

Specific Instructions

Part I—Taxable Income or Loss From Sources Outside the United States



Part I must be completed by all filers unless specifically indicated otherwise in these instructions.

Line 1—Foreign Country or U.S. Possession

Generally, if you received income from, or paid taxes to, more than one foreign country or U.S. possession, report information on a country-by-country basis on Form 1116, Parts I and II. Use a separate column in Part I and a separate line in Part II for each country or possession. If you paid taxes to more than three countries or possessions, attach additional sheets following the format of Parts I and II.

Lines 1a and 1b—Foreign Gross Income

Include income in the category checked above Part I that is taxable by the United States and is from sources within the country entered on line 1. You must include income even if it is not taxable by that foreign country. Identify the type of income on the dotted line next to line 1a. Do not include any earned income excluded on Form 2555, Foreign Earned Income, or Form 2555-EZ, Foreign Earned Income Exclusion.

Example. If you received dividends (passive category income) and wages (general category income) from foreign sources, you must complete two Forms 1116. On one Form 1116, check box a (passive category income), enter the dividends on line 1a, and write “Dividends” on the dotted line. On the other Form 1116, check box b (general category income), enter on line 1a wages not excluded on Form 2555 or Form 2555-EZ, and write “Wages” on the dotted line. Complete Parts I, II, and III of each Form 1116. Then, complete Part IV on the Form 1116 with the largest amount entered on line 21.



If you are filing a Form 1116 that includes foreign source qualified dividends or foreign source capital gains or losses, see Foreign Qualified Dividends and Capital Gains (Losses) starting on page 5.

Line 1b

You must check the box on line 1b if all of the following apply.

- The income on line 1a is compensation for services you performed as an employee.
- Your total employee compensation from both U.S. and foreign sources was \$250,000 or more.
- You used an alternative basis (discussed in Pub. 514) to determine the source of the compensation entered on line 1a.

In addition, attach to Form 1116 a statement that contains the following information.

- The specific compensation income or the specific fringe benefit for which the alternative basis is used.
- For each such item, the alternative basis of allocation of source used.

- For each such item, a computation showing how the alternative allocation was computed.
- A comparison of the dollar amount of the compensation sourced within and without the U.S. under both the alternative basis and the time or geographical basis for determining the source.

You must keep documentation showing why the alternative basis more properly determines the source of the compensation.

Lines 2 Through 5—Deductions and Losses

You must reduce your foreign gross income on line 1a by entering on lines 2 through 5:

- Any of your deductions that definitely relate to that foreign income, and
- A ratable share of your other deductions that do not definitely relate to that foreign income, any other foreign income, or U.S. source income.

Do not include:

- Deductions and losses related to exempt or excluded income, such as foreign earned income you have excluded on Form 2555 or Form 2555-EZ.
- The deduction for personal exemptions.

Special rules apply to the allocation of research and experimental expenditures. See Regulations section 1.861-17.

If the law of a U.S. state to which you pay income taxes does not specifically exempt foreign source income from tax, you may be required to make a special allocation of state taxes you paid. See Pub. 514 for more information.

Itemized deduction limit. If you must reduce the total amount of your itemized deductions on line 29 of Schedule A (Form 1040) because your adjusted gross income was more than \$156,400 (\$78,200 if married filing separately), you must reduce each of the itemized deductions that are subject to the reduction by the reduction percentage before you complete lines 2, 3a, and 4a.

Use the Itemized Deductions Worksheet in the Instructions for Schedule A (Form 1040) to figure the reduction percentage. Divide the amount on line 11 of the worksheet (the overall reduction) by the amount on line 3 of the worksheet (total itemized deductions subject to the reduction). This is your reduction percentage. Apply this percentage (expressed as a decimal rounded to at least four places) to each itemized deduction subject to the reduction to determine the amount to enter on the appropriate line of Form 1116.

Note. You do not need to make this computation if the entire amount of your itemized deductions is entered on any one of the following lines: line 2, line 3a, or line 4a. Just enter your reduced itemized deductions on that line.

Example. You are single and have an adjusted gross income of \$216,400. Your itemized deductions subject to the

Worksheet for Home Mortgage Interest—Line 4a

Keep for Your Records

Note: Before you complete this worksheet, read the instructions for line 4a on page 14.

1. Enter gross foreign source income* of the type shown on Form 1116. **Do not** enter income excluded on Form 2555 or Form 2555-EZ **1.** _____
2. Enter gross income from all sources. **Do not** enter income excluded on Form 2555 or Form 2555-EZ **2.** _____
3. Divide line 1 by line 2 and enter the result as a decimal (rounded to at least four places) **3.** _____
4. Enter deductible home mortgage interest (from lines 10 through 13 of Schedule A (Form 1040))** **4.** _____
5. Multiply line 4 by line 3. Enter the result here and on the appropriate Form 1116, line 4a **5.** _____

*If you have to report income from more than one country on Form 1116, complete a separate worksheet for each country. Use only the income from that country on line 1 of the worksheet.

**If you were required to reduce the amount of your itemized deductions on Schedule A, enter the reduced amount of home mortgage interest on line 4 of the worksheet.