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# 2023



Department of the Treasury  
Internal Revenue Service

# S Corporation Instructions for Schedules K-2 and K-3 (Form 1120-S)

Shareholders' Pro Rata Share Items—International and Shareholder's Share of Income, Deductions, Credits, etc.—International

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

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## General Instructions

The Instructions for Form 1120-S and the Instructions for Schedule K-1 (Form 1120-S) generally apply to the Schedules K-2 and K-3. These instructions provide additional instructions with respect to the Schedules K-2 and K-3 for tax years beginning in 2023.

## Purpose of Schedules K-2 and K-3

Schedule K-2 is an extension of Form 1120-S, Schedule K, and is used to report items of international tax relevance from the operation of an S corporation.

Schedule K-3 is an extension of Schedule K-1 (Form 1120-S) and is generally used to report to shareholders their shares of the items reported on Schedule K-2. Shareholders must include the information reported on Schedule K-3 on their tax or information returns.

## Who Must File

Any S corporation that is required to file Form 1120-S and that has items relevant to the determination of the U.S. tax or reporting obligations of its shareholders under the international provisions of the Internal Revenue Code (Code) must complete the relevant parts of Schedules K-2 and K-3. See each part and section for a more detailed description of who must file each part and section. Penalties may apply for filing Form 1120-S without all required information or for furnishing Schedule K-3 to shareholders without all required information. The penalties that apply with respect to Form 1120-S and Schedule K-1 apply with respect to the Schedules K-2 and K-3, respectively. See the *Interest and Penalties* section of the Instructions for Form 1120-S.

Except as otherwise required by statute, regulations, or other IRS guidance, an S corporation is not required to obtain information from its shareholders to determine if it needs to file each of these parts.

An S corporation is only required to complete and file the relevant portions of Schedules K-2 and K-3, as applicable. For example, if the S corporation does not own (within the meaning of section 958) an interest in a foreign corporation other than solely by reason of applying section 318(a)(3) (providing for downward attribution) as provided in section 958(b), it is not required to complete Schedule K-2, Parts IV, V, VI, and VII or the corresponding Schedule K-3 parts.

Schedules K-2 and K-3 consist of the most common international tax provisions of the Code. However, not all provisions are specifically identified on these schedules. To the extent that an international provision is implicated that is not otherwise specifically identified, the S corporation should check box 13 in Schedules K-2 and K-3, Part I, and attach a statement to both Schedules K-2 and K-3 (for shareholder's share).

## Future Developments

For the latest information about developments related to Schedule K-2 (Form 1120-S) and Schedule K-3 (Form 1120-S), and their instructions, such as legislation enacted after they were published, go to [IRS.gov/Form1120S](https://www.irs.gov/Form1120S).

## What's New

**Domestic filing exception.** A domestic filing exception that allows an exception for filing and furnishing Schedules K-2 and K-3 applies for 2023. See [Domestic Filing Exception](#), later.

**Part VII.** Part VII includes two new columns: column (iii) for the foreign corporation's total net income, and column (iv) for the foreign corporation's current year foreign taxes for which credit is allowed. Part VII also requests the functional currency of the foreign corporation. These additions will allow the preparer to include all information necessary for the section 960 computation in Part VII without attaching Schedule Q (Form 5471), CFC Income by CFC Income Groups.

**Note.** An S corporation with no foreign source income, no assets generating foreign source income, and no foreign taxes paid or accrued may still need to report information on Schedules K-2 and K-3. For example, if a shareholder claims a credit for foreign taxes paid or accrued by the shareholder, the shareholder may need certain information from the S corporation to complete Form 1116, Foreign Tax Credit (Individual, Estate, or Trust). See each part for applicability.

### **Domestic Filing Exception (Exception To Filing Schedules K-2 and K-3)**

An S corporation does not need to (i) complete and file with the IRS the Schedules K-2 and K-3, or (ii) furnish to a shareholder the Schedule K-3 (except where requested by a shareholder after the 1-month date (defined in criterion 3)) if each of the following are met with respect to the S corporation's tax year 2023.

**1. No or limited foreign activity.** During an S corporation's tax year 2023, the S corporation either has no foreign activity (as defined later), or if it does have foreign activity, such foreign activity is limited to:

- Passive category foreign income (determined without regard to the high-taxed income exception under section 904(d)(2)(B) (iii)),
- Upon which not more than \$300 of foreign income taxes allowable as a credit under section 901 are treated as paid or accrued by the S corporation, and
- Such income and taxes are shown on a payee statement (as defined in section 6724(d)(2)) that is furnished or treated as furnished to the S corporation.

**Foreign activity.** For purposes of the domestic filing exception, foreign activity means any of the following.

- Foreign income taxes paid or accrued (as defined in section 901 and the regulations thereunder).
- Foreign source income or loss (as determined in sections 861 through 865, and section 904(h), and the regulations thereunder).
- Ownership interest in a foreign partnership (as defined in sections 7701(a)(2) and (5)).
- Ownership interest in a foreign corporation (as defined in sections 7701(a)(3) and (5)).
- Ownership of a foreign branch (as defined in Regulations section 1.904-4(f)(3)(vii)).
- Ownership interest in a foreign entity that is treated as disregarded as an entity separate from its owner (as defined in Regulations section 301.7701-3).

**2. Shareholder notification.** With respect to an S corporation that satisfies criterion 1, shareholders receive a notification from the S corporation at the latest when the S corporation furnishes the Schedule K-1 to the shareholder. The notice can be provided as an attachment to the Schedule K-1. The notification must state that shareholders will not receive Schedule K-3 from the S corporation unless the shareholders request the schedule.

**3. No 2023 Schedule K-3 requests by the 1-month date.** The S corporation does not receive a request from any shareholder for Schedule K-3 information on or before the 1-month date. The 1-month date is 1 month before the date the S corporation files the Form 1120-S. For tax year 2023 calendar year S corporations, the latest 1-month date is August 15, 2024, if the S corporation files an extension. Any request from a shareholder for Schedule K-3 information for a year prior to tax year 2023 will be considered a request for a tax year 2023 Schedule K-3 as well.

**Note.** If an S corporation receives a request from a shareholder for the Schedule K-3 information after the 1-month date for the tax year 2023 and has not received a request from any other

shareholder for Schedule K-3 information on or before the 1-month date, the domestic filing exception is met and the S corporation is not required to file the tax year 2023 Schedules K-2 and K-3 with the IRS or furnish the tax year 2023 Schedule K-3 to the non-requesting shareholders. However, the S corporation is required to provide the tax year 2023 Schedule K-3, completed with the requested information, to the requesting shareholder on the later of the date on which the S corporation files the Form 1120-S or 1 month from the date on which the S corporation receives the request from the shareholder. See [Example 3](#). The S corporation must complete and file tax year 2024 Schedules K-2 and K-3 with respect to the requesting shareholder by the tax year 2024 Form 1120-S filing deadline if that shareholder is still a shareholder in tax year 2024.

**Note for S corporations that satisfy criteria 1 and 2, but do not satisfy criterion 3.** If the S corporation received a request from a shareholder for Schedule K-3 information on or before the 1-month date and therefore the S corporation does not satisfy criterion 3, the S corporation is required to file the Schedules K-2 and K-3 with the IRS and furnish the Schedule K-3 to the requesting shareholder. The Schedules K-2 and K-3 are required to be completed only with respect to the parts and sections relevant to the requesting shareholder. For example, if a shareholder requests the information reported in Part III, Section 2 (Interest Expense Apportionment Factors), the S corporation is required to complete and file Schedule K-2, Part III, Section 2, with respect to the S corporation's total assets and Schedule K-3, Part III, Section 2, with respect to the requesting shareholder's pro rata share of the assets. On the date that the S corporation files Schedules K-2 and K-3 with the IRS, the S corporation must provide a copy of the filed Schedule K-3 to the requesting shareholder. The S corporation does not need to complete, attach, file, or furnish any other parts or sections of the Schedules K-2 and K-3 to the IRS, the requesting shareholder, or any other shareholder. The S corporation should keep records of the information requested by the shareholder. See [Example 2](#).

If an S corporation receives requests from shareholders for Schedule K-3 information both on or before the 1-month date and after the 1-month date, the S corporation is required to file Schedules K-2 and K-3 as described in the prior paragraph only with respect to the shareholder requests received on or before the 1-month date. With respect to requests received after the 1-month date, the S corporation is required to provide the Schedule K-3, completed with that shareholder's requested information, on the later of the date on which the S corporation files the Form 1120-S or 1 month from the date on which the S corporation receives the request from the shareholder. See [Examples 2 and 3](#), later.

**Example 1. Domestic filing exception met—Issuance of Schedule K-3 not required.** A married couple, U.S. citizens, each own a 50% interest in SC, an S corporation. SC and the married couple has a tax year end of December 31. SC invests in a regulated investment company. With respect to tax year 2023, SC receives a Form 1099 from the regulated investment company reporting \$100 of creditable foreign taxes paid or accrued on passive category foreign source income. SC does not have any foreign activity other than that from the regulated investment company. The married couple receive notification from SC as an attachment to Schedule K-1 that they will not receive the Schedule K-3 unless they so request. The married couple do not request Schedule K-3 from SC for tax year 2023. SC qualifies for the domestic filing exception, and, as such, SC need not complete Schedules K-2 and K-3.

**Example 2. Domestic filing exception not met.** The facts are the same as in [Example 1](#) except that the married couple each own a 40% interest in SC, and A, a U.S. citizen, owns a



20% interest in SC. A requests Schedule K-3 from SC for tax year 2023 and SC receives this request on February 1, 2024. After requesting an extension, SC files Form 1120-S on August 31, 2024. SC does not qualify for the domestic filing exception because A requested the Schedule K-3 by the 1-month date (July 31, 2024). As such, SC must complete and file with the IRS the parts and sections of the Schedules K-2 and K-3 that are relevant to A. With respect to the Schedules K-2 and K-3 filed with the IRS, SC does not need to complete, attach, or file any parts or sections relevant to the married couple. SC must provide a copy of the filed Schedule K-3 to A on the date that SC files its Form 1120-S. SC does not need to furnish a Schedule K-3 to the married couple.

**Example 3. Domestic filing exception met—Issuance of Schedules K-3 still required.** The facts are the same as in Example 2 except that SC receives the request from A on August 20, 2024. SC qualifies for the domestic filing exception because A requested the Schedule K-3 after the 1-month date. SC is not required to file the tax year 2023 Schedules K-2 and K-3 with the IRS or furnish the Schedule K-3 to the married couple. However, SC is required to provide the Schedule K-3, completed with the requested information, to A on September 20, 2024, the later of the date on which SC files the Form 1120-S or 1 month from August 20, 2024. Because A requested a Schedule K-3 for tax year 2023, SC must file tax year 2024 Schedules K-2 and K-3 with the IRS with respect to the information requested by A to the extent that A is still a shareholder in tax year 2024.

**Note.** If an S corporation does not meet the domestic filing exception, it may meet the Form 1116 exemption to filing the Schedules K-2 and K-3. See [Form 1116 Exemption](#), later.

## When and Where To File

Attach Schedules K-2 and K-3 to your Form 1120-S and file both by the due date (including extensions) for that return.

Provide Schedule K-3 to your shareholders according to the timeline for providing the Schedule K-1. See the Instructions for Form 1120-S.

See the Instructions for Form 1120-S for requirements with respect to recordkeeping.

See the Instructions for Form 1120-S for instructions concerning amendments or adjustments to Schedules K-2 and K-3.

## Computer-Generated Schedules K-2 and K-3

Generally, all computer-generated forms must receive prior approval from the IRS and are subject to an annual review. However, see the *Exception* later. Requests for approval may be submitted electronically to [substituteforms@irs.gov](mailto:substituteforms@irs.gov); or requests may be mailed to:

Internal Revenue Service  
Attn: Substitute Forms Program  
SE:W:CAR:MP:P:TP  
1111 Constitution Ave. NW, Room 6554  
Washington, DC 20224

**Exception.** If computer-generated Schedules K-2 and K-3 conform to and do not deviate from the official form and schedules, they may be filed without prior approval from the IRS.

**Important.** Be sure to attach the approval letter to computer-generated Schedules K-2 and K-3. However, if the computer-generated form is identical to the IRS prescribed form, it does not need to go through the approval process, and an attachment is not necessary.

Every year, the IRS issues a revenue procedure to provide guidance for filers of computer-generated forms. In addition, every year, the IRS issues Pub. 1167, General Rules and Specifications for Substitute Forms and Schedules, which reprints the most recent applicable revenue procedure. Pub. 1167 is available at [IRS.gov/Pub1167](https://www.irs.gov/pub/1167). The procedures relevant to Form 1120-S and the Schedule K-1 (Form 1120-S) apply for purposes of the Schedules K-2 and K-3.

## How To Complete Schedules K-2 and K-3

**Reporting currency.** Report all amounts in U.S. dollars except where specified otherwise.

**Form references.** These instructions refer to other forms. If the referenced form has been succeeded by another form, the references to those prior forms encompass any successor 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 shareholders such as Form 1041, U.S. Income Tax Return for Estates and Trusts.

### Uses of the parts of Schedules K-2 and K-3, in general.

**Part I of Schedule K-2 (and Part I of Schedule K-3).** Used to report international tax items not reported elsewhere on Schedule K-2 or K-3.

**Part II of Schedule K-2 (and Part II of Schedule K-3).** Used to figure the S corporation's income or loss by source and separate category of income, and to report the shareholder's share of such income or loss. Shareholders will use the information to figure and claim a foreign tax credit on Form 1116 or Form 1118, Foreign Tax Credit—Corporations.

**Part III of Schedule K-2 (and Part III of Schedule K-3).** Used to report information necessary for the shareholder to determine the allocation and apportionment of research and experimental (R&E) expense and interest expense for the foreign tax credit limitation. Also used to report foreign taxes paid or accrued by the S corporation and the shareholder's share of such taxes. Shareholders will use the information to figure and claim a foreign tax credit on Form 1116.

**Part IV of Schedule K-2 (and Part IV of Schedule K-3).** Used to report information the shareholder needs, in combination with other information known to the shareholder, to determine the amount of each distribution from a foreign corporation that is treated as a dividend or excluded from gross income because the distribution is attributable to previously taxed earnings and profits (PTEP) in the shareholder's annual PTEP accounts with respect to the foreign corporation, and the amount of foreign currency gain or loss on the PTEP that the shareholder is required to recognize under section 986(c).

Shareholders will report the dividends and foreign currency gain or loss on Form 1040.

**Part V of Schedule K-2 (and Part V of Schedule K-3).** Used to provide information the shareholder needs to determine any inclusions under sections 951(a)(1) and 951A. Shareholders will use the information to complete Form 8992, U.S. Shareholder Calculation of Global Intangible Low-Taxed Income (GILTI), and Form 1040, with respect to subpart F income inclusions, section 951(a)(1)(B) inclusions, and section 951A inclusions.

**Part VI of Schedule K-2 (and Part VI of Schedule K-3).** Used to provide information needed by shareholders to complete Form 8621, Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund, and to provide shareholders with information to determine income inclusions with respect to the passive foreign investment company (PFIC).

**Part VII of Schedule K-2 (and Part VII of Schedule K-3).**

Used to provide the foreign corporation's net income in the income groups for purposes of the shareholder's deemed paid taxes computation with respect to inclusions under sections 951A and 951(a)(1). Shareholders will use the information to figure and claim a deemed paid foreign tax credit on Form 1118.

**Specific Instructions**



If the information required in a given section exceeds the space provided within that section, **do not enter "See attached" in the section or leave the section blank. Instead, complete all entry spaces in the section and attach the remaining information on additional sheets. For all attachments, include the part, section, line number, and column of the relevant portion of Schedules K-2 and K-3. The additional sheets must conform with the IRS version of that section.**

**Schedule K-2, Identifying Information**

At the top of each new page, enter the name of the S corporation as it appears on the Form 1120-S. At the top of each new page, enter the EIN of the S corporation as it appears on the Form 1120-S.

**Item A—Part applicability.** Check the "Yes" box to indicate the applicable parts of Schedules K-2 and K-3. Complete and attach each applicable part to Form 1120-S and Schedule K-1 (Form 1120-S). Check the "No" box to indicate the inapplicable parts of Schedules K-2 and K-3. Do not complete and attach the inapplicable parts to the filed Form 1120-S or the Schedule K-3.

**Schedule K-3, Identifying Information**

**Items A and B.** Items A and B should be the same as reported on Schedule K-1 (Form 1120-S), Part I, Items A and B.

**Items C and D.** Items C and D should be the same as reported on Schedule K-1 (Form 1120-S), Part II, Items E and F.

**Item E.** Item E should correspond to Schedule K-2, Identifying Information, Item A.

**Schedule K-2, Part I (Corporation's Other Current Year International Information), and Schedule K-3, Part I (Shareholder's Share of Corporation's Other Current Year International Information)**

**Note.** Shareholders will use the information reported in the attachments with respect to boxes 1 through 5 and 10 to claim and figure a foreign tax credit on Form 1116 or 1118. Section 1373(a) treats an S corporation as a partnership for purposes of sections 901 through 909 and sections 951 through 965.

**Note.** Shareholders will also use the information reported in attachments with respect to box 6 to prepare their tax returns (Form 1040) by taking into account that under section 267A they are not allowed deductions for the amounts listed in the statement with respect to box 6.

**Note.** Shareholders will use the information reported in attachments with respect to boxes 7 through 9 to identify any international tax information reporting forms or other international tax forms that may impact the shareholders tax returns.

This part is used to report information for international tax items not reported elsewhere on the Schedule K-2. Check the box to indicate whether any of the following international tax items are applicable in the tax year. If applicable, attach statements, as described later, to the Schedule K-2.

If applicable, the S corporation must also complete Schedule K-3, Part I, and include with the Schedule K-3 the attachment(s) as described later with the shareholder's share of the amounts.

**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. For purposes of section 904, personal property sold by the S corporation is treated as sold by the shareholders; see section 865(i)(5) and section 1373(a). A U.S. citizen or resident alien individual with a tax home (as defined in section 911(d)(3)) in a foreign country is treated as a nonresident with respect to the sale of personal property only if an income tax of at least 10% of the gain derived from the sale is actually paid to a foreign country, with respect to that gain; see section 865(g). In addition, if a U.S. resident maintains an office or other fixed place of business in a foreign country, income from the sale of personal property attributable to such office or other fixed place of business is foreign source only if an income tax of at least 10% of the income from the sale is actually paid to a foreign country with respect to such income; see section 865(e)(1).

If the S corporation has income from the sale of personal property (other than inventory, depreciable personal property, and certain intangible property excepted from the general rule of section 865(a)) and the S corporation pays income tax to a foreign country with respect to income from the sale or the income is eligible for re-sourcing under an applicable treaty, it must check box 1 and attach a statement to Schedules K-2 and K-3 (for shareholder's share) with Table 1, Information on Personal Property Sold. Each item of property sold must be listed separately with Table 1 completed. The S corporation may combine sales of stock property by country. Otherwise, do not combine sales of property. In column (b), if the gain is capital, enter "long-term" or "short-term." For column (f), enter the two-letter code from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes). Do not enter "various" or "OC" for the country code. If the property sale is taxed by more than one country, complete a separate line for that country, but denote in some manner (for example, a footnote) that the property entered on both lines is the same property.

**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

**Table 1—Information on Personal Property Sold (for use with Schedules K-2 and K-3 (Form 1120-S), Part I, box 1)**

(a) Property description	(b) Long-term/Short-term	(c) Gains	(d) Amount of tax paid in local currency	(e) Amount of tax paid in U.S. dollars	(f) Taxing country (enter two-letter country code)

for details. If the S corporation has such taxes, it must check box 2 and attach a completed Schedule I (Form 1118), Reduction of Foreign Oil and Gas Taxes, to the Schedules K-2 and K-3 (with the shareholder's share). The S corporation need not complete Schedule I (Form 1118), Part I, column 12; Part II, lines 2 through 4; or Part III, lines 1 and 3. The S corporation must attach Schedule I (Form 1118) because the limitation applies to individuals eligible to claim a foreign tax credit.

**Note.** The S corporation attaches a partially completed Schedule I (Form 1118), so that the shareholder has the information it needs to complete Form 1116. The S corporation is not attaching Schedule I (Form 1118), as a form required to be filed by the S corporation for purposes of the S corporation determining creditable taxes because an S corporation cannot claim a foreign tax credit.

**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, as defined in Regulations section 1.909-2(b), the related income was, 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 an S corporation into account pursuant to section 1373(a).

The S corporation must report foreign taxes that are potentially suspended on Schedule K-2, Part III, Section 3, line 2E, and each shareholder's share of such taxes on Schedule K-3, Part III, Section 3, line 2E. An S corporation may not be able to determine whether taxes are suspended and whether related income is taken into account. However, where the S corporation is able to determine that taxes are potentially suspended, or potentially unsuspended, it must report such taxes and the information requested in these instructions for box 3.

For example, where an S corporation owns a reverse hybrid and the foreign country assesses tax on the S corporation with respect to income earned by the reverse hybrid, the S corporation should report such taxes as potentially suspended taxes.

Check box 3 and attach a statement to both Schedules K-2 and K-3 that includes the following for each arrangement in which the S corporation participates that would qualify as a splitter arrangement under section 909 if one or more shareholders are covered persons with respect to an entity that took into account related income from the arrangement.

**Section 1 of attached statement—Potentially suspended taxes.**

1. Explanation of the splitter arrangement (for example, reverse hybrid owned by the S corporation).
2. Amount of taxes paid or accrued by the S corporation in connection with the splitter arrangement.
3. Amount of related income on which such taxes were paid or accrued.
4. The two-letter code for the country to which the taxes were paid or accrued from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes). Do not enter "various" or "OC" for the country code.
5. The separate category and source of income to which the taxes are assigned if determinable by the S corporation.

**Section 2 of attached statement—Potentially unsuspended taxes.**

1. Origin year of the splitter arrangement.
2. Explanation of the splitter arrangement (for example, reverse hybrid owned by the S corporation).
3. Amount of taxes paid or accrued by the S corporation in connection with the splitter arrangement in the origin year of the splitter arrangement.
4. Amount of related income on which such taxes were paid or accrued in the origin year of the splitter arrangement.
5. The two-letter code for the country to which the taxes were paid or accrued from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes). Do not enter "various" or "OC" for the country code.
6. The separate category and source of income to which the taxes are assigned if determinable by the S corporation.
7. Amount of related income taken into account in the current tax year and the amount of taxes originally paid that relate to that portion of the related income if determinable by the S corporation.

**Box 4. Foreign tax translation.** If the S corporation reports any foreign taxes in Schedules K-2 and K-3, Part III, Section 3, it must check the box for item 4 and attach to Schedules K-2 and K-3 the statement described in the instructions for those sections.

**Box 5. High-taxed income.** If the S corporation has passive income, the S corporation must check box 5 and attach a statement to Schedules K-2 and K-3 with Attachment 1 or 2, or both, completed. These attachments will provide the shareholder with the information to determine whether its passive income is high-taxed passive income.

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). To determine if income is high-taxed income, a shareholder must group its shares of passive income from an S corporation according to the rules in Regulations section 1.904-4(c)(3), except that the portion, if any, of the share of income attributable to income earned by an S corporation through a foreign qualified business unit (QBU) is separately grouped under the rules of Regulations section 1.904-4(c)(4). See also Regulations section 1.904-4(c)(5)(ii). For this purpose, a foreign QBU is a qualified business unit (as defined in section 989(a)), other than a controlled foreign corporation (CFC) or noncontrolled 10%-owned foreign corporation, that has its principal place of business outside the United States. See Regulations section 1.904-4(c)(3).

**Note.** Passive income is not treated as subject to a withholding tax or other foreign tax when a credit is disallowed in full for such foreign tax, for example, under section 901(k).

**Example 4. Part I, box 5. High-taxed income.** USC is an S corporation, with two U.S. citizen individual shareholders with equal interests in the S corporation. In Year 1, USC receives \$100 of passive dividend income from a noncontrolled 10%-owned foreign corporation subject to a 15% withholding tax. USC also receives \$150 of passive interest income from an unrelated person subject to a 30% withholding tax. USC incurs \$80 of expenses that are allocable to the interest income. USC also receives \$50 of passive dividend income from a CFC, which is not subject to tax. No expenses are allocable to the dividend income. USC's branch operation in Country X that is treated as a QBU under section 989(a) receives \$100 of passive dividend income subject to a 15% withholding tax. Finally, USC earns \$400 of passive income with respect to its branch operation in Country X that is treated as a QBU under



**Attachment 1 for Schedule K-2, Part 1, Box 5**

		I. Passive Income Net of Allocable Expenses	II. Taxes
<b>A</b>	Passive income subject to withholding tax of 15% or more		
<b>B</b>	Passive income subject to withholding tax of less than 15% but greater than zero		
<b>C</b>	Passive income not subject to any foreign tax		
<b>D</b>	Passive income subject to no withholding tax, but subject to other foreign tax		
Reference: Regulations section 1.904-4(c)(3)			

**Attachment 2 for Schedule K-2, Part 1, Box 5**

Name of foreign QBU:			
Complete a separate Attachment 2 for each foreign QBU.		I. Passive Income Net of Allocable Expenses	II. Taxes
<b>A</b>	Passive income subject to withholding tax of 15% or more		
<b>B</b>	Passive income subject to withholding tax of less than 15% but greater than zero		
<b>C</b>	Passive income not subject to any foreign tax		
<b>D</b>	Passive income subject to no withholding tax, but subject to other foreign tax		
Reference: Regulations section 1.904-4(c)(4)			

section 989(a). Such income is subject to foreign tax (but not withholding tax) of \$40. Expenses of \$120 are allocable to the share of branch income. No expenses are allocable to the dividend income.

For Year 1, USC checks box 5 in Part I of Schedule K-2 (Form 1120-S) and attaches Attachments 1 and 2 to Form 1120-S, Schedule K-2.

USC completes the same attachments with the shareholder shares and attaches those attachments to each Schedule K-3 provided to the shareholders.

**Box 6. Section 267A disallowed deduction.** Shareholders will also use the information from box 6 to prepare their tax returns (Form 1040) by taking into account that under section

267A they are not allowed deductions for the amounts listed in the statement with respect to box 6.

Check box 6 if the S corporation paid or accrued any interest or royalty for which the S corporation knows, or has reason to know, that one or more of its shareholders is not allowed a deduction under section 267A. See the instructions for Form 1065, Schedule B, line 22, and FAQs for section 267A at [IRS.gov/Businesses/Partnerships/FAQs-for-Form-1065-Schedule-B-Other-Information-Question-22](https://www.irs.gov/Businesses/Partnerships/FAQs-for-Form-1065-Schedule-B-Other-Information-Question-22) for additional information regarding section 267A. In addition, for each shareholder that is disallowed a deduction under section 267A, the corporation should check box 6 in Part I of the specific shareholder's Schedule K-3 and attach to the Schedule K-3 a statement titled "Section 267A Disallowed Deduction" that separately lists the following information.

**Attachment 1 for Example 4**

		I. Passive Income Net of Allocable Expenses	II. Taxes
<b>A</b>	Passive income subject to withholding tax of 15% or more	\$170	\$60
<b>B</b>	Passive income subject to withholding tax of less than 15% but greater than zero	0	0
<b>C</b>	Passive income not subject to any foreign tax	50	0
<b>D</b>	Passive income subject to no withholding tax, but subject to other foreign tax	0	0
Reference: Regulations section 1.904-4(c)(3)			

**Attachment 2 for Example 4**

Name of foreign QBU: Country X QBU			
Complete a separate Attachment 2 for each foreign QBU.		I. Passive Income Net of Allocable Expenses	II. Taxes
<b>A</b>	Passive income subject to withholding tax of 15% or more	\$100	\$15
<b>B</b>	Passive income subject to withholding tax of less than 15% but greater than zero	0	0
<b>C</b>	Passive income not subject to any foreign tax	0	0
<b>D</b>	Passive income subject to no withholding tax, but subject to other foreign tax	280	40
Reference: Regulations section 1.904-4(c)(4)			

- The amount of interest paid or accrued by the S corporation for which the shareholder is not allowed a deduction under section 267A.
- The amount of royalty paid or accrued by the S corporation for which the shareholder is not allowed a deduction under section 267A.
- The extent to which information reported in other parts of the Schedule K-3 (for example, a line in Part II, Section 2) reflects interest or royalty for which the shareholder is not allowed a deduction under section 267A.



When completing other parts of Schedules K-2 and K-3 (for example, a line in Part II, Section 2), list an amount without regard to whether the shareholder is disallowed a deduction under section 267A for the amount.

**Note for boxes 7, 8, and 9.** If the filer meets an exception, such as the multiple filer exception, to filing Forms 5471, 8865, and/or 8858, the filer is not required to complete and attach those forms. However, the filer must still attach to the Form 1120-S any required statements to qualify for the exception to filing the Forms 5471, 8865, and/or 8858.

**Box 7. Form 8858 information.** Check box 7 and ensure that Form(s) 8858 is attached to the Form 1120-S if the S corporation filed one or more Forms 8858, Information Return of U.S. Persons With Respect to Foreign Disregarded Entities (FDEs) and Foreign Branches (FBs), or if another person filed the Form(s) 8858 on behalf of the S corporation. With respect to Schedule K-3, the S corporation should check box 7 if the S corporation checked box 7 on the Schedule K-2. The S corporation need not attach Form 8858 to the Schedules K-1 or K-3.

**Box 8. Form 5471 information.** Check box 8 and attach Form(s) 5471 to Form 1120-S and Schedule K-1 (Form 1120-S) if either of the following apply.

- The S corporation filed one or more Forms 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations.
- The S corporation received Form(s) 5471 as an attachment to a Schedule K-3 issued to the S corporation.

Form 5471 does not need to be attached to the Schedules K-1 or K-3 if the S corporation knows or has reason to know that its direct shareholder (and any indirect shareholder) does not need the information on Form 5471 to prepare its tax return. For example, the S corporation would not need to attach the Form 5471 to Schedules K-3 for certain tax-exempt shareholders.

A pass-through entity shareholder that receives a Form 5471 with a Schedule K-1 or K-3 must provide the relevant portions of Form 5471 to its shareholder unless the pass-through entity knows or has reason to know that its direct shareholder (and any indirect shareholder) does not need the information on the Form 5471 to prepare its tax return.

If a shareholder only needs certain information from the Form 5471, such as the Schedule Q, the S corporation need only attach that portion to the Schedule K-3, and not the complete Form 5471.

**Box 9. Other forms.** Check box 9 if the S corporation filed any other international tax forms, or if another person filed these forms on behalf of the S corporation, or if the S corporation received these forms as an attachment to a Schedule K-1 or K-3 issued to the S corporation. Attach those form(s) to Form 1120-S and Schedule K-3, if applicable to the shareholder. This includes, but is not limited to, the following forms.

- Form 5713, International Boycott Report.
- Form 8833, Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b).

- Form 8621, Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund.

**Exception for Form 8621.** With respect to Schedule K-3, the S corporation should check box 9 if the S corporation checked box 9 on the Schedule K-2. The S corporation should indicate in an attachment to the Schedule K-3 that Form(s) 8621 is attached to Schedule K-2. The S corporation need not attach Forms 8621 to the Schedule K-1 or K-3.

**Note.** If the S corporation attached any of the forms identified in boxes 7, 8, and 9 to the Form 1120-S, the S corporation need not attach them again to the Schedule K-2. See *Other Forms and Statements That May Be Required* in the Instructions for Form 1120-S.

**Box 10. Shareholder loan transactions.** Check box 10 and attach a statement with the information in the applicable Table 2 or Table 3, if the S corporation knows or has reason to know that it (i) received a loan from its shareholder (“downstream loan”), as described in Regulations section 1.861-9(e)(8), or (ii) loaned an amount to its shareholder (“upstream loan”), as described in Regulations section 1.861-9(e)(9).

**Downstream loan.** On an attachment to both the Schedules K-2 and K-3, provide the details with respect to any downstream loans from its shareholder, including the amount of interest expense paid or accrued by the S corporation. Report the information separately for each separate loan. The reporting should be as follows in Table 2.

**Table 2. Downstream Loans**

Name of lender	Lender's TIN	Date of loan	Amount of loan	Interest expense for year

**Upstream loan.** On an attachment to both the Schedules K-2 and K-3, provide the details with respect to any upstream loans to its shareholder, including the amount of interest income received or accrued by the S corporation. Report the information separately for each separate loan. The reporting should be as follows in Table 3.

**Table 3. Upstream Loans**

Name of borrower	Borrower's TIN	Date of loan	Amount of loan	Interest income for year

**Box 11. Entity treatment for certain S corporations.** Check box 11 if the S corporation has made an election under Proposed Regulations section 1.958-1(e)(2), to be treated as owning stock of a CFC within the meaning of section 958(a).

**Box 12.** Box 12 is reserved for future use on Schedule K-2. Box 12 is used for Form 8865 information on Schedule K-3. If the S corporation filed one or more Forms 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, check box 12 on Schedule K-3 and attach such form(s) to Form 1120-S. The Form(s) 8865 need not be attached to the Schedules K-3.

**Box 13. Other international transactions.** If the S corporation has transactions, income, deductions, payments, or anything else that implicates the international tax provisions of the Code and such events are not otherwise reported in this part or other parts of Schedules K-2 and K-3, report that information on an attachment to the Schedules K-2 and K-3 and check box 13. As an example, an S corporation should attach Form 926, Return by a U.S. Transferor of Property to a Foreign Corporation.



## Schedule K-2, Parts II and III, and Schedule K-3, Parts II and III

**Note.** Shareholders will use the following information to claim and figure a foreign tax credit on Form 1116 or 1118.

If the S corporation does not qualify for the [Domestic Filing Exception](#), Schedules K-2 and K-3, Parts II and III, must be completed unless (a) the S corporation does not have a direct or indirect shareholder that is eligible to claim a foreign tax credit, or (b) no direct or indirect shareholder would have to file a Form 1116 or 1118 to claim the foreign tax credit.

### Shareholders Eligible To Claim Credit

A shareholder that is eligible to claim a foreign tax credit includes (i) a U.S. citizen or resident, and (ii) a U.S. citizen or resident beneficiary of domestic trusts and estates. See sections 901 and 906.

### Form 1116 Exemption Exception

Under section 904(j), certain shareholders are not required to file a Form 1116 (Form 1116 exemption). Also see [Foreign Tax Credit - How to Figure the Credit](#) on IRS.gov. An S corporation is not required to complete Schedules K-2 and K-3 if all shareholders are eligible for the Form 1116 exemption and the S corporation receives notification of the shareholders' eligibility for such exemption by the 1-month date (as defined earlier). If an S corporation receives notification from only some of the shareholders that they are eligible for the Form 1116 exemption, the S corporation need not complete the Schedule K-3 for those exempt shareholders but must complete the Schedules K-2 and K-3 with respect to the other shareholders to the extent that the S corporation does not qualify for the domestic filing exception.

An S corporation that does not have or receive sufficient information or notice regarding a direct or indirect shareholder must presume such shareholder is eligible to claim a foreign tax credit and such shareholder would have to file a Form 1116 to claim a credit. As such, the S corporation must complete the Schedules K-2 and K-3, including Parts II and III, accordingly.

**Example 5. Form 1116 exemption.** A married couple, U.S. citizens, each own a 50% interest in SC, an S corporation. The couple and SC each have a calendar tax year. SC invests in a regulated investment company. SC receives a Form 1099 from the regulated investment company reporting \$400 of creditable foreign taxes paid or accrued on passive category foreign source income. SC's only foreign activity is that from the regulated investment company. The couple do not pay or accrue any foreign taxes other than their pro rata share of SC's foreign taxes. The couple also do not have any other foreign source income. The couple qualify for the Form 1116 exemption and notify SC by the 1-month date that they do not need the Schedule K-3. Even though SC does not qualify for the domestic filing exception because the creditable foreign taxes paid or accrued by SC are greater than \$300, because the couple notify SC by the 1-month date that they do not need the Schedule K-3 under the Form 1116 exemption, SC need not complete Schedules K-2 and K-3.

**S corporations with limited or no foreign activity.** In many instances, an S corporation with no foreign source income, no assets generating foreign source income, and no foreign taxes paid or accrued may still need to report information on Schedules K-2 and K-3. For example, if the shareholder claims the foreign tax credit, the shareholder generally needs certain information from the S corporation in Schedule K-3, Parts II and III, to complete Form 1116. This information should have been reported in prior years, including before the Tax Cuts and Jobs Act, with the Schedules K and K-1, and is information the

shareholder needs to figure the foreign tax credit limitation, which determines the amount of foreign tax credit available to the shareholder. See [Domestic Filing Exception](#), earlier.

Section 904 generally limits the foreign tax credit to the portion of U.S. tax liability attributable to foreign source taxable income. Foreign source taxable income is foreign source gross income less allocable expenses. In general, the S corporation must complete the Schedules K-2 and K-3, Parts II and III, because the S corporation's gross income, gross receipts, expenses, assets, and foreign taxes paid may affect the foreign tax credit available to the shareholder. The source of certain gross income and gross receipts is determined by the shareholder. In addition, some expenses of the S corporation are allocated and apportioned by the shareholder. Because of this shareholder determination, it is not possible for the shareholder to assume that all income of the S corporation is U.S. source and all expenses of the S corporation reduce U.S. source income. Also, the allocation and apportionment of certain shareholder expenses take into account their shares of assets and income of the S corporation that are not otherwise reported on the Schedule K-1.

For example, for purposes of section 904, personal property sold by the S corporation is treated as sold by the shareholders; see section 865(i)(5) and section 1373(a). Generally, income from the sale of certain personal property (excluding inventory) is sourced according to the residence of the seller. In cases in which the shareholder is a pass-through entity, the S corporation might not know the ultimate residence of the first non-pass-through shareholder. The S corporation is not required to separately state gain from the sale of personal property on Schedules K and K-1 since it is generally included in ordinary income. However, the gain is separately reported in Schedules K-2 and K-3, Part II.

As another example, the shareholder's R&E expense (which includes the share of the S corporation's R&E expense) is allocated and apportioned by the shareholder; see Regulations section 1.861-17(f). R&E expense is allocated and apportioned based on the gross receipts by Standard Industrial Classification Manual (SIC) code. R&E expense by SIC code is not reported on Schedules K and K-1, but is reported in Schedules K-2 and K-3, Part II. Also, the shareholder needs Schedule K-3, Part III, Section 1, for the shareholder's share of the S corporation's gross receipts by SIC code for purposes of allocating and apportioning R&E expense.

In some cases, the shareholder will be able to use the information reported in Parts II and III to increase the foreign tax credit limitation, and the amount of available foreign tax credit to the shareholder. For example, Part III, Section 2, provides the shareholder with the tax book value of the assets of the S corporation. In general, a shareholder apportions interest expense to reduce U.S. source income or foreign source income based on the tax book value of its assets, including its share of the S corporation's interest expense and assets; see section 864(e)(2) and Regulations section 1.861-9(e). Taking into account the assets of an S corporation generating solely U.S. source income would result in more expense allocated to reduce U.S. source income and less expense allocated to reduce foreign source income. Additional foreign source income increases the shareholder's foreign tax credit limitation, and the ability of the shareholder to claim foreign tax credits. Schedules K and K-1 contain net amounts but do not include separately stated reporting for the S corporation's interest expense for international tax reporting purposes, or the tax book value of the assets; see Regulations section 1.861-9(e). See the instructions for Part II, lines 39 through 43, and Part III, Section 2, for further guidance.

**Example 6. Parts II and III required for S corporation with no foreign activity.** U.S. citizens A and B own equal interests

in SC, an S corporation. SC has no foreign activity. In Year 1, A pays \$2,000 of foreign income taxes on passive category income other than capital gains reported to A on a payee statement. A has interest expense of \$5,000 and SC does not have interest expense. None of A's interest expense is directly allocable. A does not have an overall domestic loss in tax year 2023.

Because A must complete Form 1116 to claim a foreign tax credit, A requests a Schedule K-3 by the 1-month date, and therefore the domestic filing exception does not apply to SC with respect to A. SC must complete the relevant portions of Parts II and III of Schedules K-2 and K-3 (for A). The tax book value of SC's assets is \$100,000 (reported on Schedule K-2, Part III, Section 2, column (a)) and A's share of those assets is \$50,000 (reported on Schedule K-3, Part III, Section 2, column (a)). Not including A's pro rata share of the assets of SC, the tax book value of A's assets is \$50,000. Of A's assets, \$10,000 generates passive category foreign source income and \$40,000 generates U.S. source income. A has passive category foreign source taxable income before interest expense of \$8,000. A's U.S. tax rate is 25%. A's interest expense and SC's assets are characterized in the same category under sections 163 and 469 for purposes of Temporary Regulations section 1.861-9T(d). A uses the tax book value (as opposed to the alternative tax book value) to allocate and apportion interest expense.

A's interest expense is apportioned between U.S. source and foreign source income ratably based on the tax book value of A's U.S. source and foreign source assets. Without taking into account the pro rata share of SC's assets, the amount of A's interest expense that would reduce passive category foreign source income is \$1,000 ( $\$5,000 \times \$10,000 / \$50,000$ ). Therefore, A's passive category foreign source taxable income would be \$7,000 ( $\$8,000 - \$1,000$ ). At a 25% U.S. tax rate, A may only use \$1,750 ( $25\% \times \$7,000$ ) of the \$2,000 of foreign taxes. See section 904.

Taking into account the pro rata share of SC's assets, the amount of A's interest expense that reduces passive category foreign source income is \$500 ( $\$5,000 \times \$10,000 / \$100,000$ ). Therefore, A's passive category foreign source taxable income would be \$7,500 ( $\$8,000 - \$500$ ). At a 25% U.S. tax rate, A may use \$1,875 ( $25\% \times \$7,500$ ) of the \$2,000 of foreign taxes—an additional foreign tax credit amount of \$125 after taking into account A's share of the tax book value of the S corporation assets.

B does not request a Schedule K-3 from SC for tax year 2023. Under the domestic filing exception, SC does not need to complete Schedule K-3 for B.

**Example 7. Part II, not Part III, required for S corporation with no foreign activity.** The facts are the same as in Example 6, except that A has \$5,000 of deductions that are not definitely related to any gross income as described in Regulations section 1.861-8(e)(9), and A and SC have no other expenses. Further, A's share of SC's gross income is \$50,000. Not including A's pro rata share of the income of SC, A's gross income is \$50,000. Of A's gross income, \$5,000 is passive category foreign source gross income and \$45,000 is U.S. source gross income. SC does not have any gross income the source of which is determined by the shareholder.

A's expenses must be ratably apportioned based on A's gross income (including A's pro rata share of the income of SC); see Regulations section 1.861-8(c)(3). Therefore, SC must complete Schedule K-2, Part II, and Schedule K-3, Part II (for A). Before taking into account the pro rata share of SC's gross income, the amount of A's expenses described in Regulations section 1.861-8(e)(9) that reduce foreign source income is \$500 ( $\$5,000 \times \$5,000 / \$50,000$ ). Therefore, A's foreign source taxable income would be \$4,500 ( $\$5,000 - \$500$ ). At a 25%

U.S. tax rate, A may only use \$1,125 ( $25\% \times \$4,500$ ) of the \$2,000 of foreign taxes. See section 904.

Taking into account the pro rata share of SC's gross income, the amount of A's expenses described in Regulations section 1.861-8(e)(9) that reduce foreign source income is \$250 ( $\$5,000 \times \$5,000 / \$100,000$ ). Therefore, A's foreign source taxable income would be \$4,750 ( $\$5,000 - \$250$ ). At a 25% U.S. tax rate, A may use \$1,187.50 ( $25\% \times \$4,750$ ) of the \$2,000 of foreign taxes in Year 1—an additional foreign tax credit amount of \$62.50 after taking into account A's pro rata share of the gross income of SC.

Because A and SC do not have R&E expense or interest expense, and because SC did not pay or accrue any foreign taxes, SC does not need to complete Schedules K-2 and K-3, Part III.

**Note.** A shareholder may use the share of the S corporation's gross income for purposes of allocating and apportioning expenses other than those described in Regulations section 1.861-8(e)(9).

**General filing instructions.** In Schedules K-2 and K-3, Parts II and III, the S corporation reports its gross income, gross receipts, cost of goods sold (COGS), certain deductions, and taxes by source and separate category. The S corporation also reports information that the shareholders will need to allocate and apportion expenses and determine the source of certain items of gross income and gross receipts. Unless specifically noted later, the S corporation reports in Schedule K-3, Parts II and III, the shareholder's share of the S corporation's gross receipts, gross income, COGS, certain deductions, and taxes by source and separate category. The shareholder adds its share of the S corporation's foreign source gross receipts, gross income, COGS, certain deductions, and taxes by separate category to its other foreign source gross receipts, gross income, COGS, certain deductions, and taxes in that separate category to figure its foreign tax credit. The S corporation also reports on the Schedule K-3 the share of expenses and the allocation and apportionment factors so that the shareholder may determine expenses allocated and apportioned to foreign source income.

**S corporation determination.** The source and separate category of certain gross income, gross receipts, COGS, as well as the allocation and apportionment of certain deductions, can be determined by the S corporation. This includes deductions that are definitely related to certain gross income and gross receipts of the S corporation. See Regulations section 1.861-8(b)(1). See Schedule K-2, Part II, columns (a) through (e), and Part III, Section 1, columns (a) through (e). In Part III, Section 2, columns (a) through (e), some S corporation assets may be characterized by source and separate category by the S corporation. This includes certain assets that attract directly allocated interest expense under Temporary Regulations section 1.861-10T(b) and (c). See Temporary Regulations section 1.861-10T(d)(2).

In Part III, Section 3, in the U.S. and foreign columns, the S corporation assigns foreign taxes paid or accrued to a separate category and source.

The shareholder's share of the amounts determined by the S corporation are reported on equivalent columns in Schedule K-3, Parts II and III.

Certain gross income, gross receipts, COGS, assets, deductions, and taxes are not assigned to a source or separate category by the S corporation. See [Shareholder determination](#), later.

**Foreign branch category income.** An S corporation itself does not have foreign branch category income. However, report all amounts that would be foreign branch category income of its



shareholders as if all shareholders were U.S. persons that were not pass-through entities. See Schedule K-2, Part II, column (b); Part III, Sections 1 and 2, column (b); and Part III, Section 3, column (c). The shareholder's share of the amounts determined by the S corporation are reported in equivalent columns in Schedule K-3, Parts II and III.

**Section 901(j) income.** Income derived from each sanctioned country is subject to a separate foreign tax credit limitation. If the S corporation derives such income, enter code 901j on the line after category code. See Schedule K-2, Part II, column (e); Part III, Sections 1 and 2, column (e); Part III, Section 3, column (f). The shareholder's share of the amounts determined by the S corporation are reported on equivalent columns in Schedule K-3, Parts II and III. See the Instructions for Form 1116 for the potential countries to be listed with the section 901(j) category of income.

**Note.** At the time these instructions went to print, section 901(j) is the only category reported in Part II, Sections 1 and 2, column (e), and Part III, Sections 1 and 2, column (e).

**Section 951A category income.** Section 951A category income is any amount of Global Intangible Low-Taxed Income (GILTI) includible in gross income under section 951A (other than passive category income). If the S corporation pays or accrues tax on the receipt of a distribution of PTEP assigned to the reclassified section 951A PTEP or section 951A PTEP groups, the S corporation must assign those taxes to section 951A category income. The S corporation will enter these taxes in Part III, Section 3, column (b). Section 951A category income is not otherwise reported on the Schedules K-2 and K-3.

**Note.** An S corporation may have an income inclusion under section 951A if it made an election under Proposed Regulations section 1.958-1(e)(2), to be treated as owning stock of a CFC within the meaning of section 958(a).

**Income resourced by treaty.** If a sourcing rule in an applicable income tax treaty treats any U.S. source income as foreign source, and there is an election to apply the treaty, the income will be treated as foreign source. This category applies if the S corporation pays or accrues foreign taxes on receipt of a distribution of PTEP that is sourced from an annual PTEP account that corresponds to the separate category relating to U.S. source income included under section 951(a)(1) or 951A and resourced as foreign source income under a treaty.

The designations below are only relevant for Part III, Section 3, column (f).

**Code RBT PAS.** If an applicable income tax treaty treats any U.S. source passive category income as foreign source passive category income, and there is an election to apply the treaty, enter code RBT PAS.

**Code RBT GEN.** If an applicable income tax treaty treats any U.S. source general category income as foreign source general category income, and there is an election to apply the treaty, enter code RBT GEN.

**Code RBT 951A.** If an applicable income tax treaty treats any U.S. source section 951A category income as foreign source section 951A category income, and there is an election to apply the treaty, enter code RBT 951A.

**Shareholder determination.** In Schedule K-2, Part II, Section 1, column (f), and Part III, Section 1, column (f), enter the gross income, income adjustments, and gross receipt of the S corporation that is required to be sourced by the shareholder. This includes income from the sale of most personal property other than inventory, depreciable property, and certain intangible property sourced under section 865. See sections 1366 and 1373(a). This also includes certain foreign currency

gain on section 988 transactions. See the Instructions for Form 1116 and Pub. 514, Foreign Tax Credit for Individuals, for additional details. Attach a statement to the Form 1120-S, to identify the separate category of income under section 904(d) of the amounts listed in Part II, Section 1, column (f).

In Schedule K-2, Part II, column (f), include deductions that are allocated and apportioned by the shareholder. This includes most interest and R&E expense. See Regulations sections 1.861-9(e) and 1.861-17(f).

In Schedule K-2, Part III, Section 2, column (f), enter the assets that are assigned to a source and separate category by the shareholder.

In Schedule K-2, Part III, Section 3, in the shareholder column, enter the foreign taxes that are assigned to a source of income by the shareholder. This includes taxes imposed on certain sales income. The shareholder's share of the amounts determined by the S corporation are reported on equivalent columns in Schedule K-3, Parts II and III.

## Schedule K-2, Part II, and Schedule K-3, Part II (Foreign Tax Credit Limitation)

### Section 1—Gross Income

**Lines 1 through 24.** Form 1116 requires an individual to separately report gross income and gross receipts by source and separate category. See sections 861 through 865 (and section 904(h) and, in some cases, U.S. income tax treaties). See also sections 1366 and 1373(a). Therefore, shareholders will report line 24 by country on their Form 1116, Part I, line 1a. Section 1 also generally follows the types of gross income and gross receipts separately reported on Form 1120-S, Schedule K.

Shareholders making a section 962 election, in addition to completing the Form 1116, complete the Form 1118 solely with respect to the deemed paid credit for inclusions under sections 951(a) and 951A.

For each line, report the total for each country in column (g).

**Country code.** Forms 1116 and 1118 require the taxpayer to report the foreign country or U.S. territory with respect to which the gross income and gross receipts are sourced. On lines 1 through 24, for each gross income and gross receipts item, enter on a separate row (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. territory within which the gross income and gross receipts are sourced. If a type of income is sourced from more than three countries, attach a schedule with the information required in Schedule K-2, Part II, and Schedule K-3, Part II, for that type of income.

If income is U.S. source, enter "US." Do not enter "various" or "OC" for the country code.

**Note.** For Part II, column (f), enter the code XX if the S corporation cannot determine the country or U.S. territory with respect to which the gross income and gross receipts are sourced because the source is determined by the shareholder. However, do not enter the code XX for Part II, column (f), if an income tax of at least 10% of the gain derived from the sale is actually paid to a foreign country with respect to that gain. See sections 865(e) and 865(g). Instead, enter for Part II, column (f), the foreign country to which the S corporation paid the tax of at least 10% of the gain.

Each gross income and gross receipts item (for example, sales vs. interest income) may have different countries listed on rows A, B, C, etc., given that the S corporation might not have

sales income and interest income, for example, from the same country. Line 24 should sum each country's total income reported in Part II, regardless of the line on which such income is reported, whether A, B, C, etc.

**Exceptions.** The instructions for Forms 1116 and 1118 specify exceptions from the requirement to report gross income and gross receipts by foreign country or U.S. territory with respect to regulated investment companies and section 863(b). See the instructions to the Forms 1116 and 1118 for these exceptions that apply in completing the Schedules K-2 and K-3, Parts II and III. Do not enter a foreign country or U.S. territory (to report on a country-by-country basis) for lines 16 through 18.

**Note.** Schedules K-2 and K-3 request that gross income and gross receipts be reported by country or U.S. territory because such information is requested on Forms 1116 and 1118. Income and taxes are reported by country on the Forms 1116 and 1118 so that, for example, the IRS may initially evaluate whether taxpayers are claiming credits for compulsory payments to foreign governments.

**Example 8. Part II. Multiple country sources—Gross income.** In Year 1, USC, an S corporation, has employees who perform services in Country X and Country Y. USC earns \$25,000 of general category services income, \$10,000 with respect to Country X, and \$15,000 with respect to Country Y. The two-letter code for Country X is AA and the two-letter country code for Country Y is YY. USC makes the following entries on the first two rows of Schedule K-2, Part II, under line 2.

**Example 8 Table**

Description	Foreign source
	(d) General category income
<b>2</b> Gross income from performance of services	
<b>A</b> AA	\$10,000
<b>B</b> YY	\$15,000

**Lines 3 and 4. Rental income.** These lines are reported separately because they are reported separately on Form 1120-S, Schedule K. The sourcing rule may be the same for both types of rental income.

**Lines 7 and 8. Ordinary dividends and qualified dividends.** Enter only ordinary dividends on line 7 and only qualified dividends on line 8. Do not include as ordinary dividends or qualified dividends the amount of any distributions received to the extent that they are attributable to PTEP in annual PTEP accounts of the S corporation. See the instructions for [line 19](#) for when an S corporation might have an income inclusion with respect to a foreign corporation.

**Note.** The amount of distributions that are attributable to PTEP in annual PTEP accounts of a person other than the S corporation (for example, a shareholder) is not determined by the S corporation and therefore is not taken into account for purposes of determining the ordinary dividends to be entered on line 7 or the qualified dividends to be entered on line 8.

**Lines 11 through 15 and 27 through 30. Capital gains and losses.** These lines generally match the types of gains and losses reported separately on Form 1120-S, Schedule K. Further, 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.

**Example 9. Parts II and III. Capital gains and losses.** S corporation has the following amounts for the tax year 2023.

	Short-term capital gains (losses)
Total	\$900
U.S. source	1,000
Passive category (France)	400
Passive category (Canada)	(300)
Passive category (Haiti)	(200)

S corporation reports these amounts on Schedule K-2, Part II, Section 1, line 11, as follows.

Description	(a) U.S. source	Foreign Source
		(c) Passive category income
<b>11</b> Net short-term capital gain		
<b>A</b> US	\$1,000	
<b>B</b> FR		\$400
<b>C</b> CA		(300)
<b>D</b> HA		(200)

**Line 12. Net long-term capital gain.** Report net long-term capital gain on line 12. Do not include gains reported on lines 13, 14, and 15 on line 12.

**Line 13. Collectibles (28%) gain.** Report collectibles gain on line 13 and not on line 12.

**Line 14. Unrecaptured section 1250 gain.** Report unrecaptured section 1250 gain on line 14 and not on line 12. If gain is both unrecaptured section 1250 gain and net section 1231 gain, report the gain on line 14 and not on line 15. Include an attachment indicating the amount of unrecaptured section 1250 gain that is also net section 1231 gain.

**Line 15. Net section 1231 gain.** Report net section 1231 gain on line 15 and not on line 12 unless such amount is also unrecaptured section 1250 gain. See the instructions for line 14.

**Lines 16 and 46. Section 986(c) gain and loss.** Include the S corporation'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 S corporation's annual PTEP accounts. This is not reported as a net amount but, rather, total section 986(c) gains for the year are reported on line 16. Total section 986(c) losses for the year are reported on line 46.

**Note.** An S corporation is only responsible for figuring and reporting foreign currency gain or loss under section 986(c) with respect to distributed PTEP sourced from an annual PTEP account of the S corporation. It is not responsible for figuring or reporting foreign currency gain or loss under section 986(c) with respect to distributed PTEP sourced from an annual PTEP account of a person other than the S corporation (for example, a shareholder).

**Lines 17 and 47. Section 987 gain and loss.** The source of section 987 gain or loss is generally determined by reference to the source of the income or asset giving rise to such gain or loss. An S corporation may also obtain section 987 gain or loss information from Form 8858. This is not reported as a net amount but rather total section 987 gains for the year are



reported on line 17. Total section 987 losses for the year are reported on line 47.

**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 is determined by reference to the residence of the taxpayer shareholder, the section 988 gain and loss would be reported in column (f).

**Line 19. Section 951(a) inclusions.** Report section 951(a) inclusions if the S corporation takes into account such income. An S corporation may not have subpart F income inclusions with respect to a foreign corporation for tax years of the foreign corporation beginning on or after January 25, 2022, under Regulations section 1.958-1(d)(1) if the S corporation has not made an election to be treated as owning stock of the foreign corporation within the meaning of section 958(a) under Proposed Regulations section 1.958-1(e)(2). An S corporation may not have subpart F income inclusions with respect to a foreign corporation for tax years of the foreign corporation beginning before January 25, 2022, if the S corporation has not made an election to be treated as owning stock of a foreign corporation within the meaning of section 958(a) under Proposed Regulations section 1.958-1(e)(2) and, pursuant to Regulations section 1.958-1(d)(4)(i), applies Regulations section 1.958-1(d)(1) through (3) to such tax years.

**Line 20. Other income.** Attach a statement to the Schedules K-2 and K-3 describing the amount and type of other income.

**Line 21. Section 951A(a) inclusions.** Report section 951A(a) inclusions if the S corporation takes into account such income. An S corporation will not have an income inclusion under section 951A unless it made an election under Proposed Regulations section 1.958-1(e)(2) to be treated as owning stock of a CFC within the meaning of section 958(a).

**Line 24. Total gross income.** Enter the total gross income received from all sources on line 24. Then add the gross income on lines 1 through 23 by country or territory and enter the total by country in rows A, B, and C (and additional rows if more than three countries). The sum of the amounts in rows A, B, C, etc., do not need to equal the amount on line 24 given that not every gross income amount is required to be reported by country.

## Section 2—Deductions

**Lines 25 through 54.** Deductions of the S corporation must be allocated and apportioned according to certain rules. See, for example, Regulations sections 1.861-8 through -20 and Temporary Regulations sections 1.861-8T and -9T. See also sections 1366 and 1373(a). For purposes of allocating and apportioning expenses, in general, a shareholder adds the share of the S corporation's deductions to its other deductions incurred directly by the shareholder. See Regulations section 1.861-8(e)(15). The shareholder reports such deductions on Form 1116, Part I, lines 2 through 5. Section 2 also generally corresponds to the deductions separately reported on Form 1120-S, Schedule K.

**Line 28. Net long-term capital loss.** Report net long-term capital loss on line 28. Do not include losses reported on line 29.

**Line 29. Collectibles loss.** Report collectibles loss on line 29 and not on line 28.

**Line 32. Research & experimental (R&E) expenses.** In general, R&E expenses are allocated and apportioned by the shareholder and reported in column (f). See Regulations

section 1.861-17(f). R&E expenses, as described in section 174, are ordinarily definitely related to gross intangible income reasonably connected with relevant broad product categories of the taxpayer and are allocable to gross intangible income as a class related to such product categories. The product categories are determined by reference to the three-digit classification of the Standard Industrial Classification Manual (SIC) code available at [OSHA.gov/data/sic-manual](https://www.osha.gov/data/sic-manual).

**Line 38. Charitable contributions.** Charitable contribution deductions are apportioned solely to U.S. source gross income; see Regulations section 1.861-8(e)(12). Therefore, this deduction should be reported in column (a).

**Lines 39 and 40. Interest expense specifically allocable under Regulations sections 1.861-10 and -10T.** Apart from interest expense entered on line 39, enter on line 40 interest expense that is directly allocable under Temporary Regulations section 1.861-10T to income from specific S corporation property. Such interest expense is treated as directly allocable to income generated by such S corporation property. See Temporary Regulations section 1.861-9T(e)(1).

**Lines 41 through 43. Other interest expense.** A shareholder's share of an S corporation's interest expense that is not directly allocable to income from specific S corporation property is generally allocated and apportioned by the shareholder, subject to certain exceptions, and included in column (f); see Temporary Regulations section 1.861-9T(e)(1).

Interest expense incurred by certain individuals, estates, and trusts is characterized 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 Temporary Regulations section 1.861-10T; see Regulations section 1.861-9T(d). The amounts in each category of interest expense are reported on lines 41 through 43. See [Example 10](#), later.

**Exception.** See Regulations sections 1.861-9(e)(8) and (9) for a special rule for S corporation loans. See also the instructions for box 10 of Part I.

**Note.** Interest expense is always included on lines 39 to 43 and not on other lines.

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

**Note.** Foreign taxes that are creditable (even if a shareholder chooses to deduct such taxes) are not reported as expenses in Part II. Creditable taxes are reported in Part III, Section 3.

**Lines 49 and 50. Other deductions.** Attach a statement to the Schedules K-2 and K-3 describing the amount and type of other deductions. The statement must conform to the format of Part II.

## Schedule K-2, Part III, and Schedule K-3, Part III (Other Information for Preparation of Form 1116)

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

This section requires the S corporation to report information that a shareholder will use to allocate and apportion its R&E expense for foreign tax credit limitation purposes.

An S corporation is not required to complete Section 1 of Part III unless either (i) the S corporation incurs R&E expense,

or (ii) the shareholder is expected to license, sell, or transfer its intangible property to the S corporation (as provided in Regulations section 1.861-17(f)(3)).

Deductible R&E expenses, as described in section 174, are ordinarily definitely related to gross intangible income reasonably connected with relevant broad product categories of the taxpayer and are allocable to gross intangible income as a class related to such product categories. The product categories are determined by reference to the three-digit classification of the SIC code. In general, R&E expenses are apportioned based on gross receipts.

R&E expenses are allocated and apportioned by the shareholder; see Regulations section 1.861-17(f)(1). The regulations require the S corporation to report to its shareholders the gross receipts by SIC code according to source and separate category of income. They also require the S corporation to report the amount of R&E expense performed in the United States and outside the United States to apply exclusive apportionment; see Regulations section 1.861-17(f)(2).

**Column (e).** As of the date of these instructions, the only separate category that could be included in column (e) is the section 901(j) category of income. See the Instructions for Form 1116 for the potential countries to be listed with the section 901(j) category of income.

**Line 1.** Enter the gross receipts by SIC code for each grouping. Such gross receipts include both the S corporation's gross receipts and certain other parties' gross receipts; see Regulations section 1.861-17(d)(3) and (4). Sales of parties controlled by the S corporation should be included on line 1 if such controlled parties can reasonably be expected to benefit from the R&E expense connected with the product categories. This includes sales that benefit from the shareholder's R&E expenses if licensed through the S corporation. Sales of uncontrolled parties are also taken into account if such sales involve intangible property that was licensed or sold to the uncontrolled party if the uncontrolled party can reasonably be expected to benefit from the R&E expense.

**Line 2.** Report the amount of 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. The total of the amounts on Schedule K-2, Part III, Section 1, line 2, must equal Schedule K-2, Part II, line 32. Similarly, the total of the amounts on Schedule K-3, Part III, Section 1, line 2, must equal Schedule K-3, Part II, line 32.

**Note.** Line 2 is not reported according to source or separate category.

**Note.** The SIC code for line 2B(i) does not need to be the same SIC code for line 2A(i).

## Section 2—Interest Expense Apportionment Factors

This section requires the S corporation to report information that a shareholder will use to allocate and apportion its interest expense for foreign tax credit limitation purposes.

Complete this Section 2 only if the S corporation or the shareholders have interest expense or stewardship expense.

**Stewardship expenses.** In the case of the shareholder's stewardship expenses incurred to oversee the S corporation, the S corporation's value is determined and characterized under the asset method in Regulations section 1.861-9. See Regulations section 1.861-8(e)(4)(ii)(C). Therefore, the reporting later with respect to Part III, Section 2, for interest

expense apportionment factors generally applies to the shareholder's stewardship expense apportionment.

Interest expense is apportioned based on the average value of assets; see Regulations section 1.861-9(g)(2)(i)(A). A taxpayer can use either the tax book value or the alternative book value of its assets; see Regulations section 1.861-9(i). When reporting the basis in an asset that is stock in nonaffiliated 10%-owned corporations, adjust such amount for earnings and profits (E&P); see Regulations section 1.861-12(c)(2)(i)(A).

**Note.** Attach to Form 1120-S, a second Part III, Section 2, if the S corporation reports both the tax book value and the alternative tax book value of its assets to the shareholders.

**Column (b).** The S corporation characterizes its pro rata share of the S corporation assets that give rise to foreign branch category income as assets in the foreign branch category. See Regulations section 1.861-9(e)(10).

**Line 1.** On Schedule K-2, report the average of the beginning-of-year and end-of-year bases in the S corporation's assets; see Regulations section 1.861-9(g)(2)(i)(A). On Schedule K-3, report the shareholder's share of the assets reported on Schedule K-2. Include on line 1, assets without directly identifiable yield referred to in Temporary Regulations section 1.861-9T(g)(3)(iii).

**Lines 3 and 4.** On Schedule K-2, report reductions in the S corporation's asset values to reflect the S corporation's directly allocable interest under Regulations section 1.861-10(e) and Temporary Regulations section 1.861-10T, see also Temporary Regulations section 1.861-9T(e)(1). On Schedule K-3, report the shareholder's share of the reduction in the S corporation's assets reported on Schedule K-2.

**Line 5.** On Schedule K-2, report the average value of assets excluded from the apportionment formula; see section 864(e)(3). On Schedule K-3, report the shareholder's share of the excluded assets reported on Schedule K-2. Include on line 5 assets without directly identifiable yield referred to in Temporary Regulations section 1.861-9T(g)(3)(iii).

**Line 6.** Shareholders must generally apportion interest expense by reference to the shareholder's assets, including the shareholder's pro rata share of S corporation assets. See Regulations section 1.861-9(e)(3) and Temporary Regulations section 1.861-9T(d). Interest expense must be apportioned according to the interest expense classifications under sections 163 and 469. This includes reporting the assets according to such classifications.

Line 6a is the sum of lines 1 and 2 less the sum of lines 3, 4, and 5. Line 6a is divided into the types of assets on lines 6b, 6c, and 6d.

**Example 10. Parts II and III. Asset method apportionment of interest expense.** A, a U.S. citizen, has a 10% interest in S corporation. S corporation is engaged in the active conduct of a U.S. trade or business. S corporation's business generates only domestic source income. S corporation has an investment portfolio consisting of several less-than-10% stock investments. S corporation has a bank loan. The proceeds of the bank loan were divided equally between the business and the investment portfolio. A's only assets attracting interest expense are those owned by S corporation. A's only business assets and investment assets are its pro rata share of those owned by S corporation. A's only interest expense is that from A's pro rata share of the S corporation loan.

A's share of the interest expense for the loan with respect to S corporation's business is \$2,000. It is apportioned on the basis of business assets. Because all business income is domestic source, the business assets are domestic assets and

reported on Schedules K-2 and K-3, Part III, Section 2, line 6b, column (a). A's \$2,000 share of the interest expense is reported on Schedule K-3, Part II, line 41, column (f). It is apportioned to U.S. source gross income by the shareholder.

The interest expense for A's share of the loan with respect to S corporation's investments is \$2,000 and is reported in Schedule K-3, Part II, line 42, column (f). The investment interest must be apportioned on the basis of investment assets. Applying the asset method, \$80,000 of S corporation's adjusted basis in its investment portfolio stock generates domestic source income and \$120,000 of S corporation's adjusted basis in the stock generates foreign source passive income. S corporation reports these amounts on Schedule K-2, Part III, Section 2, line 6c, columns (a) and (c), respectively. A's share of the adjusted basis in S corporation's stock is \$8,000 with respect to the stock generating domestic source income and \$12,000 with respect to the stock generating foreign source passive income. Such amounts are reported on Schedule K-3, Part III, Section 2, line 6c, columns (a) and (c), respectively. With respect to the interest expense on the loan for S corporation's investments, \$800 ( $\$8,000/\$20,000 \times \$2,000$ ) is apportioned to domestic source income and \$1,200 ( $\$12,000/\$20,000 \times \$2,000$ ) is apportioned to foreign source passive income.

**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 S corporation in certain foreign corporations.

With respect to an S corporation-owned specified 10% foreign corporation that is not a CFC, the S corporation will report on line 7, columns (a) through (e), the total value of the stock in all such foreign corporations. The value of the stock is the S corporation's basis in the stock adjusted to take into account the E&P of the foreign corporations as explained in Regulations section 1.861-12(c)(2). The S corporation must attach a statement to the Schedules K-2 and K-3 with the following information for each foreign corporation for which adjusted basis is reported on line 7.

- Name of foreign corporation.
- EIN or reference ID number. Do not enter "FOREIGNUS" or "APPLIED FOR."
- Percentage of voting and value of stock owned by the S corporation in such foreign corporation.
- Value of the stock in such corporation included in each of the groupings in 6b through 6d (denoting separately each of those groupings).

With respect to S corporation-owned CFCs, the S corporation will report on line 8, column (f), the total value of its stock in all such foreign corporations. The value of the stock is the S corporation's basis in the stock adjusted to take into account the E&P of the foreign corporations as explained in Regulations section 1.861-12(c)(2). The S corporation must attach a statement to the Schedules K-2 and K-3 with the following information for each foreign corporation for which basis is reported on line 8.

- Name of foreign corporation.
- EIN or reference ID number. Do not enter "FOREIGNUS" or "APPLIED FOR."
- Percentage of voting and value of stock owned by the S corporation in such foreign corporation.
- Value of the stock in such corporation.

### Section 3—Foreign Taxes



*Do not complete this Section 3 if the S corporation does not pay or accrue foreign taxes.*

In Part III, Section 3, the S corporation assigns foreign taxes paid or accrued (including on U.S. source income) to a separate category and source. Include taxes paid or accrued to foreign countries or to U.S. territories.

**Attachment.** As previously mentioned in the instructions for Schedules K-2 and K-3, Part I, box 4, for each of the amounts listed on lines 1 through 3, attach a statement to the Schedules K-2 and K-3 reporting 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).

**Column (a).** Enter the code for the type of tax.

#### Codes for Types of Tax

Code	Type of Tax
WHTD	Withholding tax on dividends
WHTP	Withholding tax on distributions of PTEP
WHTB	Withholding tax on branch remittances
WHTR	Withholding tax on rents, royalties, and license fees
WHTI	Withholding tax on interest
ECI	Taxes paid or accrued to foreign countries or territories on certain effectively connected income
OTHS	Other foreign taxes paid or accrued on sales income
OTHR	Other foreign taxes paid or accrued on services income
OTH	Other foreign taxes paid or accrued

If there are multiple types of tax for the same country, generate multiple alpha rows for the same country, one row for each type of tax. For example, see below.

	Description	(a) Type of tax
1	Direct (section 901 or 903) foreign taxes: <input type="checkbox"/> Paid <input type="checkbox"/> Accrued	
A	AA	WHTD
B	AA	OTH

#### Column (b). Taxes assigned to section 951A category.

Taxes assigned to section 951A category income are taxes paid or accrued on distributions of PTEP assigned to the reclassified section 951A PTEP and section 951A PTEP groups. An S corporation might not be able to complete this column due to lack of information regarding the treatment of the current year distributions.

**Note.** An S corporation may have an income inclusion under section 951A if it made an election under Proposed Regulations section 1.958-1(e)(2) to be treated as owning stock of a CFC within the meaning of section 958(a).

#### Column (f). Other category.

##### **Foreign taxes paid or accrued to sanctioned countries.**

No credit is allowed for foreign taxes paid or accrued to certain sanctioned countries.

##### **Foreign taxes related to PTEP resourced by treaty.**

If the S corporation pays or accrues foreign taxes on receipt of a distribution of PTEP that is sourced from an annual PTEP account that corresponds to the separate category relating to U.S. source income included under section 951(a)(1) and resourced as foreign source income under a treaty, such taxes are included in column (f).



On the line after category code, enter one of the following codes.

**Code RBT PAS.** If an applicable income tax treaty treats any U.S. source passive category income as foreign source passive category income, and there is an election to apply the treaty, enter code RBT PAS.

**Code RBT GEN.** If an applicable income tax treaty treats any U.S. source general category income as foreign source general category income, and there is an election to apply the treaty, enter code RBT GEN.

**Code RBT 951A.** If an applicable income tax treaty treats any U.S. source section 951A category income as foreign source section 951A category income, and there is an election to apply the treaty, enter code RBT 951A.

**Line 1.** Enter in U.S. dollars the total foreign taxes (described in section 901 or section 903) that were paid or accrued by the S corporation (according to its method of accounting for such taxes). Do not reduce the amount that you report on line 1 by the reductions reported on line 2. Do not report redetermined taxes on line 1. Report such taxes on line 3.

**Note.** Do not include on line 1 any foreign taxes not creditable but deductible as reported on Part II, Section 2, line 45.

If the S corporation uses the cash method of accounting for foreign taxes, check the "Paid" box and enter foreign taxes paid during the tax year on line 1. Report each shareholder's share on line 1 of Section 3 of Schedule K-3, Part III.

If the S corporation uses the accrual method of accounting for foreign taxes, check the "Accrued" box and enter foreign taxes accrued on line 1. Report each shareholder's share on line 1 of Section 3 of Schedule K-3, Part III.

**Note.** Check only one box "Paid" or "Accrued" depending on the method of accounting the S corporation uses to account for foreign taxes.

Enter on a separate line, indicated by the letters A through F, taxes paid or accrued to each country. Enter the two-letter code from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes). Do not enter "various" or "OC" for the country code.

**Exceptions.** The instructions for Forms 1116 and 1118 specify exceptions from the requirement to report gross income and gross receipts by foreign country or U.S. territory with respect to regulated investment companies and section 863(b). These exceptions apply as well to reporting of taxes in this section.

**Example 11. Part III, Section 3. Multiple country sources—Foreign taxes.** The facts are the same as in Example 8, earlier. USC has the cash method of accounting and pays taxes of \$1,000 and \$3,000 to Countries AA and YY, respectively. USC completes Part III, Section 3, line 1, as follows.

### Example 11 Table

Description	(a) Type of tax	(e) General category income
		Foreign
1 Direct (section 901 or 903) foreign taxes: <input checked="" type="checkbox"/> Paid <input type="checkbox"/> Accrued		
A AA	OTHR	1,000
B YY	OTHR	3,000

**Line 2.** Enter on line 2, as negative number, the sum of the taxes in the following categories.

- A. Taxes on foreign mineral income (section 901(e)).
- B. Reserved.
- C. Taxes attributable to boycott operations (section 908).
- D. Reduction in taxes for failure to timely file (or furnish all of the information required on) Forms 5471 and 8865 (section 6038(c)).
- E. Foreign income taxes paid or accrued during the current tax year with respect to splitter arrangements under section 909.
- F. Foreign taxes on foreign corporate distributions. For example, include taxes on distributions of PTEP assigned to the following PTEP groups: reclassified section 965(a) PTEP, reclassified section 965(b) PTEP, section 965(a), and section 965(b) PTEP, a portion of which is not creditable. The S corporation may be unable to determine the amount of a distribution that is attributable to non-previously taxed E&P or PTEP for which a foreign tax credit may be partially or entirely disallowed. However, it is important to track this amount as a tax on a distribution.
- G. Other. Attach a statement to the Schedules K-2 and K-3 indicating the reason for the reduction.

There is no need to report the amounts on line 2 by country.

**Line 3.** Enter in U.S. dollars the change in foreign tax as a result of a foreign tax redetermination. See section 905(c) and Regulations sections 1.905-3 through -5. If the amount is less than the original foreign tax, report the change as a negative amount. If the amount is more than the original foreign tax, report the change as a positive amount.

**Note.** Payment of additional foreign taxes that relate to an earlier tax year by an S corporation that has the cash method of accounting does not result in a foreign tax redetermination; see Regulations section 1.905-3(a). Such amounts should be reported on line 1 as foreign taxes paid by the S corporation in the current year. Report the U.S. tax year to which the foreign tax relates. This is the U.S. tax year that includes the close of the foreign tax year to which the tax relates. Report the date on which the tax was paid. If there is more than one date tax is paid, enter one of the dates paid on the schedule itself and then attach a statement to the Schedules K-2 and K-3, including all of the information reported on the schedule with the other dates paid.

If there is more than one redetermination in a year with respect to different countries, report such redeterminations on separate lines. Enter the two-letter code from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes).

**Exceptions.** The instructions for Forms 1116 and 1118 specify exceptions from the requirement to report gross income and gross receipts by foreign country or U.S. territory with respect to regulated investment companies and section 863(b). Do not enter "various" or "OC" for the country code.

Similarly, if there is more than one redetermination in a year with respect to the same country, but the redeterminations are related to different years, report such redeterminations on separate lines.

In addition, attach a statement that includes the information in Schedule C (Form 1116), Parts I and II, as applicable, with respect to each foreign tax redetermination.

**Contested taxes.** In general, a contested foreign income tax liability does not accrue until the contest is resolved and the amount of the liability has been finally determined. In addition, a contested foreign income tax liability is not a reasonable approximation of the final foreign income tax liability and, therefore, is not considered an amount of tax paid for purposes of section 901 until the contest is resolved. Thus, an S



corporation generally does not take into account a contested liability as a creditable foreign tax expenditure until the contest is resolved and the liability has been paid; see Regulations section 1.905-1(f)(1). However, to the extent that an S corporation has remitted a contested foreign income tax liability to a foreign country, shareholders may elect to claim a provisional foreign tax credit for the shareholder's pro rata share of such contested foreign income tax liability. See Regulations section 1.905-1(f)(2).

S corporations that are contesting a foreign income tax liability with a foreign country but that have remitted all or a portion of such contested liability should report information about the contested tax on line 3, and check the "Contested tax" box. In addition, S corporations should attach a statement and include information necessary for shareholders to complete Form 7204 and Schedule C (Form 1116), including a description of the contest and a description of the contested foreign income tax.

S corporations must also file a statement each year for which there are one or more contested liabilities outstanding or in which a contested tax is resolved that includes information necessary for shareholders to complete Schedule C (Form 1116), Part V.

## Schedule K-2, Part IV, and Schedule K-3, Part IV (Distributions From Foreign Corporations to S Corporation)

**Note.** Shareholders will use the following information, in combination with other information known to the shareholders, including Schedule P (Form 5471), to exclude from gross income distributions to the extent that they are attributable to PTEP in their annual PTEP accounts and report foreign currency gain or loss with respect to the PTEP on Form 1040.

Use Schedule K-2, Part IV, to report the distributions made by foreign corporations to the S corporation.

Use Schedule K-3, Part IV, to report the shareholder's share of the amounts reported in Schedule K-2, Part IV.

**Exception.** Schedule K-2, Part IV, is not required to be completed with respect to distributions by a foreign corporation if the S corporation knows that none of the distributions by the foreign corporation are attributable to PTEP in annual PTEP accounts of any direct or indirect shareholder. Nevertheless, the S corporation may be required to append Attachment 3 to the Schedule K-2 (discussed later).

**Exception.** Schedule K-3, Part IV, for a shareholder does not need to be completed with respect to distributions by a foreign corporation if the S corporation knows that none of the distributions by the foreign corporation are attributable to PTEP in annual PTEP accounts of the shareholder or any U.S. person that is treated as indirectly owning stock of the foreign corporation through the shareholder. Nevertheless, the S corporation may be required to append Attachment 4 to the Schedule K-3 for the shareholder (discussed later). If this exception is applicable with respect to a foreign corporation, the sum of the amounts reported in Schedules K-3, Part IV, with respect to the foreign corporation may not equal the amounts reported in Schedule K-2, Part IV, with respect to the foreign corporation.

**Rows A through O.** Use rows A through O to report information with respect to each distribution by a foreign corporation with respect to its stock that the S corporation (directly or through pass-through entities) owns (within the meaning of section 958) other than solely by reason of applying section 318(a)(3) (providing for downward attribution) as

provided in section 958(b). Each row should relate the S corporation's direct ownership of stock in the foreign corporation or direct ownership of the ownership interests in a pass-through entity that (directly or through other pass-through entities) owns (within the meaning of section 958) stock in the foreign corporation other than solely by reason of applying section 318(a)(3) (providing for downward attribution) as provided in section 958(b). For example, if an S corporation directly owns 50% of the foreign corporation's stock and owns 50% of the foreign corporation's stock through a partnership, then distributions by the foreign corporation to the S corporation and partnership are to be reported on separate rows in Part IV of the S corporation's Schedule K-2 (Form 1120-S). If the S corporation owns stock of a foreign corporation through a partnership from which it receives a Part V of Schedule K-3 (Form 1065 or 8865), the S corporation must replicate each line of Part V, Schedule K-3 (Form 1065 or 8865) in Part IV of its Schedule K-2 (Form 1120-S). Rows for distributions with respect to an S corporation's direct ownership of foreign corporation stock should be listed before rows for distributions with respect to an S corporation's ownership of foreign corporation stock through a pass-through entity.

The S corporation may have annual PTEP accounts with respect to the foreign corporation, or the foreign corporation may have E&P that, when distributed, is excludable from the S corporation's gross income under section 1293(c). Do not report distributions to the extent that they are attributable to PTEP in annual PTEP accounts of the S corporation or to E&P that is excludable from the S corporation's gross income under section 1293(c). Distributions by the foreign corporation to the S corporation that are attributable to PTEP in annual PTEP accounts of the S corporation should be properly reflected on the Schedules J (Form 5471) for the foreign corporation. The S corporation should provide this information to its shareholders, as appropriate.

However, to the extent a distribution is attributable to PTEP in an annual PTEP account of the S corporation with respect to a foreign corporation, or attributable to E&P that is excludable from the S corporation's gross income under section 1293(c), that corresponds to a tax year of the foreign corporation that ended with or within a tax year of the S corporation (i) that began after December 31, 2012, and (ii) for which an election under Regulations section 1.1411-10(g) was not made by the S corporation NII PTEP, append Attachment 3 to Schedule K-2 and an Attachment 4 to each K-3 in the following format, adding additional rows as necessary for each distribution by a foreign corporation. For more information about net investment income and net investment income tax relating to CFCs and QEFs, see Regulations section 1.1411-10.

**Note.** If additional rows are required, attach statements to the Schedules K-2 and K-3 that look like the current version of Schedules K-2 and K-3, Part IV, respectively.

**Column (b).** Enter the EIN or reference ID number of the distributing foreign corporation. Do not enter "FOREIGNUS" or "APPLIED FOR." For basic information about reference ID numbers (including the requirements as to the characters permitted), see the Instructions for Form 1118.

**Column (c).** Enter the year, month, and day in which the distribution was made using the format YYYYMMDD.

**Column (d).** Enter the applicable three-character alphabet code for the foreign corporation's functional currency using the ISO 4217 standard. These codes are available at [ISO.org/ISO-4217-currency-codes.html](https://www.iso.org/iso-4217-currency-codes.html).

**Note.** Columns (e) and (f) are reported in functional currency.

**Attachment 3 (Schedule K-2)**

(a) Name of distributing foreign corporation	(b) EIN or reference ID number	(c) Date of distribution	(d) Functional currency of distributing foreign corporation	(e) Amount of NII PTEP in functional currency	(f) Spot rate (functional currency to U.S. dollars)	(g) Amount of NII PTEP in U.S. dollars

**Attachment 4 (Schedule K-3)**

(a) Name of distributing foreign corporation	(b) EIN or reference ID number	(c) Date of distribution	(d) Functional currency of distributing foreign corporation	(e) Shareholder's share of NII PTEP in functional currency	(f) Spot rate (functional currency to U.S. dollars)	(g) Shareholder's share of NII PTEP in U.S. dollars

**Column (e).** This represents the S corporation's share of the amount distributed in functional currency. See Schedule R (Form 5471), Distributions From a Foreign Corporation, column (c).

**Column (f).** This represents the S corporation's share of the amount of E&P distributed in functional currency. See Schedule R (Form 5471), column (d). The total of the amounts reported in column (f) with respect to a distributing foreign corporation should equal the S corporation's share of the total reported on line 9 of all Schedules J (Form 5471), Accumulated Earnings and Profits (E&P) of Controlled Foreign Corporation, on a separate category of income basis as reported in Schedule J (Form 5471) TOTAL filed with respect to the distributing foreign corporation.

If a Schedule J (Form 5471) with code "TOTAL" entered on line a (at the top of page 1 of Schedule J) is not filed with respect to the distributing foreign corporation, then the total of the amounts reported in column (f) with respect to a distributing foreign corporation should equal the S corporation's share of the amount reported on line 9, column (f), of the Schedule J (Form 5471) filed with respect to the distributing foreign corporation.

**Column (g).** Enter the exchange rate on the date of distribution used to translate the amount of the distribution in functional currency to U.S. dollars. See section 989(b)(1). Report the exchange rate using the "divide-by convention" specified under *Reporting exchange rates* on Form 5471 in the Instructions for Form 5471.

**Column (h).** Enter the amount of the distribution in U.S. dollars. Translate column (e) using the spot rate reported in column (g).

**Column (i).** Enter the amount of E&P distributed in U.S. dollars. Translate column (f) using the spot rate reported in column (g).

**Column (j).** If the distributing foreign corporation is a qualified foreign corporation, determined without regard to section 1(h)(11)(C)(iii)(I), check the box. See section 1(h)(11)(C).

**Schedule K-2, Part V (Information on Shareholders' Section 951(a)(1) and Section 951A Inclusions), and Schedule K-3, Part V (Information on Shareholder's Section 951(a)(1) and Section 951A Inclusions)**

**Note.** Shareholders will use the following information to complete Form 8992 and Form 1040 with respect to income inclusions under section 951(a) (subpart F income inclusions), section 951(a)(1)(B) inclusions, and section 951A inclusions.

Schedules K-2 and K-3, Part V, must be completed with respect to a CFC if the S corporation owns (within the meaning of section 958) stock of the CFC, unless the S corporation owns stock of the CFC solely by reason of applying section 318(a)(3) (providing for downward attribution) as provided in section 958(b).

Generally, a foreign corporation is a CFC if more than 50% of either the total combined voting power of all classes of stock entitled to vote or the total value of the stock of the corporation is owned (within the meaning of section 958(a)) or is considered as owned by applying the rules of section 958(b) by U.S. shareholders. For this purpose, a U.S. shareholder is a U.S. person (as defined in section 957(c)) who owns (within the meaning of section 958(a)), or is considered as owning by applying the rules of ownership of section 958(b), 10% or more of the total combined voting power of all classes of stock entitled to vote, or 10% or more of the total value of shares of all classes of stock of such foreign corporation.

If the S corporation is treated as not owning stock of a foreign corporation within the meaning of section 958(a) for a tax year of the foreign corporation (because the S corporation has not made an election under Proposed Regulations section 1.958-1(e)(2) and, in the case of a tax year beginning before January 25, 2022, the S corporation, pursuant to Regulations section 1.958-1(d)(4)(i), applies Regulations sections 1.958-1(d)(1) through (3) to such tax year), or the S corporation is not a U.S. shareholder of the foreign corporation during such tax year, the information regarding subpart F income inclusions and section 951(a)(1)(B) inclusions that are reported in Schedule K-2, Part V, columns (e) and (f) with respect to the foreign corporation for such tax year, are not inclusions of the S corporation. Schedule K-3, Part V, columns (e) and (f), report

the information shareholders will need to figure and report their subpart F income inclusions and section 951(a)(1)(B) inclusions with respect to the CFC.

**Note.** If the S corporation is treated as owning stock of a foreign corporation within the meaning of section 958(a) for a tax year of a foreign corporation (because the S corporation elected to be so treated under Proposed Regulations section 1.958-1(e)(2) or, in the case of a tax year of the foreign corporation beginning before January 25, 2022, the S corporation, pursuant to Regulations section 1.958-1(d)(4)(i), does not apply Regulations sections 1.958-1(d)(1) through (3)) to such tax year, and is a U.S. shareholder of the foreign corporation during such tax year, then any subpart F income inclusions and section 951(a)(1)(B) inclusions with respect to the foreign corporation for such tax year are inclusions of the S corporation, which are therefore not reported in Schedules K-2 and K-3, columns (e) and (f), and are instead reported on Schedules K and K-1, line 10, Other income (loss).

**Note.** If the S corporation elects to be treated as owning stock of a foreign corporation within the meaning of section 958(a) under Proposed Regulations section 1.958-1(e)(2), and the S corporation is a U.S. shareholder of the foreign corporation during a tax year of the foreign corporation, then the S corporation determines its GILTI inclusion for its tax year in which or with which such tax year of the foreign corporation ends, which it reports on Form 1120-S, Schedule K, line 10, Other income (loss). Schedule K-1, line 10, Other income (loss), reports the shareholders' share of the S corporation's GILTI inclusion. An S corporation that has made an election under Proposed Regulations section 1.958-1(e)(2), and is a U.S. shareholder of the foreign corporation during a tax year of the foreign corporation, does not complete columns (g) through (n) of Part V of Schedules K-2 and K-3 for such foreign corporation with respect to such tax year.

**Exception.** Schedule K-2, Part V, does not need to be completed with respect to a CFC if the S corporation knows that it does not have a direct or indirect shareholder (through pass-through entities only) that is a U.S. shareholder of the CFC required to include in gross income a subpart F income inclusion and/or section 951(a)(1)(B) inclusion with respect to the CFC, or figure section 951A inclusions by taking into account GILTI items (defined later) of the CFC.

**Exception.** Schedule K-3, Part V, for a shareholder does not need to be completed with respect to a CFC if the S corporation knows that (i) the shareholder is not a U.S. shareholder of the CFC required to include in gross income a subpart F income inclusion and/or section 951(a)(1)(B) inclusion with respect to the CFC, or figure section 951A inclusions by taking into account GILTI items (defined later) of the CFC; and (ii) no U.S. person that indirectly owns (through pass-through entities only) an interest in the CFC through the shareholder is a U.S. shareholder of the CFC required to include in gross income a subpart F income inclusion and/or section 951(a)(1)(B) inclusion with respect to the CFC, or figure section 951A inclusions by taking into account GILTI items (defined later) of the CFC. If the S corporation does not complete Part V of Schedule K-3 for a shareholder with respect to a CFC, the sum of each shareholder's share of the CFC's subpart F income, section 951(a)(1)(B) inclusion with respect to the CFC, and share of the CFC's GILTI items (defined later) reported on all Schedules K-3 may not equal the aggregate share of subpart F income of the CFC, the aggregate section 951(a)(1)(B) inclusion with respect to the CFC (defined later), and the aggregate share of the CFC's GILTI items (defined later), respectively, reported on the Schedule K-2.

Use Schedule K-2, Part V, to report the information on the S corporation's share of the amounts its shareholders will need to

figure their subpart F income inclusions, section 951(a)(1)(B) inclusions, and their GILTI inclusions, with respect to CFCs owned (within the meaning of section 958) by the S corporation. Use Schedule K-3, Part V, to report each shareholder's share of the amounts needed to determine its subpart F income inclusions, section 951(a)(1)(B) inclusions, and GILTI inclusion, with respect to CFCs owned (within the meaning of section 958) by the S corporation.

If the S corporation must complete Schedules K-2 and K-3, Part V, with respect to a CFC because an exception described earlier does not apply, then the S corporation must complete Schedules K-2 and K-3, Part V, by assuming that each shareholder in the S corporation is a U.S. shareholder of the CFC and is required to include in gross income its share of the CFC's subpart F income, section 951(a)(1)(B) inclusion, and its GILTI.

A shareholder's GILTI is figured based upon its share of the following amounts for each CFC with respect to which it is a U.S. shareholder: tested income, tested loss, QBAI, tested loss QBAI amount, tested interest income, and tested interest expense (collectively, GILTI items) (a CFC's subpart F income and GILTI items, CFC items).

A shareholder's share of a CFC's subpart F income, amounts used to determine its section 956 amount with respect to a CFC, and a CFC's GILTI items may not be limited to the shareholder's share of such income, amounts, or items through its ownership in the S corporation. However, for purposes of completing Schedules K-2 and K-3, Part V, use only the shareholder's share of a CFC's subpart F income, amounts used to determine its section 956 amount with respect to a CFC, and a CFC's GILTI items through the shareholder's ownership in the S corporation.

A shareholder's share through its ownership in the S corporation of subpart F income and GILTI items is generally anticipated to be figured by multiplying the percentage in column (d) by the amount of subpart F income or GILTI item, respectively. For example, in general, a shareholder's share through its ownership interest in the S corporation of tested income in column (i) is anticipated to be figured by multiplying the percentage in column (d) by the amount of tested income in column (g).

**Line a.** Complete a separate Part V for each applicable separate category of income. However, all GILTI items must be reported in only one Part V. If GILTI items include passive category income, report all GILTI items in the Part V completed for passive category income; otherwise, report all GILTI items in the Part V completed for general category income. Enter the appropriate code on line a.

**Note.** The other reporting requirements of an S corporation with respect to reporting income by separate category do not change by reason of the S corporation reporting GILTI items that include general category income in a Part V completed for passive category income.

### Codes for Categories of Income

Code	Category of Income
PAS	Passive Category Income
901j	Section 901(j) Income
GEN	General Category Income

**Line b.** If any portion of a CFC item is U.S. source, complete a separate Part V for U.S. source CFC items, and check the box on line b in such separate Part V.

**Line 1.** Use lines A through K to report information with respect to each CFC owned (within the meaning of section 958) by the S corporation, and for which Part V of Schedules K-2 and K-3 must be completed. If the S corporation owns a CFC through a partnership from which it receives a Schedule K-3 (Form 1065 or 8865), Part VI, the S corporation must replicate each line of Part VI, Schedule K-3 (Form 1065 or 8865) that is related to the CFC in its Schedule K-2 (Form 1120-S), Part V. For example, if an S corporation directly owns 50% of the CFC's stock and owns 50% of the CFC's stock through a partnership, the CFC should be listed on two lines with one line related to the S corporation's direct ownership and the other line related to the S corporation's ownership through the partnership. Lines related to an S corporation's direct ownership of CFCs should be listed before lines related to an S corporation's non-direct ownership of CFCs. If additional lines are required, attach a statement to the Schedules K-2 and K-3 that looks like the current version of Part V.

**Column (a).** Enter the name of each CFC for which Part V must be completed.

**Column (b).** Enter the EIN or reference ID number of the CFC. Do not enter "FOREIGNUS" or "APPLIED FOR." For basic information about reference ID numbers (including the requirements as to the characters permitted), see the Instructions for Form 1118.

**Column (c).** Enter the end of the CFC's tax year using the format YYYYMMDD.

**Column (d).** Enter the shareholders' shares of CFC items through the shareholders' ownership in the S corporation (aggregate share). See Regulations sections 1.951-1(b), 1.951-1(e), and 1.951A-1(d)(1) for rules on determining the shareholders' shares.

**Note.** An S corporation that has made an election to be treated as owning stock of a CFC within the meaning of section 958(a) under Proposed Regulations section 1.958-1(e)(2) (or, in the case of a tax year of a CFC beginning before January 25, 2022, does not, pursuant to Regulations section 1.958-1(d)(4)(i), apply Regulations sections 1.958-1(d)(1) through (3) to such tax year), and is a U.S. shareholder of a CFC listed in column (a) during a tax year of the CFC, does not report amounts in columns (e) or (f) with respect to the CFC for such tax year.

**Column (e).** Enter the aggregate share of the amount of the CFC's subpart F income, if any. Note that an amount determined under section 956(a) is not considered subpart F income. For guidance on figuring a CFC's subpart F income and the shareholders' shares of a CFC's subpart F income, see Worksheet A in the Instructions for Form 5471.

**Column (f).** Enter the amount determined under section 956 with respect to the shareholders that relate to the shareholders' ownership in the S corporation, as described in these instructions for column (f) (aggregate section 951(a)(1)(B) inclusion). In determining the section 956 amount, use only the shareholders' shares through their ownership in the S corporation of:

- The average of the amounts of U.S. property held (directly or indirectly) by the CFC as of the close of each quarter of the CFC's tax year, and
- The applicable earnings of the CFC.

For guidance on figuring the shareholders' share of a CFC's earnings invested in U.S. property, see Worksheet B in the Instructions for Form 5471.

**Note.** An S corporation that has made an election to be treated as owning stock of a CFC within the meaning of section 958(a) under Proposed Regulations section 1.958-1(e)(2), and is a

U.S. shareholder of the CFC during a tax year of the CFC, does not complete columns (g) through (n) of Part V of Schedules K-2 and K-3 with respect to the CFC for such tax year.

**Column (g).** Enter the CFC's tested income, if any, from line 6 of Schedule I-1 (Form 5471), Information for Global Intangible Low-Taxed Income, for each CFC.

**Column (h).** Enter the CFC's tested loss, if any, from line 6 of Schedule I-1 (Form 5471) for each CFC. The loss amounts should be shown as negative numbers.

**Column (i).** Enter the aggregate share of the tested income listed in column (g) for each CFC with tested income.

**Column (j).** Enter the aggregate share of the tested loss listed in column (h) for each CFC with tested loss. The loss amounts should be shown as negative numbers.

**Column (k).** If the CFC has a tested loss in column (h), enter zero. If the CFC has tested income in column (g), enter the aggregate share of QBAI. A CFC's QBAI is reported on Schedule I-1 (Form 5471), line 8.

**Column (l).** If the CFC has tested income in column (g), enter zero. If the CFC has a tested loss in column (h), enter as a negative number the aggregate share of the CFC's tested loss QBAI amount. See Regulations section 1.951A-4(b)(1)(iv). A CFC's tested loss QBAI amount is reported on Schedule I-1 (Form 5471), line 9c, which must be translated to U.S. dollars.

**Column (m).** Enter the aggregate share of the CFC's tested interest income. A CFC's tested interest income is reported on Schedule I-1 (Form 5471), line 10c.

**Column (n).** Enter the aggregate share of the CFC's tested interest expense. A CFC's tested interest expense is reported on Schedule I-1 (Form 5471), line 9d.

## Schedule K-2, Part VI, and Schedule K-3, Part VI (Information Regarding Passive Foreign Investment Companies (PFICs))

**Note.** Shareholders will use the following information to complete Form 8621 and/or determine income inclusions with respect to the PFICs reported in Schedules K-2 and K-3, Part VI.

Except as otherwise provided, Schedules K-2 and K-3, Part VI, must be filed by every S corporation that owns PFIC stock, directly or indirectly. However, the following exceptions apply.

- An S corporation that has elected to treat a PFIC as a pedigreed qualified electing fund (QEF) or made a mark-to-market (MTM) election under section 1296 with respect to a PFIC applicable to the S corporation's tax year (other than if the S corporation is making an MTM election under section 1296 with respect to PFIC stock in the current tax year if the current tax year is not the first year of the S corporation's holding period in that stock (non-initial section 1296 MTM election)) is not required to complete Schedules K-2 and K-3, Part VI, with information regarding that PFIC if the S corporation files Form 8621 for that PFIC. The term "pedigreed QEF" is defined in Regulations section 1.1291-1(b)(2)(ii).
- An S corporation that owns stock of a foreign corporation that is treated as a qualifying insurance corporation (QIC) (as defined in section 1297(f)(1)) and which is not treated as a PFIC by reason of section 1298(b)(1), or an S corporation that satisfies the deemed election requirements of Regulations section 1.1297-4(d)(5)(iv) with respect to a foreign corporation eligible to be treated as a QIC (and that is not treated as a PFIC by reason of section 1298(b)(1)), is not required to complete



Schedules K-2 and K-3, Part VI, with respect to that foreign corporation.

- An S corporation that knows that all of its direct and indirect shareholders that are U.S. persons are (i) not subject to the PFIC rules with respect to the corporation under section 1297(d) because they are subject to the subpart F rules with respect to the corporation; or (ii) tax-exempt entities that are not subject to the PFIC rules with respect to the corporation under Regulations section 1.1291-1(e) is not required to complete Schedules K-2 and K-3, Part VI, with respect to the corporation.
- An S corporation that marks to market stock of a PFIC as described in Regulations section 1.1291-1(c)(4) does not need to report information about the PFIC in Schedules K-2 and K-3, Part VI. The S corporation should report its MTM gain or loss on Schedule K (Form 1120-S), and report the shareholders' shares of those amounts in Schedule K-1 (Form 1120-S), Part III. Note, however, there may be instances in which the S corporation will need to provide its shareholders with additional information to meet their tax obligations with respect to a PFIC the stock of which the S corporation has marked to market as described in Regulations section 1.1291-1(c)(4), such as when the section 1291 rules apply because the stock was not marked in the first year of the S corporation's holding period. In such instances, the S corporation may use Part VI to provide the needed information.
- An S corporation that has elected to be treated as an entity for purposes of applying section 951A as provided in Notice 2020-69, 2020-39 I.R.B. 604, is not required to complete Schedules K-2 and K-3, Part VI, with respect to any PFIC that also constitutes a CFC (PFIC/CFC) with respect to which the S corporation is a U.S. shareholder.

Use Schedule K-2, Part VI, to report certain information with respect to any PFIC owned, directly or indirectly, by the S corporation for which reporting is required, including PFICs with respect to which no QEF or section 1296 MTM election has been made and unpedigreed QEFs (section 1291 funds), and PFICs with respect to which pedigreed QEF, section 1296 MTM, or other elections have been, or may be, made and for which the S corporation is not filing a Form 8621.

S corporations must also use Schedule K-2, Part VI, to report information for any PFIC with respect to which the S corporation is making a non-initial section 1296 MTM election, and for any foreign corporation eligible to be treated as a QIC that is treated as a PFIC by reason of section 1298(b)(1), regardless of whether it files Form 8621 for that PFIC. See section 1296(j)(1)(A) and Regulations section 1.1296-1(i) for more information related to non-initial section 1296 MTM elections.

Use Schedule K-3, Part VI, to report the shareholder's share, through its ownership in the S corporation, of the amounts reported on Schedule K-2, Part VI.

Complete only one line in both Sections 1 and 2 for each PFIC for which reporting in Schedules K-2 and K-3, Part VI, is required. Each line completed for a PFIC in Section 1 should correspond to the same line on Section 2. If there is no information to report with respect to a PFIC in Section 2, columns (c) through (o), only complete the name and EIN of the PFIC in Section 2, columns (a) and (b), and leave columns (c) through (o) blank for that PFIC. For additional information on determining indirect ownership of PFICs, see Regulations section 1.1291-1(b)(8).

The S corporation may have additional required information with respect to a PFIC for certain columns (for example, scenarios where the S corporation may have multiple different events with respect to the PFIC in the same tax year, such as multiple dates of acquisitions of, or distributions with respect to, the PFIC stock). In that case, complete Schedules K-2 and K-3,

Part VI, with the first of those entries for a PFIC and attach a statement including the remaining entries for the PFIC to Schedule K-2, Part VI, and its corresponding Schedules K-3, Part VI, with Attachments 5 and/or 6 completed.

If the S corporation has additional PFICs for which to report information that does not fit in single Schedules K-2 and K-3, Part VI, it can attach additional Parts VI of Schedules K-2 and K-3, as needed.

## Section 1—General Information

**Columns (a) through (c).** Enter the name, U.S. EIN or reference ID number, and address of each PFIC held directly or indirectly by the S corporation during its tax year. Do not enter "FOREIGNUS" or "APPLIED FOR."

For basic information about reference ID numbers (including the requirements as to the characters permitted), see the Instructions for Form 8621.

**Columns (d) and (e).** Enter the beginning and end of the PFIC's tax year using the format YYYYMMDD.

**Column (f).** Enter each class of shares in the PFIC owned by the S corporation using the following codes.

### Codes for Classes of PFIC Shares

Code	Class of PFIC Shares
COM	Common or Ordinary Shares
PRE	Preferred Shares
OTH	Other Equity Interest
VAR	Multiple Classes of Shares or Equity Interests

**Column (g).** If the S corporation acquired any PFIC shares during the tax year, provide the date(s) of acquisition of those shares using the format YYYYMMDD. If the S corporation acquired no shares in a particular PFIC during its tax year, leave this column blank with respect to that PFIC.

**Note.** If the S corporation acquired shares in a PFIC on multiple dates during the tax year, append a completed Attachment 5 to Schedule K-2, Part VI, and its corresponding Schedules K-3, Part VI, providing those dates.

## Attachment 5

Additional Information for Part VI, Section 1		
General Information		Annual Information
(a) Name of PFIC	(b) EIN or reference ID number	(g) Dates PFIC shares acquired during tax year (if applicable)

**Column (h).** Enter the total number of all classes of shares of the PFIC the S corporation owned at the end of its tax year.

**Column (i).** Enter the total value of all shares in the PFIC held by the S corporation at the end of the tax year. If the PFIC shares are not publicly traded, the S corporation may rely upon periodic account statements provided at least annually to determine the value of a PFIC unless the S corporation has actual knowledge or reason to know based on readily accessible information that the statements do not reflect a

reasonable estimate of the PFIC's value and the information provides a more reasonable estimate of the PFIC's value.

**Note.** A shareholder may need additional information not required to be reported in this Schedule K-2, Part VI (or the shareholder's Schedule K-3, Part VI), from the S corporation with respect to the value of the PFIC shares as of a particular date to aid the shareholder in making certain elections under Regulations section 1.1291-10, 1.1297-3, or 1.1298-3.

**Column (j).** If the S corporation has made either of the following elections with respect to the PFIC, indicate which election was made using the following codes. If the S corporation has not made an election with respect to the PFIC, leave this column blank with respect to that PFIC.

### S Corporation Election Codes

Code	S Corporation Election Type
QEF	Qualified Electing Fund Election
MTM	Section 1296 Mark-to-Market Election

**Reminder.** If the S corporation has made a pedigreed QEF election or section 1296 MTM election (other than a non-initial section 1296 MTM election) with respect to a PFIC, and the S corporation files Form 8621 for that PFIC, it is not required to report information regarding that PFIC in Schedule K-2 or K-3, Part VI. If the S corporation has marked stock in a PFIC to market as described in Regulations section 1.1291-1(c)(4), it is not required to report information regarding that PFIC in Schedule K-2 or K-3, Part VI.

**Column (k).** Check the box if the foreign corporation has indicated that it has documented eligibility to be treated as a QIC. See section 1297(f) and Regulations section 1.1297-4 for additional information on QICs.

**Column (l).** Check the box if the PFIC has indicated that its shares are "marketable stock" as defined in section 1296(e) and Regulations section 1.1296-2.

**Column (m).** Check the box if the PFIC is a PFIC/CFC.

**Note.** If the PFIC is a PFIC/CFC, a shareholder may need certain additional information with respect to the PFIC/CFC's E&P not required to be reported in this Schedule K-2, Part VI (or the shareholder's Schedule K-3, Part VI), from the S corporation to aid the shareholder in making certain elections under Regulations sections 1.1291-9, 1.1297-3, or 1.1298-3.

**Reminder.** An S corporation that knows that all of its direct and indirect shareholders that are U.S. persons are not subject to the PFIC rules with respect to a PFIC/CFC under section 1297(d) because they are subject to the subpart F rules with respect to the PFIC/CFC is not required to complete Schedules K-2 and K-3, Part VI, with respect to the PFIC/CFC. Additionally, an S corporation that has elected to be treated as an entity for purposes of applying section 951A as provided in Notice 2020-69 is not required to complete Schedules K-2 and K-3, Part VI, for any PFIC that is a PFIC/CFC with respect to which the S corporation is a U.S. shareholder.

**Column (n).** Complete column (n) in the following manner.

IF...	THEN...
<ul style="list-style-type: none"> <li>this is the first year of the S corporation's holding period in stock of the foreign corporation, and</li> <li>the S corporation has determined (directly or otherwise) that the foreign corporation is a PFIC under the income test or asset test of section 1297(a),</li> </ul>	check the box.
<ul style="list-style-type: none"> <li>the foreign corporation was a PFIC in a prior tax year of the S corporation's holding period, and</li> <li>the S corporation has not determined (directly or otherwise) the foreign corporation is a former PFIC within the meaning of Regulations section 1.1291-9(j)(2)(iv),</li> </ul>	check the box.
<ul style="list-style-type: none"> <li>the foreign corporation was a PFIC in a prior tax year of the S corporation's holding period, and</li> <li>the S corporation has determined (directly or otherwise) the foreign corporation is a former PFIC within the meaning of Regulations section 1.1291-9(j)(2)(iv),</li> </ul>	do not check the box.

**Note.** If the foreign corporation is a former PFIC within the meaning of Regulations section 1.1291-9(j)(2)(iv), a shareholder may need additional information not required to be reported in this Schedule K-2, Part VI (or the shareholder's Schedule K-3, Part VI), from the S corporation with respect to the PFIC to aid the shareholder in making certain elections under Regulations section 1.1298-3.

### Section 2—Additional Information on PFIC or Qualified Electing Fund (QEF)

#### General Information

**Columns (a) and (b).** Enter the name and U.S. EIN (or reference ID number) of each PFIC held directly or indirectly by the S corporation during its tax year. Do not enter "FOREIGNUS" or "APPLIED FOR."

#### QEF Information

**Columns (c) and (d).** Enter the S corporation's share of the total ordinary earnings and net capital gain (as defined in Regulations section 1.1293-1(a)(2)) of the PFIC for the S corporation's tax year in which or with which the tax year of the PFIC ends in columns (c) and (d), respectively. The PFIC should provide the S corporation with a statement that provides information to assist the S corporation in determining these amounts. See Regulations section 1.1295-1(g) for additional information on annual PFIC statements. The S corporation must complete columns (c) and (d) only for PFICs with respect to which it has made a pedigreed QEF election but for which it does not file Form 8621, and for any PFIC it has elected to treat as an unpedigreed QEF.

**Reminder.** If the S corporation has made a pedigreed QEF election with respect to a PFIC, and if the S corporation files Form 8621 for that PFIC, the S corporation is not required to report information regarding that PFIC in Schedule K-2, Part VI, or Schedule K-3, Part VI. The S corporation should report its inclusion of its share of the QEF's ordinary earnings and net capital gain on Schedule K, and report the shareholders' shares of those amounts in Schedule K-1, Part III.

#### Section 1296 Mark-to-Market Information

**Columns (e) and (f).** Enter the fair market value (FMV) of the PFIC stock at the beginning and end of the S corporation's tax year in columns (e) and (f), respectively. If any shares of the PFIC were acquired during the tax year for which the Form

1120-S is being filed, the FMV in column (e) should reflect the FMV of those shares as of the date of acquisition. The S corporation must complete columns (e) and (f) only for PFICs with respect to which it has made a section 1296 MTM election but for which it does not file Form 8621 and for any PFIC with respect to which it is making a non-initial section 1296 MTM election.

**Reminder.** If the S corporation has made an MTM election under section 1296 with respect to a PFIC (other than a non-initial section 1296 MTM election), and if the S corporation files Form 8621 for that PFIC, the S corporation is not required to report information regarding that PFIC in Schedule K-2, Part VI, or Schedule K-3, Part VI. The S corporation should report its section 1296(a) MTM gain or loss on Schedule K, and report the shareholders' shares of those amounts in Schedule K-1, Part III.

If the S corporation has marked stock in a PFIC to market as described in Regulations section 1.1291-1(c)(4), it is not required to report information regarding that PFIC in Schedule K-2 or K-3, Part VI, though it may use Part VI to provide the shareholder with additional information to meet its tax obligations with respect to the PFIC in certain instances, such as when the section 1291 rules apply because the stock was not marked in the first year of the S corporation's holding period.

**Note.** If the S corporation has made an MTM election under section 1296 with respect to a PFIC but does not file Form 8621 for that PFIC, a shareholder may need additional information not required to be reported in this Schedule K-2, Part VI (or the shareholder's Schedule K-3, Part VI), regarding its share of the S corporation's adjusted tax basis in the S corporation's MTM PFIC stock in order to complete Form 8621.

## Section 1291 and Other Information

**Note.** Generally, the information in columns (g) through (o) is to assist shareholders of section 1291 funds in satisfying any information reporting obligations and in figuring income inclusions with respect to section 1291 funds. However, this information may be relevant to PFICs with respect to which a QEF election (pedigreed or unpedigreed), section 1296 MTM election (including a non-initial section 1296 MTM election), or other election has been made by the S corporation, shareholder, or other indirect PFIC shareholder. Accordingly, the S corporation must complete columns (g) through (o) with respect to each PFIC for which reporting in Schedule K-2, Part VI, and Schedule K-3, Part VI, is required. However, note the instructions for column (k) regarding reporting distributions from PFICs with respect to which the S corporation has made a pedigreed QEF election or section 1296 MTM election (other than a non-initial section 1296 MTM election) and for which the S corporation does not file Form 8621.

**Reminder.** If the S corporation has additional required information with respect to a PFIC for any of columns (g) through (j) or (l) through (m) (for example, multiple distributions with respect to the PFIC stock), it must complete the column with the first of those entries and attach a statement including

the remaining entries to Schedule K-2, Part VI, and its corresponding Schedules K-3, Part VI, with the information contained in Attachment 6.

**Column (g).** Enter the date(s) on which the S corporation initially acquired each block of stock in the PFIC using the format YYYYMMDD.

**Column (h).** Enter the amount of each distribution of cash and/or the FMV of any other property distributed to the S corporation by the PFIC during the tax year, if any.

**Note.** Deemed distributions by QEFs do not need to be reported on this Schedule K-2 (or the shareholder's Schedule K-3). However, shareholders that have made, or intend to make, an election under section 1294, and that are deemed to have received a distribution from the QEF, may need this information to complete any computations under section 1294 (including for Form 8621, if required). See section 1294(f) and Temporary Regulations section 1.1294-1T for additional information.

**Column (i).** Enter the date(s) of distribution of the amounts entered in column (h) using the format YYYYMMDD.

**Column (j).** Enter the total creditable foreign taxes attributable to a distribution from the PFIC. See section 1291(g) and the instructions for Form 8621, Part V, line 16d, for additional information on creditable foreign taxes attributable to PFIC distributions, including apportioning creditable foreign taxes to the portion of a distribution that constitutes an excess distribution and certain rules related to creditable foreign taxes on a disposition of PFIC stock.

**Column (k).** Enter the total amount of distributions the S corporation received from the PFIC in the 3 preceding tax years, or, if shorter, the total amount of distributions the S corporation received during its holding period of the PFIC stock. However, do not enter any amount in this column with respect to a PFIC for which the S corporation has made a pedigreed QEF election or section 1296 MTM election (other than a non-initial section 1296 MTM election) and for which the S corporation does not file Form 8621.

**Column (l).** Enter the date(s) on which the S corporation disposed of any block of stock in the PFIC during the S corporation's tax year, if any, using the format YYYYMMDD.

**Column (m).** If the S corporation disposed of any block of stock in the PFIC during the S corporation's tax year, enter the amount realized by the S corporation on each disposition.

**Column (n).** If the S corporation disposed of any block of stock in the PFIC during the S corporation's tax year, enter the S corporation's tax basis in the shares of the PFIC on the date of disposition.

**Schedule K-3.** Enter the shareholder's share, through its ownership in the S corporation, of the S corporation's tax basis in the PFIC shares.

**Column (o).** Enter the S corporation's gain or loss on the disposition of PFIC shares. This equals column (m) minus column (n).



Attachment 6

Additional Information for Part VI, Section 2									
General Information		Section 1291 and Other Information							
(a) Name of PFIC	(b) EIN or reference ID number	(g) Dates PFIC shares were acquired	(h) Amount of cash and FMV of property distributed by PFIC during the current tax year (if applicable)	(i) Dates of distribution	(j) Total creditable foreign taxes attributable to distribution by PFIC	(l) Dates PFIC shares disposed of during tax year (if applicable)	(m) Amount realized on disposition of PFIC shares	(n) Tax basis of PFIC shares on date of disposition	(o) Gain or (loss) on disposition of PFIC shares

**Schedule K-2, Part VII (S Corporation's Interest in Foreign Corporation Income (Section 960)), and Schedule K-3, Part VII (Shareholder's Share of S Corporation's Interest in Foreign Corporation Income (Section 960))**

**Note.** Shareholders will use the following information to figure a deemed paid foreign tax credit on Form 1118.

**Reporting currency.** Report all amounts in Part VII in functional currency.

The S corporation must complete a separate Schedule K-2, Part VII, for each CFC with respect to which it has a direct or indirect interest, unless the S corporation does not have a shareholder that is eligible to make a section 962 election to claim a deemed paid foreign tax credit with respect to such CFC. An indirect interest means that the CFC is owned by the S corporation through one or more partnerships.

Schedule K-3, Part VII, must be completed and provided to shareholders who may be eligible to make a section 962 election to claim a deemed paid foreign tax credit.

An S corporation that does not have or receive sufficient information or notice regarding a shareholder must presume the shareholder is eligible to claim the indirect credit and must complete the Schedules K-2 and K-3, Part VII, accordingly.

**Exception.** Part VII is not required to be completed with respect to dormant foreign corporations (as defined in section 3 of Rev. Proc. 92-70). See also [Domestic Filing Exception](#), earlier.

In general, if a section 962 election is in effect, a 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 its gross income. See section 960(a) and (d).

To figure the foreign taxes deemed paid by the U.S. shareholder, the income, deductions, and taxes of the CFC must be assigned to separate categories of income and then included in income groups within those separate categories.

See Regulations section 1.960-1(c)(1). The applicable separate categories of income are general category income, passive category income, and section 901(j) income. The income groups include the subpart F income groups, 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).

Line 1f allows the S corporation to report foreign personal holding company income under section 954(c)(1)(F) (income from notional principal contracts); (G) (payments in lieu of dividends); and (H) (personal service contracts). An S corporation must report a separate line 1f for income in each of sections 954(c)(1)(F), (G) and (H). Income within one of these income groups may need to be further subdivided on separate lines to the extent it is attributable to more than one country, source of income, passive grouping, etc. See the instructions for *Schedule Q (Form 5471)* in the Instructions for Form 5471.

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)(2) with respect to the PTEP groups. The PTEP groups are not reported in this Part VII.

**Lines 1 through 4.** The S corporation's share of the CFC's net income in each of the subpart F income groups, tested income group, and residual income group by unit is reported on lines 1 through 4.

The CFC's net income and taxes in each of these groups are figured on Schedule Q (Form 5471), and then included in columns (iii) and (iv), respectively. See *Schedule Q* in the Instructions for Form 5471, for the meaning of unit.

Do not include on line 1 (including lines 1a through 1j and any subset lines (1), (2), etc., under line 1) any amounts excluded from subpart F income under the high-tax exception in section 954(b)(4) (subpart F high-tax exception); these amounts are reported on line 4 (including any subset lines (1), (2), etc., under line 4).

Also do not include on line 3 (or lines (1), (2), etc., under line 3) any amounts excluded under the GILTI high-tax exclusion in Regulations section 1.951A-2(c)(7) ("GILTI high-tax exclusion"); these amounts are reported on line 4 (and on lines (1), (2), etc., under line 4).

The PTEP groups are not reported in Part VII. Do not report by unit with respect to the following subpart F income groups: (i) international boycott income; (ii) bribes, kickbacks, and other payments; and (iii) section 901(j) income. Also do not report by unit with respect to the recaptured subpart F income group.

**Columns (i) through (iv).** In Schedule K-2, Part VII, the S corporation reports in column (ii) its share of the CFC's net income by income groups and by units. In column (iii), the S corporation reports the CFC's total net income by income groups and units as reported in column (xvi) of Schedule Q (Form 5471). In column (iv), the S corporation reports the CFC's current year foreign taxes for which credit is allowed by income groups and units as reported in column (xii) of Schedule Q (Form 5471). In column (i), consistent with the reporting requirement on Form 1118, enter the two-letter code (from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes)) of each foreign country and U.S. territory within which income is sourced and/or to which taxes were paid or accrued. Enter "US" for income sourced in the United States. Do not enter "various" or "OC" for the country code. Do not enter a country in column (i) of line 5. See the instructions for line D for further information.

In Schedule K-3, Part VII, the S corporation reports each shareholder's share of the net income in the income group by unit and country.

**Line A.** On line A, enter the EIN or reference ID number of the CFC as listed on Form 5471. Do not enter "FOREIGNUS" or "APPLIED FOR."

**Line B.** The S corporation must file separate Schedules K-2 and K-3, Part VII, to report the net income or loss of the CFC in each separate category. Use the applicable code from the table below.

### Category of Income Codes

Code	Category of Income
PAS	Passive Category Income
901j	Section 901(j) Income
GEN	General Category Income

### Example 12. Foreign Source Income

For the Year 1 tax year, the two units have the following foreign source income.

	Tax	Country Code	Net Income
Country X Foreign Disregarded Entity (FDE) Passive Interest Income	20% withholding tax	XX	100u
CFC Passive Rental Income	10% withholding tax	YY	50u
CFC General Category Tested Income	No tax	ZZ	300u

**Line C.** With respect to passive category income, separate Schedules K-2 and K-3, Part VII, must be completed for each applicable grouping under Regulations section 1.904-4(c). This includes the groups in Regulations section 1.904-4(c)(3) reported on the Schedule Q (Form 5471).

The S corporation should use the following codes to report each of these groupings for each unit.

### Passive Grouping Codes

Code	Passive Group
i	All passive income received during the tax year that is subject to a withholding tax of 15% or greater must be treated as one item of income. See Regulations section 1.904-4(c)(3)(i).
ii	All passive income received during the tax year that is subject to a withholding tax of less than 15% (but greater than zero) must be treated as one item of income. See Regulations section 1.904-4(c)(3)(ii).
iii	All passive income received during the tax year that is subject to no withholding tax or other foreign tax must be treated as one item of income. See Regulations section 1.904-4(c)(3)(iii).
iv	All passive income received during the tax year that is subject to no withholding tax but is subject to foreign tax other than a withholding tax must be treated as one item of income. See Regulations section 1.904-4(c)(3)(iv).

**Example 12. Part VII. Subpart F income group reporting by unit.** In Year 1, USC, an S corporation, wholly owns foreign corporation CFC with reference ID number 1234. The CFC owns a foreign disregarded entity organized in Country X. CFC has two separate units, the foreign disregarded entity and the CFC itself.

**Example 12. USC's 1st Schedule K-2, Part VII**

USC completes Schedule K-2, Part VII, as follows.

A Enter EIN or reference ID number of controlled foreign corporation . . . . . 1234				
B Separate category (enter code) . . . . . PAS				
C If PAS was entered on line B, enter the applicable grouping under Regulations section 1.904-4(c) . . . . . i				
<i>Enter amounts in functional currency of the foreign corporation (unless otherwise noted).</i>	(i) Country code	(ii) S corporation's share of foreign corporation's net income (functional currency)	(iii) Foreign corporation's total net income (functional currency)	(iv) Foreign corporation's current year foreign taxes for which credit allowed (U.S. dollars)
1 Subpart F income groups				
a Dividends, interest, rents, royalties, and annuities (total) . . . . .				
(1) Unit: Country X FDE	XX	100u	100u	\$20

**Example 12. USC's 2nd Schedule K-2, Part VII**

USC completes another Schedule K-2, Part VII, as follows.

A Enter EIN or reference ID number of controlled foreign corporation . . . . . 1234				
B Separate category (enter code) . . . . . PAS				
C If PAS was entered on line B, enter the applicable grouping under Regulations section 1.904-4(c) . . . . . ii				
<i>Enter amounts in functional currency of the foreign corporation (unless otherwise noted).</i>	(i) Country code	(ii) S corporation's share of foreign corporation's net income (functional currency)	(iii) Foreign corporation's total net income (functional currency)	(iv) Foreign corporation's current year foreign taxes for which credit allowed (U.S. dollars)
1 Subpart F income groups				
a Dividends, interest, rents, royalties, and annuities (total) . . . . .				
(1) Unit: CFC	YY	50u	50u	\$5

**Example 12. USC's 3rd Schedule K-2, Part VII**

USC completes a third Schedule K-2, Part VII, as follows.

A Enter EIN or reference ID number of controlled foreign corporation . . . . . 1234				
B Separate category (enter code) . . . . . GEN				
<i>Enter amounts in functional currency of the foreign corporation (unless otherwise noted).</i>	(i) Country code	(ii) S corporation's share of foreign corporation's net income (functional currency)	(iii) Foreign corporation's total net income (functional currency)	(iv) Foreign corporation's current year foreign taxes for which credit allowed (U.S. dollars)
3 Tested income group (total) . . . . .				
(1) Unit: CFC	ZZ	300u	300u	\$0

USC also completes Schedule K-3, Part VII, with each shareholder's share of the S corporation's net income in each income group.

**Line D.** If net income in an income group is sourced from more than one country, check the box on line D, and attach a statement to Schedules K-2 and K-3 to indicate that you have expanded Part VII to report these additional countries on both Form 1120-S and Schedule K-3 (for shareholder's share).

**Example 13. Part VII. More than two source countries.** In Year 1, USC, an S corporation, wholly owns foreign corporation

CFC with reference ID number 1234. USC has two U.S. citizen shareholders. CFC has only one unit, the CFC itself, and no other separate units. CFC has general category foreign source foreign base company sales income (FBCSI) sourced in Country A of 100u and general category foreign source FBCSI sourced in Country B of 50u and general category foreign source FBCSI sourced in Country C of 30u. The country code for Country A is "AA," the country code for Country B is "BB," and the country code for Country C is "CC."



**Example 13 Table**

USC completes Schedule K-2, Part VII, as follows.

<b>A</b> Enter EIN or reference ID number of controlled foreign corporation . . . . .	1234	
<b>B</b> Separate category (enter code) . . . . .	GEN	
<b>D</b> Check the box and attach a statement if there is more than one source country for a line . . . . .	<input checked="" type="checkbox"/>	
<i>Enter amounts in functional currency of the foreign corporation (unless otherwise noted).</i>	(i) Country code	(ii) S corporation's share of foreign corporation's net income (functional currency)
<b>1</b> Subpart F income groups		
<b>g</b> Foreign base company sales income (total) . . . . .		180u
<b>(1)</b> Unit: CFC	AA	100u
<b>(2)</b> Unit: CFC	BB	50u

**Example 13. Attachment (Expansion)**

USC attaches to Schedule K-2 the following schedule to expand 1g to include another line under 1g.

<b>A</b> Enter EIN or reference ID number of controlled foreign corporation . . . . .	1234	
<b>B</b> Separate category (enter code) . . . . .	GEN	
<b>D</b> Check the box and attach a statement if there is more than one source country for a line . . . . .	<input checked="" type="checkbox"/>	
<i>Enter amounts in functional currency of the foreign corporation (unless otherwise noted).</i>	(i) Country code	(ii) S corporation's share of foreign corporation's net income (functional currency)
<b>1</b> Subpart F income groups		
<b>g</b> Foreign base company sales income (total) . . . . .		180u
<b>(3)</b> Unit: CFC	CC	30u

USC also completes Schedule K-3, Part VII, with each shareholder's share of the S corporation's net income in the subpart F income group. USC attaches to Schedule K-3 the same schedule it attaches to Schedule K-2, with each shareholder's share of the subpart F income groups by country. In Schedule K-3, Part VII, USC also includes the CFC's total net income and the CFC's current year foreign taxes for which credit is allowed in each income group.

**Line E.** The S corporation should check the box and complete a separate Part VII for U.S. source income in each separate category.

**Line F.** If the foreign corporation has foreign oil and gas extraction income (FOGEI) or foreign oil-related income (FORI), the S corporation should check the box and complete a separate Part VII indicating the amount of FOGEI and FORI in each grouping. The S corporation should check box 2 in Part I and complete Schedule I (Form 1118). See the instructions for Part I, box 2.

**Line G.** Enter the functional currency of the foreign corporation as reported on Form 5471, line 1h.

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Taxes assigned to section 951A category [14](#)  
Total gross income [12](#)

### U

Unrecaptured section 1250 gain [11](#)  
Upstream loan [7](#)

### W

When to file [3](#)  
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