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Earnings and profits computation practice guide

American Institute of Certified Public Accountants. Tax Division

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Earnings and Profits Computation Practice Guide

Tax Division

DECEMBER 1994

AICPA

American
Institute of
Certified
Public
Accountants

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Earnings and Profits Computation Practice Guide

Tax Division

DECEMBER 1994

NOTICE TO READERS

Tax Practice Aids are designed as educational and reference material for the members of the Tax Division and others interested in the subject. They do not establish standards or preferred practices.

This Practice Aid is distributed with the understanding that the AICPA Tax Division is not rendering any tax or legal advice.

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PURPOSE

The primary purpose of this Earnings and Profits Computation Practice Aid (Practice Aid) is to assist practitioners in performing earnings and profits computations. The Practice Aid is designed as educational and reference material for members of the AICPA Tax Division and others interested in the subject, and is distributed with the understanding that the AICPA Tax Division is not rendering any tax or legal advice.

The focus of this Practice Aid is on a regular C corporation which is unaffiliated with any other corporation. While the principles here are equally applicable to corporations filing a federal consolidated tax return, additional factors must be considered as outlined in the consolidated return regulations.

PREFACE

Tax practice requires a working knowledge of tax laws and existing federal tax reference material. The Practice Aid is intended to provide information that is current and accurate. The AICPA Tax Division will not update this aid. Accordingly, users should review all references to ensure that any subsequent statutory changes, interpretations, guidance, or court decisions are considered in advice being rendered to their clients. Nevertheless, comments, questions, and suggestions are welcome. In the event this publication is updated, such comments would be invaluable in making the product better for all members of the Tax Division.

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I. INTRODUCTION

All C corporations must maintain adequate records to allow periodic calculation of current and accumulated earnings and profits (E&P). However, the lack of both a clear definition of E&P and a requirement to make the calculations on a yearly basis leads many corporations to make the computations only as needed. The calculation of E&P arises most frequently when a determination needs to be made of the extent to which a corporate distribution is taxable as a dividend. It may be required for other purposes also, e.g., conversion to REIT status or sale of a subsidiary.

To prevent double taxation, corporations and shareholders must distinguish between taxable dividend distributions, nontaxable distributions, which are a return of capital, and distributions which represent capital gain. Because E&P is the yardstick by which distributions to shareholders are characterized, its periodic determination is essential to corporate tax planning. C corporations making distributions that are not dividends in whole or in part because the amount of the distribution exceeds the E&P of the corporation are required to file Form 5452, *Corporate Report of Nondividend Distributions*, with their tax returns when filed with the Internal Revenue Service (IRS). Form 5452 requires the computation of E&P accumulated since February 28, 1913. The form together with its supporting information, provides the basis for claiming all or part of a distribution as nontaxable because E&P is less than the distribution.

II. THE CONCEPT OF EARNINGS AND PROFITS

Although the term *earnings and profits* first appeared in the federal income tax laws in 1916, Congress has never clearly defined it. The statutory provisions that deal with E&P treat only limited aspects of the E&P computation.

E&P measures a corporation's ability to make distributions to its shareholders out of net assets in excess of the contributed capital of the shareholders. E&P represents the net increase in corporate assets in excess of those assets received from shareholders as contributions to capital, net of liabilities incurred. E&P is an economic concept that includes all items of gain, income, loss, and expense realized by the corporation, whether included or specifically excluded in computing taxable income, unless the inclusion or exclusion from taxable income was based on consideration of tax policy rather than the economic effect of the item on a corporation's net assets.

III. PRINCIPAL CATEGORIES OF EARNINGS AND PROFITS

A corporate distribution with respect to its stock may have one or more of the following six principal categories as its source:

1. E&P of the taxable year (current E&P)
2. E&P accumulated after February 28, 1913
3. E&P accumulated before March 1, 1913
4. Increase in the value of corporate property accrued before March 1, 1913
5. Liabilities
6. Contributed Capital

Note: This Practice Aid is designed to assist practitioners in performing E&P computations, but does not contain an exhaustive analysis of all E&P issues. For example, a discussion of the computation of E&P and related issues for companies filing a consolidated return for a group of affiliated companies is outside the scope of this Practice Aid. Consult the bibliography at the end of the Practice Aid for appropriate reference materials.

Section 316 of the Internal Revenue Code of 1986 (Code) defines a dividend as a distribution out of either current or accumulated E&P. Section 316 also provides that, except as otherwise specifically provided, all distributions are presumed to be made out of E&P and from the most recently accumulated E&P. The regulations apply the presumption to current earnings and the successive sources of distribution as follows: first, E&P of the taxable year; second, E&P accumulated since February 28, 1913; third, E&P accumulated before March 1, 1913; and fourth, sources other than E&P. Each succeeding category must be exhausted before distributions can be considered to come from the next category.

Following the ordering system above, the portion of each distribution not considered as paid out of current E&P will be considered a taxable dividend to the extent of E&P accumulated since February 28, 1913. In the case of corporations organized after February 28, 1913, accumulated E&P is the amount accumulated since the date of organization.

The date of payment, rather than the date of declaration, constitutes the date of a distribution. Determination of the taxable status of the distribution, and its effect on the E&P of the declaring corporation, is determined by reference to the E&P of the corporation for the taxable year of payment.

IV. COMPUTATION OF EARNINGS AND PROFITS

The E&P calculation is the yardstick used to determine whether a corporate distribution is taxable as a dividend. The concept of E&P is unique in the tax law and bears no direct relation either to taxable income or to earnings as determined by generally accepted accounting principles (GAAP). In most instances, a corporation's E&P is calculated by making adjustments to taxable income for items that are treated differently for E&P purposes. The net basis approach (under which E&P is calculated as the difference between the net adjusted basis of the corporation's assets at the beginning and end of the tax year, adjusted for distributions during the year) is another alternative. It frequently is used in certain corporate split-ups to allocate E&P to the various corporations involved.

A. Adjustments to Taxable Income to Arrive at Earnings and Profits*

The following list presents a summary of many, but not necessarily all, of the adjustments made to taxable income to compute the E&P of a corporation.

1. Exclusions From Taxable Income

Certain amounts are specifically excluded from gross income for federal income tax purposes. These exclusions are based on tax law and legislative policy and are not consistent with measuring the actual economic gain of a corporation. Accordingly, these items increase the E&P of the corporation even though excluded from taxable income.

*Note: The RRA of 1993 added section 197, which provides for the amortization of certain intangible assets, including goodwill. No changes were made in the '93 Act to section 312, and the conclusion of the Task Force is that intangible assets which are amortizable for regular tax purpose also will be amortized, on the same basis as regular tax, for E&P purposes. Accordingly, no adjustments should need to be made to taxable income in arriving at E&P for intangible assets.

- a. *Certain death benefits.* Amounts received or receivable and excluded from taxable income under section 101 increase E&P by the amount in excess of the taxpayer's basis in the benefit which is excluded.
- b. *Interest income on state and local bonds.* Amounts received or receivable and excluded from taxable income under section 103 increase E&P by the amount excluded.
- c. *Tax benefit income.* Amounts received or receivable and excluded from taxable income under section 111 increase E&P to the extent that E&P of the current or preceding year is or was decreased by the deduction of the amount giving rise to the recovery.
- d. *Certain amounts received as compensation for injuries.* Amounts received or receivable and excluded from taxable income under section 104 increase E&P by the amount excluded.
- e. *Discharge of indebtedness income.* E&P may be increased by income realized from the discharge of indebtedness. A full treatment of this issue is beyond the scope of this practice aid.
- f. *Refunds of certain taxes.* If a corporation receives a refund of a foreign or federal tax that decreased E&P in a prior taxable year, then E&P of the current year is increased by the amount of any such refund to the extent that E&P of a prior year was decreased and the refund was not reflected in current year taxable income.

2. Deductions Not Permitted for Earnings and Profits

Certain amounts are deductible for purposes of computing taxable income even though they do not represent actual expenditures of the corporation. These amounts do not deplete corporate resources and therefore do not reduce E&P. Accordingly, these items must be added back to taxable income to arrive at E&P.

- a. *Dividends received deduction.* E&P is increased by the amount of the dividends received deduction claimed in determining taxable income.
- b. Since the following items reduce the current E&P in the year in which they arise, any carryback or carryover of any of these items claimed in computing current taxable income must be added back.
 - Net Operating Loss Deduction
 - Carryover Capital Losses
 - Charitable Contributions Carryover
 - Carryover of Excess Qualified Plan Contributions

3. Earnings and Profits Reductions Not Deductible in the Computation of Taxable Income

Expenses that deplete corporate resources generally reduce the E&P of the corporation even though they are not deductible in the computation of taxable income. The following items that are not deductible in the computation of taxable income must be subtracted from taxable income to arrive at E&P.

- a. *Federal income taxes paid.* E&P is decreased by the amount of federal income taxes paid or properly accrued by the corporation during the tax year, to the extent such federal taxes are not otherwise deductible in determining taxable income. An unresolved issue is how to account for estimated federal income tax payments in reducing E&P. The taxpayer's method of accounting may determine the timing of these reductions.
- b. *Charitable contributions.* Amounts paid or incurred that would be deductible except for the application of section 170(b)(2) decrease E&P by the amount disallowed.
- c. *Expenses and interest related to tax-exempt income.* Amounts paid or incurred and disallowed by section 256 decrease E&P.
- d. *Certain amounts paid in connection with insurance contracts.* Amounts paid or incurred and disallowed by section 264 decrease E&P by such disallowed amount.
- e. *Losses, expenses, and interest with respect to transactions between related taxpayers.* Losses, expenses, and interest disallowed or deferred under section 267 decrease E&P.
- f. *Disallowance of certain entertainment expenses.* E&P is decreased for any expense disallowed as a deduction by application of section 274.
- g. *Excess capital losses.* If a corporation has a net capital loss for the taxable year which would be deductible except for the application of section 1211(a), E&P for the year in which the loss is realized is reduced.
- h. *Excess qualified plan costs.* E&P is decreased by contributions to qualified deferred compensation plans in excess of the limitation imposed by section 404.
- i. *Trade or business deductions disallowed by section 162.* E&P is decreased by the following items:
 - Illegal bribes, kickbacks, and other payments made nondeductible by section 162(c)
 - Lobbying expense and other political contributions made nondeductible by section 162(e) (and arguably indirect political contributions under section 276)
 - Fines and penalties made nondeductible by section 162(f)
 - Treble damages made nondeductible by section 162(g)
 - Certain foreign advertising expenses made nondeductible by section 162(j)
 - Expenses related to the redemption of stock made nondeductible by section 162(k)
 - Any other deduction incurred in a trade or business which would otherwise be deductible under section 162, but for which a deduction is disallowed by statute, regulation or judicial decision as a violation of public policy
- j. *Acquisition made to evade or avoid income tax.* E&P is decreased by deductions (other than items that have already decreased E&P) disallowed under section 269.

- k. *Debts owed by political parties.* E&P is decreased by deductions limited by the application of section 271 concerning the worthlessness of any debt owed by a political party.
- l. *Foreign taxes.* The amount of any foreign tax paid or properly accruable by a corporation which is claimed as a credit under its method of accounting represents a reduction of E&P.
- m. *Nonqualified deferred compensation.* E&P is decreased by the deduction for nonqualified deferred compensation in the same taxable year in which taxable income is reduced by such items.
- n. *Stock option exercises.* E&P is reduced by the bargain element applicable to the exercise of certain qualified stock options (e.g., incentive stock options pursuant to section 422).

4. Certain Timing Differences—Accelerated Deductions

In the computation of taxable income, certain capital expenditures may be deducted or amortized over a specific period of time. In most cases these capital expenditures also reduce the E&P of the corporation, but the amortization period and rate for E&P purposes may differ from the amortization period and rate used in computing taxable income. Accordingly, taxable income must be adjusted to arrive at E&P.

- a. *Depletion.* Only cost depletion may be used for purposes of computing E&P. Corporations using percentage depletion for purposes of computing taxable income must increase E&P by the amount by which percentage depletion claimed on the tax return exceeds the amount allowable under the cost method.
- b. *Depreciation, accelerated cost recovery, and modified accelerated cost recovery.* For purposes of computing a corporation's E&P for any taxable year beginning after June 30, 1972, depreciation (and amortization, if any) is computed under the straight line method using alternative depreciation system (ADS) lives. Section 312(k) requires corporations using the accelerated cost recovery system (ACRS) and modified accelerated cost recovery system (MACRS) methods in computing taxable income to make an adjustment for the difference between depreciation computed under these methods and depreciation computed for E&P. If the corporation uses the units of production method or other method not expressed in a term of years, that method is also used in computing E&P. For purposes of computing E&P of a corporation, any amount deductible under section 179 is allowed as a deduction ratably over a period of five years.

B. Adjustments to Earnings and Profits to More Accurately Reflect Economic Gain or Loss

Seven adjustments are prescribed by section 312(n) to make E&P more accurately reflect economic gain or loss. It should be noted the IRS has broad powers to reallocate income gain, loss and deduction between taxpayers (section 482). This reallocation could impact E&P.

1. Construction Period Interest, Property Taxes, and Similar Carrying Charges

To the extent that such amounts have been deducted in determining taxable income, construction period interest, property taxes, and similar carrying charges must be added back to taxable income, and included in the basis of the property to which they relate and recovered for E&P purposes under section 312(k).

2. Intangible Drilling Costs and Mineral Exploration and Development Costs

Intangible drilling costs incurred in connection with a productive well that are deductible in computing taxable income must be capitalized for E&P purposes and deducted ratably over a 60-month period beginning with the month in which production from the well begins. Mineral exploration and development costs deductible in computing taxable income must also be capitalized for E&P purposes and deducted over the 120-month period beginning with the later of: (1) the month in which production from the deposit begins or (2) the month in which the costs were paid or incurred. In the case of nonproductive mineral property, intangible drilling costs and exploration and development expenses reduce E&P in the year the property is abandoned.

3. Certain Expenditures Made to Establish, Maintain, or Increase the Circulation of a Newspaper, Magazine or Other Periodical, and Certain Organizational Expenditures

Certain expenditures to establish, maintain, or increase the circulation of a newspaper, magazine or other periodical, and certain organizational expenditures of a corporation that can be deducted or amortized for purposes of computing taxable income over a shorter period than the useful life of the property to which they relate require adjustment for E&P purposes. If such expenditures are made in connection with property with a reasonably determinable useful life, they are recovered for E&P purposes over such useful life. No amortization deduction is allowed for E&P purposes for expenditures made in connection with property without a reasonably determinable useful life.

4. LIFO Recapture Amount

E&P of the corporation is increased or decreased by the amount of any increase or decrease in the corporation's LIFO recapture amount, which is defined in section 312(n)(4)(B).

5. Installment Sales Method

The use of the installment method is prohibited for purposes of computing E&P. The entire amount of the gain realized on an installment sale increases E&P in the year of the sale, even if the installment method is used in computing taxable income. For years after that of disposition, gain recognized under the installment method reduces E&P.

6. Completed Contract Method of Accounting

A corporation using the completed contract method of accounting generally recognizes income and expense in the year in which the contract is completed. For E&P purposes, a corporation must account for the income and expense relating to long-term contracts on the percentage of completion

basis. This adjustment to E&P arising from use of the percentage of completion method reverses on contract completion.

7. Distribution in Redemption of Stock

When a corporation's distribution in redemption of its stock is treated as a sale or exchange of its stock instead of a corporate distribution, the E&P of the distributing corporation is reduced by the ratable share of E&P attributable to the stock redeemed. For years prior to 1984, the reduction of E&P is based on the excess of the distribution over the tax bases of the redeemed stock based on the Jarvis discussion (Jarvis v. Commissioner, CA-4, 1941).

C. Other Transactions and Miscellaneous Adjustments

The following are various adjustments required and items to be taken into account in computing E&P.

1. Tax Credits

Since tax credits decrease tax for the year in which they are earned (or are used as a carryover) and increase taxes for the year in which they are recaptured, no further adjustment is made to E&P. However, E&P is decreased by the difference between the actual expenditure generating a credit and the amount otherwise deductible for regular tax purposes (e.g., wages and the targeted jobs tax credit—see section 280C).

2. Recognized Gain or Loss on Disposition of Property

For federal income tax purposes, gain or loss is generally recognized on the sale or exchange of property to the extent of the difference between the adjusted basis of the property under section 1011 and the amount of money and the fair market value of property received in the exchange. For E&P purposes, measurement of the amount of gain or loss is to be made with reference to the basis as computed to reflect the possible difference in the amount of depreciation, depletion or amortization deductions proper for E&P purposes. No increase to E&P shall be made for pre-March 1, 1913 asset appreciation.

3. Distributions of Appreciated Property

If a corporation distributes appreciated property with respect to its stock, E&P is increased or decreased to take into account the property's adjusted basis for E&P purposes, if such adjusted basis is different from its adjusted basis for determining gain under section 311(b) or gain or loss under section 336.

4. Distribution of Proceeds of a Loan Insured by the United States

If a corporation distributes property with respect to its stock and if, at the time of distribution, there is an outstanding loan to such corporation, which was made, guaranteed, or insured by the United States (or by any agency or instrumentality thereof), and the amount of such loan outstanding

exceeds the adjusted basis of the property securing such loan, E&P of the corporation is increased by the amount of the excess, and (immediately after the distribution) decreased by the amount of such excess.

5. Tax-Free Distributions

If a corporation receives (after February 28, 1913) a distribution from a second corporation that was not a taxable dividend, such distribution will not increase E&P, provided the distribution is directly applied in reduction of the basis of the stock in respect to which the distribution was made or the distribution causes the basis of the stock in respect of which the distribution was made to be allocated between such stock and the property received.

6. Certain Distributions of Stock and Securities

Distributions by a corporation with respect to its stock or securities, of stock or securities in another corporation, or of property, is not considered a distribution of E&P, provided no gain or dividend income was recognized by the distributee from the receipt of such stock, securities, or property (section 312(d)).

7. Section 78 Gross Up

The gross up required for determining the foreign tax credit must be removed for E&P purposes.

8. Interest Paid on Certain Registration Required Obligations not in Registered Form

E&P is not decreased by any interest with respect to which a deduction is not allowed under section 163(f).

In addition to the above, it is necessary to consider other adjustments that are unique to a particular industry (e.g., fresh start adjustment for insurance companies and section 607 deposits for the maritime industry).

D. Accumulated Earnings and Profits

Accumulated E&P consists of the aggregate E&P accumulated by the corporation since the later of its date of incorporation or February 28, 1913. To compute accumulated E&P, it is necessary to determine E&P for each prior year under the laws applicable to each year. The resulting amount for each year is reduced by distributions properly chargeable to E&P.

The E&P of a corporation generally is determined by reference to the taxable income and federal tax liability as reported on the corporation's tax return. The treatment of one or more items of E&P may be later changed as a result of administrative or judicial proceedings. The position of the IRS is that proper income and expense should be reflected in the E&P computation and that changes should be reflected in the year in which the income or expense to be changed was originally reflected. Therefore, if changes in E&P computations become apparent, these changes must be reflected in the proper taxable year of the change regardless of the statute of limitations.

Revenue Procedure 75-17 (discussed in section VI, page 10, and reproduced in appendix C) requires the computation of E&P accumulated since the later of the date of incorporation or February 28, 1913. Accumulated E&P is the sum of the E&P for each required computation year. For each required year, taxable income is adjusted to arrive at current E&P. Current E&P is then adjusted for judicial and administrative adjustments and reduced by distributions properly chargeable to E&P for the year, to arrive at net current E&P. Net current E&P is added to beginning E&P to arrive at ending accumulated E&P. Worksheets for computing E&P are included in this practice aid, beginning on page 13.

E. Ordering (Sourcing) of Distributions

In determining the source of a dividend, a distribution is deemed to have been made first from current E&P, and then from E&P accumulated since February 28, 1913. If total distributions made in the current year exceed current-year E&P, the portion of each distribution deemed to be made from current E&P is that percentage which total earnings for the year bears to the total distributions for that year.

Accumulated E&P is the sum of all previous years' current E&P (less distributions in each prior taxable year). Accumulated E&P is computed on the first day of each taxable year in accordance with the tax law in effect during that year.

The ordering of a distribution from current and/or accumulated E&P is as follows:

1. If there is a deficit in accumulated E&P and a positive current E&P, distributions will be regarded as dividends to the extent of current E&P.
2. Current E&P is allocated on a pro rata basis to the distributions made during the year; accumulated E&P is applied (to the extent necessary) in chronological order beginning with the earliest of distributions.
3. If there is a deficit in current E&P and a positive balance in accumulated E&P, the amounts are netted at the date of distribution. If the resulting balance is zero or a deficit, the distribution is a return of capital. If a positive balance results, the distribution will represent a dividend to such extent. Any deficit in current E&P is allocated ratably during the year unless the parties can show otherwise.
4. Unless and until the parties show otherwise, it is presumed that any distribution is covered by current E&P.

V. TAX RECORDKEEPING AND REPORTING

The recordkeeping and reporting requirements relating to E&P are set forth in this section.

A. Requirement to Maintain Adequate Records

The IRS is authorized by section 6042(d) to require corporations to furnish such information as may be needed to determine E&P, as well as the names of the stockholders who would be entitled to the corporation's accumulated E&P if it were to be distributed. Records should be maintained that will allow the IRS to determine the portion of E&P of the corporation (including gains, profits, and

income not taxed) accumulated on a year-by-year basis. (See sections 6042(d)(2) and 6042(d)(3).) Contemporaneous maintenance of these records is recommended.

B. Reporting Requirements

Corporate distributions to noncorporate shareholders must be reported to the IRS on Forms 1096 and 1099-DIV, which are filed on the basis of a calendar year regardless of the taxable year of the corporation or its shareholders. Shareholder copies of Form 1099-DIV must be mailed to the shareholders no later than January 31 of the year after the year of distribution. Form 1096, transmitting copies of Form 1099-DIV to the IRS or the equivalent magnetic media forms must be filed no later than February 28 of the same year.

Form 5452 (reproduced in Appendix A), *Corporate Report of Nondividend Distributions*, must be filed by all C corporations making nontaxable or partially taxable distributions to its shareholders. Corporations making fully taxable distributions need not file Form 5452. Calendar-year corporations are required to attach Form 5452 and supporting data to the income tax return for the tax year in which the nondividend distribution is made. Corporations using a fiscal year must file Form 5452 and supporting data for each calendar year in which a nondividend distribution has been made, and must attach Form 5452 to the income tax return for the fiscal year ending after the calendar year of the distribution.

Note: If a corporation determines that it must file a Form 5452, E&P calculations for prior years and the analysis required by Revenue Procedure 75-17 must be completed before preparing Form 5452.

The following points with respect to Form 5452 should be noted:

1. First, Form 5452 must cover all distributions made during the calendar year even if the corporation files its tax returns on the basis of a fiscal year. Therefore, it may be necessary to prepare information for two taxable years embracing the calendar year for which Form 5452 is being filed.
2. Second, if Form 5452 covers a fiscal year for which a return has not yet been filed (if, for example, the year is not yet completed) an extension of time will be granted until the extended due date of the return for that year. Form 5452 is to be filed with the corporation's tax return at the Service Center where the corporation normally files its return.
3. Finally, Form 5452 contains a sample format for calculating and reporting current and accumulated E&P. The format is based on Revenue Procedure 75-17 (reproduced in Appendix B). The form requires that information be provided in the prescribed format. If the information is not provided in this format, the IRS may reject it and require resubmission.

VI. REVENUE PROCEDURE 75-17

Revenue Procedure 75-17 (reproduced in Appendix B) was promulgated under the authority of section 6042(d), to provide a uniform format for determining the taxable status of corporate distributions to shareholders. The Revenue Procedure prescribes the format for furnishing E&P

computations to the IRS as well as an example. The basic format provided in Revenue Procedure 75-17 is a worksheet that reconciles the differences between a corporation's retained earnings shown on Schedule L, Form 1120 (derived from its GAAP financial statements), and the computation of its E&P accumulated since February 13, 1913.

The worksheet includes two sections. The left side is an analysis of "book" retained earnings and the right side an analysis of E&P. Both sides of the worksheet use taxable income as a starting point in their respective computations. All Schedule M differences are posted to the left or retained earnings side of the worksheet, basically reconciling taxable income to book income. Schedule M items that affect E&P are posted to the right or E&P side of the worksheet.

As both worksheet columns use taxable income as a starting point, a reconciliation of E&P to "book" retained earnings is created. Before proceeding to the next year's computation, both columns are adjusted for current year's distributions, thus maintaining the relationship between E&P and retained earnings.

Ending balances of both columns are rolled forward to the next year's computation. The worksheet in the required format is necessary for each year of a corporation's existence since February 28, 1913. This format has been followed in the sample computations supplied with this practice aid.

Observation: It is possible that an E&P reconciliation will become a part of the 1120 tax return filing requirements in the future. Contemporaneous recordkeeping and E&P calculations are recommended.

VII. STEPS TO TAKE IN COMPUTING EARNINGS AND PROFITS

Step 1. Obtain the necessary records. If computing E&P for the first time, the following information will need to be gathered for each year the corporation has been in existence since February 28, 1913:

- Copies of original and any amended tax returns
- Copies of financial statements
- Copies of any Revenue Agent's Reports (RARs)
- Detail of distributions made
- Other information required by section 6.01 of Revenue Procedure 75-17

Additional detailed information may be required, such as analysis of qualified or ISO stock options exercises, stock redemption data, etc.

Step 2. Review records obtained to assure that taxable income can be reconciled to book income.

Step 3. Review Schedule M-1 adjustments by year and identify adjustments that will affect E&P.

Step 4. Review Schedule M-2 adjustments and identify distributions to shareholders.

Step 5. Prepare an Earnings and Profits Worksheet (see pages 13-18 of this Practice Aid.)

Step 6. Prepare analysis as required by Revenue Procedure 75-17 (reproduced in Appendix B).

Step 7. If nontaxable dividend distributions were made, prepare Form 5452 (reproduced in Appendix A).

For further discussion, see "Earnings and Profits: The Income Tax Dilemma." Engelbrecht, Ted D. and Banham, Richard L. 153 *The Journal of Accountancy*, 58-64 (February 1979).

VIII. EARNINGS AND PROFITS WORKSHEET PAGE ONE

Taxable Income or (loss)	_____	(1)
Add: Exclusions From Taxable Income		
Certain Death Benefits	_____	
State and Local Bond Interest	_____	
Tax Benefit Income	_____	
Refunds of Federal Taxes	_____	
Certain Amounts Received for Injury or Sickness	_____	
Discharge of Indebtedness Income	_____	
Other	_____	
Total Exclusions From Taxable Income	_____	(2)
Add: Deductions Not Permitted for Earnings and Profits		
Dividends Received Deduction	_____	
Net Operating Loss Deduction	_____	
Carryover Capital Losses	_____	
Other	_____	
Total Deductions Not Permitted for Earnings and Profits	_____	(3)
Total Forward to Page Two	=(1)+(2)+(3)	_____ (4)

VIII. EARNINGS AND PROFITS WORKSHEET PAGE TWO

Balance Forward From Page One	_____	(4)
Less: Earnings and Profits Reductions Not Deductible in the Computation of Taxable Income		
Federal Income Taxes	_____	
Charitable Contributions in Excess of Limitation	_____	
Expenses and Interest Related to Exempt Income	_____	
Amounts paid on Certain Insurance Contracts	_____	
Related Party Losses, Expenses, Interest	_____	
Certain Entertainment Expenses	_____	
Excess Capital Losses	_____	
Section 162 Deductions Disallowed	_____	
Expenses Related to Acquisitions Made to Evade or Avoid Tax	_____	
Deferred Compensation in Excess of Allowable Amounts	_____	
Stock Option Exercise (Qualified and ISO)	_____	
Other	_____	
Total Earnings and Profits Reductions	_____	(5)
Add or Subtract Certain Timing Differences:		
Depletion	_____	
Depreciation	_____	
Other	_____	
Total Timing Differences	_____	(6)
Add or Subtract Adjustments to More Accurately Reflect Economic Gain or Loss		
Construction Period Interest, Property Taxes, Etc.	_____	
Intangible Drilling Costs and Mineral Exploration Costs	_____	
Circulation and Organizational Expenditures	_____	
LIFO Recapture Amount	_____	
Completed Contract Method of Accounting	_____	
Other	_____	
Total Adjustments Made to More Accurately Reflect Economic Gain or Loss	_____	(7)
Add or Subtract Other Transactions and Adjustments		
Recognized Gain or Loss on Disposition of Property	_____	
Distributions of Appreciated Property	_____	
Redemptions of Stock	_____	
Other	_____	
Total Other Transactions and Adjustments	_____	(8)
Total Current Earnings and Profits	=(4)-(5)±(6)±(7)±(8)	_____ (9)

VIII. EARNINGS AND PROFITS WORKSHEET PAGE THREE

Beginning Accumulated Earnings and Profits	_____	(10)
Total Current Earnings and Profits From Page Two	_____	
Subtract:		
Distributions Properly Chargeable to Current Earnings and Profits	_____	(See Note 1 Below)
Net Current Earnings and Profits	_____	(11)
Subtract:		
Distributions Properly Chargeable to Accumulated Earnings and Profits	_____	(See Note 1 Below)
Add or Subtract:		
Adjustments Required by Judicial or Administrative Decision (Note 2)	_____	(13)
Ending Accumulated Earnings and Profits	_____	=(10)+(11)-(12)+(13)
<p>Note 1: In order to determine the distributions properly chargeable to current and/or accumulated E&P, the taxpayer must use one of the distribution worksheets on worksheet pages four through six. Only the worksheet that fits the taxpayer's fact pattern should be used.</p>		
<p>Note 2: The IRS takes the position that there is no statute of limitations for determining or adjusting E&P. Some judicial support exists for this position. Proper adjustment to accumulated E&P (or to the current E&P of a prior year) may result in a change in the tax treatment of intervening distributions. This worksheet and the ones on worksheet pages four, five and six do not take a position on whether a subsequent adjustment should affect accumulated E&P, current E&P of the prior year(s), or the actual current E&P. Accordingly, the practitioner must consider the possible effects of such determination on the amount of any distribution deemed to be a dividend.</p>		

VIII. EARNINGS AND PROFITS WORKSHEET PAGE FOUR

Distribution Worksheet One

(Use if there is a deficit in accumulated E&P and positive current E&P)

Total Current E&P From Page Two _____ (1)

Distributions: (Not to exceed (1) above)

For ordering rules see note below -

Preferred Stock _____ (2)

Common Stock _____ (3)

Total Distributions Chargeable to Current E&P _____ (2) + (3) not
(Enter here and on worksheet page three) to exceed (1) _____ (4)

Note 1: In the event the corporation has both preferred and common stock, E&P is allocated first to dividends on preferred stock on an actual dollar basis, then to dividends on common stock on a pro-rata basis in chronological order beginning with the earliest of distributions.

Note 2: See Note 2, Worksheet Page Three.

VIII. EARNINGS AND PROFITS WORKSHEET PAGE FIVE

Distribution Worksheet Two

(Use if there is a deficit in current E&P and a positive accumulated E&P)

Beginning Accumulated E&P From Page Three _____(1)

Current E&P (see Note 1) _____(2)

Net Cumulative E&P for Purposes of Determining Distributions
Properly Chargeable to Accumulated E&P _____(3)

Distributions: (Not to exceed (3) above)

For ordering rules see Note 2 below -

Preferred Stock _____(4)

Common Stock _____(5)

Total Distributions Chargeable to Accumulated E&P (4) + (5) not _____(6)
(Enter here and on worksheet page three) not to exceed (3)

Note 1: The deficit in current E&P is determined as of the date of distribution. Ordinarily, the deficit is deemed realized ratably on a daily basis. If the distributing corporation can specifically identify when the deficit was realized, it may use this latter method to allocate the current deficit.

Note 2: In the event the corporation has both preferred and common stock, E&P is allocated first to dividends on preferred stock on an actual dollar basis, then to dividends on common stock on a pro-rata basis in chronological order beginning with the earliest of distributions.

Note 3: See Note 2, Worksheet Page Three.

VIII. EARNINGS AND PROFITS WORKSHEET PAGE SIX

Distribution Worksheet Three

(Use if there is a positive current and accumulated E&P)

Beginning Accumulated E&P From Page Three _____ (1)

Total Current E&P From Page Two _____ (2)

Cumulative E&P for Purposes of Determining Distributions
Properly Chargeable to Current and Accumulated E&P _____ (3)

Distributions: (Not to exceed (3) above)
For ordering rules see note below -

Preferred Stock _____ (4)

Common Stock _____ (5)

Total Distributions Chargeable to Current and Accumulated E&P **(4) + (5) not
to exceed (3)** _____ (6)

Adjusted Current E&P From Line 2 Above _____ (7)
(This equals distributions properly chargeable to current E&P. Enter
here and on worksheet page three.)

Distributions Properly Chargeable to Accumulated E&P **(6) - (7)** _____ (8)
(Enter here and on worksheet page three)

Note 1: In the event the corporation has both preferred and common stock, E&P is allocated first to dividends on preferred stock on an actual dollar basis, then to dividends on common stock on a pro-rata basis in chronological order beginning with the earliest of distributions.

Note 2: See Note 2, Worksheet Page Three.

APPENDIX A

FORM 5452 - CORPORATE

REPORT OF NONDIVIDEND DISTRIBUTIONS

Form **5452**
(Rev. December 1994)
Department of the Treasury
Internal Revenue Service

Corporate Report of Nondividend Distributions

▶ For calendar year ending December 31, 19
▶ Attach to the corporation's income tax return.

OMB No. 1545-0205

Name _____ Employer identification number _____

A Has the corporation filed a Form 5452 for a prior calendar year? ▶ Yes No

If "Yes," state which year(s) _____

B Are any of the distributions part of a partial or complete liquidation? ▶ Yes No

If "Yes," discuss in a separate statement.

C Earnings and Profits

- Accumulated earnings and profits (since February 28, 1913) at the beginning of the tax year . . . ▶ \$ _____
- Actual earnings and profits for the current tax year ▶ \$ _____

D Shareholders at Date of Last Dividend Payment

- Number of individuals _____
- Number of partnerships _____
- Number of corporations and other shareholders _____

Note: If there are 12 or fewer shareholders, attach copies of the Forms 1099-DIV (or the information from that form) that the shareholders received.

E Corporate Distributions (See instructions.)

Date Paid	Total Amount Paid (Common (C), Preferred (P), Other (O))	Amount Per Share	Amount Paid During Calendar Year From Earnings & Profits Since February 28, 1913			Percent Taxable	Amount Paid During Calendar Year From Other Than Earnings & Profits Since February 28, 1913	Percent Nontaxable
			From the Current Year	Accumulated	Total			
	\$	\$	\$	\$	\$	%	\$	%
Totals	\$		\$	\$	\$		\$	

Instructions

Section references are to the Internal Revenue Code.

Paperwork Reduction Act Notice

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

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping19 hr., 51 min.
Learning about the law or the form	1 hr., 20 min.
Preparing the form.	3 hr., 35 min.
Copying, assembling, and sending the form to the IRS	32 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the IRS at the address listed in the instructions for the tax return with which this form is filed.

Purpose of Form

Complete Form 5452 if nondividend distributions are made to shareholders under section 301 or section 1368(c)(3).

Who Must File

All corporations that have made nondividend distributions to their shareholders must file Form 5452.

A **calendar tax year corporation** must file Form 5452 and the items listed under **Supporting Information** with its income tax return due for the tax year in which the nondividend distributions were made.

A **fiscal tax year corporation** must file Form 5452 and the items listed under **Supporting Information** with its income tax return due for the first fiscal year ending after the calendar year in which the nondividend distributions were made.

If the corporation is a member of a consolidated group, the parent corporation must file Form 5452. An S corporation should file this form only for distributions made under section 1368(c)(3).

Nondividend Distributions

Nondividend distributions are distributions made to shareholders in the normal course of business.

They are considered fully or partially nontaxable as dividends only because the paying corporation's current and accumulated earnings and profits are less than the distributions. Nondividend distributions do not include tax-free stock dividends or distributions exchanged for stock in liquidations or redemptions.

Corporate Distributions

Complete **Part E**, Corporate Distributions, showing the taxable and nontaxable status of distributions reported to shareholders. The percent of distributions that is taxable and the percent that is nontaxable are based on the amounts shown on each line in the column, Total Amount Paid. If noncash distributions were made, attach a statement and show both the tax bases and fair market values.

Supporting Information

1. Attach the following information to Form 5452. See Revenue Procedure 75-17, 1975-1 C.B. 677.

- A computation of earnings and profits for the tax year (see the example of a worksheet on page 3 and a blank worksheet on page 4). Also attach a schedule of the differences between the earnings and profits computation and the Schedule M-1 (Form 1120).
- A year-by-year computation of the accumulated earnings and profits, and a schedule of differences since the origin of the company, February 28, 1913, or the last year that information was furnished, whichever is later.
- A tax basis balance sheet. Show application of the net differences to the balance sheet items as shown on Schedule L (Form 1120). Explain any further adjustments necessary to figure the balance sheet on a tax basis. If the corporation used an accelerated method of depreciation, attach a schedule of the depreciation (and any amortization) figured under the straight line method. Also attach a reconciliation of any difference between that amount and the amount deducted on Form 1120 or other comparable return. See Exhibits B and C in Rev. Proc. 75-17.

2. A consolidated filer must also attach the following information.

- A schedule that shows the allocation of the consolidated tax liability and identifies the method used. (Indicate if an intercompany agreement is in effect.)
- A schedule that shows the taxable income or loss of each member of the consolidated group.
- For each member of a consolidated group that made nondividend distributions, provide the information requested in Item 1 above.

Example of a Worksheet for Figuring Current-Year Earnings and Profits
XYZ Corporation, EIN 00-0000000
123 Main Street
Anycity, Yourstate 20200

Date Incorporated: <u>1/1/80</u> Method of Accounting: <u>Accrual</u>	Retained Earnings Shown in Books		Earnings and Profits Current Year		Accumulated Earnings and Profits Credit Balance	Key
	Debit	Credit	Debit	Credit		
Balance forward 12/31/93		\$225,000			\$20,900	
1994						
1 Taxable income from Form 1120, line 28 (or comparable line of other income tax return)			214,700	\$214,700		a
2 Federal income taxes per books and tax return	\$60,000		\$60,000			a
3 Excess of capital losses over capital gains (tax basis)	3,600		3,600			a
4 Depreciation adjustment on earnings and profits (section 312(k))				24,000		
5 Depreciation adjustment on sale of property			4,000			
6 Total itemized expenses from line 5, Schedule M-1	11,050					
a Travel and entertainment	\$200		200			a
b Life insurance premium greater than cash surrender value (CSV)	9,500		9,500			a
c Nondeductible interest paid for tax-exempt bonds	850		850			a
d Contributions carryover	500		500			a
e Other (list separately)						
7 Total itemized income from line 7, Schedule M-1		14,500				
a Life insurance proceeds greater than CSV	6,000			6,000		a
b Bad debt recovery (not charged against taxable income)	3,500					b
c Tax-exempt interest on municipal bonds	5,000			5,000		a
d Other (list separately)						
8 Refund of prior year Federal income taxes						
9 Reserve for contingencies	10,000					c
10 Additional adjustments:						
11 Totals			78,650	249,700		
Current-Year Earnings and Profits				171,050		
Cash Distributions:						
Preferred stock: 3/15/94, 6/15/94, 9/15/94, 12/15/94 10,000 Shares at \$1.00/Share = \$40,000	40,000		40,000			a
Common stock:						
1. 3/31/94 - 90,000 Shares at \$1.00 = \$90,000						
From current-year earnings and profits	72.81%	65,525	65,525			a
From accumulated earnings and profits	23.22%	20,900			(20,900)	a
Total distribution from earnings and profits	96.03%	86,425				
From other distribution	3.97%	3,575				
Total distribution	100%	90,000				
2. 9/30/94 - 90,000 Shares at \$1.00 = \$90,000						
From current-year earnings and profits	72.81%	65,525	65,525			a
From other distribution	27.19%	24,475				
Total distribution	100%	90,000				
Total cash distributions		220,000				
Totals		304,650	229,200	171,050	171,050	
Current-year change		75,450			(20,900)	
Balance forward 12/31/94		\$149,550			\$—0—	

Explanation of Key

- a - Identical items on the same line.
- b - Item offset in 1992. Bad debt reserve method used for book accounting.
- c - Item partially offset.

Worksheet for Figuring Current-Year Earnings and Profits

	Retained Earnings Shown in Books		Earnings and Profits Current Year		Accumulated Earnings and Profits Credit Balance	Key
	Debit	Credit	Debit	Credit		
Date Incorporated: _____						
Method of Accounting: _____						
Balance forward 12/31/ _____						
19 _____						
1 Taxable income from Form 1120, line 28 (or comparable line of other income tax return) . . .						
2 Federal income taxes per books and tax return . . .						
3 Excess of capital losses over capital gains (tax basis) . . .						
4 Depreciation adjustment on earnings and profits (section 312(k))						
5 Depreciation adjustment on sale of property						
6 Total itemized expenses from line 5, Schedule M-1						
a Travel and entertainment						
b Life insurance premium greater than cash surrender value (CSV)						
c Nondeductible interest paid for tax-exempt bonds						
d Contributions carryover						
e Other (list separately)						
7 Total itemized income from line 7, Schedule M-1						
a Life insurance proceeds greater than CSV						
b Bad debt recovery (not charged against taxable income)						
c Tax-exempt interest on municipal bonds						
d Other (list separately).						
8 Refund of prior year Federal income taxes						
9 Reserve for contingencies						
10 Additional adjustments:						
.....						
.....						
11 Totals						
Current-Year Earnings and Profits						
Cash Distributions:						
From current-year earnings and profits %						
From accumulated earnings and profits %						
Total distribution from earnings and profits %						
From other distribution %						
Total distribution 100%						
Total cash distributions						
Totals						
Current-year change.						
Balance forward 12/31/ _____						

APPENDIX B

REVENUE PROCEDURE 75-17

INSTRUCTIONS AND GUIDELINE WITH RESPECT TO CORPORATE DISTRIBUTIONS AND DETERMINATION OF EARNINGS AND PROFITS

26 CFR 601.602: *Forms and instructions.*
(Also Part I, Sections 301, 316, 333, 6042;
1.301-1, 1.316-1, 1.333-1, 1.6042-2.)

Rev. Proc. 75-17

SECTION 1. PURPOSE.

.01 The purpose of this Revenue Procedure is to update and restate the instructions and guidelines contained in Rev. Proc. 65-10, 1965-1 C.B. 738, relating to corporate distributions and the determination of earnings and profits in order to provide corporations and their stockholders more certainty as to the taxable status of distributions.

.02 This Revenue Procedure incorporates the modifications made to Rev. Proc. 65-10 by Rev. Proc. 67-12, 1967-1 C.B. 589. Rev. Proc. 67-12 modified Rev. Proc. 65-10 to provide that the computation of a corporation's current earnings and profits, furnished to the Internal Revenue Service with the corporation's Schedule A (Corporate Report of Nontaxable Dividends), Form 1096, Annual Summary and Transmittal of U.S. Information Returns, should be based on the return as filed thus eliminating a determination based upon a bona fide estimate of current earnings and profits.

.03 In addition, this Revenue Procedure contains the following changes to Rev. Proc. 65-10:

(1) Section 1.02 reflects the current title of Form 1096.

(2) Sections 2.01, 6.022, 6.025 are revised to conform with the modification of Rev. Proc. 65-10 by Rev. Proc. 67-12.

(3) Section 5.04 has been deleted as partly ambiguous and the substantive material concerning section 381 of the Internal Revenue Code of 1954 is covered by existing regulations.

(4) Section 6.035(a) through (d) has been revised to incorporate the requirements of the consolidated return regulations.

(5) A new Section 6.037 has been added to show that beginning after June 30, 1972 depreciation for earnings and profits purposes must be computed on the straight line method under section 312 of the Code.

(6) Section 6.0310 has been revised to require additional data concerning redemptions of stock.

(7) Section 7.04 has been deleted since an analysis of accumulated earnings and profits as of the date of distribution appears in Rev. Rul. 74-164, 1974-1 C.B. 74.

(8) Sections 8 and 9 have been revised to conform with the modification of Rev. Proc. 65-10 by Rev. Proc. 67-12 and to include instructions for filing of data with the appropriate Service Center in liquidations under section 333 of the Code.

(9) Section 10 has been updated to show a new address for submitting inquiries in connection with this Revenue Procedure.

SEC. 2. EFFECT ON STOCKHOLDERS' FEDERAL INCOME TAX RETURNS.

The Service will process the returns of stockholders receiving corporate distributions claimed to be partly or wholly nontaxable as dividends by accepting or correcting determinations made by the corporation, if such determinations are based upon the corporation's return as filed.

SEC. 3. AUTHORITY.

Section 6042(d) of the Code provides, in effect, that a corporation shall furnish, upon request, data necessary for the Service to determine the corporation's available earnings and profits, the names and addresses of the stockholders entitled to such

earnings and profits, and the amount paid to each.

SEC. 4. SCOPE.

This procedure is applicable (1) to distributions under section 301 of the Code made by a corporation to its stockholders with respect to stock which are deemed to be wholly or partly nontaxable as dividends, (2) to the computation of earnings and profits of liquidated corporations whose stockholders have elected to claim the benefits of section 333, and (3) any time it is necessary to determine the amount of earnings and profits for the purposes of section 316(a) (1) and (2).

SEC. 5. BACKGROUND AND GENERAL.

.01 The taxable status of corporate distributions in the hands of the stockholder is determined by the source of the distribution.

.02 Under all Revenue Acts since 1936 (section 316 of the Code and similar provisions of prior Acts), a "dividend" means any distribution of property made by a corporation to its stockholders—

1. out of earnings and profits accumulated after February 28, 1913, available at the date of payment, or

2. out of earnings and profits of the current year in which paid.

However, under the Revenue Acts from 1913 to 1936 (with certain exceptions in the years 1913-1917), a corporate distribution was taxable as a dividend only to the extent of (1) above. That portion of the distribution which is not a "dividend" but which exceeds the adjusted basis of the stock in the hands of the stockholder is treated as gain from the sale or exchange of property. However, to the extent that such gain is out of increase in value accrued before March 1, 1913, and subsequently realized, it is exempt from tax.

.03 To determine the source of distributions it is necessary to make computations from March 1, 1913, or date of incorporation, whichever is later, of:

1. the current earnings and profits of each year;

2. the earnings and profits accumulated after February 28, 1913, (referred to as post-1913 earnings and profits);

3. the March 1, 1913 earned surplus;

4. the appreciation at March 1, 1913, subsequently realized.

.04 The data herein described is needed in order to enable the Service to test the accuracy of the corporation's determinations and minimize the time required for verification. Use of the format illustrated in section 11 will also facilitate timely verifications. For example, this format permits adjustments to be reflected in the appropriate year and easily carried forward when necessary. In the same manner computations can be readily updated for later years.

.05 To provide additional assistance to taxpayers, it is contemplated that substantive rulings and other technical information which affect or relate to earnings and profits will be published in the Internal Revenue Bulletin from time to time.

SEC. 6. INFORMATION NEEDED.

.01 *General Information.*

1 The name, address and date of incorporation of the payor corporation and of any other corporation whose assets were transferred to the payor corporation or its predecessors either in a tax free reorganization or tax free corporate liquidation. If transfers are involved, the date of each.

2 The name, address and date of incorporation of any corporation which distributed stock of any of the corporations identified in section 6.011, as a tax free distribution within the meaning of section 355 of the Code together with details of the transactions and dates of distribution.

3 The office of the Internal Revenue Service where all corporations identified in sections 6.011 and 6.012 filed Federal income tax returns and the name and address under which returns were filed for all years since incorporation.

.02 *Computations and suggestions as to format.*

1 A detailed year-by-year analysis of post-1913 earnings and profits (from date of incorporation or March 1, 1913, whichever is later, through the latest year for which a return has been filed) reconciled with the beginning and ending surplus shown on the balance sheets on Schedule L of the returns. Revenue Agent's adjustments and other Schedule M entries should be shown in detail; also the date distributions were paid, class of stock on which paid and amount paid per share. When payment is made other than in cash, describe the type of property distributed, show its cost or other basis and its fair market value. In addition, show the number of shares of stock held by (1) corporate and (2) noncorporate shareholders with respect to which the distribution in kind was made. See Exhibit A in Section 11. See, however, section 6.05 when the required data has been submitted for prior years.

2 A computation of the earnings and profits of the current year based on the data used in the preparation of the corporate return.

3 A summary of the differences reconciling the final amount of earnings and profits and the surplus on the balance sheet on the return for the given period. See Exhibit B in section 11.

4 Schedule of supporting detail of differences shown on the summary of year-by-year differences. Items which offset each other in the year-by-year analysis should not be shown in this summary, even though offset in different years. In any one year, items of the same category (for example a number of items affecting depreciation) may be grouped and only the balance shown. See Exhibit B in section 11.

5 Tax basis balance sheet. Show application of the net differences to balance sheet items as shown on Schedule L of corporate return. Explain any further adjustments necessary to arrive at tax basis balance

sheet. See Exhibits B and C in section 11.

.03 Specific and explanatory information.

1 A detailed analysis of the capital stock account and the paid-in surplus and capital surplus accounts.

2 A detailed analysis of any surplus reserves (that is other accounts where entries have been made which do not affect taxable income but may affect earnings and profits).

3 List of any corporate distributions received which were not treated as taxable dividends.

4 If the corporation was formed prior to March 1, 1913, or has assets with a basis determined by reference to their fair market value at March 1, 1913, a year-by-year analysis of pre-March 1, 1913 appreciation subsequently realized within the meaning of section 312 of the Code or similar provisions of prior laws. Furnish balance sheets as of March 1, 1913, showing cost, value of assets, and the amount of such appreciation.

5 For each year for which a consolidated return has been filed, submit complete details with respect to:

(a) intercompany profits and losses which were eliminated from consolidated taxable income (only for consolidated return years beginning before January 1, 1966);

(b) computation of the allocation of consolidated Federal income tax and the method used. If elections have been made under section 1.1502-33 of the Income Tax Regulations in conjunction with section 1.1552-1, give types and dates of elections.

(c) treatment by members of any payment made for Federal income taxes where such payment differs from amounts computed, as prescribed under the method of allocation elected. If an intercompany agreement is in effect, explain its provisions and submit written evidence of such agreement.

(d) separate corporate taxable income and surplus of all corporations joining in the filing of the consolidated return, reconciled to the consolidated return.

6 The amount of depletion allowable in computing earnings and profits if percentage or discovery depletion is a factor in computing taxable income. When the amount of depletion that has been used in the computation of taxable income differs from that which is appropriate for computing earnings and profits, furnish a computation of depletion based on cost that must be used for earnings and profits purposes (see section 1.312-6(c)(1) of the regulations).

7 For taxable years beginning after June 30, 1972, if accelerated depreciation was used for Federal income tax purposes, a summary of depreciation computed on the straight line method and a schedule reconciling any difference between such amount and the amount of depreciation claimed for tax purposes (see section 312 of the Code). If an adjustment to earnings and profits is required due to the disposition of property on which depreciation for earnings and profits was different than for tax purposes, furnish detailed reconciliation.

8 Where earnings and profits have been allocated in divisive reorganizations under section 368(a)(1)(D) of the Code, explain the method used for allocation and the rationale supporting such method.

9 Journal entries recording acquisitions in tax free liquidations under section 332 of the Code and reorganizations under section 368(a)(1).

10 If the corporation has outstanding more than one class of stock, furnish a statement of preferences attaching to each class. If stock has been redeemed, with respect to each class, the date(s) of redemption, the number of such shares redeemed and their percentage of the total, and other pertinent data.

.04 The computations and information specified in 6.02 and 6.03 should be furnished for all corporations identified in sections 6.011 and 6.012.

.05 Where the required data has been submitted for prior years it will be necessary only to extend the schedules previously submitted. However, revised computations or schedules of

adjusted balances are to be furnished showing the effects of any changes to prior balances and distributions required because of revenue agents' adjustments, errors, court decisions, etc.

SEC. 7. SUGGESTED FORMAT.

.01 Use of the format as shown in Exhibits A through C of section 11 will greatly facilitate timely Service verification of corporate determinations. Legible, longhand work sheets on columnar paper, facsimiles or photocopies are preferable. However, if typewritten work sheets are furnished it is very important for ease of verification that they be prepared on lined paper.

.02 Items in the year-by-year analysis should be reflected in the order shown in Exhibit A of section 11. The opening and closing amounts in Schedule M columns should agree with the surplus shown in the balance sheets in Schedule L of the corporate return. Revenue agents' adjustments should follow in the earnings and profits columns immediately after taxable income per the return and the column subtotaled to show the corrected taxable income to facilitate verification. Items should be entered on the same line in Schedule M and earnings and profits columns only if they are exactly the same amount; otherwise, the amounts should be listed on separate lines to facilitate compiling the differences between the book surplus and earnings and profits.

.03 When adjustments affecting earnings and profits for earlier years will not affect the taxable status of distributions in intervening years they may be reflected in later years but footnoted to indicate the year to which they properly relate. In the earlier year, notation should be made of the subsequent year in which the adjustment is reflected.

.04 The differences in Exhibit B (See section 6.023) should be keyed to the adjustment column on Exhibit C—Balance Sheets. Full explanation should be made for all other adjustments made to arrive at the tax basis balance sheet.

.05 The various sources of distributions which must be maintained in separate computations (for example, pre-1913 appreciation or deficits of transferor corporations) may be shown in separate columns on the year-by-year analysis of post-1913 earnings and profits or may be shown in separate exhibits.

SEC. 8. WHEN AND WHERE TO FILE DATA.

When a corporation determines that its distributions are partly or wholly not taxable as dividends, it must file Schedule A (Form 1096), Corporate Report of Nontaxable Dividends on or before February 28 of the year following the calendar year of payment, with the Director, Income Tax Division, Attention: T:C:C:1:E&P, 1111 Constitution Ave., Washington, D.C. 20224. If the corporation has filed its return (Form 1120), it must file with Schedule A the required sup-

porting computations of earnings and profits. *Exception*—A corporation liquidated under section 333 of the Code should file its earnings and profits data with the Internal Revenue Service Office where its final return has been or will be filed.

SEC. 9. REQUEST FOR ADDITIONAL TIME FOR SUPPLYING DATA.

If a corporation has not filed its return (Form 1120) it may request an extension of time for filing the required supporting data by filing Schedule A and stating in "Item 7. Extension —" the additional time needed for such purpose. *Exception*—A corporation liquidated under section 333 of the Code should direct its request for an extension of time to the Internal Revenue Service Office where the final return has been or will be filed.

SEC. 10. INQUIRIES.

Inquiries in connection with this

Revenue Procedure should be submitted to the addresses shown in Sec. 8. above. Information may also be obtained by telephoning the Earnings and Profits Group in Washington, D. C., area Code 202, 964-4464.

SEC. 11. EXAMPLE OF A COMPUTATION—EXHIBITS A THROUGH C.

Exhibit A—P Corporation Year-by-year Analysis of Earnings and Profits.

Exhibit B—P Corporation Summary of Year-by-year Differences Surplus and Earnings and Profits and Schedule of Supporting Detail.

Exhibit C—P Corporation Balance Sheets—December 31, 1974.

SEC. 12. EFFECT ON OTHER DOCUMENTS.

This Revenue Procedure supersedes Rev. Proc. 65-10, 1965-1 C.B. 738, and Rev. Proc. 67-12, 1967-1 C.B. 589.

EXHIBIT A

P CORPORATION

YEAR-BY-YEAR ANALYSIS OF EARNINGS AND PROFITS

DATE OF INCORPORATION - 1/1/68	ACCUMULATED EARNINGS AND PROFITS	SCHEDULE M PER BOOKS	EARNINGS AND PROFITS CURRENT YEAR	ACCUMULATED EARNINGS AND PROFITS	KEY
	DEBIT CREDIT	DEBIT CREDIT	DEBIT CREDIT	DEBIT CREDIT	
BALANCE BROUGHT FORWARD - 1/1/71 (COMPUTATIONS FURNISHED)					
1971		\$ 16000	\$ 16000		V
TAXABLE INCOME (LINE 28, 1) PER RETURN					
ADJUSTMENTS PER RAR DATED 1/1/71:					
REMAS - CAPITAL IMPROVEMENTS - FIXED ASSETS			10000		X
DEPRECIATION - CAPITAL IMPROVEMENTS			2000		(1974)
STOCK ISSUANCE EXPENSE			2000		X
POLITICAL CONTRIBUTIONS			3000		(P)
TAXABLE INCOME PER RAR			29000		
FEDERAL INCOME TAXES - PER BOOKS AND RETURN		3500			V
RESERVE FOR CONTINGENCIES		300			X
DEPRECIATION NOT IN BOOKS			4000		X
ADDITIONAL INCOME TAXES PER RAR			5000		X
POLITICAL CONTRIBUTIONS			25000		(P)
CURRENT-YEAR EARNINGS AND PROFITS			19500		
Post 1913 ACCUMULATED EARNINGS AND PROFITS DEFICIT OF WHOLLY-OWNED SUBSIDIARY LIQUIDATED on 6/30/71. (DATA FURNISHED)		14000		14000	
CASH DISTRIBUTION - PER CURRENT EARNINGS STATEMENT Common: 2000/SH. = 2,000/SH.		6000			
APPLY CURRENT EARNINGS AND PROFITS FOR PERIOD OF 1/1/71 - 1/31/71 TO RECONSTRUCTED			19000		
\$18,996 X 1/2			9500		
NET CHANGE - 1971		23700			
BALANCE FORWARD 1/31/71		4200			
		4700			
KEY SYMBOLS					
(V) IDENTICAL ITEMS ON SAME LINE - EXHIBIT A					
(X) (NUMERICAL) ITEMS COMPLETELY DIFFERENT IN SAME YEAR. STATE NEXT (2) EACH YEAR.					
(P) (NUMERICAL AND YEAR) ITEMS COMPLETELY DIFFERENT IN VARIOUS YEARS.					
(*) ITEMS WHICH HAVE NOT BEEN COMPLETELY CORRECTED IN EXHIBIT A.					
				1971	
				1972	
				1973	
				1974	
				1975	
				1976	
				1977	
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				2028	
				2029	
				2030	

(SEPARATE ACCOUNTS PER SEC. 312(b)(2))

EXHIBIT A (CONTINUED 2)

YEAR-BY-YEAR ANALYSIS OF EARNINGS AND PROFITS CORPORATION

Line	Description	SCHEDULE M PER BOOKS		EARNINGS AND PROFITS		KEY
		DEBIT	CREDIT	DEBIT	CREDIT	
1	BALANCE BROUGHT FORWARD 1/1/78					
2	1978					
3	TAXABLE INCOME (LINE 8, P. 1) PER RETURN					
4	ADJUSTMENTS PER REG. DATES 1/1/78:					
5	UNRECORDED YEAR-END SALES					
6	PURCHASES UNRECORDED					
7	TAXABLE INCOME PER PAR					
8	FEDERAL INCOME TAXES - PER BOOKS AND RETURN					
9	SECRET INCOME - MUNICIPAL BONDS					
10	EXCESS OF CAPITAL LOSS OVER CAPITAL GAINS (IF ANY)					
11	NO CARRYBACK ADJUSTMENT FOR RETROS. ADJUST					
12	ADDITIONAL FEDERAL INCOME TAXES - PER PAR					
13						
14						
15						
16	DISTRIBUTION OF PROPERTY - UNRECORDED (LINE 16)					
17	Tax Basis \$ 10000 - From Earnings and Profits					
18	FMV 9000					
19						
20						
21	NET CHANGE - 1978					
22	BALANCE FORWARD 1/1/79					
23	EFFECT OF PROPERTY DISTRIBUTION ON STATE INCOME					
24	(A) RECALCULATE STATE INCOME (LINE 23)					
25	\$25,000 x 1,000/100 = \$250,000					
26	(1) From Earnings and Profits					
27	\$25,000 x \$1,000/100 = \$250,000					
28	(2) FROM OTHER					
29	(A) CALCULATE STATE INCOME (LINE 24)					
30	\$5,000 x 1,000/100 = \$50,000					
31	(1) From Earnings and Profits					
32	\$5,000 x \$1,000/100 = \$50,000					
33	(2) FROM OTHER					
34						
35						
36						
37						
38						
39						
40						
41						
42						
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EXHIBIT A (CONTINUED 3)

**P CORPORATION
YEAR-BY-YEAR ANALYSIS OF EARNINGS AND PROFITS**

		EARNINGS AND PROFITS CURRENT YEAR		EARNINGS AND PROFITS ACCUMULATED		KEY
		DEBIT	CREDIT	DEBIT	CREDIT	
	Balance brought forward 1/1/73		\$ 500			
1	1973					
2	TAXABLE INCOME (LINES 28, 29)		730			✓
3	FEDERAL INCOME TAXES PER BOOKS AND RETURNS	1606				✓
4	DEFERRED INCOME TAXES TAKEN IN EXCESS OF STATEMENT OF FINANCIAL POSITION					X
5	1973 CAPITAL LOSS DEDUCTIBLE IN 1973		505			✓
6	CURRENT-YEAR EARNINGS AND PROFITS					
7	CASH DISTRIBUTIONS:					
8	Common: 4/1/73					(A)
9	3750 - 2000/5%	2000				(A)
10	From current-year earnings and profits					
11	CASH CONTRIBUTION					
12	Common: 7/1/73					
13	1600 - 1000/5%	1600				(A)
14	From current-year earnings and profits					
15	PREMIUM PAID ON REDEMPTION OF PREFERRED STOCK					
16	(2000/5% - common outstanding 1/1/73)					
17	(1) From current-year earnings and profits					X
18	4000/5% = 20% x 10000 x 1/4					X
19	2000					X
20	(2) From Accumulated Earnings and Profits					X
21	4000/5% = 20% x 20000					X
22	2000					X
23	NET CHANGES - 1973					
24	(1) SEE REV. RUL. 70-581, 1970-2, C.D. 76, AND					
25	REV. RUL. 74-339, 1974-28, I.R.B. 25.					
26	Balance forward 12/31/73					
27						
28						
29						
30						
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P CORPORATION
YEAR-BY-YEAR ANALYSIS OF EARNINGS AND PROFITS

EXHIBIT A (CONTINUED 4)

Line	Description	Earnings & Profits		Accumulated Earnings and Profits		Key
		Current Year	Balance Forward	Debit	Credit	
1	Balance Forward Balance 1/1/74					
2						
3	1974					
4	Double Loss (LINE 28, 1) 1974 RETRO					
5	FEDERAL INCOME TAX CREDITS (CARRYOVER TO 1971/6)					
6	DEPRECIATION TAKEN IN FAVOR OF STRUCTURE AMOUNT					
7	PROPORTIONATE SHARE IN DIVIDENDS					
8	REVENUE FOR CONTRIBUTION					
9	LOSS OF INVESTMENT - BALANCE AT 12/31/74					
10						
11	CURRENT-YEAR EARNINGS - PROFITS (LOSS)					
12						
13	NET LOSS 1/1/74 - 12/31/74					
14	Accumulated Earnings and Profits 1/1/74					
15	CASH DISTRIBUTIONS:					
16	General					
17	Special Dividend - 1/1/80					
18						
19	Final Current-Year Earnings/Loss					
20	Final Accumulated Earnings/Loss					
21	NET LOSS 1/1/74 - 12/31/74					
22	Accumulated Earnings and Profits 1/1/74					
23	CASH DISTRIBUTIONS:					
24	General					
25						
26	Final Current-Year Earnings/Loss					
27	Final Accumulated Earnings/Loss					
28	NET LOSS 1/1/74 - 12/31/74					
29	Accumulated Earnings and Profits 1/1/74					
30	CASH DISTRIBUTIONS:					
31						
32	Final Current-Year Earnings/Loss					
33	Final Accumulated Earnings/Loss					
34	NET LOSS 1/1/74 - 12/31/74					
35	Accumulated Earnings and Profits 1/1/74					
36						
37						
38						
39						
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Line	Description	Earnings & Profits		Accumulated Earnings and Profits		Key
		Current Year	Balance Forward	Debit	Credit	
5	1980					
6						
7	1981					
8						
9	1982					
10						
11	1983					
12						
13	1984					
14						
15	1985					
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17	1986					
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19	1987					
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21	1988					
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23	1989					
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25	1990					
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27	1991					
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29	1992					
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31	1993					
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33	1994					
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35	1995					
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37	1996					
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39	1997					
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EXHIBIT B

Summary of Year-by-Year Differences - Surplus and Earnings and Profits

December 31, 1974

Line	Description	Schedule M		Earnings and Profits		NET		Difference in Balance Sheet
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	
1	REVENUE FOR CONTRACTS - Fixed Assets							
2	DEPRECIATION							
3	PROVISION FOR DEFERRED TAXES							
4	DISTRIBUTION FROM BANKING							
5	REVENUE FROM INVESTMENTS - Fixed Assets							
6	DEPRECIATION EXPENSE							
7	UNRECORDED GAINS							
8	DEPRECIATION - IMPROVEMENTS							
9	AMORTIZATION FEDERAL INCOME TAXES							
10	SALARY - FORMAL DEPT. MANAGER AND TAX ADVISOR							
11								
12								
13								
14	NET DIFFERENCE - Surplus - Surplus - Surplus - Surplus							
15	EARNINGS AND PROFITS DEFERRED TAX							
16	DEFERRED TAX							
17								
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For the purpose of determining the amounts of the net differences which are to be reflected on the balance sheet, debits in Schedule M column represent debits in the net difference column whereas credits in the earnings and profits column represent credits in the net difference column. Likewise, credits in the Schedule M Column represent credits in the net difference column but debits in the earnings and profits column represent debits in the net difference column.

EXHIBIT C

P CORPORATION

BALANCE SHEET - DECEMBER 31, 1974

	BALANCE SHEET SCHEDULE L RETURN	ADJUSTMENTS EXHIBIT B OR (CR)	BALANCE SHEET TAX BASIS
ASSETS			
CASH	\$ 87520		\$ 87520
ACCOUNTS RECEIVABLE	53200	4400	(A) 57600
INVENTORY	275800	(325) (A) (1200) (A)	(A) 274275
FIXED ASSETS	555600	4400 (A) 10000 (A)	(A) 570000
ORGANIZATION EXPENSE	\$ 974170	2000 (A)	(A) 2000
			\$ 993585
LIABILITIES AND CAPITAL			
LIABILITIES	\$ 584731		\$ 584731
RESERVE FOR DEPRECIATION	263800	(5046) (A)	(A) 258754
COMMON STOCK	160000	(2325) (A)	(A) 266125
		17101 (A)	(A) 139906
		2993 (A)	(A)
SURPLUS - EARNINGS AND PROFITS	(34411)	(32004) (A)	(A) (22007)
	\$ 974170	\$ -0-	\$ 993585

SAMPLE TAX RETURNS AND MODEL COMPUTATIONS

The following three examples illustrate various aspects of the computation and reporting involved in E&P calculations. The first example, ABC, concerns a cash dividend out of current E&P. The second, XYZ, requires the filing of Form 5452. The third, ACME, is a more complex example involving a partially taxable distribution.

Example 1—ABC Corporation

ABC Corporation, a computer consulting firm, operating as a C corporation, was incorporated on January 1, 1993. ABC paid a \$100,000 dividend to its sole shareholder on December 31, 1993. The following additional information is available for ABC:

ABC book income	\$117,351
Federal income tax per books	23,000
Meal and entertainment expenses disallowed	529
Municipal bond income	(25,666)
Tax over book depreciation	(16,616)
 Taxable income	 98,598
 Federal tax per return	 21,773
Shares outstanding—common	20,000

Note: ABC Corporation uses the same method of depreciation for book purposes as it does for E&P.

U.S. Corporation Income Tax Return

For calendar year 1993 or tax year beginning _____, 1993, ending _____, 19
▶ Instructions are separate. See page 1 for Paperwork Reduction Act Notice.

1993

A Check if a: 1 Consolidated return (attach Form 851) <input type="checkbox"/> 2 Personal holding co. (attach Sch. PH) <input type="checkbox"/> 3 Personal service corp. (as defined in Temporary Regs. sec. 1.441-4T—see instructions) <input type="checkbox"/>	Use IRS label. Otherwise, please print or type.	Name <u>ABC Corporation</u> Number, street, and room or suite no. (If a P.O. box, see page 7 of instructions.) <u>123 Main Street</u> City or town, state, and ZIP code <u>Anycity, Yourstate 20200</u>	B Employer identification number 00 : 0000000 C Date incorporated 01/01/93 D Total assets (see Specific Instructions) \$ 332,837
---	--	--	--

E Check applicable boxes: (1) Initial return (2) Final return (3) Change of address

Income	1a Gross receipts or sales <u>4,349,190</u>	b Less returns and allowances	c Bal ▶	1c 4,349,190
	2 Cost of goods sold (Schedule A, line 8)			2
	3 Gross profit. Subtract line 2 from line 1c			3 4,349,190
	4 Dividends (Schedule C, line 19)			4
	5 Interest			5
	6 Gross rents			6
	7 Gross royalties			7
	8 Capital gain net income (attach Schedule D (Form 1120))			8
	9 Net gain or (loss) from Form 4797, Part II, line 20 (attach Form 4797)			9
	10 Other income (see instructions—attach schedule)			10
	11 Total income. Add lines 3 through 10			11 4,349,190

Deductions (See instructions for limitations on deductions.)	12 Compensation of officers (Schedule E, line 4)	12 60,000		
	13a Salaries and wages	b Less employment credits	c Bal ▶	13c 2,793,780
	14 Repairs and maintenance		14 4,563	
	15 Bad debts		15 26,046	
	16 Rents		16 149,231	
	17 Taxes and licenses		17 233,305	
	18 Interest		18	
	19 Charitable contributions (see instructions for 10% limitation)		19 400	
	20 Depreciation (attach Form 4562)	20		
	21 Less depreciation claimed on Schedule A and elsewhere on return	21a	21b 32,758	
	22 Depletion		22	
	23 Advertising		23 32,957	
	24 Pension, profit-sharing, etc., plans		24	
	25 Employee benefit programs		25 500	
	26 Other deductions (attach schedule)		26 917,052	
	27 Total deductions. Add lines 12 through 26		27 4,250,592	
	28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11		28 98,598	
	29 Less: a Net operating loss deduction (see instructions)	29a	29c	
	b Special deductions (Schedule C, line 20)	29b	29c	

Tax and Payments	30 Taxable income. Subtract line 29c from line 28	30 98,598	
	31 Total tax (Schedule J, line 10)	31 21,773	
	32 Payments: a 1992 overpayment credited to 1993	32a	
	b 1993 estimated tax payments	32b	
	c Less 1993 refund applied for on Form 4466	32c ()	d Bal ▶
	e Tax deposited with Form 7004	32e	
	f Credit from regulated investment companies (attach Form 2439)	32f	
	g Credit for Federal tax on fuels (attach Form 4136). See instructions	32g	32h 21,773
	33 Estimated tax penalty (see instructions). Check if Form 2220 is attached	33	0
	34 Tax due. If line 32h is smaller than the total of lines 31 and 33, enter amount owed	34	0
35 Overpayment. If line 32h is larger than the total of lines 31 and 33, enter amount overpaid	35		
36 Enter amount of line 35 you want: Credited to 1994 estimated tax ▶ Refunded ▶	36		

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer	Date	Title
Preparer's signature	Date	Check if self-employed <input type="checkbox"/> Preparer's social security number
Firm's name (or yours if self-employed) and address	E.I. No.	ZIP code

Schedule A Cost of Goods Sold (See instructions.)

1 Inventory at beginning of year	1		
2 Purchases	2		
3 Cost of labor	3		
4 Additional section 263A costs (attach schedule)	4		
5 Other costs (attach schedule)	5		
6 Total. Add lines 1 through 5	6	0	
7 Inventory at end of year	7		
8 Cost of goods sold. Subtract line 7 from line 6. Enter here and on page 1, line 2	8	0	

9a Check all methods used for valuing closing inventory:

Cost Lower of cost or market as described in Regulations section 1.471-4

Writedown of subnormal goods as described in Regulations section 1.471-2(c)

Other (Specify method used and attach explanation.) ▶

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

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

d Do the rules of section 263A (for property produced or acquired for resale) apply to the corporation? Yes No

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

Schedule C Dividends and Special Deductions (See instructions.)

	(a) Dividends received	(b) %	(c) Special deductions (a) × (b)
1 Dividends from less-than-20%-owned domestic corporations that are subject to the 70% deduction (other than debt-financed stock)		70	
2 Dividends from 20%-or-more-owned domestic corporations that are subject to the 80% deduction (other than debt-financed stock)		80 <small>see instructions</small>	
3 Dividends on debt-financed stock of domestic and foreign corporations (section 246A)		42	
4 Dividends on certain preferred stock of less-than-20%-owned public utilities		48	
5 Dividends on certain preferred stock of 20%-or-more-owned public utilities		70	
6 Dividends from less-than-20%-owned foreign corporations and certain FSCs that are subject to the 70% deduction		80	
7 Dividends from 20%-or-more-owned foreign corporations and certain FSCs that are subject to the 80% deduction		100	
8 Dividends from wholly owned foreign subsidiaries subject to the 100% deduction (section 245(b))			0
9 Total. Add lines 1 through 8. See instructions for limitation			0
10 Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	
11 Dividends from certain FSCs that are subject to the 100% deduction (section 245(c)(1))		100	
12 Dividends from affiliated group members subject to the 100% deduction (section 243(a)(3))		100	
13 Other dividends from foreign corporations not included on lines 3, 6, 7, 8, or 11			
14 Income from controlled foreign corporations under subpart F (attach Form(s) 5471)			
15 Foreign dividend gross-up (section 78)			
16 IC-DISC and former DISC dividends not included on lines 1, 2, or 3 (section 246(d))			
17 Other dividends			
18 Deduction for dividends paid on certain preferred stock of public utilities (see instructions)			
19 Total dividends. Add lines 1 through 17. Enter here and on line 4, page 1 . . . ▶	0		
20 Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on line 29b, page 1 ▶			0

Schedule E Compensation of Officers (See instructions for line 12. page 1.)

Complete Schedule E only if total receipts (line 1a plus lines 4 through 10 on page 1, Form 1120) are \$500,000 or more.

(a) Name of officer	(b) Social security number	(c) Percent of time devoted to business	Percent of corporation stock owned		(f) Amount of compensation
			(d) Common	(e) Preferred	
1		%	%	%	
Joe Smith	012-34-5678	100 %	100 %	%	60,000
		%	%	%	
		%	%	%	
		%	%	%	
2 Total compensation of officers					60,000
3 Compensation of officers claimed on Schedule A and elsewhere on return					
4 Subtract line 3 from line 2. Enter the result here and on line 12, page 1					60,000

Schedule J Tax Computation (See instructions.)

1	Check if the corporation is a member of a controlled group (see sections 1561 and 1563)	<input type="checkbox"/>		
2a	If the box on line 1 is checked, enter the corporation's share of the \$50,000, \$25,000, and \$9,925,000 taxable income brackets (in that order):			
	(1) \$	(2) \$	(3) \$	
b	Enter the corporation's share of:			
	(1) additional 5% tax (not more than \$11,750)	\$		
	(2) additional 3% tax (not more than \$100,000)	\$		
3	Income tax. Check this box if the corporation is a qualified personal service corporation as defined in section 448(d)(2) (see instructions on page 15)	<input type="checkbox"/>	3	21,773.00
4a	Foreign tax credit (attach Form 1118)		4a	
b	Possessions tax credit (attach Form 5735)		4b	
c	Orphan drug credit (attach Form 6765)		4c	
d	Check: <input type="checkbox"/> Nonconventional source fuel credit <input type="checkbox"/> QEV credit (attach Form 8834)		4d	
e	General business credit. Enter here and check which forms are attached:			
	<input type="checkbox"/> Form 3800 <input type="checkbox"/> Form 3468 <input type="checkbox"/> Form 5884 <input type="checkbox"/> Form 6478 <input type="checkbox"/> Form 6765		4e	
	<input type="checkbox"/> Form 8586 <input type="checkbox"/> Form 8830 <input type="checkbox"/> Form 8826 <input type="checkbox"/> Form 8835		4f	
f	Credit for prior year minimum tax (attach Form 8827)		5	0.00
5	Total credits. Add lines 4a through 4f		6	21773.00
6	Subtract line 5 from line 3		7	
7	Personal holding company tax (attach Schedule PH (Form 1120))		8	
8	Recapture taxes. Check if from: <input type="checkbox"/> Form 4255 <input type="checkbox"/> Form 8611		9a	
9a	Alternative minimum tax (attach Form 4626)		9b	
b	Environmental tax (attach Form 4626)		10	21,773.00
10	Total tax. Add lines 6 through 9b. Enter here and on line 31, page 1			

Schedule K Other Information (See pages 17 and 18 of instructions.)

	Yes	No		Yes	No
1	Check method of accounting: a <input type="checkbox"/> Cash		7	Was the corporation a U.S. shareholder of any controlled foreign corporation? (See sections 951 and 957)	<input checked="" type="checkbox"/>
	b <input checked="" type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) ▶			If "Yes," attach Form 5471 for each such corporation. Enter number of Forms 5471 attached ▶	
2	Refer to page 19 of the instructions and state the principal:		8	At any time during the 1993 calendar year, did the corporation have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)?	<input checked="" type="checkbox"/>
a	Business activity code no. ▶ 7389			If "Yes," the corporation may have to file Form TD F 90-22.1. If "Yes," enter name of foreign country ▶	
b	Business activity ▶ Computer Services		9	Was the corporation the grantor of, or transferor to, a foreign trust that existed during the current tax year, whether or not the corporation has any beneficial interest in it? If "Yes," the corporation may have to file Forms 926, 3520, or 3520-A	<input checked="" type="checkbox"/>
c	Product or service ▶ Consulting		10	Did one foreign person at any time during the tax year own, directly or indirectly, at least 25% of: (a) the total voting power of all classes of stock of the corporation entitled to vote, or (b) the total value of all classes of stock of the corporation? If "Yes,"	<input checked="" type="checkbox"/>
3	Did the corporation at the end of the tax year own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).)	<input checked="" type="checkbox"/>	a	Enter percentage owned ▶	
	If "Yes," attach a schedule showing: (a) name and identifying number, (b) percentage owned, and (c) taxable income or (loss) before NOL and special deductions of such corporation for the tax year ending with or within your tax year.		b	Enter owner's country ▶	
4	Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group?	<input checked="" type="checkbox"/>	c	The corporation may have to file Form 5472. Enter number of Forms 5472 attached ▶	
	If "Yes," enter employer identification number and name of the parent corporation ▶		11	Check this box if the corporation issued publicly offered debt instruments with original issue discount	<input type="checkbox"/>
5	Did any individual, partnership, corporation, estate or trust at the end of the tax year own, directly or indirectly, 50% or more of the corporation's voting stock? (For rules of attribution, see section 267(c).)	<input checked="" type="checkbox"/>		If so, the corporation may have to file Form 8281.	
	If "Yes," attach a schedule showing name and identifying number. (Do not include any information already entered in 4 above.) Enter percentage owned ▶		12	Enter the amount of tax-exempt interest received or accrued during the tax year ▶ \$	
6	During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See secs. 301 and 316.)	<input checked="" type="checkbox"/>	13	If there were 35 or fewer shareholders at the end of the tax year, enter the number ▶	
	If "Yes," file Form 5452. If this is a consolidated return, answer here for the parent corporation and on Form 851, Affiliations Schedule, for each subsidiary.		14	If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here ▶ <input type="checkbox"/>	
			15	Enter the available NOL carryover from prior tax years (Do not reduce it by any deduction on line 29a.) ▶ \$	

Schedule L Balance Sheets		Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
Assets					
1	Cash				10,935.00
2a	Trade notes and accounts receivable			235,654.00	
b	Less allowance for bad debts	()		()	235,654.00
3	Inventories				
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)				513,320.00
6	Other current assets (attach schedule)		0.00		2,606.00
7	Loans to stockholders				
8	Mortgage and real estate loans				
9	Other investments (attach schedule)				
10a	Buildings and other depreciable assets			104,503.00	
b	Less accumulated depreciation	()		(20,861.00)	83,642.00
11a	Depletable assets				
b	Less accumulated depletion	()		()	
12	Land (net of any amortization)				
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization	()		()	
14	Other assets (attach schedule)				
15	Total assets		0.00		846,157.00
Liabilities and Stockholders' Equity					
16	Accounts payable				167,487.00
17	Mortgages, notes, bonds payable in less than 1 year				
18	Other current liabilities (attach schedule)		0.00		141,319.00
19	Loans from stockholders				
20	Mortgages, notes, bonds payable in 1 year or more				
21	Other liabilities (attach schedule)				
22	Capital stock: a Preferred stock				
	b Common stock			20,000.00	20,000.00
23	Paid-in or capital surplus				500,000.00
24	Retained earnings—Appropriated (attach schedule)				17,351.00
25	Retained earnings—Unappropriated				
26	Less cost of treasury stock	()		()	
27	Total liabilities and stockholders' equity		0.00		846,157.00

Note: You are not required to complete Schedules M-1 and M-2 below if the total assets on line 15, column (d) of Schedule L are less than \$25,000.

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return (See instructions.)			
1	Net income (loss) per books	117,351.00	
2	Federal income tax	23,000.00	
3	Excess of capital losses over capital gains		
4	Income subject to tax not recorded on books this year (itemize):		
5	Expenses recorded on books this year not deducted on this return (itemize):		
a	Depreciation \$		
b	Contributions carryover \$		
c	Travel and entertainment \$ 529.00		
		529.00	
6	Add lines 1 through 5	140,880.00	
7	Income recorded on books this year not included on this return (itemize):		
	Tax-exempt interest \$		
	See Att. 25,666.00		
			25,666.00
8	Deductions on this return not charged against book income this year (itemize):		
a	Depreciation \$ 16,616.		
b	Contributions carryover \$		
			16,616.00
9	Add lines 7 and 8		42,282.00
10	Income (line 28, page 1)—line 6 less line 9		98,598.00

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)			
1	Balance at beginning of year		
2	Net income (loss) per books	117,351.00	
3	Other increases (itemize):		
4	Add lines 1, 2, and 3	117,351.00	
5	Distributions: a Cash		100,000.00
	b Stock		
	c Property		
6	Other decreases (itemize):		
7	Add lines 5 and 6		100,000.00
8	Balance at end of year (line 4 less line 7)		17,351.00

SUPPORTING SCHEDULE

1993

NAME: ABC Corporation	EIN: 00-0000000
<hr/>	
TAXES — FORM 1120 LN. 17	1,628.
Property Taxes	225,783.
Payroll Taxes	<u>5,894.</u>
TOTAL	<u>233,305.</u>
OTHER DEDUCTIONS — FORM 1120 LN. 26	
Meals and Entertainment	2,117.
Travel	302,674.
Auto Expense	39,526.
Bank Charges	100.
Dues and Subscriptions	2,156.
Insurance	252,938.
Legal Fees	29,623.
Licenses	1,388.
Management Fees	67,450.
Marketing	48,077.
Miscellaneous	5,958.
Moving Expense	20,008.
Office Expense	34,063.
Postage	3,584.
Courier Services	9,898.
Outside Services	11,077.
Recruitment Fees	676.
Telephone	77,111.
Utilities	<u>8,628.</u>
TOTAL	<u>917,052.</u>

SUPPORTING SCHEDULE

1993

NAME: ABC CorporationEIN: 00-0000000

	Beginning	Ending
OTHER CURRENT ASSETS — SCH. L LN. 6		
Dues From Employees	<u> </u>	<u>2,606.</u>
TOTAL	<u> 0.</u>	<u>2,606.</u>
OTHER CURRENT LIABILITIES — SCH. L LN. 18		
Accrued Payroll		69,682.
Other Payables		30,231.
Payroll Taxes Payable		34,285.
State Income Taxes		5,894.
Federal Income Taxes	<u> </u>	<u>1,227.</u>
TOTAL	<u> 0.</u>	<u>141,319.</u>

SUPPORTING SCHEDULE

1993

NAME: ABC CorporationEIN: 00-0000000**OT. INCOME ON BOOKS NOT ON RETURN — SCH. M-1 LN. 7**

Municipal Bond Income		<u>\$ 25,666.</u>
TOTAL		<u>\$ 25,666.</u>

Depreciation and Amortization
(Including Information on Listed Property)

Department of the Treasury
Internal Revenue Service (O)

▶ See separate instructions. ▶ Attach this form to your return.

Attachment
Sequence No. **67**

Name(s) shown on return

Identifying number
00 - 0000000

ABC Corporation

Business or activity to which this form relates

Computer Services

Part I Election To Expense Certain Tangible Property (Section 179) (Note: If you have any "Listed Property," complete Part V before you complete Part I.)

1 Maximum dollar limitation (If an enterprise zone business, see instructions.)	1	\$17,500
2 Total cost of section 179 property placed in service during the tax year (see instructions)	2	60,586
3 Threshold cost of section 179 property before reduction in limitation	3	\$200,000
4 Reduction in limitation. Subtract line 3 from line 2, but do not enter less than -0-	4	0
5 Dollar limitation for tax year. Subtract line 4 from line 1, but do not enter less than -0-. (If married filing separately, see instructions.)	5	10,000
(a) Description of property	(b) Cost	(c) Elected cost
6 See Attached	10,000	10,000
7 Listed property. Enter amount from line 26.	7	0
8 Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	10,000
9 Tentative deduction. Enter the smaller of line 5 or line 8	9	
10 Carryover of disallowed deduction from 1992 (see instructions).	10	10,000
11 Taxable income limitation. Enter the smaller of taxable income or line 5 (see instructions)	11	10,000
12 Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	10,000
13 Carryover of disallowed deduction to 1994. Add lines 9 and 10, less line 12 ▶	13	0

Note: Do not use Part II or Part III below for listed property (automobiles, certain other vehicles, cellular telephones, certain computers, or property used for entertainment, recreation, or amusement). Instead, use Part V for listed property.

Part II MACRS Depreciation For Assets Placed in Service ONLY During Your 1993 Tax Year (Do Not Include Listed Property)

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
14 General Depreciation System (GDS) (see instructions):						
a 3-year property						
b 5-year property		47,411				9,953
c 7-year property		3,175				454
d 10-year property						
e 15-year property						
f 20-year property						
g Residential rental property			27.5 yrs.	MM	S/L	
h Nonresidential real property			27.5 yrs.	MM	S/L	
15 Alternative Depreciation System (ADS) (see instructions):						
a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part III Other Depreciation (Do Not Include Listed Property)

16 GDS and ADS deductions for assets placed in service in tax years beginning before 1993 (see instructions)	16	12,351
17 Property subject to section 168(f)(1) election (see instructions)	17	
18 ACRS and other depreciation (see instructions)	18	

Part IV Summary

19 Listed property. Enter amount from line 25.	19	
20 Total. Add deductions on line 12, lines 14 and 15 in column (g), and lines 16 through 19. Enter here and on the appropriate lines of your return. (Partnerships and S corporations—see instructions)	20	32,758
21 For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs (see instructions)	21	

Part V Listed Property—Automobiles, Certain Other Vehicles, Cellular Telephones, Certain Computers, and Property Used for Entertainment, Recreation, or Amusement

For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete **only** 22a, 22b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

Section A—Depreciation and Other Information (Caution: See instructions for limitations for automobiles.)

22a Do you have evidence to support the business/investment use claimed? Yes No **22b** If "Yes," is the evidence written? Yes No

(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/Convention	(h) Depreciation deduction	(i) Elected section 179 cost	
23 Property used more than 50% in a qualified business use (see instructions):									
		%							
		%							
		%							
24 Property used 50% or less in a qualified business use (see instructions):									
		%				S/L -			
		%				S/L -			
		%				S/L -			
25 Add amounts in column (h). Enter the total here and on line 19, page 1							25	0	
26 Add amounts in column (i). Enter the total here and on line 7, page 1							26	0	0

Section B—Information Regarding Use of Vehicles—If you deduct expenses for vehicles:

- Always complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person.
- If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

	(a) Vehicle 1		(b) Vehicle 2		(c) Vehicle 3		(d) Vehicle 4		(e) Vehicle 5		(f) Vehicle 6	
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
27 Total business/investment miles driven during the year (DO NOT include commuting miles)												
28 Total commuting miles driven during the year												
29 Total other personal (noncommuting) miles driven												
30 Total miles driven during the year. Add lines 27 through 29.												
31 Was the vehicle available for personal use during off-duty hours?												
32 Was the vehicle used primarily by a more than 5% owner or related person?												
33 Is another vehicle available for personal use?												

Section C—Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B. **Note:** Section B must always be completed for vehicles used by sole proprietors, partners, or other more than 5% owners or related persons.

	Yes	No
34 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?		
35 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? (See instructions for vehicles used by corporate officers, directors, or 1% or more owners.)		
36 Do you treat all use of vehicles by employees as personal use?		
37 Do you provide more than five vehicles to your employees and retain the information received from your employees concerning the use of the vehicles?		
38 Do you meet the requirements concerning qualified automobile demonstration use (see instructions)?		

Note: If your answer to 34, 35, 36, 37, or 38 is "Yes," you need not complete Section B for the covered vehicles.

Part VI Amortization

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
39 Amortization of costs that begins during your 1993 tax year:					
40 Amortization of costs that began before 1993				40	
41 Total. Enter here and on "Other Deductions" or "Other Expenses" line of your return				41	0

		Retained Earnings Shown in Books		Earnings and Profits Current Year		Accumulated Balance (Debit) Credit
		Debit	Credit	Debit	Credit	
12/31/92 Balance Forward						
1993						
Taxable Income from line 28, page 1, Form 1120	98,598		98,598		98,598	
Federal Income taxes shown in books	230,00	23,000				
Federal Income taxes shown on return	21,773		21,773			
Excess of Capital losses over capital gains						
Section 312(k) depreciation adjustment	16,661		16,616		16,616	
Other depreciation adjustments						
Depreciation adjustment on property disposition						
Meal and Entertainment Expense	529		529			
Total Itemized expenses line 5, Schedule M-1		529				
Municipal Bond Income	25,666				25,666	
Total Itemized income line 7, Schedule M-1			25,666			
SUBTOTALS	118,578			22,302	140,880	
Current-Year Earnings and Profits					118,578	
Cash Distributions:						
Common: 12/31/93						
(\$5.00/share-20,000 shs)						
From current-year earnings and profits	100,000			100,000		
From accumulated earnings and profits	0					0
100%	100,000					
From other	0.00%	0				
Total Distribution	100.00%	100,000				
Total Cash Distributions	100,000	100,000		100,000	118,578	
Current Year Change			17,351		18,578	0
Balance Forward 12/31/93			17,351			18,578

Note: Dividend is fully taxable. No Form 5452 filing requirement.

Example 2—XYZ Corporation

XYZ Corporation, a computer consulting firm, was incorporated January 1, 1974. Pursuant to the terms of its preferred stock, XYZ paid quarterly cash dividends to its preferred shareholders of \$.50 a share on March 15, June 15, September 15, and December 15, 1993. Additionally, XYZ paid semiannual cash dividends of \$1 a share to its common shareholders on March 31 and September 30, 1993. Although E&P was in excess of the preferred dividends, common dividends exceeded current and accumulated E&P. The following information is available for XYZ.

XYZ book income	\$132,994
Federal income tax per books	64,000
Excess capital losses	3,600
Contribution carryover	3,256
Officers life insurance premium	9,500
Interest to carry tax exempt bonds	850
Warranty reserve	10,000
Tax exempt interest income	(5,000)
Life insurance proceeds	(6,000)
Bad debt recovery	(3,500)
Federal tax refund	<u>(18,000)</u>
Taxable income	<u>191,700</u>
Beginning accumulated E&P	\$ 20,900
Federal tax per return	\$ 65,178
Shares outstanding—common	90,000
Shares outstanding—preferred	10,000

XYZ Corporation computed a difference of \$24,000 between tax and E&P methods of depreciation. XYZ Corporation also has a \$4,000 difference between tax and E&P basis on the sale of an asset.

Note: Form 5452 attachments for years before 1993 are intentionally not included as a part of this practice aid.

U.S. Corporation Income Tax Return

For calendar year 1993 or tax year beginning, 1993, ending, 19 ...
 ▶ Instructions are separate. See page 1 for Paperwork Reduction Act Notice.

A Check if a: 1 Consolidated return (attach Form 851) <input type="checkbox"/> 2 Personal holding co. (attach Sch. PH) <input type="checkbox"/> 3 Personal service corp. (as defined in Temporary Regs. sec. 1.441-4T—see instructions) <input type="checkbox"/>	Use IRS label. Otherwise, please print or type.	Name XYZ Corporation Number, street, and room or suite no. (If a P.O. box, see page 7 of instructions.) 123 Main Street City or town, state, and ZIP code Anycity, Yourstate 20200	B Employer identification number 01 0000000 C Date incorporated 01/01/74 D Total assets (see Specific Instructions)
--	--	--	--

E Check applicable boxes: (1) Initial return (2) Final return (3) Change of address \$ 519,428

Income	1a	Gross receipts or sales	4,456,824	b	Less returns and allowances		c Bal	1c	4,456,824
	2	Cost of goods sold (Schedule A, line 8)						2	
	3	Gross profit. Subtract line 2 from line 1c						3	4,456,824
	4	Dividends (Schedule C, line 19)						4	
	5	Interest						5	
	6	Gross rents						6	
	7	Gross royalties						7	
	8	Capital gain net income (attach Schedule D (Form 1120))						8	0
	9	Net gain or (loss) from Form 4797, Part II, line 20 (attach Form 4797)						9	0
	10	Other income (see instructions—attach schedule)						10	
	11	Total income. Add lines 3 through 10						11	4,456,824

Deductions (See instructions for limitations on deductions.)	12	Compensation of officers (Schedule E, line 4)						12	60,000
	13a	Salaries and wages	2,772,310	b	Less employment credits		c Bal	13c	2,772,310
	14	Repairs and maintenance						14	4,563
	15	Bad debts						15	26,047
	16	Rents						16	149,321
	17	Taxes and licenses						17	233,305
	18	Interest						18	
	19	Charitable contributions (see instructions for 10% limitation)						19	21,300
	20	Depreciation (attach Form 4562)			20	32,759			
	21a	Less depreciation claimed on Schedule A and elsewhere on return			21a		21b	32,759	
	22	Depletion						22	
	23	Advertising						23	32,759
	24	Pension, profit-sharing, etc., plans						24	
	25	Employee benefit programs						25	500
26	Other deductions (attach schedule)						26	932,152	
27	Total deductions. Add lines 12 through 26						27	4,265,124	
28	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11						28	191,700	
29a	Less: a Net operating loss deduction (see instructions)			29a		29c			
29b	b Special deductions (Schedule C, line 20)			29b		29c			

Tax and Payments	30	Taxable income. Subtract line 29c from line 28						30	191,700
	31	Total tax (Schedule J, line 10)						31	65,178
	32a	Payments: a 1992 overpayment credited to 1993			32a				
	32b	b 1993 estimated tax payments	58,660						
	32c	c Less 1993 refund applied for on Form 4466			32c				
	32d	d Bal			32d	58,660			
	32e	e Tax deposited with Form 7004			32e				
	32f	f Credit from regulated investment companies (attach Form 2439)			32f				
32g	g Credit for Federal tax on fuels (attach Form 4136). See instructions			32g					
32h						32h	58,660		
33	Estimated tax penalty (see instructions). Check if Form 2220 is attached <input checked="" type="checkbox"/>						33	0	
34	Tax due. If line 32h is smaller than the total of lines 31 and 33, enter amount owed						34	6,518	
35	Overpayment. If line 32h is larger than the total of lines 31 and 33, enter amount overpaid						35		
36	Enter amount of line 35 you want: Credited to 1994 estimated tax <input type="checkbox"/> Refunded <input type="checkbox"/>						36		

Please Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer	Date	Title
-----------------------------	-------------	--------------

Paid Preparer's Use Only	Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's social security number
	Firm's name (or yours if self-employed) and address	E.I. No.		
		ZIP code		

Schedule A Cost of Goods Sold (See instructions.)

1	Inventory at beginning of year	
2	Purchases	
3	Cost of labor	
4	Additional section 263A costs (attach schedule)	
5	Other costs (attach schedule)	
6	Total. Add lines 1 through 5	0
7	Inventory at end of year	
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on page 1, line 2	0

9a Check all methods used for valuing closing inventory:

Cost Lower of cost or market as described in Regulations section 1.471-4

Writedown of subnormal goods as described in Regulations section 1.471-2(c)

Other (Specify method used and attach explanation.) ▶

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

c If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO

d Do the rules of section 263A (for property produced or acquired for resale) apply to the corporation? Yes No

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

Schedule C Dividends and Special Deductions (See instructions.)

	(a) Dividends received	(b) %	(c) Special deductions (a) × (b)
1	Dividends from less-than-20%-owned domestic corporations that are subject to the 70% deduction (other than debt-financed stock)	70	
2	Dividends from 20%-or-more-owned domestic corporations that are subject to the 80% deduction (other than debt-financed stock)	80	
3	Dividends on debt-financed stock of domestic and foreign corporations (section 246A)	see instructions	
4	Dividends on certain preferred stock of less-than-20%-owned public utilities	42	
5	Dividends on certain preferred stock of 20%-or-more-owned public utilities	48	
6	Dividends from less-than-20%-owned foreign corporations and certain FSCs that are subject to the 70% deduction	70	
7	Dividends from 20%-or-more-owned foreign corporations and certain FSCs that are subject to the 80% deduction	80	
8	Dividends from wholly owned foreign subsidiaries subject to the 100% deduction (section 245(b))	100	
9	Total. Add lines 1 through 8. See instructions for limitation		0
10	Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958	100	
11	Dividends from certain FSCs that are subject to the 100% deduction (section 245(c)(1))	100	
12	Dividends from affiliated group members subject to the 100% deduction (section 243(a)(3))	100	
13	Other dividends from foreign corporations not included on lines 3, 6, 7, 8, or 11		
14	Income from controlled foreign corporations under subpart F (attach Form(s) 5471)		
15	Foreign dividend gross-up (section 78)		
16	IC-DISC and former DISC dividends not included on lines 1, 2, or 3 (section 246(d))		
17	Other dividends		
18	Deduction for dividends paid on certain preferred stock of public utilities (see instructions)		
19	Total dividends. Add lines 1 through 17. Enter here and on line 4, page 1	0	
20	Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on line 29b, page 1		0

Schedule E Compensation of Officers (See instructions for line 12, page 1.)

Complete Schedule E only if total receipts (line 1a plus lines 4 through 10 on page 1, Form 1120) are \$500,000 or more.

(a) Name of officer	(b) Social security number	(c) Percent of time devoted to business	Percent of corporation stock owned		(f) Amount of compensation
			(d) Common	(e) Preferred	
1 Ed Jones	123-45-6789	100 %	5 %	5 %	60,000
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
2 Total compensation of officers					60,000
3 Compensation of officers claimed on Schedule A and elsewhere on return					
4 Subtract line 3 from line 2. Enter the result here and on line 12, page 1					60,000

Schedule J Tax Computation (See instructions.)

1	Check if the corporation is a member of a controlled group (see sections 1561 and 1563)	<input type="checkbox"/>		
2a	If the box on line 1 is checked, enter the corporation's share of the \$50,000, \$25,000, and \$9,925,000 taxable income brackets (in that order):			
	(1) \$ <u>0</u>	(2) \$ <u>0</u>	(3) \$ <u>0</u>	
b	Enter the corporation's share of:			
	(1) additional 5% tax (not more than \$11,750)	\$ <u>0</u>		
	(2) additional 3% tax (not more than \$100,000)	\$ <u>0</u>		
3	Income tax. Check this box if the corporation is a qualified personal service corporation as defined in section 448(d)(2) (see instructions on page 15)	<input type="checkbox"/>	3	65,178.
4a	Foreign tax credit (attach Form 1118)		4a	
b	Possessions tax credit (attach Form 5735)		4b	
c	Orphan drug credit (attach Form 6765)		4c	
d	Check: <input type="checkbox"/> Nonconventional source fuel credit <input type="checkbox"/> QEV credit (attach Form 8834)		4d	
e	General business credit. Enter here and check which forms are attached:		4e	
	<input type="checkbox"/> Form 3800 <input type="checkbox"/> Form 3468 <input type="checkbox"/> Form 5884 <input type="checkbox"/> Form 6478 <input type="checkbox"/> Form 6765			
	<input type="checkbox"/> Form 8586 <input type="checkbox"/> Form 8830 <input type="checkbox"/> Form 8826 <input type="checkbox"/> Form 8835		4f	
f	Credit for prior year minimum tax (attach Form 8827)			
5	Total credits. Add lines 4a through 4f		5	0
6	Subtract line 5 from line 3		6	65,178
7	Personal holding company tax (attach Schedule PH (Form 1120))		7	
8	Recapture taxes. Check if from: <input type="checkbox"/> Form 4255 <input type="checkbox"/> Form 8611		8	
9a	Alternative minimum tax (attach Form 4626)		9a	
b	Environmental tax (attach Form 4626)		9b	
10	Total tax. Add lines 6 through 9b. Enter here and on line 31, page 1		10	65,178

Schedule K Other Information (See pages 17 and 18 of instructions.)

	Yes	No		Yes	No
1	Check method of accounting: a <input type="checkbox"/> Cash		7	Was the corporation a U.S. shareholder of any controlled foreign corporation? (See sections 951 and 957.)	<input checked="" type="checkbox"/>
	b <input checked="" type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) ▶			If "Yes," attach Form 5471 for each such corporation. Enter number of Forms 5471 attached ▶	
2	Refer to page 19 of the instructions and state the principal:		8	At any time during the 1993 calendar year, did the corporation have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)?	<input checked="" type="checkbox"/>
	a Business activity code no. ▶ <u>7389</u>			If "Yes," the corporation may have to file Form TD F 90-22.1. If "Yes," enter name of foreign country ▶	
	b Business activity ▶ <u>Computer Services</u>		9	Was the corporation the grantor of, or transferor to, a foreign trust that existed during the current tax year, whether or not the corporation has any beneficial interest in it? If "Yes," the corporation may have to file Forms 926, 3520, or 3520-A	
	c Product or service ▶ <u>Consulting</u>				
3	Did the corporation at the end of the tax year own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).)	<input checked="" type="checkbox"/>	10	Did one foreign person at any time during the tax year own, directly or indirectly, at least 25% of: (a) the total voting power of all classes of stock of the corporation entitled to vote, or (b) the total value of all classes of stock of the corporation? If "Yes,"	
	If "Yes," attach a schedule showing: (a) name and identifying number, (b) percentage owned, and (c) taxable income or (loss) before NOL and special deductions of such corporation for the tax year ending with or within your tax year.			a Enter percentage owned ▶	
4	Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group?	<input checked="" type="checkbox"/>		b Enter owner's country ▶	
	If "Yes," enter employer identification number and name of the parent corporation ▶		c The corporation may have to file Form 5472. Enter number of Forms 5472 attached ▶		
5	Did any individual, partnership, corporation, estate or trust at the end of the tax year own, directly or indirectly, 50% or more of the corporation's voting stock? (For rules of attribution, see section 267(c).)	<input checked="" type="checkbox"/>	11	Check this box if the corporation issued publicly offered debt instruments with original issue discount	<input type="checkbox"/>
	If "Yes," attach a schedule showing name and identifying number. (Do not include any information already entered in 4 above.) Enter percentage owned ▶			If so, the corporation may have to file Form 8281.	
6	During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See secs. 301 and 316.)	<input checked="" type="checkbox"/>	12	Enter the amount of tax-exempt interest received or accrued during the tax year ▶ \$ <u>5,000</u>	
	If "Yes," file Form 5452. If this is a consolidated return, answer here for the parent corporation and on Form 851, Affiliations Schedule, for each subsidiary.		13	If there were 35 or fewer shareholders at the end of the tax year, enter the number ▶	
			14	If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here ▶ <input type="checkbox"/>	
			15	Enter the available NOL carryover from prior tax years (Do not reduce it by any deduction on line 29a.) ▶ \$	

Schedule L Balance Sheets		Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
Assets					
1	Cash		47,427.		100,410.
2a	Trade notes and accounts receivable	168,537.		235,654.	
b	Less allowance for bad debts	(13,482.)	155,055.	(18,852.)	216,802.
3	Inventories				
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)		100,000.		100,000.
6	Other current assets (attach schedule)		18,000.		2,606.
7	Loans to stockholders				
8	Mortgage and real estate loans				
9	Other investments (attach schedule)		3,600.		0
10a	Buildings and other depreciable assets	143,918.		154,504.	
b	Less accumulated depreciation	(22,136.)	121,782.	(54,894.)	99,610.
11a	Depletable assets				
b	Less accumulated depletion	()		()	
12	Land (net of any amortization)				
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization	()		()	
14	Other assets (attach schedule)				
15	Total assets		445,864.		519,428.
Liabilities and Stockholders' Equity					
16	Accounts payable		110,864.		41,434.
17	Mortgages, notes, bonds payable in less than 1 year				200,000.
18	Other current liabilities (attach schedule)				
19	Loans from stockholders				
20	Mortgages, notes, bonds payable in 1 year or more				
21	Other liabilities (attach schedule)		10,000.		20,000.
22	Capital stock: a Preferred stock	10,000.		10,000.	
	b Common stock	90,000.	100,000.	90,000.	100,000.
23	Paid-in or capital surplus				
24	Retained earnings—Appropriated (attach schedule)				
25	Retained earnings—Unappropriated		225,000.		157,994.
26	Less cost of treasury stock		()		()
27	Total liabilities and stockholders' equity		445,864.		519,428.

Note: You are not required to complete Schedules M-1 and M-2 below if the total assets on line 15, column (d) of Schedule L are less than \$25,000.

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return (See instructions.)			
1	Net income (loss) per books	132,994.	7 Income recorded on books this year not included on this return (itemize): Tax-exempt interest \$ 5,000. See Att. 27,500.
2	Federal income tax	64,000.	
3	Excess of capital losses over capital gains	3,600.	
4	Income subject to tax not recorded on books this year (itemize):		32,500.
5	Expenses recorded on books this year not deducted on this return (itemize):		8 Deductions on this return not charged against book income this year (itemize): a Depreciation \$ b Contributions carryover \$
a	Depreciation		
b	Contributions carryover	3,256.	
c	Travel and entertainment	20,350.	
	See Att.		
6	Add lines 1 through 5	224,200.	9 Add lines 7 and 8
			10 Income (line 28, page 1)—line 6 less line 9
			32,500.
			191,700.

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)			
1	Balance at beginning of year	225,000.	5 Distributions: a Cash 200,000. b Stock c Property
2	Net income (loss) per books	132,994.	
3	Other increases (itemize):		6 Other decreases (itemize):
4	Add lines 1, 2, and 3	357,994.	7 Add lines 5 and 6
			8 Balance at end of year (line 4 less line 7)
			157,994.

SUPPORTING SCHEDULE

1993

NAME: XYZ Corporation

EIN: 01-0000000

TAXES — FORM 1120 LN. 17

Payroll Taxes	\$ 225,783.
State Taxes	5,894.
Property Taxes	<u>1,628.</u>
TOTAL	<u>\$ 233,305.</u>

OTHER DEDUCTIONS — FORM 1120 LN. 26

Travel	\$ 302,674.
Auto Expenses	39,526.
Bank Charges	100.
Insurance	252,938.
Legal Fees	29,623.
Licenses	1,388.
Management Fees	67,450.
Marketing	67,450.
Miscellaneous	5,958.
Moving Expense	20,008.
Office Expense	34,063.
Postage	3,584.
Courier	9,898.
Outside Services	11,077.
Recruitment Fees	676.
Telephone	77,111.
Utilities	<u>8,628.</u>
TOTAL	<u>\$ 932,152.</u>

SUPPORTING SCHEDULE

1993

NAME: XYZ Corporation

EIN: 01-0000000

	Beginning	Ending
OTHER CURRENT ASSETS — SCH. L LN. 6		
Due from Employees	\$ 18,000.	\$ 2,606.
TOTAL	<u>\$ 18,000.</u>	<u>\$ 2,606.</u>
OTHER INVESTMENTS — SCH. L LN. 9		
Investment in MIS	\$ 3,600.	\$
Tax Exempt Bonds	<u>100,000.</u>	<u>100,000.</u>
TOTAL	<u>\$ 103,600.</u>	<u>\$ 100,000.</u>
OTHER LIABILITIES — SCH. L LN. 21		
Warranty Reserve	<u>\$ 10,000.</u>	<u>\$ 20,000.</u>
TOTAL	<u>\$ 10,000.</u>	<u>\$ 20,000.</u>

SUPPORTING SCHEDULE

1993

NAME: XYZ Corporation

EIN: 01-0000000

OT. EXPENSES ON BOOKS NOT DEDUCTED — SCH. M-1 LN. 5

Life Insurance Premiums	\$ 9,500.
Interest Tax Exempt Bonds	850.
Reserve for Contingencies	<u>10,000.</u>
TOTAL	<u>\$ 20,350.</u>

OT. INCOME ON BOOKS NOT ON RETURN — SCH. M-1 LN. 7

Life Insurance Proceeds	\$ 6,000.
Bad Debt Recovery	3,500.
Federal Tax Refund	<u>18,000.</u>
TOTAL	<u>\$ 27,500.</u>

Depreciation and Amortization
(Including Information on Listed Property)

Department of the Treasury
Internal Revenue Service (O)

▶ See separate instructions. ▶ Attach this form to your return.

Attachment
Sequence No. **67**

Name(s) shown on return

Identifying number
00-0000000

XYZ Corporation

Business or activity to which this form relates

Computer Services

Part I Election To Expense Certain Tangible Property (Section 179) (Note: If you have any "Listed Property," complete Part V before you complete Part I.)

1	Maximum dollar limitation (If an enterprise zone business, see instructions.)	1	\$17,500
2	Total cost of section 179 property placed in service during the tax year (see instructions)	2	50,586.00
3	Threshold cost of section 179 property before reduction in limitation	3	\$200,000
4	Reduction in limitation. Subtract line 3 from line 2, but do not enter less than -0-	4	0.00
5	Dollar limitation for tax year. Subtract line 4 from line 1, but do not enter less than -0-. (If married filing separately, see instructions.)	5	10,000.00
6	(a) Description of property	(b) Cost	(c) Elected cost
7	Listed property. Enter amount from line 26.	7	0.00
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	0.00
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	0.00
10	Carryover of disallowed deduction from 1992 (see instructions)	10	
11	Taxable income limitation. Enter the smaller of taxable income or line 5 (see instructions)	11	10,000.00
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	0.00
13	Carryover of disallowed deduction to 1994. Add lines 9 and 10, less line 12 ▶	13	0.00

Note: Do not use Part II or Part III below for listed property (automobiles, certain other vehicles, cellular telephones, certain computers, or property used for entertainment, recreation, or amusement). Instead, use Part V for listed property.

Part II MACRS Depreciation For Assets Placed in Service ONLY During Your 1993 Tax Year (Do Not Include Listed Property)

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
14 General Depreciation System (GDS) (see instructions):						
a 3-year property						
b 5-year property		47,411.00				9,954.00
c 7-year property		3,175.00				454.00
d 10-year property						
e 15-year property						
f 20-year property						
g Residential rental property			27.5 yrs.	MM	S/L	
h Nonresidential real property			27.5 yrs.	MM	S/L	
15 Alternative Depreciation System (ADS) (see instructions):						
a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part III Other Depreciation (Do Not Include Listed Property)

16	GDS and ADS deductions for assets placed in service in tax years beginning before 1993 (see instructions)	16	22,351.00
17	Property subject to section 168(f)(1) election (see instructions)	17	
18	ACRS and other depreciation (see instructions)	18	

Part IV Summary

19	Listed property. Enter amount from line 25.	19	
20	Total. Add deductions on line 12, lines 14 and 15 in column (g), and lines 16 through 19. Enter here and on the appropriate lines of your return. (Partnerships and S corporations—see instructions)	20	32,759.00
21	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs (see instructions)	21	

Part V Listed Property—Automobiles, Certain Other Vehicles, Cellular Telephones, Certain Computers, and Property Used for Entertainment, Recreation, or Amusement

For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete only 22a, 22b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

Section A—Depreciation and Other Information (Caution: See instructions for limitations for automobiles.)

22a Do you have evidence to support the business/investment use claimed? Yes No **22b** If "Yes," is the evidence written? Yes No

(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/Convention	(h) Depreciation deduction	(i) Elected section 179 cost	
23 Property used more than 50% in a qualified business use (see instructions):									
		%							
		%							
		%							
24 Property used 50% or less in a qualified business use (see instructions):									
		%				S/L -			
		%				S/L -			
		%				S/L -			
25 Add amounts in column (h). Enter the total here and on line 19, page 1							25	0.00	
26 Add amounts in column (i). Enter the total here and on line 7, page 1								26	0.00

Section B—Information Regarding Use of Vehicles—If you deduct expenses for vehicles:

- Always complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person.
- If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

	(a) Vehicle 1		(b) Vehicle 2		(c) Vehicle 3		(d) Vehicle 4		(e) Vehicle 5		(f) Vehicle 6	
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
27 Total business/investment miles driven during the year (DO NOT include commuting miles)												
28 Total commuting miles driven during the year												
29 Total other personal (noncommuting) miles driven												
30 Total miles driven during the year. Add lines 27 through 29.												
31 Was the vehicle available for personal use during off-duty hours?												
32 Was the vehicle used primarily by a more than 5% owner or related person?												
33 Is another vehicle available for personal use?												

Section C—Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B. **Note:** Section B must always be completed for vehicles used by sole proprietors, partners, or other more than 5% owners or related persons.

	Yes	No
34 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?		
35 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? (See instructions for vehicles used by corporate officers, directors, or 1% or more owners.)		
36 Do you treat all use of vehicles by employees as personal use?		
37 Do you provide more than five vehicles to your employees and retain the information received from your employees concerning the use of the vehicles?		
38 Do you meet the requirements concerning qualified automobile demonstration use (see instructions)?		

Note: If your answer to 34, 35, 36, 37, or 38 is "Yes," you need not complete Section B for the covered vehicles.

Part VI Amortization

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
39 Amortization of costs that begins during your 1993 tax year:					
40 Amortization of costs that began before 1993				40	
41 Total. Enter here and on "Other Deductions" or "Other Expenses" line of your return				41	0.00

Sales of Business Property
 (Also Involuntary Conversions and Recapture Amounts
 Under Sections 179 and 280F(b)(2))
 ▶ Attach to your tax return. ▶ See separate instructions.

Name(s) shown on return **XYZ Corporation** Identifying number **01 - 0000000**

1 Enter here the gross proceeds from the sale or exchange of real estate reported to you for 1993 on Form(s) 1099-S (or a substitute statement) that you will be including on line 2, 11, or 22 **1**

Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Property Held More Than 1 Year

(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) LOSS ((f) minus the sum of (d) and (e))	(h) GAIN ((d) plus (e) minus (f))
2 Equipment	01/01/82	2/31/91		40000	40000		0

3 Gain, if any, from Form 4684, line 39	3	
4 Section 1231 gain from installment sales from Form 6252, line 26 or 37	4	
5 Section 1231 gain or (loss) from like-kind exchanges from Form 8824	5	0
6 Gain, if any, from line 34, from other than casualty or theft	6	
7 Add lines 2 through 6 in columns (g) and (h)	7	(0) 0
8 Combine columns (g) and (h) of line 7. Enter gain or (loss) here, and on the appropriate line as follows: Partnerships —Enter the gain or (loss) on Form 1065, Schedule K, line 6. Skip lines 9, 10, 12, and 13 below. S corporations —Report the gain or (loss) following the instructions for Form 1120S, Schedule K, lines 5 and 6. Skip lines 9, 10, 12, and 13 below, unless line 8 is a gain and the S corporation is subject to the capital gains tax. All others —If line 8 is zero or a loss, enter the amount on line 12 below and skip lines 9 and 10. If line 8 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain as a long-term capital gain on Schedule D and skip lines 9, 10, and 13 below.	8	0
9 Nonrecaptured net section 1231 losses from prior years (see instructions)	9	
10 Subtract line 9 from line 8. If zero or less, enter -0-. Also enter on the appropriate line as follows (see instructions): S corporations —Enter this amount (if more than zero) on Schedule D (Form 1120S), line 13, and skip lines 12 and 13 below. All others —If line 10 is zero, enter the amount from line 8 on line 13 below. If line 10 is more than zero, enter the amount from line 9 on line 13 below, and enter the amount from line 10 as a long-term capital gain on Schedule D.	10	

Part II Ordinary Gains and Losses

11 Ordinary gains and losses not included on lines 12 through 18 (include property held 1 year or less):

12 Loss, if any, from line 8	12	
13 Gain, if any, from line 8, or amount from line 9 if applicable	13	
14 Gain, if any, from line 33	14	
15 Net gain or (loss) from Form 4684, lines 31 and 38a	15	
16 Ordinary gain from installment sales from Form 6252, line 25 or 36	16	
17 Ordinary gain or (loss) from like-kind exchanges from Form 8824	17	
18 Recapture of section 179 expense deduction for partners and S corporation shareholders from property dispositions by partnerships and S corporations (see instructions)	18	
19 Add lines 11 through 18 in columns (g) and (h)	19	(0) 0
20 Combine columns (g) and (h) of line 19. Enter gain or (loss) here, and on the appropriate line as follows: a For all except individual returns: Enter the gain or (loss) from line 20 on the return being filed. b For individual returns: (1) If the loss on line 12 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here and on line 20 of Schedule A (Form 1040). Identify as from "Form 4797, line 20b(1)." See instructions (2) Redetermine the gain or (loss) on line 20, excluding the loss, if any, on line 20b(1). Enter here and on Form 1040, line 15	20	0
	20b(1)	
	20b(2)	

Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255

21	(a) Description of section 1245, 1250, 1252, 1254, or 1255 property:	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)
A			
B			
C			
D			
	Relate lines 21A through 21D to these columns		
		Property A	Property B
		Property C	Property D
22	Gross sales price (Note: See line 1 before completing.)	22	
23	Cost or other basis plus expense of sale	23	
24	Depreciation (or depletion) allowed or allowable	24	
25	Adjusted basis. Subtract line 24 from line 23	25	
26	Total gain. Subtract line 25 from line 22	26	
27	If section 1245 property:		
a	Depreciation allowed or allowable from line 24	27a	
b	Enter the smaller of line 26 or 27a	27b	
28	If section 1250 property: If straight line depreciation was used, enter -0- on line 28g, except for a corporation subject to section 291.		
a	Additional depreciation after 1975 (see instructions)	28a	
b	Applicable percentage multiplied by the smaller of line 26 or line 28a (see instructions)	28b	
c	Subtract line 28a from line 26. If residential rental property or line 26 is not more than line 28a, skip lines 28d and 28e	28c	
d	Additional depreciation after 1969 and before 1976	28d	
e	Enter the smaller of line 28c or 28d	28e	
f	Section 291 amount (corporations only)	28f	
g	Add lines 28b, 28e, and 28f	28g	
29	If section 1252 property: Skip this section if you did not dispose of farmland or if this form is being completed for a partnership.		
a	Soil, water, and land clearing expenses	29a	
b	Line 29a multiplied by applicable percentage (see instructions)	29b	
c	Enter the smaller of line 26 or 29b	29c	
30	If section 1254 property:		
a	Intangible drilling and development costs, expenditures for development of mines and other natural deposits, and mining exploration costs (see instructions)	30a	
b	Enter the smaller of line 26 or 30a	30b	
31	If section 1255 property:		
a	Applicable percentage of payments excluded from income under section 126 (see instructions)	31a	
b	Enter the smaller of line 26 or 31a	31b	

Summary of Part III Gains. Complete property columns A through D, through line 31b before going to line 32.

32	Total gains for all properties. Add columns A through D, line 26	32	0
33	Add columns A through D, lines 27b, 28g, 29c, 30b, and 31b. Enter here and on line 14	33	0
34	Subtract line 33 from line 32. Enter the portion from casualty or theft on Form 4684, line 33. Enter the portion from other than casualty or theft on Form 4797, line 6	34	0

Part IV Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less
See instructions for Part IV.

	(a) Section 179	(b) Section 280F(b)(2)
35	Section 179 expense deduction or depreciation allowable in prior years	35
36	Recomputed depreciation (see instructions)	36
37	Recapture amount. Subtract line 36 from line 35. See instructions for where to report	37

Corporate Report of Nondividend Distributions

▶ For calendar year ending December 31, 19

▶ Attach to the corporation's tax return.

Name XYZ Corporation Employer identification number 01 - 0000000

A (1) Has a Form 5452 been filed for a prior calendar year? ▶ Yes No

(2) If "Yes," state which year(s) _____

B Are any of the distributions part of a partial or complete liquidation? ▶ Yes No

If "Yes," describe in detail in a separate statement.

C Earnings and Profits

- Accumulated earnings and profits (since February 28, 1913) at the beginning of the tax year \$ 20,900
- Actual earnings and profits for the current tax year \$ 148,316

D Classification of Shareholders at Date of Last Dividend Payment

- Number of individuals 20
- Number of partnerships _____
- Number of corporations and other shareholders 25

Note: If there are 12 or fewer shareholders, attach copies of the Forms 1099-DIV (or the information from that form) that the shareholders received.

E Corporate Distributions

Column 1			Column 2				Column 3	
Date Paid	Total Amount Paid (Common (C), Preferred (P), Other (O))	Amount Per Share	Amount Paid During Calendar Year From Earnings & Profits Since February 28, 1913			Percent Taxable	Amount Paid During Calendar Year From Other Than Earnings & Profits Since February 28, 1913	Percent Nontaxable
			From the Current Year	Accumulated	Total			
3/15	\$ 5,000(p)	\$0.50	\$ 5,000	\$	\$ 5,000	100	\$ 0.00	
6/15	5,000(p)	0.50	5,000		5,000	100	0.00	
9/15	5,000(p)	0.50	5,000		5,000	100	0.00	
12/1	5,000(p)	0.50	5,000		5,000	100	0.00	
3/31	90,000(c)	1.00	64,158	20,900	85,058	94.51	4,942.00	5.49
9/30	90,000(c)	1.00	64,158		64,158	71.29	25,842.00	28.71
Totals	\$ 200,000		\$148,316	\$ 20,900	\$169,216		\$30,784.00	

Worksheet for Computing Current Earnings and Profits
 XYZ Corporation
 Incorporation Date: January 1, 1974-
 Method of Accounting: Accrual

		Retained Earnings Shown in Books		Earning and Profit Current Year		Accumulated Balance (Debit) Credit
		Debit	Credit	Debit	Credit	
12/31/92 Balance Forward	225,000		225,000			20,900
1993						
Taxable Income from line 28, page 1, Form 1120	191,700		191,700		191,700	
Federal Income taxes shown in books	64,000	64,000				
Federal Income taxes shown on return	65,178			65,178		
Excess of Capital losses over capital gains	3,600	3,600		3,600		
Section 312(k) depreciation adjustment	24,000				24,000	
Other depreciation adjustments						
Depreciation adjustment on property disposition	4,000			4,000		
Contribution in excess of limitation	3,256			3,256		
Life insurance premium in excess of CSV	9,500			9,500		
Nondeductible interest to carry tax exempt bonds	850			850		
Reserve for contingencies	10,000			10,000		
Total Itemized expenses line 5, Schedule M-1		23,606				
Life insurance proceeds in excess of CSV	6,000				6,000	
Bad debt recovery (not charged against tax income)	3,500					
Tax-exempt interest on municipal bonds	5,000				5,000	
Refund of prior year federal income taxes	18,000				18,000	
Total Itemized income line 7, Schedule M-1			32,500			
SUBTOTALS				96,384	244,700	
Current-Year Earnings and Profits					148,316	
Cash Distributions:						
Preferred: 3/15, 6/15, 9/15, 12/15/93 (\$0.50/share-10,000 shs)	20,000			20,000		
Common: 3/31/93 (\$1.00/share-90,000 shs)						
From current-year earnings and profits	64,158			64,158		
From accumulated earnings and profits	20,900					(20,900)
	94.51%	85,058				
From other	5.49%	4,942				
Total Distribution	100.00%	90,000				
Common: 9/30/93 (\$1.00/share-90,000 shs)						
From current-year earnings and profits	64,158			64,158		
From accumulated earnings and profits						
	71.29%	64,158				
From other	28.71%	25,842				
Total Distribution	100.00%	90,000				
Total Cash Distributions	200,000	200,000				
		291,206	224,200	148,316	148,316	
Current Year Change		67,006				(20,900)
Balance Forward 12/31/93			157,994			\$0

Example 3—ACME Manufacturing Corporation

ACME Corporation, a widget manufacturing company, was incorporated January 1, 1988. In anticipation of future E&P, ACME paid a \$200,000 cash distribution to its sole shareholder on December 31, 1993. This distribution was in excess of current and accumulated E&P. The following information is available for ACME.

ACME book income	\$ 8,000
Federal income tax per books	32,000
Excess capital losses	40,000
Installment sale income	7,000
Contribution carryover	45,000
Meal and entertainment expenses disallowed	2,000
Bad debt reserve	12,000
Lobbying expenses	3,500
Officers life insurance premium	2,000
Tax penalties	1,500
Federal tax refund	(6,000)
Bad debts specific write-off	(15,000)
Taxable income	132,000
Federal tax per return (alternative minimum tax)	39,975
Shares outstanding—common	50,000
Net operating loss carryforward	200,000
Dividend received deduction	5,600
ACE adjustment	61,500

Note: Form 5452 attachments for years before 1993 are intentionally not included in this practice aid.

U.S. Corporation Income Tax Return

1993

For calendar year 1993 or tax year beginning _____, 1993, ending _____, 19 ____
▶ **Instructions are separate. See page 1 for Paperwork Reduction Act Notice.**

A Check if a: 1 Consolidated return (attach Form 851) <input type="checkbox"/> 2 Personal holding co. (attach Sch. PH) <input type="checkbox"/> 3 Personal service corp. (as defined in Temporary Regs. sec. 1.441-4T—see instructions) <input type="checkbox"/>	Use IRS label. Otherwise, please print or type.	Name ACME Manufacturing Corporation Number, street, and room or suite no. (If a P.O. box, see page 7 of instructions.) 123 Main Street City or town, state, and ZIP code Anytown, Yourstate 20200	B Employer identification number 00 : 0000000 C Date incorporated 01/01/88 D Total assets (see Specific Instructions)
--	--	---	--

E Check applicable boxes: (1) Initial return (2) Final return (3) Change of address \$ 770,000

Income	1a	Gross receipts or sales <u>3,735,000</u>	b	Less returns and allowances		c Bal ▶	1c	3,735,000
	2	Cost of goods sold (Schedule A, line 8)					2	3,116,000
	3	Gross profit. Subtract line 2 from line 1c					3	619,000
	4	Dividends (Schedule C, line 19)					4	7,000
	5	Interest					5	
	6	Gross rents					6	
	7	Gross royalties					7	
	8	Capital gain net income (attach Schedule D (Form 1120))					8	0
	9	Net gain or (loss) from Form 4797, Part II, line 20 (attach Form 4797)					9	
	10	Other income (see instructions—attach schedule)					10	
	11	Total income. Add lines 3 through 10					11	626,000

Deductions (See instructions for limitations on deductions.)	12	Compensation of officers (Schedule E, line 4)					12	85,000
	13a	Salaries and wages <u>165,000</u>	b	Less employment credits		c Bal ▶	13c	165,000
	14	Repairs and maintenance					14	
	15	Bad debts					15	15,000
	16	Rents					16	26,000
	17	Taxes and licenses					17	
	18	Interest					18	
	19	Charitable contributions (see instructions for 10% limitation)					19	0
	20	Depreciation (attach Form 4562)	20 116,000					
	21	Less depreciation claimed on Schedule A and elsewhere on return	21a 90,000				21b	26,000
	22	Depletion					22	
	23	Advertising					23	10,000
	24	Pension, profit-sharing, etc., plans					24	30,000
	25	Employee benefit programs					25	
	26	Other deductions (attach schedule)					26	137,000
27	Total deductions. Add lines 12 through 26					27	494,000	
28	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11					28	132,000	
29	Less: a Net operating loss deduction (see instructions)	29a 200,000						
	b Special deductions (Schedule C, line 20)	29b 5,600				29c	205,600	

Tax and Payments	30	Taxable income. Subtract line 29c from line 28					30	-73,600
	31	Total tax (Schedule J, line 10)					31	39,975
	32	Payments: a 1992 overpayment credited to 1993	32a					
		b 1993 estimated tax payments	32b					
		c Less 1993 refund applied for on Form 4466	32c				d Bal ▶	32d
		e Tax deposited with Form 7004					32e	
		f Credit from regulated investment companies (attach Form 2439)					32f	
		g Credit for Federal tax on fuels (attach Form 4136). See instructions					32g	
	32h							0
	33	Estimated tax penalty (see instructions). Check if Form 2220 is attached <input checked="" type="checkbox"/>					33	0
34	Tax due. If line 32h is smaller than the total of lines 31 and 33, enter amount owed					34	39,975	
35	Overpayment. If line 32h is larger than the total of lines 31 and 33, enter amount overpaid					35		
36	Enter amount of line 35 you want: Credited to 1994 estimated tax ▶ Refunded ▶					36		

Please Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer _____	Date _____	Title _____
Preparer's signature _____	Date _____	Check if self-employed <input type="checkbox"/>
Firm's name (or yours if self-employed) and address _____	E.I. No. _____	Preparer's social security number _____
	ZIP code _____	

Schedule A Cost of Goods Sold (See instructions.)

1	Inventory at beginning of year	1	176,000
2	Purchases	2	2,100,000
3	Cost of labor	3	400,000
4	Additional section 263A costs (attach schedule)	4	
5	Other costs (attach schedule)	5	600,000
6	Total. Add lines 1 through 5	6	3,276,000
7	Inventory at end of year	7	160,000
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on page 1, line 2	8	3,116,000

9a Check all methods used for valuing closing inventory:
 Cost Lower of cost or market as described in Regulations section 1.471-4
 Writedown of subnormal goods as described in Regulations section 1.471-2(c)
 Other (Specify method used and attach explanation.) ▶

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

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

d Do the rules of section 263A (for property produced or acquired for resale) apply to the corporation? Yes No

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

Schedule C Dividends and Special Deductions (See instructions.)

	(a) Dividends received	(b) %	(c) Special deductions (a) x (b)
1	Dividends from less-than-20%-owned domestic corporations that are subject to the 70% deduction (other than debt-financed stock)	70	
2	Dividends from 20%-or-more-owned domestic corporations that are subject to the 80% deduction (other than debt-financed stock)	7,000	5,600
3	Dividends on debt-financed stock of domestic and foreign corporations (section 246A)	see instructions	
4	Dividends on certain preferred stock of less-than-20%-owned public utilities	42	
5	Dividends on certain preferred stock of 20%-or-more-owned public utilities	48	
6	Dividends from less-than-20%-owned foreign corporations and certain FSCs that are subject to the 70% deduction	70	
7	Dividends from 20%-or-more-owned foreign corporations and certain FSCs that are subject to the 80% deduction	80	
8	Dividends from wholly owned foreign subsidiaries subject to the 100% deduction (section 245(b))	100	
9	Total. Add lines 1 through 8. See instructions for limitation		5,600
10	Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958	100	
11	Dividends from certain FSCs that are subject to the 100% deduction (section 245(c)(1))	100	
12	Dividends from affiliated group members subject to the 100% deduction (section 243(a)(3))	100	
13	Other dividends from foreign corporations not included on lines 3, 6, 7, 8, or 11		
14	Income from controlled foreign corporations under subpart F (attach Form(s) 5471)		
15	Foreign dividend gross-up (section 78)		
16	IC-DISC and former DISC dividends not included on lines 1, 2, or 3 (section 246(d))		
17	Other dividends		
18	Deduction for dividends paid on certain preferred stock of public utilities (see instructions)		
19	Total dividends. Add lines 1 through 17. Enter here and on line 4, page 1		
20	Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on line 29b, page 1		5,600

Schedule E Compensation of Officers (See instructions for line 12, page 1.)

Complete Schedule E only if total receipts (line 1a plus lines 4 through 10 on page 1, Form 1120) are \$500,000 or more.

(a) Name of officer	(b) Social security number	(c) Percent of time devoted to business	Percent of corporation stock owned		(f) Amount of compensation
			(d) Common	(e) Preferred	
1 A. C. Baker	123-34-6789	100 %	100 %	%	85,000
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
2	Total compensation of officers				85,000
3	Compensation of officers claimed on Schedule A and elsewhere on return				
4	Subtract line 3 from line 2. Enter the result here and on line 12, page 1				85,000

Schedule J Tax Computation (See instructions.)

1 Check if the corporation is a member of a controlled group (see sections 1561 and 1563)	<input type="checkbox"/>		
2a If the box on line 1 is checked, enter the corporation's share of the \$50,000, \$25,000, and \$9,925,000 taxable income brackets (in that order):			
(1) \$ _____	(2) \$ _____	(3) \$ _____	
b Enter the corporation's share of:			
(1) additional 5% tax (not more than \$11,750)	\$ _____		
(2) additional 3% tax (not more than \$100,000)	\$ _____		
3 Income tax. Check this box if the corporation is a qualified personal service corporation as defined in section 448(d)(2) (see instructions on page 15)	<input type="checkbox"/>	3	0
4a Foreign tax credit (attach Form 1118)	4a		
b Possessions tax credit (attach Form 5735)	4b		
c Orphan drug credit (attach Form 6765)	4c		
d Check: <input type="checkbox"/> Nonconventional source fuel credit <input type="checkbox"/> QEV credit (attach Form 8834)	4d		
e General business credit. Enter here and check which forms are attached: <input type="checkbox"/> Form 3800 <input type="checkbox"/> Form 3468 <input type="checkbox"/> Form 5884 <input type="checkbox"/> Form 6478 <input type="checkbox"/> Form 6765 <input type="checkbox"/> Form 8586 <input type="checkbox"/> Form 8830 <input type="checkbox"/> Form 8826 <input type="checkbox"/> Form 8835	4e		
f Credit for prior year minimum tax (attach Form 8827)	4f		
5 Total credits. Add lines 4a through 4f		5	0
6 Subtract line 5 from line 3		6	0
7 Personal holding company tax (attach Schedule PH (Form 1120))		7	
8 Recapture taxes. Check if from: <input type="checkbox"/> Form 4255 <input type="checkbox"/> Form 8611		8	
9a Alternative minimum tax (attach Form 4626)		9a	39,975
b Environmental tax (attach Form 4626)		9b	39,975
10 Total tax. Add lines 6 through 9b. Enter here and on line 31, page 1		10	

Schedule K Other Information (See pages 17 and 18 of instructions.)

	Yes	No		Yes	No
1 Check method of accounting: a <input type="checkbox"/> Cash			7 Was the corporation a U.S. shareholder of any controlled foreign corporation? (See sections 951 and 957.)		X
b <input checked="" type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) ▶ _____			If "Yes," attach Form 5471 for each such corporation. Enter number of Forms 5471 attached ▶ _____		
2 Refer to page 19 of the instructions and state the principal:			8 At any time during the 1993 calendar year, did the corporation have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)?		X
a Business activity code no. ▶ <u>3998</u>			If "Yes," the corporation may have to file Form TD F 90-22.1. If "Yes," enter name of foreign country ▶ _____		
b Business activity ▶ <u>Manufacturing</u>			9 Was the corporation the grantor of, or transferor to, a foreign trust that existed during the current tax year, whether or not the corporation has any beneficial interest in it? If "Yes," the corporation may have to file Forms 926, 3520, or 3520-A		X
c Product or service ▶ <u>Widgets</u>			10 Did one foreign person at any time during the tax year own, directly or indirectly, at least 25% of: (a) the total voting power of all classes of stock of the corporation entitled to vote, or (b) the total value of all classes of stock of the corporation? If "Yes,"		X
3 Did the corporation at the end of the tax year own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).)		X	a Enter percentage owned ▶ _____		
If "Yes," attach a schedule showing: (a) name and identifying number, (b) percentage owned, and (c) taxable income or (loss) before NOL and special deductions of such corporation for the tax year ending with or within your tax year.			b Enter owner's country ▶ _____		
4 Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group?			c The corporation may have to file Form 5472. Enter number of Forms 5472 attached ▶ _____		
If "Yes," enter employer identification number and name of the parent corporation ▶ _____			11 Check this box if the corporation issued publicly offered debt instruments with original issue discount <input type="checkbox"/>		
5 Did any individual, partnership, corporation, estate or trust at the end of the tax year own, directly or indirectly, 50% or more of the corporation's voting stock? (For rules of attribution, see section 267(c).)		X	If so, the corporation may have to file Form 8281.		
If "Yes," attach a schedule showing name and identifying number. (Do not include any information already entered in 4 above.) Enter percentage owned ▶ _____			12 Enter the amount of tax-exempt interest received or accrued during the tax year ▶ \$ _____		
6 During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See secs. 301 and 316.)		X	13 If there were 35 or fewer shareholders at the end of the tax year, enter the number ▶ _____		
If "Yes," file Form 5452. If this is a consolidated return, answer here for the parent corporation and on Form 851, Affiliations Schedule, for each subsidiary.			14 If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here <input type="checkbox"/>		
			15 Enter the available NOL carryover from prior tax years (Do not reduce it by any deduction on line 29a.) ▶ \$ <u>200,000</u>		

Schedule L	Balance Sheets	Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
Assets					
1	Cash		10,000.		60,000.
2a	Trade notes and accounts receivable	162,000.		226,000.	
b	Less allowance for bad debts	(12,000.)	150,000.	(16,000.)	210,000.
3	Inventories		160,000.		150,000.
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)				
6	Other current assets (attach schedule)		30,000.		50,000.
7	Loans to stockholders				
8	Mortgage and real estate loans				
9	Other investments (attach schedule)				
10a	Buildings and other depreciable assets	900,000.		960,000.	
b	Less accumulated depreciation	(600,000.)	300,000.	(660,000.)	300,000.
11a	Depletable assets				
b	Less accumulated depletion				
12	Land (net of any amortization)				
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization				
14	Other assets (attach schedule)				
15	Total assets		650,000.		770,000.
Liabilities and Stockholders' Equity					
16	Accounts payable		80,000.		80,000.
17	Mortgages, notes, bonds payable in less than 1 year				272,000.
18	Other current liabilities (attach schedule)		150,000.		180,000.
19	Loans from stockholders				
20	Mortgages, notes, bonds payable in 1 year or more				
21	Other liabilities (attach schedule)		200,000.		210,000.
22	Capital stock: a Preferred stock				
	b Common stock	50,000.	50,000.	50,000.	50,000.
23	Paid-in or capital surplus				
24	Retained earnings—Appropriated (attach schedule)				
25	Retained earnings—Unappropriated		170,000.		-22,000.
26	Less cost of treasury stock				
27	Total liabilities and stockholders' equity		650,000.		770,000.

Note: You are not required to complete Schedules M-1 and M-2 below if the total assets on line 15, column (d) of Schedule L are less than \$25,000.

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return (See instructions.)					
1	Net income (loss) per books	8,000.	7	Income recorded on books this year not included on this return (itemize):	
2	Federal income tax	32,000.		Tax-exempt interest \$	
3	Excess of capital losses over capital gains	40,000.		See Att. 6,000.	
4	Income subject to tax not recorded on books this year (itemize):				6,000.
	See Attached	7,000.		8 Deductions on this return not charged against book income this year (itemize):	
5	Expenses recorded on books this year not deducted on this return (itemize):			a Depreciation \$	
a	Depreciation			b Contributions carryover \$	
b	Contributions carryover	\$ 45,000.		See Att. 15,000.	
c	Travel and entertainment	\$ 2,000.			15,000.
	See Att.	19,000.		9 Add lines 7 and 8	21,000.
		66,000.		10 Income (line 28, page 1)—line 6 less line 9	132,000.
6	Add lines 1 through 5	153,000.			

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)					
1	Balance at beginning of year	170,000.	5	Distributions: a Cash	200,000.
2	Net income (loss) per books	8,000.		b Stock	
3	Other increases (itemize):			c Property	
			6	Other decreases (itemize):	
			7	Add lines 5 and 6	220,000.
4	Add lines 1, 2, and 3	178,000.	8	Balance at end of year (line 4 less line 7)	-22,000.



SUPPORTING SCHEDULE

1993

<u>NAME: ACME Manufacturing Corporation</u>	<u>EIN: 02-0000000</u>
OTHER DEDUCTIONS — FORM 1120 LN. 26	
Meals and entertainment	\$ 8,000.
Travel	45,000.
Other	<u>84,000.</u>
TOTAL	<u>\$ 137,000.</u>

SUPPORTING SCHEDULE

1993

<u>NAME: ACME Manufacturing Corporation</u>	<u>EIN: 02-0000000</u>
OTHER COSTS — SCH. A LN. 5	
Other Costs	\$ 510,000.
Depreciation	<u>90,000.</u>
TOTAL	<u>\$ 600,000.</u>

SUPPORTING SCHEDULE

1993

<u>NAME: ACME Manufacturing Corporation</u>	<u>EIN: 02-0000000</u>
INCOME SUBJECT TO TAX NOT ON BOOKS — SCH. M-1 LN. 4	
Installment Sale	\$ 7,000.
TOTAL	<u>\$ 7,000.</u>

OT. EXPENSES ON BOOKS NOT DEDUCTED — SCH. M-1 LN. 5	
Bad Debt Reserve	\$ 12,000.
Lobbying Expenses	3,500.
Officers Life Insurance	2,000.
Penalties	<u>1,500.</u>
TOTAL	<u>\$ 19,000.</u>

OT. INCOME ON BOOKS NOT ON RETURN — SCH. M-1 LN. 7	
Refund of Federal Taxes	\$ 6,000.
TOTAL	<u>\$ 6,000.</u>

OTHER DEDUCTIONS NOT ON BOOKS — SCH. M-1 LN. 8	
Bad Debts — Specific W/O	\$ 15,000.
TOTAL	<u>\$ 15,000.</u>

**Alternative Minimum Tax—Corporations
(including environmental tax)**

1993

Department of the Treasury
Internal Revenue Service

▶ See separate instructions.
▶ Attach to the corporation's tax return.

Name **ACME Manufacturing Corp.** Employer identification number **02 : 0000000**

1	Taxable income or (loss) before net operating loss deduction. (Important: See instructions if the corporation is subject to the environmental tax.)	1	126,400.
2	Adjustments:		
a	Depreciation of tangible property placed in service after 1986	2a	34,000.
b	Amortization of certified pollution control facilities placed in service after 1986	2b	
c	Amortization of mining exploration and development costs paid or incurred after 1986	2c	
d	Amortization of circulation expenditures paid or incurred after 1986 (personal holding companies only)	2d	
e	Basis adjustments in determining gain or loss from sale or exchange of property	2e	
f	Long-term contracts entered into after February 28, 1986.	2f	
g	Installment sales of certain property	2g	
h	Merchant marine capital construction funds	2h	
i	Section 833(b) deduction (Blue Cross, Blue Shield, and similar type organizations only)	2i	
j	Tax shelter farm activities (personal service corporations only)	2j	
k	Passive activities (closely held corporations and personal service corporations only)	2k	
l	Certain loss limitations	2l	
m	Other adjustments	2m	
n	Combine lines 2a through 2m	2n	34,000.
3	Tax preference items:		
a	Depletion	3a	
b	Tax-exempt interest from private activity bonds issued after August 7, 1986	3b	
c	Charitable contributions	3c	
d	Intangible drilling costs	3d	
e	Reserves for losses on bad debts of financial institutions	3e	
f	Accelerated depreciation of real property placed in service before 1987	3f	
g	Accelerated depreciation of leased personal property placed in service before 1987 (personal holding companies only)	3g	
h	Add lines 3a through 3g	3h	
4	Preadjustment alternative minimum taxable income (AMTI). Combine lines 1, 2n, and 3h	4	160,400.
5	Adjusted current earnings (ACE) adjustment:		
a	Enter the corporation's ACE from line 10 of the worksheet on page 8 of the instructions	5a	242,400
b	Subtract line 4 from line 5a. If line 4 exceeds line 5a, enter the difference as a negative number (see instructions for examples)	5b	82,000.
c	Multiply line 5b by 75% and enter the result as a positive number	5c	61,500.
d	Enter the excess, if any, of the corporation's total increases in AMTI from prior year ACE adjustments over its total reductions in AMTI from prior year ACE adjustments (see instructions). Note: You <i>must</i> enter an amount on line 5d (even if line 5b is positive)	5d	200,000.
e	ACE adjustment: • If you entered a positive number or zero on line 5b, enter the amount from line 5c on line 5e as a positive amount. • If you entered a negative number on line 5b, enter the smaller of line 5c or line 5d on line 5e as a negative amount.	5e	61,500
6	Combine lines 4 and 5e. If zero or less, stop here (the corporation is not subject to the alternative minimum tax).	6	221,900
7	Alternative tax net operating loss deduction (see instructions)	7	
8	Alternative minimum taxable income. Subtract line 7 from line 6.	8	221,900.

9	Enter the amount from line 8 (alternative minimum taxable income)	9	221,900.	
10	Exemption phase-out computation (if line 9 is \$310,000 or more, skip lines 10a and 10b and enter -0- on line 10c):			
a	Subtract \$150,000 from line 9 (if you are completing this line for a member of a controlled group of corporations, see instructions). If the result is zero or less, enter -0-		10a	71,900.
b	Multiply line 10a by 25%		10b	17,975.
c	Exemption. Subtract line 10b from \$40,000 (if you are completing this line for a member of a controlled group of corporations, see instructions). If the result is zero or less, enter -0-	10c	22,025.	
11	Subtract line 10c from line 9. If the result is zero or less, enter -0-	11	199,875.	
12	Multiply line 11 by 20%	12	39,975.	
13	Alternative minimum tax foreign tax credit. (See instructions for limitations.)	13	0	
14	Tentative minimum tax. Subtract line 13 from line 12	14	39,975.	
15	Regular tax liability before all credits except the foreign tax credit and possessions tax credit	15	0	
16	Alternative minimum tax. Subtract line 15 from line 14. If the result is zero or less, enter -0-. Also enter the result on the line provided on the corporation's income tax return (e.g., if you are filing Form 1120 for 1993, enter this amount on line 9a, Schedule J)		39,975.	
17	Environmental tax. Subtract \$2,000,000 from line 6 (computed without regard to the corporation's environmental tax deduction) and multiply the excess, if any, by 0.12% (.0012). Enter the result here and on the line provided on the corporation's income tax return (e.g., if you are filing Form 1120 for 1993, enter this amount on line 9b, Schedule J). If you are completing this line for a member of a controlled group of corporations, see instructions.		17	0

Corporate Report of Nondividend Distributions

▶ For calendar year ending December 31, 19

OMB No. 1545-0205
 Expires 1-31-95

▶ Attach to the corporation's tax return.

Name ACME Manufacturing Corp.	Employer identification number 02 - 0000000
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A (1) Has a Form 5452 been filed for a prior calendar year? ▶ Yes No

(2) If "Yes," state which year(s) _____

B Are any of the distributions part of a partial or complete liquidation? ▶ Yes No

If "Yes," describe in detail in a separate statement.

C Earnings and Profits

- Accumulated earnings and profits (since February 28, 1913) at the beginning of the tax year \$ 100,000
- Actual earnings and profits for the current tax year \$ 25

D Classification of Shareholders at Date of Last Dividend Payment

- Number of individuals 1
- Number of partnerships _____
- Number of corporations and other shareholders _____

Note: If there are 12 or fewer shareholders, attach copies of the Forms 1099-DIV (or the information from that form) that the shareholders received.

E Corporate Distributions

Column 1			Column 2				Column 3	
Date Paid	Total Amount Paid (Common (C), Preferred (P), Other (O))	Amount Per Share	Amount Paid During Calendar Year From Earnings & Profits Since February 28, 1913			Percent Taxable	Amount Paid During Calendar Year From Other Than Earnings & Profits Since February 28, 1913	Percent Nontaxable
			From the Current Year	Accumulated	Total			
12/31	\$ 200,000(c)	\$4.00	\$ 25	\$ 100,000	\$ 100,025	50.01	\$ 99,975	49.99
Totals	\$ 200,000		\$ 25	\$ 100,000	\$ 100,025		\$ 99,975	

Worksheet for Computing Current Earnings and Profits
 ACME Manufacturing Corporation
 Incorporation Date: January 1, 1988
 Method of Accounting: Accrual

		Retained Earnings Shown in Books		Earning and Profit Current Year		Accumulated Balance (Debit) Credit
		Debit	Credit	Debit	Credit	
12/31/92 Balance Forward	170,000		170,000			100,000
1993						
Taxable Income from line 28, page 1, Form 1120	132,000		132,000		132,000	
Federal Income taxes shown in books	32,000					
Federal Income taxes shown on return	39,975			39,975		
Excess of Capital losses over capital gains	40,000			40,000		
Section 312(k) depreciation adjustment						
Depreciation adjustment on property disposition						
Installment Sale Income	7,000			7,000		
Total Income line 4, Schedule M—1		7,000				
Meal and Entertainment Expense	2,000			2,000		
Contributions Carryover	45,000			45,000		
Bad Debt Reserve	12,000			12,000		
Lobbying Expenses	3,500			3,500		
Officers Life Insurance	2,000			2,000		
Penalties	1,500			1,500		
Total Itemized expenses line 5, Schedule M—1		66,000				
Municipal Bond Income	6,000				6,000	
Total Itemized income line 7, Schedule M-1			6,000			
Bad Debts Specific Write Off	15,000				15,000	
Total Deductions line 8, Schedule M—1			15,000			
SUBTOTALS				152,975	153,000	
Current-Year Earnings and Profits					25	
Cash Distributions:						
Common: 12/31/93						
(\$10.00/share—20,000 shs)						
From current-year earnings and profits	25			25		
From accumulated earnings and profits	100,000					(100,000)
50.01%	100,025					
From other	49.99%	99,975				
Total Distribution	100.00%	200,000				
Total Cash Distributions	200,000	200,000				
		345,000	153,000	25	25	
Current Year Change		192,000				(100,000)
Balance Forward 12/31/93		22,000				\$0

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