



Instructions for Form 1066

U.S. Real Estate Mortgage Investment Conduit (REMIC) Income Tax Return

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

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General Instructions

Purpose of Form

Form 1066 is used to report the income, deductions, and gains and losses from the operation of a REMIC. In addition, the form is used by the REMIC to report and pay the taxes on net income from prohibited transactions, net income from foreclosure property, and contributions after the startup day.

Who Must File

An entity must file Form 1066 if it elected to be treated as a REMIC for its first tax year (and the election is still in effect) **and** it meets the section 860D(a) requirements listed below.

A REMIC is any entity:

1. To which an election to be treated as a REMIC applies for the tax year and all prior tax years,
2. All of the interests in which are regular interests or residual interests,
3. That has one (and only one) class of residual interests and all distributions, if any, with respect to such interests are pro rata,
4. Substantially all of the assets of which consist of qualified mortgages and permitted investments (as of the close of the 3rd month beginning after the startup day (defined in the instructions for **Item B**, on page 4) and at all times thereafter),
5. That has a calendar tax year, and
6. For which reasonable arrangements have been designed to ensure that **(a)** residual interests are not held by disqualified organizations (as defined in section 860E(e)(5)), and **(b)** information needed to apply section 860E(e) will be made available by the entity.

Note: Paragraph 6 does not apply to REMICs with a startup day before April 1, 1988 (or those formed under a binding contract in effect on March 31, 1988).

See section 860G for definitions and special rules. See section 860D(a)

regarding qualification as a REMIC during a qualified liquidation.

Making the Election

The election to be treated as a REMIC is made by timely filing, for the first tax year of its existence, a Form 1066 signed by an authorized person. Once the election is made, it stays in effect for all years until it is terminated.

First Tax Year

For the first tax year of a REMIC's existence, the REMIC must furnish the following in a separate statement attached to the REMIC's initial return:

1. Information concerning the terms of the regular interests and the designated residual interest of the REMIC, or a copy of the offering circular or prospectus containing such information, and
2. A description of the prepayment and reinvestment assumptions made in accordance with section 1272(a)(6) and its regulations, including documentation supporting the selection of the prepayment assumption.

Termination of Election

If the entity ceased to qualify as a REMIC under the requirements of section 860D(a) in 2003, the election to be a REMIC is terminated for 2003 and all future years. For 2003 and all future years you must file the tax form for similarly organized entities (corporations, partnerships, trusts, etc.).

When To File

Generally, REMICs must file the 2003 Form 1066 by April 15, 2004. However, if 2003 is the entity's final return, Form 1066 is due by the 15th day of the 4th month following the date the REMIC ceased to exist.

If you need more time to file a REMIC return, get **Form 8736**, Application for Automatic Extension of Time To File U.S. Return for a Partnership, REMIC, or for Certain Trusts, to request an automatic 3-month extension. You must file Form 8736 by the regular due date of the REMIC return.

If you have filed Form 8736 and you still need more time to file the REMIC

return, get **Form 8800**, Application for Additional Extension of Time To File U.S. Return for a Partnership, REMIC, or for Certain Trusts, to request an additional extension of up to 3 months. The REMIC must provide a full explanation of the reasons for requesting the extension in order to get this additional extension. Ask for the additional extension early so that if it is denied, the return can still be filed on time.

Period Covered

File the 2003 return for:

1. Calendar year 2003,
2. Short tax years beginning and ending in 2003, or
3. Short tax years beginning and ending in 2004, if the 2004 Form 1066 is not available by the time the REMIC is required to file its return. However, the REMIC must show its 2004 tax year on the 2003 Form 1066 and incorporate any tax law changes that are effective for tax years beginning after December 31, 2003.

Note: In the case of 2 or 3 above, fill in the tax year space at the top of the form.

Accounting Method

A REMIC must compute its taxable income (or net loss) using the accrual method of accounting. See section 860C(b).

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

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

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

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year when:

- All events that determine the liability have occurred,
- The amount of the liability can be figured with reasonable accuracy, and
- Economic performance takes place with respect to the expense.

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

Rounding Off to Whole Dollars

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

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

Recordkeeping

The REMIC records must be kept as long as their contents may be material in the administration of any Internal Revenue law. Copies of the filed tax returns should also be kept as part of the REMIC's records. See **Pub. 583**, Starting a Business and Keeping Records, for more information.

Final Return

If the REMIC ceases to exist during the year, check the box at item D(1), page 1, Form 1066.

The item E(1) box of Schedule Q (Form 1066) should also be checked to indicate when the schedule is for the final quarter of the year.

Amended Return

If the REMIC files its return and later becomes aware of changes it must make to income, deductions, etc., the REMIC should then file an amended:

- Form 1066 and check the box at item D(4), page 1.
- Schedule Q (Form 1066), for each residual interest holder, and check the box at item E(2). Give corrected Schedules Q (Form 1066) to each residual interest holder.

Note: If a REMIC does not meet the small REMIC exception under sections 860F(e) and 6231, and related regulations, or makes the election described in section 6231(a)(1)(B)(ii) not

to be treated as a small REMIC, the amended return will be a request for administrative adjustment, and **Form 8082**, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR), must be filed by the Tax Matters Person. See sections 860F(e) and 6227 for more information.

If the REMIC's Federal return is changed for any reason, it may affect its state return. This would include changes made as a result of an examination of the REMIC return by the IRS. Contact the state tax agency where the state return is filed for more information.

Assembling the Return

If you need more space on the forms or schedules, attach separate sheets. Use the same size and format as on the printed forms. **But show the totals on the printed forms.** Be sure to put the REMIC's name and employer identification number on each sheet.

You must complete every applicable entry space on Form 1066. If you attach statements, do not write "See Attached" instead of completing the entry spaces on this form.

Other Forms and Returns That May Be Required

Form 1096, Annual Summary and Transmittal of U.S. Information Returns. Use this form to summarize and send information returns to the Internal Revenue Service Center.

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 REMIC's trade or business.

Forms 1099-A, B, C, INT, LTC, MISC, MSA, OID, R, and S. Use these information returns to report acquisitions or abandonments of secured property; proceeds from broker and barter exchange transactions; cancellation of a debt; interest income; certain payments made under a long-term care insurance contract and certain accelerated death benefits; miscellaneous income payments; distributions from an Archer MSA or Medicare+Choice MSA; original issue discount; distributions from pensions, annuities, retirement or profit-sharing plans, IRAs, insurance contracts, etc.; and proceeds from real estate transactions. Also, use these returns to report amounts that were received as a nominee on behalf of another person.

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

Where To File

File Form 1066 at the applicable IRS address listed below.

If the REMIC's principal business, office, or agency is located in:	Use the following Internal Revenue Service Center address:
The United States	Ogden, UT 84201-0007
A foreign country or U.S. possession	Philadelphia, PA 19255

Note: Generally, a REMIC must file Forms 1099-INT and 1099-OID, as appropriate, to report accrued income of \$10 or more of regular interest holders. See Regulations section 1.6049-7. Also, every REMIC must file Forms 1099-MISC if it makes payments of rents, commissions, or other fixed or determinable income (see section 6041) totaling \$600 or more to any one person in the course of its trade or business during the calendar year.

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

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

Form 8811, Information Return for Real Estate Mortgage Investment Conduits (REMICs) and Issuers of Collateralized Debt Obligations. A REMIC uses this form to provide the information required by Regulations section 1.6049-7(b)(1)(ii). This information will be published in **Pub. 938**, Real Estate Mortgage Investment Conduits (REMICs) Reporting Information. This publication contains a directory of REMICs.

Note: Pub. 938 is not printed. Instead, it is available on CD-ROM or the Internet. See **How To Get Forms and Publications** on page 1 of the instructions for details.

Form 8822, Change of Address, may be used to inform the IRS of a new REMIC address if the change is made after filing Form 1066.

Payment of Tax Due

The REMIC must pay the tax due (line 3, Section II, page 1) in full by the 15th day of the 4th month following the end of the tax year. Enclose with Form 1066 a check or money order for the amount due payable to the "United States Treasury."

Interest and Penalties

Interest. Interest is charged on taxes not paid by the due date, even if an extension of time to file is granted. Interest is also charged on penalties imposed for failure to file, negligence, fraud, substantial valuation misstatement, and substantial understatement 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.

Late filing penalty. A penalty may be charged if (a) the return is filed after the due date (including extensions), or (b) the return does not show all the information required, unless each failure is due to reasonable cause. If the failure is due to reasonable cause, attach an explanation to the return. If no taxes are due, the penalty is \$50 for each month or part of a month (up to 5 months) the return is late or does not include the required information, multiplied by the total number of persons who were residual interest holders in the REMIC during any part of the REMIC's tax year for which the return is due. If tax is due, the penalty is the amount stated above plus 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, or if the return is more than 60 days late, a \$100 minimum or the balance of tax due on the return, whichever is smaller.

Late payment penalty. The penalty for not paying the tax when due is usually 1/2 of 1% of the unpaid tax for each month or part of a month the tax is unpaid. The penalty cannot exceed 25% of the unpaid tax. The penalty will not be charged if you can show reasonable cause for not paying on time.

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

Contributions to the REMIC

Generally, no gain or loss is recognized by the REMIC or any of the regular or residual interest holders when property is transferred to the REMIC in exchange for an interest in the REMIC. The adjusted basis of the interest received equals the adjusted basis of the property transferred to the REMIC.

The basis to the REMIC of property transferred by a regular or residual interest holder is its fair market value immediately after its transfer.

If the issue price of a regular interest is more than its adjusted basis, the excess is included in income by the regular interest holder for the applicable tax years as if the excess were market discount on a bond and the holder had made an election under section 1278(b) to include this market discount currently. If the issue price of a residual interest is more than its adjusted basis, the excess is amortized and included in the residual interest holder's income ratably over the anticipated weighted average life of the REMIC (as defined in Regulations section 1.860E-1(a)(3)(iv)).

If the adjusted basis of a regular interest is more than its issue price, the regular interest holder treats the excess as amortizable bond premium subject to

the rules of section 171. If the adjusted basis of a residual interest is more than its issue price, the excess is deductible ratably over the anticipated weighted average life of the REMIC (as defined in Regulations section 1.860E-1(a)(3)(iv)).

Payments Subject to Withholding at Source

If there are any nonresident alien individuals, foreign partnerships, or foreign corporations as regular interest holders or residual interest holders, and the REMIC has items of gross income from sources within the United States (see sections 861 through 865), see **Form 1042**, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons.

Who Must Sign

Startup day after November 9, 1988.

For a REMIC with a startup day after November 9, 1988, Form 1066 may be signed by any person who could sign the return of the entity in the absence of the REMIC election. Thus, the return of a REMIC that is a corporation or trust would be signed by a corporate officer or a trustee, respectively. For REMICs with only segregated pools of assets, the return would be signed by any person who could sign the return of the entity owning the assets of the REMIC under applicable state law.

Startup day before November 10, 1988.

A REMIC with a startup day before November 10, 1988, may elect to apply the rules for REMICs with a startup day after November 9, 1988 (as described in Regulations section 1.860F-4(c)(2)(iii)). Otherwise, Form 1066 must be signed by a residual interest holder or, as provided in section 6903, by a fiduciary as defined in section 7701(a)(6) who is acting for the REMIC and who has furnished adequate notice as described in Regulations section 301.6903-1(b).

Note: For this purpose, the term "startup day" means any day selected by a REMIC that is on or before the first day on which interests in such REMIC are issued. Otherwise, "startup day" is defined in the instructions for **Item B** on page 4.

Facsimile signature. A facsimile signature is acceptable if the following conditions are met:

1. Each group of returns sent to the IRS must be accompanied by a letter signed by the person authorized to sign the returns declaring, under penalties of perjury, that the facsimile signature appearing on the returns is the signature adopted by that person to sign the returns filed and that the signature was affixed to the returns by that person or at that person's direction. The letter must also

list each return by the name and employer identification number of the REMIC;

2. After the facsimile signature is affixed, no entries on the return may be altered other than to correct discernible arithmetic errors;

3. A manually signed copy of the letter submitted to the IRS with the returns, as well as a record of any arithmetic errors corrected, must be retained on behalf of the REMICs listed in the letter and must be available for inspection by the IRS.

Paid preparer's information. If someone prepares the return and does not charge the REMIC, that person should not sign the return.

Generally, anyone who is paid to prepare the REMIC return must sign the return and fill in the "Paid Preparer's Use Only" area of the return.

The preparer required to sign the REMIC's return **must** complete the required preparer information and:

- Sign in the space provided for the preparer's signature. A facsimile signature is acceptable if the preparer meets the three conditions under **Facsimile Signature** beginning on page 3.
- Give the REMIC a copy of the return in addition to the copy to be filed with the IRS.

Paid Preparer Authorization

If the REMIC wants to allow the IRS to discuss its 2003 tax return with the paid preparer who signed it, check the "Yes" box in the signature area of the return. This authorization applies only to the individual whose signature appears in the "Paid Preparer's Use Only" section of the return. It does not apply to the firm, if any, shown in that section.

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

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

The REMIC is not authorizing the paid preparer to receive any refund check, bind the REMIC to anything (including any additional tax liability), or otherwise represent it before the IRS. If the REMIC wants to expand the paid preparer's

authorization, see **Pub. 947, Practice Before the IRS and Power of Attorney**.

The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (excluding extensions) for filing the 2004 tax return.

Specific Instructions

General Information

Name, address, and employer identification number. Print or type the REMIC's legal name and address on the appropriate lines. Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and the REMIC has a P.O. box, show the box number instead of the street address.

Enter the REMIC's EIN in item A on page 1 of Form 1066. If the REMIC does not have its own EIN, it must apply for one. An EIN may be applied for:

- Online—Click on the EIN link at www.irs.gov/businesses/small. The EIN is issued immediately once the application information is validated.
- By telephone at 1-800-829-4933 from 7:30 a.m. to 5:30 p.m. in the REMIC's local time zone.
- By mailing or faxing **Form SS-4, Application for Employer Identification Number**.

If the REMIC has not received its EIN by the time the return is due, write "Applied for" in the space for the EIN. For more details, see Pub. 583.

Note: *The online application process is not yet available for REMICs with addresses in foreign countries or Puerto Rico*

Item B—Date REMIC started. Enter the "startup day" selected by the REMIC.

The startup day is the day on which the REMIC issued all of its regular and residual interests. However, a sponsor may contribute property to a REMIC in exchange for regular and residual interests over any period of 10 consecutive days and the REMIC may designate any one of those 10 days as the startup day. The day so designated is then the startup day, and all interests are treated as issued on that day.

Item C—Total assets at end of tax year. Enter the total assets of the REMIC. If there are no assets at the end of the tax year, enter the total assets as of the beginning of the tax year.

Section I

Line 1—Taxable interest. Enter the total taxable interest. "Taxable interest" is interest that is included in ordinary income from all sources except interest

exempt from tax and interest on tax-free covenant bonds. You may elect to reduce the amount of interest accrued on taxable bonds by the amount of amortizable bond premium on those bonds attributable to the current tax year. See sections 171(c) and 171(e) for details.

Line 2—Accrued market discount under section 860C(b)(1)(B). Enter the amount of market discount attributable to the current tax year determined on the basis of a constant interest rate under the rules of section 1276(b)(2).

Line 3—Capital gain or (loss). Enter the amount shown on line 12 or 13 (if any), from Schedule D, page 2.

Line 4—Ordinary gain or (loss). Enter the net gain or (loss) from Part II, **Form 4797, Sales of Business Property**.

Line 5—Other income. Attach a schedule, listing by type and amount, any other taxable income not reported on lines 1–4. If there is only one item of other income, describe it in parentheses to the left of the entry space on line 5 instead of attaching a schedule. If the REMIC issued regular interests at a premium, the net amount of the premium is income that must be prorated over the term of these interests. Include this income on line 5.

Deductions—(Lines 7–14). Include only deductible amounts on lines 7–14. A REMIC is not allowed any of the following deductions in computing its taxable income:

- The net operating loss deduction,
- The deduction for taxes paid or accrued to foreign countries and U.S. possessions,
- The deduction for charitable contributions,
- The deduction for depletion under section 611 for oil and gas wells, and
- Losses or deductions allocable to prohibited transactions.

Line 9—Amount accrued to regular interest holders in the REMIC that is deductible as interest. Regular interests in the REMIC are treated as indebtedness for Federal income tax purposes. Enter the amount of interest, including original issue discount, accruing to regular interest holders for the tax year. Do not deduct any amounts paid or accrued for residual interests in the REMIC.

Line 10—Other interest. Do not include interest deducted on line 9 or interest on indebtedness incurred or continued to purchase or carry obligations on which the interest is wholly exempt from income tax. You may elect to include amortization of bond premium on taxable bonds acquired before 1988 unless you elected to offset amortizable bond premium against the interest accrued on the bond (see the Section I, line 1, instructions). Do

not include any amount attributable to a tax-exempt bond.

Line 11—Taxes. Enter taxes accrued during the tax year but do not include the following:

- Federal income taxes (except the tax on net income from foreclosure property);
- Foreign or U.S. possession income taxes;
- Taxes not imposed on the REMIC; or
- Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (such taxes must be treated as a part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition).

Note: If you have to pay tax on net income from foreclosure property, you should include this tax (from line 10 of Schedule J) here on line 11.

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

Line 12—Depreciation. See the instructions for **Form 4562**, Depreciation and Amortization, or **Pub. 946**, How To Depreciate Property, to figure the amount of depreciation to enter on this line. You must complete and attach Form 4562 if the REMIC placed property in service during 2003, claims a section 179 expense deduction, or claims depreciation on any car or other listed property.

Line 13—Other deductions. Attach a schedule, listing by type and amount, any other allowable deductions for which no line is provided on Form 1066. If there is only one item of other deductions, describe it in parentheses to the left of the entry on line 13 instead of attaching a schedule.

Schedule D

General Instructions

Purpose of schedule. For a REMIC with a startup day before November 12, 1991, use Schedule D to report the sale or exchange of capital assets. To report sales or exchanges of property other than capital assets, see Form 4797 and its instructions.

A REMIC with a startup day after November 11, 1991, must use Form 4797 instead of Schedule D because all of its gains and losses from the sale or exchange of any property are treated as ordinary gains and losses.

Report every sale or exchange of property in detail, even though there is no gain or loss.

For details, see **Pub. 544**, Sales and Other Dispositions of Assets.

Capital gain distributions. On line 7, report the sum of: (a) capital gain distributions, and (b) the REMIC's share of the undistributed capital gain from a mutual fund or other regulated investment company.

For details, see **Pub. 564**, Mutual Fund Distributions.

Losses on worthless securities. If any securities that are capital assets become worthless during the tax year, the loss is a loss from the sale or exchange of capital assets as of the last day of the tax year.

Losses from wash sales. The REMIC cannot deduct losses from a wash sale of stock or securities. A wash sale occurs if the REMIC acquires (by purchase or exchange), or has a contract or option to acquire, substantially identical stock or securities within 6 months before or after the date of the sale or exchange. See section 860F(d) for details.

Installment sales. If the REMIC sold property (except publicly traded stock or securities) at a gain and will receive any payment in a tax year after the year of sale, it must use the installment method and **Form 6252**, Installment Sale Income, unless it elects not to use the installment method.

If the REMIC wants to elect out of the installment method, it must report the full amount of the gain on a timely filed return (including extensions). If the REMIC filed its original return on time without making the election, it may make the election on an amended return filed not later than 6 months after the due date of the return (excluding extensions). Write "Filed pursuant to section 301.9100-2" at the top of the amended return.

Specific Instructions

Column (d)—Sales price. Enter either the gross sales price or the net sales price from the sale. On sales of stocks and bonds, report the gross amount as reported to the REMIC by the REMIC's broker on **Form 1099-B**, Proceeds From Broker and Barter Exchange Transactions, or similar statement. However, if the broker advised the REMIC that gross proceeds (gross sales price) minus commissions and option premiums were reported to the IRS, enter that net amount in column (d).

Column (e)—Cost or other basis. In general, the cost or other basis is the cost of the property plus purchase commissions and improvements, minus depreciation. If the REMIC got the property in a tax-free exchange, involuntary conversion, or wash sale of stock, it may not be able to use the actual cash cost as the basis. If the REMIC uses a basis other than cash cost, attach an explanation.

When selling stock, adjust the basis by subtracting all the nontaxable distributions received before the sale. This includes nontaxable dividends from utility company stock and mutual funds. Also, adjust the basis for any stock splits.

See section 852(f) for the treatment of certain load charges incurred in acquiring stock in a mutual fund with a reinvestment right.

Increase the cost or other basis by any expense of sale, such as broker's fee, commission, and option premium, before making an entry in column (e), unless the REMIC reported net sales price in column (d).

For details, see **Pub. 551**, Basis of Assets.

Schedule J

Part I—Tax on Net Income from Prohibited Transactions

Do not net losses from prohibited transactions against income or gains from prohibited transactions in determining the amounts to enter on lines 1a through 1d. These losses are not deductible in computing net income from prohibited transactions.

Note: For purposes of lines 1a and 1d, the term "prohibited transactions" does not include any disposition that is required to prevent default on a regular interest where the threatened default resulted from a default on one or more qualified mortgages, or to facilitate a clean-up call. A clean-up call is the redemption of a class of regular interests when, by reason of prior payments with respect to those interests, the administrative costs associated with servicing that class outweigh the benefits of maintaining the class. It does not include the redemption of a class in order to profit from a change in interest rates.

Line 1a—Gain from certain dispositions of qualified mortgages.

Enter the amount of gain from the disposition of any qualified mortgage transferred to the REMIC other than a disposition from:

1. The substitution of a qualified replacement mortgage for a qualified mortgage (or the repurchase in lieu of substitution of a defective obligation).
2. The foreclosure, default, or imminent default of the mortgage.
3. The bankruptcy or insolvency of the REMIC.
4. A qualified liquidation.

See section 860F(a) for details and exceptions.

Line 1b—Income from nonpermitted assets.

Enter the amount of any income received or accrued during the year

attributable to any asset other than a qualified mortgage or permitted investment. See section 860G(a) for definitions.

Line 1c—Compensation for services. Enter the amount of fees or other compensation for services received or accrued during the year.

Line 1d—Gain from the disposition of cash flow investments (except from a qualified liquidation). Enter the amount of gain from the disposition of any "cash flow investment" except from a qualified liquidation. A cash flow investment is any investment of amounts received under qualified mortgages for a temporary period (not more than 13 months) before distribution to holders of interests in the REMIC. See section 860F(a)(4) for the definition of a qualified liquidation.

Part II—Tax on Net Income From Foreclosure Property

For a definition of foreclosure property, see instructions on page 7 for Schedule L, line 1c. Net income from foreclosure property must also be included in the computation of taxable income (or net loss) shown in Section I, page 1, Form 1066.

Line 6—Gross income from foreclosure property. Do not include on line 6 amounts described in section 856(c)(3)(A), (B), (C), (D), (E), or (G).

Line 8—Deductions. Only those expenses that are directly connected with the production of the income shown on line 7 may be deducted to figure net income from foreclosure property. Allowable deductions include depreciation on foreclosure property, interest accrued on debt of the REMIC attributable to the carrying of foreclosure property, real estate taxes, and fees charged by an independent contractor to manage foreclosure property. **Do not** deduct general overhead and administrative expenses.

Line 10—Tax on net income from foreclosure property. The REMIC is allowed a deduction for the amount of tax shown on this line. Include this amount in computing the deduction for taxes entered on line 11, Section I, page 1, Form 1066.

Part III—Tax on Contributions After the Startup Day

Do not complete this part if the startup day was before July 1, 1987. For this purpose "startup day" means any day selected by a REMIC that is on or before the first day on which interests in the REMIC are issued.

Line 11—Tax. Enter the amount of contributions received during the calendar year after the startup day (as defined

above). Do not include cash contributions described below:

1. Any contribution to facilitate a clean-up call or a qualified liquidation.
2. Any payment in the nature of a guarantee.
3. Any contribution during the 3-month period beginning on the startup day.
4. Any contribution to a qualified reserve fund by any holder of a residual interest in the REMIC.

Attach a schedule showing your computation.

Designation of Tax Matters Person (TMP)

A REMIC may designate a tax matters person in the same manner that a partnership may designate a tax matters partner under Regulations section 301.6231(a)(7)-1. When applying that section, treat all holders of a residual interest in the REMIC as general partners. The designation may be made by completing the **Designation of Tax Matters Person** section on page 4 of Form 1066.

Additional Information

Be sure to answer the questions and provide other information in items E through L.

Item E—Type of entity. Check the box for the entity type of the REMIC recognized under state or local law. If the REMIC is not a separate entity under state or local law, check the box for "Segregated Pool of Assets," and state the name and type of entity that owns the assets in the spaces provided.

Item F—Number of residual interest holders. Enter the number of persons who were residual interest holders at any time during the tax year.

Item G—Consolidated REMIC proceedings. Generally, the tax treatment of REMIC items is determined at the REMIC level in a consolidated REMIC proceeding, rather than in separate proceedings with individual residual interest holders.

Check the box for item G if any of the following applies:

- The REMIC had more than 10 residual interest holders at any time during the tax year (a husband and wife count as one holder).
- Any residual interest holder was a nonresident alien or was other than an individual, a C corporation, or an estate, **unless** there was at no time during the tax year more than **one** holder of the residual interest.
- The REMIC has elected to be subject to the rules for consolidated REMIC proceedings.

"Small REMICs," as defined in sections 860F(e), 6231(a)(1)(B), and the regulations of both, are not subject to the rules for consolidated REMIC proceedings but may make an election to be covered by them. This election can be revoked only with the consent of the Commissioner.

Item H—Foreign financial accounts.

Check the "Yes" box if either 1 or 2 below applies to the REMIC. Otherwise, check the "No" box:

1. At any time during the 2003 calendar year, the REMIC 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 REMIC owns more than 50% of the stock in any corporation that would answer the question "Yes" to item 1 above.

Get **Form TD F 90-22.1**, Report of Foreign Bank and Financial Accounts, to see if the REMIC is considered to have an interest in or signature or other authority over a financial account in a foreign country.

If you checked "Yes" for item H, file Form TD F 90-22.1 by June 30, 2004, with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return. **Do not file it with Form 1066.**

The REMIC can get Form TD F 90-22.1 from an IRS Distribution Center or by calling 1-800-TAX-FORM (1-800-829-3676) or you can download it from the IRS website at www.irs.gov.

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.

Item I—Foreign trust. The REMIC may be required to file **Form 3520**, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts, if:

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

For more information, see the Instructions for Form 3520.

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

To report information required under section 6038B the REMIC may be required to file **Form 926**, Return by a U.S. Transferor of Property to a Foreign Corporation, or **Form 8865**, Return of U.S. Persons With Respect to Certain Foreign Partnerships. See the instructions for these forms for more information.

Item L—Sum of the daily accruals.

Enter the total of the daily accruals for all residual interests for the calendar year. See section 860E(c)(2) for details.

Schedule L—Balance Sheets per Books

The amounts shown should agree with the REMIC's books and records. Attach a statement explaining any differences.

Line 1a—Cash flow investments are any investments of amounts received under qualified mortgages for a temporary period (not more than 13 months) before distribution to holders of interests in the REMIC.

Line 1b—Qualified reserve assets include any intangible property that is held for investment and as part of any reasonably required reserve to provide for full payment of expenses of the REMIC or amounts due on regular interests in the event of defaults on qualified mortgages or lower than expected returns on cash flow investments. No more than 30% of the gross income from such assets may be derived from the sale or disposition of property held less than 3 months. See section 860G(a)(7)(C) for details and exceptions.

Line 1c—Foreclosure property is any real property (including interests in real property), and any personal property incident to such real property, acquired by the REMIC as a result of the REMIC's having bid in the property at foreclosure, or having otherwise reduced the property to ownership or possession by agreement or process of law, after there was a default or imminent default on a qualified mortgage held by the REMIC. Generally, this property ceases to be foreclosure property at the close of the third tax year following the tax year in which the REMIC acquired the property. See sections 860G(a)(8), 856(e), and Regulations section 1.856-6 for more details.

Note: Solely for purposes of section 860D(a), the determination of whether any property is foreclosure property will be made without regard to section 856(e)(4).

Line 7—Regular interests are interests in the REMIC that are issued on the startup day with fixed terms and that are designated as regular interests, if:

1. Such interest unconditionally entitles the holder to receive a specified principal amount or other similar amounts; and

2. Interest payments (or similar amounts), if any, with respect to the interest at or before maturity are payable based on a fixed rate (or at a variable rate described in Regulations section 1.860G-1(a)(3)), or consist of a specified portion of the interest payments on qualified mortgages and this portion does not vary during the period that the interest is outstanding.

The interest will meet the requirements of 1 above even if the timing (but not the amount) of the principal payments (or other similar amounts) is contingent on the extent of prepayments on qualified mortgages and the amount of income from permitted investments.

Schedule M—Reconciliation of Residual Interest Holders' Capital Accounts

Show what caused the changes in the residual interest holders' capital accounts during the tax year.

The amounts shown should agree with the REMIC's books and records and the balance sheet amounts. Attach a statement explaining any differences.

Include in column (d): tax-exempt interest income, other tax-exempt income, income from prohibited transactions, income recorded on the REMIC's books but not included on this return, and allowable deductions not charged against book income this year.

Include in column (e): capital losses over the \$3,000 limitation (for a REMIC with a startup day before November 12, 1991), other nondeductible amounts (such as losses from prohibited transactions and expenses connected with the production of tax-exempt income), deductions allocable to prohibited transactions, expenses recorded on books not deducted on this return, and taxable income not recorded on the books this year.

Schedule Q—Quarterly Notice to Residual Interest Holder of REMIC Taxable Income or Net Loss Allocation

Purpose of Schedule

Schedule Q (Form 1066) shows each residual interest holder's share of the REMIC's quarterly taxable income (net loss), the excess inclusion for the residual interest holder's interest, and the residual interest holder's share of the REMIC's section 212 expenses for the quarter.

Although the REMIC is not subject to income tax (except on net income from prohibited transactions, net income from foreclosure property, and contributions made after the startup day), the residual interest holders are liable for tax on their shares of the REMIC's taxable income, whether or not distributed, and must include their shares on their tax returns.

General Instructions

For each calendar quarter complete Schedule Q (Form 1066) for each person who was a residual interest holder at any time during the quarter. File Schedule Q with Form 1066; give one copy to the residual interest holder by the last day of the month following the month in which the calendar quarter ends; and, keep one copy with a copy of Form 1066 as part of the REMIC's records.

Specific Instructions

On each Schedule Q, enter the names, addresses, and identifying numbers of the residual interest holder and REMIC. For each residual interest holder that is an individual, you must enter the residual interest holder's social security number (SSN) (or individual taxpayer identification number (ITIN) for a resident or nonresident alien). For all other residual interest holders, you must enter the residual interest holder's EIN. However, if a residual interest holder is an individual retirement arrangement (IRA), enter the identifying number of the IRA trust. Do not enter the SSN (or ITIN) of the individual for whom the IRA is maintained.

Item A—What type of entity is this residual interest holder? State on this line whether the residual interest holder is an individual, a corporation, an estate, a trust, a partnership, an exempt organization, a nominee (custodian), or another REMIC. If the residual interest holder is a nominee, use the following codes to indicate in parentheses the type of entity the nominee represents.

I – Individual; C – Corporation; F –

Estate or Trust; P – Partnership; E – Exempt Organization; R – REMIC; or IRA – Individual Retirement Arrangement.

Item B—Residual interest holder's percentage of ownership. Enter in item B2 the percentage at the end of the calendar quarter. However, if a residual interest holder's percentage of ownership changed during the quarter, enter in item B1 the percentage immediately before the change. If there are multiple changes in the percentage of ownership during the quarter, attach a statement giving the date and percentage before each change.

Item C—REMIC assets. Enter in item C the percentage of the REMIC's assets during the calendar quarter represented by each of the following categories of assets:

1. Real estate assets under section 856(c)(5)(B); and
2. Assets described in section 7701(a)(19)(C) (relating to the definition of a domestic building and loan association).

These percentages must be computed using the average adjusted basis of the assets held during the calendar quarter. To do this, the REMIC must make the appropriate computation as of the close of each month, week, or day and then average the monthly, weekly, or daily percentages for the quarter. The monthly, weekly, or daily computation period must be applied uniformly during the calendar quarter to both categories of assets, and may not be changed in succeeding calendar quarters without IRS consent. If the percentage of the REMIC's assets for either category is at least 95%, the REMIC may show "95 or more" for that category in item C.

Note: If less than 95% of the assets of the REMIC are real estate assets (as defined in section 856(c)(5)(B)), the REMIC must also report to any real estate investment trust that holds a residual interest the information specified in Regulations section 1.860F-4(e)(1)(ii)(B).

Item F—Reconciliation of residual interest holder's capital account. See the instructions for Schedule M on page 7.

Line 1a—Taxable income (net loss) of the REMIC for the calendar quarter.

Enter the REMIC's taxable income (net loss) for the calendar quarter. The sum of

the totals for the 4 quarters in the calendar year must equal the amount shown on line 15, Section I of Form 1066.

Line 1b—Your share of the taxable income (net loss) for the calendar quarter. Enter the residual interest holder's share of the taxable income (net loss) shown on line 1a (determined by adding the holder's daily portions under section 860C(a)(2) for each day in the quarter the holder held the residual interest). If line 1a is a loss, enter the residual interest holder's full share of the loss, without regard to the adjusted basis of the residual interest holder's interest in the REMIC.

Line 2a—Sum of the daily accruals under section 860E for all residual interests for the calendar quarter.

Enter the product of the sum of the adjusted issue prices of all residual interests at the beginning of the quarter and 120% of the long-term Federal rate (determined on the basis of compounding at the end of each quarter and properly adjusted for the length of such quarter). See section 860E(c) for details.

Line 2b—Sum of the daily accruals under section 860E for your interest.

Enter zero if line 2a is zero. Otherwise, divide the amount shown on line 2a by the number of days in the quarter. Multiply the result by the residual interest holder's percentage of ownership for each day in the quarter that the residual interest holder owned the interest. Total the daily amounts and enter the result.

Line 3—Complete lines 3a and 3b only for residual interest holders who are individuals or other pass-through interest holders (as defined in Temporary Regulations section 1.67-3T).

Line 3a—Section 212 expenses of the REMIC for the calendar quarter. Enter the REMIC's allocable section 212 expenses for the calendar quarter. The term "allocable section 212 expenses" means the aggregate amount of the expenses paid or accrued in the calendar quarter for which a deduction is allowable under section 212 in determining the taxable income of the REMIC for the calendar quarter.

Section 212 expenses generally include operational expenses such as rent, salaries, legal and accounting fees,

the cost of preparing and distributing reports and notices to interest holders, and litigation expenses.

Line 3b—Your share of section 212 expenses for the calendar quarter. Enter the residual interest holder's share of the amount shown on line 3a.

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 and related schedule will vary depending on individual circumstances. The estimated average times are:

	Schedule Q Form 1066	(Form 1066)
Recordkeeping	32 hr., 3 min.	6 hr., 27 min.
Learning about the law or the form	8 hr., 51 min.	1 hr., 40 min.
Preparing the form	12 hr., 33 min.	1 hr., 52 min.
Copying, assembling, and sending the form to the IRS		48 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form and related schedule simpler, we would be happy to hear from you. You can write to the Tax Products Coordinating 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.
