



# Instructions for Form 1118

(Rev. December 2019)

(Use with the December 2018 revisions of Form 1118, and separate Schedules I, J, and K.)

## Foreign Tax Credit—Corporations

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

### Future Developments

For the latest information about developments related to Form 1118 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form1118](https://www.irs.gov/Form1118).

### What's New

Changes have been made throughout these instructions based on final foreign tax credit regulations (T.D. 9882, 84 FR 69022, December 17, 2019).

There is a change in the manner in which foreign source exchange losses are now reported on Schedule A. See the specific instructions for Schedule A, columns 9, 10, 11, and 14(h), for details. Also see the specific instructions for Schedule H, Part II, column (c).

There is a change in the manner in which Schedule D, Part II, is completed. As a result of recently issued final regulations (T.D. 9866, 84 FR 29288, June 21, 2019), most domestic partnerships and S corporations are no longer required to include amounts under section 951A. See specifically 84 FR 29315-29317 and Regulations section 1.951A-1(e). As a result, most domestic corporations need only complete one line in Schedule D, Part II. See Notice 2019-46, 2019-37 I.R.B. 695, which allows domestic partnerships and S corporations to include amounts under section 951A for tax years ending before June 22, 2019, by relying on Proposed Regulations section 1.951A-5.

### Reminders

On December 22, 2017, Congress enacted the Tax Cuts and Jobs Act, P.L. 115-97 (the "Act"). The Act changes the computation of foreign tax credits for post-2017 tax years as follows.

- Two new separate categories of income under section 904(d): (i) any amount includible in gross income under section 951A (other than passive category income) ("section 951A category income"), and (ii) foreign branch category income.
- Repeal of section 902 indirect credits with respect to dividends from foreign corporations.
- Modified indirect credits under section 960 for inclusions under sections 951(a)(1) and 951A.
- Modified section 78 gross-up with respect to inclusions under sections 951(a)(1) and 951A.
- Revised sourcing rule for certain income from the sale of inventory under section 863(b).
- Repeal of the fair market value method for apportioning interest expense under 864(e).
- New adjustments for purposes of section 904 with respect to expenses allocable to certain stock or dividends for which a dividends received deduction is allowed under section 245A.
- Election to increase pre-2018 section 904(g) overall domestic loss (ODL) recapture.
- Limited foreign tax credits with respect to inclusions under section 965.

Several of the foreign tax credit provisions of the Act are applicable in tax years of foreign corporations beginning after December 31, 2017, and to tax years of U.S. shareholders in which or with which such tax years of the foreign corporations end ("post-2017 foreign corporate tax year"). As such, if the foreign corporation's year begins before 2018 ("pre-2018 foreign corporate tax year"), some pre-enactment rules continue to apply in the domestic corporation's tax year beginning in 2019 if such domestic corporation owns the foreign corporation through certain pass-through entities. For example, if a domestic corporation

with a tax year ending September 30, 2020, owns a domestic partnership with a tax year ending October 31, 2019, and the domestic partnership owns a foreign corporation with a U.S. tax year beginning on December 1, 2017, and ending on November 30, 2018, for its 2019 tax year, such domestic corporation is subject to certain pre-enactment provisions with respect to such foreign corporation. However, if such domestic corporation also owns a foreign corporation with a U.S. tax year beginning on January 1, 2019, and ending on December 31, 2019, for its 2019 tax year, such domestic corporation is subject to certain post-enactment provisions with respect to such foreign corporation. Therefore, the Form 1118 continues to require reporting under pre-enactment provisions, as well as requiring new reporting for post-enactment provisions.

## General Instructions

### Purpose of Form

Use Form 1118 to compute a corporation's foreign tax credit for certain taxes paid or accrued to foreign countries or U.S. possessions. See [Taxes Eligible for a Credit](#), later.

### Who Must File

Any corporation that elects the benefits of the foreign tax credit under section 901 must complete and attach Form 1118 to its income tax return.

### When To Make the Election

The election to claim the foreign tax credit (or a deduction in lieu of a credit) for any tax year may be made or changed at any time before the end of a special 10-year period described in section 6511(d)(3) (or section 6511(c) if the period is extended by agreement). Note that while the limitations period for refund claims

relating to a foreign tax credit generally runs parallel with the election period, the limitations period for refund claims relating to a deduction of foreign tax does not, and may expire before the end of the election period.

## Computer-Generated Form 1118

The corporation may submit a computer-generated Form 1118 and schedules if they conform to the IRS version. However, if a software program is used, it must be approved by the IRS for use in filing substitute forms. This ensures the proper placement of each item appearing on the IRS version. For more information, see Pub. 1167, General Rules and Specifications for Substitute Forms and Schedules.

## How To Complete Form 1118

**Important.** Complete a separate Schedule A; Schedule B, Parts I & II; Schedules C through G; Schedule I; and Schedule K for each applicable separate category of income. See [Categories of Income](#), later. Complete Schedule B, Part III; Schedule H; and Schedule J only once.

- Use **Schedule A** to compute the corporation's income or loss before adjustments for each applicable category of income.
- Use **Schedule B** to determine the total foreign tax credit after certain reductions.
- Use **Schedule C** to compute taxes deemed paid by the domestic corporation filing the return with respect to inclusions under section 951(a)(1) in post-2017 foreign corporate tax years.
- Use **Schedule D** to compute taxes deemed paid by the domestic corporation filing the return with respect to inclusions under section 951A in post-2017 foreign corporate tax years.
- Use **Schedule E** to compute taxes deemed paid by the domestic corporation filing the return with respect to distributions of previously taxed income (also referred to as previously taxed earnings and profits (PTEP)).
- Use **Schedule F-1** to compute taxes deemed paid by the domestic corporation filing the return with

respect to dividends paid and inclusions with respect to pre-2018 foreign corporate tax years.

- Use **Schedules F-2 and F-3** to compute taxes deemed paid by first- and lower-tier foreign corporations with respect to dividends paid with respect to pre-2018 foreign corporate tax years.
- Use **Schedule G** to report required reductions of tax paid, accrued, or deemed paid.
- Use **Schedule H** to apportion deductions that cannot be allocated to an item or class of income identified on Schedule A.
- Use **Schedule I** (a separate schedule) to compute reductions of taxes paid, accrued, or deemed paid on foreign oil and gas income.
- Use **Schedule J** (a separate schedule) to compute adjustments to separate limitation income or losses in determining the numerators of limitation fractions, year-end recharacterization balances, and overall foreign and domestic loss account balances.
- Use **Schedule K** (a separate schedule) to reconcile the corporation's prior year foreign tax carryover with its current year foreign tax carryover.

## Categories of Income

Compute a separate foreign tax credit (using a separate Form 1118) for each applicable separate category described below. Enter the applicable code from the table below in item a at the top of page 1 of Form 1118 to indicate the separate category with respect to which you are completing a given Form 1118.

Code	Category of Income
951A	Section 951A Category Income
FB	Foreign Branch Category Income
PAS	Passive Category Income
901j	Section 901(j) Income
RBT	Income Re-Sourced by Treaty
GEN	General Category Income

If you enter code "901j" or code "RBT" in item a, also complete item b or item c using the country codes provided at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes).

## Section 951A Category Income

Section 951A category income is any amount of global low-taxed intangible income (GILTI) includible in gross income under section 951A (other than passive category income). Section 951A defines GILTI.

- When completing a Form 1118 for section 951A category income, enter the code "951A" on line a at the top of page 1.
- Section 951A category income does not include passive category income.
- Section 951A category income is effective in post-2017 foreign corporate tax years.

## Foreign Branch Category Income

Foreign branch income is defined under section 904(d)(2)(J)(i) as the business profits of a U.S. person which are attributable to one or more qualified business units (QBUs) (as defined in section 989(a)) in one or more foreign countries. For more information on the computation of foreign branch category income, see Regulations section 1.904-4(f).

- When completing a Form 1118 for foreign branch category income, enter the code "FB" on line a at the top of page 1.
- Foreign branch category income does not include passive category income.
- Foreign branch category income is effective for tax years of U.S. persons beginning after December 31, 2017.

## Passive Category Income

Passive category income includes passive income and specified passive category income. When completing a Form 1118 for passive category income, enter the code "PAS" on line a at the top of page 1.

**Passive income.** Generally, passive income is the following.

- Any income received or accrued that would be foreign personal holding company income (defined in section 954(c)) if the corporation were a controlled foreign corporation (CFC) (defined in section 957). This includes any gain on the sale or exchange of stock that is more than the amount treated as a dividend under section 1248. However, in determining if any income would be foreign personal holding company income, the rules of

section 864(d)(6) will apply only for income of a CFC.

- Any amount includible in gross income under section 1293 (which relates to certain passive foreign investment companies (PFICs)).

Passive income does **not** include:

- Any financial services income,
- Any export financing interest unless it is also related person factoring income (see section 904(d)(2)(G) and Regulations section 1.904-4(h)(3)),
- Any high-taxed income, or
- Any active rents or royalties. See Regulations section 1.904-4(b)(2)(iii) for definitions and exceptions.

**Note.** Certain income received from a CFC and certain dividends from noncontrolled 10%-owned foreign corporations that would otherwise be passive income are treated as passive category income only to the extent provided under the look-through rules. See [Look-Through Rules](#), later.

#### **Specified passive category income.**

This term includes:

- Dividends from a domestic international sales corporation (DISC) or former DISC (as defined in section 992(a)) to the extent such dividends are treated as foreign source income, and
- Distributions from a former foreign sales corporation (FSC) out of earnings and profits attributable to foreign trade income or interest or carrying charges (as defined in section 927(d)(1), before its repeal) derived from a transaction which results in foreign trade income (as defined in section 932(b), before its repeal).

#### **Section 901(j) Income**

No credit is allowed for foreign taxes imposed by and paid or accrued to certain sanctioned countries. However, a foreign tax credit may be claimed for foreign taxes paid or accrued with respect to section 901(j) income if such tax is paid or accrued to a country other than a sanctioned country.

Income derived from **each** sanctioned country is subject to a separate foreign tax credit limitation. Therefore, the corporation must use a separate Form 1118 for income derived from each such country.

On each Form 1118, enter the code "901j" on line a at the top of

page 1 and identify the applicable country using the two-letter codes (from the list at [IRS.gov/CountryCodes](#)).

Sanctioned countries are those designated by the Secretary of State as countries that repeatedly provide support for acts of international terrorism, countries with which the United States does not have diplomatic relations, or countries whose governments are not recognized by the United States. As of the date these instructions were revised, section 901(j) applied to income derived from Iran, North Korea, Sudan, and Syria. For more information, see section 901(j).

**Note.** Effective December 22, 2015, Cuba is no longer a sanctioned country.

**Note.** The President of the United States has the authority to waive the application of section 901(j) with respect to a foreign country if it is (a) in the national interest of the United States and will expand trade and investment opportunities for domestic companies in such foreign country, and (b) the President reports to the Congress, not less than 30 days before the waiver is granted, the intention to grant such a waiver and the reason for such waiver.

**Note.** Effective December 10, 2004, the President waived the application of section 901(j) with respect to Libya.

**Note.** Taxpayers will complete one Schedule H (Form 965), Inclusion of Deferred Foreign Income Upon Transition to Participation Exemption System, with respect to income derived from all sanctioned countries. However, a separate Form 1118 must be completed with respect to section 965 inclusions attributable to each sanctioned country.

#### **Income Re-Sourced by Treaty**

If a sourcing rule in an applicable income tax treaty treats any U.S. source income as foreign source, and the corporation elects to apply the treaty, the income will be treated as foreign source.

**Important.** The corporation must compute a separate foreign tax credit limitation for any such income for which it claims benefits under a treaty.

See Regulations sections 1.904-4(k) and 1.904-5(m)(7) for grouping rules and exceptions. On each Form 1118, enter the code "RBT" for income re-sourced by treaty on line a at the top of page 1 and identify the applicable country using the two-letter codes (from the list at [IRS.gov/CountryCodes](#)).

**Note.** U.S. source section 965 inclusions will not be reported on Schedule H of the Form 965. If a taxpayer elects to treat such inclusions as foreign source income under a treaty, use a separate Form 1118 for each amount of re-sourced section 965 inclusion from a treaty country.

#### **General Category Income**

This category includes all income not described above. When completing a Form 1118 for the general category of income, enter code "GEN" on line a at the top of page 1. This category includes high-taxed income that is not otherwise treated as another category of income. Usually, income is high taxed if the total foreign income taxes paid, accrued, or deemed paid by the corporation for that income exceed the highest rate of tax specified in section 11 (and with reference to section 15, if applicable), multiplied by the amount of such income (including the amount treated as a dividend under section 78). For more information, see Regulations section 1.904-4(c). Also see the instructions for Schedule A, later, for additional reporting requirements.

This category also includes financial services income (defined below) not described above if the corporation is a member of a financial services group (as defined in section 904(d)(2)(C)(ii)) or is predominantly engaged in the active conduct of a banking, insurance, financing, or similar business.

#### **Financial services income.**

Financial services income is income received or accrued by a member of a financial services group or any corporation predominantly engaged in the active conduct of a banking, insurance, financing, or similar business if the income is:

- Described in section 904(d)(2)(D)(ii),

- Passive income (determined without regard to section 904(d)(2)(B)(iii)(II)), or
- Incidental income described in Regulations section 1.904-4(e)(4).

**Note.** If the corporation qualified as a financial services entity because it treated certain amounts as active financing income that are not listed in Regulations sections 1.904-4(e)(2)(i)(A) through (X), but that are described as similar items in Regulations section 1.904-4(e)(2)(i)(Y), attach a statement to Form 1118 showing the types and amounts of the similar items.

## Special Rules

### Source Rules for Income

Determine income or (loss) for each separate category on Schedule A using the general source rules of sections 861 through 865 and related regulations, the special source rules of section 904(h) described below, and any applicable source rules contained in any applicable tax treaties.

**Special source rules of section 904(h).** Usually, the following income from a U.S.-owned foreign corporation, otherwise treated as foreign source income, must be treated as U.S. source income under section 904(h).

- Any subpart F income, foreign personal holding company income, GILTI, or income from a qualified electing fund that a U.S. shareholder is required to include in its gross income if such amount is attributable to the U.S.-owned foreign corporation's U.S. source income.
- Interest that is properly allocable to the U.S.-owned foreign corporation's U.S. source income.
- Dividends equal to the U.S. source ratio (defined in section 904(h)(4)(B)).

The rules regarding interest and dividends described above do not apply to a U.S.-owned foreign corporation if less than 10% of its earnings and profits (E&P) for the tax year is from U.S. sources.

### Amounts That Do Not Constitute Income Under U.S. Tax Principles

Creditable foreign taxes that are imposed on amounts that do not constitute income under U.S. tax principles are treated as imposed on

income described in section 904(d)(1)(B). See section 904(d)(2)(H).

### Look-Through Rules

**CFCs.** Generally, dividends, interest, rents, and royalties received or accrued by the taxpayer are passive category income. However, if these items are received or accrued by a 10% U.S. shareholder from a CFC, they may be assigned to other separate categories, or may be treated as passive category income under the look-through rules of section 904(d)(3). Dividends include any amount included in gross income under section 951(a)(1)(B).

Look-through rules also apply to subpart F inclusions under section 951(a)(1)(A) and GILTI inclusions under section 951A(a) to the extent attributable to income of the CFC in the passive category.

For more information and examples, see section 904(d)(3) and Regulations section 1.904-5.

**Noncontrolled 10%-Owned Foreign Corporations.** Generally, dividends received or accrued by the taxpayer are passive category income. However, dividends received or accrued from a noncontrolled 10%-owned foreign corporation may be assigned to other separate categories under the look-through rules of section 904(d)(4).

**Certain amounts paid by a domestic corporation to a related corporation.** Look-through rules also apply to foreign source interest, rents, and royalties paid by a domestic corporation to a related corporation. See Regulations section 1.904-5(g).

### Other Rules

**Certain transfers of intangible property.** See section 367(d)(2)(C) for a rule that clarifies the treatment of certain transfers of intangible property.

### Reporting Foreign Tax Information From Partnerships

If you received a Schedule K-1 from a partnership that includes foreign tax information, use the rules below to report that information on Form 1118.

**Gross income sourced at partner level.** This includes income from the sale of most personal property other than inventory, depreciable property,

and certain intangible property sourced under section 865. This gross income will generally be U.S. source and therefore will not be reported on Form 1118.

The remaining lines of the foreign tax section of the Schedule K-1 are reported on Form 1118 as follows.

**Foreign gross income sourced at partnership level.** Report on Schedule A.

**Deductions allocated and apportioned at partner level and partnership level.** Report on Schedule A or Schedule H.

**Total foreign taxes paid or accrued.** Report on Schedule B.

**Reduction in taxes available for credit.** Report on Schedule G.

### Capital Gains

Foreign source taxable income or (loss) before adjustments in all separate categories in the aggregate should include gain from the sale or exchange of capital assets only up to the amount of foreign source capital gain net income (which is the smaller of capital gain net income from sources outside the United States or capital gain net income). Therefore, if the corporation has capital gain net income from sources outside the United States in excess of the capital gain net income reported on its tax return, enter a pro rata portion of the net U.S. source capital loss as a negative number on Schedule A, column 14(h), for each separate category with capital gain net income from sources outside the United States. To figure the pro rata portion of the net U.S. source capital loss attributable to a separate category, multiply the net U.S. source capital loss by the amount of capital gain net income from sources outside the United States in the separate category divided by the aggregate amount of capital gain net income from sources outside the United States in all separate categories with capital gain net income from sources outside the United States.

See section 904(b)(2)(B) for special rules regarding adjustments to account for capital gain rate differentials (as defined in section 904(b)(3)(D)) for any tax year. At the time these instructions went to print,

there was no capital gain rate differential for corporations.

## Credit Limitations

### Taxes Eligible for a Credit

**Domestic corporations.** Generally, a domestic corporation may claim a foreign tax credit (subject to the limitation of section 904) for the following taxes.

- Income, war profits, and excess profits taxes (defined in Regulations section 1.901-2(a)) paid or accrued during the tax year to any foreign country or U.S. possession.
- Taxes deemed paid under sections 902 (for pre-2018 foreign corporate tax years) and 960.
- Taxes paid in lieu of income taxes as described in section 903 and Regulations section 1.903-1.

Some foreign taxes that are otherwise eligible for the foreign tax credit must be reduced. These reductions are reported on Schedule G.

**Note.** A corporation may not claim a foreign tax credit for foreign taxes paid to a foreign country that the corporation does not legally owe, including amounts eligible for refund by the foreign country. If the corporation does not exercise its available remedies to reduce the amount of foreign tax to what it legally owes, a credit is not allowed for the excess amount.

**Foreign corporations.** Foreign corporations are allowed (under section 906) a foreign tax credit for income, war profits, and excess profits taxes paid or accrued (or deemed paid under section 902 (for pre-2018 foreign corporate tax years)) to any foreign country or U.S. possession for income effectively connected with the conduct of a trade or business within the United States. The credit is not applicable, however, if a foreign country or U.S. possession imposes the tax on income from U.S. sources solely because the foreign corporation was created or organized under the law of the foreign country or U.S. possession or is domiciled there for tax purposes.

The credit may not be taken against any tax imposed on income not effectively connected with a U.S. business.

In computing the foreign tax credit limitation, the foreign corporation's taxable income includes only the taxable income that is effectively connected with the conduct of a trade or business within the United States.

For pre-2018 foreign corporate tax years, a foreign corporation claiming a foreign tax credit will be treated as a domestic corporation in computing tax deemed paid (section 902(a)) and dividend gross-up (section 78).

### **Definition of foreign corporation for purposes of the deemed paid credit.**

In computing the deemed paid credit on Schedules F-1 through F-3, the term "foreign corporation" includes:

- A DISC or former DISC, but only for dividends from the DISC or former DISC that are treated as income from sources outside the United States; and
- A contiguous country life insurance branch that has made an election to be treated as a foreign corporation under section 814(g).

### **Credit or Deduction**

A corporation may choose to take either a credit or a deduction for eligible foreign taxes paid or accrued. The choice is made annually. Generally, if a corporation elects the benefits of the foreign tax credit for any tax year, no portion of the foreign taxes will be allowed as a deduction in that year or any subsequent tax year.

**Exceptions.** However, a corporation that elects the credit for eligible foreign taxes may be allowed a deduction for certain taxes for which a credit was not allowed. These include the following.

- Taxes for which the credit was denied because of the boycott provisions of section 908.
- Certain taxes on the purchase or sale of oil or gas (section 901(f)).
- Certain taxes used to provide subsidies (section 901(i)).
- Taxes paid to certain foreign countries for which a credit was denied under section 901(j).
- Certain taxes paid on dividends if the minimum holding period is not met with respect to the underlying stock, or if the corporation is obligated to make related payments with respect to positions in similar or related property (section 901(k)).

- Certain taxes paid on gain and income other than dividends if the minimum holding period is not met with respect to the underlying property, or if the corporation is obligated to make related payments with respect to positions in similar or related property (see section 901(l)).
- In the case of a covered asset acquisition (as defined in section 901(m)(2)), the disqualified portion of any tax determined with respect to the income or gain attributable to the relevant foreign assets (section 901(m)). **Note.** This rule generally applies to covered asset acquisitions after December 31, 2010. See Temporary and Proposed Regulations sections 1.901(m)-1 through 1.901(m)-8 for additional information. Note that the rules contained in these regulations have later effective dates.

### **No Credit or Deduction**

No foreign tax credit (or deduction) is allowed for certain taxes including:

- Taxes on mineral income that were reduced under section 901(e).
- Certain taxes paid on distributions from possessions corporations (section 901(g)).
- Taxes on combined foreign oil and gas income that were reduced under section 907(a).
- Taxes attributable to income excluded under section 814(a) (relating to contiguous country branches of domestic life insurance companies).
- Taxes paid or accrued to a foreign country or U.S. possession with respect to income excluded from gross income on Form 8873, Extraterritorial Income Exclusion. However, see section 943(d) for an exception for certain withholding taxes.
- The applicable percentage of taxes paid or deemed paid with respect to an amount included in income under section 965 (section 965(g)).
- Taxes paid with respect to the amount treated as included under section 965(b).

### **Carryback and Carryforward of Excess Foreign Taxes**

If the allowable foreign taxes paid, accrued, or deemed paid in a tax year in a separate category exceed the foreign tax credit limitation for the tax year for that separate category, the excess is:

- First, carried back 1 year to offset taxes imposed in the same category, then
- Carried forward 10 years to offset taxes imposed in the same category.

The excess is applied first to the earliest of the years to which it may be carried, then to the next earliest year, etc. The corporation may not carry a credit to a tax year for which it claimed a deduction, rather than a credit, for foreign taxes paid or accrued. Furthermore, the corporation must reduce the amount of any carryback or carryforward by the amount it would have used if it had chosen to claim a credit rather than a deduction in that tax year. These carryover provisions do not apply to foreign taxes assigned to section 951A category income. See section 904(c) and Regulations section 1.904-2 for more details.

**How to claim the excess credit.** If the corporation is carrying back the excess credit to an earlier year, file an amended tax return with a revised Form 1118 and schedules (including a revised Schedule K (Form 1118)).

Special rules apply to:

- The carryback and carryforward of foreign taxes paid or accrued on combined foreign oil and gas income or related taxes (see section 907(f)).
- An excess foreign tax credit for which an excess limitation account was established under section 960(b)(2) (pre-2018 foreign corporate tax years) and section 960(c)(2) (post-2017 foreign corporate tax years). See Regulations sections 1.960-4 through 1.960-6.
- Carryback of foreign taxes paid or accrued in post-2017 foreign corporate tax years and carryforward of foreign taxes paid or accrued in pre-2018 foreign corporate tax years. See Regulations section 1.904-2(j).

## Treaty-Based Return Positions

Corporations that adopt a return position that any U.S. treaty overrides or modifies any provision of the Internal Revenue Code, and causes (or potentially causes) a reduction of any tax incurred at any time, must generally disclose this position. Complete Form 8833, Treaty-Based Return Position Disclosure Under Section 6114 or Section 7701(b), and attach it to Form 1118. See section

6114 and Regulations section 301.6114-1 for details.

Failure to make such a report may result in a \$10,000 penalty.

## Proof of Credits

Form 1118 must be carefully filled in with all the information called for and with the calculations of credits indicated.

**Important.** Documentation (that is, receipts of payments or a foreign tax return for accrued taxes) is not required to be attached to Form 1118. However, proof **must** be presented upon request by the IRS to substantiate the credit. See Regulations section 1.905-2.

If the corporation claims a foreign tax credit for tax accrued but not paid, the IRS may require a bond to be furnished on Form 1117, Income Tax Surety Bond, before the credit is allowed. See Regulations section 1.905-2(c).

## Foreign Tax Redeterminations

The corporation's foreign tax credit and U.S. tax liability must generally be redetermined if:

- Accrued foreign taxes when paid differ from the amounts claimed as credits,
- Accrued foreign taxes are not paid within 2 years after the close of the tax year to which they relate, or
- Any foreign tax paid is fully or partially refunded. See also Regulations section 1.905-3(b)(1)(i).

See Regulations section 1.905-3(b)(1)(i) for a limited exception to a redetermination of a U.S. tax liability with respect to foreign income tax claimed as a credit under section 901 (other than a tax deemed paid under section 960). In such case, an appropriate adjustment is made to the taxpayer's U.S. tax liability in the tax year during which the foreign tax redeterminations occur.

A redetermination of U.S. tax liability is also generally required to account for the effect of a redetermination of foreign tax paid or accrued by a foreign corporation on the amount of foreign taxes deemed paid under section 902 (for pre-2018 foreign corporate tax years) or section 960. See Proposed Regulations sections 1.905-3 through 1.905-5.

## Reporting Requirements

If the corporation must redetermine its U.S. tax liability, the corporation must generally file an amended return and Form 1118 and attach a statement that provides the following.

- The taxpayer's name, address, identifying number, the tax year or years of the taxpayer that are affected by the foreign tax redetermination, and, in the case of foreign taxes deemed paid, the name and identifying number, if any, of the foreign corporation.
- The date or dates the foreign income taxes were accrued, if applicable.
- The date or dates the foreign income taxes were paid.
- The amount of foreign income taxes paid or accrued on each date (in foreign currency) and the exchange rate used to translate each such amount.
- Information sufficient to determine any change to the characterization of a distribution or the amount of any inclusion under section 951(a), 951A, 1291, or 1293.
- Information sufficient to determine any interest due from or owing to the taxpayer, including the amount of any interest paid by the foreign government to the taxpayer and the dates received.

## Additional Information Required

If the redetermination was because of one of the following, the corporation must provide the additional information as indicated.

### Refund of foreign taxes paid.

- The date of each such refund.
- The amount of such refund (in foreign currency).
- The exchange rate that was used to translate such amount when originally claimed as a credit.
- The spot rate (as defined in Regulations section 1.988-1(d)) for the date the refund was received (for purposes of computing foreign currency gain or loss under section 988).

### Accrued foreign income taxes that are not paid on or before the date that is 24 months after the close of the tax year to which such taxes relate.

- The amount of such taxes in foreign currency.

- The exchange rate that was used to translate such amount when originally claimed as a credit or added to post-1986 foreign income taxes or PTEP group taxes (as defined in Regulations section 1.960-3(d)(1)).

**Redetermination of U.S. tax liability results in an amount of additional tax due, and the carryback or carryover of an unused foreign income tax under section 904(c) only partially eliminates such amount.** The information required in Regulations section 1.904-2(f).

**Foreign tax redeterminations of foreign corporations that relate to tax years of the foreign corporation beginning before January 1, 2018.** Provide the additional information listed under both categories below, as applicable.

**Post-1986 pools of earnings and taxes of foreign corporations.**

- The closing balances of the pools of post-1986 undistributed earnings and post-1986 foreign income taxes for each affected year before and after adjusting the pools to account for the foreign tax redetermination.
- The dates and amounts of any dividend distributions or other inclusions made out of post-1986 undistributed earnings for the affected year or years.

**Pre-1987 accumulated profits of foreign corporations.**

- The dates and amounts of any dividend distributions or other inclusions made out of E&P for the affected year or years.
- The rate of exchange on the date of any such distribution or inclusion.
- The amount of E&P from which such dividends were paid or inclusions were made for the affected year or years.

See Regulations sections 1.986(a)-1 and 1.905-3 and Proposed Regulations sections 1.905-3 through 1.905-5 for further information regarding redeterminations and the required notification.

For special rules relating to corporations under the jurisdiction of the Large Business & International Division, see Proposed Regulations section 1.905-4.

**Interest and Penalties**

In most cases, interest is computed on the deficiency or overpayment that

resulted from the foreign tax adjustment (sections 6601 and 6611 and the related regulations). See Proposed Regulations section 1.905-4(e) for additional information.

If the corporation does not comply with the requirements discussed above within the time for filing specified, the penalty provisions of section 6689 (and the related regulations) will apply.

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**Specific Instructions**

Report all amounts in U.S. dollars unless otherwise specified. If it is necessary to convert from a foreign currency, attach a statement explaining how the conversion rate was determined.

**Lines a, b, and c at the top of page 1 of the form.** The corporation must complete a separate Form 1118 for each applicable category of income. See [Categories of Income](#), earlier, for the code to enter on line a (at the top of page 1 of the form). Also see those instructions for the country code to enter on line b or line c, if applicable.

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**Schedule A**

Report gross income from sources outside the United States for the applicable separate category in columns 3(a) through 12. Report the applicable deductions to this gross income in columns 14 and 15. Report any net operating loss carryover in column 16.

**Column 1.** Column 1 requests an employer identification number (EIN) or a reference ID number for related persons or their QBUs from or through which the corporation derived foreign source income and/or paid or accrued creditable foreign taxes.

**Identifying Numbers**

Where gross income is derived from a related person (within the meaning of section 267(b) or 707(b)), enter the EIN or reference ID number of such related person. In the case of income derived from a QBU of the related person, enter the EIN or reference ID number of the QBU. Enter the EIN or reference ID number of related entities and their QBUs through which the corporation paid or accrued creditable foreign taxes, even if no income from these entities is reported

on Schedule A. If gross income is received or derived from an entity other than a related person, an EIN or reference ID number is not required.

**Example 1.** Domestic Corporation earns sales income from sales to unrelated persons. Domestic Corporation leaves column 1 blank and enters the sales income in column 7.

**Example 2.** USC, a domestic corporation, takes into account its distributive share of partnership income with respect to USPS, a domestic partnership in which USC has a 60% interest. In column 1, USC enters the identifying number for USPS.

**Reference ID numbers.** A reference ID number is required in column 1 when a related person has no EIN. A "reference ID number" is a number established by or on behalf of the domestic corporation filing Form 1118. With respect to Schedule A, these numbers are used to uniquely identify the payor with respect to payments from related persons, in order to determine the proper source of such payment. With respect to schedules C through F-3, these numbers are used to uniquely identify foreign corporations in order to keep track of those corporations from tax year to tax year. The reference ID number must meet the requirements set forth below.

**Note.** Because reference ID numbers are established by or on behalf of the U.S. corporation filing certain forms such as the Form 1118, there is no need to apply to the IRS to request a reference ID number or for permission to use these numbers.

**Requirements.** The reference ID number must be alphanumeric (defined below) and no special characters or spaces are permitted. The length of a given reference ID number is limited to 50 characters.

For these purposes, the term "alphanumeric" means the entry can be alphabetical, numeric, or any combination of the two.

The same reference ID number must be used consistently from tax year to tax year with respect to a given entity. If for any reason a reference ID number falls out of use (for example, the entity no longer exists due to

disposition or liquidation), the reference ID number used for that entity cannot be used again for another entity for purposes of filing Form 1118.

There are some situations that require correlation of a new reference ID number with a previous reference ID number when assigning a new reference ID number to an entity. For example:

- In the case of a merger or acquisition, a Form 1118 filer must use a reference ID number which correlates the previous reference ID number with the new reference ID number assigned to the entity.
- In the case of an entity classification election that is made on behalf of a foreign corporation on Form 8832, Regulations section 301.6109-1(b)(2)(v) requires the foreign corporation to have an EIN for this election. For the first year that Form 1118 is filed after an entity classification election is made on behalf of the foreign corporation on Form 8832, both the new EIN and the old reference ID number must be entered in column 1, as explained in the next paragraph.

You must correlate the identifying numbers as follows: New EIN or reference ID number [space] Old reference ID number. If there is more than one old reference ID number, you must enter a space between each such number. As indicated above, the length of a given reference ID number is limited to 50 characters and each number must be alphanumeric and no special characters are permitted.

**Note.** This correlation requirement applies only to the first year the new reference ID number is used.

**Branches.** For each branch that is not a foreign branch as defined under Regulations section 1.904-4(f)(3)(vii), use a single line to report such branch's gross income and deductions. In column 1, enter "Branch." If there is more than one branch, enter the identifying number of the branch (as reported in Form 8858) after the word "Branch" on each line. These amounts should be reported on a Form 1118 other than the Form 1118 for the foreign branch income category.

**Example.** USC, a domestic corporation, has a branch in Country

X. The activities of the branch do not constitute a trade or business. In column 1, USC enters the word "Branch." USC will report the income and expenses of the branch in the appropriate columns.

See below with respect to QBUs that are foreign branches as defined under Regulations section 1.904-4(f)(3)(vii).

**Column 2.** Enter the two-letter codes (from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes)) of each foreign country and U.S. possession within which income is sourced and/or to which taxes were paid or accrued.

**Note.** Complete this column with respect to all income regardless of whether such income is from a related person.

**Special Cases for Columns 1 and 2**

Except as otherwise instructed below, income of a U.S. shareholder with respect to the same related person but from multiple sources should be reported on a country-by-country basis.

**Example.** USC, a domestic corporation, has employees who perform services in Country X and Country Y for the same related person. The related person has a reference ID number of 1000016. USC earns gross income of \$10 with respect to services performed for the related person in Country X and USC earns gross income of \$15 with respect to services performed for the related person in Country Y. The two-letter country code for Country X is XX and the two-letter country code for Country Y is YY. On Schedule A, USC reports as follows.

USC makes the following entries on the first of two lines on Schedule A.

Column	Entry
1	1000016
2	XX
8	10

USC makes the following entries on the second of two lines on Schedule A.

Column	Entry
1	1000016
2	YY
8	15

**Qualified business units (QBUs).**

For branches that are QBUs, use a single line to report the aggregate branches' gross income and deductions. Report aggregated totals on a per-country basis. In column 1, enter "QBU" and enter the country code in column 2. These amounts should be reported on Form 1118 for foreign branch category income or passive category income.

**Exception.** If a QBU makes a regarded payment to a related person, use a single line for such QBU to report its income and deductions. In column 1, enter the identifying number of the QBU, and, in column 2, enter the country code.

**Section 863(b) gross income and deductions.**

Aggregate all section 863(b) foreign source gross income and deductions and report the totals on a single line. It may be necessary to enter amounts in multiple columns on that single line, depending upon the nature of the section 863(b) gross income and deductions. For example, leave column 1 blank, enter "863(b)" in column 2, and enter (as a positive number) all section 863(b) gross income (in columns 3 through 13) and all section 863(b) deductions (in columns 14 through 17). Also enter the net amount in column 18. Note that the totals are being reported on a single line because it is not necessary to report section 863(b) gross income and deductions on a per-country basis.

**Regulated investment company (RIC) pass-through amounts.**

Aggregate all income passed through from RICs and report the total on a single line. Leave column 1 blank, enter "RIC" in column 2, and report the total in column 18. Note that the totals are being reported on a single line because it is not necessary to report the RIC pass-through amounts on a per-country basis.

**Net operating losses (NOLs).**

Report any NOL carryover on a single line. Leave column 1 blank, enter "NOL" in column 2, and report the



total in column 16. Note that the totals are being reported on a single line because it is not necessary to report the NOL on a per-country basis.

**Reclassifications of high-taxed income.** Aggregate all reclassifications of high-taxed income and report the total on a single line. With respect to passive category income, for items of income that have been included on Schedule A and that must be reclassified under sections 904(d)(2)(B)(iii)(II) and 904(d)(2)(F), leave column 1 blank and enter "HTKO" in column 2 and enter (as a negative number) in column 18 the net amount of income that is being reclassified from passive category income. With respect to the category of income to which such passive income is reclassified, leave column 1 blank, enter "HTKO" in column 2, and enter (as a positive number) in column 18 the net amount of income that is being reclassified to such category of income. Note that the reclassifications are being reported on a single line because it is not necessary to report them on a per-country basis. Also note that tax reclassifications are needed on Schedule B. See those instructions for more information.

**Inclusions under sections 951A and 965.** Because computations for inclusions under sections 951A and 965 are reported on separate forms, Form 8892, Global Intangible Low-Taxed Income, and Form 965, Inclusion of Deferred Foreign Income Upon Transition to Participation Exemption System, respectively, report the inclusion under section 951A on a single line and the aggregate section 965 inclusions on a single line. Specifically, there is no need to report the identifying numbers and various countries associated with an inclusion under either section 951A or section 965 on Form 1118.

For inclusions under section 951A, enter "951A" in column 2 instead of a two-letter code. Leave column 1 blank.

For inclusions under section 965, enter "965" in column 2 instead of a two-letter code. Leave column 1 blank.

**Column 3(a).** Report all inclusions under sections 951(a)(1) (including amounts under section 951(a)(1)(B), section 964(e)(4), and section 965)

and 951A (before gross-up). See section 904(d)(3) and [Look-Through Rules](#), earlier, for more information with respect to the separate category of such inclusions. For each inclusion under section 951(a)(1) (except for section 965 inclusions) with respect to a CFC, make sure to enter the appropriate identifying number in column 1 and the country of residence of the CFC in column 2.

**Note.** Under the Act, inclusions under section 951(a)(1) now include hybrid dividends received by a CFC from another CFC of the same U.S. shareholder. See section 964(e)(4).

**Note.** For the section 965 inclusions with respect to a separate category, enter the amount reported on line 3 of the domestic corporation's Schedule H (Form 965), Section 1.

Do not report the inclusion under section 965(a) net of the deduction allowed under section 965(c). Furthermore, do not report the inclusion under section 951A net of the deduction allowed under section 250. The deduction under section 965(c) and the deduction under section 250 are taken into account in Schedule A, columns 14(h) and (c), respectively.

If the corporation is a U.S. shareholder in a PFIC that is a qualified electing fund, report all income deemed received (before gross-up) under section 1293.

**Column 4(a).** Report dividends (before gross-up) from sources outside the United States for the applicable separate category. This includes dividends eligible for the dividends received deduction under section 245A. Note that hybrid dividends are not eligible for the dividends received deduction.

**Note.** In general, dividends from a domestic corporation are U.S. source income, including dividends from a domestic corporation which has 80% or more of its gross income from sources outside the United States.

**Columns 3(b) and 4(b).** In column 3(b), include taxes deemed paid by a domestic corporation with respect to inclusions under section 951(a)(1) and section 951A as gross-ups. For inclusions under section 951(a)(1) with respect to pre-2018 foreign

corporate tax years, the gross-up is equal to the foreign taxes deemed paid with respect to such inclusions as reported in Schedule F-1. For inclusions under section 951(a)(1) in post-2017 foreign corporate tax years, the gross-up is the taxes deemed paid as reported in the total of Schedule C, column 7. The gross-up for inclusions under section 951A is the amount computed in Schedule D, Part II, column 3.

Include taxes deemed paid with respect to an inclusion under section 965 as a gross-up. This is the amount reported on line 9 of Schedule H (Form 965), Section 1, reduced as provided in section 965(g)(4).

In column 4(b), include taxes deemed paid by a domestic corporation under section 902 on distributions in a pre-2018 foreign corporate tax year by certain foreign corporations in income as a dividend gross-up. The gross-up is equal to taxes deemed paid with respect to dividends reported on Schedule F-1.

**Column 5.** Enter interest received from foreign sources. See section 861(c) for the treatment of interest from a domestic corporation that meets the foreign business requirement.

**Column 7.** Include foreign source gross income from sales (net of returns and allowances and less costs of goods sold). Include the foreign source portion of section 863(b) sales in this column.

**Column 8.** Include gross income, including compensation, commissions, fees, etc., for technical, managerial, engineering, construction, scientific, or similar services outside the United States.

**Column 9.** Include any foreign source exchange gain recognized under section 986(c) on a distribution of PTEP.



*Although the headings for Schedule A, columns 9, 10, and 11, contain the words "or loss," do not enter any foreign source exchange loss amounts in columns 9, 10, and 11. Instead, enter these amounts in Schedule A, column 14(h), or Schedule H, Part II, column (c) (which may carry over to Schedule A, column 15), as applicable.*

**Column 10.** Include any foreign source exchange gain recognized under section 987(3) on a remittance from a QBU.

**Column 11.** Include any foreign source exchange gain recognized under section 988.

**Note.** Section 988 exchange gain or loss is sourced by reference to the residence of the taxpayer or the QBU of the taxpayer on whose books the nonfunctional currency asset or liability is properly reflected.

**Column 12.** Include other gross income from sources outside the United States for the applicable separate category. Attach a schedule identifying the gross income by type.

**Column 14(a).** Enter the dividends received deduction allowed on foreign source dividends under section 245A. This should be equal to the amount reported in Schedule A, column 4(a), if all such dividend income was paid after December 31, 2017, and is eligible for the dividends received deduction.

**Note.** Certain hybrid dividends are not eligible for the dividends received deduction under section 245A. See section 245A(e)(1).

**Note.** An amount treated as a dividend under section 1291(d)(2)(B) (related to PFICs) is ineligible for the dividends received deduction. See section 245A(f).

**Column 14(b).** Enter the deduction allowed under section 250(a)(1)(A) with respect to foreign derived intangible income, taking into account the other provisions of section 250, that is allocated and apportioned to foreign source income in the applicable separate category of income.

**Column 14(c).** Enter the deduction allowed under section 250(a)(1)(B) with respect to Global Intangible Low-Taxed Income (section 951A inclusion), taking into account the other provisions of section 250, that is allocated and apportioned to foreign source income in the applicable separate category of income.

**Column 14(d).** Enter the depreciation, depletion, and amortization deductions related to rental, royalty, and licensing expenses

that are allocated and apportioned to foreign source income in the applicable separate category of income.

**Column 14(e).** Enter the other allocable expenses related to rental, royalty, and licensing expenses that are allocated and apportioned to foreign source income in the applicable separate category of income.

**Column 14(f).** Enter expenses allocable to gross income from sales that are allocated and apportioned to foreign source income in the applicable separate category of income (the amount entered in column 7).

**Column 14(g).** Enter expenses allocable to gross income from performance of services that are allocated and apportioned to foreign source income in the applicable separate category of income (the amount entered in column 8).

**Column 14(h).** Include other deductions allocable to income from sources outside the United States (dividends, interest, etc.) for the applicable separate category that are not otherwise included in Schedule H.

Include any reduction of foreign source capital gain net income. If foreign source capital gain net income from all separate categories is more than the capital gain net income reported on the corporation's tax return, enter a pro rata portion of the excess as a negative number in each separate category. See [Capital Gains](#), earlier.

As indicated in the "Caution" in the instructions for Schedule A, column 9, earlier, also include in column 14(h) foreign source exchange loss amounts under sections 986(c), 987, and 988 that are allocated to foreign source income in the applicable separate category of income.

In column 14(h), do not include other expenses directly allocable to dividends eligible for the dividends received deduction under section 245A. Such directly allocable expenses may include wire transfer, currency exchange, and similar fees incurred in connection with the payment of dividends eligible for the dividends received deduction under section 245A. These expenses

reduce taxable income, but are not taken into account in computing the foreign tax credit limitation. See section 904(b)(4).

**Column 15.** Enter only the apportioned share from the applicable portion of line 3 (that corresponds to the category of income for which the corporation is completing Form 1118) of Schedule H, Part II, column (d), that relates to gross income reported in columns 3 through 12.

It is not necessary to report the apportioned expenses on a related-person or per-country basis. Therefore, only enter an amount in the totals line of column 15.

**Note.** The reduction required by section 904(b)(4) in deductions relating to dividends eligible for the dividends received deduction under section 245A is taken into account (for purposes of determining foreign source income or loss in each separate category) by carrying to Schedule A, column 15, only the amounts on Schedule H, Part II, column (d), lines 3a(2), 3b(2), 3c(2), 3d(2), 3e(2), and 3f(2).

**Column 16.** Enter the corporation's NOL deduction allowed under section 172 that is attributable to foreign source income in the applicable separate category. If the NOL is part of an overall foreign loss, see Regulations section 1.904(g)-3 for allocation rules that apply in determining the amount to enter in column 16.

It is not necessary to report the NOL deduction on a related-person or per-country basis. Therefore, only enter an amount on the totals line of column 16. See [Net operating losses](#), earlier.

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## Schedule B

### Part I—Foreign Taxes Paid, Accrued, and Deemed Paid

Report only foreign taxes paid, accrued, or deemed paid for the separate category for which this Form 1118 is being completed. Report all amounts in U.S. dollars. If the corporation must convert from foreign currency, attach a schedule showing the amounts in foreign currency and the exchange rate used.

For corporations claiming the credit on the accrual basis, the exchange rate for translating foreign taxes into U.S. dollars will generally be an average exchange rate for the tax year to which the taxes relate. However, the exchange rate on the date of payment must be used if the foreign taxes (a) are paid more than 2 years after the close of the tax year to which they relate, or (b) are paid in a tax year prior to which they relate. In addition, corporations may elect to use the exchange rate on the date of payment. Corporations may elect to use the payment date exchange rates for all creditable foreign income taxes or only those taxes that are attributable to QBUs with U.S. dollar functional currencies. The election is made by attaching a statement to a timely filed (including extensions) Form 1118 that indicates the corporation is making the election under section 986(a)(1)(D). Once made, the election applies for all subsequent tax years and is revocable only with the consent of the IRS. See section 986(a)(1)(D).



*The information entered on each line of Schedule B, Part I, must pertain to an identifying number and/or country code specified on the corresponding line of Schedule A, column 1 and/or column 2. If foreign tax was paid to more than one country on the same income, enter the letter corresponding to that income on multiple lines. For example, if the taxpayer entered on Schedule A, line A, foreign source sales income and paid tax to both Country A and Country B on such income, the filer would complete two lines A on Schedule B with the tax paid to Country A on one line and the tax paid to Country B on the other line.*

**Column 1.** Claim the foreign tax credit for the tax year in which the taxes were paid or accrued, depending on the method of accounting used.

**Note.** For any given tax year, the corporation can use the cash method or the accrual method, but not both. If a credit for taxes accrued is claimed, show both the date accrued and the date paid.

If the cash method of accounting is used, an election under section 905(a) may be made to claim the

credit based on accrued taxes. If this election is made, figure the foreign tax credit for all subsequent tax years on the same basis. Also, the credits are subject to the redetermination provisions of section 905(c). See [Foreign Tax Credit Redeterminations](#), earlier, for details.

**Column 2(a).** Include foreign taxes withheld at source on dividends from a first-tier foreign corporation. After December 31, 2017, such taxes are not creditable to the extent the distribution is a dividend eligible for a dividends received deduction under section 245A. However, continue to report the taxes in this column 2(a) and reverse the taxes on Schedule G.

**Column 2(b).** Include foreign taxes withheld at source on PTEP distributions from a first-tier foreign corporation. See sections 901 and 903. Do not include foreign taxes withheld at source on PTEP distributions from a lower-tier foreign corporation to an upper-tier foreign corporation and then deemed paid by the domestic corporation under section 960(a)(3) (pre-2018 foreign corporate tax years) or 960(b) (post-2017 foreign corporate tax years) on a distribution from the upper-tier foreign corporation to the domestic corporation. These amounts are reported on Schedule E.

**Column 2(c).** Include foreign taxes withheld on branch distributions or transfers as determined under section 987. See sections 901 and 903.

**Column 2(f).** Include foreign taxes withheld at source on income not specifically reportable in columns 2(a) through 2(e). For example, some countries withhold at source on sales of stock of their resident companies and such foreign tax paid or accrued by the domestic corporate seller would be reported in column 2(f).

**Column 2(g).** Include foreign taxes paid or accrued on the portion of sales income sourced to a foreign country. This does not include taxes withheld at source reported in column (f).

**Column 3.** Enter in column 3 the total of the taxes deemed paid that corresponds with the identifying number specified on the corresponding line of Schedule A, column 1, with respect to the following amounts.

- The taxes deemed paid under section 960(a) as reported in Schedule C, column 7.
- The taxes deemed paid under section 960(b) as reported in Schedule E, Part I, column 5.
- The taxes deemed paid under section 902 and section 960 as reported in Schedule F-1, Part I, column 12; Part II, column 8(b); and Part III, column 8.

Enter on the Schedule B, Part I line that corresponds with the Schedule A line with "951A" in column 2 the tax deemed paid under section 960(d) equal to the total amount reported in Schedule D, Part II, column 4.

Enter on the Schedule B, Part I line that corresponds with the Schedule A line with "965" in column 2 the tax deemed paid with respect to inclusions under section 965 equal to the amount reported on line 9 of Schedule H (Form 965), Section 1.

**Note.** In column 3, do not reduce the tax deemed paid with respect to the inclusion under section 965 by the disallowed taxes. See section 965(g). Such disallowance will be entered on Schedule G, line F, and included on Schedule B, Part II, line 3.

## Part II—Separate Foreign Tax Credit

**Line 1b.** If the corporation had a foreign tax credit splitting event in a prior tax year that resulted in a suspension of foreign taxes under section 909, enter the amount of those taxes attributable to related income taken into account in the current tax year. The amount of taxes suspended in a prior tax year should have appeared on Schedule G, line E, on your Form 1118 for that prior tax year. See the regulations under section 909 for rules for determining when related income is taken into account and the amount of previously suspended taxes that are attributable to that related income.

**Line 4.** If the corporation is reclassifying high-taxed income from passive category income, enter the related tax adjustment on line 4. Indicate whether the adjustment is positive or (negative).

**Line 5.** Enter the total amount of foreign taxes carried forward or back to the current year. The amount of foreign taxes carried forward to the

current tax year is the amount from Schedule K (Form 1118), line 3, column (xiv), plus the amount from Schedule I (Form 1118), Part III, line 3. Attach Schedule I (Form 1118) and Schedule K (Form 1118) to Form 1118.

**Line 7.** If the corporation has a current year overall domestic loss or recapture of an overall domestic loss account, or, in any of its separate categories, a current year separate limitation loss, an overall foreign loss, recapture of an overall foreign loss, or current year separate limitation income in a category in which it has a beginning balance of income that must be recharacterized, adjustments must be made. See the separate Instructions for Schedule J to determine if that schedule must be filed.

**Line 8b.** Enter as a positive amount taxable income that should not be taken into account in computing the foreign tax credit limitation. These adjustments will decrease the net worldwide taxable income reported on line 8c (see the line 8c instructions below).

Enter as a negative amount adjustments that increase the net worldwide taxable income reported on line 8c (see the line 8c instructions below). For example, the net worldwide taxable income you report on line 8c should not include expenses allocated and apportioned to dividends for which a dividends received deduction is allowed under section 245A (see section 904(b)(4)). Because the line 8a amount (taxable income from your tax return) includes these expenses, a positive adjustment is needed to back out these expenses (thus increasing the net worldwide taxable income reported on line 8c). As such, include as a negative adjustment on line 8b these expense amounts from Schedule H, lines 5 and 6.

**Line 8c.** If the negative adjustments included on line 8b (such as those amounts coming in from Schedule H, lines 5 and 6) exceed any positive adjustments that are also included on line 8b, the net line 8b adjustment will be negative. When this net negative amount on line 8b is subtracted from a positive taxable income amount on line 8a, the result will be a positive

line 8c amount that is larger than the positive amount on line 8a.

**Line 9.** Divide line 7 by line 8c to determine the limitation fraction. Enter the fraction on line 9 as a decimal with the same number of places as the number of digits to the left of the decimal in adjusted taxable income on line 8c. For example, if adjusted taxable income on line 8c is \$100,000, compute the limitation fraction to 6 decimal places.

**Line 11.** The limitation may be increased under section 960(c) (section 960(b) for pre-2018 foreign corporate tax years) for any tax year that the domestic corporation receives a PTEP distribution. If an increase in the limit exceeds the domestic corporation's U.S. income tax liability, the excess is deemed an overpayment and can be claimed on the domestic corporation's income tax return as a refundable credit (Form 1120, Schedule J, Part III, line 20d, or the corresponding line of other corporate income tax returns). See section 960(c)(5) (section 960(b)(5) for pre-2018 foreign corporate tax years).

### Part III—Summary of Separate Credits

Complete Part III only once. Enter on lines 1 through 6 the separate foreign tax credits from Part II, line 12, for each applicable separate category.

**Note.** Complete Part III only on the Form 1118 with the largest amount entered on Part II, line 12.

**Line 8.** If the corporation participates in or cooperates with an international boycott, the foreign tax credit may be reduced. Complete Form 5713, International Boycott Report. If the corporation chooses to apply the international boycott factor to calculate the reduction in the credit, enter the amount from line 2a(3) of Schedule C (Form 5713) on line 8.

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### Schedule C

Report taxes deemed paid by the domestic corporation under section 960(a) with respect to inclusions under section 951(a)(1). This schedule should be completed by separate category of income and subpart F income group. If there is a subpart F inclusion related to more

than one subpart F income group, complete a separate line for each subpart F income group. Do not report taxes deemed paid with respect to inclusions under section 965 on Schedule C. Report such amounts on Schedule F (Form 965) and Schedule H (Form 965).

**Column 1a.** Enter the name of the foreign corporation whose earnings were included in income by the domestic corporation filing the return.

**Column 1b.** See [Reference ID numbers](#), earlier.

**Column 2.** Enter the year and month in which the foreign corporation's U.S. tax year ended using format YYYYMM.

**Example.** When figuring foreign taxes deemed paid in 2019 by a calendar year domestic corporation with respect to inclusions out of E&P not previously taxed for the foreign corporation's tax year that ended November 30, 2019, enter "201911."

**Column 3.** Enter the applicable two-letter codes from the list at [IRS.gov/CountryCodes](#).

**Column 4.** For each line, enter the CFC's current year E&P in functional currency by subpart F income group as defined in Regulations section 1.960-1(d)(2)(ii)(B)(1) for the tax year indicated in column 2. If there is a subpart F inclusion related to more than one subpart F income group, complete a separate line for each subpart F income group.

**Column 5.** Enter foreign taxes paid or accrued by subpart F income group by the foreign corporation in U.S. dollars for the tax year indicated in column 2.

**Note.** See the instructions for [Schedule G](#), later, for information on reduction of foreign taxes for failure to furnish information required under section 6038.

**Column 6(b).** Enter the amount from column 6(a) translated into U.S. dollars at the appropriate exchange rate specified in section 989(b).

**Column 7.** Enter the tax deemed paid computed under section 960(a).

**Example.** USC is a domestic corporation. CFC1 and CFC2 are controlled foreign corporations incorporated in Country X. The U.S.

tax year for USC, CFC1, and CFC2 ends on December 31. At all relevant times, 1u = \$1. For its U.S. tax year ending December 31, 2019, after foreign taxes, CFC1 has 1,000,000u of E&P attributable to passive category dividend income subject to a withholding tax of less than 15% ("CFC1 income group 1") and 2,400,000u of E&P attributable to passive category interest income subject to no withholding tax ("CFC1 income group 2"). CFC1 has current year taxes (including the withholding tax) of \$50,000 in CFC1 income group 1 and \$240,000 in CFC1 income group 2. USC has a subpart F inclusion with respect to CFC1 of which 800,000u is attributable to CFC1 income group 1 and 1,920,000u is attributable to CFC1 income group 2. For its U.S. tax year ending December 31, 2019, after foreign taxes, CFC2 has 1,800,000u of passive category gain from commodities transactions subject to no withholding tax ("CFC2 income group"). CFC2 has current year taxes of \$450,000 in the CFC2 income group. USC has a subpart F inclusion of 1,440,000u attributable to the CFC2 income group. The country code for Country X is "OC." CFC1 and CFC2 have reference ID numbers of 100011 and 100012, respectively.

USC completes Schedule C of its Form 1118 with respect to the passive category as follows.

USC makes the following entries on the first of three lines on Schedule C.

Column	Entry
1a	CFC1
1b	100011
2	201912
3	OC
4	1,000,000
5	50,000
6a	800,000
6b	800,000
7	40,000

USC makes the following entries on the second of three lines on Schedule C.

Column	Entry
1a	CFC1
1b	100011
2	201912
3	OC
4	2,400,000
5	240,000
6a	1,920,000
6b	1,920,000
7	192,000

USC makes the following entries on the third of three lines on Schedule C.

Column	Entry
1a	CFC2
1b	100012
2	201912
3	OC
4	1,800,000
5	450,000
6a	1,440,000
6b	1,440,000
7	360,000

## Schedule D

Report taxes deemed paid by the domestic corporation under section 960(d) with respect to inclusions under section 951A. This schedule should only be completed with respect to the Form 1118 filed for the section 951A category, and, in rare cases, the passive category.

### Part I—Foreign Corporation's Tested Income and Foreign Taxes

**Column 1a.** Enter the name of each CFC that has tested income, as defined in section 951A(c)(2)(A). Do not report information of CFCs with tested losses, as defined in section 951A(c)(2)(B).

**Column 1b.** See [Reference ID numbers](#), earlier.

**Column 2.** Enter the year and month in which the CFC's U.S. tax year ended using the format YYYYMM.

**Column 3.** Enter the applicable two-letter codes from the list at [IRS.gov/CountryCodes](#).

**Column 4.** Enter the pro rata share of each CFC's tested income as reported on Form 8992, Schedule A, column (e). Do not offset such tested income by tested losses of another CFC.

**Column 5.** Enter the pro rata share of foreign income taxes paid or accrued by the CFC which are properly attributable to the tested income of such foreign corporation.

**Note.** See the instructions for Schedule G, later, for information on reduction of foreign taxes for failure to furnish information required under section 6038.

## Part II—Foreign Income Tax Deemed Paid

**Note.** As a result of recently issued final regulations (T.D. 9866, 84 FR 29288, June 21, 2019), domestic partnerships and S corporations are no longer required to include amounts under section 951A. See specifically 84 FR 29315-29317 and Regulations section 1.951A-1(e). As a result, the domestic corporation need only complete one line in this part.

**Column 1.** Enter the Global Intangible Low-Taxed Income (that is, the section 951A inclusion) from Form 8992, Part II, line 5.

**Column 3.** This amount as determined on this line is the section 78 gross-up with respect to an inclusion under section 951A which is reported on Schedule A, column 3(b).

## Schedule E

Report taxes deemed paid by the domestic corporation under section 960(b) with respect to PTEP distributions. Taxes reported on this schedule are with respect to foreign taxes levied on distributions of PTEP from a lower-tier foreign corporation to an upper-tier foreign corporation when those taxes are subsequently deemed paid by the domestic corporation upon distribution of such PTEP by the upper-tier foreign corporation to the domestic corporation.

**Note.** Foreign withholding taxes levied on a domestic corporation as a result of distributions of PTEP from a first-tier foreign corporation to such domestic corporation are not reported on Schedule E. Such taxes are reported on Schedule B, Part I,

column 2(b), as tax withheld on distributions of previously taxed income.

## Part I—Tax Deemed Paid by Domestic Corporation

**Column 1a.** Enter the name of each first-tier foreign corporation that had foreign income taxes properly attributable to PTEP distributions to a domestic corporation that were not previously deemed paid by a domestic corporation. For distributions of PTEP that originated in lower-tier foreign corporations, enter a unique alphabetic character before the name of the distributing foreign corporation to identify the source of the PTEP distribution. See the instructions for Part II, column 1a, for more information, including an example.

**Column 1b.** See [Reference ID numbers](#), earlier.

**Column 2.** Enter the year and month for the U.S. tax year of the first-tier foreign corporation in which the first-tier foreign corporation made the PTEP distribution to the domestic corporation. Use the format YYYYMM. If there is a PTEP distribution related to more than one PTEP group within an annual PTEP account, complete a separate line for each PTEP group within an annual PTEP account. See Regulations section 1.960-3(c)(2).

**Column 3.** Enter the applicable two-letter codes from the list at [IRS.gov/CountryCodes](#).

**Column 4.** Enter the PTEP distribution by PTEP group within an annual PTEP account as defined in Regulations section 1.960-3(c)(2) in the functional currency of the first-tier foreign corporation. If there is a PTEP distribution related to more than one PTEP group within an annual PTEP account, complete a separate line for each PTEP group within an annual PTEP account.

**Column 5.** Enter the U.S. dollar amount of the foreign income taxes properly attributable to the PTEP distribution reported in column 4 and not deemed to have been paid by the domestic corporation for the tax year or any prior tax year. To determine the appropriate translation rate, see section 986.

**Note.** With respect to distributions of PTEP resulting from inclusions under section 965, report the taxes properly attributable to such PTEP without reduction for the foreign tax credit disallowance. The disallowance is taken into account in Schedule G. See the instructions later.

## Part II—Tax Paid or Deemed Paid by First- and Lower-Tier Foreign Corporations

The purpose of Part II is to track the current year and historical PTEP distributions between foreign corporations and taxes paid, accrued, or deemed paid by upper-tier foreign corporations on such PTEP distributions. These amounts are to be reported on this Part II only to the extent that there is a PTEP distribution to the domestic corporation entered in Part I. The amounts entered in Part II could relate to current year or prior year PTEP distributions between foreign corporations, so the applicable year should be noted in column 2 using the format YYYYMM.

If foreign income taxes paid, accrued, or deemed paid by a first-tier foreign corporation are properly attributable to a PTEP distribution from one or more lower-tier foreign corporations, report all such PTEP distributions by the lower-tier foreign corporations in Part II, even if the distributing lower-tier foreign corporations did not pay or accrue (and were not deemed to pay) any foreign income taxes with respect to the PTEP distributions. For each tier, report the amount of the PTEP distribution from the first-tier foreign corporation that is attributable to a PTEP distribution from the lower-tier foreign corporation and the amount of foreign income taxes paid, accrued, or deemed paid by that lower-tier foreign corporation with respect to that portion of the PTEP distribution. Because only foreign taxes imposed on the receipt of a PTEP distribution from a lower-tier foreign corporation are eligible for credit under section 960(b), no foreign taxes of the lowest-tier foreign corporation to which the PTEP distribution is attributable are properly attributable to a PTEP distribution made to an upper-tier foreign corporation. See Regulations section 1.960-1(d)(3)(ii)(C).

**Column 1a.** Enter the name of each lower-tier foreign corporation that distributed PTEP to an upper-tier foreign corporation, in the current year or a prior year, that in turn was distributed in the current year to a domestic corporation. In column 1a, preceding the name of the distributing lower-tier foreign corporation, enter a unique alphabetic character that corresponds to a PTEP distribution reported in Part I. For example, in the case of a PTEP distribution from CFC3, third-tier foreign corporation, to CFC2, second-tier foreign corporation, to CFC1, first-tier foreign corporation, to USP, a domestic corporation, the domestic corporation correlates the distributions as follows.

**Part I, column 1a.** Enter “A CFC1” (to report distribution from CFC1 to domestic corporation sourced from PTEP distributions from CFC2 and CFC3).

**Part II, column 1a.** Enter “A CFC2” (to report distribution from CFC2 to CFC1), and enter “A CFC3” (to report distribution from CFC3 to CFC2).

**Column 1b.** See [Reference ID numbers](#), earlier.

**Column 2.** Enter the U.S. tax year of the distributing foreign corporation which includes the date when the foreign corporation distributed the PTEP to the upper-tier foreign corporation.

**Note.** If the PTEP distributed in Part I relates to PTEP distributions from lower-tier foreign corporations made in more than one tax year, figure and show the tax deemed paid on a separate line for each distribution.

**Column 3.** Enter the applicable two-letter codes from the list at [IRS.gov/CountryCodes](#).

**Column 4b.** See [Reference ID numbers](#), earlier.

**Column 5.** Enter the U.S. tax year of the recipient foreign corporation which includes the date the foreign corporation received the PTEP distribution.

**Column 6.** Enter the applicable two-letter codes from the list at [IRS.gov/CountryCodes](#).

**Column 7.** Enter the PTEP distribution by PTEP group within an

annual PTEP account as defined in Regulations section 1.960-3(c)(2) in the functional currency of the CFC. If there is a PTEP distribution related to more than one PTEP group within an annual PTEP account, complete a separate line for each PTEP group within an annual PTEP account. Only report the amount of PTEP that was ultimately distributed to the domestic corporation in the current year, even if the amount of PTEP distributed to the upper-tier foreign corporation was greater than that amount.

**Column 8.** Enter the U.S. dollar amount of the recipient foreign corporation's income taxes paid, accrued, and deemed paid that are properly attributable to the PTEP distribution reported in column 7 and not deemed to have been paid by the domestic corporation for any prior tax year. To determine the appropriate translation rate, see section 986(a).

**Note.** See the *Note* in the instructions for Part I, column 5, for purposes of reporting foreign income taxes properly attributable to PTEP distributions resulting from inclusions under section 965.

**Note.** See the instructions for Schedule G, later, for information on reduction of foreign taxes for failure to furnish information required under section 6038.

**Example 1.** USC is a domestic corporation. CFC1, a Country Y corporation, wholly owns Country X corporations CFC2 and CFC3. The U.S. tax year for USC, CFC1, CFC2, and CFC3 ends on December 31. During the U.S. tax year ending December 31, 2019, CFC2 and CFC3, both second-tier CFCs, each distribute 100u, comprising all of their respective section 965(a) PTEP within the annual PTEP account for the 2017 tax year ("2017 section 965(a) PTEP") within the general category, to CFC1, a first-tier CFC. CFC1 pays 40u equal to \$40 of taxes to Country X on the 200u PTEP distributions, reducing the 2017 section 965(a) PTEP to 160u. In that same year, CFC1 distributes all 160u of the 2017 section 965(a) PTEP to USC. CFC1 does not have any other PTEP balances. The reference ID numbers for CFC1, CFC2, and CFC3 are 10041, 10042, and 10043, respectively. The country codes for

Country X and Country Y are OC and BC, respectively.

USC makes the following entries on a single line on Schedule E, Part I.

Column	Entry
1a	A CFC1
1b	10041
2	201912
3	BC
4	160u
5	40

USC makes the following entries on the first of two lines on Schedule E, Part II.

Column	Entry
1a	A CFC2
1b	10042
2	202012
3	OC
4a	CFC1
4b	10041
5	202012
6	BC
7	80u
8	0

USC makes the following entries on the second of two lines on Schedule E, Part II.

Column	Entry
1a	A CFC3
1b	10043
2	202012
3	OC
4a	CFC1
4b	10041
5	202012
6	BC
7	80u
8	0

**Example 2.** USC is a domestic corporation. CFC1 and CFC2 are Country X corporations, and CFC3 is a Country Y corporation. The U.S. tax year for USC, CFC1, CFC2, and

CFC3 ends on December 31. During CFC3's U.S. tax year ending December 31, 2018, CFC3 distributes 100u, comprising its entire section 965(a) PTEP within the annual PTEP account for the 2017 tax year ("2017 section 965(a) PTEP") within the general category, to CFC2, a CFC that wholly owns CFC3. CFC2 pays tax of 20u to Country X equal to \$20 on the 100u PTEP distribution, reducing the 2017 section 965(a) PTEP to 80u. In CFC2's U.S. tax year ending December 31, 2019, CFC2 distributes 40u of the 2017 section 965(a) PTEP to CFC1, a CFC that wholly owns CFC2. CFC1 pays no tax on such distribution, but is deemed to pay \$10 of the tax paid by CFC2. In CFC1's U.S. tax year ending December 31, 2020, CFC1 distributes 40u to USC, who wholly owns CFC1. USC pays no tax on such distribution, but is deemed to pay \$10 of the tax paid by CFC2. The reference ID numbers for CFC1, CFC2, and CFC3 are 20041, 20042, and 20043, respectively. The country codes for Country X and Country Y are OC and BC, respectively. Schedule E reporting is not necessary for USC's tax years ending December 31, 2018, and December 31, 2019. For USC's tax year ending December 31, 2020, USC makes the following entries on a single line on Schedule E, Part I.

Column	Entry
1a	A CFC1
1b	20041
2	202012
3	OC
4	40u
5	10

USC makes the following entries on the first of two lines on Schedule E, Part II.

Column	Entry
1a	A CFC2
1b	20042
2	201912
3	BC
4a	CFC1
4b	20041
5	201912
6	OC
7	40u
8	10

USC makes the following entries on the second of two lines on Schedule E, Part II.

Column	Entry
1a	A CFC3
1b	20043
2	201812
3	BC
4a	CFC2
4b	20042
5	201812
6	BC
7	40u
8	0

**Example 3.** USC is a domestic corporation. CFC1 is a Country X corporation, CFC2 is a Country Y corporation, and CFC3 is a Country Z corporation. The U.S. tax year of USC, CFC1, CFC2, and CFC3 ends on December 31. During CFC3's U.S. tax year ending December 31, 2017, CFC3 distributes 1,000u, comprising all of its subpart F PTEP within the annual PTEP account for the 2016 tax year ("2016 section 951(a)(1)(A) PTEP") within the general category, to CFC2, a CFC that wholly owns CFC3. CFC2 pays tax of 100u to Country Y equal to \$100 on the 1,000u PTEP distribution, reducing the 2016 section 951(a)(1)(A) PTEP to 900u. In CFC2's tax year ending December 31, 2018, CFC2 distributes 250u, comprising all of its section 951A PTEP within the annual PTEP account for the 2018 tax year ("2018 section 951A PTEP"), to CFC1, a CFC that wholly owns CFC2. CFC1 pays tax of 25u to Country X equal to \$25 on the 250u PTEP

distribution, reducing the 2018 section 951A PTEP to 225u. During CFC2's tax year ending December 31, 2019, CFC2 also distributes 450u out of its 2016 section 951(a)(1)(A) PTEP balance of 900u to CFC1. CFC1 pays tax of 45u to Country X equal to \$45 on the 450u PTEP distribution, reducing the 2016 section 951(a)(1)(A) PTEP to 405u. CFC1 is also deemed to pay \$50 of the tax paid by CFC2 on the 2017 distribution of the PTEP from CFC3. In the same year, CFC1 distributes 630u to USC, who wholly owns CFC1, which includes all of CFC1's 2016 section 951(a)(1)(A) PTEP of 405u and 2018 section 951A PTEP of 225u. USC pays no tax on such distribution, but is deemed to pay \$50 of the tax deemed paid by CFC1 and the \$70 tax paid by CFC1 on the 2018 and 2019 distributions of the PTEP from CFC2.

The reference ID numbers for CFC1, CFC2, and CFC3 are 10041, 10042, and 10043, respectively. The country codes for Country X, Country Y, and Country Z are OC, CC, and BC, respectively.

USC completes Form 1118, Schedule E, as follows:

USC makes the following entries on a line on Schedule E, Part I, of its Form 1118 with respect to general category income.

Column	Entry
1a	A CFC1
1b	10041
2	201912
3	OC
4	405u
5	95

USC makes the following entries on the first of two lines on Schedule E, Part II, of its Form 1118 with respect to general category income.

Column	Entry
1a	A CFC2
1b	10042
2	201912
3	CC
4a	CFC1
4b	10041
5	201912
6	OC
7	405u
8	50

USC makes the following entries on the second of two lines on Schedule E, Part II, of its Form 1118 with respect to general category income.

Column	Entry
1a	A CFC3
1b	10043
2	201712
3	BC
4a	CFC2
4b	10042
5	201712
6	CC
7	405u
8	0

USC makes the following entries on a line on Schedule E, Part I, of its Form 1118 with respect to section 951A category income.

Column	Entry
1a	B CFC1
1b	10041
2	201912
3	OC
4	225u
5	25

USC makes the following entries on a line on Schedule E, Part II, of its Form 1118 with respect to section 951A category income.



Column	Entry
1a	B CFC2
1b	10042
2	201812
3	CC
4a	CFC1
4b	10041
5	201812
6	OC
7	225u
8	0

## Schedules F-1, F-2, and F-3

**Note.** As explained earlier, Schedules F-1, F-2, and F-3 should only be completed with respect to dividends and inclusions with respect to pre-2018 foreign corporate tax years.

If a corporation is a partner in a partnership, for taxes of foreign corporations for tax years beginning after October 22, 2004, stock owned, directly or indirectly, by or for a partnership shall be considered as being owned proportionately by its partners. See section 902(c)(7) prior to its repeal by the Act.

### Identifying Numbers

On Schedules F-1, F-2, and F-3, column 1b requests an employer identification number (EIN) and column 1c requests a reference ID number. A reference ID number is required in column 1c only in cases where no EIN was entered for the foreign corporation in column 1b. However, filers are permitted to enter both an EIN in column 1b and a reference ID number in column 1c.

**Reference ID numbers.** For basic information about reference ID numbers (including the requirements as to the characters permitted), see *Reference ID numbers*, earlier, in the instructions for Schedule A. Because of the fact that, on Schedules F-1, F-2, and F-3, EINs and reference ID numbers are requested in two separate columns (1a and 1b), whereas on Schedule A, these numbers are entered in one column (column 1), the following additional clarification is provided regarding certain situations that require

correlation of a new reference ID number with a previous reference ID number when assigning a new reference ID number to a foreign corporation. For example:

In the case of an entity classification election that is made on behalf of a foreign corporation on Form 8832, Regulations section 301.6109-1(b)(2)(v) requires the foreign corporation to have an EIN for this election. For the first year that Form 1118 is filed after an entity classification election is made on behalf of the foreign corporation on Form 8832, the new EIN must be entered in column 1b and the old reference ID number must be entered in column 1c. In subsequent years, the Form 1118 filer may continue to enter both the EIN and the reference ID number, but must enter at least the EIN in column 1b.

See the instructions for Schedule A for additional examples in which different reference ID numbers should be reported in columns 1a and 1b.

## Schedule F-1

### Part I—Dividends and Deemed Inclusions From Post-1986 Undistributed Earnings

**Column 1a.** Enter the name of the foreign corporation (or DISC or former DISC) whose earnings were distributed to, or included in income by, the domestic corporation filing the return.

**Columns 1b and 1c.** See *Reference ID numbers*, earlier.

**Column 2.** Enter the year and month in which the foreign corporation's U.S. tax year ended using the format YYYYMM.

**Example.** When figuring foreign taxes deemed paid by a domestic corporation with a September 30, 2020, year end that owns a foreign corporation through a domestic partnership with an October 31, 2019, year end with respect to dividends and inclusions out of post-1986 undistributed earnings for the foreign corporation's tax year that ended November 30, 2018, enter "201811."

**Column 3.** Enter the applicable two-letter codes from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes).

**Column 4.** Enter the distributing corporation's post-1986 undistributed earnings pool for the separate category for which the schedule is being completed.

Generally, this amount is the corporation's E&P (computed in the corporation's functional currency according to sections 964(a) and 986) accumulated in tax years beginning after 1986, determined as of the close of the corporation's tax year without reduction for any earnings distributed or otherwise included in income (that is, under section 304, 367(b), 951(a), 1248, or 1293) during the current tax year.

Post-1986 undistributed earnings are reduced to account for distributions or deemed distributions that reduced E&P and inclusions that resulted in previously taxed amounts described in section 959(c)(1) and (2) or section 1293(c) in prior tax years beginning after 1986. See Regulations section 1.902-1(a)(9). Also, see section 902(c)(3) and Regulations section 1.902-1(a)(13) for special rules treating earnings accumulated in post-1986 years as pre-1987 accumulated profits when no U.S. shareholder was eligible to claim a section 902 credit with respect to taxes paid by the foreign corporation.

**Column 5.** Enter the opening balance in the distributing corporation's post-1986 foreign income taxes pool for the tax year indicated. This amount is the foreign income taxes paid, accrued, or deemed paid (in U.S. dollars) by the foreign corporation for prior tax years beginning after 1986, reduced by foreign taxes attributable to distributions or deemed inclusions of earnings in prior tax years. See Regulations section 1.902-1(a)(8)(i).

**Column 6(a).** Enter the foreign income taxes paid or accrued by the foreign corporation for the tax year indicated, translated into U.S. dollars using the exchange rate specified in section 986(a).

**Column 6(b).** Enter the foreign income taxes deemed paid (under section 902(b)) by the corporation for the tax year indicated. This is generally the amount(s) from Schedule F-2, Part I, Section A, column 10, and Section B, column

8(b). However, when determining deemed paid taxes under section 960(a) related to a subpart F inclusion from a lower-tier corporation (that is, a corporation below the first-tier foreign corporation), enter the applicable amounts for that lower-tier foreign corporation. For example, when determining deemed paid taxes under section 960(a) related to a subpart F inclusion from a second-tier foreign corporation, enter the applicable amount(s) from Schedule F-2, Part II, Section A, column 10, and Schedule F-2, Part II, Section B, column 8(b).

**Column 8(a).** Report the sum (in the foreign corporation's functional currency) of all dividends paid and deemed inclusions out of post-1986 undistributed earnings for the tax year indicated.

**Column 8(b).** Report the column 8(a) amounts, translated into U.S. dollars at the appropriate exchange rates (as defined in section 989(b)). If the foreign corporation's functional currency is the U.S. dollar, do not complete column 8(b).

**Column 11.** Enter foreign income taxes deemed paid during the current tax year that exceed the limit (with respect to section 956 inclusions) described in section 960(c) (as in effect prior to its amendment by the Act).

## Part II—Dividends Paid Out of Pre-1987 Accumulated Profits

Use a separate line for each dividend paid. If a dividend is paid out of the accumulated profits of more than 1 pre-1987 tax year, figure and show the tax deemed paid on a separate line for each tax year. In applying section 902, the IRS may determine from which tax year's accumulated profits the dividends were paid. See Regulations section 1.902-3(g)(4).

**Important.** The formula for calculating foreign taxes deemed paid under section 902 with respect to dividends paid in a post-1986 year out of pre-1987 accumulated profits requires that all components (dividends, accumulated profits, and taxes) be maintained in the foreign corporation's functional currency and translated into U.S. dollars at the exchange rate in effect on the date of the dividend distribution. See

Regulations section 1.902-1(a)(10)(ii) and (iii).

**Column 1a.** Enter the name of the first-tier foreign corporation (or DISC or former DISC) that paid a dividend out of pre-1987 profits to the domestic corporation filing the return.

**Columns 1b and 1c.** See [Reference ID numbers](#), earlier.

**Column 2.** Enter the year and month in which the foreign corporation's pre-1987 tax year ended using the format YYYYMM.

**Column 3.** Enter the applicable two-letter codes from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes).

**Column 4.** For each line, enter the pre-1987 accumulated profits for the tax year indicated in column 2, computed in functional currency under section 902. See Regulations section 1.902-1(a)(10)(i) and (ii).

**Column 5.** Enter the foreign taxes paid and deemed paid (in functional currency) with respect to the pre-1987 accumulated profits entered in column 4 for the tax year indicated in column 2. See the instructions for [Schedule G](#), later, for information on reduction of foreign taxes for failure to furnish information required under section 6038.

**Column 6(a).** Enter the amount of each dividend paid by the first-tier foreign corporation (or DISC or former DISC) to the domestic corporation (in functional currency) out of the accumulated profits of the pre-1987 tax year indicated in column 2.

**Column 6(b).** Enter the amount from column 6(a) translated into U.S. dollars using the spot exchange rate in effect on the date of distribution. See Regulations sections 1.902-1(a)(10)(ii) and 1.902-3(g)(1).

**Column 8(a).** Multiply column 5 by column 7. Enter this amount in column 8(a) in functional currency.

**Column 8(b).** Enter the amount from column 8(a) translated into U.S. dollars at the spot exchange rate in effect on the date of distribution. See Regulations section 1.902-1(a)(10)(iii).

## Part III—Deemed Inclusions From Pre-1987 Earnings and Profits

**Important.** The formula for calculating foreign taxes deemed paid under section 960 with respect to deemed inclusions (that is, under section 956 or 1248) in a post-1986 year out of pre-1987 E&P requires that E&P and foreign taxes be calculated in U.S. dollars under the rules of Regulations section 1.964-1, and then translated into the foreign corporation's functional currency at the exchange rate in effect on the first day of the foreign corporation's first post-1986 tax year. See Notice 88-70, 1988-2 C.B. 369. The deemed inclusion is then translated into U.S. dollars at the appropriate exchange rate specified in section 989(b). Foreign income taxes paid in pre-1987 tax years are translated into U.S. dollars for purposes of section 960 at the exchange rate in effect when the foreign taxes were paid. See Regulations section 1.964-1 and Temporary Regulations section 1.905-5T(b)(1).

**Column 1a.** Enter the name of the first- or lower-tier foreign corporation whose earnings were deemed included in the income of the domestic corporation filing the return.

**Columns 1b and 1c.** See [Reference ID numbers](#), earlier.

**Column 2.** Enter the year and month in which the corporation's pre-1987 tax year ended using the format YYYYMM. If the deemed inclusion is from the accumulated E&P of more than one tax year, calculate and show the tax deemed paid on a separate line for each year.

**Column 3.** Enter the applicable two-letter codes from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes).

**Column 4.** For each line, enter the E&P calculated in U.S. dollars under Regulations section 1.964-1, translated into functional currency under Notice 88-70 for the tax year indicated in column 2.

**Column 5.** Enter foreign taxes paid and deemed paid (in U.S. dollars) with respect to the E&P entered in column 4. See the instructions for [Schedule G](#), later, for information on reduction of foreign taxes for failure to

furnish information required under section 6038.

**Column 6(b).** Enter the amount from column 6(a) translated into U.S. dollars at the appropriate exchange rate specified in section 989(b).

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## Schedule F-2

### Part I—Tax Deemed Paid by First-Tier Foreign Corporations

#### Section A—Dividends Paid Out of Post-1986 Undistributed Earnings

**Column 1a.** Enter the name of the second-tier foreign corporation and the name of the first-tier foreign corporation to which it paid a dividend out of post-1986 undistributed earnings.

**Example.** The domestic corporation filing the return owns all of the stock of CFC1 and CFC2. CFC1 and CFC2 each own 50% of the stock of CFC3. In 2017, CFC3 pays a dividend to CFC1 and CFC2. Use one line to report dividends from CFC3 to CFC1 and another line to report dividends from CFC3 to CFC2.

**Columns 1b and 1c.** See [Reference ID numbers](#), earlier.

**Column 2.** Enter the year and month in which the distributing second-tier foreign corporation's tax year ended using the format YYYYMM.

**Column 3.** Enter the applicable two-letter codes from the list at [IRS.gov/CountryCodes](#).

**Column 4.** Enter the second-tier foreign corporation's post-1986 undistributed earnings pool (in functional currency) for the separate category for which the schedule is being completed. See the instructions for Schedule F-1, Part I, column 4.

**Column 5.** Enter the opening balance in the second-tier foreign corporation's post-1986 foreign income taxes pool for the tax year indicated. See the instructions for Schedule F-1, Part I, column 5.

**Column 6(a).** Enter the foreign income taxes paid or accrued by the second-tier foreign corporation for the tax year indicated, translated from foreign currency into U.S. dollars using the exchange rate specified in section 986(a).

**Column 6(b).** Enter the foreign income taxes deemed paid (under section 902(b)) by the second-tier foreign corporation for the tax year indicated (from Schedule F-2, Part II, Section A, column 10, and Part II, Section B, column 8(b)).

**Column 8(a).** Report the sum (in the second-tier foreign corporation's functional currency) of all dividends paid out of its post-1986 undistributed earnings for the tax year indicated.

**Column 8(b).** Report the sum of the column 8(a) amounts translated into the functional currency of the first-tier foreign corporation at the spot rate in effect on the date of each distribution.

#### Section B—Dividends Paid Out of Pre-1987 Accumulated Profits

Use a separate line for each dividend paid. If a dividend is paid out of the accumulated profits of more than 1 pre-1987 tax year, figure and show the tax deemed paid on a separate line for each tax year. In applying section 902, the IRS may determine from which tax year's accumulated profits the dividends were paid. See Regulations section 1.902-3(g)(4).

**Important.** The formula for calculating foreign taxes deemed paid by a first-tier foreign corporation under section 902(b) with respect to dividends paid by a second-tier foreign corporation in a post-1986 year out of pre-1987 accumulated profits requires that all components (dividends, accumulated profits, and taxes) be maintained in the second-tier foreign corporation's functional currency. Dividends are translated into the first-tier foreign corporation's functional currency and added to its post-1986 undistributed earnings at the exchange rate in effect on the date of the dividend distribution. See Regulations section 1.902-1(a)(9)(ii).

Foreign taxes are translated into U.S. dollars, and added to the first-tier foreign corporation's post-1986 foreign income taxes, at the exchange rate in effect on the date of the dividend distribution. See Regulations section 1.902-1(a)(8)(ii).

**Column 1a.** Enter the name of the second-tier foreign corporation and the name of the first-tier foreign

corporation to which it paid a dividend out of pre-1987 accumulated profits.

**Columns 1b and 1c.** See [Reference ID numbers](#), earlier.

**Column 2.** For each pre-1987 tax year, enter the year and month in which the second-tier foreign corporation's tax year ended using the format YYYYMM.

**Column 3.** Enter the applicable two-letter codes from the list at [IRS.gov/CountryCodes](#).

**Column 4.** For each line, enter the pre-1987 accumulated profits for the tax year indicated in column 2, computed in the second-tier corporation's functional currency under section 902. See Regulations section 1.902-1(a)(10)(i) and (ii).

**Column 5.** Enter the foreign taxes paid and deemed paid under section 902(b) (in functional currency) with respect to the accumulated profits entered in column 4 for the pre-1987 tax year indicated in column 2. See the instructions for [Schedule G](#), later, for information on reduction of foreign taxes for failure to furnish information required under section 6038.

**Column 6(a).** Enter each dividend paid by the second-tier foreign corporation (in functional currency) to the first-tier foreign corporation out of the accumulated profits of the pre-1987 tax year indicated in column 2.

**Column 6(b).** Enter the amount from column 6(a), translated into the first-tier foreign corporation's functional currency using the spot exchange rate in effect on the date of distribution. See Regulations sections 1.902-1(a)(10)(ii) and 1.902-3(g)(1).

**Column 8(a).** Multiply column 5 by column 7. Enter the result in column 8(a).

**Column 8(b).** Enter the amount from column 8(a), translated in U.S. dollars at the spot exchange rate in effect on the date of distribution. See Regulations section 1.902-1(a)(10)(iii).

### Part II—Tax Deemed Paid by Second-Tier Foreign Corporations

Follow the instructions for the corresponding columns of Schedule F-2, Part I, substituting "second-tier foreign corporation" for

references to the "first-tier foreign corporation" and "third-tier foreign corporation" for references to the "second-tier foreign corporation."

**Note.** In completing Section A, column 5, note that section 902(b), as in effect prior to the Taxpayer Relief Act of 1997, did not treat any foreign taxes as deemed paid by a third- or lower-tier foreign corporation with respect to dividends received from lower-tier foreign corporations.

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## Schedule F-3

Use Schedule F-3 to report foreign taxes deemed paid with respect to dividends from certain fourth-, fifth-, and sixth-tier CFCs out of earnings accumulated in tax years beginning after August 5, 1997. Follow the instructions for the corresponding columns of Schedule F-2, Part I, Section A, substituting references to the next lower-tier foreign corporation as appropriate.

The post-1986 undistributed earnings and taxes pools for the eligible CFCs begin on the first day of the CFC's first tax year beginning after August 5, 1997. Earnings accumulated in tax years beginning before August 6, 1997, will be treated as pre-1987 accumulated profits for section 902 purposes. See section 902(c)(6) and Regulations section 1.902-1(a)(10)(i). Foreign income taxes attributable to these pre-pooling profits must be reduced when the associated earnings are distributed. However, such taxes are generally not eligible for the deemed paid credit. See Regulations sections 1.902-1(a)(10)(iii) and 1.902-1(c)(8).

**Note.** In completing Part III, column 5, note that, under section 902(b), as amended by the Taxpayer Relief Act of 1997, no taxes are deemed paid by a sixth- or lower-tier foreign corporation with respect to dividends received from lower-tier foreign corporations.

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## Schedule G

### Part I

**Line A.** If the corporation claims a deduction for percentage depletion under section 613 with respect to any part of its foreign mineral income (as defined in section 901(e)(2)) for the

tax year, any foreign taxes on that income must be reduced by the smaller of:

1. The foreign taxes minus the tax on that income, or
2. The tax on that income determined without regard to the deduction for percentage depletion minus the tax on that income.

The reduction must be made on a country-by-country basis (Regulations section 1.901-3(a)(1)). Attach a separate schedule showing the reduction.

**Line C.** If the corporation chooses to calculate the reduction in the foreign tax by identifying taxes specifically attributable to participation in or cooperation with an international boycott, enter the amount from Schedule C (Form 5713), line 2b. See Form 5713 and its separate Schedule C and instructions.

**Line D.** If the corporation controls a foreign corporation or partnership and fails to furnish any return or any information in any return required under section 6038(a) by the due date, reduce the foreign taxes available for credit under sections 901, 902 (for pre-2018 foreign corporate tax years), and 960 by 10%. If the failure continues for 90 days or more after the date of written notice by the IRS, reduce the tax by an additional 5% for each 3-month period or fraction thereof during which the failure continues after the 90-day period has expired. See section 6038(c) for limitations and special rules.

In addition, a \$10,000 penalty is imposed under section 6038(b) for failure to supply the information required under section 6038(a) for each entity within the time prescribed. If the required information is not submitted within 90 days after the IRS has mailed notice to the U.S. person, additional penalties may apply.

**Note.** The reduction in foreign taxes available for credit is reduced by any dollar penalty imposed under section 6038(b).

**Line E.** Enter foreign income taxes paid or accrued during the current tax year that have been suspended due to the rules of section 909.

**Line F.** Enter other reductions in tax here. For disallowed taxes under section 965(g), enter the following code on the line provided: "965."

For disallowed taxes under section 245A, enter the following code in the line provided: "245A." Such disallowed taxes may also include, for example, gain on certain sales of CFC stock treated as dividends. See section 964(e)(4).

For any other reductions in taxes, enter the code "OTH" and attach a statement with the amount and the nature of such other reduction.

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## Schedule H

### Computer-Generated Schedule H

A computer-generated Schedule H may be filed if it conforms to the IRS version. In some cases, Schedule H can be expanded to properly apportioned deductions. This applies in cases such as when the corporation:

- Has more than two product lines (under the sales method or the gross income method of apportioning research and experimental (R&E) deductions),
- Has section 901(j) income from more sanctioned countries than space permits within line 3, and
- Has income re-sourced by treaty from more countries than space permits within line 3.

### Part I—Research and Experimental Deductions

**Note.** These instructions refer to the regulations existing on the date of the enactment of the Act. Taxpayers on the sales method for tax years beginning after December 31, 2017, and before January 1, 2020, may choose to apply Proposed Regulations section 1.861-17 (REG 105495-19, 84 FR 69124) in lieu of the regulations existing on the date of the enactment of the Act, if such regulation is applied consistently.

Use Part I to apportion the R&E deductions that cannot be definitely allocated to some item or class of gross income. Use **either** the sales method **or** one of the gross income methods described in Regulations section 1.861-17.

**Note.** The line 4 totals will generally be less than the totals on lines 1 and 2 because the line 4 totals do not include the gross income and deductions that are implicitly apportioned to the residual grouping.

#### Column (a), Sales Method

Complete these columns only if the corporation elects the sales method of apportioning R&E deductions described in Regulations section 1.861-17(c). Enter in the spaces provided the SIC Code numbers (based upon the Standard Industrial Classification System) of the product lines to which the R&E deductions relate. See Regulations section 1.861-17(a)(2)(ii) and (iii) for details on choosing SIC codes and changing a product category.

**Note.** If the corporation has more than two product lines, see [Computer-Generated Schedule H](#), earlier.

#### Columns (a)(i) and (a)(iii)

**Line 1.** Enter the worldwide gross sales for the product lines.

**Lines 3a through 3f.** Enter the gross sales that resulted in gross income for each statutory grouping. For lines 3a through 3f, enter the code for the applicable separate category of income. See [Categories of Income](#), earlier. Then divide gross sales between dividend income and all other types of gross income. Such dividend income must be eligible to be offset by the deduction under section 245A. However, when apportioning expenses, do not report the dividend income net of the deduction under section 245A.

#### Columns (a)(ii) and (a)(iv)

**Line 1.** Enter the total R&E deductions connected with the product lines.

**Line 2.** Reduce the line 1 totals by legally mandated R&E (Regulations section 1.861-17(a)(4)), and a 50% exclusive apportionment amount (Regulations section 1.861-17(b)(1)(i)), if applicable.

The legally mandated R&E rules apply to R&E undertaken solely to meet legal requirements imposed by a particular political entity for

improvement or marketing of specific products or processes if the corporation does not reasonably expect the results of that research to generate gross income (beyond de minimis amounts) outside a single geographic source.

Under the exclusive apportionment rules, 50% of the R&E deductions are apportioned exclusively to the statutory grouping of gross income, or the residual grouping of gross income, as the case may be, from the geographic source where the R&E activities which account for more than 50% of the amount of such deduction were performed. If the 50% test is **not** met, then no part of the deduction is apportioned under these rules.

**Lines 3a through 3f.** To figure the amount of R&E deductions to apportion to each statutory grouping, divide the gross sales apportioned to the statutory grouping by the worldwide gross sales for the product line. Multiply the result by the R&E deductions to be apportioned.

**Note.** If the corporation had section 901(j) income from more sanctioned countries than space permits on line 3 or had income re-sourced by treaty for more countries than space permits on line 3, see [Computer-Generated Schedule H](#), earlier.

**Example 1.** To determine the amount to enter on line 3a(1), column (a)(ii), do the following.

1. Divide the amount on line 3a(1), column (a)(i), by the amount on line 1, column (a)(i).
2. Multiply the result by the amount on line 2, column (a)(ii).

**Example 2.** To determine the amount to enter on line 3b(2), column (a)(iv), do the following.

1. Divide the amount on line 3b(2), column (a)(iii), by the amount on line 1, column (a)(iii).
2. Multiply the result by the amount on line 2, column (a)(iv).

#### Column (b), Gross Income Methods

Complete these columns only if the corporation elects one of the gross income methods of apportioning R&E deductions described in Regulations section 1.861-17(d)(2) and (3). Check the box for the option used. Use

Option 1 only if certain conditions are met. See Regulations section 1.861-17(d)(2).

**Note.** If the corporation has more than two product lines, see [Computer-Generated Schedule H](#), earlier.

#### Columns (b)(v) and (b)(vii)

**Line 1.** Enter the total gross income (excluding exempt income according to Regulations section 1.861-8(d)(2) and Temporary Regulations section 1.861-8T(d)(2)).

**Lines 3a through 3f.** For lines 3a through 3f, enter the code for the applicable separate category of income. See [Categories of Income](#), earlier. Then enter the gross income in the statutory category divided between dividend income eligible to be offset by the deduction under section 245A and all other income. Report the gross dividend, not the dividend income net of the deduction under section 245A, in columns (b)(v) and (b)(vii).

#### Columns (b)(vi) and (b)(viii)

**Line 1.** Enter the total R&E deductions.

**Line 2.** Reduce the line 1 totals by legally mandated R&E deductions (Regulations section 1.861-17(a)(4)), and a 25% exclusive apportionment amount (Regulations section 1.861-17(b)(1)(ii)).

**Lines 3a through 3f.** For lines 3a through 3f, enter the code for the applicable separate category of income. If Option 1 is checked, divide the gross income apportioned to the statutory grouping by the total gross income and multiply the result by the R&E deductions to be apportioned. If Option 2 is checked, enter the appropriate amount as described in Regulations section 1.861-17(d)(3).

#### Part II—Interest Deductions, All Other Deductions, and Total Deductions

**Note.** The line 4 totals will generally be less than the totals on lines 1 and 2 because the line 4 totals do not include the gross income and deductions that are implicitly apportioned to the residual grouping.

## Columns (a)(i) Through (b)(iv)

Use these columns to apportion interest deductions. See proposed, final, and temporary Regulations sections 1.861-8 through 1.861-14 for rules on the apportionment of interest deductions based on the tax book value or adjusted tax book value of assets.

A corporation may elect to use the alternative tax book value method. See Regulations section 1.861-9(i).

Columns (a) and (b) are subdivided into "Nonfinancial Corporations" and "Financial Corporations." In allocating interest deductions, members of an affiliated group that are financial corporations must be treated as a separate affiliated group. Complete columns (a)(ii) and (b)(iv) for members of the corporation's affiliated group that are financial corporations and columns (a)(i) and (b)(iii) for members that are nonfinancial corporations.

See Regulations section 1.861-11 for the definition of an affiliated group.

## Columns (a)(i) and (a)(ii)

**Line 1a.** Enter the average of the total assets of the affiliated group. See Regulations section 1.861-9(g)(2) and Temporary Regulations section 1.861-9T(g)(2) for the definition of "average" for these purposes.

**Line 1b.** Enter the assets included on line 1a that are characterized as excess related party indebtedness. See Regulations section 1.861-10(e) for an exception to the general rule of fungibility for excess related party indebtedness.

**Line 1c.** Enter all other assets that attract specifically allocable interest deductions. See Regulations section 1.861-10 for other exceptions to the general rule of fungibility (such as qualified nonrecourse indebtedness and integrated financial transactions).

**Line 1d.** Enter the total of the exempt assets and assets without directly identifiable yield that are to be excluded from the interest apportionment formula (Regulations section 1.861-8(d)(2) and Temporary Regulations sections 1.861-8T(d)(2) and 1.861-9T(g)(3)).

**Lines 3a through 3f.** For lines 3a through 3f, enter the code for the applicable separate category of income. See [Categories of Income](#), earlier. The assets in each statutory grouping are further divided between those assets generating dividend income eligible to be offset by the deduction under section 245A versus those generating all other types of gross income. The assets on line 2 are characterized as assets in one of the statutory groupings or as belonging to the residual grouping. Enter the value of the assets in each of the statutory groupings on lines 3a through 3f. See Temporary Regulations sections 1.861-9T(g)(3), 1.861-12T(g)(2), and 1.861-12T(h)(2) for the rules for characterizing the assets.

## Columns (b)(iii) and (b)(iv)

**Line 1a.** Enter the total interest deductions for the members of the corporation's affiliated group. These include any expense that is currently deductible under section 163 (including original issue discount), and interest equivalents. See Temporary Regulations section 1.861-9T for the definition of interest equivalents and a list of the sections that disallow or suspend interest deductions or require the capitalization of interest deductions.

**Line 1b.** Enter the interest deductions associated with the assets on line 1b of columns (a)(i) and (a)(ii), respectively, that attract specifically allocable interest deductions under Regulations section 1.861-10(e).

**Note.** These interest deductions will be divided among the statutory groupings and will appear as a definitely allocable deduction in Schedule A, column 14(h).

**Line 1c.** Enter the interest deductions associated with the assets on line 1c of columns (a)(i) and (a)(ii), respectively, that attract specifically allocable interest deductions.

**Lines 3a through 3f.** To figure the amount of interest deductions to apportion to each subgroup of the statutory grouping, divide the assets apportioned to the subgroup by the total assets apportioned and multiply the result by the interest deductions to be apportioned.

**Example 1.** To determine the amount to enter on line 3a(1), column (b)(iii), do the following.

1. Divide the amount entered on line 3a(1), column (a)(i), by the amount on line 2, column (a)(i).
2. Multiply the result by the amount on line 2, column (b)(iii).

**Example 2.** To determine the amount to enter on line 3b(2), column (b)(iv), do the following.

1. Divide the amount on line 3b(2), column (a)(ii), by the amount on line 2, column (a)(ii).
2. Multiply the result by the amount on line 2, column (b)(iv).

## Column (c)

Complete this column to apportion all other deductions not definitely allocable (other than interest deductions and R&E deductions). See final, proposed, and temporary Regulations sections 1.861-8 and 1.861-14.

As indicated in the "Caution" in the instructions for Schedule A, column 9, earlier, also include in Schedule H, Part II, column (c), foreign source exchange loss amounts under sections 986(c), 987, and 988 that are subject to the apportionment described in the previous paragraph.

**Line 1a.** Enter the total other deductions. Examples include stewardship expenses; legal and accounting expenses; and other expenses related to certain supportive functions such as overhead, general and administrative, advertising, and marketing. Deductions for charitable contributions are generally definitely related and allocable to all gross income and apportioned solely to domestic source income.

**Lines 3a through 3f.** For lines 3a through 3f, enter the code for the applicable separate category of income. See [Categories of Income](#), earlier. Enter the amount of expenses apportioned to each separate category of income as further apportioned between dividend income eligible to be offset by the deduction under section 245A and all other gross income.

**Column (d)**

In column (d), for each line beginning with line 3a(1) and ending with line 3f(3), enter the sum of the amounts in Part I, column (c); Part II, columns (b)(iii) and (b)(iv); and Part II, column (c) for that line. For example, on line 3a(1), column (d), enter the sum of Part I, column (c), line 3a(1); Part II, column (b)(iii), line 3a(1); Part II, column (b)(iv), line 3a(1); and Part II, column (c), line 3a(1).

**Note.** Be sure to also enter the totals from lines 3a(2), 3b(2), 3c(2), 3d(2), 3e(2), and 3f(2) in column 15 of the corresponding Schedule A.

**Line 4.** Enter on this line the sum of the amounts entered in column (d) for lines 3a(3), 3b(3), 3c(3), 3d(3), 3e(3), and 3f(3) of Schedule H, Part II.

**Lines 5 and 6.** An adjustment is required to worldwide taxable income and foreign source income taken into

account to eliminate the expenses properly allocated or apportioned to stock or dividend income for which a dividends received deduction is allowed under section 245A. See section 904(b)(4).

**Line 5.** On line 5, enter expenses apportioned to foreign source dividends which are eligible for a deduction under section 245A. This is the sum of the amounts entered in column (d), lines 3a(1), 3b(1), 3c(1), 3d(1), 3e(1), and 3f(1) of Schedule H, Part II. Schedule H, Part II, column (d), includes the sum of all amounts entered in Schedule H, Part I, column (c), so there is no need to add the amounts from Schedule H, Part I. Include the amount in column (d), line 5, as a negative number in Schedule B, Part II, line 8b. This is the adjustment required by section 904(b)(4) to total taxable income from all sources (worldwide income). See the

Note in the instructions for Schedule A, column 15 for information regarding the adjustment required by section 904(b)(4) to foreign source income or loss in each category.

**Line 6.** On line 6, enter expenses apportioned to the dividends that are eligible for a dividends received deduction under section 245A and are treated as U.S. source income under section 904(h). This is the residual amount of expenses allocated to such dividend income and not otherwise apportioned to the foreign source portion of such dividends. Include the amount in column (d), line 6, as a negative number in Schedule B, Part II, line 8b.

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**Schedules I, J, and K**

See the separate instructions for Schedule I, Schedule J, and Schedule K to see if the corporation must file these schedules.

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