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# Instructions for Schedules K-2 and K-3 (Form 8865)

## Partners' Distributive Share Items—International and Partner's Share of Income, Deductions, Credits, etc.—International

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

Instructions for the Schedules K-2 and K-3 for tax years beginning in 2024.

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## Future Developments

For the latest information about developments related to Schedule K-2 (Form 8865) and Schedule K-3 (Form 8865), and their instructions, such as legislation enacted after they were published, go to [IRS.gov/Form8865](https://www.irs.gov/Form8865).

## What's New

- Part VI: To be consistent with Form 8992, for columns (h), (j), and (l), parentheticals are included in each row and allow only zero and positive amounts.
- Part VIII, section 2, line 7, cost sharing transaction payments under Regulations section 1.482-7(b)(1)(i) are now separately reported on line 7, and not in amounts reported on line 16.
- Part VIII, section 2, lines 17 and 18, column (c). Line 17 has been clarified to include amounts subject to tax under Regulations section 1.884-4(a)(2)(ii) at a 30% statutory rate. Similarly, line 18 has been clarified to include amounts subject to tax under Regulations section 1.884-4(a)(2)(ii) at a reduced rate according to an income tax treaty.

## General Instructions

See the Instructions for Form 8865, as they generally apply to the Schedules K-2 and K-3. This document provides additional

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

Schedule K-2 is an extension of Schedule K of the Form 8865 and is used to report items of international tax relevance from the operation of a partnership.

Schedule K-3 is an extension of Schedule K-1 (Form 8865) and is generally used to report the share of the items reported on Schedule K-2. The information reported on Schedule K-3 is used to report information on a partner's tax or information returns.

## Who Must File

Any person that is required to file Form 8865, Schedule K, for a partnership that has items relevant to the determination of U.S. tax under the international provisions of the Internal Revenue Code (the 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 8865 without all required information. The penalties that apply to the Form 8865 and the Schedule K-1 apply to the Schedules K-2 and K-3, respectively. See *Penalties* in the Instructions for Form 8865.

Category 1 and Category 2 filers must complete Schedule K-1 for any direct interest they hold in the partnership. Category 1 filers are also required to complete Schedule K-1 for each U.S. person that directly owns a 10% or greater direct interest in the partnership. These partners that are required to complete a Schedule K-1 must also complete a Schedule K-3 if the partnership has items relevant to the determination of U.S. tax under the international provisions. Partners may also receive Schedule K-3 from Category 1 filers who complete a Schedule K-3 on their behalf. Partners should review the Partner's Instructions for Schedule K-3 (Form 1065) for how to complete partner tax forms for items reported on Schedule K-3 (Form 8865).

**Note.** Except as otherwise required by statute, regulations, or other IRS guidance, a U.S. person isn't required to obtain information from direct or indirect partners of the partnership to determine if it needs to file each of these parts.

**Note.** A U.S. person is only required to complete the relevant portions of the Schedules K-2 and K-3, as applicable. For example, if the partnership doesn't own an interest in a foreign corporation, the following parts aren't required: Schedules K-2 and K-3, Part V and Part VI.

**Note.** 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 impacted and isn't otherwise specifically identified, check box 12 on Schedule K-2, Part I, and Schedule K-3, Part I, and attach a statement to both Schedules K-2 and K-3 (for distributive share).

## When and Where To File

Attach Schedule K-2, and Schedule K-3, if applicable, to Form 8865 with your income tax return and file by the due date (including extensions) for that return. See the Instructions for Form 8865 for further information.

See the Instructions for Form 8865 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* below.

Requests for approval may be submitted electronically to [substituteforms@irs.gov](mailto:substituteforms@irs.gov) or requests may be mailed to:

Internal Revenue Service  
Attention: Substitute Forms Program  
C:DC:TS: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 don't 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 Schedule K-2 or K-3. However, if the computer-generated form is identical to the IRS-prescribed form, it doesn't need to go through the approval process, and an attachment isn't 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/irb/2020-53\\_IRB#REV-PROC-2020-55](https://www.irs.gov/irb/2020-53_IRB#REV-PROC-2020-55). The procedures relevant to Form 8865 and Schedule K-1 (Form 8865) apply for purposes of 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 to Form 1040, U.S. Individual Income Tax Return, also include Form 1040-SR, U.S. Tax Return for Seniors. Also, when Form 1040 is referenced, the part may be relevant for other tax returns for noncorporate partners such as Form 1041, U.S. Income Tax Return for Estates and Trusts.

When Form 1120, U.S. Corporation Income Tax Return, is referenced, the part may be relevant for other tax returns for corporate partners such as Form 1120-L, U.S. Life Insurance Company Income Tax Return.

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

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

**Part II of Schedules K-2 and K-3.** Used to figure the partnership's income or loss by source and separate category of income and to report the partner's distributive share of such

income or loss. Partners use the information to figure and claim a foreign tax credit on Form 1116 or 1118.

**Part III of Schedules K-2 and K-3.** Used to report information necessary for the partner to determine the allocation and apportionment of research and experimental (R&E) expense, interest expense, and the foreign-derived intangible income (FDII) deduction for the foreign tax credit limitation. Also used to report foreign taxes paid or accrued by the partnership and the partner's distributive share of such taxes. Also used to report income adjustments under section 743(b) by source and separate category. Partners use the information to figure and claim a foreign tax credit on Form 1116 or 1118.

**Part IV of Schedules K-2 and K-3.** Used to report the information necessary for the partner to determine its section 250 deduction for FDII. Partners use the information to claim and figure a section 250 deduction for FDII on Form 8993, Section 250 Deduction for Foreign-Derived Intangible Income (FDII) and Global Intangible Low-Taxed Income (GILTI).

**Part V of Schedules K-2 and K-3.** Used to report information the partner needs, in combination with other information known to the partner, 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 partner's annual PTEP accounts for the foreign corporation, and the amount of foreign currency gain or loss on the PTEP that the partner is required to recognize under section 986(c).

Partners report the dividends and foreign currency gain or loss on Form 1040 or 1120. If eligible, partners also use this information to figure and claim a dividends received deduction under section 245A on Form 1120.

**Part VI of Schedules K-2 and K-3.** Used to provide information the partner needs to determine any inclusions under sections 951(a)(1) and 951A. Partners use the information to complete Form 8992, U.S. Shareholder Calculation of Global Intangible Low-Taxed Income (GILTI), and Forms 1040 and 1120 for subpart F income inclusions, section 951(a)(1)(B) inclusions, and section 951A inclusions.

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

**Part VIII of Schedules K-2 and K-3.** Used to provide information for the partner to figure its base erosion and anti-abuse tax (BEAT). Partners will use the information to complete Form 8991, Tax on Base Erosion Payments of Taxpayers With Substantial Gross Receipts.

## Specific Instructions



*If the information required in a given section exceeds the space provided within that section, don't 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 Schedule K-2 and Schedule K-3. The additional sheets must conform to the IRS version of that section.*

## Schedule K-2, Identifying Information

At the top of each new page, enter the name of the partnership as it appears on Form 8865.

If the foreign partnership has an employer identification number (EIN), enter the EIN as it appears on Form 8865 at the top of each new page. Don't enter "FOREIGNUS" or "APPLIED

FOR.” Enter the reference ID number used on Form 8865, item G2(b). For details, see the instructions for Form 8865, item G2(b). Don’t enter “FOREIGNUS” or “APPLIED FOR” for the reference ID number.

**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 the Form 8865 and the Schedule K-1 (Form 8865), respectively.

Check the “No” box to indicate the inapplicable parts of Schedules K-2 and K-3. Don’t complete and attach the inapplicable parts to the Form 8865 and the Schedule K-1 (Form 8865), respectively.

### Schedule K-3, Identifying Information

**Items A and B.** Items A and B should be the same as reported on Schedule K-1, Part I, items A1 or A2 and B. Enter the information reported on Schedule K-1, Part I, item A1. If there is no entry in item A1, then enter the information in item A2.

**Items C and D.** Items C and D should be the same as reported on Schedule K-1, Part II, items C and D1.

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

### Schedule K-2, Part I (Partnership's Other Current Year International Information); and Schedule K-3, Part I (Partner's Share of Partnership's Other Current Year International Information)

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 below, to the Schedule K-2.

If applicable, also complete Schedule K-3, Part I, and include with the Schedule K-3 the attachment(s) as described below with the partner's distributive 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(a). For sourcing purposes, personal property sold by the partnership is treated as sold by the partners. See section 865(i)(5). 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 for 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 for that gain. See section 865(g). In addition, with the exception of certain property sales, 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 for such income.

If the partnership 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 partnership pays income tax to a foreign country for income from the sale or the income is eligible for resourcing under an applicable treaty, check box 1 and attach a statement to Schedules K-2 and K-3 (for distributive share) with Table 1.

The partnership may combine sales of stock property by country. Otherwise, don't combine sales of property. Each item of property sold must be listed separately with the information shown in Table 1. If the gain is capital, enter “long-term” or “short-term” in column (b). Enter the two-letter code from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes) in column (f). Don't 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 indicate 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 for foreign oil and gas taxes. See section 907(a) and Regulations section 1.907(a)-1 for details. If the partnership has such taxes, check box 2 and attach a completed Schedule I (Form 1118) to the Schedules K-2 and K-3 (with the partner's distributive share). Don't complete Schedule I (Form 1118), Part I, columns 12 and 13; or Part III, lines 1 and 3. Attach Schedule I (Form 1118) even if there are no corporate partners because the limitation applies to individuals eligible to claim a foreign tax credit.

**Box 3. Splitter arrangements.** Foreign income taxes for 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 income tax credit splitting event for 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 a partnership into account pursuant to section 702(a)(6).

Report foreign income taxes that are potentially suspended on Schedule K-2, Part III, Section 4, line 2E, and each partner's share of such taxes on Schedule K-3, Part III, Section 4, line 2E. It may not be possible to determine whether taxes are suspended and whether related income is taken into account. However, where it is possible 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 a partnership owns a reverse hybrid and the foreign country assesses tax on the partnership for income earned by the reverse hybrid, such taxes are potentially suspended taxes.

Check box 3 and attach a statement to Schedules K-2 and K-3 that includes the following for each splitter arrangement in which the partnership participates that would qualify as a splitter

**Table 1. Information on Personal Property Sold (For use with Schedule K-2 (Form 8865), Part I, box 1) (Also for use with Schedule K-3 (Form 8865), 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) |
|--------------------------|--------------------------|-----------|------------------------------------------|----------------------------------------|----------------------------------------------------|
|                          |                          |           |                                          |                                        |                                                    |
|                          |                          |           |                                          |                                        |                                                    |

## Attachment 1 for Schedule K-2, Part I, Box 5

| Reference: Regulations section 1.904-4(c)(3) |                                                                                  |                                             |           |
|----------------------------------------------|----------------------------------------------------------------------------------|---------------------------------------------|-----------|
|                                              |                                                                                  | 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   |                                             |           |

## Attachment 2 for Schedule K-2, Part I, Box 5

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

arrangement under section 909 if one or more partners are covered persons for 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 partnership).
2. Amount of taxes paid or accrued by the partnership 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). Don't enter "various" or "OC" for the country code.
5. The separate category and source of income to which the taxes are assigned.

### Section 2 of attached statement—Potentially unsuspended taxes. Include a separate section that reports the following for each splitter arrangement for which the partnership has taken into account any related income.

1. Origin year of the splitter arrangement.
2. Explanation of the splitter arrangement (for example, reverse hybrid owned by partnership).
3. Amount of taxes paid or accrued by the partnership 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). Don't enter "various" or "OC" for the country code.
6. The separate category and source of income to which the taxes are assigned.

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.

**Box 4. Foreign tax translation.** If any foreign taxes are reported on Schedules K-2 and K-3, Part III, Section 4, 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 partnership has passive income, check the box for item 5 and attach a statement to Schedules K-2 and K-3 with Attachment 1 or 2, or both, completed. This information helps to determine whether a partner's passive income is high-taxed passive income.

Income received or accrued by a U.S. person that would otherwise be passive income isn't 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 partner must group its shares of items of passive income from a partnership according to the rules in Regulations sections 1.904-4(c)(3) and (4). The grouping rules of paragraph (c)(3) apply separately to income attributable to each foreign qualified business unit (QBU) as defined in section 989(a) of a foreign partnership.

**Note.** Passive income isn't 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 1. Part I, box 5: high-taxed income.** In Year 1, FP, a foreign partnership, has two domestic corporate partners with equal interests in the partnership. In Year 1, FP receives \$100 of passive dividend income from a noncontrolled 10%-owned foreign corporation subject to a 15% withholding tax. FP also receives \$150 of passive interest income from an unrelated person subject to a 30% withholding tax. FP incurs \$80 of expenses that are allocable to the interest income. FP also receives \$50 of passive dividend income from a controlled

## Example 1. Attachment 1

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

## Example 1. Attachment 2

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

foreign corporation (CFC) which isn't subject to tax. No expenses are allocable to the dividend income. FP'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, FP earns \$400 of passive income for its branch operation in Country X. Such income is subject to foreign tax (but not withholding tax) of \$40. Expenses of \$120 are allocable to the distributive share of branch income. No expenses are allocable to the dividend income.

For Year 1, the U.S. person filing Form 8865 checks box 5 in Part I of Schedule K-2 (Form 8865) and attaches Attachments 1 and 2 to Schedule K-2.

FP's owner completes the same attachments with the distributive shares and attaches those attachments to each Schedule K-3.

**Box 6. Section 267A disallowed deduction.** Check box 6 if the partnership paid or accrued any interest or royalty for which the U.S. person filing the Form 8865 knows, or has reason to know, that one or more of the partnership's partners aren't allowed a deduction under section 267A. In addition, on Schedule K-3 filed for such partners, the U.S. person filing Form 8865 should check box 6 in Part I and attach to the Schedule K-3 a statement titled "Section 267A Disallowed Deduction" that separately lists the following information.

- A. The amount of interest paid or accrued by the partnership for which the partner isn't allowed a deduction under section 267A.
- B. The amount of royalty paid or accrued by the partnership for which the partner isn't allowed a deduction under section 267A.
- C. The extent to which information reported on other parts of the Schedule K-3 (for example, a line in Part II, Section 2)

reflects interest or royalty for which the partner isn't 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 partner is disallowed a deduction under section 267A for the amount.*

**Note for boxes 8 and 9.** If the Form 8865 filer meets an exception, such as the multiple filer exception, to filing Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, the filer isn't required to complete and attach that form. However, the filer must still attach to the tax return of the U.S. person filing Form 8865 any required statements to qualify for the exception to filing the Form 5471.

**Box 8. Form 5471 information.** If applicable, check box 9 and attach to Form 8865 and Schedule K-3 any Forms 5471. See the Partnership Instructions for Schedules K-2 and K-3 (Form 1065) for applicability.

**Box 9. Other forms.** If any other international tax forms are applicable, check box 9 and attach the form(s) to Form 8865 and Schedule K-3. See the Partnership Instructions for Schedules K-2 and K-3 (Form 1065) for applicability.

**Box 10. Partner loan transactions.** Check this box and append the completed attachment to Schedules K-2 and K-3 if either the partnership (a) received a loan from its partner (or a member of the partner's affiliated group) ("downstream loan"), as described in Regulations section 1.861-9(e)(8); or (b) loaned an amount to its partner (or a member of the partner's affiliated group) ("upstream loan"), as described in Regulations section 1.861-9(e)(9).

**Downstream loans.** On an attached statement, provide the details of any downstream loans from a partner or a member of the partner's affiliated group, including the amount of interest expense paid or accrued by the partnership. 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 the Year |
|----------------|--------------|--------------|----------------|-------------------------------|
|                |              |              |                |                               |
|                |              |              |                |                               |

If there are any partners in the same affiliated group as the lender, attach a statement to each of the Schedules K-2 and K-3 to expand the columns in the table to include the information requested in the first two columns for each such partner.

**Upstream loans.** On the attached statement, provide the details for any upstream loans to its partner or a member of the partner's affiliated group, including the amount of interest income received or accrued by the partnership. 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 the Year |
|------------------|----------------|--------------|----------------|------------------------------|
|                  |                |              |                |                              |
|                  |                |              |                |                              |

If there are any partners in the same affiliated group as the borrower, attach a statement to each of the Schedules K-2 and K-3 to expand the columns in the table to include the information requested in the first two columns for each such partner.

**Box 11. Dual consolidated loss.** Check box 11 if either (a) the partnership directly or indirectly owns a foreign branch (as defined in Temporary Regulations section 1.367(a)-6T(g)) or an interest in a hybrid entity (as defined in Regulations section 1.1503(d)-1(b)(3)), or (b) the partnership is a hybrid entity (as defined in Regulations section 1.1503(d)-1(b)(3)). However, box 11 should not be checked if neither the U.S. person filing Form 8865 nor any partner for which a Schedule K-3 is filed is a domestic corporation (other than a regulated investment company (RIC), a real estate investment trust (REIT), or an S corporation). A domestic corporate partner's interest in the partnership or its indirect interest in a foreign branch or hybrid entity may be treated as a separate unit and subject to the dual consolidated loss (DCL) rules pursuant to Regulations sections 1.1503(d)-1 through -8.

**Box 12. Other international items.** If the partnership has transactions, income, deductions, payments, or anything else that is impacted by the international tax provisions of the Code and such events aren't otherwise reported on this part or other parts of Schedules K-2 and K-3, report that information on a statement attached to Schedules K-2 and K-3 and check box 12.

- For box 12, file Form 926, Return by a U.S. Transferor of Property to a Foreign Corporation.
- For box 12, report information regarding any "Top-up Tax" paid or accrued during the tax year by the partnership. See *Global Anti-Base Erosion (GloBE) Model Rules (Pillar Two) information for partners* below. For more information about reporting any

Top-up Tax paid or accrued by certain entities or branches owned by the partnership, see the instructions for Schedule G (Form 5471), Schedules K-2 and K-3 (Form 8865), and Schedule G (Form 8858).

- For box 12, report information regarding whether the partnership applied the temporary relief provided by Notice 2023-55, as modified by Notice 2023-80, to determine creditability of foreign taxes paid or otherwise required to be reported by the partnership. See *Temporary relief* below

Don't report for box 12:

- Form 8804, Annual Return for Partnership Withholding Tax; and
- Form 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax.

These forms are separately filed. If a partner in the partnership, whether direct or indirect, needs certain information with respect to CFCs, foreign tax credits, or foreign parented multinational groups to determine the partner's liability under section 55(a)(2) and such information is not specifically required to be reported on the Schedule K-3, such information should be provided by the partnership to the partner.

**Global Anti-Base Erosion (GloBE) Model (Pillar Two) information for partners.** Certain jurisdictions have enacted legislation to implement the GloBE Model Rules for the income inclusion rule (IIR), qualified domestic minimum top-up tax (QDMTT), and undertaxed profits rule (UTPR). See Organisation for Economy Cooperation and Development's (OECD) document, *Tax Challenges Arising from the Digitalisation of the Economy—Global Anti-Base Erosion Model Rules (Pillar Two)* (Dec. 14, 2021), copy and paste this link to your browser, [https://www.oecd-ilibrary.org/taxation/tax-challenges-arising-from-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two\\_782bac33-en](https://www.oecd-ilibrary.org/taxation/tax-challenges-arising-from-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two_782bac33-en). Under these rules, if the effective tax rate (ETR) for a jurisdiction is below 15%, top-up tax may be imposed. The amount of top-up tax is determined by multiplying the top-up tax percentage (the positive excess of 15% over the ETR in the jurisdiction) by the excess profits (the positive amount of the net GloBE income in such jurisdiction that exceeds a substance-based income exclusion). The top-up tax is collected under the QDMTT, IIR, and/or UTPR. If the partnership paid or accrued any QDMTT, IIR, and/or UTPR (or similar taxes) during the tax year, attach a statement that separately lists the dollar amount of each type of tax paid or accrued. See Table 4 below.

**Table 4. Top-Up Tax**

| Type of Other International Item | Other International Item Amount | Other International Item Explanation |
|----------------------------------|---------------------------------|--------------------------------------|
| GloBE QDMTT tax                  |                                 | Top-up Tax                           |
| GloBE IIR tax                    |                                 | Top-up Tax                           |
| GloBE UTPR tax                   |                                 | Top-up Tax                           |
| GloBE Total taxes                |                                 | Top-up Tax                           |

**Temporary relief.** Final foreign tax credit regulations were published January 4, 2022. The new regulations made changes to the rules relating to the creditability of foreign taxes under sections 901 and 903. Notice 2023-55 was subsequently released on July 21, 2023, allowing taxpayers to apply prior rules in place of certain rules under the new regulations (temporary relief). The rules described in this Notice were modified in part by Notice 2023-80, released on December 11, 2023, to address their application to partnerships and their partners and to extend the relief period until further notice

Notice 2023-80 clarified that with respect to foreign taxes paid or otherwise required to be reported by a partnership, including foreign taxes paid by a CFC (collectively, the partnership's foreign taxes), the partnership makes the decision to apply (or not apply) the temporary relief. A partnership that applies the temporary relief to a tax year must apply the temporary relief to all the partnership's foreign taxes. In addition, a partnership's choice to apply temporary relief for a tax year will generally cause a partner to be required to apply (or to be precluded from applying) the temporary relief for the relief year to all other foreign taxes for which the partner would be eligible to claim a credit as provided in section 901. For more information, see Treasury Decision 9959, 2022-03 I.R.B. 328, available at [IRS.gov/irb/2022-03\\_IRB#TD-9959](https://www.irs.gov/irb/2022-03_IRB#TD-9959); Notice 2023-55, 2023-32 I.R.B. 427, available at [IRS.gov/irb/2023-32\\_IRB#NOT-2023-55](https://www.irs.gov/irb/2023-32_IRB#NOT-2023-55); and Notice 2023-80, 2023-52 I.R.B. 1584, available at [IRS.gov/irb/2023-52\\_IRB#NOT-2023-80](https://www.irs.gov/irb/2023-52_IRB#NOT-2023-80).

Attach a statement stating whether the partnership has applied temporary relief to the partnership's foreign taxes. See Table 5 below.

**Table 5. Temporary Relief**

| Type of Other International Item | Other International Item Amount | Other International Item Explanation |
|----------------------------------|---------------------------------|--------------------------------------|
| Temporary relief                 | Yes/No                          | Temporary relief                     |

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

**Note.** This information is relevant to partners computing a foreign tax credit on Form 1116 or 1118. Schedules K-2 and K-3, Parts II and III, must be completed unless the partnership doesn't have a direct or indirect partner eligible to claim a foreign tax credit or the direct or indirect partner wouldn't have to file a Form 1116 or 1118 to claim a credit. See section 904(j) and the further discussion in the next paragraphs. This requirement applies regardless of whether the partnership pays or accrues foreign taxes because other information, such as the source of the partnership's income and the value of its assets, is relevant in determining the partner's foreign tax credit. A partner that is eligible to claim a foreign tax credit includes a domestic corporation, a U.S. citizen or resident, U.S. citizen or resident beneficiaries of domestic trusts and estates, certain foreign corporations, and certain nonresident individuals. See sections 901 and 906. An indirect partner includes a partner that owns the partnership through a pass-through entity (for example, a partnership, an S corporation, or a trust (see Regulations section 1.904-5(a)(4)(iv) for the definition of pass-through entity)). An indirect partner also includes a partner that owns the partnership through a foreign corporation. See sections 960 and 1293(f). If there is insufficient information, a direct or indirect partner must presume such partner is eligible to claim a foreign tax credit and such partner would have to file a Form 1116 or 1118 to claim a credit. Accordingly, the Schedules K-2 and K-3 must be completed.

On Schedule K-2, Parts II and III, report the partnership's gross income, gross receipts, cost of goods sold, certain deductions, and taxes by source and separate category. Also report information that the partner uses to allocate and apportion expenses and determine the source of certain items of gross income and gross receipts. Unless specifically noted below, report on Schedule K-3, Parts II and III, the partner's share of the partnership's gross receipts, gross income, cost of goods sold, certain deductions, and taxes by source and separate category. The partner adds its share of the partnership's foreign source gross receipts, gross income, cost of goods sold, certain deductions, and taxes by separate category to its other foreign source gross receipts, gross income, cost of goods sold, certain

deductions, and taxes in that separate category to figure its foreign tax credit. Also report on the Schedule K-3 the distributive share of expenses and the allocation and apportionment factors the partner uses to determine expenses allocated and apportioned to foreign source income.

**Partnership determination.** The source and separate category of certain gross income, gross receipts, and cost of goods sold, as well as the allocation and apportionment of certain deductions, can be determined for the partnership. This includes deductions that are definitely related to certain gross income of the partnership. See Regulations section 1.861-8(b) (1). See Schedule K-2, Part II, columns (a) through (e); Part III, Section 1, columns (a) through (e); Part III, Section 3, columns (a) through (d); and Part III, Section 5, columns (a) through (f). In Part III, Section 2, columns (a) through (e), some partnership assets may be characterized by source and separate category according to the partnership. This includes certain assets that attract directly allocated interest expense under Temporary Regulations sections 1.861-10T(b) and (c). See Temporary Regulations section 1.861-10T(d)(2).

In Part III, Section 4, in the U.S. and Foreign columns, assign foreign income taxes paid or accrued to a separate category and source.

The partner's distributive share of the amounts reported on Schedule K-2 is reported in equivalent columns in Schedule K-3, Parts II and III.

Certain gross receipts, gross income, cost of goods sold, assets, deductions, and taxes aren't assigned to a source or separate category for the partnership. See [Partner determination](#), later.

**Foreign branch category income.** Report all gross receipts, gross income, cost of goods sold, and deductions that are foreign branch category income. See Regulations section 1.904-4(f). Report all income that would be foreign branch category income of its partners as if all partners were U.S. persons that aren't pass-through entities. See Schedule K-2, Part II, column (b); Part III, Sections 1 and 2, column (b); and Part III, Sections 4 and 5, column (c). The partner's distributive share of the amounts reported on the Schedule K-2 are reported on equivalent columns in Schedule K-3, Parts II and III.

**Schedule K-3.** Any amounts reported on Schedule K-2 as foreign branch category income should be reported as general category income on the Schedule K-3, Parts II and III, provided to foreign individuals and foreign corporations.

**Section 901(j) income.** Income derived from each sanctioned country is subject to a separate foreign tax credit limitation. If the partnership derives such income, enter code "901j" on the line after "category code." See Schedule K-2, Part II, Sections 1 and 2, column (e); Part III, Sections 1 and 2, column (e); Part III, Section 3, column (d); and Part III, Sections 4 and 5, column (f). The partner's distributive share of the amounts reported on Schedule K-2 are reported in equivalent columns on Schedule K-3, Parts II and III. See the Instructions for Form 1118 for the potential countries to be listed with the section 901(j) category of income.

**Note.** As of the date of these instructions, section 901(j) is the only category reported in Part II, Sections 1 and 2, column (e); Part III, Sections 1 and 2, column (e); and Part III, Section 5, column (f).

**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). (Section 951A category income doesn't include passive category income.) If the partnership pays or accrues tax on the receipt of a distribution of PTEP assigned to the reclassified section 951A PTEP group or section

951A PTEP group, these taxes must be assigned to section 951A category income.

The U.S. person completing Form 8865 will enter code "951A" in Part III, Section 4, column (b). This code isn't utilized in other portions of Parts II and III.

**Income re-sourced by treaty.** If a sourcing rule in an applicable income tax treaty characterizes 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 partnership pays or accrues foreign income 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 re-sourced as foreign source income under a treaty.

The designations below are only relevant for Part III, Section 4, column (f).

**Code "RBT PAS."** If an applicable income tax treaty characterizes 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 characterizes 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 characterizes 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."

**Partner determination.** In Schedule K-2, Part II, column (f); Part III, Section 1, column (f); Part III, Section 3, lines 1 and 2, column (e); and Part III, Section 5, column (g), enter the gross income, income adjustments, and gross receipts of the partnership that are required to be sourced by the partner. This generally includes income from the sale of most personal property other than inventory, depreciable property, and certain intangible property sourced under section 865. This also includes certain foreign currency gain on section 988 transactions. See the instructions for Forms 1116 and 1118 and Pub. 514, Foreign Tax Credit for Individuals, for additional details. In Schedule K-2, Part II, column (f); and Part III, Section 3, lines 3 and 4, column (e), include deductions that are allocated and apportioned by the partner. This includes most interest expense 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 partner. In Schedule K-2, Part III, Section 4, in the Partner column, enter the foreign income taxes that are assigned to a source of income by the partner. This includes taxes imposed on certain sales income. The partner's distributive share of the amounts reported on Schedule K-2 are reported in equivalent columns on Schedule K-3, Parts II and III.

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

### **Section 1. Lines 1 Through 24. Total Gross Income**

Form 1118, Schedule A, requires a corporation to separately report certain types of gross income and gross receipts by source and separate category. Separate reporting is required because each type of gross income and gross receipts has a different sourcing rule. See sections 861 through 865 (and section 904(h) and, in some cases, U.S. income tax treaties). Schedules K-2 and K-3, Part II, Section 1, generally follow the separately reported types of gross income and gross receipts on Schedule A. Individuals must follow the same sourcing rules, but

Form 1116 only requires reporting of total gross income from foreign sources by separate category.

So, those required to file Form 1116 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 8865, Schedule K.

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 for 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 line (A, B, or C) the two-letter code from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes) for the foreign country or U.S. 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 on Schedule K-2, Part II, and Schedule K-3, Part II, for that type of income.

If income is U.S. source, enter "US." Don't enter "various" or "OC" for the country code.

**Note.** In Part II, column (f), enter the code "XX" if the country or U.S. territory for which the gross income and gross receipts are sourced by the ultimate non-pass-through entity partner and the filer can't determine the source. However, don't enter the code "XX" in 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 for that gain. See sections 865(e) and 865(g). Instead, enter in Part II, column (f), the foreign country to which the partnership paid the income tax equal to 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 A, B, C, etc., given that the partnership 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 in 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 regarding RICs and section 863(b). See the instructions for Forms 1116 and 1118 for these exceptions that apply in completing the Schedules K-2 and K-3, Parts II and III. Don't 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 the IRS may initially evaluate whether taxpayers are claiming credits for compulsory payments to foreign governments.

#### **Example 2. Part II: multiple country code: gross income.**

In Year 1, FP, a foreign partnership, has employees who perform services in Country X and Country Y. FP earns \$25,000 of general category services income, \$10,000 for Country X and \$15,000 for Country Y. The two-letter code for Country X is XX and the two-letter country code for Country Y is YY. The U.S. person filing Form 8865 makes the following entries on the first two lines of Schedule K-2, Part II, line 2.

## Example 2 Table

|   | Description | (d)      |
|---|-------------|----------|
| A | XX          | \$10,000 |
| B | YY          | \$15,000 |

**Lines 3 and 4. Rental income.** These lines are reported separately because they are reported separately on Form 8865, 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.

**Note.** The amount of distributions which are attributable to PTEP in annual PTEP accounts of a direct or indirect partner isn't determined by the partnership and so isn't 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 8865, 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 3. Parts II and III: capital gains and losses.** Partnership has the following amounts for the tax year 2024.

## Example 3. Table 1

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

These amounts are reported on Schedule K-2, Part II, Section 1, as follows.

## Example 3. Table 2

|         | (a) U.S. source | (b) Foreign source passive |
|---------|-----------------|----------------------------|
| Line 11 |                 |                            |
| A US    | \$1,000         |                            |
| B FR    |                 | \$400                      |
| C CA    |                 | (\$300)                    |
| D HA    |                 | (\$200)                    |

**Line 12. Net long-term capital gain.** Don't 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, but 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.** Report the partnership's share of a lower-tier pass-through entity's section 986(c) gain or loss. This isn't 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.** Don't figure or report foreign currency gain or loss under section 986(c) for distributed PTEP sourced from an annual PTEP account of a person other than the partnership (for example, a partner).

**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. It's also possible to obtain section 987 gain or loss information from Form 8858. This isn't 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 partner, the section 988 gain and loss would be reported in column (f).

**Line 20. Other income.** Include other income by country and attach a statement to explain the type of other income for each line. If there are more than three types of other income by country, then attach a statement identifying these other types of income by country. For electronic filers, the rows will expand automatically. The statement must conform to the format of Part II.

**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 U.S. 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., doesn't need to equal the amount on line 24, given that not every gross income amount is required to be reported by country.

**Line 28. Net long-term capital loss.** Don't include losses reported on line 29.

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

## Section 2. Lines 25 Through 54. Total Deductions

Form 1118, Schedule A, requires a corporation to separately report certain types of deductions and losses by source and separate category. Separate reporting is required because each type of deduction may be allocated and apportioned according to a different methodology. See, for example, Regulations sections 1.861-8 through -20 and Temporary Regulations sections 1.861-8T and -9T. For purposes of allocating and apportioning expenses, in general, a partner adds the distributive share of the partnership's deductions to its other

deductions incurred directly by the partner. See Regulations section 1.861-8(e)(15). Generally, Section 2 follows the separately reported types of deductions and losses on Form 1118, Schedule A. Individuals must generally follow the same expense allocation and apportionment rules, but Form 1116 only requires separate reporting of certain deductions by separate category. See Form 1116, Part I, lines 2 through 5. Generally, Section 2 also corresponds to the deductions separately reported on Form 8865, Schedule K.

**Line 32. R&E expenses.** In general, R&E expenses are allocated and apportioned by the partner 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 \(SIC code\)\*](#).

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

**Lines 39 and 40. Interest expense specifically allocable under Regulations section 1.861-10 and Temporary Regulations section 1.861-10T.** 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 partnership property. Such interest expense is treated as directly allocable to income generated by such partnership property. See Temporary Regulations section 1.861-9T(e)(1).

**Lines 41 through 43. Other interest expense.** A partner's distributive share of a partnership's interest expense that isn't directly allocable to income from specific partnership property is generally allocated and apportioned by the partner, 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 Temporary Regulations section 1.861-9T(d). The amounts in each category of interest expense are reported on lines 41 through 43. See the Partnership Instructions for Schedules K-2 and K-3 (Form 1065) for an example. Also see the Partnership Instructions for Schedules K-2 and K-3 (Form 1065) for instances when interest expense may reduce passive category income or income in other categories and an attachment may be necessary. If the partnership's only partners are corporate partners, don't report the partnership's interest expense by the categories of interest expense in sections 163 and 469. All such interest expense may be reported as business interest expense on line 41.

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

**Note.** Interest expense is always included on lines 39 through 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 aren't creditable but deductible.

**Note.** Foreign taxes that are creditable (even if a partner chooses to deduct such taxes) aren't reported as expenses in Part II. Creditable taxes are reported in Part III, Section 4.

**Lines 49 and 50. Other deductions.** Attach to the Schedules K-2 and K-3 a statement 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 or 1118)**

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

This information is relevant to partners to allocate and apportion its R&E expense for foreign tax credit limitation purposes.

A Form 8865 filer isn't required to complete Section 1 of Part III unless either (a) the partnership incurs R&E expense; or (b) the partner is expected to license, sell, or transfer its intangible property to the partnership (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 partner. See Regulations section 1.861-17(f)(1). This requires that Form 8865 reports to its partners the gross receipts by SIC code according to source and separate category of income. This also requires that the Form 8865 reports 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 1118 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 partnership's gross receipts and certain other parties' gross receipts. See Regulations sections 1.861-17(d)(3) and (4). Sales of parties controlled by the partnership 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 partner's R&E expenses if licensed through the partnership. 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 isn't reported according to source or separate category.

**Note.** The SIC code for line 2B(i) doesn't need to be the same SIC code for line 2A(i).

## Section 2. Interest Expense Apportionment Factors

This information is relevant to a partner to allocate and apportion interest expense for foreign tax credit limitation purposes.

Complete this Section 2 only if the partnership or the partners have interest expense or stewardship expense.

**Stewardship expenses.** In the case of the partner's stewardship expenses incurred to oversee the partnership, the partnership's value is determined and characterized under the asset method in Regulations section 1.861-9 (taking into account any adjustments under sections 734(b) and 743(b)). See Regulations section 1.861-8(e)(4)(ii)(C). So, the reporting below for Part III, Section 2, for interest expense apportionment factors generally applies to the partner's stewardship expense apportionment.

For corporate partners with an interest in the partnership of 10% or more, interest expense, including the partner's distributive share of partnership interest expense, is apportioned by reference to the partner's assets, including the partner's share of partnership assets. See Regulations section 1.861-9(e)(2). 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 tax book value of its assets. See Regulations section 1.861-9(i). Under both methods, the partner uses the partnership's inside basis in its assets, including adjustments required under sections 734(b) and 743(b). See Regulations sections 1.861-9(e)(2) and (3). When reporting the basis in an asset which 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 1065 a second Part III, Section 2, if the filer reports both the tax book value and the alternative tax book value of its assets.

**Column (b).** Characterize the share of the partnership assets that give rise to foreign branch category income as assets in the foreign branch category. See Regulations section 1.861-9(e)(10).

**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 1118 for the potential countries to be listed with the section 901(j) category of income.

**Line 1.** On Schedule K-2, report the average of the beginning-of-year and end-of-year inside bases in the partnership's total assets. See Regulations section 1.861-9(g)(2)(i)(A). On Schedule K-3, report the partner's distributive share of the assets reported on Schedule K-2.

**Line 2.** On Schedule K-2, report the partnership's average of the beginning-of-year and end-of-year inside bases adjustments under sections 734(b) and 743(b). On Schedule K-3, report the partner's distributive share of the adjustments reported on Schedule K-2.

**Lines 3 and 4.** On Schedule K-2, report reductions in the partnership's asset values to reflect the partnership'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 partner's distributive share of the reduction in the partnership's assets reported on Schedule K-2.

**Line 5.** On Schedule K-2, report the average value of partnership assets excluded from the apportionment formula. See section 864(e)(3). On Schedule K-3, report the partner's distributive share of the excluded assets reported on Schedule K-2.

**Line 6.** Individual partners who are (a) general partners, (b) limited partners with an interest in the partnership of 10% or more, or (c) limited partners with an interest in the partnership of less than 10% but hold such interest in the ordinary course of the partner's active trade or business follow the same rules as corporate partners whose interest in the partnership is 10% or more except that their interest expense must be apportioned according to the interest expense classifications under sections 163 and 469. See Temporary Regulations section 1.961-9T(d). This includes reporting the assets according to such classifications. If the partnership has no such partners, don't complete Schedule K-2, Part III, Section 2; or Schedule K-3, Part III, Section 2.

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 if the partnership has partners other than corporate partners. See the Partnership Instructions Schedules K-2 and K-3 (Form 1065) for an example.

**Schedule K-3.** If the partnership's partners aren't limited to corporate partners, when completing Schedule K-3, Part III, Section 2, for the corporate partners with an interest of 10% or more in the partnership, don't complete lines 6b through 6d. Include the total distributive share on line 6a.

**Lines 7 and 8.** The amounts reported on lines 7 and 8 are subsets of the amounts reported on line 6 representing the value of stock held by the partnership in certain foreign corporations. In determining its foreign tax credit limitation, a partner should disregard interest expense that is "properly allocable" to stock of a 10%-owned foreign corporation that has been characterized as a section 245A asset. See section 904(b)(4) and Regulations section 1.904(b)-3(a)(1)(ii). The amount of properly allocable deductions is determined by treating the section 245A subgroup for each separate category as a statutory grouping for purposes of allocating and apportioning interest deductions on the basis of assets. Assets in a section 245A subgroup only include stock of a specified 10%-owned foreign corporation that has been characterized as a section 245A asset.

The stock is characterized as a section 245A asset to the extent it generates income that would generate a dividends received deduction under section 245A if distributed. This doesn't include income that is included as GILTI, subpart F income, or a section 951(a)(1)(B) inclusion or income described in section 245(a)(5) (which gives rise to a dividends received deduction under section 245 instead of section 245A).

In the case of a specified 10%-owned foreign corporation that isn't a CFC, all of the value of its stock is potentially in a section 245A subgroup because the stock generally generates dividends eligible for the section 245A deduction (and cannot generate an inclusion under section 951(a)(1) or 951A(a)) if the partner meets the requirements for eligibility. See Regulations section 1.904(b)-3(c)(2). However, because there may not be information to determine if a partner is eligible for a section 245A deduction (for example, due to tiered ownership), the partner must determine to what extent the stock is treated as an asset in a section 245A subgroup.

For a partnership-owned specified 10% foreign corporation that isn't a CFC, 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 partnership'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). Attach to the Schedules K-2 and K-3 a statement 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. Don't enter "FOREIGNUS" or "APPLIED FOR."
- Percentage of voting and value of stock owned by the partnership in such foreign corporation.
- Value of the stock in such corporation included in each of the groupings on lines 6b through 6d (identify separately each of those groupings).

If the specified 10%-owned foreign corporation is a CFC, a portion of the value of stock in each separate category and in the residual grouping for U.S. source income is subdivided between a section 245A and non-section 245A subgroup under the rules described in Regulations section 1.861-13(a)(5). However, because there will generally not be information to apply the stock characterization rules described in Regulations section 1.861-13(a)(5), the partner must apply those rules to characterize the stock.

For partnership-owned CFCs, report on line 8, column (f), the total value of its stock in all such foreign corporations. The value of the stock is the partnership's inside 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). Attach to the Schedules K-2 and K-3 a statement 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. Don't enter "FOREIGNUS" or "APPLIED FOR."
- Percentage of voting and value of stock owned by the partnership in such foreign corporation.
- Value of the stock in such corporation included in each of the groupings on lines 6b through 6d (identify separately each of those groupings).

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

**Note.** Don't complete this Section 3 if there are no domestic corporate partners (whether direct or indirect).

This information is relevant to partners to allocate and apportion their FDII deduction under section 250(a)(1)(A) for foreign tax credit limitation purposes. The deduction is definitely related and allocable to the class of gross income included in the partner's foreign-derived deduction eligible income (FDDEI) (as defined in section 250(b)(4)) and is apportioned within the class, if necessary, ratably between the statutory grouping (or among the statutory groupings) of gross income and the residual grouping of gross income based on the relative amounts of FDDEI in each grouping. See Regulations section 1.861-8(e)(13). If the partner is a member of a consolidated group, see Regulations section 1.861-14(e)(4). Accordingly, this section requires information that its partners use to determine the source and separate category of its income such that partners may allocate and apportion the FDII deduction under section 250(a)(1)(A) for purposes of the foreign tax credit limitation.

**Lines 1 and 2.** Report the partnership's foreign-derived gross receipts and cost of goods sold, respectively, by source and separate category.

**Lines 3 and 4.** Report the partnership's deductions allocable to foreign-derived gross receipts and other partnership deductions apportioned to foreign-derived gross receipts, respectively. See Part IV, Section 2, lines 11 and 12. Although these deduction

amounts are necessary to figure the partner's FDII deduction, once this amount is determined, the actual FDII deduction itself is allocated and apportioned as described in Regulations section 1.861-8(e)(13).

**Column (d).** As of the date of these instructions, the only separate category that could be included in column (d) is the section 901(j) category of income. See the Instructions for Form 1118 for the potential countries to be listed with the section 901(j) category of income.

### Section 4. Foreign Taxes

**Note.** Don't complete this Section 4 if the partnership doesn't pay or accrue foreign taxes that are creditable under section 901 or 903 (a foreign income tax).

In Part III, Section 4, assign foreign income 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 Schedule K-2, Part I, box 4, and Schedule K-3, Part I, box 4 (for distributive share), for each of the amounts listed in lines 1 through 3, attach to the Schedules K-2 and K-3 a statement 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 U.S. 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.

### Codes for Multiple Types of Tax

|   | Description | (a)<br>Type of tax |
|---|-------------|--------------------|
| A | AA          | WHTD               |
| B | BB          | 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. This might not be able to be completed due to lack of information regarding the treatment of the current year distributions.

#### 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 re-sourced by treaty.** If the partnership pays or accrues foreign income 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 re-sourced 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 the partner elected 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 the partner elected 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 the partner elected to apply the treaty, enter code "RBT 951A."

**Line 1.** Enter in U.S. dollars the total foreign income taxes (described in section 901 or 903) that were paid or accrued by the partnership (according to its method of accounting for such taxes). Don't reduce the amount that you report on line 1 by the reductions reported on line 2. Don't report redetermined taxes on line 1. Report such taxes on line 3. If a partnership applies temporary relief provided by Notice 2023-55, then include on line 1 foreign taxes that are foreign income taxes under temporary relief. See the instructions for Part I, box 12, for additional information.

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

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

If the partnership uses the accrual method of accounting, check the "Accrued" box and enter foreign income taxes accrued on line 1. Report each partner's share on Schedule K-3, Part III, Section 4, line 1.

**Note.** Check only one box, "Paid" or "Accrued," depending on the method of accounting the partnership has to take into account foreign income taxes.

Enter on a separate line (that is, after A, B, and C), taxes paid or accrued to each country. Enter the two-letter code from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes). Don't enter "various" or "OC" for 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 regarding RICs and section 863(b). These exceptions apply as well to reporting of taxes in this section.

**Example 4. Part III, Section 4: multiple country sources: foreign taxes.** The facts are the same as in Example 2, earlier.

FP uses the cash method of accounting and pays income taxes of \$1,000 and \$3,000 to Countries XX and YY, respectively. The U.S. person completes Part III, Section 4, line 1, as follows.

#### Example 4 Table

|   |                                        |                                          | (a)         | (e)     |
|---|----------------------------------------|------------------------------------------|-------------|---------|
|   | Direct (section 901/903) foreign taxes | <input checked="" type="checkbox"/> Paid | Type of tax | Foreign |
| A | XX                                     |                                          | OTHR        | \$1,000 |
| B | YY                                     |                                          | OTHR        | \$3,000 |

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

- Taxes on foreign mineral income (section 901(e)).
- Reserved.
- Taxes attributable to boycott operations (section 908).
- Reduction in taxes for failure to timely file (or furnish all of the information required on) Form 8865 (section 6038(c)).
- Foreign income taxes paid or accrued during the current tax year for splitter arrangements under section 909.
- Foreign income taxes on foreign corporate distributions. For example, report taxes on dividends eligible for a deduction under section 245A and ineligible for credit under section 245A(d). Also, include taxes on a distribution 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 isn't creditable. It may not be possible 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's important to track this amount as a tax on a distribution.
- Other. Attach a statement to the Schedules K-2 and K-3 indicating the reason for the reduction.

Don't report 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 income taxes that relate to an earlier tax year by a partnership that uses the cash method of accounting doesn't result in a foreign tax redetermination. See Regulations section 1.905-3(a). Such amounts should be reported on line 1 as foreign income taxes paid by the partnership in the current year. Report the U.S. tax year to which the foreign income tax relates. This would be 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 to the Schedules K-2 and K-3 a statement including all of the information reported on the schedule with the other dates paid.

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

**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 for RICs

and section 863(b). Don't enter "various" or "OC" for the country code.

In addition, if the direct or indirect partners are corporations, attach a statement that includes the information on Schedule L (Form 1118), Parts I and II, as applicable, for each foreign tax redetermination. If the direct or indirect partners are individuals, estates, or trusts, attach a statement that includes the information on Schedule C (Form 1116), Parts I and II, as applicable, for each foreign tax redetermination. If the indirect partners are unknown, attach a statement that includes both the information on Schedule L (Form 1118), Parts I and II, as applicable; and Schedule C (Form 1116), Parts I and II, as applicable.

**Contested taxes.** In general, a contested foreign income tax liability doesn't accrue until the contest is resolved and the amount of the liability has been finally determined. In addition, a contested foreign income tax liability isn't a reasonable approximation of the final foreign income tax liability and so isn't considered an amount of tax paid for purposes of section 901 until the contest is resolved. So, a partnership generally doesn't 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 a partnership has remitted a contested foreign income tax liability to a foreign country, partners may elect to claim a provisional foreign tax credit for their distributive shares of such contested foreign income tax liability. See Regulations section 1.905-1(f)(2).

For partnerships that are contesting a foreign income tax liability with a foreign country, but have remitted all or a portion of such contested liability, report information about the contested tax on line 3, and check the "Contested tax" box. In addition, attach a statement and include information necessary for partners to complete Form 7204 and Schedule L (Form 1118) (for direct or indirect corporate partners), or Schedule C (Form 1116) (for direct or indirect individual, trust, or estate partners), including a description of the contest and a description of the contested foreign income tax. If it's unknown whether the partners are corporations, individuals, estates, or trusts, provide the information necessary for the partners to complete both Schedule L (Form 1118), Parts I and II (as applicable); and Schedule C (Form 1116), Parts I and II (as applicable).

Partnerships 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 partners to complete both Schedule L (Form 1118), Part V; and Schedule C (Form 1116), Part V.

## Section 5. Other Tax Information

This information is relevant to partners computing a foreign tax credit.

**Column (b).** Don't report any amounts in this column.

**Column (f).** As of the date of these instructions, this column will only include the section 901(j) category and the countries relevant to that category. See the Instructions for Form 1118 for the potential countries to be listed with the section 901(j) category of income. No credit is allowed for taxes paid or accrued to a country described in section 901(j). However, a deduction is generally allowed for a tax described in section 901(j).

**Line 1.** For partnerships other than publicly traded partnerships (PTPs), report the total of all partners' shares of the net positive income adjustments resulting from all section 743(b) basis adjustments. Net positive income adjustments from all section 743(b) basis adjustments means the excess of all section 743(b) adjustments allocated to the partner that increase the partner's

taxable income over all section 743(b) adjustments that decrease the partner's taxable income. Attach to the Schedules K-2 and K-3 a statement showing each section 743(b) basis adjustment making up the total and identify the assets to which it relates, and the separate category and source of the income generated by the assets. Make sure to include the class of gross income or deduction, for example, sales income, interest income, or depreciation deduction. You may group these section 743(b) basis adjustments by asset category or description in cases where multiple assets are affected if the assets generate the same separate category and source of income. The section 743(b) positive income adjustments should be included as relevant in other parts of the Schedule K-2. For example, the section 743(b) income adjustments should be reflected as part of the total depreciation reported in Part II, Section 2.

**Line 2.** For partnerships other than PTPs, report the total of all partners' shares of the net negative income adjustment resulting from all section 743(b) basis adjustments. Net negative income adjustments from all section 743(b) basis adjustments means the excess sum of all section 743(b) adjustments allocated to the partner that decrease the partner's taxable income over all section 743(b) adjustments that increase the partner's taxable income. Attach to the Schedules K-2 and K-3 a statement showing each section 743(b) basis adjustment making up the total and identify the assets to which it relates, and the separate category and source of the income generated by the assets. Make sure to include the class of gross income or deduction, for example, sales income, interest income, or depreciation deduction. You may group these section 743(b) basis adjustments by asset category or description in cases where multiple assets are affected if the assets generate the same separate category and source of income. The section 743(b) negative income adjustments should be included as relevant in other parts of the Schedule K-2. For example, the section 743(b) income adjustments should be reflected as part of the total depreciation reported in Part II, Section 2.

## Schedules K-2 and K-3, Part IV (Information on Partners' Section 250 Deduction With Respect to Foreign-Derived Intangible Income (FDII))

**Note.** This information is relevant to partners that figure a section 250 deduction for FDII on Form 8993. This part is relevant for a direct domestic corporate partner (other than REITs, RICs, and S corporations) or a partner which is a partnership that has a direct or indirect domestic corporate partner (other than REITs, RICs, and S corporations) that determines the domestic corporate partner's FDII. If there is insufficient information, a partner must presume the indirect partner is a domestic corporate partner or a partnership that has a direct or indirect domestic corporate partner and the partner must complete the Schedules K-2 and K-3, Part IV, accordingly. These schedules are required to be completed if the foreign partnership has direct or indirect domestic corporate partners, though the partnership doesn't have foreign-derived gross receipts. Even if a partnership has no foreign activities, and so has no FDDEI as reported in Section 2 of this part, still report the information required by Sections 1 and 3 of this part so that any domestic corporate partner can correctly determine its section 250 deduction. For example, a domestic corporate partner would still need information about the partnership's qualified business asset investment (see the instructions for Section 1, line 8, of this part) in such a case to determine its deemed tangible income return and deemed intangible income. See section 250(b)(2).

Section 250 allows a domestic corporation a deduction for its FDII, and a direct or indirect domestic corporate partner must take into account certain activities of a partnership in computing the domestic corporation's FDII. For the treatment of a domestic

corporation that is a partner in a partnership, see Regulations sections 1.250(b)-1(e), 1.250(b)-2(g), and 1.250(b)-3(e). These instructions generally indicate how to complete Part IV (of both Schedules K-2 and K-3). However, Schedule K-2 includes the total of all partners' amounts and Schedule K-3 includes each partner's share.

Enter each amount and total amounts in U.S. dollars. Determine and report the partner's share of each item of the partnership contained on this form in accordance with the partner's distributive share of the underlying item of income, gain, deduction, and loss of the partnership. Report these amounts based on the best information available about how its partners might use this information to determine their FDII deduction. Certain information may be reported differently to each partner depending on federal income tax determinations that the partner makes. Each partner must then calculate its FDII deduction using Form 8993 including the information reported on Schedule K-3, Part IV. A partner must obtain any further necessary information from the partnership to correctly determine its FDII deduction.

Special rules for determining foreign use apply to transactions that involve property or services provided to related parties (see section 250(b)(5)(C) and Regulations section 1.250(b)-6).

For special substantiation requirements under the regulations, see sections 1.250(b)-3(f), 1.250(b)-4(d)(3), and 1.250(b)-5(e)(4). In all other cases, a taxpayer claiming a deduction under section 250 will still be required to substantiate that it is entitled to the deduction even if it isn't subject to the specific substantiation requirements contained in the regulations. See section 6001 and Regulations section 1.6001-1(a). So, the partner must be able to satisfy the general or special substantiation requirements to be eligible for the deduction.

As described above, determine the partner's share of each item below in accordance with the partner's distributive share of the underlying item of income, gain, deduction, and loss of the partnership.

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

**Line 1. Net income (loss).** This amount may equal Form 8865, Schedule M-1, line 9, Income (loss).

**Line 2a. DEI gross receipts.** Enter all gross receipts from whatever source derived except for amounts included on lines 3 through 7.

**Line 2b. DEI cost of goods sold.** Enter the amount of cost of goods sold attributable to the amount on line 2a.

**Line 2c. DEI properly allocated and apportioned deductions.** Enter the amount of deductions (including taxes) properly allocable to the amount on line 2a. See Regulations section 1.250(b)-1(d)(2) for more details. Deductions properly allocable to gross DEI are determined without regard to sections 163(j), 170(b)(2), 172, 246(b), and 250.

Lines 3 through 7 are exclusions from DEI used to determine the partner's DEI.

**Line 4. CFC dividends.** Enter the amount of any dividend received from a CFC for which the partner is a U.S. shareholder as defined under section 951(b).

**Note.** The amount by which distributions are attributable to PTEP in annual PTEP accounts of a direct or indirect partner isn't taken into account for purposes of determining the CFC dividends to be entered on line 4.

**Line 5. Financial services income.** Enter the amount of net financial services income (as defined in section 904(d)(2)(D)) before interest and R&E deductions.

**Line 6. Domestic oil and gas extraction income.** Enter the amount of net domestic oil and gas extraction income before interest and R&E deductions. The term "domestic oil and gas extraction income" means income described in section 907(c)(1) determined by substituting "within the United States" for "outside the United States."

**Line 7. Foreign branch income.** Enter the amount of net foreign branch income before interest and R&E deductions (as defined in section 904(d)(2)(J)). Report all income that would be foreign branch income of its partners as if all partners were U.S. persons.

**Line 8. Partnership QBAI.** Enter the amount, if any, of the partnership QBAI.

A domestic corporation's QBAI is its share of the average of the aggregate adjusted bases, determined as of the close of each quarter of the tax year, in certain specified tangible property. See Regulations section 1.250(b)-2(b). The adjusted basis is determined by using the alternative depreciation system under section 168(g) and allocating depreciation deductions for such property ratably to each day during the period in the tax year to which such depreciation relates. See Regulations section 1.250(b)-2(e). The specified tangible property is that which is used in the trade or business of the corporation in the production of gross income included in the domestic corporation's gross DEI and is of a type for which a deduction is allowable under section 167. See Regulations section 1.250(b)-2(b). If a domestic corporation holds an interest in one or more partnerships during a tax year (including indirectly through one or more partnerships that are partners in a lower-tier partnership), the QBAI of the domestic corporation for the tax year is increased by the sum of the domestic corporation's partnership QBAI for each partnership for the tax year. See Regulations section 1.250(b)-2(g)(1). Partnership QBAI is the sum of the domestic corporation's proportionate share of the partnership's adjusted basis in the property and the domestic corporation's partner specific QBAI basis in the property for the partnership tax year that ends with or within the tax year. See Regulations section 1.250(b)-2(g)(2). Partnership specified tangible property means, for a domestic corporation, tangible property that is used in the trade or business of the partnership, of a type for which a deduction is allowable under section 167 and used in the production of gross income included in the domestic corporation's gross DEI. See Regulations section 1.250(b)-2(g)(5).

If the portion of partnership specified tangible property cannot be determined (for example, if it isn't known if property gives rise to the production of gross income in one of the excluded categories from DEI that is determined by the partner, which would cause such property to not be classified as partnership specified tangible property), then in reporting the amount of a partner's share of the partnership QBAI, separately state any information so a direct or indirect domestic corporate partner can distinguish between the amount of the adjusted bases in a partnership's tangible property that the domestic corporation would include in its adjusted bases in the partnership specified tangible property and the amount of the adjusted bases in the partnership's tangible property that the domestic corporation would not include in its adjusted bases in the partnership specified tangible property.

If tangible property was used in the production of DEI and in the production of income that is non-DEI, then it is considered dual-use property and treated as specified tangible property in the same proportion that the amount of the gross income included in DEI produced for the property bears to the total

amount of gross income produced for the property. See Example 2 of Regulations section 1.250(b)-2(g)(8) for guidance on how to calculate the partner adjusted basis. If specified tangible property is only partially depreciable, then only the depreciable portion is QBAI. See Regulations section 1.250(b)-2(b).

**Example 5. Specified tangible property.** X and Y are both domestic corporations which are partners in FP, a partnership that holds three types of assets—A, B, and C. All types of assets are tangible property used in the trade or business of FP and for which a deduction is allowable under section 167. The production of income from A assets is DEI for X and Y. Thus, the A assets are partnership specified tangible property for X and Y, and FP includes a proportionate amount of the adjusted bases of all A assets in calculating each partner's partnership QBAI. The production of income from B assets is DEI for X. However, for Y, the production of income from B assets is non-DEI. Thus, the B assets are partnership specified tangible property for X only, and FP includes a proportionate amount of the adjusted bases of all B assets only in calculating X's partnership QBAI. The C assets are dual-use property because the production of only part of the income from the C assets is DEI for X and Y. Thus, the C assets are partnership specified tangible property for both X and Y, but FP includes a proportionate amount of the adjusted bases of all C assets in calculating each partner's partnership QBAI only in the proportion that the amount of the gross income included in DEI produced for the C assets bears to the total amount of gross income produced for the C assets.

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

Foreign-derived gross receipts means, for a partnership, gross receipts of the partnership for the partnership's tax year that are used to figure the amount of gross FDDEI as defined in Regulations section 1.250(b)-1(c)(16) for gross FDDEI.

Each place where general property is listed refers to amounts connected to the sale, lease, exchange, or other disposition of general property to a foreign person and is for a foreign use as defined in Regulations sections 1.250(b)-3 and 1.250(b)-4(d). The term "general property" means any property other than intangible property; a security (as defined in section 475(c)(2)); an interest in a partnership, trust, or estate; or a commodity described in section 475(e)(2)(A) that isn't a physical commodity or a commodity described in sections 475(e)(2)(B) through (D). See Regulations section 1.250(b)-3(b)(10).

Each place where intangible property is listed refers to amounts connected to the sale, license, exchange, or other disposition of intangible property to a foreign person and is for a foreign use as defined in Regulations sections 1.250(b)-3 and 1.250(b)-4(d)(2).

Each place where services are listed refers to amounts connected to services that are provided to any person, or for property, located outside the United States as defined in Regulations section 1.250(b)-5.

If a transaction includes both a sales component and a service component, the transaction is classified as either a sale or a service according to the overall predominant character of the transaction. See Regulations section 1.250(b)-3(d).

For purposes of determining a domestic corporation's deductions that are properly allocable to gross FDDEI, the corporation's deductions are allocated and apportioned to gross FDDEI under the rules of Regulations sections 1.861-8 through

1.861-14T and 1.861-17 by treating section 250(b) as an operative section described in Regulations section 1.861-8(f). See Regulations section 1.250(b)-1(d)(2).

**Line 9. Gross receipts.** Enter the amount, if any, of the partnership's foreign-derived gross receipts separately for aggregate sales of general property, aggregate sales of intangible property, and aggregate services. Foreign-derived gross receipts means gross receipts that are used to figure gross FDDEI as defined in Regulations section 1.250(b)-1(c)(16).

**Line 10. COGS.** Enter the amount of cost of goods sold attributable to the amount(s) on line 9.

For purposes of this form, when figuring FDDEI, cost of goods sold includes the cost of goods sold to customers, and the adjusted basis of non-inventory property sold or otherwise disposed of in a trade or business.

In making that determination, attribute costs of goods sold to gross receipts using a reasonable method in accordance with Regulations section 1.250(b)-1(d)(1).

Cost of goods sold must be attributed to gross receipts for gross DEI or gross FDDEI regardless of whether certain costs included in cost of goods sold can be associated with activities undertaken in an earlier tax year (including a year before the effective date of section 250).

**Line 11. Allocable deductions.** Enter the amount of the allocable deductions. See Regulations section 1.250(b)-1(d)(2) for more details. Enter the amounts of interest and R&E expenses on lines 13 and 16, respectively. Deductions are determined without regard to sections 163(j), 170(b)(2), 172, 246(b), and 250.

**Column (a). General property.** Enter the amount of the deductions that are allocated and apportioned to gross FDDEI from all sales of general property.

**Column (b). Intangible property.** Enter the amount of the deductions that are allocated and apportioned to gross FDDEI from all sales of intangible property.

**Column (c). Services.** Enter the amount of the deductions that are allocated and apportioned to gross FDDEI from all services.

**Line 12. Other apportioned deductions.** Enter all other apportioned deductions that relate to gross FDDEI that aren't otherwise included on lines 11, 13, and 16. If a deduction doesn't bear a definite relationship to a class of gross income constituting less than all of gross income, it shall ordinarily be treated as definitely related and allocable to all of the taxpayer's gross income, including gross DEI and gross FDDEI, except where otherwise directed in the regulations.

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

**Line 13. Interest deduction.** The term "interest" refers to the gross amount of interest expense incurred by a partnership in a given year. Generally, interest expense includes any expense that is currently deductible under section 163 (including original issue discount), and interest equivalents. See Regulations section 1.861-9(b) for the definition of interest equivalents and Temporary Regulations section 1.861-9T(c) for sections that disallow, suspend, or require the capitalization of interest deductions. Include excess business interest expense determined under section 163(j)(4) on this line. Under Regulations section 1.250(b)-1(d)(2)(ii), deductions are determined without regard to section 163(j).

**Lines 13A and 13B. Interest expense specifically allocable under Regulations section 1.861-10(e) and Temporary Regulations section 1.861-10T.** Apart from interest expense

entered on line 13A, enter on line 13B interest expense that is directly allocable under Temporary Regulations section 1.861-10T to income from specific partnership property. Such interest expense is treated as directly allocable to income generated by such partnership property. See Temporary Regulations section 1.861-9T(e)(1).

**Line 13C.** Enter all interest deductions not otherwise included on lines 13A and 13B.

**Line 14. Interest expense apportionment factors.** Report information that a partner will use to allocate and apportion its interest expense for FDII purposes.

Interest deductions are apportioned to gross DEI and FDDEI based ordinarily on the tax book value of the taxpayer's assets. See Temporary Regulations section 1.861-9T(g)(1)(i). A taxpayer can use either the tax book value or the alternative tax book value of its assets. See Regulations section 1.861-9(i). Under both methods, the partner whose interest in the partnership is 10% or more uses the partnership's inside basis in its assets, including adjustments required under sections 734(b) and 743(b). See Regulations sections 1.861-9(e)(2) and -9(e)(3). When reporting the basis in an asset which is stock in nonaffiliated 10%-owned corporations, adjust such amount for E&P. See Regulations section 1.861-12(c)(2)(i)(A).

The total interest expense deductions for the members of the corporation's affiliated group are allocated and apportioned to the statutory and residual groupings under proposed, final, and Temporary Regulations sections 1.861-8 through -14.

**Note.** The Total column isn't a sum of DEI and FDDEI but rather refers to the partnership's specific line totals (that is, that would also include non-DEI).

**Line 14A.** Enter the amount of the average of the beginning-of-year and end-of-year inside bases in the partnership's total assets. See Regulations section 1.861-9(g)(2)(i)(A).

**Line 14B.** Enter the amount of the average of the beginning-of-year and end-of-year inside bases adjustments under sections 734(b) and 743(b).

**Lines 14C and 14D.** Enter the amount of the reductions in the partnership's asset values to reflect the partnership'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).

**Line 14E.** Enter the amount of the average value of assets excluded from the apportionment formula. See section 864(e)(3).

**Lines 15 and 16. R&E expenses apportionment factors.** These lines require information that a partner will use to allocate and apportion its R&E expense for FDII purposes. Lines 15 and 16 aren't required to be completed unless either (a) the partnership incurs R&E expense; or (b) the partner is expected to license, sell, or transfer its intangible property to the partnership (as provided in Regulations section 1.861-17(f)(3)).

R&E expenses deducted, or amortized and deducted, under section 174 are definitely related to all gross intangible income reasonably connected with relevant broad product categories of the taxpayer and are allocable to all items of gross intangible income as a class related to such product categories. The product categories are generally determined by reference to the three-digit SIC code. R&E expenses are apportioned between the statutory and residual groupings based on an analysis of the taxpayer's gross receipts from certain sales, leases, licenses, and services. See Regulations section 1.861-17. The exclusive apportionment rule in Regulations section 1.861-17(c) doesn't

apply for purposes of apportioning R&E expenses to gross DEI and gross FDDEI.

R&E expenses are allocated and apportioned by the partner. This requires the reporting to the partners of the gross receipts related to certain income within the statutory and residual groupings within a SIC code and the partner's distributive share of the partnership's R&E deductions, if any, connected with the SIC codes.

**Line 15. Gross receipts by SIC code.** Enter the gross receipts that resulted in gross income for each category shown on the form, DEI, FDDEI, and then total gross receipts. Note that the Total column isn't a sum of DEI and FDDEI but refers to all the partnership's gross receipts. Such gross receipts include both the partnership's sales and certain other parties' sales. See Regulations section 1.861-17(d). Gross receipts from certain transactions of parties both controlled or uncontrolled by the partnership may be included on line 15. See, generally, Regulations section 1.861-17(d).

**Line 16.** Enter the amount of R&E expense by SIC code.

## Schedules K-2 and K-3, Part V (Distributions From Foreign Corporations to Partnership)

**Note.** The following information, in combination with other information known to the partners, including Schedule P (Form 5471), is relevant for certain partners 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 for the PTEP on Forms 1040 and 1120. If eligible, partners use this information for purposes of a dividends received deduction under section 245A on Form 1120.

Use Part V of the Schedule K-2 to report the distributions made by foreign corporations to the partnership.

Use Part V of the Schedule K-3 to report the partner's share of the amounts reported in Part V of the Schedule K-2.

**Exception.** Part V of the Schedule K-2 isn't required to be completed for distributions by a foreign corporation if the U.S. person filing Form 8865 knows that (a) none of the distributions by the foreign corporation are attributable to PTEP in annual PTEP accounts of any direct or indirect partner, and (b) none of the partnership's direct or indirect partners are eligible to claim a deduction under section 245A for any distribution by the foreign corporation. Nevertheless, the filer may be required to append Attachment 3 to the Schedule K-2 (discussed below).

**Exception.** Part V of the Schedule K-3 for a partner doesn't need to be completed for distributions by a foreign corporation if the filer of Form 8865 knows that (a) none of the distributions by the foreign corporation are attributable to PTEP in annual PTEP accounts of the partner or any U.S. person that is treated as indirectly owning stock of the foreign corporation through the partner ("relevant indirect partners"), and (b) the partner and relevant indirect partners aren't eligible to claim a deduction under section 245A for any distributions by the foreign corporation. Nevertheless, the filer may be required to append Attachment 4 to the Schedule K-3 for the partner (discussed below). If this exception is applicable for a foreign corporation, the sum of the amounts reported in Part V of the Schedules K-3 for the foreign corporation may not equal the amounts reported in Part V of the Schedule K-2 for the foreign corporation.

**Rows A–O.** Use rows A–O to report information for each distribution by a foreign corporation for its stock that the partnership (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 to the partnership'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 a partnership (upper-tier partnership) directly owns 50% of the foreign corporation's stock and owns 50% of the foreign corporation's stock through another partnership (lower-tier partnership), then distributions by the foreign corporation to each of the upper-tier partnership and the lower-tier partnership are to be reported on separate rows on the upper-tier partnership's Part V (Form 8865). If the partnership owns stock of a foreign corporation through another partnership (lower-tier partnership) from which it receives a Part V of Schedule K-3 (Form 1065 or

8865), the partnership must replicate each line of the Part V of Schedule K-3 (Form 1065 or 8865) on its Part V (Form 8865). Rows for distributions for a partnership's direct ownership of foreign corporation stock should be listed before rows for distributions for a partnership's ownership of foreign corporation stock through a pass-through entity.

If the partnership received a Schedule K-3 from another partnership with an attachment related to net investment income PTEP (NII PTEP), append Attachment 3 to Schedule K-2 and Attachment 4 to each Schedule 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 qualified electing funds (QEFs), see Regulations section 1.1411-10.

### 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) Partner's share of NII PTEP in functional currency | (f) Spot rate (functional currency to U.S. dollars) | (g) Partner's share of NII PTEP in U.S. dollars |
|----------------------------------------------|--------------------------------|--------------------------|-------------------------------------------------------------|--------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------|
|                                              |                                |                          |                                                             |                                                        |                                                     |                                                 |
|                                              |                                |                          |                                                             |                                                        |                                                     |                                                 |

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

**Column (b).** Enter the EIN or reference ID number of the distributing foreign corporation. Don't 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 on 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://iso.org/iso-4217-currency-codes.html).

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

**Column (e).** This represents the partnership's share of the amount distributed in functional currency. See Schedule R (Form 5471), column (c).

**Column (f).** This represents the partnership'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) for a distributing foreign corporation should equal the partnership's share of the total of the amounts reported on line 9, column (f), of Schedules J (Form 5471) on a separate category of income basis filed for the distributing foreign corporation, as reported on line 9, column (f), of the Schedule J (Form 5471) with code "TOTAL" entered on line a that is filed for the distributing foreign corporation. If a Schedule J (Form 5471) with code "TOTAL" entered on line a isn't filed for the distributing foreign corporation, then the total of the amounts

reported in column (f) for a distributing foreign corporation should equal the partnership's share of the amount reported on line 9, column (f), of the Schedule J (Form 5471) filed for 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).

### Schedules K-2 and K-3, Part VI (Information on Partners' Section 951(a)(1) and Section 951A Inclusions)

**Note.** This information is relevant to partners completing Form 8992 and Forms 1040 and 1120 for income inclusions under section 951(a) (subpart F inclusions), section 951(a)(1)(B) inclusions, and section 951A inclusions.

Schedules K-2 and K-3, Part VI, must be completed for a CFC if the partnership owns (within the meaning of section 958) stock of the CFC, unless the partnership 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.

**Exception.** Part VI of Schedule K-2 doesn't need to be completed for a CFC if the partnership doesn't have a direct or indirect partner (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 for the CFC, or calculate section 951A inclusions by taking into account GILTI items (defined below) of the CFC.

**Exception.** Part VI of Schedule K-3 for a partner doesn't need to be completed for a CFC if the filer of Form 8865 knows that (a) the partner isn't 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 for the CFC, or figure section 951A inclusions by taking into account GILTI items (defined below) of the CFC; and (b) no U.S. person that indirectly owns (through pass-through entities only) an interest in the CFC through the partner 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 for the CFC, or figure section 951A inclusions by taking into account GILTI items (defined below) of the CFC. If the filer doesn't complete Part VI of Schedule K-3 for a partner for a CFC, the sum of each partner's share of the CFC's subpart F income, section 951(a)(1)(B) inclusion for the CFC, and share of the CFC's GILTI items (defined below) 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 for the CFC, and the aggregate share of the CFC's GILTI items (defined below), respectively, reported on the Schedule K-2.

Use Schedule K-2, Part VI, to report the information on the partnership's share of the amounts its partners will need to figure their subpart F income inclusions, section 951(a)(1)(B) inclusions, and GILTI inclusions, for CFCs owned (within the meaning of section 958) by the partnership. Use Schedule K-3, Part VI, to report the partner's share of the amounts needed to determine its subpart F income inclusions, section 951(a)(1)(B) inclusions, and GILTI inclusion, for CFCs owned (within the meaning of section 958) by the partnership.

The U.S. person completing Form 8865 must complete Part VI of Schedules K-2 and K-3 by assuming that each partner in the partnership 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, its section 951(a)(1)(B) inclusion, and its GILTI.

A partner's GILTI is calculated based upon its share of the following amounts for each CFC for 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 partner's share of a CFC's subpart F income, amounts used to determine its section 956 amount for a CFC, and a CFC's GILTI items may not be limited to the partner's share of such income, amounts, or items through its ownership in the partnership. However, for purposes of completing Part VI of

Schedules K-2 and K-3, use only the partner's share of a CFC's subpart F income, amounts used to determine its section 956 amount for a CFC, and a CFC's GILTI items through the partner's ownership in the partnership.

A partner's share through its ownership in the partnership of subpart F income and GILTI items is generally anticipated to be calculated by multiplying the percentage in column (d) by the amount of subpart F income or GILTI item, respectively. For example, in general, a partner's share through its ownership interest in the partnership of tested income in column (i) is anticipated to be calculated by multiplying the percentage in column (d) by the amount of tested income in column (g). If the partner's share through its ownership in the partnership of subpart F income or GILTI items isn't calculated by multiplying the percentage in column (d) by the amount of subpart F income or GILTI items, respectively (for example, because of special allocations), then, instead of entering a percentage in column (d) for that CFC, attach a statement to the Schedules K-2 and K-3 explaining the partner's share through its ownership in the partnership of the CFC's subpart F and GILTI items.

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

**Note.** The other reporting requirements for reporting income by separate category don't change by reason of reporting GILTI items that include general category income on a Part VI 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 VI for U.S.-source CFC items, and check the box on line b on such separate Part VI.

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

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

**Column (b).** Enter the EIN or reference ID number of the CFC. Don't 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 partners' shares of CFC items through the partners' ownership in the partnership (aggregate share). See Regulations sections 1.951-1(b), 1.951-1(e), and 1.951A-1(d)(1) for rules on determining the partners' shares.

**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) isn't considered subpart F income. For guidance on computing a CFC's subpart F income and the partners' 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 for the partners that relates to those partners' ownership in the partnership, as described in these instructions for column (f) (aggregate section 951(a)(1)(B) inclusion). In determining the section 956 amount, use only the partners' share through their ownership in the partnership 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.

Don't reduce the amount reported in column (f) for any reduction to the partners' section 956 amount under Regulations section 1.956-1(a)(2). For guidance on computing the partners' share of a CFC's earnings invested in U.S. property, see Worksheet B in the Instructions for Form 5471.

**Column (g).** Enter the CFC's tested income, if any, from line 6 of Schedule I-1 (Form 5471) 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.

**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.

**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 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.

## **Schedules K-2 and K-3, Part VII (Information Regarding Passive Foreign Investment Companies (PFICs))**

**Note.** This information is relevant to partners completing Form 8621 and/or that determine income inclusions for the PFICs reported on Schedule K-2, Part VII; and Schedule K-3, Part VII.

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

- The U.S. person filing the Form 8865 isn't required to complete Schedules K-2 and K-3, Part VII, for a foreign corporation if the U.S. person knows that all of the foreign partnership's direct and indirect partners that are U.S. persons (including itself) are either (a) not subject to the PFIC rules for the foreign corporation under section 1297(d) because they are subject to the subpart F rules for the foreign corporation, (b) tax-exempt entities that aren't subject to the PFIC rules for the corporation under Regulations section 1.1291-1(e), or (c) pass-through entities with no direct or indirect U.S. taxable partners.
- The U.S. person filing the Form 8865 isn't required to complete Schedules K-2 and K-3, Part VII, for a foreign corporation (i) if the U.S. person knows that the foreign corporation is treated as a qualifying insurance corporation (QIC) (as defined in section 1297(f)(1)) that isn't treated as a PFIC by reason of section 1298(b)(1), or (ii) the U.S. person filing the Form 8865 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 isn't treated as a PFIC by reason of section 1298(b)(1)).
- The U.S. person filing the Form 8865 isn't required to complete Schedules K-2 and K-3, Part VII, for a PFIC the stock of which has been marked to market as described in Regulations section 1.1291-1(c)(4). Instead, the U.S. person filing the Form 8865 should report the partnership's mark-to-market (MTM) gain or loss on Form 8865, Schedule K (if required), and report the partners' shares of those amounts in Part III of Schedule K-1 (Form 8865) (if required). Note, however, there may be instances in which the U.S. person filing the Form 8865 will need additional information for the PFIC the stock of which has been marked to market as described in Regulations section 1.1291-1(c)(4) to meet its tax obligations, such as when the section 1291 rules apply to the U.S. person filing the Form 8865 because the stock wasn't marked to market in the first year of its holding period. In such instances, the U.S. person filing the Form 8865 may use Part VII to report the needed information.

Use Schedule K-2, Part VII, to report certain information for any PFIC owned, directly or indirectly, by the partnership for which reporting is required, including PFICs for which no QEF or section 1296 MTM election has been made and unpedigreed QEFs (section 1291 funds), and PFICs for which pedigreed QEF, section 1296 MTM, or other elections have been, or may be, made.

The U.S. person filing the Form 8865 must also use Schedule K-2, Part VII, to report information for any PFIC for which the U.S. person is making an MTM election under section 1296 in the current tax year if the current tax year isn't the first year of the U.S. person's holding period in the stock ("non-initial section 1296 MTM election"). See section 1296(j)(1)(A) and Regulations section 1.1296-1(i) for more information.

Use Schedule K-3, Part VII, to report the partner's share, through its ownership in the partnership, of the amounts reported on Schedule K-2, Part VII.

Complete only one line on both Sections 1 and 2 for each PFIC for which reporting on Schedules K-2 and K-3, Part VII, 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 for 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 partnership may have additional required information for a PFIC for certain columns (for example, scenarios where the partnership may have multiple different events for the PFIC in the same tax year, such as multiple dates of acquisitions of, or distributions for, the PFIC stock). In that case, complete Schedules K-2, and K-3, Part VII, with the first of those entries for a PFIC and attach a statement including the remaining entries for each of those PFICs to Schedule K-2, Part VII, and its corresponding Schedules K-3, Part VII, with Attachments 5 and/or 6 completed.

If the partnership has additional PFICs for which to report information that don't fit on single Schedules K-2 and K-3, Part VII, attach additional Parts VII 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 partnership during its tax year. Don't 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 partnership 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 partnership acquired any PFIC shares during its tax year, provide the date(s) of acquisition of those shares using the format YYYYMMDD. If the partnership acquired no shares in a particular PFIC during its tax year, leave this column blank for that PFIC.

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

## Attachment 5. Additional Information for Part VII, Section 1

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

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

**Column (i).** Enter the total value of all shares in the PFIC held by the partnership at the end of the tax year. If the PFIC shares aren't publicly traded, it is possible to rely upon periodic account statements provided at least annually to determine the value of a PFIC unless there is actual knowledge or reason to know based on readily accessible information that the statements don't reflect a reasonable estimate of the PFIC's value, and the information provides a more reasonable estimate of the PFIC's value.

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

**Column (j).** 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 (k).** 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 (l).** Check the box if the PFIC also constitutes a CFC within the meaning of section 957 (PFIC/CFC).

**Reminder.** If the U.S. person filing the Form 8865 knows that all of the partnership's direct and indirect partners that are U.S. persons (including itself) aren't subject to the PFIC rules for a PFIC/CFC under section 1297(d) because they are subject to the subpart F rules for the corporation, it's not required to complete Schedules K-2 and K-3, Part VII, for the PFIC/CFC.

**Note.** If the PFIC is a PFIC/CFC, a partner may need certain additional information for the PFIC/CFC's E&P not required to be reported on this Schedule K-2, Part VII (or the partner's Schedule K-3, Part VII), from the partnership to aid the partner in making certain elections under Regulations section 1.1291-9, 1.1297-3, or 1.1298-3.

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

| IF...                                                                                                                                                                                                                                                                     | THEN...              |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| <ul style="list-style-type: none"> <li>• this is the first year of the partnership's holding period in stock of the foreign corporation, and</li> <li>• 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 partnership's holding period, and</li> <li>• the foreign corporation isn't 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 partnership's holding period, and</li> <li>• the foreign corporation is a "former PFIC" within the meaning of Regulations section 1.1291-9(j)(2)(iv)</li> </ul>    | don't 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 partner may need additional information not required to be reported on this Schedule K-2, Part VII (or the partner's Schedule K-3, Part VII), from the partnership for the PFIC to aid the partner 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 partnership during its tax year. Don't enter "FOREIGNUS" or "APPLIED FOR."

### QEF Information

**Columns (c) and (d).** Enter the partnership'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 partnership'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 a statement that provides information to assist in determining these amounts. See Regulations section 1.1295-1(g) for additional information on annual PFIC statements.

Provide the information received in an annual information statement for the PFIC, unless the U.S. person filing the Form 8865 hasn't made, or doesn't intend to make, a QEF election for the PFIC.

**Note.** Certain partners may need additional information not required to be reported on this Schedule K-2, Part VII (or the partner's Schedule K-3, Part VII), from the QEF for its computation of its net capital gain (as defined in Regulations

section 1.1293-1(a)(2)) to make certain computations under section 1061 or the regulations thereunder. The U.S. person preparing the Form 8865 may request, or the foreign partnership for which the Form 8865 is filed may aid the U.S. person filing the Form 8865 in obtaining, such information from the QEF, though the QEF isn't required to provide such information. See section 1061 and Regulations sections 1.1061-4 and 1.1061-6 for more information.

### Section 1296 MTM Information

**Columns (e) and (f).** Enter the fair market value (FMV) of the PFIC stock at the beginning and end of the partnership'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 8865 is being filed, the FMV in column (e) should reflect the FMV of those shares as of the date of acquisition. This information must be provided unless the U.S. person filing the Form 8865 hasn't made, or doesn't intend to make, a section 1296 MTM election for the PFIC, including a non-initial section 1296 MTM election.

**Reminder.** The U.S. person filing the Form 8865 isn't required to complete Schedules K-2 and K-3, Part VII, for a PFIC the stock of which has been marked to market as described in Regulations section 1.1291-1(c)(4), though it may use Part VII to provide the partners with additional information to meet their tax obligations for the PFIC in certain instances, such as when the section 1291 rules apply because the stock wasn't marked to market the first year of the shareholder's holding period.

### 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 computing income inclusions for section 1291 funds. However, this information may be relevant to PFICs for which a QEF election (pedigreed or unpedigreed), a section 1296 MTM election (including a non-initial section 1296 MTM election), or another election has been made by a partner or other indirect PFIC shareholder. Accordingly, complete columns (g) through (o) for each PFIC for which reporting on Schedule K-2, Part VII, and Schedule K-3, Part VII, is required. However, note the instructions for column (k) regarding reporting distributions from PFICs for which the U.S. person filing the Form 8865 has made a pedigreed QEF election or section 1296 MTM election (other than a non-initial section 1296 MTM election).

**Reminder.** If the partnership has additional required information for a PFIC for any of columns (g) through (j) or (l) through (m) (for example, multiple distributions for the PFIC stock), the U.S. person filing the Form 8865 must complete those columns with the first of those entries and attach a statement including the remaining entries to Schedule K-2, Part VII, and its corresponding Schedules K-3, Part VII, with the information contained in Attachment 6.

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

## Attachment 6. Additional Information for Part VII, Section 2

| Additional Information for Part VII, 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 |
|                                                |                                |                                     |                                                                                                        |                           |                                                                         |                                                                   |                                                   |                                                     |                                                  |
|                                                |                                |                                     |                                                                                                        |                           |                                                                         |                                                                   |                                                   |                                                     |                                                  |
|                                                |                                |                                     |                                                                                                        |                           |                                                                         |                                                                   |                                                   |                                                     |                                                  |
|                                                |                                |                                     |                                                                                                        |                           |                                                                         |                                                                   |                                                   |                                                     |                                                  |
|                                                |                                |                                     |                                                                                                        |                           |                                                                         |                                                                   |                                                   |                                                     |                                                  |
|                                                |                                |                                     |                                                                                                        |                           |                                                                         |                                                                   |                                                   |                                                     |                                                  |

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

**Note.** Deemed distributions by QEFs don't need to be reported on this Schedule K-2, Part VII (or the partner's Schedule K-3, Part VII). However, partners which have made, or intend to make, an election under section 1294, and which are deemed to have received a distribution from the QEF, may require 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 which 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 partnership received from the PFIC in the 3 preceding tax years, or, if shorter, the total amount of distributions the partnership received during its holding period of the PFIC stock. However, don't enter any amount in this column for a PFIC for which the U.S. person filing the Form 8865 has made a pedigreed QEF election or section 1296 MTM election (other than a non-initial section 1296 MTM election).

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

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

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

**Schedule K-3.** Enter the partner's share, through its ownership in the partnership, of the partnership's tax basis in the PFIC shares. The partner's share of the basis in the PFIC shares should include any applicable adjustments specific to the partner, such as section 743(b) adjustments or adjustments made under the PFIC regime. See sections 1293(d) and

1296(b), and Regulations sections 1.1297-3 and 1.1298-3 for adjustments made under the PFIC regime.

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

### Schedules K-2 and K-3, Part VIII (Partners' Information for Base Erosion and Anti-Abuse Tax (Section 59A))

**Note.** This information is relevant for partners completing Form 8991.

Part VIII of Schedules K-2 and K-3 must be completed for corporate partners who are determining if they are subject to the BEAT, and to figure their BEAT, if any. This information includes the partner's share of the partnership's gross receipts, the partner's amount of base erosion payments made through the partnership, and the partner's base erosion tax benefits. The BEAT is generally levied on certain large corporations that have deductions and certain other items paid or accrued to foreign related parties (a base erosion payment) **that are 3% of their total deductions or higher** (2% in the case of certain banks or registered securities dealers), a determination referred to as the "base erosion percentage test." Partnerships aren't subject to the BEAT; however, corporate partners of a partnership that are applicable taxpayers under Regulations section 1.59A-2 may be subject to the BEAT. Except for purposes of determining a partner's base erosion tax benefits under Regulations section 1.59A-7(d)(1), and whether a taxpayer is a registered securities dealer, BEAT determinations are made by the partner. See Regulations section 1.59A-7 for further information regarding the application of section 59A to partnerships, and the Instructions for Form 8991 for additional information on whether a corporate partner is an applicable taxpayer subject to the BEAT.

To complete Schedules K-2 and K-3, Part VIII, the foreign related parties of each partner must be identified, subject to the exception for small partners. It's expected that the partners will collaborate to identify the foreign related parties of each partner. A foreign related party of the partner is a foreign person that is:

- Any 25% owner of the applicable taxpayer (as defined in Regulations section 1.59A-1(b)(17)(ii)(A)),
- Any person who is related (within the meaning of section 267(b) or 707(b)(1)) to the applicable taxpayer or any 25% owner of the applicable taxpayer, or
- Any other person who is related to the applicable taxpayer within the meaning of Regulations section 1.59A-1(b)(17)(i)(C).

**Exception for small partners.** Part VIII of Schedule K-3 isn't required to be prepared for small partners meeting the following three requirements.

1. The partner's interest in the partnership represents less than 10% of the capital and profits of the partnership at all times during the tax year.
2. The partner is allocated less than 10% of each partnership item of income, gain, loss, deduction, and credit for the tax year.
3. The partner's interest in the partnership has a FMV of less than \$25 million on the last day of the partner's tax year, determined using a reasonable method.

See Regulations section 1.59A-7(d)(2) for further information regarding the application of the exception for small partners.

**Exception for certain other partners.** Don't complete Schedule K-3, Part VIII, for a partner that is an individual.

Don't complete Schedule K-3, Part VIII, for a partner that is an S corporation.

Complete Section 1, lines 1–4, of Schedule K-3, Part VIII, for partners that are RICs and REITs but don't complete Section 2 for these partners.

## Section 1. Applicable Taxpayer

**Lines 1a through 4a.** Enter the partnership's total gross receipts for the current year and each of the 3 preceding tax years. The determination of the partnership's gross receipts is made in accordance with Temporary Regulations section 1.448-1T(f)(2)(iv).

**Lines 1b through 4b.** Complete lines 1b through 4b if the partnership has a foreign partner or there is reason to know it has a foreign partner through a partner that is a pass-through entity. Enter the partnership's total gross receipts on income effectively connected with a U.S. trade or business (ECI) for the current year and each of the 3 preceding tax years which the foreign partner(s) would take into account as income that is ECI. If the foreign partner(s) is subject to tax on a net basis pursuant to an applicable income tax treaty of the United States, enter the gross receipts that would be attributable to transactions taken into account in determining its net taxable income.

**Lines 1c through 4c.** Complete lines 1c through 4c if the partnership has a foreign partner or has reason to know it has a foreign partner through a partner that is a pass-through entity. Enter the total non-ECI gross receipts as the difference between column (a) and column (b).

**Schedule K-3.** For purposes of section 59A, each partner in a partnership includes on its Schedule K-3, Part VIII, the share of partnership gross receipts in proportion to the partner's distributive share (as determined under sections 704(b) and (c)) of items of gross income that were taken into account by the partnership under section 703 or 704(c) (such as remedial or curative items under Regulations section 1.704-3(c) or (d)).

**Line 5. Amounts included in the denominator of the base erosion percentage as described in Regulations section 1.59A-2(e)(3).** Enter the amount of deductions and other items allocated to the partners from the partnership that will be included in the denominator of the partners' base erosion percentage. For a description of deductions that aren't included in the denominator, see Regulations section 1.59-2(e)(3)(ii).

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

**Column (b). Base erosion payments.** For purposes of determining whether a payment or accrual by a partnership is a

base erosion payment, any amount paid or accrued by the partnership is treated as paid or accrued by each partner based on the partner's distributive share of the item of deduction for that amount. A partner that is an applicable taxpayer has a base erosion payment for any amount paid or accrued by the partnership to a foreign person (as defined in Regulations section 1.59A-1(b)(10)) that is a related party to the partner (as defined in Regulations section 1.59A-1(b)(12)) for which a deduction is allowable under chapter 1 and for certain other items on lines 13 and 15. See Regulations section 1.59A-3 and the Instructions for Form 8991 for more information on the definition of a base erosion payment.

**Column (c). Base erosion tax benefits.** A partner's distributive share of any deduction or reduction in gross receipts attributable to a base erosion payment is the partner's base erosion tax benefit. A partner's base erosion tax benefits are determined separately for each asset, payment, or accrual, as applicable, and aren't netted with other items. A partner's base erosion tax benefit may be more than the partner's base erosion payment (for example, in the case of special allocations made by the partnership). See the Instructions for Form 8991 and Regulations section 1.59A-7(d) for further information concerning a partner's base erosion tax benefits.

**General.** For line 8, columns (b) and (c); line 9, columns (b) and (c); line 10a, columns (b) and (c); line 11, columns (b) and (c); line 12, columns (b) and (c); line 13, columns (b) and (c); line 14a, columns (b) and (c); line 15, columns (b) and (c); and line 16, columns (b) and (c), don't include amounts that a partner doesn't take into account pursuant to the exception for certain small partners. See Regulations section 1.59A-7(d)(2) and [Exception for small partners](#), earlier. For Schedule K-2, Part VIII, report the total allocated to all partners, and for Schedule K-3, Part VIII, report the amount allocated to each individual partner.

### Line 7. Cost sharing transaction payments.

**Column (a).** Enter the amount paid or accrued as cost sharing transaction payments under Regulations section 1.482-7(b)(1)(i) by the partnership for the tax year.

**Column (b).** Enter the amount paid or accrued as cost sharing transaction payments under Regulations section 1.482-7(b)(1)(i) to all foreign persons that are related parties of any of the partners.

**Column (c).** Enter the amount of the partners' base erosion tax benefits attributable to amounts paid or accrued as cost sharing transaction payments under Regulations section 1.482-7(b)(1)(i) to all foreign persons that are related parties of any of the partners.

### Line 8. Purchase or creation of property rights for intangibles (patents, trademarks, etc.).

**Column (a).** Enter the amount paid or accrued by the partnership in connection with the acquisition or creation of intangible property rights (patents, copyrights, trademarks, trade secrets, etc.) that is subject to the allowance for depreciation (or amortization in lieu of depreciation) for the tax year.

**Column (b).** Enter the amount paid or accrued to all foreign persons that are related parties of any of the partners in connection with the acquisition or creation of intangible property rights (patents, copyrights, trademarks, trade secrets, etc.) that is subject to the allowance for depreciation (or amortization in lieu of depreciation).

**Column (c).** Enter the amount of the partners' base erosion tax benefits attributable to deductions allowed under chapter 1 for the tax year for depreciation (or amortization in lieu of depreciation) for intangible property rights acquired in the current year or prior years from all foreign persons that are related parties of any of the partners.

### Line 9. Rents, royalties, and license fees.

**Column (a).** Enter the amount paid or accrued by the partnership for the tax year for the use or right to use tangible or intangible property resulting in rents, royalties, and/or license fees.

**Column (b).** Enter the amount paid or accrued to all foreign persons that are related parties of any of the partners for the use or right to use tangible or intangible property resulting in rents, royalties, and/or license fees.

**Column (c).** Enter the amount of the partners' base erosion tax benefits attributable to amounts paid or accrued to all foreign persons that are related parties of any of the partners for the use or right to use tangible or intangible property that results in rents, royalties, and/or license fees.

**Line 10a. Compensation/consideration paid for services NOT excepted by section 59A(d)(5).**

**Column (a).** Enter the amount paid or accrued by the partnership for the tax year as compensation or consideration for services, excluding any amount that qualifies for the services cost method exception in section 59A(d)(5).

**Column (b).** Enter the amount paid or accrued to all foreign persons that are related parties of any of the partners as compensation or consideration for services, excluding any amount that qualifies for the services cost method exception in section 59A(d)(5).

**Column (c).** Enter the amount of the partners' base erosion tax benefits attributable to amounts paid or accrued to all foreign persons that are related parties of any of the partners representing compensation or consideration paid for services, excluding amounts qualifying for the services cost method exception in section 59A(d)(5).

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

**Column (a).** Enter the amounts paid or accrued by the partnership to any foreign person that is a related party of any of the partners for services qualifying for the services cost method exception in section 59A(d)(5).

**Line 11. Interest expense.**

**Column (a).** Enter the amount of interest paid or accrued by the partnership for the tax year (excluding interest paid or accrued in a prior year treated as paid or accrued in the current year under section 163(j) or similar provisions).

**Column (b).** Enter the amount of interest expense paid or accrued to all foreign persons that are related parties of any of the partners (excluding interest paid or accrued in a prior year treated as paid or accrued in the current year under section 163(j) or similar provisions).

**Column (c).** Enter the amount of the partners' base erosion tax benefits attributable to interest expense paid or accrued by the partnership that is allowed as a deduction in the current tax year. If the partner is a foreign person, include the individual lines from column (c) of Worksheet A on the applicable Schedule K-3.

**Schedule K-3.** When completing line 11 on the Schedule K-3, if the partner is a foreign person, enter the total from column (a) of Worksheet A on the partner's Schedule K-3 in column (a) of line 11, enter the total from column (b) of Worksheet A on the Schedule K-3 in column (b) of line 11, and enter the total from column (c) of Worksheet A on the Schedule K-3 in column (c) of line 11.

Complete Worksheet A for all partnership-related items and complete a Worksheet A for each foreign partner's share of the amounts reported on the partnership Worksheet A and attach a statement containing the partner's share of the information on Worksheet A to the Schedule K-3.

**Line 12. Payments for the purchase of tangible personal property.**

**Column (a).** Enter the amount paid or accrued by the partnership for the tax year for the purchase of tangible personal property.

**Column (b).** Enter the amount paid or accrued to all foreign persons that are related parties of any of the partners for the purchase of tangible personal property.

**Column (c).** Enter the amount of base erosion tax benefits attributable to amounts paid or accrued to any foreign persons that are related parties of any of the partners for the purchase of tangible property.

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

**Column (a).** Enter the amount paid or accrued by the partnership for the tax year for reinsurance.

**Column (b).** Enter the amount of any premiums or other consideration paid or accrued to all foreign persons that are related parties of any of the partners for reinsurance taken into account under section 803(a)(1)(B) (relating to return premiums and premiums or other consideration arising out of indemnity reinsurance that reduces life insurance gross income) or section 832(b)(4)(A) (relating to amounts deducted from gross premiums written on insurance contracts for return premiums and premiums paid for reinsurance).

**Column (c).** Enter the amount of the partners' base erosion tax benefits attributable to premiums or other consideration as described in section 59A(c)(2)(A)(iii) paid or accrued to any foreign person that is a related party of any of the partners for reinsurance.

**Line 14a. Nonqualified derivative payments.**

**Column (a).** Enter the amount paid or accrued by the partnership for the tax year attributable to derivative contracts as defined in section 59A(h)(4).

**Column (b).** Enter the amount paid or accrued to all foreign persons that are related parties of any of the partners for derivative contracts that aren't eligible for the qualified derivative payment exception under section 59A(h) and Regulations section 1.59A-6. Don't include any amount paid that is a qualified derivative payment on line 14a, column (b).

**Column (c).** Enter the amount of base erosion tax benefits attributable to nonqualified derivative payments paid or accrued to any foreign person that is a related party of any of the partners.

**Line 14b. Qualified derivative payments excepted by section 59A(h).**

Enter the total amount of qualified derivative payments paid or accrued by the partnership. Generally, a qualified derivative payment is any payment made by the taxpayer pursuant to a derivative contract, provided that the taxpayer recognizes gain or loss on the derivative contract as if it were sold for its FMV on the last business day of the tax year; treats the gain or loss as ordinary; and treats the character of all other items of income, deduction, gain, or loss for a payment pursuant to the derivative as ordinary. A payment isn't a qualified derivative payment if the payment would be treated as a base erosion payment if it weren't made pursuant to a derivative (such as interest, royalty, or services income). For a contract with both derivative and nonderivative components, a payment isn't a qualified derivative payment if it's properly allocable to the nonderivative component.

**Line 15. Payments reducing gross receipts made to surrogate foreign corporation.**

**Column (a).** Enter the amount paid or accrued by the partnership for the tax year to certain expatriated entities described in section 59A(d)(4)(C)(i).

**Column (b).** Enter the amount paid or accrued to certain expatriated entities that results in a reduction of the gross receipts of the partnership. This amount includes payments to a

surrogate foreign corporation that is a related party to the partner, but only if the entity first became a surrogate foreign corporation after November 9, 2017. The amount also includes payments to a foreign person that is a member of the same expanded affiliated group, as defined in section 7874(c)(1), as the surrogate foreign corporation. A surrogate foreign corporation is defined in section 7874(a)(2)(B) but doesn't include a foreign corporation that is treated as a domestic corporation under section 7874(b).

**Column (c).** Enter the base erosion tax benefits attributable to amounts paid or accrued to certain expatriated entities described in column (b) resulting in a reduction of gross receipts of the partnership.

**Line 16. Other payments—specify.**

**Column (a).** Enter the amount paid or accrued for the tax year by the partnership that hasn't been included on lines 8 through 15 above.

**Column (b).** Enter the amount paid or accrued to any foreign person that is a related party of any of the partners that is a base erosion payment that hasn't otherwise been included on lines 8 through 15 above.

**Column (c).** Enter the amount of the partners' base erosion tax benefits related to other specified base erosion payments not listed in any of the categories on lines 8 through 15 above.

**Attachment.** For amounts reported on line 16, attach a statement to both Schedules K-2 and K-3 (for distributive share) describing the type and amount of other payments, using the same column headings as specified in this schedule: "Total base erosion payment," "Total base erosion tax benefit." For each type of payment, the attachment must identify the relationship of a partner to the foreign related party consistent with the categories and instructions for columns (b) and (c) of this schedule.

**Line 17, column (c)—Base erosion tax benefits related to payments reported on lines 6 through 16, on which tax is**

**imposed by section 871, 881, or 884(f), with respect to which tax has been withheld under section 1441 or 1442 at the 30% statutory withholding tax rate or subject to tax under section 1.884-4(a)(2)(ii) at the 30% statutory rate.** Enter the aggregate amount of the partners' base erosion tax benefits, reported on lines 8 through 16, on which either (1) tax is imposed under section 871(a) or section 881, and with respect to which tax has been deducted and withheld under section 1441 or 1442 at the 30% statutory withholding tax rate; or (2) tax is imposed under section 884(f) at the 30% statutory rate and the tax is reported and paid under Regulations section 1.884-4(a)(2)(iv).

**Line 18, column (c)—Portion of base erosion tax benefits reported on lines 6 through 16, on which tax is imposed by section 871 or 881, with respect to which tax has been withheld under section 1441 or 1442 at a reduced withholding rate pursuant to an income tax treaty. Multiply the amount of the base erosion tax benefit by a fraction equal to the rate of tax imposed under the treaty over the 30% (0.30) statutory rate.** The partnership is required to provide the information on Worksheet B for all partnership-related items and attach a statement containing the information on Worksheet B to Schedule K-3 for each partner's share of the amounts reported on the partnership Worksheet B.

Complete Worksheet B to determine the portion of the base erosion tax benefits, reported on lines 8 through 16, on which, pursuant to a U.S. income tax treaty, either (1) tax is imposed under section 871(a) or section 881 at a reduced rate, and with respect to which tax has been deducted and withheld under section 1441 or 1442 at a reduced withholding tax rate; or (2) tax is imposed under section 884(f) at a reduced rate and the tax is reported and paid (at the reduced rate) under Regulations section 1.884-4(a)(2)(iv). Keep a copy of the completed Worksheet B for the partnership's records.

Worksheet A—Interest Paid or Accrued by the Partnership

|                                                                                                                       | (a)                                                | (b)                                                                                            | (c)                                                                                                                                   |
|-----------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                       | Total Interest Paid or Accrued in the Current Year | Interest Paid or Accrued to Foreign Related Parties of the Foreign Partner in the Current Year | Interest Expense Paid or Accrued to Foreign Related Parties of the Foreign Partner That Is Allowed as a Deduction in the Current Year |
| (1) Interest Expense on Liabilities Described in Regulations Section 1.882-5(a)(1)(ii)(A) or (B) (Direct Allocations) |                                                    |                                                                                                |                                                                                                                                       |
| (2) Interest Paid on U.S.-Booked Liabilities Under Regulations Section 1.882-5(d)(2)(vii)                             |                                                    |                                                                                                |                                                                                                                                       |
| (3) Interest Paid on All Other Liabilities of the Partnership                                                         |                                                    |                                                                                                |                                                                                                                                       |
| Totals. Combine line (1) through line (3)                                                                             |                                                    |                                                                                                |                                                                                                                                       |

Worksheet B—Section 2, Line 18, Column (c)

|                                                                        |                                    |                                 |                                                           |                               |
|------------------------------------------------------------------------|------------------------------------|---------------------------------|-----------------------------------------------------------|-------------------------------|
| Section 2, Line 18                                                     |                                    |                                 |                                                           |                               |
| A                                                                      | B                                  | C                               | D                                                         | E                             |
| Type of base erosion payment                                           | Amount of base erosion tax benefit | Treaty-reduced withholding rate | Divide column C by 30% (0.30) (round to 4 decimal places) | Multiply column B by column D |
|                                                                        |                                    | %                               |                                                           |                               |
|                                                                        |                                    | %                               |                                                           |                               |
|                                                                        |                                    | %                               |                                                           |                               |
|                                                                        |                                    | %                               |                                                           |                               |
|                                                                        |                                    | %                               |                                                           |                               |
|                                                                        |                                    | %                               |                                                           |                               |
| Add the amounts in column E and enter the total on line 18, column (c) |                                    |                                 |                                                           |                               |

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