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RAUPC News

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Vacation Rental Rules

By Michelle Lindblom

A vacation home can be a wise investment or a second home, but which is it? Here's an IRS test to help you answer the questions:

> *First, add up the number of days you—and your renters—use the property. If you use your home fewer than 14 days a year or less than 10% of the days it's rented to outsiders each year, whichever is greater, then your home is an investment property. If you use the home the greater of 15 days a year or 10% of the days you rent it to outsiders, it's a second home.*

The answer to this question can lead to some very different tax results. The IRS has three categories when it comes to tax reporting for your vacation home:

(1) Rent a Lot, Use a Lot

If the home is rented more than 14 days during the year and there is personal use of more than 14 days or 10% of the rental days, whichever is greater, the home is deemed to be a second residence.

> *Personal use includes any use by a family member—even if they pay fair rent—as well as any days rented at less than fair market rent. Days donated to charities (for example, at a charitable auction) also count as personal use days. However, if the primary purpose of the owner's stay is to perform and coordinate repair and maintenance, these days do not count as personal use.*

If the home qualifies as a second residence, it is necessary to allocate mortgage interest and real estate taxes between the rental and personal use. Let's say, for example, that the home is rented for three

months, used personally for two months, and vacant for seven months. Since vacant time is considered personal use, three months' worth, or 25%, of the interest and taxes is allocated to the rental period and nine months' worth, or 75%, to the personal use period. The personal use interest and taxes are deductible as an itemized deduction on Schedule A. To the extent that there is still remaining rental income, a percentage of other expenses such as utilities, maintenance and depreciation can be deducted but only to the extent of the remaining rental income. In other words, a loss cannot be created.

(2) Rent a Lot, Use a Little

If the home is rented for more than 14 days during the year and personal use does not exceed the greater of 14 days or 10% of the days rented, the home is treated as an investment property. In this case, mortgage interest, property taxes and operating expenses should be prorated based upon the total number days the house was rented. For example, if the house was rented for 230 days and used personally for 20 days, 8% (20/250 days) relates to personal use and 92% (230/250 days) relates to rental use. In this scenario, if rental expenses exceed rental income, the loss is reportable for tax purposes.

> *Any rental loss, however, is subject to limitation under the "passive loss rules." Generally speaking, passive losses are*

***Rental* continued on page 5**

2005 Charitable Giving Incentives for Taxpayers

By Melissa Lane

The *Katrina Emergency Tax Relief Act of 2005* passed by the House and Senate provided an incentive for individual taxpayers to increase their 2005 charitable contributions. Congress allowed a suspension of both the contribution base limitation (AGI without regard to NOL carryback) and the overall limitation on itemized deductions for qualified contributions, which are defined as ***cash*** contributions made during the period August 28, 2005, through December 31, 2005. Contributions of noncash property, such as stock, are not considered qualified contributions. The qualified contributions of individual taxpayers not only apply to Hurricane Katrina directed organizations but to any charitable organization classified as a section 170(b) (1)(A) organization, church, university, hospital, etc., with the exception of certain private foundations.

The present law for individuals limits the amount of deductible charitable cash contributions to 50 percent of the taxpayer's AGI. Contributions of appreciated stock are deductible up to 30% of AGI; contributions of cash to a private foundation are deductible up to 30%; contributions of appreciated stock to a private foundation are deductible up to 20%. During the suspension period the deduction for qualified contributions is allowed up to the amount by which the taxpayer's contribution base exceeds the deduction for other charitable contributions. Contributions in excess of this amount are carried over to the succeeding taxable years as usual (for up to five tax years, after which they expire).

For taxpayers over 59 ½ who are already at or approaching the contribution limit, withdrawals from their IRA accounts can be taken to absorb additional Katrina contributions—effectively making the IRA withdrawals tax-free.

> *For taxpayers over 59 ½ who are already at or approaching the contribution limit, withdrawals from their IRA accounts can be taken to absorb additional Katrina contributions—effectively making the IRA withdrawals tax-free.*

The provision also provides a suspension of percentage limitations for corporations. Charitable contributions by corporations under existing law are not deductible to the extent the aggregate contributions exceed 10 percent of the corporation's taxable income (without regard to NOL or capital loss carrybacks). In the case of a corporation, qualified contributions are allowed up to the amount by which the corporation's taxable income exceeds the deduction for other charitable contributions. As is not the case with individuals, *a corporation's qualified contributions must be for relief efforts related to Hurricane Katrina.* The following examples illustrate the provision.

Example 1

Annie's contribution base for 2005 is $100,000; aggregate qualified contributions are $70,000; and other charitable contributions are $60,000. Under the provision, Annie is allowed a charitable deduction of $100,000 for 2005 ($50,000 determined without regard to qualified contributions plus $50,000 for the qualified contributions). $30,000 is carried over for the next five succeeding taxable years.

Example 2

Kristen's contribution base for 2005 is $100,000. On February 5, 2005, Kristen makes a $30,000 contribution of appreciated stock to the United Way and a $20,000 cash contribution to the University of Missouri. On November 1, 2005, Kristen makes a $50,000 qualified Katrina contribution. Kristen also has a $5,000 50% contribution carryover from 2004.

Kristen is allowed a charitable deduction of $100,000 for 2005 ($5,000 contribution carryover from 2004, plus $20,000 pre-

***Giving* continued on page 5**

Handicapping Federal Tax Reform Proposals

By Bob Underhill

We've been recalibrating our crystal ball for what seems like a year now, and it's cloudier than ever. The costs of the military effort in Iraq and hurricane relief bills have Congress and the Administration dealing with deficits that are political trouble. Gas (and now that we're in cold season, home heating oil) prices are taking hundreds of dollars a month from American families. The Administration's reduced standing in the polls has, at least for now, deprived it of the ability to run legislation that is controversial. Tax legislation is usually that, both because it involves social policy debate, and also makes for winners and losers.

The Senate Republicans could not muster the votes to extend the 15% bracket on investment income (dividends and capital gains) beyond its scheduled sunset in 2008. Finance Committee Chairman Grassley pulled the proposal, presumably to be reintroduced again next year. In the House, with Roy Blunt taking over for DeLay, it won't be any easier. In fact, handling tax legislation piecemeal will likely draw protest, as a cure for the alternative minimum tax and some relief for middle-income taxpayers needs consideration as well.

The timing of the release of Bush's tax reform study group ("President's Advisory Panel on Tax Reform") probably couldn't have been worse, falling in the midst of bad news all around. Many of their ideas, however, could find their way into future legislation, perhaps years into the future. The seminal 1986 Tax Reform Act contained proposals under study for many years.

So how do we handicap some of the proposals under discussion? First of all, not even divine intervention could lead to a major tax bill this year. Secondly, there probably is no such thing as tax simplification, at least not for the clients we deal with. The study group's goal of simplification was aimed at middle America (or lower). There is simply too much money to raise, too much politics, too many social policy implications, and, not the least, overarching economic and industry impacts. Finally, and we've learned from missing predictions many times before, *anything* is possible when politics are involved.

The Mortgage Interest Deduction:

Reducing the cap on mortgage interest (from $1.1 million) to the regional median housing price (simplification?), was principally put forth to raise tax dollars for other parts of the program (and it may have been a bit of trial balloon to test public reaction). The tax deduction for your mortgage is not a constitutional right, but it's pretty close to it. Our bet is that this one doesn't make it any time soon.

Sales Tax Deduction:

Kiss it goodbye (unfair as that would be to us in Washington).

Deduction for Medical Insurance/Tax-Free Employee Benefit:

Given escalating health care costs, this is an area that may get attention. The proposal would allow taxpayers to purchase health insurance with pre-tax dollars up the amount of the average premium (again, not simple), currently about $5,000 for a single person and $11,500 for a family. There would also be limits on employer deductibility for employer-provided medical benefits.

AMT (Alternative Minimum Tax) Reform/ Repeal:

This has to happen, and out of necessity, it will. Projections show that within only several years, so many people will be paying this stealth tax, poorly understood as it is, that it will become the *de facto* tax system in the nation. The classic tax shelter-type preference items that years ago threw most people into the AMT (things like faster depreciation, percentage depletion, intangible drilling costs and generous tax credits) are hardly seen at all anymore, due to different investing patterns. Incentive stock options are less common than nonqualified stock options. So why do we need this tax? Because it raises a lot of money. The culprits: state and local tax deductions and investment expenses (both deductible for the regular tax, neither deductible for the AMT).

Deduction for State Income Taxes:

This is such an obvious political sleight of hand. Repeal the AMT, but also repeal the deduction for state income taxes. It's state in-

***Tax Reform* continued on page 6**

Rising Interest Rates + Charitable Remainder Trusts = Opportunity

By Jay Hanson

Making a donation to a charity, providing financial security for members of your family and achieving an income tax deduction while doing so may sound too good to be true. However, the tax law specifically allows the achievement of such results, and with a rising interest rate environment, engaging in this type of planning may be more beneficial than it has been in several years. The vehicle utilized to simultaneously attain the three above-mentioned goals is known as the charitable remainder trust (or "CRT"). When a CRT is established, a donor transfers cash and/or appreciated property to an irrevocable trust and retains (either for the donor or family member's benefit) an annual annuity payment from that trust. At the end of a specified length of time (not to exceed 20 years), or upon the death of an income beneficiary, the remaining assets in the CRT pass to a charity or charities specified by the donor.

There are two types of CRTs: a charitable remainder unitrust ("CRUT") and a charitable remainder annuity trust ("CRAT"). The principal difference between the two trusts is that a CRUT pays a varying annual annuity which is likely to fluctuate from year to year while a CRAT pays a fixed annual annuity from year to year. The CRAT requires the annual payout percentages to be applied to the net fair market value of the trust assets at the time the trust is established. The amount of the annual annuity payment will not change regardless of any subsequent appreciation or depreciation of the trust assets. Any appreciation or depreciation of trust corpus is passed on to the charitable remainder beneficiary at the end of the CRAT's term.

The CRUT requires the fixed percentage interest for the annual payout to be applied annually based upon a valuation of the fair market value of the trust assets. Therefore, if the trust assets have depreciated in value, the net annual annuity distribution will be reduced. However, if the trust assets have appreciated in value, the net distribution to the income beneficiary increases over the prior year distribution. The objective of a CRUT is to enable the annuity payment to reflect increases in inflation over time. The value of a CRUT's assets may increase because the annual percentage distribution is less than the amount of income being received by the income beneficiary. For example, if the annual annuity payment is 5% and the rate of return for the year is 10%, the 5% differential will be added to trust corpus and create a larger base for distributions in a subsequent year. On the other hand, if the annual annuity payment is 10% and the trust earns a 3% rate of return for the year, the additional 7% of the distribution must be taken from trust corpus and therefore reduces the base for distributions in subsequent years. Additionally, the value of the CRUT's assets could also increase or decrease based on the unrealized gains and losses of the CRUT's investments.

A gift to either type of CRT will qualify the donor for an immediate income tax (and gift tax) charitable deduction (or an estate tax

***CRTs* continued on page 7**

If held for more than a year, any gain on a vacation residence is eligible for the 15% rate on capital gains, subject to a special 25% rate on all prior depreciation claimed on the rental portion.

Rental continued from page 1

> *limited to passive income (rental income from other sources or business income from an entity in which you do not materially participate). A special exception for so-called "active rentals" allows loss deductions limited to $25,000 (phased out for taxpayers with adjusted gross income in excess of $100,000).*

(3) Rent a Little, Use a Lot

If the house is rented for less than 15 days during the year and you exceed the personal test mentioned above, no deductions attributable to the rental are allowable and no rental income is includable. (This was the carve-out commonly used by, for example, people in Salt Lake City who rented their property during the Olympics.) The home is considered a personal residence, so mortgage interest and real estate taxes are deductible on Schedule A.

What Happens When You Sell?

A question we often get asked is whether gain on a vacation home is excludable or deferrable for tax purposes. The gain rollover provision in the tax law was replaced several years ago with a $500,000 gain exclusion, but this only applies to gain on the sale of one's ***principal*** residence. If held for more than a year, any gain on a vacation residence is eligible for the 15% rate on capital gains, subject to a special 25% rate on all prior depreciation claimed on the rental portion. And, if the property is located in a state other than Washington, any gain will be taxed by that state's income tax system.

If the property has been rented, it can be exchanged tax-free into a replacement property of equal or greater value under the ***like-kind exchange*** rules. There are a number of requirements that must be met, including time periods for replacement and the need for an intermediary to stand between you and the ultimate buyer of your property. And there are "boot" rules which tax an exchange party to the extent of cash or other non-like-kind property received (boot also includes a net reduction in liabilities—meaning the debt on the new property must equal or exceed the debt on the old).

The like-kind exchange rules only apply to business or investment property (not including marketable securities). However, there is some authority for the position that a second home which is purchased and held with a significant purpose of capital appreciation is held for investment. While it is not without tax risk, this may be the case even if the property is used personally. Obviously, the greater the personal use relative to the potential for capital appreciation, the greater the tax risk in such a position.

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Katrina cash contribution, plus $25,000 30% stock contribution (limited to the remaining 50% contribution base), plus $50,000 qualified Katrina contribution). She will carryforward to 2006 the remaining $5,000 30% contribution.

Example 3

Lucy's AGI for 2005 is $100,000. She made a $30,000 stock contribution to the Susan G. Komen Breast Cancer Foundation on July 1. On November 1, she made a cash contribution to the Red Cross of $70,000. She is interested in making another cash contribution to the Komen Foundation of $20,000 to complete a pledge. If Lucy is 59 ½ she can withdraw $20,000 from her IRA without penalty and it will increase her contribution base to allow her to complete the additional pledge this year, without limitation. She will have effectively "sheltered" her IRA distribution with her gift to the Komen Foundation.

Example 4

Widget, Inc.'s taxable income for 2005 is $100,000. On January 16, 2005, Widget, Inc. makes a cash contribution of $20,000. On October 20, 2005, the corporation makes a qualified contribution to a Hurricane Katrina charitable organization of $100,000. Under the provision, Widget, Inc. is allowed a deduction of $100,000 for 2005 ($10,000 determined without regard to qualified contributions plus $90,000 for the qualified contributions). Widget, Inc. will carryforward $20,000 for the next five succeeding taxable years.

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Tax Reform continued from page 3

come tax deductions that put most people into the AMT in the first place. If Congress takes away the state income tax deduction, they might as well leave the AMT in place—very few people would pay it anymore. It's a complete give-and-take, and our guess is that they about offset each other in terms of tax revenue lost and gained. The premise for the state income tax deduction is that there shouldn't be a tax on a tax—you shouldn't pay tax on the same income twice. But if Congress has to come up with a way to pay for AMT reform/repeal, this could be on the block. For Washingtonians, it isn't much of an issue. It might even bring comparative fairness among taxpayers in various states—those where state government raises revenue through an income tax versus those, like us, where revenue is raised principally through sales taxes.

Reduce the Number of Tax Brackets to Four:

We've never understood why this is touted as simplification. Anyone who can multiply and read a table can work with the current system. The complexity isn't in the number of brackets, but in determining the *tax base,* i.e., what income you take to the brackets.

Extension of the 15% Rate on Dividends/ Capital Gains:

This is a tough one to call, and it depends heavily on Bush's influence and the ruling party after mid-term elections. Twenty-five years ago the tax on capital was higher than the tax on labor. Today, it is the reverse. The tax on labor (including social security taxes) is marginally higher than the tax on capital (even after considering the double tax on earnings distributed as dividends). If Democrats return to control before the 2008 sunset on the 15% bracket on investment income, we don't see that continuing. We've told clients that a 15% rate is the bargain of the century. The Bush tax reform study group even suggested going further: allow taxpayers to exclude 75% of their capital gains, making the effective tax rate on gains about 8%. We don't see that happening. To us, there is a mixture of social and economic policy at stake here: how the tax burden is shared among capital and labor, and how lowering taxes on capital encourages capital formation. The dramatic lowering of rates in Reagan's tax reform of 1986 may have ushered in the boom of the '90s, but there may be a limit to that magic. The lowering of rates on investment income again to 15% does not seem to have produced the same kind of stimulation. Dividend payout rates by corporate America have increased, but not by as much as hoped for. And, interestingly and not surprisingly, the states have not lowered in return. Our clients in Oregon and California pay almost as much state tax on their investment income as they do to the IRS.

Estate Tax Repeal/Reform:

Until Hurricane Katrina, this one had a legitimate shot in 2005. With the suffering from the storms, and then more suffering from higher gas prices, it would have been less than politically tactful to repeal a tax that, truthfully and despite the ad play, only hits multi-millionaires. Repeal proponents, even before Katrina, may have become aware of this. Alternatives to repeal now include discussions to leave the system, but provide for a top rate of 15%. Frankly, the estate and gift tax system is way, way too complicated to be justified by a 15% rate. Another alternative, repeal of the estate tax and also the step-up in basis rule, would effectively create inheritance taxes for everyone in America (and also require fairly accurate lifetime recordkeeping of asset cost). That basically transfers the estate tax down to the middle class. To solve that problem, there was consideration of basis step-ups for a limited amount of assets. Wow, that would be good for our business, but most assuredly not simple. But this one is rigged to *demand* Congressional action before 2010, when the tax is absurdly scheduled to go away, and then re-appear the following year in its more perverse pre-2000 form. Consequently, our prediction continues to be that there will be revision, most likely in the form of lowering the top bracket (but not to 15%) and raising wealth transfer exemption from the current $1.5 million to, perhaps, $5 million. If that happens, we would hope for a return to complete integration of the gift and estate tax—meaning that the exemption amount could be used either by lifetime or testamentary transfers.

We've told clients that a 15% rate is the bargain of the century.

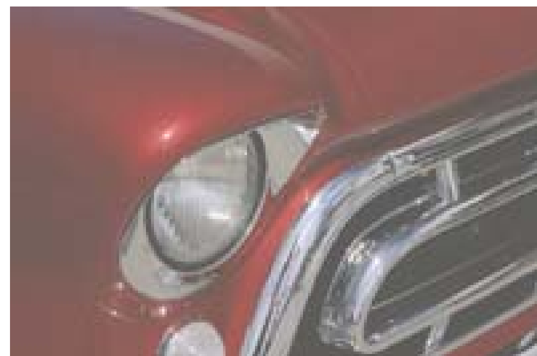
***CRTs* continued from page 4**

charitable deduction if the CRT is established at death). In order to take this deduction, a specified percentage (no less than 5% nor greater than 50%) of the CRT's assets are paid to the income beneficiary at least annually and the value of the remainder interest passing to charity must be at least 10% of the value of the assets initially contributed to the CRT. The income tax deduction is based upon the present value of the remainder interest which will pass to charity at the end of the CRT's term and not on the amount which ultimately passes to the charitable remainder beneficiary. Additionally, the amount of the income tax charitable deduction will rise as interest rates rise, making this a timely planning opportunity in a rising interest rate environment.

Because the CRT is exempt from federal taxation (the income and gains of the CRT are taxed when they are ultimately distributed to the income beneficiary each year), CRTs are frequently used to defer capital gains tax on the sale of appreciated property. For example, a donor with a highly appreciated asset can contribute that asset to a CRT, reserving the right to receive the annual annuity payout, and the asset can be sold by the CRT and the proceeds of the sale reinvested without the imposition of capital gains tax on the sale. The capital gains tax triggered by the sale will become taxable to the donor (or other income beneficiary) only as the proceeds of the sale are distributed over the life of the CRT.

The following example will illustrate the basic benefits of a CRT. Assume a CRUT with a 20-year term is created this month when the applicable interest rate is 5%. The CRUT is funded with $1,000,000 of appreciated securities and will provide a 5% annual unitrust payment to the income beneficiary. In the year of the CRUT's creation the donor will receive a $370,000 income tax deduction and the capital gains tax generated from the sale of the appreciated securities will be deferred. Assuming a growth rate of trust assets at 5% and an income return of 5%, the total income return to the income beneficiary over 20 years will be approximately $1,622,000; leaving approximately $2,565,000 in assets to pass to the charitable beneficiary at the end of the CRUT's 20-year term. As this example illustrates, a CRT can provide benefit to the trust's donor with a current income tax deduction of $370,000, income security to the trust's income beneficiary with the receipt of an average of $81,100 of income annually over 20 years, and pass $2,565,000 of assets to a charity of the donor's choosing at the termination of the 20-year term.

If you would like further information regarding the potential benefits a CRT may provide for you and your family please contact our office at any time.



If You're Thinking of Buying a New Car . . .

By Bob Underhill

Time may be running out on what amounts to a 3% price break. The deduction for sales tax sunsets at year-end, and in the current fiscal/political environment, the chance of it being extended is anybody's guess (our guess is that it won't). How do we arrive at that figure? The combined state and local sales tax rate in Washington is between 8.8 and 8.9%. Multiply that by the top income tax rate of 35% and you get roughly a 3% price break. But if you're in AMT, the deal's off—state and local taxes are not deductible for the alternative minimum tax. And if you live in Oregon, California or another state with an income tax, you will likely deduct your state income taxes in lieu of sales tax (remember, the law allows taxpayers to choose between deducting state sales tax or state income tax, but not both).

An Example of How Aggressive States are Becoming in the Pursuit of Tax Dollars . . .

By Bob Underhill

. . . is New York State's "commuter tax." New York now levies its income tax on commuters and others who work from home for employers based in the state. Intended to grab those in the neighboring Connecticut and New Jersey communities, the tax got airplay recently based on a Tennessee resident who challenged it. Not surprisingly, he lost in New York courts. Now the US Supreme Court has refused certiorari. While obviously not a ruling on the merits, the Court's action indicates that it sees no constitutional issue presented. The implications are wide-ranging, including a risk of copycat legislation in other states and even the chance of taxpayers paying tax on the same income in both their home state and in New York.

Senator Dodd and Representative Shays from Connecticut have introduced a (federal) bill to kill New York's statute and other "long-arm" tax grabs by the states. In the meantime, deciding not to go along with New York is probably not an option, as the payroll departments of most New York companies with commuting or work-from-home employees will probably begin withholding of state income tax. Those who can demonstrate that their work from home meets the convenience of the employer have an out, as do employees whose companies set up a fixed location nearby.

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The RAUPC True or False Quiz

By Amy Bockelman

What do you know about the RAUPC workplace and its people? And why should you care? Actually, you shouldn't. But in order to fill space and offer a brief dose of amusement, I've put together a short true or false quiz. There are no prizes, there are no grades, but if you tell me you scored 100% I will inevitably believe you. It's the least I can do.

1. Our building (Two Union Square) is the second tallest in Seattle.
2. Melissa once experienced a copy machine catching on fire while using it.
3. You can count on the Mexican postal service to deliver your tax return to a US Post Office Box on time.
4. Jay's lifelong dream is to climb Mount Everest.
5. On windy days the elevator in our building moves at a slower speed than it does on non-windy days.
6. Rainie is ambidextrous.
7. Our building has a deck on the 54th floor.
8. Amy can juggle.
9. We keep a mummy and a skeleton in our storage room.
10. Bob does not allow swearing in the office.
11. We never have fun at work.
12. Bob once had to capture a fully grown duck that flew into his living room through the fireplace.
13. Bob has always resisted the temptation to buy a product from an infomercial.
14. Amy has gone as far north as is possible in the United States.
15. The sound of eleven weeks of construction on the floor above you for eight hours a day is not at all annoying.

Answers are on page 9.

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A New Look in our Lobby

By Amy Bockelman

The next time you visit our office, you will undoubtedly notice a new piece of artwork hanging in our lobby. RAUPC recently commissioned a painting by friend and talented local artist Rachel Dory. We are now the excited owners of "Fremont in October," one of Rachel's uniquely evocative urban landscape pieces. Her inspiration comes from such distinctive architecture and landmarks as the Pink Elephant Car Wash, the Fremont Rocket, the Aurora Bridge, and the original Red Hook Brewery.

You can see some of Rachel's current work at the Palm Room through December 6. Her latest series is *Roadside: Paintings from the Driver's Seat*. This new series of paintings turns from the urban to the rural and features the country roads and waving wheat fields of Eastern Washington. If you happen to find yourself in the Ballard neighborhood, be sure to check it out for yourself. You can also see a selection of her previous artwork on her website at www.racheldory.com.

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"Fremont in October"
Rachel Dory
2005

See Rachel's latest:

The Palm Room
5336 Ballard Avenue NW
Seattle WA 98107
206.782.7256
Open: Thursday-Saturday 12-6, Sunday 12-4,
Monday-Wednesday by appointment or by chance

Answers to RAUPC True or False Quiz:

1. False (it's the third tallest); 2. True (but we're not saying she was responsible); 3. False (it's not a good idea); 4. False; 5. True; 6. False; 7. True; 8. True; 9. True; 10. False; 11. False (Bob allows a moment of fun once per quarter); 12. True; 13. False (we've got the "Magic Bullet" to prove it); 14. True (in case you're wondering, that's Barrow, AK); 15. False. Very, very false.

Tax Events Calendar

Date	Taxpayer	Event
November 15, 2005	Nonprofits	Last day to file a prior-year tax return for nonprofit organizations (Form 990 series).
December 15, 2005	Corporations	Fourth installment of 2004 estimated income tax by corporations is due (use Form 1120-W to determine estimated tax liability).
January 17, 2006	Individuals	Final installment of prior-year estimated tax by individuals is due, unless an income tax return is filed and tax paid in full by January 31, 2006.
March 15, 2006	Corporations	Last day for a calendar-year corporation to elect S corporation status beginning with current tax year (file Form 2553).
March 15, 2006	Corporations	Last day for calendar-year domestic corporations or foreign corporations with offices in the U.S. to file prior-year income tax return (Form 1120 series). File Form 7004, together with payment, to obtain an automatic six-month extension of time to file.

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