2004

Department of the Treasury
Internal Revenue Service

Instructions for Form 1120-RIC

U.S. Income Tax Return for Regulated Investment Companies

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

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What's New

- The American Jobs Creation Act of 2004 (AJCA) made several changes that affect RICs and their shareholders for tax years beginning after October 22, 2004. The following list includes provisions that may affect your 2004 return. See Pub. 553, Highlights of 2004 Tax Changes, for more information.
- The *AJCA* has modified the 90% test with respect to income of a RIC to include net income derived from an interest in a publicly traded partnership. See section 851(b)(2).
- RICs can elect to deduct up to $5,000 of business start-up and organizational costs paid or incurred after October 22, 2004. See *Deductions* in Part I.
- For charitable contributions of certain property made after June 3, 2004, a RIC must file Form 8283 and obtain a qualified appraisal if claiming a deduction of more than $5,000. See new section 170(f)(11) for details.
- New rules for reporting charitable contributions of patents and certain other intellectual property made after June 3, 2004, will require RICs to furnish additional information. See section 6050L 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 RIC has attempted to deal with an IRS problem unsuccessfully, it should contact the Taxpayer Advocate. The Taxpayer Advocate independently represents the RIC's interest 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 RIC's case is given a complete and impartial review.

The RIC's assigned personal advocate will listen to its point of view and will work with the RIC to address its concerns. The RIC 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 RIC should be prepared to provide the following information:

- The RIC'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 was contacted.
- A description of the hardship the RIC is facing (if applicable).

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

How To Get Forms and Publications

Personal computer

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

- Order IRS products online.
- Download forms, instructions, and publications.
- See answers to frequently asked tax questions.
- Search publications online by topic or keyword.
- Send us comments or request help by email.
- Sign up to receive local and national tax news by email.

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 and instructions.
- Frequently requested tax forms that may be filled in electronically, printed out for submission, and saved for recordkeeping.
- The Internal Revenue Bulletin.

You can purchase the CD-ROM on the Internet at *www.irs.gov/cdorders* from the National Technical Information Service (NTIS) for $22 (no handling fee) or call 1-877-CDFORMS (1-877-233-6767) toll free to buy the CD-ROM for $22 (plus a $5 handling fee).

By phone and in person

You can order forms and publications by calling 1-800-TAX-FORM (1-800-829-3676). You can also get most forms and publications at your local IRS office.

How To Access the Internal Revenue Bulletin (I.R.B.)

You can access the I.R.B. on the Internet at *www.irs.gov* (post-1995 Bulletins only). Under information for Tax Professionals, select More Topics. Finally, select IRS Resources to locate the Internal Revenue Bulletins.

Cat. No. 64251J

General Instructions

Purpose of Form

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

Who Must File

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

General Requirements To Qualify as a RIC

The term "regulated investment company" (RIC) applies to any domestic corporation that:
- Is registered with the Securities and Exchange Commission (SEC) throughout the tax year as a management company or unit investment trust under the Investment Company Act of 1940 (the ICA),
- Has an election in effect under the ICA to be treated as a business development company, or
- Is a common trust fund or similar fund that is neither an investment company under section 3(c)(3) of the ICA nor a common trust fund as defined under section 584(a).

Other Requirements

In addition, the RIC must meet all of the requirements listed below:

1. At least 90% of its gross income (including tax-exempt interest income) must be derived from the following items.
   - Dividends,
   - Interest,
   - Payments with respect to securities loans (as defined in section 512(a)(5)),
   - Gains from the sale or other disposition of stock or securities (as defined in ICA section 2(a)(36)) or foreign currencies,
   - Other income (including gains from options, futures, or forward contracts) derived from the RIC's business of investing in such stock, securities, or currencies, and
   - Net income derived from an interest in a qualified publicly traded partnership (as defined in section 851(h).

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

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

2. At the end of each quarter of the RIC's tax year, at least 50% of the value of its assets must be invested in the following items.
   - Cash and cash items (including receivables),
   - Government securities,
   - Securities of other RICs, and
   - Securities of other issuers, except that the investment in a single issuer of securities may not exceed 5% of the value of the RIC's assets or 10% of the outstanding voting securities of the issuer (except as provided in section 851(e)). See sections 851(b)(3) and 851(c).

3. At the end of each quarter of the RIC's tax year, no more than 25% of the value of the RIC's assets may be invested in the securities (excluding government securities or securities of other RICs) of a single issuer or in the securities of two or more issuers controlled by the RIC and engaged in the same or related trades or businesses. See sections 851(b)(3) and 851(c).

4. The RIC's deduction for dividends paid for the tax year (as defined in section 561, but without regard to capital gain dividends) equals or exceeds the sum of:
   - 90% of its investment company taxable income determined without regard to section 852(b)(2)(D); and
   - 90% of the excess of the RIC's interest income excludable from gross income under section 103(a) over its deductions disallowed under sections 265 and 171(a)(2).

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

Note. For this purpose, distributions after 2003 are treated as made from the earliest earnings and profits accumulated in any non-RIC tax year. See section 852(c)(3). Also see section 852(e) for procedures that may allow the RIC to avoid disqualification for the initial year the RIC did not meet the requirement under 5(b) above.

Definition of a Fund

The term "fund" as used in these instructions and Form 1120-RIC, refers to a separate portfolio of assets, whose beneficial interests are owned by the holders of a class or series of stock of the RIC that is preferred over all other classes or series for that portfolio of assets.

When To File

Generally, a RIC must file its income tax return by the 15th day of the 3rd month after the end of its tax year. A new RIC filing a short period return must generally file by the 15th day of the 3rd month after the short period ends. A RIC that has dissolved must generally file by the 15th day of the 3rd month after the date it dissolved.

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

Private delivery services

RICs 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.

These private delivery services include only the following.
- DHL Express (DHL): DHL Same Day Service, DHL Next Day 10:30 am, DHL Next Day 12:00 pm, DHL Next Day 3:00 pm, and DHL 2nd Day Service.
- Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2Day, FedEx International Priority, and FedEx International First.
- 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.

CAUTION *Private delivery services cannot deliver items to P.O. boxes. You must use the U.S. Postal Service to mail any item to an IRS P.O. box address.*

Where To File

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

If the RIC's principal business, office, or agency is located in:	And the total assets at the end of the tax year (Form 1120-RIC, page 1, item D) are:	Use the following Internal Revenue Service Center address:
Connecticut, Delaware, District of Columbia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia, Wisconsin	Less than $10 million	Cincinnati, OH 45999-0012
	$10 million or more	Ogden, UT 84201-0012
Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Tennessee, Texas, Utah, Washington, Wyoming	Any amount	Ogden, UT 84201-0012

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

Extension of time to file

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 corporate officer (such as tax officer) authorized to sign.

If a return is filed on behalf of a RIC by a receiver, trustee or assignee, the fiduciary must sign the return, instead of the corporate officer.

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

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

The paid preparer must complete the required preparer information and:

- Sign the return in the space provided for the preparer's signature.
- Give a copy of the return to the taxpayer.

Note. A paid preparer may sign original returns, amended returns, or requests for filing extensions by rubber stamp, mechanical device, or computer software program.

Paid Preparer Authorization

If the RIC wants to allow the IRS to discuss its 2004 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 RIC's return. It does not apply to the firm, if any, shown in that section.

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

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

The RIC is not authorizing the paid preparer to receive any refund check, bind the RIC to anything (including any additional tax liability), or otherwise represent the RIC before the IRS. If the RIC 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 (without regard to extensions) for filing the RIC's 2005 tax return.

Other Forms That May Be Required

The RIC may have to file other forms. See the Instructions for Form 1120, U.S. Corporation Income Tax Return, for more information.

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 966, Corporate Dissolution or Liquidation. File Form 966 to report the adoption of a resolution or plan to dissolve the RIC or liquidate any of its stock.

Form 1042, 1042-S, and 1042-T, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons; Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding; and Form 1042-T, Annual Summary and Transmittal of Forms 1042-S. 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 sections 1441 and 1442, and Pub. 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.

Form 2438, Undistributed Capital Gains Tax Return. If the RIC designates undistributed capital gains under section 852(b)(3)(D), it must file this return and pay tax on the gains designated by the 30th day after the end of the RIC's tax year. In addition, a copy of Form 2438 (with Copy A of all Forms 2439) must be attached to Form 1120-RIC when filed.

Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains. If the RIC filed Form 2438, it must complete Form 2439 for each shareholder for whom it paid tax on undistributed capital gains and furnish a copy to the shareholder by the 60th day after the end of the RIC's tax year.

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

Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations. The RIC may have to file Form 5471 if it meets any of the following conditions:

- It controls a foreign corporation,
- It acquires, disposes of, or owns 10% or more in value or vote of the outstanding stock of a foreign corporation, or
- It had control of a foreign corporation for an uninterrupted period of at least 30 days during the annual accounting period of the foreign corporation. See Question 4, Schedule N (Form 1120).

Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. This form is filed if the RIC is 25% or more foreign-owned. See Question 5, Schedule K, on page 12.

Form 5498, IRA Contribution Information. Use this form to report contributions (including rollover contributions) to any IRA, including a SEP, SIMPLE, or Roth IRA and to report Roth conversions, IRA recharacterizations, and the fair market value (FMV) of the account.

Form 5498-ESA, Coverdell ESA Contribution Information. Use this form to report contributions (including rollover contributions) and the FMV of a Coverdell education savings account (ESA).

Form 5498-MSA, Archer MSA or Medicare Advantage MSA Information. Report contributions to an Archer MSA and the FMV of an Archer MSA or Medicare Advantage MSA.

Form 5713, International Boycott Report, must be filed if the RIC had operations in, or related to, certain "boycotting" countries.

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

Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments. Use this form to report the issuance of public offerings of debt instruments (obligations).

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

Form 8621, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund. Use this form to make certain elections by shareholders in a passive foreign investment company and to figure certain deferred taxes.

Form 8842, Election To Use Different Annualization Periods for Corporate Estimated Tax. A RIC uses this form to elect one of the annualization periods in section 6655(e)(2) to figure estimated tax payments under the annualized income installment method.

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

1. Controlled a foreign partnership (that is, 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:
   - Increased its direct interest to at least 10% or reduced its direct interest of at least 10% to less than 10%.
   - Changed its direct interest by at least a 10% interest.
4. Contributed property to a foreign partnership in exchange for a partnership interest if:
   - Immediately after the contribution, the RIC owned, directly or indirectly, at least a 10% interest in the foreign partnership; or
   - The FMV of the property the RIC contributed to the foreign partnership in exchange for a partnership interest, when added to other contributions of property made to the foreign partnership during the preceding 12-month period, exceeds $100,000.

Also, the RIC may have to file Form 8865 to report certain dispositions by a foreign partnership of property it previously contributed to that foreign 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.

Form 8886, Reportable Transaction Disclosure Statement. Use this form to disclose information for each reportable transaction in which the RIC participated. Form 8886 must be filed for each tax year that the RIC enters into a reportable transaction. The following are reportable transactions:

- Any transaction the same as or substantially similar to tax avoidance transactions identified by the IRS.
- Any transaction offered under conditions of confidentiality.
- Any transaction for which the RIC has contractual protection against disallowance of the tax benefits.
- Any transaction resulting in a loss of at least $10 million in any single year or $20 million in any combination of years.
- Any transaction resulting in a book-tax difference of more than $10 million on a gross basis.
- Any transaction resulting in a tax credit of more than $250,000, if the RIC held the asset generating the credit for 45 days or less.

Statements

Stock ownership in foreign personal holding companies (FPHC)

Attach the statement required by section 551(c) if:

- The RIC owned 5% or more in value of the outstanding stock of a FPHC and
- The RIC was required to include in its gross income any undistributed foreign personal holding company income from a FPHC.

Transfers to a corporation controlled by the transferor

If the RIC receives stock of a corporation in exchange for property, and no gain or loss is recognized under section 351, the RIC (transferor) and the transferee must each attach to their tax returns the information required by Regulations section 1.351-3.

Safe harbor under Temporary Regulations section 1.67-2T(j)(2)

Generally, shareholders in a nonpublicly offered fund that are individuals or pass-through entities are treated as having received a dividend in an amount equal to the shareholder's allocable share of affected RIC expenses for the calendar year. They are also treated as having paid or incurred an expense described in section 212 (and subject to the 2% limitation on miscellaneous itemized deductions) in the same amount for the calendar year.

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

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

Notice to shareholders

A RIC must notify its shareholders within 60 days after the close of its tax year of the distribution made during the tax year that qualifies for the dividends received deduction under section 243. For purposes of the dividends-received deduction, a capital gain dividend received from a RIC is not treated as a dividend.

Consent to partnership election to close its books monthly

Certain money market funds that obtain an interest in an eligible partnership that invests in assets exempt from taxation under section 103 may be qualified to pay exempt-interest dividends to its shareholders. To qualify for payment of exempt-interest dividends, a RIC must meet the quarterly net asset value (NAV) requirements under section 852(b)(5). To maintain the required NAV at the end of each quarter, the RIC may take into account on a monthly basis its distributive share of partnership items if the eligible partnership makes a proper election to close its books at the end of each month. See Rev. Proc. 2002-16, for details.

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

- The RIC is entitled to hold itself out as a money market fund, or an equivalent of a money market fund.
- The RIC provides a statement to the partnership that it consents to the partnership's election to close its books monthly and that the RIC will include in its taxable income its distributive share of partnership items in a manner consistent with the election. See Rev. Proc. 2002-16 for the required contents of the statement of consent.
- The RIC provides the statement of consent to the custodian or manager of the partnership by the last day of the second month after the month in which the RIC acquires the partnership interest.
- The partnership is eligible under Rev. Proc. 2002-16 to make the monthly closing election and the election is effective by the second month after the month in which the RIC acquires the partnership interest.

Statement of consent. The consent to a partnership's monthly closing election is effective for the month in which the RIC acquires the partnership interest, unless the RIC requests that the consent be effective for either of the two immediately following calendar months. In addition to timely providing the partnership with the statement of consent, the statement should be filed with Form 1120-RIC for the first tax year in which the consent is effective. The monthly closing consent (and the partnership's election) may be revoked only with the consent of the Commissioner. However, the RIC's consent becomes ineffective on any day when the RIC ceases to be an eligible partner and the partnership's monthly closing election is terminated as of the first day of any month the partnership is no longer eligible for the election under Rev. Proc. 2002-16. See Rev. Proc. 2002-16 for additional rules.

Assembling the Return

To ensure that the RIC's tax return is correctly processed, attach all schedules and other forms after page 4, Form 1120-RIC, and in the following order.

1. Schedule N (Form 1120).
2. Form 4136.
3. Form 4626.
4. Additional schedules in alphabetical order.
5. Additional forms in numerical order.

Complete every applicable entry space on Form 1120-RIC. 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 RIC'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 RIC's books and records. In all cases, the method used must clearly show taxable income.

Generally, permissible methods include:

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

Accrual method

Generally, a RIC must use the accrual method of accounting if its average annual gross receipts exceed $5 million. See section 448(c).

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

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

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 determining when economic performance takes place.

Mark-to-market accounting method

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

For details, including exceptions, see section 475, the related regulations, and Rev. Rul. 94-7, 1994-1 C.B. 151.

Dealers in commodities and traders in securities and commodities may elect to use the mark-to-market accounting method. To make the election, the RIC must file a statement describing the election, the first tax year the election is to be effective, and in the case of an election for traders in securities or commodities, the trade or business for which the election is made. Except for new taxpayers, the statement must be filed by the due date (not including extensions) of the income tax return for the tax year immediately preceding the election year and attached to that return, or if applicable, to a request for an extension of time to file that return. For more details, see

Rev. Proc. 99-17, 1999-1 C.B. 503, and sections 475(e) and (f).

Change in accounting method

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

Section 481(a) adjustment. The RIC may have to make an adjustment to prevent amounts of income or expenses from being duplicated. This is called a section 481(a) adjustment. The section 481(a) adjustment period is generally 1 year for a net negative adjustment and 4 years for a net positive adjustment. However, a RIC may elect to use a 1-year adjustment period if the net section 481(a) adjustment for the change is less than $25,000. The RIC must complete the appropriate lines of Form 3115 to make the election.

Include any net positive section 481(a) adjustment on Form 1120-RIC, line 7. If the net section 481(a) adjustment is negative, report it on Form 1120-RIC, line 22.

Accounting Periods

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

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

Calendar year

If the calendar year is adopted as the annual accounting period, the RIC 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 RIC 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 of tax year

Generally, a RIC 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 RIC may change its tax year without getting the consent.

For more information on change of tax year, see Form 1128, Regulations section 1.442-1, and Pub. 538.

Rounding Off to Whole Dollars

A RIC may round off cents to whole dollars on its return and schedules. If the RIC does round to whole dollars, it must round all amounts. To round, drop amounts under 50 cents and increase amounts from 50 cents to 99 cents to the next dollar (for example, $1.39 becomes $1 and $2.50 becomes $3).

If two or more amounts must be added to figure the amount to enter on a line, include cents when adding the amounts and round off only the total.

Recordkeeping

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

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

Depository Method of Tax Payment

A RIC must pay the tax due in full no later than the 15th day of the 3rd month after the end of the tax year. The two methods of depositing income taxes, including capital gains tax, are discussed below.

Electronic Deposit Requirement

The RIC must make electronic deposits of all depository taxes (such as employment tax, excise tax, and income tax) using the Electronic Federal Tax Payment System (EFTPS) in 2005 if:

- The total deposits of such taxes in 2003 were more than $200,000 or
- The RIC was required to use EFTPS in 2004.

If the RIC is required to use EFTPS and fails to do so, it may be subject to a 10% penalty. If the RIC 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 RIC must initiate the transaction at least one business day before the date the deposit is due.

Deposits With Form 8109

If the RIC does not use EFTPS, deposit RIC 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 1-800-829-4933. Be sure to have your EIN ready when you call.

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

If the RIC 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 RIC's EIN, the tax period to which the deposit applies, and "Form 1120-RIC" on the check or money order. Be sure to darken the "1120" box under "Type of Tax" and the appropriate "Quarter" box under "Tax Period" 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 RIC owes tax when it files Form 1120-RIC, 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 RIC's payments of estimated tax.

- The RIC must make installment payments of estimated tax if it expects its total tax for the year (less applicable credits) to be $500 or more. For estimated tax purposes, the estimated tax of the RIC is defined as its alternative minimum tax less the credit for Federal tax on fuels.
- 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 RIC does not use EFTPS, use the deposit coupons (Forms 8109) to make deposits of estimated tax.

For more information, including penalties that apply if the RIC fails to make required payments, see the *Line 29 – Estimated Tax Penalty* instructions.

Overpaid estimated tax

If the RIC 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 the expected income tax liability and at least $500.

To apply for a quick refund, file Form 4466 before the 16th day of the 3rd month after the end of the RIC's tax year, but before the RIC files its income tax return. Form 4466 must be filed before the end of the RIC'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, substantial valuation misstatements, 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 RIC that does not file its tax return by the due date, including extensions, may be penalized 5% of the unpaid tax for each month or part of a month the return is late, up to a maximum of 25% of the unpaid tax. The minimum penalty for a return that is over 60 days late is the smaller of the tax due or $100. The penalty will not be imposed if the RIC can show that the failure to file on time was due to reasonable cause. RICs that file late must attach a statement explaining the reasonable cause.

Penalty for late payment of tax

A RIC 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 RIC can show that the failure to pay on time was due to reasonable cause.

Trust fund recovery penalty

This penalty may apply if certain income, social security, and Medicare taxes that must be collected or withheld are not collected or withheld, or these taxes are not paid. These taxes are generally reported on Form 720, Quarterly Federal Excise Tax Return, Form 941, Employer's Quarterly Federal Tax Return, Form 943, Employer's Annual Federal Tax Return for Agricultural Employees, or Form 945, Annual Return of Withheld Federal Income Tax. The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to 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 2004 return for calendar year 2004 and fiscal years that begin in 2004 and end in 2005. For a fiscal year return, fill in the tax year space at the top of the form.

Note. The 2004 Form 1120-RIC may also be used if:

- The RIC has a tax year of less than 12 months that begins and ends in 2005 and
- The 2005 Form 1120-RIC is not available at the time the RIC is required to file its return.

The RIC must show its 2005 tax year on the 2004 Form 1120-RIC and take into account any tax law changes that are effective for tax years beginning after December 31, 2004.

Name and Address

Type or print the RIC's true name (as set forth in the charter or other legal document creating it) and address on the appropriate lines. Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and the RIC has a P.O. box, show the box number instead.

If the RIC receives its mail in care of a third party (such as an accountant or an attorney), enter on the street address line "C/O" followed by the third party's name and street address or P.O. box.

Item B. Date RIC Was Established

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

Item C. Employer Identification Number (EIN)

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

- Online — Click on the EIN link at *www.irs.gov/businesses/small*. The EIN is issued immediately once the application information is validated.
- By telephone at 1-800-829-4933 from 7:30 a.m. to 10:00 p.m. in the RIC's local time zone.
- By mailing or faxing Form SS-4, Application for Employer Identification Number.

If the RIC has not received its EIN by the time the return is due, write "Applied for" in the space for the EIN. See Pub. 583 for details.

Item D. Total Assets

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

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

- If the RIC ceases to exist, file Form 1120-RIC and check the "Final return" box.
- If the RIC has changed its name since it last filed a return, check the box for "Name change." Generally, a RIC also must have amended its articles of incorporation and filed the amendment with the state in which it was incorporated.
- If the RIC has changed its address since it last filed a return (including a change to an "in care of" address, check the 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.

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

Part I—Investment Company Taxable Income

Income

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

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

Do not offset interest expense against interest income. Special rules apply to interest income from certain below-market-rate loans. See section 7872 for details.

Note. Report tax-exempt interest income on Form 1120-RIC, Schedule K, item 8. Also, if required, include the same amount on Schedule M-1, line 7.

Line 3. Net Foreign Currency Gain or (Loss) From Section 988 Transaction. Enter the net foreign currency gain or (loss) from section 988 transactions that is treated as ordinary income or loss under section 988(a)(1)(A). Attach a schedule detailing each separate transaction.

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

Line 5. Excess of Net Short-Term Capital Gain Over Net Long-Term Capital Loss. Enter the excess of net short-term capital gain over net long-term capital loss from Schedule D (Form 1120), line 12. Every sale or exchange of a capital asset must be reported in detail on Schedule D (Form 1120), even though no gain or loss is indicated.

Line 7. Other Income. Enter any other taxable income not reported on lines 1 through 6, except net capital gain that is reported in Part II. List the type and amount of income on an attached schedule. If the RIC has only one item of other income, describe it in parentheses on line 7. Examples of other income to report on line 7 include:

- Gross rents.
- Recoveries of fees or expenses in settlement or litigation.
- Amounts received or accrued as consideration for entering into agreements to make real property loans or to purchase or lease real property.
- Recoveries of bad debts deducted in prior years under the specific charge-off method.
- The amount of credit for alcohol used as fuel (determined without regard to the limitation based on tax) entered on Form 6478, Credit for Alcohol Used as Fuel.
- The amount included in income from Form 8864, Biodiesel Fuels Credit.
- 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.
- Any deduction previously taken under section 179A that is subject to recapture. The RIC must recapture the benefit of any allowable deduction for qualified clean-fuel vehicle property (or clean-fuel vehicle refueling property) if the property, later, ceases to qualify. See Regulations section 1.179A-1 for details.
- 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 22, Form 1120-RIC. 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

Direct and indirect costs (including taxes) allocable to real or tangible personal property constructed or improved by the taxpayer. These costs must be capitalized according to section 263A.

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

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

Business startup expenses. Business start-up and organizational costs must be capitalized unless an election is made to deduct or amortize them. For costs paid or incurred before October 23, 2004, the RIC must capitalize them unless it elects to amortize these costs over a period of 60 months or more. For costs paid or incurred after October 22, 2004, the following rules apply separately to each category of costs.

- The RIC can elect to deduct up to $5,000 of such costs for the year the RIC begins business operations.
- The $5,000 deduction is reduced (but not below zero) by the amount the total costs exceed $50,000. If the total costs are $55,000 or more, the deduction is reduced to zero.
- If the election is made, any costs that are not deductible must be amortized ratably over a 180-month period beginning with the month the RIC begins business operations.

For more details on the election for business start-up costs, see section 195 and attach the statement required by Regulations section 1.195-1(b). For more details on the election for organizational costs, see section 248 and attach the statement required by Regulations section 1.248-1(c). Report the deductible amount of these costs and any amortization on line 18. For amortization that begins during the 2004 tax year, complete and attach Form 4562.

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

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

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

Reducing certain expenses for which credits are allowable. For each credit listed below, the RIC 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.
- Orphan drug credit.
- Disabled access credit.
- Enhanced oil recovery credit.
- Empowerment zone and renewal community employment credit.
- Indian employment credit.
- Employer credit for social security and Medicare taxes paid on certain employee tips.
- Welfare-to-work credit.
- Credit for small employer pension plan startup costs.
- Credit for employer-provided childcare facilities and services.
- New York Liberty Zone business employee credit.
- Low sulfur diesel fuel production credit.

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

Line 9. Compensation of Officers. Complete Schedule E if total receipts are $500,000 or more. Total receipts are figured by adding:

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

Do not include compensation deductible elsewhere on the return, such as elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement or a SIMPLE IRA plan.

Include only the deductible part of officers' compensation on Schedule E. Complete Schedule E, columns (a) through (e), for all officers. The RIC determines who is an officer under the laws of the state where incorporated.

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

- The chief executive officer of the RIC (or an individual acting in that capacity) as of the end of the tax year; or
- An employee whose total compensation must be reported to shareholders under the Securities Exchange Act of 1934 because the employee is among the four highest compensated officers for that tax year (other than the chief executive officer).

For this purpose, compensation does not include:

- Income from certain employee trusts, annuity plans, or pensions.
- Any benefit paid to an employee that is excluded from the employee's income.

The deduction limit does not apply to:

- Commissions based on individual performance;
- Qualified performance-based compensation; and
- Income payable under a written, binding contract in effect on February 17, 1993.

The $1-million limit is reduced by amounts disallowed as excess parachute payments under section 280G. For details, see section 162(m) and Regulations section 1.162-27.

Line 10. Salaries and Wages. Enter the amount of salaries and wages paid for the tax year, reduced by any:

- Work opportunity credit from Form 5884,
- Empowerment zone and renewal community employment credit from Form 8844,
- Indian employment credit from Form 8845,
- Welfare-to-work credit from Form 8861, and
- New York Liberty Zone business employee credit from Form 8884.

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

CAUTION *If the RIC 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 14 and 22.*

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

The RIC may have an inclusion amount if:

The lease term began:	And the vehicle's FMV on the first day of the lease exceeded:
After 12/31/03 but before 1/1/05	$17,500
After 12/31/02 but before 1/1/04	$18,000
After 12/31/98 but before 1/1/03	$15,500

If the lease term began before January 1, 1999, see Pub. 463, Travel, Entertainment, Gift, and Car Expenses, to find out if the RIC has an inclusion amount. The inclusion amount for lease terms beginning in 2005 will be published in the Internal Revenue Bulletin in early 2005.

See Pub. 463 for instructions on figuring the inclusion amount.

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

- Federal income taxes (except for the tax imposed on net recognized built-in gain allocable to ordinary income).
- Foreign or U.S. possession income taxes if a foreign tax credit is claimed, or if the RIC made an election under section 853.
- Excise taxes imposed under section 4982 on undistributed RIC income.
- Taxes not imposed on the RIC.
- Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (these taxes must be treated as a part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition).
- Taxes assessed against local benefits that increase the value of the property assessed (such as for paving, etc.).
- Taxes deducted elsewhere on the return.

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

Line 13. Interest.

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

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

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

The following interest is not deductible:

- Interest on indebtedness incurred or continued to purchase or carry obligations if the interest is wholly exempt from income tax. For exceptions, see section 265(b).
- For cash basis taxpayers, prepaid interest allocable to years following the current tax year. (For example, a cash basis calendar year taxpayer who in 2004 prepaid interest allocable to any period after 2004 can deduct only the amount allocable to 2004).
- Interest and carrying charges on straddles. Generally, these amounts must be capitalized. See section 263(g).

Special rules apply to:

- Interest on which no tax is imposed (see section 163(j)).

• Foregone 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 14. Depreciation. Besides depreciation, include on line 14 the part of the cost that the RIC elected to expense under section 179 for certain property placed in service during tax year 2004 or carried over from 2003. See Form 4562, Depreciation and Amortization, and its instructions.

Line 22. Other Deductions.

CAUTION *Penalties or fines paid to any government agency or instrumentality because of a violation of a law are not deductible. See Publication 535, Business Expenses, for additional information.*

Attach a schedule, listing by type and amount, all allowable deductions that are not deductible elsewhere on the return. Include amortization and organization expenses. Generally, a deduction may not be taken for any amount that is allocable to tax-exempt income. See section 265(b) for exceptions.

Examples of other deductions include:
• Amortization (see Form 4562).
• Certain business start-up and organizational costs that the RIC elects to deduct.
• Reforestation costs. The RIC can elect to deduct up to $10,000 of qualified reforestation expenses paid or incurred after October 22, 2004, for each qualifying timber property. The RIC can elect to amortize over 84 months any amount not deducted.
• 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 income against ordinary losses. Instead, include the income on line 7. Show the partnership's name, address, and EIN on a separate statement attached to this return. If the amount is from more than one partnership, identify the amount from each partnership.
• Deduction for clean-fuel vehicle and certain refueling property (see Pub. 535).

Generally, do not deduct any amount that is allocable to a class of exempt income. See section 265(b) for exceptions.

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

RICs 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 tax year. Attach a declaration to the return stating that the resolution authorizing the contributions was adopted by the board of directors during the tax year. The declaration must include the date the resolution was adopted.

TIP *A RIC may treat cash contributions made to a qualified charitable organization in January 2005 for the relief of victims in areas affected by the December 26, 2004, Indian Ocean tsunami as if it had made them on December 31, 2004.*

Limitation on deduction. The total amount claimed may not be more than 10% of taxable income computed without regard to the following:
• Any deduction for contributions.
• The special deductions on line 25, relating to dividends paid.
• The deduction allowed under section 249, relating to any premium paid or incurred upon the repurchase of a convertible bond.
• Any capital loss carryback to the tax year under section 1212(a)(1).

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

Substantiation requirements. Generally, no deduction is allowed for any contribution of $250 or more unless the RIC obtains a written acknowledgment from the donee organization that shows the amount of cash contributed, describes any property contributed, and, either gives a description and a good faith estimate of the value of any goods or services provided in return for the contribution or states that no goods or services were provided in return for the contribution. The acknowledgment must be obtained by the due date (including extensions) of the RIC'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 RIC'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 of property other than cash. If a RIC (other than a closely held RIC, see below) 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 FMV. A closely held RIC must complete Form 8283 and attach it to its return. All other RICs generally must complete and attach Form 8283 to their returns for contributions of property (other than money) if the total claimed deduction for all property contributed was more than $5,000.

If the RIC 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 is included, show the amount and how it was determined.

Contributions after June 3, 2004. For contributions of certain property made after June 3, 2004, a corporation must file Form 8283 and get a qualified appraisal if claiming a deduction of more than $5,000. Do not attach the appraisal to the tax return unless claiming a deduction of more than $500,000 or, for art, a deduction of $20,000 or more. See Form 8283.

Contributions of used vehicles. Special rules apply to contributions after 2004 of used motor vehicles, boats, or airplanes with a claimed value of more than $500. See section 170(f)(12).

Reduced deduction for contributions of certain property. For a charitable contribution of property, the RIC 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 RIC may take an increased deduction under section 170(e)(6) for qualified contributions of computer technology or equipment for educational purposes. The term "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, service, 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 more 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.

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.

Pension, profit-sharing, etc., plans. Include 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 RIC does not claim a deduction for the current tax year. There are penalties for failure to file these forms on time and for overstating the pension plan deduction. See sections 6652(e) and 6662(f).

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 owner and his or her spouse) owns the entire business.

Travel, meals, and entertainment. Subject to the limitations and restrictions discussed below, the RIC can deduct ordinary and necessary expenses paid for travel, meals, and entertainment incurred in its trade or business. Also, special rules apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets. See section 274 and Pub. 463, Travel, Entertainment, Gift, and Car Expenses, for more details.

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

- That individual is an employee of the RIC; 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 RIC 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 of the RIC must be present at the meal.

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

Membership dues. The RIC may deduct amounts paid or incurred for membership dues in civic or public service organizations, professional organizations (such as bar and medical associations), business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards. However, no deduction is allowed if a principal purpose of the organization is to entertain, or provide entertainment facilities for, members or their guests.

In addition, the RIC 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 means under conditions favorable to business discussion.

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

Amounts treated as compensation. Generally, the RIC may be able to deduct otherwise nondeductible meals, travel, and entertainment expenses if the amounts are treated as compensation and reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.

However, if the recipient is an officer, director, or beneficial owner (directly or indirectly) of more than 10% of any class of stock, the deduction for otherwise nondeductible meals, travel, and entertainment expenses incurred after October 22, 2004, is limited to the amount treated as compensation. See section 274(e)(2).

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, Business Expenses.

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 lobbying expenditures do not exceed $2,000, they are deductible. For information on contributions to charitable organizations that conduct lobbying activities, see section 170(f)(9).

For more information on other deductions that may apply to RICs, see Pub. 535.

Line 24. Taxable Income Before Deduction for Dividends Paid.

At-risk rules. Generally, special at-risk rules under section 465 apply to closely held RICs engaged in any activity as a trade or business or for the production of income. These RICs may have to adjust the amount on line 24.

The at-risk rules do not apply to:

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

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

If the at-risk rules apply, adjust the amount on this line for any section 465(d) losses. These losses are limited to the amount for which the RIC is at risk for each separate activity at the close of the tax year. If the RIC 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 RIC 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 RIC 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.

Tax and Payments

Line 28b. Estimated Tax Payments. Enter any estimated tax payments the RIC made for the tax year.

Line 28f. Credit for Tax Paid on Undistributed Capital Gains. Enter the credit (from Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains) for the RIC's share of the tax paid by another RIC or a REIT on undistributed long-term capital gains included in the RIC's income. Attach Form 2439 to Form 1120-RIC.

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

Line 28h. Add the amounts on lines 28d through 28g and enter the total on line 28h.

Backup withholding. If the RIC had income tax withheld from any payments it received, because, for example, it failed to give the payer its correct EIN, include the amount withheld in the total for line 28h. This type of withholding is called "Backup Withholding." Show the amount withheld in the blank space in the right-hand column between lines 27 and 28h, and write "Backup Withholding."

Line 29. Estimated Tax Penalty. A RIC that does not make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. Generally, a RIC is subject to the penalty if its tax liability is $500 or more and it did not timely pay the smaller of:

- Its alternative minimum tax minus the credit for Federal tax paid on fuels for 2004 as shown on the return or
- Its prior year's tax (computed in the same manner). See section 6655 for details and exceptions, including special rules for large corporations.

Use Form 2220, Underpayment of Estimated Tax by Corporations, to see if the RIC owes a penalty and to figure the amount of the penalty. Generally, the RIC does not have to file this form because the IRS can figure the amount of any penalty and bill the RIC for it. However, even if the RIC does not owe the penalty, it must complete and attach Form 2220 if:

- The annualized income or adjusted seasonal installment method is used or
- The RIC is a large corporation 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 29, page 1, Form 1120-RIC, and enter the amount of any penalty on this line.

Schedule A—Deduction for Dividends Paid

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

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

Do not include any amount reported for the tax year on Form 2438, line 9b. Section 561 (taking into account sections 852(b)(7), 852(c)(3)(B), and 855(a)) determines the deduction for dividends paid. Do not take into account exempt-interest dividends defined in section 852(b)(5). See Regulations section 1.852-11.

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

Line 5. Enter the foreign tax paid deduction allowed as an addition to the dividends paid deduction under section 853(b)(1)(B). See the instructions for Item 10, Schedule K, on page 12, for information on the election available under section 853(a).

Schedule B—Income From Tax-Exempt Obligations

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

Check the "Yes" box on line 1 of Schedule B and complete lines 2 through 5. See section 852(b)(5) for the definition of exempt-interest dividends and other details.

Schedule J—Tax Computation

Note. Members of a controlled group must attach to Form 1120-RIC a statement showing the computation of the tax entered on line 3a. You may use the *"Tax Computation Worksheet for Members of a Controlled Group"* below.

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 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.

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 brackets. However, the total amount for all members cannot be more than the total amount in each taxable income bracket.

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 Corporation A and Corporation B. They do not elect an apportionment plan. Therefore, each RIC 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).

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 RIC figured its share of the additional tax.

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

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

Line 3a–Tax on Investment Company Taxable Income

For a RIC that is not a personal holding company. If it is in compliance with Regulations section 1.852-6 regarding disclosure of the RIC's actual stock ownership (members of a controlled group should see the instructions above for lines 1 and 2), then it should compute its tax using the *Tax Rate Schedule* below:

Tax Rate Schedule

If the investment company taxable income (line 26, page 1) 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

For a RIC that is a personal holding company. A RIC that is a personal holding company or that is not in compliance with Regulations section 1.852-6 is taxed at a flat rate of 35% on its investment company taxable income.

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

Note: *Each member of a controlled group must compute the tax on its investment company taxable income using this worksheet (except RICs that are personal holding companies or that are not in compliance with Regulations section 1.852-6, see Line 3a above.)*

1. Enter investment company taxable income (line 26, page 1) . . . . ______

2. Enter line 1 or the RIC'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 RIC'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 RIC'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 the instructions for line 2b above) . . . . . ______

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 the instructions for line 2b above) . . . . . ______

14. **Total.** Add lines 8 through 13. Enter here and on line 3a, Schedule J . . . . ______

Line 3c–Alternative Minimum Tax (AMT)

Unless the RIC is treated as a small corporation exempt from the AMT, it may owe the AMT if it has any of the adjustments and tax preference items listed on Form 4626, Alternative Minimum Tax—Corporations.

The RIC must file Form 4626 if its investment company taxable income (or loss) and retained capital gains not designated under section 852(b)(3)(D) plus adjustments and tax preference items is more than the smaller of:

- $40,000 or
- The RIC's allowable exemption amount (from Form 4626).

See Form 4626 for details.

Exemption for small corporations. A RIC is treated as a small corporation exempt from the AMT for its tax year beginning in 2004 if that year is the RIC'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 RIC was in existence) ending before its tax year beginning in 2004 did not exceed $7.5 million ($5 million if the RIC had only 1 prior tax year).

For more details, see the Instructions for Form 4626.

Line 3d—Income Tax

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

Do not include on line 3d any interest due under section 1291(c)(3). Instead, show the amount of interest owed in the bottom margin of page 1, Form 1120-RIC, and write “Section 1291 interest.” For details, see Form 8621, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund.

Additional tax under section 197(f). A RIC that elects to pay tax on the gain from the sale of an intangible under the related person exception to the anti-churning rules should include any additional tax due under section 197(f)(9)(B) in the total for line 3d. On the dotted line to the left of line 3d, write “Section 197” and the amount. For more information, see Pub. 535.

Line 4a– Foreign Tax Credit

To find out when a RIC can claim this credit for payment of income tax to a foreign country or U.S. possession, see Form 1118, Foreign Tax Credit—Corporations. The RIC may not claim this credit if an election under section 853 was made for the tax year. See Item 10, Schedule K, on page 12.

Line 4b

If the RIC can claim either of the following credits, check the appropriate box(es) and include the amount of the credits in the total for line 4b.

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. Use Form 8834, Qualified Electric Vehicle Credit, if the RIC can claim a credit for the purchase of a new qualified electric vehicle. Vehicles that qualify for this credit are not eligible for the deduction for clean-fuel vehicles under section 179A.

Line 4c–General Business Credit

Enter on line 4c the RIC’s total general business credit.

If the RIC is filing Form 8844, Empowerment Zone and Renewal Community Employment Credit, or Form 8884, New York Liberty Zone Business Employee Credit, check the “Form(s)” box, write the form number in the space provided, and include the allowable credit on line 4c.

If the RIC is required to file Form 3800, General Business Credit, check the “Form 3800” box and include the allowable credit on line 4c. If the RIC is not required to file Form 3800, check the “Form(s)” box, write the form number in the space provided, and include on line 4c the allowable credit from the applicable form listed below.

- 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).
- 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).
- Biodiesel Fuels Credit (Form 8864).
- New Markets Credit (Form 8874).
- Credit for Small Employer Pension Plan Startup Costs (Form 8881).
- Credit for Employer-Provided Child Care Facilities and Services (Form 8882).
- Low Sulfur Diesel Fuel Production Credit (Form 8896).

Line 4d–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 RIC’s 2003 nonconventional source fuel credit or qualified electric vehicle credit was disallowed solely because of the tentative minimum tax limitation. See section 53(d).

Line 6– Personal Holding Company Tax

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

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

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

Line 7–Other Taxes

Include any of the following taxes and interest in the total on line 7. Check the appropriate box(es) for the form, if any, used to compute the total.

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

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

Other. Additional taxes and interest amounts can be included in the total entered on line 7. Check the box for “Other” if the RIC includes any of the taxes and interest discussed below. See *How to report*, below for details on reporting these amounts on an attached schedule.

1. Recapture of qualified electric vehicle (QEV) credit. The RIC must recapture part of the QEV credit it 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.

2. Recapture of Indian employment credit. Generally, if an employer terminates the employment of a qualified employee less than 1 year after the date of initial employment, any Indian employment credit allowed for a prior tax year because of wages paid or incurred to that employee must be recaptured. For details, see Form 8845 and section 45A.

3. Recapture of new markets credit (see Form 8874).

4. Recapture of employer-provided childcare facilities and services credit (see Form 8882).

5. Interest due 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)).

6. Interest due on deferred gain (section 1260(b)).

Built-in gains tax. If, on or after January 2, 2002, property of a C corporation becomes property of a RIC by either (a) the qualification of the C corporation as a RIC or (b) the transfer of such property to a RIC, then the RIC will be subject to the built-in gain tax under section 1374 unless the C corporation elects deemed sale treatment on the transferred property. If the C corporation does not make this election, the RIC must pay tax on the net recognized built-in gain during the 10-year period beginning on its first day as a RIC or the day it acquired the property. Recognized built-in gains and losses generally retain their character (for example, ordinary income or capital gain) and are treated the same as other gains or losses of the RIC. The RIC’s tax on net recognized built-in gain is treated as a loss sustained by the RIC after October 31 of the same tax year (see the instructions for line i of the *Built-in Gains Tax Worksheet* on page 12). See Regulations section 1.337(d)-7 for details.

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

Worksheet instructions. Complete the worksheet on page 12 to figure the built-in gains tax under Regulations section 1.337(d)-7 or 1.337(d)-6.

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

Line b. Add the amounts shown on Form 1120-RIC, page 1, line 24; Form 1120-RIC, Part II, line 1; and Form 2438, line 11. For this purpose, refigure line 24 on page 1 of Form 1120-RIC without regard to any election under section 852(b)(2)(F). Enter the result on line b of the worksheet.

Line c. The RIC’s net unrealized built-in gain is the amount, if any, by which the FMV of the assets of the RIC at the beginning of its first RIC year (or as of the date the assets were acquired, for any asset with a basis determined by reference to its basis (or the basis of any other property) in the hands of a C corporation) exceeds the aggregate adjusted basis of such assets at that time.

Enter on line c the RIC net unrealized built-in gain reduced by the net recognized built-in gain for prior years. See sections 1374(c)(2) and (d)(1).

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

Line e. Enter the section 1374(b)(2) deduction. Generally, this is any net operating loss carryforward or capital loss carryforward (to the extent of net capital gain included in recognized built-in gain for the tax year) arising in tax years for which the RIC was a C corporation. A capital loss carryforward must be used to reduce recognized built-in gain for the tax year to the greatest extent possible before it can be used to reduce the investment company taxable income.

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

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

- Ordinary gain as a deduction for taxes on Form 1120-RIC, line 12.
- Short-term capital gain as a short-term capital loss on Schedule D (Form 1120), line 1.
- Long-term capital gain as a long-term capital loss on Schedule D (Form 1120), line 6.

How to report. If the RIC checked the "Other" box, attach a schedule showing the computation of each item included in the total for line 7, Schedule J; identify the applicable Code section and the type of tax or interest.

Line 8 – 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 8. See Form 8621, Part V, and *"How to report"*, below.

Subtract from the total for line 8 the deferred taxes on the RIC's share of the 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 8. On the dotted line next to line 8, enter the amount of tax or interest, identify it as tax or interest, and specify the Code section that applies.

Schedule K – Other Information

The following instructions apply to questions 1 through 11 on page 3, Form 1120-RIC. Complete all questions that apply.

Question 3

Check the "Yes" box for question 3 if the RIC is a subsidiary in a parent-subsidiary controlled group (defined below). This applies even if the RIC is a subsidiary member of one group and the parent corporation of another.

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

Parent-subsidiary controlled group. The term "parent-subsidiary controlled group" means one or more chains of corporations 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 entitled to vote or at least 80% of the total value of all classes of stock of each corporation in the group (except the parent) must be owned by one or more of the other corporations 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 corporations 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.

Question 5

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

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

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

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

Foreign person. The term "foreign person" means:

- A foreign citizen or nonresident alien.
- An individual who is a citizen of a U.S. possession (but who is not a U.S. citizen or resident).
- A foreign partnership.
- A foreign corporation.
- Any foreign estate or trust within the meaning of section 7701(a)(31).
- A foreign government (or one of its agencies or instrumentalities) to the extent that it is engaged in the conduct of a commercial activity as described in section 892.

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

Requirement to file Form 5472. If the RIC checked "Yes," it may have to file Form 5472. Generally, a 25% foreign-owned corporation that had a reportable transaction with a foreign or domestic related party during the tax year must file Form 5472.

See Form 5472 for filing instructions and penalties for failure to file.

Item 8

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

Item 10

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

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

- More than 50% of the value of the RIC's total assets at the end of the tax year must consist of stock or securities in foreign corporations.
- The RIC must meet the holding period requirements of section 901(k) with respect to its common and preferred stock. If the RIC fails to meet these holding period requirements, the election that allows a RIC to pass through to its shareholders the foreign tax credits for foreign taxes paid by the RIC is disallowed. Although the foreign taxes paid may not be taken as a credit by either the RIC or the shareholder, they are still deductible at the fund level.

To make a valid election, in addition to timely filing Form 1120-RIC and checking the box for line 10, the RIC must file:

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

a.	Excess of recognized built-in gains over recognized built-in losses	**a.**	
b.	Taxable income	**b.**	
c.	Enter the net unrealized built-in gain reduced by any net recognized built-in gain for all prior years	**c.**	
d.	Net recognized built-in gain (enter the **smallest** of lines a, b, or c)	**d.**	
e.	Section 1374(b)(2) deduction	**e.**	
f.	Subtract line e from line d. If zero, enter -0- here and on line i	**f.**	
g.	Enter 35% of line f	**g.**	
h.	Business credit and minimum tax credit carryforwards under section 1374(b)(3) from C corporation	**h.**	
i.	**Tax.** Subtract line h from line g (if zero or less, enter -0-). Enter here and include on line 7 of Schedule J (see instructions)	**i.**	

- Form 1099-DIV and Form 1096, including the statement required by Regulations section 1.853-4; and
- Form 1118, modified to become a statement supporting the RIC's election.

Notification. If the RIC makes the election, it must furnish to its shareholders a written notice designating the shareholder's share of foreign taxes paid to each country or possession and the share of the dividend that represents income derived from sources within each country or possession. The notice must be mailed to the shareholders no later than 60 days after the end of the RIC's tax year.

For further information, see Regulations section 1.853-4.

Schedule L–Balance Sheets per Books

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

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

Line 4. Tax-Exempt Securities. Include on this line:

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

Line 24. Adjustments to Shareholders' Equity. Examples of adjustments to report on this line include:

- Unrealized gains and losses on securities held "available for sale."
- Foreign currency translation adjustments.
- The excess of additional pension liability over unrecognized prior service cost.
- Guarantees of employee stock (ESOP) debt.
- 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 5d. Travel and Entertainment. Include on line 5d 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 over $2,000, which are allocable to conventions on cruise ships.
- Employee achievement awards over $400.
- The cost of entertainment tickets over face value (also subject to the 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 travel and entertainment expenses.

For more information, see Pub. 542, Corporations.

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

Privacy Act and 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. Section 6109 requires return preparers to provide their identifying numbers on the return.

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	57 hr., 9 min.
Learning about the law or the form	20 hr., 43 min.
Preparing the form	36 hr., 16 min.
Copying, assembling, and sending the form to the IRS	4 hr., 1 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 Internal Revenue Service; Tax Products Coordinating Committee; SE:W:CAR:MP:T:T:SP; 1111 Constitution Ave., NW; IR-6406; Washington, DC 20224. Do not send the tax form to this office. Instead, see "*Where To File*" on page 2.