

power of all classes of stock of the RIC entitled to vote or (b) the total value of all classes of stock of the RIC.

The constructive ownership rules of section 318 apply in determining if a RIC is foreign owned. See section 6038A(c)(5) and the related regulations.

Enter on line 5b(1) the percentage owned by the foreign person specified in question 5. For line 5b(2), enter the name of the owner's country.

**Note.** If there is more than one 25%-or-more foreign owner, complete lines 5b(1) and 5b(2) for the foreign person with the highest percentage of ownership.

**Foreign person.** The term "foreign person" includes:

- A foreign citizen or nonresident alien.
- An individual who is a citizen of a U.S. possession (but who is not a U.S. citizen or resident).
- A foreign partnership.
- A foreign corporation.
- Any foreign estate or trust within the meaning of section 7701(a)(31).
- A foreign government (or one of its agencies or instrumentalities) to the extent that it is engaged in the conduct of a commercial activity as described in section 892.

**Owner's country.** For individuals, the term "owner's country" means the country of residence. For all others, it is the country where incorporated, organized, created, or administered.

**Requirement to file Form 5472.** If the RIC checked "Yes," it may have to file Form 5472, Information Return of a 25% Foreign Owned U.S. Corporation or a Foreign Corporation Engaged In a U.S. Trade or Business. Generally, a 25% foreign-owned corporation that had a reportable transaction with a foreign or domestic related party during the tax year must file Form 5472. See Form 5472 for filing instructions.

## Item 8

**Tax-exempt interest.** Show any tax-exempt interest received or accrued. Include any exempt-interest dividends received as a shareholder in a mutual fund or other RIC.

## Item 10

**Election under section 853(a).** A RIC may make an irrevocable election under section 853(a) to allow its shareholders to apply their share of the foreign taxes paid by the RIC either as a credit or a deduction. If the RIC makes this election, the amount of foreign taxes it paid during the tax year may not be taken as a credit or a deduction on Form 1120-RIC, but may be claimed on Form 1120-RIC, Schedule A, line 5, as an addition to the dividends-paid deduction.

**Eligibility.** To qualify to make the election, the RIC must meet the following requirements.

- More than 50% of the value of the RIC's total assets at the end of the tax year must consist of stock or securities in foreign corporations.

**Note.** In the case of a qualified "fund of funds" structure, a RIC may elect to allow shareholders the foreign tax credit without regard to the requirement that more than 50% of the value of its assets consist of stock or securities in foreign corporations. See section 852(g) for more information.

- The RIC must meet the holding period requirements of section 901(k) with respect to its common and preferred stock. If the RIC fails to meet these holding period requirements, the election that allows a RIC to pass through to its shareholders the foreign tax credits for foreign taxes paid by the RIC is disallowed. Although the foreign taxes paid may not be taken as a credit by either the RIC or the shareholder, they are still deductible at the fund level.

**Reporting requirements.** To make a valid election under section 853, in addition to timely filing Form 1120-RIC

and checking the box for Schedule K, item 10, the RIC must file a statement of election, which includes the information listed under Regulations section 1.853-4(c). The information must be provided on or with a Form 1118, Foreign Tax Credit, attached to the RIC's timely filed tax return.

For more information, see Regulations section 1.853-4.

**Notification to shareholders.** If the RIC makes the election, it must furnish to its shareholders a written notice designating the shareholder's portion of (1) foreign taxes paid by the RIC to foreign countries and possessions of the United States, and (2) the dividend that represents income derived from:

- sources within countries described in section 901(j), and
- other foreign-source income.

The notice must be mailed to the shareholders no later than 60 days after the end of the RIC's tax year. For more information, see Regulations section 1.853-3.

## Item 11

**Election under section 853A.** A RIC can elect to pass through credits from tax credit bonds to its shareholders. If the RIC makes the election, include the interest income from the tax credit bonds on Part I, line 2. Also, increase the dividends paid deduction by the amount of the credits distributed to shareholders. If the RIC makes the election, it is not allowed to take any credits related to the qualified tax credit bonds.

For more information, see section 853A.

**Notification to shareholders.** If the RIC makes the election to apply section 853A, it must furnish to its shareholders a written notice designating the shareholder's proportionate share of: (1) credits from tax credit bonds, and (2) gross income in respect of such credits. The notice must be mailed to the

## Built-in Gains Tax Worksheet (keep for your records)

a.	Excess of recognized built-in gains over recognized built-in losses	a.	_____
b.	Taxable income	b.	_____
c.	Enter the net unrealized built-in gain reduced by any net recognized built-in gain for all prior years	c.	_____
d.	Net recognized built-in gain (enter the <b>smallest</b> of lines a, b, or c)	d.	_____
e.	Section 1374(b)(2) deduction	e.	_____
f.	Subtract line e from line d. If zero, enter -0- here and on line i	f.	_____
g.	Enter 35% of line f	g.	_____
h.	Business credit and minimum tax credit carryforwards under section 1374(b)(3) from C corporation (see instructions)	h.	_____
i.	<b>Tax.</b> Subtract line h from line g (if zero or less, enter -0-). Enter here and include on line 6 of Schedule J (see instructions)	i.	_____