share of the basis and capacity amounts the shareholder will need to figure the amounts to report on lines 12a–12d, 12f, 12g, 12i, 12j, 12l, 12m, 12o, and 12q–12s of Form 3468. See the Instructions for Form 3468 for details.

**Recapture of low-income housing credit (codes E and F).** If recapture of part or all of the low-income housing credit is required because (a) the prior year qualified basis of a building decreased or (b) the corporation disposed of a building or part of its interest in a building, see Form 8611, Recapture of Low-Income Housing Credit. Complete lines 1 through 7 of Form 8611 to figure the amount of the credit to recapture.

Use code E on Schedule K-1 to report recapture of the low-income housing credit from a section 42(j)(5) partnership. Use code F to report recapture of any other low-income housing credit. See the instructions for lines 13a and 13b, earlier, for more information.

**Note.** If a shareholder's ownership interest in a building decreased because of a transaction at the shareholder level, the corporation must provide the necessary information to the shareholder to enable the shareholder to figure the recapture.



*The disposal of a building or an interest therein will generate a credit recapture unless it is reasonably expected that the building will continue to be operated as a qualified low-income building for the remainder of the building's compliance period.*

See Form 8586, Form 8611, and section 42 for more information.

**Recapture of investment credit (code G).** Complete and attach Form 4255 if, before the end of the recapture period, investment credit property is disposed of or no longer qualifies for the credit or if credit recapture is otherwise required. See the Instructions for Form 4255 for details about when credit recapture is required. State the type of property at the top of Form 4255, and complete lines 2, 4, and 5, whether or not any shareholder is subject to recapture of the credit.

Attach to each Schedule K-1 a separate statement providing the information the corporation is required

to show on Form 4255, but list only the shareholder's pro rata share of the basis of the property subject to recapture. Also indicate the lines of Form 4255 on which the shareholders should report these amounts.

The corporation itself is liable for investment credit recapture in certain cases. See [Investment credit recapture tax](#), earlier, for details.

**Recapture of other credits (code H).** On an attached statement to Schedule K-1, provide any information shareholders will need to report recapture of credits (other than recapture of low-income housing credit and investment credit reported on Schedule K-1 using codes E, F, and G). The following are examples of credits subject to recapture and reported using code H.

- The qualified plug-in electric vehicle credit. See section 30(e)(5) (as in effect before December 19, 2014) for details.
- The qualified plug-in electric drive motor vehicle credit. See section 30D(f)(5) for details.
- The new markets credit. See Form 8874 and Form 8874-B, Notice of Recapture Event for New Markets Credit, for details.
- The Indian employment credit. See section 45A(d) for details.
- The credit for employer-provided childcare facilities and services. See section 45F(d) for details.
- The alternative motor vehicle credit. See section 30B(h)(8) for details.
- The alternative fuel vehicle refueling property credit. See section 30C(e)(5) for details.

**Look-back interest—completed long-term contracts (code I).** If the corporation is closely held (defined in section 460(b)(4)(C)(iii)) and it entered into any long-term contracts after February 28, 1986, that are accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method, it must attach a statement to Form 1120S showing the information required in items (a) and (b) of the instructions for lines 1 and 3 of Part II of Form 8697. It must also report the amounts for Part II, lines 1 and 3, to its shareholders. See the Instructions for Form 8697 for more information.

**Look-back interest—income forecast method (code J).** If the corporation is closely held (defined in section 460(b)(4)(C)(iii)) and it depreciated certain property placed in service after September 13, 1995, under the income

forecast method, it must attach to Form 1120S the information specified in the instructions for Form 8866, line 2, for the 3rd and 10th tax years beginning after the tax year the property was placed in service. It must also report the line 2 amounts to its shareholders. See the Instructions for Form 8866 for more details.

**Dispositions of property with section 179 deductions (code K).** This represents gain or loss on the sale, exchange, or other disposition of property for which a section 179 deduction has been passed through to shareholders. The corporation must provide all the following information with respect to such dispositions (see the instructions for Form 1120S, line 4, earlier).

- Description of the property.
- Date the property was acquired and placed in service.
- Date of the sale or other disposition of the property.
- The shareholder's pro rata share of the gross sales price or amount realized.
- The shareholder's pro rata share of the cost or other basis plus expense of sale (reduced as explained in the instructions for Form 4797, line 21).
- The shareholder's pro rata share of the depreciation allowed or allowable, determined as described in the instructions for Form 4797, line 22, but excluding the section 179 deduction.
- The shareholder's pro rata share of the section 179 deduction (if any) passed through for the property and the corporation's tax year(s) in which the amount was passed through.
- If the disposition is due to a casualty or theft, a statement indicating so, and any additional information needed by the shareholder.
- For an installment sale made during the corporation's tax year, any information the shareholder needs to complete Form 6252. The corporation also must separately report the shareholder's pro rata share of all payments received for the property in future tax years. (Installment payments received for installment sales made in prior tax years should be reported in the same manner used in prior tax years.) See the instructions for Form 6252 for details.

**Recapture of section 179 deduction (code L).** This amount represents recapture of the section 179 deduction if business use of the property dropped to 50% or less before the end of the recapture period. If the business use of

any property (placed in service after 1986) for which a section 179 deduction was passed through to shareholders dropped to 50% or less (for a reason other than disposition), the corporation must provide all the following information.

- The shareholder's pro rata share of the original basis and depreciation allowed or allowable (not including the section 179 deduction).
- The shareholder's pro rata share of the section 179 deduction (if any) passed through for the property and the corporation's tax year(s) in which the amount was passed through.

See Regulations section 1.179-1(e) for details.

**Section 453(l)(3) information (code M).** Supply any information needed by a shareholder to figure the interest due under section 453(l)(3). If the corporation elected to report the dispositions of certain timeshares and residential lots on the installment method, each shareholder's tax liability must be increased by the shareholder's pro rata share of the interest on tax attributable to the installment payments received during the tax year.

**Section 453A(c) information (code N).** Supply any information needed by a shareholder to figure the interest due under section 453A(c). If an obligation arising from the disposition of property to which section 453A applies is outstanding at the close of the year, each shareholder's tax liability must be increased by the tax due under section 453A(c) on the shareholder's pro rata share of the tax deferred under the installment method.

**Section 1260(b) information (code O).** Supply any information needed by a shareholder to figure the interest due under section 1260(b). If the corporation had gain from certain constructive ownership transactions, each shareholder's tax liability must be increased by the shareholder's pro rata share of interest due on any deferral of gain recognition. See section 1260(b) for details, including how to figure the interest.

**Interest allocable to production expenditures (code P).** Supply any information needed by a shareholder to properly capitalize interest as required by section 263A(f). See [Section 263A uniform capitalization rules](#), earlier, for more information.

**CCF nonqualified withdrawal (code Q).** Report nonqualified withdrawals by the corporation from a capital

construction fund. Attach a statement to the shareholder's Schedule K-1 providing details of the withdrawal. See Pub. 595.

**Depletion information—oil and gas (code R).** Report gross income and other information relating to oil and gas well properties to shareholders to allow them to figure the depletion deduction for oil and gas well properties. Allocate to each shareholder a proportionate share of the adjusted basis of each corporate oil or gas well property. See section 613A(c)(11) for details.

The corporation can't deduct depletion on oil and gas wells. Each shareholder must determine the allowable amount to report on his or her return. See Pub. 535 for more information.

**Section 108(i) information (code T).** Report the shareholder's pro rata share of the following.

- Any COD income deferred under section 108(i) that hasn't been included in income in the current or prior tax years.
- Any OID deduction deferred under section 108(i)(2)(A)(i) that hasn't been deducted in the current or prior tax years.

For information on allocating these items to shareholders, see section 108(i); Regulations section 1.108(i)-1; Rev. Proc. 2009-37, 2009-36 I.R.B. 309; and Regulations section 1.108(i)-2.

**Net investment income (code U).** Use code U to report any information that may be relevant for shareholders to figure their net investment income tax when the information isn't otherwise identifiable elsewhere on Schedule K-1. Attach a statement that shows a description and dollar amount of each relevant item.

Examples of items reported using code U may include the following.

- Net rental real estate income reported on Form 1120S, Schedule K, line 2, and other net rental income reported on Form 1120S, Schedule K, line 3c, derived from a section 212 for-profit activity (and not from a section 162 trade or business).
- Gains and losses from dispositions of assets attributable to a section 212 for-profit activity (and not from a section 162 trade or business).
- Gain reported on the installment sale basis (or attributable to a private annuity) that is attributable to the disposition of properly held in a trade or business.



- Gain or loss from the disposition of a partnership interest, but only if such partnership was engaged, directly or indirectly, in one or more trades or businesses, and at least one of those trades or businesses wasn't trading in financial instruments or commodities.
- The shareholder's pro rata share of interest income, or interest expense, which is attributable to a loan between the corporation and the shareholder (self-charged interest).
- If the corporation received a Form 1065, Schedule K-1, the detail and amounts reported to the corporation using box 20, code Y.
- If the corporation received a Form 1065-B, Schedule K-1, the detail and amounts reported to the corporation.
- If the corporation received a Form 1041, Schedule K-1, the amount of the adjustment reported.

In addition, Regulations section 1.1411-10 provides special rules with respect to stock of CFCs and PFICs owned by the corporation. If the corporation owns directly or indirectly stock of a CFC or PFIC, then additional reporting may be required under code U.

**CFCs and QEFs.** In the case of stock of CFCs and QEFs directly or indirectly owned by the corporation, the corporation must provide the name and EIN (if one has been issued) for each CFC and QEF the stock of which is owned by the corporation for which an election under Regulations section 1.1411-10(g) is **not** in effect and with respect to which the corporation isn't engaged in a trade or business described in section 1411(c)(2). For each of these entities, the corporation must provide the following information on an entity-by-entity basis (to the extent such information isn't otherwise identifiable elsewhere on Schedule K-1).

- Section 951(a) inclusions.
- Section 1293(a)(1)(A) inclusions.
- Section 1293(a)(1)(B) inclusions.
- Section 959(d) distributions subject to section 1411.
- Section 1293(c) distributions subject to section 1411.
- Amount of gain or loss derived with respect to dispositions of the stock of CFCs and QEFs that is taken into account for section 1411 purposes.
- Amounts that are derived with respect to the disposition of the stock of CFCs and QEFs and included in income as a dividend under section 1248 for section 1411 purposes.

In the case of stock of CFCs and QEFs directly or indirectly owned by the corporation for which an election under Regulations section 1.1411-10(g) is in effect, the corporation must provide the following information (to the extent such information isn't otherwise identifiable elsewhere on Schedule K-1), on either an aggregate basis or an entity-by-entity basis.

- Section 951(a) inclusions.
- Section 1293(a)(1)(A) inclusions.
- Section 1293(a)(1)(B) inclusions.

In the case of stock of CFCs and QEFs directly or indirectly owned by the corporation with respect to which the corporation is engaged in a trade or business described in section 1411(c)(2), the corporation must provide the following information (to the extent such information isn't otherwise identifiable elsewhere on the Schedule K-1), on either an aggregate or an entity-by-entity basis, or may aggregate this information with other income derived by the corporation that is net investment income under section 1411(c)(1)(A)(ii).

- Section 951(a) inclusions.
- Section 1293(a)(1)(A) inclusions.
- Section 1293(a)(1)(B) inclusions.

**Section 1296 mark-to-market**

**PFICs.** In the case of stock of PFICs directly or indirectly owned by the corporation for which an election under section 1296 is in effect, the corporation must provide the following information (to the extent such information isn't otherwise identifiable elsewhere on Schedule K-1), on either an aggregate basis or an entity-by-entity basis (except as provided below).

- Amounts included in income under section 1296(a)(1).
- Amounts deducted from income under section 1296(a)(2).

In the case of PFIC stock owned directly or indirectly by the corporation for which an election under section 1296 is in effect and with respect to which the corporation is engaged in a trade or business described in section 1411(c)(2), the corporation may aggregate this information with other income derived by the corporation that is net investment income under section 1411(c)(1)(A)(ii).

**Section 1291 funds.** In the case of stock of PFICs directly or indirectly owned by the corporation with respect to which direct or indirect shareholders are subject to section 1291, the corporation must provide the following information (to the extent such

information isn't otherwise identifiable elsewhere on Schedule K-1), on an entity-by-entity basis.

- Excess distributions made by a PFIC with respect to which the shareholder is subject to section 1291.
- Gains derived with respect to the disposition of stock of a PFIC with respect to which a shareholder is subject to section 1291.

**Other information (code V).** Report the following information to each shareholder.

1. If the corporation participates in a transaction that must be disclosed on Form 8886 (discussed earlier). Both the corporation and its shareholders may be required to file Form 8886. The corporation must determine if any of its shareholders are required to disclose the transaction and provide those shareholders with information they will need to file Form 8886. This determination is based on the category(s) under which a transaction qualified for disclosures. See the Instructions for Form 8886 for details.

2. If the corporation is involved in farming or fishing activities, report the gross income from these activities.

3. If the corporation has deductions attributable to a farming business and receives an applicable subsidy, report the aggregate gross income or gain and the aggregate deductions from the farming business. See section 461(j) for details.

4. The shareholder's pro rata share of any amount included in interest income on line 4 with respect to clean renewable energy or (for bonds issued before October 4, 2008) qualified zone academy bonds. Shareholders need this information to properly adjust their stock basis. See Form 8912.

5. Any income or gain reported on lines 1 through 10 of Schedule K that qualifies as inversion gain, if the corporation is an expatriated entity or is a partner in an expatriated entity. For details, see section 7874. Attach a statement to Form 1120S that shows the amount of each type of income or gain included in the inversion gain. The corporation must report each shareholder's pro rata share of the inversion gain in box 17 of Schedule K-1 using code V. Attach a statement to Schedule K-1 that shows the shareholder's pro rata share of the amount of each type of income or gain included in the inversion gain.

6. Basis in qualifying advanced coal project property. Attach a statement to

Schedule K-1 that provides the shareholder's pro rata share of the basis amounts the shareholder will need to figure the amounts to report on lines 5a, 5b, and 5c of Form 3468. See the Instructions for Form 3468 for details.

7. Basis in qualifying gasification project property. Attach a statement to Schedule K-1 that provides the shareholder's pro rata share of the basis amounts the shareholder will need to figure the amounts to report on lines 6a and 6b of Form 3468. See the Instructions for Form 3468 for details.

8. Basis in qualifying advanced energy project property. Attach a statement to Schedule K-1 that provides the shareholder's pro rata share of the basis amounts the shareholder will need to figure the amounts to report on line 7 of Form 3468. See the Instructions for Form 3468 for details.

9. Any other information the shareholders need to prepare their tax returns.

## Reconciliation

### Line 18. Income/Loss Reconciliation (Schedule K Only)

To the extent the corporation has an amount on line 12d for code P (Domestic production activities information), Q (Qualified production activities income), or R (Employer's Form W-2 wages), exclude the amount(s) from line 18. If the corporation has an amount on line 14l of Schedule K (foreign taxes paid and accrued), add that amount for purposes of figuring the corporation's net income (loss). The amount reported on line 18 must be the same as the amount reported on line 8 of Schedule M-1 or line 26, column (d), in Part II of Schedule M-3 (Form 1120S).

---

## Schedule L. Balance Sheets per Books

The balance sheets should agree with the corporation's books and records. Schedule L isn't required to be completed if the corporation answered "Yes" to question 10 on Schedule B. If the corporation is required to complete Schedule L, include total assets reported on Schedule L, line 15, column (d), on page 1, item F.

Corporations with total assets of \$10 million or more on the last day of the tax year must file Schedule M-3 (Form 1120S) instead of Schedule M-1. However, see the instructions for

Schedule M-1, later. See the separate Instructions for Schedule M-3 (Form 1120S) for provisions that also affect Schedule L.

If the S election terminated during the tax year and the corporation reverted to a C corporation, the year-end balance sheet generally should agree with the books and records at the end of the C short year. However, if the corporation elected under section 1362(e)(3) to have items assigned to each short year under normal tax accounting rules, the year-end balance sheet should agree with the books and records at the end of the S short year.

### Line 5. Tax-Exempt Securities

Include on this line:

- State and local government obligations, the interest on which is excludable from gross income under section 103(a); and
- Stock in a mutual fund or other regulated investment company that distributed exempt-interest dividends during the tax year of the corporation.

### Line 24. Retained Earnings

If the corporation maintains 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 appropriated and unappropriated retained earnings on separate lines of Schedule L of Form 1120.

### Line 25. Adjustments to Shareholders' Equity

The following are some examples of adjustments to report on this line.

- Unrealized gains and losses on securities held "available for sale."
- Foreign currency translation adjustments.
- The excess of additional pension liability over unrecognized prior service cost.
- Guarantees of employee stock (ESOP) debt.
- Compensation related to employee stock award plans.

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

---

## Schedule M-1. Reconciliation of Income (Loss) per Books With Income (Loss) per Return

In completing Schedule M-1, the following apply.

- Schedule M-1 isn't required to be completed if the corporation answered "Yes" to question 10 on Schedule B.
- Corporations with total assets of \$10 million or more on the last day of the tax year must file Schedule M-3 (Form 1120S) instead of Schedule M-1.
- A corporation filing Form 1120S that isn't required to file Schedule M-3 may voluntarily file Schedule M-3 instead of Schedule M-1. See the Instructions for Schedule M-3 (Form 1120S) for more information.
- For 2015, corporations that (a) are required to file Schedule M-3 (Form 1120S) and have less than \$50 million total assets at the end of the tax year, or (b) aren't required to file Schedule M-3 (Form 1120S) and voluntarily file Schedule M-3 (Form 1120S), must either (i) complete Schedule M-3 (Form 1120S) entirely or (ii) complete Schedule M-3 (Form 1120S) through Part I, and complete Form 1120S, Schedule M-1, instead of completing Parts II and III of Schedule M-3 (Form 1120S). If the corporation chooses to complete Schedule M-1 instead of completing Parts II and III of Schedule M-3, line 1 of Schedule M-1 must equal line 11 of Part I of Schedule M-3. See the Instructions for Schedule M-3 (Form 1120S) for more information.

### Line 2

Report on this line income included on Schedule K, lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10 not recorded on the books this year. Describe each such item of income. Attach a statement if necessary.

### Line 3b. Travel and Entertainment

Include any of the following.

- Meal and entertainment expenses not deductible under section 274(n).
- Expenses for the use of an entertainment facility.
- The part of business gifts over \$25.
- Expenses of an individual over \$2,000, which are allocable to conventions on cruise ships.
- Employee achievement awards over \$400.

- The cost of entertainment tickets over face value (also subject to 50% limit under section 274(n)).
- The cost of skyboxes over the face value of nonluxury box seat tickets.
- The part of luxury water travel expenses not deductible under section 274(m).
- Expenses for travel as a form of education.
- Other nondeductible travel and entertainment expenses.

For more information, see Pub. 535.



*If the corporation has an amount on line 14l of Schedule K (foreign taxes paid and accrued), take that amount into account for purposes of figuring expenses and deductions to enter on lines 3 and 6.*

## Schedule M-2. Analysis of Accumulated Adjustments Account, Other Adjustments Account, and Shareholders' Undistributed Taxable Income Previously Taxed

### Column (a). Accumulated Adjustments Account

The accumulated adjustments account (AAA) is an account of the S corporation that generally reflects the accumulated undistributed net income of the corporation for the corporation's post-1982 years. S corporations with accumulated E&P must maintain the AAA to determine the tax effect of distributions during S years and the post-termination transition period. An S corporation without accumulated E&P doesn't need to maintain the AAA in order to determine the tax effect of distributions. Nevertheless, if an S corporation without accumulated E&P engages in certain transactions to which section 381(a) applies, such as a merger into an S corporation with accumulated E&P, the S corporation must be able to calculate its AAA at the time of the merger for purposes of determining the tax effect of post-merger distributions. Therefore, it is recommended that the AAA be maintained by all S corporations.

On the first day of the corporation's first tax year as an S corporation, the balance of the AAA is zero. At the end of the tax year, adjust the AAA for the items as explained below and in the order listed.

1. Increase the AAA by income (other than tax-exempt income) and the excess of the deduction for depletion over the basis of the property subject to depletion (unless the property is an oil and gas property the basis of which has been allocated to shareholders).

2. Generally, decrease the AAA by deductible losses and expenses, nondeductible expenses (other than expenses related to tax-exempt income), and the sum of the shareholders' deductions for depletion for any oil or gas property held by the corporation as described in section 1367(a)(2)(E). If deductible losses and expenses include the fair market value of certain contributed property (discussed earlier), further adjust AAA by adding back the fair market value of the contributed property and subtracting instead the property's adjusted basis. If the total decreases under (2) exceed the total increases under (1) above, the excess is a "net negative adjustment." If the corporation has a net negative adjustment, don't take it into account under (2). Instead, take it into account only under (4) below.

3. Decrease AAA (but not below zero) by property distributions (other than dividend distributions from accumulated E&P), unless the corporation elects to reduce accumulated E&P first. See [Distributions](#), later, for definitions and other details.

4. Decrease AAA by any net negative adjustment. For adjustments to the AAA for redemptions, reorganizations, and corporate separations, see Regulations section 1.1368-2(d).



*The AAA may have a negative balance at year end. See section 1368(e).*

### Column (b). Other Adjustments Account

The other adjustments account is adjusted for tax-exempt income (and related expenses) and federal taxes attributable to a C corporation tax year. After these adjustments are made, the account is reduced for any distributions made during the year. See [Distributions](#), later.

### Column (c). Shareholders' Undistributed Taxable Income Previously Taxed

The shareholders' undistributed taxable income previously taxed account, also called previously taxed income (PTI), is

maintained only if the corporation had a balance in this account at the start of its 2015 tax year. If there is a beginning balance for the 2015 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](#) next for the order of distributions from the account.

Each shareholder's right to nontaxable distributions from PTI is personal and can't be transferred to another person. The corporation is required to keep records of each shareholder's net share of PTI.

## Distributions

**General rule.** Unless the corporation makes one of the elections described below, property distributions (including cash) are applied in the following order (to reduce accounts of the S corporation that are used to figure the tax effect of distributions made by the corporation to its shareholders).

1. Reduce the AAA determined without regard to any net negative adjustment for the tax year (but not below zero). If distributions during the tax year exceed the AAA at the close of the tax year determined without regard to any net negative adjustment for the tax year, the AAA is allocated pro rata to each distribution made during the tax year. See section 1368.

2. Reduce shareholders' PTI account for any section 1375(d) (as in effect before 1983) distributions. A distribution from the PTI account is tax free to the extent of a shareholder's basis in his or her stock in the corporation.

3. Reduce accumulated E&P. Generally, the S corporation has accumulated E&P only if it hasn't distributed E&P accumulated in prior years when the S corporation was a C corporation (section 1361(a)(2)). See section 312 for information on E&P. The only adjustments that can be made to the accumulated E&P of an S corporation are:

- Reductions for dividend distributions;
- Adjustments for redemptions, liquidations, reorganizations, etc.; and
- Reductions for investment credit recapture tax for which the corporation is liable.

See section 1371(c) and (d)(3).



4. Reduce the other adjustments account (OAA).

5. Reduce any remaining shareholders' equity accounts.

**Elections relating to source of distributions.** The corporation may modify the above ordering rules by making one or more of the following elections.

**Election to distribute accumulated E&P first.** If the corporation has accumulated E&P and wants to distribute from this account before making distributions from the AAA, it may elect to do so with the consent of all its affected shareholders (section 1368(e)(3)(B)). This election is irrevocable and applies only for the tax year for which it is made. For details on making the election, see [Statement regarding elections](#), later.

**Election to make a deemed dividend.** If the corporation wants to distribute all or part of its accumulated E&P through a deemed dividend, it may elect to do so with the consent of all its affected shareholders (section 1368(e)(3)(B)). Under this election, the corporation will be treated as also having made the election to distribute accumulated E&P first. The amount of the deemed dividend can't exceed the accumulated E&P at the end of the tax year. The E&P at year end is first reduced by any actual distributions of accumulated E&P made during the tax year. A deemed dividend is treated as if it were a pro rata distribution of money to the shareholders, received by the shareholders, and immediately contributed back to the corporation, all on the last day of the tax year. This

election is irrevocable and applies only for the tax year for which it is made. For details on making the election, see [Statement regarding elections](#), later.

**Election to forego PTI.** If the corporation wants to forego distributions of PTI, it may elect to do so with the consent of all its affected shareholders (section 1368(e)(3)(B)). Under this election, item (2) under [General rule](#), earlier, doesn't apply to any distribution made during the tax year. This election is irrevocable and applies only for the tax year for which it is made. For details on making the election, see [Statement regarding elections](#) next.

**Statement regarding elections.** To make any of the above elections, the corporation must attach a statement to a timely filed original or amended Form 1120S for the tax year for which the election is made. In the statement, the corporation must identify the election it is making and must state that each shareholder consents to the election. The statement of election to make a deemed dividend must include the amount of the deemed dividend distributed to each shareholder. For more details on the election, see Regulations section 1.1368-1(f)(5).

**Example**

The following example shows how the Schedule M-2 accounts are adjusted for items of income (loss), deductions, and distributions reported on Form 1120S. In this example, the corporation has no PTI or accumulated E&P.

**Items per return are:**

1. Page 1, line 21 income—\$10,000;
2. Schedule K, line 2 loss—(\$3,000);
3. Schedule K, line 4 income—\$4,000;
4. Schedule K, line 5a income—\$16,000;
5. Schedule K, line 12a deduction—\$24,000;
6. Schedule K, line 12d deduction—\$3,000;
7. Schedule K, line 13g work opportunity credit—\$6,000;
8. Schedule K, line 16a tax-exempt interest—\$5,000;
9. Schedule K, line 16c nondeductible expenses—\$6,000 (reduction in salaries and wages for work opportunity credit); and
10. Schedule K, line 16d distributions—\$65,000.

Based on items (1) through (10) above and starting balances of zero, the columns for the AAA and the other adjustments account are completed as shown in the Schedule M-2 Worksheet.

For the AAA, the worksheet line 3—\$20,000 amount is the total of the Schedule K, lines 4 and 5a income of \$4,000 and \$16,000. The worksheet line 5—\$36,000 amount is the total of the Schedule K, line 2 loss of (\$3,000), line 12a (code A) deduction of \$24,000, line 12d (code R) deduction of \$3,000, and the line 16c nondeductible expenses of \$6,000. The worksheet line 7 is zero. The AAA at the end of the tax year (figured without regard to distributions and the net negative

**Schedule M-2 Worksheet**

Keep for Your Records



	(a) Accumulated adjustments account	(b) Other adjustments account	(c) Shareholders' undistributed taxable income previously taxed
1. Balance at beginning of tax year .....	-0-	-0-	
2. Ordinary income from page 1, line 21 .....	10,000		
3. Other additions .....	20,000	5,000	
4. Loss from page 1, line 21 .....	( )		
5. Other reductions .....	(36,000)	( )	
6. Combine lines 1 through 5 .....	(6,000)	5,000	
7. Distributions other than dividend distributions .....	-0-	5,000	
8. Balance at end of tax year. Subtract line 7 from line 6 .....	(6,000)	-0-	

adjustment of \$6,000) is zero, and distributions can't reduce the AAA below zero.

For the other adjustments account, the worksheet line 3 amount is the

Schedule K, line 16a, tax-exempt interest income of \$5,000. The worksheet line 7 amount is \$5,000, reducing the other adjustments account to zero. The remaining \$60,000 of

distributions aren't entered on Schedule M-2.

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

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

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

Form	Recordkeeping	Learning about the law or the form	Preparing the form	Copying, assembling, and sending the form to the IRS
1120S	62 hr., 10 min.	30 hr., 28 min.	56 hr., 3 min.	6 hr., 42 min.
Sch. B-1 (1120S)	1 hr., 25 min.	-----	0 hr., 1 min.	-----
Sch. D (1120S)	7 hr., 53 min.	4 hr., 30 min.	6 hr., 42 min.	0 hr., 32 min.
Sch. K-1 (1120S)	8 hr., 15 min.	6 hr., 3 min.	10 hr., 22 min.	1 hr., 4 min.
Sch. M-3 (1120S)	63 hr., 51 min.	3 hr., 3 min.	5 hr., 9 min.	0 hr., 16 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms simpler, we would be happy to hear from you. You can send us comments from [www.irs.gov/formspubs](http://www.irs.gov/formspubs). Click on "More Information" and then on "Give us feedback." Or you can write to the Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Do not send the tax form to this address. Instead, see [Where To File](#), near the beginning of the instructions.

## Principal Business Activity Codes

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

Using the list of activities and codes below, determine from which activity the company derives

the largest percentage of its "total receipts." Total receipts is defined as the sum of gross receipts or sales (page 1, line 1a); all other income (page 1, lines 4 and 5); income reported on Schedule K, lines 4, 5a, and 6; income or net gain reported on Schedule K, lines 7, 8a, 9, and 10; and income or net gain reported on Form 8825, lines 2, 19, and 20a. If the company purchases raw materials and supplies them to a subcontractor to produce the finished product, but retains title to the product, the company is

considered a manufacturer and must use one of the manufacturing codes (311110-339900).

Once the principal business activity is determined, enter the six-digit code from the list below on page 1, item B. Also enter the business activity on page 2, Schedule B, line 2(a) and a brief description of the principal product or service of the business on line 2(b).

<p><b>Agriculture, Forestry, Fishing and Hunting</b></p> <p><b>Crop Production</b></p> <p>111100 Oilseed &amp; Grain Farming</p> <p>111210 Vegetable &amp; Melon Farming (including potatoes &amp; yams)</p> <p>111300 Fruit &amp; Tree Nut Farming</p> <p>111400 Greenhouse, Nursery, &amp; Floriculture Production</p> <p>111900 Other Crop Farming (including tobacco, cotton, sugarcane, hay, peanut, sugar beet &amp; all other crop farming)</p> <p><b>Animal Production</b></p> <p>112111 Beef Cattle Ranching &amp; Farming</p> <p>112112 Cattle Feedlots</p> <p>112120 Dairy Cattle &amp; Milk Production</p> <p>112210 Hog &amp; Pig Farming</p> <p>112300 Poultry &amp; Egg Production</p> <p>112400 Sheep &amp; Goat Farming</p> <p>112510 Aquaculture (including shellfish &amp; finfish farms &amp; hatcheries)</p> <p>112900 Other Animal Production</p> <p><b>Forestry and Logging</b></p> <p>113110 Timber Tract Operations</p> <p>113210 Forest Nurseries &amp; Gathering of Forest Products</p> <p>113310 Logging</p> <p><b>Fishing, Hunting and Trapping</b></p> <p>114110 Fishing</p> <p>114210 Hunting &amp; Trapping</p> <p><b>Support Activities for Agriculture and Forestry</b></p> <p>115110 Support Activities for Crop Production (including cotton ginning, soil preparation, planting, &amp; cultivating)</p> <p>115210 Support Activities for Animal Production</p> <p>115310 Support Activities For Forestry</p> <p><b>Mining</b></p> <p>211110 Oil &amp; Gas Extraction</p> <p>212110 Coal Mining</p> <p>212200 Metal Ore Mining</p> <p>212310 Stone Mining &amp; Quarrying</p> <p>212320 Sand, Gravel, Clay, &amp; Ceramic &amp; Refractory Minerals Mining &amp; Quarrying</p> <p>212390 Other Nonmetallic Mineral Mining &amp; Quarrying</p> <p>213110 Support Activities for Mining</p> <p><b>Utilities</b></p> <p>221100 Electric Power Generation, Transmission &amp; Distribution</p> <p>221210 Natural Gas Distribution</p> <p>221300 Water, Sewage &amp; Other Systems</p> <p>221500 Combination Gas &amp; Electric</p> <p><b>Construction</b></p> <p><b>Construction of Buildings</b></p> <p>236110 Residential Building Construction</p> <p>236200 Nonresidential Building Construction</p> <p><b>Heavy and Civil Engineering Construction</b></p> <p>237100 Utility System Construction</p> <p>237210 Land Subdivision</p> <p>237310 Highway, Street, &amp; Bridge Construction</p> <p>237990 Other Heavy &amp; Civil Engineering Construction</p> <p><b>Specialty Trade Contractors</b></p> <p>238100 Foundation, Structure, &amp; Building Exterior Contractors</p>	<p>(including framing carpentry, masonry, glass, roofing, &amp; siding)</p> <p>238210 Electrical Contractors</p> <p>238220 Plumbing, Heating, &amp; Air-Conditioning Contractors</p> <p>238290 Other Building Equipment Contractors</p> <p>238300 Building Finishing Contractors (including drywall, insulation, painting, wallcovering, flooring, tile, &amp; finish carpentry)</p> <p>238900 Other Specialty Trade Contractors (including site preparation)</p> <p><b>Manufacturing</b></p> <p><b>Food Manufacturing</b></p> <p>311110 Animal Food Mfg</p> <p>311200 Grain &amp; Oilseed Milling</p> <p>311300 Sugar &amp; Confectionery Product Mfg</p> <p>311400 Fruit &amp; Vegetable Preserving &amp; Specialty Food Mfg</p> <p>311500 Dairy Product Mfg</p> <p>311610 Animal Slaughtering and Processing</p> <p>311710 Seafood Product Preparation &amp; Packaging</p> <p>311800 Bakeries, Tortilla, &amp; Dry Pasta Mfg</p> <p>311900 Other Food Mfg (including coffee, tea, flavorings &amp; seasonings)</p> <p><b>Beverage and Tobacco Product Manufacturing</b></p> <p>312110 Soft Drink &amp; Ice Mfg</p> <p>312120 Breweries</p> <p>312130 Wineries</p> <p>312140 Distilleries</p> <p>312200 Tobacco Manufacturing</p> <p><b>Textile Mills and Textile Product Mills</b></p> <p>313000 Textile Mills</p> <p>314000 Textile Product Mills</p> <p><b>Apparel Manufacturing</b></p> <p>315100 Apparel Knitting Mills</p> <p>315210 Cut &amp; Sew Apparel Contractors</p> <p>315220 Men's &amp; Boys' Cut &amp; Sew Apparel Mfg</p> <p>315240 Women's, Girls', &amp; Infants' Cut &amp; Sew Apparel Mfg</p> <p>315280 Other Cut &amp; Sew Apparel Mfg</p> <p>315990 Apparel Accessories &amp; Other Apparel Mfg</p> <p><b>Leather and Allied Product Manufacturing</b></p> <p>316110 Leather &amp; Hide Tanning &amp; Finishing</p> <p>316210 Footwear Mfg (including rubber &amp; plastics)</p> <p>316990 Other Leather &amp; Allied Product Mfg</p> <p><b>Wood Product Manufacturing</b></p> <p>321110 Sawmills &amp; Wood Preservation</p> <p>321210 Veneer, Plywood, &amp; Engineered Wood Product Mfg</p> <p>321900 Other Wood Product Mfg</p> <p><b>Paper Manufacturing</b></p> <p>322100 Pulp, Paper, &amp; Paperboard Mills</p> <p>322200 Converted Paper Product Mfg</p> <p><b>Printing and Related Support Activities</b></p> <p>323100 Printing &amp; Related Support Activities</p> <p><b>Petroleum and Coal Products Manufacturing</b></p> <p>324110 Petroleum Refineries (including integrated)</p>	<p>324120 Asphalt Paving, Roofing, &amp; Saturated Materials Mfg</p> <p>324190 Other Petroleum &amp; Coal Products Mfg</p> <p><b>Chemical Manufacturing</b></p> <p>325100 Basic Chemical Mfg</p> <p>325200 Resin, Synthetic Rubber, &amp; Artificial &amp; Synthetic Fibers &amp; Filaments Mfg</p> <p>325300 Pesticide, Fertilizer, &amp; Other Agricultural Chemical Mfg</p> <p>325410 Pharmaceutical &amp; Medicine Mfg</p> <p>325500 Paint, Coating, &amp; Adhesive Mfg</p> <p>325600 Soap, Cleaning Compound, &amp; Toilet Preparation Mfg</p> <p>325900 Other Chemical Product &amp; Preparation Mfg</p> <p><b>Plastics and Rubber Products Manufacturing</b></p> <p>326100 Plastics Product Mfg</p> <p>326200 Rubber Product Mfg</p> <p><b>Nonmetallic Mineral Product Manufacturing</b></p> <p>327100 Clay Product &amp; Refractory Mfg</p> <p>327210 Glass &amp; Glass Product Mfg</p> <p>327300 Cement &amp; Concrete Product Mfg</p> <p>327400 Lime &amp; Gypsum Product Mfg</p> <p>327900 Other Nonmetallic Mineral Product Mfg</p> <p><b>Primary Metal Manufacturing</b></p> <p>331110 Iron &amp; Steel Mills &amp; Ferroalloy Mfg</p> <p>331200 Steel Product Mfg from Purchased Steel</p> <p>331310 Alumina &amp; Aluminum Production &amp; Processing</p> <p>331400 Nonferrous Metal (except Aluminum) Production &amp; Processing</p> <p>331500 Foundries</p> <p><b>Fabricated Metal Product Manufacturing</b></p> <p>332110 Forging &amp; Stamping</p> <p>332210 Cutlery &amp; Handtool Mfg</p> <p>332300 Architectural &amp; Structural Metals Mfg</p> <p>332400 Boiler, Tank, &amp; Shipping Container Mfg</p> <p>332510 Hardware Mfg</p> <p>332610 Spring &amp; Wire Product Mfg</p> <p>332700 Machine Shops; Turned Product; &amp; Screw, Nut, &amp; Bolt Mfg</p> <p>332810 Coating, Engraving, Heat Treating, &amp; Allied Activities</p> <p>332900 Other Fabricated Metal Product Mfg</p> <p><b>Machinery Manufacturing</b></p> <p>333100 Agriculture, Construction, &amp; Mining Machinery Mfg</p> <p>333200 Industrial Machinery Mfg</p> <p>333310 Commercial &amp; Service Industry Machinery Mfg</p> <p>333410 Ventilation, Heating, Air-Conditioning, &amp; Commercial Refrigeration Equipment Mfg</p> <p>333510 Metalworking Machinery Mfg</p> <p>333610 Engine, Turbine &amp; Power Transmission Equipment Mfg</p> <p>333900 Other General Purpose Machinery Mfg</p> <p><b>Computer and Electronic Product Manufacturing</b></p> <p>334110 Computer &amp; Peripheral Equipment Mfg</p> <p>334200 Communications Equipment Mfg</p>	<p>334310 Audio &amp; Video Equipment Mfg</p> <p>334410 Semiconductor &amp; Other Electronic Component Mfg</p> <p>334500 Navigational, Measuring, Electromedical, &amp; Control Instruments Mfg</p> <p>334610 Manufacturing &amp; Reproducing Magnetic &amp; Optical Media</p> <p><b>Electrical Equipment, Appliance, and Component Manufacturing</b></p> <p>335100 Electric Lighting Equipment Mfg</p> <p>335200 Household Appliance Mfg</p> <p>335310 Electrical Equipment Mfg</p> <p>335900 Other Electrical Equipment &amp; Component Mfg</p> <p><b>Transportation Equipment Manufacturing</b></p> <p>336100 Motor Vehicle Mfg</p> <p>336210 Motor Vehicle Body &amp; Trailer Mfg</p> <p>336300 Motor Vehicle Parts Mfg</p> <p>336410 Aerospace Product &amp; Parts Mfg</p> <p>336510 Railroad Rolling Stock Mfg</p> <p>336610 Ship &amp; Boat Building</p> <p>336990 Other Transportation Equipment Mfg</p> <p><b>Furniture and Related Product Manufacturing</b></p> <p>337000 Furniture &amp; Related Product Manufacturing</p> <p><b>Miscellaneous Manufacturing</b></p> <p>339110 Medical Equipment &amp; Supplies Mfg</p> <p>339900 Other Miscellaneous Manufacturing</p> <p><b>Wholesale Trade</b></p> <p><b>Merchant Wholesalers, Durable Goods</b></p> <p>423100 Motor Vehicle &amp; Motor Vehicle Parts &amp; Supplies</p> <p>423200 Furniture &amp; Home Furnishings</p> <p>423300 Lumber &amp; Other Construction Materials</p> <p>423400 Professional &amp; Commercial Equipment &amp; Supplies</p> <p>423500 Metal &amp; Mineral (except Petroleum)</p> <p>423600 Household Appliances &amp; Electrical &amp; Electronic Goods</p> <p>423700 Hardware, &amp; Plumbing &amp; Heating Equipment &amp; Supplies</p> <p>423800 Machinery, Equipment, &amp; Supplies</p> <p>423910 Sporting &amp; Recreational Goods &amp; Supplies</p> <p>423920 Toy &amp; Hobby Goods &amp; Supplies</p> <p>423930 Recyclable Materials</p> <p>423940 Jewelry, Watch, Precious Stone, &amp; Precious Metals</p> <p>423990 Other Miscellaneous Durable Goods</p> <p><b>Merchant Wholesalers, Nondurable Goods</b></p> <p>424100 Paper &amp; Paper Products</p> <p>424210 Drugs &amp; Druggists' Sundries</p> <p>424300 Apparel, Piece Goods, &amp; Notions</p> <p>424400 Grocery &amp; Related Products</p> <p>424500 Farm Product Raw Materials</p> <p>424600 Chemical &amp; Allied Products</p> <p>424700 Petroleum &amp; Petroleum Products</p> <p>424800 Beer, Wine, &amp; Distilled Alcoholic Beverages</p> <p>424910 Farm Supplies</p> <p>424920 Book, Periodical, &amp; Newspapers</p>
---	--	--	---



**Principal Business Activity Codes (Continued)**

424930 Flower, Nursery Stock, & Florists' Supplies	<b>General Merchandise Stores</b>	511140 Directory & Mailing List Publishers	525990 Other Financial Vehicles (including mortgage REITs & closed-end investment funds)
424940 Tobacco & Tobacco Products	452110 Department Stores	511190 Other Publishers	"Offices of Bank Holding Companies" and "Offices of Other Holding Companies" are located under <i>Management of Companies (Holding Companies)</i> below.
424950 Paint, Varnish, & Supplies	452900 Other General Merchandise Stores	511210 Software Publishers	
424990 Other Miscellaneous Nondurable Goods	<b>Miscellaneous Store Retailers</b>	<b>Motion Picture and Sound Recording Industries</b>	<b>Real Estate and Rental and Leasing</b>
<b>Wholesale Electronic Markets and Agents and Brokers</b>	453110 Florists	512100 Motion Picture & Video Industries (except video rental)	
425110 Business to Business Electronic Markets	453210 Office Supplies & Stationery Stores	512200 Sound Recording Industries	<b>Real Estate</b>
425120 Wholesale Trade Agents & Brokers	453220 Gift, Novelty, & Souvenir Stores	<b>Broadcasting (except Internet)</b>	531110 Lessors of Residential Buildings & Dwellings (including equity REITs)
<b>Retail Trade</b>	453310 Used Merchandise Stores	515100 Radio & Television Broadcasting	531120 Lessors of Nonresidential Buildings (except Miniwarehouses) (including equity REITs)
<b>Motor Vehicle and Parts Dealers</b>	453910 Pet & Pet Supplies Stores	515210 Cable & Other Subscription Programming	531130 Lessors of Miniwarehouses & Self-Storage Units (including equity REITs)
441110 New Car Dealers	453920 Art Dealers	<b>Telecommunications</b>	531190 Lessors of Other Real Estate Property (including equity REITs)
441120 Used Car Dealers	453930 Manufactured (Mobile) Home Dealers	517000 Telecommunications (including paging, cellular, satellite, cable & other program distribution, resellers, other telecommunications, & Internet service providers)	531210 Offices of Real Estate Agents & Brokers
441210 Recreational Vehicle Dealers	453990 All Other Miscellaneous Store Retailers (including tobacco, candle, & trophy shops)	<b>Data Processing Services</b>	531310 Real Estate Property Managers
441222 Boat Dealers	<b>Nonstore Retailers</b>	518210 Data Processing, Hosting, & Related Services	531320 Offices of Real Estate Appraisers
441228 Motorcycle, ATV, & All Other Motor Vehicle Dealers	454110 Electronic Shopping & Mail-Order Houses	<b>Other Information Services</b>	531390 Other Activities Related to Real Estate
441300 Automotive Parts, Accessories, & Tire Stores	454210 Vending Machine Operators	519100 Other Information Services (including news syndicates, libraries, Internet publishing, & broadcasting)	<b>Rental and Leasing Services</b>
<b>Furniture and Home Furnishings Stores</b>	454310 Fuel Dealers (including Heating Oil & Liquefied Petroleum)	<b>Finance and Insurance</b>	532100 Automotive Equipment Rental & Leasing
442110 Furniture Stores	454390 Other Direct Selling Establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)	<b>Depository Credit Intermediation</b>	532210 Consumer Electronics & Appliances Rental
442210 Floor Covering Stores	<b>Transportation and Warehousing</b>	522110 Commercial Banking	532220 Formal Wear & Costume Rental
442291 Window Treatment Stores	<b>Air, Rail, and Water Transportation</b>	522120 Savings Institutions	532230 Video Tape & Disc Rental
442299 All Other Home Furnishings Stores	481000 Air Transportation	522130 Credit Unions	532290 Other Consumer Goods Rental
<b>Electronics and Appliance Stores</b>	482110 Rail Transportation	522190 Other Depository Credit Intermediation	532310 General Rental Centers
443141 Household Appliance Stores	483000 Water Transportation	<b>Nondepository Credit Intermediation</b>	532400 Commercial & Industrial Machinery & Equipment Rental & Leasing
443142 Electronics Stores (including Audio, Video, Computer, & Camera Stores)	<b>Truck Transportation</b>	522210 Credit Card Issuing	<b>Lessors of Nonfinancial Intangible Assets (except copyrighted works)</b>
<b>Building Material and Garden Equipment and Supplies Dealers</b>	484110 General Freight Trucking, Local	522220 Sales Financing	533110 Lessors of Nonfinancial Intangible Assets (except copyrighted works)
444110 Home Centers	484120 General Freight Trucking, Long-distance	522291 Consumer Lending	<b>Professional, Scientific, and Technical Services</b>
444120 Paint & Wallpaper Stores	484200 Specialized Freight Trucking	522292 Real Estate Credit (including mortgage bankers & originators)	
444130 Hardware Stores	<b>Transit and Ground Passenger Transportation</b>	522293 International Trade Financing	<b>Legal Services</b>
444190 Other Building Material Dealers	485110 Urban Transit Systems	522294 Secondary Market Financing	541110 Offices of Lawyers
444200 Lawn & Garden Equipment & Supplies Stores	485210 Interurban & Rural Bus Transportation	522298 All Other Nondepository Credit Intermediation	541190 Other Legal Services
<b>Food and Beverage Stores</b>	485310 Taxi Service	<b>Activities Related to Credit Intermediation</b>	<b>Accounting, Tax Preparation, Bookkeeping, and Payroll Services</b>
445110 Supermarkets and Other Grocery (except Convenience) Stores	485320 Limousine Service	522300 Activities Related to Credit Intermediation (including loan brokers, check clearing, & money transmitting)	541211 Offices of Certified Public Accountants
445120 Convenience Stores	485410 School & Employee Bus Transportation	<b>Securities, Commodity Contracts, and Other Financial Investments and Related Activities</b>	541213 Tax Preparation Services
445210 Meat Markets	485510 Charter Bus Industry	523110 Investment Banking & Securities Dealing	541214 Payroll Services
445220 Fish & Seafood Markets	485990 Other Transit & Ground Passenger Transportation	523120 Securities Brokerage	541219 Other Accounting Services
445230 Fruit & Vegetable Markets	<b>Pipeline Transportation</b>	523130 Commodity Contracts Dealing	<b>Architectural, Engineering, and Related Services</b>
445291 Baked Goods Stores	486000 Pipeline Transportation	523140 Commodity Contracts Brokerage	541310 Architectural Services
445292 Confectionery & Nut Stores	<b>Scenic &amp; Sightseeing Transportation</b>	523210 Securities & Commodity Exchanges	541320 Landscape Architecture Services
445299 All Other Specialty Food Stores	487000 Scenic & Sightseeing Transportation	523900 Other Financial Investment Activities (including portfolio management & investment advice)	541330 Engineering Services
445310 Beer, Wine, & Liquor Stores	<b>Support Activities for Transportation</b>	<b>Insurance Carriers and Related Activities</b>	541340 Drafting Services
<b>Health and Personal Care Stores</b>	488100 Support Activities for Air Transportation	524140 Direct Life, Health, & Medical Insurance & Reinsurance Carriers	541350 Building Inspection Services
446110 Pharmacies & Drug Stores	488210 Support Activities for Rail Transportation	524150 Direct Insurance & Reinsurance (except Life, Health, & Medical) Carriers	541360 Geophysical Surveying & Mapping Services
446120 Cosmetics, Beauty Supplies, & Perfume Stores	488300 Support Activities for Water Transportation	524210 Insurance Agencies & Brokerages	541370 Surveying & Mapping (except Geophysical) Services
446130 Optical Goods Stores	488410 Motor Vehicle Towing	524290 Other Insurance Related Activities (including third-party administration of insurance and pension funds)	541380 Testing Laboratories
446190 Other Health & Personal Care Stores	488490 Other Support Activities for Road Transportation	<b>Funds, Trusts, and Other Financial Vehicles</b>	<b>Specialized Design Services</b>
<b>Gasoline Stations</b>	488510 Freight Transportation Arrangement	525100 Insurance & Employee Benefit Funds	541400 Specialized Design Services (including interior, industrial, graphic, & fashion design)
447100 Gasoline Stations (including convenience stores with gas)	488990 Other Support Activities for Transportation	525910 Open-End Investment Funds (Form 1120-RIC)	<b>Computer Systems Design and Related Services</b>
<b>Clothing and Clothing Accessories Stores</b>	<b>Couriers and Messengers</b>	525920 Trusts, Estates, & Agency Accounts	541511 Custom Computer Programming Services
448110 Men's Clothing Stores	492110 Couriers		541512 Computer Systems Design Services
448120 Women's Clothing Stores	492210 Local Messengers & Local Delivery		541513 Computer Facilities Management Services
448130 Children's & Infants' Clothing Stores	<b>Warehousing and Storage</b>		541519 Other Computer Related Services
448140 Family Clothing Stores	493100 Warehousing & Storage (except lessors of miniwarehouses & self-storage units)		
448150 Clothing Accessories Stores	<b>Information</b>		
448190 Other Clothing Stores	<b>Publishing Industries (except Internet)</b>		
448210 Shoe Stores	511110 Newspaper Publishers		
448310 Jewelry Stores	511120 Periodical Publishers		
448320 Luggage & Leather Goods Stores	511130 Book Publishers		
<b>Sporting Goods, Hobby, Book, and Music Stores</b>			
451110 Sporting Goods Stores			
451120 Hobby, Toy, & Game Stores			
451130 Sewing, Needlework, & Piece Goods Stores			
451140 Musical Instrument & Supplies Stores			
451211 Book Stores			
451212 News Dealers & Newsstands			

**Principal Business Activity Codes (Continued)**

<p><b>Other Professional, Scientific, and Technical Services</b></p> <p>541600 Management, Scientific, &amp; Technical Consulting Services</p> <p>541700 Scientific Research &amp; Development Services</p> <p>541800 Advertising &amp; Related Services</p> <p>541910 Marketing Research &amp; Public Opinion Polling</p> <p>541920 Photographic Services</p> <p>541930 Translation &amp; Interpretation Services</p> <p>541940 Veterinary Services</p> <p>541990 All Other Professional, Scientific, &amp; Technical Services</p>	<p>services, &amp; convention &amp; trade show organizers)</p> <p><b>Waste Management and Remediation Services</b></p> <p>562000 Waste Management &amp; Remediation Services</p> <p><b>Educational Services</b></p> <p>611000 Educational Services (including schools, colleges, &amp; universities)</p>	<p><b>Nursing and Residential Care Facilities</b></p> <p>623000 Nursing &amp; Residential Care Facilities</p> <p><b>Social Assistance</b></p> <p>624100 Individual &amp; Family Services</p> <p>624200 Community Food &amp; Housing, &amp; Emergency &amp; Other Relief Services</p> <p>624310 Vocational Rehabilitation Services</p> <p>624410 Child Day Care Services</p>	<p>722514 Cafeterias &amp; Buffets</p> <p>722515 Snack &amp; Non-alcoholic Beverage Bars</p>
<p><b>Management of Companies (Holding Companies)</b></p> <p>551111 Offices of Bank Holding Companies</p> <p>551112 Offices of Other Holding Companies</p>	<p><b>Health Care and Social Assistance</b></p> <p><b>Offices of Physicians and Dentists</b></p> <p>621111 Offices of Physicians (except mental health specialists)</p> <p>621112 Offices of Physicians, Mental Health Specialists</p> <p>621210 Offices of Dentists</p> <p><b>Offices of Other Health Practitioners</b></p> <p>621310 Offices of Chiropractors</p> <p>621320 Offices of Optometrists</p> <p>621330 Offices of Mental Health Practitioners (except Physicians)</p> <p>621340 Offices of Physical, Occupational &amp; Speech Therapists, &amp; Audiologists</p> <p>621391 Offices of Podiatrists</p> <p>621399 Offices of All Other Miscellaneous Health Practitioners</p>	<p><b>Arts, Entertainment, and Recreation</b></p> <p><b>Performing Arts, Spectator Sports, and Related Industries</b></p> <p>711100 Performing Arts Companies</p> <p>711210 Spectator Sports (including sports clubs &amp; racetracks)</p> <p>711300 Promoters of Performing Arts, Sports, &amp; Similar Events</p> <p>711410 Agents &amp; Managers for Artists, Athletes, Entertainers, &amp; Other Public Figures</p> <p>711510 Independent Artists, Writers, &amp; Performers</p> <p><b>Museums, Historical Sites, and Similar Institutions</b></p> <p>712100 Museums, Historical Sites, &amp; Similar Institutions</p> <p><b>Amusement, Gambling, and Recreation Industries</b></p> <p>713100 Amusement Parks &amp; Arcades</p> <p>713200 Gambling Industries</p> <p>713900 Other Amusement &amp; Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, &amp; bowling centers)</p>	<p><b>Other Services</b></p> <p><b>Repair and Maintenance</b></p> <p>811110 Automotive Mechanical &amp; Electrical Repair &amp; Maintenance</p> <p>811120 Automotive Body, Paint, Interior, &amp; Glass Repair</p> <p>811190 Other Automotive Repair &amp; Maintenance (including oil change &amp; lubrication shops &amp; car washes)</p> <p>811210 Electronic &amp; Precision Equipment Repair &amp; Maintenance</p> <p>811310 Commercial &amp; Industrial Machinery &amp; Equipment (except Automotive &amp; Electronic) Repair &amp; Maintenance</p> <p>811410 Home &amp; Garden Equipment &amp; Appliance Repair &amp; Maintenance</p> <p>811420 Reupholstery &amp; Furniture Repair</p> <p>811430 Footwear &amp; Leather Goods Repair</p> <p>811490 Other Personal &amp; Household Goods Repair &amp; Maintenance</p>
<p><b>Administrative and Support and Waste Management and Remediation Services</b></p> <p><b>Administrative and Support Services</b></p> <p>561110 Office Administrative Services</p> <p>561210 Facilities Support Services</p> <p>561300 Employment Services</p> <p>561410 Document Preparation Services</p> <p>561420 Telephone Call Centers</p> <p>561430 Business Service Centers (including private mail centers &amp; copy shops)</p> <p>561440 Collection Agencies</p> <p>561450 Credit Bureaus</p> <p>561490 Other Business Support Services (including repossession services, court reporting, &amp; stenotype services)</p> <p>561500 Travel Arrangement &amp; Reservation Services</p> <p>561600 Investigation &amp; Security Services</p> <p>561710 Exterminating &amp; Pest Control Services</p> <p>561720 Janitorial Services</p> <p>561730 Landscaping Services</p> <p>561740 Carpet &amp; Upholstery Cleaning Services</p> <p>561790 Other Services to Buildings &amp; Dwellings</p> <p>561900 Other Support Services (including packaging &amp; labeling</p>	<p><b>Outpatient Care Centers</b></p> <p>621410 Family Planning Centers</p> <p>621420 Outpatient Mental Health &amp; Substance Abuse Centers</p> <p>621491 HMO Medical Centers</p> <p>621492 Kidney Dialysis Centers</p> <p>621493 Freestanding Ambulatory Surgical &amp; Emergency Centers</p> <p>621498 All Other Outpatient Care Centers</p> <p><b>Medical and Diagnostic Laboratories</b></p> <p>621510 Medical &amp; Diagnostic Laboratories</p> <p><b>Home Health Care Services</b></p> <p>621610 Home Health Care Services</p> <p><b>Other Ambulatory Health Care Services</b></p> <p>621900 Other Ambulatory Health Care Services (including ambulance services &amp; blood &amp; organ banks)</p> <p><b>Hospitals</b></p> <p>622000 Hospitals</p>	<p><b>Accommodation and Food Services</b></p> <p><b>Accommodation</b></p> <p>721110 Hotels (except Casino Hotels) &amp; Motels</p> <p>721120 Casino Hotels</p> <p>721191 Bed &amp; Breakfast Inns</p> <p>721199 All Other Traveler Accommodation</p> <p>721210 RV (Recreational Vehicle) Parks &amp; Recreational Camps</p> <p>721310 Rooming &amp; Boarding Houses</p> <p><b>Food Services and Drinking Places</b></p> <p>722300 Special Food Services (including food service contractors &amp; caterers)</p> <p>722410 Drinking Places (Alcoholic Beverages)</p> <p>722511 Full Service Restaurants</p> <p>722513 Limited Service Restaurants</p>	<p><b>Personal and Laundry Services</b></p> <p>812111 Barber Shops</p> <p>812112 Beauty Salons</p> <p>812113 Nail Salons</p> <p>812190 Other Personal Care Services (including diet &amp; weight reducing centers)</p> <p>812210 Funeral Homes &amp; Funeral Services</p> <p>812220 Cemeteries &amp; Crematories</p> <p>812310 Coin-Operated Laundries &amp; Drycleaners</p> <p>812320 Drycleaning &amp; Laundry Services (except Coin-Operated)</p> <p>812330 Linen &amp; Uniform Supply</p> <p>812910 Pet Care (except Veterinary) Services</p> <p>812920 Photofinishing</p> <p>812930 Parking Lots &amp; Garages</p> <p>812990 All Other Personal Services</p> <p><b>Religious, Grantmaking, Civic, Professional, and Similar Organizations</b></p> <p>813000 Religious, Grantmaking, Civic, Professional, &amp; Similar Organizations (including condominium and homeowners associations)</p>

---

## Index

---

### A

Accounting methods [5](#)  
Accounting period [5](#)  
Accumulated adjustments  
account [41](#)  
Amended return [6](#)  
Amortization [16](#)  
Amount owed [21](#)  
Assembling return [4](#)  
At-risk activities—reporting  
requirements [23](#)

### B

Bad debt deduction [17](#)  
Balance sheets—Sch. L [40](#)  
Business startup expenses [16](#)

### C

Change in accounting  
method [5](#)  
Charitable contributions [28](#)  
Cost of goods sold [14](#)

### D

Deductions [15, 27](#)  
Deductions, limitations on [15](#)  
Deductions from oil and gas  
properties [35](#)  
Depletion [18](#)  
Depletion (other than oil and  
gas) [35](#)  
Depreciation [18](#)  
Direct deposit of refund [2, 21](#)  
Distributions [41](#)  
Distributions, property [36](#)

### E

Election, termination of [2](#)  
Electronic filing [2](#)  
Employee benefit  
programs [18](#)  
Employer identification number  
(EIN) [13](#)

Estimated tax payment [4, 21](#)  
Estimated tax penalty [21](#)  
Expenses, nondeductible—Sch.  
K or K-1 [36](#)  
Extension of time to file [3](#)  
Extraterritorial income  
exclusion [12](#)

### F

Farming, special rules [15](#)  
Final return [13](#)  
Foreign transactions—Sch. K or  
K-1 [33](#)  
Forms and Publications, how  
to get [2](#)

### G

Gain, ordinary [14](#)  
Gain (loss), section 1231—Sch.  
K or K-1 [26](#)  
Gross receipts [14](#)

### I

Income [13](#)  
Income, rental activities [24](#)  
Income, tax-exempt [36](#)  
Income, trade or business  
activities [24](#)  
Income from oil and gas  
properties [35](#)  
Installment sales [14](#)  
Interest deduction [17](#)  
Interest due on tax payment [4](#)  
Interest expense,  
investment [29](#)  
Inventory [15](#)  
Investment income and  
expenses [36](#)

### L

Loans from shareholders [36](#)  
Lobbying expenses,  
nondeductible [19](#)  
Low-income housing credit [31](#)

Low-income housing credit  
recapture [37](#)

### M

Multiple activities—reporting  
requirements [23](#)

### N

Net investment income (code  
U) [38](#)  
Net investment income tax  
reporting requirements [12](#)

### O

Officer compensation [16](#)

### P

Passive activities—rental [8](#)  
Passive activities—reporting  
requirements [11](#)  
Passive activity limitations [7](#)  
Penalties [5](#)  
Pension, profit-sharing, etc.,  
plans [18](#)  
Portfolio income [9, 25](#)  
Preparer, tax return [3](#)  
Private delivery services [3](#)  
Property distributions [36](#)

### Q

Qualified rehabilitation  
expenditures [31](#)

### R

Recapture, low-income  
housing credit [37](#)  
Recapture, section 179  
deduction [38](#)  
Recordkeeping [6](#)  
Reforestation [20, 30](#)  
Regulations section  
1.1411-10(g) [6](#)

Related party transactions [16](#)  
Rental activities, income and  
expenses [24](#)  
Rental deduction [17](#)  
Return, amended [6](#)

### S

Salaries and wages [16](#)  
Sales [14](#)  
Schedule L [40](#)  
Schedule M-1 [40](#)  
Schedule M-2 [41](#)  
Schedule M-3 [13](#)  
Section 1411 election with  
respect to CFCs and  
QEFs [6](#)  
Section 179 expense [27](#)  
Section 263A rules [15](#)  
Section 59(e)(2)  
expenditures [29](#)  
Self-charged interest [9](#)  
Substitute Sch. K-1 [22](#)

### T

Taxes and licenses  
deduction [17](#)  
Taxes due [20](#)  
Tax issues, unresolved [1](#)  
Termination of S election [2](#)  
Travel and entertainment  
deduction [19](#)

### W

When to file [3](#)  
Where to file [3](#)  
Who must file [2](#)  
Who must sign [3](#)