



# Instructions for Form 1118

(Rev. December 2023)

(Use with the December 2022 revision of Form 1118, the December 2023 revision of separate Schedule L, the December 2021 revision of separate Schedule I, the December 2020 revision of separate Schedule J, and the December 2018 revision of separate Schedule K.)

## Foreign Tax Credit—Corporations

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

### Future Developments

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

### What's New

#### Final foreign tax credit regulations.

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, the applicable period for claiming a credit or deduction for foreign taxes, and the new election to claim a provisional credit for contested foreign taxes. A Notice was subsequently released on July 21, 2023, allowing taxpayers to apply prior rules in place of certain rules provided in the new regulations. The rules described in this Notice were modified in part by a Notice released on December 11, 2023, to address their application to partnerships and their partners and to extend the relief period until further notice. 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. 1583, available at [IRS.gov/irb/2023-52\\_IRB#NOT-2023-80](https://www.irs.gov/irb/2023-52_IRB#NOT-2023-80).

**Corporate Alternative Minimum Tax Foreign Tax Credit.** Form 1118 is not used to determine foreign tax credits for purposes of calculating the Corporate Alternative Minimum Tax (CAMT) under section 55, enacted under the Inflation Reduction Act of 2022, P.L. 117-169. Corporate

taxpayers are required to use the revised Form 4626 for determining foreign tax credits for purposes of calculating the CAMT tax liability, if any, under section 55.

### Reminders

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

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

## General Instructions

### Purpose of Form

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

### Who Must File

Any corporation that elects the benefits of the foreign tax credit under section 901 must complete and attach Form 1118 to its income tax return. In addition, even if a corporation has not elected to credit foreign taxes, it must complete and attach Schedules A and J of a Form 1118 to its income tax return if it has any additions to, reductions to, or recapture of any new or existing overall foreign loss, overall domestic loss, or separate limitation loss accounts. See Regulations section 1.904(f)-1(b).

Also, even if a taxpayer has not elected to credit foreign taxes, if it has a foreign tax redetermination under section 905(c), it must complete and attach Schedule L of a Form 1118 to its income tax return for the taxable year in which the foreign tax redetermination occurs. Schedule L must be submitted irrespective of whether the foreign tax redetermination changed the taxpayer's U.S. tax liability."

Also, individuals must complete and attach a Form 1118 to their income tax return if they make the election under section 962 to be taxed at corporate rates on the amount they must include in gross income under sections 951(a) and 951A from their controlled foreign corporations in order to be eligible to claim a foreign tax credit based on their share of foreign income taxes paid or accrued by the controlled foreign corporation.

See sections 960 and 962 and Pub. 514 for more information on how to complete Form 1118 in this case.

## When To Make the Election

The election to claim the foreign tax credit for any tax year may be made or changed at any time before the end of a special 10-year period described in section 6511(d)(3) (or section 6511(c) if the period is extended by agreement). The election to claim a deduction in lieu of a credit for foreign income taxes may be made or changed at any time before the end of the period prescribed by section 6511(a) or 6511(c). See Regulations section 1.901-1(d).

## Computer-Generated Form 1118

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

## How To Complete Form 1118

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

- Use **Schedule A** to compute the corporation's income or loss before adjustments for each applicable category of income.
- Use **Schedule B** to determine the total foreign tax credit after certain reductions.
- Use **Schedule C** to compute taxes deemed paid by the domestic corporation filing the return with respect to inclusions under section 951(a)(1).
- Use **Schedule D** to compute taxes deemed paid by the domestic corporation filing the return with

respect to inclusions under section 951A.

- Use **Schedule E** to compute taxes deemed paid by the domestic corporation filing the return with respect to distributions of previously taxed income (also referred to as previously taxed earnings and profits (PTEP)).
- Use **Schedule G** to report required reductions of tax paid, accrued, or deemed paid.
- Use **Schedule H** to apportion deductions that cannot be allocated to an item or class of income identified on Schedule A.
- Use **Schedule I** (a separate schedule) to compute reductions of taxes paid, accrued, or deemed paid on foreign oil and gas income.
- Use **Schedule J** (a separate schedule) to compute adjustments to separate limitation income or losses in determining the numerators of limitation fractions, year-end recharacterization balances, and overall foreign and domestic loss account balances.
- Use **Schedule K** (a separate schedule) to reconcile the corporation's prior-year foreign tax carryover with its current-year foreign tax carryover.
- Use **Schedule L** (a separate schedule) to report foreign tax redeterminations that occurred in the current taxable year and that relate to prior taxable years.

## Categories of Income

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

Code	Category of Income
951A	Section 951A Category Income
FB	Foreign Branch Category Income
PAS	Passive Category Income
901j	Section 901(j) Income
RBT PAS	U.S. Source Passive Category Income Resourced by Treaty as Foreign Source Passive Category Income
RBT GEN	U.S. Source General Category Income Resourced by Treaty as Foreign Source General Category Income
RBT FB	U.S. Source Foreign Branch Income Resourced by Treaty as Foreign Source Foreign Branch Category Income
RBT 951A	U.S. Source Section 951A Category Income Resourced by Treaty as Foreign Source Section 951A Category Income
GEN	General Category Income

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

## Section 951A Category Income

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

- When completing a Form 1118 for section 951A category income, enter the code "951A" on line a at the top of page 1.
- Section 951A category income does not include passive category income.

## Foreign Branch Category Income

Foreign branch income is defined under section 904(d)(2)(J)(i) as the business profits of a U.S. person which are attributable to one or more qualified business units (QBUs) (as

defined in section 989(a)) in one or more foreign countries. For more information on the computation of foreign branch category income, see Regulations section 1.904-4(f).

- When completing a Form 1118 for foreign branch category income, enter the code "FB" on line a at the top of page 1.

- Foreign branch category income does not include passive category income.

- Foreign branch category income is effective for tax years of U.S. persons beginning after December 31, 2017.

### Passive Category Income

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

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

- Any income received or accrued that would be foreign personal holding company income (defined in section 954(c)) if the corporation were a controlled foreign corporation (CFC) (defined in section 957). This includes any gain on the sale or exchange of stock that is more than the amount treated as a dividend under section 1248. However, in determining if any income would be foreign personal holding company income, the rules of section 864(d)(6) will apply only for income of a CFC.

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

Passive income does **not** include:

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

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

**Specified passive category income.** This term includes:

- Dividends from a domestic international sales corporation (DISC) or former DISC (as defined in section 992(a)) to the extent such dividends are treated as foreign source income, and

- Distributions from a former foreign sales corporation (FSC) out of earnings and profits attributable to foreign trade income or interest or carrying charges (as defined in section 927(d)(1), before its repeal) derived from a transaction which results in foreign trade income (as defined in section 932(b), before its repeal).

### Section 901(j) Income

No credit is allowed for foreign income taxes imposed by and paid or accrued to certain sanctioned countries.

However, a foreign tax credit may be claimed for foreign income taxes paid or accrued with respect to section 901(j) income if such tax is paid or accrued to a country other than a sanctioned country.

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

On each Form 1118, enter the code "901j" on line a at the top of page 1 and identify the applicable country using the two-letter codes (from the list at [IRS.gov/CountryCodes](#)).

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

**Note.** The President of the United States has the authority to waive the application of section 901(j) with respect to a foreign country if it is (a) in the national interest of the United States and will expand trade and investment opportunities for domestic

companies in such foreign country, and (b) the President reports to the Congress, not less than 30 days before the waiver is granted, the intention to grant such a waiver and the reason for such waiver.

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

### Income Re-Sourced by Treaty

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

**Important.** The corporation must compute a separate foreign tax credit limitation for any such income for which it claims benefits under a treaty. See Regulations sections 1.904-4(k) and 1.904-5(m)(7) for grouping rules and exceptions. On each Form 1118, enter one of the RBT codes listed below on line a at the top of page 1 and identify the applicable treaty country on line c at the top of page 1 using the two-letter codes (from the list at [IRS.gov/CountryCodes](#)).

**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 corporation elects to apply the treaty, on Form 1118, enter code "RBT PAS" on line a at the top of page 1.

**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 corporation elects to apply the treaty, on Form 1118, enter code "RBT GEN" on line a at the top of page 1.

**Code "RBT FB."** If an applicable income tax treaty treats any U.S. source foreign branch category income as foreign source foreign branch category income, and the corporation elects to apply the treaty, on Form 1118, enter code "RBT FB" on line a at the top of page 1.

**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 corporation



elects to apply the treaty, on Form 1118, enter code "RBT 951A" on line a at the top of page 1.

## General Category Income

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

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

### Financial services income.

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

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

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

## Special Rules

### Source Rules for Income

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

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

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

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

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

Creditable foreign taxes that are imposed on amounts that do not constitute income under U.S. tax principles are treated as imposed on income described in section 904(d)(1)(B). See section 904(d)(2)(H).

### Look-Through Rules

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

any amount included in gross income under section 951(a)(1)(B).

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

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

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

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

### Other Rules

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

### Reporting Foreign Tax Information From Partnerships

If you received a Schedule K-3 (Form 1065) or a Schedule K-3 (Form 8865) from a partnership that includes foreign tax information, use the rules below to report that information on Form 1118.

#### Schedule K-3, Part II, Section 1

**Gross income sourced at partner level.** This includes income from the sale of most personal property other than inventory, depreciable property, and certain intangible property sourced under section 865. This gross income will generally be U.S. source and therefore will not be reported on Form 1118.

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

## Schedule K-3, Part II, Section 2

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

## Schedule K-3, Part III, Sections 1 through 3

**R&E expenses apportionment factors.** Report on Schedule H, Part I.

**Interest expense apportionment factors.** Report on Schedule H, Part II.

**Foreign-derived intangible income (FDII) deduction apportionment factors.** Report on Schedule H, Part II.

## Schedule K-3, Part III, Section 4

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

**Foreign tax redeterminations.** Report on Schedule L.

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

## Schedule K-3 (Form 1065), Part VIII

**Partner's interest in foreign corporation income (Section 960).** Report on Schedule C or D, as applicable.

**Note.** Schedule K-3 (Form 8865) does not contain a part equivalent to Schedule K-3 (Form 1065), Part VIII.

### Capital Gains

Foreign source taxable income or (loss) before adjustments in all separate categories in the aggregate should include gain from the sale or exchange of capital assets only up to the amount of foreign source capital gain net income (which is the smaller of capital gain net income from sources outside the United States or capital gain net income). Therefore, if the corporation has capital gain net income from sources outside the United States in excess of the capital gain net income reported on its tax return, enter a pro rata portion of the net U.S. source capital loss as a negative number on Schedule A, column 13(j), for each separate category with capital gain net income from sources outside the United States. To figure the pro rata portion of the net U.S. source capital loss

attributable to a separate category, multiply the net U.S. source capital loss by the amount of capital gain net income from sources outside the United States in the separate category divided by the aggregate amount of capital gain net income from sources outside the United States in all separate categories with capital gain net income from sources outside the United States.

See section 904(b)(2)(B) for special rules regarding adjustments to account for capital gain rate differentials (as defined in section 904(b)(3)(D)) for any tax year. At the time these instructions went to print, there was no capital gain rate differential for corporations.

## Credit Limitations

### Taxes Eligible for a Credit

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

- Income, war profits, and excess profits taxes paid or accrued during the tax year to any foreign country or U.S. territory.
- Taxes paid in lieu of income taxes as described in section 903.
- Taxes deemed paid under section 960.

Income, war profits, and excess profits taxes and in lieu of taxes are collectively referred to as foreign income taxes. See Regulations sections 1.901-2(a) and (b) and 1.903-1 for rules for determining whether a foreign tax qualifies as a foreign income tax.



*Final foreign tax credit regulations issued on January 4, 2022 (T.D. 9959, 87 FR 374) revised the creditability requirements under Regulations sections 1.901-2 and 1.903-1, applicable for foreign taxes paid or accrued in taxable years beginning on or after December 28, 2021. A Notice was subsequently released on July 21, 2023, providing taxpayers the option to apply modified rules in place of certain provisions of the new regulations. For more information, see 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).*

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

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

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

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

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

### Credit or Deduction

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

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

- Taxes for which the credit was denied because of the boycott provisions of section 908.
- Certain taxes on the purchase or sale of oil or gas (section 901(f)).
- Certain taxes used to provide subsidies (section 901(i)).
- Taxes paid to certain foreign countries for which a credit was denied under section 901(j).
- Certain taxes paid on dividends if the minimum holding period is not met with respect to the underlying stock, or if the corporation is obligated to make related payments with respect to positions in similar or related property (section 901(k)).
- Certain taxes paid on gain and income other than dividends if the minimum holding period is not met with respect to the underlying property, or if the corporation is obligated to make related payments with respect to positions in similar or related property (see section 901(l)).
- In the case of a covered asset acquisition (as defined in section 901(m)(2)), the disqualified portion of any tax determined with respect to the income or gain attributable to the relevant foreign assets (section 901(m)). **Note.** This rule generally applies to covered asset acquisitions after December 31, 2010. See Regulations sections 1.901(m)-1 through 1.901(m)-8 for additional information. Note that the rules contained in these regulations have later effective dates.
- Taxes paid by an accrual basis taxpayer that relate to a prior tax year in which the taxpayer elected to claim a deduction for foreign income taxes in that prior year. See Regulations section 1.901-1(c)(3).

### No Credit or Deduction

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

- Taxes on mineral income that were reduced under section 901(e).
- Certain taxes paid on distributions from corporations organized in a U.S. territory (section 901(g)).
- Taxes on combined foreign oil and gas income that were reduced under section 907(a).
- Taxes attributable to income excluded under section 814(a) (relating to contiguous country branches of domestic life insurance companies).
- Taxes paid or accrued to a foreign country or U.S. territory with respect to

income excluded from gross income on Form 8873, Extraterritorial Income Exclusion. However, see section 943(d) for an exception for certain withholding taxes.

- The applicable percentage of taxes paid or deemed paid with respect to an amount included in income under section 965 (section 965(g)).
- Taxes paid with respect to the amount treated as included under section 965(b).

### Carryback and Carryforward of Excess Foreign Taxes

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

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

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

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

Special rules apply to:

- The carryback and carryforward of foreign income taxes paid or accrued on combined foreign oil and gas income or related taxes (see section 907(f)).
- An excess foreign tax credit for which an excess limitation account exists under section 960(c)(2). See Regulations sections 1.960-4 through 1.960-6.

- Carryback of foreign income taxes paid or accrued in post-2017 foreign corporate tax years and carryforward of foreign income taxes paid or accrued in pre-2018 foreign corporate tax years. See Regulations section 1.904-2(j).

### Treaty-Based Return Positions

Corporations that adopt a return position that any U.S. treaty overrides or modifies any provision of the Internal Revenue Code, and causes (or potentially causes) a reduction of any tax incurred at any time, must generally disclose this position. This includes when a corporation is relying on a U.S. treaty to claim a credit for a foreign tax. Complete Form 8833, Treaty-Based Return Position Disclosure Under Section 6114 or Section 7701(b), and attach it to Form 1118. See section 6114 and Regulations section 301.6114-1 for details.

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

### Proof of Credits

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

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

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

### Foreign Tax Redeterminations

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

- Accrued foreign income taxes when paid or later adjusted differ from the amounts claimed as credits (including corrections to accrued amounts to reflect final foreign tax liability and additional payments of tax that accrue



after the close of the taxable year to which the tax relates);

- Accrued foreign income taxes are not paid within 24 months after the close of the tax year to which they relate;
- Any foreign income tax paid is fully or partially refunded;
- A change in foreign tax liability that affects the amount of distributions or inclusions under sections 951, 951A, or 1293, or affects the application of the high-tax exception described in section 954(b)(4); or
- A change to claim a foreign tax credit for foreign income taxes that were previously deducted or a change to claim a deduction for foreign income taxes that were previously credited.

See Regulations section 1.905-3(a) and (b).

See Regulations section 1.905-3(b)(1)(i) for a limited exception to a redetermination of a U.S. tax liability with respect to foreign income tax claimed as a credit under section 901 (other than a tax deemed paid under section 960).

A redetermination of U.S. tax liability is also generally required to account for the effect of a redetermination of foreign income tax paid or accrued by a foreign corporation on the amount of foreign income taxes deemed paid under section 960. See Regulations section 1.905-3(b)(2). For foreign tax redeterminations of a foreign corporation that relate to a taxable year of the foreign corporation beginning before January 1, 2018, see Regulations section 1.905-5.

## Reporting Requirements

If, as a result of the foreign tax redetermination, the corporation's U.S. tax liability for any taxable year is changed, the corporation must file an amended return to report the foreign tax redetermination and, if applicable, pay additional U.S. tax.

Increase in U.S. tax liability as a result of foreign tax redeterminations are excepted from the general statute of limitations against assessment and collection. See sections 6501(c)(5) and 905(c). If you have a foreign tax redetermination that results in an increase in your U.S. tax liability for any year, please note on page 2 of your Form 1120X: "This amended

return and Form 1118 is for a change in Foreign Tax Credit that increases U.S. tax liability."

In addition, the amended return must have attached to it an amended Form 1118 and a statement that provides the following.

- The taxpayer's name, address, identifying number, the tax year or years of the taxpayer that are affected by the foreign tax redetermination, and, in the case of foreign income taxes deemed paid, the name and identifying number, if any, of the foreign corporation.
- The date or dates the foreign income taxes were accrued, if applicable.
- The date or dates the foreign income taxes were paid.
- The amount of foreign income taxes paid or accrued on each date (in foreign currency) and the exchange rate used to translate each such amount.
- Information sufficient to determine any change to the characterization of a distribution or the amount of any inclusion under section 951(a), 951A, 1291, or 1293.
- An amended Form 5471 when applicable.
- Information sufficient to determine any interest due from or owing to the taxpayer, including the amount of any interest paid by the foreign government to the taxpayer, and the dates received.

## Additional Information Required

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

### Refund of foreign income taxes paid.

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

### Accrued foreign income taxes that are not paid on or before the date that is 24 months after the close of

### the tax year to which such taxes relate.

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

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

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

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

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

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

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

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

For special rules relating to corporations under the jurisdiction of the Large Business and International Division, see Regulations section 1.905-4(b)(4).

**Schedule L.** In addition to filing an amended return with Form 1118 and attached statement for the tax year(s) of the taxpayer for which the U.S. tax liability is changed as a result of the foreign tax redetermination, the taxpayer must include with its current-year return a Schedule L summarizing the foreign tax redeterminations that occurred that year.

If a foreign tax redetermination does not change the amount of U.S. tax due for any taxable year, the taxpayer does not need to file an amended return and may instead notify the IRS of the redetermination by attaching a completed Schedule L to the original return for the taxpayer's taxable year in which the foreign tax redetermination occurs. See Instructions for Schedule L for additional information.

**Election to account for foreign tax redeterminations with respect to pre-2018 taxable years in the foreign corporation's last pooling year.** An irrevocable election may be made by a foreign corporation's controlling domestic shareholders to account for all foreign tax redeterminations that occur in taxable years ending on or after November 2, 2020, with respect to pre-2018 taxable years of foreign corporations as if they occurred in the foreign corporation's last taxable year beginning before January 1, 2018 (last pooling year). Such election is binding on all persons who are, or were in a prior year to which the election applies, U.S. shareholders of the foreign corporation with respect to which the election is made for all of its subsequent foreign tax redeterminations, as well as foreign tax redeterminations of other members of the same CFC group as the foreign corporation for which the election is made. The election is made by filing:

- The statement required under Regulations section 1.964-1(c)(3)(ii) with a timely filed original income tax return for the taxable year of each controlling domestic shareholder of the foreign corporation in which or with which the foreign corporation's first redetermination year ends;
- Any notices required under Regulations section 1.964-1(c)(3)(iii);

- Amended returns as required under Regulations sections 1.905-4, 1.905-5(e), 1.905-3T(d), and 1.905-5T.

See Regulations section 1.905-5(e) for additional information.

**Contested foreign income tax liability.** In general, a taxpayer cannot claim a credit for a contested foreign income tax liability until the contest is resolved and the amount of the liability is finally determined.

**Cash method taxpayers.** Unless an election to claim a provisional credit for contested foreign income taxes (described below) is made, a taxpayer that claims the foreign tax credit on a cash basis cannot claim a credit for a contested foreign income tax liability (or portion thereof) that has been remitted to the foreign country until such time as the contest is resolved and the tax is considered paid for purposes of section 901. Once the contest is resolved and the foreign income tax liability is finally determined, the tax liability is treated as paid in the taxable year in which the foreign tax was remitted. See Regulations section 1.905-1(c)(2).

**Accrual method taxpayers.** Unless an election to claim a provisional credit for contested foreign income taxes is made, a taxpayer that claims the foreign tax credit on the accrual basis cannot claim a credit for a contested foreign income tax liability until such time as both the contest is resolved and the tax is considered paid, even if the contested liability (or portion thereof) has previously been remitted to the foreign country. Once the contest is resolved and the foreign income tax liability is finally determined and paid, the tax liability accrues, and is considered to accrue in the relation-back year for purposes of the foreign tax credit. See Regulations section 1.905-1(d)(3).

**Election to claim a provisional credit for contested foreign income taxes**

**Cash method taxpayers.** A taxpayer claiming foreign tax credits on the cash basis may elect to claim a foreign tax credit for a contested foreign income tax liability (or a portion thereof) in the year the contested amount (or a portion thereof) is remitted to the foreign

country, notwithstanding that the liability is not finally determined and so is not considered an amount of tax paid.

This election is available only for contested foreign income taxes that are remitted in a taxable year in which the taxpayer has elected under section 901(a) to claim a credit, instead of a deduction under section 164(a)(3), for foreign income taxes that are paid in such year.

To make the election, a taxpayer claiming credits on the cash basis must file a Form 1118 for the tax year in which the contested liability is remitted and a Form 7204, Consent To Extend the Time To Assess Tax Related to Contested Foreign Income Taxes-Provisional Foreign Tax Credit Agreement.

In addition, the taxpayer must, for each subsequent taxable year up to and including the taxable year in which the contest is resolved, file annually Schedule L (Form 1118), Foreign Tax Redeterminations. Any portion of a contested foreign income tax liability for which a provisional credit is claimed that is subsequently refunded by the foreign country results in a foreign tax redetermination under Regulations section 1.905-3(a).

**Accrual method taxpayers.** A taxpayer may elect to claim a foreign tax credit for a contested foreign income tax liability (or a portion thereof) in the relation-back year when the contested amount (or a portion thereof) is remitted to the foreign country, notwithstanding that the liability is not finally determined and so has not accrued.

This election is available only for contested foreign income taxes that relate to a taxable year in which the taxpayer has elected under section 901(a) to claim a credit, instead of a deduction under section 164(a)(3), for foreign income taxes that accrued in such year.

A taxpayer claiming credits on the accrual basis must file an original or amended return for the taxable year to which the contested tax relates, together with a Form 1118, and a Form 7204.

In addition, the taxpayer must, for each subsequent taxable year up to and including the taxable year in which the contest is resolved, file



annually Schedule L (Form 1118). Any portion of a contested foreign income tax liability for which a provisional credit is claimed that is subsequently refunded by the foreign country results in a foreign tax redetermination under Regulations section 1.905-3(a).

### Interest and Penalties

In most cases, interest is computed on the deficiency or overpayment that resulted from the foreign tax adjustment (sections 6601 and 6611 and the related regulations). See Regulations section 1.905-4(e) for additional information.

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

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### Specific Instructions

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

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

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### Schedule A

Report gross income from sources outside the United States for the applicable separate category in columns 3(a) through 11. Report the applicable deductions to this gross income in columns 13 and 14. Report any net operating loss carryover in column 15.

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

However, enter in column 1 the "Unrelated" code in cases where the corporation derived foreign source

income and/or paid or accrued creditable foreign taxes from or through unrelated persons or their QBUs. Also, column 1 can be left blank, but only if one of the following seven entries is made in column 2.

- 863(b)
- RIC
- NOL
- HTKO
- 951A
- G2B
- B2G

See the instructions for column 2, later, for more information regarding when the above entries can be made in column 2.

**Note.** Taxpayers no longer have the option of entering "FOREIGNUS" or "APPLIED FOR" in this column. Instead, if the related person or their QBU does not have an EIN, the taxpayer must use a reference ID number that uniquely identifies such related person or QBU, using the rules set forth in [Reference ID numbers](#), in the [Requirements](#) section, later.

Where gross income is derived from a related person (within the meaning of section 267(b) or 707(b)), enter the EIN or reference ID number of such related person. In the case of income derived from a QBU of the related person, enter the EIN or reference ID number of the QBU. Enter the EIN or reference ID number of related entities and their QBUs through which the corporation paid or accrued creditable foreign taxes, even if no income from these entities is reported on Schedule A. If gross income is received or derived from an entity other than a related person, an EIN or reference ID number is not required.

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

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

**Reference ID numbers.** A "reference ID number" is a number

established by or on behalf of the domestic corporation filing Form 1118. With respect to Schedule A, these numbers are used to uniquely identify the payor with respect to payments from related persons, in order to determine the proper source of such payment. With respect to Schedules C through E, these numbers are used to uniquely identify foreign corporations in order to keep track of those corporations from tax year to tax year. The reference ID number must meet the requirements set forth below.

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

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

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

The same reference ID number must be used consistently from tax year to tax year with respect to a given entity. If for any reason a reference ID number falls out of use (for example, the entity no longer exists due to disposition or liquidation), the reference ID number used for that entity cannot be used again for another entity for purposes of filing Form 1118.

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

- In the case of a merger or acquisition, a Form 1118 filer must use a reference ID number which correlates the previous reference ID number with the new reference ID number assigned to the entity.
- In the case of an entity classification election that is made on behalf of a foreign corporation on Form 8832, Regulations section 301.6109-1(b)(2)(v) requires the foreign corporation to have an EIN for

this election. For the first year that Form 1118 is filed after an entity classification election is made on behalf of the foreign corporation on Form 8832, both the new EIN and the old reference ID number must be entered in column 1, as explained in the next paragraph.

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

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

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

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

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

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

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

## Special Cases for Columns 1 and 2

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

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

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

Column	Entry
1	1000016
2	XX
8	10

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

Column	Entry
1	1000016
2	YY
8	15

### Qualified business units (QBUs).

For branches that are QBUs, use a separate line for each such branch to report each branch's gross income and deductions. Report these amounts on a per-country basis. In column 1, enter the EIN or reference ID number of the QBU. Enter the country code in column 2. These amounts should be reported on Form 1118 for foreign branch category income or passive category income.

**Section 863(b) gross income and deductions.** Aggregate all section 863(b) foreign source gross income and deductions and report the totals

on a single line. It may be necessary to enter amounts in multiple columns on that single line, depending upon the nature of the section 863(b) gross income and deductions. For example, leave column 1 blank, enter "863(b)" in column 2, and enter (as a positive number) all section 863(b) gross income (in columns 3 through 12) and all section 863(b) deductions (in columns 13 through 16). Also enter the net amount in column 17. Note that the totals are being reported on a single line because it is not necessary to report section 863(b) gross income and deductions on a per-country basis.

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

Aggregate all income passed through from RICs and report the total on a single line. Leave column 1 blank, enter "RIC" in column 2, and report the total in column 17. Note that the totals are being reported on a single line because it is not necessary to report the RIC pass-through amounts on a per-country basis.

### Net operating losses (NOLs).

Report any NOL carryover on a single line. Leave column 1 blank, enter "NOL" in column 2, and report the total in column 15. Note that the totals are being reported on a single line because it is not necessary to report the NOL on a per-country basis.

### Reclassifications of high-taxed income.

Aggregate all reclassifications of high-taxed income and report the total on a single line. With respect to passive category income, for items of income that have been included on Schedule A and that must be reclassified under sections 904(d)(2)(B)(iii)(II) and 904(d)(2)(F), leave column 1 blank and enter "HTKO" in column 2 and enter (as a negative number) in column 17 the net amount of income that is being reclassified from passive category income. With respect to the category of income to which such passive income is reclassified, leave column 1 blank, enter "HTKO" in column 2, and enter (as a positive number) in column 17 the net amount of income that is being reclassified to such category of income. Note that the reclassifications are being reported on a single line because it is not necessary to report them on a per-country basis. Also note that tax reclassifications are

needed on Schedule B. See those instructions for more information.

**Inclusions under section 951A.**

Because computations for inclusions under section 951A are reported on separate Form 8992, GILTI, report the inclusion under section 951A on a single line. Specifically, there is no need to report the identifying numbers and various countries associated with an inclusion under section 951A on Form 1118.

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

**Reattribution of income by reason of disregarded payments between a foreign branch and its foreign branch owner.**

For reattribution of income from the general category to the foreign branch category, enter "G2B" in column 2 instead of a two-letter code. Leave column 1 blank.

For reattribution of income from the foreign branch category to the general category, enter "B2G" in column 2 instead of a two-letter code. Leave column 1 blank.

See Regulations section 1.904-4(f)(2)(vi)(B) for more information regarding the rules pertaining to reattribution of income by reason of disregarded payments between a foreign branch and its foreign branch owner.

**Column 3(a).** Report all inclusions under sections 951(a)(1) (including amounts under section 951(a)(1)(B) and section 964(e)(4)) and 951A (before gross-up). See section 904(d)(3) and [Look-Through Rules](#), earlier, for more information with respect to the separate category of such inclusions. For each inclusion under section 951(a)(1) with respect to a CFC, make sure to enter the appropriate identifying number in column 1 and the country of residence of the CFC in column 2.

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

Do not report the inclusion under section 951A net of the deduction allowed under section 250. The deduction under section 250 is taken

into account in Schedule A, column 13(c).

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

**Column 3(b).** In column 3(b), include taxes deemed paid by a domestic corporation with respect to inclusions under section 951(a)(1) and section 951A as gross-ups. For inclusions under section 951(a)(1), the gross-up is the taxes deemed paid as reported in the total of Schedule C, column 7. The gross-up for inclusions under section 951A is the amount computed in Schedule D, Part II, column 3.

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

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

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

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

**Note.** Under section 863(b), income from the sale of inventory property is sourced to the place of production. Accordingly, do not include inventory produced in the United States and sold overseas in this column.

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

**Columns 9 and 10.** Include the following amounts in column 9. Use a separate line for each type of gain and

enter the corresponding code in column 10.

- Foreign source exchange gain recognized under section 986(c) on a distribution of PTEP. Enter code "986c" in column 10.
- Foreign source exchange gain recognized under section 987(3) on a remittance from a QBU. Enter code "987" in column 10.
- Foreign source exchange gain recognized under section 988. Enter code "988" in column 10.

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

**Column 11.** Include other gross income from sources outside the United States for the applicable separate category. Attach a schedule identifying the gross income by type.

**Column 13(a).** Enter the dividends received deduction allowed on foreign source dividends under section 245A. This should be equal to the amount reported in Schedule A, column 4, if all such dividend income is eligible for the dividends received deduction.

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

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

**Note.** The foreign branch income and section 951A income categories do not include any dividend income eligible to be offset by the deduction under section 245A.

**Column 13(b).** Enter the deduction allowed under section 250(a)(1)(A) with respect to foreign derived intangible income, taking into account the other provisions of section 250, that is allocated and apportioned to foreign source income in the applicable separate category of income. See Regulations section 1.861-8(e)(13).

**Column 13(c).** Enter the deduction allowed under section 250(a)(1)(B) with respect to GILTI (section 951A



inclusion), taking into account the other provisions of section 250, that is allocated and apportioned to foreign source income in the applicable separate category of income. See Regulations section 1.861-8(e)(14).

**Column 13(d).** Enter the depreciation, depletion, and amortization deductions related to rental, royalty, and licensing expenses that are allocated and apportioned to foreign source income in the applicable separate category of income.

**Column 13(e).** Enter the other allocable expenses related to rental, royalty, and licensing expenses that are allocated and apportioned to foreign source income in the applicable separate category of income.

**Column 13(f).** Enter expenses allocable to gross income from sales that are allocated and apportioned to foreign source income in the applicable separate category of income (the amount entered in column 7).

**Column 13(g).** Enter expenses allocable to gross income from performance of services that are allocated and apportioned to foreign source income in the applicable separate category of income (the amount entered in column 8).

**Columns 13(h) and 13(i).** Include any foreign source exchange loss recognized under section 986(c) on a distribution of PTEP, any foreign source exchange loss recognized under section 987(3) on a remittance from a QBU, and any foreign source exchange loss recognized under section 988. Use a separate line for each type of loss and enter the corresponding code in column 13(i). See the instructions for Schedule A, column 9, earlier, for the applicable codes.

**Column 13(j).** Include other deductions allocable to income from sources outside the United States (dividends, interest, etc.) for the applicable separate category that are not otherwise included in Schedule H.

Include any reduction of foreign source capital gain net income. If foreign source capital gain net income from all separate categories is more than the capital gain net income

reported on the corporation's tax return, enter a pro rata portion of the excess as a negative number in each separate category. See [Capital Gains](#), earlier.

In column 13(j), do not include other expenses directly allocable to dividends eligible for the dividends received deduction under section 245A. Such directly allocable expenses may include wire transfer, currency exchange, and similar fees incurred in connection with the payment of dividends eligible for the dividends received deduction under section 245A. These expenses reduce taxable income, but are not taken into account in computing the foreign tax credit limitation. See section 904(b)(4).

Attach a schedule that lists all other deductions included in column 13(j). The schedule should include totals for each line in column 13(j) that has an entry.

**Column 14.** Enter only the apportioned share from the applicable line of Schedule H, Part I, column (b); Part II, column (f); and Part III, column (g) that relates to gross income reported in columns 3 through 11 of Schedule A. The applicable line of Schedule H, Part I, column (b) is the amount on line 6a(7), 6b(7), 6c(7), 6d(7), or 6e(7) of column (b) that corresponds with the category of income for which the corporation is completing Form 1118. For example, if the code entered on Schedule H, Part I, line 6a is "PAS," then enter the amount from line 6a(7), column (b) on the Form 1118 that the corporation is completing for the passive category of income (as indicated on line a at the top of page 1 of Form 1118). The applicable line of Schedule H, Part II, column (f) is the amount on line 3a(2), 3b(2), 3c(2), 3d(2), or 3e(2), of column (f) that corresponds with the category of income for which the corporation is completing Form 1118. For example, if the code entered on Schedule H, Part II, line 3a is "PAS," then enter the amount from line 3a(2), column (f) on the Form 1118 that the corporation is completing for the passive category of income (as indicated on line a at the top of page 1 of Form 1118). The applicable line of Schedule H, Part III, column (g) is the amount on line 2a(2), 2b(2), 2c(2), 2d(2), or 2e(2) of column (g) that corresponds with

the category of income for which the corporation is completing Form 1118. For example, if the code entered on Schedule H, Part III, line 2a is "PAS," then enter the amount from line 2a(2), column (g) on the Form 1118 that the corporation is completing for the passive category of income (as indicated on line a at the top of page 1 of Form 1118).

It is not necessary to report the apportioned expenses on a related-person or per-country basis. Therefore, only enter an amount in the totals line of column 14.

**Note.** With respect to the apportionment of deductions reported on Schedule H, Part II, the reduction required by section 904(b)(4) in deductions relating to dividends eligible for the dividends received deduction under section 245A is taken into account (for purposes of determining foreign source income or loss in each separate category) by carrying to Schedule A, column 14, only the amounts on Schedule H, Part II, column (f), lines 3a(2), 3b(2), 3c(2), 3d(2), and 3e(2). Likewise, with respect to the apportionment of deductions reported on Schedule H, Part III, the reduction required by section 904(b)(4) in deductions relating to dividends eligible for the dividends received deduction under section 245A is taken into account (for purposes of determining foreign source income or loss in each separate category) by carrying to Schedule A, column 14, only the amounts on Schedule H, Part III, column (g), lines 2a(2), 2b(2), 2c(2), 2d(2), or 2e(2).

**Column 15.** Enter the corporation's NOL deduction allowed under section 172 that is attributable to foreign source income in the applicable separate category. If the NOL is part of an overall foreign loss, see Regulations section 1.904(g)-3 for allocation rules that apply in determining the amount to enter in column 15.

It is not necessary to report the NOL deduction on a related-person or per-country basis. Therefore, only enter an amount on the totals line of column 15. See [Net operating losses](#), earlier.

## Schedule B

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

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

For corporations claiming the credit on the accrual basis, the exchange rate for translating foreign income taxes into U.S. dollars will generally be an average exchange rate for the tax year to which the taxes relate. However, the exchange rate on the date of payment must be used if the foreign income taxes (a) are paid more than 24 months after the close of the tax year to which they relate, or (b) are paid in a tax year prior to the tax year to which they relate. In addition, corporations may elect to use the exchange rate on the date of payment. Corporations may elect to use the payment date exchange rates for all creditable foreign income taxes or only those taxes that are attributable to QBUs with U.S. dollar functional currencies. The election is made by attaching a statement to a timely filed (including extensions) Form 1118 that indicates the corporation is making the election under section 986(a)(1)(D). Once made, the election applies for all subsequent tax years and is revocable only with the consent of the IRS. See section 986(a)(1)(D).



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

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

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

If the cash method of accounting is used, an election under section 905(a) may be made to claim the credit based on accrued taxes.

To make this election, check the accrual box in column 1. Once made, the election is binding on all subsequent tax years in which a foreign tax credit is claimed. Also, the credits for foreign taxes, regardless of whether they are claimed on the accrual or cash basis, are subject to the redetermination provisions of section 905(c). See [Foreign Tax Credit Redeterminations](#), earlier, for details.

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

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

**Note.** With respect to taxes attributable to section 965(a) PTEP or section 965(b) PTEP, do not reduce the taxes by the applicable percentage. The applicable percentage reduction is taken into account on Schedule G.

**Column 2(c).** Include foreign income taxes withheld on branch distributions

or transfers as determined under section 987. See sections 901 and 903.

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

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

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

- The taxes deemed paid under section 960(a) as reported in Schedule C, column 10.
- The taxes deemed paid under section 960(b) as reported in Schedule E, Part I, column 11.

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

### Part II—Separate Foreign Tax Credit

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

**Line 4.** If the corporation is reclassifying high-taxed income from passive category income, enter the

related tax adjustment on line 4. Indicate whether the adjustment is positive or (negative).

**Line 5.** Enter the total amount of foreign income taxes carried forward or back to the current year. The amount of foreign income taxes carried forward to the current tax year is the amount from Schedule K (Form 1118), line 3, column (xiv), plus the amount from Schedule I (Form 1118), Part III, line 3. Attach Schedule I (Form 1118) and Schedule K (Form 1118) to Form 1118.

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

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

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

**Line 8c.** If the negative adjustments included on line 8b (such as those amounts coming in from Schedule H,

Part II, lines 5 and 6) exceed any positive adjustments that are also included on line 8b, the net line 8b adjustment will be negative. When this net negative amount on line 8b is subtracted from a positive taxable income amount on line 8a, the result will be a positive line 8c amount that is larger than the positive amount on line 8a.

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

**Line 12.** The limitation may be increased under section 960(c) for any tax year that the domestic corporation receives a PTEP distribution. Enter on line 12 the increase described in section 960(c) (1).

If the line 12 amount exceeds the domestic corporation's U.S. income tax liability, the excess is deemed an overpayment and can be claimed on the domestic corporation's income tax return as a refundable credit (Form 1120, Schedule J, Part III, line 20d, or the corresponding line of other corporate income tax returns). See section 960(c)(5).

### Part III—Summary of Separate Credits

Complete Part III only once. Enter on lines 1 through 6 the separate foreign tax credits from Part II, line 14, for each applicable separate category.

**Note.** Complete Part III only on the Form 1118 with the largest amount entered on Part II, line 14.

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

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## Schedule C

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

An individual (or an estate or trust) that has made an election under section 962 ("section 962 elector") should also complete Schedule C and report taxes deemed paid.

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

**Column 1b.** Enter the foreign corporation's EIN or reference ID number. See [Reference ID numbers](#), earlier.

**Note.** Taxpayers no longer have the option of entering "FOREIGNUS" or "APPLIED FOR" in this column. Instead, if the foreign corporation does not have an EIN, the taxpayer must use a reference ID number that uniquely identifies such foreign corporation, using the rules set forth in [Reference ID numbers](#), in the *Requirements* section, earlier.

**Column 1c.** Enter the tested unit's reference ID number (if applicable). See [Reference ID numbers](#), earlier. Complete column 1c only if a CFC has one or more tested units with passive category income. See Regulations section 1.904-4(c)(4).

**Note.** Taxpayers no longer have the option of entering "FOREIGNUS" or "APPLIED FOR" in this column. Instead, if the tested unit (or the CFC, if applicable) does not have an EIN, the taxpayer must use a reference ID number that uniquely identifies such tested unit (or the CFC, if applicable), using the rules set forth in [Reference ID numbers](#), in the *Requirements* section, earlier.

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



**Example.** When figuring foreign taxes deemed paid in 2023 by a calendar year domestic corporation with respect to inclusions out of E&P not previously taxed for the foreign corporation's tax year that ended November 30, 2023, enter "202311."

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

**Column 4.** Enter the applicable three-character alphabet code for the foreign corporation's functional currency using the ISO 4217 standard.

**Column 5(a).** Enter the code which describes the subpart F income group classification (as set forth in Regulations section 1.960-1(d)(2)(ii)(B)(2)). Please enter the applicable code from the following list.

Code	Subpart F Income Group (Reg. sec. 1.960-1(d)(2)(ii)(B)(2))
DIRRA	Dividends, interest, rents, royalties, and annuities
NGCPT	Net gain from certain property transactions
NGCT	Net gain from commodities transactions
NFCG	Net foreign currency gain
IEQI	Income equivalent to interest
NPC	Income from notional principal contracts
PILOD	Payments in lieu of dividends
PSC	Personal service contracts
FBCSA	Foreign base company sales income
FBCSE	Foreign base company services income
FIFBC	Full inclusion foreign base company income
INSUR	Insurance income described in section 952(a)(1)
BOYC	Boycott income
BKOP	Bribes, kickbacks, and other payments described in section 952(a)(4)
901J	Income subject to section 901(j) described in section 952(a)(5)

**Column 5(b).** Enter the code which describes the subpart F income group classification (as set forth in Regulations section 1.904-4(c)(3)(i) through (iv)). Please enter the applicable code from the following list.

Code	Subpart F Income Group (Reg. sec. 1.904-4(c)(3)(i) through (iv))
i	All passive income received during the tax year that is subject to a withholding tax of 15% or greater.
ii	All passive income received during the tax year that is subject to a withholding tax of less than 15% (but greater than zero).
iii	All passive income received during the tax year that is subject to no withholding tax or other foreign tax.
iv	All passive income received during the tax year that is subject to no withholding tax but is subject to a foreign tax other than a withholding tax.

**Column 5(c).** Enter the name of the tested unit. Complete column 5(c) only if a CFC has one or more tested units with passive category income. See Regulations section 1.904-4(c)(4).

**Column 6.** Enter the total net income in the subpart F income group (identified in column 5(a) and 5(b)) in the functional currency of the foreign corporation. If there is net income related to more than one subpart F income group, use a separate line for each subpart F income group. In general, the amount entered on a given line will be equal to the total of all amounts in column (xvi) of Schedule Q (Form 5471) for the subpart F income group identified in Schedule C, column 5 for the foreign corporation identified in column 1 and for the category of income with respect to which a Form 1118 and the corresponding Schedule Q (Form 5471) is being completed.

**Column 7.** Enter the total eligible current-year taxes in the subpart F income group (identified in column 5(a) and 5(b)) in U.S. dollars.

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

**Column 8(a).** Enter the section 951(a)(1) inclusion attributable to the subpart F income group (identified in

column 5(a) and 5(b)) in the functional currency of the foreign corporation.

**Column 8(b).** Enter the amount from column 8(a) translated into U.S. dollars at the appropriate exchange rate specified in section 989(b).

**Column 10.** For each line, multiply the amount in column 7 by the amount in column 9 and enter the result in column 10. This is the tax deemed paid computed under section 960(a).

**Example 1.** USC is a domestic corporation. CFC is a controlled foreign corporation incorporated in Country X. CFC has two tested units, each of which is a qualified business unit (QBU): QBU1 and QBU2. QBU1 and QBU2 are organized in Country X. The U.S. tax year for USC, CFC, QBU1, and QBU2 ends on December 31. The functional currency of CFC, QBU1, and QBU2 is the "u." At all relevant times, 1u = \$1. For its U.S. tax year ending December 31, 2023, after foreign taxes, QBU1 has 1,000,000u passive category dividend income subject to a less than 15% withholding tax ("QBU1 income group 1"). QBU1 has 1,000,000u passive category dividend income subject to a greater than 15% withholding tax ("QBU1 income group 2"). QBU2 has 2,400,000u passive category dividend income subject to a less than 15% withholding tax ("QBU2 income group"). QBU1 has eligible current-year taxes of \$50,000 and \$200,000 in QBU1 income group 1 and QBU1 income group 2, respectively. QBU2 has eligible current-year taxes of \$240,000 in QBU2 income group. USC has a subpart F inclusion with respect to CFC of which an amount of 800,000u is attributable to each of QBU1 income group 1 and QBU1 income group 2 and 1,920,000u is attributable to QBU2 income group. The country code for Country X is "OC." CFC, QBU1, and QBU2 have reference ID numbers of 100000, 100011, and 100012, respectively. The applicable three-character alphabet code for the "u" using the ISO 4217 standard is "UUU." USC completes Schedule C of its Form 1118 with respect to the passive category as follows.

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

Column	Entry
1a	CFC
1b	100000
1c	100011
2	202312
3	OC
4	UUU
5(a)	DIRRA
5(b)	ii
5(c)	QBU1
6	1,000,000u
7	50,000
8(a)	800,000u
8(b)	800,000
9	0.800
10	40,000

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

Column	Entry
1a	CFC
1b	100000
1c	100011
2	202312
3	OC
4	UUU
5(a)	DIRRA
5(b)	i
5(c)	QBU1
6	1,000,000u
7	200,000
8(a)	800,000u
8(b)	800,000
9	0.800
10	160,000

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

Column	Entry
1a	CFC
1b	100000
1c	100012
2	202312
3	OC
4	UUU
5(a)	DIRRA
5(b)	ii
5(c)	QBU2
6	2,400,000u
7	240,000
8(a)	1,920,000u
8(b)	1,920,000
9	0.800
10	192,000

**Example 2.** USC is a domestic corporation. CFC1 and CFC2 are controlled foreign corporations incorporated in Country X. The U.S. tax year for USC, CFC1, and CFC2 ends on December 31. At all relevant times, 1u = \$1. For its U.S. tax year ending December 31, 2023, after foreign taxes, CFC1 has 1,000,000u passive category dividend income subject to a withholding tax of less than 15% (“CFC1 income group 1”) and 2,400,000u passive category interest income subject to foreign tax other than withholding tax (“CFC1 income group 2”). CFC1 has eligible current-year taxes (including the withholding tax) of \$50,000 in CFC1 income group 1 and \$240,000 in CFC1 income group 2. USC has a subpart F inclusion with respect to CFC1 of which 800,000u is attributable to CFC1 income group 1 and 1,920,000u is attributable to CFC1 income group 2. For its U.S. tax year ending December 31, 2023, after foreign taxes, CFC2 has 1,800,000u of passive category gain from commodities transactions subject to foreign tax other than withholding tax (“CFC2 income group”). CFC2 has eligible current-year taxes of \$450,000 in the CFC2 income group. USC has a subpart F inclusion of 1,440,000u attributable to the CFC2 income group. The country code for Country X is “OC.” CFC1 and CFC2 have reference ID numbers of 100011 and 100012, respectively. The functional currency of both CFC1 and CFC2 is the “u.” The applicable three-character

alphabet code for the “u” using the ISO 4217 standard is “UUU.” USC completes Schedule C of its Form 1118 with respect to the passive category as follows.

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

Column	Entry
1a	CFC1
1b	100011
1c	
2	202312
3	OC
4	UUU
5(a)	DIRRA
5(b)	ii
5(c)	
6	1,000,000u
7	50,000
8(a)	800,000u
8(b)	800,000
9	0.800
10	40,000

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

Column	Entry
1a	CFC1
1b	100011
1c	
2	202312
3	OC
4	UUU
5(a)	DIRRA
5(b)	iv
5(c)	
6	2,400,000u
7	240,000
8(a)	1,920,000u
8(b)	1,920,000
9	0.800
10	192,000

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

Column	Entry
1a	CFC2
1b	100012
1c	
2	202312
3	OC
4	UUU
5(a)	NGCT
5(b)	iv
5(c)	
6	1,800,000u
7	450,000
8(a)	1,440,000u
8(b)	1,440,000
9	0.800
10	360,000

## Schedule D

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

Schedule D is generally completed by a domestic corporation that owns, within the meaning of section 958(a), stock in one or more CFCs that claims taxes deemed paid with respect to inclusions under section 951A.

Schedule D is also generally completed by an individual (or an estate or trust) that has made an election under section 962 ("section 962 elector").

If more than one line is needed in Part II:

- In Part II, column 2, the same denominator will be used (the Part I, column 5 total) in the inclusion percentage calculation for each line; and
- In Part II, column 3, the same multiplication factor will be used (the Part I, column 9 total) for each line.

If more than one line is completed in Part II, the column 4 amounts should be summed and included on a single line on Form 1118, Schedule B, Part I, column 3 (that is, the line on Schedule B, Part I, column 3, that corresponds with the line in

Schedule A with "951A" in column 2 of Schedule A).

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

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

**Column 1b.** Enter the EIN or reference ID number of the foreign corporation. See [Reference ID numbers](#), earlier.

**Note.** Taxpayers no longer have the option of entering "FOREIGNUS" or "APPLIED FOR" in this column. Instead, if the foreign corporation does not have an EIN, the taxpayer must use a reference ID number that uniquely identifies such foreign corporation, using the rules set forth in [Reference ID numbers](#), in the [Requirements](#) section, earlier.

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

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

**Column 4.** Enter the applicable three-character alphabet code for the foreign corporation's functional currency using the ISO 4217 standard.

**Column 5.** Enter the U.S. shareholder's pro rata share of the CFC's tested income from the applicable Form 8992 schedule. If the U.S. shareholder is not a member of a U.S. consolidated group, enter the amount reported on Form 8992, Schedule A, column (e), for the CFC. If the U.S. shareholder is a member of a U.S. consolidated group, enter the amount reported with respect to that U.S. shareholder on Schedule B (Form 8992), Part I, column (g), for the CFC.

If the domestic corporation is a partner in a partnership, enter the domestic corporate partner's pro rata share of CFC tested income from Schedule K-3, Part VIII, line 3.

**Column 6.** Enter the CFC's tested income from the applicable Form 8992 schedule. If the U.S. shareholder

is not a member of a U.S. consolidated group, enter the amount reported on Form 8992, Schedule A, column (c), for the CFC. If the U.S. shareholder is a member of a U.S. consolidated group, enter the amount reported with respect to that U.S. shareholder on Schedule B (Form 8992), Part I, column (e), for the CFC.

**Column 8.** Enter the CFC's tested foreign income taxes from Schedule Q (Form 5471), line 3, column (xii).

**Column 9.** Enter the pro rata share of tested foreign income taxes paid or accrued by the CFC. To determine this amount, multiply the amount in column 7 by the amount in column 8.

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

## Part II—Foreign Income Tax Deemed Paid

**Note.** While multiple line entries may be necessary for Schedule D, Part I, because such lines are completed for each CFC, in general, only one line will be completed in Schedule D, Part II, because the domestic corporation filing Form 1118 only has one section 951A inclusion. However, there is an exception if Form 1118 is completed by an individual (or by an estate or trust) that has made an election under section 962 ("section 962 elector") and the section 962 elector is a shareholder of an S corporation that has made an election to treat the S corporation as an entity (rather than as an aggregate of its owners), as provided in [Notice 2020-69](#), 2020-39 I.R.B. 604, on a timely (including extensions) filed original Form 1120-S with respect to the first tax year ending on or after September 1, 2020. In this case, the section 962 elector may have more than one section 951A inclusion that will be reported on separate lines on Schedule D, Part II. There might be multiple lines as a result of (1) the section 962 elector's section 951A inclusion, and (2) the section 962 elector's share of the section 951A inclusion of the S corporation. There could also be multiple lines if the section 962 elector has an interest in more than one S corporation.



**Column 1.** Enter the GILTI (that is, the section 951A inclusion) from Form 8992, Part II, line 5.

**Column 3.** This amount as determined on this line is the section 78 gross-up with respect to an inclusion under section 951A which is reported on Form 1118, Schedule A, column 3(b).

## Schedule E

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

**Note.** Foreign withholding taxes levied on a domestic corporation as a result of distributions of PTEP from a first-tier foreign corporation to such domestic corporation are not reported on Schedule E. Such taxes are reported on Schedule B, Part I, column 2(b), as tax withheld on distributions of PTEP.

### Part I—Tax Deemed Paid by Domestic Corporation

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

**Column 1b.** Enter the EIN or reference ID number of the foreign corporation. See [Reference ID numbers](#), earlier.

**Note.** Taxpayers no longer have the option of entering “FOREIGNUS” or “APPLIED FOR” in this column.

Instead, if the foreign corporation does not have an EIN, the taxpayer must use a reference ID number that uniquely identifies such foreign corporation, using the rules set forth in [Reference ID numbers](#), in the [Requirements](#) section, earlier.

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

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

**Column 4.** Enter the applicable three-character alphabet code for the distributing foreign corporation's functional currency using the ISO 4217 standard.

**Column 5.** Enter the code which describes the PTEP group classification (as set forth in Regulations section 1.960-3(c)(2)). Please enter the applicable PTEP group code from the following list.

Taxes related to previously taxed E&P	PTEP Group Code
Reclassified section 965(a) PTEP	R965a
Reclassified section 965(b) PTEP	R965b
General section 959(c)(1) PTEP	959c1
Reclassified section 951A PTEP	R951A
Reclassified section 245A(d) PTEP	R245Ad
Section 965(a) PTEP	965a
Section 965(b) PTEP	965b
Section 951A PTEP	951A
Section 245A(d) PTEP	245Ad
Section 951(a)(1)(A) PTEP	951a1A

**Column 6.** Enter the inclusion year for the PTEP of the foreign corporation to which inclusion under section 951(a) and GILTI inclusion amounts of U.S. shareholders are attributable. This is the annual PTEP account. See Regulations section 1.960-3(c)(1).

**Column 7.** Enter the total amount of the foreign corporation's PTEP in the PTEP group within an annual PTEP account identified in columns 5 and 6. Enter the amount in the functional currency of the first-tier foreign corporation.

**Column 8.** Enter the total amount of the foreign corporations' PTEP group taxes with respect to the PTEP group within the annual PTEP account identified in columns 5 and 6. Enter the amount in U.S. dollars.

**Column 9.** Enter the PTEP distribution from the PTEP group within the annual PTEP account identified in columns 5 and 6 in the functional currency of the first-tier foreign corporation. If there is a PTEP distribution related to more than one PTEP group within an annual PTEP account, complete a separate line for each PTEP group within an annual PTEP account.

**Column 11.** For each line, multiply the amount in column 8 by the amount in column 10. This is the U.S. dollar amount of the foreign income taxes properly attributable to the PTEP distribution reported in column 9 and not deemed to have been paid by the domestic corporation for the tax year or any prior tax year.

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

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

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

year should be noted in column 2 using the format YYYYMM.

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

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

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

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

**Column 1b.** Enter the EIN or reference ID number of the distributing foreign corporation. See [Reference ID numbers](#), earlier.

**Note.** Taxpayers no longer have the option of entering “FOREIGNUS” or “APPLIED FOR” in this column. Instead, if the distributing foreign corporation does not have an EIN, the taxpayer must use a reference ID number that uniquely identifies such foreign corporation, using the rules set forth in [Reference ID numbers](#), in the [Requirements](#) section, earlier.

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

**Note.** If the PTEP distributed in Part I relates to PTEP distributions from lower-tier foreign corporations made in more than 1 tax year, figure and show the tax deemed paid on a separate line for each distribution.

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

**Column 4b.** Enter the EIN or reference ID number of the recipient foreign corporation. See [Reference ID numbers](#), earlier.

**Note.** Taxpayers no longer have the option of entering “FOREIGNUS” or “APPLIED FOR” in this column. Instead, if the recipient foreign corporation does not have an EIN, the taxpayer must use a reference ID number that uniquely identifies such foreign corporation, using the rules set forth in [Reference ID numbers](#), in the [Requirements](#) section, earlier.

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

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

**Column 7.** Enter the applicable three-character alphabet code for the

distributing foreign corporation's functional currency using the ISO 4217 standard.

**Column 8.** Enter the applicable PTEP group code from the list provided in the specific instructions for Schedule E, Part I, [Column 5](#), earlier.

**Column 9.** Enter the annual PTEP account. See the instructions for Schedule E, Part I, [Column 6](#), earlier.

**Column 10.** Enter the total amount of the foreign corporation's PTEP in the PTEP group within the annual PTEP account identified in column 8 and column 9. Enter such amount in the functional currency of the distributing foreign corporation.

**Column 11.** Enter the total amount of the foreign corporation's PTEP group taxes with respect to the PTEP group within the annual PTEP account identified in column 8 and column 9. Enter this amount in U.S. dollars. To determine the appropriate translation rate, see section 986(a).

**Column 12.** Enter the PTEP distribution with respect to the PTEP group within the annual PTEP account identified in columns 8 and 9 in the functional currency of the distributing foreign corporation. If there is a PTEP distribution related to more than one PTEP group within an annual PTEP account, complete a separate line for each PTEP group within an annual PTEP account. Only report the amount of PTEP that was ultimately distributed to the domestic corporation in the current year, even if the amount of PTEP distributed to the upper-tier foreign corporation was greater than that amount.

**Column 14.** Enter the U.S. dollar amount of the recipient foreign corporation's income taxes paid, accrued, and deemed paid that are properly attributable to the PTEP distribution reported in column 12 and not deemed to have been paid by the domestic corporation for any prior tax year.

**Note.** See the [Note](#) in the instructions for Part I, column 11, for purposes of reporting foreign income taxes properly attributable to PTEP distributions resulting from inclusions under section 965.

**Note.** See the instructions for [Schedule G](#), later, for information on

reduction of foreign taxes for failure to furnish information required under section 6038.

**Example 1.** USC is a domestic corporation. CFC1, a Country Y corporation, wholly owns Country X corporations CFC2 and CFC3. The U.S. tax year for USC, CFC1, CFC2, and CFC3 ends on December 31. During the U.S. tax year ending December 31, 2023, CFC2 and CFC3, both second-tier CFCs, each distribute 100u, comprising all of their respective section 965(a) PTEP within the annual PTEP account for the 2017 tax year (“2017 section 965(a) PTEP”) within the general category, to CFC1, a first-tier CFC. CFC1 pays 40u equal to \$40 of eligible current-year taxes to Country X on the 200u PTEP distributions, reducing the 2017 section 965(a) PTEP to 160u. In that same year, CFC1 distributes all 160u of the 2017 section 965(a) PTEP to USC. CFC1 does not have any other PTEP balances. The reference ID numbers for CFC1, CFC2, and CFC3 are 10041, 10042, and 10043, respectively. The country codes for Country X and Country Y are OC and BC, respectively. The functional currency of CFC1, CFC2, and CFC3 is the “u.” The applicable three-character alphabet code for the “u” using the ISO 4217 standard is “UUU.”

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

Column	Entry
1a	A CFC1
1b	10041
2	202312
3	BC
4	UUU
5	965a
6	2017
7	160u
8	40
9	160u
10	1.000
11	40

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

Column	Entry
1a	A CFC2
1b	10042
2	202312
3	OC
4a	CFC1
4b	10041
5	202312
6	BC
7	UUU
8	965a
9	2017
10	80u
11	0
12	80u
13	1.000
14	0

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

Column	Entry
1a	A CFC3
1b	10043
2	202312
3	OC
4a	CFC1
4b	10041
5	202312
6	BC
7	UUU
8	965a
9	2017
10	80u
11	0
12	80u
13	1.000
14	0

**Example 2.** USC is a domestic corporation. CFC1 and CFC2 are Country X corporations, and CFC3 is a Country Y corporation. The U.S. tax year for USC, CFC1, CFC2, and CFC3 ends on December 31. During CFC3’s U.S. tax year ending December 31, 2018, CFC3 distributes 100u, comprising its entire section 965(a) PTEP within the annual PTEP

account for the 2017 tax year (“2017 section 965(a) PTEP”) within the general category, to CFC2, a CFC that wholly owns CFC3. CFC2 pays eligible current-year tax of 20u to Country X equal to \$20 on the 100u PTEP distribution, reducing the 2017 section 965(a) PTEP to 80u. In CFC2’s U.S. tax year ending December 31, 2019, CFC2 distributes 40u of the 2017 section 965(a) PTEP to CFC1, a CFC that wholly owns CFC2. CFC1 pays no tax on such distribution, but is deemed to pay \$10 of the eligible current-year tax that was paid by CFC2 in 2017. In CFC1’s U.S. tax year ending December 31, 2023, CFC1 distributes 40u to USC, who wholly owns CFC1. USC pays no foreign tax on such distribution, but is deemed to pay the \$10 of eligible current-year tax that was paid by CFC2 in 2017 and deemed paid by CFC1 in 2019. The reference ID numbers for CFC1, CFC2, and CFC3 are 20041, 20042, and 20043, respectively. The country codes for Country X and Country Y are OC and BC, respectively. The functional currency of CFC1, CFC2, and CFC3 is the “u.” The applicable three-character alphabet code for the “u” using the ISO 4217 standard is “UUU.”

Schedule E reporting is not necessary for USC’s tax years ending December 31, 2018, 2019, 2020, 2021, and 2022. For USC’s tax year ending December 31, 2023, USC makes the following entries on a single line on its general category Form 1118, Schedule E, Part I.

Column	Entry
1a	A CFC1
1b	20041
2	202312
3	OC
4	UUU
5	965a
6	2017
7	40u
8	10
9	40u
10	1.000
11	10



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

Column	Entry
1a	A CFC2
1b	20042
2	201912
3	OC
4a	CFC1
4b	20041
5	201912
6	OC
7	UUU
8	965a
9	2017
10	80u
11	20
12	40u
13	0.500
14	10

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

Column	Entry
1a	A CFC3
1b	20043
2	201812
3	BC
4a	CFC2
4b	20042
5	201812
6	OC
7	UUU
8	965a
9	2017
10	80u
11	0
12	40u
13	0.500
14	0

**Example 3.** USC is a domestic corporation. CFC1 is a Country X corporation, CFC2 is a Country Y corporation, and CFC3 is a Country Z corporation. The U.S. tax year of USC, CFC1, CFC2, and CFC3 ends on

December 31. During CFC3's U.S. tax year ending December 31, 2018, CFC3 distributes 1,000u, comprising all of its subpart F PTEP within the annual PTEP account for the 2016 tax year ("2016 section 951(a)(1)(A) PTEP") within the general category, to CFC2, a CFC that wholly owns CFC3. CFC2 pays eligible current-year tax of 100u to Country Y equal to \$100 on the 1,000u PTEP distribution, reducing the 2016 section 951(a)(1)(A) PTEP to 900u. In CFC2's tax year ending December 31, 2019, CFC2 distributes 250u, comprising all of its section 951A PTEP within the annual PTEP account for the 2018 tax year ("2018 section 951A PTEP") within the section 951A category, to CFC1, a CFC that wholly owns CFC2. CFC1 pays eligible current-year tax of 25u to Country X equal to \$25 on the 250u PTEP distribution, reducing the 2018 section 951A PTEP to 225u. During CFC2's tax year ending December 31, 2023, CFC2 distributes 450u out of its 2016 section 951(a)(1)(A) PTEP balance of 900u to CFC1. CFC1 pays eligible current-year tax of 45u to Country X equal to \$45 on the 450u PTEP distribution, reducing the 2016 section 951(a)(1)(A) PTEP to 405u. CFC1 is also deemed to pay \$50 of the eligible current-year tax paid by CFC2 on its receipt of the 2018 distribution of the PTEP from CFC3. In the same year, CFC1 distributes 630u to USC, which wholly owns CFC1. Such distribution includes all of CFC1's 2016 section 951(a)(1)(A) PTEP of 405u and 2018 section 951A PTEP of 225u. USC pays no foreign tax on such distribution, but is deemed to pay \$50 of the eligible current-year tax deemed paid by CFC1 and \$70 on the eligible current-year tax paid by CFC1 on the 2019 and 2023 distributions of the PTEP from CFC2.

The reference ID numbers for CFC1, CFC2, and CFC3 are 10041, 10042, and 10043, respectively. The country codes for Country X, Country Y, and Country Z are OC, CC, and BC, respectively. The functional currency of CFC1, CFC2, and CFC3 is the "u." The applicable three-character alphabet code for the "u" using the ISO 4217 standard is "UUU."

Schedule E reporting is not necessary for USC's tax years ending December 31, 2018, 2019, 2020, 2021, and 2022. For USC's tax year

ending December 31, 2023, USC completes Form 1118, Schedule E, as follows:

USC makes the following entries on Schedule E, Part I, with respect to general category income.

Column	Entry
1a	A CFC1
1b	10041
2	202312
3	OC
4	UUU
5	951a1A
6	2016
7	405u
8	95
9	405u
10	1,000
11	95

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

Column	Entry
1a	A CFC2
1b	10042
2	202312
3	CC
4a	CFC1
4b	10041
5	202312
6	OC
7	UUU
8	951a1A
9	2016
10	810u
11	100
12	405u
13	0.500
14	50

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

Column	Entry
1a	A CFC3
1b	10043
2	201812
3	BC
4a	CFC2
4b	10042
5	201812
6	CC
7	UUU
8	951a1A
9	2016
10	810u
11	0
12	405u
13	0.500
14	0

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

Column	Entry
1a	B CFC1
1b	10041
2	202312
3	OC
4	UUU
5	951A
6	2018
7	225u
8	25
9	225u
10	1.000
11	25

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

Column	Entry
1a	B CFC2
1b	10042
2	201912
3	CC
4a	CFC1
4b	10041
5	201912
6	OC
7	UUU
8	951A
9	2018
10	225u
11	0
12	225u
13	1.000
14	0

## Schedule F

Reserved for future use.

## Schedule G

### Part I

**Line A.** If the corporation claims a deduction for percentage depletion under section 613 with respect to any part of its foreign mineral income (as defined in section 901(e)(2)) for the tax year, any foreign taxes on that income must be reduced by the smaller of:

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

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

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

**Line D.** If the corporation controls a foreign corporation or partnership and

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

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

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

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

**Line F.** Enter disallowed taxes under section 965(g).

Taxes paid or accrued with respect to distributions of section 965(a) PTEP and section 965(b) PTEP must be reduced by the relevant applicable percentage. See Regulations section 1.965-5(b). Taxes deemed paid with respect to distributions of section 965(a) PTEP and section 965(b) PTEP must be reduced by the relevant applicable percentage. See Regulations section 1.965-5(c)(1)(i) and (iii).

**Line G.** Enter disallowed taxes under section 245A. Such disallowed taxes may also include, for example, gain on certain sales of CFC stock treated as dividends. See section 964(e)(4).

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

## Schedule H

### Computer-Generated Schedule H

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

- Has more than two product lines (under the gross receipts method of apportioning research and experimental (R&E) deductions in Part I), or
- Has more than five categories of income (statutory groupings within Part I, line 6; Part II, line 3; or Part III, line 2) with respect to which expenses are required to be apportioned.

**Note.** If there are more than five foreign source statutory groupings within Part II, line 3, or Part III, line 2, add them after the U.S. source residual grouping.

### Part I—Research and Experimental Deductions

**Note.** These instructions refer to the regulations issued on November 12, 2020. See Regulations section 1.861-17 (T.D. 9922, 85 FR 72042, as corrected by 86 FR 54367).

Use Part I to apportion R&E deductions. Use the gross receipts method described in Regulations section 1.861-17 and report applicable amounts in column (a).

### Column (a), Gross Receipts Method

Enter in the spaces provided the SIC Code numbers (based upon the Standard Industrial Classification System) of the product lines to which the R&E deductions relate. See Regulations section 1.861-17(b)(3) for details on choosing SIC codes and changing a product category.

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

### Columns (a)(i) and (a)(iv)

**Line 1.** For each product line, enter the taxpayer's worldwide "gross

intangible income" (as defined in Regulations section 1.861-17(b)(2)).

**Line 4a.** For each product line, enter the U.S. source "gross intangible income" (as defined in Regulations section 1.861-17(b)(2)) of the taxpayer that is neither income pertaining to sales, licenses, leases, or services of controlled parties (as defined in Regulations section 1.861-17(d)(4)) nor income pertaining to sales, licenses, leases, or services of uncontrolled parties (as defined in Regulations section 1.861-17(d)(3)).

**Line 4b.** For each product line, enter the U.S. source "gross intangible income" (as defined in Regulations section 1.861-17(b)(2)) of the taxpayer that is income pertaining to sales, licenses, leases, or services of controlled parties (as defined in Regulations section 1.861-17(d)(4)).

**Line 4c.** For each product line, enter the U.S. source "gross intangible income" (as defined in Regulations section 1.861-17(b)(2)) of the taxpayer that is income pertaining to sales, licenses, leases, or services of uncontrolled parties (as defined in Regulations section 1.861-17(d)(3)).

**Line 4d.** For each product line, add lines 4a through 4c and enter the sum on line 4d.

**Line 5a.** For each product line, enter the aggregate foreign source "gross intangible income" (as defined in Regulations section 1.861-17(b)(2)) of the taxpayer that is neither income pertaining to sales, licenses, leases, or services of controlled parties (as defined in Regulations section 1.861-17(d)(4)) nor income pertaining to sales, licenses, leases, or services of uncontrolled parties (as defined in Regulations section 1.861-17(d)(3)).

**Line 5b.** For each product line, enter the aggregate foreign source "gross intangible income" (as defined in Regulations section 1.861-17(b)(2)) of the taxpayer that is income pertaining to sales, licenses, leases, or services of controlled parties (as defined in Regulations section 1.861-17(d)(4)).

**Line 5c.** For each product line, enter the aggregate foreign source "gross intangible income" (as defined in Regulations section 1.861-17(b)(2)) of the taxpayer that is income pertaining to sales, licenses, leases, or services

of uncontrolled parties (as defined in Regulations section 1.861-17(d)(3)).

**Line 5d.** For each product line, add lines 5a through 5c and enter the sum on line 5d.

**Lines 6a through 6e.** For lines 6a through 6e, enter the code for the applicable separate category of income (foreign source statutory grouping). See [Categories of Income](#) earlier. If code "901j" or one of the "RBT" codes applies, also enter the applicable country.

**Note.** If the corporation has more than five separate categories of income, Schedule H, Part I, line 6 must be expanded to properly report apportioned R&E deductions. See [Computer-Generated Schedule H](#), earlier.

**Lines 6a(1), 6b(1), 6c(1), 6d(1), and 6e(1).** For each product line and for each separate category, enter the foreign source "gross intangible income" (as defined in Regulations section 1.861-17(b)(2)) of the taxpayer that is neither income pertaining to sales, licenses, leases, or services of controlled parties (as defined in Regulations section 1.861-17(d)(4)) nor income pertaining to sales, licenses, leases, or services of uncontrolled parties (as defined in Regulations section 1.861-17(d)(3)).

**Lines 6a(2), 6b(2), 6c(2), 6d(2), and 6e(2).** For each product line and for each separate category, enter the foreign source "gross intangible income" (as defined in Regulations section 1.861-17(b)(2)) of the taxpayer that is income pertaining to sales, licenses, leases, or services of controlled parties (as defined in Regulations section 1.861-17(d)(4)).

**Lines 6a(3), 6b(3), 6c(3), 6d(3), and 6e(3).** For each product line and for each separate category, enter the foreign source "gross intangible income" (as defined in Regulations section 1.861-17(b)(2)) of the taxpayer that is income pertaining to sales, licenses, leases, or services of uncontrolled parties (as defined in Regulations section 1.861-17(d)(3)).

**Lines 6a(4), 6b(4), 6c(4), 6d(4), and 6e(4).** For each product line and for each separate category, add lines (1), (2), and (3) and enter the sum on line (4).



## Columns (a)(ii) and (a)(v)

**Line 1.** For each product line, enter the taxpayer's worldwide gross receipts from sales and leases of products or services.

**Line 4a.** For each product line, enter the taxpayer's gross receipts from sales and leases of products or services related to U.S. source gross intangible income.

**Line 4b.** For each product line, enter the controlled parties' (as defined in Regulations section 1.861-17(d)(4)) gross receipts from sales, leases, licenses, or services that are related to the taxpayer's U.S. source gross intangible income.

**Line 4c.** For each product line, enter the uncontrolled parties' (as defined in Regulations section 1.861-17(d)(3)) gross receipts from sales, leases, licenses, or services of uncontrolled parties that are related to the taxpayer's U.S. source gross intangible income.

**Line 4d.** For each product line, add lines 4a through 4c and enter the sum on line 4d.

**Line 5a.** For each product line, enter the taxpayer's gross receipts from sales and leases of products or services related to foreign source gross intangible income.

**Line 5b.** For each product line, enter the controlled parties' (as defined in Regulations section 1.861-17(d)(4)) gross receipts from sales, leases, licenses, or services that are related to the taxpayer's foreign source gross intangible income.

**Line 5c.** For each product line, enter the uncontrolled parties' (as defined in Regulations section 1.861-17(d)(3)) gross receipts from sales, licenses, leases, or services that are related to the taxpayer's foreign source gross intangible income.

**Line 5d.** For each product line, add lines 4a through 4c and enter the sum on line 4d.

**Lines 6a(1), 6b(1), 6c(1), 6d(1), and 6e(1).** For each product line, enter the taxpayer's gross receipts from sales and leases of products or services that are related to foreign source gross intangible income within the relevant separate category.

**Lines 6a(2), 6b(2), 6c(2), 6d(2), and 6e(2).** For each product line, enter the controlled parties' (as defined in Regulations section 1.861-17(d)(4)) gross receipts from sales, licenses, leases, or services that are related to foreign source gross intangible income within the relevant statutory grouping.

**Lines 6a(3), 6b(3), 6c(3), 6d(3), and 6e(3).** For each product line, enter the uncontrolled parties' (as defined in Regulations section 1.861-17(d)(3)) gross receipts from sales, licenses, leases, or services that are related to foreign source gross intangible income within the relevant statutory grouping.

**Lines 6a(4), 6b(4), 6c(4), 6d(4), and 6e(4).** For each product line and for each separate category, add lines (1), (2), and (3) and enter the sum on line (4).

## Columns (a)(iii) and (a)(vi)

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

**Line 2a or 2b.** Reduce the line 1 totals by a 50% exclusive apportionment amount (Regulations section 1.861-17(c)).

**Note.** For tax years beginning on or after January 1, 2020, there is no longer a rule with respect to legally mandated R&E. See Regulations section 1.861-17 (T.D. 9922) published in the Federal Register on November 12, 2020.

Under the exclusive apportionment rules, 50% of the R&E deductions are apportioned exclusively to the residual grouping of U.S. source gross income, if the R&E that accounts for more than 50% of the amount of such R&E deductions were performed in the United States. A similar rule applies when a majority of R&E is performed outside the United States.

Enter 50% of line 1 on either line 2a or line 2b (as explained above).

**Line 4d.** According to Regulations section 1.861-17(d)(1), to determine the line 3 amount of R&E expenditures to be apportioned to the residual grouping of U.S. source gross income, divide the gross receipts related to the gross intangible income within the residual grouping by the

worldwide gross receipts for the product line. Multiply the result by the line 3 R&E deductions to be apportioned.

**Example 1.** With respect to the first product line reported on Schedule H, Part I, to determine the amount to enter on line 4d, column (a)(iii), divide the amount on line 4d, column (a)(ii) by the amount on line 1, column (a)(ii). Multiply the result by the amount on line 3, column (a)(iii).

**Line 5d.** According to Regulations section 1.861-17(d)(1), to determine the line 3 amount of R&E expenditures to be apportioned to the aggregate statutory grouping of foreign source gross income, divide the gross receipts related to the gross intangible income within the statutory grouping(s) by the worldwide gross receipts for the product line. Multiply the result by the line 3 R&E deductions to be apportioned.

**Example 2.** With respect to the first product line reported on Schedule H, Part I, to determine the amount to enter on line 5d, column (a)(iii), divide the amount on line 5d, column (a)(ii) by the amount on line 1, column (a)(ii). Multiply the result by the amount on line 3, column (a)(iii).

**Lines 6a(5), 6b(5), 6c(5), 6d(5), and 6e(5).** Enter the amount of line 3 R&E deductions apportioned to each separate category. According to Regulations section 1.861-17(d)(1), to determine the line 3 amount of R&E expenditures to be apportioned among the statutory groupings of foreign source gross income, divide the gross receipts related to the gross intangible income within the statutory grouping by the worldwide gross receipts for the product line. Multiply the result by the line 3 R&E deductions to be apportioned.

**Example 3.** With respect to the first product line reported on Schedule H, Part I, there are two foreign tax credit separate limitation categories with gross receipts that are related to foreign source gross intangible income within each of the two categories. With respect to the first separate category, to determine the amount to enter on line 6a(5), column (a)(iii), divide the amount on line 6a(4), column (a)(ii) by the amount on line 1, column (a)(ii) and multiply the result by the amount on

line 3, column (a)(iii). Similarly, with respect to the second separate category, to determine the amount to enter on line 6b(5), column (a)(iii), divide the amount on line 6b(4), column (a)(ii) by the amount on line 1, column (a)(ii) and multiply the result by the amount on line 3, column (a)(iii).

**Lines 6a(6), 6b(6), 6c(6), 6d(6), and 6e(6).** Enter the amount of line 2b R&E deductions, if any, to be apportioned to each separate category. As indicated in Regulations section 1.861-17(c), if there are multiple separate categories with foreign source gross intangible income with respect to a given product line, the line 2b amount is apportioned ratably based on the relative amounts of gross receipts from gross intangible income in each separate category, as determined under Regulations section 1.861-17(d).

#### Column (b)

**Line 1.** Enter total R&E deductions for all product lines (for example, from column (a)(iii) and, if applicable, columns (a)(vi), (a)(ix), etc.).

**Note.** Line 1, column (b) is the total worldwide R&E deductions for all product lines.

**Lines 2a and 4d.** Enter on line 2a the total amount exclusively apportioned to U.S. source gross intangible income for all product lines. Enter on line 4d the total amount of line 3 R&E expenditures apportioned to the residual grouping of U.S. source gross intangible income for all product lines.

**Note.** Line 2a, column (b) plus line 4d, column (b) equals the total amount of R&E deductions for all product lines apportioned to U.S. source gross intangible income for all product lines.

**Lines 6a(7), 6b(7), 6c(7), 6d(7), and 6e(7).** Enter on each of these lines the total amount of line 3 R&E expenditures apportioned to the statutory grouping of foreign source gross income for all product lines.

**Note.** The sum of lines 6a(7), 6b(7), 6c(7), 6d(7), and 6e(7) in column (b) equals the total amount of R&E deductions for all product lines

apportioned to foreign source gross intangible income for all product lines.

**Note.** Include the amount from column (b) of line 6a(7) in column 14 of the Schedule A that corresponds with the code entered on line 6a. If applicable, you should likewise include the amount from column (b) of line 6b(7) in column 14 of the Schedule A that corresponds with the code entered on line 6b. If applicable, on page 10 of Form 1118, you should likewise include the amount(s) from column (b) of lines 6c(7), 6d(7), and 6e(7) in column 14 of the Schedule A that corresponds with the code entered on lines 6c, 6d, and 6e, respectively.

### Part II—Deductions Allocated and Apportioned Based on Assets

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

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

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

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

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

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

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

**Line 1b.** Enter the assets included on line 1a that are characterized as

excess related party indebtedness. See Regulations section 1.861-10(e) for an exception to the general rule of fungibility for excess related party indebtedness.

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

**Line 1d.** Enter the total of the exempt assets and assets without directly identifiable yield that are to be excluded from the interest apportionment formula (Regulations section 1.861-8(d)(2) and Temporary Regulations sections 1.861-8T(d)(2) and 1.861-9T(g)(3)). This could include an exempt portion of assets that produce foreign-derived intangible income and/or an exempt portion of CFC stock that gives rise to inclusions under section 951A.

**Lines 3a through 3f.** For lines 3a through 3e, enter the code for the applicable separate category of income (statutory grouping). See [Categories of Income](#), earlier. If code “901j” or one of the “RBT” codes applies, also enter the applicable country.

**Note.** If the corporation had more than five separate categories of income, Schedule H, Part II, line 3 must be expanded to properly report deductions apportioned based on assets. See [Computer-Generated Schedule H](#), earlier.

The assets in each statutory grouping (lines 3a through 3e) and the residual grouping (line 3f) are divided between those assets generating dividend income eligible to be offset by the deduction under section 245A versus those generating all other types of gross income. The foreign branch income and section 951A income categories do not include assets generating dividend income eligible to be offset by the deduction under section 245A. The assets on line 2 are characterized as assets in one of the statutory groupings or as belonging to the residual grouping.

Enter the value of the assets in each of the statutory groupings on lines 3a through 3e, and enter the value of the assets in the residual grouping on line 3f. See Regulations

sections 1.861-12 and 1.861-13 and Temporary Regulations sections 1.861-9T(g)(3), 1.861-12T(g)(2), and 1.861-12T for the rules for characterizing the assets.

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

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

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

**Note.** These interest deductions will be divided among the statutory groupings and the residual grouping. The interest deductions allocated and apportioned to the statutory groupings will appear as a definitely allocable deduction in Schedule A, column 13(j).

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

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

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

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

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

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

### Column (c)

Complete this column to apportion stewardship deductions. See Regulations section 1.861-8(e)(4)(ii).

### Column (d)

Complete this column to apportion certain industrial/investor damages. See Regulations section 1.861-8(e)(5)(ii) and (iii).

### Column (e)

Complete this column to apportion all other deductions allocated and apportioned based on assets (other than interest deductions, stewardship deductions, and certain industrial/investor damages). See final and temporary Regulations sections 1.861-8 and 1.861-14.

### Line Instructions for Columns (c), (d), and (e)

**Line 1a.** For each column, enter the total expenses to be allocated and apportioned. See final and temporary Regulations sections 1.861-8 and 1.861-14. Also report this amount on line 2.

**Lines 3a through 3f.** For lines 3a through 3e, enter the code for the applicable separate category of income (statutory grouping). See [Categories of Income](#), earlier. If code "901j" or one of the "RBT" codes applies, also enter the applicable country.

**Note.** If the corporation had more than five separate categories of income, Schedule H, Part II, line 3 must be expanded to properly report stewardship deductions in column (c), certain industrial/investor damages in column (d), and "other deductions" in column (e). To clarify, in column (e), report all other deductions allocated and apportioned based on assets (other than those listed in columns (b), (c), and (d)). See

Computer-Generated Schedule H, earlier.

Enter on lines 3a through 3e the amount of expenses apportioned to each separate category of income as further apportioned between dividend income eligible to be offset by the deduction under section 245A and all other gross income.

Enter on line 3f the amount of expenses apportioned to income in the residual grouping (U.S. source income) as further apportioned between dividend income eligible to be offset by the deduction under section 245A and all other gross income.

Attach a schedule that explains in detail how the above apportionments were made.

### Column (f)

To determine the totals to enter in column (f), use the following steps.

**Step 1:** For each applicable line beginning with line 3a(1), enter the sum of the amounts in columns (b)(iii), (b)(iv), (c), (d), and (e) in this column (f).

**Step 2:** With respect to section 245A dividends, enter the sum of any amounts entered in column (f) of lines 3a(1), 3b(1), 3c(1), 3d(1), 3e(1), and 3f(1) on line 4, column (f). Include this line 4 result as a negative amount on Schedule B, Part II, line 8b.

**Note.** This is the adjustment required by section 904(b)(4) to worldwide taxable income to eliminate the expenses properly allocated or apportioned to stock or dividend income for which a dividends received deduction is allowed in section 245A. As such, it includes both foreign source amounts (that is, the amounts from the applicable statutory groupings on lines 3a(1), 3b(1), 3c(1), 3d(1), and 3e(1)) and U.S. source amounts (that is, the amount from the residual grouping on line 3f(1)).

**Step 3:** With respect to amounts other than section 245A dividends, for each applicable statutory grouping, include the amount in column (f) of line 3a(2), 3b(2), 3c(2), 3d(2), or 3e(2) in column 14 of the corresponding Schedule A. For example, if the taxpayer enters "PAS" on Schedule H, Part II, line 3a, the taxpayer takes the



total on line 3a(2), column (f) and includes it in column 14 of the Schedule A being completed for the Passive Category.

**Note.** Do not include the amount on line 3f(2), column (f) in column 14 on any Schedule A. The amount on line 3f(2), column (f) is a residual grouping amount and not an applicable statutory grouping amount.

**Note.** Due to the reporting requirement described in step 3 above, you do not need to report a grand total for amounts other than section 245A dividends (that is, the amount reported on line 4).

### Part III—Other Deductions

Report in Schedule H, Part III information pertaining to the allocation and apportionment of deductions other than research and experimental deductions (reported in Schedule H, Part I) and other than deductions allocated and apportioned based on assets (reported in Schedule H, Part II).

**Column (a).** Complete this column to apportion officers' compensation expense in accordance with the rules of Regulations section 1.861-8(b)(3).

**Columns (b) and (c).** Complete this column to apportion amortization deductions and depletion deductions, respectively, in accordance with the rules of Regulations section 1.861-8(b)(2) and Temporary Regulations section 1.861-8T(c)(1), for example.

**Column (d).** Complete this column to apportion product liability damages in accordance with the rules of Regulations section 1.861-8(e)(5)(ii).

**Column (e).** Complete this column to apportion deductions other than those reported on Schedule H, Part I; Schedule H, Part II; or Schedule H, Part III, columns (a) through (d). See

final and temporary Regulations sections 1.861-8 and 1.861-14.

**Column (f).** Column (f) is a totals column. It requests total deductions allocated and apportioned to section 245A dividends. This is the sum of any amounts entered in columns (a) through (e) on lines 2a(1), 2b(1), 2c(1), 2d(1), 2e(1), and 2f(1). The total is entered on line 3 and is also included on Schedule B, Part II, line 8b as a negative number.

**Note.** This is the adjustment required by section 904(b)(4) to worldwide taxable income to eliminate the expenses properly allocated or apportioned to stock or dividend income for which a dividends received deduction is allowed in section 245A. As such, it includes both foreign source amounts (that is, the amounts from the applicable statutory groupings on lines 3a(1), 3b(1), 3c(1), 3d(1), and 3e(1)) and U.S. source amounts (that is, the amount from the residual grouping on line 3f(1)).

**Column (g).** With respect to each applicable statutory grouping, column (g) requests the sum of any amounts entered in columns (a) through (e) for lines 2a(2), 2b(2), 2c(2), 2d(2), and 2e(2). These are amounts other than section 245A dividends.

**Note.** Unlike column (f), this column (g) does not request a total. Instead, for each applicable statutory grouping, the column (g) total for each applicable line is carried over to column 14 of the corresponding Schedule A. For example, if the taxpayer enters "PAS" on Schedule H, Part III, line 2a, the taxpayer takes the total on line 2a(2), column (g) and includes it in column 14 of the Schedule A being completed for the Passive Category.

### Line instructions

**Line 1.** For each column, enter the total expenses to be allocated and apportioned.

**Lines 2a through 2f.** For lines 2a through 2e, enter the code for the applicable separate category of income (statutory grouping). See [Categories of Income](#), earlier. If code "901j" or one of the "RBT" codes applies, also enter the applicable country.

**Note.** If the corporation had more than five separate categories of income, Schedule H, Part III, line 2 must be expanded to properly report deductions other than research and experimental deductions (reported in Schedule H, Part I), and other than deductions allocated and apportioned based on assets (reported in Schedule H, Part II). See Computer-Generated Schedule H, earlier.

Enter on lines 2a through 2e the amount of expenses apportioned to each separate category of income as further apportioned between dividend income eligible to be offset by the deduction under section 245A and all other gross income.

Enter on line 2f the amount of expenses apportioned to income in the residual grouping (U.S. source income) as further apportioned between dividend income eligible to be offset by the deduction under section 245A and all other gross income.

Attach a schedule that explains in detail how the above apportionments were made.

**Line 3.** See the instructions for column (f) above.

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### Schedules I, J, K, and L

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

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