



Instructions for Schedule H (Form 1120-F)

Deductions Allocated to Effectively Connected Income Under Regulations Section

1.861-8

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

General Instructions

Regulations section 1.861-8.

Under section 882(c), a foreign corporation's expenses are deductible against its U.S. taxable income only if they are connected with income effectively connected with the conduct of a trade or business in the United States ("ECI"). The proper allocation and apportionment of deductions for this purpose is generally determined under the provisions of Regulations section 1.861-8 and Temporary Regulations section 1.861-8T, with special rules for the allocation and apportionment of research and experimentation expenses at Regulations section 1.861-17. Under these regulations, a taxpayer must allocate deductions to the class of gross income to which the deduction is definitely related and then, if necessary, apportion deductions among the groups of income included in the class. Generally, deductions are allocated and apportioned on the basis of the factual relationship between the deduction and gross income. (Under section 882(c)(1)(B), charitable contributions that are deductible under section 170 reduce ECI whether or not connected with such income.) Use Schedule H (Form 1120-F) to report expenses, other than interest expense and bad debt expense, allocated and apportioned to ECI and non-ECI. Interest expense of a foreign corporation is allocated to ECI exclusively (except to the extent provided in certain tax treaties) under the rules provided in Regulations section 1.882-5 and Temporary Regulations section 1.882-5T and is reported on Schedule I (Form 1120-F). See Temporary Regulations section 1.882-5T(a)(2). Bad debt expense allocated to ECI is reported

directly on Form 1120-F, Section II, line 15.

Purpose of Schedule

Schedule H (Form 1120-F) is used by a foreign corporation that files Form 1120-F to report the amount of the foreign corporation's deductible expenses that are allocated and apportioned under Regulations sections 1.861-8 and 1.861-17 and Temporary Regulations section 1.861-8T between ECI and non-ECI. The results reported on Schedule H are included on Form 1120-F, Section II, line 26 and, for banks only, on Schedule M-3 (Form 1120-F), Part III, line 31.

Who Must File

Any foreign corporation that is required to file Form 1120-F and is (or is treated as) engaged in a trade or business within the United States at any time during the tax year must complete Schedule H and attach it to its Form 1120-F.

Protective returns. If the foreign corporation files a protective Form 1120-F under Regulations section 1.882-4(a)(3)(vi), Schedule H need not be completed or attached to the protective Form 1120-F.

Treaty-based return reporting of business profits attributable to a U.S. permanent establishment. Do not complete Schedule H if the corporation files Form 1120-F pursuant to an income tax treaty to report business profits attributable to a U.S. permanent establishment and applies OECD Transfer Pricing Guidelines principles in lieu of the ECI and expense allocation and apportionment rules of section 882(c) and Regulations sections 1.861-8 and 1.861-17 and Temporary Regulations section 1.861-8T. This treaty-based reporting is permitted only if the applicable income tax treaty and accompanying documents (such as Exchange of Notes) expressly

provide that attribution of profits is determined under the OECD Transfer Pricing Guidelines principles applied by analogy. See Article 7 and the accompanying Exchange of Notes to the 2001 United States-United Kingdom and 2003 United States-Japan Income Tax Treaties. See the instructions for Schedule M-3 (Form 1120-F) for the reporting of book-tax differences in Parts II and III of that schedule under a treaty-based return position pursuant to the OECD Transfer Pricing Guidelines principles.

Specific Instructions

Part I – Deductions Directly Allocated and Apportioned to ECI and Non-ECI

Part I is used to identify the total expenses, including interest expense and bad debt expense, recorded on the corporation's home office books; to report adjustments made to determine the amounts that are deductible for U.S. tax purposes; and to report the portion of the adjusted expenses that are definitely related to ECI and non-ECI. To the extent included in the home office records used to report total home office expenses, interest expense and bad debt expense are also identified on Schedule H and removed from expenses allocable under Regulations sections 1.861-8 and 1.861-17 and Temporary Regulations section 1.861-8T. Deductions reported on home office books may include expenses incurred outside the foreign corporation's home country (other than in the United States). Home office deductions do not include deductions that are reported on books and records used to complete Schedule L (Form 1120-F)

(“Schedule L books”). Schedule L books are the set or sets of books of the corporation’s U.S. trade or business or the books of its U.S. branch (whether maintained within or outside the United States) as defined in Regulations section 1.882-5(d)(2).

Part I may be completed in U.S. dollars or in the foreign corporation’s functional currency. If the corporation completes Part I in U.S. dollars, check the box in the Part I heading. If the corporation completes Part I in its foreign functional currency, specify the currency in the space provided in the Part I heading.

Line 1. Enter on line 1 the total expenses recorded on the non-Schedule L books and records of the home office (including books and records maintained in locations outside the United States other than in the corporation’s home country). The books and records may be home office records (e.g., management cost accounting reports) that identify only the expenses included in the corporation’s financial statements for the tax year. It is not necessary that the home office records or reports used also include items of income, gain or loss (including bad debt charge-offs), or financial transaction expenses such as interest expense and periodic notional principal contract expense. Alternatively, the expenses reported on line 1 may be derived from audited or unaudited financial statements. The home office books may be books recorded under the Generally Accepted Accounting Principles (“GAAP”) applicable to the corporation’s local accounting practices or under U.S. GAAP, at the corporation’s choosing. Expenses of other includible entities (i.e., disregarded entities) are included in home office expenses reported on line 1 only if the expenses of such other entities are recorded on the home office’s books. Expenses recorded on non-Schedule L books of disregarded entities (and not on the home office books) that are allocated and apportioned to ECI are reported on line 20. If the corporation uses management cost accounting statements for its home office books that include expenses of one or more disregarded entities, and also maintains certified audited third-country GAAP statements for a disregarded entity, the expenses of the disregarded entity must be included in line 1 in either U.S. dollars or the home office’s functional currency even if the audited

third-country GAAP statements are in another non-dollar functional currency.

Line 2. Enter on line 2 the total of the adjustments necessary to conform the amounts on line 1 to the amounts that are deductible for U.S. tax purposes. These adjustments include temporary and permanent differences of the type applicable in determining the deductions of U.S. corporations that file their income tax returns on Form 1120 (e.g., adjustments eliminating any line 1 expenses of entities whose expenses are includible in the corporation’s expenses for book purposes but not for U.S. tax purposes). In addition, include adjustments to loan losses and loss reserves included in line 1 expenses to reflect the amount of bad debt expense that is deductible for U.S. tax purposes. Such adjustments include any amount of bad debt expense included in line 1 that is treated as an involuntary charge-off under Regulations section 1.166-2(d)(2). The deductible amount of bad debt expense remaining after any adjustments on line 2 is eliminated from Schedule H expenses on line 5.

Do not include on line 2 the amount of any expenses allocated and apportioned to ECI or non-ECI. In addition, do not make adjustments on line 2 to reflect book-to-tax adjustments for any home office interest expense (including interbranch interest expense) included on line 1. Interest expense included on line 1 is adjusted on line 4. The allocation of deductible interest expense to ECI is reported on Schedule I (Form 1120-F). Attach a schedule listing the amount of the adjustment for each of the following categories:

1. Expenses included on line 1 of entities whose expenses are not includable in the corporation’s expenses for U.S. tax purposes.
2. Temporary differences (e.g., costs capitalized under section 263A, carrying charges under section 263(g), depreciation and amortization, general loan loss reserves).
3. Permanent differences (e.g., interbranch transactions other than interest, non-deductible meals and entertainment and executive salary compensation).

Line 3. Combine lines 1 and 2 and enter the result on line 3. The amount reported on line 3 is the total amount

of deductible expenses (determined under U.S. tax principles before apportionment between ECI and non-ECI) of the foreign corporation that files Form 1120-F, other than those that are included on the corporation’s Schedule L books.

Line 4. Enter on line 4 the total amount of interest expense (including interbranch interest), if any, recorded on the home office books that is included on line 3.

Line 5. Enter on line 5 the bad debt expense, if any, that is included on line 3. Any portion of the amount included on line 5 that is allocable to ECI is reported directly on Form 1120-F, Section II, line 15.

Line 7. Subtract line 6 from line 3 and enter the difference on line 7. This is the total amount of the corporation’s home office deductions which are allocated and apportioned between ECI and non-ECI in Parts I and II of Schedule H.

Lines 8 Through 10. Direct Allocation and Apportionment of Home Office Deductions to Non-Effectively Connected Income

Note. The amounts reported on lines 8 through 10 are deductions that are definitely related to non-ECI under Regulations sections 1.861-8 and 1.861-17 and Temporary Regulations section 1.861-8T. If the corporation has deductions included in line 7 that are definitely related and allocable to ECI that is exempt from tax under the Code or an income tax treaty, the deductions should be treated as allocable to non-ECI for purposes of Schedule H and included in the amounts reported on lines 8 through 10.

Line 8. Enter on line 8 deductions included on line 7 that are definitely related and allocable to non-ECI received from subsidiaries (other than disregarded entities whose income and deductions are treated as income and deductions of the corporation filing Form 1120-F). See, for example, Temporary Regulations section 1.861-8T(e)(4)(ii) and Regulations section 1.861-17 (relating to treatment of stewardship expenses attributable to dividends and research and experimentation expenses).

Line 9. Enter on line 9, deductions included on line 7 (other than amounts included on line 8) that are definitely related under Regulations

sections 1.861-8 and 1.861-17 and Temporary Regulations section 1.861-8T to non-ECI of the corporation that is booked in the corporation's home office and in other locations in the corporation's home country. For example, line 9 includes deductions included on line 7 that are definitely related to non-ECI of a banking corporation that is booked in the corporation's home office and in its retail banking branches in the corporation's home country. The amount of any inter-office or interbranch charges from the home office to various locations and departments recorded on the home office books as home office "service" fees for internal management or home office tax accounting purposes (which amounts are eliminated on line 2) is not determinative of the amount of the home office's deductible expense that is definitely related to non-ECI.

Line 10. Enter on line 10, deductions included on line 7 (other than amounts included on line 8) that are definitely related to non-ECI of the corporation that is booked in locations outside the corporation's home country (including the United States). For example, if a banking corporation conducts global banking operations through branch offices (including through disregarded entities) in locations outside the corporation's home country, the home office deductions included on line 7 that are definitely related to non-ECI booked in those locations are reportable on line 10. These deductions include home office deductions definitely related to non-ECI of disregarded entities, whether or not the balance sheet from such entity is reportable on Schedule L of Form 1120-F. (For corporations other than banks, such non-ECI may be reflected as income from includable entities on Schedule M-3 (Form 1120-F), Part I, line 5.

Foreign banks record such non-ECI on Schedule M-3 (Form 1120-F), Part I, line 5 only if the entity's sets of books are reportable on Form 1120-F, Schedule L.) See instructions for Schedule M-3 (Form 1120-F), Part I.

Line 11. Add lines 8, 9, and 10 and enter the total on line 11. The amount on line 11 constitutes the total portion of the deductions entered on line 7 that are definitely related solely to the corporation's non-ECI.

Line 12. Subtract line 11 from line 7 and enter the difference on line 12.

Instructions for Form 1120-L

The amount on line 12 is the residual amount of the deductions entered on line 7 that, under Regulations sections 1.861-8 and 1.861-17 and Temporary Regulations section 1.861-8T, is definitely related to ECI or is apportioned between the corporation's ECI and non-ECI.

Line 13. Enter on line 13 the portion of the deductions included on line 12 that is definitely related to ECI under Regulations sections 1.861-8 and 1.861-17 and Temporary Regulations section 1.861-8T. Deductions definitely related to ECI may include specifically identifiable personnel and other associated costs incurred in the home office with respect to persons who work on the evaluation and approval of ECI-producing activities of the corporation's trade or business within the United States (e.g., specifically identifiable home office deductions incurred for the evaluation and approval of U.S. loans to customers negotiated and solicited by the corporation's U.S. branch office where a banking, financing or similar business is carried on). Also include on line 13 deductible research and experimentation expenditures that are definitely related to ECI under Regulations section 1.861-17 and deductible charitable contributions that are included on line 7.

Line 14. Subtract line 13 from line 12 and enter the difference on line 14. The amount on line 14 is the residual amount of the deductions entered on line 7 that is not definitely related solely to the corporation's ECI or non-ECI. The amount on line 14 is subject to apportionment under Regulations sections 1.861-8 and 1.861-17 and Temporary Regulations section 1.861-8T in Part II, line 17, below.

Part II – Home Office Deductions Indirectly Allocated and Apportioned to ECI and Non-ECI

Line 15. If the corporation reports expenses and deductions in Part I in the corporation's foreign functional currency, enter the average exchange rate that is used to convert those deductions to U.S. dollars for purposes of lines 16 and 18. If the corporation reports Part I in U.S. dollars, leave line 15 blank.

Line 16. Enter on line 16 the amount on line 14, converted if necessary to U.S. dollars. If the amount on line 14 is stated in the corporation's foreign functional currency, multiply line 14 by the line 15 exchange rate and enter the result on line 16.

Line 17. Enter on line 17 the amount of deductions included on line 16 that is apportioned to ECI under Regulations sections 1.861-8 and 1.861-17 and Temporary Regulations section 1.861-8T. Attach a schedule describing the apportionment methods used, identifying the numerator and denominator of any ratio-based method, and listing the amount apportioned under each method to ECI.

Line 18. Enter on line 18 the amount entered on line 13, converted if necessary to U.S. dollars. If the amount on line 13 is stated in the corporation's foreign functional currency, multiply line 13 by the line 15 exchange rate and enter the result on line 18.

Line 19. Add lines 17 and 18 and enter the total on line 19. The amount on line 19 is the total amount of deductible expenses reported on the home office books that is allocated and apportioned to ECI under Regulations sections 1.861-8 and 1.861-17 and Temporary Regulations section 1.861-8T.

Line 20. Enter on line 20, in U.S. dollars, the amount of deductible expenses allocated and apportioned to ECI under Regulations sections 1.861-8 and 1.861-17 and Temporary Regulations section 1.861-8T that is recorded on non-Schedule L books and records of foreign locations other than those of the home office. Attach a schedule listing the amount of deductions allocated and apportioned to ECI from each location.

Line 21. Add lines 19 and 20 and enter the total on line 21. The amount entered on line 21 is the total amount of deductible expenses reported on the corporation's non-Schedule L books that is allocated and apportioned to ECI under Regulations sections 1.861-8 and 1.861-17 and Temporary Regulations section 1.861-8T. This amount is also reported on Form 1120-F, Section II, line 26, and, for banks only, on Schedule M-3 (Form 1120-F), Part III, line 31.

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Part III – Indirect Allocation and Apportionment Methods and Financial Records

Part III is used to identify the income, asset, and personnel attributes of the U.S. trade or business and to report the methodologies and financial records used to determine the amount of the deductions that are allocated and apportioned to ECI in Parts I and II of Schedule H. The corporation's ratios of effectively connected gross income, U.S. assets, and U.S. personnel to worldwide gross income, gross assets, and personnel are reported on lines 22 through 24. Other ratio-based methods and any non-ratio-based methods the corporation used for the tax year to allocate and apportion deductions to non-ECI on lines 8 through 10 and to ECI on lines 13 and 20 are identified in attachments required by the instructions for lines 25 and 26.

Check Boxes Above Line 22

New methods. Check the box to indicate if the corporation used a method to allocate and apportion deductions for the current tax year that was not used in the prior year.

Interbranch amounts in Part IV.

Check the box to indicate if an expense in respect of any amount included in Part II, line 21, in the home office allocation and apportionment was recorded on the Schedule L books that are used to complete Part IV of Schedule H. Include the full amount of the interbranch charge in Part IV, line 36.

Lines 22 Through 24. Gross Income, Gross Asset, and Number of Personnel Ratios

The corporation must complete the gross income ratio for line 22 whether or not it used such method to allocate and apportion deductions in Parts I and II. If the corporation used a gross asset or number of personnel method (whether separately or as components of a multi-factor method), it must report the attributes on lines 23 and 24. If the corporation did not use either the gross asset or the personnel method to allocate and apportion deductions for the year, then, except as provided for worldwide assets reported on line 23b, only the numerators of each method must be reported on lines 23

and 24. See the instructions for line 23b for disclosure of the gross asset ratio by corporations that used the actual ratio to allocate interest expense under Regulations section 1.882-5 and Temporary Regulations section 1.882-5T.

Line 22a. Enter on line 22a the corporation's gross ECI reportable on Schedule M-3 (Form 1120-F), Part II, line 25, column (e), plus any additional gross income amounts reportable on line 27, column (a). If the corporation is not required to and does not file Schedule M-3 (Form 1120-F) for the tax year, enter the amount of gross income from Form 1120-F, Section II, line 11.

Line 22b. Enter on line 22b the corporation's worldwide gross income stated in U.S. dollars. Corporations other than banks enter the worldwide gross income amount from Schedule M-3 (Form 1120-F), Part II, line 25, column (a), plus any additional gross income amounts included on line 27, column (a). If the corporation is not required to and does not report worldwide gross income in column (a) of Schedule M-3 (Form 1120-F), enter the worldwide gross income from any other reasonable source. Reasonable sources include worldwide income statements used to report allocations of income or capital to other regulatory or non-Federal tax authorities or the worldwide income statements that would be used if the corporation was required to report worldwide gross income in column (a) of Schedule M-3 (Form 1120-F).

Line 23a. Enter on line 23a the average assets reported on Schedule I (Form 1120-F), line 5, column (d). These are the average U.S. assets included in the corporation's Regulations section 1.882-5 and Temporary Regulations section 1.882-5T interest expense allocation. If the corporation does not have any interest expense for the year and does not file Schedule I (Form 1120-F), enter the average assets derived from the beginning and ending U.S. assets included in the computation of U.S. net equity on Form 1120-F, Section III, lines 4a and 4b. If the corporation is exempt from the branch profits tax under an applicable income tax treaty and is not required to complete Form 1120-F, Section III, the average U.S. assets should be derived from the beginning and ending U.S. assets included on Schedule L (Form 1120-F).

Line 23b. If the corporation used the worldwide actual ratio under Regulations section 1.882-5(c)(2) to allocate interest expense to ECI, enter the amount from Schedule I (Form 1120-F), line 6b. If the corporation did not use the actual ratio, but used a worldwide asset ratio to apportion deductions to ECI for purposes of Schedule H, Part II, line 17 or 20, enter the worldwide assets used in that ratio. If a worldwide asset ratio is not available from either Schedule I (Form 1120-F), line 6b or Schedule H, Part II, line 17 or 20, leave line 23b blank.

Line 23c. If an amount is entered on line 23b, divide line 23a by line 23b to determine the gross asset ratio and enter the percentage on line 23c. If line 23b is blank, leave line 23c blank.

Line 24a. Enter on line 24a the number of personnel who worked in the corporation's U.S. trade or business during the tax year. The corporation may use any reasonable method to determine the number of personnel, including data that is already prepared and used by the corporation for a non-tax business purpose. For example, if the corporation maintains headcount data (such as weighted average headcount data) in its personnel records or for other purposes such as budgeting, planning and control, such numbers may be used in the numerator.

Line 24b. If the corporation used a ratio based on number of personnel to apportion deductions in Part II, line 17 or 20 of Schedule H, enter the worldwide personnel count used in the denominator of such ratio on line 24b. If the corporation does not apportion deductions using a number of personnel ratio, leave line 24b blank.

Line 24c. If an amount is entered on line 24b, divide line 24a by line 24b to determine the number of personnel ratio and enter the percentage on line 24c. If line 24b is blank, leave line 24c blank.

Line 25. If the corporation used any other ratio-based method to allocate and apportion deductions to ECI and non-ECI on lines 8, 9, 10, 13 or 20 of Schedule H, attach a schedule describing the ratio used on each line. Include the numerator and denominator of the ratio used for each applicable line.

Line 26. If the corporation used a non-ratio-based method to allocate and apportion deductions to ECI and

that is included in the amount reported on line 32.

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non-ECI on line 8, 9, 10, 13 or 20 of Schedule H, attach a schedule describing each such method and the percentage used, if any, for each applicable line. These may include methods for which percentage allocations to ECI or non-ECI are estimated and documented by questionnaires or home office department interviews (e.g., estimated percent of time spent by employees of particular home office departments or sub-departments on U.S. trade or business activities).

Lines 27 Through 29. Identification of Financial Records Used

Check the "Yes" or "No" box to indicate whether the types of financial books and records indicated were used to complete Parts I and II of Schedule H.

Line 29. If the "Yes" box is checked, attach a list of other documentation used to complete Parts I and II of Schedule H (e.g., home country regulatory reports).

Part IV – Allocation and Apportionment of Deductions on Books and Records Used to Prepare Form 1120-F, Schedule L

Use Part IV of Schedule H to report the allocation and apportionment of deductions recorded on the corporation's Schedule L books, other than interest and bad debt expense, to ECI and non-ECI under Regulations sections 1.861-8 and 1.861-17 and Temporary Regulations section 1.861-8T.

Line 30. Enter on line 30 the total expenses recorded on the Schedule L books.

Note. The Schedule L books may be maintained using Generally Accepted Accounting Principles ("GAAP") other than U.S. GAAP. The Schedule L books may include more than one set of books, including the set(s) of books of disregarded entities. See the instructions for Schedule M-3 (Form 1120-F), Part I, lines 4 and 5, for the Schedule L treatment of disregarded entities and the combined reporting of multiple sets of books. These rules apply to both banks and non-banks for purposes of determining the expenses reportable on Schedule H, line 30. Interbranch income and expenses recorded between separate

sets of books must be eliminated in the combined reports.

Line 31. Enter on line 31 the total of the adjustments necessary to conform the amounts on line 30 to the amounts that are deductible for U.S. tax purposes. Attach a schedule detailing the items adjusted and amounts of each adjustment. See the instructions for Part I, line 2 for a general description of the types of temporary and permanent differences that are reportable as adjustments to the book expenses in determining current year tax deductions under U.S. tax principles. However, do not include any interbranch expenses on line 31. Interbranch interest is reported on line 33b, and other interbranch expenses on the Schedule L books (including interbranch book charges for home office services provided to the U.S. trade or business) are reported on line 36.

Line 33a. Enter on line 33a the amount of third-party interest expense (whether owed to unrelated or related parties) recorded on the Schedule L books. Interest expense is allocated to ECI under Regulations section 1.882-5 and Temporary Regulations section 1.882-5T and reported on Schedule I (Form 1120-F).

Line 33b. Enter on line 33b any interbranch interest expense recorded on the Schedule L books that is included in the amount reported on line 30.

Line 34. Enter on line 34 any bad debt expense that is included in line 32. Any portion of the amount eliminated on line 34 that is allocable to ECI is reported directly on Form 1120-F, Section II, line 15.

Line 35. Enter on line 35 other third-party expenses reported on the Schedule L books that are not allocated and apportioned between ECI and non-ECI under Regulations sections 1.861-8 and 1.861-17 and Temporary Regulations section 1.861-8T. Periodic expense from a notional principal contract is not allocated and apportioned under Regulations section 1.861-8 and Temporary Regulations section 1.861-8T if the amount is includible in the profits and losses of a global dealing operation and the corporation allocates and apportions such amounts under Proposed Regulations section 1.863-3(h). Such periodic expense is subject to allocation and apportionment under Proposed

Regulations section 1.863-3(h) in accordance with the principles of Proposed Regulations section 1.482-8. If such periodic expense is included in line 30, it should be included on line 35 and reported separately on Form 120-F, Section II, as either part of the global dealing income reported on Form 1120-F, Section II, line 10, or as a separately identified deduction under Form 1120-F, Section II, line 27.

Line 36. Enter on line 36 all interbranch expenses, other than interbranch interest expense, recorded on the Schedule L books that are included in the amount reported on line 32. The interbranch amounts reportable on line 36 include home office charges reflected on the Schedule L books for home office management services provided to the U.S. trade or business.

Note. Amounts paid or accrued on the Schedule L books to the home office are not determinative of the amount of home office expense allocated and apportioned to ECI on Schedule H, Part II, line 21.

Line 37. Add the amounts on lines 33a through 36 and enter the total on line 37. This amount reflects the deductions included in line 32 for which there are special rules to which the general allocation and apportionment rules under Regulations sections 1.861-8 and 1.861-17 and Temporary Regulations section 1.861-81 do not apply.

Line 38. Subtract the amount on line 37 from the amount on line 32 and enter the difference on line 38. The amount reported on line 38 is allocated and apportioned to ECI and non-ECI under Regulations sections 1.861-8 and 1.861-17 and Temporary Regulations section 1.861-8T and reconciled on lines 39a through 42.

Lines 39a Through 42. Reconciliation of Allocable Expenses on Books Under Regulations Section 1.861-8 (from line 38)

The amount of deductions reported on line 38 that is allocated and apportioned to ECI and non-ECI is reported on lines 39a through 42, columns (a) through (c). Enter the amount included in line 38 that is allocated or apportioned to ECI in column (a) and the amount allocated or apportioned to non-ECI in column (b). Add columns (a) and (b) for each line and enter the total amount in column (c).

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that are included in the amount reported on line 32 and

Line 39a. Enter on line 39a the amount of derivative transaction deductions included in line 38 that are definitely related to ECI or non-ECI under Regulations section 1.861-8 and Temporary Regulations section 1.861-8T. Deductions included on line 39a are periodic expense from notional principal contracts that are sourced under Regulations section 1.863-7 with respect to non-dealer securities hedging transactions or from securities trading or non-global dealing operations. If notional principal contract periodic expense is allocated and apportioned under the global dealing rules of Proposed Regulations section 1.863-3(h), such amounts should be included on line 35 and, therefore, are not definitely related to ECI or non-ECI under Regulations section 1.861-8 and Temporary Regulations section 1.861-8T.

Note. Periodic expenses from notional principal contracts may be allocated and apportioned to ECI and non-ECI in accordance with the ECI and non-ECI treatment of the item(s) the notional principal contract hedges.

Line 39b. Enter on line 39b all other deductions included in the amount reported on line 38 that are definitely related to ECI or non-ECI under Regulations sections 1.861-8 and 1.861-17 and Temporary Regulations section 1.861-8T.

Line 40. Add lines 39a and 39b and enter the total on line 40 for each of columns (a) through (c). The amounts on line 40 are the portion of total deductions reported on line 38 that are definitely related to ECI and non-ECI.

Line 41. Enter on line 41 the deductions included in line 38 that are apportioned to ECI and non-ECI under Regulations sections 1.861-8 and 1.861-17 and Temporary Regulations section 1.861-8T. The total on line 41, column (c) must equal line 38 minus line 40, column (c).

Line 42. Add lines 40 and 41 and enter the total on line 42 for each of columns (a) through (c). The amount entered on line 42, column (a) is the total amount of deductions included on line 38 that is allocated and apportioned to ECI. These deductions are included on Form 1120-F, Section II, lines 12, 13, 14, 16, 17, 19 through 25, and 27. The total amount on line 42, column (c) must equal the amount on line 38.