

## LB&I Concept Unit Knowledge Base - International

Library Level	Number	Title
Shelf		Individual Outbound
Book	10	Foreign Tax Credit (Individual Outbound)
Chapter	10.2	Calculation of Amount of Allowable FTC
Section		
Subsection		

Unit Name	Sourcing of Income	
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# General Overview

## Sourcing of Income

Why is it important to know the source of a taxpayer's income? It is important because the foreign tax credit (FTC) can only offset U.S. taxes on foreign source income. A U.S. person is subject to worldwide taxation on income from all sources. However, a foreign person is subject to U.S. tax only on their income from sources within the U.S., with minor exceptions. Thus, the sourcing of income is necessary because amounts reported by a taxpayer are not automatically includible in the calculation of U.S. taxable income.

The objective of this Practice Unit is to identify an individual's various types of income and the factors used to determine whether that income is U.S. or foreign sourced, sometimes referred to as "within the U.S." (U.S.) or "without the U.S." (foreign). When the Internal Revenue Code (IRC) speaks of sourcing of income, it is referring to the origin of the income as being earned in the U.S. or in a foreign country. The taxpayer must first determine whether the gross income in each category is from U.S. sources or foreign sources, then the taxpayer can figure the taxable income in each category from sources outside of the U.S.

The concept of sourcing is often associated with the concept of categorization. Different sourcing rules apply for different types of income. Once you have identified that there is foreign source income, you must then categorize the type of income (i.e., passive, general, etc.) in order to properly apply sourcing rules. Matters related to categorization are addressed in another Practice Unit.

Summary: Not all income on which a taxpayer pays foreign tax is eligible for the FTC. Rather, the credit is only available for income that is considered foreign source income. The source rules are designed to determine whether the U.S. or a foreign country has a closer connection or "nexus" to the income. If income is foreign source income, a foreign country has the primary right to tax the income. Therefore, the U.S. will allow the taxpayer to take a credit for foreign income taxes paid. Improper sourcing of income can lead to an erroneous overstatement of the FTC.

**T TREATY IMPLICATION:** Sourcing rules can be complicated and subject to many exceptions. Many income tax treaties to which the U.S. is a party vary the sourcing rules contained in the IRC by express agreement of the contracting states. If you encounter this issue, please refer to the specific country's treaty and consult with the Treaties Practice Network.

# Relevant Key Factors

## Sourcing of Income

### Key Factors

Sourcing rules are contained largely in IRC 861-863 and 865. The statutory rules cover interest, dividends, compensation for services, rents and royalties, gains from sales of property and social security benefits.

- IRC 861 provides rules as to when specific classes of income are sourced within the U.S.
- IRC 862 is a parallel section providing when those same classes of income are sourced outside the U.S.
- IRC 863(b) provides rules as to when specific classes of income are sourced partly within and partly without the U.S.
- IRC 863(c), (d), and (e) relate to other specialized sourcing items of income.
- IRC 864 provides definitions and special rules.
- IRC 865 provides rules for the sale of personal property.

This determination of foreign source is reported country by country and is listed in Form 1116, Part 1, line g. Gross income from sources outside the U.S. is reported on Form 1116, Part 1, line 1a. This includes gross income even if is not taxable by that foreign country.

#### Part I Taxable Income or Loss From Sources Outside the United States (for Category Checked Above)

	Foreign Country or U.S. Possession			Total (Add cols. A, B, and C.)
	A	B	C	
<b>g</b> Enter the name of the foreign country or U.S. possession . . . . . ▶				
<b>1a</b> Gross income from sources within country shown above and of the type checked above (see instructions):				
				<b>1a</b>

Another way to think about the concept of sourcing is that on Form 1040 a taxpayer reports their worldwide income, while on Form 1116, Part I, line 1a a taxpayer reports only the portion that is foreign income. In completing Form 1116 Part 1, it is recommended that a sourcing schedule of gross income (and expenses/deductions) be provided.

# Relevant Key Factors (cont'd)

## Sourcing of Income

### Key Factors

 **CAUTION:** With respect to the definition of United States, see IRC 638 and 7701(a)(9): Generally, the U.S. includes the 50 states and the District of Columbia plus the territorial waters adjoining its coastline. There may be differences, however, in defining United States between what is foreign source income for FTC purposes and foreign earned income for foreign earned income exclusion (FEIE) purposes, as well as for other purposes. For example, foreign source income for FTC purposes may be earned in international waters. Compare this to U.S. possessions which are included in the territorial definition of the U.S. for purposes of the FEIE IRC 911, as this section requires that the income be earned in a foreign country. Matters related to FEIE are beyond the scope of this Practice Unit.

# Detailed Explanation of the Concept

## Sourcing of Income

### Sourcing of Interest Income

Analysis	Resources
<p>Generally, interest income is determined by the residence of the payor. This presupposes that the true identity of the payor is known. Interest income includes earnings from bank accounts, bonds and notes. Interest that arises from sources within the 50 states and the District of Columbia is income from sources within the U.S. However, interest on deposit with a domestic corporation or partnership is foreign source income if the deposits are with a foreign branch of the corporation or partnership and the foreign branch is engaged in the commercial banking business. Interest paid by a U.S. trade or business (U.S. branch) of a foreign corporation is deemed paid by a domestic corporation and, therefore, from sources within the U.S.</p> <p>Example 1: Taxpayer A, a U.S. taxpayer, receives interest income from a personal loan made to taxpayer B, a U.S. citizen but resident of foreign country X. Since taxpayer B is a resident of foreign country X, although a U.S. citizen, the income is foreign sourced income.</p>	<ul style="list-style-type: none"><li>▪ IRC 861(a)(1)</li><li>▪ IRC 862(a)(1)</li><li>▪ Treas. Reg. 1.861-2</li><li>▪ Treas. Reg. 1.862-1(a)(1)(i)</li></ul>

# Detailed Explanation of the Concept (cont'd)

Sourcing of Income	
Analysis	Resources
<p><u>Sourcing of Interest Income (cont'd)</u></p> <p>Example 2: Taxpayer C, a foreign corporation doing business in the U.S., receives interest income from taxpayer D, a U.S. citizen and resident. The income is U.S. sourced because the payor is a resident of the U.S.</p> <p>Example 3: Using the same facts as Example 2, except that taxpayer D makes the payment from a Swiss bank account to taxpayer C's bank in the Cayman Islands. The income is U.S. sourced because the payor is a resident of the U.S.</p>	

# Detailed Explanation of the Concept (cont'd)

Sourcing of Income	
Analysis	Resources
<p><u>Sourcing of Dividend Income</u></p> <p>Generally, dividend income is determined by the payer's country of incorporation. Dividends from domestic corporations are U.S. source income. Dividends from foreign corporations are foreign source. However, a dividend from a foreign corporation may be U.S. source income, if at least 50 percent of the corporation's gross income for the preceding three years was effectively connected income (ECI). A dividend may also be U.S. source income if that dividend was from a foreign corporation which distributed it from earnings and profits (E&amp;P) that the corporation inherited from a domestic corporation, but only to extent the dividend qualifies for a dividends-received deduction.</p> <p>Example 1: Taxpayer A, a U.S. person, received dividends from an Italian corporation with no U.S. ECI. The dividend is foreign sourced income.</p> <p>Example 2: Taxpayer B, a citizen of Hungary and residing in the U.S., receives dividends from Argentina with no U.S. ECI and deposits them in her U.S. bank account. The dividend is foreign sourced income.</p> <p> <b>Consultation:</b> ECI is an inbound topic. If you encounter this issue with a nonresident alien (NRA) or a foreign corporation, please consult with the U.S. Business Activities Practice Network.</p>	<ul style="list-style-type: none"><li>▪ IRC 861(a)(2)</li><li>▪ IRC 862(a)(2)</li><li>▪ Treas. Reg. 1.861-3</li><li>▪ Treas. Reg. 1.862-1(a)(1)(ii)</li><li>▪ Treas. Reg. 1.243-3</li></ul>

# Detailed Explanation of the Concept (cont'd)

## Sourcing of Income

### Analysis

### Resources

#### Sourcing of Dividend Income (cont'd)

Example 3: Taxpayer C, a citizen of the Netherlands residing in the U.S., receives \$800 in dividends in 2006 from a Netherlands Antilles corporation, which has the following income that is ECI.

Year	Total Gross Income	Foreign Source Income	ECI/U.S. Source Income
2003	\$15,000	\$ 6,100	\$ 8,900
2004	\$25,000	\$15,500	\$ 9,500
2005	\$10,000	\$ 3,200	\$ 6,800
Totals	\$50,000	\$24,800	\$25,200

Since the corporation is foreign and more than 25 percent of its gross income is ECI, some or all of the dividend becomes U.S. sourced.

Effectively connected income for testing period / All gross income for testing period:  
 $\$25,200 / \$50,000 \times 800 = \$403$  . This is the U.S. source portion of the \$800 dividend.

# Detailed Explanation of the Concept (cont'd)

Sourcing of Income	
Analysis	Resources
<p><u>Sourcing of Compensation Income</u></p> <p>The general rule for sourcing wages and personal services income is controlled by where the service is performed. The residence of the recipient of the service, the place of contracting, and the time and place of payment are irrelevant.</p> <ul style="list-style-type: none"> <li>▪ General rule for employees: Source is determined on a time basis except fringe benefits.</li> <li>▪ General rule for non-employee Individuals: Source is determined on the basis that most correctly reflects the proper source of that income under the facts and circumstances of that particular case.</li> <li>▪ If services are performed both within and without the U.S., the compensation for the services is allocated on a basis that most correctly reflects the proper source of income under the facts and circumstances. In many cases, it may be that an apportionment on a time basis may be acceptable.</li> <li>▪ However, compensation for services performed by a NRA in the U.S. is foreign source if all of the following are met:             <ul style="list-style-type: none"> <li>- The services are performed by a NRA temporarily in the U.S.,</li> <li>- Presence in U.S. during the taxable year does not exceed 90 days and</li> <li>- Compensation for services does not exceed \$3,000.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ IRC 861(a)(3)</li> <li>▪ IRC 862(a)(3)</li> <li>▪ Treas. Reg. 1.861-4</li> <li>▪ Treas. Reg. 1.862-1(a)(1)(iii)</li> </ul>

# Detailed Explanation of the Concept (cont'd)

Sourcing of Income	
Analysis	Resources
<p><u>Sourcing of Compensation Income (cont'd)</u></p> <p>Example: Taxpayer A, a citizen and resident of Germany, was engaged by a U.S. firm to develop a new product for worldwide sales. In developing this product, taxpayer A was present in the U.S. for 56 days (8 weeks) to work out actual production problems. The entire project took twenty weeks for which he was paid \$60,000.</p> <p>Taxpayer A performed services as a NRA temporarily in the U.S. for 56 days. He was paid in excess of \$3,000. Therefore, the income cannot be solely foreign sourced and needs to be allocated as follows:</p> <p>8 weeks in U.S. / 20 weeks total project x \$60,000 paid = \$24,000 sourced U.S.</p> <p>NOTE: Completion of Form 1116, Part I line 1(a) should reflect exclusions (Section 911) and adjustments. Adjustments to foreign source gross income are beyond the scope of this Practice Unit.</p>	<ul style="list-style-type: none"><li>▪ Form 1116</li></ul>

# Detailed Explanation of the Concept (cont'd)

Sourcing of Income	
Analysis	Resources
<p><u>Sourcing of Compensation Income (cont'd)</u></p> <p>Example: Compensation apportionment of income. A, a U.S. citizen, is employed by Corp N, a domestic corporation. A's annual salary is \$100,000. A performed services entirely within the U.S. during the first quarter; A was transferred to country X for the remainder of the year. Fringe benefits attributable to her new principal place of work in country X totaled \$30,000 (\$25,000 paid for housing, \$5,000 for local transportation).</p> <p>A was required to work on a 5-day week basis, Monday through Friday. During the last three quarters of the year, A performed services 30 days in the U.S. and 150 days in country X and other foreign countries. A establishes that the first quarter of the calendar year and the last three quarters of the calendar year are two separate, distinct and continuous periods of time. During the last 3 quarters, 30/180 is attributable to services performed within the U.S.</p> <p>Annual Salary \$100,000 (\$25,000 first quarter, \$75,000 last three quarters)</p> <p>First Quarter : \$25,000 (domestic)            Last 3 Quarters: \$75,000 (\$12,500 domestic, \$62,500 foreign)            Fringe Benefits: \$30,000 (foreign)</p> <p>Total attributable to services within U.S.= \$37,500 (\$25,000 + \$12,500)            Total attributable to services outside U.S.= \$92,500 (\$62,500 + \$30,000)</p>	<ul style="list-style-type: none"> <li>▪ Treas. Reg. 1.861-4(b)(2)(ii)(G), Example (3)</li> </ul>

# Detailed Explanation of the Concept (cont'd)

Sourcing of Income	
Analysis	Resources
<p><u>Sourcing of Rent and Royalty Income</u></p> <p>Gross income from sources within the U.S. includes rents or royalties from property located in the U.S. or from any interest in such property, including rents or royalties for the use, or the privilege of using, in the U.S., patents, copyrights, secret processes and formulas, goodwill, trademarks, trade brands, franchises and other like property. The income arising from the rental of property, whether tangible or intangible, located within the U.S., or from the use of property, whether tangible or intangible, within the U.S., is from sources within the U.S.</p> <p>Rental income or compensation for the use of tangible property is sourced to the place where the rental property is located. Rents and royalties received from a controlled foreign corporation (CFC) by its U.S. shareholders are treated as income in a separate limitation basket (category) to the extent they are derived from income of the CFC in the same basket. This look-through rule characterizes a U.S. shareholder's income received from a CFC as having the same character as that of the income from of the CFC. To illustrate, royalties from a wholly owned foreign subsidiary that earns only active business profits are general limitation income (and not passive income) for its U.S. parent corporation.</p> <p>With specific regard to the use of property, IRC 861(a)(4) and 862(a)(4) generally treat royalties as having a source in the place where the property for which the royalties are paid is used. The nationality or the country of residence of the payor or recipient of the royalties</p>	<ul style="list-style-type: none"> <li>▪ IRC 861(a)(4)</li> <li>▪ IRC 862(a)(4)</li> <li>▪ Treas. Reg. 1.861-5</li> <li>▪ Treas. Reg. 1.862-1(a)(1)(iv)</li>   <li>▪ IRC 904(d)(3)(C)</li> <li>▪ Treas. Reg. 1.904-5(c)(3)</li> </ul>

# Detailed Explanation of the Concept (cont'd)

Sourcing of Income	
Analysis	Resources
<p><u>Sourcing of Rent and Royalty Income (cont'd)</u></p> <p>does not affect the sourcing determination. Royalties for the use of property in the U.S. are generally U.S. source income, and royalties for the use of property outside the U.S. are generally foreign source income. This source rule applies to royalties for the use of all types of intangible property, including patents, copyrights, secret processes, formulas, goodwill, trademarks, trade names, franchises and similar items. Although IRC 861(a)(4) and 862(a)(4) contain source rules for royalties, the statute and regulations do not define what constitutes royalties for this purpose. The theory underlying this source rule is that the place in which the intangible property is used is the situs of the economic activity giving rise to the income, regardless of the place at which the intangible property was developed.</p> <p>Example: U.S. taxpayer licenses intangible property to country X Distributing Company (DistCo) except that country X distributor is a wholly owned subsidiary of U.S. taxpayer. U.S. taxpayer has developed the new technology entirely at its research and development facilities in the U.S. DistCo will use the technology to develop its own new product system for use in the foreign country A. The royalty income received by U.S. taxpayer from DistCo is foreign source income for U.S. tax purposes because the license technology is used in country A, a foreign country. The fact that the underlying research and development activity may have occurred in the U.S. is not pertinent for sourcing determinations in this context. If the intangible is used in different countries, then it may be appropriate to examine the nature of the rights in question and how they are actually used.</p>	<ul style="list-style-type: none"><li>▪ 861(a)(4)</li><li>▪ 862(a)(4)</li></ul>

# Detailed Explanation of the Concept (cont'd)

Sourcing of Income	
Analysis	Resources
<p><u>Sourcing of Sales of Property</u></p> <p style="padding-left: 40px;">Sale of real property = Where it is located</p> <p style="padding-left: 40px;">Sale of personal property = Residence of person receiving payment (seller's tax home)</p> <p style="padding-left: 40px;">Sale of inventory purchased = Where inventory is sold</p> <p style="padding-left: 40px;">Sale of inventory produced = Where inventory is produced</p> <p>NOTE: Where inventory is produced partly in the U.S. and partly outside the U.S., the inventory requires allocations. See Treas. Reg. 1.863-3. This matter is beyond the scope of this Practice Unit.</p>	<ul style="list-style-type: none"> <li>▪ IRC 861(a)(5), (6)</li> <li>▪ IRC 862(a)(5), (6)</li> <li>▪ IRC 865</li> <li>▪ Treas. Reg. 1.861-6, -7</li> <li>▪ Treas. Reg. 1.862-1(a)(1)(v), (vi)</li> <li>▪ Treas. Reg. 1.863-3</li> </ul>

# Detailed Explanation of the Concept (cont'd)

Sourcing of Income	
Analysis	Resources
<p><u>Sourcing of Pension and Retirement Plans</u></p> <p>The lump sum distribution category on Form 1116 is used to calculate a separate FTC limitation on any income received from a foreign pension plan. If a foreign source lump sum distribution is received from a retirement plan, and the tax on it is figured by using the special averaging treatment (elected on Form 4972, <i>Tax on Lump-Sum Distributions</i>), a special computation must be made. For purposes of sourcing pension income there are two components: contributions to the pension plan, and the earnings accrued from investing those contributions. The contribution portion is sourced according to where services were performed that earned the pension. The investment earnings portion is sourced according to the location of the pension trust. U.S. social security benefits are considered to be from U.S. sources.</p> <p>Example: A U.S. citizen worked in Puerto Rico for a U.S. company. All services were performed in Puerto Rico. Upon retirement taxpayer remained in Puerto Rico and began receiving a pension from the U.S. pension trust of their employer. Distributions from the U.S. pension trust must be allocated between (1) contributions, which are Puerto Rico source income and (2) investment earnings, which are U.S. source income.</p>	<ul style="list-style-type: none"><li>▪ IRC 861(a)(8)</li><li>▪ IRC 86(d)</li> <li>▪ Form 1116</li><li>▪ Form 4972</li></ul>

# Detailed Explanation of the Concept (cont'd)

Sourcing of Income	
Analysis	Resources
<p><u>Miscellaneous Sourcing Considerations: Flow-Through Information from Schedule K-1s</u></p> <p>The source and character in the hands of a partner or S corporation shareholder of any item of income, expense and so on, shall be determined as if such item were realized directly from the source from which realized by the partnership or S corporation. The flow-through entity generally provides information with respect to source of distributive amounts. One exception is that gain from the sale by a partnership of personal property is sourced under IRC 865 based on partner's residence (with exceptions). However, partnership income generally retains its character where it flows through to the individual's Form 1040.</p> <p>Example: A partnership has 60 percent foreign source ordinary income. Therefore, 60 percent of the distribution would be foreign source.</p> <p>Example: A partnership is formed in the U.S. with two equal partners who are both U.S. citizens and earns \$20,000 from sale of personal property that is not inventory. Partner A's tax home in the U.S. and partner B's tax home is in country X. Partner A would have \$10,000 U.S. source income and partner B would have \$10,000 foreign source income.</p>	<ul style="list-style-type: none"> <li>▪ IRC 702(a), (b)</li>   <li>▪ IRC 865(i)(5)</li>   <li>▪ IRC 865(a)(1), (2)</li> </ul>

# Detailed Explanation of the Concept (cont'd)

## Sourcing of Income

### Analysis

### Resources

#### Miscellaneous Sourcing Considerations: Fringe Benefits

Certain fringe benefits as shown below received as compensation are sourced on a geographical basis.

Other fringe benefits are sourced as other compensation is sourced.

Fringe Benefit	Factor Determining Source
Housing, education and local transportation	Location of principal place of work
Tax reimbursement	Location of the jurisdiction that imposed the tax for which there was reimbursement
Hazardous or hardship duty pay	Location of the hazardous or hardship duty zone for which pay was received
Moving expense reimbursement	Location of new principal place of work

See Practice Unit, "Sourcing of Fringe Benefits for FTC Limitation," DCN: FTC/C/10\_02-03 (formerly FTC/CU/P\_10.2\_01(2014)).

- IRC 861(a)(3)
- IRC 862(a)(3)
- Treas. Reg. 1.861-4(b)(2)(ii)(D)
  
- Practice Unit, "Sourcing of Fringe Benefits for FTC Limitation," DCN: FTC/C/10\_02-03 (formerly FTC/CU/P\_10.2\_01(2014))

# Detailed Explanation of the Concept (cont'd)

Sourcing of Income	
Analysis	Resources
Summary of Most Common Types of Income and Rules for Sourcing within U.S.	
Item of Income	Factor in Determining Source
Interest	Residence of payor
Dividends	Whether a U.S. or foreign corporation
Rent	Location of property
Royalties:	
Natural resources	Location of property
Patents, copyrights, etc.	Where property is used
Sale of real property	Location of property
Sale of personal property	Location of seller's tax home
Salaries, wages, other compensation	Where services performed
Business Income:	
Personal services	Where services performed
Sale of inventory - purchased	Where sold
Sale of inventory - produced	Where produced (allocation may be necessary)
Pension distribution attributable to contributions	Where services performed that earned the pension

# Example of the Concept

## Sourcing of Income

### Examples

To summarize, different rules apply for sourcing different types of income.

Example: A U.S. taxpayer earning the following common types of income would have them sourced as:

Income Type	Location	U.S.	Foreign
Wages	UK employer, earned while working in London		X
Wages	UK employer, earned while working in Los Angeles	X	
Interest	New York bank, deposited into London branch		X
Interest	Paris bank, deposited into New York branch	X	
Stock Sales	Shares of an American company sold while a taxable UK resident		X

# Index of Referenced Resources

Sourcing of Income
IRC 86
IRC 638
IRC 702
IRC 861
IRC 862
IRC 863
IRC 864
IRC 865
IRC 904
IRC 911
IRC 7701
Treas. Reg. 1.243-3
Treas. Reg. 1.861-2, -3, -4, -5, -6, -7
Treas. Reg. 1.862-1
Treas. Reg. 1.863-3

# Index of Referenced Resources (cont'd)

## Sourcing of Income

Treas. Reg. 1.904-5

Form 1116

Form 4972

# Training and Additional Resources

Sourcing of Income	
Type of Resource	Descriptions
Saba Meeting Sessions	<ul style="list-style-type: none"> <li>▪ <i>How To Audit FTC-Form 1116, Part I</i> – 2015 CPE Saba Meeting</li> </ul>
Issue Toolkits	<ul style="list-style-type: none"> <li>▪ FTC Workbook used to assist agents in computing FTC limitation for Form 1116. The FTC Workbook is available on the WIIC FTC Practice Network SharePoint site under “Best Practices.”</li> </ul>
White Papers / Guidance	<ul style="list-style-type: none"> <li>▪ IRM 4.61.10.9.4, <i>Special Sourcing Rules</i></li> <li>▪ Pub. 514, <i>Foreign Tax Credit for Individuals</i></li> <li>▪ Pub. 519, <i>U.S. Tax Guide for Aliens</i></li> <li>▪ Pub. 570, <i>Tax Guide for Individuals With Income From U.S. Possessions</i></li> <li>▪ Pub. 901, <i>U.S. Tax Treaties</i></li> </ul>
Databases / Research Tools	<ul style="list-style-type: none"> <li>▪ <i>BNA Tax Management Int'l Portfolio</i>: BNA 900-2nd - TMFEDPORT No 900 s III Foreign Income Series, Provisions Applicable to U.S. and Foreign Persons, 900-2nd: Foundations of U.S. International Taxation, The Foreign Tax Credit in Overview</li> </ul>
Reference Materials – Treaties	<ul style="list-style-type: none"> <li>▪ United States Income Tax Treaties - A to Z  <a href="http://www.irs.gov/businesses/international-businesses/united-states-income-tax-treaties-a-to-z">www.irs.gov/businesses/international-businesses/united-states-income-tax-treaties-a-to-z</a> </li> </ul>

# Glossary of Terms and Acronyms

Term/Acronym	Definition
Basket	Category
CFC	Controlled Foreign Corporation
ECI	Generally, when a foreign person engages in a trade or business in the U.S., all income from sources within the U.S. connected with the conduct of that trade or business is considered to be effectively connected income
E&P	Earnings and Profits
FEIE	Foreign Earned Income Exclusion
Foreign Country	A foreign country includes any foreign state and its political subdivisions; A Foreign Country, when used in a geographical sense, includes any territory under the sovereignty of the United Nations or a government other than that of the U.S.
Foreign Persons	Nonresident aliens, foreign corporations, certain trusts and estates
Foreign Source Income	Income determined by tax law to be earned outside the U.S.
FTC	Foreign Tax Credit
IRC	Internal Revenue Code
NRA	Nonresident Aliens are all persons who do not meet the definition of U.S. Resident Alien
U.S.	For purposes of sourcing when used in a geographical sense, the United States includes only the fifty states and the District of Columbia
U.S. Persons	U.S. citizens or resident aliens, domestic corporations, domestic trusts and estates

# Glossary of Terms and Acronyms (cont'd)

Term/Acronym	Definition
U.S. Possession	For purposes of sourcing, U.S. possessions include Puerto Rico, Guam, the Commonwealth of the Northern Mariana Islands, the U.S. Virgin Islands, and American Samoa
U.S. Resident Alien	In U.S. as a green card holder or as one who meets the substantial presence test
U.S. Source Income	Income determined by tax law to be from within the U.S. It also includes the territorial waters of the U.S. and the seabed and subsoil of those submarine areas which are adjacent to the territorial waters of the U.S. and over which the U.S. has exclusive right, in accordance with international law, with respect to the exploration and exploitation of natural resources. It does not include the possessions and territories of the U.S. or the airspace over the U.S.

# Index of Related Practice Units

Associated UILs	Related Practice Unit	DCN
9432.01	French Foreign Tax Credits	FTC/T/10_01-01 (formerly FTC/9432.01_01(2013)a)
9432.01	FTC General Principles	FTC/C/10_01-05
9432.02	Sourcing of Fringe Benefits for FTC Limitation	FTC/C/10_02-03 (formerly FTC/CU/P_10.2_01(2014))
9432.02	Sourcing of Salary and Compensation	FTC/P/10_02-02 (formerly FTC/9432.02_01(2014))