



# Partner's Instructions for Schedule K-3 (Form 1065)

## Partner's Share of Income, Deductions, Credits, etc.—International (For Partner's Use Only)

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

### Future Developments

For the latest information about developments related to Form 1065 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form1065](https://www.irs.gov/Form1065).

### What's New

Schedule K-3 (Form 1065) is new for the 2021 tax year. Schedule K-3 replaces, supplements, and clarifies the former line 16, *Foreign Transactions*, in Part III of Schedule K-1 (Form 1065). Schedule K-3 also replaces, supplements, and clarifies the reporting of certain amounts formerly reported on line 20, *Other information*, in Part III of Schedule K-1. Schedule K-3 assists partnerships in providing you with the information necessary to complete your returns with respect to the international tax aspects of the Internal Revenue Code. For example, Schedule K-3 provides information necessary for a partner that is a corporation (corporate partner) or individual (individual partner) to figure their foreign tax credit on Form 1118, Foreign Tax Credit-Corporations; or Form 1116, Foreign Tax Credit (Individual, Estate, or Trust), respectively.

### General Instructions

The Partner's Instructions for Schedule K-1 (Form 1065) generally apply to Schedule K-3, including *Inconsistent Treatment of Items and Errors*. These instructions provide additional information specific to Schedule K-3.

### Purpose of Schedule K-3

Schedule K-3 reports items of international tax relevance from the operation of a partnership. You must include this information on your tax or information returns. See separate parts for specific instructions. You only need to use the schedules that are applicable to you. For example, in general, if the partner receiving Schedule K-3 is a domestic corporation, the partnership did not complete *Part X, Foreign Partner's Character and Source of Income and Deductions*, because that part is inapplicable to domestic corporation partners. If the partner receiving Schedule K-3 is itself a partnership, it will use information from Schedule K-3 to complete Schedules K-3 to report to its partners.

The proper treatment of certain items by the partner are dependent on information that the partnership may not

have, and thus the partnership may have reported certain information on the Schedule K-3 based on assumptions that are incorrect. In such cases, the partner must treat the items according to the partner's actual facts, and file a Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR), to identify and explain the inconsistency.

### How To Use Schedule K-3

**Reporting currency.** All amounts are reported in U.S. dollars except where otherwise specified.

**References to other forms.** References in these instructions to Form 1040, U.S. Individual Income Tax Return, are intended, if applicable, to include Form 1040-SR, U.S. Tax Return for Seniors, as well as other tax returns for noncorporate partners such as Form 1041, U.S. Income Tax Return for Estates and Trusts. Similarly, references to Form 1120, U.S. Corporation Income Tax Return, are intended, if applicable, to apply to other forms in the 1120 series. References to forms which have been replaced are intended, if applicable, to include the replacement forms.

**Uses of the parts of Schedule K-3, in general.** The following are brief descriptions of each part of Schedule K-3. Detailed information is provided in *Specific Instructions*.

**Part I.** Used to determine any international tax items not reported elsewhere on Schedule K-3 (Form 1065).

**Part II.** Used to determine your distributive share of partnership income and loss by source and separate category of income for purposes of the foreign tax credit limitation. Partners will use the information to claim and figure a foreign tax credit on Form 1116 or 1118.

**Part III.** Used to determine the allocation and apportionment of research and experimental (R&E) expense, interest expense, and the foreign-derived intangible income (FDII) deduction for purposes of the foreign tax credit limitation. Also use this part to determine your distributive share of the partnership's

creditable foreign taxes paid or accrued, and to determine income adjustments under section 743(b) by source and separate category. Partners will use the information to figure and claim a foreign tax credit on Form 1116 or 1118.

**Part IV.** Used to determine your deduction with respect to FDII. Partners will use the information to claim and figure a section 250 deduction with respect to FDII on Form 8993, Section 250 Deduction for Foreign-Derived Intangible Income (FDII) and Global Intangible Low-Taxed Income (GILTI).

**Part V.** Used, in combination with other information known to you, such as from Schedule P (Form 5471), Information Return of U.S. Persons With Respect to Foreign Corporations, to determine your share of distributions by foreign corporations to the partnership that are attributable to previously taxed earnings and profits (PTEP) in your annual PTEP accounts with respect to the foreign corporations (which are excludable from your gross income) or non-previously taxed earnings and profits (E&P), and the amount of foreign currency gain or loss on the PTEP that you are required to recognize under section 986(c). Use the information to figure and report the dividends and foreign currency gain or loss on Form 1040 and Form 1120. Also use the information to claim and figure a foreign tax credit on Form 1116 or 1118.

**Part VI.** Used to determine your income inclusions under sections 951(a) and 951A if you are a U.S. shareholder of any of the listed controlled foreign corporations (CFCs). Partners will use the information to complete Form 8992, U.S. Shareholder Calculation of GILTI, and Forms 1040 and 1120 with respect to subpart F income inclusions, section 951(a)(1)(B) inclusions, and section 951A inclusions.

**Part VII.** Used to complete Form 8621, Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund, and to provide information required to determine your inclusion with respect to the passive foreign investment company (PFIC).

**Part VIII.** Used to determine your deemed paid taxes on inclusions under section 951A, 951(a)(1), or 1293(f). Domestic corporate partners and partners making a section 962 election will use the information to figure a deemed paid foreign tax credit on Form 1118.

**Part IX.** Used to figure the base erosion and anti-abuse tax (BEAT). Corporate partners will use the information to complete Form 8991, Tax on Base Erosion Payments of Taxpayers With Substantial Gross Receipts.

**Part X.** Used to provide information to a foreign partner (or a pass-through entity partner with a foreign owner) to determine its tax liability or reporting requirements with respect to income effectively connected with a U.S. trade or business (ECI) or with respect to fixed, determinable, annual, or periodical (FDAP) income. Partners will use the information to figure and report any U.S. tax liability on Forms 1040-NR, U.S. Nonresident Alien Income Tax Return; 1120-F, U.S. Income Tax Return of a Foreign Corporation; or other applicable form.

**Part XI.** Certain partners that have entered into section 871(m) transactions referencing units in the partnership will use any information reported in this part to determine their U.S. withholding tax and reporting obligations with respect to those transactions under section 871(m) and related rules, including for purposes of determining the amounts to report on Forms 1042 and 1042-S.

#### **Part XII. Reserved**

**Part XIII.** Used if you are a foreign person to determine your distributive share of deemed sale items on transfer of a partnership interest. Partners will use the information to complete Form 4797, Sales of Business Property; and Form 8949, Sales and Other Dispositions of Capital Assets.

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## **Specific Instructions Schedule K-3 Identifying Information**

**Item E—Part Applicability.** The partnership checked the “Yes” box to indicate the applicable parts of Schedule K-3. The partnership checked the “No” box to indicate the inapplicable parts of Schedule K-3.

### **Part I. Partner’s Share of Partnership’s Other Current Year International Information**

This part reports your information for international tax items not reported elsewhere on the Schedule K-3.

#### **Box 1. Gain on personal property sale.**

In general, income from the sale of personal property is sourced according to the residence of the seller. See section 865. If the partnership sells non-depreciable personal property (other than inventory and certain intangible property), you, the partner, are treated as the seller. Therefore, you will need to determine the source of the gain reported on Part II, line 1, column (f). In general, if

you are a U.S. citizen or resident alien individual, the gain is U.S. source. However, a U.S. citizen or resident alien individual with a tax home (section 911(d)(3)) in a foreign country is treated as a nonresident if an income tax of at least 10% is imposed by and paid to a foreign country regarding such sale. See section 865(g)(2).

If the partnership checked box 1 on Part I, use the information attached to Schedule K-3 to determine if a foreign country imposed a tax of at least 10% or more on the gain from each sale. If so, and you have a tax home in a foreign country, such gain is foreign source income and reported on Form 1116. For more information, see the instructions later to Part II, column (f).

**Box 2. Foreign oil and gas taxes.** A separate foreign tax credit limitation is applied with respect to foreign oil and gas taxes. See section 907(a) and Regulations section 1.907(a)-1 for details. If the partnership had such taxes, it checked box 2 and attached a partially completed Schedule I (Form 1118), to Schedule K-3. If you are a corporation, use the partially completed Schedule I to complete your Schedule I (Form 1118). If you are an individual, estate, or trust, see Form 1116, Part III, line 12, and the associated instructions for the applicable reduction for individuals.

**Box 3. Splitter arrangements.** Foreign taxes with respect to a foreign tax credit splitting event are suspended until the related income is taken into account by the taxpayer. See section 909. There is a foreign tax credit splitting event with respect to foreign taxes of a payor if in connection with a splitter arrangement the income is or will be taken into account by a covered person. See Regulations section 1.909-2(a). A covered person, as defined in Regulations section 1.909-1(a)(4), includes, for example, any entity in which the payor holds, directly or indirectly, at least a 10% ownership interest (determined by vote or value). A payor, as defined in Regulations section 1.909-1(a)(3), includes, for example, a person that takes foreign income taxes paid or accrued by a partnership into account pursuant to section 702(a)(6).

If the partnership checked box 3 on Part I, it attached a statement that separately identifies any arrangement, along with your share of the taxes paid or accrued in connection with the arrangement in which the partnership participates that would qualify as a splitter arrangement under section 909. The box should be checked only if the partnership knows or has reason to know an entity that took into account related income from the arrangement is a covered person with respect to one or more partners. For

example, you are a payor of a foreign tax if you take into account the foreign taxes paid or accrued by the partnership under section 702(a)(6). If the partnership wholly owns a reverse hybrid (as defined in Regulations section 1.909-2(b)(1)(iv)) and you own 10% or more (determined by vote or value) of the interest in the partnership, the reverse hybrid is a covered person with respect to you. You cannot credit the foreign taxes paid or accrued by the partnership with respect to the reverse hybrid until you or the partnership takes into account the related income of the reverse hybrid. Until then, the taxes are suspended. The partnership reported your share of the potentially suspended taxes as a result of the application of section 909 on Part III, section 4, line 2E. If you are a corporation, complete Form 1118, Schedule G, line E for taxes suspended under section 909. If you are an individual, estate, or trust, include on Form 1116, Part III, line 12, taxes suspended under section 909. If you are required to complete Form 5471 for a controlled foreign corporation (CFC), include in Schedule E-1, column (d), line 3b, taxes suspended under section 909.

If the partnership checked box 3, and the statement indicates that the partnership took into account the related income from the splitter arrangement, the taxes are partially or fully unsuspending depending on the amount of related income taken into account. Even though the taxes are unsuspending, in certain cases you might not be eligible to claim a credit for those taxes, for example, when the related income is taken into account as part of a dividend for which you are eligible for a section 245A deduction. To the extent you are eligible to claim a credit for unsuspending taxes, these amounts may be claimed on Form 1118 or 1116, as applicable. If you are required to complete Form 5471, for a CFC, report the unsuspending taxes on Form 5471, Schedule E-1, column (d), line 3a.

In some cases, you may take into account related income directly that allows you to partially or fully unsuspending taxes, for example, by way of a subpart F or GILTI inclusion with respect to related income.



*There might be a splitter arrangement with respect to the partner even if the partnership did not identify one, given that the partnership did not have the information available to the partner. Therefore, you must identify such arrangement even if box 3 is not checked.*

**Box 4. Foreign tax translation.** If the partnership checked box 4, it will attach a statement described in the instructions for Part III, section 4.

**Box 5. High-taxed income.** If the partnership checked box 5, you must determine if the passive income reported to you by the partnership is treated as income in another separate category. Income received or accrued by a U.S. person that would otherwise be passive income is not treated as passive income if the income is determined to be high-taxed income. See section 904(d)(2)(B)(iii)(II). You must group your distributive shares of passive income from a partnership according to the rules in Regulations section 1.904-4(c)(3). However, the portion, if any, of the distributive share of income attributable to income earned by a domestic partnership through a foreign qualified business unit (QBU) is separately grouped under the rules of Regulations section 1.904-4(c)(4). See Regulations section 1.904-4(c)(5)(ii). The partnership will attach *Worksheets 1* and/or *2*.

Use Schedule K-3 and your taxes on your other passive income (that is, passive income that is not attributable to your distributive share of the partnership's income as reported on Schedule K-3) to determine if you need to assign passive income and the associated taxes to another separate category of income. You must allocate and apportion your expenses to this passive income to determine if the income is treated as income in another separate category. This includes both your distributive share of partnership expenses and expense incurred by you directly. If you are a corporation, see the Instructions for Form 1118 for how to report your income and taxes reclassified under the high-taxed income rule. If you are an individual, estate, or trust, see the Instructions for Form 1116 for how to report your income and taxes reclassified under the high-taxed income rule.

**Box 6. Section 267A disallowed deductions.** If the partnership checked box 6 on Part I and attached a statement titled "Section 267A Disallowed Deduction," prepare your tax return by taking into account that you are not allowed a deduction for any of the amounts listed in the statement. Thus, for example, do not claim as a deduction any amount reported on lines 41 through 43 of Schedule K-3, Part II, Section 2, or line 9 of Part X, Section 2, to the extent listed in the statement as an amount for which a deduction is disallowed under section 267A. As an additional example, in the case of a Form 1120 filer, include the amount of disallowed deductions under section 267A on Schedule K, Question 21. See also Form 1120-F, page 2, item EE.



*Box 6 and the accompanying statement describe only interest or royalty paid or accrued by the partnership for which the partnership*

*knows, or has reason to know, that you are disallowed a deduction under section 267A. In certain cases, the partnership may not know, or have reason to know, that you are disallowed a deduction for interest or royalty paid or accrued by the partnership.*

*See Instructions for Form 1065, Schedule B, line 22. For your share of any interest or royalty paid or accrued by the partnership, you must apply section 267A and determine whether a deduction is disallowed, regardless of whether box 6 is checked or whether the amount is listed on the accompanying statement.*

**Items 7 through 9.** The partnership will attach Form 5471; Form 8858; Form 8865; Form 5713, International Boycott Report; and other relevant international tax forms. If the partnership has filed Form 8990, Limitation on Business Interest Expense Under Section 163(j), the partnership will also provide on Schedule K-1 the information needed to complete Form 8990, Schedule A for foreign partners which are required to report their distributive share of excess business interest expense, excess taxable income, and excess business interest income, if any, that is attributable to income effectively connected with a U.S. trade or business.

**Box 10. Partner loan transactions.** If this box is checked, the partnership identified upstream or downstream partnership loan transactions. See Regulations section 1.861-9(e)(8) and (9) for purposes of determining special rules regarding interest expense allocation and apportionment if you have such loan transactions with the partnership.



*There might be a partner loan transaction even if the partnership did not identify one, given that the partnership did not have the information available to the partner.*

**Box 11. Dual consolidated loss.** If the partnership checked box 11 and you are a domestic corporation (other than a regulated investment company, a real estate investment trust, or an S corporation), the dual consolidated loss ("DCL") rules pursuant to Regulations section 1.1503(d)-1 through 1.1503(d)-8 may apply to your share of certain partnership items. In order to comply with the DCL rules, you may need information in addition to that provided by the partnership in this schedule (for example, your share of the income or DCL attributable to the partnership's foreign branch or interest in a hybrid entity). Some of the necessary information may be provided on Form 8858.

**Box 12. Other international items.** If the partnership has transactions, income,

deductions, payments, or anything else that implicates the international tax provisions of the Internal Revenue Code and such items are not otherwise reported on this part or other parts of Schedule K-3, the partnership reported that information on a statement and checked box 12.

## Parts II and III

Schedule K-3, Parts II and III, report information you use to figure the foreign tax credit. In general, a U.S. individual, estate, trust, or corporation may claim a credit for taxes paid or accrued, and in some cases deemed paid, to foreign countries or U.S. possessions. In general, foreign corporations and nonresident alien individuals may claim a credit for taxes paid or accrued to foreign countries or U.S. possessions with respect to ECI. The amount of foreign tax credit in a tax year is generally limited to the lesser of the foreign taxes paid or accrued or the U.S. tax on foreign source income. The limitation is figured by separate categories of foreign source income, including foreign branch category, passive category, and general category. See the instructions for Forms 1116 and 1118, as well as Pub. 514, Foreign Tax Credit for Individuals, for a summary of the rules for determining the source and separate categories of income. Note that the information on Parts II and III may need to be included on the Schedule K-3 you file if you are a partnership receiving Schedule K-3 as a partner in the partnership. For example, another domestic partnership or a foreign partnership will need to report the share of foreign source income and taxes on the Form 1065 or 8865, Schedule K-3, Parts II and III. Similarly, if you are a CFC partner in the partnership, the U.S. shareholder of the CFC will need to report the information reported on your Schedule K-3, Parts II and III, on Form 5471, in particular, Schedule E.

## Part II. Foreign Tax Credit Limitation

**Column (a). U.S. source.** Do not report amounts in this column on Form 1116 or 1118 unless you elect to resource such income under an applicable U.S. income tax treaty. See section 904(d)(6). See the instructions for Forms 1116 and 1118 for income resourced by treaty reported as a separate category of income.

**Columns (b) through (e). Foreign source.** Add the amounts reported in these columns to your other income in these separate categories and report the total amounts on the applicable Form 1116, Part I, or Form 1118, Schedule A.

**Exception.** If you are a less-than-10% limited partner and you do not hold your partnership interest in the ordinary course

of your active trade or business, then any amounts reported on Schedule K-3, Part II, section 1 and Part III, section 1, columns (b), (d), and (e); Part III, section 3, columns (c) and (d); and Part III, section 5, columns (b), (c), (e), and (f) should be reported as passive category income. Deductions reported on Part II, section 2, columns (b), (d), and (e) should be reported as reducing passive category income. Similarly, any foreign taxes paid or accrued on foreign source income in Part III, section 4, (b), (c), (e), and (f), should be assigned to passive category income. Finally, any amounts reported in Part III, section 2, columns (b), (d), and (e) should be assigned to passive category income. See Regulations section 1.904-4(n)(1)(ii).

**Column (f). Sourced by partner.** You must determine the source and separate category of the income reported in this column. The income in this column will generally be with respect to sale of personal property other than inventory, depreciable property, and certain intangible property sourced under section 865. This column might also include foreign currency gain on a section 988 transaction. If you are a U.S. citizen or resident, sales and gains reported in this column will generally be U.S. source income and not reported on Form 1116 or 1118 unless you elect to resource such income under an applicable income tax treaty. There are certain exceptions, for example, a U.S. citizen or resident with a tax home (as defined in section 911(d)(3)) in another country is treated as a nonresident if an income tax of at least 10% is imposed by and paid to a foreign country regarding such sale. See the instructions for Part I, Box 1 above. Also, the source of foreign currency gain or loss on section 988 transactions may be determined by reference to the residence of the QBU on whose books the asset, liability, or item of income or expense is properly reflected. See the Instructions for Form 1118 and Pub. 514 for additional details.

## Section 1, Gross Income Lines 1 through 24

Form 1118, Schedule A, requires a corporation to separately report certain types of gross income by source and separate category. Schedule K-3, Part II, lines 1 through 23 generally follow the separately reported types of gross income on Schedule A. Individuals must follow the same sourcing rules, but Form 1116 only requires reporting of total gross income from foreign sources by separate category. Therefore, those required to file Form 1116 would report line 24, taking into account section 904(b)(2) and PTEP adjustments, by country on their Form 1116, Part I, line 1a. Because all gross

income is reported on one line on the Form 1116, there is no need to specify other reporting lines for gross income below.

**Country code.** Forms 1116 and 1118 require the taxpayer to report the foreign country or U.S. possession with respect to which the gross income is sourced. On lines 1 through 24, report for each gross income item, on a separate line (A, B, or C), the two-letter code from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes) for the foreign country or U.S. possession within which the gross income is sourced. If a type of income is sourced from more than three countries, a statement is attached to expand Schedule K-3, Part II for that type of income to report the additional countries.

**Line 1. Sales.** If you file Form 1118, add the amount reported on this line to your other sales and report the total on the Form 1118, Schedule A, column 7, by separate category. See the instructions for column (f).

**Line 2. Gross income from performance of services.** If you file Form 1118, add the amount reported on this line to your other gross income from performance of services and report the total on the Form 1118, Schedule A, column 8, by separate category.

**Lines 3, 4, and 10. Rental income, royalties, and license fees.** If you file Form 1118, add the amount reported on this line to your other rental income, royalties, and license fees and report the total on the Form 1118, Schedule A, column 6, by separate category.

**Line 5. Guaranteed payments.** If you file Form 1118, add the amount reported on this line to your other guaranteed payments and report the total on the Form 1118, Schedule A, column 11, by separate category.

**Line 6. Interest income.** If you file Form 1118, add the amount reported on this line to your other interest income and report the total on the Form 1118, Schedule A, column 5, by separate category.

**Lines 7 and 8. Ordinary dividends and qualified dividends.** Some of the amounts reported on these lines may be attributable to PTEP in annual PTEP accounts that you have with respect to a foreign corporation and are therefore excludable from your gross income. If you file the Form 1116, do not include the amount attributable to PTEP in your annual accounts in Part I, line 1a. If you file Form 1118, add the amount reported on this line, less the amount attributable to PTEP in your annual PTEP accounts, to your other dividends and report the total on the Form 1118, Schedule A, column 4, by separate category.

See the Instructions for Form 1116 for additional information with respect to rules regarding capital gain rate differentials (as defined in section 904(b)(3)(D)) for qualified dividends.

**Lines 11 through 15 and 27 through 30. Capital gains and losses.** Section 904(b)(2)(B) contains rules regarding adjustments to account for capital gain rate differentials (as defined in section 904(b)(3)(D)) for any tax year. These rules apply to individuals and may require adjustments to the amounts on lines 11 through 15, which in turn affects the total amount on line 24. See the Instructions for Form 1116 for additional information. If you file Form 1116, report lines 27 through 30 on Form 1116, Part I, line 5, by separate category. If you file Form 1118, add the amounts reported on Schedule K-3, Part II, lines 11 through 15 to other gross income you report on the Form 1118, Schedule A, column 11, by separate category. Add the amounts reported on Schedule K-3, Part II, lines 27 through 30 to other amounts you report on Form 1118, Schedule A, column 13(j), or Form 1118, Schedule H, Part II, column (c), as applicable, by separate category.

**Lines 16 and 46. Section 986(c) gain and loss.** This line reports the partnership's share of a lower-tier pass-through entity's section 986(c) gain or loss, and the amount of section 986(c) gain or loss on distributions of PTEP sourced from the partnership's annual PTEP accounts. You will need to determine your foreign currency gain or loss under section 986(c) with respect to distributed PTEP sourced from annual PTEP accounts that you have with respect to a foreign corporation, using Part V of the Schedule K-3.

The amount of foreign currency gain and loss that you report on Form 1118 and other forms, for example, Form 1040 or 1120, will include your share of the partnership's foreign currency gain or loss under section 986(c) and your own foreign currency gain or loss under section 986(c). If you file Form 1118, add the amount on Schedule K-3, Part II, line 16 to your other section 986(c) gain and report the total on the Form 1118, Schedule A, column 9, by separate category. Identify the type of gain as section 986(c) gain in Form 1118, Schedule A, column 10. Add the amount reported on Schedule K-3, Part II, line 46 to your other section 986(c) losses and enter the total on the Form 1118, Schedule A, column 13(h), or Schedule H, Part II, column (c), as applicable, by separate category. If you entered an amount in Form 1118, Schedule A, column 13(h), enter the type of loss as section 986(c) loss in Form 1118, Schedule A, column 13(i).

**Lines 17 and 47. Section 987 gain and loss.** If you file Form 1118, add the amount reported on Schedule K-3, Part II, line 17 to your other section 987 gain and enter the total on the Form 1118, Schedule A, column 9, by separate category. Identify the type of gain as section 987 gain in Form 1118, Schedule A, column 10. Add the amount reported on Schedule K-3, Part II, line 47 to your other section 987 loss and enter the total on the Form 1118, Schedule A, column 13(h), or Schedule H, Part II, column (c), as applicable, by separate category. If you entered an amount in Form 1118, Schedule A, column 13(h), enter the type of loss as section 987 loss in Form 1118, Schedule A, column 13(i).

**Lines 18 and 48. Section 988 gain and loss.** The source of foreign currency gain or loss on section 988 transactions is generally determined by reference to the residence of the taxpayer or QBU on whose books the asset, liability, or item of income or expense is properly reflected. If the source of the foreign currency gain or loss is determined by reference to the residence of the taxpayer, the foreign currency gain and loss will be reported in column (f). For example, if you are a U.S. resident, such gain or loss is U.S. source and would not be reported on Form 1116 or Form 1118. If you file Form 1118, add the amount on Schedule K-3, Part II, line 18 to your other section 988 gain and enter the total on the Form 1118, Schedule A, column 9, by separate category. Identify the type of gain as section 988 gain in Form 1118, Schedule A, column 10. See instructions for column (f). Add the amount reported on Schedule K-3, Part II, line 48 to your other section 988 loss and enter the total on the Form 1118, Schedule A, column 13(h), or Schedule H, Part II, column (c), as applicable, by separate category. If you entered an amount in Form 1118, Schedule A, column 13(h), enter the type of loss as section 988 loss in Form 1118, Schedule A, column 13(i).

**Line 19. Section 951(a) inclusions.** If you file Form 1118, add the amount reported on this line to your other section 951(a) inclusions and report the total on the Form 1118, Schedule A, column 3(a), by separate category.

**Line 20. Other income.** If you file Form 1118, add the amount reported on this line to your other income and report the total on the Form 1118, Schedule A, column 11, by separate category.

**Line 24. Total gross income.** If you file Form 1116, add the amounts reported in rows A, B, and C (and additional rows, if applicable) to your other foreign source gross income from those countries, and enter the totals in Form 1116, Part I,

line 1a, taking into account any section 904(b) adjustments for capital gains, as described above for Schedule K-3, Part II, lines 11 through 15 and 27 through 30, or PTEP adjustments, as described above for Schedule K-3, Part II, lines 7, 8, 16, and 46.

If you file Form 1118, add the amounts reported in A, B, and C (and additional rows, if applicable) to your other foreign source gross income from those countries, and enter the totals in line 11 of Form 1118, Schedule A taking into account any PTEP adjustments, as described above for Schedule K-3, Part II, lines 7, 8, 16, and 46.

## Section 2, Deductions Lines 25 through 54

Form 1118, Schedule A, requires a corporation to separately report certain types of deductions and losses by source and separate category. Separate reporting is required because each type of deduction may be allocated and apportioned according to a different methodology. See Regulations sections 1.861-8 through -20. For purposes of allocating and apportioning expenses, in general, a partner adds the distributive share of the partnership's deductions with other deductions incurred directly by the partner or through other pass-through entities including partnerships, S corporations, and trusts (see Regulations section 1.904-5(a)(4)(iv) for a definition of pass-through entity). See Regulations section 1.861-8(e)(15). Schedule K-3, Part II, lines 25 through 50 generally follow the separately reported types of deductions and losses on Form 1118, Schedule A. Individuals must generally follow the same expense allocation and apportionment rules, but Form 1116 only requires separate reporting of certain deductions. See Form 1116, Part I, lines 2 through 5.

**Line 25. Expenses allocable to sales income.** If you file Form 1118, add the amount reported on this line to your other expenses allocable to sales income and report the total on the Form 1118, Schedule A, column 13(f), by separate category.

**Line 26. Expenses allocable to gross income from performance of services.** If you file Form 1118, add the amount reported on this line to your other expenses allocable to gross income from performance of services and report the total on the Form 1118, Schedule A, column 13(g), by separate category.

**Lines 31, 37 and 44 through 45. Other deduction.** If you file Form 1118, add the amounts reported on these lines to your other deductions and report the total on the Form 1118, Schedule A, column 13(j), or Form 1118, Schedule H, Part II, column (c), as applicable, by separate category.

**Line 32. R&E expenses.** Add the R&E expenses reported in column (f) to your other R&E expenses. After determining the portion of such expenses that are allocable to U.S. source income or foreign source income because they are performed predominantly in a particular geographic area, report the remaining R&E expense on Form 1118, Schedule H, Part I. See Regulations section 1.861-17(f).

**Lines 33 and 35. Allocable rental, royalty, and licensing expenses (depreciation, depletion, and amortization).** If you file Form 1118, add the amounts reported on these lines to your other allocable rental, royalty, and licensing expenses (depreciation, depletion, and amortization) and report the total on the Form 1118, Schedule A, column 13(d), by separate category.

**Lines 34 and 36. Allocable rental, royalty, and licensing expenses (other than depreciation, depletion, and amortization).** If you file Form 1118, add the amounts reported on these lines to your other allocable rental, royalty, and licensing expenses (other than depreciation, depletion, and amortization) and report the total on the Form 1118, Schedule A, column 13(e), as applicable, by separate category.



*If Part I, box 6, is checked, royalty expenses may include amounts for which you are not allowed a deduction under section 267A. See statement with respect to Part I, box 6, attached to Schedule K-3.*

**Line 38. Charitable contributions.** Charitable contribution deductions should not be reported on Form 1116 or 1118 because such deductions are allocable to U.S. source income.

**Lines 39 and 40. Interest expense specifically allocable under Regulations sections 1.861-10 and -10T.** If you file Form 1118, add the amounts reported on these lines to your other interest expense specifically allocable under Regulations sections 1.861-10 and -10T and report the total on Form 1118, Schedule H, Part II, column (b), lines 1b and c.

**Lines 41 through 43. Other interest expense.** If you file Form 1118, add the sum of the interest expense included on these lines in Schedules K-3, Part II, column (f) to your other interest expense and report the total on Form 1118, Schedule H, Part II, column (b), line 2. If you file Form 1116, allocate and apportion the sum of the interest expense included on these lines in Schedule K-3, Part II, column (f) and report the allocated and apportioned amounts on the applicable separate category Form 1116, Part I, line 4b. Interest expense incurred by

certain individuals, estates, and trusts is allocated and apportioned based on the categories of interest expense in sections 163 and 469: active trade or business interest, investment interest, or passive activity interest, adjusted for any interest expense directly allocated under Regulations section 1.861-10T. See Regulations section 1.861-9(e)(3) and Temporary Regulations section 1.861-9T(d)(1) and (3).

**Exception.** If you are a less-than-10% (including constructively) limited partner, the partnership's interest expense is directly allocated to your distributive share of the partnership gross income based on the source and character of the income. If your partnership interest is not held in the ordinary course of your active trade or business, all such income is passive category income. See Regulations section 1.861-9(e)(4)(i) for further guidance. If you file Form 1118, report such interest expense on the passive category Form 1118, Schedule A, line 13(j). If you file Form 1116, report such interest expense on the passive category Form 1116, Part I, line 4b. However, if your partnership interest is held in the ordinary course of your active trade or business, your share of the partnership's interest expense is apportioned in accordance with your share of gross foreign source income in each separate category and gross U.S. source income from the partnership. See line 24 for the source and separate category of the partner's distributive share of gross income. Report the interest expense on the appropriate Form 1118 or 1116, as applicable.

**Exception.** See Regulations section 1.861-9(e)(8) and (9) for special rules concerning downstream and upstream partnership loans that require a matching of related interest income to interest expense allocations.



*If Part I, box 6, is checked, interest expense may include amounts for which you are not allowed a deduction under section 267A. See statement with respect to Part I, box 6, attached to Schedule K-3.*

**Exception.** See Regulations section 1.861-9T(d)(1) for an exception to the apportionment of interest expense when an individual's foreign source income (including income excluded under section 911) does not exceed \$5,000. Such interest expense may be allocated entirely to U.S. source income.

**Line 45. Foreign taxes deductible, but not creditable.** See the instructions for Forms 1116 and 1118 for examples of foreign taxes deductible, but not creditable.

**Note.** Foreign taxes that are creditable (even if a partner chooses to deduct such taxes) are not reported as expenses on Part II. Do not claim a foreign tax credit on Form 1116 or 1118 for amounts reported on line 45. However, you may claim a deduction for such taxes on the applicable form, including the Forms 1040 and 1120.

Creditable foreign taxes are reported on Part III, section 4.

**Line 49. Other allocable deductions.** If you file Form 1118, add the amounts reported on this line to your other allocable deductions and enter the total on the Form 1118, Schedule A, column 13(j), by separate category.

**Line 50. Other apportioned share of deductions.** If you file Form 1118, add the amounts reported on this line to your other apportioned share of deductions and report the total on the Form 1118, Schedule H, Part II, column (c), by separate category.

## Part III. Other Information for Preparation of Form 1116 or 1118

### Section 1. R&E Expenses Apportionment Factors

This section reports the information that you need to allocate and apportion your R&E expense for foreign tax credit limitation purposes. R&E expenses are allocated and apportioned by the partner. See Regulations section 1.861-17(f)(1). Individual, estate, and trust partners will use this section 1 to determine the R&E expense reported on Form 1116, Part I. See the Instructions for Form 1116. Corporate partners will use this section 1 to determine the R&E expense reported on Form 1118, Schedule H, Part I.

**Line 1.** Add the amounts reported on line 1 by standard industrial classification (SIC) code to your other gross receipts and report on Form 1118, Schedule H, Part I.

**Line 2.** Add the amounts reported on line 2 to the partner's other R&E expense related to activity performed in the United States and the amount of R&E expense related to activity performed outside the United States by SIC code. See the Instructions for Form 1118 to determine the exclusive apportionment of the R&E expenses.

### Section 2. Interest Expense Apportionment Factors

This section includes the information that you need to allocate and apportion your interest expense for foreign tax credit limitation purposes. This part is relevant for all partners except certain limited partners with less than a 10% partnership

interest. See Regulations section 1.861-9(e)(4)(i). Individual, estate, and trust partners will use this section 2 to determine the interest expense reported on Form 1116, Part I, line 4b. See the Instructions for Form 1116. Because the interest expense is reported on one line on the Form 1116, there is no need to specify additional reporting on the lines below.

Corporate partners will use this section 2 to determine the interest expense reported on Form 1118, Schedule H, Part II. The particular line reporting on Form 1118 is specified below.

**Line 3.** Report the inside basis of the partnership assets reported on line 3 on Form 1118, Schedule H, Part II, column (a), line 1b.

**Line 4.** Report the inside basis of the partnership assets reported on line 4 on Form 1118, Schedule H, Part II, column (a), line 1c.

**Line 5.** Report the inside basis of the partnership assets reported on line 5 on Form 1118, Schedule H, Part II, column (a), line 1d.

**Line 6.** Report the amounts on line 6 on Form 1118, Schedule H, Part II, column (a), line 2 and 3, as applicable.

**Lines 7 and 8.** The amounts reported on lines 7 and 8 are subsets of the amounts reported on line 6 representing the value of stock held by the partnership in certain foreign corporations. In determining its foreign tax credit limitation, a corporate partner should disregard interest expense that is properly allocable to stock of a 10%-owned foreign corporation that has been characterized as a section 245A asset. See section 904(b)(4) and Regulations section 1.904(b)-3(a)(1)(ii).

The amount of properly allocable deductions is determined by treating the section 245A subgroup for each separate category as a statutory grouping for purposes of allocating and apportioning interest deductions on the basis of assets. Assets in a section 245A subgroup only include stock of a specified 10%-owned foreign corporation that has been characterized as a section 245A asset. The stock is characterized as a section 245A asset to the extent it generates income that would generate a dividends received deduction under section 245A if distributed. This does not include income that is included as GILTI, subpart F income, or a section 956 inclusion or income described in section 245(a)(5) (which gives rise to a dividends received deduction under section 245 instead of section 245A).

In the case of a specified 10%-owned foreign corporation that is not a CFC, if you are eligible for the section 245A deduction for distributions received from

that corporation, all of the value of its stock is generally in a section 245A subgroup because the stock generally generates dividends eligible for the section 245A deduction (and cannot generate an inclusion under section 951(a)(1) or 951A(a)). See Regulations section 1.904(b)-3(c)(2).

The amount reported on line 7 is the value of stock of the partnership-owned specified 10%-owned foreign corporation that is not a CFC. Use the information provided in the attachment to line 7 to determine if such amount should be reported on Form 1118, Schedule H, Part II, line 3, lines (a) through (f), as (1) section 245A dividend, or (2) Other.

If the specified 10%-owned foreign corporation is a CFC, you must subdivide a portion of the value of stock in each separate category and in the residual grouping for U.S. source income between a section 245A and non-section 245A subgroup under the rules described in Regulations section 1.861-13(a)(5).

The amount reported on line 8 is the value of the stock in partnership-owned CFCs. Use the information provided in the attachment to line 8 to determine if such amount should be reported on Form 1118, Schedule H, Part II, line 3, lines (a) through (f), as (1) section 245A dividend, or (2) Other.

### **Section 3. Foreign-Derived Intangible Income (FDII) Deduction Apportionment Factors**

Section 3 reports the information necessary for you to assign the FDII deduction to a source and separate category such that it may be reported on Form 1118, Schedule A or Form 1116, Part I.

### **Section 4. Foreign Taxes**

Section 4 reports your share of the foreign taxes paid or accrued by the partnership by separate category and source.

**Line 1.** Report the taxes on line 1 in the applicable portions of Form 1116, Part II, and Form 1118, Schedule B, Part I, for the applicable separate category of income. To complete those parts, refer to the statement attached to Schedule K-3, referred to earlier in the instructions with respect to Part I, Box 4, with the following information.

- The dates on which the taxes were paid or accrued.
- The exchange rates used.
- The amounts in both foreign currency and U.S. dollars. See section 986(a).

**Note.** The partner takes its distributive share of the partnership's foreign taxes into account in the partner's tax year with or within which the partnership's tax year

ends regardless of whether the partner or partnership takes foreign taxes into account on the cash or accrual basis.

**Line 2.** Report the total reduction of taxes for each separate category of income on line 2 on Form 1116, Part III, line 12, and Form 1118, Schedule B, Part II, line 3.

**Line 3.** Report the redetermined foreign taxes reported on line 3 on the Foreign Tax Redetermination Schedule of the Form 1116 or Form 1118, and on an amended return, if required. See the instructions for Form 1116 or Form 1118 and Regulations sections 1.905-3 through -5 for additional information.

**Note.** If you are an accrual method taxpayer, generally you may not claim a credit for additional taxes reported on line 3 by the partnership unless those taxes have been paid. See section 905(c)(2) and Regulations section 1.905-3(a).

### **Section 5. Other Tax Information**

Section 5 reports the section 743(b) income adjustments allocated to you by source, separate category, and class of gross income. The section 743(b) income adjustments should be included as relevant in other parts of the Schedule K-3. For example, the section 743(b) income adjustments should be reflected as part of the total depreciation reported on Part II, section 2. Therefore, you do not need to adjust other reported amounts for the section 743(b) income adjustments.

### **Part IV. Information on Partner's Section 250 Deduction With Respect to Foreign Derived Intangible Income (FDII)**

A domestic corporate partner should use this section to calculate the partner's FDII on Form 8993.

#### **Section 1. Information To Determine Deduction Eligible Income (DEI) and Qualified Business Asset Investment (QBAI) on Form 8993.**

**Lines 1–7.** A partner must include the amount reported to it on line 1 in calculating the gross income on line 1 of Form 8993. The partner must also include any amounts that it identifies from lines 3 through 7 of Schedule K-3 that are not attributable to its DEI in lines 2(a) through (f) of Form 8993. Use information on line 2(a)-(c) and in section 3 to determine the expenses properly allocable to DEI on line 5 of Form 8993.

**Line 8. Partnership QBAI.** A partner must include the amount reported to it on line 8, of Schedule K-3, Part IV, in calculating the QBAI used to determine Deemed Tangible Income Return on line 8 of Form 8993. However, for certain items determined by the partner that affect the amount of a partner's adjusted bases included in its share of partnership specified tangible property, the partner must use and the partnership must provide information that separately distinguishes between the amount of the adjusted bases in a partnership's tangible property that the domestic corporation would include in its adjusted bases in the partnership specified tangible property and the amount of the adjusted bases in the partnership's tangible property that the domestic corporation would not include in its adjusted bases in the partnership specified tangible property.

## Section 2. Information To Determine Foreign-Derived Deduction Eligible Income (FDDEI) on Form 8993.

**Line 9. Gross Receipts.** A partner must include the amounts reported to it on line 9 of Schedule K-3, Part IV, on line 9(b) of Form 8993. However, the partner must only include the portion of the amounts on lines 9(a) through (c) of Schedule K-3, Part IV, section 1 that are attributable to its gross DEI on line 4 of Form 8993.

**Line 10. COGS.** A partner must include the amounts reported to it on line 10 of Schedule K-3, Part IV, on line 10(b) of Form 8993. However, the partner must only include the portion of the amount on line 10 of Schedule K-3, Part IV, section 1 that are attributable to its gross DEI on line 4 of Form 8993.

**Line 11. Allocable deductions.** A partner must include the amounts reported to it on line 11 of Schedule K-3, Part IV, on line 13 of Form 8993.

**Line 12. Other apportioned deductions.** A partner must include the amounts reported to it on line 12 of Schedule K-3, Part IV, on line 17 of Form 8993. However, the partner must only include the portion of the amount on line 12 of Schedule K-3, Part IV, section 1 that are attributable to its gross DEI on line 4 of Form 8993.

## Section 3. Other Information for Preparation of Form 8993.

### Interest Expense and Interest Expense Apportionment Factors

This section reports the information that you need to allocate and apportion your interest expenses for FDII purposes.

**Lines 13A and 13B.** Interest expense specifically allocable under Regulations sections 1.861-10(e) and -10T. Include these amounts on line 5 and/or line 14 of Form 8993.

**Line 13C. Other interest expense.** Add the Interest expense to your other interest expense.

**Exception.** Certain corporate partners with a less than 10% interest in a partnership shall directly allocate its distributive share of the partnership's interest expense to its distributive share of partnership gross income. See Regulations section 1.861-9(e)(4). After apportionment, if necessary, include the appropriate amount of interest expense on line 5 and/or line 14 of Form 8993.

**Line 14. Interest expense apportionment factors.** Corporate partners will use this section to determine the interest expense reported on line 5 and 14 of Form 8993.

### R&E Expenses and R&E Expenses Apportionment Factors

This section reports the information that you need to allocate and apportion your R&E expense for FDII purposes. R&E expenses are allocated and apportioned by the partner. See Regulations section 1.861-17(f)(1).

**Line 15. Gross receipts by SIC code.** Add the amounts to the partner's other gross receipts by SIC code.

**Line 16. R&E Expenses.** Add the amounts to the partner's other R&E expenses by SIC code.

## Part V. Distributions From Foreign Corporations to Partnership

Use Part V to determine your share of distributions by foreign corporations to the partnership (with your share being reported in this Part V) that are attributable to PTEP in your annual PTEP accounts with respect to the foreign corporations (which are excludable from your gross income) or non-previously taxed E&P, and the amount of foreign currency gain or loss on the PTEP that you are required to recognize under section 986(c). The amount of foreign currency gain or loss on the PTEP that you are required to recognize under section 986(c) is equal to the excess of the U.S. dollar amount of the PTEP over your U.S. dollar basis in the PTEP. If the distributed PTEP was maintained in a functional currency other than the U.S. dollar, the U.S. dollar amount of the distributed PTEP is determined by translating the distributed PTEP into U.S. dollars using the spot rate on the date that the PTEP was distributed.

See section 989(b)(1). Your U.S. dollar basis in the distributed PTEP is generally equal to the U.S. dollar amount of E&P that you previously included in gross income. See section 989(b)(1) and (3).

Also use Part V, in combination with other information known to you, to claim and figure a foreign tax credit on Forms 1116 or 1118, and, if eligible, to claim and figure a dividends received deduction under section 245A on Form 1120 with respect to distributions that are attributable to non-previously taxed E&P.

Include the U.S. dollar amount of E&P distributions from qualified foreign corporations in determining the amount of qualified dividends you report on line 3a of Form 1040, or the amount of dividends reported on Form 1120. A foreign corporation identified as a qualified foreign corporation in column (j) that is a passive foreign investment company (as defined in section 1297) as to you for the tax year of the foreign corporation in which the distribution was made, or the preceding tax year, is not a qualified foreign corporation, regardless of whether it is indicated as such in column (j). See section 1(h)(11)(C)(iii)(I) and Notice 2004-70, 2004-44 I.R.B. 724.

Include the U.S. dollar amount of E&P distributions from a non-qualified foreign corporation in determining the amount of ordinary dividends you report on line 3b of Form 1040, or Form 1120.

However, do not include the U.S. dollar amount of E&P distributions from a foreign corporation to the extent the distributions are attributable to PTEP in annual PTEP accounts that you have with respect to the foreign corporation, or attributable to E&P that are excludable from the your gross income under section 1293(c), in determining the amount of dividends that you report on line 3a or 3b of Form 1040, or Form 1120. See Notice 2019-01, 2019-02 I.R.B. 275.

Include the amount of foreign currency gain or loss that you are required to recognize under section 986(c) in determining the amount to report on Form 1120, or Schedule 1 (Form 1040), line 8 (Other income).

If the partnership received a distribution that is attributable to PTEP in an annual PTEP account of the partnership, or attributable to E&P that are excludable from the partnership's gross income under section 1293(c), that is treated as a dividend for purposes of section 1411 (that is, for purposes of the net investment income tax) and, therefore, may be net investment income (such PTEP, "NII PTEP"), it will attach a statement to the Schedule K-3 regarding your share of the partnership's NII PTEP. If you are an individual who is a U.S. citizen or resident,



or a domestic trust or estate, use the U.S. dollar amounts of NII PTEP reported on the statement, and follow the Instructions for Form 8960, to figure and report your net investment income. Corporate partners are not subject to the net investment income tax. See Regulations sections 1.1411-1 through -10 for details. Note that your share of a distribution received by the partnership that is attributable to PTEP in your annual PTEP accounts, or attributable to E&P that are excludable from your gross income under section 1293(c), may also be treated as a dividend for purposes of section 1411 and, therefore, may be NII PTEP.

**Note.** Columns (e) and (f) are reported in the foreign corporation's functional currency.

## Part VI. Information on Partner's Section 951(a)(1) and Section 951A Inclusion

Use Part VI to include in gross income the appropriate amount of subpart F income inclusion and/or section 951(a)(1)(B) inclusion, and to complete Form 8992.

If the partnership is a domestic partnership that does not apply Proposed Regulations section 1.958-1(d)(1) to treat it as not owning stock of a foreign corporation within the meaning of section 951, and is a U.S. shareholder of the foreign corporation, then any subpart F income inclusions and section 951(a)(1)(B) inclusions are inclusions of the partnership, of which you generally include in gross income a distributive share. In such a case, your share of the partnership's subpart F income inclusions and section 951(a)(1)(B) inclusions are reported in Schedule K-1, line 11, Other income (loss) and are not reported in Schedule K-3, Part VI, columns (e) and (f).

For each CFC listed in column (a) of which you are a U.S. shareholder, include the amounts of subpart F income and section 951(a)(1)(B) inclusion reported on Part VI in determining the amount you report on Form 1120, Schedule C, line 16, or Schedule 1 (Form 1040), line 8 (Other income).

Note that, for corporate partners, in determining the amount you report on Form 1120, Schedule C, line 16, the section 951(a)(1)(B) inclusion amounts reported on Part VI may be reduced under Regulations section 1.956-1(a)(2).

For each CFC listed in column (a) of which you are a U.S. shareholder, report the tested income and tested loss for each CFC on Form 8992, Schedule A, columns (c) and (d), respectively, and include your share of each CFC's items described in

columns (i) through (n) in determining the amount to report on Form 8992, Schedule A, columns (e) through (j), respectively.

## Part VII. Information to Complete Form 8621

U.S. persons may be required to complete and file Form 8621 and/or include amounts in income, with respect to PFICs owned through a partnership. This includes PFICs with respect to which no qualified electing fund (QEF) or mark-to-market (MTM) election has been made and unpedigreed QEFs (section 1291 funds), as well as PFICs with respect to which a pedigreed QEF, MTM, qualifying insurance corporation (QIC), or other election has been, or may be, made. For information regarding the requirement to file Form 8621, as well as certain filing exceptions, see Regulations section 1.1298-1 and the Form 8621 instructions.

Use the information provided in this Schedule K-3, Part VII (including any supplemental attachments (*Table 4* or *5*, if applicable), as instructed below to complete Form 8621 with respect to each PFIC for which you have a filing obligation. Additionally, for any PFIC that you own through your interest in the partnership, use the information provided in this Schedule K-3, Part VII (including any supplemental attachments (*Table 4* or *5*, if applicable) to determine your income inclusion with respect to the PFIC (if any) and complete your U.S. federal income tax return.

If a PFIC reported on this Schedule K-3 also constitutes a CFC within the meaning of section 957 (PFIC/CFC) and you are a U.S. shareholder (within the meaning of section 951(b)) with respect to such PFIC/CFC, the information on this schedule with respect to such PFIC/CFC may not be relevant to you. The box in section 1, column (m) will be checked if the PFIC also constitutes a CFC. See section 1297(d) for additional information.

### Section 1. General Information on Passive Foreign Investment Company (PFIC), Qualified Electing Fund (QEF), or Qualifying Insurance Corporation (QIC)

**Columns (a) through (e).** If you are required to complete Form 8621 with respect to a PFIC reported on this schedule, use this information to complete the Form 8621 background information.

**Columns (f) through (i).** If you are required to complete Form 8621 with respect to a PFIC reported on this schedule, enter this information on Form 8621, Part I, lines 1 through 4.

**Note.** If you are making an election under Regulations section 1.1291-10, 1.1297-3, or 1.1298-3 with respect to a PFIC reported on this Schedule K-3, Part VII, you may need additional information from the partnership regarding the value of the PFIC shares reported in column (i) that is not reported here.

**Column (j).** If the partnership is a domestic partnership, this column will indicate to you (using the codes below) whether the partnership has made an election with respect to the PFIC which binds the partners. If the partnership is a foreign partnership, no code will be entered in this column; however, if certain information with respect to the PFIC is provided, you may be able to make certain elections with respect to the PFIC on Form 8621.

### Partnership Election Codes

Codes	Election Type
QEF	Qualified Electing Fund Election
MTM	Mark-to-Market Election
QIC	Qualifying Insurance Corporation Election

**Note.** If the partnership is a domestic partnership and has made a pedigreed QEF, MTM, or QIC election with respect to a PFIC, the partnership is not required to complete Schedule K-3, Part VII with respect to that PFIC if the partnership files Form 8621 for that PFIC. In that case, you may not be required to file Form 8621 with respect to that PFIC and income inclusions with respect to the PFIC, if any, will be figured by the partnership and reported to you on Schedule K-1, Part III. However, if the partnership is a domestic partnership that has made a pedigreed QEF, MTM, or QIC election with respect to a PFIC for which the partnership does not file Form 8621, or if it owns stock of an unpedigreed QEF, it is required to complete Schedule K-3, Part VII with that PFIC's information, and you may be required to file Form 8621 with respect to that PFIC. See Regulations section 1.1298-1(b)(2) and the Form 8621 instructions for additional information.

**Columns (k) through (n).** Use the information provided in these columns to make certain elections with respect to a PFIC on Form 8621, Part II. If you do not intend to make any election with respect to a PFIC reported on this Schedule K-3, Part VII, you may generally ignore these boxes for such PFIC.

**Note.** If you are making an election under Regulations section 1.1291-9, 1.1297-3, or 1.1298-3 with respect to a PFIC/CFC, or a PFIC that is a "former PFIC" within the meaning of Regulations section

1.1291-9(j)(2)(iv), you may need additional information from the partnership that is not reported on this Schedule K-3, Part VII, including information regarding the PFIC's E&P.

## Section 2. Additional Information on PFIC or QEF

**Note.** The partnership will complete section 2 with respect to each PFIC reported on section 1, and each line completed for a PFIC in section 1 corresponds to the same line on section 2. If the PFIC has no current year activity, or has no other information for the partnership to report in columns (c) through (o), the partnership will only include the name and EIN of the PFIC in columns (a) and (b) and will leave columns (c) through (o) blank with respect to that PFIC.

### QEF Information

**Columns (c) and (d).** This information is to assist you in determining your income inclusions from certain PFICs with respect to which you have elected, or may elect, to treat as a QEF.

If you make, or have made, a QEF election with respect to a PFIC reported on Schedule K-3, Part VII, enter the amounts from columns (c) and (d) on Form 8621, Part III, lines 6a and 7a, respectively, and include these amounts in gross income on your U.S. federal income tax return unless you are making an election under section 1294 with respect to the QEF for the current tax year. If you are making a section 1294 election with respect to the QEF for the current tax year, use the rest of Form 8621, Part III, lines 8 and 9 to determine the amount of deferred tax with respect to the QEF for the current tax year.

**Note.** If the partnership is a domestic partnership and has made a pedigreed QEF election with respect to a PFIC, and the partnership files Form 8621 for that PFIC, such PFIC will not be reported on Schedule K-3, Part VII and your distributive share of the partnership's QEF inclusions, if any, will be reported to you on Schedule K-1, Part III. However, if the partnership has made a pedigreed QEF election with respect to a PFIC, but does not file Form 8621 for that PFIC, or if the partnership owns stock of a PFIC that is an unpedigreed QEF, the partnership is required to include this information in columns (c) and (d), and you may be required to file Form 8621 with respect to such PFIC. See Regulations section 1.1298-1(b)(2) for more information.

**Note.** If your interest in the partnership constitutes an "applicable partnership interest" within the meaning of section

1061(c) or the regulations thereunder, you may need additional information not reported on this Schedule K-3 from the QEF with respect to its computation of its net capital gain (as defined in Regulations section 1.1293-1(a)(2)) to perform certain computations under section 1061 or the regulations thereunder. The partnership may aid you in obtaining such information from the QEF, though the QEF is not required to provide such information. See section 1061 and Regulations sections 1.1061-4 and 1.1061-6 for more information.

### Mark-to-Market Information

**Columns (e) and (f).** This information is to assist you in determining your gain or loss from certain PFICs with respect to which you have made, or may make, an MTM election (MTM PFIC).

If you make, or have made, an MTM election with respect to a PFIC reported on Schedule K-3, Part VII, enter the amount in column (f) on Form 8621, Part IV, line 10a. You may use the information in column (e) to assist you in determining your adjusted tax basis in the MTM PFIC in which you are a shareholder through your ownership in the partnership. Your adjusted tax basis in the MTM PFIC stock may be equal to the fair market value of the stock at the beginning of the prior tax year reported in column (e). However, your adjusted tax basis may not be equal to the fair market value of the MTM PFIC stock depending on the amounts of prior year income inclusions and the amounts for which you were allowed a deduction with respect to the MTM PFIC. See sections 1296(a)(2) and 1296(d) for additional information. Once you have determined your adjusted tax basis in the MTM PFIC stock, enter that amount on Form 8621, Part IV, line 10b, and use the rest of Form 8621, Part IV, lines 10c-12 to determine your MTM gain or loss to include in on your U.S. federal income tax return.

**Note.** If the partnership is a domestic partnership and has made an MTM election with respect to a PFIC, and the partnership files Form 8621 for that PFIC, such PFIC will not be reported on Schedule K-3, Part VII and your distributive share of the partnership's MTM gain or loss, if any, will be reported to you on Schedule K-1, Part III. However, if the partnership has made an MTM election with respect to a PFIC, but does not file Form 8621 for that PFIC, the partnership is required to include this information in columns (e) and (f), and you may be required to file Form 8621 with respect to such PFIC. See Regulations section 1.1298-1(b)(2) for more information.

**Note.** If you are required to file Form 8621 for a MTM PFIC owned by a domestic partnership (because, for example, the partnership does not file Form 8621 for that MTM PFIC), enter the amount in column (f) on Form 8621, Part IV, line 10a. You may need additional information from the partnership regarding your share of its adjusted tax basis in the MTM PFIC stock to complete the rest of Form 8621, Part IV. Your share of the partnership's adjusted tax basis in the MTM PFIC stock may be equal to your share of the fair market value of the stock at the beginning of the prior tax year reported in column (e). However, your share of the partnership's adjusted tax basis in the MTM PFIC stock may not be equal to the fair market value of the stock at the beginning of the prior tax year, depending on the amounts of the partnership's prior year income inclusions and the amounts for which the partnership was allowed a deduction with respect to the MTM PFIC. Once you determine your share of the partnership's adjusted tax basis in the MTM PFIC shares, enter this amount on Form 8621, Part IV, Line 10b and use the rest of Form 8621, Part IV, lines 10c-12 to determine your MTM gain or loss to include in on your U.S. federal income tax return.

### Section 1291 and Other Information

**Note.** Generally, this information is to assist you in satisfying any information reporting obligations for, and in figuring income inclusions with respect to, section 1291 funds. However, except as otherwise provided, this information may be relevant to PFICs with respect to which a pedigreed QEF, MTM, or other election has been made by you or the partnership.

**Column (g).** This information is provided to help you assess your holding period in the PFIC stock through your ownership in the partnership. Unless also provided in section 1, column (g), with respect to an acquisition of stock in the PFIC during the partnership's tax year, these dates do not need to be entered on Form 8621 or on your U.S. federal income tax return.

**Note.** The dates entered in this column (g) will be the dates on which the partnership acquired the PFIC stock. If you acquired your partnership interest after the date listed with respect to a PFIC, you may have a different holding period with respect to such PFIC stock.

**Column (h).** Your share of the amount of cash and fair market value of property distributed by the PFIC during the tax year may be reported on different parts of Form 8621, or not reported at all on Form 8621.

## Where on Form 8621 To Report Distributions From PFICs

IF you are a shareholder of a...	THEN...
Section 1291 fund	enter this amount on Form 8621, Part V, line 15a.
QEF for which you are not making a section 1294 election for the current tax year	you do not need to enter this on Form 8621.
QEF for which you are making a section 1294 election for the current tax year	enter this amount on Form 8621, Part III, line 8b.
MTM PFIC	you do not need to enter this on Form 8621.

**Note.** Deemed distributions by QEFs are not reported on Schedule K-3, Part VII. If you make, or have made, an election under section 1294 and are deemed to have received a distribution from the QEF, this information is required to complete Form 8621, Parts III and VI. See section 1294(f) and Regulations section 1.1294-1T for additional information.

**Note.** If you have made a section 1294 election with respect to a QEF owned by the partnership, a distribution of earnings by the QEF will terminate the section 1294 election to the extent the election is attributable to the earnings distributed. In such a case, enter the amount of such distribution on Form 8621, Part VI, line 22. See Regulations section 1.1294-1T(e) and the Form 8621, Part VI instructions for additional information.

**Column (i).** This information is to help you assess any information related to the date of a distribution from a PFIC. You do not need to enter these dates on Form 8621 or on your U.S. federal income tax return.

**Column (j).** This information is to help you assess any available foreign tax credit attributable to an excess distribution from a section 1291 fund in which you are a shareholder through your ownership in the partnership. If you are required to file Form 8621 with respect to a section 1291 fund owned by the partnership, use this amount to determine your foreign tax credit to include on Part V, line 16d. See section 1291(g) for additional information on creditable foreign taxes.

**Note.** Your share of foreign taxes in column (j) includes only foreign taxes within the meaning of section 1291(g) and does not include taxes attributable to QEF inclusions under section 1293. If you are a corporate shareholder of a QEF that meets the ownership requirements of section 1293(f)(3), use Part VIII to determine your deemed paid foreign tax

credit under section 960, including with respect to inclusions under section 1293(f).

**Column (k).** This information is to help you assess your excess distribution and resulting additional tax and interest charge with respect to each section 1291 fund in which you are a shareholder through your ownership in the partnership. If you are required to file Form 8621 with respect to a section 1291 fund owned by the partnership, use this amount to determine the amount to include on Part V, line 15b and use the rest of Form 8621, Part V, lines 15 and 16 to determine the amount of any excess distribution and resulting additional tax and interest charge to include on your U.S. federal income tax return with respect to the section 1291 fund.

**Note.** The information in column (k) is only relevant with respect to section 1291 funds and is not relevant for any PFIC with respect to which a pedigreed QEF or MTM election has been, or may be, made.

**Column (l).** This information is provided to help you assess the treatment to you on any disposition by the partnership of stock in a PFIC in combination with column (g). These dates do not need to be entered on Form 8621.

**Note.** Your holding period of the PFIC stock may have begun on a different date than the partnership's holding period.

**Columns (m) through (o).** This information is to assist you in figuring any gain or loss on the partnership's disposition of PFIC stock.

For each section 1291 fund in which you are a shareholder through your ownership in the partnership, enter the amount in column (o) on Form 8621, Part V, line 15f, and use the rest of Form 8621, Part V, line 16 to determine the amount of any excess distribution and resulting additional tax and interest charge to include on your U.S. federal income tax return with respect to the section 1291 fund. Your adjusted tax basis in the PFIC shares as reported by the partnership should reflect any adjustments in the partnership's shares in the section 1291 fund that are specific to you; you may also need to make corresponding adjustments to your basis in your partnership interest.

For each MTM PFIC in which you are a shareholder through your ownership in the partnership, and with respect to which you are required to file Form 8621, enter the amounts in columns (m) and (n) on lines 13a and 13b, respectively, of Form 8621, Part IV to complete the rest of Form 8621, Part IV, lines 13 and 14 in determining your MTM gain or loss to include in your U.S. federal income tax return. Your basis in the MTM PFIC shares as reported by

the partnership should reflect adjustments made by the partnership with respect to the MTM PFIC, as well as any other partner-specific adjustments such as section 743(b) adjustments; you may also need to make corresponding adjustments to your basis in your partnership interest. See section 1296(b)(2) for additional information on adjustments to basis in MTM PFIC shares held by foreign partnerships with respect to section 1296 income inclusions and deductions.

For each QEF in which you are a shareholder through your ownership in the partnership with respect to which you have previously made a section 1294 election, and for which you are required to file Form 8621, you may need the amounts reported in columns (m) through (o) to complete Part VI, lines 22 through 24. See Regulations section 1.1294-1T and the Form 8621 instructions for additional information.

**Note.** If you have made a QEF election with respect to a PFIC which you own indirectly through the partnership, you may be required to adjust your share of the tax basis in the PFIC shares as reported by the partnership, and thus your gain or loss reported in column (o), by cumulative QEF inclusions and distributions made by the QEF; your basis in your partnership interest may need to be similarly adjusted. See section 1293(d) for more information on basis adjustments with respect to QEFs.

## Part VIII. Partner's Share of Partnership's Interest in Foreign Corporation Income (Section 960)

**Note.** Amounts on this part are reported in foreign currency.

In general, for purposes of the foreign tax credit, a domestic corporate U.S. shareholder of a CFC is deemed to pay all or a portion of the foreign income taxes paid or accrued by the CFC that are properly attributable to subpart F income or tested income of the CFC that the U.S. shareholder includes in gross income. See section 960(a) and (d). See also section 1293(f) with respect to QEF inclusions from a PFIC. The domestic corporate U.S. shareholder may claim a credit for such foreign taxes, subject to certain limitations. Individuals, estates, and trusts may also claim a foreign tax credit for foreign income taxes deemed paid with respect to a CFC. However, they must make an election under section 962.

To calculate the foreign taxes deemed paid by a partner that is a corporate U.S. shareholder of a CFC held by a partnership, the income, deductions, and taxes of the CFC must be assigned to separate categories of income and then to

## Example, Domestic Corporate Partner's Form 1118, Schedule C

1a	5a	5b	5c	6	7	8a	9	10
CFC	DIRRA	i	CFC	100u	\$20	50u	0.500	\$10

income groups in those separate categories. See Regulations section 1.960-1(c)(1). This is completed on Form 5471, Schedule Q (CFC Income by CFC Income Groups). The income groups include the subpart F income group, the tested income group, and the residual income group. Each single item of foreign base company income as defined in Regulations section 1.954-1(c)(1)(iii) is a separate subpart F income group. See Regulations section 1.960-1(d)(2)(ii)(B). The tested income group consists of tested income within a section 904 category. See Regulations section 1.960-1(d)(2)(ii)(C). The residual income group consists of any income not in the other income groups or in a PTEP group. See Regulations section 1.960-1(d)(2)(ii)(D). See Regulations section 1.960-3(c)(3) with respect to the PTEP groups. The PTEP groups are not reported on this Schedule K-3, Part VIII.

Schedule K-3, Part VIII, reports your share of the CFC's net income in each income group in functional currency. A domestic corporate partner (or an individual, estate or trust electing under section 962) will report in functional currency its share of the net income in the subpart F income groups by CFC in column 8(a) of Form 1118, Schedule C (see section 960(a)). The partner uses information from Schedule K-3, Part VIII to complete column 5 of Form 1118, Schedule C.

**Note.** The amount entered in column 8(a) will not equal the share of the net income in the subpart F income group if there is a qualified deficit. See Regulations section 1.960-2(b)(3)(ii).

The partnership will attach a Form 5471 for each CFC to each Schedule K-3. The partner will use each Form 5471, Schedule Q, to determine the total net income in the subpart F income groups of the CFC to report on column 6 of Form 1118, Schedule C, and the total current year taxes by subpart F income groups of the CFC to report on column 7 of Form 1118, Schedule C. This will allow the partner to figure the taxes deemed paid with respect to section 951(a)(1) inclusions by subpart F income group on Form 1118, Schedule C. Similarly, the partner will use Form 5471, Schedule Q, to determine the total tested taxes in each tested income group to determine the pro rata share of tested foreign income taxes to report on Form 1118, Schedule D, column 8.

**Example.** In Year 1, USP, a domestic partnership, has two domestic corporate partners with equal interests in the partnership. USP wholly owns CFC. CFC earns passive category interest income of 100u sourced from Country X and pays a withholding tax of \$20 to a foreign country. USP completes Form 5471, including Schedule Q, for CFC. The code for Country X is "X." On Form 5471, Schedule Q, USP reports the following.

### Example, USP's Form 5471, Schedule Q, for CFC

A PAS			
B i			
	(i)	(xi)	(xii)
1			
a(1) CFC	X	100u	\$20

On Schedule K-3, Part VIII, USP reports the following to each of its partners.

### Example, USP's Schedule K-3, Part VIII for Partners

B PAS		
C i		
	(i)	(ii)
1		
a(1) CFC	X	50u

On Form 1118, Schedule C, with respect to the passive category each domestic corporate partner reports with respect to the information received on Schedule K-3 (including the attached Form 5471, Schedule Q) as shown in [Example, Domestic Corporate Partner's Form 1118, Sch. C.](#)

## Part IX. Partner's Information for Base Erosion and Anti-Abuse Tax (Section 59A)

If you are a corporate partner of a partnership, use this part from the partnership to determine your BEAT liability, if any. The BEAT is generally levied on certain large corporations that have deductions and certain other similar items paid or accrued to foreign related parties that are 3% of their total deductions or higher (2% in the case of certain banks or registered securities dealers), a determination referred to as the "base erosion percentage test."

Corporate partners that are applicable taxpayers under Regulations section 1.59A-2 may be subject to the BEAT. See Regulations section 1.59A-7 for further information regarding the application of section 59A to partnerships and the Instructions for Form 8991 to determine whether a corporate partner is an applicable taxpayer subject to the BEAT. Certain small partners are not required to include the partner's amount of base erosion tax benefits resulting from a base erosion payment made by a partnership. See Regulations section 1.59A-7(d)(2) for further information regarding the application of the exception for small partners.

### Section 1. Applicable Taxpayer Lines 1 through 4

The amounts shown on lines 1 through 4 reflect the partner's distributive share of gross receipts from the partnership's business or rental activities. The partner should use the information from lines 2 through 4 to complete line 1b of Part I, Form 8991.

**Line 1. Gross receipts for section 59A(e).** This is the partner's distributive share of gross receipts for the tax year as described in Regulations section 1.448-1T(f)(2)(iv).

**Line 5. Amounts included in the denominator of the base erosion percentage pursuant to Regulations section 1.59A-2(e)(3)(i)(B).** This is the partner's distributive share of the partnership's deductions to be included in the denominator of the partner's base erosion percentage. For a description of deductions that are not included in the denominator, see Regulations section 1.59-2(e)(3)(ii).

### Section 2. Base Erosion Payments and Base Erosion Tax Benefits

The partner should use the information from lines 8 through 16 to complete lines 3 through 16 of Schedule A, Form 8991.

**Line 8. Purchase or creations of property rights for intangibles (patents, trademarks, etc.).** This is the partner's distributive share of amounts paid or accrued to a foreign person that is a related party of the partner in connection with the acquisition or creation of intangible property rights (patents, copyrights, trademarks, trade secrets, etc.) that is subject to the allowance for depreciation (or amortization in lieu of depreciation). The amounts in columns (b) and (c) are included on line 3 of Schedule A, Form 8991.

**Line 9. Rents, royalties, and license fees.** The amounts in columns (b) and (c)

of line 9 are included on line 4 of Schedule A, Form 8991.

**Line 10(a). Compensation/consideration paid for services NOT excepted by section 59A(d)(5).** The amounts in columns (b) and (c) are included on line 5a of Schedule A, Form 8991.

**Line 10(b). Compensation/consideration paid for services excepted by section 59A(d)(5).**

**Column (a).** The amount on line 10(b) is included on line 5b of Schedule A, Form 8991.

**Line 11. Interest expense.** The partnership has completed Worksheet A for your distributive share of items. Use the information in the completion of your Form 8991.

**Column (a).** This is the partner's distributive share of all interest paid or accrued by the partnership for the tax year (excluding interest paid or accrued in a prior year treated as paid or accrued in the current year under section 163(j) or similar provisions).

**Column (b).** This is the partner's distributive share of all interest expense paid or accrued by the partnership for the tax year (excluding interest paid or accrued in a prior year treated as paid or accrued in the current year under section 163(j) or similar provisions) that is paid or

accrued to a foreign person that is a related party of the partner.

**Column (c).** This is the partner's base erosion tax benefit attributable to interest expense paid or accrued by the partnership that is allowed as a deduction in the current tax year. See Regulations section 1.59A-3(b)(4) for more information on how a foreign corporation with a U.S. trade or business or permanent establishment determines the amount of interest that is a base erosion tax benefit.

For domestic corporate partners, the total amounts in columns (b) and (c) are to be included on line 6 of Schedule A, columns (a)(1), (a)(2), (b)(1), and (b)(2), on Form 8991.

For foreign corporate partners, the amounts in each column (b) (Base Erosion Payment) and (c) (Base Erosion Tax Benefit) are used to determine the amounts to be included on line 6 of Schedule A, columns (a)(1), (a)(2), (b)(1), and (b)(2), on Form 8991.

**Line 12. Payments for the purchase of tangible personal property.** The amounts in columns (b) and (c) of line 12 are included on line 7 of Schedule A, Form 8991.

**Line 13. Premiums and/or other consideration paid or accrued for reinsurance as covered by section 59A(d)(3) and section 59A(c)(2)(A)(iii).** The

amounts from columns (b) and (c) of line 13 are included on line 8 on Schedule A, Form 8991.

**Line 14a. Nonqualified derivative payments.** The amounts on this line are reported on line 9 on Schedule A, Form 8991.

**Column (a).** This is the partner's distributive share of all amounts paid or accrued by the partnership attributable to derivative contracts as defined in section 59A(h)(4).

**Column (b).** This is the partner's distributive share of amounts paid or accrued by the partnership to a foreign person that is a related party of the partner attributable to derivative contracts that are not eligible for the qualified derivative payments exception under Regulations section 1.59A-6 (nonqualified derivative payments).

**Column (c).** This is the partner's base erosion tax benefit attributable to nonqualified derivative payments paid or accrued by the partnership to a foreign person that is a related party of the partner.

**Line 14b. Qualified derivative payments excepted by section 59A(h).** This is the partner's distributive share of qualified derivative payments excepted by section 59A(h). Generally, a qualified derivative payment is any payment made by the taxpayer pursuant to a derivative contract, provided that the taxpayer recognizes gain or loss on the derivative contract as if it were sold for its fair market value on the last business day of the tax year; treats the gain or loss as ordinary; and treats the character of all other items of income, deduction, gain, or loss with respect to a payment pursuant to the derivative as ordinary. A payment is not a qualified derivative payment if the payment would be treated as a base erosion payment if it were not made pursuant to a derivative (such as interest, royalty, or services income). With respect to a contract with both derivative and nonderivative components, a payment is not a qualified derivative payment if it is properly allocable to the nonderivative component.

The amount from line 14(b) is included on line 9 of Schedule A, Form 8991. The partner meets the reporting requirements of Regulations sections 1.59A-6(b)(2) and 1.6038A-2(b)(7)(ix) by entering the amount from line 14b on line 9b on Schedule A, Form 8991.

**Line 15. Payments reducing gross receipts made to surrogate foreign corporation.** The amounts from columns (b) and (c) of line 15 are included on line 10 of Schedule A, Form 8991.

### Worksheet A

#### Foreign Partner's Distributive Share of Interest Paid by the Partnership

	(a)	(b)	(c)
	Total Interest Paid or Accrued in the Current Year	Interest Paid or Accrued to Foreign Related Parties of the Foreign Partner in the Current Year	Interest Expense Paid or Accrued to Foreign Related Parties of the Foreign Partner that is Allowed as a Deduction in the Current Year
(1) Foreign Partner's Distributive Share of Interest Expense on Liabilities Described in Regulations section 1.882-5(A)(1)(ii)(A) or (B) (Direct Allocations)			
(2) Foreign Partner's Distributive Share of Interest Paid on U.S. Booked Liabilities under Regulations section 1.882-5(d)(2)(vii)			
(3) Foreign Partner's Distributive Share of Interest Paid on All Other Liabilities of the Partnership			
Totals. Combines line (1) through line (3)			

**Line 16. Other payments—specify.**

The amounts from columns (b) and (c) of line 16 are included on line 11 of Schedule A, Form 8991.

**Line 17(c).** Base erosion tax benefits related to payments included on lines 6 through 16, on which tax is imposed by section 871 or 881, with respect to which tax has been withheld under section 1441 or 1442 at 30% (0.30) statutory withholding tax rate.

**Line 18(c).** Portion of base erosion tax benefits included on lines 6 through 16, on which tax is imposed by section 871 or 881, with respect to which tax has been withheld under section 1441 or 1442 at reduced withholding rate pursuant to income tax treaty. The amount on line 18(c) is included on line 14, Schedule A, Form 8991.

For more information regarding this computation, see the *Instructions for Worksheet for Schedule A, Line 14, Columns (a-2) and (b-2)*, Form 8991.

**Line 19(c). Total base erosion tax benefits.** The partner should use the information on section 1, lines 1 through 5, and section 2, line 19, column (c), to assist in the partner's determination of whether the partner is an applicable taxpayer and to complete the applicable lines on Form 8991 and Schedule A.

## Part X. Foreign Partner's Character and Source of Income and Deductions.

Use this part if you are a foreign person that earns ECI from U.S. and/or foreign sources and/or U.S. source FDAP to determine if you have a U.S. tax obligation for the applicable tax year. You may be required to figure your U.S. income tax liability and file U.S. income tax returns and forms (for example, Form 1120-F, Form 1040-NR, and other applicable forms).

### Section 1. Gross Income

The partnership uses Part X to report your distributive share of income that is subject to tax in the United States. Keep it for your records. You must report items of income from your Part X on your tax return and accompanying schedules. Each line in this section of the schedule corresponds to a line on the existing Form 1065, Schedule K, lines 1 through 11. For a more detailed description of the types of income listed in each line, see the Partner's instructions for Part III, Income (Loss), on Schedule K-1 (Form 1065).

**Column (a). Total.** This is your distributive share of the partnership's gross income.

**Column (b). Partner determination.** If income is reported in column (b), it means

that the partnership was unable to determine the income's source. You must determine the source of income in column (b). The source of income is important in determining how to report income on your tax return. Each type of income has its own sourcing rules. For example, if you have capital gains listed in column (b), you must determine the source of such gain under section 865. For more information on sourcing rules for particular items of income, see Pub. 514 and section 865. Once you have determined the source of the income in column (b), use the statement the partnership attached to the Schedule K-3 to report the income. If you determine the income is U.S. source, the statement attached to the K-3 will advise reporting the income as either ECI, FDAP, or other. If you determine the income is foreign source, the statement will advise whether the income should be reported as ECI.

### Columns (c) and (d). Effectively connected income. Nonresident aliens.

**Lines 1 through 5.** Report ECI in lines 1 through 5 on Schedule E to Form 1040-NR, attaching it to your tax return. See the Income (Loss) section of the Partner's Instructions for Schedule K-1 (Form 1065) for more information on how to complete Schedule E.

**Line 6. Interest income.** Report amounts of ECI listed in line 6 (Interest Income) on line 2b of your Form 1040-NR.

**Line 7. Dividends.** Report amounts of ECI listed in line 7 (Dividends) on line 3a or 3b of your Form 1040-NR.

**Line 9. Royalties.** Report amounts of ECI listed in line 8 (Royalties) on line 4 of Schedule E (Form 1040).

**Lines 10 through 14.** Report amounts of ECI listed in lines 10-14 on Schedule D (Form 1040) or Form 4797 attached to your tax return. Such amounts include, for example, gains from the disposition of a U.S. real property interest. See the Partner's Instructions for Form 1065, Schedule K-1, Part III, Income (Loss), and the instructions for Form 1040-NR, lines 14 and 15, for more information on how to report this income.

**Line 15. Other income.** Follow the Partner's Instructions for Schedule K-1 (Form 1065), Part III, box 11.

**Foreign corporations.** Foreign corporations should report ECI on Schedule P (Form 1120-F), in accordance with the instructions.

**Note.** Do not report foreign source income listed in column (d) as ECI if you determine it is subpart F income as defined under section 952(a).



*Do not report income listed in column (d) as ECI if it is dividends, interest, or royalties paid by a foreign corporation in which you own or are considered to own (within the meaning of section 958) more than 50% of the total combined voting power of all classes of stock entitled to vote.*

### Column (e). U.S. Source Non-ECI (FDAP).

Nonresident aliens. Generally, amounts of U.S. source non-ECI listed in column (e) are entered on your Form 1040-NR, Schedule NEC. Foreign corporations. Generally, amounts of U.S. source non-ECI from column (e) are reported on your Form 1120-F, section I.



*Although the partnership determined this income is not effectively connected to its trade or business, the income could be effectively connected to your U.S. trade or business. See Pub. 519, or the Instructions for Form 1120-F for more information on when U.S. source income is ECI.*

### Column (f). U.S. source Non-ECI (Other).

If you are engaged in any trade or business within the United States, report these amounts as ECI on your tax return as directed by the Instructions for Form 1040-NR or the Instructions for Form 1120-F. If you are not so engaged, you do not need to report these amounts on your tax return. Transportation income subject to tax under section 887 is reported on line 23c of Form 1040-NR and Form 1120-F, page 1, section 1, line 9, as applicable.

## Section 2. Deductions, Losses, and Net Income

In figuring a foreign corporation's or nonresident alien's ECI, deductions are allowed only if they are connected with income effectively connected with a U.S. trade or business. See sections 861(b), 873, and 882(c). To determine ECI, a foreign corporation and nonresident alien individual must allocate and apportion deductions and losses to gross income in the ECI statutory grouping and to gross income in the non-ECI residual grouping. See Regulations section 1.861-8(f)(1)(iv). For additional guidance for foreign corporations, see Schedule H of Form 1120-F. See also Schedule I (Form 1120-F). For additional guidance for nonresident aliens, see the Instructions for Form 1040-NR. Section 2 also generally corresponds to the deductions separately reported on Form 1065, Schedule K.

Add the foreign corporation's share of partnership expenses to the foreign corporation's expenses and enter those

expenses on Form 1120-F, Schedule H. The following instructions provide specific instructions for reporting expenses on Form 1120-F. See the Instructions for Form 1040-NR to determine the appropriate placement of the nonresident alien partner's share of the partnership's expenses.

**Column (b). Partner determination.**

Include the foreign corporation's share of partnership expenses that must be apportioned to ECI by the foreign corporation on Form 1120-F, Schedule H, Part II. This includes R&E expenses and interest expense.

**Columns (c) through (e). Partner determination—non-ECI.** Enter the foreign corporation's share of partnership deductions definitely related and allocated to non-ECI on Form 1120-F, Schedule H, Part I.

**Columns (f) and (g). Partner determination—ECI.** Enter the foreign corporation's share of partnership deductions definitely related and allocated to ECI on Form 1120-F, Schedule H, Part I.

**Line 2. R&E expense.** Add the foreign corporation's share of partnership R&E expenses to the foreign corporation's other R&E expenses and apportion such R&E expenses to ECI. Enter the resultant amount on Form 1120-F, Schedule H, Part II, line 16. See Regulations section 1.861-17(f).

**Line 7. Interest expense on U.S.-booked liabilities.** A foreign corporate partner reports its share of interest expense on the partnership's U.S.-booked liabilities, as described in Regulations section 1.882-5(d) (2)(vii), on Schedule I (Form 1120-F).

**Line 10. Section 59(e)(2) expenditures.** R&E expenses are not included on this line. R&E expenses that are also section 59(e)(2) expenditures are included on line 2.

**Line 16. Charitable contributions.** Charitable contributions may be deducted whether or not they are effectively connected with a U.S. trade or business. See sections 873(b)(2) and 882(c)(1)(B), and Regulations section 1.882-4(b) for more information.



*If Part I, box 6 is checked, interest or royalty expense may include amounts for which the partner is not allowed a deduction under section 267A. See the statement with respect to Part I, Box 6, attached to the Schedule K-3.*

### Section 3. Allocation and Apportionment Methods for Deductions

Section 3 provides information you may use to apportion deductions to ECI or non-ECI. See Regulations section 1.861-8 through 1.861-20 and Temporary Regulations sections 1.861-8T through -9T. The ratios listed below generally correspond to the ratios on Form 1120-F, Schedule H, Part III.

**Line 1a. Gross ECI.** Add the amount reported on this line to other amounts you report on Form 1120-F, Schedule H, Part III, line 21a.

**Line 1b. Worldwide gross income.** Add the amount reported on this line to other amounts you report on Form 1120-F, Schedule H, Part III, line 21b.

**Line 2. Average U.S. assets (inside basis).** If you use the ratio of the U.S. assets (inside basis) to the worldwide assets method to apportion expenses to ECI, check the "Yes" box for Form 1120-F, Schedule H, Part III, line 24, and attach a statement.

**Line 4a.** Add the amount reported on this line to other amounts you report on Form 1120-F, Schedule H, Part III, line 23a.

**Line 4b. Worldwide personnel.** Add the amount reported on this line to other amounts you report on Form 1120-F, Schedule H, Part III, line 23b.

**Line 5.** If you have R&E expense, use the appropriate information from this line.

**Lines 7 and 8.** Check the "Yes" box on line 24 or 25 of Form 1120-F, Schedule H, Part III, if you used another apportionment method based on amounts entered on lines 7 and 8. Attach a statement to Form 1120-F.

### Section 4. Reserved for Future Use

### Part XI. Section 871(m) Covered Partnerships

If you are a U.S. or foreign person that has entered into a section 871(m) transaction that references units in the partnership, use this part to determine your U.S. withholding tax and reporting obligations with respect to those transactions under section 871(m) and related sections, including for purposes of determining the amounts to report on Forms 1042 and 1042-S.

This part will be provided if the partnership is a publicly traded partnership as defined in section 7704(b) (a "PTP") that is a covered partnership as defined in Regulations section 1.871-15(m)(1) (a "covered partnership") or directly or indirectly holds an interest in a lower-tier

partnership that is a covered partnership. The information in this part is to permit you to determine your U.S. withholding tax and reporting obligations under section 871(m) and related rules if you are a U.S. or foreign person that has entered into a section 871(m) transaction that references units in the partnership, including for purposes of determining the amounts to report on Forms 1042 and 1042-S.

If you have entered into a potential section 871(m) transaction with another person that references units in the partnership, you may need this information to determine your obligations under section 871(m) and related rules. Generally, a potential section 871(m) transaction is a securities lending or sale-repurchase transaction, a notional principal contract, or any other specified financial transaction that references one or more underlying securities, and an underlying security is any interest in an entity that could give rise to a U.S. source dividend. See Regulations section 1.871-15 for additional information, including the definitions of underlying securities and potential section 871(m) transactions.

### Part XII. Reserved for Future Use

### Part XIII. Foreign Partner's Distributive Share of Deemed Sale Items on Transfer of Partnership Interest

Use this part to determine the information you must report with respect to effectively connected gain or loss arising from the transfer of an interest in a partnership.

**In general.** Section 864(c)(8) requires a foreign partner that transfers part or all of an interest in a partnership engaged in the conduct of a trade or business in the United States to include in income the effectively connected gain or loss from the transfer. A partnership distribution is considered a transfer when it results in recognition of gain or loss. See Regulations section 1.731-1(a). Any foreign person, any domestic partnership that has a foreign person as a direct partner, and any domestic partnership that has actual knowledge that a foreign person indirectly holds, through one or more partnerships, an interest in the domestic partnership that transfers an interest in this type of partnership must provide information regarding the transfer to the partnership no later than 30 days after the transfer. See Pub. 541 for more information.

To determine the amount of gain or loss described in section 864(c)(8),

generally, a foreign transferor must first determine its gain or loss on the transfer of a partnership interest (“outside gain” and “outside loss”). For this purpose, outside gain or loss is determined under all relevant provisions of the Internal Revenue Code and the regulations thereunder. A foreign transferor may recognize capital gain or loss (“outside capital gain” or “outside capital loss”) and ordinary gain or loss (“outside ordinary gain” or “outside ordinary loss”) on the transfer of its partnership interest and must separately apply section 864(c)(8) with respect to its capital gain or loss and its ordinary gain or loss. Part XIII, line 1, provides the information for the partner to determine its outside ordinary gain or outside ordinary loss. The partner then applies Regulations section 1.751-1(a)(2)

to determine its outside capital gain or loss.

**Line instructions.** The foreign transferor must compare the outside gain or loss amounts with the relevant aggregate deemed sale effectively connected gain or loss provided on Part XIII, lines 2 and 3. The foreign transferor only includes in income the lower of the outside amount and the deemed sale effectively connected amount. This determination is made separately with respect to capital gain or loss and ordinary gain or loss. For example, a foreign transferor would compare its outside ordinary gain to its aggregate deemed sale effectively connected ordinary gain, treating the former as effectively connected gain only to the extent it does not exceed the latter.

The amount determined is entered on Form 4797. Similarly, the foreign transferor would compare its outside capital gain to its aggregate deemed sale effectively connected capital gain, treating the former as effectively connected gain only to the extent it does not exceed the latter. The amount determined is entered on Form 8949, Sales and Other Dispositions of Capital Assets, depending on whether the gain is short-term or long-term capital gain. Compare losses by using the absolute value of each number, so that the transferor recognizes the number that is closer to zero. If an amount is entered on line 4, use it to determine gain or loss from the transfer of the partnership interest when completing Form 8949.