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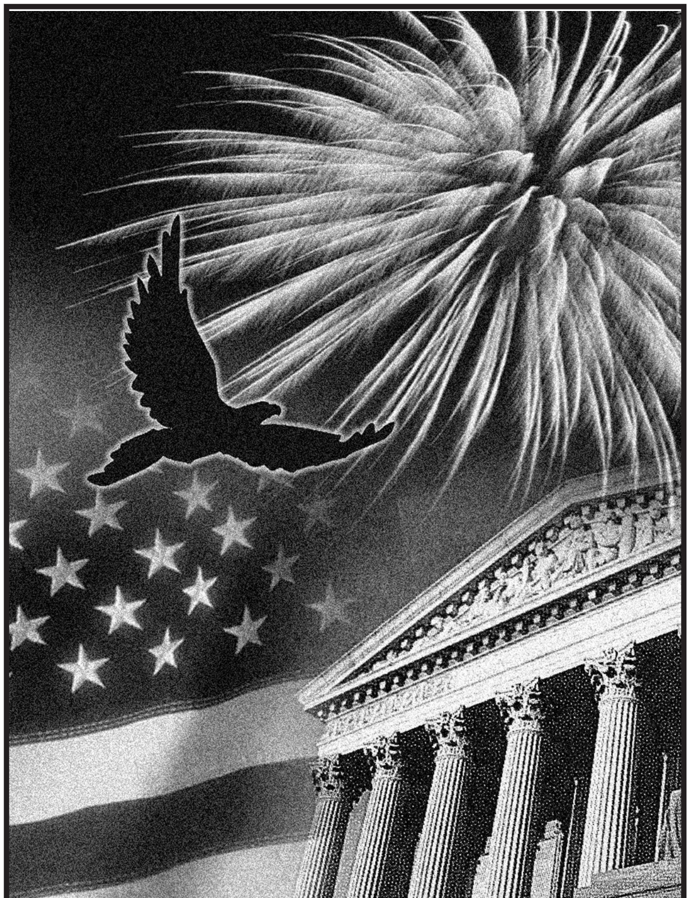
Corporations



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Feb 14, 2019

Future Developments

For the latest information about developments related to Pub. 542, such as legislation enacted after it was published, go to *IRS.gov/Pub542*. For changes that may affect the current tax year, see the Instructions for Form 1120 or the applicable instructions for the corporation's tax return.

What's New

Changes in corporate tax law. The Tax Cuts and Jobs Act (P.L. 115-97) made major changes to the taxation of corporate taxpayers, including, but not limited to, replacing the graduated corporate tax structure with a flat 21% corporate tax rate and the repeal of the corporate alternative minimum tax (AMT), effective for tax years beginning after 2017. Many of the changes are discussed in Pub. 542. Also see the 2017 and 2018 Instructions for Form 1120 for details.

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.

Introduction

This publication discusses the general tax laws that apply to ordinary domestic corporations. It explains the tax law in plain language so it will be easier to understand. However, the information given does not cover every situation and is not intended to replace the law or change its meaning.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can send us comments through *IRS.gov/FormComments*. Or you can write to:

Internal Revenue Service
Tax Forms and Publications
1111 Constitution Ave. NW, IR-6526
Washington, DC 20224

Although we cannot respond individually to each comment received, we do appreciate your feedback and will consider your comments as we revise our tax products.

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Tax questions. If you have a tax question not answered by this publication, check IRS.gov and *How To Get Tax Help* at the end of this publication.

Additional forms. A list of other forms and statements that a corporation may need to file is included at the end of this publication. Also see the Instructions for Form 1120 or the applicable instructions for the corporation's tax return.

Useful Items

You may want to see:

Publication

- ❏ **510** Excise Taxes (Including Fuel Tax Credits and Refunds)
- ❏ **535** Business Expenses
- ❏ **538** Accounting Periods and Methods
- ❏ **544** Sales and Other Dispositions of Assets
- ❏ **550** Investment Income and Expenses
- ❏ **925** Passive Activity and At-Risk Rules
- ❏ **946** How to Depreciate Property

Businesses Taxed as Corporations

The rules you must use to determine whether a business is taxed as a corporation changed for businesses formed after 1996.

Business formed before 1997. A business formed before 1997 and taxed as a corporation under the old rules will generally continue to be taxed as a corporation.

Business formed after 1996. The following businesses formed after 1996 are taxed as corporations.

- A business formed under a federal or state law that refers to it as a corporation, body corporate, or body politic.
- A business formed under a state law that refers to it as a joint-stock company or joint-stock association.
- An insurance company.
- Certain banks.
- A business wholly owned by a state or local government.
- A business specifically required to be taxed as a corporation by the Internal Revenue Code (for example, certain publicly traded partnerships).

- Certain foreign businesses.
- Any other business that elects to be taxed as a corporation.

Limited liability company (LLC). An LLC can elect to be treated as an association taxable as a corporation by filing Form 8832, Entity Classification Election. See the Instructions for Form 8832. For more information about LLCs, see Pub. 3402, Taxation of Limited Liability Companies.

S corporations. Some corporations may meet the qualifications for electing to be S corporations. For information on S corporations, see the Instructions for Form 1120S.

Personal service corporations. A corporation is a personal service corporation if it meets all of the following requirements.

1. Its principal activity during the "testing period" is performing personal services (defined later). Generally, the testing period for any tax year is the prior tax year. If the corporation has just been formed, the testing period begins on the first day of its tax year and ends on the earlier of:
   a. The last day of its tax year, or
   b. The last day of the calendar year in which its tax year begins.
2. Its employee-owners substantially perform the services in (1) above. This requirement is met if more than 20% of the corporation's compensation cost for its activities of performing personal services during the testing period is for personal services performed by employee-owners.
3. Its employee-owners own more than 10% of the fair market value of its outstanding stock on the last day of the testing period.

Personal services. Personal services include any activity performed in the fields of accounting, actuarial science, architecture, consulting, engineering, health (including veterinary services), law, and the performing arts.

Employee-owners. A person is an employee-owner of a personal service corporation if both of the following apply.

1. He or she is an employee of the corporation or performs personal services for, or on behalf of, the corporation (even if he or she is an independent contractor for other purposes) on any day of the testing period.
2. He or she owns any stock in the corporation at any time during the testing period.

Other rules. For other rules that apply to personal service corporations, see Accounting Periods, later.

Closely held corporations. A corporation is closely held if all of the following apply.

1. It is not a personal service corporation.
2. At any time during the last half of the tax year, more than 50% of the value of its outstanding stock is, directly or indirectly, owned by or for five or fewer individuals. "Individual" includes certain trusts and private foundations.

For rules for determining stock ownership, see section 544 of the Internal Revenue Code.

Other rules. For the at-risk rules that apply to closely held corporations, see At-Risk Limits, later.

Property Exchanged for Stock

If you transfer property (or money and property) to a corporation in exchange for stock in that corporation (other than nonqualified preferred stock, described later), and immediately afterward you are in control of the corporation, the exchange is usually not taxable. This rule applies both to individuals and to groups who transfer property to a corporation. It also applies whether the corporation is being formed or is already operating. It does not apply in the following situations.

- The corporation is an investment company.
- You transfer the property in a bankruptcy or similar proceeding in exchange for stock used to pay creditors.
- The stock is received in exchange for the corporation's debt (other than a security) or for interest on the corporation's debt (including a security) that accrued while you held the debt.

TIP *Both the corporation and any person involved in a nontaxable exchange of property for stock must attach to their income tax returns a complete statement of all facts pertinent to the exchange. For more information, see Regulations section 1.351-3.*

Control of a corporation. To be in control of a corporation, you or your group of transferors must own, immediately after the exchange, at least 80% of the total combined voting power of all classes of stock entitled to vote and at least 80% of the outstanding shares of each class of nonvoting stock.

Example 1. You and Bill Jones buy property for $100,000. You both organize a corporation when the property has a fair market value of $300,000. You transfer the property to the corporation for all its authorized capital stock, which has a par value of $300,000. No gain is recognized by you, Bill, or the corporation.

Example 2. You and Bill transfer the property with a basis of $100,000 to a corporation in exchange for stock with a fair market value of $300,000. This represents only 75% of each class of stock of the corporation. The other 25% was already issued to someone else. You and Bill recognize a taxable gain of $200,000 on the transaction.

Services rendered. The term property does not include services rendered or to be rendered to the issuing corporation. The value of stock received for services is income to the recipient.

Example. You transfer property worth $35,000 and render services valued at $3,000 to a corporation in exchange for stock valued at $38,000. Right after the exchange, you own 85% of the outstanding stock. No gain is recognized on the exchange of property. However, you recognize ordinary income of $3,000 as payment for services you rendered to the corporation.

Property of relatively small value. The term “property” does not include property of a relatively small value when it is compared to the value of stock and securities already owned or to be received for services by the transferor if the main purpose of the transfer is to qualify for the nonrecognition of gain or loss by other transferors.

Property transferred will not be considered to be of relatively small value if its fair market value is at least 10% of the fair market value of the stock and securities already owned or to be received for services by the transferor.

Stock received in disproportion to property transferred. If a group of transferors exchange property for corporate stock, each transferor does not have to receive stock in proportion to his or her interest in the property transferred. If a disproportionate transfer takes place, it will be treated for tax purposes in accordance with its true nature. It may be treated as if the stock were first received in proportion and then some of it used to make gifts, pay compensation for services, or satisfy the transferor's obligations.

Money or other property received. If, in an otherwise nontaxable exchange of property for corporate stock, you also receive money or property other than stock, you may have to recognize gain. You must recognize gain only up to the amount of money plus the fair market value of the other property you receive. The rules for figuring the recognized gain in this situation generally follow those for a partially nontaxable exchange. If the property you give up includes depreciable property, the recognized gain may have to be reported as ordinary income from depreciation. No loss is recognized. See Pub. 544.

Nonqualified preferred stock. Nonqualified preferred stock is treated as property other than stock. Generally, it is preferred stock with any of the following features.

- The holder has the right to require the issuer or a related person to redeem or buy the stock.
- The issuer or a related person is required to redeem or buy the stock.
- The issuer or a related person has the right to redeem or buy the stock and, on the issue date, it is more likely than not that the right will be exercised.
- The dividend rate on the stock varies with reference to interest rates, commodity prices, or similar indices.

For a detailed definition of nonqualified preferred stock, see section 351(g)(2) of the Internal Revenue Code.

Liabilities. If the corporation assumes your liabilities, the exchange generally is not treated as if you received money or other property. There are two exceptions to this treatment.

- If the liabilities the corporation assumes are more than your adjusted basis in the property you transfer, gain is recognized up to the difference. However, if the liabilities assumed give rise to a deduction when paid, such as a trade account payable or interest, no gain is recognized.
- If there is no good business reason for the corporation to assume your liabilities, or if your main purpose in the exchange is to avoid federal income tax, the assumption is treated as if you received money in the amount of the liabilities.

For more information on the assumption of liabilities, see section 357 of the Internal Revenue Code.

Example. You transfer property to a corporation for stock. Immediately after the transfer, you control the corporation. You also receive $10,000 in the exchange. Your adjusted basis in the transferred property is $20,000. The stock you receive has a fair market value (FMV) of $16,000. The corporation also assumes a $5,000 mortgage on the property for which you are personally liable. Gain is realized as follows.

FMV of stock received	$16,000
Cash received	10,000
Liability assumed by corporation	5,000
Total received	$31,000
Minus: Adjusted basis of property transferred	20,000
Realized gain	$11,000

The liability assumed is not treated as money or other property. The recognized gain is limited to $10,000, the cash received.

Loss on exchange. If you have a loss from an exchange and own, directly or indirectly, more than 50% of the corporation's stock, you cannot deduct the loss. For more information, see *Nondeductible Loss* under *Sales and Exchanges Between Related Persons* in chapter 2 of Pub. 544.

Basis of stock or other property received. The basis of the stock you receive is generally the adjusted basis of the property you transfer. Increase this amount by any amount treated as a dividend, plus any gain recognized on the exchange. Decrease this amount by any cash you received, the fair market value of any other property you received, and any loss recognized on the exchange. Also decrease this amount by the amount of any liability the corporation or another party to the exchange assumed from you, unless payment of the liability gives rise to a deduction when paid.

Further decreases may be required when the corporation or another party to the exchange assumes from you a liability that gives rise to a deduction when paid, if the basis of the stock would otherwise be higher than its fair market value on the date of the exchange. This rule does not apply if the entity assuming the liability acquired either substantially all of the assets or the trade or business with which the liability is associated.

The basis of any other property you receive is its fair market value on the date of the trade.

Basis of property transferred. A corporation that receives property from you in exchange for its stock generally has the same basis you had in the property, increased by any gain you recognized on the exchange. However, the increase for the gain recognized may be limited. For more information, see section 362 of the Internal Revenue Code. Also see section 362(e)(2)(C) and the related regulations for information on elections to reduce basis.

Capital Contributions

This section explains the tax treatment of contributions from shareholders and nonshareholders.

Paid-in capital. Generally, contributions to the capital of a corporation, whether or not by shareholders, are paid-in capital. These contributions are not taxable to the corporation. However, after December 22, 2017, the following nonshareholder contributions to the capital of a corporation are not considered nontaxable paid-in capital.

- Any contribution by any civic group.
- Any contribution by any governmental entity, except any contribution that was made after December 22, 2017, according to a master development plan that was approved prior to December 22, 2017, by a governmental entity.

Basis. The corporation's basis of property contributed to capital by a shareholder is the same as the basis the shareholder had in the property, increased by any gain the shareholder recognized on the exchange. However, the increase for the gain recognized may be limited. For more information, see *Basis of property transferred* above and section 362 of the Internal Revenue Code.

The basis of property contributed to capital by a person other than a shareholder is zero.

If a corporation receives a cash contribution from a person other than a shareholder, the corporation must reduce the basis of any property acquired with the contribution during the 12-month period beginning on the day it received the contribution by the amount of the contribution. If the amount contributed is more than the cost of the property acquired, then reduce, but not below zero, the basis of the other properties held by the corporation on the last day of the 12-month period in the following order.

1. Depreciable property.
2. Amortizable property.
3. Property subject to cost depletion but not to percentage depletion.
4. All other remaining properties.

Reduce the basis of property in each category to zero before going on to the next category.

There may be more than one piece of property in each category. Base the reduction of the basis of each property on the following ratio.

$$\frac{\text{Basis of each piece of property}}{\text{Bases of all properties (within that category)}}$$

If the corporation wishes to make this adjustment in some other way, it must get IRS approval. The corporation files a request for approval with its income tax return for the tax year in which it receives the contribution.

Filing and Paying Income Taxes

The federal income tax is a pay-as-you-go tax. A corporation generally must make estimated tax payments as it earns or receives income during its tax year. After the end of the year, the corporation must file an income tax return. This section will help you determine when and how to pay and file corporate income taxes.

TIP *For certain corporations affected by federally declared disasters such as hurricanes, the due dates for filing returns, paying taxes, and performing other time-sensitive acts may be extended. The IRS also may forgive the interest and penalties on any underpaid tax for the length of any extension. For more information, visit IRS.gov/DisasterTaxRelief.*

Income Tax Return

This section will help you determine when and how to report a corporation's income tax.

Who must file. Unless exempt under section 501 of the Internal Revenue Code, all domestic corporations in existence for any part of a tax year (including corporations in bankruptcy) must file an income tax return whether or not they have taxable income.

Which form to file. A domestic corporation generally must file Form 1120, U.S. Corporation Income Tax Return, to report its income, gains, losses, deductions, credits, and to figure its income tax liability. Certain organizations and entities must file special returns. For more information, see *Special Returns for Certain Organizations* in the Instructions for Form 1120.

Electronic filing. Corporations generally can electronically file (*e-file*) Form 1120 and certain related forms, schedules, and attachments. Certain corporations with total assets of $10 million or more that file at least 250 returns a year must *e-file* Form 1120. However, in certain instances, these corporations can request a waiver. For more information regarding electronic filing, visit IRS.gov/Businesses.

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

However, a corporation 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 corporation with a short tax year ending anytime in June will be treated as if the short period ended 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 due date is extended to the next business day.

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 a corporation's income tax return. The IRS will grant the extension if the corporation completes the form properly, files it, and pays any tax due by the original due date for the return.

Form 7004 does not extend the time for paying the tax due on the return. Interest, and possibly penalties, will be charged on any part of the final tax due not shown as a balance due on Form 7004. The interest is figured from the original due date of the return to the date of payment.

For more information, see the Instructions for Form 7004.

How to pay your taxes. A corporation must pay its tax due in full no later than the due date for filing its tax return (not including extensions).

Electronic Federal Tax Payment System (EFTPS). Corporations generally must use EFTPS to make deposits of all tax liabilities (including social security, Medicare, withheld income, excise, and corporate income taxes). For more information on EFTPS and enrollment, visit www.eftps.gov.

Penalties

CAUTION *Generally, if the corporation receives a notice about interest and penalties after it files its return, send the IRS an explanation and we will determine if the corporation meets reasonable-cause criteria.* ***Do not*** *attach an explanation when the corporation's return is filed. See the instructions for your income tax return.*

Late filing of return. A corporation 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. If the corporation is charged a penalty for late payment of tax (discussed next) for the same period of time, the penalty for late filing is reduced by the amount of the penalty for late payment. A minimum penalty applies for a return that is over 60 days late. The minimum penalty amount may be adjusted for inflation. See the Instructions for Form 1120 (or the instructions for your applicable return) for the minimum penalty amount for the current tax year. The penalty will not be imposed if the corporation can show the failure to file on time was due to a reasonable cause.

Note. If the corporation is charged a penalty for late payment of tax (discussed next) for the same period of time, the penalty for late filing is reduced by the amount of the penalty for late payment.

Late payment of tax. A corporation that does not pay the tax when due may be penalized half 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 corporation can show that the failure to pay on time was due to a reasonable cause.

Trust fund recovery penalty. If federal income, social security, and Medicare taxes that a corporation must withhold from employee wages are not withheld or are not deposited or paid to the U.S. Treasury, the trust fund recovery penalty may apply. The penalty is the full amount of the unpaid trust fund tax. This penalty may apply to you if these unpaid taxes cannot be immediately collected from the business.

The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to be responsible for collecting, accounting for, and paying these taxes, and who acted willfully in not doing so.

A responsible person can be an officer or employee of a corporation, an accountant, or a volunteer director/trustee. A responsible person also may include one who signs checks for the corporation or otherwise has authority to cause the spending of business funds.

"Willfully" means voluntarily, consciously, and intentionally. A responsible person acts willfully if the person knows the required actions are not taking place or recklessly disregards obvious and known risks to the government's right to receive trust fund taxes.

For more information on withholding and paying these taxes, see Pub. 15 (Circular E), Employer's Tax Guide, and Pub. 51 (Circular A), Agricultural Employer's Tax Guide.

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

Estimated Tax

Generally, a corporation must make installment payments if it expects its estimated tax for the year to be $500 or more. If the corporation does not pay the installments when they are due, it could be subject to an underpayment penalty. This section will explain how to avoid this penalty.

When to pay estimated tax. Installment payments are due by the 15th day of the 4th, 6th, 9th, and 12th months of the corporation's tax year.

Example 1. Your corporation's tax year ends December 31. Installment payments are due on April 15, June 15, September 15, and December 15.

Example 2. Your corporation's tax year ends June 30. Installment payments are due on October 15, December 15, March 15, and June 15.

If any due date falls on a Saturday, Sunday, or legal holiday, the installment is due on the next business day.

How to figure each required installment. Use Form 1120-W, Estimated Tax for Corporations, as a worksheet to figure each required installment of estimated tax. You generally use one of the following two methods to figure each required installment. You should use the method that yields the smallest installment payments.

Note. In these discussions, “return” generally refers to the corporation's original return. However, an amended return is considered the original return if it is filed by the due date (including extensions) of the original return.

Method 1. Each required installment is 25% of the income tax the corporation will show on its return for the current year.

Method 2. Each required installment is 25% of the income tax shown on the corporation's return for the previous year.

To use Method 2:

1. The corporation must have filed a return for the previous year,
2. The return must have been for a full 12 months, and
3. The return must have shown a positive tax liability (not zero).

Also, if the corporation is a large corporation, it can use Method 2 to figure the first installment only.

See the Instructions for Form 1120-W, for the definition of a large corporation and other special rules for large corporations.

Other methods. If a corporation's income is expected to vary during the year because, for example, its business is seasonal, it may be able to lower the amount of one or more required installments by using one or both of the following methods.

1. The annualized income installment method.
2. The adjusted seasonal installment method.

Use Schedule A of Form 1120-W to determine if using one or both of these methods will lower the amount of any required installments.

Refiguring required installments. If after the corporation figures and deposits its 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 to see if an underpayment penalty may apply. An immediate catch-up payment should be made to reduce any penalty resulting from the underpayment of any earlier installments.

Underpayment penalty. If the corporation does not pay a required installment of estimated tax by its due date, it may be subject to a penalty. The penalty is figured separately for each installment due date. The corporation may owe a penalty for an earlier due date, even if it paid enough tax later to make up the underpayment. This is true even if the corporation is due a refund when its return is filed.

Form 2220. Use Form 2220, Underpayment of Estimated Tax by Corporations, to determine if a corporation is subject to the penalty for underpayment of estimated tax and to figure the amount of the penalty.

If the corporation is charged a penalty, the amount of the penalty depends on the following three factors.

1. The amount of the underpayment.
2. The period during which the underpayment was due and unpaid.
3. The interest rate for underpayments published quarterly by the IRS in the Internal Revenue Bulletin.

A corporation generally does not have to file Form 2220 with its income tax return because the IRS will figure any penalty and bill the corporation. However, even if the corporation does not owe a penalty, complete and attach the form to the corporation's tax return if any of the following apply.

1. The annualized income installment method was used to figure any required installment.
2. The adjusted seasonal installment method was used to figure any required installment.
3. The corporation is a large corporation figuring its first required installment based on the prior year's tax.

How to pay estimated tax. A corporation is generally required to use EFTPS to pay its taxes. See *Electronic Federal Tax Payment System (EFTPS)*, earlier. Also see the Instructions for Form 1120-W.

Quick refund of overpayments. A corporation that has overpaid its estimated tax for the tax year may be able to apply for a quick refund. Use Form 4466, Corporation Application for Quick Refund of Overpayment of Estimated Tax, to apply for a quick refund of an overpayment of estimated tax. A corporation can apply for a quick refund if the overpayment is:

- At least 10% of its expected tax liability, and
- At least $500.

Use Form 4466 to figure the corporation's expected tax liability and the overpayment of estimated tax.

File Form 4466 after the end of the corporation’s tax year, but before the corporation files its income tax return. Do not file Form 4466 before the end of the corporation's tax year. An extension of time to file the corporation's income tax return will not extend the time for filing Form 4466. The IRS will act on the form within 45 days from the date you file it.

U.S. Real Property Interest

If a domestic corporation acquires a U.S. real property interest from a foreign person or firm, the corporation may have to withhold tax on the amount it pays for the property. The amount paid includes cash, the fair market value of other property, and any assumed liability. If a domestic corporation distributes a U.S. real property interest to a foreign person or firm, it may have to withhold tax on the fair market value of the property. A corporation that fails to withhold may be liable for the tax and any penalties and interest that apply. For more information, see section 1445 of the Internal Revenue Code; Pub. 515, Withholding of Tax on Nonresident Aliens and Foreign Entities; Form 8288, U.S. Withholding Tax Return for Dispositions by Foreign Persons of U.S. Real Property Interests; and Form 8288-A, Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interests.

Accounting Methods

An accounting method is a set of rules used to determine when and how income and expenses are reported. Taxable income should be determined using the method of accounting regularly used in keeping the corporation's books and records. In all cases, the method used must clearly show taxable income.

Generally, permissible methods include:

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

Accrual method. Generally, a corporation, other than a qualified personal service corporation (as defined in section 448(d)(2)), must use an accrual method of accounting if it is not a small business taxpayer (defined below). A corporation engaged in farming operations also must use an accrual method, unless it qualifies as a small business taxpayer.

Small business taxpayer. A small business taxpayer is a taxpayer that (a) has average annual gross receipts of $25 million or less (adjusted for inflation) for the 3 prior tax years, and (b) is not a tax shelter (as defined in section 448(d)(3)).

If inventories are required, an accrual method generally must be used for sales and purchases of merchandise. However, a small business taxpayer using a cash method can adopt or change its accounting method to account for inventories (a) in the same manner as materials and supplies that are nonincidental, or (b) to conform to its treatment of inventories in an applicable financial statement (as defined in section 451(b)(3)). If it does not have an applicable financial statement, it can use the method of accounting used in its books and records prepared according to its accounting procedures.

Under the accrual method, an amount is includable in income when:

1. All the events have occurred that fix the right to receive the income, which is the earliest of the date:
   a. The required performance takes place,
   b. Payment is due, or
   c. Payment is received; and
2. The amount can be determined with reasonable accuracy.

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year when:

- All events that determine the liability have occurred,
- The amount of the liability can be figured with reasonable accuracy, and
- Economic performance takes place with respect to the expense.

There are exceptions to the economic performance rule for certain items, including recurring expenses. See section 461(h) of the Internal Revenue Code and the related regulations for the rules for determining when economic performance takes place.

Nonaccrual experience method. Accrual method corporations are not required to maintain accruals for certain amounts from the performance of services that, based on their experience, will not be collected, if:

- The services are in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting; or
- The corporation's average annual gross receipts for any prior 3-tax-year period does not exceed $25 million.

This provision does not apply if interest is required to be paid on the amount or if there is any penalty for failure to pay the amount timely.

Percentage of completion method. Long-term contracts (except for certain real property construction contracts) must generally be accounted for using the percentage of completion method described in section 460 of the Internal Revenue Code.

Mark-to-market accounting method. Generally, dealers in securities must use the mark-to-market accounting method described in section 475 of the Internal Revenue Code. Under this method, any security held by a dealer as inventory must be included in inventory at its fair market value. Any security not held as inventory at the close of the tax year is treated as sold at its fair market value on the last business day of the tax year. Any gain or loss must be taken into account in determining gross income. The gain or loss taken into account is treated as ordinary gain or loss.

Dealers in commodities and traders in securities and commodities can elect to use the mark-to-market accounting method.

Change in accounting method. A corporation can change its method of accounting used to report taxable income (for income as a whole or for the treatment of any material item). The corporation must file Form 3115, Application for Change in Accounting Method. For more information, see Form 3115 and Pub. 538.

Section 481(a) adjustment. The corporation may have to make an adjustment under section 481(a) of the Internal Revenue Code to prevent amounts of income or expense from being duplicated or omitted. The section 481(a) adjustment period is generally 1 year for a net negative adjustment and 4 years for a net positive adjustment. However, in some cases, a corporation can elect to modify the section 481(a) adjustment period. The corporation may have to complete the appropriate lines of Form 3115 to make an election. See the Instructions for Form 3115 for more information and exceptions.

Accounting Periods

A corporation must figure its taxable income on the basis of a tax year. A tax year is the annual accounting period a corporation uses to keep its records and report its income and expenses. Generally, a corporation can use either a calendar year or a fiscal year as its tax year. Unless special rules apply, a corporation generally adopts a tax year by filing its first federal income tax return using that tax year. For more information, see Pub. 538.

Personal service corporation. A personal service corporation must use a calendar year as its tax year unless:

- It elects to use a 52-53-week tax year that ends with reference to the calendar year or tax year elected under section 444 of the Internal Revenue Code;
- It can establish a business purpose for a different tax year and obtains approval of the IRS (see the Instructions for Form 1128 and Pub. 538); or
- It elects under section 444 to have a tax year other than a calendar year. Use Form 8716, Election To Have a Tax Year Other Than a Required Tax Year, to make the election.

If a personal service corporation makes a section 444 election, its deduction for certain amounts paid to employee-owners may be limited. See Schedule H (Form 1120), Section 280H Limitations for a Personal Service Corporation (PSC), to figure the maximum deduction.

Change of tax year. Generally, a corporation must get the consent of the IRS before changing its tax year by filing Form 1128, Application To Adopt, Change, or Retain a Tax Year. However, under certain conditions, a corporation can change its tax year without getting the consent. For more information, see Form 1128 and Pub. 538.

Recordkeeping

A corporation should keep its records for as long as they may be needed for the administration of any provision of the Internal Revenue Code. Usually records that support items of income, deductions, or credits 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 corporation's basis in property for as long as they are needed to figure the basis of the original or replacement property.

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

Income, Deductions, and Special Provisions

Rules on income and deductions that apply to individuals also apply, for the most part, to corporations. However, the following special provisions apply only to corporations.

Costs of Going Into Business

When you go into business, treat all eligible costs you incur to get your business started as capital expenses. However, a corporation can elect to deduct a limited amount of start-up or organizational costs. Any costs not deducted can be amortized.

Start-up costs are costs for creating an active trade or business or investigating the creation or acquisition of an active trade or business. Organizational costs are the direct costs of creating the corporation.

For more information on deducting or amortizing start-up and organizational costs, see the instructions for your income tax return. Also see Pub. 535, chapter 7, *Costs You Can Deduct or Capitalize*, and chapter 8, *Amortization*.

Related Persons

A corporation that uses an accrual method of accounting cannot deduct business expenses and interest owed to a related person who uses the cash method of accounting until the corporation makes the payment and the corresponding amount is includible in the related person's gross income. Determine the relationship as of the end of the tax year for which the expense or interest would otherwise be deductible. If a deduction is denied, the rule will continue to apply even if the corporation's relationship with the person ends before the expense or interest is includible in the gross income of that person. These rules also deny the deduction of losses on the sale or exchange of property between related persons.

Related persons. For purposes of this rule, the following persons are related to a corporation.

1. Another corporation that is a member of the same controlled group (as defined in section 267(f) of the Internal Revenue Code).
2. An individual who owns, directly or indirectly, more than 50% of the value of the outstanding stock of the corporation.
3. A trust fiduciary, if the trust or the grantor of the trust owns, directly or indirectly, more than 50% of the value of the outstanding stock of the corporation.
4. An S corporation, if the same persons own more than 50% in value of the outstanding stock of each corporation.
5. A partnership, if the same persons own more than 50% in value of the outstanding stock of the corporation and more than 50% of the capital or profits interest in the partnership.
6. Any employee-owner, if the corporation is a personal service corporation (see *Personal service corporation*, earlier), regardless of the amount of stock owned by the employee-owner.

Ownership of stock. To determine whether an individual directly or indirectly owns any of the outstanding stock of a corporation, the following apply.

1. Stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust, is treated as being owned proportionately by or for its shareholders, partners, or beneficiaries.
2. An individual is treated as owning the stock owned, directly or indirectly, by or for the individual's family. Family includes only brothers and sisters (including half brothers and half sisters), a spouse, ancestors, and lineal descendants.
3. Any individual owning (other than by applying (2) above) stock in a corporation, is treated as also owning the stock owned directly or indirectly by that individual's partner.
4. To apply (1), (2), or (3) above, stock constructively owned by a person under (1) is treated as actually owned by that person. But stock constructively owned by an individual under (2) or (3) is not treated as actually owned by the individual for applying either (2) or (3) to make another person the constructive owner of that stock.

Reallocation of income and deductions. Where it is necessary to clearly show income or prevent tax evasion, the IRS can reallocate gross income, deductions, credits, or allowances between two or more organizations, trades, or businesses owned or controlled directly, or indirectly, by the same interests.

Complete liquidations. The disallowance of losses from the sale or exchange of property between related persons does not apply to liquidating distributions.

More information. For more information about the related person rules, see Pub. 544.

Corporate Preference Items

A corporation must make special adjustments to certain items before it takes them into account in determining its taxable income. These items are known as corporate preference items and they include the following.

- ***Gain on the disposition of section 1250 property.*** For more information, see *Section 1250 Property* under *Depreciation Recapture* in chapter 3 of Pub. 544.
- ***Percentage depletion for iron ore and coal (including lignite).*** For more information, see *Mines and Geothermal Deposits* under *Mineral Property* in chapter 9 of Pub. 535.
- ***Amortization of pollution control facilities.*** For more information, see *Pollution Control Facilities* in chapter 8 of Pub. 535 and section 291(a)(5) of the Internal Revenue Code.
- ***Mineral exploration and development costs.*** For more information, see *Exploration Costs* and *Development Costs* in chapter 7 of Pub. 535.

For more information on corporate preference items, see section 291 of the Internal Revenue Code.

Dividends-Received Deduction

A corporation can deduct a percentage of certain dividends received during its tax year. This section discusses the general rules that apply. The deduction is figured on Form 1120, Schedule C, or the applicable schedule of your income tax return. For more information, see the Instructions for Form 1120, or the instructions for your applicable income tax return.

Dividends from foreign corporations. Generally, 100% of the foreign-source portion of dividends (and items treated as dividends) from 10%-owned foreign corporations received after December 31, 2017, may be deducted. The stock with respect to which such dividends are received must meet a special 365-day holding period and does not include certain “hybrid” dividend payments. See the instructions for Form 1120, Schedule C (or the applicable schedule of your income tax return) for details regarding this deduction. Also note that this deduction is not subject to the limit on deduction for dividends related to dividends from domestic corporations, discussed below.

Dividends from domestic corporations. A corporation can deduct, within certain limits, 50% of the dividends received if the corporation receiving the dividend owns less than 20% of the corporation distributing the dividend. If the corporation owns 20% or more of the distributing corporation's stock, it can, subject to certain limits, deduct 65% of the dividends received.

Ownership. For these rules, ownership is based on the amount of voting power and value of the paying corporation's stock (other than certain preferred stock) that the receiving corporation owns.

Small business investment companies. Small business investment companies can deduct 100% of the dividends received from taxable domestic corporations.

Dividends from regulated investment companies. Regulated investment company dividends received are subject to certain limits. Capital gain dividends received from a regulated investment company do not qualify for the deduction. For more information, see section 854 of the Internal Revenue Code.

No deduction allowed for certain dividends. Corporations cannot take a deduction for dividends received from the following entities.

1. A real estate investment trust (REIT).
2. A corporation exempt from tax under section 501 or 521 of the Internal Revenue Code either for the tax year of the distribution or the preceding tax year.
3. A corporation whose stock was held less than 46 days during the 91-day period beginning 45 days before the stock became ex-dividend with respect to the dividend. Ex-dividend means the holder has no rights to the dividend.
4. A corporation whose preferred stock was held less than 91 days during the 181-day period beginning 90 days before the stock became ex-dividend with respect to the dividend if the dividends received are for a period or periods totaling more than 366 days.
5. Any corporation, if your corporation is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property.

Dividends on deposits. Dividends on deposits or withdrawable accounts in domestic building and loan associations, mutual savings banks, cooperative banks, and similar organizations are interest, not dividends. They do not qualify for this deduction.

Limit on deduction for dividends. The total deduction for dividends received or accrued is generally limited (in the following order) to:

1. 65% of the difference between taxable income and the 100% deduction allowed for dividends received from affiliated corporations, or by a small business investment company, for dividends received or accrued from 20%-owned corporations; then
2. 80% of the difference between taxable income and the 100% deduction allowed for dividends received from affiliated corporations, or by a small business investment company, for dividends received or accrued from less-than-20%-owned corporations (reducing taxable income by the total dividends received from 20%-owned corporations).

Figuring the limit. In figuring the limit, determine taxable income without the following items.

1. The net operating loss deduction.
2. The domestic production activities deduction.
3. The deduction for dividends received.
4. Any adjustment due to the nontaxable part of an extraordinary dividend (see Extraordinary Dividends below).
5. Any capital loss carryback to the tax year.

Effect of net operating loss. If a corporation has a net operating loss (NOL) for a tax year, the limit of 65% (or 50%) of taxable income does not apply. To determine whether a corporation has an NOL, figure the dividends-received deduction without the 65% (or 50%) of taxable income limit.

Example 1. A corporation loses $75,000 from operations. It receives $100,000 in dividends from a 20%-owned corporation. Its taxable income is $25,000 ($100,000 − $75,000) before the deduction for dividends received. If it claims the full dividends-received deduction of $65,000 ($100,000 × 65%) and combines it with an operations loss of $75,000, it will have an NOL of ($40,000). Therefore, the 65% of taxable income limit does not apply. The corporation can deduct the full $65,000.

Example 2. Assume the same facts as in *Example 1*, except that the corporation only loses $30,000 from operations. Its taxable income is $70,000 before the deduction for dividends received. After claiming the dividends-received deduction of $65,000 ($100,000 × 65%), its taxable income is $5,000. Because the corporation will not have an NOL after applying a full dividends-received deduction, its allowable dividends-received deduction is limited to 65% of its taxable income, or $45,500 ($70,000 × 65%).

Extraordinary Dividends

If a corporation receives an extraordinary dividend on stock held 2 years or less before the dividend announcement date, it generally must reduce its basis in the stock by the nontaxed part of the dividend. The nontaxed part is any dividends-received deduction allowable for the dividends.

Extraordinary dividend. An extraordinary dividend is any dividend on stock that equals or exceeds a certain percentage of the corporation's adjusted basis in the stock. The percentages are:

1. 5% for stock preferred as to dividends, or
2. 10% for other stock.

Treat all dividends received that have ex-dividend dates within an 85-consecutive-day period as one dividend. Treat all dividends received that have ex-dividend dates within a 365-consecutive-day period as extraordinary dividends if the total of the dividends exceeds 20% of the corporation's adjusted basis in the stock.

Disqualified preferred stock. Any dividend on disqualified preferred stock is treated as an extraordinary dividend regardless of the period of time the corporation held the stock.

Disqualified preferred stock is any stock preferred as to dividends if any of the following apply.

1. The stock when issued has a dividend rate that declines (or can reasonably be expected to decline) in the future.
2. The issue price of the stock exceeds its liquidation rights or stated redemption price.
3. The stock is otherwise structured to avoid the rules for extraordinary dividends and to enable corporate shareholders to reduce tax through a combination of dividends-received deductions and loss on the disposition of the stock.

More information. For more information on extraordinary dividends, see section 1059 of the Internal Revenue Code.

Below-Market Loans

If a corporation receives a below-market loan and uses the proceeds for its trade or business, it may be able to deduct the forgone interest.

A below-market loan is a loan on which no interest is charged or on which interest is charged at a rate below the applicable federal rate. A below-market loan generally is treated as an arm's-length transaction in which the borrower is considered as having received both the following.

- A loan in exchange for a note that requires payment of interest at the applicable federal rate.
- An additional payment in an amount equal to the forgone interest.

Treat the additional payment as a gift, dividend, contribution to capital, payment of compensation, or other payment, depending on the substance of the transaction.

Foregone interest. For any period, forgone interest is equal to:

1. The interest that would be payable for that period if interest accrued on the loan at the applicable federal rate and was payable annually on December 31, minus
2. Any interest actually payable on the loan for the period.

See *Below-market loans* in chapter 4 of Pub. 535 for more information.

Charitable Contributions

A corporation can claim a limited deduction for charitable contributions made in cash or other property. The contribution is deductible if made to, or for the use of, a qualified organization. For more information on qualified organizations, see Pub. 526, Charitable Contributions. Also see Tax Exempt Organization Search at *IRS.gov/Charities*, the online search tool for finding information on organizations eligible to receive tax-deductible contributions.

Note. You cannot take a deduction if any of the net earnings of an organization receiving contributions benefit any private shareholder or individual.

Cash method corporation. A corporation using the cash method of accounting deducts contributions in the tax year paid.

Accrual method corporation. A corporation using an accrual method of accounting can choose to deduct unpaid contributions for the tax year the board of directors authorizes them if it pays them by the due date for filing the corporation's tax return (not including extensions). Make the choice by reporting the contribution on the corporation's return for the tax year. Attach a declaration stating that the board of directors adopted the resolution during the tax year. The declaration must include the date the resolution was adopted.

Limitations on deduction. A corporation cannot deduct charitable contributions that exceed 10% of its taxable income for the tax year. Figure taxable income for this purpose without the following.

1. The deduction for charitable contributions.
2. The dividends-received deduction.
3. The deduction allowed under section 249 of the Internal Revenue Code for bond premium.
4. Any domestic production activities deduction.
5. Any net operating loss carryback to the tax year.
6. Any capital loss carryback to the tax year.

Farmers, ranchers, or Native Corporations. Corporations that are farmers, ranchers, or Native Corporations should see section 170(b)(2) of the Internal Revenue Code for special rules that may affect the deduction limit.

Carryover of excess contributions. You can carry over, within certain limits, to each of the subsequent 5 years any charitable contributions made during the current year that exceed the 10% limit. You lose any excess not used within that period. For example, if a corporation has a carryover of excess contributions paid in 2018 and it does not use all the excess on its return for 2019, it can carry any excess over to 2020, 2021, 2022, and 2023, if applicable. Any excess not used in 2023 is lost. Do not deduct a carryover of excess contributions in the carryover year until after you deduct contributions made in that year (subject to the 10% limit). You cannot deduct a carryover of excess contributions to the extent it increases a net operating loss carryover.

Cash contributions. A corporation must maintain a record of any contribution of cash, check, or other monetary contribution, regardless of the amount. The record can be a bank record, receipt, letter, or other written communication from the donee indicating the name of the organization, the date of the contribution, and the amount of the contribution. Keep the record of the contribution with the other corporate records. Do not attach the records to the corporation's return. For more information on cash contributions, see Pub. 526.

Gifts of $250 or more. Generally, no deduction is allowed for any contribution of $250 or more unless the corporation gets a written acknowledgement from the donee organization. The acknowledgement should show the amount of cash contributed, a description of the property contributed (but not its value), and either gives a description and a good faith estimate of the value of any goods or services provided in return for the contribution or states that no goods or services were provided in return for the contribution. The acknowledgement must be obtained by the due date (including extensions) of the return, or, if earlier, the date the return was filed. Keep the acknowledgement with other corporate records. Do not attach the acknowledgement to the return.

Contributions of property other than cash. If a corporation (other than a closely held or a personal service corporation) claims a deduction of more than $500 for contributions of property other than cash, a schedule describing the property and the method used to determine its fair market value must be attached to the corporation's return. In addition, the corporation should keep a record of:

- The approximate date and manner of acquisition of the donated property, and
- The cost or other basis of the donated property held by the donor for less than 12 months prior to contribution.

Closely held and personal service corporations must complete and attach Form 8283, Noncash Charitable Contributions, to their returns if they claim a deduction of more than $500 for noncash contributions. For all other corporations, if the deduction claimed for donated property exceeds $5,000, complete Form 8283 and attach it to the corporation's return.

A corporation must obtain a qualified appraisal for all deductions of property claimed in excess of $5,000. A qualified appraisal is not required for the donation of cash, publicly traded securities, inventory, and any qualified vehicles sold by a donee organization without any significant intervening use or material improvement. The appraisal should be maintained with other corporate records and only attached to the corporation's return when the deduction claimed exceeds $500,000 ($20,000 for donated art work).

See Form 8283 for more information.

Qualified conservation contributions. If a corporation makes a qualified conservation contribution, the corporation must provide information regarding the legal interest being donated, the fair market value of the underlying property before and after the donation, and a description of the conservation purpose for which the property will be used. For more information, see section 170(h) of the Internal Revenue Code.

Contributions of used vehicles. A corporation is allowed a deduction for the contribution of used motor vehicles, boats, and airplanes. The deduction is limited, and other special rules apply. For more information, see Pub. 526.

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

- The ordinary income and short-term capital gain that would have resulted if the property were sold at its fair market value; and
- For certain contributions, the long-term capital gain that would have resulted if the property were sold at its fair market value.

The reduction for the long-term capital gain applies to:

- Contributions of tangible personal property for use by an exempt organization for a purpose or function unrelated to the basis for its exemption;
- Contributions of any property to or for the use of certain private foundations except for stock for which market quotations are readily available; and
- Contributions of any patent, certain copyrights, trademark, trade name, trade secret, know-how, software (that is a section 197 intangible), or similar property, or applications or registrations of such property.

Larger deduction. A corporation (other than an S corporation) may be able to claim a deduction equal to the lesser of (a) the basis of the donated inventory or property plus half of the inventory's or property's appreciation (gain if the donated inventory or property was sold at fair market value on the date of the donation), or (b) two times basis of the donated inventory or property. This deduction may be allowed for certain contributions of the following.

- Certain inventory and other property made to a donee organization and used solely for the care of the ill, the needy, and infants. Special rules apply to qualified contributions of “apparently wholesome food” (see section 170(e)(3)(C) of the Internal Revenue Code).
- Scientific property constructed by the corporation (other than an S corporation, personal holding company, or personal service corporation) and donated no later than 2 years after substantial completion of the construction. The property must be donated to a qualified organization and its original use must be by the donee for research, experimentation, or research training within the United States in the area of physical or biological science.

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.

More information. For more information on charitable contributions, including substantiation and recordkeeping requirements, see section 170 of the Internal Revenue Code, the related regulations, and Pub. 526.

Capital Losses

A corporation can deduct capital losses only up to the amount of its capital gains. In other words, if a corporation has an excess capital loss, it cannot deduct the loss in the current tax year. Instead, it carries the loss to other tax years and deducts it from any net capital gains that occur in those years.

A capital loss is carried to other years in the following order.

1. 3 years prior to the loss year.
2. 2 years prior to the loss year.
3. 1 year prior to the loss year.
4. Any loss remaining is carried forward for 5 years.

When you carry a net capital loss to another tax year, treat it as a short-term loss. It does not retain its original identity as long term or short term.

Example. A calendar year corporation has a net short-term capital gain of $3,000 and a net long-term capital loss of $9,000. The short-term gain offsets some of the long-term loss, leaving a net capital loss of $6,000. The corporation treats this $6,000 as a short-term loss when carried back or forward.

The corporation carries the $6,000 short-term loss back 3 years. In year 1, the corporation had a net short-term capital gain of $8,000 and a net long-term capital gain of $5,000. It subtracts the $6,000 short-term loss first from the net short-term gain. This results in a net capital gain for year 1 of $7,000. This consists of a net short-term capital gain of $2,000 ($8,000 – $6,000) and a net long-term capital gain of $5,000.

S corporation status. A corporation may not carry a capital loss from, or to, a year for which it is an S corporation.

Rules for carryover and carryback. When carrying a capital loss from one year to another, the following rules apply.

- When figuring the current year's net capital loss, you cannot combine it with a capital loss carried from another year. In other words, you can carry capital losses only to years that would otherwise have a total net capital gain.
- If you carry capital losses from 2 or more years to the same year, deduct the loss from the earliest year first.
- You cannot use a capital loss carried from another year to produce or increase a net operating loss in the year to which you carry it back.

Refunds. When you carry back a capital loss to an earlier tax year, refigure your tax for that year. If your corrected tax is less than the tax you originally owed, use either Form 1139, Corporate Application for Tentative Refund, or Form 1120X, Amended U.S. Corporation Income Tax Return, to apply for a refund.

Form 1139. A corporation can get a refund faster by using Form 1139. It cannot file Form 1139 before filing the return for the corporation's capital loss year, but it must file Form 1139 no later than 1 year after the year it sustains the capital loss.

Form 1120X. If the corporation does not file Form 1139, it must file Form 1120X to apply for a refund. The corporation must file the Form 1120X within 3 years of the due date, including extensions, for filing the return for the year in which it sustains the capital loss.

Net Operating Losses

A corporation generally figures and deducts a net operating loss (NOL) the same way an individual, estate, or trust does. For more information on these general rules, including the sequencing rule for when the corporation carries two of more NOLs to the same year, see Pub. 536, Net Operating Losses (NOLs) for Individuals, Estates, and Trusts.

A corporation's NOL generally differs from individual, estate, and trust NOLs in the following ways.

1. A corporation can take different deductions when figuring an NOL.
2. A corporation must make different modifications to its taxable income in the carryback or carryforward year when figuring how much of the NOL is used and how much is carried over to the next year.
3. A corporation uses different forms when claiming an NOL deduction.
4. A corporation is not subject to section 461, which limits the amount of losses from the trades or businesses of noncorporate taxpayers.

For more information, see the Instructions for Form 1139, and the instructions for the corporation's tax return.

Claiming the NOL Deduction

Generally, for NOLs arising in tax years ending after 2017, a corporation must carry the loss forward to future years. The corporation may carry the losses forward indefinitely. Special rules apply to certain farming losses and NOLs of insurance companies other than life insurance companies. See the Instructions for Form 1139.

NOL carryback. Certain farming losses and NOLs of insurance companies other than life insurance companies generally must be carried back 2 years prior to the year the NOL is generated. See the Instructions for Form 1139 for details.

A corporation generally can elect to waive the entire carryback period for the NOL and instead carry the NOL forward to future tax years. Certain corporations can make the election for the loss year by checking the box on Form 1120, Schedule K, line 11, or the comparable line of the corporation's income tax return. Consolidated tax return filers must also attach a statement or the election will be invalid. Once made, the election is irrevocable. See the instructions for the corporation's income tax return.

The following rules apply.

- If a corporation carries back the NOL, it can use either Form 1120X or Form 1139. A corporation can get a refund faster by using Form 1139. It cannot file Form 1139 before filing the return for the corporation's NOL year, but it must file Form 1139 no later than 1 year after the year it sustains the NOL.
- If the corporation does not file Form 1139, it must file Form 1120X within 3 years of the due date, plus extensions, for filing the return for the year in which it sustains the NOL.

NOL carryforward. If a corporation carries forward its NOL, it enters the carryover on Form 1120, Schedule K, line 12. It also enters the deduction for the carryover (but not more than the corporation's taxable income after special deductions) on Form 1120, line 29a, or the applicable line of the corporation's income tax return.

Carryback expected. If a corporation expects to have an NOL in its current year, it can automatically extend the time for paying all or part of its income tax for the immediately preceding year. It does this by filing Form 1138, Extension of Time for Payment of Taxes by a Corporation Expecting a Net Operating Loss Carryback. It must explain on the form why it expects the loss.

The payment of tax that may be postponed cannot exceed the expected overpayment from the carryback of the NOL.

Period of extension. The extension is in effect until the end of the month in which the return for the NOL year is due (including extensions).

If the corporation files Form 1139 before this date, the extension will continue until the date the IRS notifies the corporation that its Form 1139 is allowed or disallowed in whole or in part.

Figuring the NOL Carryover

If the NOL available for a carryback or carryforward year is greater than 80% of the taxable income for that year (100% for NOLs arising in tax years beginning before 2018), the corporation must modify its taxable income to figure how much of the NOL it will use up in that year and how much it can carry over to the next tax year.

Its carryover is the excess of the available NOL over its modified taxable income for the carryback or carryforward year.

Modified taxable income. A corporation figures its modified taxable income the same way it figures its taxable income, with the following exceptions.

- It can deduct NOLs only from years before the NOL year whose carryover is being figured.
- The corporation must figure its deduction for charitable contributions without considering any NOL carrybacks.
- It cannot take any domestic activities production deduction.
- It cannot take any deduction for foreign-derived international income.
- The modified taxable income for any year cannot be less than zero.

Modified taxable income is used only to figure how much of an NOL the corporation uses up in the carryback or carryforward year and how much it carries to the next year. It is not used to fill out the corporation's tax return or figure its tax.

Ownership change. A loss corporation (one with cumulative losses) that has an ownership change is limited on the taxable income it can offset by NOL carryforwards arising before the date of the ownership change. This limit applies to any year ending after the change of ownership.

See section 269 and sections 381 through 384 of the Internal Revenue Code and the related regulations for more information about the limits on corporate NOL carryovers and corporate ownership changes.

At-Risk Limits

The at-risk rules limit your losses from most activities to your amount at risk in the activity. The at-risk limits apply to certain closely held corporations (other than S corporations).

The amount at risk generally equals:

- The money and the adjusted basis of property contributed by the taxpayer to the activity, and
- The money borrowed for the activity.

Closely held corporation. For the at-risk rules, a corporation is a closely held corporation if, 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, or for, five or fewer individuals.

To figure if more than 50% in value of the stock is owned by five or fewer individuals, apply the following rules.

1. Stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust is considered owned proportionately by its shareholders, partners, or beneficiaries.
2. An individual is considered to own the stock owned, directly or indirectly, by or for his or her family. Family includes only brothers and sisters (including half

brothers and half sisters), a spouse, ancestors, and lineal descendants.

3. If a person holds an option to buy stock, he or she is considered to be the owner of that stock.
4. When applying (1) or (2) above, stock considered owned by a person under (1) or (3) above is treated as actually owned by that person. Stock considered owned by an individual under (2) is not treated as owned by the individual for again applying (2) to consider another the owner of that stock.
5. Stock that may be considered owned by an individual under either (2) or (3) above is considered owned by the individual under (3).

More information. For more information on the at-risk limits, see Pub. 925, Passive Activity and At-Risk Rules.

Passive Activity Limits

The passive activity rules generally limit your losses from passive activities to your passive activity income. Generally, you are in a passive activity if you have a trade or business activity in which you do not materially participate during the tax year, or you have a rental activity.

The passive activity rules apply to personal service corporations and closely held corporations other than S corporations.

Corporations subject to the passive activity limitations must complete Form 8810. For more information on the passive activity limits, see the Instructions for Form 8810 and Pub. 925.

Figuring Tax

After you figure a corporation's taxable income, you figure its tax. This section discusses the tax rates, credits, and recapture taxes.

Tax Rates

For tax years beginning after 2017, corporations, including qualified personal service corporations, figure their tax by multiplying taxable income by 21% (0.21). If the corporation is a member of a controlled group, the corporation must also complete Schedule O (Form 1120), Consent Plan and Apportionment Schedule for a Controlled Group.

Base Erosion Minimum Tax

For tax years beginning after 2017, if a corporation is an applicable taxpayer, a tax equal to the base erosion minimum tax amount for the tax year may be imposed. This tax is reported using Form 8991. See the Instructions for Form 8991 for additional information, including the definition of an applicable taxpayer.

Credits

A corporation's tax liability is reduced by allowable credits. The following list includes some of the credits available to corporations.

- Foreign tax credit (see Form 1118).
- Any qualified electric vehicle passive activity credit from prior years allowed for the current year from Form 8834. See Form 8810, Corporate Passive Activity Loss and Credit Limitations, to see if a credit is allowed for the current year for personal service corporations and closely held corporations.
- General business credit.

  See Form 3800 for a list of allowable business credits and other special rules. General business credits are treated as used on a first-in, first-out basis by offsetting the earliest-earned credits first. Therefore, the order in which the credits are used in any tax year is as follows.

  1. Carryforwards to that year, the earliest ones first.
  2. The general business credit earned in that year.
  3. The carryback to that year.

  Note. To carryback an unused credit, the corporation must file an amended return (Form 1120X, or other amended return) for the prior year, or an application for tentative refund (Form 1139).
- Credit for prior year minimum tax, if applicable (see Form 8827).
- Bond credits (see Form 8912).

A corporation is also allowed certain refundable credits such as the credit for federal tax on fuels used for certain nontaxable purposes (Form 4136). See the instructions for the corporation's income tax return for a list of other refundable credits that may be allowed for the current tax year.

Recapture Taxes

A corporation's tax liability is increased if it recaptures credits it has taken in prior years. The following list includes some credits a corporation may need to recapture.

- Investment credit (see the Instructions for Form 4255).
- Low-income housing credit (see the Instructions for Form 8611).
- New markets credit (see the Instructions for Form 8874).
- Employer-provided childcare facilities and services credit (see the Instructions for Form 8882).
- Indian employment credit (see the Instructions for Form 8845).

See the credits listed in the Instructions for Form 3800 for additional credits which may be subject to recapture.

Accumulated Earnings Tax

A corporation can accumulate its earnings for a possible expansion or other bona fide business reasons. However, if a corporation allows earnings to accumulate beyond the reasonable needs of the business, it may be subject to an accumulated earnings tax of 20%. If the accumulated earnings tax applies, interest applies to the tax from the date the corporate return was originally due, without extensions.

To determine if the corporation is subject to this tax, first treat an accumulation of $250,000 or less generally as within the reasonable needs of most businesses. Treat an accumulation of $150,000 or less as within the reasonable needs of a business whose principal function is performing services in the fields of accounting, actuarial science, architecture, consulting, engineering, health (including veterinary services), law, and the performing arts.

In determining if the corporation has accumulated earnings and profits beyond its reasonable needs, value the listed and readily marketable securities owned by the corporation and purchased with its earnings and profits at net liquidation value, not at cost.

Reasonable needs of the business include the following.

- Specific, definite, and feasible plans for use of the earnings accumulation in the business.
- The amount necessary to redeem the corporation's stock included in a deceased shareholder's gross estate, if the amount does not exceed the reasonably anticipated total estate and inheritance taxes and funeral and administration expenses incurred by the shareholder's estate.

The absence of a bona fide business reason for a corporation's accumulated earnings may be indicated by many different circumstances, such as a lack of regular distributions to its shareholders or withdrawals by the shareholders classified as personal loans. However, actual moves to expand the business generally qualify as a bona fide use of the accumulations.

The fact that a corporation has an unreasonable accumulation of earnings is sufficient to establish liability for the accumulated earnings tax unless the corporation can show the earnings were not accumulated to allow its individual shareholders to avoid income tax.

Distributions to Shareholders

This section discusses corporate distributions of money, stock, or other property to a shareholder with respect to the shareholder's ownership of stock. However, this section does not discuss the special rules that apply to the following distributions. See the applicable sections of the Internal Revenue Code.

- Distributions in redemption of stock (section 302).
- Distributions in complete liquidation of the corporation (sections 331 through 346).
- Distributions in corporate organizations (section 351). Also see *Property Exchanged for Stock*, earlier.
- Distributions in corporate reorganizations (sections 354 through 368).
- Certain distributions to 20% corporate shareholders (section 301(e)).

Money or Property Distributions

Most distributions are in money, but they may also be in stock or other property. For this purpose, “property” generally does not include stock in the corporation or rights to acquire this stock. However, see *Distributions of Stock or Stock Rights*, later.

A corporation generally does not recognize a gain or loss on the distributions covered by the rules in this section. However, see *Gain from property distributions* below.

Amount distributed. The amount of a distribution is generally the amount of any money paid to the shareholder plus the fair market value (FMV) of any property transferred to the shareholder. However, this amount is reduced (but not below zero) by the following liabilities.

- Any liability of the corporation the shareholder assumes in connection with the distribution.
- Any liability to which the property is subject immediately before, and immediately after, the distribution.

The FMV of any property distributed to a shareholder becomes the shareholder's basis in that property.

Gain from property distributions. A corporation will recognize a gain on the distribution of property to a shareholder if the FMV of the property is more than its adjusted basis. This is generally the same treatment the corporation would receive if the property were sold. However, for this purpose, the FMV of the property is the greater of the following amounts.

- The actual FMV.
- The amount of any liabilities the shareholder assumed in connection with the distribution of the property.

If the property was depreciable or amortizable, the corporation may have to treat all or part of the gain as ordinary income from depreciation recapture. For more information on depreciation recapture and the sale of business property, see Pub. 544.

Distributions of Stock or Stock Rights

Distributions by a corporation of its own stock are commonly known as stock dividends. Stock rights (also known as stock options) are distributions by a corporation of rights to acquire its stock. Distributions of stock dividends and stock rights are generally tax free to shareholders. However, if any of the following apply to their distribution, stock and stock rights are treated as property, as discussed under *Money or Property Distributions*, earlier.

1. Any shareholder has the choice to receive cash or other property instead of stock or stock rights.
2. The distribution gives cash or other property to some shareholders and an increase in the percentage interest in the corporation's assets or earnings and profits to other shareholders.
3. The distribution is in convertible preferred stock and has the same result as in (2).
4. The distribution gives preferred stock to some common stock shareholders and gives common stock to other common stock shareholders.
5. The distribution is on preferred stock. (An increase in the conversion ratio of convertible preferred stock made solely to take into account a stock dividend, stock split, or similar event that would otherwise result in reducing the conversion right is not a distribution on preferred stock.)

The term “stock” includes rights to acquire stock and the term “shareholder” includes a holder of rights or convertible securities.

Constructive stock distributions. You must treat certain transactions that increase a shareholder's proportionate interest in the earnings and profits or assets of a corporation as if they were distributions of stock or stock rights. These constructive distributions are treated as property if they have the same result as a distribution described in (2), (3), (4), or (5) above. Constructive distributions are described later.

This treatment applies to a change in your stock's conversion ratio or redemption price, a difference between your stock's redemption price and issue price, a redemption that is not treated as a sale or exchange of your stock, and any other transaction having a similar effect on a shareholder's interest in the corporation.

Expenses of issuing a stock dividend. You cannot deduct the expenses of issuing a stock dividend. These expenses include printing, postage, cost of advice sheets, fees paid to transfer agents, and fees for listing on stock exchanges. The corporation must capitalize these costs.

Constructive Distributions

The following sections discuss transactions that may be treated as distributions.

Below-market loans. If a corporation gives a shareholder a loan on which no interest is charged or on which interest is charged at a rate below the applicable federal rate, the interest not charged may be treated as a distribution to the shareholder. For more information, see *Below-Market Loans*, earlier.

Corporation cancels shareholder's debt. If a corporation cancels a shareholder's debt without repayment by the shareholder, the amount canceled is treated as a distribution to the shareholder.

Transfers of property to shareholders for less than FMV. A sale or exchange of property by a corporation to a shareholder may be treated as a distribution to the shareholder. For a shareholder who is not a corporation, if the FMV of the property on the date of the sale or exchange exceeds the price paid by the shareholder, the excess is treated as a distribution to the shareholder.

Unreasonable rents. If a corporation rents property from a shareholder and the rent is unreasonably more than the shareholder would charge to a stranger for use of the same property, the excessive part of the rent may be treated as a distribution to the shareholder. For more information, see *Unreasonable rent,* in chapter 3 of Pub. 535.

Unreasonable salaries. If a corporation pays an employee who is also a shareholder a salary that is unreasonably high considering the services actually performed by the shareholder-employee, the excessive part of the salary may be treated as a distribution to the shareholder-employee.

Reporting Dividends and Other Distributions

A corporate distribution to a shareholder is generally treated as a distribution of earnings and profits. Any part of a distribution from either current or accumulated earnings and profits is reported to the shareholder as a dividend. Any part of a distribution that is not from earnings and profits is applied against and reduces the adjusted basis of the stock in the hands of the shareholder. To the extent the balance is more than the adjusted basis of the stock, the shareholder has a gain (usually a capital gain) from the sale or exchange of property.

For information on shareholder reporting of corporate distributions, see Pub. 550, Investment Income and Expenses.

Form 1099-DIV. File Form 1099-DIV, Dividends and Distributions, with the IRS for each shareholder to whom the corporation has paid dividends and other distributions on stock of $10 or more during a calendar year. A corporation must generally send Forms 1099-DIV to the IRS with Form 1096, Annual Summary and Transmittal of U.S. Information Returns, by February 28 (March 31 if filing electronically) of the year following the year of the distribution. For more information, see the General Instructions for Certain Information Returns (Forms 1096, 1097, 1098, 1099, 3921, 3922, 5498, and W-2G).

Generally, the corporation must furnish Forms 1099-DIV to shareholders by January 31 of the year following the close of the calendar year during which it made the distributions. However, the corporation may furnish the Form 1099-DIV to shareholders after November 30 of the year of the distributions if it has made its final distributions for the year. The corporation may furnish the Form 1099-DIV to shareholders anytime after April 30 of the year of the distributions if it gives the Form 1099-DIV with the final distributions for the calendar year.

If any regular due date falls on a Saturday, Sunday, or legal holiday, file by the next business day. A business day is any day that is not a Saturday, Sunday, or legal holiday.

Backup withholding. Dividends may be subject to backup withholding. For more information on backup withholding, see the General Instructions for Certain Information Returns.

Form 5452. File Form 5452, Corporate Report of Nondividend Distributions, if nondividend distributions were made to shareholders.

A calendar tax year corporation must file Form 5452 with its income tax return for the tax year in which the nondividend distributions were made. A fiscal tax year corporation must file Form 5452 with its income tax return due for the first fiscal year ending after the calendar year in which the nondividend distributions were made.

Current year earnings and profits. If a corporation's earnings and profits for the year (figured as of the close of the year without reduction for any distributions made during the year) are more than the total amount of distributions made during the year, all distributions made during the year are treated as distributions of current year earnings and profits. If the total amount of distributions is more than the earnings and profits for the year, see Accumulated earnings and profits below.

Example. You are the only shareholder of a corporation that uses the calendar year as its tax year. In January, you use the worksheet in the Form 5452 instructions to figure your corporation's current year earnings and profits for the previous year. During the year, the corporation made four $1,000 distributions to you. At the end of the year (before subtracting distributions made during the year), the corporation had $10,000 of current year earnings and profits.

Since the corporation's current year earnings and profits ($10,000) were more than the amount of the distributions it made during the year ($4,000), all of the distributions are treated as distributions of current year earnings and profits.

The corporation must issue a Form 1099-DIV to you to report the $4,000 distributed to you during the previous year as dividends. The corporation must use Form 1096 to report this information to the IRS. The corporation does not deduct these dividends on its income tax return.

Accumulated earnings and profits. If a corporation's current year earnings and profits (figured as of the close of the year without reduction for any distributions made during the year) are less than the total distributions made during the year, part or all of each distribution is treated as a distribution of accumulated earnings and profits. Accumulated earnings and profits are earnings and profits the corporation accumulated before the current year.

If the total amount of distributions is less than current year earnings and profits, see Current year earnings and profits above.

Used with current year earnings and profits. If the corporation has current year earnings and profits, figure the use of accumulated and current earnings and profits as follows.

1. Divide the current year earnings and profits by the total distributions made during the year.
2. Multiply each distribution by the percentage figured in (1) to get the amount treated as a distribution of current year earnings and profits.
3. Start with the first distribution and treat the part of each distribution greater than the allocated current year earnings and profits figured in (2) as a distribution of accumulated earnings and profits.
4. If accumulated earnings and profits are reduced to zero, the remaining part of each distribution is applied against and reduces the adjusted basis of the stock in the hands of the shareholders. To the extent that the balance is more than the adjusted basis of the stock, it is treated as a gain from the sale or exchange of property.

Example. You are the only shareholder of a corporation that uses the calendar year as its tax year. In January, you use the worksheet in the Form 5452 instructions to figure your corporation's current year earnings and profits for the previous year. At the beginning of the year, the corporation's accumulated earnings and profits balance was $20,000. During the year, the corporation made four $4,000 distributions to you ($4,000 × 4 = $16,000). At the end of the year (before subtracting distributions made during the year), the corporation had $10,000 of current year earnings and profits.

Since the corporation's current year earnings and profits ($10,000) were less than the distributions it made during the year ($16,000), part of each distribution is treated as a distribution of accumulated earnings and profits. Treat the distributions as follows.

1. Divide the current year earnings and profits ($10,000) by the total amount of distributions made during the year ($16,000). The result is 0.625.
2. Multiply each $4,000 distribution by the 0.625 figured in (1) to get the amount ($2,500) of each distribution treated as a distribution of current year earnings and profits.
3. The remaining $1,500 of each distribution is treated as a distribution from accumulated earnings and profits. The corporation distributed $6,000 ($1,500 × 4) of accumulated earnings and profits.

The remaining $14,000 ($20,000 − $6,000) of accumulated earnings and profits is available for use in the following year.

The corporation must issue a Form 1099-DIV to you to report the $16,000 distributed to you during the previous year as dividends. The corporation must use Form 1096 to report this information to the IRS. The corporation does not deduct these dividends on its income tax return.

Used without current year earnings and profits. If the corporation has no current year earnings and profits, figure the use of accumulated earnings and profits as follows.

1. If the current year earnings and profits balance is negative, prorate the negative balance to the date of each distribution made during the year.
2. Figure the available accumulated earnings and profits balance on the date of each distribution by subtracting the prorated amount of current year earnings and profits from the accumulated balance.
3. Treat each distribution as a distribution of these adjusted accumulated earnings and profits.
4. If adjusted accumulated earnings and profits are reduced to zero, the remaining distributions are applied against and reduce the adjusted basis of the stock in the hands of the shareholders. To the extent that the balance is more than the adjusted basis of the stock, it is treated as a gain from the sale or exchange of property.

Example. You are the only shareholder of a corporation that uses the calendar year as its tax year. In January, you use the worksheet in the Form 5452 instructions to figure your corporation's current year earnings and profits for the previous year. At the beginning of the year, the corporation's accumulated earnings and profits balance was $20,000. During the year, the corporation made four $4,000 distributions to you on March 31, June 30, September 30, and December 31. At the end of the year (before subtracting distributions made during the year), the corporation had a negative $10,000 current year earnings and profits balance.

Since the corporation had no current year earnings and profits, all of the distributions are treated as distributions of accumulated earnings and profits. Treat the distributions as follows.

1. Prorate the negative current year earnings and profits balance to the date of each distribution made during the year. The negative $10,000 can be spread evenly by prorating a negative $2,500 to each distribution.
2. The following table shows how to figure the available accumulated earnings and profits balance on the date of each distribution.

March 31 Distribution

Accumulated earnings and profits	$20,000
Prorated current year earnings and profits	($2,500)
Accumulated earnings and profits available	$17,500
Amount of distribution treated as a dividend	($4,000)

June 30 Distribution

Accumulated earnings and profits	$13,500
Prorated current year earnings and profits	($2,500)
Accumulated earnings and profits available	$11,000
Amount of distribution treated as a dividend	($4,000)

September 30 Distribution

Accumulated earnings and profits	$7,000
Prorated current year earnings and profits	($2,500)
Accumulated earnings and profits available	$4,500
Amount of distribution treated as a dividend	($4,000)

December 31 Distribution

Accumulated earnings and profits	$500
Prorated current year earnings and profits	($2,500)
Accumulated earnings and profits available	($2,000)
Amount of distribution treated as a dividend	$0
Nondividend amount (reduction of stock basis or gain from sale/exchange of property)	$4,000
Year-end accumulated earnings and profits	($2,000)

The corporation must issue a Form 1099-DIV to you to report $12,000 of the $16,000 distributed to you during the previous year as dividends. The corporation must use Form 1096 to report this information to the IRS. The corporation does not deduct these dividends on its income tax return. However, the corporation must attach Form 5452 to this return to report the nondividend distribution.

TIP *For more information about figuring earnings and profits, see the Worksheet for Figuring Current Year Earnings and Profits in the Form 5452 instructions.*

How To Get Tax Help

If you have questions about a tax issue, need help preparing your tax return, or want to download free publications, forms, or instructions, go to IRS.gov and find resources that can help you right away.

Tax reform. Major tax reform legislation impacting individuals, businesses, and tax-exempt entities was enacted in the Tax Cuts and Jobs Act on December 22, 2017. Go to *IRS.gov/TaxReform* for information and updates on how this legislation affects your taxes.

Getting answers to your tax questions. On IRS.gov, get answers to your tax questions anytime, anywhere.

- Go to *IRS.gov/Help* for a variety of tools that will help you get answers to some of the most common tax questions.
- Go to *IRS.gov/ITA* for the Interactive Tax Assistant, a tool that will ask you questions on a number of tax law

topics and provide answers. You can print the entire interview and the final response for your records.

- You may also be able to access tax law information in your electronic filing software.

Getting tax forms and publications. Go to *IRS.gov/Forms* to view, download, or print all of the forms and publications you may need. You can also download and view popular tax publications and instructions on mobile devices as an eBook at no charge. Or you can go to *IRS.gov/OrderForms* to place an order and have forms mailed to you within 10 business days.

Resolving tax-related identity theft issues.

- The IRS doesn't initiate contact with taxpayers by email or telephone to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels.
- Go to *IRS.gov/IDProtection* for information.

Contacting your local IRS office. Keep in mind, many questions can be resolved on IRS.gov without visiting an IRS Tax Assistance Center (TAC). Go to *IRS.gov/LetUsHelp* for the topics people ask about most. If you still need help, IRS TACs provide tax help when a tax issue can't be handled online or by phone. All TACs now provide service by appointment so you'll know in advance that you can get the service you need without long wait times. Before you visit, go to *IRS.gov/TACLocator* to find the nearest TAC, check hours, available services, and appointment options.

Watching IRS videos. The IRS Video portal (*IRSVideos.gov*) contains video and audio presentations for individuals, small businesses, and tax professionals.

Getting tax information in other languages. For taxpayers whose native language isn't English, we have the following resources available. Taxpayers can find information on IRS.gov in the following languages.

- *Spanish* (*IRS.gov/Spanish*).
- *Chinese* (*IRS.gov/Chinese*).
- *Vietnamese* (*IRS.gov/Vietnamese*).
- *Korean* (*IRS.gov/Korean*).
- *Russian* (*IRS.gov/Russian*).

The IRS TACs provide over-the-phone interpreter service in over 170 languages, and the service is available free to taxpayers.

The Taxpayer Advocate Service (TAS) Is Here To Help You

What is TAS?

TAS is an ***independent*** organization within the IRS that helps taxpayers and protects taxpayer rights. Their job is to ensure that every taxpayer is treated fairly and that you know and understand your rights under the *Taxpayer Bill of Rights*.

How Can You Learn About Your Taxpayer Rights?

The Taxpayer Bill of Rights describes 10 basic rights that all taxpayers have when dealing with the IRS. Go to *TaxpayerAdvocate.IRS.gov* to help you understand *what these rights mean to you* and how they apply. These are ***your*** rights. Know them. Use them.

What Can TAS Do For You?

TAS can help you resolve problems that you can't resolve with the IRS. And their service is free. If you qualify for their assistance, you will be assigned to one advocate who will work with you throughout the process and will do everything possible to resolve your issue. TAS can help you if:

- Your problem is causing financial difficulty for you, your family, or your business;
- You face (or your business is facing) an immediate threat of adverse action; or
- You've tried repeatedly to contact the IRS but no one has responded, or the IRS hasn't responded by the date promised.

How Can You Reach TAS?

TAS has offices *in every state, the District of Columbia, and Puerto Rico*. Your local advocate's number is in your local directory and at *TaxpayerAdvocate.IRS.gov/Contact-Us*. You can also call them at 877-777-4778.

How Else Does TAS Help Taxpayers?

TAS works to resolve large-scale problems that affect many taxpayers. If you know of one of these broad issues, please report it to them at *IRS.gov/SAMS*.

TAS also has a website, *Tax Reform Changes*, which shows you how the new tax law may change your future tax filings and helps you plan for these changes. The information is categorized by tax topic in the order of the IRS Form 1040. Go to *TaxChanges.us* for more information.

Other Useful Forms for Corporations

Other Useful Forms	
Form	**Use this form to—**
W-2 and W-3—Wage and Tax Statement; and Transmittal of Wage and Tax Statements	Report wages, tips, and other compensation, and withheld income, social security, and Medicare taxes for employees.
W-2G—Certain Gambling Winnings	Report gambling winnings from horse racing, dog racing, jai alai, lotteries, keno, bingo, slot machines, sweepstakes, wagering pools, etc.
926—Return by a U.S. Transferor of Property to a Foreign Corporation	Report certain transfers to foreign corporations under section 6038B.
940—Employer's Annual Federal Unemployment (FUTA) Tax Return	Report and pay FUTA tax if the corporation either: 1. Paid wages of $1,500 or more in any calendar quarter during the calendar year (or the preceding calendar year), or 2. Had one or more employees working for the corporation for at least some part of a day in any 20 different weeks during the calendar year (or the preceding calendar year).
941—Employer's QUARTERLY Federal Tax Return	Report quarterly income tax withheld on wages and employer and employee social security and Medicare taxes.
943—Employer's Annual Federal Tax Return for Agricultural Employees	Report income tax withheld and employer and employee social security and Medicare tax on farmworkers.
944—Employer's ANNUAL Federal Tax Return	File annual Form 944 instead of filing quarterly Forms 941, if the IRS notified you in writing.
945—Annual Return of Withheld Federal Income Tax	Report income tax withheld from nonpayroll payments, including pensions, annuities, individual retirement arrangements (IRAs), gambling winnings, and backup withholding.
952—Consent To Extend the Time To Assess Tax Under Section 332(b)	Extend the period of assessment of all income taxes of the receiving corporation on the complete liquidation of a subsidiary under section 332.
965—Inclusion of Deferred Foreign Income Upon Transition to Participation Exemption System	Calculate section 965(a) inclusion amounts, section 965(c) deductions, foreign taxes deemed paid in connection with a section 965(a) inclusion, and foreign taxes disallowed under section 965(g). See the Instructions for Form 965.
965-B—Corporate and Real Estate Investment Trust (REIT) Report of Net 965 Tax Liability and Electing REIT Report of 965 Amounts	Report net 965 tax liability for each tax year in which a taxpayer must pay or include section 965 amounts. This form must be completed by a taxpayer for every tax year for which the taxpayer has any net 965 tax liability outstanding and not fully paid at any point during the tax year. See the Instructions for Form 965-B.
966—Corporate Dissolution or Liquidation	Report the adoption of a resolution or plan to dissolve the corporation or liquidate any of its stock.
1042 and 1042-S—Annual Withholding Tax Return for U.S. Source Income of Foreign Persons; and Foreign Person's U.S. Source Income Subject to Withholding	Report withheld tax on payments or distributions made to nonresident alien individuals, foreign partnerships, or foreign corporations to the extent these payments or distributions constitute gross income from sources within the United States that is not effectively connected with a U.S. trade or business. In addition, a publicly traded partnership is required to withhold on distributions of effectively connected income to its foreign partners. See Pub. 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.
1042-T—Annual Summary and Transmittal of Forms 1042-S	Transmit paper Forms 1042-S to the IRS.
1096—Annual Summary and Transmittal of U.S. Information Returns	Transmit paper Forms 1098, 1099, 5498, and W-2G to the IRS.

Other Useful Forms	
Form	**Use this this form to—**
1097-BTC, 1098, 1098-C, 1098-E, 1098-T,1099-A, B, C, CAP, G, H, DIV, INT, K, LTC, MISC, OID, PATR, Q, R, S, SA, 3921, and 3922. **Important:** *Every corporation must file Forms 1099-MISC if, in the course of its trade or business, it makes payments of rents, services, commissions, or other fixed or determinable income (see section 6041) totaling $600 or more to any one person during the calendar year.* Also use these returns to report amounts received as a nominee for another person. For more details, see the General Instructions for Certain Information Returns (1097, 1098, 1099, 3921, 3922, 5498, and W-2G).	Report the following: • Tax credits to bond holders; • Mortgage interest; • Contributions of certain motor vehicles, boats, and airplanes; • Student loan interest; • Certain tuition payments; • Acquisitions or abandonments of secured property; • Proceeds from broker and barter exchange transactions; • Cancellation of debts; • Changes in corporate control and capital structure; • Certain government payments; • Advance payments of health coverage insurance premiums; • Dividends and distributions; • Interest payments; • Merchant card and third-party network payments; • Payments of long-term care and accelerated death benefits; • Miscellaneous income payments to certain fishing boat crew members, to providers of health and medical services, of rent or royalties, of nonemployee compensation, etc.; • Original issue discount; • Distributions received from cooperatives; • Distributions from certain qualified education programs; • Distributions from pensions, annuities, retirement or profit-sharing plans, IRAs, insurance contracts, etc.; • Proceeds from real estate transactions; • Distributions from an HSA, Archer MSA, or Medicare Advantage MSA; • Exercise of incentive stock options; and • Transfer of stock acquired through employee stock purchase plans.
1122—Authorization and Consent of Subsidiary Corporation To Be Included in a Consolidated Income Tax Return	Include a subsidiary in a consolidated return. Attach this form to the parent's consolidated return. Attach a separate Form 1122 for each subsidiary being included in the consolidated return.
1138—Extension of Time for Payment of Taxes by a Corporation Expecting a Net Loss Carryback	Request an extension of time for payment of tax for the immediately preceding tax year if the corporation expects a net operating loss for the current year.
3520—Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts	Report ownership of and certain transactions with foreign trusts, including receipt of certain large gifts. See Schedule N (Form 1120), Question 5.
3520-A—Annual Information Return of Foreign Trust With a U.S. Owner	Report information about the foreign trust, its U.S. beneficiaries, and any U.S. person who is treated as an owner of any portion of the foreign trust.
5471—Information Return of U.S. Persons With Respect to Certain Foreign Corporations	Satisfy the reporting requirements of sections 6038 and 6046, and the related regulations, as well as report amounts related to section 965. Form 5471 and the related schedules are used by certain U.S. persons who are officers, directors, or shareholders in certain foreign corporations. See the Instructions for Form 5471.
5498—IRA Contribution Information	Report contributions (including rollover contributions) to any IRA, including a SEP, SIMPLE, or Roth IRA, and to report Roth IRA conversions, IRA recharacterizations, and the fair market value (FMV) of the account.
5498-ESA—Coverdell ESA Contribution Information	Report contributions (including rollover contributions) to a Coverdell education savings account (ESA).
5498-SA—HSA, Archer MSA, or Medicare Advantage MSA Information	Report contributions and rollovers to an HSA or Archer MSA and the FMV of an HSA, Archer MSA, or Medicare Advantage MSA. For more information, see the general and specific instructions for Forms 1098, 1099, 5498, and W-2G.
5713—International Boycott Report	Report operations in, or related to, a "boycotting" country, government, company, or national of a country and to figure the loss of certain tax benefits.
8023—Elections Under Section 338 for Corporations Making Qualified Stock Purchases	Make elections under section 338 for a "target" corporation if the purchasing corporation has made a qualified stock purchase of the target corporation.

Other Useful Forms	
Form	**Use this form to—**
8027—Employer's Annual Information Return of Tip Income and Allocated Tips	Report receipts from large food or beverage operations, tips reported by employees, and allocated tips.
8275—Disclosure Statement	Disclose items or positions, except those contrary to a regulation, that are not otherwise adequately disclosed on a tax return. The disclosure is made to avoid the parts of the accuracy-related penalty imposed for disregard of rules or substantial understatement of tax. Also use Form 8275 for disclosures relating to preparer penalties for understatements due to unrealistic positions or disregard of rules.
8275-R—Regulation Disclosure Statement	Disclose any item on a tax return for which a position has been taken that is contrary to Treasury regulations.
8281—Information Return for Publicly Offered Original Issue Discount Instruments	Report the issuance of public offerings of debt instruments (obligations).
8300—Report of Cash Payments Over $10,000 Received in a Trade or Business	Report the receipt, in the course of a trade or business, of more than $10,000 in cash or foreign currency in one transaction or a series of related transactions.
8594—Asset Acquisition Statement Under Section 1060	Report a sale of assets that make up a trade or business if goodwill or going concern value attaches, or could attach, to such assets and if the buyer's basis is determined only by the amount paid for the assets. Both the seller and buyer must use this form.
8806—Information Return for Acquisition of Control or Substantial Change in Capital Structure	Report an acquisition of control or a substantial change in the capital structure of a domestic corporation.
8842—Election To Use Different Annualization Periods for Corporate Estimated Tax	Elect one of the annualization periods in section 6655(e)(2) for figuring estimated tax payments under the annualized income installment method.
8849—Claim for Refund of Excise Taxes	Claim a refund of certain excise taxes.
8858—Information Return of U.S. Persons With Respect to Foreign Disregarded Entities (FDEs) and Foreign Branches (FBs)	Satisfy reporting requirements that apply if the corporation directly or indirectly owns a foreign disregarded entity or a foreign branch. A separate Form 8858 is required for each foreign branch or foreign disregarded entity. See the Instructions for Form 8858.
8865—Return of U.S. Person With Respect To Certain Foreign Partnerships	Report an interest in a foreign partnership. A domestic corporation may have to file Form 8865 if it: 1. Controlled a foreign partnership (owned more than a 50% direct or indirect interest in the partnership). 2. Owned at least a 10% direct or indirect interest in a foreign partnership while U.S. persons controlled that partnership. 3. Had an acquisition, disposition, or change in proportional interest of a foreign partnership that: a. Increased its direct interest to at least 10% or reduced its direct interest of at least 10% to less than 10%, or b. Changed its direct interest by at least a 10% interest. 4. Contributed property to a foreign partnership in exchange for a partnership interest if: a. Immediately after the contribution, the corporation directly or indirectly owned at least a 10% interest in the foreign partnership, or b. The FMV of the property the corporation contributed to the foreign partnership in exchange for a partnership interest exceeds $100,000 when added to other contributions of property made to the foreign partnership during the preceding 12-month period. The domestic corporation may also have to file Form 8865 to report certain dispositions by a foreign partnership of property it previously contributed to that partnership if it was a partner at the time of the disposition. For more details, including penalties for failing to file Form 8865, see the Instructions for Form 8865.

Other Useful Forms	
Form	**Use this form to—**
8873—Extraterritorial Income Exclusion	Figure the amount of extraterritorial income excluded from gross income for the tax year (generally repealed for post-2004 income). See the Instructions for Form 8873.
8876—Excise Tax on Structured Settlement Factoring Transactions	Report and pay the 40% excise tax imposed under section 5891.
8883—Asset Allocation Statement Under Section 338	Report information about transactions involving the deemed sale of corporate assets under section 338.
8886—Reportable Transaction Disclosure Statement	Disclose information for each reportable transaction in which the corporation participated. Attach Form 8886 to the corporation's income tax return for each tax year in which it participated in a reportable transaction. The corporation may have to pay a penalty if it is required to file Form 8886 and does not do so. Other penalties may also apply. For more details, see the Instructions for Form 8886.
8918—Material Advisor Disclosure Statement	Disclose certain information about a reportable transaction to the IRS. Material advisors who file Form 8918 will receive a reportable transaction number from the IRS. This number must be provided to all taxpayers and material advisors for whom the material advisor acts as a material advisor. Other reporting requirements apply. See the Instructions for Form 8918.
8990—Limitation on Business Interest Expense Under Section 163(j)	Figure the amount of business interest expense the corporation can deduct and the amount to carry forward to the next year. See the Instructions for Form 8990.
8991—Tax on Base Erosion Payments of Taxpayers With Substantial Gross Receipts	Determine an applicable taxpayer's base erosion minimum tax amount for the year. See the Instructions for Form 8991.
8992—U.S. Shareholder Calculation of Global Intangible Low-Taxed Income (GILTI)	Figure a U.S. shareholder's GILTI inclusion for years in which they are U.S. shareholders of controlled foreign corporations (CFCs). See the Instructions for Form 8992.
8993—Section 250 Deduction for Foreign-Derived Intangible Income (FDII) and Global Intangible Low-Taxed Income (GILTI)	Figure the amount of the eligible deduction for FDII and GILTI under section 250.

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To help us develop a more useful index, please let us know if you have ideas for index entries. See "Comments and Suggestions" in the "Introduction" for the ways you can reach us.