2009

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.

Contents **Page**

What's New

- Beginning July 1, 2009, a RIC can file Form 8927, Determination Under Section 860(e)(4) by a Qualified Investment Entity, to establish the date of determination for purposes of making a deficiency dividend distribution. See Form 8927 and Rev. Proc. 2009-28 for more information.
- For tax years beginning in 2009 or 2010, there is no tax on the net recognized built-in gain of a RIC, if the 7th year of the applicable recognition period ended before the tax year. See the *Built-in Gains Tax Worksheet Instructions* on page 12 for more information.
- The RIC can elect to defer income from discharge of indebtedness in connection with an applicable debt instrument reacquired after December 31, 2008, and before January 1, 2011, and include the deferred income over a 5-year period. In addition, any applicable accrued original issue discount (OID) is allowed as a deduction ratably over the 5-year period that the income from cancellation of debt is includible in income. See section 108(i). Also, see the instructions for lines 7 and 13.
- The election to accelerate the minimum tax and research credits in lieu of claiming any additional first year special depreciation allowance for eligible qualified property has been extended to eligible qualified extension property. See the instructions for line 28h.
- The maximum 15% alternative tax does not apply to qualified timber gain after May 22, 2009. See the instructions for Part II, line 4.
- Certain tax benefits for Midwestern disaster areas, including special charitable contribution benefits, have expired. See Pub. 4492-B, Information for Affected Taxpayers in the Midwestern Disaster Areas.

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

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should. The service is free, confidential, tailored to meet your needs, and is available for businesses, as well as individuals.

A RIC can contact the TAS as follows.

- Call the TAS toll-free line at 1-877-777-4778 or TYY/TDD 1-800-829-4059 to see if the RIC is eligible for assistance.
- Call or write the RICs local taxpayer advocate, whose phone number and address are listed in the local telephone directory and in Pub. 1546, Taxpayer Advocate Service – Your Voice at the IRS.
- File Form 911, Request for Taxpayer Advocate Assistance (And Application for Taxpayer Assistance Order), or ask an IRS employee to complete it on the RICs behalf.

For more information, go to *www.irs.gov/advocate.*

How To Get Forms and Publications

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

- Download forms, instructions, and publications;
- Order IRS products online;
- Research your tax questions online;
- Search publications online by topic or keyword;
- View Internal Revenue Bulletins (IRBs) published in recent years; and
- Sign up to receive local and national tax news by email.

IRS tax products DVD. You can order Pub. 1796, IRS Tax Products DVD, and obtain the following.

- Current year forms, instructions, and publications.
- Prior year forms, instructions, and publications.

- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions (FAQs).
- Tax Topics from the IRS telephone response system.
- Internal Revenue Code – Title 26 of the U.S. Code.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.
- Two releases during the year.
— The first release will ship early in January 2010.
— The final release will ship early in March 2010.

Buy the DVD from the National Technical Information Service (NTIS) at *www.irs.gov/cdorders* for $30 (no handling fee) or call 1-877-233-6767 toll-free to buy the DVD for $30 (plus a $6 handling fee). *Price is subject to change.*

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.

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” applies to any domestic corporation that:
- Is registered throughout the tax year as a management company or unit investment trust under the Investment Company Act of 1940 (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 the (1) income test, (2) asset test, and (3) distribution requirements explained below.

The income test: At least 90% of its gross income must be derived from the following items:
- Dividends;
- Interest (including tax-exempt interest income);
- 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.

The asset test:

1. 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)).
2. 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 of:
   - A single issuer (excluding government securities or securities of other RICs);
   - Two or more issuers controlled by the RIC and engaged in the same or related trades or businesses; or
   - One or more qualified publicly traded partnerships as defined in section 851(h).

See sections 851(b)(3) and 851(c) for further details.

Distribution requirements. 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).

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 address:
Connecticut, Delaware, District of Columbia, Georgia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, West Virginia, Wisconsin	Less than $10 million	Department of the Treasury Internal Revenue Service Center Cincinnati, OH 45999-0012
	$10 million or more	Department of the Treasury Internal Revenue Service Center Ogden, UT 84201-0012
Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, Wyoming	Any amount	Department of the Treasury Internal Revenue Service Center 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, file the tax returns with the service center for the area in which the principal office of the managing corporation is located.

A RIC that does not satisfy the distribution requirements will be subject to taxation as a C corporation.

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

Note. For this purpose, current year distributions 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 if the RIC did not meet this requirement.

Definition of a Fund

The term “fund” 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 of dissolution.

If the due date falls on a Saturday, Sunday, or legal holiday, the RIC may file its return 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.
- 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.

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.

Extension of Time To File

File Form 7004, Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns, to request a 6-month extension of time to file. Generally, the corporation must file Form 7004 by the regular due date of the return.

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. Returns and forms signed by a receiver or trustee in bankruptcy on behalf of a RIC must be accompanied by a copy of the order or instructions of the court authorizing signing of the return or form.

Note. If this return is being filed for a series fund (as defined 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. A preparer who does not charge the RIC to prepare Form 1120-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; and
- Give a copy of the return to the corporation.

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

Paid Preparer Authorization

If the RIC wants to allow the IRS to discuss its 2009 tax return with the paid preparer who signed the return, 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 return or the status of any related refund or payment(s), and
- Respond to certain IRS notices about math errors, offsets, and return preparation.

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.

The authorization will automatically end no later than the due date (excluding extensions) for filing the RIC's 2010 tax return. If the RIC wants to expand the paid preparer's authorization or revoke the authorization before it ends, see Pub. 947, Practice Before the IRS and Power of Attorney.

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, in the following order.

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

Complete every applicable entry space on Form 1120-RIC. Do not enter “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. Enter the RIC's name and EIN on each supporting statement or attachment.

Depository Methods of Tax Payment

The 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 RIC income taxes are discussed below.

Electronic Deposit Requirement

The RIC must make electronic deposits of all depository taxes (such as employment tax, excise tax, and corporate income tax) using the Electronic Federal Tax Payment System (EFTPS) in 2010 if:

- The total deposits of such taxes in 2008 were more than $200,000; or
- The RIC was required to use EFTPS in 2009.

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 can participate voluntarily. To enroll in or receive more information about EFTPS, call 1-800-555-4477. 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 1 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 the RIC does not have a preprinted Form 8109, use Form 8109-B to make deposits. You can get this form by calling 1-800-829-4933 or visiting an IRS taxpayer assistance center. Have the RIC's EIN ready when you call or visit.

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. Records of the deposits will be sent to the IRS.

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."

The financial agent cannot process foreign checks. If the corporation sends a check written on a foreign bank to pay a federal tax deposit, it may be charged a deposit penalty.

To help ensure proper crediting, enter the RIC's EIN, the tax period to which the deposit applies, and "Form 1120-RIC" on the check or money order. On the coupon, darken the "1120" box under "Type of Tax" and the appropriate "Quarter" box only under "Tax Period." See the instructions for Form 8109 for details on how to complete the appropriate "Quarter" box for income tax deposits.

For more information on deposits, see the instructions for Form 8109 and Pub. 15 (Circular E), Employer's Tax Guide.

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.
- 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. See the instructions for Form 8109 for information on completing the coupon for estimated tax deposits.
- If the RIC overpaid its 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 RIC's expected income tax liability and at least $500.

For more information, including penalties, see the instructions for line 29, *Estimated tax penalty*, on page 10.

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, substantial understatements of tax, and reportable transaction understatements from the due date (including extensions) to the date of payment. The interest charge is figured at a rate determined under section 6621.

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 $135. 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 should attach a statement explaining the reasonable cause.

Late payment of tax. A RIC that does not pay the tax when due generally may be penalized 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 excise, 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 944, Employer's ANNUAL Federal Tax Return; 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 be responsible for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so. The penalty is equal to the full amount of the unpaid trust fund tax. See the Instructions for Form 720 or Pub. 15 (Circular E), for details, including the definition of responsible persons.

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

Accounting Methods

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 reflect 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) and Pub. 538, Accounting Periods and Methods, for details.

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 held at its fair market value (FMV).

Any security held by a dealer that is not inventory and 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 resulting gain or loss must be taken into account that year 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. 97-39, 1997-39 I.R.B, 4.

Dealers in commodities and traders in securities and commodities may elect, with some exceptions, 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, 1999-7 I.R.B. 52, and sections 475(e) and (f).

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

There are some instances when the RIC can obtain automatic consent from the IRS to change to certain accounting methods. See Rev. Proc. 2008-52, 2008-36 I.R.B. 587, and Rev. Proc. 2009-39, 2009-38 I.R.B. 371. Also, see the instructions for Form 3115.

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 sections 1.441-1 and 1.441-2.

Change of tax year. Generally, a RIC must receive consent from the IRS before changing its tax year. To obtain the consent, file Form 1128, Application To Adopt, Change, or Retain a Tax Year. However, under certain conditions, a RIC may change its tax year without obtaining the consent.

See the Instructions for Form 1128 and Pub. 538 for more information on accounting periods and tax years.

Rounding Off to Whole Dollars

A RIC can 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.

Other Forms That May Be Required

In addition to Form 1120-RIC, the RIC may have to file some of the following forms. Also see Pub. 542, Corporations, for an expanded list of forms the RIC may be required to file.

Form 976, Claim for Deficiency Dividends Deductions by a Personal Holding Company, Regulated Investment Company, or Real Estate Investment Trust. Use this form to claim a deficiency dividend under section 860.

Form 1096, Annual Summary and Transmittal of U.S. Information Returns. Use Form 1096 to transmit Forms 1099 and 5498 to the Internal Revenue Service.

Form 1099-DIV, Dividends and Distributions. Report certain dividends and distributions.

Form 1099-INT, Interest Income. Report interest income.

Form 2438, Undistributed Capital Gains Tax Return, must be filed by the RIC if it designates undistributed net long-term capital gains under section 852(b)(3)(D).

Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains, must be completed and a copy given to each shareholder for whom the RIC paid tax on undistributed net long-term capital gains under section 852(b)(3)(D).

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

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 8927. Determination Under 860(e)(4) by a Qualified Investment Entity. Use Form 8927 to establish a determination date under Section 860(e)(4) for purposes of making a deficiency dividend distribution.

Statements

Reportable transaction disclosure statement. Disclose information for each reportable transaction in which the RIC participated. Form 8886, Reportable Transaction Disclosure Statement, must be filed for each tax year that the federal income tax liability of the RIC is affected by its participation in the transaction. The following are reportable transactions.

1. Any listed transaction, which is a transaction that is the same as or substantially similar to one of the types of transactions that the IRS has determined to be a tax avoidance transaction and identified by notice, regulation, or other published guidance as a listed transaction.
2. Any transaction offered under conditions of confidentiality for which the RIC (or a related party) paid an advisor a fee of at least $250,000.
3. Certain transactions for which the RIC (or a related party) has contractual protection against disallowance of the tax benefits.
4. Certain transactions resulting in a loss of at least $10 million in any single year or $20 million in any combination of years.
5. Any transaction identified by the IRS by notice, regulation, or other published guidance as a "transaction of interest". See Notice 2009-55, 2009-1 I.R.B. 170.

For more information, see Regulations section 1.6011-4. Also, see the Instructions for Form 8886.

Penalties. The RIC may have to pay a penalty if it is required to disclose a reportable transaction under section 6011 and fails to properly complete and file Form 8886. Penalties may also apply under section 6707A if the RIC fails to file Form 8886 with its Form 1120-RIC, fails to provide a copy of Form 8886 to the Office of Tax Shelter Analysis (OTSA), or files a form that fails to include all the information required (or includes incorrect information). Other penalties, such as an accuracy-related penalty under section 6662A, may also apply. See the Instructions for Form 8886 for details on these and other penalties.

Reportable transactions by material advisors. Material advisors to any reportable transaction must disclose certain information about the reportable transaction by filing Form 8918, Material Advisor Disclosure Statement, with the IRS. For details, see the Instructions for Form 8918.

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.

Transfers to a corporation controlled by the transferor. Every significant transferor (as defined in Regulations section 1.351-3(d) that receives stock of a corporation in exchange for property in a nonrecognition event must attach the statement required by Regulations section 1.351-3(a)) to its return for the tax year of the exchange. The transferee corporation must include the statement required by Regulations section 1.351-3(b) for the tax year of the exchange, unless all the required information is included in any statement(s) provided by a significant transferor that is attached to the same return for the same section 351 exchange. If the transferor or transferee corporation is a controlled foreign corporation, each U.S. shareholder (within the meaning of section 951(b)) must include the required statement on or with its return.

Distributions under section 355. Every corporation that makes a distribution of stock or securities of a controlled corporation, as described in section 355 (or so much of section 356 as it relates to section 355), must attach the statement required by Regulations section 1.355-5 to its return for the year of the distribution. If the distributing corporation is a controlled foreign corporation, each U.S. shareholder (within the meaning of section 951(b)), must include the statement on or with its return.

Dual consolidated losses. If a domestic corporation incurs a dual consolidated loss (as defined in Regulations section 1.1503-2(c)(5)), the corporation (or consolidated group) may need to attach an elective relief agreement and/or an annual certification as provided in Temporary Regulations section 1.1503-2(g)(2).

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. The capital gain dividend is treated as a long-term capital gain by the shareholder.

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 their 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. 2003-84 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. 2003-84 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. 2003-84 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. 2003-84. For more details, see the Revenue Procedure.

Other forms and statements. See Pub. 542 for a list of other forms and statements a corporation may need to file in addition to the forms and statements discussed throughout these instructions.

Specific Instructions

Period Covered

File the 2009 return for calendar year 2009 and fiscal years that begin in 2009. For a fiscal year return, fill in the tax year space at the top of the form.

Note. The 2009 Form 1120-RIC may also be used if:

- The RIC has a tax year of less than 12 months that begins and ends in 2010; and
- The 2010 Form 1120-RIC is not available at the time the RIC is required to file its return.

The RIC must show its 2010 tax year information on the 2009 Form 1120-RIC and take into account any tax law changes that are effective for tax years beginning after December 31, 2009.

Name and Address

Enter the RIC's true name (as set forth in the charter or other legal document creating it), address, and EIN on the appropriate lines. Enter the address of the RIC's principal office or place of business. 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.

Note. Do not use the address of the registered agent for the state in which the RIC is incorporated. For example, if a business is incorporated in Delaware or Nevada and the RIC's principal office is located in Little Rock, AR, the RIC should enter the Little Rock address.

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 7:00 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" and the date you applied in the space for the EIN. See the Instructions for Form SS-4 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 this is the RIC's final return and it will no longer exist, check the "Final return" box.
- If the RIC has changed its name since it last filed a return, check the "Name change" box. Generally, a RIC must also 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 "Address change" box.

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.

Amended return. 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: the date the share became ex-dividend, or 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 more information on the tax treatment of loans on which inadequate or no interest is charged.

Note. Report tax-exempt interest income on Schedule K, item 8. Do not include tax-exempt interest on line 2. Also, if required, include the same amount on Schedule M-1, line 7.

Include interest income from qualified tax credit bonds on line 2. If the RIC elects to pass through the credits to shareholders, see the instructions for Part II, Schedule A, line 6.

Line 3. Net Foreign Currency Gain or (Loss) from Section 988 Transactions. Enter the net foreign currency gain (loss) from section 988 transactions 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 amount 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 if no gain or loss is indicated.

Line 7. Other Income. Enter any other taxable income (loss) not reported on lines 1 through 6, except net capital gain 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.
- 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 prior year tax refunds.
- The recapture amount under section 280F if the business use of listed property drops to 50% or less. To figure the recapture amount, complete Part IV of Form 4797.
- 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. 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.
- Any net positive section 481 income adjustment due to a change in method of accounting. See Form 3115 and its instructions for more information.
- Part or all of the proceeds received from certain corporate-owned life insurance contracts issued after August 17, 2006. Corporations that own one or more employer-owned life insurance contracts issued after this date must file Form 8925, Report of Employer-Owned Life Insurance Contracts. See section 101(j) for details.
- Income from discharge of indebtedness for the purchase of a debt instrument for less than its adjusted issue price. However, for a reacquisition of an applicable debt instrument after December 31, 2008, and before January 1, 2011, a RIC can elect, under section 108(i), to defer the income from discharge of indebtedness in connection with the election. If the RIC makes the election, the income is deferred and ratably included in income over the 5-year period beginning with:

1. For a reacquisition occurring in 2009, the fifth tax year following the tax year in which the reacquisition occurs, and
2. For a reacquisition occurring in 2010, the fourth tax year following the tax year in which the reacquisition occurs.

To make the election, attach a statement to the RIC's return for the tax year in which the applicable reacquisition occurs. The statement must clearly identify the applicable instrument and include the amount of income to which the election applies. Once made, the election is irrevocable. For more information, see section 108(i) and Rev. Proc. 2009-37, 2009-36 I.R.B. 309.

Deductions

Limitations on Deductions

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 includible in the income of the related party. See section 267 for limitations on deductions for interest and expenses paid to a related party.

Also see the instructions for Form 8926, Disqualified Corporate Interest Expense Disallowed Under Section 163(j) and Related Information, with respect to section 163(j).

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 key employees to pay them an amount substantially in excess of their base amount if control of the RIC changes. See section 280G and Regulations section 1.280G-1 for more information. Also, see the instructions for line 9.

Business start-up and organizational costs. For business start-up and organizational costs paid or incurred after September 8, 2008, a RIC can deduct up to $5,000 of such costs for the year it begins business (unless the RIC elects to capitalize all such costs). The $5,000 deduction is reduced by the amount the total costs exceed $50,000. If the total costs are $55,000 or more, the deduction is reduced to zero. Any cost not deducted must be amortized ratably over a 180-month period, beginning with the month the corporation begins business. The RIC is not required to attach a statement or specifically identify the amount deducted in order for the election to be effective. The RIC can choose to forgo the deduction and instead elect to capitalize all such costs. The election to deduct or capitalize costs is irrevocable. See Temporary Regulations sections 1.195-1T and 1.248-1T.

For business start-up and organizational costs paid or incurred after October 22, 2004, and before September 9, 2008, a RIC can elect to deduct up to $5,000 of such costs for the year it begins business (otherwise the RIC must capitalize all such costs). The $5,000 deduction is reduced by the amount the total cost exceeds $50,000. If the total costs are $55,000 or more, the deduction is reduced to zero. Any costs not deducted must be amortized ratably over a 180-month period, beginning with the month the RIC begins business. If the election is made, the RIC must attach any statements required by Regulations sections 1.195-1(b) and 1.248-1(c) (as in effect before September 8, 2008). However, the RIC can apply the provisions of Temporary Regulations sections 1.195-1T and 1.248-1T to all expenses paid or incurred after October 22, 2004, provided the period of limitations on assessment has not expired for the year of the election. Otherwise the provisions under Regulations sections 1.195-1(b) and 1.248-1(c) will apply.

For business start-up and organizational costs paid or incurred before October 23, 2004, a corporation can elect to amortize such costs over a period of 60-months or more.

Report the deductible amount of such costs and any amortization on line 22. For amortization that begins during the 2009 tax year, complete and attach Form 4562. For more details on business start-up and organizational costs, see Pub. 535, Business Expenses.

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 allocable to tax-exempt income. The excluded amount is determined by the amount tax-exempt 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.

Closely held corporation. A RIC is closely held if at any time during the last half of the tax year more than 50% in value of its outstanding stock is directly or indirectly owned by or for not more than five individuals and it is not a personal service corporation.

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 cannot deduct compensation to a "covered employee" to the extent that the compensation exceeds $1 million. Generally, a covered employee is:

- The principal executive officer (or an individual acting in that capacity) as of the end of the tax year; or
- A principal employee whose total compensation must be reported to shareholders under the Securities Exchange Act of 1934 because the employee is among the three highest compensated officers for that tax year (other than the principal 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. Also, see Notice 2007-49, 2007-25 I.R.B. 1429.

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

- Form 5884, Work Opportunity Credit,
- Form 5884-A, Credits for Affected Midwestern Disaster Area Employers,
- Form 8844, Empowerment zone and renewal community employment credit,
- Form 8845, Indian Employment Credit, and
- Form 8932, Credit for Employer Differential Wage Payments.

See the instructions for these forms for more information.

Do not include salaries and wages deductible elsewhere on the return, such as amounts included in officer's compensation, 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 any amounts deducted elsewhere.*

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 12/31/07 but before 1/1/10	$18,500
After 12/31/06 but before 1/1/08	$15,500
After 12/31/04 but before 1/1/07	$15,200
After 12/31/03 but before 1/1/05	$17,500

If the lease term began before January 1, 2004, 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 2010 will be published in the Internal Revenue Bulletin in early 2010.

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 information on apportionment of taxes on real property between seller and purchaser.

Line 13. Interest

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

Interest allocation. 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. See section 265(b) for special rules and exceptions for financial institutions. Also see section 265(b)(7) for a temporary de minimis exception for financial institutions for certain tax exempt bonds issued in 2009 and 2010.
- For cash basis taxpayers, prepaid interest allocable to years following the current tax year.
- Interest and carrying charges on straddles. Generally, these amounts must be capitalized. See section 263(g).

Special rules apply to:

- Disqualified interest on certain indebtedness under section 163(j). See Form 8926, Disqualified Corporate Interest Expense Disallowed Under Section 163(j) and Related Information, and the related instructions.
- Interest on which no tax is imposed (see section 163(j)).
- Original issue discount (OID) on certain high-yield discount obligations. See section 163(e)(5) to determine the amount of the deduction for OID that is deferred and the amount that is disallowed on a high-yield discount obligation. The rules under section 163(e)(5) do not apply to certain high-yield discount obligations issued after August 31, 2008. See section163(e)(5)(F).
- The deduction for interest 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.
- Section 108(i) OID deduction. If the RIC issued a debt instrument with original issue discount (OID) that is subject to section 108(i)(2) because of an election under section 108(i) to defer the recognition of income from the cancellation of debt (COD), the deduction for all or a portion of the OID that accrues prior to the first tax year the COD is includible in income is deferred until the COD is includible in income. The aggregate amount of OID that is deferred during this period is generally allowed as a deduction ratably over the five-year period the COD is includible in income under section 108(i). The amount deferred is limited to the amount of COD subject to the section 108(i) election.

Line 14. Depreciation. Include on line 14 depreciation and the cost of certain property that the RIC elected to expense under section 179. See Form 4562 and the related instructions to figure the amount of depreciation to enter on this line.

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 Chapter 11, Other Expenses, in Publication 535 for additional information.*

Attach a schedule listing by type and amount all allowable deductions that are not specifically deductible elsewhere on Form 1120-RIC. 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 the RIC elects to amortize or deduct.
- 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 separately the amount from each partnership.
- Deduction for certain energy efficient commercial building property placed in service during the tax year. See section 179D, Notice 2008-40, 2008-14 I.R.B. 725, and Notice 2006-52, 2006-26 I.R.B. 1175.
- Any extraterritorial income exclusion (from Form 8873, line 52).
- Any net negative section 481(a) adjustment.

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 contribution carryovers.

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 that includes the date the resolution was adopted.

Limitation on deduction. The total amount claimed cannot be more than 10% of taxable income (the sum of Part I, line 26; Part II, line 3; and Form 2438, line 11) computed without regard to the following:

- Any deduction for contributions.
- The domestic production activities deduction.
- The deduction allowed under section 249, related to any premium paid or incurred upon the repurchase of a convertible bond.

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 subject to certain limitations.

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

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

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

For information on contributions to charitable organizations that conduct lobbying activities, see section 170(f)(9).

Pension, profit-sharing, etc., plans. Enter contributions to qualified pension, profit-sharing, or other funded-deferred compensation plans. Employers who maintain such a plan generally must file Form 5500, Annual Return/Report of Employee Benefit Plan, 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).

Travel, meals, and entertainment. Subject to certain limitations and restrictions, the RIC can deduct ordinary and necessary travel, meals, and entertainment expenses incurred in its trade or business.

Travel. The RIC cannot deduct travel expenses of any individual accompanying a corporate officer or employee unless:

- That individual is an employee of the RIC and
- His or her travel is for a bona fide business purpose that 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.

Amounts treated as compensation. Generally, the RIC may be able to deduct otherwise nondeductible entertainment, amusement or recreation expenses if the amounts are treated as compensation to the recipient and reported on Form W-2 for an employee or on Form 1099-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 deductible expense is limited. See section 274(e)(2) and Notice 2005-45, 2005-24 I.R.B. 1228.

See section 274 and Pub. 463 for a more extensive discussion of these topics.

Lobbying expenses. Generally, lobbying expenses are not deductible. Examples of non-deductible 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). Certain in-house lobbying expenditures that do not exceed $2,000 are deductible.

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

Tax and Payments

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

Line 28f. Credit from Form 2439. Enter the credit from Form 2439 for the RIC's share of the tax paid by another RIC or a Real Estate Investment Trust (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. Refundable credits from Forms 3800 and 8827. The RIC can elect to claim certain unused research and minimum tax credits instead of claiming any additional first-year special depreciation allowance for eligible qualified property or qualified extension property placed in service during the tax year. If the RIC makes the election, enter on line 28h the amounts from line 19c of Form 3800 and line 8c of Form 8827, if applicable. See the instructions for these forms. Also, see Rev. Proc. 2008-65, 2008-44 I.R.B. 1082, Rev. Proc. 2009-16, 2009-06 I.R.B. 449, and Rev. Proc. 2009-33, 2009-29 I.R.B. 150.

CAUTION *The RIC must use the refundable credits from Forms 3800 and 8827 to reduce any built-in gains tax derived from property that it owned when it was a C corporation, before the credits can be used to reduce RIC taxable income. See the instructions for line h of the* Built-in Gains Tax Worksheet Instructions *on page 12.*

Line 28i. 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 28i. Enter the amount withheld and the words "Backup Withholding" in the blank space above the line 28i.

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. See the instructions for Form 2220, Underpayment of Estimated Tax by Corporations, for more information.

Part II — Tax on Undistributed Net Capital Gain Not Designated Under Section 852(b)(3)(D)

Line 4

Enter on line 4 the amount of qualified timber gain included in the total entered on line 3, Part II.

Qualified timber gain. An 1120-RIC with qualified timber gain in tax years ending after May 22, 2008, and tax years beginning before May 23, 2009, may be eligible for a 15% tax rate on the gain. The reduced capital gains tax is reported on line 6.

For purposes of line 4, Part II, qualified timber gain is the sum of the gains over the losses described in section 631(a) and (b). Only timber held more than 15 years can be included in the determination of qualified timber gain.

See sections 1201(b) and 631(a) and (b) for more information.

Schedule A—Deduction for Dividends Paid

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

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

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) or any amount reported for the tax year on Form 2438, line 9b. See Regulations section 1.852-11 for information on post-October currency or capital losses.

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 included 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 of Schedule K for information on the election available under section 853(a).

Line 6. If the RIC elects under Section 853A to pass through credits from qualified tax credit bonds to shareholders, increase the dividends paid deduction by the amount of the credits distributed to shareholders. To make the election, see the instructions for item 11, under Schedule K—Other Information, on page 13.

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.

If this applies, check the "Yes" box on line 1 and complete lines 2 through 5. See section 852(b)(5)(A) for the definition of exempt-interest dividends and other details.

Schedule J—Tax Computation

Line 1

If the RIC is a member of a controlled group, check the box on line 1 and complete and attach Schedule O (Form 1120), Consent Plan and Apportionment Schedule for a Controlled Group. See Schedule O (Form 1120) and its instructions for more information.

Line 2a–Tax on Investment Company Taxable Income

Members of a controlled group must use Schedule O (Form 1120) to figure the tax for the group. Most corporations that are not members of a controlled group, and do not file a consolidated return, figure their tax by using the *Tax Rate Schedule* below.

For a RIC that is not a personal holding company (PHC). A RIC 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 for Schedule O (Form 1120)) is not a PHC and 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 not in compliance with Regulations section 1.852-6 is a PHC and is taxed at a flat rate of 35% on its investment company taxable income.

Line 2b–Capital Gains Tax

Enter the capital gains tax from line 8, Part II. If the 1120-RIC has qualified timber gain, see the instructions for line 4, Part II, on this page.

Line 2c–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 definitions and details on how to figure the tax.

Apportioning tax preference items. Items of tax preference may be apportioned by the RIC between the entity and its shareholders in accordance with section 59(d)(1)(A).

Line 2d—Income Tax

Deferred tax under section 1291. If the RIC was a shareholder in a passive foreign investment company (PFIC), and 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 2d. On the dotted line to the left of line 2d write "Section 1291" and the amount.

Do not include on line 2d any interest due under section 1291(c)(3). Instead, if this applies, show the amount of interest owed in the bottom margin of page 1 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 2d. On the dotted line to the left of line 2d, write "Section 197" and the amount.

Line 3a– Foreign Tax Credit

To find out when a RIC can claim the 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 *Election under section 853(a),* under Schedule K, Item 10.

Line 3b–Credit from Form 8834, line 29

Enter any qualified electric vehicle passive activity credits from prior years allowed for the current tax year from Form 8834, Qualified Plug-In Electric and Electric Vehicle Credit, line 29.

Line 3c–General Business Credit

The RIC is required to file Form 3800, General Business Credit, to claim most business credits. For a list of allowable credits, see Form 3800. Enter the allowable credit from Part II, line 32, of Form 3800, on line 3c. Also, see the applicable credit form and its instructions. See Form 3800 for a complete listing of general business credits.

Line 3d–Other Credits

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

Bond credits from Form 8912. Enter the allowable credits from Form 8912, Credit to Holders of Tax Credit Bonds, line 18. However, if the RIC elects to pass through credits from tax credit bonds to its shareholders, it cannot take the credit. See *Item 11* on page 13 for more information.

Line 5– 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 the Instructions for Schedule PH (Form 1120), U.S. Personal Holding Company (PHC) Tax, for definitions and details on how to figure the tax.

Line 6–Other Taxes

Include any of the following taxes and interest in the total on line 6. 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 the property's 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, and IRC section 42(j)(1) for more information.

Other. Additional tax and interest amounts can be included in the total entered on line 6. 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.

- 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 full years of the date the vehicle was placed in service, it ceases to qualify for the credit. See Regulations section 1.30-1 for details on how to figure the recapture.
- Recapture of 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.
- Recapture of new markets credit (see Form 8874 and Regulations section 1.45D-1(e) for details).
- Recapture of employer-provided childcare facilities and services credit (see Form 8882 and section 45F(d) for details).
- Interest due on deferred gain recognition (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 gains 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 (for tax years beginning in 2009 or 2010, see the *Built-in Gains Tax Worksheet Instructions* on page 12 for an exception).

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* below). 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.

Built-in Gains Tax Worksheet Instructions

Complete the worksheet below to figure the built-in gains tax under Regulations section 1.337(d)-6 or 1.337(d)-7.

CAUTION *For tax years beginning in 2009 or 2010, no tax is imposed on the net recognized built-in gain of a RIC if the 7th year of the applicable recognition period ended before the tax year. In figuring the amount to enter on line a, exclude any recognized built-in gains and recognized built-on losses arising in the tax year if the 7th year of the applicable recognition period ended before the beginning of the tax year. This exclusion does not apply, however, for the following purposes.*

- *Figuring the carryover of net recognized built-in gain in excess of the taxable income limitation;*
- *Allocating your taxable income limitation (line b) between separate groups of assets as required by Regulations section 1.1374-8(d);*
- *Figuring your net unrealized built-in gain limitation in any subsequent year (line c); or*
- *Figuring your section 1374(b)(2) deduction (line e) in any subsequent year.*

For these purposes, treat net recognized built-in gain excluded from line a as if the full amount had been entered on line a in the current tax year.

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 without regard to any election under section 852(b)(2)(F). Enter the result on line b of the *Built-in Gains Tax Worksheet* below.

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's 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 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 RIC's 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 RIC's taxable income.

Note. The RIC can elect to claim certain unused research and minimum tax credits instead of claiming any additional first-year special depreciation allowance for eligible qualified property or qualified extension property placed in service during the tax year. If the RIC makes the election, the unused research and minimum tax credits must first be used to reduce the tax on net built-in gain for the tax year to the greatest extent possible. Any remaining unused research and minimum tax credits are included on line 28h to reduce the RIC's income tax. For more information, see the instructions for line 28h. Also see the Instructions for Forms 3800 and 8827, Rev. Proc. 2008-65, 2008-44 I.R.B. 1082, and Rev. Proc. 2009-33, 2009-29 I.R.B. 150.

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, enter the tax or interest on line 6, Schedule J. Also, attach a schedule, showing the computation of each item included in the total for line 6, and identify (a) the type of tax or interest, and (b) the applicable Code section.

Line 7—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 7. See Form 8621, Part V, and *How to report,* below.

Subtract from the total for line 7 the deferred tax on the RIC's share of the undistributed earnings of a qualified electing fund (see Form 8621, Part II).

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 (see instructions)	**h.**	
i.	**Tax.** Subtract line h from line g (if zero or less, enter -0-). Enter here and include on line 6 of Schedule J (see instructions)	**i.**	

How to report

Attach a schedule showing the computation of each item included in, or subtracted from, the total for line 7. On the dotted line next to line 7, 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. Complete all items that apply.

Question 3

Check the “Yes” box if the RIC is a subsidiary in a parent-subsidiary controlled group. 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.

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), enter 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” includes:

- 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, Information Return of a 25% Foreign Owned U.S. Corporation or a Foreign Corporation Engaged In a U.S. Trade or Business. 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.

Item 8

Tax-exempt interest. Show any tax-exempt interest received or accrued. Include any exempt-interest dividends received as a shareholder in a 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 share 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.

Reporting requirements. To make a valid election under section 853, in addition to timely filing Form 1120-RIC and checking the box for Schedule K, item 10, the RIC must file a statement of election, which includes the information listed under Regulations section 1.853-4(c). The information must be provided on or with a Form 1118, Foreign Tax Credit, attached to the RIC's timely filed tax return.

For more information, see Regulations section 1.853-4.

Notification to shareholders. If the RIC makes the election, it must furnish to its shareholders a written notice designating the shareholder's portion of (1) foreign taxes paid by the RIC to foreign countries and possessions of the United States, and (2) the dividend that represents income derived from:

- sources within countries described in section 901(j), and
- other foreign-source income.

The notice must be mailed to the shareholders no later than 60 days after the end of the RIC's tax year. For more information, see Regulations section 1.853-3.

Item 11

Election under section 853A. A RIC can elect to pass through credits from tax credit bonds to its shareholders. If the RIC makes the election, include the interest income from the tax credit bonds on Part I, line 2. Also, increase the dividends paid deduction by the amount of the credits distributed to shareholders. If the RIC makes the election, it is not allowed to take any credits related to the qualified tax credit bonds.

For more information, see section 853A.

Notification to shareholders. If the RIC makes the election to apply section 853A, it must furnish to its shareholders a written notice designating the shareholder's proportionate share of: (1) credits from tax credit bonds, and (2) gross income in respect of such credits. The notice must be mailed to the shareholders no later than 60 days after the end of the RIC's tax year.

Schedule L–Balance Sheets per Books

The balance sheets 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 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	54 hr.,16 min.
Learning about the law or the form	19 hr., 16 min.
Preparing the form	36 hr., 49 min.
Copying, assembling, and sending the form to the IRS	4 hr., 33 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-6526; Washington, DC 20224. Do not send the tax form to this office. Instead, see “*Where To File*” on page 2.