

Interest Charge on DISC-Related Deferred Tax Liability

OMB No. 1545-0939
Expires 1-31-97

▶ Do not attach this form to your tax return; file it separately.

| | | |
|--|--|---|
| A Check applicable box to show type of taxpayer: | Name | B Shareholder's identifying number |
| <input type="checkbox"/> Corporation <input type="checkbox"/> Individual <input type="checkbox"/> Trust or Decedent's estate | Address of shareholder (number, street, room, suite, or P.O. box number) | C IC-DISC's identifying number |
| | City, state, and ZIP code | |
| D Shareholder's tax year for which interest charge is required to be paid (see instructions) | E Name of IC-DISC for which identifying number in item C is reported: | |

| | | |
|---|----------|--|
| 1 Taxable income or loss on tax return (actual or estimated) | 1 | |
| 2 Deferred DISC income from line 2, Part III, Schedule K (Form 1120-IC-DISC) | 2 | |
| 3 Section 995(f)(2) adjustments to line 1 income or loss (see instructions) | 3 | |
| 4 Combine lines 1, 2, and 3. (If zero or a loss, see instructions.) | 4 | |
| 5 Tax liability on line 4 amount (see instructions) | 5 | |
| 6 Tax liability per return (actual or estimated) (see instructions) | 6 | |
| 7 DISC-related deferred tax liability. Subtract line 6 from line 5. | 7 | |
| 8 Base period T-bill rate factor (see instructions) | 8 | |
| 9 Interest charge due. Multiply line 7 by line 8. (See instruction on Paying the Interest Charge.) | 9 | |

| | | | | |
|---------------------------------|--|------------------|---|--------------------------------------|
| Please Sign Here | Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge. | | | |
| | ▶ _____ Signature and Title (if any) | ▶ _____ Date | | |
| Paid Preparer's Use Only | Preparer's signature ▶ _____ | Date _____ | Check if self-employed ▶ <input type="checkbox"/> | Preparer's social security no. _____ |
| | Firm's name (or yours if self-employed) and address ▶ _____ | E.I. No. ▶ _____ | | |
| | | ZIP code ▶ _____ | | |

General Instructions

For Privacy Act Notice, individual filers should see the Instructions for Form 1040.

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 interest.

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

- Recordkeeping** 4 hr., 4 min.
- Learning about the law or the form** 2 hr., 23 min.
- Preparing, copying, and sending the form to the IRS** 2 hr., 34 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the **Internal Revenue Service**, Attention: Reports

Clearance Officer, PC:FP, Washington, DC 20224; and the **Office of Management and Budget**, Paperwork Reduction Project (1545-0939), Washington, DC 20503. DO NOT send this form to either of these offices. Instead, see **Where To File** on this page.

Purpose of Form.—Shareholders of Interest Charge Domestic International Sales Corporations (IC-DISCs) use Form 8404 to figure and report their interest on DISC-related deferred tax liability.

Who Must File.—You must file Form 8404 if you are a shareholder of an IC-DISC and the IC-DISC reports deferred DISC income to you on line 2, Part III of **Schedule K (Form 1120-IC-DISC)**, and the addition of this income would result in increased taxable income if it were included on your tax return for the tax year.

When To File.—File Form 8404 at the time you are required to file your Federal income tax return (excluding extensions) for your tax year that ends with or in which the IC-DISC's tax year ends.

For example, you are a fiscal year corporation with a July 1, 1993, to June 30, 1994, tax year and you are a shareholder in an IC-DISC with a July 1, 1993, to June 30, 1994, tax year that reports deferred DISC income to you for its year ending June 30, 1994. Because your

tax year ends with the IC-DISC's tax year, you are required to file Form 8404 on September 15, 1994 (2½ months after your tax year ends).

Where To File.—File Form 8404 with the Internal Revenue Service Center where you are required to file your Federal income tax return. File the form in a separate envelope than that of your income tax return. Keep a copy for your records.

Paying the Interest Charge.—You must pay the interest charge shown on line 9 by the date your Federal income tax for the tax year is required to be paid. If you are an individual, the interest is due on the 15th day of the 4th month following the close of your tax year. If you are a corporation, the interest is due on the 15th day of the 3rd month following the close of your tax year.

Attach a check or money order for the full amount payable to "Internal Revenue Service." Do not combine the interest charge with any other tax or interest due. Write your identification number and "Form 8404—Interest Due" on your payment. (Do not use **Form 8109**, Federal Tax Deposit Coupon.)

If the interest charge is not paid by the due date, interest, compounded daily, at the rate specified under section 6621, will be imposed on the amount of unpaid

interest from the due date until the date the interest is paid. Payment of estimated tax is not required for the interest charge. See proposed Regulations section 1.995(f)-1(j)(3) for other details.

Amended Form 8404.—You are required to file an amended Form 8404 only if the amount of the DISC-related deferred tax liability (line 7) changes as a result of audit adjustments, changes you make by the filing of an amended return, or if estimates were used on your original Form 8404 and changes were made to these estimates when you filed your tax return. See proposed Regulations section 1.995(f)-1(j)(4) for details.

Specific Instructions

A. Type of Taxpayer.—Check the applicable box in the upper left portion of Form 8404 to indicate your status as a taxpayer. Shareholders that are partnerships, S corporations, estates or trusts, see proposed Regulations section 1.995(f)-1(h) for special rules.

Name and Address.—Enter the name and address as shown on your tax return from which the income or loss on line 1 of Form 8404 is obtained. If the return is a joint return, also enter your spouse's name as shown on Form 1040.

B. Identifying Number.—Individuals must enter their social security number. Other filers must enter their employer identification number. (See section 6109.)

C. IC-DISC's Identifying Number.—Enter the identifying number of the IC-DISC from the Schedule K (Form 1120-IC-DISC) on which the line 2 deferred DISC income was reported to you. If income is reported to you from more than one IC-DISC, enter each IC-DISC's identifying number in item C, each IC-DISC's name in item E, and report the combined income on line 2.

D. Tax Year.—Enter in item D the calendar year or the beginning and ending dates of the tax year shown on your tax return for which the interest charge is figured.

Special Computation Rules

Carrybacks.—The determination of the shareholder's DISC-related deferred tax liability on lines 1 through 7 shall be made without taking into account any net operating loss (NOL) or capital loss carryback; or credit carryback to the tax year.

Carryovers.—The determination of the shareholder's tax liability (line 5) for the tax year is made by disregarding any loss, deduction, or credit to the extent that such loss, deduction, or credit may be carried (either back or forward) by the shareholder to any other tax year.

Note: *If the tax year is the last tax year to which the amount of carryforward (of loss, deduction, or credit) may be carried, the line 3 adjustments and line 5 tax shall be figured with regard to the full amount of such carryforward.*

For example, a shareholder had a NOL carryover to 1994 of \$12,000; \$10,000 income to which \$10,000 of the NOL can be applied; \$2,000 allowable NOL

carryover to 1995; and \$5,000 deferred DISC income for 1994. In this case, for purposes of figuring line 5, the allowed NOL is \$10,000. **Note:** *If 1994 were the last tax year to which the \$12,000 NOL could be carried, the full \$12,000 NOL would be allowed for purposes of figuring line 5 tax liability. The additional \$2,000 loss would be entered on line 3.*

Other Adjustments.—In figuring line 3 adjustments, take into account any income and expense adjustments that do not result in amounts that may be carried back or forward to other tax years. For example, in the case of an IC-DISC shareholder who is an individual, the amount of medical expenses allowable as a deduction under section 213 must be redetermined for purposes of line 3 adjustments. However, the amount allowable as a charitable deduction under section 170 is not redetermined because this adjustment could result in a carryback or carryover.

See proposed Regulations sections 1.995(f)-1(d)(1) through (8) for other details regarding these and other special computation rules.

Line-by-Line Instructions

Line 1.—Enter on line 1 the taxable income or loss from your Federal income tax return for your tax year that ends with or in which the IC-DISC's tax year ends. If you have not yet filed your tax return, estimate your income or loss based on all information available to you.

Line 2.—Enter the deferred DISC income from line 2, Part III of Schedule K (Form 1120-IC-DISC), for the IC-DISC tax year that ends with or within your tax year. If you are a shareholder in more than one IC-DISC that reports deferred DISC income to you, report on line 2 the sum of all deferred DISC income reported to you for the year.

Line 3.—Enter the net amount of all section 995(f)(2) adjustments to taxable income. See **Special Computation Rules**, above, for details on the income (loss) and expense adjustments to be made. If more than one adjustment is involved, attach a schedule listing each item and show the computation of the net amount.

Line 4.—Combine amounts on lines 1, 2, and 3. If the line 4 amount is zero or a loss, you do not have to file Form 8404.

Lines 5 and 6.—The tax liability on lines 5 and 6 (with and without the deferred DISC income) means the amount of tax imposed on the IC-DISC shareholder for the tax year by Chapter 1 of the Internal Revenue Code (other than taxes listed below) reduced by allowable credits (other than credits listed below).

See **Special Computation Rules** on carrybacks and carryovers that may affect the line 5 computation.

For individuals or corporations, figure the line 6 tax liability from **Form 1040**, U.S. Individual Income Tax Return, or **Form 1120**, U.S. Corporation Income Tax Return. (For other filers, enter amounts from corresponding lines of other income tax returns.) If you have not yet filed your

return, estimate the line 6 tax liability based on all information available to you.

The following taxes are **not** taken into account:

- Alternative minimum tax (individuals, corporations, estates, or trusts).
- Any other provisions described in section 26(b)(2) (relating to certain other taxes treated as not imposed by Chapter 1).

The following credits are not taken into account:

- Section 31 (taxes withheld on wages).
- Section 32 (earned income credit).
- Section 34 (fuels credit).

For 1993, for individuals and corporations, the items used to figure the line 6 tax liability are reported on Forms 1040 and 1120 as shown below. For tax years beginning before or after 1993, the amounts are reported on the corresponding lines of the Form 1040 or Form 1120 filed for the tax year of computation.

| | 1993 Form 1040 Line | 1993 Form 1120 Line |
|---|---------------------------|---------------------------|
| Tax less nonrefundable credits (adjusted for prior year minimum tax credit (Form 8801 or 8827)) | 46 | 6, Sch. J |
| Plus: (1) Recapture taxes except Form 8828 | 49 | 8, Sch. J |
| (2) Advance earned income credit payments | 52 | ----- |
| Less: Regulated investment company credit (Form 2439) | 59 | 32f, pg.1 |

Line 8.—The base period T-bill rate is defined in section 995(f)(4). The base period T-bill rate is compounded daily based on the number of days in the shareholder's tax year to determine the base period T-bill rate factor.

The base period T-bill rate for the one-year period ending September 30, 1993, is 3.47%. The 3.47% compounded daily for a 365-day tax year produces a base period T-bill factor of .035307362. This factor is entered on line 8 of Form 8404 that shareholders prepare for their 365-day tax years beginning in 1993. Factors used for shareholders' 1993 tax years of less or more than 365 days are published in Revenue Ruling 93-77, 1993-35 I.R.B. 13. It also includes citations for base period T-bill rates for tax years beginning before 1993.

The base period T-bill rate and factors for tax years beginning in 1994 will be published as a new revenue ruling in late 1994.

Line 9.—Multiply line 7 by the factor on line 8. See **Paying the Interest Charge** on page 1 for details on when and how to pay the interest.

For corporations (other than S corporations), the annual interest charge is deductible as an interest expense for the tax year it is paid or accrued. See proposed Regulations section 1.995(f)-1(j)(2) for details on the tax year of deductibility. For other filers, this interest is not deductible.