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# Instructions for Schedule P (Form 1120-F)

## List of Foreign Partner Interests in Partnerships

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

### Future Developments

For the latest information about developments related to Schedule P (Form 1120-F) and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form1120F](https://www.irs.gov/Form1120F).

### What's New

The following changes have been made to the 2021 Schedule P (Form 1120-F).

Lines 1 through 6 and 8 have been modified to reference new Schedule K-3 (Form 1065).

Lines 7 and 9 through 13 have been modified due to the fact that several lines that previously preceded them have been deleted.

Two check boxes have been added to each column of line 14. For each partnership interest reported in a column, the corporate partner will check either the "income" box or the "asset" box to indicate the allocation method used on line 13 of that column. The new check boxes replace the write-ins previously used for line 14.

These instructions have been modified to take into account the changes described above.

## General Instructions

### Purpose of Schedule

Schedule P (Form 1120-F) is used to identify and reconcile the foreign corporation's directly held partnership interests with the distributive shares of partnership effectively connected income (ECI), or expenses allocable to ECI, and the foreign corporation's effectively connected outside tax basis in each interest. Part I is used to identify all partnership interests the foreign corporation directly owns that give rise to a distributive share of income or loss that is effectively connected with a trade or business within the United States of the foreign corporation. Part II is used to reconcile the foreign corporation's distributive share of ECI and allocable expenses with the total income and expenses reported to it on Schedule K-3

(Form 1065), Partner's Share of Income, Deductions, Credits, etc. - International. Part III is used to report the following information. The corporation's outside basis in its directly held partnership interests that include ECI in the corporation's distributive share is apportioned between ECI and non-ECI under Regulations section 1.884-1(d)(3) to determine the average value treated as a U.S. asset for interest expense allocation purposes under Regulations section 1.882-5. The apportionment of the outside basis to ECI as of the current and prior tax year end is also taken into account in determining the average apportioned value included in the corporation's U.S. assets for purposes of computing the branch profits tax. The U.S. assets and partner share of booked liabilities and interest expense of the partnership are also coordinated with the interest expense allocation computations reported on Schedule I (Form 1120-F).



*If you disposed of all or a portion of any partnership interest listed on Schedule P during your taxable year, then you may have to report any gain or loss from that disposition on Form 1120-F. See section 864(c)(8) and item HH on page 3 of Form 1120-F.*

### Who Must Complete Schedule P

A foreign corporation that is directly or indirectly engaged in a trade or business within the United States is required to file Schedule P (Form 1120-F) for all directly owned partnership interests that have gross ECI, and/or expenses allocable to gross ECI, included in its distributive share of income reported to the corporation on Schedule K-3 (Form 1065). If the foreign corporation treats any of its distributive share of partnership net income or loss from a partnership that is not engaged in a trade or business within the United States as ECI with another trade or business of the corporation, the corporation's entire distributive share of items of income and expense from any such partnership must also be reconciled between ECI and non-ECI and reported on Schedule P.

A foreign corporation may be engaged in a trade or business within the United States either directly through its own

non-partnership related activities or indirectly, including through the activities of one or more partnerships in which the corporation owns a partnership interest. In addition, if a corporation owns an interest in a partnership that is itself deemed engaged in a trade or business within the United States as a result of the partnership's directly or indirectly owned interest in another partnership ("lower-tier partnership"), the corporation is also treated as engaged in a trade or business as a result of its direct and indirect ownership of such interests. See section 875(1). The foreign corporation's distributive share of income from a domestic partnership and certain foreign partnership interests is reported to the partner on Schedule K-3 (Form 1065), together with the corporation's allocable share of partnership liabilities. If the partnership is engaged in a trade or business directly or indirectly through a lower-tier partnership and has ECI to report in the distributive share of a foreign partner, it is responsible for making quarterly installment payments of withholding tax under section 1446 on the foreign partner's allocable share of estimated effectively connected taxable income (ECTI) and reporting to the foreign partner, on Form 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax, the amounts of ECTI and section 1446 tax withheld for the tax year.

### Exceptions From Filing Schedule P

Do not file Schedule P if none of the distributive shares from any of the corporation's partnership interests include ECI, or expenses allocable to ECI. A foreign corporation that has ECI reported to it from a partnership is not required to file Schedule P (Form 1120-F) if none of the corporation's business profits including its ECI from the partnership are attributable to a U.S. permanent establishment pursuant to an applicable income tax treaty and the corporation files a protective tax return under Regulations section 1.882-4(a)(3)(vi).

**Protective election on Schedule P.** See *Protective election*, later, for instructions for making a protective partnership outside basis apportionment

election with a protective return filing of Form 1120-F.

## When and Where To File

Attach Schedule P (Form 1120-F) to the foreign corporation's Form 1120-F income tax return. See the Instructions for Form 1120-F for the time, place, and manner for filing the foreign corporation's income tax return.

## Other Forms and Schedules Related to Schedule P

**Form 1120-F, Section II.** Gross ECI includible in the corporation's distributive share is reportable on Form 1120-F, Section II, lines 3 through 10, in the applicable category of income. Expenses (other than interest expense) that are deductions allocated and apportioned on Schedule P (Form 1120-F) to the partner's ECI are also reported on Form 1120-F, Section II.

**Schedule I (Form 1120-F).** A portion of the interest expense reportable on Schedule P is includible in the corporation's interest expense allocation computation under Regulations section 1.882-5. The corporation's distributive share of interest expense that is directly allocable to ECI under Regulations section 1.882-5(a)(1)(ii)(B) is reported on Schedule P, line 7, and on Schedule I (Form 1120-F), line 22. A portion of the corporation's distributive share of interest expense that is reported on Schedule P, line 8, is reported on Schedule I (Form 1120-F), line 9, column (b). The average value of partnership liabilities the corporation includes in the determination of its outside basis for purposes of determining the proportion of the partnership interest treated as a U.S. asset is reported on Schedule P (Form 1120-F), line 11 (Total column). The average value of the partner's outside basis used to determine the proportion of the partnership interest treated as a U.S. asset is reported on Schedule P (Form 1120-F), line 13, and as a U.S. asset on Schedule I (Form 1120-F), line 5, column (b).

**Schedule H (Form 1120-F), Part I, Part II, and Part IV.** The corporation's distributive share of non-interest expenses included on Schedule P, line 4, is also included in the corporation's overall allocation and apportionment of expenses on Schedule H (Form 1120-F), Part IV, lines 38a through 41, if the partnership books constitute a set(s) of books that are also reportable on Form 1120-F, Schedule L or the partnership interest is recorded on the Schedule L books of the corporation's own separate trade or business within the United States. If the

partnership interest is not reported on Schedule L, the distributive share of partnership expenses allocable to the corporation's distributive share of ECI is included on Schedule H (Form 1120-F) in Parts I and II. See the Instructions for Schedule H (Form 1120-F).

### Schedule M-3 (Form 1120-F), Part II.

The corporation's distributive share of partnership income or loss may be reported on Schedule M-3 (Form 1120-F), Part II, line 9 (domestic partnerships) and line 10 (certain foreign partnerships), in accordance with the corporation's reporting on its applicable financial statements for Schedule M-3 (Form 1120-F) purposes. See the instructions for Schedule M-3 (Form 1120-F), Part II, lines 9 and 10, for the specific reporting requirements.

### Form 8990, Limitation on Business Interest Expense Under Section 163(j).

Business interest expense includes any interest paid or accrued on indebtedness properly allocable to a trade or business. Business interest expense is generally limited to the sum of business interest income, 30% of the adjusted taxable income, and floor plan financing interest. Form 8990 is required, unless an exception for filing is met. For more information, see section 163(j), Form 8990, and the Instructions for Form 8990.

## Part I—List of Foreign Partner Interests in Partnerships

In Part I, list the name, address, and employer identification number (EIN) of each directly owned partnership interest that has ECI included in the partner's distributive share on Schedule K-3 (Form 1065). Also include in the list of partnership interests any interest in a partnership that is not engaged in trade or business within the United States if the corporation treats some or all of its distributive share as ECI from a separate trade or business of its own within the United States. **Do not report on Schedule P** any indirectly owned partnership interests (lower-tier partnership interests) that have income effectively connected with the lower-tier partnership's own trade or business within the United States unless the corporation also owns a direct interest in the lower-tier partnership. The corporation's distributive share as ECI earned through lower-tier partnership interests is includible on the Schedule K-3 (Form 1065) reportable to the corporation by the partnership in which the corporation owns a direct interest, whether or not the directly owned partnership is itself directly engaged in trade or business within the United States.

Schedule P (Form 1120-F) accommodates reporting for four directly owned partnership interests. Complete a separate line in Part I, and the corresponding columns in Parts II and III, for each directly owned partnership interest. If the corporation directly owns more than four partnership interests which are required to be reported on Schedule P (Form 1120-F), report the required information for those additional partnership interests on attached separate sheets using the same size and format as shown on the schedule. Also, in the "Totals" column of Parts II and III, for each line item, enter the sum for all directly owned partnership interests, including those interests reported on attached sheets.

Entities treated as partnerships for tax purposes include limited liability partnerships (LLPs) and limited liability companies (LLCs) that are not classified as corporations for federal income tax purposes and may be domestic or foreign. Do not include any interest in any entity treated as a disregarded entity as described under Regulations section 301.7701-2(c)(2).

**Column (d).** With respect to each partnership interest, check the "Yes" box if the foreign corporation's distributive share is ECI, or treated as ECI, in whole or in part, of a U.S. trade or business determined under section 875. Accordingly, with respect to each partnership interest, check the "Yes" box if the foreign corporation is engaged in a U.S. trade or business indirectly through the activities of the partnership. Check the "No" box if the foreign corporation has applied ECI principles solely at the partner level and not as a result of the partnership's activities.

## Part II—Foreign Partner Income and Expenses: Reconciliation to Schedule K-3 (Form 1065)

Part II reconciles the partner's ECI to its Schedule K-3 (Form 1065) distributive share from each partnership listed in Part I. The Schedule K-3 lines are grouped for reconciliation of their income and expense in the following manner.

- Schedule P, lines 1 through 6: Total gross income and gross ECI, and related deductions and losses, from Schedule K-3 (Form 1065), Part X.
- Schedule P, line 7: Interest expense directly allocable under Regulations section 1.882-5(a)(1)(ii)(B).
- Schedule P, line 8: Interest expense on U.S.-booked liabilities as described under Regulations section 1.882-5(d)(2)(vii) from Schedule K-3 (Form 1065), Part X, Section 2, line 7, column (b).



**Line 3. Gross ECI - Partner determination.** See the Instructions for Schedule K-3 (Form 1065), Part X, Section 1, column (b) for information the foreign corporate partner can use to determine the amounts to include on Schedule P (Form 1120-F), Part II, line 3.

**Line 6. Total deductions and losses deductible against gross ECI - Partner determination.** See the Instructions for Schedule K-3 (Form 1065), Part X, Section 2, column (b) for information the foreign corporate partner can use to determine the amounts to include on Schedule P (Form 1120-F), Part II, line 6.

**Line 7. Interest expense directly allocable under Regulations section 1.882-5(a)(1)(ii)(B).** On line 7 enter the amount of interest expense that is directly allocable to ECI under Regulations section 1.882-5(a)(1)(ii)(B) and the applicable requirements of Temporary Regulations section 1.861-10T(b) or (c). The amount entered on line 7 is also included on Schedule I (Form 1120-F), line 22.

**Line 8. Interest expense on U.S.-booked liabilities as described under Regulations section 1.882-5(d)(2)(vii).** On line 8 enter the amount of interest expense that arises from U.S.-booked liabilities as described in Regulations section 1.882-5(d)(2). The amount on line 8 should generally be the same amount reported on Schedule K-3, Part X, Section 2, line 7, column (b). The amount entered on line 8 is also reported on Schedule I (Form 1120-F), line 9, column (b). A portion of the line 8 amount is also taken into account on Form 1120-F, Section III, Part II, line 8, in determining the corporation's branch interest under Regulations section 1.884-4(b).

### Part III—Foreign Partner's Average Outside Basis Under Regulations Sections 1.882-5(b) and 1.884-1(d)(3)

Report in Part III the corporation's outside basis for each partnership interest identified in Part I of this Schedule P (Form 1120-F) for purposes of determining the amount the corporation includes as a U.S. asset in Step 1 of the interest expense allocation under Regulations section 1.882-5. The corporation's outside basis in its partnership interests reported on Schedule P is determined and adjusted under the rules applicable to the determination of the corporation's outside basis in the partnership for branch profits tax purposes under Regulations section 1.884-1(d)(3), except that the amounts entered on lines 9 through 13 are the average values rather than the determination dates used under the

section 884 regulations for branch profits tax purposes. If the corporation is not exempt from the branch profits tax under an applicable income tax treaty, attach a statement showing the determination of the corporation's outside basis in accordance with the requirements of lines 9 through 13 for an averaging period that shows the apportioned outside basis for the beginning and ending determination dates of the corporation's tax year. See also section 163(j) for rules on how the trade or business interest limitation may affect outside basis.

**Line 9. Section 705 outside basis.** Enter on line 9 the corporation's average value of the outside basis (otherwise determined under section 705) of the partnership in the column which corresponds to the line in Part I on which the partnership interest is listed. The average value is determined using the most frequent averaging period for which data is reasonably available. See Regulations sections 1.882-5(b)(3) and 1.882-5(c)(2)(iv).

**Lines 10a and 10b. Partner liabilities included in the corporation's outside basis.** The corporation's outside basis reported on line 9 is adjusted on lines 10a and 10b to conform the amount of liabilities the corporation includes in the determination of its outside basis to the proportionate amount of the corporation's distributive share of interest expense with respect to the partnership's liabilities. This adjustment is made only for purposes of determining the corporation's outside basis included in the interest expense allocation and branch profits tax computations. The adjustment is not made for other federal income tax purposes such as for determining the corporation's gain or loss from disposition of the partnership interest.

**Line 10a. Adjustment for directly allocable interest.** The outside basis is reduced by the average amount of liabilities that give rise to directly allocable interest expense in accordance with Regulations section 1.882-5(a)(1)(ii)(B). Enter the portion of the partnership liability that is subject to the direct interest expense allocation rules under Temporary Regulations section 1.861-10T(b) or (c) and is subject to exclusion from the determination of the corporation's average U.S. asset values under Regulations section 1.882-5. See Temporary Regulations section 1.861-10T(d).

**Line 10b.** Enter the average amount of the corporation's share of all other partnership liabilities it otherwise takes into account under section 752 in determining its outside basis in its partnership interest.

**Line 11.** Enter the corporation's average partnership liabilities, or portion thereof, for the year for which the corporation receives a distributive share of interest expense for the year. See Regulations section 1.884-1(d)(3)(vi). Also, enter this line 11 amount on Schedule I (Form 1120-F), line 8, column (b), to the extent applicable in determining the corporation's interest expense deduction under Regulations section 1.882-5.

**Line 12. Partner's adjusted average outside basis in partnership.** Add lines 10d and 11 and enter the amount on line 12. The amount reported on line 12 is the corporation's adjusted outside basis that is eligible for apportionment between ECI and non-ECI.

**Line 13. Partner's outside basis allocable to ECI.** Enter on line 13 the corporation's average outside basis reported on line 12 that is treated as a U.S. asset under Regulations sections 1.884-1(d)(3) and 1.882-5. Also enter this line 13 amount on Schedule I (Form 1120-F), line 5, column (b). See Regulations section 1.884-1(d)(3)(i) for the elective requirements for apportioning outside basis on the income or asset method. For purposes of determining the proportion of the partnership interest that is a U.S. asset, a foreign corporation may elect separately for each partnership interest to use either the asset method or the income method described in Regulations sections 1.884-1(d)(3)(ii) and (iii). See the instructions for line 14 below. If the corporation does not timely elect either method in the first year the corporation has a distributive share of ECI from the partnership, the Director of Field Operations may make the election on behalf of the corporation. See Regulations section 1.884-1(d)(3)(v).

**Note.** The required timely filed election under Regulations section 1.884-1(d)(3)(iv) for apportioning outside basis between ECI and non-ECI also applies to lower-tier partnership interests that are not required to be identified and reconciled to Schedule K-3 (Form 1065) on Schedule P (Form 1120-F).

**Line 14. Outside basis election method.** Check either the "income" box or the "asset" box on line 14 to indicate the elective outside basis apportionment method used to determine the amount of the corporation's outside basis in its partnership interests apportioned to ECI and reported on line 13. The allocation method is subject to a 5-year minimum period election that must be made in the first year the partner has a distributive share of ECI included in the income reported on Schedule K-3 (Form 1065). The elective method chosen must be used for both branch profits tax and interest

expense allocation purposes during the same 5-year minimum period. See Regulations section 1.884-1(d)(3)(iv).

**Asset method.** In general, a partner's interest in a partnership shall be treated as a U.S. asset in the same proportion that the sum of the partner's proportionate share of the adjusted bases of all partnership assets as of the determination date bears to the sum of the partner's proportionate share of the adjusted bases of all partnership assets as of the determination date. The proportion of U.S. assets to total assets of the partnership is determined as if the partnership were a foreign corporation engaged in a trade or business within the United States. Generally, a partner's proportionate share of a partnership asset is the same as its proportionate share of all items of income, gain, loss, and deduction that may be generated by the asset. Use amounts from Schedule K-3, Part X, Section 3, lines 2a and 2b to calculate the asset ratio that is applied to the Schedule P, line 13 amount.

See Regulations section 1.884-1(d)(3)(ii) (B) for non-uniform treatment of certain partnership items.

**Income method.** Under the income method, a partner's interest in a partnership shall be treated as a U.S. asset in the same proportion that its distributive share of partnership ECI for the partnership's tax year that ends with or within the partner's tax year bears to its distributive share of all partnership income for that tax year. Use amounts from Schedule K-3, Part X, Section 3, lines 2a and 2b to calculate the asset ratio that is applied to the Schedule P, line 13 amount.

**Protective election.** If the corporation files a protective tax return under Regulations section 1.882-4(a)(3)(vi), and the partnership is not engaged in a trade or business within the United States or does not have business profits attributable to a U.S. permanent establishment, the corporation need not file Schedule P and report its distributive share of income and expenses with its

Form 1120-F. However, if it is later determined that the corporation's distributive share of partnership income is ECI with respect to a trade or business of the corporation, the corporation will have failed to make a timely income method or asset method election with respect to such partnership for outside basis apportionment purposes if no other election disclosure is made. To preserve the right to allocate and apportion its outside basis under a chosen method, the corporation may make a protective election by completing Part I, and Part III, line 14, of Schedule P, and including it with the protective return filing of Form 1120-F. The protective election is effective only for the year in which the protective election is also the first year in which the corporation's distributive share is in fact ECI of a trade or business of the corporation within the United States. The corporation need not complete Part II, or Part III, lines 9 through 13, with the protective election.