

Instructions for Form 1116

Foreign Tax Credit
(Individual, Estate, or Trust)

2025

Volume 2 of 2




Department of the Treasury
Internal Revenue Service

Instructions for Form 1116 (Rev 2025) Catalog Number 47763S
Department of the Treasury **Internal Revenue Service** www.irs.gov



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Worksheet A (See instructions.)		Keep for Your Records	
	Category #1	Category #2	
	Specify 		
1. Separate category capital gain or (loss)	1.		
2. Foreign source capital gain net income		2.	
3. Capital gain net income		3.	
4. Total U.S. capital loss adjustment		4.	
5. Adjusted separate category capital gain		5.	
6. U.S. capital loss adjustment factor. (For each separate category, divide line 1 by line 2 and round off the result to at least four decimal places.)	6.		
7. U.S. capital loss adjustment. (For each separate category, multiply line 4 by line 6.)	7.		
8. Adjusted separate category capital gain. (For each separate category, subtract line 7 from line 1. Enter the result here and include the result on line 1a of the applicable Form 1116.)	8.		

Instructions for Worksheet A

Line 1. For each separate category for which you have foreign source capital gains or losses, combine your foreign source capital gains and losses in that separate category and enter the result on line 1. Show a loss on line 1 of this worksheet as a negative amount and include the loss on line 5 of the Form 1116 you are filing for that separate category.

Line 2. Combine the amounts entered on line 1. If the result is zero or less, don't complete the rest of the worksheet. Instead, for each separate category with a positive amount on line 1 of this worksheet, include that positive amount on line 1a of the Form 1116 you are filing for that separate category.



Line 3. Enter the amount from line 16 of Schedule D (Form 1040), less the portion of net capital gain you included on Form 4952, line 4g. If the result is zero or less, enter -0-.

Estates and trusts: Enter the amount from line 19 of Schedule D (Form 1041), less any amount shown on line 25 of that Schedule D. If the result is zero or less, enter -0-.

Line 4. Subtract line 3 from line 2 and enter the result on line 4. If the result is zero or less, don't complete the rest of the worksheet. Instead, for each separate category with a positive amount on line 1 of this worksheet, include that positive amount on line 1a of the Form 1116 you are filing for that separate category.

Line 5.

- If both separate categories have a positive amount on line 1, skip line 5 and go to line 6.
- If only one separate category has a positive amount on line 1, subtract line 4 from that positive amount. Enter the result here and include the result on line 1a of the Form 1116 you are filing for that separate category. Skip lines 6–8 of this worksheet.

Worksheet B (See instructions.)			Keep for Your Records		
	Category #1		Category #2		
	Specify 		Specify 		
	(1) Short-term	(2) Long-term (15%)	(3) Short-term	(4) Long-term (15%)	(5) Other
1. Separate category rate group capital gain or (loss)					
2. U.S. capital loss adjustment amount					
3. Subtotal (subtract line 2 from line 1 gain amounts)					
4. Net U.S. long-term capital loss					
5. U.S. long-term capital loss adjustment					
6. Excess net U.S. long-term capital loss					
7. Long-term capital gain (or adjustment amount)					
8. Limitation percentage					
9. Long-term limitation amounts					
10. Adjustment amounts					
11. Rate differential adjustments					
12. Long-term gains					
13. Rate differential adjustment					
14. Long-term gain					
15. Adjusted separate category capital gains and losses					

Line 1. For each separate category, combine the capital gains and losses as follows.

- Combine your foreign source short-term capital gains and losses and enter the result in column (1) or (3).
- Combine your foreign source long-term capital gains and losses and enter the result in column (2) or (4).

Line 2. Complete the Line 2 Worksheet for each column on line 1 with a gain.

Line 4. Enter your net long-term capital loss (if any) from U.S. sources. To determine this amount, subtract your long-term capital losses from U.S. sources from your long-term capital gains from U.S. sources. Enter the loss (if any) as a positive amount in column (5). If you don't have a loss, leave line 4 blank and skip lines 5 through 14.

Line 5. Combine the amounts (if any) from columns (2) and (4) on line 2. Enter the result in column (5).

If you don't have any amount entered in either column, enter -0- in column (5).

Line 6. Subtract line 5 from line 4. Enter the result in column (5). If the result is zero or less, leave line 6 blank and skip lines 7 through 14 of this worksheet. **Line 7.**

- If you entered an amount in either column (2) or (4) (but not both) of line 3, subtract line 6 from the amount entered in either column (2) or (4) of line 3. Enter the result in column (2) or (4) on line 7 and skip lines 8 through 12.
- If you entered amounts in both columns (2) and (4) on line 3, combine those amounts and enter the result in column (5) on line 7.

Line 8. Divide line 3, column (2), by line 7, column (5). Enter the result on line 8, column (2). Divide line 3, column (4), by line 7, column (5).

Enter the result on line 8, column (4). Round off each result to at least four decimal places.

Line 9. Multiply each decimal amount on line 8 by line 6 and enter the results in the appropriate columns on line 9.

Line 10. Subtract line 9, column (2), from line 3, column (2), and enter the result on line 10, column (2). Subtract line 9, column (4), from line 3, column (4), and enter the result on line 10, column (4).

Line 11. Multiply each amount on line 10 by 0.4054 and enter the results here.

Line 12. Combine line 11, column (2), with line 9, column (2), and enter the result on line 12, column (2). Combine line 11, column (4), with line 9, column (4), and enter the result on line 12, column (4). Include the amounts on line 1a of the applicable Form 1116. Skip lines 13 and 14.

Line 13. Multiply the amount on line 7 by 0.4054 and enter the result here in the applicable column.

Line 14. Combine line 6 and line 13 and enter the result here. Include the result on line 1a of the applicable Form 1116.


Line 15.

If you have a:

- Short-term gain shown in column (1) or (3) of line 3, enter the amount of that short-term gain on line 15, column (1) or (3).
- Long-term gain shown in column (2) or (4) of line 3, and line 6 is blank, multiply the amount of each gain by 0.4054 and enter the result on line 15, column (2) or (4).
- Short-term loss in any column of line 1, complete the Line 15 Worksheet for each column with a loss.

- Long-term loss in column (2) or (4) of line 1, multiply the amount of the loss by 0.4054 and enter the result on line 15 in the appropriate column. After you have completed line 15:
- Include line 15 gain amounts on line 1a of the applicable Form 1116, and • Include line 15 loss amounts on line 5 of the applicable Form 1116.

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		Category #1		Category #2	
Specify 					
		Short-term	Long-term	Short-term	Long-term
1. Separate category rate group gain (or loss)	1.	_____	_____	_____	_____
2. Separate category gain (or loss)	2.	_____	_____	_____	_____
3. Foreign source capital gain net income	3.	_____		_____	
4. Capital gain net income	4.	_____		_____	
5. Total U.S. capital loss adjustment	5.	_____		_____	
6. Separate category adjustment	6.	_____	_____	_____	_____
7. Rate group factor	7.	_____	_____	_____	_____
8. Rate group adjustment	8.	_____	_____	_____	_____

Instructions for Line 2 Worksheet

Line 1. Enter your gains and losses from line 1 of [Worksheet B](#). Enter a loss as a negative amount (in parentheses).

Line 2. For each separate category, combine the amounts from line 1. Enter a loss as a negative amount (in parentheses).

Line 3. Combine the amounts from line 2 of this worksheet. If the result is zero or less, stop here. Don't enter any amount on line 2 of [Worksheet B](#).

Line 4. Enter the amount from line 16 of Schedule D (Form 1040), less the portion of net capital gain you included on Form 4952, line 4g. If the amount entered on line 4 is zero or less, stop here. Don't continue with this worksheet or Worksheet B. Instead, complete [Worksheet A](#).

Estates and trusts: Enter the amount from line 19 of Schedule D (Form 1041), less any amount shown on line 25 of that Schedule D. If the amount entered on line 4 is zero or less, stop here. Don't continue with this worksheet or Worksheet B. Instead, complete [Worksheet A](#).

Line 5. Subtract line 4 from line 3 and enter the result on line 5. If the result is zero or less, stop here. Don't enter any amount on line 2 of [Worksheet B](#).

Line 6.

- If only one separate category has a positive amount on line 2, enter the amount from line 5 on line 6 (in the column for the separate category with the positive amount on line 2).
- If both separate categories have positive amounts on line 2, divide each amount on line 2 by line 3. Multiply each result by line 5. Enter the results on line 6 in the appropriate columns.

Line 7.
For each separate category, the following rules apply.

- If you entered an amount on line 6 and you entered positive amounts in both the short-term and long-term columns on line 1, divide each positive amount on line 1 by line 2 and enter the results in the appropriate columns.
- Leave line 7 blank if you didn't enter an amount on line 6 or only one column on line 1 has a positive amount.

Line 8.
For each separate category, the following rules apply.

- If you entered amounts on line 7, multiply each amount on line 7 by line 6. Enter the results in the appropriate columns on line 8 of this worksheet and on line 2 of [Worksheet B](#).
- If line 7 is blank, enter the amount from line 6 in the same column on line 8 as the column that has a gain on line 1. Also, enter the amount on line 2 of [Worksheet B](#) in the appropriate column. If line 6 is blank, don't enter any amount on line 8 of this worksheet or line 2 of Worksheet B.

Line 15 Worksheet (For Line 15 of Worksheet B)

Keep for Your Records

1. Enter your net short-term capital gain (if any) from U.S. sources. To determine this amount, subtract your short-term capital losses from U.S. sources from your short-term capital gains from U.S. sources. If the result is zero or a loss, enter -0-

1.

2. If you entered a short-term gain on line 3 of [Worksheet B](#), enter that amount here

2.

3. Add lines 1 and 2

3.

4. Did you enter a short-term capital loss on line 1 of [Worksheet B](#) for one (but not both) of the separate categories?

☐ Yes.

Complete lines 5–10 and skip the rest of this worksheet.

☐ No.

Skip lines 5–10 and go to line 11.

5. Enter the short-term capital loss from line 1 of [Worksheet B](#) (enter the loss as a positive amount)

5.

6. Enter the gain, if any, determined on line 3. If line 3 isn't a gain, enter -0-

6.

7. Subtract line 6 from line 5. If zero or a loss, enter -0-

7.

8. Multiply line 7 by 0.4054

8.

9. Enter the smaller of line 5 or line 6

9.

10. Add lines 8 and 9. Enter the result here and on line 15 of [Worksheet B](#)

10.

11. Is the amount on line 1 zero?

☐ Yes.

Multiply each short-term loss by 0.4054. Enter the results on line 15 of [Worksheet B](#). Skip the rest of this worksheet.

☐ No.

Go to line 12.

12. Enter your short-term loss from column (1) of Worksheet B, line 1 (enter the loss as a positive amount)

12.

13. Enter your short-term loss from column (3) of Worksheet B, line 1 (enter the loss as a positive amount)

13.

14. Add lines 12 and 13

14.

15. Enter the gain determined on line 1

15.

16. Subtract line 15 from line 14

16.

Is the result zero or less?

☐ Yes.

Skip the rest of this worksheet. Enter each short-term loss from line 1 on line 15 of [Worksheet B](#), in the applicable column, without adjustment (that is, each short-term loss you enter on line 15 of Worksheet B will be the same as the short-term loss you entered on line 1 of Worksheet B).

☐ No.

Complete lines 17–22.

17. Multiply line 16 by 0.4054

17.

18. Add lines 15 and 17

18.

19. Divide line 12 by line 14

19.

20. Multiply line 19 by line 18. Enter the result here and in column (1) of [Worksheet B](#), line 15

20.

21. Divide line 13 by line 14

21.

22. Multiply line 21 by line 18. Enter the result here and in column (3) of [Worksheet B](#), line 15

22.

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 c (passive category income), enter the dividends on line 1a, and enter "Dividends" on the dotted line. On the other Form 1116, check box d (general category income), enter on line 1a wages not excluded on Form 2555, and enter "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 larger amount entered on line 24.

Caution: 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)*, earlier.

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.

- Your name and social security number (written across the top of the statement).
- 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 United States 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 don't definitely relate to that foreign income, any other foreign income, or U.S. source income.

If you don't itemize deductions, enter your standard deduction on line 3a, and don't enter on lines 2 through 5 any deductions that would have been reported on Schedule A (Form 1040). Don't include deductions and losses related to exempt or excluded income such as foreign earned income you have excluded on Form 2555 on lines 2 through 5.

Special rules apply to the allocation of R&E expenditures. See Regulations section 1.861-17.

If the law of a U.S. state to which you pay income taxes doesn't 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.

Caution: The deduction for state and local taxes on Schedule A (Form 1040), lines 5a through 5c, is limited. See the Instructions for Schedule A (Form 1040). Don't include more state and local taxes on Form 1116, lines 2 and 3a, than the amount reported on Schedule A (Form 1040), line 5e.

Line 2

Enter your deductions that definitely relate to the gross income from foreign sources shown on line 1a. For example, if you are reporting foreign business income on line 1a, include on line 2 business expenses such as supplies and advertising incurred as part of operating the foreign business. Also include on line 2 state and local income taxes related to foreign source income. For more information, see Pub. 514 and section 861 and the regulations under that section. Attach a statement listing the separate expenses included on line 2.

Don't include any interest expense on line 2. See lines 4a and 4b for special rules for interest expense.

Lines 3a and 3b

Some deductions don't definitely relate to either your foreign source income or your U.S. source income. Enter on lines 3a and 3b any deductions (other than interest expense) that:

- Aren't shown on line 2, and
- Aren't definitely related to your U.S. source income.

Line 3a. Include the following itemized deductions (from Schedule A (Form 1040)) on line 3a.

- Medical expenses (line 4).
- General sales taxes.
- Real estate taxes for your home.
- State and local personal property taxes.

If you don't itemize deductions, enter your standard deduction on line 3a.

Line 3b. Enter on line 3b any other deductions that don't definitely relate to any specific type of income (for example, deductions shown on Schedule 1 (Form 1040), Part II, Adjustments to Income). Don't include the enhanced deduction for seniors shown on Schedule 1-A (Form 1040), line 37. The qualified passenger vehicle loan interest deduction reported on Schedule 1-A (Form 1040), line 30, is reported on line 4b.

Attach a statement listing the separate expenses included on lines 3a and 3b.

Lines 3d and 3e

For lines 3d and 3e, gross income means the total of your gross receipts (reduced by cost of goods sold), total capital and ordinary gains (before subtracting any losses), and all other income (before subtracting any deductions).

Line 3d. Enter your gross foreign source income from the category you checked above Part I of this Form 1116. Include any foreign earned income you have excluded on Form 2555 but don't include any other exempt income.

If you had income from more than one country, you must enter income from only one country in each column.

If you had to adjust your foreign qualified dividends or capital gains (discussed earlier), include those amounts without regard to any adjustments.

Line 3e. Enter on line 3e in each column your gross income from all sources and all categories, both U.S. and foreign. "Gross income from all sources" is a constant amount (that is, you will enter the same amount on line 3e for each column of all Forms 1116 that you file). Include any foreign earned income you have excluded on Form 2555 but don't include any other exempt income.

If you are a nonresident alien, include on both lines 3d and 3e your income that isn't effectively connected with a trade or business in the United States.

If you had to adjust your foreign qualified dividends or capital gains (discussed earlier), include those amounts without regard to any adjustments.

Line 3f

Divide line 3d by line 3e and round off the result to at least four decimal places (for example, if your result is 0.8756782, round off to 0.8757, not to 0.876 or 0.88). Enter the result, but don't enter more than "1."

Line 4a

If your gross foreign source income (including income excluded on Form 2555) doesn't exceed \$5,000, you can allocate all of your interest expense to U.S. source income.

Otherwise, deductible home mortgage interest including points is apportioned using a gross income method. Use the Worksheet for Home Mortgage Interest to figure the amount to enter on line 4a.

Line 4b

Other interest expense includes investment interest, interest incurred in a trade or business, passive activity interest, deductible student loan interest, and qualified passenger vehicle loan interest. If you are a U.S. citizen, a resident alien, or a domestic estate, and your gross foreign source income (including any income excluded on Form 2555) doesn't exceed \$5,000, you can allocate all of your interest expense to U.S. source income.

Otherwise, each type of interest expense is apportioned separately using an "asset method." See Pub. 514 for more information.

Example. You have investment interest expense of \$2,000. Your assets of \$100,000 consist of stock generating U.S. source income (adjusted basis, \$40,000) and stock generating foreign source income (adjusted basis, \$60,000). You apportion 40% ($\$40,000/\$100,000$) of \$2,000, or \$800, of your investment interest to U.S. source income and 60% ($\$60,000/\$100,000$) of \$2,000, or \$1,200, to foreign source income. In this example, you will enter the \$1,200 apportioned to foreign source income on line 4b. You wouldn't enter the \$800 apportioned to U.S. source income on any line of Part I of Form 1116.

Line 5

If you have capital losses from foreign sources, see *Foreign Qualified Dividends and Capital Gains (Losses)*, earlier, for information on adjustments you may be required to make.

Part II—Foreign Taxes Paid or Accrued

Caution: See General Instructions, earlier, for descriptions of foreign taxes that are eligible for the foreign tax credit and for foreign taxes that aren't eligible for the foreign tax credit.

Generally, you can take a foreign tax credit in the tax year you paid or accrued the foreign taxes, depending on your method of accounting. If you report on the cash basis, you can choose to take the credit for accrued taxes by checking the "Accrued" box in Part II on a timely filed original return. You can't make this choice on an amended return. Once you choose to do this, you must credit foreign taxes in the year they accrue on all future returns.

Generally, you must enter in Part II the amount of foreign taxes, in both the foreign currency denomination(s) and as converted

into U.S. dollars, that relate to the category of income checked above Part I. Taxes are related to the income if the income is included in the foreign tax base on which the tax is imposed. If the foreign tax you paid or accrued relates to more than one category of income, apportion the tax among the categories. The apportionment is based on the ratio of net foreign taxable income in each category to the total net income subject to the foreign tax. See *Allocation of Foreign Taxes* in Pub. 514 for an example.

Enter in Part II the foreign taxes that were previously suspended under section 909 and that are allowed in 2025 because the related income is taken into account in 2025. Enter "909 taxes" in column (I) instead of the date paid or accrued. Complete the other columns as appropriate.

If you paid or accrued foreign taxes (such as withholding taxes) that were imposed on a distribution to you of earnings that you

previously included in gross income under sections 951(a) and 951A(a) (see *Foreign Taxes Eligible for a Credit*, earlier), enter such taxes (reduced pursuant to sections 965(g) and 960(d)(4), if applicable) in columns (p) and (t) on the Form 1116 for the appropriate separate category. Section 960(d)(4) applies to foreign income taxes paid or accrued with respect to any amount excluded from gross income under section 959(a) by reason of an inclusion in gross income under section 951A(a) after June 28, 2025. Enter only foreign taxes (reduced as applicable) that you paid or accrued; don't enter any taxes that you were deemed to pay under section 960(b)(1).

Tip: If foreign tax paid on passive income is reported to you in U.S. dollars on a Form 1099-DIV, 1099-INT, or similar statement, you don't have to convert the amount shown into foreign currency.

Worksheet for Home Mortgage Interest—Line 4a

Keep for Your Records

Note: Before you complete this worksheet, read the instructions for [line 4a](#), earlier.

1. Enter gross foreign source income* of the type shown on Form 1116. **Don't** enter income excluded on Form 2555

1. _____
2. Enter gross income from all sources. **Don't** enter income excluded on Form 2555

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 line 8e 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.

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This rule applies whether or not you can make the election to claim the foreign tax credit without filing Form 1116 (as explained earlier). Enter “1099 taxes” in column (l) of Part II, and complete columns (q) through (u) for each foreign country indicated in Part I.

Note: If you are taking a credit for additional taxes paid or accrued as the result of an audit by a foreign taxing authority or you are filing an amended return reflecting a foreign tax refund, attach a statement to Form 1116 identifying these taxes.

Part III—Figuring the Credit

Line 10

Enter the unused foreign taxes in the separate category from another tax year that are eligible to be carried forward to or back to 2025. The amount of foreign taxes carried forward to the current tax year is the amount in column (xiv) of Schedule B (Form 1116), line 3.

Attach Schedule B (Form 1116) to your Form 1116 for each applicable separate category of income if you enter a carryover of foreign taxes from a prior tax year on Form 1116, line 10, or if you generated a foreign tax carryover in the current year. You don't need to file Schedule B (Form 1116) for 2025 if you carry back a foreign tax to 2025, and don't otherwise need to file Schedule B (Form 1116). See the Instructions for Schedule B (Form 1116) for more information.

Tip: If you enter an amount on line 10 and you don't need to attach Schedule B, check the box on line 10.

You can carry back 1 year and then forward 10 years any foreign tax you paid or accrued to any foreign country or U.S. territory (reduced as described under Line 12, later) on income in a separate category that is more than the limitation. First, apply the excess to the earliest year to which it may be carried.

Then, apply it to the next earliest year, and so on. The carryback-carryforward period can't be extended even if you are unable to take a credit in 1 of the intervening years.

Special rules apply to the carryback and carryforward of foreign taxes paid or accrued on foreign oil and gas income.

See section 907(f).

No foreign tax carryovers are allowed for foreign taxes paid or accrued on section 951A category income. Leave line 10 of Form 1116 blank if you complete a Form 1116 for section 951A category income, as carrybacks and carryovers aren't allowed for this category of income.

File Form 1040-X or other amended return and a revised Form 1116 for the earlier tax year to which you are carrying back excess foreign taxes.

Special rules for carryforwards of pre-2018 unused foreign taxes. Unused foreign taxes in the pre-2018 separate category for general income carried forward are generally allocated to your post-2017 separate category for general income. Alternatively, you can allocate those foreign taxes to the post-2017 separate category for foreign branch category income to the extent the unused foreign taxes would have been allocated to your post-2017 separate category for foreign branch category income, and would have been unused foreign taxes with respect to that separate category, if that separate category had applied in the year or years the unused foreign taxes arose. A simplified safe harbor is also available for determining the portion of the unused foreign taxes that may be allocated to the post-2017 separate category for foreign branch category income. See Regulations section 1.904-2(j)(1)(iii) for further details.

Restrictions. You can't carry a credit back to a tax year for which you claimed a deduction, rather than a credit, for foreign taxes paid or accrued. However, you must reduce the amount of any carryback or carryforward by the amount that you would have used had you chosen to claim a credit rather than a deduction in that year.

If, for any year, you elected to claim the foreign tax credit without filing Form 1116 (as explained earlier), the following rules apply.

- You can't carry over unused foreign taxes paid or accrued in a year to which the election doesn't apply to or from any year for which you made the election.
- The carryback-carryforward period isn't extended if you are unable to use a carryback or carryforward because you made the election.

- Don't reduce the carryback or carryforward by the amount you would have used in the election year if you hadn't made the election.

More information. See Pub. 514 for more information on carryback and carryforward provisions, including examples.

Line 12

You may have to reduce the foreign taxes you paid or accrued by the following items.

- **Taxes on income excluded on Form 2555.** Reduce taxes paid or accrued by the taxes allocable to any foreign earned income excluded on Form 2555. If only part of your foreign earned income is excluded, you must determine the amount of tax allocable to excluded income. To do so, multiply the foreign taxes paid or accrued on foreign earned income received or accrued during the tax year by the following fraction.

Numerator: Foreign earned income and housing amounts you excluded for the tax year minus otherwise deductible expenses (not including the foreign housing deduction) allocable to that income.

Denominator: Your total foreign earned income received or accrued during the tax year minus deductible expenses (including the foreign housing deduction) allocable to that income. However, if the foreign jurisdiction charges tax on foreign earned income and some other income (for example, earned income from U.S. sources or a type of income not subject to U.S. tax) and the taxes on the other income can't be segregated, the denominator is the total amount of income subject to foreign tax minus deductible expenses allocable to that income.

- **Taxes on income from Puerto Rico exempt from U.S. tax.** The reduction applies if you have income from Puerto Rican sources that isn't taxable on your

U.S. tax return. To figure the credit, reduce your foreign taxes paid or accrued by the taxes allocable to the exempt income. See Pub. 570 for more information.

- **Taxes on income from American Samoa excluded on Form 4563.** If you are a bona fide resident of American Samoa, reduce taxes paid or accrued by any taxes attributable to income from sources in American Samoa excluded on Form 4563. For more information, see Pub. 570.
- **Taxes on combined foreign oil and gas income.**

Reduce taxes paid or accrued by a portion of taxes imposed on combined foreign oil and gas income. The amount of the reduction is the amount by which your foreign oil and gas taxes exceed the amount of your combined foreign oil and gas income for the year multiplied by a fraction equal to your pre-

credit U.S. tax liability divided by your worldwide taxable income. You may be entitled to carry over to other years taxes reduced under this rule. See section 907(f).

Combined foreign oil and gas income is the sum of foreign oil-related income and foreign oil and gas extraction income. Foreign oil and gas taxes are the sum of foreign oil and gas extraction taxes and foreign oil-related taxes.

- **Taxes on foreign mineral income.**

Reduce taxes paid or accrued on mineral income from a foreign country or U.S. territory if you took a deduction for percentage depletion under section 613 for any part of the mineral income.

- **Reduction for failure to file Form**

5471. U.S. shareholders who control a foreign corporation must file Form 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations. If you don't file Form 5471 and furnish all of the information required by the due

date of your tax return, reduce by 10% all foreign taxes that you may otherwise take into account for the foreign tax credit. You may have to make additional reductions if the failure continues. See section 6038(c) and Regulations section 1.6038-2(k) for details and exceptions.

Note: The reduction in foreign taxes is reduced by any dollar penalty imposed under section 6038(b).

- **Reduction for failure to file Form**

8865. U.S. partners who control a foreign partnership must file Form 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships. If you don't file Form 8865 and furnish all of the information required by the due date of your tax return, reduce by 10% all foreign taxes that you may otherwise take into account for the foreign tax credit. You may have to make additional reductions if the failure continues.

See section 6038(c) and Regulations section 1.6038-3(k) for details and exceptions.

Note: The reduction in foreign taxes is reduced by any dollar penalty imposed under section 6038(b).

- **Reduction of taxes or credit due to international boycott operations.** In general, if you agree to participate in, or cooperate with, an international boycott, you must file Form 5713, International Boycott Report, and attach all supporting schedules. In addition, you must reduce either the total taxes available for credit or the credit otherwise allowable by your foreign taxes resulting from boycott activities. If you can figure the taxes specifically attributable to boycott operations, enter the amount on line 12. If you can't figure the amount of taxes specifically attributable to boycott operations, multiply the credit otherwise

allowable by the international boycott factor (figured on Schedule A (Form 5713), International Boycott Factor) and enter the result on Form 1116, line 34. Attach a statement to Form 1116 showing in detail how you figured the reduction.

For more information, see Form 5713 and its instructions.

- **Taxes related to a foreign tax credit splitting event.** Reduce taxes paid or accrued by any taxes paid or accrued with respect to a foreign tax credit splitting event. If there is a foreign tax credit splitting event, you may not take the foreign tax into account before the tax year in which you take the income into account. There is a foreign tax credit splitting event with respect to a foreign income tax if the related income is (or will be) taken into account by a covered person. A covered person is either of the following.

1. An entity in which you hold, directly or indirectly, at least a 10% ownership interest (determined by vote or value).
2. Any person who is related to you.
For a list of related persons, see *Nondeductible Loss* in chapter 2 of Pub. 544.

A covered asset acquisition under section 901(m) isn't a foreign tax credit splitting event under section 909.

For more information, see section 909 and the regulations under that section.

Line 13

You must adjust the foreign taxes paid or accrued if they relate to passive income that is treated as other category income because it is high taxed. On your Form 1116 for passive category income, enter as a negative number (in parentheses) the amount of your foreign taxes that relate to that income.

On your Form 1116 for the other category income, enter as a positive number the amount of foreign taxes that relate to that income.

Line 15

The amount on line 15 is your taxable income (or loss), before adjustments, from sources outside the United States. If the amount on line 15 is zero or a loss, you generally have no foreign tax credit for the category of income checked above Part I of this Form 1116. However, you must complete line 16 and continue with the form even if line 15 is zero or a loss.

Line 16

You are required to increase or decrease the amount on line 15 by the following adjustments. The adjustments must be made in the order listed. If you have more than one adjustment,

enter the net adjustment on line 16 and attach a detailed statement showing your computation. See Pub. 514 for more details on these adjustments.

The adjustments are as follows.

1. **Adjustment for disallowed business loss under section 461(l).**

Increase the amount on line 15 by the amount of any business loss that is disallowed under section 461(l) to the extent it is attributable to the separate category of income of the applicable Form 1116. For purposes of adjustments 2– 6 described below, any reference to an amount on line 15 shall mean the amount on line 15 after taking into account this adjustment for disallowed business loss.

2. **Allocation of foreign losses.** If you have a loss on line 15 of one Form 1116 and you have income on line 15 of one or more other Forms 1116, you

must reduce the foreign income by a pro rata share of the loss before you use any remaining loss to reduce U.S. source income.

If the loss reduces foreign source income, you must create, or increase the balance in, a separate limitation loss account and you must recharacterize the income you receive in the loss category in later years. See 5. Recapture of separate limitation loss accounts, later. In situations where the loss to be allocated exceeds foreign income in other categories:

- The excess reduces U.S. source income (as modified under Capital losses next);
- You must create, or increase the balance in, an overall foreign loss account; and
- For later years, you must follow the rules described under 4. Recapture of prior-year overall foreign loss accounts, later.

If the loss in one category reduces foreign source income in another category and that second category has a separate limitation loss account with respect to the first category, then the two offsetting separate limitation loss account balances are netted for purposes of determining the amount of income in either category that is subject to recharacterization under 5. Recapture of separate limitation loss accounts, later.

Capital losses. In determining your U.S. source income, reduce the amount of any capital losses from U.S. sources by the amount you entered on line 4 of Worksheet A or line 5 of the Line 2 Worksheet for Worksheet B. If you have capital losses from U.S. sources and you didn't use either Worksheet A or Worksheet B, see Pub. 514 to determine your U.S. source income.

Example. For 2025, you completed three Forms 1116. The first had a loss from general category income of \$2,000 on line 15,

the second had passive category income of \$4,000 on line 15, and the third had income of \$1,000 from the certain income re-sourced by treaty category on line 15. You must allocate the \$2,000 loss between the passive category income and the certain income re-sourced by treaty category in the same proportion as each category's income bears to the total foreign income.

The amount of the loss that would reduce passive category income would be 80% ($\$4,000/\$5,000$) of the \$2,000 loss, or \$1,600. Include the \$1,600 (in parentheses) on line 16 of the passive category income Form 1116. Assuming you have no other line 16 adjustments, enter \$2,400 ($\$4,000 - \$1,600$) on line 17 of that form.

The amount of the loss that would reduce the certain income re-sourced by treaty would be 20% ($\$1,000/\$5,000$) of the \$2,000 loss, or \$400. Include the \$400 (in parentheses) on line 16 of the certain income re-sourced by

treaty Form 1116. Assuming you have no other line 16 adjustments, enter \$600 (\$1,000 – \$400) on line 17 of that form.

In this case, all of the \$2,000 loss was allocated between the foreign source passive category income and the certain income re-sourced by treaty category, and no reduction was made to U.S. source income.

If you receive general category income in a later year, you must recharacterize all or part of that income as passive category income and certain income re-sourced by treaty in that later year. See the example under 5. *Recapture of separate limitation loss accounts*, later.

3. **Allocation of U.S. losses.** If you have a net loss from U.S. sources, proportionately allocate that loss among the separate categories of your foreign income. Reduce the income on line 15 (adjusted by any allocation of losses, as described earlier under 2.

Allocation of foreign losses) by including (in parentheses) on line 16 the allocable portion of any U.S. loss. In later years, you will be allowed to treat part of your U.S. source income as foreign source income.

A U.S. loss includes a rental loss on property located in the United States. If you have any qualified dividends or capital gains (including capital gain distributions) or losses for the tax year and you are required to make any adjustments to those amounts, as explained under Foreign Qualified Dividends and Capital Gains (Losses), earlier, or in the instructions for line 18, the amount of your U.S. loss is the excess of:

- a. The total of the amounts entered on line 15 for each Form 1116 you are filing, over
- b. The amount computed for purposes of line 18 of Form 1116 (this amount may be a loss).

You allocate the net loss to a separate category of income by multiplying the net loss by a fraction. The numerator of the fraction is the foreign source income in a separate category, and the denominator is the total foreign source income in all separate categories.

4. **Recapture of prior-year overall foreign loss accounts.** If you had an overall foreign loss in a prior year that offset U.S. source income, a part of your foreign income (in the same category as the loss) is recharacterized as U.S. source income in each following tax year.

The part of your total foreign income subject to recharacterization is the lesser of the following.

- a. The total amount of maximum potential recapture in all overall foreign loss accounts.

The maximum potential recapture in any account for a category is the lesser of:

- i. The current-year taxable income from foreign sources in that category (the amount from line 15, less any adjustment for allocation of losses, as described earlier under 2. Allocation of foreign losses and 3. Allocation of U.S. losses for that category); or
 - ii. The balance in the overall foreign loss account for that category.
- b. 50% (or more, if you choose) of your total taxable income from foreign sources.

If the total foreign income subject to recharacterization is the amount described in (a), earlier, then for each separate category, the recapture amount is the maximum potential recapture amount for that category.

If the total foreign income subject to recharacterization is the amount described in (b) above, then for each separate category the recapture amount is computed by multiplying the total recapture amount by the following fraction.

Maximum potential recapture amount for the
overall foreign loss account in the separate
category

Total amount of maximum potential recapture
in all overall foreign loss accounts

Reduce the amount on line 15 by including (in parentheses) on line 16 the amount of the recapture for the category checked above Part I, as determined above. Be sure to attach your computation. If you elect to recapture more of an overall foreign loss than is required ((b) above), show in your computation the percentage of taxable income recharacterized and the dollar amount recharacterized.

Attach a statement to Form 1116 showing the balance in each separate category overall foreign loss account. See Regulations section 1.904(f)-1(b) for more information.

Dispositions of certain property. If you generated foreign source gain in the same category as the overall foreign loss on a disposition of property that was used predominantly in a foreign trade or business and that generated foreign source income in the same category as the overall foreign loss, then the gain on the disposition may be subject to recharacterization as U.S. source income to the extent of 100% of your foreign source taxable income. This is true whether or not you would otherwise recognize gain on the disposition. See section 904(f)(3).

The above rule also generally applies to a gain on the disposition of stock in a CFC, if you owned more than 50% (by vote or value) of the stock right before you disposed of it.

See section 904(f)(3)(D) for more information and exceptions.

Reduce line 15 by including (in parentheses) on line 16 the smallest of:

- a. The amount of the gain not recaptured above;
- b. The remaining amount of the overall foreign loss not recaptured in earlier years or in the current year; or
- c. The amount from line 15 (less any adjustment for allocation of losses, as described earlier under 2. Allocation of foreign losses and 3. Allocation of U.S. losses, and any adjustment for any recapture above).

See Pub. 514 if you disposed of property described above and you recognized foreign source gain in a different category than the overall foreign loss, you recognized U.S. source gain, or you didn't recognize gain.

5. Recapture of separate limitation loss accounts. If, in a prior tax year, you reduced your foreign taxable income in the category checked above Part I by a pro rata share of a loss from another category, you must recharacterize in 2025 all or part of any income you receive in 2025 in that loss category. If you have separate limitation loss accounts in the loss category relating to more than one other category and the total balances in those loss accounts exceed the income you receive in 2025 in the loss category, then income in the loss category is recharacterized as income in those other categories in proportion to the balances of the separate limitation loss accounts for those other categories. You recharacterize the income by:

- Increasing the amount on line 15 (adjusted by any of the other adjustments previously mentioned in these line 16 instructions) of the Form 1116 for each of

the separate categories, other than the loss category, previously reduced by including on line 16 any recharacterized income; and

- Decreasing the amount on line 15 (adjusted by any of the other adjustments previously mentioned in these line 16 instructions) of the Form 1116 for the loss category by including on line 16 the amount of recharacterized income as a negative number (in parentheses).

Example. Using the facts in the *Example* under 2. *Allocation of foreign losses*, earlier, in the next year (2026), you have \$5,000 of general category income, \$3,000 of passive category income, and \$500 of certain income re-sourced by treaty. Because \$1,600 of the general category income loss was used to reduce your passive category income in 2025, \$1,600 of your 2026 general category income must be recharacterized as passive category income. Similarly, \$400 of the general

category income must be recharacterized as certain income re-sourced by treaty. On your 2026 Form 1116 for passive category income, you would include \$1,600 on line 16. On your 2026 Form 1116 for certain income re-sourced by treaty, you would include \$400 on line 16. On your 2026 Form 1116 for general category income, you would include (\$2,000) on line 16.

Tip: Recharacterizing income from a separate category doesn't result in recharacterizing any tax.

6. Recapture of overall domestic loss accounts. If you have an overall domestic loss for any tax year beginning after 2006, you must create, or increase the balance in, an overall domestic loss account and you must recharacterize a portion of your U.S. source taxable income as foreign source taxable income in succeeding years for purposes of the foreign tax credit.

The part that is treated as foreign source taxable income for the tax year is the smaller of:

- The total balance in your overall domestic loss account in each separate category (less amounts recaptured in earlier years), or
- 50% of your U.S. source taxable income for the tax year.

Caution: Under the Tax Cuts and Jobs Act, section 904(g) (5) allows for an election to recapture up to 100% of any pre-2018 unused overall domestic loss from a prior year, as opposed to the 50% stated in the previous paragraph. This election is applicable for any tax year beginning after December 31, 2017, and before January 1, 2028.

You must establish and maintain separate overall domestic loss accounts for each separate category in which foreign source income is offset by the domestic loss.

The balance in each overall domestic loss account is the amount of the overall domestic loss subject to recapture. The recharacterized income is allocated among and increases foreign source income in separate categories in proportion to the balances of the overall domestic loss accounts for those separate categories. You increase the amount on line 15 (as adjusted by any of the other adjustments previously mentioned in these line 16 instructions) of the Form 1116 for each of the separate categories to which the recharacterized income is allocated.

Overall domestic loss defined. In a tax year in which you choose to claim the foreign tax credit, the overall domestic loss is the domestic loss for that tax year to the extent that it offsets foreign source taxable income for that tax year or for any preceding tax year (in which you choose to claim the foreign tax credit) because of a carryback.

If you don't choose to claim the foreign tax credit for a tax year, the overall domestic loss is the domestic loss for that tax year to the extent that it offsets foreign source taxable income for any preceding tax year (in which you chose to claim the foreign tax credit) because of a carryback.

Domestic loss. A domestic loss is the amount by which the U.S. source gross income for the tax year is exceeded by the sum of the expenses, losses, and other deductions properly allocated or apportioned to that income. Determine this amount by taking into account any net operating loss carried forward from a prior tax year (but not any loss carried back). If you have any capital gains or losses, take them into account after any adjustments required under *Foreign Qualified Dividends and Capital Gains (Losses)*, earlier.

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Worksheet for Line 18 (Worldwide Qualified Dividends and Capital Gains)

Keep for Your Records

Caution: See the instructions for [line 18](#) before starting this worksheet.

- 1. Individuals:** Enter the sum of (i) Form 1040, 1040-SR, or 1040-NR, line 11b, minus Form 1040, 1040-SR, or 1040-NR, line 14; **and** (ii) Schedule 1-A (Form 1040), line 37.

Estates and trusts: Enter taxable income without the deduction for your exemption **1.** _____

2. Enter your worldwide 28% gains. See instructions **2.** _____

3. Multiply line 2 by 0.2432 **3.** _____

4. Enter your worldwide 25% gains. See instructions **4.** _____

5. Multiply line 4 by 0.3243 **5.** _____

6. Enter your worldwide 20% gains and qualified dividends. See instructions **6.** _____

7. Multiply line 6 by 0.4595 **7.** _____

8. Enter your worldwide 15% gains and qualified dividends. See instructions **8.** _____

9. Multiply line 8 by 0.5946 **9.** _____

10. Enter your worldwide 0% gains and qualified dividends. See instructions **10.** _____

11. Add lines 3, 5, 7, 9, and 10 **11.** _____

12. Subtract line 11 from line 1. Enter the result here and on Form 1116, line 18 (if the result is zero or less, enter -0-) **12.** _____

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Line 18

Individuals: Enter on line 18 the sum of (i) Form 1040, 1040-SR, or 1040-NR, line 11b, minus Form 1040, 1040-SR, or 1040-NR, line 14; **and** (ii) Schedule 1-A (Form 1040), line 37. **Estates and trusts:** Enter your taxable income without the deduction for your exemption. **All filers:** If the result is zero or less, enter -0- on line 18 and on line 19.

If you have qualified dividends or capital gains, you may be required to make adjustments to those qualified dividends and gains before you take those amounts into account on line 18 as described next.

Individuals Who Completed a Qualified Dividends and Capital Gain Tax Worksheet

If you completed the Qualified Dividends and Capital Gain Tax Worksheet in the Instructions for Form 1040, you must use the

Worksheet for Line 18 to figure the amount to enter on line 18 if:

1. Line 5 of your Qualified Dividends and Capital Gain Tax Worksheet is greater than zero, and
2. Line 23 of your Qualified Dividends and Capital Gain Tax Worksheet is less than line 24 of that worksheet.

Adjustment exception. If you qualify for the adjustment exception, you can elect not to adjust your qualified dividends and capital gains. You make this election by not completing the Worksheet for Line 18. You must make this election if you have any foreign qualified dividends or foreign capital gains (or losses) and you chose not to make any adjustments to those amounts when you completed lines 1a and 5. You can't make this election if you have any foreign qualified dividends or foreign capital gains (or losses)

and you made adjustments to those amounts when you completed lines 1a and 5. In this case, complete the Worksheet for Line 18.

If you aren't required to complete the Worksheet for Line 18 or you qualify for the adjustment exception and elect not to adjust your qualified dividends and capital gains, enter on line 18 of Form 1116 your taxable income, as described earlier under Line 18.

You qualify for the adjustment exception if you meet both of the following requirements.

1. Line 5 of the Qualified Dividends and Capital Gain Tax Worksheet doesn't exceed:
 - a. \$394,600 if married filing jointly or qualifying surviving spouse,
 - b. \$197,300 if married filing separately,
 - c. \$197,300 if single, or
 - d. \$197,300 if head of household.

2. The amount of your foreign source net capital gain plus the amount of your foreign source qualified dividends is less than \$20,000.

If you are subject to the AMT, see the special rules in Regulations section 1.904(b)-1(b)(3).

Tip: Your foreign source net capital gain is the excess of your foreign source net long-term capital gain over your foreign source net short-term capital loss.

Completing the Worksheet for Line 18. If you do need to complete the Worksheet for Line 18, do the following. ***Lines 2 through 5.*** Skip these lines.

Line 6. Enter the amount from line 20 of the Qualified Dividends and Capital Gain Tax Worksheet.

Line 8. Enter the amount from line 17 of the Qualified Dividends and Capital Gain Tax Worksheet.

Line 10. Enter the amount from line 9 of the Qualified Dividends and Capital Gain Tax Worksheet.

Complete all other lines as instructed on the worksheet.

Estates and Trusts That Completed a Qualified Dividends Tax Worksheet or Schedule D

If you completed the Qualified Dividends Tax Worksheet in the Instructions for Form 1041 or you completed Part V of Schedule D (Form 1041), you must use the Worksheet for Line 18 to figure the amount to enter on line 18 if:

1. You figured your tax using the Qualified Dividends Tax Worksheet, line 5 of that worksheet is greater than zero, and line 21 of that worksheet is less than line 22; or
2. You figured your tax using Part V of Schedule D (Form 1041), line 27 of

Schedule D is greater than zero, and line 43 of Schedule D is less than line 44.

Adjustment exception. If you qualify for the adjustment exception, you can elect not to adjust your qualified dividends and capital gains. You make this election by not completing the Worksheet for Line 18. You must make this election if you have any foreign qualified dividends or foreign capital gains (or losses) and you chose not to make any adjustments to those amounts when you completed lines 1a and 5. You can't make this election if you have any foreign qualified dividends or foreign capital gains (or losses) and you made adjustments to those amounts when you completed lines 1a and 5. In this case, complete the Worksheet for Line 18. See section 904(b) and the regulations issued under that Code section to determine if you qualify for the adjustment exception.

Tip: Your foreign source net capital gain is the excess of your foreign source net long-term capital gain over your foreign source net short-term capital loss.

If you aren't required to complete the Worksheet for Line 18 or you qualify for the adjustment exception and elect not to adjust your qualified dividends and capital gains, enter on line 18 of Form 1116 the estate's or trust's taxable income without the deduction for its exemption. If this amount is zero or less, enter -0-.

Completing the Worksheet for Line 18. If you do need to complete the Worksheet for Line 18, do the following.

Lines 2 through 5. Skip these lines.

Line 6. Enter the amount from line 18 of the Qualified Dividends Tax Worksheet or line 40 of Schedule D.

Line 8. Enter the amount from line 14 of the Qualified Dividends Tax Worksheet or line 36 of Schedule D.

Line 10. Enter the amount from line 8 of the Qualified Dividends Tax Worksheet or line 30 of Schedule D.

Complete all other lines as instructed on the worksheet.

Taxpayers Who Completed the Schedule D Tax Worksheet

If you figured your tax using the Schedule D Tax Worksheet (in the Schedule D (Form 1040) instructions or in the Schedule D (Form 1041) instructions), you may have to use the Worksheet for Line 18 to figure the amount of tax to enter on line 18 of Form 1116.

Form 1040, 1040-SR, or 1040-NR filers.

You must use the Worksheet for Line 18 to figure the amount of tax to enter on line 18 of Form 1116 if:

- Line 18 of the Schedule D Tax Worksheet is greater than zero, and
- Line 45 of the Schedule D Tax Worksheet is less than line 46.

Form 1041 filers. You must use the Worksheet for Line 18 to figure the amount of tax to enter on line 18 of Form 1116 if:

- Line 17a of the Schedule D Tax Worksheet is greater than zero, and
- Line 42 of the Schedule D Tax Worksheet is less than line 43.

Adjustment exception. If you qualify for the adjustment exception, you can elect not to adjust your qualified dividends and capital gains. You make this election by not completing the Worksheet for Line 18. You must make this election if you have any foreign qualified dividends or foreign capital gains (or losses) and you chose not to make any adjustments to those amounts when you completed lines 1a and 5.

You can't make this election if you have any foreign qualified dividends or foreign capital gains (or losses) and you made adjustments to those amounts when you completed lines 1a and 5. In this case, complete the Worksheet for Line 18.

You qualify for the adjustment exception if:

1. The amount of your foreign source qualified dividends plus the amount of your foreign source net capital gain is less than \$20,000; and
2. Line 18 of the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions is less than or equal to:
 - a. \$394,600 if married filing jointly or qualifying surviving spouse,
 - b. \$197,300 if married filing separately,
 - c. \$197,300 if single, or
 - d. \$197,300 if head of household.

(Or, for trusts and estates, see section 904(b) and the regulations issued under that Code section to determine if you qualify for the adjustment exception.)

If you are subject to the AMT, see the special rules in Regulations section 1.904(b)-1(b)(3).

Tip: Your foreign source net capital gain is the excess of your foreign source net long-term capital gain over your foreign source net short-term capital loss. Ignore any foreign source qualified dividends or capital gains that you elected to include on Form 4952, line 4g, in determining the amount of your foreign source qualified dividends and net capital gain.

If you aren't required to complete the Worksheet for Line 18 or you qualify for the adjustment exception and elect not to adjust your qualified dividends and capital gains, enter on line 18 of Form 1116 your taxable income, as described earlier under Line 18.

If you do need to complete the Worksheet for Line 18, do the following.

Line 2. Enter the amount (if any) from line 42 of the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions or line 39 of the Schedule D Tax Worksheet in the Schedule D (Form 1041) instructions.

Line 4. Enter the amount (if any) from line 39 of the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions or line 36 of the Schedule D Tax Worksheet in the Schedule D (Form 1041) instructions.

Line 6. Enter the amount (if any) from line 33 of the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions or line 30 of the Schedule D Tax Worksheet in the Schedule D (Form 1041) instructions.

Line 8. Enter the amount (if any) from line 30 of the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions or line

26 of the Schedule D Tax Worksheet in the Schedule D (Form 1041) instructions.

Line 10. Enter the amount (if any) from line 22 of the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions or line 19 of the Schedule D Tax Worksheet in the Schedule D (Form 1041) instructions.

Complete all other lines as instructed on the worksheet.

Line 19

Divide line 17 by line 18. If line 18 is zero, enter "0." If line 18 is greater than zero and line 17 is more than line 18, enter "1."

Line 20

Enter on line 20 your total U.S. income tax against which the credit is allowed (regular tax liability, as defined in section 26(b)(1)). Don't include any taxes listed in section 26(b)(2).

Note: Regular tax liability does not include the section 1411 net investment income tax.

If you are completing line 20 for separate category **g** (lump-sum distributions), enter the amount from line 5 of the Worksheet for Lump-Sum Distributions.

Don't complete line 20 for separate category **e** (section 901(j) income), discussed earlier.

For all other applicable categories, complete line 20 as follows.

Individuals. Enter the total of Form 1040, 1040-SR, or 1040-NR, line 16, and Schedule 2 (Form 1040), Part I, line 1z, less any tax included on line 16 from Form 4972.

Estates and trusts.

- *Form 1041 filers.* Enter the amount from Form 1041, Schedule G, line 1a and 1d.
- *Form 990-T filers.* Enter the total of Form 990-T, Part II, lines 2, 3, 4a, 4b, and 6.

However, don't include any taxes listed in section 26(b)(2) that are included on Part II, line 4b. For example, don't include the base erosion minimum tax under section 59A, and the tax and interest on a nonqualified withdrawal from a capital construction fund (section 7518).

- *Form 1040-NR filers.* Enter the amount from Form 1040-NR, line 16, less any tax included on line 16 of Form 1040-NR from Form 4972.

You may need to adjust the amount you report on Form 1116, line 20, by the amounts reported on Form 8978, line 14.

If you file Form 8978, Partner's Additional Reporting Year Tax, you will need to increase or decrease the amount you report on Form 1116, line 20, by the amount of any positive or negative tax from Form 8978, line 14, that you report on your tax return and that isn't already included on the lines specified earlier.

For example, for Form 1040, a positive Form 8978 adjustment is already included in the tax reported on Form 1040, line 16, while a negative tax adjustment is not. If, after your adjustment, the amount of your tax is zero or less, enter -0- on Form 1116, line 20.

Line 22

If you have included in gross income an amount of income of a CFC in prior years under section 951(a), you may have established an excess limitation account under section 960(c). If that is the case and you receive a distribution of previously taxed earnings of the CFC in the current year that are excluded from your gross income under section 959(a) and you paid or accrued foreign tax with respect to that distribution, you may be eligible for an increase in your foreign tax credit limitation under section 960(c). Report on line 22 any such increase in limitation.

See section 960(c) and Regulations section 1.960-4 for more details to determine if you are eligible for an increase in limitation.

If the line 22 amount exceeds your U.S. income tax as reported on line 20, the excess is deemed an overpayment of tax and can be claimed on your income tax return as a refundable credit (Schedule 3 (Form 1040), Part II, line 13z). See section 960(c)(5).

Line 24

The maximum foreign tax credit you can claim in the current year is generally limited to the allocated amount of U.S. tax imposed on the foreign income, or the actual amount of foreign tax paid or accrued on the foreign income (after reductions required on line 12), whichever is less. However, see *Foreign Taxes Eligible for a Credit*, earlier, for additional information.

If the amount on line 23 is smaller than the amount on line 14, see Pub. 514 for more information on carryback and carryforward provisions, including examples.

Part IV—Summary of Separate Credits From Parts III

If you are filing more than one Form 1116, complete Part IV on only one Form 1116 (the one with the largest amount entered on line 24) to summarize the credits you figured on all of your Forms 1116. However, see Exception below. Enter the credits from line 24 of all of your Forms 1116 on lines 25 through 31 of the Form 1116 you are using to summarize your credits. File the other Forms 1116 as attachments.

Exception. If you completed a Form 1116 for category **g** (lump-sum distributions) or **e** (section 901(j) income), **don't** use Part IV of

that Form 1116 as your summary, unless you are filing both a Form 1116 for category **g** and a Form 1116 for category **e** but no other category.

Line 33

Enter the smaller of line 20 or line 32.

Note: Generally, line 32 will exceed line 20 only if you have U.S. capital gains or qualified dividends that are subject to the capital gain rate differential (figured in the Worksheet for Line 18).

Schedule B (Form 1116) and Schedule C (Form 1116)

See the separate instructions for Schedule B (Form 1116) and Schedule C (Form 1116) to see if you must file these schedules.

Paperwork Reduction Act Notice.

We ask for the information on this form to carry out the Internal Revenue laws of the United States.

You're required to provide this information. You're not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103. The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual filers is approved under OMB control number 1545-0074, for tax-exempt filers under OMB control number 1545-0047, and for trust filers under OMB control number 1545-0092. For the estimated averages, see the instructions for your income tax return.