2001

Department of the Treasury
Internal Revenue Service

Instructions for Form 990-C

Farmers' Cooperative Association Income Tax Return

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

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Changes To Note

- For tax years ending on or after December 31, 2001, certain cooperatives with average annual gross receipts of more than $1 million but less than or equal to $10 million may be able to adopt or change to the cash method of accounting for eligible trades or businesses. This rule does not apply to cooperatives prohibited from using the cash method under section 448. For more details, including change in accounting method requirements, see Notice 2001-76, 2001-52 I.R.B. 614.
- The cooperative may request that the IRS deposit its income tax refund of $1 million or more directly into its checking or savings account at any U.S. bank or other financial institutions that accepts direct deposits. For details, see the instructions for line 36 on page 12, and **Form 8302,** Direct Deposit of Tax Refund of $1 Million or More.
- If the cooperative wants to allow the IRS to discuss its 2001 tax return with the paid preparer who signed it, check the "Yes" box in the area where the officer of the cooperative signed the return. See page 2 for details.

Photographs of Missing Children

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

Unresolved Tax Issues

If the cooperative has attempted to deal with an IRS problem unsuccessfully, it should contact the Taxpayer Advocate. The Taxpayer Advocate independently represents the cooperative's interests and concerns within the IRS by protecting its rights and resolving problems that have not been fixed through normal channels.

While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that the cooperative's case is given a complete and impartial review.

The cooperative's assigned personal advocate will listen to its point of view and will work with the cooperative to address its concerns. The cooperative can expect the advocate to provide:

- A "fresh look" at a new or on-going problem.
- Timely acknowledgement.
- The name and phone number of the individual assigned to its case.
- Updates on progress.
- Timeframes for action.
- Speedy resolution.
- Courteous service.

When contacting the Taxpayer Advocate, the cooperative should provide the following information:

- The cooperative's name, address, and employer identification number (EIN).
- The name and telephone number of an authorized contact person and the hours he or she can be reached.
- The type of tax return and year(s) involved.
- A detailed description of the problem.
- Previous attempts to solve the problem and the office that had been contacted.
- A description of the hardship the cooperative is facing (if applicable).

The cooperative may contact a Taxpayer Advocate by calling (toll free) **1-877-777-4778**. Persons who have access to TTY/TDD equipment may call 1-800-829-4059 and ask for Taxpayer Advocate assistance. If the cooperative prefers, it may call, write, or fax the Taxpayer Advocate office in its area. See **Pub. 1546,** The Taxpayer Advocate Service of the IRS, for a list of addresses and fax numbers.

How To Get Forms and Publications

Personal computer. You can access the IRS Web Site 24 hours a day, 7 days a week, at **www.irs.gov** to:

- Download forms, instructions, and publications.
- See answers to frequently asked tax questions.
- Search publications on-line by topic or keyword.
- Send us comments or request help by e-mail.
- Sign up to receive local and national tax news by e-mail.

You can also reach us using file transfer protocol at **ftp.irs.gov.**

CD-ROM. Order **Pub. 1796,** Federal Tax Products on CD-ROM, and get:

- Current year forms, instructions, and publications.
- Prior year forms, instructions, and publications.
- Frequently requested tax forms that may be filled in electronically, printed out for submission, and saved for recordkeeping.

Cat. No. 11288M

• The Internal Revenue Bulletin.

Buy the CD-ROM on the Internet at **www.irs.gov/cdorders** from the National Technical Information Service (NTIS) for $21 (no handling fee), or call **1-877-CDFORMS** (1-877-233-6767) toll free to buy the CD-ROM for $21 (plus a $5 handling fee).

By phone and in person. You can order forms and publications 24 hours a day, 7 days a week, by calling **1-800-TAX-FORM** (1-800-829-3676). You can also get most forms and publications at your local IRS office.

General Instructions

Purpose of Form

Use **Form 990-C,** Farmers' Cooperative Association Income Tax Return, to report income, gains, losses, deductions, credits, and to figure the income tax liability of the cooperative.

Who Must File

Every farmers' cooperative association must file Form 990-C whether or not the association has taxable income (Regulations section 1.6012-2(f)).

Generally, a **farmers' cooperative** is a farmers, fruit growers, or like association organized and operated on a cooperative basis to:

1. Market the products of members or other producers and return to them the proceeds of sales, less necessary marketing expenses, on the basis of either the quantity or value of their products; **or**

2. Purchase supplies and equipment for the use of members or other persons and turn over the supplies and equipment to them at actual cost, plus necessary expenses.

A **member** is anyone who shares in the profits of a cooperative association and is entitled to participate in the management of the association.

A **producer** is a person who, as owner or tenant, bears the risk of production and receives income based on farm production rather than fixed compensation. For example, if a cooperative leases its land to a tenant farmer who agrees to pay a rental fee based on a percentage of the farm crops produced, both the landowner and the tenant farmer qualify as producers.

When To File

Generally, a cooperative must file its income tax return by the 15th day of the 9th month after the end of its tax year.

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

Private delivery services. Cooperatives can use certain private delivery services designated by the IRS to meet the "timely mailing as timely filing/paying" rule for tax returns and payments. The most recent list of designated private delivery services was published by the IRS in October 2001. The list includes only the following:

• Airborne Express (Airborne): Overnight Air Express Service, Next Afternoon Service, Second Day Service.
• DHL Worldwide Express (DHL): DHL "Same Day" Service, DHL USA Overnight.
• Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2Day.
• United Parcel Service (UPS): UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, UPS 2nd Day Air A.M., UPS Worldwide Express Plus, and UPS Worldwide Express.

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

Extension. File **Form 7004,** Application for Automatic Extension of Time To File Corporation Income Tax Return, to request a 6-month extension of time to file.

Who Must Sign

The return must be signed and dated by:

• The president, vice president, treasurer, assistant treasurer, chief accounting officer or
• Any other cooperative officer (such as tax officer) authorized to sign.

Receivers, trustees, or assignees also must sign and date any return filed on behalf of a cooperative.

If an employee of the cooperative completes Form 990-C, the paid preparer's space should remain blank. In addition, anyone who prepares Form 990-C but does not charge the cooperative should not complete that section. Generally, anyone who is paid to prepare the return must sign it and fill in the "Paid Preparer's Use Only" area.

The **paid preparer** must complete the required preparer information and—

• Sign the return, by hand, in the space provided for the preparer's signature. (Signature stamps and labels are not acceptable.)
• Give a copy of the return to the taxpayer.

Paid Preparer Authorization

If the cooperative wants to allow the IRS to discuss its 2001 tax return with the paid preparer who signed it, check the "Yes" box in the signature area of the return. This authorization applies only to the individual whose signature appears in the "Paid Preparer's Use Only" section of the cooperative's return. It does not apply to the firm, if any, shown in that return.

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

• Give the IRS any information that is missing from the return,
• Call the IRS for information about the processing of the return or the status of any related refund or payment(s), and
• Respond to certain IRS notices that the cooperative has shared with the preparer about math errors, offsets, and return preparation. The notices will not be sent to the preparer.

The cooperative is not authorizing the paid preparer to receive any refund check, bind the cooperative to anything (including any additional tax liability), or otherwise represent the cooperative before the IRS. If the cooperative wants to expand the paid preparer's authorization, see **Pub. 947,** Practice Before the IRS and Power of Attorney.

The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (excluding extensions) for filing the cooperative's 2002 tax return.

Where To File

File Form 990-C with the Internal Revenue Service, Ogden, UT 84201-0027.

Other Forms, Returns, Schedules and Statements That May Be Required

Forms

The cooperative may have to file some of the following forms. See the form for more information.

• **Form W-2,** Wage and Tax Statement, and **Form W-3,** Transmittal of Wage and Tax Statements. Use these forms to report wages, tips, and other compensation, and withheld income, social security, and Medicare taxes for employees.
• **Form 720,** Quarterly Federal Excise Tax Return. Use this form to report and pay luxury tax on passenger vehicles, environmental taxes, communications and air transportation taxes, fuel taxes, manufacturers taxes, ship passenger taxes, and certain other excise taxes.
• **Form 851,** Affiliations Schedule. The parent corporation of an affiliated group of corporations must attach this form to its consolidated return. If this is the first year one or more subsidiaries are being included in a consolidated return, also see **Form 1122,** Authorization and Consent of Subsidiary Corporation To Be Included in a Consolidated Income Tax Return, on page 3.
• **Form 926,** Return by a U.S. Transferor of Property to a Foreign Corporation. Use this form to report certain transfers to foreign corporations under section 6038B.
• **Form 940** or **Form 940-EZ,** Employer's Annual Federal Unemployment (FUTA) Tax Return. The cooperative may be liable for FUTA tax and may have to file Form 940 or Form 940-EZ if either of the following applies:

1. It paid wages of $1,500 or more in any calendar quarter in 2000 or 2001 or

2. It had at least one employee who worked for the cooperative for some part of a day in any 20 or more different weeks in 2000 or 20 more different weeks in 2001.

• **Form 941,** Employer's Quarterly Federal Tax Return or **Form 943,** Employer's Annual Tax Return for Agricultural Employees. Employers must file these forms to report income tax withheld, and employer and employee social security and Medicare taxes. Also, see **Trust fund recovery penalty** on page 5.

• **Form 945,** Annual Return of Withheld Federal Income Tax. File Form 945 to report income tax withheld from nonpayroll distributions or payments, including pensions, annuities, IRAs, gambling winnings, and backup withholding.

See **Trust fund recovery penalty** on page 5.

• **Form 966,** Corporate Dissolution or Liquidation. Use this form to report the adoption of a resolution or plan to dissolve the cooperative or liquidate any of its stock.

• **Form 1042,** Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, and

• **Form 1042-S,** Foreign Person's U.S. Source Income Subject to Withholding. Use these forms to report and send withheld tax on payments or distributions made to nonresident alien individuals, foreign partnerships, or foreign corporations to the extent these payments constitute gross income from sources within the United States (see sections 861 through 865).

Also see **Pub. 515,** Withholding of Tax on Nonresident Aliens and Foreign Entities, and sections 1441 and 1442.

• **Form 1096,** Annual Summary and Transmittal of U.S. Information Returns.

• **Form 1098,** Mortgage Interest Statement. Use this form to report the receipt from any individual of $600 or more of mortgage interest (including points) in the course of the cooperative's trade or business and reimbursements of overpaid interest.

• **Forms 1099.** Use these information returns to report the following:

1. Form 1099-A, Acquisition or Abandonment of Secured Property.

2. Form 1099-B, Proceeds From Broker and Barter Exchange Transactions.

3. Form 1099-DIV, Dividends and Distributions.

4. Form 1099-INT, Interest Income.

5. Form 1099-MISC, Miscellaneous Income. See this form to report payment: to certain fishing boat crew members; to providers of health and medical services; of rent or royalties; nonemployee compensation, etc.

Note. *Every cooperative must file Form 1099-MISC if it makes payments or rents, commissions, or other fixed or determinable income (see section 6041) totaling $600 or more to any one person in the course of its trade or business during the calendar year.*

6. Form 1099-OID, Original Issue Discount.

7. Form-PATR, Taxable Distributions Received from Cooperatives.

8. Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, or Insurance Contracts.

• **Form 1122,** Authorization and Consent of Subsidiary Corporation To Be Included in a Consolidated Income Tax Return. For the first year a subsidiary corporation is being included in a consolidated return, attach the completed form to the parent's consolidated return. Attach a separate Form 1122 for each subsidiary being included in the consolidated return.

• **Form 5452,** Corporate Report of Nondividend Distributions. Use this form to report nondividend distributions.

• **Form 5471,** Information Return of U.S. Persons With Respect to Certain Foreign Corporations. This form is required if the cooperative controls a foreign corporation; acquires, disposes of, or owns 10% or more in value or vote of the outstanding stock of a foreign corporation; or had control of a foreign corporation for an uninterrupted period of at least 30 days during the annual accounting period of the foreign corporation.

• **Form 5713,** International Boycott Report. Cooperatives that have operations in, or related to, certain "boycotting" countries file Form 5713.

• **Form 8264,** Application for Registration of a Tax Shelter. Tax shelter organizers use this form to receive a tax shelter registration number from the IRS.

• **Form 8271,** Investor Reporting of Tax Shelter Registration Number. Cooperatives which have acquired an interest in a tax shelter that is required to be registered, use this form to report the tax shelter's registration number. Attach Form 8271 to any tax return (including an application for tentative refund (Form 1139) and an amended return) on which a deduction, credit, loss, or other tax benefit attributable to a tax shelter is taken or any income attributable to a tax shelter is reported.

• **Form 8275,** Disclosure Statement, and **Form 8275-R,** Regulation Disclosure Statement. Disclose items or positions taken on a tax return that are not otherwise adequately disclosed on a tax return or that are contrary to Treasury regulations (to avoid parts of the accuracy-related penalty or certain preparer penalties).

• **Form 8300,** Report of Cash Payments Over $10,000 Received in a Trade or Business. Use this form to report the receipt of more than $10,000 in cash or foreign currency in one transaction or a series of related transactions.

• **Form 8302,** Direct Deposit of Tax Refund of $1 Million or More. This form must be filed to request a direct deposit of a tax refund of $1 million or more.

• **Form 8594,** Asset Allocation Statement Under Sections 338 and 1060. Cooperatives file this form to report the purchase or sale of a group of assets that constitute a trade or business if goodwill or going concern value could attach to the assets and if the buyer's basis in the assets is determined only by the amount paid for the assets.

• **Form 8810,** Corporate Passive Activity Loss and Credit Limitations. Closely held cooperatives (and cooperatives that are personal service corporations) must use this form to compute the passive activity loss and credit allowed under section 469.

• **Form 8842,** Election To Use Different Annualization Periods for Corporate Estimate Tax. Cooperatives use Form 8842 for each year they want to elect one of the annualization periods in section 6655(e)(2)(C) for figuring estimated tax payments under the annualized income installment method.

• **Form 8849,** Claim for Refund of Excise Taxes. Cooperatives use this form to claim a refund of certain excise taxes.

• **Form 8865,** Return of U.S. Persons With Respect to Certain Foreign Partnerships. A cooperative may have to file Form 8865 if it:

1. Controlled a foreign partnership (i.e., owned more than a 50% direct or indirect interest in the partnership).

2. Owned at least a 10% direct or indirect interest in a foreign partnership while U.S. persons controlled that partnership.

3. Had an acquisition, disposition, or change in proportional interest in a foreign partnership that:

a. Increased its direct interest to at least 10% or reduced its direct interest of at least 10% to less than 10%.

b. Changed its direct interest by at least a 10% interest.

4. Contributed property to a foreign partnership in exchange for a partnership interest if:

a. Immediately after the contribution, the cooperative owned, directly or indirectly, at least a 10% interest in the foreign partnership or

b. The fair market value of the property the cooperative contributed to the foreign partnership, when added to other contributions of property made to the foreign partnership during the preceding 12-month period, exceeds $100,000.

Also, the cooperative may have to file Form 8865 to report certain dispositions by a foreign partnership of property it previously contributed to that partnership if it was a partner at the time of the disposition. For more details, including penalties for failing to file Form 8865, see Form 8865 and its separate instructions.

Statements

Consolidated return. File supporting statements for each corporation included in the consolidated return. Do not use Form 990-C as a supporting statement. On the supporting statement, use

columns to show the following, both before and after adjustments:
- Items of gross income and deductions.
- A computation of taxable income.
- Balance sheets as of the beginning and end of the tax year.
- A reconciliation of income per books with income per return.
- A reconciliation of retained earnings.

Enter the totals for the consolidated group on Form 990-C. Attach consolidated balance sheets and a reconciliation of consolidated retained earnings. For more information on consolidated returns, see the regulations under section 1502.

Corporate tax shelters. A cooperative is required to disclose its participation in **certain** tax shelters:
- By attaching a **disclosure statement** to its income tax return for a reportable transaction for each tax year its income tax liability is affected by its participation in the transaction and
- For the first tax year a disclosure statement is attached to its tax return, by sending a copy of the disclosure statement to the Internal Revenue Service, Large & Mid-Size Business Division, LM:PFTG:OTSA, 1111 Constitution Ave., NW, Washington, DC 20224.

Disclosure is required for reportable transactions that are: **(a)** listed transactions that the IRS has identified as a tax avoidance transaction and **(b)** other reportable transactions that have tax shelter characteristics. A listed transaction must be reported if it is expected to reduce the taxpayer's income tax liability by more than $1 million in a single tax year or by a total of more than $2 million for any combination of years. For other reportable transactions, the threshold increases to $5 million for a single tax year or to $10 million for any combination of years. Generally, reporting is not required for customary business transactions or transactions with tax benefits that the IRS has no reasonable basis to challenge.

See Temporary Regulations section 1.6011-4T for details, including:
- The definition of a reportable transaction and a listed transaction,
- The relevant tax shelter characteristics for other reportable transactions,
- The form and content of the disclosure statement, and
- The filing requirements of the disclosure statement.

Also, see Notice 2001-51, 2001-34 I.R.B. 190, for certain listed transactions determined to have a tax avoidance purpose and the intended tax benefits that are subject to disallowance. The listed transactions in this notice may be updated from time to time when other tax avoidance transactions are identified.

Assembling the Return

To ensure that the cooperative's tax return is correctly processed, attach all schedules and other forms after page 5, Form 990-C, in the following order.

1. Form 8302.
2. Form 4136.
3. Form 4626.
4. Form 851.
5. Additional schedules in alphabetical order.
6. Additional forms in numerical order.

Complete every applicable entry space on Form 990-C. Do not write "See Attached" instead of completing the entry spaces. If more space is needed on the forms or schedules, attach separate sheets, using the same size and format as the printed forms. If there are supporting statements and attachments, arrange them in the same order as the schedules or forms they support and attach them last. Show the totals on the printed forms. Also, be sure to enter the cooperative's name and EIN on each supporting statement or attachment.

Accounting Methods

An accounting method is a set of rules used to determine when and how income and expenses are reported.

Figure taxable income using the method of accounting regularly used in keeping the cooperative's books and records. Generally, permissible methods include:
- Cash,
- Accrual, or
- Any other method authorized by the Internal Revenue Code.

In all cases, the method used must clearly show taxable income. If inventories are required, the accrual method must be used for sales and purchases of merchandise. However, qualifying taxpayers and eligible businesses of qualifying small business taxpayers are excepted from using the accrual method and may account for inventoriable items as materials and supplies that are not incidental. For details, see **Cost of Goods Sold** on page 12.

Generally, a cooperative must use the accrual method of accounting if its average annual gross receipts exceed $5 million. See section 448(c). A cooperative engaged in farming operations must also use the accrual method. For exceptions, see section 447.

Under the accrual method, an amount is includible in income when:
- All the events have occurred that fix the right to receive the income, which is the earliest of the date: **(a)** the required performance takes place, **(b)** payment is due, or **(c)** payment is received and
- The amount can be determined with reasonable accuracy.

See Regulations section 1.451-1(a) for details.

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year when:
- All events that determine the liability have occurred,
- The amount of the liability can be figured with reasonable accuracy, and
- Economic performance takes place with respect to the expense.

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

Long-term contracts (except for certain real property construction contracts) must generally be accounted for using the percentage of completion method described in section 460. See section 460 and the underlying regulations for general rules on long-term contracts.

Change in accounting method. Generally, the cooperative must get IRS consent to change the method of accounting used to report taxable income (for income as a whole or for any material item). To do so, it must file **Form 3115,** Application for Change in Accounting Method. For more information, see **Pub. 538,** Accounting Periods and Methods.

The cooperative may also have to make an adjustment to prevent amounts of income or expense from being duplicated or omitted. This is called a section 481(a) adjustment, which is taken into account over a period not to exceed 4 years.

Example. A cooperative changes to the cash method of accounting. It accrued sales in 2000 for which it received payment in 2001. It must report those sales in both years as a result of changing its accounting method and must make a section 481(a) adjustment to prevent duplication of income.

See Rev. Proc. 99-49, 1999-2 C.B. 725, to figure the amount of this adjustment for 2001. Include any positive section 481(a) adjustment on page 1, line 10. If the section 481(a) adjustment is negative, report it on page 1, line 26.

Completed crop pool method of accounting. Cooperatives may use the completed crop pool method of accounting for crop pools open before March 1, 1978. See section 1382(g) for more information.

Accounting Periods

A cooperative must figure its taxable income on the basis of a tax year. The tax year is the annual accounting period the cooperative uses to keep its records and report its income and expenses. Generally, cooperatives can use a calendar year or a fiscal year.

For more information about accounting periods, see Temporary Regulations sections 1.441-1T, 1.441-2T, and Pub. 538.

Calendar year. If the calendar year is adopted as the annual accounting period, the cooperative must maintain its books and records and report its income and expenses for the period from January 1 through December 31 of each year.

Fiscal year. A fiscal year is 12 consecutive months ending on the last day of any month except December. A 52–53-week year is a fiscal year that varies from 52 to 53 weeks.

Adoption of tax year. A cooperative adopts a tax year when it files its first income tax return. It must adopt a tax year by the due date (not including extensions) of its first income tax return.

Change in tax year. Generally, a cooperative must get the consent of the IRS before changing its tax year by filing **Form 1128,** Application To Adopt, Change, or Retain a Tax Year. However, under certain conditions, a cooperative may change its tax year without getting the consent. See Regulations section 1.442-1 and Pub. 538.

Rounding Off to Whole Dollars

The cooperative may show amounts on the return and accompanying schedules as whole dollars. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

Recordkeeping

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

The cooperative should also keep copies of all returns. They help in preparing future and amended returns.

Depository Method of Tax Payment

The cooperative must pay the tax due in full no later than the 15th day of the 9th month after the end of the tax year. The two methods of depositing cooperative income taxes are discussed below.

Electronic Deposit Requirement. The cooperative must make electronic deposits of **all** depository taxes (such as employment tax, excise tax, and corporate income tax) using the Electronic Federal Tax Payment System (EFTPS) in 2002 if:

- The total deposits of such taxes in 2000 were more than $200,000 or
- The cooperative was required to use EFTPS in 2001.

If the cooperative is required to use EFTPS and fails to do so, it may be subject to a 10% penalty. If the cooperative is not required to use EFTPS, it may participate voluntarily. To enroll in or get more information about EFTPS, call 1-800-555-4477 or 1-800-945-8400. To enroll online, visit **www.eftps.gov.**

Depositing on time. For EFTPS deposits to be made timely, the cooperative must initiate the transaction at least 1 business day before the date the deposit is due.

Deposits with Form 8109. If the cooperative does not use EFTPS, deposit cooperative income tax payments (and estimated tax payments) with **Form 8109,** Federal Tax Deposit Coupon. If you do not have a preprinted Form 8109, use Form 8109-B to make deposits. You can get this form by calling 1-800-829-1040. Be sure to have your EIN ready when you call.

Do not send deposits directly to an IRS office; otherwise, the cooperative may have to pay a penalty. Mail or deliver the completed Form 8109 with the payment to an authorized depositary, i.e., a commercial bank or other financial institution authorized to accept Federal tax deposits. Make checks or money orders payable to the depositary.

If the cooperative prefers, it may mail the coupon and payment to: Financial Agent, Federal Tax Deposit Processing, P.O. Box 970030, St. Louis, MO 63197. Make the check or money order payable to "Financial Agent."

To help ensure proper crediting, write the cooperative's EIN, the tax period to which the deposit applies, and "Form 990-C" on the check or money order. Be sure to darken the "990-C" box on the coupon. Records of these deposits will be sent to the IRS.

For more information on deposits, see the instructions in the coupon booklet (Form 8109) and **Pub. 583,** Starting a Business and Keeping Records.

CAUTION *If the cooperative owes tax when it files Form 990-C, do not include the payment with the tax return. Instead, mail or deliver the payment with Form 8109 to an authorized depositary or use EFTPS, if applicable.*

Estimated Tax Payments

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

- The cooperative must make installment payments of estimated tax if it expects its total tax for the year (less applicable credits) to be $500 or more.
- The installments are due by the 15th day of the 4th, 6th, 9th, and 12th months of the tax year. If any date falls on a Saturday, Sunday, or legal holiday, the installment is due on the next regular business day.
- Use **Form 1120-W,** Estimated Tax for Corporations, as a worksheet to compute estimated tax.
- If the cooperative does not use EFTPS, use the deposit coupons (Form 8109) to make deposits of estimated tax.

For more information on estimated tax payments, including penalties that apply if the cooperative fails to make required payments, see the instructions for line 33 on page 12.

Overpaid estimated tax. If the cooperative overpaid estimated tax, it may be able to get a quick refund by filing **Form 4466,** Corporation Application for Quick Refund of Overpayment of Estimated Tax. The overpayment must be at least 10% of expected income tax liability and be at least $500. File Form 4466 before the 16th day of the 3rd month after the end of the tax year, but before the cooperative files its tax return. Do not file Form 4466 before the end of the cooperative's tax year.

Interest and Penalties

Interest. Interest is charged on taxes paid late even if an extension of time to file is granted. Interest is also charged on penalties imposed for failure to file, negligence, fraud, gross valuation overstatements, and substantial understatements of tax from the due date (including extensions) to the date of payment. The interest charge is figured at a rate determined under section 6621.

Penalty for late filing of return. A cooperative that does not file its tax return by the due date, including extensions, may be penalized 5% of the unpaid tax for each month or part of a month the return is late, up to a maximum of 25% of the unpaid tax. The minimum penalty for a return that is over 60 days late is the smaller of the tax due or $100. The penalty will not be imposed if the cooperative can show that the failure to file on time was due to reasonable cause. Cooperatives that file late must attach a statement explaining the reasonable cause.

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

Trust fund recovery penalty. This penalty may apply if certain excise, income, social security, and Medicare taxes that must be collected or withheld are not collected or withheld, or these taxes are not paid to the IRS. These taxes are generally reported on Forms 720, 941, 943, or 945 (see **Other Forms, Returns, and Statements That May Be Required** on page 2). The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to have been responsible for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so. The penalty is equal to the unpaid trust fund tax. See the instructions for Form 720, **Pub. 15** (Circular E), Employer's Tax Guide, or **Pub. 51** (Circular A), Agricultural Employer's Tax Guide, for details, including the definition of responsible persons.

Other penalties. Other penalties can be imposed for negligence, substantial understatement of tax, and fraud. See sections 6662 and 6663.

Specific Instructions

Period Covered

File the 2001 return for calendar year 2001 and fiscal years that begin in 2001 and end in 2002. For a fiscal year return, fill in the tax year space at the top of the form.

Note. *The 2001 Form 990-C may also be used if:*

- *The cooperative has a tax year of less than 12 months that begins and ends in 2002 and*
- *The 2002 Form 990-C is not available at the time the cooperative is required to file its return.*

The cooperative must show its 2002 tax year on the 2001 Form 990-C and take into account any tax law changes that are effective for tax years beginning after December 31, 2001.

Address

Include the suite, room, or other unit number after the street address. If a preaddressed label is used, include this information on the label.

If the Post Office does not deliver mail to the street address and the cooperative has a P.O. box, show the box number instead of the street address.

Item A—Business Activity With the Largest Total Receipts

Identify the business activity from which the cooperative receives the largest total receipts (e.g., wholesale marketing of meat, drying fruit, grain storage, wholesale purchasing of fertilizers, cattle breeding, etc.).

Item B—Employer Identification Number (EIN)

Enter the cooperative's EIN. If the cooperative does not have an EIN, it must apply for one on **Form SS-4,** Application for Employer Identification Number. If the cooperative has not received its EIN by the time the return is due, write "Applied for" in the space for the EIN. See Pub. 583 for details.

Item C—Consolidated Return

Cooperative's filing a consolidated return must attach Form 851 and other supporting statements to the return. For details, see "Other Forms, Returns, and Statements That May Be Required," on page 2. Do not check this box if the "Section 521" box is checked in Item D.

Item D—Type of Cooperative

Check the "Tax exempt " (section 521) box if the cooperative is a tax-exempt farmers', fruit growers', or like association, organized and operated on a cooperative basis and is described in section 521.

If the cooperative has submitted **Form 1028,** Application for Recognition of Exemption, but has not received a determination letter from the IRS, check the "Tax exempt " (section 521) box, and write "Application Pending" at the top of page 1 of Form 990-C.

All other farmers', etc., cooperatives organized and operated as described under "Who Must File" on page 2 of the instructions should check the "Nonexempt" box.

Cooperatives organized and operated for purposes other than those described, such as to purchase food for members, should **not** file Form 990-C. See the instructions for **Form 1120,** U.S. Corporation Income Tax Return, for information about filing requirements.

Item E—Initial Return, Final Return, Name Change, Address Change, or Amended Return

- If this is the cooperative's first return, check the "Initial return" box.
- If the cooperative ceases to exist, file Form 990-C and check the "Final return" box.
- If the cooperative changed its name since it last filed a return, check the box for "Name change." Generally, a cooperative also must have amended its articles of incorporation and filed the amendment with the state in which it was incorporated.
- If the cooperative has changed its address since it last filed a return, check the box for "Address change."

Note. *If a change in address occurs after the return is filed, use **Form 8822,** Change of Address, to notify the IRS of the new address.*

Income

Except as otherwise provided in the Internal Revenue Code, gross income includes all income from whatever source derived. Gross income, however, does not include extraterritorial income that is qualifying foreign trade income. Use **Form 8873,** Extraterritorial Income Exclusion, to figure the exclusion. Report it on Form 990-C as explained in the Instructions for Form 8873.

Line 1. Gross receipts or sales. Enter gross receipts or sales from all business operations except those required to be reported on lines 4a through 10. In general, advance payments are reported in the year of receipt. To report income from long-term contracts, see section 460. For special rules for reporting certain advance payments for goods and long-term contracts, see Regulations section 1.451-5. For permissible methods for reporting certain advance payments for services by an accrual method cooperative, see Rev. Proc. 71-21, 1971-2 C.B. 549.

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

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

For sales of timeshares and residential lots reported under the installment method, the cooperative's income tax is increased by the interest payable under section 453(l)(3). To report this addition to tax, see the instructions for line 9, Schedule J.

Enter on line 1 (and carry to line 3), the gross profit on collections from installment sales for any of the following:

- Dealer dispositions of property before March 1, 1986.
- Dispositions of property used or produced in the trade or business of farming.
- Certain dispositions of timeshares and residential lots reported under the installment method.

Attach a schedule showing the following information for the current and the 3 preceding years: **(a)** gross sales, **(b)** cost of goods sold, **(c)** gross profits, **(d)** percentage of gross profits to gross sales, **(e)** amount collected, and **(f)** gross profit on the amount collected.

Nonaccrual experience method. Accrual method taxpayers need not accrue certain amounts to be received from the performance of services that, on the basis of their experience, will not be collected (section 448(d)(5)). This provision does not apply to any amount if interest is required to be paid on the amount or if there is any penalty for failure to timely pay the amount. Cooperatives that fall under this provision should attach a schedule showing total gross receipts, the amount not accrued as a result of the application of section 448(d)(5), and the net amount accrued. Enter the net amount on line 1a. For more information and guidelines on this "nonaccrual experience method," see Temporary Regulations section 1.448-2T.

Note. *Certain cooperatives that have gross receipts of $10 million or more and have patronage and nonpatronage source* *income and deductions, must complete and attach* ***Form 8817,*** *Allocation of Patronage and Nonpatronage Income and Deductions, to their return.*

Line 2. Cost of goods sold. Enter the cost of goods sold on line 2, page 1. Before making this entry, complete Schedule A on page 3 of Form 990-C. See the Schedule A instructions on page 12.

Line 4a. Income from patronage dividends and per-unit retain allocations. Attach a schedule listing the name of each declaring association from which the cooperative received income from patronage dividends and per-unit retain allocations, and the total amount received from each association.

Include on the schedule the items listed in 1 through 6 below:

1. Patronage dividends received in:

- Money,
- Qualified written notices of allocation, or
- Other property (except nonqualified written notices of allocation).

2. Nonpatronage distributions received on a patronage basis from tax-exempt farmers' cooperatives in:

- Money,
- Qualified written notices of allocation, or
- Other property (except nonqualified written notices of allocation), based on earnings of that cooperative either from business done with or for the United States or any of its agencies (or from sources other than patronage, such as investment income).

3. Qualified written notices of allocation at their stated dollar amounts and property at its fair market value (FMV).

4. Amounts received on the **redemption, sale, or other disposition of nonqualified written notices of allocation**.

Generally, patronage dividends from purchases of capital assets or depreciable property are not includible in income but must be used to reduce the basis of the assets. See section 1385(b) and the related regulations.

5. Amounts received (or the stated dollar value of qualified per-unit retain certificates received) from the sale or redemption of **nonqualified per-unit retain certificates**.

6. Per-unit retain allocations received (except nonqualified per-unit retain certificates). See section 1385.

Note. *Payments from the Commodity Credit Corporation to a farmers' cooperative for certain expenses of the co-op's farmers-producers under a "reseal" program of the U.S. Department of Agriculture are patronage-source income that may give rise to patronage dividends under section 1382(b)(1). See Rev. Rul. 89-97, 1989-2 C.B. 217, for more information.*

Line 4b. Dividends. See the instructions for Schedule C on page 13, then complete Schedule C and enter on line 4b, the amount from Schedule C, line 17.

Line 5. Interest. Enter taxable interest on U.S. obligations and on loans, notes, mortgages, bonds, bank deposits, corporate bonds, tax refunds, etc.

Do not offset interest expense against interest income.

Special rules apply to interest income from certain below-market rate loans. See section 7872 for more information.

Note. *Interest income is generally nonpatronage income to nonexempt cooperatives (Regulations section 1.1382-3(c)(2)). As such, a patronage dividend deduction may not be deductible from interest expense.*

Line 6. Gross rents. Enter the gross amount received from the rental of property. Deduct expenses such as repairs, interest, taxes, and depreciation on the proper lines for deductions.

Generally, gross rents are considered nonpatronage income to nonexempt cooperatives (Regulations section 1.1382-3(c)(2)). As such, a patronage dividend deduction may not be deductible from rental expense.

Line 8. Capital gain net income. Every sale or exchange of a capital asset must be reported in detail on **Schedule D (Form 1120),** Capital Gains and Losses, even if there is no gain or loss. Generally, capital gains and losses are considered nonpatronage source.

Line 10. Other income. Enter any other taxable income not reported on lines 1 through 9. List the type and amount of income on an attached schedule. If the cooperative has only one item of other income, describe it in parentheses on line 10. Examples of other income to report on line 10 are:

- Recoveries of bad debts deducted in prior years under the specific charge-off method.
- The amount of credit for alcohol used as fuel (determined without regard to the limitation based on tax) that was entered on **Form 6478,** Credit for Alcohol Used as Fuel.
- Refunds of taxes deducted in prior years to the extent they reduced income subject to tax in the year deducted (see section 111). Do not offset current year taxes against tax refunds.
- The amount of any deduction previously taken under section 179A that is subject to recapture. The cooperative must recapture the benefit of any allowable deduction for clean-fuel vehicle property (or clean-fuel vehicle refueling property), if, within 3 years of the date the property was placed in service, it ceases to qualify. See Regulations section 1.179A-1 for details.
- For cooperatives described in section 1381 that are shareholders in a FSC, include the nonexempt portion of foreign trade income from the sale or other disposition of agricultural or horticultural products by the FSC for the tax year that includes the last day of the FSC's tax year, even though the FSC is not required to distribute such income until the due date of its income tax return.
- Ordinary income from trade or business activities of a partnership (from Schedule K-1 (Form 1065 or 1065-B)). Do not offset ordinary losses against ordinary income. Instead, include the losses on line 26, Form 990-C. Show the partnership's name, address, and EIN on a separate statement attached to this return. If the amount entered is from more than one partnership, identify the amount from each partnership.

Deductions

Limitations on deductions

Section 263A uniform capitalization rules. The uniform capitalization rules of section 263A require cooperatives to capitalize or include in inventory, certain costs incurred in connection with:

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

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

Cooperatives subject to the rules are required to capitalize not only direct costs but an allocable part of most indirect costs (including taxes) that **(a)** benefit the assets produced or acquired for resale or **(b)** are incurred by reason of the performance of production or resale activities.

For inventory, some of the **indirect expenses** that must be capitalized are:

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

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

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

The costs required to be capitalized under section 263A are not deductible until the property (to which the costs relate) is sold, used, or otherwise disposed of by the cooperative.

Exceptions.

Section 263A **does not** apply to:

- Personal property acquired for resale if the cooperative's average annual gross receipts for the 3 prior tax years were $10 million or less.
- Timber.
- Most property produced under a long-term contract.
- Certain property produced in a farming business.
- Research and experimental costs under section 174.
- Intangible drilling costs for oil, gas, and geothermal property.
- Mining exploration and development costs.
- Inventoriable items accounted for in the same manner as materials and supplies that are not incidental. See **Cost of Goods Sold** on page 12 for details.

For more details on the uniform capitalization rules, see Regulations sections 1.263A-1 through 1.263A-3. See Regulations section 1.263A-4 for rules for property produced in a farming business.

Transactions between related taxpayers. Generally, an accrual basis taxpayer may only deduct business expenses and interest owed to a related party in the year payment is included in income of the related party. See sections 163(e)(3), 163(j), and 267 for the limitations on deductions for unpaid interest and expenses.

Section 291 limitations. Cooperatives may be required to adjust deductions for depletion of iron ore and coal, intangible drilling, exploration and development costs, and the amortizable basis of pollution control facilities. See section 291 to determine the amount of the adjustment. Also see section 43.

Golden parachute payments. A portion of the payments made by a cooperative to key personnel that exceeds their usual compensation may not be deductible. This occurs when the cooperative has an agreement (golden parachute) with these key employees to pay them these excess amounts if control of the cooperative changes. See section 280G.

Business start-up expenses. Business start-up expenses must be capitalized unless an election is made to amortize them over a period of 60 months. See section 195 and Regulations section 1.195-1.

Passive activity limitations. Limitations on passive activity losses and credits under section 469 apply to closely held cooperatives.

For this purpose, a cooperative is a **closely held cooperative** if at any time during the last half of the tax year more than 50% in value of its outstanding stock is owned, directly or indirectly, by or for not more than 5 individuals. Certain organizations are treated as individuals for purposes of this test. See section 542(a)(2). For rules of determining stock ownership, see section 544 (as modified by section 465(a)(3)).

Generally, the two kinds of passive activities are:

- Trade or business activities in which the cooperative did not materially participate (see Temporary Regulations section 1.469-1T(g)(3)) and
- Rental activities regardless of its participation.

For exceptions, see Form 8810.

An activity is a trade or business activity if it is not a rental activity, and

- The activity involves the conduct of a trade or business (i.e., deductions from the activity would be allowable under section 162 if other limitations, such as the passive loss rules, did not apply) or
- The activity involves research and experimental costs that are deductible under section 174 (or would be deductible if the cooperative chose to deduct rather than capitalize them).

Cooperatives subject to the passive activity limitations must complete Form 8810 to compute their allowable passive activity loss and credit. Before completing Form 8810, see Temporary Regulations section 1.163-8T, which provides rules for allocating interest expense among activities. If a passive activity is also subject to the earnings stripping rules of section 163(j) or the at-risk rules of section 465, those rules apply before the passive loss rules. For more information, see section 469, the related regulations, and **Pub. 925,** Passive Activity and At-Risk Rules.

Reducing certain expenses for which credits are allowable. For each credit listed below, the cooperative must reduce the otherwise allowable deductions for expenses used to figure the credit by the amount of the current year credit:

- Work opportunity credit.
- Research credit.
- Enhanced oil recovery credit.
- Disabled access credit.
- Empowerment zone employment credit.
- Indian employment credit.
- The employer credit for social security and Medicare taxes paid on certain employee tips.
- Orphan drug credit.
- Welfare-to-work credit.

If the cooperative has any of these credits, figure each current year credit before figuring the deduction for expenses on which the credit is based.

Line 12. Compensation of officers. Enter deductible officer's compensation on line 12. Before entering an amount on line 12, complete Schedule E if the cooperative's total receipts (line 1a plus lines 4 through 10, page 1) are $500,000 or more. Do not include compensation deductible elsewhere on the return, such as amounts included in cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement or a SIMPLE IRA plan.

Include only the deductible part of each officers' compensation on Schedule E. (See **Disallowance of deduction for employee compensation in excess of $1 million** below). Complete Schedule E, line 1, columns (a) through (f), for all officers. The cooperative determines who is an officer under the laws of the state where it is incorporated.

If a consolidated return is filed, each member of an affiliated group must furnish this information.

Disallowance of deduction for employee compensation in excess of $1 million. Publicly held cooperatives may not deduct compensation to a "covered employee" to the extent that the compensation exceeds $1 million.

For details, see section 162(m) and Regulations section 1.162-27.

Line 13. Salaries and wages. Enter the amount of salaries and wages paid for the tax year, reduced by:

- Any work opportunity credit from Form 5884,
- Any empowerment zone employment credit from Form 8844,
- Any Indian employment credit from Form 8845, and
- Any welfare-to-work credit from Form 8861.

See the instructions for these forms for more information. Do not include salaries and wages deductible elsewhere on the return, such as amounts included in cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement or a SIMPLE IRA plan.

CAUTION *If the cooperative provided taxable fringe benefits to its employees, such as personal use of a car, do not deduct as wages the amount allocated for depreciation and other expenses claimed on lines 20 and 26.*

Line 14. Repairs and maintenance. Enter the cost of incidental repairs, such as labor and supplies, that do not add to the value of the property or appreciably prolong its life. New buildings, machinery, or permanent improvements that increase the value of the property are not deductible. They must be depreciated or amortized.

Line 15. Bad debts. Enter the total debts that became worthless in whole or in part during the tax year. A cash method taxpayer may not claim a bad debt deduction unless the amount was previously included in income.

Line 17. Taxes and licenses. Enter taxes paid or accrued during the tax year, but **do not include** the following:

- Federal income taxes.
- Foreign or U.S. possession income taxes if a tax credit is claimed (however, see the Instructions for Form 5735 for special rules for possession income taxes).

- Taxes not imposed on the cooperative.
- Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (these taxes must be treated as part of the cost of the acquired property, or in the case of a disposition, as a reduction in the amount realized on the disposition).
- Taxes assessed against local benefits that increase the value of the property assessed (such as for paving, etc.).
- Taxes deducted elsewhere on the return, such as those reflected in cost of goods sold.

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

Line 18. Interest.

Note. *The deduction for interest is limited when the cooperative is a policyholder or beneficiary with respect to a life insurance, endowment, or annuity contract issued after June 8, 1997. For details, see section 264(f). Attach a statement showing the computation of the deduction.*

Do not deduct the following interest:

- Interest on indebtedness incurred or continued to purchase or carry obligations the interest on which is wholly exempt from income tax. For exceptions, see section 265(b).
- For cash basis taxpayers, prepaid interest allocable to years following the current tax year (e.g., a cash basis calendar year taxpayer who in 2001 prepaid interest allocable to any period after 2001 can deduct only the amount allocable to 2001).
- Interest and carrying charges on straddles. Generally, these amounts must be capitalized. See section 263(g).
- Interest on debt allocable to the production of designated property by a cooperative for its own use or for sale. This interest must be capitalized. A cooperative must also capitalize any interest on debt allocable to an asset used to produce the above property. See section 263A(f) and Regulations sections 1.263A-8 through 1.263A-15 for definitions and more information.

Special rules apply to:

- Interest on which no tax is imposed (see section 163(j)).
- Forgone interest on certain below-market-rate loans (see section 7872).
- Original issue discount on certain high yield discount obligations (see section 163(e) to figure the disqualified portion).

Line 19. Charitable contributions. Enter contributions or gifts actually paid in the tax year to or for the use of charitable and governmental organizations described in section 170(c) and any unused contributions carried over from prior years.

Cooperatives reporting taxable income on the accrual method may elect to treat as paid during the tax year any contributions paid by the 15th day of the 3rd month after the end of the tax year if the contributions were authorized by the board of directors during the current tax year. Attach a declaration to the return, signed by an officer, stating that the resolution authorizing the contributions was adopted by the board of directors during the current tax year. Also, attach a copy of the resolution.

Limitation on deduction. The total amount claimed may not be more than 10% of taxable income (line 30) computed without regard to the following:

- Any deduction for contributions;
- The special deductions on line 29b, Form 990-C;
- Any net operating loss (NOL) carryback to the tax year under section 172;
- Any capital loss carryback to the tax year under section 1212(a)(1); and
- The deduction allowed under section 249.

Carryover. Charitable contributions over the 10% limitation may not be deducted for the tax year but may be carried over to the next 5 tax years.

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

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

Substantiation requirements. Generally, no deduction is allowed for any contribution of $250 or more unless the cooperative gets a written acknowledgment from the donee organization that shows the amount of cash contributed, describes any property contributed and gives an estimate of the value of any goods or services provided in return for the contribution. The acknowledgment must be obtained by the due date (including extensions) of the cooperative's return, or, if earlier, the date the return is filed. Do not attach the acknowledgment to the tax return, but keep it with the cooperative's records. These rules apply in addition to the filing requirements for **Form 8283,** Noncash Charitable Contributions described below.

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

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

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

Contributions of property other than cash. If a cooperative contributes property other than cash and claims over a $500 deduction for the property, it must attach a schedule to the return describing the kind of property contributed and the method used to determine its fair market value (FMV). Generally, cooperatives must complete and attach Form 8283 to their returns for all contributions of property (other than money) if the total claimed deduction for all property contributed was more than $5,000.

If the cooperative made a "qualified conservation contribution" under section 170(h), also include the FMV of the underlying property before and after the donation, as well as the type of legal interest contributed, and describe the conservation purpose benefited by the donation.

If a contribution carryover was included, show the amount and how it was determined.

Reduced deduction for contributions of certain property. For a charitable contribution of property, the cooperative must reduce the contribution by the sum of:

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

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

- Contributions of tangible personal property for use by an exempt organization for a purpose or function unrelated to the basis for its exemption and
- Contributions of any property to or for the use of certain private foundations, except for stock, for which market quotations are readily available (section 170(e)(5)).

Larger deduction. A larger deduction is allowed for certain contributions of:

- Inventory and other property to certain organizations for use in the care of the ill, needy, or infants (see section 170(e)(3) and Regulations section 1.170A-4A);
- Scientific equipment used for research to institutions of higher learning or to certain scientific research organizations (other than by personal holding companies and service organizations) (see section 170(e)(4)); and
- Computer technology and equipment for educational purposes.

Contributions of computer technology and equipment for educational purposes. A cooperative may take an increased deduction under section 170(e)(6) for qualified contributions of computer technology or equipment for educational purposes.

Computer technology or equipment means computer software, computer or peripheral equipment, and fiber optic cable related to computer use. A contribution is a qualified contribution if:

- It is made to an eligible donee (see below);
- Substantially all of the donee property's use is:

1. Related to the purpose or function of the donee;

2. For use within the United States; and

3. For educational purposes.

- The contribution is made not later than 3 years after the date the taxpayer acquired or substantially completed the construction of the property;
- The original use of the property is by the donor or the donee;
- The property is not transferred by the donee for money, services, or other property, except for shipping, transfer, and installation costs;
- The property fits productively into the donee's education plan; and
- The property meets standards, if any, that may be prescribed by future regulations, to assure it meets minimum functionality and suitability for educational purposes.

Eligible donee. The term "eligible donee" means:

- An educational organization that normally maintains a regular faculty and curriculum and has a regularly enrolled body of pupils in attendance at the place where its educational activities are regularly conducted,
- A section 501(c)(3) entity organized primarily for purposes of supporting elementary and secondary education, or
- A public library (as described in section 170(e)(6)(B)(i)(III).

Exceptions. The following exceptions apply to the above rules for computer technology and equipment:

- Contributions to private foundations may qualify if the foundation contributes the property to an eligible donee within 30 days after the contribution and notifies the donor of the contribution. For details see section 170(e)(6)(C).
- For contributions of property reacquired by the manufacturer of the property, the 3 year period begins on the date that the original construction of the property was substantially completed. Also, the original use of the property may be by someone other than the donor or the donee.

Line 20. Depreciation. Besides depreciation, include on line 20 the part of the cost that the cooperative elected to expense under section 179 for certain tangible property placed in service during tax year 2001 or carried over from 2000. See **Form 4562,** Depreciation and Amortization, and its instructions.

Line 22. Depletion. See sections 613 and 613A for percentage depletion rates applicable to natural deposits. Also, see section 291 for the limitation on the depletion deduction for iron ore and coal (including lignite).

Attach **Form T (Timber),** Forest Activities Schedules, if a deduction for depletion of timber is taken.

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

Line 24. Pension, profit-sharing, etc., plans. Enter the deduction for contributions to qualified pension, profit-sharing, or other funded deferred compensation plans. Employers who maintain such a plan generally must file one of the forms listed below, even if the plan is not a qualified plan under the Internal Revenue Code. The filing requirement applies even if the cooperative does not claim a deduction for the current tax year. There are penalties for failure to file these forms on time and for overstating the pension plan deduction. See sections 6652(e) and 6662(f).

Form 5500, Annual Return/Report of Employee Benefit Plan. File this form for a plan that is not a one-participant plan (see below).

Form 5500-EZ, Annual Return of One-Participant (Owners and Their Spouses) Retirement Plan. File this form for a plan that only covers the owner (or the owner and his or her spouse) but only if the owner (or the own and his or her spouse) owns the entire business.

Line 25. Employee benefit programs. Enter the contributions to employee benefit programs not claimed elsewhere on the return (e.g., insurance, health and welfare programs, etc.) that are not an incidental part of a pension, profit-sharing, etc., plan included on line 24.

Line 26. Other deductions.

Attach a schedule, listing by type and amount, all allowable deductions that are not deductible elsewhere on Form 990-C.

Examples of amounts to include:

- Amortization of pollution control facilities, organization expenses, etc. See Form 4562.
- Insurance premiums.
- Legal and professional fees.
- Supplies used and consumed in the business.
- Utilities.
- Ordinary losses from trade or business activities of a partnership (from Schedule K-1 (Form 1065 or 1065-B). Do not offset ordinary losses against ordinary income. Instead, include the income on line 10. Show the partnership's name, address, and EIN on a separate statement attached to this return. If the amount entered is from more than one partnership, identify the amount from each partnership.

Also see **Special rules** below for limits on certain other deductions.

Do not deduct:

- Fines or penalties paid to a government for violating any law.
- Any amount that is allocable to a class of exempt income. See section 265(b) for exceptions.

Special rules apply to the following expenses.

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

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

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

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

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

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

Membership dues. The cooperative may deduct amounts paid or incurred for membership dues in civic or public service organizations, professional organizations, business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards, unless a principal purpose of the organization is to entertain or provide entertainment facilities for members or their guest. In addition, cooperatives may not deduct membership dues in any club organized for business, pleasure, recreation, or other social purpose. This includes country clubs, golf and athletic clubs, airline and hotel clubs, and clubs operated to provide meals under conditions favorable to business discussion.

Entertainment facilities. The cooperative cannot deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) used for an activity that is usually considered entertainment, amusement, or recreation.

Note. *The cooperative may be able to deduct the otherwise nondeductible expense if the amount is treated as compensation and reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.*

Deduction for clean-fuel vehicles and certain refueling property. Section 179A allows a deduction for part of the cost of qualified clean-fuel vehicle property and qualified clean-fuel vehicle refueling property placed in service during the tax year. For more information, see Pub. 535.

Lobbying expenses. Generally, lobbying expenses are not deductible. These expenses include:
- Amounts paid or incurred in connection with influencing Federal or state legislation (but not local legislation) or
- Amounts paid or incurred in connection with any communication with certain Federal executive branch officials in an attempt to influence the official actions or positions of the officials. See Regulations section 1.162-29 for the definition of "influencing legislation."

Dues and other similar amounts paid to certain tax-exempt organizations may not be deductible. See section 162(e)(3). If certain in-house expenditures do not exceed $2,000, they are deductible. For information on contributions to charitable organizations that conduct lobbying activities, see the instructions for line 19. For more information on lobbying expenses, see section 162(e).

Line 28
Taxable income before NOL deduction and special deductions

At-risk rules. Special at-risk rules under section 465 generally apply to closely held cooperatives (see **Passive activity limitations** on page 8) engaged in any activity as a trade or business or for the production of income. These cooperatives may have to adjust the amount on line 28, Form 990-C. The at-risk rules do not apply to the following:
- Holding real property placed in service by the cooperative before 1987;
- Equipment leasing under sections 465(c)(4), (5), and (6); and
- Any qualifying business of a qualified cooperative under section 465(c)(7).

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

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

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

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

Line 29a. Net operating loss deduction. A cooperative may use the net operating loss (NOL) incurred in one tax year to reduce its taxable income in another year. Generally, a cooperative may carry an NOL back to each of the 2 years, preceding the year of the loss and then carry any remaining amount over to each of the 20 years (15 years for NOLs incurred in tax years beginning before August 6, 1997) following the year of the loss (see **Waiving the carryback period** below). For exceptions to the general rule, see ***Special carryback periods for certain losses*** below. Enter on line 29a, the total NOL carryovers from prior tax years, but do not enter more than the cooperative's taxable income (after special deductions). An NOL deduction cannot be taken in a year in which the cooperative has negative taxable income. Attach a schedule showing the computation of the NOL deduction. Also complete item 20 on Schedule N.

For details on the NOL deduction, see **Pub. 542,** Corporations.

Carryback and carryover rules. To carry back the loss and obtain a quick refund of taxes, use **Form 1139,** Corporation Application for Tentative Refund. Form 1139 must be filed within 12 months after the close of the tax year of the loss. See section 6411 for details. Do not attach Form 1139 to the cooperative's income tax return. Mail it in a separate envelope to the Ogden Service Center.

For carryback claims filed later than 12 months after the close of the tax year of the loss, file an amended Form 990-C, instead of Form 1139.

After the cooperative has applied the NOL to the first tax year to which it may be carried, the taxable income of that year is modified (as described in section 172(b)) to determine how much of the remaining loss may be carried to other years. See section 172(b) and the related regulations for details.

Special NOL rules apply when:
- An ownership change occurs (i.e., the amount of the taxable income of a loss cooperative that can be offset by pre-change NOL carryovers is limited). See section 382 and the related regulations. Also see Temporary Regulations section 1.382-2T(a)(2)(ii), which requires that a loss cooperative file an information statement with its income tax return for each tax year that it is a loss cooperative and certain shifts in ownership occurred. Also see Regulations section 1.382-6(b) for details on how to make the closing-of-the-books election.
- A cooperative acquires control of another cooperative (or acquires its assets in a reorganization) and the amount of pre-acquisition losses that may offset recognized built-in gains is limited. See section 384.

Waiving the carryback period. A cooperative may make an irrevocable election to waive the carryback period and instead carry the NOL forward to years following the year of the loss. To make this election, check the box in item 19 on Schedule N. To be valid, the election must be made by the due date (including extensions) for filing Form 990-C.

Special carryback periods for certain losses. The regular 2 year carryback period generally does not apply to the following losses.
- **Specified liability losses,** including a product liability loss. The part of an NOL that is attributable to a specified liability loss may be carried back 10 years. The cooperative may, however, elect to treat such a loss as if it were not a specified liability loss. If the cooperative makes this election, the loss carryback period will be 2, 3, or 5 years, whichever applies. Make the election by attaching a statement to a timely filed return including extensions; however, see **Exception** below. Also see section 172(b)(1)(C).
- **Farming losses.** An NOL attributable to any farming business may be carried back 5 years. However, the cooperative may elect to treat the loss as if it were not a farming loss. If the cooperative makes this election, the loss carryback period will be 2 or 3 years, whichever applies. Make the election by attaching a statement to a timely filed return (including extensions; however, see **Exception**). Also see section 172(b)(1)(G) and 172(i).

Exception. If the cooperative timely filed its return for the loss year without making the election (see **Specified liability losses** or **Farming losses** above), the cooperative may still make the election by filing an amended return within 6 months of the due date of the loss year return (excluding extensions). Attach the election to the amended return and write "Filed pursuant to section 301.9100-2" on the election statement. File the amended return at the same address the original return was filed. Once made, the election is irrevocable.

Eligible losses. The part of an NOL that is attributable to an eligible loss may be carried back 3 years. An "eligible loss" is an NOL attributable to a Presidentially declared disaster if, for the tax year in which the NOL arose, the cooperative was **(a)** engaged in a farming business or **(b)** a small business that met the gross receipts test of section 448(c). An eligible loss does not include any farming loss or specified liability loss described above.

Line 30. Taxable income. For cooperatives required to file Form 8817, taxable income reported on line 30 may not exceed the combined taxable income shown on line 30, Form 8817. Attach Form 8817 to the cooperative's tax return. See Form 8817 for more details.

Patronage source losses cannot be used to offset nonpatronage income. See section 1388(j) for more information.

Line 32b. Estimated tax payments. Enter any estimated tax payments the cooperative made for the tax year.

Beneficiaries of trusts. If the cooperative is the beneficiary of a trust, and the trust makes a section 643(g) election to credit its estimated tax payments to its beneficiaries, include the cooperative's share of the estimated tax payment in the total amount entered on line 32b. Write "T" and the amount of the payment in the blank space to the right of the entry space.

Line 32f. Credit from refiguring tax for years in which nonqualified per-unit retain certificates or nonqualified written notices of allocation (redeemed this year) were issued. If the cooperative paid less total tax by not claiming the deduction for the redemption of nonqualified written notices of allocation or nonqualified per-unit retain certificates in the current tax year, and instead the cooperative refigured the tax for the years the nonqualified written notices or certificates were originally issued, enter the amount of the reduction in the issue years' taxes on this line. Attach a schedule showing how the credit was figured. This credit is treated as a payment, and any amount that is more than the tax on line 31 will be refunded.

Line 32g. Credit for federal tax on fuels. Complete **Form 4136,** Credit for Federal Tax Paid on Fuels, if the cooperative qualifies to take this credit.

Line 32h. Total payments. Add the amounts on lines 32d through 32g and enter the total on line 32h.

Backup withholding. If the cooperative had income tax withheld from any payments it received, because, for example, it failed to give the payer its correct EIN, include the amount withheld in the total for line 32h. This type of withholding is called backup withholding. Show the amount withheld in the blank space in the right-hand column between lines 31 and 32h, and write "Backup Withholding."

Line 33. Estimated tax penalty. A cooperative that does not make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. Generally, a cooperative is subject to the penalty if its tax liability is $500 or more and it did not timely pay the smaller of:
- Its tax liability for 2001 or
- Its prior year's tax.

See section 6655 for details and exceptions including special rules for large cooperatives.

Use **Form 2220,** Underpayment of Estimated Tax by Corporations, to see if the cooperative owes a penalty and to figure the amount of the penalty. Generally, the cooperative does not have to file this form because the IRS can figure the amount of any penalty and bill the cooperative for it. However, even if the cooperative does not owe the penalty complete and attach Form 2220 if:
- The annualized income or adjusted seasonal installment method is used or
- The cooperative is a large cooperative computing its first required installment based on the prior year's tax. (See the Instructions for Form 2220 for the definition of a large corporation.)

If Form 2220 is attached, check the box on line 33, and enter the amount of any penalty on this line.

Line 36. Direct deposit of refund. If the cooperative has a refund of $1 million or more and wants it directly deposited into its checking or savings account at any U.S. bank or other financial institution instead of having a check sent to the cooperative, complete Form 8302 and attach it to the cooperative's tax return.

Schedule A

Cost of Goods Sold

Generally, inventories are required at the beginning and end of each tax year if the production, purchase, or sale of merchandise is an income-producing factor. See Regulations section 1.471-1.

However, if the cooperative is a qualifying taxpayer, it may adopt or change its accounting method to account for inventoriable items in the same manner as materials and supplies that are not incidental. A **qualifying taxpayer** is a taxpayer **(a)** whose average annual gross receipts for the 3 prior years is $1 million or less and **(b)** whose business is not a tax shelter (as defined in section 448(d)(3). In addition, for tax years ending on or after December 31, 2001, this rule applies to an eligible business of a qualifying small business taxpayer. A **qualifying small business taxpayer** includes a cooperative with an average annual gross receipts of more than $1 million but less than or equal to $10 million and that is not prohibited from using the cash method under section 448. For more details, including the definition of an eligible business, see Notice 2001-76.

Under this accounting method, inventory costs for raw materials purchased for use in producing finished goods and merchandise purchased for resale are deductible in the year the finished goods or merchandise are sold (but not before the year the cooperative paid for the raw materials or merchandise if it is also using the cash method). Enter amounts paid for all raw materials and merchandise during the tax year on line 2. The amount the cooperative can deduct for the tax year is figured on line 9. For additional guidance on this method of accounting for inventory items, see Rev. Proc. 2001-10 and Pub. 538.

All filers not using the cash method of accounting should see **Section 263A uniform capitalization rules** on page 7 before completing Schedule A.

Line 1. Inventory at beginning of year. If the cooperative is changing its method of accounting for the current tax year, it must refigure last year's closing inventory using the new method of accounting and enter the result on line 1. If there is a difference between last year's closing inventory and the refigured amount, attach an explanation and take it into account when figuring the cooperative's section 481(a) adjustment explained on page 4.

Line 4a. Qualified per-unit retain certificates are issued to patrons who have agreed to include the stated dollar amount in current income.

Line 5. Enter the amount paid in money or other property (except per-unit retain certificates) to patrons to redeem nonqualified per-unit retain certificates. If a per-unit retain certificate does not qualify, no deduction is allowable at the time it is issued. However, the cooperative may take a deduction or a refund of tax when the nonqualified per-unit retain certificate is finally redeemed, provided that the nonqualified per-unit retain certificate was paid as a per-unit retain allocation during the payment period for the tax year during which the marketing occurred. The deduction is allowed only for amounts paid in money or other property (other than per-unit retain certificates) that are not more than the stated dollar amount of the nonqualified per-unit retain certificate. See section 1382(b).

See section 1383 and the instructions for line 32f for a special rule for figuring the cooperative's tax in the year of redemption of a nonqualified per-unit retain certificate.

Line 6a. An entry is required on this line only for cooperatives electing a simplified method of accounting.

For cooperatives that have elected the **simplified production method,** additional section 263A costs are generally those costs, other than interest, that were not capitalized under the cooperative's method of accounting immediately prior to the effective date of section 263A that are now required to be capitalized under section 263A. For details, see Regulations section 1.263A-2(b).

For cooperatives that have elected the **simplified resale method,** additional section 263A costs are generally those costs incurred with respect to the following categories:
- Off-site storage or warehousing.

- Purchasing; handling, such as processing, assembly, repackaging, and transporting.
- General and administrative costs (mixed service costs).

For details, see Regulations section 1.263A-3(d).

Enter on line 6a the balance of section 263A costs paid or incurred during the tax year not includable on lines 2, 3, and 6b.

Line 6b. Enter on line 6b any costs paid or incurred during the tax year not entered on lines 2 through 6a.

Line 8. See Regulations sections 1.263A-1 through 1.263A-3 for details on figuring the amount of additional section 263A costs to be included in ending inventory.

If the cooperative accounts for inventoriable items in the same manner as materials and supplies that are not incidental, enter on line 8 the portion of its raw materials and merchandise purchased for resale that are included on line 7 and were not sold during the year.

Lines 10a through 10f

Inventory valuation methods. Inventories can be valued at:
- Cost,
- Cost or market value (whichever is lower), or
- Any other method approved by the IRS that conforms to the requirements of the applicable regulations cited below.

However, the cooperative is required to use cost if it is using the cash method of accounting.

Cooperatives that account for inventoriable in the same manner as materials and supplies that are not incidental may currently deduct expenditures for direct labor and all indirect costs that would otherwise be included in inventory costs.

The average cost (rolling average) method of valuing inventories generally does not conform to the requirements of the regulations. See Rev. Rul. 71-234, 1971-1 C.B. 148.

Cooperatives that use erroneous valuation methods must change to a method permitted for Federal income tax purposes. To make this change, use Form 3115.

On line 10a, check the method(s) used for valuing inventories. Under lower of cost or market, the term “market” (for normal goods) means the current bid price prevailing on the inventory valuation date for the particular merchandise in the volume usually purchased by the taxpayer. For a manufacturer, market applies to the basic elements of cost— raw materials, labor, and burden. If section 263A applies to the taxpayer, the basic elements of cost must reflect the current bid price of all direct costs and all indirect costs properly allocable to goods on hand at the inventory date.

Inventory may be valued below cost when the merchandise is unsalable at normal prices or unsalable in the normal way because the goods are subnormal due to damage, imperfections, shop wear, etc., within the meaning of Regulations section 1.471-2(c). The goods may be valued at a current bona fide selling price, minus direct cost of disposition (but not less than scrap value) if such a price can be established.

If this is the first year the Last-in, First-out (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method provided for in section 472, attach **Form 970,** Application To Use LIFO Inventory Method, or a statement with the information required by Form 970. Also check the LIFO box on line 10c. On line 10d, enter the amount or the percent of total closing inventories covered under section 472. Estimates are acceptable.

If the cooperative changed or extended its inventory to LIFO and had to write up its opening inventory to cost in the year of election, report the effect of this write-up as income (line 10, page 1) proportionately over a 3-year period that begins with the year of the LIFO election (section 472(d)).

For more information on inventory valuation methods, see **Pub. 538,** Accounting Periods and Methods.

Schedule C

Dividends and Special Deductions

For purposes of the 20% ownership test on lines 1 through 7, the percentage of stock owned by the cooperative is based on voting power and value of the common stock. Preferred stock described in section 1504(a)(4) is not taken into account. Cooperatives filing a consolidated return should see Regulations sections 1.1502-13, 1.1502-26, and 1.1502-27 before completing Schedule C.

Line 1, Column (a). Enter dividends (except those received on debt-financed stock acquired after July 18, 1984—see section 246A) that:
- Are received from less-than-20%-owned domestic corporations subject to income tax and
- Qualify for the 70% deduction under section 243(a)(1).

Also include on line 1:
- Taxable distributions from an IC-DISC or former DISC that are designated as eligible for the 70% deduction and certain dividends of Federal Home Loan Banks. See section 246(a)(2).
- Dividends (except those received on debt-financed stock acquired after July 18, 1984) from a regulated investment company (RIC). The amount of dividends eligible for the dividends-received deduction under section 243 is limited by section 854(b). The cooperative should receive a notice from the RIC specifying the amount of dividends that qualify for the deduction.

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

Line 2, Column (a). Enter on line 2:
- Dividends (except those received on debt-financed stock acquired after July 18, 1984) that are received from 20%-or-more-owned domestic corporations subject to income tax and that are subject to the 80% deduction under section 243(c) and
- Taxable distributions from an IC-DISC or former DISC that are considered eligible for the 80% deduction.

Line 3, Column (a). Enter dividends that are:
- Received on debt-financed stock acquired after July 18, 1984, that are received from domestic and foreign corporations subject to income tax and that would otherwise be subject to the dividends-received deduction under sections 243(a)(1), 243(c), or 245(a). Generally, debt-financed stock is stock that the cooperative acquired by incurring a debt (e.g., it borrowed money to buy the stock).
- Received from a RIC on debt-financed stock. The amount of dividends eligible for the dividends-received deduction is limited by section 854(b). The cooperative should receive a notice from the RIC specifying the amount of dividends that qualify for the deduction.

Line 3, Columns (b) and (c). Dividends received on debt-financed stock acquired after July 18, 1984, are not entitled to the full 70% or 80% dividends-received deduction. The 70% or 80% deduction is reduced by a percentage that is related to the amount of debt incurred to acquire the stock. See section 246A. Also see section 245(a) before making this computation for an additional limitation that applies to dividends received from foreign corporations. Attach a schedule to Form 990-C showing how the amount on line 3, column (c), was figured.

Line 4, Column (a). Enter dividends received on the preferred stock of a less-than-20%-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

Line 5, Column (a). Enter dividends received on preferred stock of a 20%-or-more-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

Line 6, Column (a). Enter the U.S.–source portion of dividends that:
- Are received from less-than-20%-owned foreign corporations and
- Qualify for the 70% deduction under section 245(a).

To qualify for the 70% deduction, the cooperative must own at least 10% of the stock of the foreign corporation by vote and value.

Also include dividends received from a less-than-20%-owned FSC that:

- Are attributable to income treated as effectively connected with the conduct of a trade or business within the United States (excluding foreign trade income) and
- Qualify for the 70% deduction provided in section 245(c)(1)(B).

Line 7, Column (a). Enter the U.S.–source portion of dividends that are received from 20%-or-more-owned foreign corporations and that qualify for the 80% deduction under section 245(a). Also include dividends received from a 20%-or-more-owned FSC that:

- Are attributable to income treated as effectively connected with the conduct of a trade or business within the United States (excluding foreign trade income) and
- Qualify for the 80% deduction provided in section 245(c)(1)(B).

Line 8, Column (a). Enter dividends that are received from wholly owned foreign subsidiaries and that are eligible for the 100% deduction provided in section 245(b).

In general, the deduction under section 245(b) applies to dividends paid out of the earnings and profits of a foreign corporation for a tax year during which:

- All of its outstanding stock is owned (directly or indirectly) by the domestic cooperative receiving the dividends and
- All of its gross income from all sources is effectively connected with the conduct of a trade or business within the United States.

Line 9, Column (c)—Limitation on dividends-received deduction. Generally, line 9, column (c), may not exceed the amount from the worksheet below. However, in a year in which an NOL occurs, this limitation does not apply even if the loss is created by the dividends-received deduction. See sections 172(d) and 246(b).

Worksheet for Schedule C, line 9
(keep for your records)

1.	Refigure line 28, page 1, Form 990-C, without any adjustment under section 1059 and without any capital loss carryback to the tax year under section 1212(a)(1)	_______
2.	Complete lines 10 and 11, column (c) and enter the total here	_______
3.	Subtract line 2 from line 1	_______
4.	Multiply line 3 by 80%	_______
5.	Add lines 2, 5, 7, and 8, column (c) and the part of the deduction on line 3, column (c) that is attributable to dividends received from 20%-or-more-owned corporations	_______
6.	Enter the smaller of line 4 or line 5. If line 5 is greater than line 4, stop here; enter the amount from line 6 on line 9, column (c). Do not complete the rest of this worksheet	_______
7.	Enter the total amount of dividends received from 20%-or-more-owned corporations that are included on lines 2, 3, 5, 7, and 8, column (a)	_______
8.	Subtract line 7 from line 3	_______
9.	Multiply line 8 by 70%	_______
10.	Subtract line 5 from line 9, column (c)	_______
11.	Enter the smaller of line 9 or line 10	_______
12.	**Dividends-received deduction after limitation (section 246(b)).** Add lines 6 and 11. Enter the result here and on line 9, column (c)	_______

Line 10, Column (a). Enter dividends from FSCs that are attributable to foreign trade income and that are eligible for the 100% deduction provided in section 245(c)(1)(A).

Line 11, Columns (a) and (c). Enter only those dividends that qualify under section 243(b) for the 100% dividends-received deduction described in section 243(a)(3). Cooperatives taking this deduction are subject to the provisions of section 1561.

The 100% deduction does not apply to affiliated group members that are joining in the filing of a consolidated return.

Line 12, Column (a). Enter foreign dividends not reportable on lines 3, 6, 7, 8, or 10 of column (a). Include on line 12 the cooperative's share of the ordinary earnings of a qualified electing fund from **Form 8621,** Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund, line 6c.

Line 13, Column (a). Include income constructively received from controlled foreign corporations under subpart F. This amount should equal the total of amounts reported on Schedule I, Form 5471.

Line 14, Column (a). Include gross-up for taxes deemed paid under sections 902 and 960.

Line 15, Column (a). Enter taxable distributions from an IC-DISC or former DISC that are designated as not eligible for a dividends-received deduction.

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

1. Is paid out of the cooperative's accumulated IC-DISC income or previously taxed income or

2. Is a deemed distribution under section 995(b)(1).

Line 16, Column (a). Include the following:

1. Dividends (other than capital gain distributions reported on Schedule D (1120) and exempt-interest dividends) that are received from RICs that are not subject to the 70% deduction.

2. Dividends from tax-exempt organizations.

3. Dividends (other than capital gain dividends) received from a REIT that, for the tax year of the trust in which the dividends are paid, qualifies under sections 856 through 860.

4. Dividends not eligible for a dividends-received deduction because of the holding period of the stock or an obligation to make corresponding payments with respect to similar stock.

Two situations in which the dividends-received deduction will not be allowed on any share of stock are:

- If the cooperative held it for less than 46 days during the 90-day period beginning 45 days before the stock became ex-dividend with respect to the dividend (see section 246(c)(1)(A)) or
- To the extent the cooperative is under an obligation to make related payments for substantially similar or related property.

5. Any other taxable dividend income not properly reported above (including distributions under section 936(h)(4)).

Schedule H

Deductions and Adjustments Under Section 1382

If the cooperative sells qualifying foreign trade property, no deduction is allowed for patronage dividends, per-unit retain allocations, and nonpatronage distributions. For details, see section 941(b)(2).

Any patronage dividends or per-unit retain allocations that are allocated to qualifying foreign trade income of the cooperative may be treated as qualifying foreign trade income of the patron. In order to qualify, the amount must be designated by the cooperative in a written notice mailed to its patrons not later than the 15th day of the 9th month following the close of the tax year. For more details, see section 943(g).

Cooperatives may, under section 1388(j)(1), use losses from one or more allocation units to offset earnings of one or more other allocations, as permitted by their bylaws, but only to the extent that the earnings and losses are from business done with or for patrons. If a cooperative exercises this option, it must provide the information specified in section 1388(j)(3) by written notice to its patrons.

Special rules also apply if a cooperative has acquired the assets of another cooperative under a section 381(a) transaction. See section 1388(j) for more information. Cooperatives may net earnings and losses under section 1388(j) and still be eligible for tax-exempt treatment. See section 521(b)(6).

Note. *Lines 1 and 2 apply only to section 521 cooperatives.*

Line 1. Enter the amount actually or constructively paid as dividends during the tax year on:

- Common stock (whether voting or nonvoting),
- Preferred stock,
- Capital retain certificates,
- Revolving fund certificates,
- Letters of advice, or
- Other documentary evidence of a proprietary interest in the cooperative association.

See Regulations section 1.1382-3(b) for more information.

Line 2. Enter amounts paid on a patronage basis to patrons from nonpatronage income. Payment may be in:

- Money,
- Qualified written notices of allocation, or
- Other property (except nonqualified written notices of allocation).

The amounts must be paid during the payment period that begins on the first day of the tax year and ends on the 15th day of the 9th month after the end of the tax year in which the income was earned.

Nonpatronage income includes incidental income from sources not directly related to:

- Marketing,
- Purchasing,
- Service activities of the cooperative (such as income from the lease of premises, investments, or from the sale or exchange of capital assets), or
- Income from business done with or for the U.S. Government, or any of its agencies.

See **Patronage dividends** below for a definition of "qualified written notice of allocation." See section 1382(c)(2)(B) for deductibility of amounts paid in redemption of nonqualified written notices of allocation.

Line 3. To be deductible, patronage dividends must be paid during the payment period that begins on the first day of the tax year in which the patronage occurs and ends on the 15th day of the 9th month after the end of that tax year.

See sections 1382(e) and (f) for special rules for the time when patronage occurs if products are marketed under a pooling arrangement, or if earnings are includible in the gross income of the cooperative for a tax year after the year in which the patronage occurred.

Patronage dividends include any amount paid to a patron by a cooperative based on the quality or value of business done with or for that patron under a pre-existing obligation of the cooperative to pay that amount.

The amount is determined by reference to the net earnings of the organization from business done with or for its patrons.

Patronage dividends may be in:

- Money,
- Qualified written notices of allocation, or
- Other property (except nonqualified written notices of allocation).

A **written notice of allocation** means:

- Any capital stock,
- Revolving fund certificate,
- Retain certificate,
- Certificate of indebtedness,
- Letter of advice, or
- Other written notice, which states the dollar amount allocated to the patron by the cooperative and the part, if any, which is a patronage dividend.

In general, a **qualified written notice of allocation** is a written notice of allocation that is:

- Paid as part of a patronage dividend in money or by qualified check equal to at least 20% of the patronage dividend and
- One of the following conditions is met:

1. The patron must have at least 90 days from the date the written notice of allocation is paid to redeem it in cash, **and** must receive written notice of the right of redemption at the time the patron receives the allocation; **or**

2. The patron must agree to have the allocation treated as constructively received and reinvested in the cooperative. See section 1388(c)(2) and related regulations for information on how the consent must be made.

If a written notice of allocation does not qualify, no deduction is allowable at the time it is issued. However, the cooperative is entitled to a deduction or refund of tax when the nonqualified written notice of allocation is finally redeemed, if that notice was paid as a patronage dividend during the payment period for the tax year during which the patronage occurred. The deduction or refund is allowed, but only to the extent that amounts paid to redeem the nonqualified written notice of allocation are paid in money or other property (other than written notices of allocation). They cannot be more than the stated dollar amounts of the nonqualified written notice of allocation. See section 1382(b) and related regulations.

See Rev. Rul. 81-103, 1981-1 C.B. 447, for the redemption of nonqualified written notices of allocation issued to patrons by a payment of cash and a crediting of accounts receivable due from patrons.

Note. *See section 1383 for special rules for figuring the cooperative's tax in the year nonqualified written notices of allocation are redeemed. The cooperative is entitled to:*

(a) *A deduction in the tax year the nonqualified written notices of allocation are redeemed (if permitted under section 1382(b)(2) or (4) or section 1382(c)(2)(B))* **or**

(b) *A tax credit based on a recomputation of tax for the year(s) the nonqualified written notices of allocation were issued. See instructions for line 32f.*

Amounts paid to patrons are **not** patronage dividends if paid:

1. Out of earnings not from business done with or for patrons;

2. Out of earnings from business done with or for other patrons to whom no amounts or smaller amounts are paid for substantially identical transactions;

3. To redeem capital stock, certificates of indebtedness, revolving fund certificates, retain certificates, letters of advice, or other similar documents; or

4. Without reference to the net earnings of the cooperative organization from business done with or for its patrons.

Schedule J

Tax Computation

Lines 1 and 2

Members of a controlled group. A member of a controlled group, as defined in section 1563, must check the box on line 1 and complete lines 2a and 2b of Schedule J.

Line 2a. Members of a controlled group are entitled to share one $50,000, one $25,000, and one $9,925,000 taxable income bracket amount (in that order) on line 2a.

When a controlled group adopts or later amends an apportionment plan, each member must attach to its tax return a copy of its consent to this plan.

The copy (or an attached statement) must show the part of the amount in each taxable income bracket apportioned to that member. See Regulations section 1.1561-3(b) for other requirements and for the time and manner of making the consent.

Equal apportionment plan. If no apportionment plan is adopted, members of a controlled group must divide the amount in each taxable income bracket equally among themselves. For example, Controlled Group AB consists of Cooperative A and Cooperative B. They do not elect an apportionment plan. Therefore, each cooperative is entitled to:

- $25,000 (one-half of $50,000) on line 2a(1),
- $12,500 (one-half of $25,000) on line 2a(2), and
- $4,962,500 (one-half of $9,925,000) on line 2a(3).

Unequal apportionment plan. Members of a controlled group may elect an unequal apportionment plan and divide the taxable income brackets as they want. There is no need for consistency among taxable income brackets. Any member may be entitled to all, some, or none of the taxable income bracket. However, the total amount for all members cannot be more than the total amount in each taxable income bracket.

Line 2b. Members of a controlled group are treated as one group to figure the applicability of the additional 5% tax and the additional 3% tax. If an additional tax applies, each member will pay that tax based on the part of the amount used in each taxable income bracket to reduce that member's tax. See section 1561(a). If an additional tax applies, attach a schedule showing the taxable income of the entire group and how the cooperative figured its share of the additional tax.

Line 2b(1). Enter the cooperative's share of the additional 5% tax on line 2b(1).

Line 2b(2). Enter the cooperative's share of the additional 3% tax on line 2b(2).

Line 3

Tax Computation Worksheet for Members of a Controlled Group
(keep for your records)

Note. *Each member of a controlled group must compute its tax using this worksheet.*

1. Enter taxable income (line 30, page 1)	
2. Enter line 1 or the cooperative's share of the $50,000 taxable income bracket, whichever is less	
3. Subtract line 2 from line 1	
4. Enter line 3 or the cooperative's share of the $25,000 taxable income bracket, whichever is less	
5. Subtract line 4 from line 3	
6. Enter line 5 or the cooperative's share of the $9,925,000 taxable income bracket, whichever is less	
7. Subtract line 6 from line 5	
8. Multiply line 2 by 15%	
9. Multiply line 4 by 25%	
10. Multiply line 6 by 34%	
11. Multiply line 7 by 35%	
12. If the taxable income of the controlled group exceeds $100,000, enter this member's share of the smaller of: 5% of the taxable income in excess of $100,000, or $11,750. See **Instructions for line 2b**	
13. If the taxable income of the controlled group exceeds $15 million, enter this member's share of the smaller of: 3% of the taxable income in excess of $15 million, or $100,000. See **Instructions for line 2b**	
14. Add lines 8 through 13. Enter here and on Schedule J, line 3.	

Note. *Members of a controlled group must attach to form 990-C, a statement showing the computation of the tax entered on line 3.*

Most cooperatives figure their tax by using the Tax Rate Schedule below. Exceptions apply to members of a controlled group (see the worksheet above).

Tax Rate Schedule
If taxable income on line 30, page 1, Form 990-C is:

Over—	*But not over—*	*Tax is:*	*Of the amount over—*
$0	$50,000	**15%**	$0
50,000	75,000	**$ 7,500 + 25%**	50,000
75,000	100,000	**13,750 + 34%**	75,000
100,000	335,000	**22,250 + 39%**	100,000
335,000	10,000,000	**113,900 + 34%**	335,000
10,000,000	15,000,000	**3,400,000 + 35%**	10,000,000
15,000,000	18,333,333	**5,150,000 + 38%**	15,000,000
18,333,333	- - - - -	**35%**	0

Deferred tax under section 1291. If the cooperative was a shareholder in a passive foreign investment company (PFIC), and the cooperative received an excess distribution or disposed of its investment in the PFIC during the year, it must include the total increase in taxes due under section 1291(c)(2) in the amount entered on line 3, Schedule J. On the dotted line next to line 3, Schedule J, write "Section 1291" and the amount.

Do not include on line 3 any interest due under section 1291(c)(3). Instead, show the amount of interest owed in the bottom margin of page 1, Form 990-C, and write "Section 1291 interest." For details, see **Form 8621,** Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund.

Line 4. Alternative minimum tax. Unless the cooperative is treated as a small corporation exempt from alternative minimum tax (AMT), it may owe AMT if it has any of the adjustments and tax preference items listed on **Form 4626,** Alternative Minimum Tax—Corporations. The cooperative must file Form 4626 if its taxable income (loss) combined with these adjustments and tax preference items is more than the smaller of:
- $40,000 or
- The cooperative's allowable exemption amount (from Form 4626).

For this purpose, taxable income does not include the NOL deduction. Get Form 4626 for details.

Exemption for small corporations. A cooperative is treated as a small corporation exempt from the AMT for its tax year beginning in 2001 if that year is the cooperative's first tax year in existence (regardless of its gross receipts) **or**:

1. It was treated as a small corporation exempt from the AMT for **all** prior tax years beginning after 1997 **and**

2. Its average annual gross receipts for the 3-tax-year period (or portion thereof during which the cooperative was in existence) ending before its tax year beginning in 2001 did not exceed $7.5 million ($5 million if the cooperative had only 1 prior tax year).

For more details, see the Instructions for Form 4626.

Line 6a. Foreign tax credit. To find out when a cooperative can take the credit for payment of income tax to a foreign country or U.S. possession, see **Form 1118,** Foreign Tax Credit—Corporations.

Line 6b. Other Credits

Possessions tax credit. The Small Business Job Protection Act of 1996 repealed the possessions credit. However, existing credit claimants may qualify for a credit under the transitional rules. Get **Form 5735,** Possessions Tax Credit (Under Sections 936 and 30A).

Nonconventional source fuel credit. A credit is allowed for the sale of qualified fuels produced from a nonconventional source. Section 29 contains a definition of qualified fuels, provisions for figuring the credit, and other special rules. Attach a separate schedule to the return showing the computation of the credit.

Qualified electric vehicle (QEV) credit. Include on line 6b any credit from **Form 8834,** Qualified Electric Vehicle Credit. Vehicles that qualify for this credit are not eligible for the deduction for clean-fuel vehicles under section 179A.

Line 6c. General business credit. Check the Form 3800 box, complete **Form 3800,** General Business Credit, and enter the total of the credits on line 6c if the cooperative has any of the following:
- More than one of the general business credits listed below (other than the empowerment zone employment credit),
- General credits from an electing large partnership shown in box 7 of Schedule K-1 (Form 1065-B),
- A credit carryforward or carryback of any of these credits (other than the empowerment zone employment credit),
- A trans-Alaska pipeline liability fund credit, or
- Any of these credits (other than the low-income housing credit and the empowerment zone employment credit that is from a passive activity).

Note. *A cooperative filing Form 3800 and* **Form 8844,** *Empowerment Zone Employment Credit, would check* **both** *the "Form 3800" box and the "Form(s)" box, write "8844" in the space provided and enter the total of the credits on line 6c.*

If the cooperative is not required to file Form 3800, attach the applicable form(s) listed in parentheses below. Check the "Form(s)" box, write the attached form number(s) in the space provided, and enter the total of the credit(s) on line 6c.

Note. *Any excess energy investment credit, work opportunity credit, Indian employment credit, empowerment zone credit, employment credit, welfare-to-work credit, or new markets credit not used by the cooperative (because of the tax* *liability limitation) must be passed through to the patrons. These credits cannot be carried back or over by the cooperative. See Forms 3468, 5884, 8844, 8845, 8861, and 8874 for details.*

- Investment Credit (Form 3468).
- Work Opportunity Credit (Form 5884).
- Credit for Alcohol Used as Fuel (Form 6478).
- Credit for Increasing Research Activities (Form 6765).
- Low-Income Housing Credit (Form 8586).
- Orphan Drug Credit (Form 8820).
- Disabled Access Credit (Form 8826).
- Enhanced Oil Recovery Credit (Form 8830).
- Renewable Electricity Production Credit (Form 8835).
- Empowerment Zone Employment Credit (Form 8844). While the empowerment zone employment credit is a part of the general business credit, it is figured separately on Form 8844 and is never carried to Form 3800.
- Indian Employment Credit (Form 8845).
- Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips (Form 8846).
- Credit for Contributions to Selected Community Development Corporations (Form 8847).
- Welfare-to-Work Credit (Form 8861).
- New Markets Credit (Form 8874).

Line 6d. Credit for prior year minimum tax. To figure the minimum tax credit and any carryforward of that credit, use **Form 8827,** Credit for Prior Year Minimum Tax—Corporations.

Also see Form 8827 if any of the cooperative's 2000 nonconventional source fuel credit, orphan drug credit, or qualified electric vehicle credit was disallowed solely because of the tentative minimum tax limitation. See section 53(d).

Line 9. Other Taxes

Include any of the following taxes and interest in the total on line 9. Check the appropriate box(es) for the form, if any, used to compute the total.

Recapture of investment credit. If the cooperative disposed of investment credit property or changed its use before the end of its useful life or recovery period, see **Form 4255,** Recapture of Investment Credit, for details.

Recapture of low-income housing credit. If the cooperative disposed of property (or there was a reduction in the qualified basis of the property) for which it took the low-income housing credit, it may owe a tax. See **Form 8611,** Recapture of Low-Income Housing Credit.

Other. Additional taxes and interest amounts may be included in the total entered on line 9. Check the box for "Other" if the cooperative includes any of the taxes and interest discussed below. See **How to report,** below, for details on reporting these amounts on an attached schedule.

- Recapture of the qualified electric vehicle (QEV) credit. The cooperative must recapture part of the QEV credit claimed in a prior year, if, within 3 years of the date the vehicle was placed in service, it ceases to qualify for the credit. See Regulations section 1.30-1 for details on how to figure the recapture.
- Recapture of the Indian employment credit. Generally, if an employer terminates the employment of a qualified employee less than 1 year after the date of initial employment, any Indian employment credit allowed for a prior tax year because of wages paid or incurred to that employee must be recaptured. For details, see Form 8845 and section 45A.
- Interest on deferred tax attributable to **(a)** installment sales of certain timeshares and residential lots (section 453(l)(3) and **(b)** certain nondealer installment obligations (section 453A(c)).
- Interest due on deferred gain (section 1260(b)).

How to report. If the cooperative checked the "Other" box, attach a schedule showing the computation of each item included in the total for line 9, and identify the applicable Code section and, the type of tax or interest.

Line 10. Total Tax. Include any deferred tax on the termination of a section 1294 election applicable to shareholders in a qualified electing fund in the amount entered on line 10. See Form 8621, Part V and **How to report** below.

Subtract any deferred tax on the cooperative's share of undistributed earnings of a qualified electing fund (see Form 8621, Part II).

How to report. Attach a schedule showing the computation of each item included in, or subtracted from, the total for line 10. On the dotted line next to line 10, specify **(a)** the applicable Code section, **(b)** the type of tax, and **(c)** enter the amount of tax. For example, if the cooperative is deferring $100 LIFO recapture tax, subtract this amount from the total on line 10, then enter "Section 1363-Deferred Tax-$100" on the dotted line next to line 10.

Schedule L

Balance Sheets per Books

The balance sheet should agree with the cooperative's books and records. Include certificates of deposit as cash on line 1, Schedule L.

Line 5. Tax-exempt securities. Include on this line:

1. State and local government obligations, the interest on which is excludable from gross income under section 103(a) and

2. Stock in a mutual fund or other RIC that distributed exempt-interest dividends during the tax year of the cooperative.

Line 24. Adjustments to shareholders' equity. Some examples of adjustments to report on this line include:

- Unrealized gains and losses on securities held "available for sale."
- Foreign currency translation adjustments.
- The excess of additional pension liability over unrecognized prior service cost.
- Guarantees of employees stock (ESOP) debt.
- Compensation related to employee stock award plans.

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

Schedule M-1

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

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

- Meals and entertainment not deductible under section 274(n).
- Expenses for the use of an entertainment facility.
- The part of business gifts over $25.
- Expenses of an individual in excess of $2,000, which are allocable to conventions on cruise ships.
- Employee achievement awards over $400.
- The cost of entertainment tickets over their face value (also subject to 50% limit under section 274(n)).
- The cost of skyboxes over the face value of nonluxury box seat tickets.
- The part of luxury water travel not deductible under section 274(m).
- Expenses for travel as a form of education.
- Other nondeductible expenses for travel and entertainment.

For more information, see Pub. 542.

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

Schedule N

Other Information

The following instructions apply to Form 990-C, page 5, Schedule N. Be sure to complete all the items that apply to the cooperative.

Question 13

Foreign financial account. Check the "Yes" box if either **1** or **2** below applies to the cooperative. Otherwise, check the "No" box.

1. At any time during the 2001 calendar year, the cooperative had an interest in or signature or other authority over a bank, securities, or other financial account in a foreign country (see **Form TD F 90–22.1,** Report of Foreign Bank and Financial Accounts); and

- The combined value of the accounts was more than $10,000 at any time during the calendar year and
- The account was **not** with a U.S. military banking facility operated by a U.S. financial institution.

2. The cooperative owns more than 50% of the stock in any corporation that would answer "Yes" to item **1** above.

If "Yes" is checked for this question:

- Enter the name(s) of the foreign country or countries. Attach a separate sheet if more space is needed.
- File Form TD F 90-22.1 by June 30, 2002, with the Department of the Treasury at the address shown on the form. Do not file it with Form 990-C.

You can order Form TD F 90-22.1 by calling 1-800-TAX-FORM (1-800-829-3676) or you can download it from the IRS Web Site at **www.irs.gov.**

Question 14

The cooperative may be required to file **Form 3520,** Annual Return To Report Transactions with Foreign Trusts and Receipt of Certain Foreign Gifts, if:

- It directly or indirectly transferred money or property to a foreign trust. For this purpose, any U.S. person who created a foreign trust is considered a transferor.
- It is treated as the owner of any part of the assets of a foreign trust under the grantor trust rules.
- It received a distribution from a foreign trust.

For more information, see the Instructions for Form 3520.

Note. *An owner of a foreign trust must ensure that the trust files an annual information return on* ***Form 3520-A,*** *Annual Information Return of Foreign Trust with a U.S. Owner. For details, see Form 3520-A.*

Item 15

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

Question 17

Check the "Yes" box if:

1. The cooperative is a subsidiary in an affiliated group (defined below), but is not filing a consolidated return for the tax year with that group or

2. The cooperative is a subsidiary in a parent-subsidiary controlled group (defined below).

Any cooperative that meets either of the requirements above should check the "Yes" box. This applies even if the cooperative is a subsidiary member of one group and the parent corporation of another.

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

Affiliated group. The term "affiliated group" means one or more chains of includible corporations (section 1504(a)) connected through stock ownership with a common parent corporation. The common parent must be an includible corporation and the following requirements **must** be met:

1. The common parent must own directly stock that represents at least 80% of the total voting power and at least 80% of the total value of the stock of at least one of the other includible cooperatives and

2. Stock that represents at least 80% of the total voting power and at least 80% of the total value of the stock of each of the other corporations (except for the common parent) must be owned directly by one or more of the other includible corporations.

For this purpose, **stock** generally does not include any stock that **(a)** is nonvoting, **(b)** is nonconvertible, **(c)** is limited and preferred as to dividends and does not participate significantly in corporate growth, and **(d)** has redemption and liquidation rights that do not exceed the issue price of the stock (except for a reasonable redemption or liquidation premium). See section 1504(a)(4).

Parent-subsidiary controlled group. The term "parent-subsidiary controlled group" means one or more chains of cooperatives connected through stock ownership (section 1563(a)(1)). Both of the following requirements **must** be met:

1. At least 80% of the total combined voting power of all classes of voting stock or at least 80% of the total value of all classes of stock of each cooperative in the group (except the parent) must be owned by one or more of the other cooperatives in the group and

2. The common parent must own at least 80% of the total combined voting power of all classes of stock entitled to vote or at least 80% of the total value of all classes of stock of one or more of the other cooperatives in the group. Stock owned directly by other members of the group is not counted when computing the voting power or value.

See section 1563(d)(1) for the definition of "stock" for purposes of determining stock ownership above.

Item 19

Check the box if the cooperative elects under section 172(b)(3) to forego the carryback period for a NOL. To be valid, the election must be made by the due date (including extensions) for filing Form 990-C. Cooperatives filing a **consolidated return** must check the box and attach the statement required by Regulations section 1.1502-21(b)(3)(i) or (ii). If the cooperative checks this box, do not attach the statement described in Temporary Regulations section 301.9100-12T(d).

Item 20

Enter the amount of the NOL carryover to the tax year from prior years, even if some of the loss is used to offset income on this return. The amount to enter is the total of all NOLs generated in prior years but not used to offset income (either as a carryback or carryover) in a tax year prior to 2001. Do not reduce the amount by any NOL deduction reported on line 29a.

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

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

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

Recordkeeping	77 hr., 58 min.
Learning about the law or the form	23 hr., 46 min.
Preparing the form	40 hr., 59 min.
Copying, assembling, and sending the form to the IRS	4 hr., 17 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 Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001.

Do not send the tax form to this office. Instead, see **Where To File** on page 2.

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