

Instructions for Schedule K (Form 1118) (Rev. December 2009)



Department of the Treasury
Internal Revenue Service

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

General Instructions

Purpose of Schedule

Schedule K (Form 1118) is used to reconcile the corporation's prior year foreign tax carryover with its current year foreign tax carryover. Corporations are thus reporting running balances of their foreign tax carryovers showing all activity since the filing of the prior year income tax return.

Lines 1 through 3. On these lines, the corporation computes its adjusted foreign tax carryover from the prior tax year which is available for credit in the current tax year. The line 3 total is included on Form 1118, Schedule B, Part II, line 5.

Line 4. If the corporation has a current year excess limitation (defined below), some or all of the line 3 adjusted foreign tax carryover amount will be utilized in the current tax year. This activity is shown on line 4 of the Schedule K (Form 1118).

Lines 5 through 8. If the corporation has current year excess foreign taxes (defined below), none of the line 3 adjusted foreign tax carryover amount will be utilized in the current tax year. If the corporation has any remaining carryover from the 10th preceding tax year, this carryover amount will expire unused. This activity is shown on line 5 of the Schedule K (Form 1118). Furthermore, the corporation will generate a foreign tax carryover in the current tax year which can be carried back to the prior tax year and/or carried forward to future tax years (see **Carryback and Carryforward of Excess Foreign Taxes** in the instructions for Form 1118 for details). This activity is shown on lines 6 through 8 of the Schedule K (Form 1118).

Who Must File

With respect to each separate category of income, any corporation filing Form 1118 that has a foreign tax carryover in the prior tax year, the current tax year, or both must file Schedule K (Form 1118) for that separate category of income.

Definitions

Excess limitation. If the corporation's foreign tax credit limitation (Schedule B, Part II, line 11) exceeds its current year foreign taxes available for credit (the sum of Schedule B, Part II, lines 1 through 4), the corporation has excess limitation.

Excess foreign taxes. If the corporation's current year foreign taxes available for credit (the sum of Schedule B, Part II, lines 1 through 4) exceed its foreign tax credit limitation (Schedule B, Part II, line 11), the corporation has excess foreign taxes.

Specific Instructions

Important: All information reported on Schedule K (Form 1118) must be in English. All amounts must be stated in U.S. dollars.

Checkboxes at top of page 1.

Complete Schedule K separately for each category of income. Check the box for the category of income for which this schedule is being completed.

Line 1. Foreign tax carryover from the prior tax year. Enter on line 1 the amount from line 6 of the worksheet on page 3 of these instructions. See *Line 1 Reconciliation Worksheet* instructions on page 2 before completing the worksheet.

Line 2. Adjustments to line 1. Report on lines 2a, 2b, 2c, 2d, etc. any adjustments resulting from events that occurred between the filing of the prior year tax return and the filing of the current year tax return.

Line 2a. Carryback adjustment.

Enter on line 2a, column (xii) the difference between any estimated carryback amount you may have used on your prior year carryover schedule (i.e., the equivalent of any estimated carryback amount that would have been entered on line 7, column (xiii) of the Schedule K (Form 1118) had that schedule existed last year) and the actual carryback amount.

Example. In the 2009 tax year, Corporation A has excess foreign taxes of \$100 (i.e., the sum of lines 1 through 4 of Form 1118, Schedule B, Part II exceeds Form 1118, Schedule B, Part II, line 11 by \$100) entered on Schedule K (Form 1118), line 6. Corporation A enters \$20 on line 7 as the estimated amount of line 6 to be carried back to the 2008 tax year. Corporation A enters \$80 on line 8 as the carryover amount for following years. The actual carryback amount to the 2008 tax year is later determined to be \$15. In the 2010 tax year, Corporation A enters \$80 on line 1, column (xii) as the carryover from the 2009 tax year, corresponding to the amount entered on line 8, column (xiii) of the Schedule K filed for the 2009 tax year. Because the estimated carryback amount of \$20 from the 2009 tax year to

the 2008 tax year (entered on line 7 of the Schedule K filed for the 2009 tax year) exceeds the actual carryback of \$15, on the Schedule K for the 2010 tax year, Corporation A enters the \$5 excess (\$20 - \$15) on line 2a as a positive number. Assuming no other adjustments are needed, the total carryover amount from 2009 entered on line 3, column (xii) of the 2010 Schedule K will be \$85 (\$80 + \$5).

Line 2b. Adjustments for section 905(c) redeterminations. Enter on line 2b any adjustments needed for section 905(c) redeterminations. See **Foreign Tax Credit Redeterminations** in the instructions for Form 1118 for additional information.

Lines 2c, 2d, 2e, etc. Include on these additional lines the following types of adjustments needed to reflect:

- Carryovers gained or lost due to reorganizations of the corporation's controlled/consolidated group.
- Domestic audit adjustments.
- Any other adjustments needed to properly reflect the total carryover amount from the prior tax year that is available for credit in the current tax year.

Note. Be sure to enter a brief description of each applicable adjustment item immediately after the lower case letter in the first column of the schedule.

Line 3. Adjusted foreign tax carryover from prior tax year. Combine lines 1 and 2. The total amount in line 3, column (xiv) is the adjusted carryover amount from the prior tax year. It is included on Schedule B, Part II, line 5 (and, if filing an amended return, combined with carrybacks into the current tax year) to determine the total amount of foreign taxes that are available for credit in the current tax year.

Line 4. Foreign tax carryover utilized in current tax year. With respect to a given separate limitation, line 4 is completed only if the corporation has a current year excess limitation (defined above).

Enter in each column the foreign tax carryover utilized in the current tax year. Starting with column (i), the amount to be entered on line 4 of a given column will be the amount on line 3 of that column, but only to the extent that it does not exceed:

- The amount of the current year excess limitation (defined above), less
- The sum of all amounts entered in all previous columns of line 4.

Example. For the current tax year, Corporation A has an excess limitation of \$250 (i.e., Form 1118, Schedule B, Part

II, line 11 exceeds the sum of lines 1 through 4 of Form 1118, Schedule B, Part II by \$250). The amount on line 3, column (i) is \$80. The amount on line 3, column (ii) is \$60. The amount on line 3, column (iii) is \$130. The amount on line 3 of all subsequent columns is irrelevant for purposes of this example. Corporation A enters \$80 on line 4, column (i); \$60 on line 4, column (ii), \$110 on line 4, column (iii), the \$250 subtotal on the line 4, column (vii), the \$250 subtotal on line 4, column (viii), and the \$250 total on line 4, column (xiv).



The line 4, column (xiv) total cannot exceed the amount of the current year excess limitation.

Line 5. Foreign tax carryover expired unused in current tax year. Line 5 is completed only with respect to the 10th preceding tax year (and the “Subtotal” and “Totals” columns). For the 10th preceding tax year (column (i)), combine lines 3 and 4 and enter the result on line 5, column (i).

Line 6. Foreign tax carryover generated in current tax year. With respect to a given separate limitation, line

6 is completed only if the corporation has current year excess foreign taxes (defined on page 1). Enter in column (xiii) (the current tax year column) the amount of the corporation’s unused foreign tax for the current tax year (i.e., the amount by which the sum of lines 1 through 4 of Form 1118, Schedule B, Part II, exceeds the amount on Form 1118, Schedule B, Part II, line 11). Also enter the same amount in the “Totals” column (column (xiv)).

Line 7. Actual or estimated amount of line 6 carried back to the prior tax year.

Enter the amount of line 6 carried back to the first preceding tax year. If, at the time the corporation files its 2009 income tax return, the actual amount is not available, an estimated or tentative amount may be entered on line 7. If an estimated amount is entered on line 7 and this amount differs from the actual carryback amount, the difference will be entered on line 2a of the subsequent year Schedule K (Form 1118).

Note. In order to carry back amounts to the first preceding tax year, that first

preceding tax year must be an excess limitation year (as defined on page 1).

Note. When this line 7 carryback amount is subtracted from line 6, the difference is the amount of the foreign tax carryover generated in the current tax year which will be carried forward to the subsequent tax year.

Line 1 Reconciliation Worksheet

Use the worksheet on page 3 to compute the amounts to be entered on line 1 of the corporation’s Schedule K.

Lines 2 through 5. Use the instructions for lines 4 through 7 of the Schedule K above to complete lines 2 through 5, respectively, of the Line 1 Reconciliation Worksheet.

Additional Information

For more information, see section 904(c) and Regulations section 1.904-2 and Temporary Regulations section 1.904-2T.

Line 1. Reconciliation Worksheet

Caution: This worksheet is to be completed only for purposes of computing the amounts to be entered on line 1 of the corporation's Schedule K (Form 1118) for its tax year beginning in 2009.

	(i) Tax year beginning in 1998	(ii) Tax year beginning in 1999	(iii) Tax year beginning in 2000	(iv) Tax year beginning in 2001	(v) Tax year beginning in 2002	(vi) Tax year beginning in 2003	(vii) Tax year beginning in 2004	(viii) Tax year beginning in 2005	(ix) Tax year beginning in 2006	(x) Tax year beginning in 2007	(xi) Tax year beginning in 2008	(xii) Totals (add columns (i) through (xi))
1	For each column, enter the applicable portion of the amount from Schedule B, Part II, line 5 of the corporation's Form 1118 for its tax year beginning in 2008.											
2	Foreign tax carryover used in the corporation's tax year beginning in 2008 (enter as a negative number).											
3	Foreign tax carryover expired unused in the corporation's tax year beginning in 2008 (enter as a negative number).											
4	Foreign tax carryover generated in the corporation's tax year beginning in 2008.											
5	Amount of line 4 carried back to the corporation's tax year beginning in 2007 (enter as a negative number).											
6	Combine lines 1 through 5 and enter the results here and on line 1 of the corporation's Schedule K (Form 1118).											
Note:	The line 6 amounts above are to be entered on the following corresponding columns of line 1 of corporation's Schedule K (Form 1118) for its tax year beginning in 2009.											