

Instructions for Form 1120-F

U.S. Income Tax Return of a Foreign Corporation

Volume 3 of 4



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Advance payments. In general, advance payments must be included in income in the year of receipt. For exceptions to this general rule for corporations that use the accrual method of accounting, see the following.

- To report income from long-term contracts, see section 460.
- For rules that allow a limited deferral of advance payments beyond the current tax year, see section 451(c). Also, see Regulations sections 1.451-8(c), (d), and (e). For applicability dates, see Regulations section 1.451-8(h).
- For information on adopting or changing to a permissible method for reporting advance payments for services and certain goods by an accrual method corporation, see the Instructions for Form 3115.

Exclusion from gross income for certain income from ships and aircraft. A foreign corporation engaged in the international

operation of ships or aircraft and organized in a qualified foreign country may exclude qualified income from its gross income, provided that the corporation can satisfy certain ownership requirements. See Schedule S (Form 1120-F) and its separate instructions for additional information.

Income from qualifying shipping activities (tonnage tax). The corporation's gross income does not include income from qualifying shipping activities (as defined in section 1356) if the corporation makes an election under section 1354 to be taxed on its notional shipping income (as defined in section 1353) at the highest corporate tax rate. If the election is made, the corporation may generally not claim any loss, deduction, or credit with respect to qualifying shipping activities. A corporation making this election may also elect to defer gain on certain dispositions of qualifying vessels under section 1359.

Use Form 8902, *Alternative Tax on Qualifying Shipping Activities*, to figure the tax. Include the alternative tax from Form 8902, line 30, on Schedule J, line 8, and be sure to check the “Form 8902” box on that line.

Installment sales. Generally, the installment method may not be used for dealer dispositions of property. A “dealer disposition” is any disposition of (a) personal property by a person who regularly sells or otherwise disposes of personal property of the same type on the installment plan, or (b) real property held for sale to customers in the ordinary course of the taxpayer's trade or business.

The restrictions on using the installment method do not apply to the following.

- Dispositions of property used or produced in the trade or business of farming.
- Certain dispositions of timeshares and residential lots reported under the

installment method for which the corporation elects to pay interest under section 453(l)(3).

Enter on line 1a (and carry to line 3) the gross profit on collections from these installment sales. Attach a statement showing the following information for the current and the 3 preceding years: (a) gross sales, (b) cost of goods sold, (c) gross profits, (d) percentage of gross profits to gross sales, (e) amount collected, and (f) gross profit on the amount collected.

For sales of timeshares and residential lots reported under the installment method, if the corporation elects to pay interest under section 453(l)(3), the corporation's income tax is increased by the interest payable under section 453(l)(3). Report this addition to the tax on Schedule J, line 8, and be sure to check the "Other" box.

Nonaccrual experience method for service providers. Accrual method corporations are not required to accrue certain amounts to be received 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 meets the section 448(c) gross receipts test for all prior years.
- This provision does not apply to any amount if interest is required to be paid on the amount or if there is any penalty for failure to timely pay the amount. See Regulations section 1.448-3 for more information on the nonaccrual experience method, including information on safe harbor methods.

For information on a book safe harbor method of accounting for corporations that use the nonaccrual experience method of accounting, see Rev. Proc. 2011-46, 2011-42 I.R.B. 518, available at [IRS.gov/irb/2011-42_IRB#RP-2011-46](https://www.irs.gov/irb/2011-42_IRB#RP-2011-46), or any successor. Also, see the Instructions for Form 3115 for procedures to obtain automatic consent to change to this method or make certain changes within this method.

Corporations that qualify to use the nonaccrual experience method should attach a statement showing total gross receipts, the amount not accrued because of the application of section 448(d)(5), and the net amount accrued. Enter the net amount on line 1a.

Line 1b. Returns and Allowances. Enter cash and credit refunds the corporation made to customers for returned merchandise, rebates, and other allowances made on gross receipts or sales.

Line 2. Cost of Goods Sold

Complete and attach Form 1125-A, Cost of Goods Sold, if applicable. Enter on Form 1120-F, line 2, the amount from Form 1125-A, line 8. See Form 1125-A and its instructions.

Line 4. Dividends

See the instructions for Schedule C, later. Complete Schedule C and enter on line 4 the amount from Schedule C, line 13, column (a).

Line 5. Interest

Enter taxable interest on U.S. obligations and on loans, notes, mortgages, bonds, bank deposits, corporate bonds, tax refunds, etc. Do not offset interest expense against interest income. Special rules apply to interest income from certain below-market-rate loans. See section 7872 for details.

Note. Report tax-exempt interest on Form 1120-F, page 2, item P. Also, if required, include the same amount on Schedule M-1, line 7a, or Schedule M-3, Part II, line 4a.

Line 6. Gross Rents

Enter the gross amount received for the rental of property. Deduct expenses such as repairs, interest, taxes, and depreciation on the proper lines for deductions. A rental activity held by a closely held corporation or a personal service corporation may be subject to the passive activity loss rules. See Passive activity limitations, later.

Line 8. Capital Gain Net Income

Every effectively connected sale or exchange of a capital asset must be reported in detail on Schedule D (Form 1120), even if there is no gain or loss.

Line 10. Other Income

Enter any other taxable income not reported on lines 1 through 9. List the type and amount of income on an attached statement. If the corporation has only one item of other income, describe it in parentheses on line 10.

Examples of other income to report on line 10 include the following.

- Recoveries of bad debts deducted in prior years under the specific charge-off method.
- Any amount includable in income from Form 6478, Biofuel Producer Credit.
- Any amount includable in income from Form 8864, Biodiesel, Renewable Diesel, or Sustainable Aviation Fuels Credit.
- Refunds of taxes deducted in prior years to the extent they reduced the amount of tax imposed. See section 111 and the

related regulations. Do not offset current-year taxes against tax refunds.

- Ordinary income from trade or business activities of a partnership (from Schedule K-3 (Form 1065)). Do not offset ordinary losses against ordinary income. Instead, include the losses on Section II, line 27. Show the partnership's name, address, and EIN on Schedule P (Form 1120-F). If the amount entered is from more than one partnership, identify the amount from each partnership on Schedule P.
- The ratable portion of any net positive section 481(a) adjustment. See Section 481(a) adjustment, earlier.
- Part or all of the proceeds received from certain corporate-owned life insurance contracts issued after August 17, 2006. Corporations that own one or more employer-owned life insurance contracts issued after this date must file Form 8925,

Report of Employer-Owned Life Insurance Contracts. See Form 8925.

- Net income from notional principal contracts.
- Interest and dividend equivalents (for example, confirmation and acceptance letter of credit fees and other guarantee fees).
- Income from cancellation of debt (COD) from the repurchase of a debt instrument for less than its adjusted issue price.
- Any payroll tax credit taken by an employer on its 2023 employment tax returns (Forms 941, 943, and 944) for qualified paid sick and qualified paid family leave under FFCRA and ARP (both the nonrefundable and refundable portions). The corporation must include the full amount of the credit for qualified sick and family leave wages in gross income for the tax year that includes the

last day of any calendar quarter in which the credit is allowed.

Note. A credit is available only if the leave was taken after March 31, 2020, and before October 1, 2021, and only after the qualified leave wages were paid, which might, under certain circumstances, not occur until a quarter after September 30, 2021, including quarters in 2022.

Deductions

Important. In computing the taxable income of a foreign corporation engaged in a U.S. trade or business, deductions are allowed only if they are connected with income effectively connected with the conduct of a trade or business in the United States. Charitable contributions, however, may be deducted whether or not they are so connected. See section 882(c) and Regulations section 1.882-4(b) for more information.

Apportionment of Expenses

In general, expenses that are definitely related to a class of gross income (including tax-exempt income) must be allocated to that class of gross income. Expenses not definitely related to a class of gross income should be allocated to all classes of income based on the ratio of gross income in each class of income to total gross income, or some other ratio that clearly relates to the classes of income. See Regulations section 1.861-8 and Temporary Regulations section 1.861-8T for more information.

Attach Schedule H (Form 1120-F) to show the definitely related and indirect allocation and apportionment of expenses to ECI. The amount on Schedule H, Part II, line 20, is reportable on Form 1120-F, Section II, line 26.

Note. The allocation and apportionment of bad debt deductions is not included on Schedule H but is reported only on Form 1120-F, Section II, line 15.

Limitations on Deductions

Uniform capitalization rules. The uniform capitalization rules of section 263A require corporations to capitalize certain costs to inventory or other property.

Corporations subject to the section 263A uniform capitalization rules are required to capitalize:

1. Direct costs of assets produced or acquired for resale, and
2. Certain indirect costs (including taxes) that are properly allocable to property produced or property acquired for resale.

The corporation cannot deduct the costs required to be capitalized under section 263A until it sells, uses, or otherwise disposes of the property (to which the costs relate). The corporation recovers these costs through depreciation, amortization, or costs of goods sold.

A small business taxpayer (defined in Accounting Methods, earlier) is not required to capitalize costs under section 263A. A small business taxpayer that wants to discontinue capitalizing costs under section 263A must change its method of accounting. See section 263A(i) and Regulations section 1.263A-1(j). Also, see the Instructions for Form 3115.

For more information on the uniform capitalization rules, see Pub. 538. Also, see Regulations sections 1.263A-1 through 1.263A-3. See section 263A(d), Regulations section 1.263A-4, and Pub. 225 for rules for property produced in a farming business.

Transactions between related taxpayers.

Generally, an accrual basis taxpayer may only deduct business expenses and interest owed to a related party in the year the payment is included in the income of the related party.

See sections 163(e)(3) and 267(a)(2) for limitations on deductions for unpaid interest and expenses. See the instructions for Schedule I (Form 1120-F), lines 24b and 24e, for limitations under these sections of the interest expense allocable under Regulations section 1.882-5.

Limitations on business interest expense.

Business interest expense may be limited.

See section 163(j) and Form 8990. Also, see the instructions for Schedule I (Form 1120-F), and the instructions for item FF and item GG, earlier.

Section 291 limitations. Corporations may be required to adjust deductions for depletion of iron ore and coal, intangible drilling and exploration and development costs, certain

deductions for financial institutions, and the amortizable basis of pollution control facilities. See section 291 to determine the amount of the adjustment.

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

Time for making an election. The corporation generally elects to deduct start-up or organizational costs by claiming the deduction on its income tax return filed by the due date (including extensions) for the tax year in which the active trade or business begins. For more details, see the Instructions for Form 4562.

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

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

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

Report the deductible amount of start-up and organizational costs and any amortization on line 27. For amortization that begins during the current tax year, complete and attach Form 4562, Depreciation and Amortization.

Passive activity limitations. Limitations on passive activity losses and credits under section 469 apply to personal service corporations (for definition, see Item O—Personal Service Corporation, earlier) and closely held corporations (see definition below).

Generally, the two kinds of passive activities are:

- Trade or business activities in which the corporation did not materially participate for the tax year; and
- Rental activities, regardless of its participation.

For exceptions, see Form 8810, Corporate Passive Activity Loss and Credit Limitations.

Corporations subject to the passive activity limitations must complete Form 8810 to compute their allowable passive activity loss and credit. Before completing Form 8810, see Temporary Regulations section 1.163-8T, which provides rules for allocating interest expense among activities. If a passive activity is also subject to the at-risk rules of section 465 or the tax-exempt use loss rules of section 470, those rules apply before the passive loss rules.

For more information, see section 469, the related regulations, and Pub. 925, *Passive Activity and At-Risk Rules*.

Closely held corporations. 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 directly or indirectly owned by or for not more than five individuals; and

- The corporation is not a personal service corporation.

Certain organizations are treated as individuals for purposes of this test. See section 542(a)(2). For rules for determining stock ownership, see section 544 (as modified by section 465(a)(3)).

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

- Work opportunity credit (Form 5884).
- Credit for increasing research activities (Form 6765).
- Orphan drug credit (Form 8820).
- Disabled access credit (Form 8826).
- Empowerment zone employment credit (Form 8844).

- Credit for employer social security and Medicare taxes paid on certain employee tips (Form 8846).
- Credit for small employer pension plan start-up costs (Form 8881).
- Credit for employer-provided childcare facilities and services (Form 8882).
- Low sulfur diesel fuel production credit (Form 8896).
- Credit for employer differential wage payments (Form 8932).
- Credit for small employer health insurance premiums (Form 8941).
- Employer credit for paid family and medical leave (Form 8994).

If the corporation has any of the credits listed above, figure the current-year credit before figuring the deduction for expenses on which the credit is based. If the corporation capitalized any costs on which it figured the

credit, it may need to reduce the amount capitalized by the credit attributable to these costs.

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

Limitations on deductions related to property leased to tax-exempt entities. If a corporation leases property to a governmental or other tax-exempt entity, the corporation cannot claim deductions related to the property to the extent that they exceed the corporation's income from the lease payments. This disallowed tax-exempt use loss may be carried over to the next tax year and treated as a deduction with respect to the property for that tax year. See section 470(d) for exceptions.

Contributions. See the instructions for line 19, later, for limitations that apply to contributions.

Line 12. Compensation of Officers

Enter deductible officers' compensation on line 12. Do not include compensation deductible elsewhere on the return, such as amounts included in cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement or a SIMPLE IRA plan.

If the corporation's total receipts (line 1a, plus lines 4 through 10) are \$500,000 or more, complete Form 1125-E, Compensation of Officers. Enter on Form 1120-F, line 12, the amount from Form 1125-E, line 4.

Line 13. Salaries and Wages

Enter the total salaries and wages paid for the tax year. Do not include salaries and wages deductible elsewhere on the return, such as amounts included in officers' compensation, cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement,

or amounts contributed under a salary reduction SEP agreement or a SIMPLE IRA plan.

If the corporation provided taxable fringe benefits to its employees, such as personal use of a car, do not deduct as wages the amount allocated for depreciation and other expenses claimed on lines 20 and 27.



If the corporation claims a credit for any wages paid or incurred, it may need to reduce any corresponding deduction for officers' compensation and salaries and wages. See Reducing certain expenses for which credits are allowable, earlier.

Line 14. Repairs and Maintenance

Enter the cost of repairs and maintenance not claimed elsewhere on the return, such as labor and supplies, that are not payments to produce or improve real or tangible personal property. See Regulations section 1.263(a)-1.

For example, amounts are paid for improvements if they are for betterments to the property, restorations of the property (such as the replacements of major components or substantial structural parts), or if they adapt the property to a new or different use. Amounts paid to produce or improve property must be capitalized. See Regulations sections 1.263(a)-2 and -3.

The corporation can deduct repair and maintenance expenses only to the extent they relate to a trade or business activity. See Regulations section 1.162-4. The corporation may elect to capitalize certain repair and maintenance costs consistent with its books and records. See Regulations section 1.263(a)-3(n) for information on how to make the election.

Line 15. Bad Debts

Enter the total debts that became worthless in whole or in part during the tax year. A small bank or thrift institution using the

reserve method of section 585 should attach a statement showing how it figured the current year's provision. A corporation that uses the cash method of accounting cannot claim a bad debt deduction unless the amount was previously included in income.

Specific charge-off method. Attach to the return a list of each debtor and the amount of the bad debt deduction where the amount of the loans charged off (or treated as charged off under Regulations section 1.166-2) for that debtor total in excess of \$500,000 in the tax year.

Line 16. Rents

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

“inclusion amount.” The corporation may have an inclusion amount if:

The lease term began:	And the vehicle's FMV on the first day of the lease exceeded:
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Cars (excluding trucks and vans)

After 12/31/22 but before 1/1/24	\$60,000
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After 12/31/21 but before 1/1/23	\$56,000
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After 12/31/20 but before 1/1/22	\$51,000
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After 12/31/17 but before 1/1/21	\$50,000
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After 12/31/12 but before 1/1/18	\$19,000
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Trucks and vans

After 12/31/22 but before 1/1/24	\$60,000
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After 12/31/21 but before 1/1/23	\$56,000
----------------------------------	----------

After 12/31/20 but before 1/1/22	\$51,000
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After 12/31/17 but before 1/1/21	\$50,000
After 12/31/13 but before 1/1/18	\$19,500
After 12/31/09 but before 1/1/14	\$19,000

See Pub. 463, Travel, Gift, and Car Expenses, for instructions on figuring the inclusion amount.

Note. The inclusion amount for lease terms beginning in 2024 will be published in the Internal Revenue Bulletin in early 2024.

Line 17. Taxes and Licenses

Enter taxes paid or accrued during the tax year, but do not include the following.

- Federal income taxes.
- Foreign or U.S. territory income taxes if a foreign tax credit is claimed.
- Taxes not imposed on the corporation.

- Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (these taxes must be treated as a part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition).
- Taxes assessed against local benefits that increase the value of the property assessed (such as for paving, etc.).
- Taxes deducted elsewhere on the return, such as those reflected in cost of goods sold.

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



Do not reduce the corporation's deduction for social security and Medicare taxes by the nonrefundable and refundable portions of any FFCRA and

ARP credits for qualified sick and family leave wages claimed on its employment tax returns. Instead, report this amount as income on Section II, line 10.

See section 906(b)(1) for rules concerning certain foreign taxes imposed on income from U.S. sources that may not be deducted or credited.

Line 18. Interest Expense From Schedule I, Line 25

Enter the interest expense from Schedule I (Form 1120-F), line 25. Attach Schedule I to the Form 1120-F. See Schedule I and its separate instructions for additional information relating to the allocation of interest expense to ECI and the amount that may be claimed as a deduction on Form 1120-F, Section II, line 18.

Treaty-based interest expense allocation methods. The three-step formula under Regulations section 1.882-5 provides the

exclusive rules for determining the interest expense attributable to the business profits of a permanent establishment under a U.S. income tax treaty, other than treaties that expressly permit attribution of business profits to a U.S. permanent establishment under application of the OECD Transfer Pricing Guidelines, by analogy.

Protective elections under section 1.882-5. A taxpayer that files a protective tax return under Regulations section 1.882-4(a)(3)(vi) may voluntarily file Schedule I with the protective return to preserve timely elections under Regulations section 1.882-5(a)(7). If a taxpayer uses the provisions of an applicable treaty to allocate interest expense rather than Regulations section 1.882-5, it remains subject to the time, place, and manner provisions of Regulations section 1.882-5(a)(7) for making its interest expense allocation elections for any subsequent year that it chooses to use the three-step

allocation formula of the regulations instead of the treaty. Protective interest expense allocation elections under Regulations section 1.882-5(a)(7) may be made for a year in which a treaty method is used in lieu of the rules of Regulations section 1.882-5 by completing and filing Schedule I on a timely filed income tax return for any year that the election would be required to be made under the rules of Regulations section 1.882-5. If a corporation uses an applicable treaty, rather than the rules of Regulations section 1.882-5, to allocate interest expense and does not file Schedule I, then the taxpayer has forfeited its right to make the Regulations section 1.882-5 method elections for such applicable year or years. In this case, under certain circumstances, the Director of Field Operations may make any or all of the binding elections provided under Regulations section 1.882-5 in accordance with Regulations section 1.882-5(a)(7)(ii) (and may make the binding partnership basis

apportionments election under Regulations section 1.884-1(d)(3)(v)) on behalf of the corporation.

Line 19. Charitable Contributions

Note. This deduction is allowed for all contributions, whether or not connected with income that is effectively connected with the conduct of a trade or business in the United States. See section 882(c)(1) (B).

Enter contributions or gifts actually paid within the tax year to or for the use of charitable and governmental organizations described in section 170(c) and any unused contributions carried over from prior years. Special rules and limits apply to contributions to organizations conducting lobbying activities. See section 170(f)(9).

Corporations reporting taxable income on the accrual method may elect to treat as paid during the tax year any contributions paid by the due date for filing Form 1120-F (not

including extensions), if the contributions were authorized by the board of directors during the tax year. Attach a declaration to the return stating that the resolution authorizing the contributions was adopted by the board of directors during the tax year. The declaration must include the date the resolution was adopted. See section 170(a)(2)(B).

Limitation on deduction. Generally, the total amount claimed may not exceed 10% of taxable income (line 31) computed without regard to the following.

- Any deduction for contributions.
- The special deductions on line 30b.
- The limitation under section 249 on the deduction for bond premium.
- Any NOL carryback to the tax year under section 172.

- Any capital loss carryback to the tax year under section 1212(a)(1).

Carryover. Charitable contributions over the 10% limitation cannot be deducted for the tax year but can be carried over to the next 5 tax years. See the exception below for farmers and ranchers.

Special rules apply if the corporation has an NOL carryover to the tax year. In figuring the charitable contributions deduction for the current tax year, the 10% limit is applied using the corporation's taxable income after taking into account any deduction for the NOL.

To figure the amount of any remaining NOL carryover to later years, taxable income must be modified (see section 172(b)). To the extent that contributions are used to reduce taxable income for this purpose and increase an NOL carryover, a contributions carryover is not allowed. See section 170(d)(2)(B).

Suspension of 10% limitation for farmers and ranchers. A qualified farmer or rancher (as defined in section 170(b)(1)(E) (v)) that does not have publicly traded stock may deduct contributions of qualified conservation property without regard to the general 10% limit.

The total amount of the contribution claimed for the qualified conservation property cannot exceed 100% of the excess of the corporation's taxable income (as computed above, substituting "100%" for "10%") over all other allowable charitable contributions. Any excess qualified conservation contributions can be carried over to the next 15 years, subject to the 100% limitation. See sections 170(b)(2)(B) and (C).

Cash contributions. For contributions of cash, check, or other monetary gifts (regardless of the amount), the corporation must maintain a bank record, or a receipt, letter, or other written communication from

the donee organization indicating the name of the organization, the date of the contribution, and the amount of the contribution.

Contributions of \$250 or more. A corporation can deduct a contribution of \$250 or more only if it gets a written acknowledgment from the donee organization that shows the amount of cash contributed, describes any 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 acknowledgment must be obtained by the due date (including extensions) of the corporation's return, or, if earlier, the date the return is filed. Do not attach the acknowledgment to the tax return, but keep it with the corporation's records.

Contributions of property other than cash. If a corporation (other than a closely held or personal service corporation) contributes property other than cash and claims a deduction of more than \$500 for the property, it must attach a statement to the return describing the kind of property contributed and the method used to determine its FMV. Closely held corporations and personal service corporations must complete Form 8283, Noncash Charitable Contributions, and attach it to their returns. All other corporations must generally complete and attach Form 8283 to their returns for contributions of property (other than money) if the total claimed deduction for all property contributed was more than \$5,000. Special rules apply to the contribution of certain property. See the Instructions for Form 8283.

Qualified conservation contributions.

Special rules apply to qualified conservation contributions, including contributions of certain easements on buildings located in a registered historic district. See section 170(h) and Pub. 526, Charitable Contributions.

Other special rules. The corporation must reduce its deduction for contributions of certain ordinary income and capital gain property. See section 170(e).

A larger deduction is allowed for certain contributions including:

- Inventory and other property to certain organizations for use in the care of the ill, needy, or infants (see section 170(e)(3)), including qualified contributions of “apparently wholesome food”; and
- Scientific equipment used for research to institutions of higher learning or to certain scientific research organizations (other than by personal holding companies and

service organizations). See section 170(e)(4).

For more information on charitable contributions, including substantiation and recordkeeping requirements, see section 170 and the related regulations, and Pub. 526. For other special rules that apply to corporations, see Pub. 542.

Line 20. Depreciation

Include on line 20 depreciation and the cost of certain property that the corporation elected to expense under section 179. Enter the amount from Form 4562, but include on line 20 only amounts not claimed on Form 1125-A or elsewhere on the return. See Form 4562 and the Instructions for Form 4562.

Line 21. Depletion

If the corporation has an economic interest in mineral property or standing timber, it can take a deduction for depletion. More than one person can have an economic interest in the

same mineral deposit or timber. In the case of leased property, the depletion deduction is divided between the lessor and the lessee.

See sections 613 and 613A for percentage depletion rates applicable to natural deposits. Also, see section 291 for the limitation on the depletion deduction for iron ore and coal (including lignite).

Attach Form T (Timber), Forest Activities Schedule, if a deduction for depletion of timber is claimed.

Foreign intangible drilling costs and foreign exploration and development costs must either be added to the corporation's basis for cost depletion purposes or be deducted ratably over a 10-year period. See sections 263(i), 616, and 617 for details.

Line 23. Pension, Profit-Sharing, etc., Plans

Enter the deduction for contributions to qualified pension, profit-sharing, or other

funded deferred compensation plans.

Employers who maintain such a plan must generally file one of the forms listed below unless exempt from filing under regulations or other applicable guidance, even if the plan is not a qualified plan under the Internal Revenue Code. The filing requirement applies even if the corporation does not claim a deduction for the current tax year. There are penalties for failure to file these forms on time and for overstating the pension plan deduction. See sections 6652(e) and 6662(f). Also, see the instructions for the applicable form.

Form 5500, Annual Return/Report of Employee Benefit Plan.

Form 5500-SF, Short Form Annual

Return/Report of Small Employee Benefit Plan. File this form instead of Form 5500 generally if there were under 100 participants at the beginning of the plan year.

Note. Form 5500 and Form 5500-SF must be filed electronically under the computerized ERISA Filing Acceptance System (EFAST2). For more information, see the EFAST2 website at EFAST.dol.gov.

Form 5500-EZ, Annual Return of A One-Participant (Owners/Partners and

Their Spouses) Retirement Plan or A Foreign Plan. File this form for a plan that only covers the owner (or the owner and spouse) or a foreign plan that is required to file an annual return and does not file the annual return electronically on Form 5500-SF. See the Instructions for Form 5500-EZ.

Line 24. Employee Benefit Programs

Enter contributions to employee benefit programs not claimed elsewhere on the return (for example, insurance or health and welfare programs) that are not an incidental part of a pension, profit-sharing, etc., plan included on line 23.

Line 26. Deductions Allocated and Apportioned to ECI From Schedule H, Line 20

Enter the total home office deductions allocated and apportioned to ECI from Schedule H (Form 1120-F), line 20. See Schedule H and its separate instructions for additional information. Attach Schedule H to the Form 1120-F.

Deductions definitely related and indirectly allocated and apportioned to ECI that are not includible on Form 1120-F, Section II, lines 12 through 14, 16 and 17, 19 through 25, and 27 are reported on Schedule H, line 20, and on Form 1120-F, line 26. Deductions that are includible on Form 1120-F, Section II, lines 12 through 14, 16 and 17, 19 through 24, and 27 are those derived from set(s) of books and records required to be reported on Form 1120-F, Schedule L.

Note. The books and records of a U.S. office where a trade or business is carried on do not necessarily constitute all of the books and records required to be reported on Schedule L. See the instructions for Schedule L, later. Deductions that are reported on Form 1120-F, Section II, lines 12 through 14, lines 16 and 17, lines 19 through 24, and line 27 are also reconciled to ECI on Schedule H (Form 1120-F), Part IV, lines 38 through 41.

Line 27. Other Deductions

Attach a statement, listing by type and amount, all allowable deductions that are not deductible elsewhere on Form 1120-F. Enter the total on line 27.

Examples of other deductions include the following.

- Amortization. See Part VI of Form 4562.
- Certain costs of a qualified film, television, or live theatrical production commencing before January 1, 2026 (after December

31, 2015, and before January 1, 2026, for a live theatrical production). This deduction does not apply to any portion of the aggregate cost of the production above \$15 million. There is a higher allowance for production in certain areas. See section 181 and the related regulations.

Note. Certain film, television, or live theatrical productions acquired and placed in service after September 27, 2017 (for which a deduction would have been allowable under section 181 without regard to the dollar limitation), are qualified property eligible for the special depreciation allowance under section 168(k). See the Instructions for Form 4562.

- Certain business start-up and organizational costs (discussed earlier under *Limitations on Deductions*).

- Reforestation costs. The corporation may elect to deduct up to \$10,000 of qualifying reforestation expenses for each qualified timber property. The corporation may elect to amortize over 84 months any amount not deducted. See the Instructions for Form T (Timber), Forest Activities Schedule.
- Insurance premiums.
- Legal and professional fees.
- Supplies used and consumed in the business.
- Travel, meals, and entertainment expenses. Special rules apply (discussed later).
- Utilities.
- Ordinary losses from trade or business activities of a partnership (from Schedule K-3 (Form 1065)). Do not offset ordinary income against ordinary losses. Instead,

include the income on line 10. Show the partnership's name, address, and EIN on Schedule P (Form 1120-F). If the amount is from more than one partnership, identify the amount from each partnership on Schedule P.

- Any net negative section 481(a) adjustment. See Section 481(a) adjustment, earlier.
- Dividends paid in cash on stock held by an employee stock ownership plan. However, a deduction may be taken for these dividends only if, according to the plan, the dividends are:
 1. Paid in cash directly to the plan participants or beneficiaries;
 2. Paid to the plan, which distributes them in cash to the plan participants or their beneficiaries no later than 90 days after the end of the plan year in which the dividends are paid;

3. At the election of such participants or their beneficiaries (a) payable as provided under (1) or (2) above, or (b) paid to the plan and reinvested in qualifying employer securities; or
4. Used to make payments on a loan described in section 404(a)(9).

See section 404(k) for more details and the limitation on certain dividends.

Do not deduct expenses such as the following.

- Amounts paid or incurred to, or at the direction of, a government or governmental entity for the violation, or investigation or inquiry into the potential violation, of a law. However, see Fines or similar penalties, later.
- Any amount that is allocable to a class of exempt income. See section 265(b) for exceptions.

- Lobbying expenses. However, see exceptions (discussed later).
- Amounts paid or incurred for any settlement, payout, or attorney fees related to sexual harassment or sexual abuse, if such payments are subject to a nondisclosure agreement. See section 162(q).

Travel, meals, and entertainment. Subject to limitations and restrictions discussed below, a corporation may deduct ordinary and necessary travel, meal, and non-entertainment expenses paid or incurred in its trade or business. Generally, entertainment expenses, membership dues, and facilities used in connection with these activities cannot be deducted. In addition, no deduction is generally allowed for qualified transportation fringe benefits. Special rules apply to deductions for gifts, luxury water travel, and convention expenses. See section 274 and Pub. 463 for details.

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

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

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

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

- Meals must not be lavish or extravagant, and

- An employee of the corporation must be present at the meal.

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

Qualified transportation fringes (QTFs).

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

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

See section 274 and Pub. 15-B, Employers Tax Guide to Fringe Benefits, for details.

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

Entertainment facilities. Generally, the corporation cannot deduct an expense paid or incurred for a facility (such as a yacht or

hunting lodge) used for an activity usually considered entertainment, amusement, or recreation.

Amounts treated as compensation.

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

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

Fines or similar penalties. Generally, no deduction is allowed for fines or similar penalties paid or incurred to, or at the direction of, a government or governmental entity for violating any law, or for the

investigation or inquiry into the potential violation of a law, except:

- Amounts that constitute restitution or remediation of property,
- Amounts paid to come into compliance with the law,
- Amounts paid or incurred as the result of orders or agreements in which no government or governmental entity is a party, and
- Amounts paid or incurred for taxes due.

No deduction is allowed unless the amounts are specifically identified in the order or agreement and the corporation establishes that the amounts were paid for that purpose. Also, any amount paid or incurred as reimbursement to the government for the costs of any investigation or litigation are not eligible for the exceptions and are nondeductible. See section 162(f).

Lobbying expenses. Generally, lobbying expenses are not deductible. These expenses include:

- Amounts paid or incurred in connection with influencing federal, state, or local legislation; or
- Amounts paid or incurred in connection with any communication with certain federal executive branch officials in an attempt to influence the official actions or positions of the officials. See Regulations section 1.162-29 for the definition of “influencing legislation.”

Dues and other similar amounts paid to certain tax-exempt organizations may not be deductible.

If certain in-house lobbying expenditures do not exceed \$2,000, they are deductible.

Line 29. Taxable Income Before NOL Deduction and Special Deductions

At-risk rules. Generally, special at-risk rules under section 465 apply to closely held corporations (see Passive activity limitations, earlier) engaged in any activity as a trade or business or for the production of income. These corporations may have to adjust the amount on line 29 (see below).

The at-risk rules do not apply to:

- Holding real property placed in service by the taxpayer before 1987;
- Equipment leasing under sections 465(c)(4), (5), and (6); or
- Any qualifying business of a qualified corporation under section 465(c)(7).

However, the at-risk rules do apply to the holding of mineral property.

If the at-risk rules apply, adjust the amount on this line for any section 465(d) losses. These losses are limited to the amount for which the corporation is at risk for each separate activity at the close of the tax year. If the corporation is involved in one or more activities, any of which incurs a loss for the year, report the losses for each activity separately. Attach Form 6198, At-Risk Limitations, showing the amount at risk and gross income and deductions for the activities with the losses.

If the corporation sells or otherwise disposes of an asset or its interest (either total or partial) in an activity to which the at-risk rules apply, determine the net profit or loss from the activity by combining the gain or loss on the sale or disposition with the profit or loss from the activity. If the corporation has a net loss, it may be limited because of the at-risk rules.

Treat any loss from an activity not allowed for the tax year as a deduction allocable to the activity in the next tax year.

Line 30a. Net Operating Loss Deduction

A corporation may use the NOL incurred in one tax year to reduce its taxable income in another tax year. Enter on line 30a the total NOL carryovers from other tax years, but do not enter more than the corporation's taxable income (after special deductions). Attach a statement showing the computation of the NOL deduction. Also, complete item S on page 2 of the form. The following special rules apply.

- If an ownership change (described in section 382(g)) occurs, the amount of the taxable income of a loss corporation that may be offset by the pre-change NOL carryovers may be limited. See section 382 and the related regulations. A loss corporation must include the information statement as provided in Regulations

section 1.382-11(a) with its income tax return for each tax year that it is a loss corporation in which an ownership shift, equity structure shift, or other transaction described in Temporary Regulations section 1.382-2T(a)(2)(i) occurs. If the corporation makes the closing-of-the-books election, see Regulations section 1.382-6(b).

The limitations under section 382 do not apply to certain ownership changes after February 17, 2009, made pursuant to a restructuring plan under the Emergency Economic Stabilization Act of 2008. See section 382(n).

For guidance in applying section 382 to loss corporations whose instruments were acquired by Treasury under certain programs under the Emergency Economic Stabilization Act of 2008, see Notice 2010-2, 2010-2 I.R.B. 251, available at [IRS.gov/irb/2010-02_IRB#NOT-2010-2](https://www.irs.gov/irb/2010-02_IRB#NOT-2010-2).

- If a corporation acquires control of another corporation (or acquires its assets in a reorganization), the amount of pre-acquisition losses that may offset recognized built-in gain may be limited (see section 384).
- If a corporation elects the alternative tax on qualifying shipping activities under section 1354, no deduction is allowed for an NOL attributable to the qualifying shipping activities to the extent that the loss is carried forward from a tax year preceding the first tax year for which the alternative tax election was made. See section 1358(b)(2).

For more details on the NOL deduction, see section 172 and the Instructions for Form 1139.

Line 30b. Special Deductions

See the instructions for Schedule C, later.

Line 31. Taxable Income or (Loss)

Net operating loss (NOL). If line 31 is zero or less, the corporation may have an NOL that may be carried back or forward as a deduction to other tax years.

Only farming losses and losses of an insurance company (other than a life insurance company) can be carried back. The carryback period for these losses is 2 years. For NOLs that can be carried back, the corporation can elect to waive the carryback period and instead carry the NOL forward to future tax years.

See the instructions for Item R, earlier, for information on making the election to waive the carryback period. See the Instructions for Form 1139 for other special rules and elections.

The NOL deduction for tax year 2023 cannot exceed the aggregate amount of NOLs arising in tax years beginning before January 1, 2018, carried to such year plus the lesser of:

1. The aggregate amount of NOLs arising in tax years beginning after December 31, 2017, carried to such tax year; or
2. 80% of the excess, if any, of taxable income determined without any NOL deduction or section 199A deduction, over any NOL carryover to the tax year from tax years beginning before January 1, 2018.

An exception applies for NOLs of insurance companies other than life insurance companies. The 80% taxable income limit does not apply to these entities. See sections 172(b) and (f).

Schedule C—Dividends and Special Deductions

For purposes of the 20% ownership test on lines 1 through 7, the percentage of stock owned by the corporation is based on voting power and value of the stock.

Line 1, Column (a)

Enter dividends (except those received on certain debt-financed stock acquired after July 18, 1984—see section 246A) that:

- Are received from less-than-20%-owned domestic corporations subject to income tax, and
- Qualify for the 50% deduction under section 243(a)(1). Also, include on line 1 the following.
- Taxable distributions from an IC-DISC or former DISC that are designated as eligible for the 50% deduction and certain dividends of Federal Home Loan Banks.

See section 246(a)(2).

- Dividends (except those received on certain debt-financed stock acquired after July 18, 1984) from a RIC. The amount of dividends eligible for the dividends-received deduction under section 243 is limited by section 854(b). The corporation should receive a notice from the RIC specifying the amount of dividends that qualify for the deduction.

Report so-called dividends or earnings received from mutual savings banks, etc., as interest. Do not treat them as dividends.

Line 2, Column (a)

Enter on line 2:

- Dividends (except those received on certain debt-financed stock acquired after July 18, 1984) that are received from 20%-or-more-owned domestic corporations subject to income tax and

that are subject to the 65% deduction under section 243(c), and

- Taxable distributions from an IC-DISC or former DISC that are considered eligible for the 65% deduction. **Line 3, Column (a)**

Enter the following.

- Dividends received on certain debt-financed stock acquired after July 18, 1984, from domestic and foreign corporations subject to income tax that would otherwise be subject to the dividends-received deduction under section 243(a)(1), 243(c), or 245(a). Generally, debt-financed stock is stock that the corporation acquired by incurring a debt (for example, it borrowed money to buy the stock).
- Dividends received from a RIC on debt-financed stock. The amount of dividends eligible for the dividends-received

deduction is limited by section 854(b). The corporation should receive a notice from the RIC specifying the amount of dividends that qualify for the deduction.

Line 3, Columns (b) and (c)

Dividends received on certain debt-financed stock acquired after July 18, 1984, are not entitled to the full 50% or 65% dividends-received deduction under section 243 or 245(a). The 50% or 65% deduction is reduced by a percentage that is related to the amount of debt incurred to acquire the stock. See section 246A. Also, see section 245(a) before making this computation for an additional limitation that applies to certain dividends received from foreign corporations. Attach a statement to Form 1120-F showing how the amount on line 3, column (c), was computed.

Line 4, Column (a)

Enter dividends received on preferred stock of a less-than-20%-owned public utility that is subject to income tax and is allowed the 23.3% deduction provided in sections 244 and 247 (as affected by P.L.113-295, Div. A, section 221(a)(41)(A), Dec. 19, 2014, 128 Stat. 4043) for dividends paid.

Line 5, Column (a)

Enter dividends received on preferred stock of a 20%-or-more-owned public utility that is subject to income tax and is allowed the 26.7% deduction provided in sections 244 and 247 (as affected by P.L.113-295, Div. A, section 221(a)(41)(A), Dec. 19, 2014, 128 Stat. 4043) for dividends paid.

Line 6, Column (a)

Enter the U.S.-source portion of dividends that:

- Are received from less-than-20%-owned foreign corporations, and
- Qualify for the 50% deduction under section 245(a). To qualify for the 50% deduction, the corporation must own at least 10% of the stock of the foreign corporation by vote and value.

Line 7, Column (a)

Enter the U.S.-source portion of dividends that are received from 20%-or-more-owned foreign corporations and that qualify for the 65% deduction under sections 243 and 245(a).

Worksheet for Schedule C, Line 8

Keep for Your Records



1. Refigure Section II, line 29, without any adjustment under section 1059, and without any capital loss carryback to the tax year under section 1212(a)(1)

2. Multiply line 1 by 65% (0.65)

3. Add lines 2, 5, and 7, column (c), and the part of the deduction on line 3, column (c), that is attributable to dividends from 20%-or-more-owned corporations

4. Enter the smaller of line 2 or line 3. If line 3 is greater than line 2, stop here; enter the amount from line 4 on line 8, column (c), and do not complete the rest of this worksheet

5. Enter the total amount of dividends from 20%-or-more-owned corporations that are included on lines 2, 3, 5, and 7, column (a)

6. Subtract line 5 from line 1

7. Multiply line 6 by 50% (0.50)

8. Subtract line 3 above from line 8, column (c)

9. Enter the smaller of line 7 or line 8

10. **Dividends-received deduction after limitation (section 246(b)).** Add lines 4 and 9. Enter the result here and on line 8, column (c)

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

7. _____

8. _____

9. _____

10. _____

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Line 8, Column (c)

Limitation on dividends-received

deduction. Generally, line 8, column (c), cannot exceed the amount from the Worksheet for Schedule C, Line 8. However, in a year in which an NOL occurs, this limitation does not apply, even if the loss is created by the dividends-received deduction. See sections 172(d) and 246(b).

Line 9, Column (a)

Enter the foreign dividends not reportable on line 3, 6, or 7 of column (a).

Attach a statement identifying the amount of each dividend reported on line 9 and the provision pursuant to which a deduction is not allowed with respect to such dividend.

Line 10, Column (a)

Enter taxable distributions from an IC-DISC or former DISC that are designated as not eligible for a dividends-received deduction.

No deduction is allowed under section 243 for a dividend from an IC-DISC or former DISC (as defined in section 992(a)) to the extent the dividend:

- Is paid out of the corporation's accumulated IC-DISC income or previously taxed income, or
- Is a deemed distribution under section 995(b)(1).

Line 11, Column (a)

Include the following.

- Dividends (other than capital gain distributions reported on Schedule D (Form 1120), Capital Gains and Losses, and exempt-interest dividends) that are received from RICs and that are not subject to the 50% deduction.
- Dividends from tax-exempt organizations.
- Dividends (other than capital gain distributions) received from a REIT that

qualifies, for the tax year of the trust in which the dividends are paid, under sections 856 through 860.

- Dividends not eligible for a dividends received deduction, which include the following.
 1. Dividends received on any share of stock held for less than 46 days during the 91-day period beginning 45 days before the ex-dividend date. When counting the number of days the corporation held the stock, you cannot count certain days during which the corporation's risk of loss was diminished. See section 246(c)(4) and Regulations section 1.246-5 for more details.
 2. Dividends received on any share of preferred stock that are attributable to periods totaling more than 366 days if such stock was held for less than 91 days during the 181-day period that

began 90 days before the ex-dividend date. When counting the number of days the corporation held the stock, you cannot count certain days during which the corporation's risk of loss was diminished. See section 246(c)(4) and Regulations section 1.246-5 for more details. Preferred dividends attributable to periods totaling less than 367 days are subject to the 46-day holding period rule discussed above.

3. Dividends on any share of stock to the extent the corporation is under an obligation (including a short sale) to make related payments with respect to positions in substantially similar or related property.
- Any other taxable dividend income not properly reported elsewhere on Schedule C.

If patronage dividends or per-unit retain allocations are included on line 11, identify the total of these amounts in a statement and attach it to Form 1120-F.

Line 12, Column (c)

Section 247 (as affected by P.L.113-295, Div. A, section 221(a)(41)(A), Dec. 19, 2014, 128 Stat. 4043) allows public utilities a deduction of 40% of the smaller of:

- Dividends paid on their preferred stock during the tax year, or
- Taxable income computed without regard to this deduction.

In a year in which an NOL occurs, compute the deduction without regard to section 247(a)(1)(B).

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