

1996



Department of the Treasury
Internal Revenue Service

Instructions for Form 990-C

Farmers' Cooperative Association Income Tax Return

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

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

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

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

Recordkeeping	77 hr., 15 min.
Learning about the law or the form	24 hr., 52 min.
Preparing the form	42 hr., 7 min.
Copying, assembling, and sending the form to the IRS	4 hr., 17 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001.

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

Changes To Note

The Small Business Job Protection Act of 1996 ("The Act") made changes to the tax law for corporations. The Act restored several expired credits and also changed the rules for claiming certain credits. These and other changes are highlighted below.

- If the cooperative's total deposits of social security, Medicare, and withheld income taxes were more than \$50,000 in 1995, it must make electronic deposits for all depository tax liabilities that occur after June 30, 1997. For details, see **Depository Method of Tax Payment** on page 2.

- The targeted jobs credit has been replaced by the work opportunity credit. The credit applies for wages paid to qualified employees who begin work for

the employer after September 30, 1996, and before October 1, 1997. Get **Form 5884**, Work Opportunity Credit, for details.

- The Act modified the definition of section 179 property and added new rules for property depreciated under the income forecast method. For details, get **Form 4562**, Depreciation and Amortization.

- The Act changed the rules for replacing business property that was involuntarily converted as a result of a Presidentially declared disaster. For more information, get **Form 4684**, Casualties and Thefts.

- A corporation that received a distribution from a foreign trust after August 20, 1996, must provide additional information. For details, get **Pub. 553**, Highlights of 1996 Tax Changes.

- The Health Insurance and Portability Act of 1996 changed the rules for deducting interest on loans for company-owned life insurance. Generally, no deduction is allowed for interest paid or incurred after October 13, 1995, on any amount of debt incurred with respect to company-owned life insurance policies, annuities, or endowment contracts that cover corporate officers or employees (or any person who has a financial interest in the corporation). Exceptions and phase-in rules apply. See Act section 501.

The processing of Form 990-C is being centralized at the Ogden Service Center, beginning January 1, 1997. See **Where To File** for more details.

How To Get Forms and Publications

By personal computer.— If you subscribe to an on-line service, ask if IRS information is available and, if so, how to access it. Tax forms, instructions, publications, and other IRS information are available through the Internal Revenue Information Services (IRIS), on FedWorld, a government bulletin board. The IRIS menus offer information on available file formats and software needed to read and print files. You must print the forms to use them; the forms are not designed to be filled out on-screen.

IRIS is directly assessable by modem at 703-321-8020. On the Internet, telnet to iris.ustreas.gov or, for file transfer protocol services connect to ftp.irs.ustreas.gov. If you are using the World Wide Web, connect to <http://www.irs.ustreas.gov>. FedWorld's help desk offers technical assistance on accessing IRIS (not tax help) during regular business hours at 703-487-4608.

Tax forms, instructions, and publications are also available on CD-ROM, including prior-year forms starting with the 1991 tax year. For ordering information and software requirements, contact the Government Printing Office's Superintendent of Documents (202-512-1800) or Federal Bulletin Board (202-512-1387).

By phone and in person.— To order forms and publications, call 1-800-TAX-FORM (1-800-829-3676). You can also get most forms and publications at your local IRS office.

Unresolved Tax Problems

The Problem Resolution Program is for taxpayers that have been unable to resolve their problems with the IRS. If the cooperative has a tax problem it cannot clear up through normal channels, write to the cooperative's local IRS District Director or call the cooperative's local IRS office and ask for Problem Resolution assistance. Persons who have access to TTY/TDD equipment may call 1-800-829-4059 to ask for help from Problem Resolution. This office cannot change the tax law or technical decisions. But it can help the cooperative clear up problems that resulted from previous contacts.

General Instructions

Purpose of Form

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

Who Must File

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

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

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

2. Purchase supplies and equipment for the use of members or other persons and turn over the supplies and equipment

to them at actual cost, plus necessary expenses.

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

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

When To File

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

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

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

Where To File

File Form 990-C with the:

Internal Revenue Service, Ogden, UT 84201-0027.

Who Must Sign

The return must be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or any other officer (such as tax officer) authorized to sign. Receivers, trustees, or assignees also must sign and date any return filed on behalf of a cooperative.

If a cooperative officer completes Form 990-C, the Paid Preparer's space should remain blank. Anyone who prepares Form 990-C but does not charge the cooperative should not sign the return. Generally, anyone who is paid to prepare the return must sign it and fill in the other blanks in the Paid Preparer's Use Only area.

The paid preparer must complete the required preparer information and:

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

Accounting Methods

Figure taxable income using the method of accounting regularly used in keeping the cooperative's books and records. Permissible methods generally include the cash, accrual, or any other method authorized by the Internal Revenue Code.

In all cases, the method used must clearly show taxable income.

Generally, a cooperative 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 all the events have occurred that fix the right to receive the income and the amount can be determined with reasonable accuracy. See Regulations section 1.451-1(a) for details.

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year in which: **(1)** all events that determine the liability have occurred, **(2)** the amount of the liability can be figured with reasonable accuracy, and **(3)** economic performance takes place with respect to the expense. There are exceptions to the economic performance rule for certain items, including recurring expenses. See section 461(h) and the related regulations for the rules for determining when economic performance takes place.

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

Change in Accounting Method.—

Generally, the cooperative may change the method of accounting used to report taxable income (for income as a whole or for any material item) only by getting consent on **Form 3115**, Application for Change in Accounting Method. For more information, get **Pub. 538**, Accounting Periods and Methods.

Completed Crop Pool Method of Accounting.—

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

Accounting Periods

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

If the calendar year is adopted as the annual accounting period, the cooperative must maintain its books and records and report its income and expenses for the period from January 1 through December 31 of each year. A fiscal year is 12 consecutive months ending on the last day of any month except December. A 52–53 week year is a fiscal year that varies from 52 to 53 weeks.

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

For more information, see Temporary regulations section 1.441–2T and **Pub. 538**, Accounting Periods and Methods.

Change in accounting period.—

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

Rounding Off to Whole Dollars

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

Recordkeeping

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

The cooperative should also keep copies of any returns it has filed. They help in preparing future returns and in making computations when filing an amended return.

Depository Method of Tax Payment

The cooperative must pay the tax due in full no later than the 15th day of the 9th month after the end of the tax year. Some cooperatives (described below) are required to electronically deposit all depository taxes, including cooperative income tax payments.

Electronic deposit requirement.— If the cooperative's total deposits of social security, Medicare, and withheld income taxes were more than \$50,000 in 1995, it must make electronic deposits for all depository tax liabilities that occur after June 30, 1997. If the cooperative was required to deposit by electronic funds transfer in prior years, continue to do so in 1997. The **Electronic Federal Tax Payment System (EFTPS)** must be used to make electronic deposits. If the cooperative is required to make deposits by electronic funds transfer and fails to do so, it may be subject to a 10% penalty. Cooperatives that are not required to make electronic deposits may voluntarily participate in EFTPS. For information on EFTPS, call 1-800-945-8400 or 1-800-555-4477. (These numbers are for EFTPS information only.)

Form 8109, Federal Tax Deposit Coupon.— If the cooperative does not use EFTPS, deposit cooperative income tax payments (and estimated tax payments) with Form 8109. Do not send deposits directly to an IRS office. Mail or deliver the completed Form 8109 with the payment to a qualified depository for Federal taxes or to the Federal Reserve Bank (FRB) servicing the cooperative's geographic area. Make checks or money orders payable to that depository or FRB.

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

A penalty may be imposed if the deposits are mailed or delivered to an IRS office rather than to an authorized depository or FRB.

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

Caution: *If the cooperative owes tax when it files Form 990-C, do not include the payment with the tax return. Instead, mail or deliver the payment with Form 8109 to a qualified depository or FRB, or use the EFTPS system, if applicable.*

Estimated Tax Payments

Generally, a cooperative must make installment payments of estimated tax if it expects its estimated tax (income tax minus 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. Use the deposit coupons (Form 8109) to make deposits of estimated tax. For more information on estimated tax payments, including penalties that apply if the cooperative fails to make required payments, see the instructions for line 33 on page 10.

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

Interest and Penalties

Interest.— Interest is charged on taxes paid late even if an extension of time to file is granted. Interest is also charged on penalties imposed for failure to file,

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

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

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

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

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

Other Forms, Returns, and Statements that May Be Required

Forms

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

Form W-2, Wage and Tax Statement, and **Form W-3**, Transmittal of Income and Tax Statements.

Form 720, Quarterly Federal Excise Tax Return. Use Form 720 to report the luxury tax on passenger vehicles, environmental excise taxes, fuel taxes, manufacturers taxes, ship passenger tax, and certain

other excise taxes. Also see **Trust fund recovery penalty** above.

Form 940 or Form 940-EZ, Employer's Annual Federal Unemployment (FUTA) Tax Return. The cooperative may be liable for FUTA tax and may have to file Form 940 or 940-EZ if it paid wages of \$1,500 or more in any calendar quarter during the calendar year (or the preceding calendar year) or one or more employees worked for the cooperative for some part of a day in any 20 different weeks during the calendar year (or the preceding calendar year).

Form 941, Employer's Quarterly Federal Tax Return. Employers must file this form quarterly to report income tax withheld and employer and employee social security and Medicare taxes. Agricultural employers must file **Form 943**, Employer's Annual Tax Return for Agricultural Employees, instead of Form 941, to report income tax withheld and employer and employee social security and Medicare taxes for farmworkers. See Trust fund recovery penalty above.

Form 945, Annual Return of Withheld Federal Income Tax. File Form 945 to report income tax withholding from nonpayroll distributions or payments, such as pensions, annuities, IRAs, military retirement, gambling winnings, Indian gaming profits, and backup withholding. See Trust fund recovery penalty above.

Form 966, Corporate Dissolution or Liquidation.

Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, and **Form 1042S**, Foreign Person's U.S. Source Income Subject to Withholding. Use these forms to report and transmit withheld tax on certain payments or distributions made to nonresident alien individuals, foreign partnerships, or foreign corporations. For more information, see sections 1441 and 1442, and **Pub. 515**, Withholding of Tax on Nonresident Aliens and Foreign Corporations.

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

Form 1098, Mortgage Interest Statement. This form is used to report the receipt from any individual of \$600 or more of mortgage interest and points in the course of the cooperative's trade or business for any calendar year.

Forms 1099-A, B, C, DIV, INT, MISC, OID, PATR, R, and S. Use these information returns to report abandonments, acquisitions through foreclosure, proceeds from broker and barter exchange transactions, discharges of indebtedness, certain dividends and distributions, interest payments, payments for certain fishing boat crew members, medical and dental health care payments, direct sales of consumer goods for resale, miscellaneous income payments, nonemployee compensation, original issue discount, patronage dividends, distributions from profit-sharing plans, retirement plans, individual retirement arrangements, insurance contracts, etc.,

and proceeds from real estate transactions. Also use these returns to report amounts received as a nominee for another person.

For more information, see the instructions for Forms 1099, 1098, 5498, and W-2G.

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

Form 5452, Corporate Report of Nondividend Distributions.

Form 5498, Individual Retirement Arrangement Information. Use this form to report contributions (including roll over contributions) to an individual retirement arrangement (IRA) and the value of an IRA or simplified employee pension (SEP) account.

Form 5713, International Boycott Report. cooperatives that have operations in or related to a boycotting country must file Form 5713. cooperatives that participate in or cooperate with an international boycott use Schedules A, B, and C (Form 5713) to figure the loss of certain tax benefits.

Form 8264, Application for Registration of a Tax Shelter. Tax shelter organizers are required to file Form 8264 to get a tax shelter registration number from the IRS.

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

Form 8275, Disclosure Statement. Taxpayers and income tax return preparers file Form 8275 to disclose items or positions, except those contrary to a regulation (see Form 8275-R below), that are not otherwise adequately disclosed on a tax return. The disclosure is made to avoid parts of the accuracy-related penalty imposed for disregard of rules or substantial understatement of tax. Form 8275 is also used for disclosures relating to preparer penalties for understatement due to unrealistic positions or disregard of rules.

Form 8275-R, Regulation Disclosure Statement, is used to disclose any item on a tax return for which a position has been taken that is contrary to Treasury Regulations.

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

Form 8594, Asset Acquisition Statement under Section 1060, must be filed by both the purchaser and seller of a group of assets constituting a trade or business if section 197 intangibles attach to such assets and the purchaser's basis in the assets is determined only by the amount paid for the assets.

Form 8718, User Fee for Exempt Organization Ruling and Determination Requests. The Service is required to collect a fee from any organization seeking an IRS determination of its exempt status as an organization described in section 501(c), 501(d), or 521 of the Internal Revenue Code. A fee will also be imposed in connection with any exempt organization request for a private-letter ruling. The nonrefundable fee must be submitted with the application or ruling request. Otherwise, the request will be returned to the submitter without any action being taken on it. The fees imposed are reflected in Form 8718, which is used to transmit both the appropriate fee and the exemption application.

Form 8810, Corporate Passive Activity Loss and Credit Limitations. Closely held cooperatives that are subject to the passive activity limitations of section 469 use this form to compute their allowable passive activity loss and credit.

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

Form 8849, Claim for Refund of Excise Taxes. Use this form in the first three quarters of the tax year to claim a refund of excise taxes paid on Form 720, Form 730, or Form 2290. See the instructions to Form 8849 and **Pub. 378**, Fuel Tax Credits and Refunds for more information.

Consolidated Return

The nonexempt parent of an affiliated group of cooperatives must attach **Form 851**, Affiliations Schedule, to the consolidated return. For the first year a consolidated return is filed, each subsidiary must attach **Form 1122**, Authorization and Consent of Subsidiary cooperative to be Included in a Consolidated Income Tax Return.

File supporting statements for each cooperative included in the consolidated return. Do not use Form 990-C as a supporting statement. On the supporting statement use columns to show the following, both before and after adjustments:

- Items of gross income and deductions.
- A computation of taxable income.
- Balance sheets as of the beginning and end of tax year.
- A reconciliation of income per books with income per return.

- A reconciliation of retained earnings.

Enter the totals for the consolidated group on Form 990-C. Attach consolidated balance sheets and a reconciliation of consolidated retained earnings.

For more information on consolidated returns, see the regulations under section 1502.

Attachments

Attach **Form 4136**, Credit for Federal Tax on Fuels, after page 5, Form 990-C. Attach schedules in alphabetical order and other forms in numerical order after Form 4136.

Complete every applicable entry space on Form 990-C. Do not write "See attached" instead of completing the entry spaces. If you need more space on the forms or schedules, attach separate sheets, using the same size and format as on the printed forms. Show the cooperative's totals on the printed forms. Attach these separate sheets after all the forms and schedules. Be sure to put the cooperative's name and EIN on each sheet.

Specific Instructions

Period Covered.— File the 1996 return for calendar year 1996 and fiscal years that begin in 1996 and end in 1997. For a fiscal year, fill in the tax year space at the top of the form.

Address and Employer Identification Number (EIN)

Address.— 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 cooperative has a P.O. box, show the box number instead of the street address.

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.*

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

Item B.—Employer identification number (EIN).— Show the correct EIN in item B. If the cooperative does not have an EIN, it should apply for one on **Form SS-4**, Application for Employer Identification Number. Form SS-4 can be obtained at Social Security Administration (SSA) offices or by calling 1-800-TAX-FORM. Send Form SS-4 to the same Internal Revenue Service Center to which Form 990-C is mailed. If the cooperative has not received its EIN by the time the return is due, write "Applied for" in the space for the EIN. See Pub. 583 for more information.

Item C.— Do not check this box if the "Section 521" box is checked in Item D.

Item D.—Type of Cooperative.— Check the "Tax exempt (Section 521)" box if the cooperative is a tax-exempt farmers', fruit growers', or like association, organized and operated on a cooperative basis and is described in section 521. If the cooperative has submitted **Form 1028**, Application for Recognition of Exemption, but has not received a determination letter from the IRS, check the "Tax exempt (Section 521)" box. Write "Application Pending" at the top of page 1 of Form 990-C.

All other farmers', etc., cooperatives organized and operated as described under "Who Must File" on page 2 of the instructions should check the "Nonexempt" box. Cooperatives organized and operated for purposes other than those described, such as to purchase food for members, should **not** file Form 990-C. See the instructions for **Form 1120**, U.S. Corporation Income Tax Return, for information about filing requirements.

Item E.—Initial return, final return, and change of address, or amended return.— Indicate by checking the applicable box if this is the cooperative's first return, or if the cooperative has ceased to exist, it has had a change of address, or is amending its return.

Income

Note: *Generally, income from all sources, whether U.S. or foreign, must be included.*

Line 1. Gross receipts or sales.— Enter gross receipts or sales from all business operations except those required to be reported on lines 4a through 10. For reporting advance payments, see Regulations section 1.451-5.

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

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

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

Include patronage dividends received in money, qualified written notices of allocation, or other property (except nonqualified written notices of allocation). Also include the total amount of nonpatronage distributions received on a patronage basis from tax-exempt farmers' cooperatives in money, qualified written notices of allocation, or other property (except nonqualified written notices of allocation), based on earnings of that cooperative either from business done with or for the United States or any of its agencies (or from sources other than patronage, such as investment income). Include qualified written notices of allocation at their stated dollar amounts and property at its fair market value. Also include amounts received on the redemption, sale, or other disposition of nonqualified written notices of allocation.

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

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

Also include per-unit retain allocations received (except nonqualified per-unit retain certificates). See section 1385.

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

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

Do not offset interest expense against interest income.

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

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

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

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

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

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

- Any adjustment under section 481(a) required to be included in income during the current tax year due to a change in a method of accounting.
- Recoveries of bad debts deducted in prior years under the specific charge-off method.
- The amount of credit for alcohol used as fuel (determined without regard to the limitation based on tax) that was entered on **Form 6478**, Credit for Alcohol Used as Fuel.
- Refunds of taxes deducted in prior years to the extent they reduced income subject to tax in the year deducted (see section 111). Do not offset current year taxes against tax refunds.
- The amount of any deduction previously taken under section 179A that is subject to recapture. The cooperative must recapture the benefit of any allowable deduction for clean-fuel vehicle property (or clean-fuel vehicle refueling property), if, within 3 years of the date the property was placed in service, it ceases to qualify. See Regulations section 1.179A-1 for details, including how to figure the recapture.
- For cooperatives described in section 1381 that are shareholders in a FSC, include the non-exempt portion of foreign trade income from the sale or other disposition of agricultural or horticultural products by the FSC for the tax year that includes the last day of the FSC's tax year, even though the FSC is not required to distribute such income until the due date of its income tax return.
- Ordinary income from trade or business activities of a partnership (from Schedule K-1 (Form 1065), line 1).

Deductions

Limitations on deductions

Section 263A uniform capitalization rules. These rules require cooperatives to capitalize or include in inventory certain costs incurred in connection with the production of real and tangible personal property held in inventory or held for sale

in the ordinary course of business. The rules also apply to personal property (tangible and intangible) acquired for resale. Cooperatives subject to the rules are required to capitalize not only direct costs but a portion of most indirect costs (including taxes) that relate to the assets produced or acquired for resale. Interest expense paid or incurred during the production period of certain property must be capitalized and is governed by special rules. For more information, see Regulations sections 1.263A-8 through 1.263A-15. The uniform capitalization rules also apply to the production of property constructed or improved by a cooperative for use in its trade or business or in an activity engaged in for profit.

Section 263A does not apply to personal property acquired for resale if the cooperative's annual average gross receipts are \$10 million or less. It does not apply to timber or to most property produced under a long-term contract. Special rules apply to farmers. The rules do not apply to property produced for use by the cooperative if substantial construction had occurred before March 1, 1986.

In the case of inventory, some of the indirect costs that must be capitalized are administration expenses; taxes; depreciation; insurance; compensation paid to officers attributable to services; rework labor; and contributions to pension, stock bonus, and certain profit-sharing, annuity, or deferred compensation plans.

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

Current deductions may still be claimed for research and experimental costs under section 174, intangible drilling costs for oil and gas and geothermal property, and mining and exploration and development costs. Regulations section 1.263A-1(e)(3) specifies indirect costs that may be currently deducted and those that must be capitalized with respect to production or resale activities. For more information, see Regulations sections 1.263A-1 through 1.263A-3.

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

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

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

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

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

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

Generally, there are two kinds of passive activities: trade or business activities in which the cooperative did not materially participate (see Temporary Regulations section 1.469-1T(g)(3)) for the tax year, and rental activities regardless of its participation. For exceptions, see Form 8810. An activity is a trade or business activity if the activity involves the conduct of a trade or business (i.e., deductions from the activity would be allowable under section 162 if other limitations, such as the passive loss rules, did not apply), or the activity involves research and experimental costs that are deductible under section 174 (or would be deductible if the cooperative chose to deduct rather than capitalize them), and the activity is not a rental activity.

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

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

1. Work opportunity credit.

2. Research credit.
3. Enhanced oil recovery credit.
4. Disabled access credit.
5. Empowerment zone employment credit.
6. Indian employment credit.
7. The employer credit for social security and Medicare taxes paid on tips.
8. Orphan drug credit.

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

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

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

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

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

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

For this purpose, compensation does not include the following:

- Income from certain employee trusts, annuity plans, or pensions;
 - Any benefit paid to an employee that is excluded from the employee's income.
- The deduction limit does not apply to:
- Commissions based on individual performance;
 - Qualified performance-based compensation; and
 - Income payable under a written, binding contract in effect on February 17, 1993.

The \$1 million limit is reduced by amounts disallowed as excess parachute payments under section 280G.

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

Line 13. Salaries and wages.— Enter the amount of salaries and wages paid for the tax year, less the amount of any work opportunity credit from Form 5884, empowerment zone employment credit from Form 8844, and Indian employment credit from Form 8845. See the instructions for these forms for more information. Do not include salaries and wages deductible elsewhere on the return, such as amounts included in cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement or a SIMPLE retirement plan (savings incentive match plan).

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

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

Line 15. Bad debts.— Enter the total debts that became worthless in whole or in part during the tax year.

Caution: *A cash method taxpayer may not claim a bad debt deduction unless the amount was previously included in income.*

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

- Federal income taxes.
- Foreign or U.S. possession income taxes if a tax credit is claimed (however, see the instructions for Form 5735 for special rules for possession income taxes).
- Taxes not imposed on the cooperative.
- Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (these taxes must be treated as part of the cost of the acquired property, or in the case of a disposition, as a reduction in the amount realized on the disposition).
- Taxes assessed against local benefits that increase the value of the property assessed (such as for paving, etc.).
- Taxes deducted elsewhere on the return, such as those reflected in cost of goods sold.

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

Line 18. Interest.— Do not include interest on indebtedness incurred or continued to purchase or carry obligations if the interest is wholly exempt from

income tax. For exceptions, see section 265(b).

Generally, a cash basis taxpayer cannot deduct prepaid interest allocable to years following the current tax year. For example, a cash basis calendar year taxpayer who in 1996 prepaid interest allocable to any period after 1996 can deduct only the amount allocable to 1996.

Generally, the interest and carrying charges on straddles cannot be deducted and must be capitalized. See section 263(g).

See section 163(e)(5) for special rules for the disqualified portion of original issue discount on a high yield discount obligation.

Certain interest paid or accrued by the cooperative may be limited if tax is not imposed on that interest. See section 163(j) for more information.

Do not deduct interest on debt allocable to the production of qualified property. Interest that is allocable to certain property produced by a cooperative for its own use or for sale must be capitalized. A cooperative must also capitalize any interest on debt allocable to an asset used to produce the above property. See section 263A and Regulations sections 1.263A-8 through 1.263A-15 for definitions and more information.

See section 7872 for special rules on the deductibility of forgone interest on certain below-market-rate loans.

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

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

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

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

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

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

Cooperatives on the accrual basis may elect to deduct contributions paid by the 15th day of the 3rd month after the end of the tax year if the contributions are authorized by the board of directors during the tax year. Attach a declaration to the return, signed by an officer, stating that the resolution authorizing the contributions was adopted by the board of directors during the tax year. Also, attach a copy of the resolution.

Substantiation requirements.—

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

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

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

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

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

Special rule for contributions of certain property.— For a charitable contribution of property, the cooperative must reduce the contribution by the sum of:

1. The ordinary income, short-term capital gain that would have resulted if the property were sold at its fair market value; and

2. For certain contributions, all of the long-term capital gain that would have resulted if the property were sold at its fair market value.

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

- Contributions of tangible personal property for use by an exempt organization for a purpose or function unrelated to the basis for its exemption, and

- Contributions of any property to or for the use of certain private foundations (except for stock contributed after June 30, 1996, and before June 1, 1997, for which market quotations are readily available (section 170(e)(5)).

For more information including special rules for contributions of inventory and other property to certain organizations, see section 170(e) and Regulations section 1.170A-4A.

Charitable contributions of scientific property used for research.— A cooperative can receive a larger deduction for contributing scientific property used for research to an institution of higher education. For more details, see section 170(e).

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.

Line 20. Depreciation.— Besides depreciation, include on line 20 the part of the cost that the cooperative elected to expense under section 179 for certain tangible property placed in service during tax year 1996 or carried over from 1995. See **Form 4562**, Depreciation and Amortization, and its instructions.

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

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

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

Line 24. Pension, profit-sharing, etc., plans.— Enter the deduction for contributions to qualified pension, profit-sharing, or other funded deferred compensation plans. Employers who maintain such a plan generally must file one of the forms listed below, even if the plan is not a qualified plan under the Internal Revenue Code. The filing requirement applies even if the cooperative does not claim a deduction for the current tax year. There are

penalties for failure to file these forms on time and for overstating the pension plan deduction. See sections 6652(e) and 6662(f).

Form 5500.— File this form for each plan with 100 or more participants.

Form 5500-C/R.— File this form for each plan with fewer than 100 participants.

Form 5500-EZ.— File this form for a one-participant plan. The term "one-participant plan" also means a plan that covers the owners and their spouses or a plan that covers partners in a business partnership (or the partners and their spouses).

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

Line 26. Other deductions

Note: *Do not deduct fines or penalties paid to a government for violating any law.*

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

Include on this line the deduction for amortization of pollution control facilities, organization expenses, etc. See Form 4562.

Also include ordinary losses from trade or business activities of a partnership (from Schedule K-1 (Form 1065), line 1).

Generally, a deduction may not be taken for any amount that is allocable to a class of exempt income. See section 265(b) for exceptions.

Meals, travel, and entertainment.— Generally, the cooperative can deduct only 50% of the amount otherwise allowable for meals and entertainment expenses paid or incurred in its trade or business. Also, meals must not be lavish or extravagant; a bona fide business discussion must occur during, immediately before, or immediately after the meal; and your employee must be present at the meal. See section 274(k)(2) for exceptions. If the cooperative claims a deduction for unallowable meal expenses, it may have to pay a penalty.

Additional limitations apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets. For details, see section 274 and Pub. 463.

No deduction is allowed for dues paid or incurred for membership in any club organized for business, pleasure, recreation, or other social purpose. This includes country clubs, golf and athletic clubs, airline and hotel clubs, and clubs operated to provide meals under conditions favorable to business discussion. But it does not include civic or public service organizations, professional organizations (such as bar or medical associations), business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards, unless a principal purpose

of the organization is to entertain or provide entertainment facilities for members or their guests.

Also, no deduction is allowed for travel expenses paid or incurred for a spouse, dependent, or other individual accompanying an officer or employee of the cooperative on business travel, unless that spouse, dependent, or other individual is an employee of the cooperative and the travel is for a bona fide business purpose and would otherwise be deductible by that person.

Generally, a cooperative can deduct all other ordinary and necessary travel and entertainment expenses paid or incurred in its trade or business. However, it cannot deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) used for an activity that is usually considered entertainment, amusement, or recreation.

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

Lobbying expenses.— Generally, lobbying expenses are not deductible. These expenses include amounts paid or incurred in connection with influencing Federal or state legislation (but not local legislation), or amounts paid or incurred in connection with any communication with certain Federal executive branch officials in an attempt to influence the official actions or positions of the officials. See Regulations section 1.162-29 for the definition of "influencing legislation." If certain in-house expenditures do not exceed \$2,000, they are deductible. Dues and other similar amounts paid to certain tax-exempt organizations may not be deductible. See section 162(e)(3). For information on contributions to charitable organizations that conduct lobbying activities, see the instructions for line 19. For more information on lobbying expenses, see section 162(e).

Line 28

Taxable income before NOL deduction and special deductions

At-risk rules.— Special at-risk rules under section 465 generally apply to closely held cooperatives (defined in **Passive activity limitations** on page 6) engaged in any activity as a trade or business or for the production of income. These cooperatives may have to adjust the amount on line 28, Form 990-C. But, the at-risk rules do not apply to the following:

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

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

If the at-risk rules apply, adjust the amount on this line for any section 465(d) losses. These losses are limited to the

amount for which the cooperative is at-risk for each separate activity at the close of the tax year. If the cooperative is involved in one or more activities, any of which incurs a loss for the year, report the losses for each activity separately. Attach **Form 6198, At-Risk Limitations**, showing the amount at-risk and gross income and deductions for the activities with the losses.

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

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

Line 29a. NOL deduction.— A cooperative may use the net operating loss (NOL) incurred in one tax year to reduce its taxable income in another year. Generally, a cooperative may carry an NOL back to each of the 3 years preceding the year of the loss and then carry any remaining amount over to each of the 15 years following the year of the loss (but see **Exceptions to carryback rules**, below). Enter on line 29a, the total NOL carryovers from prior tax years, but do not enter more than the cooperative's taxable income (after special deductions). An NOL deduction cannot be taken in a year in which the cooperative has negative taxable income. Attach a schedule showing the computation of the NOL deduction. Also complete question 20 on Schedule N.

For details on the NOL deduction, get **Pub. 536, Net Operating Losses**.

Carryback and carryover rules.— Generally, an NOL must first be carried back to the third year preceding the year of the loss. To carry back the loss and obtain a quick refund of taxes, use **Form 1139, Corporation Application for Tentative Refund**. Form 1139 must be filed within 12 months after the close of the tax year of the loss. See section 6411 for details. Do not attach Form 1139 to the cooperative's income tax return. Mail it in a separate envelope to the service center where the cooperative files its income tax return.

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

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

Special rules apply when an ownership change occurs (i.e., for any tax year ending after a post-1986 ownership

change, the amount of the taxable income of a loss corporation that can be offset by prechange NOL carryovers is limited). See section 382 and the related regulations.

Also see Temporary Regulations section 1.382-2T(a)(2)(ii), which requires that a loss corporation file an information statement with its income tax return for each tax year that it is a loss corporation and certain shifts in ownership occurred. Also see Regulations section 1.382-6(b) for details on how to make the closing-of-the-books election.

See section 384 for the limitation on the use of preacquisition losses of one corporation to offset recognized built-in gains of another corporation.

Exceptions to carryback rules.— A cooperative may make an irrevocable election to forego the carryback period and instead carry the NOL over to each of the 15 years following the year of the loss. To make this election, check the box in question 19 on Schedule N. The return must be timely filed (including extensions).

Different carryback periods apply for certain losses. The part of an NOL that is attributable to a specified liability loss, including a product liability loss, may be carried back 10 years (section 172(b)(1)(C)).

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

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

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

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

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

payment, and any amount that is more than the tax on line 31 will be refunded.

Line 32g. Credit for federal tax on fuels.— Complete Form 4136 if the cooperative qualifies to take this credit. See **attachments** on page 4.

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

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

Line 33. Estimated Tax Penalty.— A cooperative that does not make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. Generally, a cooperative is subject to the penalty if its tax liability is \$500 or more, and it did not timely pay the smaller of (a) 100% of its tax liability for 1996, or (b) 100% of its prior year's tax. See section 6655 for details and exceptions including special rules for large cooperatives.

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

- The annualized income or adjusted seasonal installment method is used, or
- The cooperative is a large cooperative computing its first required installment based on the prior year's tax. (See the Form 2220 instructions for the definition of a large corporation.)

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

Schedule A

Cost of Goods Sold

Inventories are required at the beginning and end of each tax year if the production, purchase, or sale of merchandise is an income-producing factor. See Regulations section 1.471-1. If inventories are not used, enter zero on lines 1 and 8.

Note: *All filers should see Section 263A uniform capitalization rules on page 5 before completing Schedule A.*

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

Line 5.— Enter the amount paid in money or other property (except per-unit retain certificates) to patrons to redeem

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

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

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

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

For cooperatives that have elected the simplified resale method, additional section 263A costs are generally those costs incurred with respect to the following categories: Off-site storage or warehousing; purchasing; handling, processing, assembly and repackaging; and general and administrative costs (mixed service costs). For details, see Regulations section 1.263A-3(d).

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

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

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

Lines 10a through 10f

Inventory valuation methods.

Inventories can be valued at:

- Cost;
- Cost or market value (whichever is lower); or
- Any other method approved by the IRS that conforms to the requirements of the applicable regulations cited below.

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

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

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

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

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

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

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

Schedule C

Dividends and Special Deductions

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

Line 1, Column (a).— Enter dividends (except those received on debt-financed stock acquired after July 18, 1984—see

section 246A) that are received from less-than-20%-owned domestic corporations subject to income tax and that are subject to the 70% deduction under section 243(a)(1). Include on this line taxable distributions from an IC-DISC or former DISC that are designated as eligible for the 70% deduction and certain dividends of Federal Home Loan Banks. See section 246(a)(2).

Also include on line 1 dividends (except those received on debt-financed stock acquired after July 18, 1984) from a regulated investment company (RIC). The amount of dividends eligible for the dividends-received deduction under section 243 is limited by section 854(b). The corporation should receive a notice from the RIC specifying the amount of dividends that qualify for the deduction.

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

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

Line 3, Column (a).— Enter dividends on debt-financed stock acquired after July 18, 1984, that are received from domestic and foreign corporations subject to income tax and that would otherwise be subject to the dividends-received deduction under sections 243(a)(1), 243(c), or 245(a). Generally, debt-financed stock is stock that the cooperative acquired by incurring a debt (e.g., it borrowed money to buy the stock).

Include on line 3 dividends received from a regulated investment company (RIC) on debt-financed stock. The amount of dividends eligible for the dividends-received deduction is limited by section 854(b). The cooperative should receive a notice from the RIC specifying the amount of dividends that qualify for the deduction.

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

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

deduction provided in section 247 for dividends paid.

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

Line 6, Column (a).— Enter the U.S.-source portion of dividends that are received from less-than-20%-owned foreign corporations and that qualify for the 70% deduction under section 245(a). To qualify for the 70% deduction, the cooperative must own at least 10% of the stock of the foreign corporation by vote and value. Also include dividends received from a less-than-20%-owned FSC that are attributable to income treated as effectively connected with the conduct of a trade or business within the United States (excluding foreign trade income) and that qualify for the 70% deduction provided in section 245(c)(1)(B).

Line 7, Column (a).— Enter the U.S.-source portion of dividends that are received from 20%-or-more-owned foreign corporations and that qualify for the 80% deduction under section 245(a). Also include dividends received from a 20%-or-more-owned FSC that are attributable to income treated as effectively connected with the conduct of a trade or business within the United States (excluding foreign trade income) and that qualify for the 80% deduction provided in section 245(c)(1)(B).

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

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

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

Line 9, Column (c)—Limitation on dividends-received deduction

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

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

1. Refigure line 28, page 1, Form 990-C, without any adjustment under section 1059 and without any capital loss carryback to the tax year under section 1212(a)(1)
2. Complete lines 10 and 11, column (c) and enter the total here.....
3. Subtract line 2 from line 1.....

4. Multiply line 3 by 80%
5. Add lines 2, 5, 7, and 8, column (c) and the portion of the deduction on line 3, column (c) that is attributable to dividends received from 20%-or-more-owned corporations
6. Enter the smaller of line 4 or line 5. If line 5 is greater than line 4, stop here; enter the amount from line 6 on line 9, column (c). Do not complete the rest of this worksheet
7. Enter the total amount of dividends received from 20%-or-more-owned corporations that are included on lines 2, 3, 5, 7, and 8, column (a).....
8. Subtract line 7 from line 3.....
9. Multiply line 8 by 70%
10. Subtract line 5 from line 9, column (c)
11. Enter the smaller of line 9 or line 10.....
12. **Dividends-received deduction after limitation (section 246(b)).** Add lines 6 and 11. Enter the result here and on line 9, column (c).....

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

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

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

Line 12, Column (a).— Enter foreign dividends not reportable on lines 3, 6, 7, 8, or 10 of column (a). Include on line 12 the cooperative's share of the ordinary earnings of a qualified electing fund from Form 8621, line 6c, or the amount of any excess distributions from a passive foreign investment company from Form 8621, line 11b. Exclude distributions of amounts constructively taxed in the current year or in prior years under subpart F (sections 951 through 964).

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

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

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

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

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

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

1. Dividends (other than capital gain dividends and exempt-interest dividends) that are received from regulated

investment companies that are not subject to the 70% deduction.

2. Dividends from tax-exempt organizations.

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

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

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

- If the cooperative held it 45 days or less (see section 246(c)(1)(A)), or
- To the extent the cooperative is under an obligation to make related payments for substantially similar or related property.

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

Schedule H

Deductions and Adjustments under Section 1382

Cooperatives have an option under section 1388(j)(1) to use losses from one or more allocation units to offset earnings of one or more other allocations, as permitted by its bylaws, but only to the extent that the earnings and losses are from business done with or for patrons. If a cooperative exercises this option, it must provide the information specified in section 1388(j)(3) by written notice to its patrons. Special rules also apply if a cooperative has acquired the assets of another cooperative under a section 381(a) transaction. See section 1388(j) for more information. Cooperatives may net earnings and losses under section 1388(j) and still be eligible for tax-exempt treatment. See section 521(b)(6).

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

Line 1.— Enter the amount actually or constructively paid as dividends during the tax year on common stock (whether voting or nonvoting), preferred stock, capital retain certificates, revolving fund certificates, letters of advice, or other documentary evidence of a proprietary interest in the cooperative association. See Regulations section 1.1382-3(b) for more information.

Line 2.— Enter amounts paid on a patronage basis to patrons from non-patronage income. Payment may be in money, qualified written notices of allocation, or other property (except nonqualified written notices of allocation). The amounts must be paid during the payment period which begins on the first day of the tax year and ends on the 15th day of the 9th month after the end of the tax year in which the income was earned.

Non-patronage income includes incidental income from sources not directly related to marketing, purchasing, or service activities of the cooperative (such as income from the lease of premises, investments, or from the sale or exchange of capital assets). It also includes income from business done with or for the U.S. Government, or any of its agencies.

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

Line 3.—Patronage dividends include any amount paid to a patron by a cooperative based on business done with or for that patron under a pre-existing obligation of the cooperative to pay that amount. The amount is determined by reference to the net earnings of the organization from business done with or for its patrons.

Patronage dividends may be in the form of money, qualified written notices of allocation, or other property (except nonqualified written notices of allocation).

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

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

Written notices of allocation means any capital stock, revolving fund certificate, certificate of indebtedness, or other written notice, which tells the patron the stated dollar amount allocated to them by the cooperative and the part, if any, which is a patronage dividend.

A **qualified written notice of allocation** is a written notice of allocation, paid in money or by qualified check, 20% or more of the amount of the patronage dividend. See section 1388(c) and related regulations. See Rev. Rul. 81-103, 1981-1 C.B. 447, for the qualification of written notices of allocation issued to patrons by a payment of cash and a crediting of accounts receivable due from patrons.

Also, one of the following conditions must be met before a written notice of allocation is qualified:

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

2. The patron must agree to have the allocation treated as constructively received and reinvested in the

cooperative. See section 1388(c)(2) and related regulations for information on how the consent must be made.

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

Note: See section 1383 for special rules for figuring the cooperative's tax in the year nonqualified written notices of allocation are redeemed. The cooperative is entitled to: **(a)** a deduction in the tax year the nonqualified written notices of allocation are redeemed (if permitted under section 1382(b)(2) or (4) or section 1382(c)(2)(B)); **OR (b)** a tax credit based on a recomputation of tax for the year(s) the nonqualified written notices of allocation were issued. See instructions for line 32f.

The following are **not** patronage dividends, amounts paid to patrons:

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

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

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

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

Schedule J

Tax Computation

Note: Members of a controlled group must attach a statement showing the computation of the tax entered on line 3.

Lines 1 and 2

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

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

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

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

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

Therefore, each Cooperative is entitled to:

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

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

Tax Computation Worksheet for Members of a Controlled Group (Keep for your Records)

Note: Each member of a controlled group must compute the tax using this worksheet.

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

Line 2b.— Members of a controlled group are treated as one group to figure the applicability of the additional 5% tax and the additional 3% tax. If an additional tax

applies, each member will pay that tax based on the part of the amount used in each taxable income bracket to reduce that member's tax. See section 1561(a). If an additional tax applies, attach a schedule showing the taxable income of the entire group and how the cooperative figured its share of the additional tax.

Line 2b1.— Enter the cooperative's share of the additional 5% tax on line 2b(1).

Line 2b2.— Enter the cooperative's share of the additional 3% tax on line 2b(2).

Line 3

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

Tax Rate Schedule

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

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

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

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

Line 4a. Foreign tax credit.— To find out when a cooperative can take the credit for payment of income tax to a foreign country or U.S. possession, see **Form 1118**, Foreign Tax Credit—Corporations.

Line 4b—Other credits:

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

Nonconventional source fuel credit. A credit is allowed for the sale of qualified fuels produced from a nonconventional source. Section 29 contains a definition

of qualified fuels, provisions for figuring the credit, and other special rules. Attach a separate schedule to the return showing the computation of the credit.

Qualified electric vehicle (QEV) credit. Include on line 4b any credit from **Form 8834**, Qualified Electric Vehicle Credit. Vehicles that qualify for this credit are not eligible for the deduction for clean-fuel vehicles under section 179A.

Line 4c. General business credit.— Complete this line if the cooperative can take any of the following credits. Complete **Form 3800**, General Business Credit, if the cooperative has two or more of these credits, a credit carryforward or carryback (including an ESOP credit), a trans-Alaska pipeline liability fund credit, or a passive activity credit. Enter the amount of the general business credit on line 4c, and check the box for Form 3800. If the cooperative has only one credit, enter on line 4c, the amount of the credit from the form. Also be sure to check the appropriate box for that form.

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

Form 3468, Investment Credit. Use Form 3468 to claim a credit for property placed in service that is qualified rehabilitation, energy, timber, or transition property.

Form 5884, Work Opportunity Credit. Use Form 5884 to claim a credit for wages paid to qualified employees who began work after September 30, 1996, and before October 1, 1997.

Form 6478, Credit for Alcohol Used as Fuel.

Form 6765, Credit for Increasing Research Activities. Use Form 6765 to claim a credit for qualified research expenses. Generally, the expenses must be paid or incurred after June 30, 1996 and before June 1, 1997.

Form 8586, Low-income Housing Credit. Cooperatives that own residential rental buildings providing low-income housing may qualify for this credit.

Form 8820, Orphan Drug Credit. Use Form 8820 to claim a credit for qualified clinical testing expenses. Generally, the expenses must be paid or incurred after June 30, 1996, and before June 1, 1997.

Form 8826, Disabled Access Credit. Use Form 8826 to take a credit for certain expenditures paid or incurred to help individuals with disabilities.

Form 8830, Enhanced Oil Recovery Credit. Use Form 8830, to claim a credit for 15% of qualified enhanced oil recovery costs.

Form 8835, Renewable Electricity Production Credit. Use Form 8835, to claim a credit for the sale of electricity

produced in the United States or U.S. possessions from qualified energy resources.

Form 8844, Empowerment Zone Employment Credit. Use Form 8844 to claim a credit for qualified wages and certain training and educational expenses paid or incurred by the corporation in areas designated as empowerment zones.

Note: Although the empowerment zone employment credit is a component of the general business credit, it is figured separately and is not carried to Form 3800.

Form 8845, Indian Employment Credit. Use Form 8845, to claim a credit based on qualified wages and health insurance costs paid by the cooperative for American Indians who are qualified employees.

Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips. Food and beverage establishments use Form 8846, to claim this credit.

Form 8847, Credit for Contributions to Selected Community Development Corporations.

Line 4d. Credit for prior year minimum tax.— To figure the minimum tax credit and any carryforward of that credit, use **Form 8827**, Credit for Prior Year Minimum Tax—Corporations.

Also see Form 8827 if any of the cooperative's 1995 nonconventional source fuel credit, orphan drug credit, or qualified electric vehicle credit was disallowed solely because of the tentative minimum tax limitation. See section 53(d).

Line 7.—Recapture Taxes:

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

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

Recapture of qualified electric vehicle (QEV) credit. The cooperative must recapture part of the QEV credit it claimed in a prior year, if, within 3 years of the date the vehicle was placed in service, it ceases to qualify for the credit. See Regulations section 1.30-1 for details on how to figure the recapture. Include the amount of the recapture in the total for line 7, Schedule J. On the dotted line next to the entry space, write "QEV recapture" and the amount.

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 by reason of wages paid or incurred to that employee must be recaptured. For details, see Form 8845, and section 45A. Include the amount of the recapture in the total for line 7, Schedule J. On the dotted line next to the entry space, write "45A" and the amount.

Line 8. Alternative minimum tax.— The cooperative may owe the alternative minimum tax (AMT) if it has any of the adjustments and tax preference items listed on **Form 4626**, Alternative Minimum Tax—Corporations. The cooperative must file Form 4626 if its taxable income (loss) combined with these adjustments and tax preference items is more than the smaller of:

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

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

Reduce alternative minimum tax by any amounts on Form 3800, line 36, Schedule A, and line 23, Form 8844. On the dotted line next to line 8a, write "Section 38(c)(2)" (or "EZE") and the amount.

Line 9. Interest on tax deferred under the installment method for certain non-dealer property installment obligations.— If an obligation arising from the disposition of property to which section 453A applies is outstanding at the close of the tax year, the cooperative must include the interest due under section 453A(c) on line 9, Schedule J. Write on the dotted line to the left of line 9, Schedule J, "Sec. 453A(c)" and the amount. Attach a schedule showing the computation.

Deferred tax and interest under section 1294. Complete Form 8621 to determine the cooperative's share of tax attributable to the undistributed earnings of a qualified electing fund, or the deferred tax due, if any, as a result of the termination of a section 1294 election. See the instructions for Form 8621 to figure the amount of tax to include in, or subtract from the total on line 9. The instructions for Form 8621 also explain how to report any interest due under section 1294 on the deferred tax.

Schedule L

Balance Sheets Per Books

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

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

1. State and local government obligations, the interest on which is excludable from gross income under section 103(a), and
2. Stock in a mutual fund or other regulated investment company that

distributed exempt-interest dividends during the tax year of the cooperative.

Schedule M-1

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

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

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

For more information, see Pub. 542.

Line 7a. Tax exempt interest.— Include as interest on line 7a, any tax-exempt dividends received as a shareholder in a mutual fund or other regulated investment company.

Schedule N

Other Information

Be sure to answer all the questions that apply to the cooperative. The following instructions apply to questions 1 through 20 on Form 990-C, page 5, Schedule N.

Question 13

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

1. At any time during the 1996 calendar year the cooperative had an interest in or signature or other authority over a bank, securities, or other financial account in a foreign country; and
- The combined value of the accounts was more than \$10,000 at any time during the calendar year; and
- The account was NOT with a U.S. military banking facility operated by a U.S. financial institution.

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

Get **Form TD F 90-22.1**, Report of Foreign Bank and Financial Accounts, to see if the cooperative is considered to have an interest in or signature or other

authority over a financial account in a foreign country.

If "Yes" is checked for this question, file Form TD F 90-22.1 by June 30, 1997, with the Department of the Treasury at the address shown on the form. Because Form TD F 90-22.1 is not a tax return, do not file it with Form 990-C.

You can get Form TD F 90-22.1 from an IRS Forms Distribution Center or by calling 1-800-TAX-FORM (1-800-829-3676).

Also, if "Yes" is checked for this question, enter the name of the foreign country or countries. Attach a separate sheet if more space is needed.

Question 14

If the cooperative received a distribution from a foreign trust after August 20, 1996, it must provide additional information. Generally, for this purpose, a loan of cash or marketable securities is considered to be a distribution. Get Pub. 553 for details.

If the cooperative was the grantor of, or the transferor to, a foreign trust that existed during the tax year, it may have to file **Form 3520**, Creation of or Transfers to Certain Foreign Trusts, **Form 3520-A**, Annual Return of Foreign Trust With U.S. Beneficiaries, or **Form 926**, Return by a U.S. Transferor of Property to a Foreign Corporation, Foreign Estate or Trust, or Foreign Partnership.

Question 15

Show any tax-exempt interest received or accrued. Include any exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company.

Question 17

Check the "Yes" box for question 17 if either 1 or 2 below applies to the cooperative:

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

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

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

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

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

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

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

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

Parent-subsidiary controlled group.—
The term “*parent-subsidiary controlled group*” means one or more chains of

corporations connected through stock ownership (section 1563(a)(1)). Both of the following requirements must be met:

1. 80% of the total combined voting power of all classes of stock entitled to vote or at least 80% of the total value of all classes of stock of each corporation in the group (except the parent) must be owned by one or more of the other corporations in the group.

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

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

Question 19

Check the box on line 19 if the cooperative elects under section 172(b)(3) to forgo the carryback period for a net operating loss (NOL). If this box is checked, do not attach the statement described in Temporary Regulations section 301.9100-12T(d).

Question 20

Enter the amount of the net operating loss (NOL) carryover to the tax year from prior years, even if some of the loss is used to offset income on this return. The amount to enter is the total of all NOLs generated in prior years but not used to offset income (either as a carryback or carryover) to a tax year prior to 1996. Do not reduce the amount by any NOL deduction reported on line 29a.

Pub. 536 has a worksheet for figuring a corporation's NOL carryover.