

# Instructions for Form 1118

(Rev. December 2023)

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

## Foreign Tax Credit - Corporations

Volume 2 of 2



Department of the Treasury  
**Internal Revenue Service**

Instructions for Form 1118 (Rev. 12-2023) Catalog Number 58530B  
Department of the Treasury **Internal Revenue Service** [www.irs.gov](http://www.irs.gov)



Visit the Accessibility  
Page on [IRS.gov](http://IRS.gov)

This page is intentionally left blank

<b>Code</b>	<b>Subpart F Income Group (Reg. sec. 1.960-1(d)(2)(ii)(B)(2))</b>
DIRRA	Dividends, interest, rents, royalties, and annuities
NGCPT	Net gain from certain property transactions
NGCT	Net gain from commodities transactions
NFCG	Net foreign currency gain
IEQI	Income equivalent to interest
NPC	Income from notional principal contracts
PILOD	Payments in lieu of dividends

PSC	Personal service contracts
FBCSA	Foreign base company sales income
FBCSE	Foreign base company services income
FIFBC	Full inclusion foreign base company income
INSUR	Insurance income described in section 952(a)(1)
BOYC	Boycott income
BKOP	Bribes, kickbacks, and other payments described in section 952(a)(4)

901J	Income subject to section 901(j) described in section 952(a)(5)
------	---

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

<b>Code</b>	<b>Subpart F Income Group (Reg. sec. 1.904-4(c)(3)(i) through (iv))</b>
i	All passive income received during the tax year that is subject to a withholding tax of 15% or greater.
ii	All passive income received during the tax year that is subject to a withholding tax of

	less than 15% (but greater than zero).
iii	All passive income received during the tax year that is subject to no withholding tax or other foreign tax.
iv	All passive income received during the tax year that is subject to no withholding tax but is subject to a foreign tax other than a withholding tax.

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

**Column 6.** Enter the total net income in the subpart F income group (identified in column 5(a) and 5(b)) in the functional currency of

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

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

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

**Column 8(a).** Enter the section 951(a)(1) inclusion attributable to the subpart F income group (identified in column 5(a) and 5(b)) in the functional currency of the foreign corporation.

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

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

**Example 1.** USC is a domestic corporation. CFC is a controlled foreign corporation incorporated in Country X. CFC has two tested units, each of which is a qualified business unit (QBU): QBU1 and QBU2. QBU1 and QBU2 are organized in Country X. The U.S. tax year for USC, CFC, QBU1, and QBU2 ends on December 31. The functional



currency of CFC, QBU1, and QBU2 is the “u.” At all relevant times, 1u = \$1. For its U.S. tax year ending December 31, 2023, after foreign taxes, QBU1 has 1,000,000u passive category dividend income subject to a less than 15% withholding tax (“QBU1 income group 1”). QBU1 has 1,000,000u passive category dividend income subject to a greater than 15% withholding tax (“QBU1 income group 2”). QBU2 has 2,400,000u passive category dividend income subject to a less than 15% withholding tax (“QBU2 income group”). QBU1 has eligible current-year taxes of \$50,000 and \$200,000 in QBU1 income group 1 and QBU1 income group 2, respectively. QBU2 has eligible current-year taxes of \$240,000 in QBU2 income group. USC has a subpart F inclusion with respect to CFC of which an amount of 800,000u is attributable to each of QBU1 income group 1 and QBU1 income group 2 and 1,920,000u is attributable to QBU2 income group. The country code for Country X is “OC.” CFC,

QBU1, and QBU2 have reference ID numbers of 100000, 100011, and 100012, respectively. The applicable three-character alphabet code for the “u” using the ISO 4217 standard is “UUU.” USC completes Schedule C of its Form 1118 with respect to the passive category as follows.

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

<b>Column</b>	<b>Entry</b>
1a	CFC
1b	100000
1c	100011
2	202312
3	OC

4	UUU
5(a)	DIRRA
5(b)	ii
5(c)	QBU1
6	1,000,000u
7	50,000
8(a)	800,000u
8(b)	800,000
9	0.800
10	40,000

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

<b>Column</b>	<b>Entry</b>
1a	CFC
1b	100000
1c	100011
2	202312
3	OC
4	UUU
5(a)	DIRRA
5(b)	i

5(c)	QBU1
6	1,000,000u
7	200,000
8(a)	800,000u
8(b)	800,000
9	0.800
10	160,000

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

<b>Column</b>	<b>Entry</b>
1a	CFC

1b	100000
1c	100012
2	202312
3	OC
4	UUU
5(a)	DIRRA
5(b)	ii
5(c)	QBU2
6	2,400,000u
7	240,000
8(a)	1,920,000u

8(b)	1,920,000
9	0.800
10	192,000

**Example 2.** USC is a domestic corporation. CFC1 and CFC2 are controlled foreign corporations incorporated in Country X. The U.S. tax year for USC, CFC1, and CFC2 ends on December 31. At all relevant times, 1u = \$1. For its U.S. tax year ending December 31, 2023, after foreign taxes, CFC1 has 1,000,000u passive category dividend income subject to a withholding tax of less than 15% ("CFC1 income group 1") and 2,400,000u passive category interest income subject to foreign tax other than withholding tax ("CFC1 income group 2"). CFC1 has eligible current-year taxes (including the withholding tax) of \$50,000 in CFC1 income group 1 and \$240,000 in CFC1 income group 2. USC has a

subpart F inclusion with respect to CFC1 of which 800,000u is attributable to CFC1 income group 1 and 1,920,000u is attributable to CFC1 income group 2. For its U.S. tax year ending December 31, 2023, after foreign taxes, CFC2 has 1,800,000u of passive category gain from commodities transactions subject to foreign tax other than withholding tax ("CFC2 income group"). CFC2 has eligible current-year taxes of \$450,000 in the CFC2 income group. USC has a subpart F inclusion of 1,440,000u attributable to the CFC2 income group. The country code for Country X is "OC." CFC1 and CFC2 have reference ID numbers of 100011 and 100012, respectively. The functional currency of both CFC1 and CFC2 is the "u." The applicable three-character alphabet code for the "u" using the ISO 4217 standard is "UUU." USC completes Schedule C of its Form 1118 with respect to the passive category as follows.



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

<b>Column</b>	<b>Entry</b>
1a	CFC1
1b	100011
1c	
2	202312
3	OC
4	UUU
5(a)	DIRRA
5(b)	ii

5(c)	
6	1,000,000u
7	50,000
8(a)	800,000u
8(b)	800,000
9	0.800
10	40,000

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

<b>Column</b>	<b>Entry</b>
1a	CFC1

1b	100011
1c	
2	202312
3	OC
4	UUU
5(a)	DIRRA
5(b)	iv
5(c)	
6	2,400,000u
7	240,000
8(a)	1,920,000u

8(b)	1,920,000
9	0.800
10	192,000

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

<b>Column</b>	<b>Entry</b>
1a	CFC2
1b	100012
1c	
2	202312
3	OC

4	UUU
5(a)	NGCT
5(b)	iv
5(c)	
6	1,800,000u
7	450,000
8(a)	1,440,000u
8(b)	1,440,000
9	0.800
10	360,000

## **Schedule D**

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

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

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

If more than one line is needed in Part II:

- In Part II, column 2, the same denominator will be used (the Part I,

column 5 total) in the inclusion percentage calculation for each line; and

- In Part II, column 3, the same multiplication factor will be used (the Part I, column 9 total) for each line.

If more than one line is completed in Part II, the column 4 amounts should be summed and included on a single line on Form 1118, Schedule B, Part I, column 3 (that is, the line on Schedule B, Part I, column 3, that corresponds with the line in Schedule A with "951A" in column 2 of Schedule A).

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

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

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

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

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

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

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



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

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

**Column 6.** Enter the CFC's tested income from the applicable Form 8992 schedule. If the U.S. shareholder is not a member of a U.S. consolidated group, enter the amount reported on Form 8992, Schedule A, column (c), for the CFC. If the U.S. shareholder is a member of a U.S. consolidated group, enter

the amount reported with respect to that U.S. shareholder on Schedule B (Form 8992), Part I, column (e), for the CFC.

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

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

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

## **Part II—Foreign Income Tax Deemed Paid**

**Note.** While multiple line entries may be necessary for Schedule D, Part I, because such lines are completed for each CFC, in

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

There could also be multiple lines if the section 962 elector has an interest in more than one S corporation.

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

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

## **Schedule E**

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

the upper-tier foreign corporation to the domestic corporation.

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

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

**Column 1a.** Enter the name of each first-tier foreign corporation that had foreign income taxes properly attributable to PTEP distributions to a domestic corporation that were not previously deemed paid by a domestic corporation. For distributions of PTEP that originated in lower-tier foreign corporations, enter a unique alphabetic character before the name of the distributing foreign corporation to identify the source of

the PTEP distribution. See the instructions for Part II, [Column 1a](#), for more information, including an example.

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

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

**Column 2.** Enter the year and month for the U.S. tax year of the first-tier foreign corporation in which the first-tier foreign corporation made the PTEP distribution to the domestic corporation. Use the format YYYYMM. If there is a PTEP distribution related to more than one PTEP group within

an annual PTEP account, complete a separate line for each PTEP group within an annual PTEP account. See Regulations section 1.960-3(c)(2).

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

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

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

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



Section 965(b) PTEP	965b
Section 951A PTEP	951A
Section 245A(d) PTEP	245Ad
Section 951(a)(1)(A) PTEP	951a1A

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

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

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

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

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

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

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

The purpose of Part II is to track the current-year and historical PTEP distributions between foreign corporations and taxes paid, accrued, or deemed paid by upper-tier foreign corporations on such PTEP distributions.

These amounts are to be reported on this Part II only to the extent that there is a PTEP distribution to the domestic corporation entered in Part I. The amounts entered in Part II could relate to current-year or prior-year PTEP distributions between foreign

corporations, so the applicable year should be noted in column 2 using the format YYYYMM.

If foreign income taxes paid, accrued, or deemed paid by a first-tier foreign corporation are properly attributable to a PTEP distribution from one or more lower-tier foreign corporations, report all such PTEP distributions by the lower-tier foreign corporations in Part II, even if the distributing lower-tier foreign corporations did not pay or accrue (and were not deemed to pay) any foreign income taxes with respect to the PTEP distributions. For each tier, report the amount of the PTEP distribution from the first-tier foreign corporation that is attributable to a PTEP distribution from the lower-tier foreign corporation and the amount of foreign income taxes paid, accrued, or deemed paid by that lower-tier foreign corporation with respect to that portion of the PTEP distribution. Because only eligible current-year tax paid or accrued by a CFC with respect to its receipt of a PTEP

distribution from a lower-tier foreign corporation are eligible to be treated as deemed paid under section 960(b), no foreign income taxes of the lowest-tier foreign corporation to which the PTEP distribution is attributable are properly attributable to a PTEP distribution made to an upper-tier foreign corporation. See Regulations section 1.960-1(d)(3)(ii)(C).

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

tier foreign corporation, to USP, a domestic corporation, the domestic corporation correlates the distributions as follows.

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

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

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

**Note.** Taxpayers no longer have the option of entering "FOREIGNUS" or "APPLIED FOR" in this column. Instead, if the distributing foreign corporation does not have an EIN, the taxpayer must use a reference ID number that uniquely identifies such foreign

corporation, using the rules set forth in [Reference ID numbers](#), in the *Requirements* section, earlier.

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

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

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

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

**Note.** Taxpayers no longer have the option of entering "FOREIGNUS" or "APPLIED FOR" in this column. Instead, if the recipient foreign

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

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

**Column 6.** Enter the applicable two-letter codes from the list at [\*IRS.gov/CountryCodes\*](https://www.irs.gov/CountryCodes).

**Column 7.** Enter the applicable three-character alphabet code for the distributing foreign corporation's functional currency using the ISO 4217 standard.

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



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

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

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

**Column 12.** Enter the PTEP distribution with respect to the PTEP group within the annual PTEP account identified in columns 8 and 9 in the functional currency of the distributing foreign corporation. If there is a PTEP distribution related to more than one PTEP

group within an annual PTEP account, complete a separate line for each PTEP group within an annual PTEP account. Only report the amount of PTEP that was ultimately distributed to the domestic corporation in the current year, even if the amount of PTEP distributed to the upper-tier foreign corporation was greater than that amount.

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

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

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

taxes for failure to furnish information required under section 6038.

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

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

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

<b>Column</b>	<b>Entry</b>
1a	A CFC1
1b	10041
2	202312
3	BC
4	UUU

5	965a
6	2017
7	160u
8	40
9	160u
10	1.000
11	40

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

<b>Column</b>	<b>Entry</b>
1a	A CFC2

1b	10042
2	202312
3	OC
4a	CFC1
4b	10041
5	202312
6	BC
7	UUU
8	965a
9	2017
10	80u

11	0
12	80u
13	1.000
14	0

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

<b>Column</b>	<b>Entry</b>
1a	A CFC3
1b	10043
2	202312
3	OC

4a	CFC1
4b	10041
5	202312
6	BC
7	UUU
8	965a
9	2017
10	80u
11	0
12	80u
13	1.000



14	0
----	---

**Example 2.** USC is a domestic corporation. CFC1 and CFC2 are Country X corporations, and CFC3 is a Country Y corporation. The U.S. tax year for USC, CFC1, CFC2, and CFC3 ends on December 31. During CFC3's U.S. tax year ending December 31, 2018, CFC3 distributes 100u, comprising its entire section 965(a) PTEP within the annual PTEP account for the 2017 tax year ("2017 section 965(a) PTEP") within the general category, to CFC2, a CFC that wholly owns CFC3. CFC2 pays eligible current-year tax of 20u to Country X equal to \$20 on the 100u PTEP distribution, reducing the 2017 section 965(a) PTEP to 80u. In CFC2's U.S. tax year ending December 31, 2019, CFC2 distributes 40u of the 2017 section 965(a) PTEP to CFC1, a CFC that wholly owns CFC2. CFC1 pays no tax on such distribution, but is deemed to pay \$10 of the eligible current-year tax that was paid by

CFC2 in 2017. In CFC1's U.S. tax year ending December 31, 2023, CFC1 distributes 40u to USC, who wholly owns CFC1. USC pays no foreign tax on such distribution, but is deemed to pay the \$10 of eligible current-year tax that was paid by CFC2 in 2017 and deemed paid by CFC1 in 2019. The reference ID numbers for CFC1, CFC2, and CFC3 are 20041, 20042, and 20043, respectively. The country codes for Country X and Country Y are OC and BC, respectively. The functional currency of CFC1, CFC2, and CFC3 is the "u." The applicable three-character alphabet code for the "u" using the ISO 4217 standard is "UUU."

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

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

10	1.000
11	10

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

<b>Column</b>	<b>Entry</b>
1a	A CFC3
1b	20043
2	201812
3	BC
4a	CFC2
4b	20042

5	201812
6	OC
7	UUU
8	965a
9	2017
10	80u
11	0
12	40u
13	0.500
14	0

**Example 3.** USC is a domestic corporation. CFC1 is a Country X corporation, CFC2 is a Country Y corporation, and CFC3 is a Country Z corporation. The U.S. tax year of USC, CFC1, CFC2, and CFC3 ends on December 31. During CFC3's U.S. tax year ending December 31, 2018, CFC3 distributes 1,000u, comprising all of its subpart F PTEP within the annual PTEP account for the 2016 tax year ("2016 section 951(a)(1)(A) PTEP") within the general category, to CFC2, a CFC that wholly owns CFC3. CFC2 pays eligible current-year tax of 100u to Country Y equal to \$100 on the 1,000u PTEP distribution, reducing the 2016 section 951(a)(1)(A) PTEP to 900u. In CFC2's tax year ending December 31, 2019, CFC2 distributes 250u, comprising all of its section 951A PTEP within the annual PTEP account for the 2018 tax year ("2018 section 951A PTEP") within the section 951A category, to CFC1, a CFC that wholly owns CFC2. CFC1 pays eligible current-year tax of 25u to Country X equal to \$25 on the 250u PTEP distribution,

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

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

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

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

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

Column	Entry
--------	-------



1a	A CFC1
1b	10041
2	202312
3	OC
4	UUU
5	951a1A
6	2016
7	405u
8	95
9	405u
10	1.000

11	95
----	----

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

<b>Column</b>	<b>Entry</b>
1a	A CFC2
1b	10042
2	202312
3	CC
4a	CFC1
4b	10041

5	202312
6	OC
7	UUU
8	951a1A
9	2016
10	810u
11	100
12	405u
13	0.500
14	50

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

<b>Column</b>	<b>Entry</b>
1a	A CFC3
1b	10043
2	201812
3	BC
4a	CFC2
4b	10042
5	201812

6	CC
7	UUU
8	951a1A
9	2016
10	810u
11	0
12	405u
13	0.500
14	0

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

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

10	1.000
11	25

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

<b>Column</b>	<b>Entry</b>
1a	B CFC2
1b	10042
2	201912
3	CC
4a	CFC1
4b	10041

5	201912
6	OC
7	UUU
8	951A
9	2018
10	225u
11	0
12	225u
13	1.000
14	0



# **Schedule F**

**Reserved for future use.**

# **Schedule G**

## **Part I**

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

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

The reduction must be made on a country-by-country basis (Regulations section 1.901-

3(a)(1)). Attach a separate schedule showing the reduction.

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

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

section 6038(c) for limitations and special rules.

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

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

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

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

Taxes paid or accrued with respect to distributions of section 965(a) PTEP and

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

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

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

# Schedule H

## Computer-Generated Schedule H

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

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

**Note.** If there are more than five foreign source statutory groupings within Part II, line

3, or Part III, line 2, add them after the U.S. source residual grouping.

## **Part I—Research and Experimental Deductions**

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

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

### **Column (a), Gross Receipts Method**

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

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

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

**Line 1.** For each product line, enter the taxpayer's worldwide "gross intangible income" (as defined in Regulations section 1.861-17(b)(2)).

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

**Line 4b.** For each product line, enter the U.S. source "gross intangible income" (as defined in Regulations section 1.861-17(b)(2)) of the

taxpayer that is income pertaining to sales, licenses, leases, or services of controlled parties (as defined in Regulations section 1.861-17(d)(4)).

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

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

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



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

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

**Line 5c.** For each product line, enter the aggregate foreign source “gross intangible income” (as defined in Regulations section 1.861-17(b)(2)) of the taxpayer that is income pertaining to sales, licenses, leases, or services of uncontrolled parties (as defined in Regulations section 1.861-17(d)(3)).

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

**Lines 6a through 6e.** For lines 6a through 6e, enter the code for the applicable separate category of income (foreign source statutory

grouping). See [Categories of Income](#) earlier. If code “901j” or one of the “RBT” codes applies, also enter the applicable country.

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

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

**Lines 6a(2), 6b(2), 6c(2), 6d(2), and 6e(2).** For each product line and for each

separate category, enter the foreign source “gross intangible income” (as defined in Regulations section 1.861-17(b)(2)) of the taxpayer that is income pertaining to sales, licenses, leases, or services of controlled parties (as defined in Regulations section 1.861-17(d)(4)).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Under the exclusive apportionment rules, 50% of the R&E deductions are apportioned exclusively to the residual grouping of U.S. source gross income, if the R&E that accounts for more than 50% of the amount of such

R&E deductions were performed in the United States. A similar rule applies when a majority of R&E is performed outside the United States.

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

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

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



column (a)(ii). Multiply the result by the amount on line 3, column (a)(iii).

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

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

**Lines 6a(5), 6b(5), 6c(5), 6d(5), and 6e(5).** Enter the amount of line 3 R&E deductions apportioned to each separate

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

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

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

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

## **Column (b)**

**Line 1.** Enter total R&E deductions for all product lines (for example, from column

(a)(iii) and, if applicable, columns (a)(vi), (a)(ix), etc.).

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

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

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

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

foreign source gross income for all product lines.

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

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

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

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

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

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

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

(a)(i) and (b)(iii) for members that are nonfinancial corporations.

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

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

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

**Line 1b.** Enter the assets included on line 1a that are characterized as excess related party indebtedness. See Regulations section 1.861-10(e) for an exception to the general rule of fungibility for excess related party indebtedness.

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

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

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

**Note.** If the corporation had more than five separate categories of income, Schedule H, Part II, line 3 must be expanded to properly report deductions apportioned based on



assets. See [Computer-Generated Schedule H](#), earlier.

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

Enter the value of the assets in each of the statutory groupings on lines 3a through 3e, and enter the value of the assets in the residual grouping on line 3f. See Regulations sections 1.861-12 and 1.861-13 and Temporary Regulations sections 1.861-

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

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

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

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

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

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

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

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

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

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

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

## **Column (c)**

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

## **Column (d)**

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

## **Column (e)**

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

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

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

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

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

Enter on lines 3a through 3e the amount of expenses apportioned to each separate category of income as further apportioned between dividend income eligible to be offset

by the deduction under section 245A and all other gross income.

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

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

### **Column (f)**

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

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

**Step 2:** With respect to section 245A dividends, enter the sum of any amounts entered in column (f) of lines 3a(1), 3b(1),

3c(1), 3d(1), 3e(1), and 3f(1) on line 4, column (f). Include this line 4 result as a negative amount on Schedule B, Part II, line 8b.

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

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



enters "PAS" on Schedule H, Part II, line 3a, the taxpayer takes the total on line 3a(2), column (f) and includes it in column 14 of the Schedule A being completed for the Passive Category.

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

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

## **Part III—Other Deductions**

Report in Schedule H, Part III information pertaining to the allocation and apportionment of deductions other than research and experimental deductions (reported in Schedule H, Part I) and other

than deductions allocated and apportioned based on assets (reported in Schedule H, Part II).

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

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

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

**Column (e).** Complete this column to apportion deductions other than those reported on Schedule H, Part I; Schedule H,

Part II; or Schedule H, Part III, columns (a) through (d). See final and temporary Regulations sections 1.861-8 and 1.861-14.

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

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

the amount from the residual grouping on line 3f(1)).

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

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

## Line instructions

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

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

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

Enter on lines 2a through 2e the amount of expenses apportioned to each separate category of income as further apportioned

between dividend income eligible to be offset by the deduction under section 245A and all other gross income.

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

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

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

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

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

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are 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 section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for business taxpayers filing this form is approved under OMB control number 1545-

0123 and is included in the estimates shown in the instructions for their business income tax return.

If you have suggestions for making Form 1118 and related schedules simpler, we would be happy to hear from you. You can send us comments from [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or you can send your comments to Internal Revenue Service, Tax Forms and Publications Division, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. **Do not** send the tax form to this office. Instead, see *Where To File* in the instructions for the tax return with which this form is filed.