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## **Caution: DRAFT—NOT FOR FILING**

This is an early release draft of an IRS tax form, instructions, or publication, which the IRS is providing for your information. **Do not file draft forms** and do **not** rely on draft forms, instructions, and pubs for filing. We incorporate all significant changes to forms posted with this coversheet. However, unexpected issues occasionally arise, or legislation is passed—in this case, we will post a new draft of the form to alert users that changes were made to the previously posted draft. Thus, there are never any changes to the last posted draft of a form and the final revision of the form. Forms and instructions are subject to OMB approval before they can be officially released, so we post drafts of them until they are approved. Drafts of instructions and pubs usually have some additional changes before their final release. Early release drafts are at [IRS.gov/DraftForms](https://www.irs.gov/DraftForms) and remain there after the final release is posted at [IRS.gov/LatestForms](https://www.irs.gov/LatestForms). Also see [IRS.gov/Forms](https://www.irs.gov/Forms).

Most forms and publications have a page on IRS.gov: [IRS.gov/Form1040](https://www.irs.gov/Form1040) for Form 1040; [IRS.gov/Pub501](https://www.irs.gov/Pub501) for Pub. 501; [IRS.gov/W4](https://www.irs.gov/W4) for Form W-4; and [IRS.gov/ScheduleA](https://www.irs.gov/ScheduleA) for Schedule A (Form 1040), for example, and similarly for other forms, pubs, and schedules for Form 1040. When typing in a link, type it into the address bar of your browser, not a Search box on IRS.gov.

If you wish, you can submit comments to the IRS about draft or final forms, instructions, or pubs at [IRS.gov/FormsComments](https://www.irs.gov/FormsComments). Include “NTF” followed by the form or pub number (for example, “NTF1040”, “NTFW4”, “NTF501, etc.) in the body of the message to route your message properly. We cannot respond to all comments due to the high volume we receive and may not be able to consider many suggestions until the subsequent revision of the product, but we will review each “NTF” message. If you have comments on reducing paperwork and respondent (filer) burden, with respect to draft or final forms, please respond to the relevant information collection through the Federal Register process; for more info, click [here](#).



# Instructions for Form 1120-RIC

## U.S. Income Tax Return for Regulated Investment Companies

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

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### Future Developments

For the latest information about developments related to Form 1120-RIC and its instructions, such as legislation enacted after this form and instructions were published, go to [IRS.gov/Form1120RIC](https://www.irs.gov/Form1120RIC).

### What's New

**Increase in penalty for failure to file.** For tax returns required to be filed in 2024, the minimum penalty for failure to file a return that is over 60 days late has increased to the smaller of the tax due or \$485. See [Late filing of return](#), later.

**Expiration of 100% business meal expense deduction.** The temporary 100% business meal expenses deduction for food and beverages provided by a restaurant does not apply to amounts paid or incurred after 2022.

**Elective payment election.** Applicable entities and electing taxpayers can elect to treat certain credits as elective payments. Any resulting overpayment may result in refunds. See the instructions for [line 28h](#). Also, see the Instructions for Form 3800.

### Photographs of Missing Children

The Internal Revenue Service is a proud partner with the [National Center for Missing & Exploited Children® \(NCMEC\)](#). Photographs of missing children selected by the Center may appear in 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 RIC has rights that the IRS must abide by in its dealings with the RIC. TAS can help the RIC if:

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

The TAS toolkit at [TaxpayerAdvocate.IRS.gov](https://www.irs.gov/TaxpayerAdvocate) can help the RIC understand these rights.

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

TAS also works to resolve large-scale or systemic problems that affect many taxpayers. If the RIC knows of one of these broad issues, please report it to TAS through the Systemic Advocacy Management System at [IRS.gov/SAMS](http://IRS.gov/SAMS).

For more information, go to [IRS.gov/Advocate](http://IRS.gov/Advocate).

## How To Get Forms and Publications

**Internet.** You can access the IRS website 24 hours a day, 7 days a week, at [IRS.gov](http://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 RIC can view, download, or print all of the forms and publications it may need at [IRS.gov/FormsPubs](http://IRS.gov/FormsPubs).

Otherwise, the RIC can go to [IRS.gov/OrderForms](http://IRS.gov/OrderForms) to place an order and have forms mailed to it.

## General Instructions

### Purpose of Form

Use Form 1120-RIC, U.S. Income Tax Return for Regulated Investment Companies, to report the income, gains, losses, deductions, credits, and to figure the income tax liability of a regulated investment company (RIC) as defined in section 851.

### Who Must File

A domestic corporation that meets certain conditions (discussed below) must file Form 1120-RIC if it elects to be treated as a RIC for the tax year (or has made an election for a prior tax year and the election has not been terminated or revoked). The election is made by computing taxable income as a RIC on Form 1120-RIC.

**Qualified opportunity funds.** To certify as a qualified opportunity fund (QOF), the RIC must file Form 1120-RIC and attach Form 8996, even if the RIC had no income or expenses to report. See [Schedule K, Question 15](#). Also, see the Instructions for Form 8996.

## General Requirements To Qualify as a RIC

The term “regulated investment company” applies to any domestic corporation that:

- Is registered throughout the tax year as a management company or unit investment trust under the Investment Company Act of 1940 (ICA),
- Has an election in effect under the ICA to be treated as a business development company, or

- Is a common trust fund or similar fund that is neither an investment company under section 3(c)(3) of the ICA nor a common trust fund as defined under section 584(a).

## Other Requirements

In addition, the RIC must meet the (1) income test, (2) asset test, and (3) distribution requirements explained below.

**The income test:** At least 90% of its gross income must be derived from the following items:

- Dividends;
- Interest (including tax-exempt interest income);
- Payments with respect to securities loans (as defined in section 512(a)(5));
- Gains from the sale or other disposition of stock or securities (as defined in ICA section 2(a)(36)) or foreign currencies;
- Other income (including gains from options, futures, or forward contracts) derived from the RIC's business of investing in such stock, securities, or currencies; and
- Net income derived from an interest in a qualified publicly traded partnership (as defined in section 851(h)).

Income from a partnership (other than a qualified publicly traded partnership) or trust qualifies under the 90% test to the extent the RIC's distributive share of such income is from items described above as realized by the partnership or trust.

Income that a RIC receives in the normal course of business as a reimbursement from its investment advisor is qualifying income for purposes of the 90% test if the reimbursement is includible in the RIC's gross income.

A RIC that fails to meet the requirements of section 851(b)(2) may still be considered to have satisfied the requirements of this test if:

- Following the RIC's identification of the failure, a description of each item of its gross income described in section 851(b)(2) is set forth in a statement for the tax year; and
- Failure to meet the requirements of this test is due to reasonable cause and not due to willful neglect.

### The asset test:

1. At the end of each quarter of the RIC's tax year, at least 50% of the value of its assets must be invested in the following items:

- Cash and cash items (including receivables);
- Government securities;
- Securities of other RICs; and
- Securities of other issuers, except that the investment in a single issuer of securities may not exceed 5% of the value of the RIC's assets or 10% of the outstanding voting securities of the issuer (except as provided in section 851(e)).

2. At the end of each quarter of the RIC's tax year, no more than 25% of the value of the RIC's assets may be invested in the securities of:

- A single issuer (excluding government securities or securities of other RICs);
- Two or more issuers controlled by the RIC and engaged in the same or related trades or businesses; or
- One or more qualified publicly traded partnerships as defined in section 851(h).

## Where To File

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

If the RIC's principal business, office, or agency is located in:	And the total assets at the end of the tax year are:	Use the following address:
Connecticut, Delaware, District of Columbia, 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 is not filed	Department of the Treasury Internal Revenue Service Kansas City, MO 64999-0012
	\$10 million or more or Schedule M-3 is filed	Department of the Treasury Internal Revenue Service Ogden, UT 84201-0012
Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, 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 Ogden, UT 84201-0012

A group of corporations with members located in more than one service center area will often keep all the books and records at the principal office of the managing corporation. In this case, file the tax returns with the service center for the area in which the principal office of the managing corporation is located.

See sections 851(b)(3) and 851(c) for further details.

3. A RIC that fails to meet the requirements of section 851(b)(3) for a quarter may be considered to have satisfied the requirements of this test if:

- After the RIC identifies the failure, the RIC provides a statement with a description of each asset that causes the RIC to fail to satisfy the requirements at the close of the quarter;
- The failure is due to reasonable cause and not due to willful neglect; and
- The RIC disposes of the assets set forth on the statement (or the requirements of section 851(b)(3) are otherwise met) within 6 months after the last day of the quarter that the RIC identified the failure.

4. De minimis failures. A RIC that fails to meet the requirements of section 851(b)(3) for a quarter may be considered to have satisfied the requirements of this test if:

- Such failure is due to ownership of assets that the total value does not exceed the lesser of:
  - a. 1% of the total value of the RIC's assets at the end of the quarter for which the measurement is done, or
  - b. \$10 million; and
- The RIC disposes of the asset following the identification of the failure (or the requirements of section 851(b)(3) are otherwise met) within 6 months after the last day of the quarter in which the RIC identified the failure.

**Note.** For special rules regarding failure to meet the requirements of the income and asset tests, see sections 851(d)(2) and 851(i).

**Distribution requirements.** The RIC's deduction for dividends paid for the tax year (as defined in section 561, but without regard to capital gain dividends) equals or exceeds the sum of:

- 90% of its investment company taxable income determined without regard to section 852(b)(2)(D); and
- 90% of the excess of the RIC's interest income excludable from gross income under section 103(a) over its deductions disallowed under sections 265 and 171(a)(2).



*A RIC that does not satisfy the distribution requirements will be subject to taxation as a C corporation.*

**Earnings and profits.** The RIC must either have been a RIC for all tax years ending after November 7, 1983, or, at the end of the current tax year, have had no accumulated earnings and profits from any non-RIC tax year.

**Note.** For this purpose, current year distributions are treated as made from the earliest earnings and profits accumulated in any non-RIC tax year. See section 852(c)(3). Also, see section 852(e) for procedures that may allow the RIC to avoid disqualification for the initial year if the RIC did not meet this requirement.

## Definition of a Fund

The term "fund" refers to a separate portfolio of assets, whose beneficial interests are owned by the holders of a class or series of stock of the RIC that is preferred over all other classes or series for that portfolio of assets.

## When To File

Generally, a RIC must file its income tax return by the 15th day of the 4th month after the end of its tax year. A new RIC filing a short period return must generally file by the 15th day of the 4th month after the short period ends. A RIC that has dissolved must generally file by the 15th day of the 4th month after the date of dissolution.

However, a RIC with a fiscal tax year ending June 30 must file by the 15th day of the 3rd month after the end of

its tax year. A RIC with a short tax year ending anytime in June will be treated as if the short year ended on June 30, and must file by the 15th day of the 3rd month after the end of its tax year.

If the due date falls on a Saturday, Sunday, or legal holiday, the RIC may file its return on the next business day.

### Private Delivery Services

RICs can use certain private delivery services (PDS) designated by the IRS to meet the “timely mailing as timely filing” rule for tax returns. Go to [IRS.gov/PDS](https://www.irs.gov/PDS) for the current list of designated services.

The PDS can tell you how to get written proof of the mailing date.

For the IRS mailing address to use if you're using PDS, go to [IRS.gov/PDSStreetAddresses](https://www.irs.gov/PDSStreetAddresses).



*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 request an extension of time to file. Generally, the RIC must file Form 7004 by the regular due date of the return.

### 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 a tax officer) authorized to sign.

If a return is filed on behalf of a RIC 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 RIC must be accompanied by a copy of the order or instructions of the court authorizing signing of the return or form.

**Note.** If this return is being filed for a series fund (as defined in section 851(g)(2)), the return may be signed by any officer authorized to sign for the corporation in which the fund is a series.

**Paid Preparer Use Only section.** If an employee of the RIC completes Form 1120-RIC, the paid preparer's section should remain blank. Anyone who prepares Form 1120-RIC but does not charge the RIC should not complete that section. Generally, anyone who is paid to prepare the return must sign it and complete the section.

The paid preparer must complete the required preparer information and:

- Sign the return in the space provided for the preparer's signature,
- Include their Preparer Tax Identification Number (PTIN), and
- Give a copy of the return to the RIC.



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

### Paid Preparer Authorization

If the RIC wants to allow the IRS to discuss its 2023 tax return with the paid preparer who signed the return, 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 RIC's return. It does not apply to the firm, if any, shown in that section.

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

- Give the IRS any information that is missing from the return;
- 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 RIC is not authorizing the paid preparer to receive any refund check, bind the RIC to anything (including any additional tax liability), or otherwise represent the RIC before the IRS.

The authorization will automatically end no later than the due date (excluding extensions) for filing the RIC's 2024 tax return. If the RIC 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 RIC's tax return is correctly processed, attach all schedules, statements, and other forms after page 4, Form 1120-RIC, in the following order.

1. Schedule N (Form 1120).
2. Schedule D (Form 1120).
3. Form 8949.
4. Form 4136.
5. Form 8948.
6. Form 965-B.
7. Form 8941.
8. Form 3800.
9. Form 8997.
10. Additional schedules in alphabetical order.
11. Additional forms in numerical order.
12. Supporting statements and attachments.

Complete every applicable entry space on Form 1120-RIC. Do not enter “See attached” 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 RIC's name and EIN on each supporting statement or attachment.

## Tax Payments

Generally, the RIC must pay the tax due in full no later than the due date for filing its tax return (not including extensions). See the instructions for [line 31](#). 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

RICs must use electronic funds transfer 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 RIC does not 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 tax 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 [EFTPS.gov](https://eftps.gov), or call 800-555-4477. To contact EFTPS using Telecommunications Relay Services (TRS) for people who are deaf, hard of hearing, or have a speech disability, dial 711 and provide the TRS assistant the 800-555-4477 number above or 800-733-4829.

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

**Same-day wire payment option.** If the RIC fails to submit a deposit transaction on EFTPS by 8 p.m. Eastern time on 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 RIC will need to make arrangements with its financial institution ahead of time regarding availability, deadlines, and costs. Financial institutions may charge a fee for payments made this way. To learn more about the information the RIC will need to provide its financial institution to make a same-day wire payment, go to [IRS.gov/SameDayWire](https://irs.gov/SameDayWire).

## Estimated Tax Payments

Generally, the following rules apply to the RIC's payments of estimated tax.

- The RIC must make installment payments of estimated tax if it expects its total tax for the year (less applicable credits) to be \$500 or more.
- The installments are due by the 15th day of the 4th, 6th, 9th, and 12th months of the tax year. If any date falls on a Saturday, Sunday, or legal holiday, the installment is due on the next regular business day.
- The RIC must use electronic funds transfer to make installment payments of estimated tax.

- If, after the RIC figures and deposits estimated tax, it finds that its tax liability for the year will be more or less than originally estimated, it may have to refigure its required installments. If earlier installments were underpaid, the RIC may owe a penalty. See [Estimated tax penalty](#) below.

- If the RIC overpaid its estimated tax, it may be able to get a quick refund by filing Form 4466, Corporation Application for Quick Refund of Overpayment of Estimated Tax. The overpayment must be at least 10% of the RIC's expected income tax liability and at least \$500.

See section 6655 and Pub. 542, Corporations, for more information on how to figure estimated taxes.

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

- Its tax liability for the current year, or
- Its prior year's tax.

Use Form 2220, Underpayment of Estimated Tax by Corporations, to see if the RIC owes a penalty and to figure the amount of the penalty. If Form 2220 is completed, enter the penalty on line 30. See the instructions for line 30.

## Interest and Penalties

**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 RIC that does not file its tax return by the due date, including extensions, may be penalized 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 tax return required to be filed in 2024 that is over 60 days late is the smaller of the tax due or \$485. The penalty will not be imposed if the RIC can show that the failure to file on time was due to reasonable cause.

**Late payment of tax.** A RIC that does not pay the tax when due may generally be penalized  $\frac{1}{2}$  of 1% of the unpaid tax for each month or part of a month the tax is not paid, up to a maximum of 25% of the unpaid tax. The penalty will not be imposed if the RIC can show that the failure to pay on time was due to reasonable cause.

**Reasonable cause determinations.** If the RIC receives a notice about a penalty after it files its return, send the IRS an explanation and we will determine if the RIC meets the reasonable cause criteria. **Do not** attach an explanation when the RIC's return is filed.

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

or withheld, or these taxes are not paid. These taxes are generally reported on:

- Form 720, Quarterly Federal Excise Tax Return;
- Form 941, Employer's QUARTERLY Federal Tax Return;
- 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 be 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 or Pub. 15 (Circular E), for details, including the definition of responsible persons.

**Note.** The trust fund recovery penalty will not apply to any amount of trust fund taxes an employer holds back in anticipation of the credit for qualified sick and family leave wages or the employee retention credit that they are entitled to. See Pub. 15 or Pub. 51 for more information.

**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 taxable income using the method of accounting regularly used in keeping the RIC's books and records. In all cases, the method used must clearly reflect taxable income.

Generally, permissible methods include:

- Cash,
- Accrual, or
- Any other method authorized by the Internal Revenue Code.

For more information, see Pub. 538, Accounting Periods and Methods.

**Accrual method.** Generally, a RIC must use the accrual method of accounting if its average annual gross receipts for the prior 3 years exceed \$29 million. See section 448(c).

**Mark-to-market accounting method.** Generally, dealers in securities must use the mark-to-market accounting method described in section 475. Under this method, any security that is inventory to the dealer must be held at its fair market value (FMV).

Any security held by a dealer that is not inventory and held at the close of the tax year is treated as sold at its FMV on the last business day of the tax year. Any resulting gain or loss must be taken into account that year in determining gross income. The gain or loss taken into account is generally treated as ordinary gain or loss.

For details, including exceptions, see section 475, the related regulations, and Rev. Rul. 97-39, 1997-39 I.R.B. 4.

Dealers in commodities and traders in securities and commodities may elect, with some exceptions, to use the mark-to-market accounting method. To make the election, the RIC must file a statement describing the election, the first tax year the election is to be effective, and in the case of an election for traders in securities or commodities, the

trade or business for which the election is made. Except for new taxpayers, the statement must be filed by the due date (not including extensions) of the income tax return for the tax year immediately preceding the election year and attached to that return, or if applicable, to a request for an extension of time to file that return. For more details, see Rev. Proc. 99-17, 1999-7 I.R.B. 52, and sections 475(e) and (f).

**Change in accounting method.** Generally, the RIC must get IRS consent to change either an overall method of accounting or the accounting treatment of any material item for income tax purposes. To obtain consent, the RIC must file Form 3115, Application for Change in Accounting Method, during the tax year for which the change is requested. See the Instructions for Form 3115 and Pub. 538 for more information and exceptions. Also, see the Instructions for Form 3115 for procedures that may apply for obtaining automatic consent to change certain methods of accounting, non-automatic change procedures, and reduced Form 3115 filing requirements.

## Accounting Periods

A RIC must figure its taxable income on the basis of a tax year. A tax year is the annual accounting period a RIC uses to keep its records and report its income and expenses. RICs can use a calendar year or a fiscal year. For more information about accounting periods, see Regulations sections 1.441-1 and 1.441-2.

**Change of tax year.** Generally, a RIC must receive consent from the IRS before changing its tax year. To obtain the consent, file Form 1128, Application To Adopt, Change, or Retain a Tax Year. However, under certain conditions, a RIC may change its tax year without obtaining the consent.

See the Instructions for Form 1128 and Pub. 538 for more information on accounting periods and tax years.

## Rounding Off to Whole Dollars

The RIC may enter decimal points and cents when completing its return. However, the RIC should round off cents to whole dollars on its return, forms, and schedules to make completing its return easier. The RIC must either round off all amounts on its return to whole dollars, or use cents for all amounts. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, \$8.40 rounds to \$8 and \$8.50 rounds to \$9.

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 RIC's records for as long as they may be needed for 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 the return is due or filed, whichever is later. Keep records that verify the RIC's basis in property for as long as they are needed to figure the basis of the original or replacement property.

The RIC should keep copies of all filed returns. They help in preparing future and amended returns and in the calculation of earnings and profits.

## Other Forms That May Be Required

In addition to Form 1120-RIC, the RIC may have to file some of the following forms.

**Form 976**, Claim for Deficiency Dividends Deductions by a Personal Holding Company, Regulated Investment Company, or Real Estate Investment Trust. Use this form to claim a deficiency dividend deduction under section 860.

**Form 1096**, Annual Summary and Transmittal of U.S. Information Returns. Use Form 1096 to transmit Forms 1099 and 5498 to the Internal Revenue Service.

**Form 1099-DIV**, Dividends and Distributions. Report certain dividends and distributions.

**Form 1099-INT**, Interest Income. Report interest income.

**Form 2438**, Undistributed Capital Gains Tax Return, must be filed by the RIC if it designates undistributed net long-term capital gains under section 852(b)(3)(D).

**Form 2439**, Notice to Shareholder of Undistributed Long-Term Capital Gains, must be completed and a copy given to each shareholder for whom the RIC paid tax on undistributed net long-term capital gains under section 852(b)(3)(D).

**Form 3520**, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts, may be required if the RIC received a distribution from, was a grantor of, or transferor to a foreign trust during the tax year. See Question 5 of Schedule N (Form 1120).

**Form 5471**, Information Return of U.S. Persons With Respect To Certain Foreign Corporations. Use Form 5471 if the RIC is a U.S. shareholder of a controlled foreign corporation, a specified foreign corporation, or otherwise subject to the reporting requirements of section 6038 or 6046, and the related regulations.

**Form 7205**, Energy Efficient Commercial Buildings Deduction. Use Form 7205 to calculate and claim the deduction under section 179D for qualifying energy efficient commercial buildings placed in service during the tax year.

**Form 8613**, Return of Excise Tax on Undistributed Income of Regulated Investment Companies. If the RIC is liable for the 4% excise tax on undistributed income under section 4982 or makes an election under section 4982(e) (4), it must file this return for the calendar year.

**Form 8621**, Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund. Use Form 8621 if the RIC is a direct or indirect shareholder of a passive foreign investment company, as defined in section 1297(a).

**Form 8927**, Determination Under Section 860(e)(4) by a Qualified Investment Entity. Use Form 8927 to make a determination under section 860(e)(4) for purposes of paying deficiency dividends.

**Form 8975**, Certain U.S. persons that are the ultimate parent entity of a U.S. multinational enterprise group with

annual revenue for the preceding reporting period of \$850 million or more are required to file Form 8975. Form 8975 and Schedule A (Form 8975) must be filed with the income tax return of the ultimate parent entity of a U.S. multinational enterprise group for the tax year in or within which the reporting period covered by Form 8975 ends. For more information, see Form 8975, Schedule A (Form 8975) and the Instructions for Form 8975 and Schedule A (Form 8975).

**Form 8990**, Limitation on Business Interest Expense Under Section 163(j). Use Form 8990 to calculate the amount of business interest expense the RIC can deduct and the amount to carry forward to the next year.

**Form 8992**, U.S. Shareholder Calculation of Global Intangible Low-Taxed Income (GILTI). Use Form 8992 to figure the domestic corporation's GILTI under section 951A and attach it to Form 1120-RIC.

**Form 8996**, Qualified Opportunity Fund. Use Form 8996 to certify that the RIC is organized as a qualified opportunity fund (QOF) to invest in qualified opportunity zone property. In addition, a QOF RIC files Form 8996 annually to report that it meets the 90% investment standard of section 1400Z-2 or to compute the penalty if it fails to meet the investment standard.

**Form 8997**, Initial and Annual Statement of Qualified Opportunity Fund (QOF) Investments. Use Form 8997 to report investments in one or more QOFs. Report the amount of deferred gains invested in QOFs at the beginning of the current tax year, transactions related to investments in QOFs for the current tax year, which include capital gains deferred and invested in QOFs and dispositions of investments in QOFs, and the amount of deferred gains invested in QOFs at the end of the current tax year.

## Statements

### Reportable transaction disclosure statement.

Disclose information for each reportable transaction in which the RIC participated. Form 8886, Reportable Transaction Disclosure Statement, must be filed for each tax year that the federal income tax liability of the RIC is affected by its participation in the transaction. 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 RIC (or a related party) paid an advisor a fee of at least \$250,000.

3. Certain transactions for which the RIC (or a related party) has contractual protection against disallowance of the tax benefits.

4. Certain transactions resulting in a loss of at least \$10 million in any single year or \$20 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." See Notice 2009-55, 2009-31 I.R.B. 170.



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

**Penalties.** The RIC 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 RIC fails to file Form 8886 with its Form 1120-RIC, 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.

**Safe harbor under Temporary Regulations section 1.67-2T(j)(2).** Generally, shareholders in a nonpublicly offered fund that are individuals or pass-through entities are treated as having received a dividend in an amount equal to the shareholder's allocable share of affected RIC expenses for the calendar year. They are also treated as having paid or incurred an expense described in section 212 in the same amount for the calendar year.

**Election.** A nonpublicly offered fund may elect to treat its affected RIC expenses for a calendar year as equal to 40% of the amount determined under Temporary Regulations section 1.67-2T(j)(1)(i) for that calendar year.

To make this election, attach to Form 1120-RIC for the tax year that includes the last day of the calendar year for which the fund makes the election a statement that it is making an election under Temporary Regulations section 1.67-2T(j)(2). Once made, the election remains in effect for all subsequent calendar years and may not be revoked without IRS consent. See Temporary Regulations section 1.67-2T for definitions and other details.

**Transfers to a corporation controlled by the transferor.** Every significant transferor (as defined in Regulations section 1.351-3(d)(1)) 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. If the transferor or transferee corporation is a controlled foreign corporation (CFC), each U.S. shareholder (within the meaning of section 951(b)) must include the required statement on or with its return.

**Distributions under section 355.** Every RIC that makes a distribution of stock or securities of a controlled corporation, as described in section 355 (or so much of section 356 as it relates to section 355), must attach the statement required by Regulations section 1.355-5(a) to its return for the year of the distribution. A significant

distributee (as defined in Regulations section 1.355-5(c)) that receives stock or securities or a controlled corporation must include the statement required by Regulations section 1.355-5(b) on or with its return for the year of receipt. If the distributing or distributee corporation is a CFC, each U.S. shareholder (within the meaning of section 951(b)) must include the statement on or with its return.

**Dual consolidated losses.** If a domestic corporation incurs a dual consolidated loss (as defined in Regulations section 1.1503-2(c)(5)), the corporation (or consolidated group) may need to attach an elective relief agreement and/or an annual certification, as provided in Regulations section 1.1503-2(g)(2).

**Certain dividends.** A dividend received from a RIC is taken into account in computing (a) the deduction under section 243, or (b) qualified dividend income, only to the extent reported by the RIC as eligible for such deduction or such treatment in written statements furnished to its shareholders. A RIC must determine the reportable amounts under section 854(b). For purposes of the dividends-received deduction, a capital gain dividend received from a RIC is not treated as a dividend. The capital gain dividend is treated as a long-term capital gain by the shareholder.

**Consent to partnership election to close its books monthly.** Certain money market funds that obtain an interest in an eligible partnership that invests in assets exempt from taxation under section 103 may be qualified to pay exempt-interest dividends to their shareholders. To qualify for payment of exempt-interest dividends, a RIC must meet the quarterly net asset value (NAV) requirements under section 852(b)(5). To maintain the required NAV at the end of each quarter, the RIC may take into account on a monthly basis its distributive share of partnership items if the eligible partnership makes a proper election to close its books at the end of each month. See Rev. Proc. 2003-84, 2003-48 I.R.B. 1159, as modified by Notice 2008-80, for details.

**Eligibility.** A RIC is entitled to take into account its distributive share of partnership items on a monthly basis if:

- The RIC is entitled to hold itself out as a money market fund, or an equivalent of a money market fund;
- The RIC provides a statement to the partnership that it consents to the partnership's election to close its books monthly and that the RIC will include in its taxable income its distributive share of partnership items in a manner consistent with the election. See Rev. Proc. 2003-84 for the required contents of the statement of consent;
- The RIC provides the statement of consent to the custodian or manager of the partnership by the last day of the second month after the month in which the RIC acquires the partnership interest; and
- The partnership is eligible under Rev. Proc. 2003-84 to make the monthly closing election and the election is effective by the second month after the month in which the RIC acquires the partnership interest.

**Statement of consent.** The consent to a partnership's monthly closing election is effective for the month in which the RIC acquires the partnership interest, unless the RIC

requests that the consent be effective for either of the two immediately following calendar months. In addition to timely providing the partnership with the statement of consent, the statement should be filed with Form 1120-RIC for the first tax year in which the consent is effective. The monthly closing consent (and the partnership's election) may be revoked only with the consent of the Commissioner. However, the RIC's consent becomes ineffective on any day when the RIC ceases to be an eligible partner and the partnership's monthly closing election is terminated as of the first day of any month the partnership is no longer eligible for the election under Rev. Proc. 2003-84. For more details, see the revenue procedure.

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

## Specific Instructions

### Period Covered

File the 2023 return for calendar year 2023 and fiscal years that begin in 2023 and end in 2024. For a fiscal year return, fill in the tax year in the space at the top of the form.

The 2023 Form 1120-RIC may also be used if:

- The RIC has a tax year of less than 12 months that begins and ends in 2024; and
- The 2024 Form 1120-RIC is not available at the time the RIC is required to file its return.

The RIC must show its 2024 tax year information on the 2023 Form 1120-RIC and take into account any tax law changes that are effective for tax years beginning after December 31, 2023.

### Name and Address

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

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

If the RIC 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.

### Item B. Date RIC Was Established

If this return is being filed for a series fund (as described in section 851(g)(2)), enter the date the fund was created. Otherwise, enter the date the RIC was incorporated or organized.

## Item C. Employer Identification Number (EIN)

Enter the RIC's EIN. If the RIC does not have an EIN, it must apply for one. An EIN may be applied for:

- Online by visiting [IRS.gov/EIN](https://www.irs.gov/ein). The EIN is issued immediately once the application information is validated; or
- By mailing or faxing Form SS-4, Application for Employer Identification Number.

If the RIC has not received its EIN by the time the return is due, write "Applied for" and the date you applied in the space for the EIN. See the Instructions for Form SS-4 for details.

## Item D. Total Assets

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

## Item E. Final Return, Name Change, Address Change, or Amended Return

- If this is the RIC's final return and it will no longer exist, check the "Final return" box.
- If the RIC has changed its name since it last filed a return, check the "Name change" box. Generally, a RIC must also have amended its articles of incorporation and filed the amendment with the state in which it was incorporated.
- If the RIC has changed its address since it last filed a return (including a change to an "in care of" address), check the "Address change" box.

**Note.** 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 of the new address. See the instructions for Form 8822-B for details.

**Amended return.** If the RIC is amending its return, check the box for "Amended return," complete the entire return, correct the appropriate lines with the new information, and refigure the RIC's tax liability. Attach a statement that explains the reason for the amendments and identifies the lines being changed on the amended return.

## Part I—Investment

### Company Taxable Income

#### Income

**Line 1. Dividends.** A RIC that is the holder of record of any share of stock on the record date for a dividend payable on that stock must include the dividend in gross income by the later of the date the share became ex-dividend, or the date the RIC acquired the share.

**Line 2. Interest.** Enter taxable interest on U.S. obligations and on loans, notes, mortgages, bonds, bank deposits, corporate bonds, tax refunds, etc.

Do not offset interest expense against interest income. Special rules apply to interest income from certain

below-market-rate loans. See section 7872 for more information on the tax treatment of loans on which inadequate or no interest is charged.

**Note.** Report tax-exempt interest income on Schedule K, item 8. Do not include tax-exempt interest on line 2. Also, if required, include the same amount on Schedule M-1, line 7.

Include interest income from tax credit bonds on line 2. If the RIC elects to pass through the credits to shareholders, see the instructions for [Part II, Schedule A, line 7](#).

**Line 3. Net foreign currency gain or (loss) from section 988 transactions.** Enter the net foreign currency gain (loss) from section 988 transactions treated as ordinary income or loss under section 988(a)(1)(A). Attach a statement detailing each separate transaction.

**Line 4. Payments with respect to securities loans.** Enter the amount received or accrued from a broker as compensation for securities loaned by the RIC to the broker for use in completing market transactions. The payments must meet the requirements of section 512(a)(5).

**Line 5. Excess of net short-term capital gain over net long-term capital loss.** Enter the amount from Schedule D (Form 1120), line 16. Every sale or exchange of a capital asset must be reported even if no gain or loss is indicated.

If a RIC has a net capital loss for any tax year, the excess of the net short-term capital loss over the net long-term capital gain shall be a short-term capital loss arising on the first day of the next tax year. The excess of the net long-term capital loss over the net short-term capital gain shall be a long-term capital loss arising on the first day of the next tax year. Also, there is no limit on the number of tax years that a RIC is allowed to carry over a net capital loss. See section 1212(a)(3) for more information.

**Line 7. Other income.** Enter any other taxable income (loss) not reported on lines 1 through 6, except net capital gain reported in Part II.

If the RIC owns any controlled foreign corporations or qualified electing funds, enter the amount included in gross income under section 951(a)(1)(A), plus the amount of global intangible low-taxed income determined under section 951A (which is treated as an amount included under section 951(a)(1)(A)), and any amount included in gross income under section 1293(a). See Regulations section 1.851-2(b)(2)(iii). Do not include in this line any amounts that are treated as dividends and reported on line 1. See Regulations section 1.851-2(b)(2)(i). Refer to Form 5471, Form 8621, and Form 8992, and their instructions, to determine the amount included in gross income under section 951(a)(1)(A) (including the amount of global intangible low-taxed income) and section 1293(a). Also, consider the applicability of section 951A with respect to controlled foreign corporations owned by domestic partnerships in which the RIC has an interest.

List the type and amount of income on an attached statement. If the RIC has only one item of other income,

describe it in parentheses on line 7. Examples of other income to report on line 7 include:

- Gross rents;
- Recoveries of fees or expenses in settlement or litigation;
- Amounts received or accrued as consideration for entering into agreements to make real property loans or to purchase or lease real property;
- Recoveries of bad debts deducted in prior years under the specific charge-off method;
- Refunds of taxes deducted in prior years to the extent they reduced income subject to tax in the year deducted (see section 111). Do not offset current year taxes against prior year tax refunds;
- 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;
- Ordinary income from trade or business activities of a partnership (from Schedule K-1 (Form 1065)). Do not offset ordinary losses against ordinary income. Instead, include the losses on line 22. Show the partnership's name, address, and EIN on a separate statement attached to this return. If the amount entered is from more than one partnership, identify the amount from each partnership;
- Any net positive section 481 income adjustment due to a change in method of accounting. See Form 3115 and its instructions for more information;
- 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;
- Income from cancellation of debt (COD) from the repurchase of a debt instrument for less than its adjusted issue price;
- The RIC's share of the following income from Form 8621, Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund.
  1. Ordinary earnings of a qualified electing fund (QEF).
  2. Gain or loss from marking passive foreign investment company income (PFIC) stock to market.
  3. Gain or loss from sale or other disposition of Section 1296 stock.
  4. The amount of excess distributions from a Section 1291 fund that is treated as ordinary income.

See Form 8621 and the Instructions for Form 8621 for details; and

- Any payroll tax credit taken by an employer on its 2023 employment tax returns (Forms 941, 943, and 944) for qualified paid sick and qualified paid family leave under FFCRA and ARP (both the nonrefundable and refundable portions). The RIC must include the full amount of the credit for qualified sick and family leave wages in gross income for the tax year that includes the last day of any calendar quarter in which the credit is allowed.

**Note.** A credit is available only if the leave was taken after March 31, 2020, and before October 1, 2021, and only

after the qualified leave wages were paid, which might, under certain circumstances, not occur until a quarter after September 30, 2021, including quarters in 2022.

## Deductions

### Limitations on Deductions

**Transactions between related taxpayers.** Generally, an accrual basis taxpayer may only deduct business expenses and interest owed to a related party in the year the payment is includible in the income of the related party. See section 267 for limitations on deductions for interest and expenses paid to a related party.

**Limitations on business interest expense.** Business interest expense may be limited. See section 163(j), Form 8990, and the related instructions. Also, see [Limitation on deduction](#) in the instructions for line 13 and [Schedule K, Question 14](#), later.

**Golden parachute payments.** A portion of the payments made by a RIC to key personnel that exceeds their usual compensation may not be deductible. This occurs when the RIC has an agreement (golden parachute) with key employees to pay them an amount substantially in excess of their base amount if control of the RIC changes. See section 280G and Regulations section 1.280G-1 for more information. Also, see the instructions for [line 9](#).

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

**Time for making an election.** The RIC 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 RIC may be required to attach a statement to its return to elect to deduct such costs. See Regulations sections 1.195-1 and 1.248-1 for details.

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

If the RIC 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 RIC filed its original return. The election applies when figuring taxable income for the current tax year and all subsequent years.

**Note.** The RIC can choose to forgo the elections above by clearly electing to capitalize its start-up or organizational costs on an income tax return filed by the due date (including extensions) for the tax year in which the active trade or business begins.

Report the deductible amount of such costs and any amortization on line 22. For amortization that begins during the current tax year, complete and attach Form 4562.

**Section 265(a)(3) limitation.** If the RIC paid exempt-interest dividends during the tax year (including those dividends deemed paid under section 855), no deduction is allowed for that portion of otherwise deductible expenses allocable to tax-exempt income. The excluded amount is determined by the amount tax-exempt income bears to total gross income (including tax-exempt income but excluding capital gain net income).

**Net operating loss deduction.** The net operating loss deduction is not allowed.

**Passive activity limitations.** Limitations on passive activity losses and credits under section 469 apply to RICs that are closely held (as defined in section 469(j)(1)). RICs subject to the passive activity limitations must complete Form 8810, Corporate Passive Activity Loss and Credit Limitations, to compute their allowable passive activity loss and credit. Before completing Form 8810, see Temporary Regulations section 1.163-8T for rules on allocating interest expense among activities.

**Closely held corporation.** A RIC is closely held if at any time during the last half of the tax year more than 50% in value of its outstanding stock is directly or indirectly owned by or for not more than five individuals and it is not a personal service corporation.

**Line 9. Compensation of officers.** Enter the deductible officer's compensation on line 9. The RIC determines who is an officer under the laws of the state where incorporated. Do not include compensation deductible elsewhere on the return, such as 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 RIC's total receipts are \$500,000 or more, complete and attach Form 1125-E. Total receipts are figured by adding:

1. Line 8, Part I;
2. Net capital gain from line 1, Part II; and
3. Line 9a, Form 2438.

Enter on line 9 the amount from Form 1125-E, line 4.

**Line 10. Salaries and wages.** Enter the salaries and wages paid for the tax year reduced by the amount claimed on:

- Form 5884, Work Opportunity Credit;
- Form 8844, Empowerment Zone Employment Credit;
- Form 8932, Credit for Employer Differential Wage Payments; and
- Form 8994, Employer Credit for Paid Family and Medical Leave.

See the instructions for these forms for more information.

Do not include salaries and wages deductible elsewhere on the return, such as amounts included in officer's compensation, 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 RIC provided taxable fringe benefits to its employees, such as personal use of a car, do not deduct as wages any amounts deducted elsewhere.



If the RIC claims a credit for any wages paid or incurred, it may need to reduce any corresponding deduction for officers' compensation and salaries and wages. See the instructions for the form used to figure the applicable credit for more details.

**Line 11. Rents.** If the RIC rented or leased a vehicle, enter the total annual rent or lease expense paid or incurred during the year. Also, complete Part V of Form 4562, Depreciation and Amortization. If the RIC leased a vehicle for a term of 30 days or more, the deduction for the vehicle lease expense may have to be reduced by an amount called the inclusion amount.

The RIC 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 12/31/22 but before 1/1/24	\$60,000
After 12/31/21 but before 1/1/23	\$56,000
After 12/31/20 but before 1/1/22	\$51,000
After 12/31/17 but before 1/1/21	\$50,000
After 12/31/12 but before 1/1/18	\$19,000
<b>Trucks and Vans</b>	
After 12/31/22 but before 1/1/24	\$60,000
After 12/31/21 but before 1/1/23	\$56,000
After 12/31/20 but before 1/1/22	\$51,000
After 12/31/17 but before 1/1/21	\$50,000
After 12/31/13 but before 1/1/18	\$19,500
After 12/31/09 but before 1/1/14	\$19,000

See Pub. 463, Travel, Gift, and Car Expenses, for instructions on figuring the inclusion amount. The inclusion amount for lease terms beginning in 2024 will be published in the Internal Revenue Bulletin in early 2024.

**Line 12. Taxes and licenses.** Enter taxes paid or accrued during the tax year, but do not include the following.

- Federal income taxes (except for the tax imposed on net recognized built-in gain allocable to ordinary income).
- Foreign or U.S. territory income taxes if a foreign tax credit is claimed, or if the RIC made an election under section 853.
- Excise taxes imposed under section 4982 on undistributed RIC income.
- Taxes not imposed on the RIC.
- 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.).
- Taxes deducted elsewhere on the return.

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



Do not reduce the RIC's deduction for social security and Medicare taxes by the nonrefundable and refundable portions of any FFCRA and ARP credits for qualified sick and family leave wages claimed on its employment tax returns. Instead, report this amount as income on line 7.

**Line 13. Interest.** The RIC must make an interest allocation if the proceeds of a loan were used for more than one purpose (for example, to purchase a portfolio investment and to acquire an interest in a passive activity). See Temporary Regulations section 1.163-8T for the interest allocation rules.

The following interest is not deductible.

- Interest on indebtedness incurred or continued to purchase or carry obligations if the interest is wholly exempt from income tax. See section 265(b) for special rules and exceptions for financial institutions. Also, see section 265(b)(7) for a temporary de minimis exception for financial institutions for certain tax exempt bonds issued in 2009 and 2010.
- For cash basis taxpayers, prepaid interest allocable to years following the current tax year. For example, a cash basis calendar year taxpayer who in 2023 prepaid interest allocable to any period after 2023 can deduct only the amount allocable to 2023.
- Interest and carrying charges on straddles. Generally, these amounts must be capitalized. See section 263(g).

**Special rules** apply to:

- Original issue discount (OID) on certain high-yield discount obligations. See section 163(e)(5) to determine the amount of the deduction for OID that is deferred and the amount that is disallowed on a high-yield discount obligation. The rules under section 163(e)(5) do not apply to certain high-yield discount obligations issued after August 31, 2008, and before January 1, 2011. See section 163(e)(5)(F). Also, see Notice 2010-11, 2010-4 I.R.B. 326.
- The deduction for interest when the RIC is a policyholder or beneficiary with respect to a life insurance, endowment, or annuity contract issued after June 8, 1997. For details, see section 264(f). Attach a statement showing the computation of the deduction.

**Limitation on deduction.** Under section 163(j), business interest expense is generally limited to the sum of business interest income, 30% of the adjusted taxable income, and floor plan financing interest. Business interest expense includes any interest paid or accrued properly allocable to a trade or business (other than certain excepted trades or businesses). A small business taxpayer that is not a tax shelter (as defined in section 448(d)(3)), and that meets the gross receipts test is not required to limit business interest expense under section 163(j). A taxpayer meets the gross receipts test if the taxpayer has average annual gross receipts of not more than \$29 million for the 3 prior tax years under the gross receipts test of section 448(c). Gross receipts include the aggregate gross receipts from all persons treated as a single employer such as a controlled group of corporations, commonly controlled partnerships or proprietorships, and affiliated service groups. If the corporation fails to meet the gross receipts test, Form 990 is generally required. See the Instructions for Form

8990. Also, see [Schedule K, Questions 13 and 14](#) for conditions for filing Form 8990.



*Interest expense cannot be used to offset interest income.*

**Line 14. Depreciation.** Include on line 14 depreciation and the cost of certain property that the RIC elected to expense under section 179. See Form 4562 and the related instructions to figure the amount of depreciation to enter on this line.

**Line 22. Other deductions.** Attach a statement listing by type and amount all allowable deductions that are not specifically deductible elsewhere on Form 1120-RIC. Generally, a deduction may not be taken for any amount that is allocable to tax-exempt income. See section 265(b) for exceptions.

Examples of other deductions include:

- Amortization. See Form 4562;
- Any applicable deduction under section 179D for costs of energy efficient commercial building property placed in service during the tax year. Complete and attach new Form 7205;
- Certain business start-up and organizational costs the RIC elects to amortize or deduct;
- Supplies used and consumed in the business;
- Utilities;
- Ordinary losses from trade or business activities of a partnership (from Schedule K-1 (Form 1065)). Do not offset ordinary income against ordinary losses. Instead, include the income on line 7. Show the partnership's name, address, and EIN on a separate statement attached to this return. If the amount is from more than one partnership, identify separately the amount from each partnership;
- Any extraterritorial income exclusion (from Form 8873, line 52); and
- Any net negative section 481(a) adjustment.

Do not deduct expenses such as the following.

- Fines or penalties paid to a government for violating any law. However, other limitations apply for certain amounts paid or incurred after December 21, 2017. See section 162(f), and [Fines and penalties](#), later.
- Lobbying expenses. However, see [Lobbying expenses](#), later.
- Amounts paid or incurred after December 22, 2017, for any settlement or payment related to sexual harassment or sexual abuse, if such settlement or payment is subject to a nondisclosure agreement or for related attorney's fees. See new section 162(q).

**Charitable contributions.** Enter contributions or gifts actually paid within the tax year to or for the use of charitable and governmental organizations described in section 170(c) and any unused contribution carryovers.

RICs reporting taxable income on the accrual method may elect to treat as paid during the tax year any contributions paid by the due date of the RIC's tax return (not including extensions) if the contributions were authorized by the board of directors during the tax year. Attach a declaration to the return stating that the resolution authorizing the contributions was adopted by the board of directors during the tax year. The declaration

must include the date the resolution was adopted. See section 170(a)(2)(B).

**Limitation on deduction.** Generally, the total amount claimed cannot be more than 10% of taxable income (the sum of Part I, line 26; Part II, line 3; and Form 2438, line 11) computed without regard to the following:

- Any deduction for contributions; or
- The deduction allowed under section 249, related to any premium paid or incurred upon the repurchase of a convertible bond.

**Carryover.** Charitable contributions over the 10% limitation cannot be deducted for the tax year but may be carried over to the next 5 tax years subject to certain limitations.

For more information on charitable contributions, including substantiation and recordkeeping requirements, see the regulations under section 170 and Pub. 526, Charitable Contributions.

**Contributions to organizations conducting lobbying activities.** Contributions made to an organization that conducts lobbying activities are not deductible if:

- The lobbying activities relate to matters of direct financial interest to the donor's trade or business, and
- The principal purpose of the contribution was to avoid federal income tax by obtaining a deduction for activities that would have been nondeductible under the lobbying expense rules if conducted directly by the donor.

For information on contributions to charitable organizations that conduct lobbying activities, see section 170(f)(9).

**Pension, profit-sharing, etc., plans.** Enter contributions to qualified pension, profit-sharing, or other funded-deferred compensation plans. Employers who maintain such a plan must generally file Form 5500, Annual Return/Report of Employee Benefit Plan, even if the plan is not a qualified plan under the Internal Revenue Code. The filing requirement applies even if the RIC does not claim a deduction for the current tax year. There are penalties for failure to file these forms on time and for overstating the pension plan deduction. See sections 6652(e) and 6662(f).

**Note.** Form 5500 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).

**Travel, meals, and entertainment.** Subject to certain limitations and restrictions, the RIC can deduct ordinary and necessary travel, meal, and non-entertainment expenses paid or incurred in its trade or business.

Generally, entertainment expenses, membership dues, and facilities used in connection with these activities cannot be deducted. In addition, no deduction is generally allowed for qualified transportation fringe benefits. Also, special rules apply to deductions for gifts, luxury water travel, and convention expenses. See section 274 and Pub. 463 for more details.

**Travel.** The RIC cannot deduct travel expenses of any individual accompanying a corporate officer or employee unless:

- That individual is an employee of the RIC, and
- That individual's travel is for a bona fide business purpose that would otherwise be deductible by that individual.

**Meals.** Generally, the RIC can deduct only 50% of the amount otherwise allowable for non-entertainment related meal expenses paid or incurred in its trade or business.

Meals not separately stated from entertainment are generally not deductible. In addition (subject to exceptions under section 274(k)(2)):

- Meals must not be lavish or extravagant, and
- An employee of the RIC 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.

**Qualified transportation fringes (QTFs).** Generally, no deduction is allowed under section 274(a)(4) for QTFs provided by employers to their employees. QTFs are defined in section 132(f)(1) and include:

- Transportation in a commuter highway vehicle between the employee's residence and place of employment,
- Any transit pass, and
- Qualified parking.

See section 274 and Pub. 15-B for details.

**Membership dues.** The RIC can deduct amounts paid or incurred for membership dues in civic or public service organizations, professional organizations (such as bar or 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 to members or their guests. In addition, RICs cannot 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.

**Entertainment facilities.** Generally, the RIC cannot 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.** Generally, the RIC 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-NEC for an independent contractor.

However, if the recipient is an officer, director, beneficial owner (directly or indirectly), or other "specified individual" (as defined in section 274(e)(2)(B) and Regulations section 1.274-9(b)), special rules apply.

See section 274 and Pub. 463 for a more extensive discussion of these topics.

**Fines and penalties.** Generally, no deduction is allowed for fines or similar penalties paid or incurred to, or at the direction of, a government or governmental entity for violating any law, or for the investigation or inquiry into the potential violation of a law, except:

- Amounts that constitute restitution,
- Amounts paid to come into compliance with the law,

- Amounts paid or incurred as the result of certain court orders or agreements in which no government or governmental entity is a party, and
- Amounts paid or incurred for taxes due.

No deduction is allowed unless the amounts are specifically identified in the order or agreement and the RIC establishes that the amounts were paid for that purpose. Also, any amount paid or incurred as reimbursement to the government for the costs of any investigation or litigation are not eligible for the exceptions and are nondeductible.

See section 162(f).

**Lobbying expenses.** Generally, lobbying expenses are not deductible. Examples of nondeductible expenses include:

- Amounts paid or incurred in connection with influencing federal, state, or 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. Certain in-house lobbying expenditures that do not exceed \$2,000 are deductible.

**Line 25a. Deductions for dividends paid.** Enter the amount from Schedule A, line 8a.

**Line 25b. Section 851(d)(2) and section 851(i) deductions.** Enter the amount from Schedule J, lines 2c and 2d.

## Tax and Payments

**Line 28b. Estimated tax payments.** Enter any estimated tax payments the RIC made for the current tax year.

**Line 28f. Credit from Form 2439.** Enter the credit from Form 2439 for the RIC's share of the tax paid by another RIC or a Real Estate Investment Trust (REIT) on undistributed long-term capital gains included in the RIC's income. Attach Form 2439 to Form 1120-RIC.

**Line 28g. Credit for federal tax on fuels.** Complete and attach Form 4136, Credit for Federal Tax Paid on Fuels, if the RIC qualifies to take this credit.

**Line 28h. Elective payment election amount from Form 3800.** Enter the elective payment election amount from Form 3800, General Business Credit, Part III, line 6, column (i). See the Instructions for Form 3800.

**Line 29. Total payments and credits.** Combine lines 28d through 28h and enter the total on line 29.

**Backup Withholding.** If the RIC had income tax withheld from any payments it received, because, for example, it failed to give the payer its correct EIN, include the amount withheld in the total for line 29. Enter the amount withheld and the words "Backup Withholding" in the blank space above line 29.

**Line 30. Estimated tax penalty.** A RIC that does not make estimated tax payments when due may be subject to an underpayment penalty for the period of

underpayment. See the Instructions for Form 2220, Underpayment of Estimated Tax by Corporations, for more information.

**Line 31. Amount owed.** If the RIC cannot pay the full amount of tax owed, it can apply for an installment agreement online. The RIC can apply for an installment agreement online if:

- It cannot pay the full amount shown on line 31,
- The total amount owed is \$25,000 or less, and
- The RIC can pay the liability in full in 24 months.

To apply using the Online Payment Agreement Application, go to [IRS.gov/OPA](https://www.irs.gov/OPA).

Under an installment agreement, the RIC 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 RIC 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.

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## Part II—Tax on Undistributed Net Capital Gain Not Designated Under Section 852(b)(3)(D)

**Line 1.** Enter the net capital gain from line 17 of Schedule D (Form 1120).

**Line 2.** Enter the capital gain dividends from Schedule A, line 8b.

**Line 4. Capital gains tax.** Multiply the amount on line 3 by 21% (0.21). Enter the result here and on Schedule J, line 2b.

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## Schedule A—Deduction for Dividends Paid

**Column (a)** is used to determine the deduction for dividends paid resulting from income derived from ordinary dividends.

**Column (b)** is used to determine the deduction for dividends paid resulting from income derived from capital gain dividends.

Section 561 (taking into account sections 852(b)(7), 852(c)(3)(B), and 855(a)) determines the deduction for dividends paid. Do not take into account exempt-interest dividends defined in section 852(b)(5) or any amount reported for the tax year on Form 2438, line 9b. See section 852(b)(8) for information on post-October capital losses and late year ordinary losses.

**Line 3.** Dividends, both ordinary and capital gain, declared and payable to shareholders of record in October, November, or December are treated as paid by the RIC and received by each shareholder on December 31 of that calendar year provided that they are actually paid in January of the following calendar year. Enter on line 3 all such dividends not already included on line 1 or 2.

**Line 6.** Enter the foreign tax paid deduction allowed as an addition to the dividends paid deduction under section 853(b)(1)(B). See the instructions for Item 10 of Schedule K for information on the election available under section 853(a).

**Line 7.** If the RIC elects under section 853A to pass through credits from qualified tax credit bonds to shareholders, increase the dividends paid deduction by the amount of the credits distributed to shareholders. To make the election, see the instructions for Item 11 under Schedule K—Other Information.

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## Schedule B—Income From Tax-Exempt Obligations

If, at the close of each quarter of the tax year, at least 50% of the value of the fund's assets consisted of tax-exempt obligations under section 103(a), the RIC qualifies under section 852(b)(5) to pay exempt-interest dividends for the tax year. See section 852(b)(5)(A) for the definition of exempt-interest dividends and other details.

In the case of a qualified “fund of funds” structure, a RIC may pay exempt-interest dividends without regard to the requirement that at least 50% of the value of the fund's assets consist of tax-exempt obligations. See section 852(g) for more information.

If this applies, check the “Yes” box on line 1 and complete lines 2 through 5.

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## Schedule J—Tax Computation

### Line 1

If the RIC is a member of a controlled group, check the box on line 1 and complete and attach Schedule O (Form 1120), Consent Plan and Apportionment Schedule for a Controlled Group. See Schedule O (Form 1120) and its instructions for more information.

### Line 2a—Tax on Investment Company Taxable Income

RICs figure their tax by multiplying investment company taxable income by 21%. Enter this amount on line 2a.

**For a RIC that is a personal holding company (PHC).** A RIC that is not in compliance with Regulations section 1.852-6 is a PHC and is taxed at a flat rate of 21% on its investment company taxable income.

### Line 2b—Capital Gains Tax

Enter the capital gains tax from line 4, Part II.

### Line 2c—Tax Imposed Under Section 851(d)(2)

Enter the tax imposed under section 851(d)(2) relating to failures to meet certain requirements of the asset test of section 851(b)(3). See the instructions on page 2 for details on the requirements of the asset test. Also, see section 851(d)(2).

Attach a statement showing the computation of the tax and an explanation of why the RIC failed to meet the requirement of the asset test, and a description of why



such failure is due to reasonable cause and not to willful neglect.

### Line 2d—Tax Imposed Under Section 851(i)

Enter the tax imposed under section 851(i) relating to failures to meet certain requirements of the gross income test.

See the instructions on page 2 for details on the requirements of the gross income. Also, see section 851(i).

Attach a statement showing the computation of the tax and an explanation of why the RIC failed to meet the requirement of the gross income test, and a description of why such failure is due to reasonable cause and not to willful neglect.

### Line 2e—Income Tax

**Deferred tax under section 1291.** If the RIC was a shareholder in a passive foreign investment company (PFIC), and received an excess distribution or disposed of its investment in the PFIC during the year, it must include the increase in taxes due under section 1291(c)(2) (from Form 8621) in the total for line 2e. On the dotted line to the left of line 2e, write “Section 1291” and the amount.

Do not include on line 2e any interest due under section 1291(c)(3). Instead, include the amount owed on Schedule J, line 9, Other taxes.

For more information on reporting the deferred tax and interest, see the Instructions for Form 8621.

**Additional tax under section 197(f).** A RIC that elects to recognize gain and pay tax on the gain from the sale of a section 197 intangible under the related person exception to the anti-churning rules should include any additional tax due in the total for line 2e. On the dotted line to the left of line 2e, write “Section 197” and the amount. See section 197(f)(9)(B)(ii).

### Line 3a—Foreign Tax Credit

To find out when a RIC can claim the credit for payment of income tax to a foreign country or U.S. territory, see Form 1118, Foreign Tax Credit—Corporations. The RIC may not claim this credit if an election under section 853 was made for the tax year. See [Election under section 853\(a\)](#) under Schedule K, Item 10.

### Line 3b—Credit from Form 8834

Enter any qualified electric vehicle passive activity credits from prior years allowed for the current tax year from Form 8834, Qualified Electric Vehicle Credit, line 7, and attach Form 8834 to this return.

### Line 3c—General Business Credit

Complete and attach Form 3800. Enter on line 3c the allowable credit from Form 3800, Part II, line 38.

The RIC is required to file Form 3800 to claim most business credits. See the Instructions for Form 3800 for exceptions. For a list of allowable credits, see Form 3800. Also, see the applicable credit form and its instructions.

### Line 3d—Other Credits

**Minimum tax credit.** Enter any allowable credit from Form 8827, Credit for Prior Year Minimum Tax—Corporations. Complete and attach Form 8827.

**Bond credits from Form 8912.** Enter the allowable credits from Form 8912, Credit to Holders of Tax Credit Bonds, line 12. However, if the RIC elects to pass through credits from tax credit bonds to its shareholders, it cannot take the credit. See [Item 11](#) under question 5, later, for more information.

### Line 5—Personal Holding Company Tax

A RIC is taxed as a personal holding company under section 542 if:

- At least 60% of its adjusted ordinary gross income for the tax year is personal holding company income, and
- At any time during the last half of the tax year more than 50% in value of its outstanding stock is owned, directly or indirectly, by five or fewer individuals.

See the Instructions for Schedule PH (Form 1120), U.S. Personal Holding Company (PHC) Tax, for definitions and details on how to figure the tax.

### Line 6—Interest on Deferred Tax Liability for Installment Obligations Under Section 453A(c)

Enter any interest on deferred tax attributable to certain nondealer installment obligations (section 453A(c)).

### Line 7—Interest on Deferred Tax Liability for Installment Obligations Under Section 453(l)(3)

Enter any interest on deferred tax attributable to certain dealer installment obligations under section 453(l).

### Line 8—Recapture of Investment Credit

If the RIC disposed of investment credit property or changed its use before the end of its useful life or recovery period, it may owe a tax. See Form 4255, Recapture of Investment Credit, and its instructions for details.

### Line 9—Other Taxes

Include any of the following taxes and interest in the total on line 9. Include on line 9 additional taxes and interest such as the following. Attach a statement showing the computation of each item included in the total for line 9 and identify the applicable Code section and the type of tax or interest.

- Recapture of Indian employment credit. Generally, if an employer terminates the employment of a qualified employee less than 1 year after the date of initial employment, any Indian employment credit allowed for a prior tax year because of wages paid or incurred to that employee must be recaptured. For details, see Form 8845 and section 45A.
- Recapture of new markets credit (see Form 8874 and Form 8874-B).
- Recapture of employer-provided childcare facilities and services credit (see Form 8882).
- Interest due on deferred gain recognition (section 1260(b)).
- Interest due under section 1291(c)(3).

**Recapture of low-income housing credit.** If the RIC disposed of property (or there was a reduction in the qualified basis of the property) for which it took the low-income housing credit, and the RIC did not follow the procedures that would have prevented recapture of the credit, it may owe a tax. See Form 8611, Recapture of Low-Income Housing Credit, and section 42(j)(1) for more information.

### Built-in Gains Tax

If, on or after January 2, 2002, property of a C corporation becomes property of a RIC by either (a) the qualification of the C corporation as a RIC; or (b) the transfer of such property to a RIC, then the RIC will be subject to the built-in gains tax under section 1374 unless the C corporation elects deemed sale treatment on the transferred property. Generally, if the C corporation does not make this election for tax years beginning in 2020, the RIC must pay tax on the net recognized built-in gain during the 5-year period beginning on its first day as a RIC or the day it acquired the property. Special rules apply to conversion transactions on or after June 7, 2019, as well as conversion transactions with a related section 355 distribution. See Regulations section 1.337(d)-7 for details.

A RIC's recognition period for conversion transactions that occur on or after August 8, 2016, and on or before February 17, 2017, is the 10-year period beginning on its first day as a RIC or the day the RIC acquired the property, as described in Temporary Regulations section 1.337(d)-7T(b)(2)(iii), as in effect on August 8, 2016. However, under the provisions of final Regulations section 1.337(d)-7(g)(2)(iii), a RIC may choose to apply a 5-year recognition period to conversion transactions that occur on or after August 8, 2016, and on or before February 17, 2017. See final Regulations section 1.337(d)-7 and Temporary Regulations section 1.337(d)-7T for details.

Recognized built-in gains and losses generally retain their character (for example, ordinary income or capital gain) and are treated the same as other gains or losses of the RIC. The RIC's tax on net recognized built-in gain is treated as a loss sustained by the RIC after October 31 of the same tax year (see the instructions for [line i](#) of the Built-in Gains Tax Worksheet, later). See Regulations section 1.337(d)-7 for details.

Different rules apply to elections to be a RIC and to transfers of property in a carryover basis transaction that occurred prior to January 2, 2002. For RIC elections and property transfers before this date, the C corporation is subject to deemed sale treatment on the transferred property unless the RIC elects section 1374 treatment. See Regulations section 1.337(d)-6 for information on how to make the election and figure the tax for RIC elections and property transfers before this date. The RIC may also generally rely on Regulations section 1.337(d)-5 for RIC elections and property transfers that occurred before January 2, 2002.

### Built-in Gains Tax Worksheet Instructions

Complete the worksheet to figure the built-in gains tax under Regulations section 1.337(d)-6 or 1.337(d)-7.

**Line a.** Enter the amount that would be the taxable income of the RIC for the tax year if only recognized built-in gain, recognized built-in loss, and recognized built-in gain carryover were taken into account.

**Line b.** Add the amounts shown on:

- Form 1120-RIC, page 1, line 24;
- Form 1120-RIC, Part II, line 1; and
- Form 2438, line 11.

For this purpose, refigure line 24 on page 1 without regard to any election under section 852(b)(2)(F). Enter the result on line b of the [Built-in Gains Tax Worksheet](#).

**Line c.** The RIC's net unrealized built-in gain is the amount, if any, by which the FMV of the assets of the RIC at the beginning of its first RIC 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 on line c the RIC's net unrealized built-in gain reduced by the net recognized built-in gain for prior years. See sections 1374(c)(2) and (d)(1).

**Line d.** If the amount on line b exceeds the amount on line a, the excess is treated as a recognized built-in gain in the succeeding tax year.

**Line e.** Enter the section 1374(b)(2) deduction.

Generally, this is any net operating loss or capital loss carryforward (to the extent of net capital gain included in recognized built-in gain for the tax year) arising in tax years for which the RIC was a C corporation. A net loss carryforward must be used to reduce recognized built-in gain for the tax year to the greatest extent possible before it can be used to reduce the RIC's taxable income.

**Line h.** Credit carryforwards arising in tax years for which the RIC was a C corporation must be used to reduce the tax on net built-in gain for the tax year to the greatest extent possible before the credit carryforwards can be used to reduce the tax on the RIC's taxable income.

**Line i.** The RIC's tax on the net recognized built-in gain is treated as a loss sustained by the RIC after October 31 of the same tax year. Deduct the tax attributable to:

- Ordinary gain as a deduction for taxes on Form 1120-RIC, line 12;
- Short-term capital gain as a short-term capital loss in Part I of Form 8949; and
- Long-term capital gain as a long-term capital loss in Part II of Form 8949.

### Line 10—Total Tax

Include any deferred tax on the termination of a section 1294 election applicable to shareholders in a qualified electing fund in the amount entered on line 10. See Form 8621 and [How To Report](#) below.

Subtract from the total for line 10 the deferred tax on the RIC's share of the undistributed earnings of a qualified electing fund (see Form 8621).

**Built-in Gains Tax Worksheet** (keep for your records)

a.	Excess of recognized built-in gains over recognized built-in losses	a.	_____
b.	Taxable income	b.	_____
c.	Enter the net unrealized built-in gain reduced by any net recognized built-in gain for all prior years	c.	_____
d.	Net recognized built-in gain (enter the <b>smallest</b> of line a, b, or c)	d.	_____
e.	Section 1374(b)(2) deduction	e.	_____
f.	Subtract line e from line d. If zero, enter -0- here and on line i	f.	_____
g.	Enter 21% of line f	g.	_____
h.	Business credit and minimum tax credit carryforwards under section 1374(b)(3) from C corporation (see instructions)	h.	_____
i.	<b>Tax.</b> Subtract line h from line g (if zero or less, enter -0-). Enter here and include on line 9 of Schedule J (see instructions)	i.	_____

**How To Report**

Attach a statement showing the computation of each item included in, or subtracted from, the total for line 10. On the dotted line next to line 10, enter the amount of tax or interest, identify it as tax or interest, and specify the Code section that applies.

- Any foreign estate or trust within the meaning of section 7701(a)(31), and
- A foreign government (or one of its agencies or instrumentalities) to the extent that it is engaged in the conduct of a commercial activity, as described in section 892.

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

**Schedule K—Other Information**

The following instructions apply to questions 1 through 15. Complete all items that apply.

**Question 3**

Check the "Yes" box if the RIC is a subsidiary in a parent-subsidiary controlled group. This applies even if the RIC is a subsidiary member of one group and the parent corporation of another.

**Note.** If the RIC is an "excluded member" of a controlled group (see section 1563(b)(2)), it is still considered a member of a controlled group for this purpose.

**Question 5**

Check the "Yes" box if one foreign person owned at least 25% of (a) the total voting power of all classes of stock of the RIC entitled to vote, or (b) the total value of all classes of stock of the RIC.

The constructive ownership rules of section 318 apply in determining if a RIC is foreign owned. See section 6038A(c)(5) and the related regulations.

Enter on line 5b(1) the percentage owned by the foreign person specified in question 5. For line 5b(2), enter the name of the owner's country.

**Note.** If there is more than one 25%-or-more foreign owner, complete lines 5b(1) and 5b(2) for the foreign person with the highest percentage of ownership.

**Foreign person.** The term "foreign person" includes:

- A foreign citizen or nonresident alien,
- An individual who is a citizen or resident of a U.S. territory (but who is not a U.S. citizen or resident),
- A foreign partnership,
- A foreign corporation,

**Requirement to file Form 5472.** If the RIC checked "Yes," it may have to file Form 5472, Information Return of a 25% Foreign Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Generally, a 25% foreign-owned corporation that had a reportable transaction with a foreign or domestic related party during the tax year must file Form 5472. See Form 5472 for filing instructions.

**Item 8**

**Tax-exempt interest.** Show any tax-exempt interest received or accrued. Include any exempt-interest dividends received as a shareholder in a mutual fund or other RIC.

**Item 10**

**Election under section 853(a).** A RIC may make an irrevocable election under section 853(a) to allow its shareholders to apply their share of the foreign taxes paid by the RIC either as a credit or a deduction. If the RIC makes this election, the amount of foreign taxes it paid during the tax year may not be taken as a credit or a deduction on Form 1120-RIC, but may be claimed on Form 1120-RIC, Schedule A, line 5, as an addition to the dividends-paid deduction.

**Eligibility.** To qualify to make the election, the RIC must meet the following requirements.

- More than 50% of the value of the RIC's total assets at the end of the tax year must consist of stock or securities in foreign corporations.
- The RIC must meet the holding period requirements of section 901(k) with respect to its common and preferred stock. If the RIC fails to meet these holding period requirements, the election that allows a RIC to pass

through to its shareholders the foreign tax credits for foreign taxes paid by the RIC is disallowed. Although the foreign taxes paid may not be taken as a credit by either the RIC or the shareholder, they are still deductible at the fund level.

**Election under section 852(g).** In the case of a qualified “fund of funds” structure, a RIC may elect to allow shareholders the foreign tax credit without regard to the requirement that more than 50% of the value of its assets consist of stock or securities in foreign corporations. See section 852(g) for more information.

**Reporting requirements.** To make a valid election under section 853 or 852(g), in addition to timely filing Form 1120-RIC and checking the box for Schedule K, item 10a or b, the RIC must file a statement of election, which includes the information listed under Regulations section 1.853-4(c). The information must be provided on or with a Form 1118, Foreign Tax Credit, attached to the RIC's timely filed tax return.

For more information, see Regulations section 1.853-4.

**Notification to shareholders.** If the RIC makes the election, it must furnish to its shareholders a written statement reporting the shareholder's portion of (1) foreign taxes paid by the RIC to foreign countries and territories of the United States, and (2) the dividend that represents income derived from:

- Sources within countries described in section 901(j), and
- Other foreign-source income.

## Item 11

**Election under section 853A.** A RIC can elect to pass through credits from tax credit bonds to its shareholders. If the RIC makes the election, include the interest income from the tax credit bonds on Part I, line 2. Also, increase the dividends paid deduction by the amount of the credits distributed to shareholders. If the RIC makes the election, it is not allowed to take any credits related to the qualified tax credit bonds.

For more information, see section 853A.

**Notification to shareholders.** If the RIC makes the election to apply section 853A, it must furnish to its shareholders a written statement reporting the shareholder's proportionate share of (1) credits from tax credit bonds, and (2) gross income in respect of such credits.

## Question 13, Business Interest Expense Election

The limitation on business interest expense applies to every taxpayer with a trade or business, unless the taxpayer meets certain specified exceptions. A taxpayer may elect out of the limitation for certain businesses otherwise subject to the business interest expense limitation.

Certain real property trades or businesses and farming businesses qualify to make an election not to limit business interest expense. This is an irrevocable election. If you make this election, you are required to use the alternative depreciation system to depreciate any property with a recovery period of 10 years or more. Also, you are

not entitled to the special depreciation allowance for that property. For a taxpayer with more than one qualifying business, the election is made with respect to each business.

Check "Yes" if the taxpayer has an election in effect to exclude a real property trade or business or a farming business from section 163(j). For more information, see section 163(j) and the Instructions for Form 8990.

## Question 14, Conditions for Filing Form 8990

Generally, a RIC must file Form 8990 to claim a deduction for business interest. In addition, Form 8990 must be filed by any RIC that owns an interest in a partnership with current year, or prior year carryover, excess business interest expense allocated from the partnership. A RIC must also file a Form 8990 if the RIC paid section 163(j) interest dividends for the tax year.

**Exclusions from filing.** A RIC is not required to file Form 8990 if the RIC is a small business taxpayer that does not have excess business interest expense from a partnership and did not pay section 163(j) interest dividends for the tax year. A RIC is also not required to file Form 8990 if the RIC only has business interest expense from these excepted trades or businesses:

- An electing real property trade or business,
- An electing farming business, or
- Certain utility businesses.

**Small business taxpayer.** A small business taxpayer is not subject to the business interest expense limitation and is not required to file Form 8990. A small business taxpayer is a taxpayer that (a) is not a tax shelter (as defined in section 448(d)(3)), and (b) meets the gross receipts test of section 448(c), discussed next.

**Gross receipts test.** For 2023, a taxpayer meets the gross receipts test if the taxpayer has average annual gross receipts of \$29 million or less for the 3 prior tax years. A taxpayer's average annual gross receipts for the 3 prior tax years is determined by adding the gross receipts for the 3 prior tax years and dividing the total by 3.

Gross receipts include the aggregate gross receipts from all persons treated as a single employer, such as a controlled group of corporations, commonly controlled partnerships, or proprietorships, and affiliated service groups. See section 448(c) and the Instructions for Form 8990 for additional information.

## Question 15

To certify as a QOF, the RIC must file Form 1120-RIC and attach Form 8996, even if the corporation had no income or expenses to report. If the corporation is attaching Form 8996, check the “Yes” box for question 15. On the line following the dollar sign, enter the amount from Form 8996, line 15.

The penalty reported on this line from Form 8996, line 15, is not due with the filing of this form. The IRS will separately send to you a notice setting forth the due date for the penalty payment and where that payment should be sent.

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## Schedule L—Balance Sheets per Books

The balance sheets should agree with the RIC's books and records.

**Line 1. Cash.** Include certificates of deposit as cash on line 1.

**Line 4. Tax-exempt securities.** Include on this line:

1. State and local government obligations, the interest on which is excludible from gross income under section 103(a); and
2. Stock in another mutual fund or RIC that distributed exempt-interest dividends during the tax year of the RIC.

**Line 24. Adjustments to shareholders' equity.**

Examples of adjustments to report on this line include:

- 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; and
- Compensation related to employee stock award plans.

If the total adjustment to be entered on line 24 is a negative amount, enter the amount in parentheses.

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

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

**Estimates of taxpayer burden.** The following tables show burden estimates based on current statutory requirements as of December 2022 for taxpayers filing 2023 Forms 1065, 1066, 1120, 1120-C, 1120-F, 1120-H, 1120-ND, 1120-S, 1120-SF, 1120-FSC, 1120-L, 1120-PC, 1120-REIT, 1120-RIC, 1120-POL, and related attachments. Time spent and out-of-pocket costs are presented separately. Time burden is broken out by taxpayer activity, with reporting representing the largest component. Out-of-pocket costs include any expenses incurred by taxpayers to prepare and submit their tax returns. Examples include tax return preparation and submission fees, postage and photocopying costs, and tax preparation software costs. While these estimates don't include burden associated with post-filing activities, IRS operational data indicate that electronically prepared and filed returns have fewer arithmetic errors, implying lower post-filing burden.

Reported time and cost burdens are national averages and don't necessarily reflect a "typical" case. Most taxpayers experience lower than average burden, with taxpayer burden varying considerably by taxpayer type.

The average burden for partnerships filing Forms 1065 and related attachments is about 70 hours and \$4,700; the average burden for corporations filing Form 1120 and associated forms is about 110 hours and \$7,200; and the average burden for Forms 1066, 1120-REIT, 1120-RIC, 1120-S, and all related attachments is 70 hours and \$3,900. Within each of these estimates there is significant variation in taxpayer activity. Tax preparation fees and other out-of-pocket costs vary extensively depending on the tax situation of the taxpayer, the type of software or professional preparer used, and the geographic location. Third-party burden hours are not included in these estimates.

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## Schedule M-1

### Reconciliation of Income (Loss) per Books With Income per Return

**Line 5d. Travel and entertainment.** Include on line 5d any of the following:

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

**Line 7. Tax-exempt interest.** Include as interest on line 7 any exempt-interest dividends received by the RIC as a shareholder in a mutual fund or other RIC.

**Table 1 – Taxpayer Burden for Entities Taxed as Partnerships**

Forms 1065, 1066, and all attachments				
Primary Form Filed or Type of Taxpayer	Total Number of Returns (millions)	Average Time (hours)	Average Cost (\$)	Average Monetized Burden (\$)
All Partnerships	4.9	70	4,700	8,500
Small	4.6	60	3,100	5,400
Large*	0.3	225	26,700	52,200

\*A large business is defined as one having end-of-year assets greater than \$10 million. A large business is defined the same way for partnerships, taxable corporations, and pass-through corporations. A small business is any business that doesn't meet the definition of a large business.

**Table 2 – Taxpayer Burden for Entities Taxed as Taxable Corporations**

Forms 1120, 1120-C, 1120-F, 1120-H, 1120-ND, 1120-SF, 1120-FSC, 1120-L, 1120-PC, 1120-POL, and all attachments				
Primary Form Filed or Type of Taxpayer	Total Number of Returns (millions)	Average Time (hours)	Average Cost (\$)	Average Monetized Burden (\$)
All Taxable Corporations	2.1	110	7,200	15,100
Small	2.0	65	3,600	6,400
Large*	0.1	770	61,700	148,500

\*A large business is defined as one having end-of-year assets greater than \$10 million. A large business is defined the same way for partnerships, taxable corporations, and pass-through corporations. A small business is any business that doesn't meet the definition of a large business.

**Table 3 – Taxpayer Burden for Entities Taxed as Pass-Through Corporations**

Forms 1120-REIT, 1120-RIC, 1120-S, and all attachments				
Primary Form Filed or Type of Taxpayer	Total Number of Returns (millions)	Average Time (hours)	Average Cost (\$)	Average Monetized Burden (\$)
All Pass-Through Corporations	5.4	70	3,900	7,100
Small	5.3	65	3,500	6,200
Large*	0.1	320	34,900	70,800

\*A large business is defined as one having end-of-year assets greater than \$10 million. A large business is defined the same way for partnerships, taxable corporations, and pass-through corporations. A small business is any business that doesn't meet the definition of a large business.

**Comments.** 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 through [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or you can write to the Internal Revenue Service, Tax Forms and Publications Division, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Do not send the tax form to this office. Instead, see [Where To File](#), earlier, near the beginning of the instructions.